Testimony of Linda Rouse O'Neill
Vice President, Government Affairs
Health Industry Distributors Association

The Committee on Section 301
Office of the U.S. Trade Representative

Hearing on "China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation"
Docket Number: USTR-2018-0018
July 24, 2018

Good morning, my name is Linda Rouse O'Neill. Thank you to the USTR 301 Committee members for the opportunity to testify on behalf of the Health Industry Distributors Association (HIDA).

HIDA members deliver medical products and supplies, manage logistics, and offer customer services to more than 294,000 points of care. Medical-surgical wholesalers primarily distribute items used in every day medical services and procedures, ranging from gauze and gloves to diagnostic laboratory tests and capital equipment. Their customers include over 210,000 physician offices, 6,500 hospitals, and 44,000 nursing home and extended care facilities throughout the country.

Our membership shares the goal of improving healthcare quality and efficiency for the providers and patients we serve. We urge the USTR 301 Committee to remove all products related to healthcare from the proposed tariff list as it will increase the cost of healthcare and affect smaller and medium sized American businesses.

Increase the Cost of Care

If the proposed healthcare related products are included in the final USTR 301 list, it will increase the cost of healthcare and limit patient access to necessary products. Many of these products are key surgical and diagnostic products that support routine medical procedures from annual wellness visits to life saving surgeries. Some of the products are also utilized in home care settings and are often not completely covered by insurance. Therefore, the proposed tariff policy will negatively impact American consumers and will raise the cost of delivering quality and efficient care to patients.

The healthcare supply chain is highly efficient and often serves providers with just in time delivery. We have also been able to cut the cost of some products almost in half compared to their cost several years ago. These successes are due to the implementation of a lean, efficient and global strategy, which includes sourcing products from China. The U.S. Department of Commerce published a study, which depicted the percentages of non-U.S. suppliers that support medical-surgical equipment manufacturing by country—China accounted for supplying about 14% of the market, making it one of the top 3 countries where medical products are sourced for the United States.[1]

While some of the products on the tariff list are also made in other countries, they are usually more expensive options and there is not enough of the product to fill the gap coming from China. The immediate result will be a spike in demand, an increase in cost and product shortages of critical supplies. Additionally, any ability of other suppliers to ramp up production may take up to one year.

Further, some of our members bill Medicare Part B directly. A 25% tariff without a corresponding increase in Medicare reimbursement will further increase the cost of healthcare and limit patient access to the critical healthcare products needed to care for older Americans. Adding tariff-based costs to these products is neither effective nor necessary and would be harmful for all patients.

Effect on Small or Medium Sized Businesses

Forty percent of HIDA's members are considered "small businesses" by the Small Business Administration, with revenues of 7.5 million or less. Thus, HIDA is in a unique position to understand and share the impact that tariffs on healthcare products will have on these smaller businesses.

Medical-surgical distributors have significantly small margins—typically around 2 percent. A 25% tariff on healthcare related products they sell could potentially cripple these businesses. Many members specialize in products that are sourced mainly from China and finding another source may not be possible. The resulting gap in product inventory will be harmful and may not be overcome as there are not enough other supplier options to fill the gap.

Conclusion

In conclusion, HIDA believes that including healthcare products on the final tariff list will drive up healthcare costs for American consumers and negatively impact this country's small and medium sized businesses.

HIDA appreciates the opportunity to share our concerns with the USTR 301 Committee. I am happy to provide any additional information you need and answer any questions you may have.

[1] U.S. Department of Commerce, Bureau of Industry and Security, Impact of Foreign Sourcing on Health-Related Infrastructure, September 2011