Medline Industries, Inc.
Three Lakes Drive, Northfield, IL 60093

July 13, 2018

The Honorable Robert E. Lighthizer
The United States Trade Representative
The Office of the United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

Dear Ambassador Lighthizer:

Thank you for the opportunity to represent my company, Medline Industries, Inc., in providing comments on the proposed additional tariffs on imports from China. Medline is a leading U.S.-based medical supplies company. Our products range from exam gloves to tissue regeneration devices. Our customers include hospitals, surgery centers, long term care facilities, physician offices, homecare and retail consumers. We are based in Northfield, Illinois, and employ about 13,000 in the United States, with 2,000 people working in Northfield and the rest distributed across the country. I have the honor of serving as one of Medline's Divisional Group Presidents.

We are concerned about the inclusion of a number of HTSUS subheadings for products we import from China in the proposed additional action as set out in the Notice of Action Pursuant to Section 301. HTSUS subheadings of particular concern and our products include:

3917.29.00 — fluid transfer devices
3917.32.00 — straws
3919.90.50/ 3920.10.00 — medical equipment covers, plastic surgical drapes, bags
8543.70.99 — medical wipe warmers
9025.19.80 — thermometers
9029.20.40 — SO2 measurement devices like pulse oximeters

The proposed 25 percent additional tariffs would have a disproportionate effect on our low margin business segment while not advancing the goal of the Section 301 action.

The principal near term impact of the tariffs would be to negatively affect our business' profitability, with consequences for our U.S. investments and employment. Over time, the effect of additional tariffs would be to raise prices for hospitals, surgery centers, long term care facilities, and individual consumers who purchase our healthcare products. Hospitals tend to operate on thin margins — public and non-profit hospital margins are in the 3.4 percent range. Hospitals will accordingly find absorbing or passing on costs difficult. As for consumers, about 30 percent of our thermometers are sold directly to individuals, who would see price increases because of such tariffs.

Shifting to suppliers outside of China would be expensive and time consuming, and is hence not a near term option. Transition challenges are partly due to difficulties in developing supply chain capacity in other countries, particularly given the need for consistent high quality in our medical supplies. While the margins are tight, we cannot afford to risk consumer safety.

Moreover, even if alternative suppliers were available outside of China, the transition poses significant regulatory challenges. Finding new suppliers with excess capacity that are already compliant with the Food and Drug Administration (FDA) regulations (e.g. 21 CFR Part 820, Part 211) is unlikely. Developing a compliant quality system

at a new supplier takes time and substantial resources. The process involves facility registration, procedure development and deployment, development and installation of environmental controls, facility upgrades, design transfers, equipment and process validation, and multiple rounds of audits to ensure regulatory compliance and verify the effectiveness of the quality system. This process can take more than two years.

As an indication of the scale of regulatory and management challenge of ensuring regulatory compliance and quality, we have 160 quality engineers, auditors and inspectors in China. Our Shanghai office works extensively with our suppliers throughout China to assure compliance with FDA regulations. Our presence in China allows us to monitor suppliers and make continuous improvements to processes, design, and safety and efficacy of the healthcare products we supply to the United States. Shifting this capacity and building new supplier relationships in other countries would be time-consuming and expensive.

Finally, imposing tariffs on these products would not advance the goal of the Section 301 action of discouraging Chinese technology transfer policies. Our imports are inexpensive, low technology, large volume products that are not subject to patents. We have never been required to transfer any technology or intellectual property to China. The Made in China 2025 strategy does prioritize these low technology, low margin, high volume products.

We accordingly request that the Trade Representative, together with the Section 301 Committee, remove these several HTSUS subheadings from the final list for tariffs as part of the Section 301 action.

Sincerely,

Jim Pigott
Group President