

UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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MONDAY

JUNE 17, 2019

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The 301 Committee met in the Main Hearing Room of the U.S. International Trade Commission, 500 E Street, SW, Washington, D.C., at 9:30 a.m., Arthur Tsao, William Busis and Megan Grimball, Chairs, presiding.

PRESENT

ARTHUR TSAO, Chair, U.S. Trade Representative
 WILLIAM BUSIS, Chair, U.S. Trade Representative
 MEGAN GRIMBALL, U.S. Trade Representative
 RUSSELL ADISE, Department of Commerce
 CHRISTOPHER BLAHA, Department of Commerce
 ANDREW DEVINE, U.S. Department of Agriculture
 DREW HART, Department of Treasury
 JESSICA HUANG, Department of Commerce
 BILL JACKSON, U.S. Trade Representative
 TERRENCE McCARTIN, U.S. Trade Representative
 MEGAN NAYLOR, Department of State
 ROBIN ROARK, Department of Commerce
 PETER SECOR, Department of State
 TANYA SMITH, Small Business Administration
 ANDREW STEPHENS, U.S. Department of Agriculture
 RICH STETSON, Department of Commerce
 MATT SULLIVAN, Department of the Treasury
 CRISTINA VON SPIEGELFELD, Small Business Administration
 AUDREY WINTER, U.S. Trade Representative
 ANNE ZOLLNER, Department of Labor

ALSO PRESENT

BILL BISHOP, International Trade Commission
TYRELL BURCH, International Trade Commission

WITNESSES PRESENT

COLIN ANGLE, iRobot Corporation
DAVID BAER, Element Electronics
**THOMAS BECKETT, Portable Lights American Trade
Organization**
TROY BENAVIDEZ, American Standard
**STEVEN BLUST, Institute of International
Container Lessors**
JASON BONFIG, Best Buy Co.
MIKE BRANSON, Rheem Manufacturing Company
**JENNIFER CLEARY, Association of Home Appliance
Manufacturers**
**BRENT CLEVELAND, Fashion Jewelry & Accessories
Trade Association**
MARK CORRADO, Leading Lady Inc.
**JOHN CROWLEY, National Association of Waterfront
Employees**
JORDAN DAVIS, O. Mustad and Son Americas
ED DENIKE, SSA Terminals
**MARK DEPASQUALE, National Portable Storage
Association**
JENNIFER DOLIN, Ledvance LLC
JEFF FISCHER, Planet Gold Clothing Company Inc.
MARK FLANNERY, Regalo International LLC
PATRICK FOX, VF Corporation
CHARLES GAENSLER, Loftex Home
TIMOTHY GALLOGLY, Dorel Juvenile Group
**KAREN GIBERSON, Accessories Council and
Patricia Nash Designs**
PATRICK GILL, TackleDirect
MONICA GORMAN, New Balance Athletics
**RICK HELFENBEIN, American Apparel & Footwear
Association**
GLENN HUGHES, American Sportfishing Association
MICHAEL JEPPESEN, Wolverine Worldwide
**JEFFREY KAUFMAN, Home Fashion Products
Association**
HARLAN KENT, Pure Fishing Inc.
JONATHAN KING, TCL North America

STEPHEN KNERLY, Association of Art Museum
Directors
JEAN KOLLOFF, Quinn Apparel Inc. + Qi Cashmere
TIM MACGUIDWIN, The Catch Company
ERIN MANNEN, University of Arkansas for Medical
Sciences
BRADLEY MATTAROCCHI, Baby Trend Inc.
JEFFREY MOORE, W.C. Bradley/Zebco Holdings
KAREN GIBERSON, Patricia Nash Designs
DANIEL NATION, Parkdale Mills
MUSTAFA OZGEN, Roku
STANLEY PIERRE-LOUIS, Entertainment Software
Association
PHIL POEL, Ember Technologies
JOHN REINHART, Virginia Port Authority
MARC SCHNEIDER, Kenneth Cole Productions Inc.
RAY SHARRAH, Streamlight Inc.
CLIFTON SIFFORD, Shoe Carnival Inc.
KERRY STACKPOLE, Plumbing Manufacturers
International
TIM TARPLEY, Petroleum Equipment & Services
RUSSELL TORRES, Graco Children's Products
LISA TROFE, Juvenile Products Manufacturers
Association
GLENN WILTSHIRE, Broward Country Port Everglades
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1 P-R-O-C-E-E-D-I-N-G-S

2 9:25 a.m.

3 MR. BISHOP: Will the room please come
4 to order?

5 CHAIR TSAO: Good morning and welcome.
6 The Office of the United States Trade
7 Representative in conjunction with the
8 interagency Section 301 Committee is holding this
9 public hearing in connection with the Section 301
10 investigation of China's acts, policies, and
11 practices related to technology transfer,
12 intellectual property, and innovation.

13 The United States Trade Representative
14 initiated the investigation on August 18, 2017.
15 In April 2018, the Trade Representative published
16 his determination that the acts, policies, and
17 practices of China covered in the investigation
18 are unreasonable or discriminatory and burden or
19 restrict U.S. commerce and are thus actionable
20 under Section 301(b) of the Trade Act of 1974.

21 Since that time, the Trade
22 Representative at the direction of the President

1 has made determinations that in the aggregate
2 have imposed additional 25 percent duties on
3 products from China with an annual trade value of
4 approximately \$250 billion with the goal of
5 obtaining the elimination of the unfair acts of
6 China covered by the investigation.

7 On December 1, 2018, the leaders of
8 the United States and China met and agreed to
9 hold negotiations on a range of issues, including
10 those covered in the Section 301 investigation.
11 U.S. and Chinese officials subsequently engaged
12 in multiple rounds of negotiations on these
13 issues, including meetings in March, April, and
14 May of 2019.

15 Shortly in advance of the last
16 scheduled round, China had retreated from
17 specific commitments made in previous rounds and
18 attempted to cause further harm to the U.S.
19 economy.

20 In light of these circumstances and at
21 the direction of the President, the Trade
22 Representative published a notice on May 17, 2019

1 seeking public comment on a modification of the
2 action being taken in this investigation in the
3 form of additional duties of up to 25 percent on
4 a list of products from China with an annual
5 trade value of approximately \$300 billion.

6 The purpose of this hearing is to
7 receive public testimony regarding this proposed
8 action. The Section 301 Committee will carefully
9 consider the testimony and the written comments,
10 including post-hearing rebuttal comments.

11 The Section 301 Committee will then
12 make a recommendation to the Trade Representative
13 on a possible modification of the action being
14 taken in this investigation.

15 Before we proceed with the testimony,
16 I will provide some procedural and administrative
17 instructions and ask the agency representatives
18 participating in the hearing today to introduce
19 themselves.

20 The hearing is scheduled for seven
21 business days, concluding Tuesday, June 25th. We
22 have scheduled 55 panels of witnesses with over

1 300 individuals scheduled to testify. The
2 provisional schedule has been posted on the USTR
3 website.

4 We have eight panels of witnesses
5 scheduled to testify today. We will have a brief
6 break between panels and a 50-minute break for
7 lunch.

8 Each witness appearing at the hearing
9 is limited to five minutes of oral testimony.
10 The light before you will be green when you start
11 your testimony. Yellow means you have one minute
12 left. And red means your time has expired.

13 After the testimony from each panel of
14 witnesses, the Section 301 Committee will have an
15 opportunity to ask questions. All questions will
16 be from agency representatives. There will be no
17 questions accepted from the floor. Committee
18 representatives will generally direct their
19 questions to one or more specific witnesses.

20 As stated in the May 17th notice,
21 post-hearing comments, including any written
22 responses to questions from the Section 301

1 Committee, are due seven days after the last day
2 of the hearing. As noted, the hearing is
3 scheduled to conclude on June 25th, which means
4 that all post-hearing comments are due by no
5 later than July 2, 2019.

6 The rules and procedures for written
7 submissions are set out in the May 17th Federal
8 Register notice.

9 Given the number of witnesses and the
10 schedule, we'll request that witnesses when
11 responding to questions be as concise as
12 possible. We, likewise, ask witnesses to be
13 understanding if and when the Chair asks that a
14 witness conclude a response. In this regard,
15 witnesses should recall that they have a full
16 opportunity to provide more extensive responses
17 in their post-hearing submission.

18 No cameras or video or audio recording
19 will be allowed during this hearing. Written
20 transcripts of this hearing will be posted on the
21 USTR website and on the Federal Register docket.

22 We are pleased to have international

1 trade and economic experts from a range of U.S.
2 government agencies. And I will ask them to, I
3 guess I'll ask the Committee to introduce
4 themselves.

5 My name is Arthur Tsao. I'm an
6 Associate General Counsel at the U.S. Trade
7 Representative's office, Office of General
8 Counsel.

9 MS. VON SPIEGELFELD: Good morning.
10 I'm Cristina von Spiegelfeld. I'm in the Small
11 Business Administration's Office of International
12 Trade.

13 MS. NAYLOR: Hi, I'm Megan Naylor.
14 I'm with the State Department's Office of
15 Multilateral Trade.

16 MR. BLAHA: Good morning. Christopher
17 Blaha from the International Trade Administration
18 at the U.S. Department of Commerce.

19 MR. McCARTIN: Good morning. I'm with
20 USTR. I'm Terry McCartin. I'm the Acting
21 Assistant U.S. Trade Representative for China
22 Affairs.

1 MR. JACKSON: Good morning. I'm Bill
2 Jackson. I'm the Assistant U.S. Trade
3 Representative for Textiles.

4 MR. DEVINE: Good morning. I'm Andrew
5 Devine in the U.S. Department of Agriculture's
6 Foreign Agricultural Service.

7 MR. SULLIVAN: Good morning. I'm
8 Matthew Sullivan from the U.S. Department of the
9 Treasury's Office of International Trade and
10 Investment.

11 CHAIR TSAO: And, Mr. Bishop, we're
12 ready to begin. Thank you.

13 MR. BISHOP: Mr. Chairman, our first
14 witness on this panel is Brent Cleaveland of the
15 Fashion Jewelry and Accessories Trade
16 Association. Mr. Cleaveland, you have five
17 minutes.

18 MR. CLEAVELAND: Thank you. First
19 speaker, well, I'm either the warm-up speaker or
20 I'm the sacrificial lamb. We'll see which way
21 this goes.

22 But at any rate, let's see. Thank you

1 for the opportunity to address this critical
2 issue of tariff implementation.

3 Today I appear before this panel on
4 behalf of our parent organization, Gemini
5 Shippers Group, which is comprised of three
6 associations, Gemini Shippers Association, the
7 Fashion Accessories Shippers Association, and the
8 Fashion Jewelry and Accessories Trade
9 Association. Now, there will be a test later.

10 Our group is a national trade
11 association representing a wide swath of consumer
12 goods, including fashion accessories, jewelry,
13 apparel, footwear, travel goods, handbags,
14 personal care, and home goods.

15 Gemini Shippers Association represents
16 over 300 member companies and is a non-profit
17 shippers association providing greater supply
18 chain efficiency through volume rates with
19 shipping lines.

20 As trade associations, FJATA and FASA
21 serve as the voice of the industry to regulatory
22 agencies. Most members import from Asia and rely

1 on us to help them navigate through the sea of
2 regulatory compliance.

3 Our association's 300 member companies
4 ship approximately 150,000 ocean containers per
5 year into the United States with an approximate
6 value of \$3.5 billion.

7 Our members are generally U.S. small
8 to medium-sized companies that generate most of
9 their revenue importing consumer products that
10 due to the realities of the global marketplace
11 are manufactured outside of the U.S. but are
12 completed, refined, packaged, distributed, and
13 sold by U.S. employees here.

14 We have been an active participant of
15 this investigation, including the initial request
16 for comments of the referenced Section 301
17 investigation.

18 Now, imposing tariffs on these
19 everyday consumer products will have a
20 significantly negative impact on consumers, our
21 member companies and their U.S. employees. We
22 estimate that our members employ tens of

1 thousands of workers who would be hurt by the
2 increased tariffs that will result in higher
3 prices for U.S. consumers and will cause
4 significant harm to U.S. companies.

5 Many of the products our members
6 import are not designer or luxury goods. They
7 are, for the most case, necessities of American
8 working class families. Many of these imports
9 are not available from any other country. And
10 even if production moved, the component parts
11 would still be manufactured in China.

12 Importing these everyday households
13 and consumer products does not threaten American
14 security. But these increased tariffs threaten
15 U.S. small business owners, their employees, and
16 the American consumer through increased cost to
17 importers, which will ultimately be borne by
18 American consumers, causing decreased margins and
19 potential job loss.

20 The imposition of a 25 percent tariff
21 would make the importation of many of these goods
22 financially impractical. Our members will be

1 forced to make one of three hard choices, absorb
2 the increased costs, reducing margins, risking
3 financial insolvency; two, cancel orders with
4 their retail customers risking future
5 opportunities; three, raise prices to consumers
6 risking loss of future retail sales.

7 In the short term, most small and
8 medium importers would not have the ability to
9 replace Chinese production quickly enough to
10 react to these tariff circumstances.

11 Many importers face limitations to
12 moving sourcing out of China, including finding
13 suitable compliant factories and vendors with
14 available production capacity, finding existing
15 talent pool with production expertise, tool
16 makers, and inspectors, and three, availability
17 of transportation capacity and infrastructure.
18 These are just some of the limitations that make
19 swift sourcing changes impossible to enact.

20 Now, I've heard the President say that
21 it's not the Americans who are paying the tariffs
22 but the Chinese. In my industry, a retailer

1 places a purchase order with an importer four to
2 six months in advance. The purchase order is a
3 contract to deliver a certain merchandise at a
4 certain price at a certain date.

5 If any of these conditions fail, the
6 contract fails. A surprise 25 percent increase
7 in cost would terminate these contracts.

8 When a shipment arrives, the broker
9 clears the shipment and issues an invoice to the
10 importer for the freight cost plus an 11 percent
11 duty. If this proposed tariff happens, an
12 additional 25 percent, or 36 percent total, would
13 be added to this invoice that the importer will
14 have to pay in order to get the shipment
15 released. This will be paid by the importer and
16 will often wipe out his profit.

17 In an industry with billions of
18 dollars at stake, I suppose it may be possible to
19 have the entire supply chain share this increased
20 cost. But that will not happen in jewelry,
21 accessories, and consumer goods. Our fear is
22 that the purchase orders will simply cancel, and

1 the importer will be stuck with unsaleable,
2 expensive merchandise.

3 Now, it's also been said the tariffs
4 on Chinese goods will move production from China
5 to another country, even the U.S.A.

6 It's important to note that it took 20
7 years for the production of the jewelry industry
8 to be moved to China. And even if orders were to
9 be placed with other countries, the component
10 parts will still be made from China under Chinese
11 control of prices and delivery. Chinese
12 retaliation for losing the original order is
13 imminent.

14 As production moves from China to
15 other countries, compliance with existing
16 regulation and standards is a serious concern.
17 In some cases, American employees work in their
18 partially-owned Chinese factories performing
19 quality control supervision to ensure compliance.
20 This effort did not happen overnight.

21 We urge the administration to seek
22 other negotiating tools like sanctions. And we

1 ask the administration not to impose this fourth
2 group of tariffs.

3 Finally, we will state our strong
4 support for the administration's effort to
5 improve the production of, the protection of
6 intellectual property rights in China and our
7 firm conviction that the administration continues
8 work on policies with China to best achieve that
9 goal.

10 Thank you for your time today. Any
11 questions?

12 MR. BISHOP: Thank you, Mr.
13 Cleaveland. Our next witness is Jean Kolloff
14 with Quinn Apparel, Incorporated and Qi Cashmere.
15 Ms. Kolloff, you have five minutes.

16 MS. KOLLOFF: Thank you. Good
17 morning, ladies and gentlemen -- put my
18 microphone on. Good morning, ladies and
19 gentlemen. Thank you for inviting me to present
20 my comments regarding the latest proposed
21 tariffs.

22 As the founder and owner of a small

1 cashmere importing company, I wish to communicate
2 my concerns and objections to the proposed 25
3 percent tariff on apparel categories, namely the
4 HTS code category 6110.12 and all suffixes
5 specifically 10.20 and 10.10, covering women's
6 and men's cashmere sweaters.

7 We request that these categories are
8 exempted from additional tariffs. The amount and
9 timing of these proposed tariffs place an undue
10 and egregious and even existential burden to our
11 company.

12 Our company was established in 2003 as
13 an exclusive manufacturer of quality cashmere
14 garments and accessories. Due to the special
15 nature of cashmere yarn and its origins, our
16 sourcing requirements dictated China importation.
17 Cashmere is farmed exclusively in Inner Mongolia
18 from the Alasan breed of goat. They only thrive
19 in this region and are considered the gold of
20 China.

21 We've searched for similar species of
22 goat in an attempt to copy the hair from this

1 animal in other countries or even domestically,
2 but to no avail.

3 Throughout our 15-year history, we've
4 researched importing the raw material to the
5 United States to spin the yarn and to make
6 garments here in the United States. However, the
7 sweater industry in the U.S. has long ago
8 departed to Asia. Both the machinery and the
9 workforce are no longer available in our country.

10 If possible, it would still be
11 prohibitively expensive and would take years to
12 restart production in the U.S. Chinese firms are
13 still the most adept and cost-effective suppliers
14 of cashmere apparel.

15 The additional tariff would
16 precipitate major loss of revenue and profit for
17 our company and other retailers. The lifecycle
18 of our business dictates that we cannot contract
19 production, we contract production as early as
20 eight months prior to shipping. This means that
21 we have locked prices in from our customers and
22 our vendors.

1 We are unable to pass this along to
2 the consumer. Most retailers are experiencing a
3 downturn in traffic and are not in a position to
4 absorb price increases.

5 As we enter the third and fourth
6 quarter, the period all retailers achieve
7 profitability, they will see a lack of customer
8 enthusiasm for higher prices. Many retailers are
9 already closing stores and price increases will
10 surely hasten their demise.

11 As a seasoned apparel merchant and
12 executive who has built businesses, I believe a
13 trade war will erode global confidence and lead
14 to a recession. Tariff-driven trade wars damage
15 businesses and investor confidence.

16 Our economy has thrived through small
17 to mid-sized companies who employ as few as 10
18 people or as many 100. If the cost of goods is
19 impacted by another tax, they will not employ as
20 many people, eliminate benefits, and unwillingly
21 create a recession. Ultimately, this will cause
22 businesses to close.

1 It is my hope reason will prevail and
2 the proposed tariffs will not go into effect. In
3 the event the additional round of tariffs go into
4 effect, we kindly request that HTS code category
5 6110.12 and all suffixes, specifically 6110.12,
6 10.20, and 6110 -- 10.10 covering women's and
7 men's cashmere sweaters, are excluded from higher
8 tariffs for the time being or ideally into
9 perpetuity.

10 Thank you for your time and have a
11 good day.

12 MR. BISHOP: Thank you, Ms. Kolloff.
13 Our next witness is Karen Giberson with the
14 Accessories Council. Ms. Giberson, you have five
15 minutes.

16 MS. GIBERSON: Good morning. I'm the
17 President and CEO of the Accessories Council, a
18 not-for-profit trade association. The Council's
19 mission is to help foster business and assist our
20 members in selling fashion accessory products.
21 Our membership consists of over 320 companies.

22 I'm also a sourcing expert in

1 accessories having worked with many factories in
2 the categories that are affected by this action
3 over the course of my 30-year career.

4 Imposing increased duties on fashion
5 accessory goods as gloves, hats, prescription
6 intended optical frames, sunglasses, scarves,
7 fashion jewelry, and many of the components we
8 use to make our products will not be effective in
9 obtaining the elimination of China's acts,
10 policies, and practices.

11 Our products are low-tech, dumb
12 products which do not involve the sharing of U.S.
13 research and development or intellectual property
14 rights. These products are not produced in any
15 of the ten sectors identified in China's Made in
16 China 2025 initiative. Further, they are already
17 amongst the highest tariffed items.

18 We know that imposing additional
19 duties on these goods will cause disproportionate
20 economic harm to our industry, including small
21 and medium-sized businesses and our consumers.

22 The accessories industry is already

1 under financial stress as sales have been down
2 over the past several years and many of our
3 retailers have consolidated or closed.

4 We were already dramatically impacted
5 by the List 3 increase, which included luggage,
6 handbags, backpacks, wallets, and similar items.
7 We are being impacted by the GSP elimination of
8 India and Turkey. And we face more uncertainty
9 as the proposed EU tariff increase would impact
10 our members.

11 Any additional tariff on these goods
12 will result in further contraction. We make
13 largely price sensitive, impulse purchase items.
14 So further cost increases cause great harms.

15 This concerns us greatly as a
16 significant number of our members consist of
17 start-up businesses and companies that have been
18 in operation for less than five years. Many of
19 the Council's companies have annual sales of \$2
20 million or less and are women and minority-owned
21 businesses. These businesses have limited
22 financial resources and do not have the budget to

1 find alternative manufacturing sources.

2 If the additional tariff takes place,
3 it will impact our holiday delivery products
4 where most of our business is done in the third
5 and fourth quarter of this year.

6 Many of our members sell to U.S. value
7 retailers and off-price stores. Increased tariff
8 will dramatically impact the already slim margins
9 on these goods. An additional 25 percent tariff
10 could raise the effective duty rate to over 30
11 percent of the value of these goods.

12 Unfortunately, there are limited
13 alternative manufacturing locations outside of
14 China. And shifting production would be cost
15 prohibitive and highly disruptive.

16 China possesses an experienced
17 manufacturing, inspection, and shipping industry
18 for these products with the capacity to meet the
19 demands of the U.S. market. There are currently
20 limited alternative manufacturing locations that
21 can compete with China.

22 We anticipate other countries, such as

1 India, will emerge to eventually become an
2 alternative to China production. However, they
3 do not yet possess the resources, trained
4 workforce, infrastructure, or capability to
5 absorb the volume of product produced in China at
6 the same quality and competitive prices.

7 Finally, there are no U.S.-based
8 manufacturing alternatives for these goods at the
9 volumes, prices, or quality our companies
10 require.

11 Even if other manufacturing sources
12 were available, it would take an estimated 9 to
13 18 months to certify and approve new suppliers.
14 Our members have longstanding partnerships with
15 their China factories who have developed specific
16 skills to manufacture these products.

17 Sourcing outside of China would make
18 the items cost-prohibitive for the majority of
19 the U.S. retail customers.

20 You will hear from many large
21 companies over the next few days. And I'm here
22 for all of them, but mostly importantly, our

1 medium and small-sized companies that cannot be
2 here and will be amongst the hardest hit. Thank
3 you.

4 MR. BISHOP: Thank you. Our next
5 witness is Jeff Fischer with Planet Gold Clothing
6 Company, Incorporated. Mr. Fischer, you have five
7 minutes.

8 MR. FISCHER: Members of the Section
9 301 Committee, thank you for the opportunity to
10 testify today. I am Jeff Fischer, one of the
11 owners of Golden Touch Holdings, LLC, a
12 manufacturer and marketer of wearing apparel for
13 women, juniors and children. We've been in
14 business since 1975 and are headquartered in New
15 York City.

16 While we do manufacture the vast
17 majority of our goods outside the U.S., we have
18 over 300 permanent employees and approximately 85
19 hourly workers headquartered here who will
20 Basically adversely affected by the proposed
21 tariffs. Even without the implementation of
22 tariffs, the apparel industry is already facing

1 dire times. According to a Bloomberg article
2 dated February 5, 2018, Americans are spending
3 less and less on clothing.

4 The article goes on to say that
5 there's been general deflation in the clothing
6 industry, which I can attest to. Each year, we
7 are pushed to offer the same garment for less
8 money than the year before. Even with
9 inflationary prices, retailers are closing stores
10 and in some cases going out of business.

11 Business Insider in their April 17,
12 2019 article stated, the retail apocalypse is
13 raging on with almost 6,000 store closings
14 announced so far in 2019, more than the entirety
15 of last year.

16 While that is not exclusively apparel
17 retailers, the article further stated, UBS
18 predicted that clothing stores would take the
19 biggest hit.

20 Our customer base consists of U.S.
21 based retailers that target price-conscious and
22 economically-challenged consumers. The typical

1 customer of these retailers cannot absorb a 25
2 percent price increase, and would likely do
3 without, thereby reducing retail sales volume
4 which in turn hurts the U.S. economy.

5 The financial impact is magnified when
6 we look at the longshoreman at the piers,
7 truckers and workers in the warehouses that get
8 the goods out to our retail customers' stores.
9 The majority of our current on-order in China is
10 scheduled to ship for delivery during the back-
11 to-school and holiday markets. It is not
12 possible to move this production without
13 completely disrupting our production time line.

14 The back-to-school and holiday selling
15 seasons are key to apparel retailers' economic
16 health and profitability. The rapid pace at
17 which these tariffs may be imposed will leave no
18 possible outcome other than that the cost will be
19 borne by U.S. companies, their employees, retail
20 customers and ultimately, the U.S. consumer.

21 The establishment of new capacity
22 outside of China cannot happen overnight. In

1 many cases, equitable alternatives simply do not
2 exist. We're a volume-based fashion business.
3 The factories that can produce over a million
4 pieces of a single item either do not exist in
5 other countries or cannot meet the prices
6 required to sell to our customers, and in turn
7 their consumers.

8 Another factor to consider is that
9 even if we could find manufacturing options,
10 there are several fabrications that are only made
11 in China. The time and expense of purchasing
12 fabric in China and moving it to another country
13 for production may not be feasible.

14 All of this is further complicated by
15 the requirement of several of our retail
16 customers that we can only produce their goods in
17 factories that they have already approved. In
18 the short term, we have to operate under the
19 premise that any increase in tariffs for orders
20 already taken will be borne by our company. Some
21 of our retail customers may share some of this
22 cost, but they are not obligated to.

1 This scenario would be catastrophic
2 for our company. We operate on slim margins, and
3 fixed overhead is not easily manipulated. If we
4 were to pay 25 percent more duty than we paid
5 last year, it would cost nearly five times the
6 profit we earned, obviously an unsustainable
7 business model.

8 In the long term, while we seek new
9 sources for our products it is likely that a
10 large portion of our production will remain in
11 China and the additional tariffs will be passed
12 on to the U.S. consumer. We know that if we
13 find alternative sources they will be more costly
14 and that will be passed to the consumer as well.

15 As we plan for a future that includes
16 tariffs, we must realistically expect a decrease
17 in our sales volume projections. A significant
18 drop in sales will impact our employees and the
19 employees of our service providers, and the
20 employees of our customers.

21 We are requesting that the committee
22 omit the apparel chapters as a whole. However,

1 if the committee's end decision is narrow in
2 scope, we ask that the list below be given
3 priority for exclusion. I'm not going to read
4 the list, but it is provided for your review.
5 Thank you again for your time.

6 MR. BISHOP: Thank you, Mr. Fischer.
7 Our next witness in Mark Corrado with Leading
8 Lady, Incorporated. Mr. Corrado, you have five
9 minutes.

10 MR. CORRADO: Thank you for the
11 opportunity to testify on this issue, which is
12 critical to the future of my business and my
13 workers.

14 My name is Mark Corrado. I'm
15 president of Leading Lady, a manufacturer of
16 bras, tank tops, leggings and other intimate
17 apparel. I'm a third-generation owner, as my
18 grandfather started the company in 1939. We sell
19 to major retailers such as Walmart, Hanes Brands,
20 Amazon, as well as many shops and e-commerce
21 sites.

22 We employ 16 people in our Beachwood,

1 Ohio, headquarters, and have 20 full-time people
2 in our distribution center in central Illinois.
3 I will testify today about the harm that may come
4 to our company if the proposed Tranche 4 tariffs
5 are added to the garments that we currently make
6 in China, mainly bras and panties, as specified
7 under the following HDS numbers: 6212.10.5020;
8 6212.10.9020; 6212.22.9020.

9 We are in a challenging environment
10 now in the retail world, and to have to raise
11 prices will risk our consumers not purchasing our
12 garments and choosing a less expensive one. We
13 cannot absorb this rise in tariffs, as on many of
14 our garments we are already only making a very
15 small profit. This may cause us to lose business
16 with major customers, as they can find someone to
17 make a similar product at a less price.

18 We hope to be finding a way to reduce
19 our prices, not to be increasing them. Our
20 products are difficult to make, as many have 25
21 to 30 operations involved. I brought a sample
22 just to show you what is involved in this. From

1 the shoulder strap, to the lace, to the sewing in
2 the cups, to the bottom elastic, the top elastic,
3 it's a very difficult garment to make. It takes
4 a lot of precision to make it as well as they
5 make it in China. Very time-consuming and very
6 labor intensive.

7 One of the reasons that we've been
8 forced to move offshore is that people don't sew
9 in the U.S. anymore. We had five domestic
10 factories years ago, and most women in the rural
11 areas grew up sewing, so we had no issue finding
12 employees. That situation has totally changed.

13 We are already challenged by a
14 changing retail and dot com market. We are just
15 not trying to recreate our own brand and are
16 selling it directly online to consumers. There
17 are many other suppliers making products in
18 countries other than China that won't be forced
19 to raise their prices, and we fear losing our
20 share of the market.

21 A competitive price is very important
22 to our market, as we've seen when we had prices

1 too high. If we are forced to move production
2 from China, it will take a long time to make sure
3 that the new factories will make the garments
4 correctly and can get the proper materials.

5 Any change to another country may not
6 be possible, as it's very difficult to make our
7 products the right way. The sewers must be very
8 skilled and they must be very precise in their
9 work, or the garment will not fit correctly and
10 will not look worth the price.

11 The cost of producing elsewhere in the
12 world may be too costly too, as we are barely
13 profitable now. That means that we either
14 continue sourcing in China, and increase our
15 prices, which will likely mean decreased sales,
16 or we may try to move out which will take more
17 than a year. That means in the interim we must
18 increase prices, and then we might be able to
19 replace that garment with possibly inferior
20 product that could still be more expensive, which
21 means we lose more sales.

22 The net result of this is that we

1 lose, with the very real prospect of going out of
2 business, and that means our 36 workers and their
3 families lose. Thanks again for the opportunity
4 to testify, and I'll be happy to take any
5 questions.

6 MR. BISHOP: Thank you, Mr. Corrado.
7 Our final witness on this panel is Mark Schneider
8 with Kenneth Cole Productions, Incorporated. Mr.
9 Schneider, you have five minutes.

10 MR. SCHNEIDER: Thank you, Mr.
11 Bishop. Good morning. My name is Mark
12 Schneider. I'm the CEO of Kenneth Cole
13 Productions. I've been in this role for four
14 years, and in the industry for 39 years.

15 Kenneth Cole Productions was founded
16 37 years ago in 1982. We make men's and women's
17 footwear, dress casual and sport, a balance of
18 leather and polyurethane. We also license our
19 brand to dozens of other companies who produce a
20 broad range of other products under the Kenneth
21 Cole brand, including apparel, handbags, luggage,
22 eyewear, watches, fragrance and others.

1 We are headquartered in New York City
2 with a distribution center in California. We
3 employ over 200 folks in the U.S., with hundreds
4 of additional people working on Kenneth Cole
5 products indirectly through our licensees.

6 I will begin by acknowledging the
7 important work done by the USDR, the ITC and the
8 other trade agencies of our government. In
9 addition, I would like to thank you for allowing
10 me to testify before you on behalf of the Kenneth
11 Cole Productions team.

12 The Section 301 tariffs has as their
13 stated purpose, remediating improper trade
14 practices related to technology transfer,
15 intellectual property, and innovation. I testify
16 before you today to demonstrate how the footwear
17 section of the 301 action threatens to hurt our
18 retailer customers, our KCP organization and
19 employees, and ultimately our American consumers.

20 Before I outline the above hardships,
21 first I must state the proposed tariffs on
22 footwear will not cure any discriminatory

1 practices or policies of the Chinese government.
2 The manufacturers process had existed for a
3 lengthy period of time. There are few, if any,
4 trade secrets, technology or intellectual
5 property that are forcibly shared in this
6 industry.

7 Second, tariffs on the existing
8 footwear market have already been carefully
9 established by the United States International
10 Trade Commission, and the U.S. Department of
11 Commerce. The proposed 301 tariffs will put
12 additional and unnecessary burdens, and on the
13 very Americans and consumers that the
14 administration is actually trying to help, which
15 will have dramatic and unintended consequences
16 for the American economy.

17 The current average duty paid for all
18 goods the U.S. imports is 1.4 percent, while the
19 average tariff on travel and footwear is about 11
20 percent and can be high as 67 percent, according
21 to the American Apparel and Footwear Trade
22 Association, the AAFA.

1 Clothing, shoes, textiles, and travel
2 only make up 6 percent of everything the U.S.
3 imports, but the group collectively generated
4 more than half of the 34 billion dollars of
5 tariffs collected in 2017. An additional 25
6 percent tariff would be a devastating blow to the
7 industry.

8 Since these tariffs have been part of
9 the industry and landscape since 1930 with the
10 Smoot-Hawley Tariff Act, the industry has worked
11 diligently to manage accordingly through sourcing
12 and development strategies. Approximately 69
13 percent of all footwear is currently produced in
14 China, and our supply chains cannot easily be
15 shifted to other countries.

16 We have worked for many years to build
17 a highly functioning and stable supply chain, and
18 I am concerned with the potential impact on
19 quality, delivery capabilities and value that our
20 American consumer has grown to expect.

21 Moreover, it is not feasible that our
22 production could be brought back to the U.S.,

1 since the infrastructure no longer exists and the
2 costs to produce our footwear domestically would
3 be exponentially higher, resulting in shoes that
4 would be unaffordable to our consumers.

5 The Footwear Distributors and
6 Retailers of America, the FDRA, has estimated
7 that the proposed tariffs will increase the
8 retail price of footwear by approximately 25 to
9 50 percent.

10 Because footwear is consumer-stable,
11 and because China dominates the production of
12 these items, every American will feel the adverse
13 effects of these tariffs, which will simply be an
14 additional tax on American consumers.

15 Even if footwear companies were able
16 to bear a portion of the burden of additional
17 costs, profitability and jobs will be affected.
18 This would impact KCP significantly by reducing
19 total earnings by close to 20 percent. The
20 bottom line is that higher costs for consumers
21 means that they will purchase fewer shoes which
22 could put footwear companies out of business and

1 will certainly threaten jobs and capital
2 investment in our industry.

3 In conclusion, these tariffs will
4 clearly increase costs to American footwear
5 companies, which will ultimately lead to higher
6 retail prices, lower quality product, lower
7 sales, and loss of jobs and investments. I
8 respectfully urge you not to support or approve
9 these additional tariffs that the administration
10 is proposing on this industry. Thank you.

11 MR. BISHOP: Thank you, Mr.
12 Schneider. Mr. Chairman, that concludes direct
13 testimony from this panel.

14 MR. SULLIVAN: It's Matt Sullivan from
15 the Treasury Department. My question is for Mr.
16 Cleaveland. In your testimony, you indicated
17 that there are regulatory or compliance protocols
18 that your members would find difficult to meet if
19 production were moved outside of China. Could
20 you elaborate on some possible strategies for
21 overcoming these obstacles if the products were
22 sourced from outside China?

1 MR. CLEVELAND: Thank you for that
2 question. Of course the industry has been
3 heavily invested for a decade to come up with
4 compliance with regulatory agencies. Everything
5 from the Consumer Products Safety Improvement Act
6 for children's merchandise, as well as state
7 regulations, California Prop 65 and all this.
8 It's been an enormous task to have the compliance
9 people conform.

10 Building this in another country would
11 take years, and of course put the current
12 merchandise at risk, about it being non-
13 compliant.

14 MS. NAYLOR: Megan Naylor, State
15 Department. My question's for Ms. Kolloff. You
16 indicate in your testimony that Chinese cashmere
17 is unique and cannot be sourced elsewhere. I
18 understand that Mongolia is also a leading source
19 of cashmere wool and cashmere wool products, and
20 by some accounts the cashmere and cashmere
21 products produced there are superior to those in
22 China. Has your firm explored sourcing from

1 Mongolia or from other countries that knit
2 sweaters from Chinese and Mongolian yarn?

3 MS. KOLLOFF: Thank you for the
4 question. Actually, Mongolian cashmere is subpar
5 to Inner Mongolia cashmere. I can get into the
6 specifics about the breeding of the goat, but the
7 Alasan goat, which is a specific breed of
8 cashmere goat, only thrives in Inner Mongolia and
9 is not bred in Mongolia.

10 Also, the goats in Mongolia are
11 primarily brown and black, and the finest
12 cashmere that you buy today, if you buy a sweater
13 or a scarf or a hat, that's in a brighter color.
14 Perhaps red or orange or whatever, you must use
15 white and white is really specifically from the
16 Alasan goat and is bred in Inner Mongolia.
17 That's why we don't source in Mongolia. Thank
18 you for the question.

19 MR. BLAHA: Chris Blaha, Department
20 of Commerce. My question is for Ms. Giberson.
21 You note that the Accessory Council's members
22 have already been subject to some additional 301-

1 related duties on luggage, handbags, and purses.
2 I guess I was wondering if you could elaborate on
3 what the experience has been in regards to those
4 tariffs and how you have been affected by those
5 prices.

6 MS. GIBERSON: Initially, our
7 wholesalers took the hit. It was ten percent and
8 then we had the surprise Tweet over the weekend
9 and got the extra 15 percent, and those orders
10 were already in process. So while they may have
11 factored in a ten percent increase, they didn't
12 factor in at 25 percent increase.

13 So short term, our wholesalers are
14 impacted. Long term, the customer will be
15 impacted because there's just no room in the
16 margin, so the prices either need to increase or
17 the wholesaler gets to a point where they can't
18 afford to be in business anymore.

19 CHAIR TSAO: Actually, ma'am, I have a
20 follow up question. What are some of the
21 strategies that your members are adapting with
22 respect to the ten percent duties and also the

1 increased duties?

2 MS. GIBERSON: There's been a whole lot
3 of curiosity in exploring manufacturing in other
4 countries and looking to move production. Some of
5 their challenges have to do with quality. It has to
6 do with having the factory inspected by the
7 retailer. A lot of the larger retailers want to
8 inspect and make sure that environmental rights,
9 worker rights, conditions are appropriate, so
10 it's a very long process.

11 It takes nine to 18 months before you
12 can really establish a good source, and even
13 longer after that before you can determine
14 whether it's a reliable supplier. So you can't
15 just jump and move everything overnight. It
16 takes a long time.

17 And then the other processes, the
18 inspection process, a lot of those countries
19 don't have on-site inspection to be compliant,
20 and they don't have the shipping, the
21 consolidators, or the ability to get it here in a
22 cost-effective manner.

1 So it's been a very difficult year for
2 our, for many of our companies. These additional
3 proposed tariffs hit the same companies again,
4 and what I'm worried about is it's like a tree
5 getting hit with an axe. One hit, it hurts a
6 little bit, but we're just getting it from all
7 over the place. So some of the other places we
8 would go to, like Turkey or India, now we have
9 issues there too.

10 So it's just, it's going to be the
11 straw that breaks the camel's back for a lot of
12 our companies, and unfortunately the really small
13 ones who just can't afford to explore global
14 alternatives for their sourcing.

15 MR. DEVINE: Andrew Devine, from the
16 Department of Agriculture. My question's for Mr.
17 Fischer. In your testimony you mentioned a list
18 of priority products to be removed from the list
19 of products proposed for 301 duties. Why, and I
20 see that list here, why have you selected those
21 particular products as priorities?

22 MR. FISCHER: In, sort of bottom line

1 is that they're the most expensive duty rates for
2 us already. In listening to some of the other
3 members of the panel and hearing other duty rates
4 that they talk about as being high, for many of
5 our products, specifically man-made fiber tops,
6 we're already paying a 32 percent duty.

7 So with the 25 percent on top of 32,
8 we're nearing 60 percent, two-thirds for all
9 intents and purposes on top of what we're already
10 paying for the products. It's that cost-
11 prohibitive.

12 MS. VON SPIEGELFELD: This is
13 Christina von Spiegelfeld from the SBA. This
14 question is for Mr. Corrado. In your testimony
15 you had mentioned that in the short term a
16 tariff, you would increase your prices. Would
17 you have any, would there be any immediate effect
18 on your company's overhead? And a second quick
19 question is, have you already explored
20 alternative sources or pressed your suppliers for
21 reductions?

22 MR. CORRADO: Thank you for the

1 question. For the immediate time when we have to
2 increase the prices, we're just not sure what the
3 effect's going to be. When we have pricing too
4 high, especially with our new business directly
5 online to consumers, the consumers don't buy it.
6 There's a price point that they'll pay, and over
7 a certain point they won't pay.

8 As far as selling to a Walmart or a
9 big store, we don't know what the situation's
10 going to be. Will they permit us to pass it on?
11 We don't know, and that's obviously very, very
12 important to us whether they will allow it or
13 not.

14 The second question is, yes, we are
15 exploring other countries. We are making some
16 products in Mexico, Bangladesh and Malaysia right
17 now, but China has a very precise, good sewing
18 operation that we can't find anywhere else in the
19 world for these specific bras, the more
20 expensive, better garment. We can't find it at
21 that price anywhere else in the world but China.

22 MS. VON SPIEGELFELD: Thank you.

1 CHAIR TSAO: Mr. Corrado, I have a
2 quick follow up. With respect to the passing on
3 of the proposed, any additional duties, are the
4 manufacturers, the producers, going to assume
5 part of the duties? Do you see that in your
6 business?

7 MR. CORRADO: We don't know. We
8 really don't know. We have two main suppliers
9 out of China. It hasn't been discussed with them
10 yet how we're going to be, how we're going to
11 deal with this. There's a possibility they may
12 do that.

13 When the scare came with the Mexican
14 duties on things, our Mexican supplier offered to
15 help us with that. The Chinese, we don't know.
16 We just don't have any clue how this is going to
17 be dealt with, and we're very fearful of what's
18 going to happen on many fronts.

19 MR. BLAHA: Sorry, I was wondering if
20 I could ask him a question, maybe the panel will
21 more broadly -- I understand that there are
22 certain contracts and time frames that are

1 already locked in, but what is the flexibility to
2 negotiate or leverage lower prices from the
3 Chinese producers more broadly?

4 MR. CORRADO: Is this for me again?

5 MR. BLAHA: I think for the panel,
6 more broadly, I guess. Anyone who wants to
7 answer.

8 MR. SCHNEIDER: Do you mind if I
9 jump? Just a couple things that were questions
10 about trying to find alternative sourcing. I
11 just want to comment that it's been 30 years of
12 actually producing and manufacturing, and the
13 skill set in footwear where 70 percent is being
14 made in other countries. I just want to
15 comfortably state to the commission that as I was
16 just in China, as we discussed moving with owners
17 who own factories in different countries, they
18 will move goods there but they are limited in the
19 amount of production and amount of lines that can
20 make goods.

21 Since it's a global economy, they are
22 smart enough to start raising prices in Viet Nam,

1 Cambodia and other places. Supply and demand
2 really comes into play here, while we think we're
3 going to move our goods to Cambodia or to Viet
4 Nam, so is everyone else and they are smart
5 enough to recognize, they'll take the largest
6 leading brands and capabilities and start to lock
7 into future agreements so that they can certainly
8 satisfy their objectives. Prices are going up
9 elsewhere because of this. They're not just
10 waiting.

11 The second thing we're seeing is,
12 where people who have a balanced portfolio of
13 business, so the certain brands, I won't name
14 brands, which have goods in Europe, 50 percent of
15 their business in Europe and other places and the
16 footwear industry are moving their goods to China
17 and the other goods that are being sold to the
18 U.S. to Viet Nam.

19 The quality of skill set in China is
20 better, so we're going to lower the quality of
21 our footwear to the U.S. consumer, potentially
22 raise prices and raise tariffs and accomplish

1 nothing by moving goods from my standpoint, with
2 all this moving around. In footwear where it's
3 an engineered product, where it has to work, not
4 just look good, and the lathes and all the other
5 elements, there's real potential for quality
6 issues coming to the American consumer which I
7 really fear, which will lower the quality, raise
8 the prices, and basically the tax will go to the
9 American consumer.

10 So from that standpoint there's lots
11 of dimension in this discussion other than just
12 finding other solutions, other manufacturing
13 solutions, from that standpoint.

14 MR. JACKSON: Thank you, Mr.
15 Schneider. This is Bill Jackson, from USDR.
16 Actually, I had a question for you. The first
17 part of the question is do you currently source
18 any of your footwear from outside of China?

19 MR. SCHNEIDER: Yes, we do. We
20 started manufacturing in India, Viet Nam, and
21 we've started working directly over the four
22 years that I've been there, directly with

1 factories that have capability outside of China,
2 but they're the same owners that just have moved
3 factories to Viet Nam, to Cambodia, and other
4 places.

5 I also sit on a board with opening
6 price point product that is trying to find, which
7 did find a home in Cambodia, but now they're
8 being fenced out of Cambodia because other people
9 with larger orders and higher price points.

10 The second thing I fear, I've been
11 dealing in China for 35 years, in the early '80s.
12 The best thing you can do is have consistency
13 with your partners because if we go there and try
14 and force the issue of bearing the responsibility
15 of the increased tariffs, they'll work with you
16 but we will find it somehow, someday, in the
17 product that is not the same as what we've
18 negotiated.

19 I have spent 35 years trying to build
20 relationships, and so has everybody else on this
21 panel and I'm sure everybody behind me, building
22 real, responsible relationships with wherever we

1 manufacture goods around the world, and doing so
2 as a fair wage and a fair price, and for our
3 consumers. I'm fearful that they will find a way
4 to absorb some of it, but it will be in the cost
5 of the goods or in the quality of the goods. We
6 may not see it short term but we will see it,
7 absolutely, unequivocally, over time. I hope
8 that answers your question.

9 MR. JACKSON: It does. May I ask a
10 follow up, which is what trends do you see in the
11 footwear industry in terms of sourcing over the
12 last five years or so? Are you sourcing more from
13 China, less from China, and what do you see the
14 long term profile of your sourcing to be?

15 MR. SCHNEIDER: Over the last 20
16 years in the total industry, China has absolutely
17 not been growing as far as the sourcing of
18 footwear. It's gone down to about 69 percent, so
19 there is capability elsewhere. But the amount of
20 people and the labor intensive and the
21 capabilities of the Chinese worker is absolutely
22 substantial.

1 When 18 billion pairs of footwear, 20
2 billion pairs of footwear are made a year and 12
3 and a half or 13 of them are made in China, the
4 next largest, I believe, is India, two billion
5 pair. The smallest or the one percent is in
6 Turkey at a 175,000,000.

7 We in the U.S. are below that. When
8 I worked in a previous position at Timberland, we
9 made shoes, it was minor. We were making some
10 goods in Maine. I'd say we had a factory in
11 Newmarket, New Hampshire, and that is now a
12 condominium. We were not able to compete. We
13 moved it to the Dominican, and then we had the
14 majority in China from the amount of workers and
15 the capabilities.

16 So again, we are working with India,
17 we are working in Viet Nam with our owners, and
18 we actually have a big business in Mexico. We
19 started looking at Mexico recently but I got
20 scared off just by the quick five percent out of
21 nowhere, which threw me for another loop. So
22 some sort of stability with this type of

1 discussion would be really helpful to try and
2 plan.

3 As I said the Smoot Act was 1930,
4 People have worked to figure it out. We can
5 always work as a group to figure out things, but
6 this quick, whimsical, you know --- We're looking
7 at moving goods because we're fearful in July for
8 back-to-school, it's going to have an impact
9 that's dramatic. So dramatic. There's no
10 preparation for anything.

11 CHAIR TSAO: I have a follow-up
12 question with Ms. Kolloff. Ma'am, I understand
13 that a lot of the products discussed by the
14 witnesses are value products. But cashmere is
15 probably more on the luxury end. So my question
16 to you is are there any differentiation with
17 respect to the impact, the effect of the tariffs
18 to luxury products versus consumer everyday
19 products?

20 MS. KOLLOFF: Well, yes. Our product
21 FOB is probably higher than some of the other
22 products the people on my panel were speaking

1 about this morning. However, there is a
2 limitation on price. Even in the luxury market,
3 there is a barrier to entry, and people want to
4 pay a certain price for a quality cashmere
5 sweater.

6 In the event that our, we are forced
7 to raise our prices, you know, some of it perhaps
8 will be absorbed by the factories that we work
9 with, we have a great relationships with. But
10 clearly we would have to pass it along to the
11 consumer.

12 And even though that consumer is going
13 to buy a garment that would probably be over
14 \$100, the fact is they would still feel it, and
15 perhaps we'd just sell less. And I think that
16 would certainly be an impact to the retailers we
17 sell and to the customers we serve.

18 MR. JACKSON: I can't remember which
19 one of you, but I think it may have been Mr.
20 Fischer. You had mentioned that the effect of
21 the tariffs according to estimates of one of the
22 trade associations would be an increase of prices

1 of 25-50%. And I apologize if I didn't get the
2 person who said that correct, but was it you, Mr.
3 Schneider?

4 So what's the math involved there? If
5 the tariffs go up 25%, how does the total cost of
6 the item go up by as much as 50%?

7 MR. SCHNEIDER: You know, there's
8 typically markups from the manufacturer through
9 the retailer to the consumer. We're all gearing,
10 you know, trying to make certain margin
11 percentage. But if something goes up by two to
12 three dollars on a ten-dollar item, which we're
13 paying a 15% tariff on it today or tax on it
14 today, it usually goes up six to seven times
15 before it gets to the consumer.

16 So there's been lots written about
17 where the price points, that that could go
18 anywhere from 25-33% depending upon the item and
19 based on the markup.

20 So certain retailers, typically as a
21 wholesale, will take anywhere from 45-50%,
22 depending upon the item. From there, the

1 retailer will take, typically go out at a 65%
2 markup. And so if you just do the math on that,
3 you will end up with above the 25%, which
4 ultimately goes with the retail.

5 So I just did a quick calculation on a
6 ten-dollar item. We could go out at \$65 with
7 everybody making their margin that they need or
8 perceive to need to run a business. That item
9 will be at the \$82-85 range. So \$20 on a \$65
10 item will be a 28-30% increase. So it can vary
11 from there.

12 There's been estimates in the AAFA on
13 certain goods that would go higher. And there
14 are certain, I'm only doing it on a 15% duty or
15 tariff product. In footwear, there are some that
16 go up as high as 50%. So it varies on the item,
17 varies on the materials used.

18 I think I read from the -- the AAFA
19 that it says 465 different ways components to
20 make shoes that will impact the tariffs that are
21 brought in, with uppers, materials, and so forth.
22 So it is lots of variations.

1 CHAIR TSAO: Thank you. I did have a
2 follow-up question for Mr. Fischer. I think you
3 had mentioned in your testimony that, as I
4 understood it, in addition to the other concerns
5 that you expressed, there were some fabrications
6 that are made only in China. Is that kind of a,
7 just competitiveness issue, or is there some
8 exclusive technical issue related to that?

9 MR. FISCHER: It's not really a
10 technical issue so much as the, in many cases the
11 fibers are in China. And for example, we do
12 manufacturing in other countries. I was just in
13 India recently. We met with a huge factory that
14 we're already doing business with. Completely
15 vertical, spin their own yarn. But they spin
16 cotton yarn, and when we spoke about anything
17 with polyester in it, they said we're not
18 interested.

19 You know, I mentioned in the testimony
20 that we sometimes get orders in excess of a
21 million pieces. We're doing a faux Sherpa jacket
22 that's 1.7 million pieces. It's polyester, it's

1 brushed twice, it goes through many other
2 processes to get it to look like it does.

3 So not only is it made in China, but
4 to something that's as bulky as that, to then
5 transport that to another country would, just the
6 transportation alone would be cost-prohibitive.

7 So not only, you know, to add on to
8 what some of the other people are saying, not
9 only do we do already manufacture in some other
10 countries, we actually have an office in Delhi
11 with a small satellite office in southern India.
12 We have an office in Dhaka in Bangladesh.

13 But and you know, there's been talk
14 long before the tariffs in China of the growing
15 middle class. So even the Chinese know that
16 there is a period, a point in time when it will
17 become cost-prohibitive to even manufacture in
18 China. So we've been looking for other sources
19 for years, but they just don't exist on the scale
20 that's necessary for the type of business that we
21 do. Thank you.

22 MR. CLEVELAND: Important to note,

1 too, that most major US retailers require
2 corporate social responsibility audits on the
3 factories that they do business with to insure
4 that they're adhering to child labor laws and
5 overtime and fair treatment of employees and that
6 they're not locking doors and forcing work.

7 You know, it's a huge effort, and it's
8 also, you know, it's not the kind of things you
9 can turn over in a day. And it has taken years
10 to have factories inspected and approved by these
11 major national retailers.

12 So of course to just find another
13 source, that's the beginning of the process, but
14 you need to then make sure that the workforce
15 evolves with the technical ability to service
16 that need, but it also has to be in an approved
17 factory.

18 MR. BISHOP: We release this panel
19 with our many thanks, and we invite the members
20 of Panel 2 to come forward and be seated.

21 PANEL 2

22 MR. BISHOP: Will the room please come

1 to order. Mr. Chairman, our first witness on
2 this panel is Dr. Erin Mannen with the University
3 of Arkansas for medical services. Dr. Mannen,
4 you have five minutes.

5 MS. MANNEN: Hello, thank you for the
6 opportunity to talk with you today. Most
7 importantly, I am mom to four-year-old Jay and
8 two-year-old Lucy. However, I am here today also
9 representing my other role as a professor in the
10 Orthopedic Surgery Department at the University
11 of Arkansas for Medical Sciences in Little Rock.

12 I have a PhD in mechanical engineering
13 and have over ten years of experience in
14 biomechanics. My research areas include the
15 biomechanics of babies, with special interests in
16 the benefits of babywearing on musculoskeletal
17 development.

18 I am testifying in this matter because
19 I have concerns about how the imposition of 25%
20 tariffs on baby carriers, subheading 63079098,
21 could adversely impact American families and
22 public health.

1 I became interested in the
2 biomechanics of babies when my son was a newborn.
3 At the time, my husband was a police officer
4 working the night shift, and I was a brand new
5 mom without family nearby. My son was colicky
6 and had double hernias, so he cried most of the
7 time for the first few weeks of his life. It was
8 physically and mentally exhausting, and nothing
9 would calm him.

10 I was gifted a used baby carrier and
11 decided as a last resort to try it. And that
12 experience has truly changed my life. My son was
13 instantly calmed from the physical closeness to
14 me that the baby carrier provided, and my family
15 became believers in the magic of babywearing.

16 But being a scientist, I sought to
17 learn more about why this particular infant
18 device, a baby carrier, was so different than all
19 the other baby gear we had tried. What I found
20 was a community of academic researchers beginning
21 to explore the medical benefits of physical
22 closeness and infant-holding, which babywearing

1 promotes.

2 In particular, researchers have found
3 that physical closeness of the mother-infant duo
4 increases breastfeeding success and decreases
5 infant distress. While other baby devices
6 separate the mother and the baby, a baby carrier
7 promotes physical contact.

8 A researcher at Arizona State
9 University recently found that low income
10 adolescent single mothers who use baby carriers
11 had a stronger attachment to their babies and had
12 increased breastfeeding success.

13 Not only is it well-established that
14 breastfeeding has numerous benefits for the baby,
15 mothers who breastfeed also have reduced risks
16 for some types of cancers. Baby carriers have a
17 significant positive impact on the mother and
18 infant bond, something that we know predicts
19 child success in many different ways.

20 While it was exciting for me to learn
21 about these evidence-based benefits of baby
22 carriers, I began asking questions that I, as a

1 biomechanical engineer, could answer. How do
2 baby devices impact musculoskeletal development
3 for my child?

4 In my most recent study, my team used
5 high tech motion analysis and muscle activity
6 monitoring technology to explore how different
7 baby gear impacts an infant's ability to move and
8 use their muscles.

9 In orthopedic biomechanics, it is well
10 known that motion and muscle activity promote
11 proper joint development. So my research sought
12 to understand how various baby gear might impact
13 the musculoskeletal and motor development of
14 babies.

15 What we have found is that Boba baby
16 carriers promote neck and lower limb muscle
17 activity, which has positive implications for
18 head control and proper spine and hip health. We
19 have also found that back-lying baby gear has the
20 opposite effect on babies, resulting in less
21 movement and muscle activity.

22 In our work, supported by the

1 International Hip Dysplasia Institute, we found
2 that Boba baby carriers promote a hip position
3 and muscle activity profile that is known to
4 encourage proper hip development in infants. We
5 are now exploring how baby carriers may become a
6 medical device or treatment option for babies who
7 are born with hip problems.

8 In summary, baby carriers are not the
9 same as other infant gear on the market. They
10 not only provide parents with the convenience of
11 remaining hands-free and the freedom to explore
12 where strollers cannot, but the evidence-based
13 medical benefits of baby carriers on the baby's
14 health is becoming well understood.

15 I believe that as the body of evidence
16 supporting the medical benefits of babywearing
17 grows, there will be a time in the future when
18 baby carriers may be prescribed to new mothers in
19 the same way that breast pumps are. Baby
20 carrying has clear public health benefits, and I
21 am happy to play a part in understanding and
22 disseminating that information to the public.

1 While tariffs are certainly not within
2 the realm of my expertise, a 25% increase would
3 undoubtedly make baby carriers more expensive to
4 the consumer, who may then decide to purchase a
5 less expensive infant product without known
6 health benefits, losing out on that positive
7 impacts of baby carriers.

8 I appreciate the opportunity to talk
9 with you today as a mother and a mechanical
10 engineering researcher on my own personal
11 benefits and the academic community's evidence-
12 based medical benefits of baby carriers. I
13 respectfully urge you to remove subheading
14 63079098 from the final list in this action, or
15 alternatively include exemptions for child
16 carriers, child carrying wraps, and other child-
17 related products classified under this
18 subheading. Thank you.

19 MR. BISHOP: Thank you, Dr. Mannen.
20 Our next witness is Timothy Gallogly with Dorel
21 Juvenile Group. Mr. Gallogly, you have five
22 minutes.

1 MR. GALLOGLY: Thank you. I'm Tim
2 Gallogly, I'm Director of Legal Affairs for Dorel
3 Juvenile Group. Dorel is a leader in the
4 juvenile products industry in the United States.
5 We are headquartered in Foxborough,
6 Massachusetts, we have a manufacturing facility
7 in Columbus, Indiana, and a distribution center
8 in Fontana, California.

9 I'm here to talk about two products,
10 child safety seats, 9401.80.6021 and 6023. Now,
11 as a preliminary matter, Dorel agrees with the US
12 that China had engaged in unfair trade practices.
13 We also agree that something needs to be done
14 about that. We're not sure tariffs are the right
15 way to go, we'll leave that to the discretion of
16 the Administration.

17 But we do have an opinion on the issue
18 of whether a tariff on child safety seats will
19 cause disproportionate harm to US consumers. And
20 our opinion is that it will not.

21 Now, earlier I mentioned we have a
22 factory in Columbus, Indiana, incidentally the

1 hometown of Vice-President Pence. That factory
2 is 1.2 million square feet in size, it employs
3 700 people, of whom 450 are union members. It
4 produces some three million child safety seats
5 per year. We have the capacity to expand that
6 number by 30% overnight.

7 Now, that facility produces a range of
8 child safety seats, but it focuses on seats
9 designed for the budget-conscious consumer. We
10 actually dominate that end of the market with
11 approximately two-thirds market share. So a 25%
12 tariff on child safety seats will not impact the
13 budget-conscious consumer. They will still be
14 able to go and buy a safe, affordable child
15 safety seat that's made in the United States.

16 Now, there's one other point I'd like
17 to make with respect to tariffs on child safety
18 seats. Whatever is determined by this committee,
19 it should be uniform. Right now on List 3, there
20 is a tariff on seat pads and covers, so-called
21 soft goods. So we import some of that, some of
22 those soft goods, from China, and we pay a

1 tariff.

2 Our competitors import the finished
3 child safety seat, the entire safety seat, from
4 China and pay no tariff. Now, what we've done in
5 response to that is we've moved a lot of our soft
6 goods suppliers out of China and moved primarily
7 to Mexico and Vietnam.

8 But we're concerned that other
9 component parts that we import from China will be
10 slapped with a tariff, and the finished seat will
11 not. So the system we have today actually works
12 to the detriment of the one child seat
13 manufacturing company in the US.

14 So our position, we urge this
15 committee, that if tariffs are imposed, they be
16 imposed on all component parts of the child
17 safety seat, as well as the seat, or that there
18 be no tariffs at all with respect to any of the
19 components or the seat itself.

20 I thank you for your time and
21 consideration, and that concludes my testimony.

22 MR. BISHOP: Thank you, Mr. Gallogly.

1 Our next witness is Mark Flannery with Regalo
2 International LLC. Mr. Flannery, you have five
3 minutes.

4 MR. FLANNERY: Okay, that's Regalo.
5 Good morning, my name is Mark Flannery, I am the
6 President of Regalo. Our company is a mid-sized
7 privately owned company in the baby products
8 industry with corporate offices in Minnesota. We
9 are a leading supplier in North America of
10 several necessary safety products for young
11 children, such as baby gates, bed safety rails,
12 and portable play yards.

13 In addition to these three product
14 categories, we also design and produce several
15 other products that are important to the parents
16 of infants in the areas of sleeping, bathing,
17 napping, feeding, and potty training. All our
18 products are designed and engineered in the US by
19 our own staff and are proprietary to us.

20 Our company, which my wife and I
21 started from scratch 24 years ago, now employees
22 approximately 100 full-time individuals working

1 in departments such as administration,
2 engineering, marketing, finance, sales,
3 logistics, warehouse operations, human resource,
4 supply chain management, IT, quality control,
5 legal, and general office staff.

6 The primary materials used in the
7 manufacture of our products are steel, plastic,
8 and to a lesser extent textile. We have produced
9 our products in China for the past 21 years. Our
10 products have been specifically designed to
11 provide a high level of value and affordability
12 to a broad base of consumers and are sold in
13 every major retailer in North America.

14 We know what parents -- we know that
15 parents today are very informed regarding the
16 proper care of their infants. However, as young
17 families, they often struggle to afford all that
18 is required in the care of their children. As a
19 company, we have always been extremely sensitive
20 to these prices these families have to pay for
21 our products and have worked very hard to
22 maintain their affordability.

1 Periodically over the past 20 years,
2 we have investigated what opportunities might
3 exist for us to produce our products within the
4 US. Fifteen-plus years ago, low tech metal
5 fabrications such as the process used in the
6 manufactures of our products did in fact have
7 some presence here in the US, but not now.

8 Low tech, low cost metal fabrication
9 no longer exists in the United States. US metal
10 fabrication companies we communicated with no
11 longer make the specification of tubing we use,
12 and quite frankly they have no interest in doing
13 that. I have documentation with me today and you
14 have attached to your files that give clear
15 evidence of this.

16 Instead, metal fabrication in the US
17 today broadly primarily involves high cost, high
18 tech industries such as biomed and aerospace and
19 other high tech products that use exotic metals.

20 As the threat of tariffs came on the
21 horizon approximately 20 months ago, we
22 immediately acted to investigate and seek out

1 alternative production sources outside China.
2 Our attention was directed to Mexico and Vietnam
3 as best possible alternative sources.

4 After multiple trips and many face-to-
5 face meetings, the results are that both
6 alternative production options had significantly
7 higher costs than China, even with the 25%
8 tariffs built in.

9 While wages in Mexico and both Vietnam
10 are slightly lower than that of China's, the main
11 hurdle is raw material availability and cost.
12 Vietnam is very developed in wood products as
13 well as textiles, however it has a very weak
14 infrastructure in metal fabrication, which
15 constitutes 80% of our products.

16 The factories we met with could not
17 meet our cost requirements nor our high volume
18 production demand. It was not even close. I do
19 have documentation confirming that as well, and
20 you have it in your packet. All the factories
21 that we met with or inquired into in these
22 countries stated the exact same point, that it is

1 very difficult to compete with China when it
2 comes to low tech, high volume metal fabrication.

3 The costs we received from Vietnam
4 were a minimum of 50% higher, and Mexico was even
5 more higher than that. In the case of US
6 production, we made 13 in-depth sourcing
7 inquiries. Nine stated that they no longer
8 produce or work with the type of steel tubing we
9 require, and quote unquote, This is not a good
10 fit for our company.

11 Three never responded. The one
12 company that did provide a quote gave us a cost
13 in which the raw material alone was over \$45
14 higher than what the entire finished product
15 sells for in Walmart today.

16 At this point, we have no other viable
17 option other than China to produce our products.
18 As a result, it is my firm opinion that by
19 imposing new or higher tariffs on the HTS codes I
20 have listed on your sheets, this would in no way
21 have an impact on eliminating or changing China's
22 actions or their current policies.

1 However, I can say without hesitation
2 that by raising or imposing these new tariffs,
3 25% tariffs, there will be disproportionate harm
4 to our company, as well as to the consumers who
5 have need of purchasing them. We'll have no
6 choice but one of two options.

7 Option one, freeze hiring or possibly
8 make cuts in our staffing, as well as decrease
9 benefits, which currently includes fully paid
10 healthcare, 401(k) match, profit sharing, and
11 maternity leave. We would also have to suspend
12 capital spending.

13 Option 2, pass on the sizable price
14 increase to our retail accounts, which would then
15 significantly raise the retail prices of our
16 products, making them much less affordable,
17 and/or out of range to the lower stratus of our
18 customer base.

19 The following are the HTS codes
20 related to child safety that I'm urgently
21 requesting exemptions for, and you can see those
22 below. There are four HTS codes, I won't read

1 them. Thank you for giving me this opportunity
2 to speak.

3 MR. BISHOP: Thank you, Mr. Flannery.
4 Our next witness is Bradley Mattarocci with Baby
5 Trend, Incorporated. Mr. Mattarocci, you have
6 five minutes.

7 MR. MATTAROCCHI: Good morning, and
8 thank you for the opportunity to testify today.
9 My name is Bradley Mattarocci, Vice President of
10 Baby Trend.

11 Baby Trend is a California-based
12 company producing products such as car seats,
13 play yards, strollers. We have distinguished our
14 brand as a leading manufacturer of these types of
15 products. Throughout our 31-year history, our
16 American employees have been designing new,
17 innovative, life-saving products that meet the
18 ever-increasing demands of parents and
19 caregivers.

20 We accomplish this by providing the
21 safest, more reliable products at affordable
22 prices. Baby car seats, play yards, and

1 strollers are far outside the scope of the
2 Administration's focus on the technologies and
3 industries included in the Made in China 2025
4 initiative.

5 Products specifically listed in the
6 Federal Register Notice will be subject to the
7 25% tariff, some of which were previously and
8 correctly excepted from List 3, Part 2, in
9 recognition of having such lifesaving products
10 available to American caregivers at the lowest
11 cost. Appendix I of our comments lists the HTS
12 codes that we are requesting exemption, including
13 car seats, travel systems, and play yards.

14 An additional 25% tariff specifically
15 on safety-related baby products is unlikely to
16 advance the Administration's objectives,
17 including the criteria set forth in the USTR's
18 notice. This increased cost will have to be
19 passed onto consumers, due to traditionally low
20 profit margins and their price sensitivity,
21 making these lifesaving products unaffordable to
22 much of the country's population.

1 We are confident that implementing the
2 proposed tariffs on critical, and in some cases
3 legally required safety products, will endanger
4 the health and safety of our children.

5 Specifically, this pertains to child car seats
6 and play yards that ensure safe transportation
7 and sleep.

8 The latest census data has the median
9 household income in the US at 50,500. Fifty
10 percent of all baby gear consumers have a annual
11 household income under 50,000, and 20% of baby
12 gear consumers have a household income less than
13 25,000.

14 As an example with child car seats,
15 which must meet federal motor vehicle safety
16 performance standards, parents may choose to use
17 secondhand or expired seats and have, that have
18 outdated safety features. Some may have missing
19 parts, been damaged, or involved in a prior
20 accident, or they may use no car seat at all.

21 In lieu of play yards, strollers,
22 basinetts and cribs, which must meet stringent

1 safety requirements to assure safe sleep, parents
2 may have children sleep with them in their beds
3 or use improvised sleeping arrangements that put
4 babies and small children at risk.

5 These types of tradeoffs are real. We
6 hear about them every day. We fear that the
7 increased costs of parents and caregivers for
8 these products will be putting children's lives
9 at even great risk.

10 For us and many in our industry,
11 adjusting the supply chain to offset the impact
12 of an additional 25% tariff from our well-
13 established, mature suppliers would require
14 significant changes. Those changes would be very
15 costly, disruptive, take years in some cases, and
16 create untenable new safety and quality risks.

17 Our products are uniquely required
18 under US law to be free market tested and
19 certified as meeting the extensive array of US
20 mandatory safety requirements, as required by the
21 US Consumer Product Safety Commission and the
22 National Highway Traffic Safety Administration,

1 NHTSA.

2 Additionally, according to NHTSA,
3 child car seats and boosters provide the best
4 protection for infants and children in automobile
5 crashes, which are the leading cause of death for
6 children ages 1-13. Tariffs do not adequately
7 account for required testing or certified
8 materials, components in global supply chains in
9 our products' production and assembly.

10 These complex supply chains can take
11 years to establish. They cannot be easily moved
12 to different countries or facilities without
13 compromising contracts, legal and regulatory
14 compliance, quality, and affordability for
15 parents and caregivers. A single car seat alone
16 takes years to design and millions of dollars to
17 develop, test, and certify for use and sale in
18 the United States.

19 Based upon the foregoing, we strongly
20 oppose adding additional tariffs on those and
21 other baby products that parents and caregivers
22 depend on for the safety of their infants. We

1 reasonably estimate that the net effect of
2 enacting the tariffs without exclusion would
3 increase wholesale prices of our products by at
4 least 20%, if not 25.

5 The product that, a product that costs
6 70% of its retail price with a 25% duty would
7 mean that to maintain the same margin on sale,
8 retail prices would have to increase by 15%.

9 Baby Trend submits that any tariff that increases
10 the cost of products that provide for the safety
11 of our most vulnerable population must be
12 avoided.

13 Raising children is a complex and
14 costly endeavor. Reducing the costs and
15 increasing the affordability of safe baby
16 products must remain a priority for everyone.

17 For these reason, Baby Trend
18 respectfully requests that child car seats,
19 travel systems, play yards, et cetera, are all
20 protective child safety products imported under
21 the HTS codes in Appendix I of our submitted
22 comments not be subjected to the proposed

1 additional tariffs and excluded, as most were
2 previously, from List 3.

3 Thank you again for your time and
4 consideration, I welcome any comments or
5 questions.

6 MR. BISHOP: Thank you, Mr.
7 Mattarocci. Our next witness is Russell Torres
8 with Graco Children's Products. Mr. Torres, you
9 have five minutes.

10 MR. TORRES: Thank you. My name is
11 Russ Torres, I'm a group president with Newell
12 Brands, the parent company of Graco.

13 I'm here today on behalf of my
14 company, our suppliers, our retail partners, and
15 most importantly the parents of millions of
16 families that purchase baby gear every year. I'm
17 very grateful for the opportunity to appear
18 before you today.

19 We're also very grateful that the
20 Administration granted our previous request for
21 the removal of infant and toddler car seats, high
22 chairs, and infant swings from Lists 1 and 3.

1 This decision helped our industry continue to
2 provide consumers with affordable safety
3 products.

4 My message today is simple. We're
5 very concerned that implementing the proposed
6 tariffs on critical, and in some cases legally
7 mandated, child safety products will have
8 negative consequences for the safety of American
9 children.

10 For background, Graco is the largest
11 provider of juvenile products and gear in the
12 United States. For the last 60 years, our
13 primary mission has been to ensure the highest
14 quality products that protect the safety and
15 wellbeing of America's children.

16 Our US-based engineering and design
17 team has a track record of consistently enhancing
18 safety features for consumers and families of all
19 income levels. This mission drives our 650
20 employees every day in Atlanta, Georgia; Exton,
21 Pennsylvania; Reedsburg, Wisconsin; and
22 Victorville, California.

1 Our industry and parents now face the
2 potential of a 25% tariff on car seats, car seat
3 bases, high chairs, and baby swings. The
4 relevant details of the proposed products are
5 provided in the appendix.

6 All the proposed products, as I
7 testified the last time I was here, are consumer
8 goods used by parents of infants and young
9 children every day in all phases of their lives,
10 like those displayed here by these images.

11 Many of these product categories are
12 required by law and subject to rigorous national
13 safety standards regulated by the Consumer
14 Product Safety Commission and the National
15 Highway Traffic Safety Administration.

16 It is incredibly important to keep in
17 mind, as my colleague noted, that our consumers
18 are young parents balancing tight budgets. Fifty
19 percent of our consumers have household incomes
20 less than \$50,000 a year, and about 20% have
21 household incomes less than \$25,000 a year.

22 We're deeply concerned that imposing

1 the tariffs will add stress to many families as
2 they agonize over choices to balance tight
3 budgets while ensuring the safety of their
4 children. For example, parents may be tempted to
5 turn to secondhand car seats that have expired
6 safety features, or prematurely put young
7 children into booster seats, or graduating
8 children too soon entirely out of car seats.

9 We're concerned that parents may
10 exhibit other behaviors like this. These
11 tradeoffs are real for many young families and
12 lead to wrong choices that negatively impact
13 child safety. There is a limited prospect of
14 adjusting the industry's supply chain or Graco's
15 supply chain to offset the impact of these
16 tariffs in the foreseeable future.

17 About 90% of all products in this
18 category are imported from China directly
19 currently. Significant adjustments would take
20 years and be very disruptive, introduce new
21 risks, and in many cases would be impractical to
22 execute in the short term. The bottom line is

1 the majority of the supply will still be subject
2 to 25% tariffs for the foreseeable future, and
3 consumers will feel the impact.

4 While we appreciate the
5 Administration's overall policy interest, placing
6 tariffs on imported children's safety products
7 will have unintended consequences on child safety
8 that we believe will be harmful.

9 Once again, thank you for your
10 consideration of our comments. We respectfully
11 request that you remove these products from the
12 annex so that parents do not need to choose
13 between safety and affordability. We believe
14 this is a very important issue for the American
15 families and consistent with your prior decisions
16 related to the basis of car seats, high chairs,
17 car seats, and infant swings. Thank you.

18 MR. BISHOP: Thank you, Mr. Torres.
19 Our final witness on this panel is Lisa Trofe
20 with the Juvenile Products Manufacturers
21 Association. Ms. Trofe, you have five minutes.

22 MS. TROFE: Good morning, Committee

1 and thank you for the opportunity to testify
2 today. JPMA is a national, not-for-profit trade
3 association representing 95% of the preschool to
4 prenatal industry, including the producers,
5 importers, and distributors of a broad range of
6 childcare articles that provide protection to
7 infants and assistance to their caregivers.

8 Ninety percent of our members are
9 small businesses. Promoting baby safety is a key
10 mission of the Association.

11 We agree with the importance of
12 addressing issues raised in the USTR report. But
13 tariffs on finished goods or component parts of
14 baby safety and care products is not the
15 appropriate approach to address these issues. We
16 appreciate the Committee's careful consideration
17 of the harmful economic impact tariffs will have
18 on babies and their caregivers.

19 Juvenile products like car seats,
20 cribs, play yards, baby gates, high chairs, and
21 strollers are far outside the scope of the
22 Administration's focus in the Section 301

1 investigation. Nevertheless, it is proposed that
2 these products be subjected to 25% tariffs, which
3 will be the responsibility of the US-based
4 businesses importing these components and
5 products.

6 These increased costs will be passed
7 onto the consumer, given the low profit margins
8 on baby goods, making lifesaving childcare
9 products unaffordable to much of our country's
10 population. As you've heard, 50% of US baby gear
11 consumers have a household income less than
12 \$50,000 a year.

13 Products necessary for the protection
14 and care of infants and small children should be
15 available to America's families at the lowest
16 possible cost. Prior to the finalization of List
17 3, the USTR acknowledged, given the importance of
18 products used for the care and safety of babies,
19 that certain juvenile products should not be
20 subject to tariffs and provided exception codes
21 in Part 2.

22 Now, in List 4, these same previously

1 excepted childcare articles are again being
2 targeted. Yet since the September hearing, the
3 vital role of these products in saving lives has
4 not changed.

5 Therefore, JPMA requests that the List
6 3, Part 2 exceptions for certain juvenile
7 products be maintained and expanded so all
8 products and components imported under the HTS
9 codes in Appendix 1 of our submitted public
10 comments are qualified to exclude childcare
11 articles and protective safety products and
12 components.

13 Tariffs on imports from China will not
14 meet the Administration's goal of inflicting
15 maximum pain on China. Tariffs are hidden,
16 regressive taxes that will be paid by US
17 businesses and consumers in the form of higher
18 prices.

19 While some companies produce a limited
20 range of baby products domestically, that is the
21 exception. Overseas manufacturing has been the
22 norm in our industry for decades, so for most,

1 shifting the supply chain would be a lengthy
2 process. We estimate 90% of the core products
3 that keep babies safe are made in Asia. And of
4 that, the vast majority in regions in China.

5 So a comparable US or other foreign
6 manufacturing base does not exist. Firms with
7 domestic manufacturing produce only a small
8 fraction of the volume necessary to support full
9 US consumer demand for safety products for
10 infants and toddlers, and then only in limited
11 quantities.

12 Juvenile products are highly regulated
13 and quality is paramount, so securing new
14 suppliers is an expensive and complex process.
15 If manufacturers are forced into this process,
16 the safety of products may be compromised. And
17 prices for consumers will surely rise, resulting
18 in many families relying on secondhand or older
19 products that may not meet today's current safety
20 standards.

21 Our message to American families
22 should be clear. The importance of this trade

1 war does not surpass the importance of baby
2 safety. We reasonably estimate the net effect of
3 imposing these tariffs without exclusions would
4 be the withdrawal of a considerable amount of
5 product from the marketplace, as the proposed
6 tariffs and the timing of their imposition is far
7 too aggressive for market adjustments.

8 Most juvenile product manufacturers
9 simply cannot afford to add 25% to the relatively
10 high cost of goods sold. The majority of this
11 industry is made up of small US businesses that
12 are not able to bear the brunt of a global trade
13 war. It should be a matter of public policy to
14 ensure that juvenile products are available at
15 price points readily attainable for the vast
16 majority of American families.

17 JPMA submits that any tariff that
18 increases the costs of products that provide for
19 the care and safety of our most vulnerable
20 populations must be avoided. Higher costs place
21 an unfair burden on families that will
22 undoubtedly result in fewer babies and toddlers

1 having access to products critical to their
2 safety.

3 We are gravely concerned that without
4 affordable access to a safe car seat and safe
5 sleep products, parents may be forced into
6 makeshift alternatives or go without protective
7 products at all. And even one death of a child
8 due to unavailability of affordable lifesaving
9 baby products is one too many. Thank you for
10 your time.

11 MR. BISHOP: Thank you, Ms. Trofe.
12 Mr. Chairman, that concludes direct testimony
13 from this panel.

14 MR. McCARTIN: Thank you. I have a
15 question for Dr. Mannen. I find your research to
16 be fascinating and it makes intuitive sense. And
17 I can understand how from a scientific
18 perspective to figure out exactly what the
19 structure of a baby carrier should be could be a
20 complicated process and take some time.

21 But once the science is there and
22 you've figured out how a baby carrier should be

1 structured, how complicated would it be to
2 actually manufacture that baby carrier, and why
3 would it be necessary to manufacture it in China
4 versus anywhere else? I mean, is there something
5 unique about China that would allow you to, or is
6 this not such a complicated product once you've
7 got the science?

8 MS. MANNEN: Thank you for the
9 question. I have to say that I am not an expert
10 in the business relations side of things. I'm,
11 however, it's my understanding that some of these
12 companies have developed relationships with China
13 that are based on quality and safety. And that
14 shifting that to a different country would result
15 in increased costs and time that would be passed
16 onto the consumer.

17 So regarding specific designs of
18 carriers related directly to China, I can't
19 answer that question directly.

20 MR. McCARTIN: So is your research
21 ongoing, or have you settled on what the ideal
22 baby carrier is? Or will it vary depending on

1 what condition you are trying to address?

2 MS. MANNEN: Yeah, so it's actually
3 fairly new, within the last two years is when we
4 started. Nobody else is really doing any
5 research like that. So there's a lot of
6 questions to still answer. I'm specifically
7 interested in hip and what's the most hip-healthy
8 baby carrier design. What can we do to ensure
9 that we're not hurting babies' hips.

10 But also interest in premature babies
11 and different babies -- babies with different
12 pathologies. So it's brand new, ongoing, we're
13 learning more every day.

14 MR. McCARTIN: Thank you.

15 MS. MANNEN: Thank you.

16 MS. von SPIEGELFELD: Good morning,
17 this is Cristina from the Small Business
18 Administration. This question is for Mr.
19 Gallogly. You had testified that your
20 competitors are importing child safety seats
21 manufactured in China that are excluded from
22 tariffs, while your importation of child safety

1 seat fabric pads from China are subject to a 25%
2 tariff in an otherwise-US manufactured seat.

3 Generally, what is the percentage of
4 the cost of fabric pads in the total cost of the
5 child safety seat? And a second part question to
6 that is has that affected the price currently?

7 MR. GALLOGLY: Well, it's, the
8 percentage of the total car seat that's covered
9 by soft goods, if you will, is not particularly
10 high. It's, I think it's in the single digit
11 percentage of the total cost.

12 Now, what we did in response to the
13 soft goods being put on the List 3 tariffs is we
14 moved supply, we went to suppliers outside China.
15 And so they're in Mexico and Vietnam primarily
16 now, although we still have some Chinese
17 suppliers, so we're still paying a tariff on
18 that.

19 But it's not a particularly high
20 percentage. It really depends on the price point
21 of the car seat. The lower price point, the
22 percentage is lower. And the higher price,

1 that's really much of what you're paying for is
2 the soft goods, the thicker padding and the
3 plusher cover. But on the lower end, the added
4 cost is not particularly high.

5 MS. von SPIEGELFELD: Thank you.

6 MR. GALLOGLY: Thank you.

7 MR. DEVINE: Good morning, this is
8 Andrew Devine from the Department of Agriculture.
9 My question is for Mr. Flannery. You mentioned
10 that you made inquiries in the US, Mexico, and
11 Vietnam to produce your products. Do those or
12 other countries outside of China already produce
13 the child safety products you described? And
14 what are those countries' share of the market?

15 MR. FLANNERY: There, a large portion
16 of our business is baby gates, baby safety gates.
17 And also metal fabrication and play yards and
18 that sort of thing. Currently there's no country
19 manufacturing baby safety gates outside of China,
20 to our knowledge. Plastic may be the exception
21 to that, but metal is not the case. Does that
22 answer your question?

1 MR. DEVINE: Well, then I have a
2 follow-up. Have you explored the feasibility of
3 producing your products outside of China and
4 sourcing only those components that are
5 unavailable outside of China from China?

6 MR. FLANNERY: We have, we have. As a
7 matter of fact, you have a cost in your packet
8 there, if you see the Vietnam cost. That's with
9 China's steel imported into Vietnam. So for us,
10 it really comes down to the dilemma we have is
11 steel. And you have to have a country that has a
12 developed steel industry.

13 And so China has that, the US has
14 that. India maybe to a lesser degree has that,
15 but there's all sorts of complications with
16 India. Vietnam does not, even though they have a
17 steel, we met with their, I don't know what you
18 would call him. But basically he was the head of
19 the association for steel production.

20 He openly admitted 80% of our steel is
21 from China. So that's the problem with, for us,
22 is really is the low cost carbon cold rolled

1 steel. It's just, it's limited in where we can
2 go to have that produced.

3 MR. McCARTIN: Just to follow up in
4 this area. I think it was Mr. Torres who had, in
5 his testimony, said that 90% of these juvenile
6 products are made in China. Is it possible to
7 get a breakdown? You've got cribs, play gates,
8 high chairs, car seats. What percentage of each
9 of those categories is produced in China versus
10 elsewhere?

11 MR. TORRES: Sure. I'd don't have
12 that available right now, but we could get it to
13 you and submit it in the form of our follow-up.

14 MR. BLAHA: Chris Blaha, Department of
15 Commerce. I have a question for Mr. Mattarocci.
16 You testify that there is price sensitivity of
17 consumers related to child safety products.

18 And I guess try to understand that, do
19 you have an idea of what the overall US
20 consumption share is made up by imports from
21 China versus domestically produced? And kind of
22 analogous to my colleague's question, is that

1 different across the various child safety
2 products? Different for child safety seats
3 versus cribs versus other things like that?

4 MR. MATTAROCCHI: Well, I would, as Mr.
5 Torres said, I would say that the market share of
6 baby safety products is roughly 90%. The exact
7 breakdown, we can submit that in our follow-up
8 comments. But as it relates to the market share
9 for child safety seats, as one of my colleagues
10 had testified that they have some domestic
11 production. That's a very small portion of the
12 overall market share of the US.

13 And to put that in perspective,
14 there's four million, approximately four million
15 live births a year in the US. Child safety seats
16 are used up to the age of 13, legally required in
17 most states.

18 So if you just do the math, that's
19 about 52 million child safety seats that the
20 market share would be potential. Let's say it's
21 just half of that and it's 25 million. So three
22 million seats, it's the drop in the bucket

1 compared to the overall market share.

2 CHAIR TSAO: Mr. Gallogly, I think you
3 would like to respond.

4 MR. GALLOGLY: Yeah, I'd like to
5 respond to that. The math is a little off there.
6 There are approximately ten million child safety
7 seats sold per year in the United States. We
8 make three million in Columbus, IN. That's 30%.
9 And we could increase that by 30%. We could go
10 to four million in the short term.

11 So I wouldn't say that's a minuscule
12 percentage of the child safety seat market, which
13 is what I came to testify to. Play yards and
14 gates, I don't know what the percentage is made
15 in China. We make some other products in
16 Columbus, but not those. But as far as child
17 safety seats, I think a third or more of the
18 market is not a small percentage. Thank you.

19 MS. NAYLOR: Megan Naylor, State
20 Department. My question is for Mr. Torres. You
21 mentioned that increased tariffs might create
22 economic incentives that result in parents

1 resorting to older, used equipment or alternative
2 unsafe products that endanger children. Can you
3 please share any data supporting this statement
4 with the Committee as a follow-up to this
5 hearing?

6 MR. TORRES: Absolutely, we can share
7 that as a follow-up. I can conceptually kind of
8 give you a sense for that in saying just look at
9 the price elasticity of products in our category,
10 which means the responsiveness to demand on
11 price. And that tells you they're very elastic.

12 And so if prices come down, you'll
13 see, you know, significant upticks in volume. If
14 prices go up, you'll see significant drops in
15 volume. And that's, you know, some cases that's
16 second car seats, hopefully, for an extra vehicle
17 or a grandparent who decides to purchase a
18 product.

19 But in a lot of cases, we're concerned
20 that it's also people digging in to find the old
21 one as opposed to going to purchase a new one or
22 doing something different. And so that's what's

1 got us concerned.

2 I'd also like to make a quick comment
3 on just the prior discussion. You know, our
4 belief is the principle of the tariffs is not to
5 competitively advantage or disadvantage any one
6 company. So we're all for a level playing field.
7 Newell as company participates in a lot of
8 different categories, and we're experiencing
9 tariffs across those categories.

10 I'm here to testify about one, which
11 is child safety products, because we're concerned
12 that, and we experienced the inverse tariffs that
13 my colleague from Dorel has stated as well, where
14 the input costs are actually putting you at a
15 disadvantage to people that are sourcing the
16 entire finished goods across a number of our
17 categories.

18 So while that's difficult, you know,
19 our concern is will the tariffs increase prices
20 to consumers. And we feel that even with the
21 stats, my colleague, we'll share the breakdowns,
22 those are units, not dollars. And so when you

1 look at the middle part of the market, we have
2 40% market share. And there are additional
3 safety features that some consumers may want to
4 choose in the mid-tier, you know, level.

5 So we believe that because the tariffs
6 will ultimately increase prices to consumers, it
7 will cause people to begin making those choices.
8 And we don't see that any kind of competitive
9 advantage one way or another between companies
10 within the industry is the issue. The issue is,
11 is that question.

12 MR. SULLIVAN: Matt Sullivan from the
13 Treasury Department. My question is for Ms.
14 Trofe. You argue that alternative domestic
15 sourcing is not generally available in the supply
16 chain for many juvenile products, and there would
17 be expected cost increase.

18 I'm just wondering, do you have any
19 more kind of detailed data on the price
20 sensitivity of consumers? I know you pointed at
21 the statistics about 50% of the consumers have
22 incomes below 50,000. But is there anything more

1 detailed you can share on the sensitivity of
2 consumers to price increases, either here in this
3 testimony or at following as a written
4 submission?

5 MS. TROFE: Absolutely, I'd be happy
6 to provide some additional data points in our
7 follow-up comments.

8 But anecdotally I would say that we
9 believe all American families should have a
10 choice and should have access to the products
11 that they need at the lowest cost possible so
12 that they can safely and effectively provide
13 those lifesaving and safety devices for their
14 children.

15 CHAIR TSAO: Thank you. Follow-up
16 question, a number I think of testimonies today
17 have referenced concern about older, or I guess
18 out of standard or out of date child healthcare
19 equipment, and that essentially the reuse of it
20 being a broader health concern and like if
21 tariffs would be imposed.

22 Is there any information, I think Mr.

1 Mattarocci, you mentioned, Mr. Torres, Ms. Trofe,
2 about how often the standards change? How often
3 do these things need to be updated, and how much
4 really of a concern is an older childcare seat
5 say, that isn't out and out broken or damaged?

6 MS. TROFE: Absolutely. One of my
7 roles with the Association is to serve as the co-
8 chair of more than 30 ASTM product category
9 subcommittees. ASTM is a voluntary standard-
10 setting body on which the federal regulations for
11 these individual products are based. And that is
12 overseen by the Consumer Product Safety
13 Commission.

14 One of the ways in which we identify
15 how safety standards should be updated is by
16 reviewing incident data. And that's information
17 that's compiled both directly by the CPSC, as
18 well as hospital records, coroner records,
19 medical examinations. And all of that data is
20 compiled into a central location, which can be
21 reviewed and analyzed for trends.

22 What we find is that the vast majority

1 of incidents and fatalities occur with products
2 that do not meet current safety standards, with
3 products that are, have been sitting in someone's
4 attic for some time, or that have been used past
5 their recommended use dates. And in some cases
6 where parents or caregivers have tried to modify
7 or fix a product so that they are deemed safe.

8 And our goal in advocating against
9 these tariffs is to ensure that families don't
10 have to do that, that all families have access to
11 affordable products that will ensure the safety
12 of their children.

13 Those standards, to answer your
14 question directly, are updated in many cases on
15 an annual basis, if not more frequently. And
16 again, that's based on a group of technical
17 experts reviewing that incident data to ensure
18 that the standards are keeping up with the trends
19 that are found in the incident data, as well as
20 the innovation and technology that we're seeing
21 from the manufacturing community.

22 MR. BLAHA: Another question, I

1 believe for Mr. Flannery. I think in response to
2 my colleagues you mentioned that the price quote
3 that you had from Vietnam, I think, included the
4 Chinese steel. But that was still, I think, I
5 forget the percentage how much higher.

6 And I apologize, I haven't had a
7 chance to review your material there, but what
8 was the, what's the margin then? Why was Vietnam
9 so much higher if the steel was the same and
10 steel was a large portion cost out of your
11 products, I think?

12 MR. FLANNERY: You know, it's, there's
13 a couple of components to that question. Raw
14 material is one. The other thing is, as a matter
15 of fact, I got an email this morning from our
16 general manager of China operations. And they
17 have, they were communicating with a factory, a
18 Taiwan-owned factory in Vietnam.

19 And the owner of that factory wanted
20 to point out specifically that even though the
21 Vietnam wages are lower, the prices are higher.
22 And so I think someone mentioned earlier that the

1 Vietnamese are, number one, taking advantage, you
2 know, of the surge, you know, that's coming into
3 their country. But our experience has been,
4 number one, has been the steel. Number two, has
5 been capacity.

6 They just, for our type of product,
7 baby safety gates in particular, a high volume,
8 low tech metal fabrication. They have good
9 factories. I mean, they're sophisticated,
10 they're very updated, but they're small. And
11 they just don't have, they just don't even come
12 close to being able to fill our capacity. Not
13 even close.

14 And to be able to and to have to move
15 that and shift that, it's just not a raw material
16 issue. It's a, it's just a huge, huge
17 undertaking. Because like these, my colleagues
18 are saying with car seats, you know, there's
19 safety standards. Well, there's safety standards
20 for baby gates as well.

21 And so all that you've heard as far as
22 inspecting and being audited by, your factory's

1 audited, all these sorts of things are all
2 components that come into it that just make
3 transitioning, even if we could find a place that
4 had the same costs or even a little higher than
5 China, it would just a massive undertaking
6 because of our volume. And because of the nature
7 of our tooling, our dyes, our equipment, getting
8 things set up.

9 So Vietnam, to speak to your point,
10 not to belabor it, but to speak to your point,
11 it's their ability in our categories, it's raw
12 material in our categories. It's the size and
13 their ability logistically to even do what we can
14 do, what we need to be done.

15 You know, as I said, wood, maybe a
16 different story, and it is a little bit of a
17 different story in wood in Vietnam. But metal
18 fabrication is not there, it's just not there.
19 And it's the same in Mexico.

20 CHAIR TSAO: Mr. Flannery, are the
21 metal gates substitutable or I guess
22 interchangeable with the, in terms of use, with

1 the plastic ones and wood ones? And do you see
2 sort of a shift to, you know, of consumers moving
3 to the other materials?

4 MR. FLANNERY: Well, that's a really
5 good question. I mean, that's a really good
6 question. And because for example plastic in the
7 gate market, wood and plastic represent the
8 bottom end of the market. Okay, you have a
9 plastic, we make a plastic expandable gate,
10 retails in Target for 19.99.

11 Wood is even lower. I believe Dorel
12 and some of our other colleagues can attest to
13 that. There's no profit in the wood, low end
14 wood gate. Half of you guys probably have one.
15 But the metal is, and the metal gates are a walk-
16 through style gate.

17 And they, because of the safety
18 requirements and push-out and pull-out pressure
19 requirements that are based on the standards,
20 plastic, it can't be done, we tried. And wood
21 certainly can't be done, to withstand those
22 pressures that are required.

1 CHAIR TSAO: Actually, I do have
2 another follow-up question with Mr. Gallogly.
3 And this is actually for the other car seat
4 representatives here too. I think in your
5 written testimony you said that their estimation
6 is that any price increase would be limited to
7 anywhere from three to five percent.

8 My question is, is that particular to
9 your firm or to your sort of segment of the
10 market? Or is that the sort of anticipated
11 effect of tariffs with respect to the entire
12 child safety seat industry?

13 MR. GALLOGLY: That would be if the
14 proposed tariffs on the restraint system goes
15 into force. The restraint system is the buckles
16 and the harness. We source that component part
17 primarily from China.

18 So for example, if these tariffs were
19 going forwards, both on the child safety seat and
20 the harness, our price would have to go up about
21 three to five percent, which would take our
22 opening price point child safety seat, which is

1 less than \$50 right now at Walmart, and would
2 probably raise the price by, you know, less than
3 a dollar.

4 But again, we would end up paying a
5 tariff on an imported component part, and if
6 tariffs are not imposed on the finished child
7 safety seat, they would pay no tariff at all. So
8 we just, that's the uniformity that I was
9 alluding to earlier. I hope that answers the
10 question.

11 CHAIR TSAO: Yes, thank you. And Mr.
12 Torres and Mr. Mattarocci.

13 MR. MATTAROCCI: Yeah, in my statement
14 I had kind of given an analogy that if the costs
15 were 70% of the retail price with a duty of 25%,
16 that the net effect at retail would be
17 approximately 15% on a traditional importation of
18 a vertically integrated company.

19 And you know, I would just like to
20 say, I agree with Mr., the gentleman from Dorel
21 that even if we were able to move our complex
22 supply chain and tooling and everything, all of

1 the component parts, the webbing, all of those
2 things that are already certified would still
3 need to be imported from China. They're not
4 available in quantities anywhere else.

5 MR. TORRES: I would agree with that,
6 with the 15%.

7 MR. BISHOP: We release this panel
8 with our many thanks and invite the members of
9 Panel 3 to come forward and be seated.

10 (Pause.)

11 MR. BISHOP: Mr. Chairman, our first
12 witness on this panel is Mike Branson with Rheem
13 Manufacturing Company. Mr. Branson, you have
14 five minutes.

15 MR. BRANSON: Good morning. My name
16 is Mike Branson. And I'm the President for
17 Global Air Operations at Rheem Manufacturing
18 Company.

19 I want to begin by thanking the
20 Section 301 Committee and USTR for arranging this
21 important hearing, and for giving me the
22 opportunity to speak with you once again today.

1 Rheem is a market leader in heating
2 and cooling products. We are headquartered in
3 Atlanta, Georgia.

4 And we have U.S. manufacturing
5 facilities in Alabama, Arkansas, California,
6 Connecticut, and North Carolina. Rheem currently
7 employs approximately 32 hundred people in the
8 United States, including over 17 hundred
9 production workers.

10 I'm here today to express our support
11 for the Administration's actions and propose
12 application of tariffs to the additional products
13 on List Four.

14 We specifically request that two
15 tariff subheadings related to parts of air
16 conditioners remain on the list of products to
17 which Section 301 tariffs will be applied. The
18 tariff subheadings in question are HTS Numbers
19 8415.90.40 and 8415.90.80.

20 It is especially important that USTR
21 retain HTS Number 8415.19.80 on List Four in
22 order to reduce avoidance of tariffs on finished

1 air conditioners in List Three tariffs.

2 As I have previously testified before
3 this subcommittee over the past few years,
4 Chinese manufacturers have been highly disruptive
5 in the North American air conditioning market.
6 In particular, Chinese exporters have
7 successfully avoided Section 301 tariffs imposed
8 on air conditioning units by shipping them
9 separately.

10 Air conditioning systems are typically
11 comprised of an indoor unit and an outdoor unit.
12 These are called split systems, thus comprises
13 two or more air conditioning units.

14 U.S. Customs has taken the position
15 that when the indoor unit and the outdoor unit
16 are shipped together, they're called a system.
17 They enter under HTS 8415.10.90, which is
18 currently subject to List Three tariffs.

19 But if the same indoor and outdoor
20 unit ship separately, U.S. Customs then ruled
21 that they are now parts under HTS 8415.90.80. To
22 ensure that tariffs are applied to all finished

1 air conditioner units as intended, HTS Number
2 8415.90.80 therefore should be retained on List
3 Four.

4 Failure to include these parts on the
5 prior Section 301 list has simply encouraged
6 Chinese exporters to instead ship those units
7 separately to avoid tariffs. Thereby undermining
8 the goals of the Administration.

9 This is consistent with what we have
10 seen in the market. It is also confirmed by 2019
11 import data which shows that imports from China
12 under HTS Number 8415.90.80 increased to 432
13 million dollars during the first four months of
14 2019, up more than 35 percent from the same
15 period last year.

16 To ensure the intended effectiveness
17 of the Section 301 action, we therefore request
18 that HTS Number 8415.90.80 and 8415.90.40 remain
19 on List Four. Inclusion of these additional HTS
20 codes on List Four would not cause
21 disproportionate economic harm to U.S. interests.

22 As our -- as a result of our recent

1 capital investments in our North American
2 manufacturing facilities, we have sufficient
3 capacity to react to an increase in domestic
4 demand.

5 Other domestic and non-Chinese foreign
6 suppliers of air conditioners also have capacity
7 to meet demand. As a result, we do not believe
8 there will be a problem of short supply in the
9 market.

10 To summarize, Rheem supports a 25
11 percent ad valorem duty on Chinese air
12 conditioner imports. And we ask that air
13 conditioner parts under these HTS Numbers be
14 retained on the list of products subject to 301
15 tariffs.

16 These proposed actions would assist in
17 eliminating China's unfair acts, policies, and
18 practices. And they would not cause
19 disproportion economic harm to U.S. interests,
20 including small or medium sized businesses and
21 consumers.

22 I thank you for your time and for your

1 continued efforts on behalf of the interests of
2 U.S. manufacturers and their workers.

3 MR. BISHOP: Thank you Mr. Branson.
4 Our next witness is Jennifer Dolin with Ledvance,
5 LLC. Ms. Dolin, you have five minutes.

6 MS. DOLIN: Thank you Mr. Bishop. And
7 thank you Mr. Chairman and members of the
8 Committee.

9 My name is Jennifer Dolin. And I am
10 the Head of Government Affairs at Ledvance, LLC.
11 You may know us as our brand name for general
12 lighting, Sylvania.

13 The Sylvania brand of light bulbs or
14 lamps as they're called in the lighting industry,
15 has been a household name in the United States
16 since 1901. Our U.S. headquarters is still in
17 Massachusetts. And we have several hundred
18 employees nationwide.

19 On August 23, 2018, I testified at the
20 last hearing that tariffs under List Three for
21 certain codes added costs to the component parts
22 we were using to manufacture energy efficient

1 light bulbs in the U.S.

2 Specifically LED and halogen, putting
3 our U.S. manufacturing at a significant
4 disadvantage over finished light bulbs imported
5 straight from China.

6 We are grateful that the
7 Administration understood this contradiction and
8 removed the code for ballast, for discharge lamps
9 or tubes from the list. And I brought show and
10 tell. That's basically the electronics that go
11 in the end of whatever light bulb we're
12 producing.

13 However, in the most recent
14 announcement, which we're here to discuss today,
15 that code has been once again added. So, I'm
16 back once again.

17 This code now impacts Buy American Act
18 compliant, or BAA compliant LED tubes that are
19 being assembled at our Kentucky facility to meet
20 city and state contract requirements throughout
21 the country.

22 In assembling in the United States, we

1 are striving to achieve the Administration's goal
2 of shifting production out of China. However a
3 tariff on this component will significantly
4 restrict our ability to do so efficiently and
5 economically.

6 On the second point, a tariff on
7 finished LED lamps or light bulbs contradicts
8 other existing federal laws and goals that focus
9 on encouraging energy savings for all Americans.
10 Under the Energy Independence and Security Act of
11 2017, or EISA, the U.S. Department of Energy set
12 standards for general service light bulbs to help
13 Americans save energy and money.

14 The achievements are undeniable with a
15 remarkable and growing shift to LED technology
16 over the past five years. With tariffs being
17 added to a growing number of imported goods,
18 consumers are seeing prices rise on thousands of
19 products they buy. And they are looking to save
20 money where they can.

21 A 25 percent tariff added to LED light
22 bulbs would make the purchase price of more

1 inefficient lighting more attractive to
2 consumers. These include halogen light bulbs
3 that are still currently available while the U.S.
4 Department of Energy continues to deliberate
5 about amending those light bulb standards.

6 The energy savings of LED light bulbs
7 would far outweigh the initial cost increase.
8 But consumers may not be considering that when
9 faced with higher prices on the retail shelf.

10 Ledvance recommends that the tariff
11 codes of the two items I discussed, be excluded
12 from my list, from the list. And I have
13 specified them in my written testimony.

14 We request that this be considered.
15 Thank you again for your time.

16 MR. BISHOP: Thank you Ms. Dolin. Our
17 next witness is Ray Sharrah with Streamlight
18 Incorporated. Mr. Sharrah, you have five
19 minutes.

20 MR. SHARRAH: Mr. Chair, members of
21 the Committee, I'm Ray Sharrah, President and CEO
22 of Streamlight Incorporated. Thanks for having

1 me this morning.

2 I'm here today to urge the USTR to
3 remove flashlights, portable electric lamps,
4 electric LED lamps, and lithium ion batteries
5 from the list of proposed products subject to the
6 fourth tranche of duties in this Section 301
7 investigation.

8 Streamlight was founded in
9 Pennsylvania more than 45 years ago. We're one
10 of the few remaining domestic manufacturers, and
11 a major supplier of portable LED lighting
12 products serving a wide range of professional
13 users. Nationwide an estimated 70 percent of
14 police and firefighters use our products.

15 We employ 325 people in our
16 Eagleville, Pennsylvania facility. Where
17 everyone enjoys great benefits and a share of the
18 profits.

19 We design, manufacture and market the
20 industry's broadest line of high performance
21 lighting, weapons lights, laser sighting devices,
22 and other mission critical lighting tools. Our

1 professional users include police, firefighters,
2 first responders, many industrial users, all 16
3 federal intelligence agencies, and the military.

4 They rely on our products in the same
5 way they rely on their vest or their helmet, or
6 other essential personal protection equipment.

7 Like many companies, we have and we
8 will continue to suffer economic harm through
9 escalating tariffs. But an overriding concern
10 for us is the safety of our consumers.

11 Streamlight's mission is to provide
12 high quality, high performance, value driven
13 products that save lives. In many cases we
14 manufacture the final product in Eagleville,
15 Pennsylvania in a recently expanded facility from
16 components sourced both domestically and abroad.

17 In other cases we rely on trusted
18 Chinese suppliers for finished goods. We are
19 able to leverage our supply chain, which we've
20 developed over decades of effort, to service all
21 of our customers in a way that ultimately enables
22 us to offer these high end products at a price

1 accessible.

2 To this end, we've become involved in
3 the manufacture of some of our products in China.
4 Primarily to be more competitive with Chinese
5 imports of the same.

6 Streamline has lost market share to
7 cheaper knock-off, or in some cases, counterfeit
8 Chinese lighting products. We primarily
9 responded by continuously designing and
10 innovating and efficiently producing new
11 products.

12 We design all of these products, and
13 produce many of these in Eagleville, while our
14 subcontractors produce the most price sensitive
15 models in China.

16 Those products that we produce in
17 China are still higher priced than most Chinese
18 imports, because we invest considerable time and
19 money in the engineering and the oversight of
20 these manufacturing processes.

21 Additionally, Streamlight is required
22 to comply with numerous government regulations

1 and performs extensive testing and quality
2 control of all our products in Eagleville.

3 Nevertheless, this method of
4 innovative manufacturing through our
5 subcontractors in China, while retaining many of
6 the key steps in the United States, has provided
7 a viable business model that allows us to compete
8 against some of these cheaper imports, while
9 still delivering superior products that we back
10 by a lifetime of service.

11 Unfortunately for most of the portable
12 lighting equipment at issue here, there's no
13 other source than China.

14 U.S. government data shows that 97
15 percent of the flashlights and portable electric
16 lamps come from China. These products contain
17 many parts and are made with specialized
18 equipment located only there.

19 As a result, imposition of this 25
20 percent tariff on top of the ordinary duties
21 already in effect, will not result in these
22 professional users switching to well-priced

1 products made in the United States or third
2 countries, because that option doesn't exist in
3 many cases.

4 Instead this will force professional
5 portable lighting equipment users to switch to
6 less expensive and perhaps those searching for
7 our brand in some cases, counterfeit goods.

8 Of great concern is the impact on
9 professional users' ability to protect the public
10 and the potential to put these professionals in
11 harm's way. We have included customer
12 testimonials to this effect in our comments that
13 document our products roles in saving lives.

14 Imposition of these duties will make
15 the problem of intellectual property theft by
16 China worse, not better. These knock-offs and
17 counterfeits expend considerable -- we spend
18 considerable resources to fight them.

19 These illicit goods are sold often to
20 individual customers on e-commerce websites.
21 They take advantage of a tariff loophole of eight
22 hundred dollars minimum on incoming imports.

1 Finally, it will hurt our export
2 market. Our portable lighting products are
3 imported extensively throughout Europe, South
4 America, and they compete with products directly
5 from China in Europe.

6 These foreign competitors will not
7 have to pay a 25 percent tariff. And we will.
8 And as a result, we'll be at a significant
9 competitive disadvantage.

10 For all of these reasons, we ask the
11 USTR to remove flashlights, portable electric
12 lamps, and LED lamps and lithium ion batteries
13 from the proposed List Four.

14 I appreciate the opportunity to
15 testify. I'm glad to answer questions later.

16 MR. BISHOP: Thank you Mr. Sharrah.
17 Our next witness is Kerry Stackpole with Plumbing
18 Manufacturers International. Mr. Stackpole, you
19 have five minutes.

20 MR. STACKPOLE: Than you Mr. Bishop.
21 Good morning everyone. On behalf of the Plumbing
22 Manufacturers International, thank you for the

1 opportunity to share our views concerning
2 proposed modification of action for Section 301
3 tariffs on Chinese goods.

4 I'm Kerry Stackpole, CEO and Executive
5 Director of Plumbing Manufacturers International.
6 PMI is the U.S. trade association serving the
7 manufacturers of plumbing fixtures and fittings.

8 Our members produce 90 percent of all
9 plumbing fixtures sold in America, representing
10 more than 150 brands of showerheads, bathtubs,
11 sinks, toilets, faucets, urinals, drinking
12 fountains, and perhaps most importantly,
13 emergency eye wash and shower stations. As well
14 as hundreds of types of components key to safe
15 plumbing systems.

16 Our manufacturers invest millions of
17 dollars annually in R&D in the United States.
18 And we are continually making improvements to
19 manufacturing facilities.

20 Working alongside our 24 thousand
21 retail, wholesale, showroom, and supplier
22 partners, Plumbing Manufacturers have created,

1 helped create more than 300 thousand good paying
2 jobs with more than 17 and a half billion dollars
3 in annual wages.

4 PMI shares the Administration's
5 concerns about China's policies and practices
6 that harm U.S. businesses.

7 We support holding U.S. trading
8 partners accountable, and using targeted trade
9 remedies against intellectual property theft,
10 illegal dumping, or subsidies and other proven
11 trade violations consistent with international
12 rules.

13 We also strongly believe that the
14 newly proposed List Four tariffs will only harm
15 U.S. economic interests, And in particular, our
16 workers, suppliers, distributors, retailers, and
17 ultimately the American consumer.

18 PMI opposes the inclusion of plumbing
19 products and components on the proposed List
20 Four.

21 The plumbing products manufacturing
22 industry is at the beginning and the end of the

1 day about the health and safety of all Americans.
2 All of us in this room rely on clean, fresh
3 water, proper sanitation, and safe responsible
4 plumbing.

5 Plumbing manufacturers set the global
6 standards for healthy living. Toilets and
7 faucets are simply not optional. They are
8 critical components for your home and for your
9 family's health and safety.

10 With nearly a million and a half
11 people in the United States lacking complete
12 plumbing, we think it's wrongheaded to placed
13 tariffs on products such as toilets, urinals, and
14 faucets used to maintain proper sanitation in
15 America's homes and buildings.

16 It should be noted that Section 301
17 tariffs are already hurting commercial
18 development, home construction, and remodeling by
19 driving up the costs of building materials and
20 plumbing products.

21 It's estimated that for every one
22 thousand dollar increase in the selling price of

1 a home, more than 127 thousand families are
2 priced out of the market.

3 Plumbing products are not your average
4 widget. They're required to meet rigorous
5 manufacturing standards to ensure health and
6 safety.

7 In fact, plumbing products and parts
8 are subject to multiple layers of certification
9 and approval requirements determined by federal
10 statute, standards bodies, state and local
11 plumbing and building codes.

12 PMI members work diligently with their
13 suppliers to meet these requirements and follow
14 up on these stringent codes regardless of where
15 the products are produced.

16 Our members estimate that for plumbing
17 products on the Section 301 List Four, it will
18 take two to three years to qualify and replace
19 existing suppliers, regardless of where those new
20 suppliers are located.

21 U.S. plumbing manufacturers sending
22 goods to China are facing increased tariffs at

1 the same time their competitors are enjoying
2 lower ones.

3 The plumbing related products and
4 parts on List Three and List Four are not
5 strategically important to Made in China 2025, or
6 any other Chinese industrial program.

7 The plumbing products covered on List
8 Four are not sophisticated, high-tech products
9 that are subject to USTR's concerns over China's
10 practices related to technology transfer,
11 intellectual property, and innovation.

12 The tariffs proposed on the items
13 listed in Exhibit A will not place any
14 significant pressure on China to change the
15 policies identified and criticized in the Section
16 301 report. Instead, that pressure will fall
17 squarely on U.S. consumers, businesses and
18 workers as they wrangle with higher costs imposed
19 by these tariffs.

20 In conclusion, targeting the plumbing
21 products listed in -- covered in List Four for
22 potential new tariffs will simply create higher

1 prices for plumbing products and components,
2 decrease global competitiveness for American
3 exports, curtailment of investment and capital
4 spending, and most likely fewer jobs and less
5 income for American workers.

6 PMI urges the USTR not to impose any
7 duties on plumbing manufactured related products
8 and components as outlined in our Appendix A. We
9 look forward to working with the Administration
10 on this important issue. And to supporting
11 efforts to reach a fair and free trade agreement
12 with China.

13 Thank you for your time.

14 MR. BISHOP: Thank you Mr. Stackpole.
15 Our next witness is Thomas Beckett with the
16 Portable Lights American Trade Organization. Mr.
17 Beckett, you have five minutes.

18 MR. BECKETT: Good morning. My name
19 is Thomas Beckett. Sorry. My name is Thomas
20 Beckett. I'm the President and CEO of Dorcy
21 International located in Columbus, Ohio.

22 We are a manufacturer and importer of

1 various portable lighting products, including
2 flashlights, lanterns, headlamps, and a variety
3 of personal safety lighting products.

4 I'm here today representing PLATO, a
5 501(c)(3) trade organization. PLATO, or the
6 Portable Lights American Trade Organization is
7 the largest internationally recognized group of
8 global manufacturers in the portable lighting
9 industry.

10 Our members are some of the most well-
11 known and respected manufacturers operating in
12 the United States today. PLATO is also the
13 American National Standards Institute approved
14 standards development body responsible for the
15 continued development and oversight of the ANSI
16 PLATO FL1 Standard.

17 Dorcy is a founding member of PLATO.
18 And I serve on the Board of Directors and the
19 Executive Committee as the Vice President of
20 Finance.

21 Duties on portable lights currently
22 range from 3 percent to 12 and a half percent,

1 with most items under the flashlight code at 12
2 and a half percent.

3 The current proposal calling for an
4 additional 25 percent tariff on these goods would
5 be damaging to an important American industry.
6 And would have significant negative impacts on
7 nearly all U.S. companies engaged in this
8 industry, as well as virtually every American
9 citizen and worker.

10 Flashlights, lanterns, and other
11 portable lighting products are ubiquitous and
12 found in nearly all U.S. homes and workplaces.
13 Portable lights are essential tools for many
14 professionals, and provide a critical and often
15 lifesaving function for not only average
16 Americans, but also first responders, law
17 enforcement, firefighters, military and others.

18 Over 90 percent of all such products
19 are sourced overseas with the vast majority of
20 these coming from China.

21 There is very little production
22 capacity in the U.S. And there is very -- and

1 there is virtually no independent industry
2 infrastructure to turn to for reshoring in an
3 expeditious manner.

4 The industry nevertheless employs
5 thousands of Americans engaged in the design,
6 engineering, sales, marketing, testing,
7 packaging, and distribution of these products.
8 And I think it's important to note that simply
9 because a product is imported, it does not mean
10 that there is no American industry involved.

11 The imposition of such a punitive
12 tariff on products that all Americans rely on for
13 their safety and well-being would do great harm
14 to the industry, those employed in the trade, and
15 to consumers.

16 The tariffs would deprive many people
17 access to these critical products. This is
18 particularly true as we approach the hurricane
19 season where portable lights are routinely called
20 upon in lifesaving situations.

21 Since the majority of these products
22 are sold for relatively low retail prices, a duty

1 increase of this magnitude would surely price
2 many consumers out of the market entirely. This
3 would certainly increase the risk to the health
4 and safety in times of emergencies, potentially
5 costing lives.

6 It is the strong belief of PLATO and
7 its members that the imposition of these tariffs
8 on these products will have no impact on the
9 overall behavior of China as a trading partner.
10 It is neither a critical industry in the view of
11 China, nor large enough to carry any weight with
12 the leadership.

13 On the other hand, PLATO believes
14 strongly that the impact of these particular
15 tariffs would cause harm to American companies,
16 American workers, and American consumers.

17 Flashlights, lanterns, headlamps, and
18 related portable lighting products are not luxury
19 items, toys, novelties, or decorative products.
20 Portable lights are a necessity for the health
21 and safety of all Americans.

22 For these reasons, PLATO and its

1 member companies, strongly urge that the HTS
2 codes noted in my written submission be excluded
3 from further or additional tariffs.

4 Thank you.

5 MR. BISHOP: Thank you Mr. Beckett.

6 Our final witness on this panel is Tim Tarpley
7 with the Petroleum Equipment and Services
8 Association. Mr. Tarpley, you have five minutes.

9 MR. TARPLEY: Distinguished members of
10 the Committee, thank you for permitting me to
11 appear today.

12 My name is Tim Tarpley. And I serve
13 as Vice President of Government Affairs for the
14 Petroleum Equipment and Services Association. I
15 appear today on behalf of PESA.

16 PESA is the national trade
17 organization representing over two hundred
18 companies that provide the services, technology,
19 equipment, and expertise necessary to safely and
20 efficiently explore and produce oil and natural
21 gas.

22 PESA serves as the unified voice for

1 the oilfield service and equipment sector,
2 advocating for and supporting the sectors'
3 achievements in job creation, technological
4 innovation, and economic stability.

5 The oil and gas supply services and
6 manufacturing sector supports over 592 thousand
7 jobs in the United States. To meet rising global
8 demand, increased production will necessitate
9 infra structural modernizations and supply chain
10 expansions, making this sector even more critical
11 then it is now.

12 These factors, along with increased
13 demand for oil and gas worldwide paint an
14 optimistic picture for employment opportunities
15 in the coming years. This opportunity is good
16 news for the American economy and good news for
17 the American worker.

18 The service and equipment sector is on
19 the front lines of supporting the American energy
20 renaissance that has occurred in recent years.
21 For the first time according to the Energy
22 Department figures dating back to 1973, the

1 United States exported more crude oil and fuel
2 then it imported this year, or excuse me, last
3 year.

4 The United States is now exporting
5 over 2.8 million barrels per day thanks to the
6 2015 end of the ban on crude oil exports as well
7 as the tremendous growth in U.S. production in
8 the Permian Basin and other areas of the U.S.

9 Some of the top destinations of U.S.
10 crude oil exports are countries like Brazil,
11 Japan, and China. Crude oil exports can help
12 reverse the U.S. trade deficit with these
13 countries and provide an option for their
14 reliance on middle eastern or Russian oil.

15 The U.S. oil and gas industry hit
16 another important milestone recently. According
17 to the U.S. Energy Information Association, it
18 anticipates that by the end of 2019, LNG export
19 capacity will reach 8.9 billion cubic feet per
20 day, making the U.S. the third largest in the
21 world behind Australia and Qatar.

22 This dominance will allow the U.S. to

1 provide an alternative supply to Asia and Europe
2 to counter Russian dominance in their gas
3 markets.

4 In order to keep this renaissance
5 going, U.S. equipment and service providers need
6 an uninterrupted access to products that are
7 critical for their operations.

8 While PESA applauds the
9 Administration's efforts to aggressively target
10 China to curb unfair trade practices, and to
11 equalize the 32 billion a month trade gap between
12 our two countries, forced technology transfers
13 and commercial espionage are common in China.
14 And many of our own member companies have faced
15 negative consequences by these actions by China.

16 However, PESA believes that some of
17 the proposed tariffs will not be successful in
18 the USTR's states goal of combating China's
19 unfair trade practices. And instead could
20 unintentionally harm the energy manufacturing and
21 service sectors, areas where the U.S. currently
22 enjoys worldwide dominance.

1 PESA is especially concerned about the
2 specific HTS codes contained in List Four, which
3 target minerals used in the drilling process that
4 are critical to operations.

5 Natural barium sulfite, also known as
6 barite, is a mineral commonly used as a weighing
7 agent for all types of drilling fluids. And is
8 used to facilitate operations of the drill bit,
9 remove cuttings, and to maintain control of the
10 well during drilling operations. This material
11 is targeted by HTS codes 2511.10.10 and
12 2511.10.50.

13 PESA believes that barite fits the
14 definition of an irreplaceable product because 75
15 percent of global barite usage is used as a
16 weighing agent in drilling fluids for oil and gas
17 exploration.

18 Barite is ideal for this application
19 because it is nontoxic, chemically and physically
20 unreactive, nonmetallic and has very low
21 abrasiveness. So far, all alternative options
22 are typically metallic in nature, and less

1 productive then barite.

2 PESA does not believe that the
3 imposition of a 25 percent duty on barite will
4 have the desired effect on China. At the
5 proposed rate, it will become economically
6 infeasible to import barite from China to the
7 U.S.

8 However, China will still be able to
9 sell barite to other markets at a higher price.
10 Likely the party that will be hurt most by this
11 action is the U.S. energy service companies who
12 have to pay the tariff.

13 Barite mines in the U.S. have been
14 substantially depleted and are inadequate in
15 quality and production to support the booming
16 U.S. oil and gas renaissance our country
17 currently enjoys.

18 Supply chain disruptions could slow
19 production, costing jobs and give our global
20 competitors like Russia and OPEC a leg up in the
21 competitive worldwide oil market.

22 PESA urges USTR to carefully consider

1 the impacts of these imposed tariffs on the
2 energy industry. And to reconsider the scope of
3 the proposal so that U.S. energy manufacturing
4 and service companies can remain competitive.

5 Thank you for having me today.

6 MR. BISHOP: Thank you Mr. Tarpley.
7 Mr. Chairman, that concludes direct testimony
8 from this panel.

9 CHAIR TSAO: Before we proceed, I
10 would like to note that we have a new colleague
11 joining us from the Department of Commerce. I
12 would ask him to introduce himself.

13 MR. BHABHRAWALA: Thank you very much
14 Mr. Chairman. My name is Salim Bhabhrawala. I
15 am from the U.S. Department of Commerce's Office
16 of Materials Industry. Pleasure to be here
17 today.

18 MR. SULLIVAN: Thanks. And Matt
19 Sullivan from the U.S. Treasury Department. My
20 question is for Mr. Branson.

21 You've stated that there is ample
22 domestic and non-Chinese availability of air

1 conditioner parts listed in the proposed action.

2 How many non-Chinese major suppliers
3 are there? And what is their market share
4 relative to Chinese competitors? Thank you.

5 MR. BRANSON: Certainly. What's
6 interesting is the type of air conditioners used
7 in North American are different than the types
8 used in most of the other parts of the world.

9 Probably if you live in a single
10 family home, or have at some time in your life,
11 you'd know the air conditioner unit that's
12 outside, then inside you have an air handler or a
13 gas furnace that's blowing it around. Those are
14 those two separate parts that I mentioned.

15 There's seven manufacturers
16 traditionally that have been in this market. And
17 it's almost completely all of that market share.

18 But as I testified before, and then
19 there's other types of -- of products that are
20 used around the world. Ductless products as an
21 example, which is a small segment of the market
22 in the United States.

1 As I testified before, manufacturers
2 in China over the past several years have tried
3 to get into this ducted market like we
4 manufacture here in North America for the North
5 American market.

6 And they've come to us and perhaps
7 other companies and said, we'd like to
8 manufacture for you. When we met with them, they
9 actually gave us a cost that was less than our
10 material cost.

11 So, it was very hard to turn that
12 down. But we did, because we saw that's not the
13 right thing to do.

14 But even since the implication of
15 these previous lists, we've seen an increase in
16 the brands, and we've seen an increase in the
17 manufacturers from China coming in with this open
18 looped HTS code.

19 So there's ample, you know, there's a
20 fair amount of business. It's a, really a new
21 entrant into the market.

22 MS. NAYLOR: Megan Naylor, State

1 Department. My question is for Ms. Dolin.

2 You spoke to your experience last year
3 with the List Three process. And I wondered, has
4 Ledvance taken any efforts to diversify its
5 supply chain for LED parts since then?

6 Such as looking at ballasts for -- for
7 discharged lamps or tubes?

8 MS. DOLIN: Thank you for the
9 question. Since this tariff process began, we've
10 been looking at everything. Mexico was a -- for
11 certain parts.

12 And then of course that became a
13 little bit of a concern. So, we are looking at
14 everything.

15 As you heard in the past two panels,
16 and I'm sure you'll hear over the next week and a
17 half, shifting is a little bit difficult to do in
18 the very short term.

19 So, there are more long term processes
20 to move out of China. Most of the components and
21 specifically the drivers, are made in China.

22 It's difficult to find the ability and

1 the quality elsewhere.

2 CHAIR TSAO: And I have a follow up
3 question. The List Three tariffs have been in
4 place since, I think, September of last year.

5 Have you observed in your industry any
6 shifts in -- any shifts in the industry with
7 respect to looking for alternative manufacturing
8 sites or moving out of China?

9 MS. DOLIN: In the entire industry,
10 are you asking?

11 CHAIR TSAO: Among your suppliers.
12 Not just your suppliers, but suppliers in your
13 industry.

14 MS. DOLIN: Yeah. I think as I just
15 said, that my comments apply to everything.
16 We're looking at spreading, trying to spread the
17 supply chain a little bit wider, just because
18 there is such uncertainty.

19 And that's scared a lot of people.
20 You know, the certainty and the costs are all --
21 are all tied together.

22 MR. BHABRAWALA: Thank you. This is

1 Salim Bhabhrawala from the Department of
2 Commerce. And my first question is for Mr.
3 Sharrah of Streamlight.

4 Mr. Sharrah, do the higher quality
5 Streamlight flashlights compete in the same
6 market segment with the cheaper Chinese knock
7 offs that you referred to in your testimony?
8 These knock off flashlights?

9 And how does the difference in the
10 quality of the flashlight relate to the effects
11 on of the additional duties?

12 MR. SHARRAH: Thank you. Yes, in many
13 cases they do. Everyone is looking for a better
14 price when they go shopping.

15 And in many cases what we find, is
16 competition skirting our intellectual property.
17 Incorporating it, and having it made entirely in
18 China and brought in.

19 We test these here. That's one of our
20 responsibilities is to do that for our trade
21 association.

22 We find them falling well short of

1 their claimed specification. And more
2 importantly, things that not everyone measures,
3 whether it's radio frequency interference with
4 important, you know, public service networks.

5 Or whether it's static proofing them.
6 Or in the case of a gun light, whether it holds
7 up to a thousand rounds on a range.

8 So, the average consumer isn't
9 necessarily completely aware of the differences.
10 Particularly if they're just motivated by price.

11 MR. McCARTIN: I have a follow up
12 question. Just you had mentioned that some
13 flashlights you make here in the United States,
14 and some are -- you import from China.

15 What's the breakdown for your company?

16 MR. SHARRAH: It's balanced. And I
17 can answer that more specifically perhaps
18 confidentially in a follow up question or a
19 document.

20 MR. McCARTIN: That would be fine.
21 And you also in your submission mentioned lithium
22 ion batteries. But you don't really get into

1 that in your testimony.

2 Where do you -- how much of that is
3 sourced from China? Are there other countries
4 that produce these batteries besides the United
5 States? Where might they be available?

6 MR. SHARRAH: Yeah. There are other
7 countries that manufacture lithium ion batteries.
8 There's South Korea. There is Japan.

9 In many cases these batteries are
10 finished in China and experience transformation
11 that essentially the country of origin then is
12 China.

13 This chemistry is increasingly in
14 everything we buy that's rechargeable. And
15 that's one of our specialties, is rechargeable
16 lights.

17 So, every cell phone you own, every
18 consumer electronics device virtually uses a
19 lithium ion battery. And although we use other
20 chemistries, still that is becoming the dominant
21 chemistry.

22 And it's very hard to find it

1 economically anywhere but China.

2 MR. BHABHRAWALA: And if I may follow
3 up as well. Has Streamlight explored the option
4 of sourcing lithium ion batteries here in the
5 United States where it sells?

6 MR. SHARRAH: There are currently no
7 manufacturers of lithium ion batteries that I'm
8 aware of, in this country. Not in volume.

9 There is lithium manganese dioxide.
10 They're disposable cells. They're made in
11 Georgia.

12 And in fact we ship those to China.
13 And China has threatened a 25 percent retaliatory
14 tariff on those.

15 MR. BHABHRAWALA: So, are you using a
16 particular proprietary chemistry in your
17 batteries for your flashlights that is not
18 produced in the U.S.?

19 MR. SHARRAH: No, but the specific
20 electronic design is proprietary. So we design
21 our own safety circuits, and our charge circuits
22 that could be onboard these products.

1 And that -- they're not -- simply not
2 available for any supplier that I know of here in
3 the United States.

4 MR. DEVINE: Andrew Devine, U.S.
5 Department of Agriculture. My question is for
6 Mr. Stackpole. This is sort of a two-part
7 question.

8 You estimated that it takes your
9 members two to three years to shift suppliers.
10 Can you elaborate on why it takes so long to do
11 that? Especially given that these are
12 unsophisticated products.

13 And then second, can you talk about
14 whether or not any of your members have already
15 taken actions to shift their suppliers since the
16 imposition of additional duties. So, in other
17 words, has this two to three year process already
18 begun?

19 MR. STACKPOLE: Sure. I'd be happy
20 to. Thanks for that question. You're quite
21 right. The product itself is unsophisticated.
22 It's pretty common to most of us.

1 But the content of the product is not
2 unsophisticated. The requirement of a faucet in
3 the United States is that it be lead free. So
4 every component of that faucet that touches water
5 has to meet a very specific and stringent
6 specification.

7 And so the idea of being able to move
8 quickly to another supplier who their -- has to
9 have their quality control process checked, has
10 to have the actual physical content of the
11 material checked.

12 And just to make it more interesting,
13 we're required to have all of our products third-
14 party certified by an independent body to assure
15 the American public that those products are in
16 fact safe and properly constructed. So, we have
17 that first challenge.

18 The second part is that we
19 predominantly produce -- our members are buying
20 components by in large, not finished product from
21 China and from other countries.

22 And we produce -- we work in

1 predominantly probably five to six countries,
2 China being, I think, probably our largest
3 market.

4 But Vietnam certainly, India, Mexico,
5 and Canada. But we've been sourcing in all those
6 places along the way.

7 Will we move? Will folks think about
8 moving? Yeah. I think they will. But, it's not
9 a -- it's not a fast process. It's just not.

10 MR. DEVINE: If I could just simply
11 ask a follow up question from my colleague at
12 USDA. Can you elaborate either statistically or
13 anecdotally, how many or how much Chinese
14 downstream parts are integrated into plumbing
15 products that are manufactured in the U.S. and
16 then re-exported?

17 Would these tariffs also impact the
18 competitiveness of the U.S. plumbing products'
19 market abroad? And how complicated is it really
20 to get integrated parts from other suppliers
21 other than China?

22 MR. STACKPOLE: That's a lot of

1 questions. But let me see if I can't get to the
2 bottom of it for you.

3 I think that fundamentally in the
4 plumbing products marketplace, the components
5 are, as somebody mentioned, are you know,
6 relatively basic. But I think again, it goes
7 back to the quality of that product.

8 And it goes back to the quality of
9 those components. And whether in fact they can
10 meet the quality standards that are essential not
11 only to standards bodies in the U.S., but in
12 other markets.

13 As you may be aware, over the last
14 five years, I guess through right about 2015 or
15 so, when the most recent statistics, you know,
16 plumbing manufacturers are exporting to China at
17 a double digit growth level.

18 We were able to sell them a far
19 number, a far greater percentage of plumbing
20 products then they were in fact buying from other
21 countries. That's now declined as a result our
22 tariffs.

1 But if you look at com -- I mean,
2 there's five countries that we're filling, you
3 know, filling that market if you will. Or moving
4 that market, including Korea, Germany, China,
5 China itself, and Japan of course.

6 In terms of how that affects our
7 exports, it simply adds to the cost. I mean, the
8 tariffs will add to the cost of the product.

9 And because you can't take risks with
10 safety, it's not like you can put in cheaper
11 parts. It's not like you can put in weak parts
12 or cheaper parts or less well manufactured parts.

13 You just simply don't have that
14 option. There's nobody in this room who would
15 tolerate opening a faucet and finding that in
16 fact it was polluted water coming out.

17 Did I get to the bottom of your
18 question?

19 MR. DEVINE: I think you did. Thank
20 you, sir.

21 MR. McCARTIN: I have a question for
22 Mr. Beckett. In your testimony you state that 90

1 percent of portable light products are sourced
2 overseas.

3 So my question for you is, what
4 percentage is sourced from China? What
5 percentage is sourced from other countries and
6 which ones are they?

7 And do those other countries have the
8 capacity to increase production?

9 MR. BECKETT: Right. Thank you. Of
10 the 90 percent of portable lighting products sold
11 in the U.S. today, the vast majority come from
12 China.

13 There used to be a more extensive
14 network of portable lighting manufacturers in
15 other Asian countries. When I started in this
16 business, we were manufacturing in South Korea,
17 in Japan, Indonesia and Thailand.

18 All of those manufacturing locations
19 have collapsed into China. There is a small,
20 well, our company still does some manufacturing
21 in Taiwan.

22 But I would say to you that of the

1 imported goods, 90 percent of those are coming
2 from China, if not more.

3 There just is not -- there are some
4 domestic manufacturers in India and other
5 countries that provide portable lighting goods
6 just for their markets. But, not really for
7 export.

8 CHAIR TSAO: This question is for Mr.
9 Tarpley. You testified that the energy industry
10 uses barite as a weighing agent in drilling
11 fluids for oil and gas exploration. On average,
12 what is the cost of barite as a percentage of the
13 total cost of the drilling fluids?

14 And is it possible for your members to
15 shift any additional duties on barite because of
16 the favorable business climate in the American
17 oil and gas industry?

18 MR. TARPLEY: Thank you for the
19 question. As far as the percentage of drilling
20 costs, I don't have those numbers. I will get
21 those back to you as far as the percentage of the
22 total cost.

1 The second part of your question is an
2 excellent question. And while the -- we are
3 producing more oil and gas in the United States,
4 the service sector is actually very competitive.

5 There's a lot of consolidation going
6 on. The cost to produce a barrel of oil, a
7 barrel of oil is a worldwide product. We compete
8 against not just ourselves in the United States,
9 but against our competitors worldwide.

10 So even a relatively small percentage
11 increase on the cost of a barrel of oil does have
12 significant effects in a competitive market like
13 that.

14 So, I get where you're going with the
15 question. But, I will say that even small
16 incremental rises do matter. And do matter a
17 lot.

18 CHAIR TSAO: What's the percentage of
19 barite produced in China in terms of the global
20 market share?

21 MR. TARPLEY: Right now the estimate
22 is that China controls 75 percent of the barite

1 market worldwide.

2 MR. DEVINE: Andrew Divine, U.S.
3 Department of Agriculture. This is a follow up
4 for Mr. Tarpley.

5 You mentioned that 75 percent of the
6 production is in China, of barite. And you
7 mentioned that U.S. mines were depleted.

8 I'm wondering if you're aware of any
9 new planned production of barite, whether in the
10 U.S. or elsewhere? Or if there known reserves in
11 the U.S.?

12 MR. TARPLEY: That's a good question.
13 Certainly not contending that there isn't a
14 supply of barite in the United States, because
15 there is.

16 Our contention is, is that the supply
17 is not sufficient to completely serve the demand
18 for drilling in the United States. And also
19 around the world.

20 We contend that the quality and the
21 amount is not sufficient to entirely satisfy the
22 necessities of our industry here in the United

1 States.

2 MR. BURCH: We release this panel with
3 our thanks.

4 CHAIR TSAO: We are in recess for
5 lunch. Please return at 1:15 for Panel Four.
6 We're in recess.

7 (Whereupon, the above-entitled matter
8 went off the record at 12:18 p.m. and resumed at
9 1:15 p.m.)

10 CHAIR BUSIS: Good afternoon. This is
11 our afternoon session of our hearing announced in
12 our May 17 notice. Before we start with our
13 fourth panel, I'll give the administrative
14 instructions again and ask the Committee to
15 introduce itself.

16 Our hearing is scheduled for seven
17 days, concluding Tuesday, June 25. We have 55
18 panels of witnesses scheduled to testify. The
19 provisional schedule has been posted on the USTR
20 website.

21 We have eight panels of witnesses
22 scheduled to testify today. This is the

1 afternoon, and we will have five panels this
2 afternoon. We will have a brief break between
3 panels.

4 Each witness appearing at the hearing
5 is limited to five minutes of oral testimony.
6 The light before you will be green when you start
7 your testimony. Yellow means you have one minute
8 left and red means your time has expired.

9 After the testimony from each panel of
10 witnesses, the Section 301 Committee will have an
11 opportunity to ask questions. All questions will
12 be from Agency representatives. There will be no
13 questions from the floor.

14 Committee representatives will
15 generally direct their questions to one or more
16 specific witnesses. As stated in the May 17
17 notice, post-hearing comments, including any
18 written responses to questions from the Section
19 301 Committee, are due seven days after the last
20 day of the hearing.

21 Since the hearing is scheduled to
22 conclude on June 25, all post-hearing comments

1 are due by no later than July 2nd, 2019.

2 Given the number of witnesses and the
3 schedule, we request that witnesses, when
4 responding to questions, be as concise as
5 possible. Witnesses should recall that they have
6 a full opportunity to provide extensive responses
7 in their post-hearing submissions.

8 No cameras or video or audio recording
9 will be allowed during the hearing. Written
10 transcripts of this hearing will be posted on the
11 USTR website and on the Federal Register docket.

12 I will now ask the members of the 301
13 Committee to introduce themselves this afternoon.

14 MR. HART: Drew Hart, Treasury.

15 MS. ZOLLNER: Hi, good afternoon.

16 Anne Zollner, Department of Labor.

17 MR. STEPHENS: Andrew Stephens, U.S.
18 Department of Agriculture.

19 MS. WINTER: Audrey Winter, USTR's
20 Office of China Affairs.

21 MR. ROARK: I'm Robin Roark with the
22 Department of Commerce International Trade

1 Administration.

2 MR. SECOR: Peter Secor from the
3 Department of State Bilateral Trade Affairs
4 Office.

5 MS. VON SPIEGELFELD: Cristina Von
6 Spiegelfeld, SBA's Office of International Trade.

7 CHAIR BUSIS: And I'm Bill Busis,
8 Deputy Assistant USTR for Monitoring and
9 Enforcement and Chair of the Section 301
10 Committee. Mr. Bishop, you may call this panel.

11 MR. BISHOP: Mr. Chairman, our first
12 witness on this panel is Stanley Pierre-Louis
13 with the Entertainment Software Association. Mr.
14 Pierre-Louis, you have five minutes.

15 MR. PIERRE-LOUIS: Good afternoon,
16 members of the Committee. Thank you for
17 providing me with the opportunity to talk about
18 the essential nature of video game consoles,
19 controllers, and other hardware accessories to
20 the video game ecosystem here in the United
21 States and how the proposed tariff of up to 25
22 percent on these items would have a negative

1 impact on American consumers and American jobs.

2 My name is Stanley Pierre-Louis, and I
3 am the President and CEO of the Entertainment
4 Software Association. ESA is the trade
5 association that represents companies that
6 publish interactive entertainment software for
7 video game consoles, handheld devices, personal
8 computers, and the internet.

9 Let me first share a few statistics to
10 provide a fuller picture of our industry's
11 economic contribution to the U.S. economy and
12 also demonstrate the integral role of video games
13 and the ways Americans work, live and play.
14 Sixty-five percent of adults in the United States
15 play video games. That's approximately 164
16 million American adults. Nearly half of the
17 video game players in the U.S. use video game
18 consoles.

19 In 2018, our industry generated \$43.4
20 billion in total revenue with consumer spending
21 approximately \$35.8 billion on software, \$5.1
22 billion on video game consoles and other

1 hardware, and \$2.4 billion on accessories. Video
2 game companies added more than \$11.7 billion in
3 value to our GDP in 2017 and directly employed
4 more than 65,000 people nationwide who earned an
5 average compensation of \$97,000 per year.

6 Indirectly, our industry employs more than
7 220,000 Americans. In 2017, there were more than
8 2700 video game companies across the country in
9 all 50 states and the District of Columbia and 99
10 percent of U.S. video game companies qualify as
11 small businesses.

12 Tariffs are likely to cause
13 significant harm to the U.S. video game industry
14 in at least three major ways: increased costs for
15 consumers, reduced investments in innovation, and
16 job losses. As advanced technology products,
17 video game consoles, controllers, and accessories
18 require an investment by consumers. The majority
19 of consumers are sensitive to fluctuations in
20 price for video game products. In fact, two-
21 thirds of consumers consider price when deciding
22 to purchase a game.

1 Tariffs at any amount could weaken
2 demand for these products, let alone up to 25
3 percent. This is because video game consoles are
4 sold under tight margins in order to reduce the
5 barrier to entry for consumers. In other words,
6 consoles are sold at Best Buy and at other fine
7 retailers at or slightly above cost to enable
8 more consumers to purchase them.

9 Consoles, controllers, and other
10 hardware accessories are essential to game play
11 and other interactive entertainment experiences.
12 The ubiquity and affordability of legitimate
13 video game consoles and accessories drive the
14 uptake of new technology by consumers, which then
15 funds research and development into new
16 technologies. Tariffs could disrupt the cycle of
17 continuous innovation by reducing the incentive
18 for investment in next-generation technologies.

19 Imposing tariffs on video game
20 consoles and accessories could slow the uptake on
21 new technology. Sixty-three percent of Americans
22 surveyed indicate that the quality of graphics is

1 important when deciding whether to purchase a
2 game. Games that are lifelike and immersive are
3 underpinned by complex, sophisticated, and
4 advanced software that result from significant
5 R&D investment and these games often require the
6 latest consoles for play back. The imposition of
7 tariffs could hamper continued R&D on these
8 latest technologies, thereby threatening the
9 leading position of the U.S. video game industry.

10 A broad cross section of video game
11 companies would be injured by tariffs. These
12 include companies, particularly those small and
13 medium-sized, that publish games to be played on
14 consoles. This decrease in game development
15 would make it more difficult for publishers to
16 break into or stay in the business. This
17 combination of higher prices and reduced
18 investment in innovation and game development
19 would result in a loss of jobs.

20 In conclusion, we respectfully urge
21 USTR to remove video game consoles, controllers,
22 and accessories from the proposed list of

1 products potentially subject to tariffs. Given
2 the importance of these products to the industry
3 and to consumers, the impact of tariffs of up to
4 25 percent would have a negative impact on
5 consumers, game developers, investment and
6 innovation, and jobs.

7 Thank you for allowing me to share our
8 industry's perspective on the impact of the
9 proposed tariffs on video game consoles,
10 controllers, and accessories.

11 MR. BISHOP: Thank you, Mr. Pierre-
12 Louis. Our next witness is David Baer with
13 Element Electronics. Mr. Baer, you have five
14 minutes.

15 MR. BAER: Thank you, Mr. Chair and
16 the Committee. My name is David Baer, and I'm
17 the general counsel of Element Electronics. I
18 previously testified before the 301 Committee on
19 the proposed scope of List 3.

20 As you may recall from that testimony,
21 Element is the only American company mass
22 producing TVs here in the U.S. If the

1 administration imposes tariffs on LCD panels and
2 mainboards, Element will be forced to shut down
3 its U.S. factory and move its U.S. production to
4 Mexico or other countries.

5 Element Electronics produces
6 televisions in Winnsboro, South Carolina. In
7 stark contrast to one year ago when Element's
8 factory faced List 3 tariffs and imminent
9 closure, today we are operating at near capacity
10 and have plans to expand employment and
11 operations further to meet demand. This is a
12 direct result of the administration's decision to
13 remove LCD panels and mainboards from List 3. We
14 currently have over 250 employees in South
15 Carolina and plan to increase to over 300 in the
16 next few months, assuming no new 301 tariffs are
17 imposed.

18 Over the continued operation of
19 Element's U.S. factory and the jobs and
20 livelihoods of hundreds of American employees,
21 it's critically dependent on trade policy
22 decisions made by the administration.

1 By way of background, Element faces
2 significant competitive disadvantages under
3 tariff policy adopted by prior administrations.
4 The normal tariff on LCD panels is 4.5 percent.
5 The LCD panel is the primary component of a
6 television and is only available to Element from
7 China.

8 A finished television imported from
9 China faces a duty of 3.9 percent but faces zero
10 duty if imported from Mexico. Both TVs contain
11 the same Chinese-produced components. All TV
12 parts start in China. Thus, Element faces a
13 classic tariff inversion that creates an
14 incentive to import TVs rather than produce them
15 here in America.

16 However, two recent decisions by this
17 administration have allowed American TV
18 production to flourish. First, the
19 administration considered but affirmatively chose
20 not to include LCD panels and mainboards on List
21 3. Second, the President signed into law the
22 Miscellaneous Tariff Bill Act of 2018. While

1 only temporary, this legislation suspends the
2 normal duty rates on LCD panels and mainboards,
3 thus fixing the tariff inversion.

4 As a result of these two actions, in
5 less than one year Element has gone from issuing
6 a warning notice to lay off virtually its entire
7 South Carolina workforce and shutter its factory
8 to adding over a hundred new jobs, reaching
9 capacity, and planning further growth. Given all
10 this progress, if the administration now includes
11 LCD panels and mainboards within the scope of
12 List 4 tariffs, it will completely eviscerate the
13 benefits of these two actions and force the
14 closure of the only remaining TV factory in
15 America.

16 The economics are simple. Element is
17 unable to absorb the tariff cost it would face if
18 LCD panels and mainboards were included in the
19 final List 4. Element would lose significant
20 money on every TV it produced. In fact, as a
21 direct result of the protective actions we were
22 forced to implement with List 3, we lost

1 significant revenue and profit last year. We
2 can't face the same situation again.

3 As we were forced to do with List 3,
4 we're making plans to redirect our supply chain
5 outside of the U.S. We don't plan to import a
6 single LCD panel or mainboard after mid July.
7 Yet again, our South Carolina factory will
8 operate only off existing inventory. If the 301
9 tariffs are in place on our parts when that
10 inventory runs out, we'll be forced to shut down
11 the South Carolina factory and move all of our
12 production off-shore.

13 Facing this threat of tariffs a second
14 time in less than one year is forcing us to take
15 new protective action, as well. Specifically, we
16 now have plans to start up our supply chain and
17 secure production in Mexico and other places
18 unaffected by the 301.

19 Element is the only remaining American
20 TV factory. We're doing exactly what the
21 administration is asking of American companies.
22 We alone are fighting to re-shore and grow an

1 industry that left America decades ago. Yet, if
2 the administration proceeds to implement a List 4
3 tariff on LCD panels and mainboards, Element will
4 be forced to permanently shut down its U.S.
5 factory and move production offshore. Let me say
6 that again: because of the actions of the
7 government, Element may be forced to close our
8 U.S. factory in favor of a foreign factory. You
9 have to fix this unintended consequence.

10 Element is simply asking for a level
11 playing field. No U.S. trade policy should ever
12 disadvantage a U.S. company in favor of foreign
13 competition, much less close a U.S. factory in
14 favor of a foreign factory. Chinese suppliers
15 are working swiftly to use Mexico, Vietnam,
16 Thailand, and other countries to avoid 301
17 duties. Don't close a U.S. factory and reward
18 this behavior.

19 When I testified before the 301 panel
20 on List 3, I told you that everyone assumed this
21 negative impact on List 3 was an unintended
22 consequence that must be fixed. The

1 administration agreed and fixed it for List 3.
2 As a result, American TV production has
3 flourished. Today, I'm asking you again to fix
4 this unattended consequence, or you'll put the
5 last nail in the coffin of U.S.-produced TVs.

6 Please remove LCD panels and
7 mainboards from the proposed List 4. Thank you
8 for your time.

9 MR. BURCH: Thank you, Mr. Baer. Next
10 panel witness is Jason Bonfig of Best Buy
11 Company. Jason, Mr. Bonfig, you have five
12 minutes.

13 MR. BONFIG: Mr. Chairman and members
14 of the 301 Committee, good afternoon. I am Jason
15 Bonfig, the Chief Merchandising Officer at Best
16 Buy, a U.S. retailer of consumer electronics and
17 related services and manufacturer of private
18 label electronics headquartered in Richfield,
19 Minnesota. On behalf of Best Buy and its 110,000
20 employees across the country, I thank you for the
21 opportunity to appear before you today.

22 Best Buy respectfully requests that

1 USTR remove consumer electronics, including
2 smartphones, laptop computers and tablets,
3 computer monitors, smart watches, gaming
4 consoles, and televisions, from the proposed List
5 4 of products facing an up to 25-percent tariff.
6 Importantly, I want to emphasize that Best Buy is
7 in complete support of the goals of the USTR as
8 set forth in Section 301 report regarding forced
9 technology transfer and other unfair trade
10 practices. However, today I would like to
11 outline the reasons why we are seeking exemption
12 of these consumer electronics from additional
13 tariffs.

14 First, the proposed tariffs will
15 negatively impact the U.S. consumer. It is
16 important to note that in the tariffs that have
17 been applied last year, U.S. consumers have
18 largely been shielded. This was possible because
19 inventory was able to be acquired before the
20 effective date of those tariffs, this was the
21 highest margin segment of the consumer
22 electronics products, and because manufacturers

1 and retailers largely made the decision to absorb
2 the cost on the basis of the tariff being
3 relatively limited at 10 percent.

4 Moreover, there was also a belief that
5 the tariffs themselves would be short-lived.

6 However, these circumstances would not be true
7 should the consumer electronic products I
8 referenced today be subject to an up to 25-
9 percent tariff. In our confidential written
10 comments, we provide more detail as to why this
11 would be the case and why costs could be
12 immediately passed on to the U.S. consumer.

13 As a reminder, in announcing its first
14 proposed tariff list of products Section 301
15 tariffs would apply last year, the USTR stated
16 that it sought to select products from which
17 alternative country sources of supply existed and
18 it removes specific products likely to cause
19 disruption to the U.S. economy. And in selecting
20 the final products, USTR appeared to have adhered
21 to this principle. Indeed, television and other
22 consumer electronic products were removed from

1 List 1 through 3 to minimize the impact to the
2 U.S. consumer.

3 As detailed in our written comments,
4 Best Buy respectfully requests that USTR again
5 only focus on those products for which viable
6 alternative sources of supply exist or a
7 manufacturing basis can be easily moved, and
8 where the impact of tariff would be relatively
9 low to the U.S. consumer. Again, our written
10 comments outline why these criterias do not apply
11 to these products.

12 Secondly, implementation of new
13 tariffs on these consumer electronic products
14 would have minimal additional short-term impact
15 on China. China accounts for the majority share
16 of consumer electronics sold in the U.S. last
17 year and is a large source of manufacturing for
18 all six of the consumer electronics categories we
19 have concerns about today. The next largest
20 sources, Mexico and Vietnam, account for only a
21 very small percentage of production.
22 Manufacturing of these products is relatively

1 complex to move, requires significant time and
2 expense, as well, as a component infrastructure
3 that is located in China and will be for the
4 foreseeable future.

5 Consumer electronics are also not
6 commodities. And in many leading products, there
7 is no practical substitute made outside of China
8 in the near term.

9 The choice of alternatives is further
10 constrained by the lack of key resources,
11 constrained port capacity, and other
12 infrastructure of alternative countries. All
13 these issues may take years, not months, to fully
14 satisfy the U.S. market.

15 As important is the fact that, for
16 several items, American manufacturers may lose
17 share almost immediately to foreign competitors
18 whose products are not made in China and,
19 therefore, not subject to price increases in the
20 form of tariffs. This would include products
21 such as smartphones, computers, and tablets.

22 Third, the application of new tariffs

1 on these consumer electronics would not enhance
2 the effectiveness off 301 action. USTR's
3 decision last year to selectively apply tariffs
4 has been effective while limiting the impact on
5 the U.S. consumer and businesses. In fact, over
6 the last year, it has been publicly reported that
7 even some consumer electronics manufacturing has
8 moved outside of China with more moves being
9 planned and executed in coming quarters.

10 However, I want to emphasize, this is a multi-
11 year effort and cannot be done faster than the
12 pace at which it's already going, even in the
13 face of additional onerous tariffs.

14 In conclusion, we respectfully request
15 the six product categories be removed from the
16 proposed tariff list in line with the decision
17 made last year. It will not result in any
18 additional benefit for the U.S. in the context of
19 the Section 301 trade action and will only serve
20 to maximize the pain on the U.S. consumer,
21 workers, businesses, and the economy at large
22 with minimal impact to China.

1 Thank you for your consideration, and
2 I'm happy to answer any questions you might have.

3 MR. BISHOP: Thank you, Mr. Bonfig.
4 Our next witness is Mustafa Ozgen with Roku. Mr.
5 Ozgen, you have five minutes.

6 MR. OZGEN: Good afternoon, Chairman
7 Busis and members of the Section 301
8 Subcommittee. My name is Mustafa Ozgen. I'm the
9 Senior Vice President and General Manager of
10 Account Acquisition at Roku, Inc. Thank you for
11 the opportunity to appear before you today on
12 behalf of Roku and our 1,100-plus employees who
13 have revolutionized the way we watch TV.

14 For those of you who haven't yet cut
15 the cord, let me give you a brief introduction to
16 my company. Roku is a U.S.-based
17 innovator/holder of over 60 U.S. utility patents
18 and pioneer of streaming television. Using our
19 products, 29.1 million consumers globally with
20 the vast majority in the United States choose
21 from over 5,000 channels that provide users with
22 access to millions of hours of on-demand

1 programming from providers like PBS Kids, as well
2 as access to live news and sports.

3 Roku users can choose a variety of
4 specialized channels that would otherwise be
5 unavailable due to the way cable TV is packaged.
6 For example, we offer a selection of hundreds of
7 religious channels not generally available on
8 cable.

9 We are an American company. The vast
10 majority of our employees are in the United
11 States and the vast majority of those employees
12 work in the high value-added parts of our
13 business. This includes engineering and product
14 development, as well as the maintenance of state-
15 of-the-art servers and databases that are built
16 specifically to support our business.

17 Not only was our operating system
18 developed in the United States, but the Roku's
19 cloud-based service infrastructure that
20 continually powers our operating platform and
21 services is run by American employees and
22 primarily on American-based computers and

1 infrastructure. Roku has grown exponentially in
2 recent years from 500 employees at the end of
3 2016 to over 1,100, the vast majority of which
4 are in the United States.

5 I'm here today to talk about our
6 streaming players, smart TVs, what we call Roku
7 TVs, and corresponding TV accessories. The
8 Section 301 tariffs could cover these products.
9 These tariffs could have a detrimental impact on
10 Roku and its U.S.-based workforce.

11 Roku TVs are marketed and sold under
12 the Roku TV brand. In the first quarter this
13 year, approximately 1 in 3 of the smart TVs sold
14 in the United States were Roku TVs. And for the
15 remaining 2 in 3 smart TVs and the millions of
16 non-connected TVs already in the marketplace, we
17 manufacture and sell streaming players through
18 retail distribution and our own website to make
19 these TVs smart and make streaming easy to use.
20 In a nutshell, these streaming players allow TVs
21 to access all the content available on the Roku
22 platform.

1 Roku TVs are a vital part of our
2 business and, by extension, a vital part of
3 keeping Roku the innovative leader in streaming
4 technology. Sales of Roku TVs generate revenue
5 for Roku and also create a new pool of customers
6 for Roku products.

7 The number of active users is
8 extremely important to Roku. The channels that
9 are accessed through the Roku operating system
10 share revenue with Roku that increases with the
11 number of users, and we generate significant
12 advertising, content distribution, and promotions
13 revenue from our monthly users. These active
14 users also form the viewer base of Roku's own
15 channel, the Roku channel.

16 I'd also like to note that there is no
17 valid reason to include our products on the list
18 of items subject to the Section 301. We have
19 agreements with our manufacturers that protect
20 our intellectual property, and I can happily
21 report that those business arrangements are
22 working well. Also, our closed proprietary

1 operating system doesn't allow just anyone to
2 access our source code.

3 More generally, I understand that
4 streaming TVs, accessories, and players are not
5 a focus of the Made in China 2025 program or
6 otherwise mentioned in the Section 301 report.
7 Finally, I would note that targeting Roku is not
8 going to help U.S. manufacturing but only serve
9 to hurt U.S. innovation. Top-selling TVs in the
10 United States that are not Roku TVs, Samsung, LG,
11 and Vizio, none of which are manufactured in the
12 United States or in China, and will not be
13 greatly impacted by the tariffs.

14 I ask that Roku TVs, accessories, and
15 streaming players be excluded from the list of
16 products subject to the Section 301 tariffs.
17 Thank you for your time. I'm happy to answer any
18 of your questions.

19 MR. BISHOP: Thank you, Mr. Ozgen.
20 Our next witness is Colin Angle with iRobot
21 Corporation. Mr. Angle, you have five minutes.

22 MR. ANGLE: My name is Colin Angle,

1 and I'm the Chairman, CEO, and founder of iRobot
2 Corporation. On behalf of iRobot, our
3 shareholders, and over 700 American employees, I
4 want to thank you for the opportunity to speak
5 today and advocate for the exclusion of robotic
6 mops, lawnmowers, and other products from the
7 round four tariffs.

8 iRobot is an American success story.
9 I founded the company in my living room in 1990
10 with two colleagues from MIT. Since that day, we
11 have been at the forefront of bringing practical
12 robots out of laboratories and into the hands of
13 consumers where they are most helpful.

14 iRobot developed the PackBot Robot
15 with support from DARPA and other life-saving
16 robots under the U.S. Army Future Combat Systems
17 program. The PackBot was the first ground robot
18 deployed by U.S. forces in conflict and performed
19 critical tasks, such as the removal of improvised
20 explosive devices, threat identification, and
21 forward reconnaissance. iRobot provided more
22 than 6,000 of these robots, the majority of which

1 went on to perform missions side-by-side with our
2 war fighters in Afghanistan and Iraq.

3 Over the past 29 years, iRobot's
4 engineers and scientists have been on the
5 forefront of robotic science. We inspired the
6 first micro-rovers used by NASA, changing space
7 exploration forever. We provided robots for
8 hospitals, helping doctors diagnose patients
9 remotely. We deployed robots and employees to
10 Ground Zero on September 11th, 2001 to help keep
11 first responders safe during initial rescue and
12 recovery issues. These are among my proudest
13 moments at iRobot.

14 As an American innovator and employer,
15 iRobot is here today to express opposition to the
16 imposition of additional Section 301 tariffs on a
17 fourth round of goods manufactured in China.
18 These tariffs will only harm iRobot and help our
19 overseas competitors, which are mainly Chinese
20 companies that primarily market their products in
21 China and, therefore, are not impacted by Section
22 301 tariffs.

1 iRobot is the only successful
2 American-owned consumer robotics company and
3 employs over 700 people in the United States.
4 The United States is also iRobot's largest
5 market. Imposing these tariffs will bring
6 disproportionate harm to iRobot as a company,
7 threatening our U.S. hiring efforts, immediately
8 raising prices for U.S. customers, and
9 undercutting our future competitiveness.

10 We are the global leader in consumer
11 robotics, helping people with domestic tasks by
12 developing Roomba robotic vacuums, then Braava
13 robotic mops, and now Terra robotic lawnmowers.
14 These innovative products have resulted in more
15 than 500 U.S. patents.

16 Maintaining our global leadership in
17 consumer robotics means continued innovation, so
18 iRobot has invested more than \$750 million in
19 research and development over the past ten years.

20 iRobot supports the key trade goals
21 outlined by Ambassador Lighthizer and the
22 administration. But while we have seen firsthand

1 how Chinese theft of intellectual property
2 threatens American innovators and harms the
3 American economy, iRobot has taken legal action
4 to protect its intellectual property rights and
5 takes the position that these are more
6 appropriate tools than tariffs. And although
7 iRobot uses contract manufacturers in China, the
8 company has not had to enter joint ventures, nor
9 been forced to transfer its technology to China.

10 Moreover, even though Made in China
11 2025 includes robotics, the Chinese government is
12 focused on industrial robots, not consumer
13 robotics, as part of its advanced manufacturing
14 plan and, therefore, additional tariffs on
15 consumer robotics will not further the goals of
16 the Section 301 investigation.

17 If Section 301 tariffs are imposed on
18 our Braava robotic mops and soon-to-be-launched
19 Terra robotic lawnmowers, it will only exacerbate
20 the harm being done to iRobot from the imposition
21 of the round three tariffs on our Roomba vacuum
22 cleaners. iRobot absorbed some of the costs of

1 the round three tariffs but was forced to raise
2 prices at the beginning of the year. Additional
3 tariffs will raise Braava and Terra prices,
4 slowing their adoption to consumers.

5 The imposition and increasing of
6 tariffs both in round three and now in round four
7 has created significant business uncertainty for
8 iRobot as a small cap publicly-traded company.
9 As a result, iRobot will not be able to increase
10 its research and development spending, preventing
11 it from hiring more well-paid, highly-skilled
12 American workers.

13 Just as important, it will undermine
14 iRobot's ability to maintain a competitive edge
15 over its Chinese competitors. In particular,
16 where these competitors are subsidized, operating
17 on thin margins, and are second movers who take
18 advantage of the market development done by true
19 innovators, like iRobot. These companies will
20 also have government support to get through the
21 tariffs.

22 Even though we have sold over 25

1 million consumer robotic products globally,
2 consumer robotics is still a nascent industry.
3 iRobot is developing a range of practical robots,
4 products that provide people with a smarter way
5 to clean, and accomplish more in their daily
6 lives.

7 This is a critical moment in time for
8 the consumer robotics industry. Long-term
9 winners and losers will be determined in the next
10 three years. iRobot is expanding its product
11 offerings in the promising consumer robotics
12 market with the innovative Braava and Terra
13 products.

14 CHAIR BUSIS: Mr. Angle, if you could
15 please conclude.

16 MR. ANGLE: Tariffs will undermine
17 iRobot's ability to maintain American leadership
18 in practical robotics. These tariffs, if
19 imposed, will aid our foreign competitors. Thank
20 you.

21 MR. BISHOP: Thank you, Mr. Angle.
22 Our next witness is Jonathan King with TCL North

1 America. Mr. King, you have five minutes.

2 MR. KING: Good afternoon. My name is
3 Jonathan King, Vice President of Corporate and
4 Legal Affairs for TCL North America, the
5 independently-operating U.S. television
6 subsidiary of TCL Corporation.

7 I'm here today to respectfully request
8 that televisions be excluded from the proposed
9 25-percent tariffs on products imported into the
10 U.S. from China, specifically HTS Category Number
11 8528.72.64. The TV is the cornerstone of the
12 American home. Our families have marked the
13 passage of time gathered around its brightly-lit
14 screen, bearing witness to our greatest feats
15 unfolding before our eyes, where icons named
16 Armstrong took small steps to show us what's
17 possible and when, during one winter in Lake
18 Placid, we were asked if we believed in miracles
19 and America responded with a resounding yes. TV
20 is powerful. It is a rich tradition of shared
21 experience that should be available and
22 affordable to all American families.

1 TCL designs, markets, and sells TV in
2 the United States and continues to be America's
3 fastest-growing TV brand. TCL is fully licensed
4 for all essential intellectual property, creates
5 high-paying jobs and opportunities, is a U.S.
6 environmental sustainability leader, and has
7 earned a tremendous reputation among its U.S.
8 technology partners, retailers, and consumers.
9 More than 18 million TVs imported from China made
10 their way into American homes in 2017.

11 Increasingly comprised of smart TVs, they are
12 made smart by innovative technologies and
13 operating systems developed by American
14 companies, such as market leader Roku. Consumers
15 have come to count on the availability of high-
16 quality TVs at accessible prices.

17 The application of these tariffs will
18 result in a combined 28.9 percent when added to
19 existing duties, effectively increasing consumer
20 prices on these commodity products while reducing
21 consumer demand. With the additional tariffs,
22 TVs for all Americans will quickly become out of

1 reach, decreasing consumer choice.

2 There is currently no TV component
3 manufacturing in the United States. There is
4 some final TV assemblies strategically placed
5 throughout the world to take advantage of various
6 conditions involving LCD screens that comprise
7 the bulk of the TV's value that are originally
8 built in China. Please note that assembly is not
9 manufacturing. Although the logistics of the
10 various levels of assembly fluctuate, the
11 products themselves are manufactured in China.

12 The manufacturing process is complex,
13 involving multi-billion dollar panel factories,
14 quality and ethical raw material suppliers,
15 environmental sustainability concerns, vertical
16 integration, and complex logistics. It takes a
17 long time to establish. But I want to stress it
18 does not involve integral or sensitive
19 technologies, core competency strategic to any
20 nation's interest or plan, or the sharing or
21 transfer of IP.

22 Although we build TVs in China, we

1 design them here. We support them here, and we
2 sell them here. Our jobs, American jobs, are
3 here. Our technology partners are here. Our
4 patent and technology licensors are here. The
5 benefits are truly felt right here in America.

6 One year ago, I sat before you to make
7 a similar case on behalf of American consumers.
8 This honorable committee weighed our evidence and
9 testimony and removed the TV tariff code from the
10 initial list. Since then, we've added a
11 substantial number of jobs in our headquarters
12 outside L.A. The economic benefits of that
13 decision continue to echo through our halls and
14 with the people and organizations that our growth
15 in sales and nationwide marketing has touched.

16 We support fair trade and applaud the
17 efforts of the Committee. However, the tariffs
18 will have significant economic costs for
19 consumers and numerous unattended consequences.
20 That's why we're respectfully requesting that
21 this honorable committee take a closer look at
22 the TV market and the size of these imports

1 weighed against the number of homes, families,
2 and lives that will be touched.

3 We also hope you'll take a closer look
4 at our company to see what creative, enthusiastic
5 people can achieve when they dedicate themselves
6 to caring not just about quality products but
7 also about our communities. We've built a close-
8 knit family bolstered each day by the pride in
9 our products and energized by our shared
10 experiences. When you see for yourself the
11 consequences that tariffs will have on American
12 consumers, we firmly believe that you will see
13 the wisdom of leaving these products off the
14 tariffs list.

15 When the most impactful world events
16 change the course of our lives, we first learned
17 of them in front of a TV. I remember not just
18 the emotion from each of these days and where I
19 was but who I was with and the bonds formed in
20 those shared moments as I absorbed the
21 information and the images on the screen forever
22 formed the foundation of my experience. When

1 this honorable committee weighs the information
2 from this hearing, I can only hope that it will
3 make a similar impact.

4 We urge you to keep TVs off the
5 tariffs list. Thank you for your time, and I
6 welcome any questions you may have.

7 MR. BISHOP: Thank you, Mr. King. Our
8 final witness on this panel is Jason Gerdon of
9 TCT Mobile. Mr. Gerdon, you have five minutes.

10 MR. GERDON: Good afternoon, Mr.
11 Chairman and members of the Committee and thank
12 you for the opportunity to speak here today. My
13 name is Jason Gerdon, I'm head of Global
14 Communications and Strategy at TCT Mobile.

15 I'm here today to discuss an issue of
16 critical importance to U.S. consumers, our
17 American supply chain partners, and our domestic
18 employees. That issue is the ability to import
19 affordable mobile phones and other mobile
20 technology devices from China that will allow our
21 company to continue providing connectivity to our
22 nation's senior citizens and low-income

1 consumers. Specifically, the products that TCT
2 Mobile imports are mobile phones, PC tablets, and
3 data cards, all of which are being targeted for
4 tariffs under List 4 of Section 301.

5 Founded in the U.S. in 2007, TCT
6 Mobile has quickly grown to become a leader in
7 the U.S. mobile phone market. And with our
8 primary offices located at Irvine, California and
9 Bellevue, Washington, this has provided more than
10 100 high-paying jobs to our staff located across
11 the country and, in addition, our distribution
12 supply chain includes robust assembly and
13 packaging operations in California and Texas. As
14 part of our extensive supply chain of U.S.
15 businesses, our company supports small and
16 minority-owned companies in addition to many
17 other community cause efforts.

18 Our primary products are mobile phones
19 under the brand names Alcatel and Blackberry. We
20 also manufacture a number of other consumer
21 electronic products such as PC tablets. Our
22 company takes pride in producing these quality

1 mobile devices at a deep value to our U.S.
2 consumers. And with the exception of Blackberry-
3 branded smart phones, the general retail price
4 for our devices fall under 100 U.S. dollars.

5 At present, the company imports
6 approximately 90 percent of the mobile devices we
7 sell in the U.S. from China. Our devices can be
8 found on the shelves of all mobile network
9 operators, in addition to most major retailers
10 such as Best Buy, which allows for a greater
11 choice and cost flexibility to a wider variety of
12 U.S. consumers.

13 For example, two of our more popular
14 devices include the Jitterbug Smart2 and
15 Jitterbug Flip. Both are designed as easy-to-use
16 mobile devices for senior citizens. There are
17 currently no other mobile phones similar to these
18 in the marketplace, and these products provide
19 both basic and smartphone functionality tailored
20 for seniors who are more likely to be on a fixed
21 income but, at the same time, need to maintain
22 their connection to friends and loved ones.

1 Data cards are our next product line
2 that is subject to the proposed increased
3 tariffs. These cards are used with prepaid
4 phones and allow cost-sensitive consumers to have
5 wireless connectivity and access. We also
6 manufacture affordable PC tablets that are
7 frequently purchased for educational purposes and
8 often for school-aged children as a starter
9 tablet.

10 The imposition of an additional 25-
11 percent tariff on these products would
12 drastically inhibit our company's ability to
13 offer value-centric mobile technology, devices to
14 the U.S. marketplace, including many underserved
15 Americans. Moreover, this represents only those
16 costs we know of at this moment without
17 considering unknown variables that could
18 drastically impact domestic and global economies
19 in the future.

20 It is important for the Committee to
21 take note that currently none of the top five
22 mobile device companies in the U.S. manufactures

1 their mobile phones, PC tablets, or data cards in
2 the United States. Also, based on our
3 understanding of the marketplace, the imposition
4 of these additional tariffs will not change this
5 fact. This is because manufacturing these
6 particular products in the United States is cost
7 prohibitive and necessary resources are limited
8 or unavailable here as evidenced by the fact that
9 currently none of the top mobile device
10 manufacturers in the U.S. produces their products
11 here.

12 The only result that will occur upon
13 the imposition of these additional tariffs is
14 that the supply chains of TCT and other companies
15 will likely be forced to migrate to Vietnam,
16 Mexico, or India. Such migration or relocation
17 risks sacrificing U.S. jobs, including those
18 small and minority-owned businesses currently in
19 our company's supply chain. This would not
20 advance the administration's goals and could
21 ultimately prevent TCT from servicing the demands
22 of American consumers in our target market to

1 which we are the largest provider.

2 To be clear, there's a significant
3 risk the imposition of these tariffs would
4 restrict many everyday Americans' ability to
5 remain connected via the mobile technologies that
6 we all now depend upon, such as our mobile phone
7 or tablet. American citizens will be
8 significantly harmed as a result. Affordable
9 access to these kinds of mobile technologies are
10 particularly important to seniors, rural
11 residents, and lower-income families who have a
12 common need but significant cost constraints.

13 Moreover, with respect to the
14 administration's policy goals and objective, TCT
15 Mobile understands the concerns about unfair and
16 unbalanced global trade. We acknowledge the
17 administration's efforts to protect U.S.
18 intellectual property, prevent forced technology
19 transfers, and bring into greater balance the
20 U.S. trade deficit with the People's Republic of
21 China.

22 We also acknowledge the concerns the

1 U.S. has about China's industrial policy commonly
2 referred to as Made in China 2025. However, TCT
3 Mobile's devices do not meet the requirements
4 that China has outlined and its focus for Made in
5 China 2025 will focus primarily on advanced
6 manufacturing, robotics, semiconductors,
7 sophisticated IT, and other internet of things
8 devices. For these and other reasons, we firmly
9 believe that tariffs placed on these products
10 will not have the desired effect on China's trade
11 policies and practices that the administration
12 intends.

13 To conclude, we ask the Committee to
14 remove mobile phones, PC tablets, and data cards
15 from the proposed 300 billion tariff action.
16 Thank you for your time today and consideration
17 of these matters.

18 MR. BURCH: Thank you, Mr. Gerdon.
19 And, Mr. Chairman, this is the last panel witness
20 for this panel.

21 CHAIR BUSIS: Mr. Stephens, do you
22 want to start us off?

1 MR. STEPHENS: Thank you. My name is
2 Andrew Stephens from the U.S. Department of
3 Agriculture, and I have a question for Stanley
4 Pierre-Louis. In your testimony, you said
5 increasing the cost of consoles and controllers
6 could hamper many consumers from playing the
7 newest games or their favorites and from
8 utilizing the latest services and technology or
9 trying out the newest interactive experiences.

10 So do you have any specific
11 information on consumer price sensitivity to
12 gaming hardware purchases?

13 MR. PIERRE-LOUIS: Thank you for the
14 question and the opportunity to testify before
15 you. We've done surveying on price sensitivity
16 and the numbers we provided reflect that. They
17 were done through a third-party, an independent
18 source, Ipsos, well known for its surveying. And
19 that found a lot of information. First, that
20 there were 164 million Americans, 65 percent like
21 to play together, and also talked about that
22 price sensitivity.

1 Importantly, consoles make up a really
2 significant part of our industry and game
3 development, so there are a lot of after-on
4 effects. So you're not only talking about the
5 consoles, you're talking about the games, game
6 development around it. And, in fact, when you
7 talk about 18 to 34-year-olds, 69 percent of them
8 use consoles, so it's become ubiquitous and it's
9 become an important tool for social connections.
10 And if we get into a little bit further, we can
11 talk about the health and education benefits that
12 video game and video game technology have sprung
13 about.

14 MR. STEPHENS: So as a parent of a
15 teenage son, I can talk about the social element
16 because I ask my child if he'd like to go see his
17 friends. No, they're online with him. But one
18 more question. If, in your view, there is
19 substantial price sensitivity, do you believe the
20 supplier would have an incentive to reduce its
21 export price?

22 MR. PIERRE-LOUIS: Well, we have three

1 things to think about in that. There's sourcing,
2 training, and expense. Right now, video game
3 consoles are so complex and sophisticated that
4 they require significant sourcing from lots of
5 different countries which have been vetted for
6 product quality assurance and for consumer
7 safety. So moving that creates a lot of issues.
8 Just one change impacts that entire chain.

9 When you talk about training, we do as
10 much as we can in the U.S. to train up our
11 workers to ensure that they can produce, you
12 know, value adds to the video game ecosystem.
13 But, clearly, we have found a lot of efficiencies
14 in China, and so exporting that becomes very
15 complicated. And so the expense isn't just
16 moving things over but it's how do you replace
17 that ecosystem, that sourcing, that supply chain,
18 and that product safety?

19 MR. STEPHENS: So if the tariffs are
20 implemented, do you think that the console and
21 other equipment suppliers would shift from China
22 or not?

1 MR. PIERRE-LOUIS: Well, right now,
2 the margins are very thin, so moving them becomes
3 very complicated. Certainly, in the short term,
4 there would be a significant increase in the cost
5 because 25 percent, if that's the number, indeed,
6 that's imposed would significantly impact the
7 industry, particularly with the holiday season
8 coming. And so we're talking about the
9 significant time for sales and having this shift,
10 so certainly, in the short term, it would be a
11 significant impact, a negative impact on not only
12 the console manufacturers, game development,
13 ultimately consumers and jobs.

14 MR. STEPHENS: Thank you.

15 MR. PIERRE-LOUIS: Thank you.

16 MR. ROARK: Hi, I'm Robin Roark,
17 International Trade Administration at the
18 Commerce Department. Mr. Baer, thank you for
19 your testimony this afternoon. I have a question
20 for you. You mentioned competitors in Mexico.
21 And to the best of your knowledge, are those
22 competitors also sourcing their LCD panels from

1 China?

2 MR. BAER: Yes.

3 MR. ROARK: Are there any other
4 sources for this type of LCD panels than Chinese
5 companies?

6 MR. BAER: For Element, no. Whether
7 there are for other companies, I'm not aware. We
8 can supplement that answer. But I think,
9 essentially, all of the LCD panel production,
10 getting into the full -- the panel is done in
11 China.

12 MR. ROARK: Does that relate to the
13 size of the panel? Is that an important factor
14 here?

15 MR. BAER: The size is not so
16 important as it relates to the manufacture, but I
17 think the size, one of the things that we've
18 testified in previous rounds is what does go
19 through Mexico and those tend to be the larger
20 screen sizes because of the higher cost in
21 freight and touch versus the lower cost and duty
22 of a smaller size. So the larger screen sizes,

1 if you look at the import data, shows that a
2 significant majority of that goes through Mexico
3 versus direct from China.

4 MR. ROARK: Through Mexico. And I
5 think you mentioned that if these round four
6 tariffs go in place, your company would be forced
7 to consider off-shoring to potentially Mexico,
8 among other locations.

9 MR. BAER: Yes, not consider. We will
10 be forced to do that, unfortunately.

11 MR. ROARK: And there you'd be going
12 directly head-to-head with those other
13 manufactures that are manufacturing in Mexico; is
14 that right?

15 MR. BAER: Correct.

16 MR. ROARK: Yes. Let me ask you one
17 more question about the other components. You
18 mentioned mainboards.

19 MR. BAER: Yes.

20 MR. ROARK: Are those also primarily
21 sourced in China?

22 MR. BAER: Yes.

1 MR. ROARK: Are there no other sources
2 of those mainboards for TV sets, for LCD TVs?

3 MR. BAER: We have not been able to
4 secure another source other than from China, no.

5 MR. ROARK: Okay. And you mentioned
6 this is not part of the Made in China 2025
7 universe that China is looking at. It's not a
8 critical technology of any sort, really.

9 MR. BAER: Correct.

10 MR. ROARK: What would keep companies
11 from manufacturing such mainboards outside of
12 China? Any comment on that?

13 MR. BAER: Infrastructure, I think,
14 primarily. I think it's just a matter of when
15 the industry left America it all got centered
16 into China and has resided there ever since. And
17 there's just been no impetus to build factories
18 and all of the infrastructure necessary.
19 Certainly, it could be done. Others have
20 testified to that on the panel. But it's a
21 multi-year process.

22 MR. ROARK: Yes. And, again, as sort

1 of a related question to the previous one about
2 the consumer price sensitivity for your products,
3 do you care to comment on that?

4 MR. BAER: The margins in the
5 television business are near non-existent, so the
6 idea that a 25-percent or a 10-percent or a 5-
7 percent could be absorbed by people throughout
8 the supply chain, I think my colleagues on this
9 panel and others would agree it's just not
10 feasible. So it would most certainly be passed
11 on to the consumer.

12 MR. ROARK: Thank you.

13 MR. BAER: Thank you.

14 MR. SECOR: Peter Secor from the State
15 Department. My question is for Mr. Bonfig from
16 Best Buy. Best Buy is one of the largest
17 electronic retailers in the country and your
18 company sells a broad range of consumer
19 electronic products. Does Best Buy have the
20 ability to shift the cost of any additional
21 duties to its suppliers?

22 MR. BONFIG: Thank you for the

1 question. As laid out in the testimony, the
2 highest margin area of consumer electronics was
3 impacted on earlier lists 1 through 3. What
4 we're talking about in List 4 in the product
5 categories that we laid out are the hardware
6 section, which is the lowest margin component of
7 the consumer electronics industry, which is why
8 there's a belief that a large percentage of it
9 could be passed on directly to the U.S. consumer.

10 MR. SECOR: And a follow-up question.
11 I wonder if you could mention some of the major
12 competitors you have and comment on whether
13 additional duties would have a similar impact on
14 them.

15 MR. BONFIG: I wouldn't want to make
16 any determinations or provide any specifics on
17 competitors. I wouldn't actually know their
18 business as well as I would know Best Buy's, so
19 the testimony today was specific to Best Buy and
20 our customers that we serve everyday. I wouldn't
21 want to make any statements about our
22 competitors.

1 MR. SECOR: Thank you very much.

2 MR. HART: Drew Hart from Treasury.

3 My question is for Mustafa Ozgen of Roku. Thank
4 you for your brief outline you provided in your
5 testimony about the effect of tariffs or what
6 they would have on your company. Do you have any
7 capability to move production outside of China?

8 MR. OZGEN: Thank you for your
9 question. So we have two, sort of two ways that
10 we provide our technology to the consumers in the
11 U.S. One is to license our operating system of
12 TV makers, as has been discussed in the rest of
13 the panels. I think the TV side has been well
14 answered.

15 We also put our operating system
16 through these players, and we sell those players
17 directly to the retail channel and on our
18 website. And those products, just similar to
19 TVs, it will take a long time to move the
20 ecosystem of supply chain to another country. I
21 think bringing it to the U.S. is definitely very,
22 very difficult because of the complete lack of

1 supply chain in the U.S., but moving to another
2 country is possible but it will take a long time,
3 plus it will impact our costs and then we have to
4 pass some of those cost increases to consumers.

5 MR. HART: Have you begun thinking
6 about that possibility?

7 MR. OZGEN: We are definitely thinking
8 about the possibility, but it's too early for us
9 to make a comment on that.

10 MR. HART: Thank you.

11 CHAIR BUSIS: Mr. Ozgen, do you know,
12 do the players, which I presume are the little
13 famous Roku black boxes, are those the same
14 tariff subheading as the complete TVs?

15 MR. OZGEN: Yes.

16 MS. WINTER: Thank you. This is a
17 question for Mr. Angle from iRobot. Thank you
18 for your testimony. You mentioned that you've
19 not been forced to transfer technology or enter
20 into joint ventures. Can you describe if there
21 are any Chinese trade practices that are unfair
22 that you have been subjected to that you would

1 like to bring to light? And also, do you have
2 any plans for the consumer robotic equipment that
3 you mentioned, lawnmowers and such, mops, do you
4 have any plans to resume or to do production of
5 those particular products in the United States?

6 MR. ANGLE: Sure. Thank you for the
7 question. So iRobot has successfully defended
8 itself in a USTR IP action, ITC action,
9 concluding in October of last year, so our
10 patents were being infringed by several factories
11 in China. And we successfully resolved that
12 issue. We've also been the victim of
13 intellectual property theft via cyber attacks and
14 participated and cooperated, affecting the
15 indictment of two Chinese citizens that were
16 responsible for that activity. So we definitely
17 appreciate the fact that we are in an intensely
18 competitive situation.

19 Regarding your second question, moving
20 production of our product from China to the U.S.
21 would increase our cost of goods sold by nearly
22 60 percent. So that is simply not economic. We

1 are committed to moving and diversifying our
2 supply chain, and, by the end of the year, we'll
3 have about 10 percent of our manufacturing in
4 Malaysia. But these will be for some of our most
5 rudimentary products, and, for the medium term,
6 we will be dependent on the Chinese
7 infrastructure to make our products.

8 Our challenge -- this is a moment in
9 time when the winners and losers are being
10 defined. Our Chinese competitors have their home
11 turf, which fuels their R&D and is tariff-free.
12 And our research and development is fueled by
13 sales in the United States, and the growth and
14 ability to invest in those industries is being
15 severely curtailed by the current tariffs.

16 MS. WINTER: I think in your testimony
17 you mentioned that your Chinese competitors have
18 large market shares in China. Who are your
19 competitors in the United States? Are they those
20 companies and others or others --

21 MR. ANGLE: So those companies are
22 coming to the U.S. We also have, our other chief

1 competitors in the U.S. are a company which is
2 owned by a China parent, this is Shark Ninja, and
3 they have the second share in the U.S. So all of
4 our competition in the U.S., while consisting of
5 less than 20 percent of the market, is Chinese-
6 based and Chinese-owned.

7 MS. ZOLLNER: Hi. My question is
8 directed to Mr. King. Does TCL have any
9 production facilities outside of China or source
10 any television parts from outside of China?

11 MR. KING: TCL North America sources
12 its parts and screens and other items directly
13 from China. So there is no other alternative for
14 LCD panels, and I think that's been underscored
15 by some of the other people on this panel.

16 CHAIR BUSIS: Before we leave
17 televisions, Mr. Baer does your company take any
18 position on possible duties on complete
19 televisions?

20 MR. BAER: No. I tend to agree with
21 all of my colleagues on the panel, but we haven't
22 taken a position on that.

1 MS. VON SPIEGELFELD: Cristina Von
2 Spiegelfeld from the SBA. This question is for
3 Mr. Gerdon. There are media reports about
4 Samsung and other major mobile phone suppliers
5 moving their production out of China. In your
6 opinion, is it possible for your suppliers to
7 move production out of China, as well?

8 MR. GERDON: Well, first, I think it's
9 important to note that for TCT Mobile we do have
10 suppliers, technology suppliers, that are based
11 in the U.S., companies such as Google and
12 Qualcomm, that provide essential technologies.
13 And then we have many downstream suppliers that
14 support us in terms of packaging, distribution,
15 and so forth.

16 In terms of China specifically, you
17 know, I can't comment on what our competitors are
18 doing. For us, in order, I think as others have
19 said here on the panel, you know, margins are
20 very thin, so, in order to maintain our quality
21 standards while being able to deliver a product
22 that we are almost exclusive in the U.S.

1 marketplace in terms of affordability,
2 unfortunately, there aren't many alternatives for
3 us.

4 CHAIR BUSIS: Any more questions from
5 the Committee for this panel? We may call the
6 next panel.

7 MR. BURCH: We release this panel with
8 our thanks.

9 (Pause.)

10 MR. BURCH: Will the room please come
11 to order? Mr. Chairman, I'd like to note all
12 witnesses for this Panel 5 have been seated, and
13 our first witness for this panel is John Crowley
14 of National Association of Waterfront Employees.
15 Mr. Crowley, you have five minutes.

16 MR. CROWLEY: Thank you, Chair,
17 members of the Commission here and the Panel.
18 Thank you for the opportunity to speak on this
19 very important subject to my membership as
20 president of the National Association of
21 Waterfront Employers. Our members are bringing
22 terminal operators and stevedores who buy the

1 capital equipment including these cargo equipment
2 handling systems, paid labor and move the cargo
3 on and off the ships into commerce.

4 I'd ask my prepared statement be
5 admitted into record. I'm going to give you a
6 summarized version for the oral statement.

7 I want to start out by taking a look
8 at global trade, and from our standpoint global
9 trade starts in East Asia. The bulk and the
10 volume that is driven out of there drives in turn
11 the size and the development of shipping today,
12 which as most of us recognize has increased day
13 -- year over year, and that starts first of all
14 in East Asia. And of course that's where the
15 cranes, as you get larger ships, are first needed
16 to handle not only the size and dimension of the
17 ships, but the volume of the cargo that's being
18 transported across a container yard.

19 Because of this the -- China becomes
20 the global source, and that's true throughout the
21 globe. It's not a U.S. issue that not only -- it
22 would be from a production standpoint, but from a

1 transport standpoint, particularly with the
2 larger cranes of China, and their production is
3 uniquely qualified and positioned to move cargo,
4 being in this case the cranes themselves.

5 The equipment when needed in the
6 United States is ordered by individual
7 facilities. The facilities make their own
8 determination as to when, according to their
9 strategic plans and their finances that the need
10 for the new equipment, cargo handling equipment
11 is required and how and when to upgrade. But
12 this -- but the innovation that's really required
13 to move cargo faster, better, quicker occurs here
14 in the United States with the technical add-ons
15 that are used in terminal operating systems to in
16 fact move cargo faster and responsive both to
17 imports and in the United States to exports, very
18 importantly.

19 Therefore, the U.S. facility is more
20 complex often in fact than the Chinese and the
21 Asian facility which moves typically cargo in a
22 transit mode whereas we're moving to various

1 inward, whether that be water-based, land-based
2 or rail-based onward transportation systems.

3 Therefore, the China trade policy does
4 not really apply in this case. Submit that
5 modifications would not have an impact in any
6 event on the Chinese production because of the
7 global nature of the commodity, that improvements
8 would be delayed upon the imposition of these
9 modifications. And in the cases where they would
10 go ahead -- and some cases were the long-term
11 orders, long lead orders have been placed over
12 time that the cost would unpredictably have
13 increased upon receipt of the cargo; in this case
14 cranes.

15 The impact of cost is often passed on
16 to the consumer. It's in addition to the
17 terminal operator themselves, but I think most
18 interesting in this case it's passed also on to
19 the exporter and their ability directly,
20 including all of these many companies that are
21 represented before you. It's passed on in the
22 handling of their cargo also, which has the

1 prospects of increasing their cost and decreasing
2 their competitiveness across the globe.

3 I'd like to particularly point out
4 that I've listed some numbers in terms of totals
5 of anticipated orders over the immediate
6 foreseeable future. While our organization
7 represents the majority of private sector
8 terminal operators, there are a number of public
9 sector operators that you'll hear from in fact
10 that are not included in those numbers. So those
11 are not all-inclusive for the industry sector.

12 Thank you very much.

13 MR. BURCH: Thank you, Mr. Crowley.

14 Our next panel witness is Steven Blust
15 with the --

16 CHAIR BUSIS: Just one note before we
17 start.

18 Mr. Crowley, you mentioned that you
19 had a longer statement you want to enter in the
20 record, which is fine, but we would ask you that
21 you use the fedreg.gov web site to help us out
22 and submit that way.

1 MR. CROWLEY: Very well.

2 CHAIR BUSIS: Yes.

3 MR. BURCH: Our next panel witness is
4 Steven Blust with the Institute of International
5 Container Lessors.

6 Mr. Blust, you have five minutes.

7 MR. BLUST: Thank you. Members of the
8 Section 301 Committee, hello and thank you for
9 the opportunity to be here today.

10 My name is Steven Blust and I am
11 president of the Institute of International
12 Containers, or IICL, the lead trading association
13 of container lessors in the United States. Our
14 members lease marine cargo containers, also
15 called marine containers, to vessel operators and
16 other customers around the world.

17 I appeared before this committee last
18 July in connection with a proposed action
19 pursuant to Section 301 that targeted imports
20 from China valued at approximately \$16 billion.
21 I urged you to remove marine containers from the
22 list of products then known as Trance 2,

1 potentially subject to tariffs. When the final
2 version of Tranche 2 was published in the Federal
3 Register on August 16th, 2018, you can imagine my
4 joy when I could not find containers on the list.

5 Unfortunately, USTR has proposed new
6 tariffs of up to 25 percent on more products from
7 China with an annual value of approximately \$300
8 billion, and shipping containers are back in
9 consideration for assessment of tariffs.

10 For the following reasons the IICL and
11 its members respectfully request that marine
12 containers classified under HTS 8609 be removed
13 from the final versions of this latest list
14 commonly known as Tranche 4.

15 Marine containers are used to move
16 imports and exports in international commerce as
17 instruments of international traffic. When
18 marine containers reach an average age of between
19 12 and 16 years, they are removed from active
20 service and placed in the resale market where
21 containers are sold and often repurposed by small
22 and medium-sized businesses for a range of

1 functions as you'll hear today on Wednesday and
2 again on next Tuesday.

3 Imposing duties on marine containers
4 would do little, if anything, to address China's
5 unfair acts, policies and practices, nor would
6 these duties have any noticeable impact on
7 China's IP practices. Indeed, while some
8 companies import and modify containers, there is
9 no company in the United States that produces
10 marine containers from scratch today for -- used
11 in international commerce, nor has there been any
12 for the last 40 years, thus increasing duties on
13 marine containers would do nothing to promote the
14 U.S. container manufacturing sector.

15 Furthermore, both container
16 manufacturing process and containers themselves
17 are decidedly low-tech, essentially steel boxes
18 which have remained constant in design and
19 construction for the last 60 years. Marine
20 containers are not relevant to the U.S.
21 leadership and high-tech manufacturing and are
22 not a focus of the Made in China 2025 Program.

1 The materials and processes used to make them are
2 well-established and there's zero risk of IP
3 infringement, forced technology transfer or theft
4 of trade secrets. In other words, imposing
5 duties on marine containers would do nothing to
6 achieve any objectives of this proceeding.

7 On the contrary, imposing duties on
8 marine containers would have substantial negative
9 effects on U.S. consumers and the general public.
10 If imposed, these duties would apply to
11 containers that have been retired from active
12 international service and are available for
13 various purposes within the United States
14 including temporary storage for retail outlets,
15 modular housing and storage of personal
16 belongings. Repurposed marine containers are
17 also used by the U.S. Military and many are the
18 life blood of disaster recovery efforts.

19 But containers are only repaired or
20 repurposed once they have reached their final
21 destinations and cargo is unpacked, which are
22 often far from coastal ports. These containers

1 are accepted for off-hire and resale in
2 particular locations because their members know
3 that containers can be sold and repurposed there.

4 Imposing up to a 25 percent tariff on
5 these containers would make it significantly less
6 likely that containers would be repaired and made
7 available to the U.S. export cargo market or sold
8 and repurposed in the heartland of America.

9 Without an assurance that a container could be
10 sold our members will be less likely to accept
11 containers for off-hire and repair for export use
12 or resale in U.S. locations.

13 As a result, it will be more difficult
14 for small businesses that repurpose containers to
15 secure equipment and the cost will rise. Of
16 course if costs for these small businesses rise,
17 their options will either be to suffer the
18 consequences themselves, pass the additional
19 costs along to the American consumer, or cease
20 operations.

21 Finally, companies in the U.S. that
22 have purchased used marine containers often

1 modify and repair them. These are good paying
2 jobs that include welding, metal fabrication and
3 painting. Tariffs on marine containers that
4 enter the U.S. under HTS 8609 would put these at
5 risk.

6 For these reasons we ask that marine
7 cargo containers entering the U.S. under HTS 8609
8 be removed from the USTR's most recent list of
9 Chinese products potentially subject to tariffs
10 for Section 301. Thank you and I'll be happy to
11 answer any questions.

12 MR. BURCH: Thank you, Mr. Blust.

13 Our next panel witness is Mark
14 DePasquale with the National Portable Storage
15 Association.

16 Mr. DePasquale, you have five minutes.

17 MR. DEPASQUALE: Hello and thank you
18 for the opportunity to testify today. My name is
19 Mark DePasquale and I am the CEO of the National
20 Portable Storage Association, or NPSA.

21 The NPSA is the country's leading
22 trade association for companies that repurpose

1 shipping containers for use within the United
2 States' domestic market. Our members marine
3 containers that are no longer used for
4 international shipping and modify them for many
5 purposes and uses.

6 The proposed tariff of up to 25
7 percent on containers classified under HTSUS 8609
8 would be devastating to my members and our
9 industry. Our members have literally created an
10 industry in the United States that previously
11 didn't exist by utilizing hundreds of thousands
12 of older marine containers that might otherwise
13 be sent to the scrap yard or landfill.

14 When marine cargo containers reach the
15 end of their useful life in international trade,
16 the members of the NPSA purchase them and subject
17 them in many cases to extensive repairs and
18 modifications. As a result of the hands-on blue
19 collar work performed by NPSA members, these
20 containers essentially get a new lease on life as
21 portable storage units, offices on construction
22 sites, charitable donation sites and for use

1 during disaster relief recovery.

2 NPSA members also supply repurposed
3 containers to FEMA, the American Red Cross, DoD,
4 FAA, GSA and other public agencies. In the case
5 of the U.S. Military, repurposed containers are
6 used to transport munitions, as hospitals on the
7 battle field, as air traffic control towers, as
8 mobile communication units and in countless other
9 ways.

10 The companies that do this work are
11 overwhelmingly mom and pop small businesses that
12 were created to meet a need in local communities
13 all over the country. These companies employ
14 thousands of welders, painters, metal fabricators
15 and truck drivers in communities such as
16 Lakewood, Ohio, Ellwood City, Pennsylvania and
17 Elk Mound, Wisconsin. The proposed tariffs on
18 containers take direct aim at these small
19 businesses and at the blue collar workers they
20 employ.

21 NPSA members rely heavily on direct
22 delivery of marine containers being taken out of

1 international service which they then repurpose.
2 Often the only reason a container is directed to
3 a particular location is because a container
4 owner knows that it can be sold and repurposed
5 there. Imposing duties on containers would make
6 these sales significantly less likely due to
7 higher costs and limited supply. The end result
8 is that either blue collar jobs will be lost or
9 costs for ordinary consumers will rise, or both.

10 Although these additional costs will
11 be imposed on middle class small businesses,
12 little if anything will be gained in return.
13 While containers are imported and modified in the
14 U.S., there are not -- there's not been an
15 industry that manufactures marine containers in
16 the United States for more than 30 years and such
17 an industry will not suddenly spring up out of
18 nowhere if tariffs are imposed. Thus, the supply
19 of used shipping containers is the backbone of
20 our industry. Indeed, we have no other sources
21 to supply.

22 Finally, shipping containers

1 classified under 8609 were the subject last year
2 of a prior determination in the Section 301
3 investigation. That determination was based on
4 evidence, including testimony collected by the
5 Section 301 Committee, from members and customers
6 of the U.S. and global container industries.

7 The record assembled by the Committee
8 established that, one, marine containers are low-
9 tech products and the manufacturing process used
10 to make containers does not involve high risks of
11 IP infringement including theft of trade secrets
12 or forced technology transfer; two, marine
13 containers produced in China are not subsidized
14 or otherwise supported by the Made in China 2025
15 Program; three, no company located in the United
16 States produces marine cargo containers from
17 scratch for the use in international commerce;
18 four, the imposition of a tariff on shipping
19 containers produced in China will not spur
20 investment in container manufacturing in the
21 United States; and five, container manufacturing
22 in third countries is relatively non-existent.

1 At no time during this prior segment
2 of the Section 301 preceding did anyone appear
3 before the Committee to support the imposition of
4 tariffs on shipping containers of any kind
5 including marine cargo containers. In the period
6 since the Section 301 Committee last considered
7 these issues nothing has changed.

8 A tariff on containers would not
9 address China's acts, policies and practices
10 related to technology transfer, intellectual
11 property and innovation. Instead, it would cause
12 disproportionate economic harm to U.S. interests
13 including small and medium-sized businesses and
14 consumers.

15 Therefore, on behalf of the NPSA and
16 its members I respectfully request that shipping
17 containers classified under HTSUS 8609 be removed
18 from the annex to the notice published by USTR on
19 May 17th, 2019.

20 This concludes my testimony. I'd be
21 happy to answer any questions you may have.
22 Thank you.

1 MR. BURCH: Thank you, Mr. DePasquale.

2 Our next panel witness is John

3 Reinhart with the Virginia Port Authority.

4 Mr. Reinhart, you have five minutes.

5 MR. REINHART: Thank you. Thank you,

6 Mr. Chair, members of the Committee. It's a

7 pleasure to be with you today and I appreciate

8 the opportunity to present at today's hearing.

9 My name is John Reinhart. I'm the CEO
10 and Executive Director of the Port of Virginia
11 and it's the third largest port on the East Coast
12 of the United States.

13 I'm here again today to explain why
14 it's of critical importance to American ports and
15 the Port of Virginia for this Committee to remove
16 the tariff provisions for ship-to-shore gantry
17 cranes from the items on the list to be subject
18 to the duty or tariff of 25 percent.

19 First I want to thank you for the
20 consideration this Committee gave last year when
21 we presented the same arguments about removing
22 the gantry cranes from the list of tariff items.

1 As the Committee recognized then,
2 rather than addressing China's egregious
3 violations of intellectual property and forced
4 technology transfers, imposing these tariffs on
5 high-cost, low-tech pieces of equipment would in
6 fact damage important strategic objectives of
7 modernizing important U.S. infrastructure and put
8 the economic health of our communities, the
9 Commonwealth of Virginia and our country in
10 jeopardy.

11 The Port of Virginia is one of the few
12 ports with a balanced trade, equal imports and
13 exports. It is no small part because Virginia
14 serves as a gateway for the global market for
15 much of the American Heartland. Thirty-five
16 percent of our freight comes from the Midwest and
17 moves across our port. While the cranes we are
18 discussing are located in Virginia, they are
19 loading and unloading equipment and containers
20 from Columbus, Ohio, Chicago, St. Louis, Detroit,
21 Louisville, all parts of the Midwest.

22 Ocean carriers are now sending larger

1 and larger vessels every day and fewer and fewer
2 ports have the critical infrastructure to handle
3 these ultra-large container ships. In fact,
4 container vessels have increased in size by 80
5 percent since 2014. Just last month we received
6 a vessel with 15,320 foot equivalent units, TEUs,
7 largest vessel to call on an East Coast port,
8 ever. So we're continuing to have those types of
9 vessels, 14,000 vessels every week, multiple
10 times a week.

11 We're expecting to move to 16 to
12 18,000 TEU range in the near future, and the
13 immediate challenge we face with the larger ships
14 is we have to have the infrastructure to handle
15 them, the larger ship-to-shore cranes. The Port
16 of Virginia has invested -- will have invested
17 nearly \$1.5 billion in infrastructure and
18 terminal expansions and dredging by 2024.

19 In February of 2017 we broke ground on
20 two projects valued at \$700 million to improve
21 our two primary container facilities and increase
22 capacity by 40 percent. With the expansion of

1 Virginia International Gateway now being
2 completed, that's the four cranes that you
3 removed from the tariff list last year. They
4 were delivered in January. They were put in
5 service in May and they're operating today.

6 We had an option in that contract for
7 two additional cranes. Just in May we decided to
8 order two more ultra-large container cranes from
9 China and we -- and deliver to the NIT project
10 which will be completed in fall of 2020. This
11 capacity that we're adding to your facilities
12 creates opportunities for American jobs. Two
13 hundred and eighty-six thousand additional jobs
14 could be created because of the increased size of
15 our vessels and our throughput at our terminals.

16 It is critical that these cranes be
17 removed from the tariff list. There are no U.S.
18 manufacturers of these cranes. There are no
19 viable options to buy these ultra cranes from an
20 alternative source. Rather, the imposition of a
21 25 percent duty on such high-cost capital items
22 would just delay projects like this that we're

1 doing in the Port of Virginia across this country
2 to make us more competitive on the global stage.

3 Restricting the port's capacity will
4 limit job creation across Virginia and the Mid-
5 Atlantic and all parts of the Midwest.

6 It would also limit exports contrary
7 to the administration's goal to create new
8 markets for American companies, workers and
9 products. We saw a drop in agricultural products
10 last year because of the tariffs moving across
11 our port.

12 Through an open RFP process we asked
13 for crane purchase -- crane prices to a certain
14 spec from all over the world. We received a
15 couple of bids. All of the superstructures were
16 manufactured in China. We had no price
17 limitations on our RFP. We just wanted to move
18 forward and have the cranes built. ZPMC from
19 Shanghai won the award. We demanded that they
20 use U.S. technology and that equipment and all of
21 the drives and accessories to the computer
22 systems are U.S.-based and they're as a matter of

1 fact a Virginia company.

2 These cranes are really just large
3 metal structures. They're not the type of
4 product that China aspires to produce under its
5 Made in China 2025. Furthermore, in order to
6 provide quality control and prevent intellectual
7 property leaks, we had on-site inspections in
8 China throughout the construction period.

9 So putting these kind of tariffs on
10 cranes will just diminish the competitiveness of
11 U.S. ports. We all on the East Coast, West Coast
12 and Gulf Coast need to add these types of
13 equipment. They're only manufactured in China.
14 We can protect the intellectual property by
15 demanding the IT component be coming from the
16 U.S.

17 For those reasons we renew our request
18 again to the Committee to remove ship-to-shore
19 gantry cranes from the list of products covered
20 under the additional tariffs. Thank you and I'll
21 be happy to answer any of your questions.

22 MR. BURCH: Thank you, Mr. Reinhart.

1 Our next panel witness is Ed DeNike of
2 SSA Terminals.

3 Mr. DeNike, you have five minutes.

4 MR. DENIKE: Okay. Thank you for the
5 opportunity to be here. My name is Ed DeNike. I
6 am president of SSA Containers, which is a
7 division of SSA Marine, which is the largest
8 American terminal operator in the country and
9 worldwide.

10 I also am here to talk about the
11 cranes. I want to make sure that we understand
12 what those cranes are. We have the STS cranes
13 which are those big cranes that you see when you
14 go by the waterfront that take the -- that handle
15 the containers on and off the ships. We also are
16 here with the -- what we call RTGs, which are the
17 cranes that are in the terminal yard that deliver
18 and receive the trucks when they come into the
19 terminal to get ready to go and off the ship.
20 They are indispensable in our operation. We
21 couldn't operate without them.

22 About 35 years ago we decided to try

1 to formalize the way we bought cranes and to
2 standardize up and down all of our operations.
3 Our people went pretty much all over the world,
4 spent months in China and in other areas and
5 decided that this company which was started then
6 was ZPMC, which was mentioned earlier. When we
7 talk China, we're talking ZPMC, the crane
8 manufacturer who today manufactures 80 percent of
9 all cranes worldwide.

10 We have, for the last 35 years, have
11 ordered nothing but ZPMC cranes, and I can say I
12 can't remember any other company other than
13 possibly a Japanese company, who are required to
14 buy Japanese cranes, buy any other cranes other
15 than ZPMC. As mentioned earlier, there's only a
16 couple manufacturers in the world that make these
17 cranes and by far ZPMC is heads above the other
18 one or two. And also what's mentioned earlier,
19 there are no American manufacturers that produce
20 these cranes.

21 These cranes cost -- the STS cranes
22 cost between 10 and \$12 million apiece. The

1 small RTGs are close to \$2 million apiece. This
2 is equipment that we use to operate that -- quite
3 frankly it's going to be very difficult for us if
4 there is an additional cost to recover that cost
5 from our international carriers because our
6 business is so competitive that pricing is very
7 difficult to get when our costs increase.

8 We have, as I said, over 100 of these
9 cranes now in the U.S. and we have 20 that we're
10 going to be buying in the next year or two. When
11 you add 25 percent to that cost, it's just
12 staggering what it's going to cost us. And when
13 I say us, I'm pretty sure I may be talking for my
14 company, but I'm talking for pretty much every
15 company that's in our business.

16 That means that we're going to be
17 looking at maybe delaying purchasing cranes,
18 delaying being able to service the exporters and
19 the importers and possibly not even being able to
20 buy these. The other crane manufacturers, as far
21 as we're concerned, as I said, are not even in
22 the same world as ZPMC. I think everybody in our

1 industry would agree. I think it would serve no
2 purpose to put any kind of tariff on this
3 equipment. All it would do would be hurt our
4 industry, and quite frankly my company. Thank
5 you for listening.

6 MR. BURCH: Thank you, Mr. DeNike.

7 Our next panel witness is Glenn
8 Wiltshire of Broward County Port Everglades
9 Department.

10 Mr. Wiltshire, you have five minutes.

11 MR. WILTSHIRE: Thank you. Good
12 afternoon, Mr. Chairman and members of the
13 Committee. Thank you for the opportunity to
14 testify today. My name is Glenn Wiltshire, the
15 Acting Chief Executive Port Director of Port
16 Everglades, a department of Broward County,
17 Florida government.

18 Port Everglades and our port users are
19 very concerned about the overall impact of
20 additional tariffs related to cranes and cargo
21 handling equipment from China.

22 A little background. Broward County's

1 Port Everglades Department is one of South
2 Florida's economic centers and is a gateway for
3 international trade and cruise vacations. More
4 than 1.1 million 20 foot equivalent units of
5 containerized cargo moved through our port last
6 year, and we actually had a trade surplus of
7 almost \$1 billion over \$24.5 billion of trade on
8 both the import and export side.

9 Port Everglades supports over 13,000
10 direct jobs in South Florida and over 218,000
11 indirect, induced and related user jobs in the
12 State of Florida resulting in a total economic
13 impact of almost \$34 billion annually.

14 It's of critical importance to the
15 port for the Committee to once again remove
16 gantry cranes classified in subheading 8426.19.00
17 from the list of items that would be subject to
18 tariffs up to 25 percent as the Committee
19 concluded after the List 3 process was completed.
20 A 25 percent duty would immediately increase port
21 costs by over \$10.35 million for a current gantry
22 crane order.

1 As was stated by two of the previous
2 speakers, ZPMC located in Shanghai, China is
3 currently the only company in the world that
4 manufactures low-profile, super post-panamax
5 rail-mounted container gantry cranes. At our
6 port, the use of these customized low-profile
7 cranes is a critical Federal Aviation
8 Administration requirement because of our close
9 proximity to Fort Lauderdale-Hollywood
10 International Airport.

11 After a competitive process ZPMC was
12 selected to construct our cranes. The only other
13 bidder was -- indicated the intent to construct
14 the cranes in Italy at a price premium of almost
15 \$3 million. So on December 29th, 2017 Port
16 Everglades ordered three of the low-profile,
17 post-panamax cranes for the initial amount of
18 \$41.4 million, or \$13.8 million per crane. As
19 the previous speaker indicated, that's about,
20 depending on where you look at it, a 1 to \$3
21 million premium because of the low-profile
22 cranes.

1 Port Everglades also has an option
2 over the next five years to purchase up to three
3 additional cranes at a potential cost of up to
4 \$18.3 million per crane, but we haven't exercised
5 that option to date.

6 The first three cranes are under
7 construction and scheduled for delivery in March
8 of 2020 and will be -- have the ability to handle
9 containers stacked 8 units high and reach across
10 22 containers compared to our current cranes
11 which are limited to 5 containers high and 16
12 containers wide. This will allow port container
13 terminal operators to transfer containers from
14 the neo-panamax ships that are -- that I referred
15 to that currently must arrive at the port light-
16 loaded or specially loaded due to our existing
17 smaller cranes.

18 Additionally, these cranes will
19 increase the maximum lift capacity from 46.5 to
20 65 long tons. More cranes allow more ships to be
21 serviced simultaneously, increasing container
22 handling efficiencies and reducing the time in

1 port for container ships, increasing ship berth
2 and crane availability for use by other
3 customers. More ships equals more U.S. jobs.

4 Separately, the port is investing \$471
5 million to add additional berths to handle more
6 ships and the U.S. Army Corps of Engineers is
7 nearing the start of construction of a \$438
8 million deepening and widening project to dredge
9 our channels to accept these larger ships. We
10 consider ourselves partners with the federal and
11 state government as we seek to service these
12 ships that are coming today. Without the removal
13 of gantry cranes the resulting budget increase
14 will require reallocation of funds from other
15 critical infrastructure projects we have at the
16 port directly affecting the U.S. workers who
17 would otherwise be employed on those projects.

18 The application of the tariffs is
19 effectively a tax on infrastructure that will
20 negatively affect not just our port, but multiple
21 U.S. ports, damaging an important strategic
22 objective of the U.S. of modernizing seaports and

1 improving U.S. infrastructure and will cause
2 disproportional economic harm to U.S. interests
3 by putting the economic health of our nation's
4 ports in jeopardy.

5 Thank you once again for the
6 opportunity to testify before the Committee and
7 I'd be happy to answer any questions you may
8 have.

9 MR. BURCH: Thank you, Mr. Wiltshire.

10 Our last panel witness for Panel 5 is
11 Jennifer Cleary with the Association of Home
12 Appliance Manufacturers.

13 Ms. Cleary, you have five minutes.

14 CHAIR BUSIS: Just one comment. For
15 those following the provisional witness list, Ms.
16 Cleary has been moved up from Panel 7 to this
17 panel.

18 MS. CLEARY: Good afternoon. My name
19 is Jennifer Cleary and I'm the Vice President of
20 Regulatory Affairs at the Association of Home
21 Appliance Manufacturers. Thank you for the
22 opportunity to testify today and for

1 accommodating me on this panel.

2 While we agree that the administration
3 should address Chinese trade policies and
4 practices, we oppose the proposed additional
5 tariffs for many home appliances, parts and
6 components as specified in detail in our written
7 testimony. They will cause harm to consumers and
8 our members and will not have the impact that is
9 desired.

10 If not already this morning, it is
11 quite likely that sometime today every member of
12 the Committee, every panelist at these tables,
13 and virtually everyone in this room has or will
14 benefit from the use of one or more home
15 appliances. From preserving food, cooking to
16 personal grooming, to cooling and improving
17 indoor air quality and to cleaning floors and
18 carpets appliances are not only life-enhancing,
19 they are a necessity in many cases.

20 Our members include companies that
21 manufacture products in the United States,
22 employing tens of thousands of people. They

1 include companies that manufacture in other
2 countries and companies that do both. In
3 virtually every case, home appliance
4 manufacturers rely on a global supply chain.

5 Our industry is also extremely
6 competitive and as such the consumer cost for
7 purchasing home appliances has consistently
8 trailed the CPI for decades. The proposed tariff
9 increases specified in our testimony, if
10 approved, will change this consumer success story
11 to a formula for failure.

12 This comes at a critical time when our
13 industry through innovation, technology and
14 investment is delivering more energy-efficient
15 products than ever and is on the cusp of
16 expanding the value of our products through
17 connectivity in the smart home environment. Many
18 of these products and parts are included on the
19 proposed tariff list, including microwave ovens,
20 dehumidifiers, coffee and tea makers, toasters
21 and toaster ovens, food processors, electric hair
22 clippers, irons, electric fans, parts for room

1 air conditioners and parts for
2 refrigerator/freezers, as well as many other
3 products. These proposed tariff insert an
4 international trade dispute into American
5 families' kitchens and living rooms and will
6 impact their daily lives.

7 For products like the microwave oven,
8 which have become part of the fabric of the
9 American kitchen as consumers look to prepare
10 fast convenient meals, increased costs due to
11 tariffs could mean that these essential products
12 are no longer affordable for some people. And
13 other products such as portable appliances where
14 price is relatively low, consumers will feel even
15 small increases in price.

16 The impact has and will continue to be
17 significant on home appliance manufacturers as
18 well. As a result of the current and proposed
19 tariffs, some companies have or plan to delay or
20 cancel significant investments in research and
21 development or upgrades to existing U.S.
22 manufacturing sites. This is because substantial

1 company resources are being diverted from these
2 activities and reallocated to revamp existing
3 global supply chains.

4 We have seen that these tariffs are
5 adversely impacting American jobs. One of our
6 members canceled the planned addition of 100 U.S.
7 jobs and some of our members have been forced to
8 shift manufacturing out of the United States,
9 which is contrary to the administration's goals.
10 We expect our members will provide you with more
11 detail on their individual circumstances. For
12 example, iRobot testified on the last panel.

13 Building new supply chains is not an
14 easy task. For many of the products in our scope
15 it could take over five years to select new
16 suppliers, if it is even possible to do so. This
17 is due to various compliance and safety
18 considerations among other factors.

19 Accordingly, the tariffs could result
20 in product shortages, price increases or
21 decreases in product choice. Microwave ovens,
22 toasters and toaster ovens, coffee and tea

1 makers, pressure cookers, food processors, parts
2 for refrigerator/freezers and room air
3 conditioners among others are primarily only
4 available in China and no alternative supplier
5 outside of China exists according to our current
6 data.

7 Notably for these products the
8 technology is such that manufacturing is not
9 likely to be moved back to the United States, nor
10 are they that type of high-tech products that are
11 the focus of the Made in China 2025 Initiative,
12 thus the tariffs will not increase American jobs
13 or have a positive impact here.

14 My written testimony and AHAM's
15 comments include a full list of the home
16 appliances that are made in China and for which
17 no U.S. or alternative supplier exists. We
18 respectfully request that no new additional
19 tariffs be imposed on the finished goods or parts
20 I've mentioned today and which are detailed in my
21 written comments.

22 Thank you for the opportunity to

1 provide our views and I'm glad to answer any
2 questions you may have.

3 MR. BURCH: Mr. Chairman, this
4 concludes this panel of witnesses.

5 CHAIR BUSIS: Ms. Zollner, could you
6 start our questioning today -- this morning --
7 afternoon?

8 MS. ZOLLNER: Great. Thank you.
9 While my question is directed to Mr. Wiltshire, I
10 think anyone could probably respond if you had a
11 view.

12 It's been stated that ZPMC is
13 currently the only company in the world that
14 manufactures -- this is not going to come off my
15 tongue easily -- low-profile super post-panamax
16 rail-mounted container gantry cranes. Is there
17 some reason that these cranes are only made in
18 China? The cranes appear to be mostly fabricated
19 of steel, which is widely available. In the view
20 of the panel, does the competitiveness of the
21 Chinese crane industry relate the massive over-
22 capacity of the Chinese steel industry and result

1 in artificially low prices for Chinese steel?

2 MR. WILTSHIRE: I can't comment on the
3 part related to the pricing of steel. I do know
4 as we went through a competitive process the
5 other bidder -- and we put it out through an RFP
6 and we only had two bidders come forward, ZPMC
7 and Bedeschi, which is manufacturers as we
8 understand it in Italy and in China.

9 But I think there's not many ports in
10 the world that require low-profile cranes.
11 Massachusetts -- Boston Mass Port currently also
12 requires that type of crane. I think they have
13 some on order as well. And it's because a
14 typical A-frame crane that you would see at a
15 seaport gets raised up when the ship is not
16 there. In our case being so close to the airport
17 we went through a multi-year process with the FAA
18 to actually get the flight service increased 25
19 feet from what it previously was to be able to
20 use those cranes.

21 The crane that we're actually having
22 constructed is the largest crane in the world

1 ever constructed of that low-profile type, and it
2 has been a number of engineering challenges. And
3 ZPMC has been the one that's been in the market.
4 Our last low-profiles cranes were actually done
5 in the late '90s, and that was done by Samsung in
6 Korea. So that's who came to the table.

7 MR. HART: My question is for Mr.
8 Crowley. You state that the addition of tariffs
9 to the cost of your members' equipment will have
10 a deleterious impact on maintaining competitive
11 port operations within available financial
12 margins. Could you provide additional details
13 and any evidence you have to support this?

14 MR. CROWLEY: I'm happy to provide any
15 additional evidence that I have for the record.

16 The basis answer is that the cost is
17 -- can be seen in a variety of ways. The lack of
18 acquiring a new crane serves to slow down the
19 process which makes that port less competitive.
20 The slowing down of the process and not becoming
21 more modern also means it's less competitive in
22 terms of buying for other infrastructure

1 projects. And so you have a snowball effect as
2 you step out of -- by virtue of becoming priced
3 out of the commodity. But I'll provide more data
4 as available for the record.

5 MR. HART: Much appreciated.

6 MR. SECOR: My question is for Mr.
7 Blust. Just to clarify, are you concerned about
8 the imposition of tariffs on used containers or
9 new containers, or both?

10 MR. BLUST: Both. Our leasing
11 association primarily deals with containers at
12 the end of their service life and the disposition
13 of the containers at that point. And so, that's
14 our -- and that's primarily what's moving in the
15 world today are containers in service that remain
16 in service throughout their life time frame. And
17 then at the end of that, or if there's a casualty
18 -- unanticipated casualty before, they're removed
19 from service.

20 And when they're removed from service,
21 which normally is from 12 to 16 years, then
22 they're sold or scrapped. And if they can be

1 added -- have added value by our members'
2 customers who are members of the National
3 Portable Storage and other locations around the
4 world, then that's a good thing for the global
5 economy.

6 MR. SECOR: And --

7 MR. BLUST: New containers, there's
8 just -- if they're being imported as containers
9 and not as a vehicle for holding cargo, that's a
10 different category, and those are normally
11 treated as just another imported commodity. So
12 if a new container was going to be used in
13 another purpose in the United States and
14 domesticated in the United States, it would enter
15 Customs, enter through Customs as a normal
16 product like ballpoint pens or something of that
17 nature.

18 International containers that are
19 moving as part of the transportation system to
20 move let's say the ballpoint pens in, then
21 continue through the commerce in the United
22 States on bond as instruments of international

1 traffic. So they really don't enter the commerce
2 of the U.S. while they're actively employed.

3 MR. SECOR: Okay. And are there any
4 U.S. or non-Chinese intermodal container
5 providers that could provide similar equipment in
6 sufficient volume to meet your members' needs?

7 MR. BLUST: Not to my knowledge.

8 MR. SECOR: Thank you.

9 MR. BLUST: All -- to the best of my
10 knowledge all container -- maritime containers
11 are manufactured in China today.

12 MR. ADISE: Thanks. Sorry I wasn't
13 introduced at the early part of the panel.
14 Sorry. Russell Adise, U.S. Department of
15 Commerce. I have two questions, both for the
16 port operators and the stevedores and the
17 container lessors on the panel.

18 The first question, Mr. DePasquale,
19 you state that imposing increased duties on
20 containers would not be practicable or effective
21 in eliminating Chinese unfair acts, policies and
22 practices. Can you explain why this is so, sir?

1 MR. DEPASQUALE: Well, I mean,
2 generally speaking I -- we can elaborate in our
3 post-rebuttal comments, but generally speaking
4 containers are a very simple product. It's a
5 wood floor with four walls. It's a construction
6 that's been in existence for 40-plus years. It's
7 not -- it's nothing in terms of any kind of
8 intelligence. Containers have been manufactured
9 in many countries in the past. And so quite
10 frankly, there's nothing to it that would speak
11 to those issues, I don't believe.

12 MR. ADISE: Okay. Thanks very much.
13 And I note Mr. Reinhart's comment about the IT
14 being purchased from the United States was a very
15 interesting comment.

16 I do have a question, and this -- I
17 recognize that you may not be able to answer this
18 today, so I'd ask that the port and container
19 lessors and stevedores on the panel provide for
20 the written record if possible.

21 I'd like to zero in a little bit on
22 the potential cost increases for U.S. exporters

1 and importers that I think each one of you has
2 mentioned. I note; I guess it was Mr. Crowley or
3 was it Mr. Reinhart or Mr. DeNike, I think it
4 was, the difficulty of recouping the tariffs
5 should they be imposed.

6 And my question for the group: what
7 percentage of these tariffs do you anticipate
8 that you would pass on -- you will pass on to
9 your U.S. exporter and importer clients?

10 Recognizing that these are indirect in some
11 cases, but direct in some cases, what percentage
12 of these tariffs do you anticipate you will pass
13 on to your U.S. exporters and importer clients in
14 the form of increased port and container fees?
15 That's the first question.

16 The second question will be what will
17 be the anticipated cost increase per shipment?

18 And the third is please provide the
19 cost basis of your estimate. We'd be very
20 interested in that. Thank you.

21 MR. REINHART: Should I take that --

22 (Simultaneous speaking.)

1 MR. ADISE: If you'd like to answer
2 that, yes.

3 MR. REINHART: Okay. I'll take a stab
4 at it. How's that?

5 MR. ADISE: Thank you.

6 MR. REINHART: Firstly, most of the
7 contracts we pay to move the freight. Our
8 contracts are with the ocean carriers, so they
9 pay us. And most of those contracts have long-
10 term, five, ten years. So those contracts are
11 already in place. We anticipated -- when we
12 ordered our new ship-to-shore cranes we did not
13 anticipate a tariff, so right now the two we
14 ordered, we don't have a way to recover that
15 money. So I would have probably not ordered one
16 of those cranes had I known we were going to go
17 back into the tariff arena. So we'll have to eat
18 it.

19 Now we're a state entity so we're
20 going to have -- it will have an impact on our
21 bonding because if we go to losing money, we will
22 have to find ways to cover our debt burden or

1 have a downgrade on our bonding authority. So it
2 really is a complex issue.

3 Our contracts are with the carriers.
4 The carriers are contracting with the BCOs, those
5 that import and export the freight. So they're
6 -- they would set their contracts, and they
7 usually set those annually. Did that touch your
8 question, sir?

9 MR. ADISE: It does. I also
10 understand that there are handling fees that are
11 passed on by the terminals, and I understand that
12 there will be additional costs there. Plus of
13 course you are -- what -- as Mr. Blust has
14 pointed out, there will be some additional
15 tariffs on new containers which will be passed on
16 to lessors through the BCO level as well. So I'd
17 be interested in hearing more.

18 MR. REINHART: Just as an add, if I
19 may, by doing the increase on tariffs to the
20 cranes to the U.S. ports; I'm talking East Coast,
21 West Coast and Gulf --

22 MR. ADISE: Yes.

1 MR. REINHART: -- all we're doing is
2 making it more competitive for the freight to
3 find its way to Canada or to Mexico because they
4 won't have to pay the tariffs on their equipment
5 and they'll be able to put forward a product at a
6 lower price. So we're kind of pushing freight
7 away from our own borders by adding this cost to
8 the equipment that we need to handle the freight.

9 MR. ADISE: I do appreciate that. And
10 if you could provide whatever cost impact that
11 you can share on U.S. exporters and importers,
12 recognizing what you just said, Mr. Reinhart, I'd
13 very grateful.

14 Yes, Mr. Blust? I'm sorry.

15 MR. BLUST: Yes, just a point. The
16 container lessors do not deal directly with
17 beneficial cargo interests on a large scale.
18 Most of their business is leasing containers to
19 the ocean carriers, to whom the BCOs are their
20 customers. So indirectly if the cost of
21 operations went up and that was passed onto the
22 ocean carriers, it would then ripple down to what

1 the ocean carriers would do with their beneficial
2 cargo interests. So I don't know that we could
3 really estimate that and come up with something,
4 but it's not a direct relationship.

5 MR. ADISE: And I do understand that.
6 And I think the concern is as we take a look at
7 the impacts on the supply chain, it's important
8 to try to figure out what those impacts will be.

9 MR. DEPASQUALE: May I comment also?
10 I think what's important to note here is that all
11 marine containers are owned primarily by two
12 types of organizations, it's either
13 transportation companies or leasing companies.
14 And unfortunately our members don't typically
15 have to say or have the say on when and where
16 they buy the equipment. It's primarily at the
17 mercy -- since we're using mostly used
18 containers, it's at the mercy of the
19 international companies who own this equipment.

20 And quite frankly, I think the
21 Committee needs to consider the unintended
22 consequences of the ability for liner companies

1 and leasing companies to divert equipment outside
2 of the United States to other countries where
3 they can avoid this tariff completely or where
4 they can sell the equipment at -- with more
5 demand.

6 MR. ADISE: Thank you, sir.

7 MR. DEPASQUALE: Does that make sense?

8 MR. ADISE: I appreciate it. Thank
9 you very much.

10 MS. WINTER: This is a question for
11 Mr. DeNike. I hope I'm pronouncing your name
12 correctly.

13 MR. DENIKE: Yes.

14 MS. WINTER: You said in your
15 statement here today that the company ZPMC, the
16 Chinese supplier, has like 80 percent market
17 share. And I guess this increase -- or this
18 market share has risen over time where they've
19 been able to gain so much market share. Have you
20 seen your prices go up on these two types of
21 cranes with the fact that they now have a very
22 strong -- almost -- very strong market position?

1 MR. DENIKE: Thank you. That's a good
2 question. Believe it or not, the prices have not
3 went up. In fact, they've been reduced over the
4 last several years. ZPMC, again, if you saw the
5 company in Shanghai, you could see why they do 80
6 percent. If we don't buy them here in the U.S.,
7 they're just going to -- they have an 18-month
8 waiting list. So they sell to everybody.

9 And as a result they're also --
10 they've been a decent company to work with. They
11 look at their cost. And our cranes that we're
12 buying today are even a little less costly than
13 they were five or six years ago and they're
14 bigger and more powerful.

15 MR. STEPHENS: This is Andrew Stephens
16 from USDA and I have a question for Mr. Reinhart.

17 You mentioned was it two or three
18 companies that responded to your recent request
19 for proposal. Where they all Chinese companies?

20 MR. REINHART: One was a European
21 company that built the super structure. The
22 steel came out of China anyway. ZPMC was

1 another. And then a third was really not a very
2 qualified company. So we really had two.

3 MR. STEPHENS: Okay. And can you
4 explain in your opinion why do you think that
5 crane structures themselves cannot be fabricated
6 in the U.S. or other countries other than China?

7 MR. REINHART: They haven't been
8 manufactured here for over 30 years, so the
9 market just never found a reason to build them
10 here. They left. For a while they were built in
11 Europe. Then they left Europe and ended up in
12 China. So it's just that we don't have the skill
13 sets here and we don't have the people interested
14 in that business.

15 MR. STEPHENS: Okay. Thank you.

16 MS. VON SPIEGELFELD: Good afternoon.
17 This question is for Ms. Cleary.

18 I just have a number of questions
19 trying to get more detail. You mentioned that
20 some of your members manufacture home appliances
21 in the United States. Do all of the products you
22 reference have some U.S. production?

1 MS. CLEARY: No, several of our
2 members do not produce in the U.S. as I mentioned
3 at the beginning.

4 MS. VON SPIEGELFELD: Okay. Can you
5 provide more detail as to the international
6 market for each type of product? Or -- I mean, I
7 guess that's a lot of information.

8 (Laughter.)

9 MS. VON SPIEGELFELD: So if you want
10 to send also a follow -- if we have --

11 (Simultaneous speaking.)

12 MS. CLEARY: If we have any further
13 detail, I'd be glad to provide it.

14 MS. VON SPIEGELFELD: And what are the
15 other major competitors and what are the price
16 points of competition? Again, if that's a lot --
17 if that's too much information for now, you can
18 send us a follow-up comment on that.

19 MS. CLEARY: Okay. Sure. So we
20 represent the breadth of appliance manufacturers
21 in the United States, so I think those price
22 points will vary. In my written testimony and in

1 our written comments we do provide some detail on
2 what the average price points are for the various
3 products that are impacted, so hopefully that's
4 enough. If not, I'd be glad to see if there's
5 other detail that we can provide, although of
6 course as a trade association that's also
7 sometimes information we're not looking at.

8 MR. BURCH: Mr. Chairman, we release
9 this panel with our thanks.

10 And would the members in Panel 6 make
11 their way to the front?

12 (Pause.)

13 MR. BURCH: Would the room please come
14 to order?

15 Mr. Chairman, I would like to note all
16 the witnesses for panel 6 have been seated. And
17 our first panel witness for this panel will be
18 Patrick Fox of VF Corporation.

19 Mr. Fox, you have five minutes.

20 MR. FOX: Thank you. My name is
21 Patrick Fox. I'm Senior Director of Customs and
22 Trade Strategy at VF Corporation. I would like

1 to thank the Section 301 Committee for the
2 opportunity to testify today.

3 VF is a global leader in branded
4 lifestyle apparel, footwear, and accessories for
5 the diverse portfolio of 20 brands, including
6 Vans, The North Face, Timberland, Jansport, and
7 Dickies.

8 I'm here today to testify against the
9 inclusion of many footwear and apparel categories
10 in a proposed List 4 under Section 301. Simply
11 put, tariffs cause economic harm to the U.S.

12 Footwear and apparel goods are already
13 subject to the highest U.S. tariffs, behind only
14 tobacco and peanut products. Children's basic
15 canvas sneakers can have a duty rate as high as
16 67.5 percent. Certain knit garments can have
17 duty rates as high as 32 percent.

18 Duties are borne by the U.S. importer
19 and passed along the sales chain, resulting in
20 the erosion of purchasing power of U.S.
21 consumers. Incremental duties crowd out U.S.
22 investment that companies could make in high-

1 paying U.S. jobs, IT, and other business-
2 expanding investments. Duties reduce the
3 competitiveness of U.S. companies that have
4 evolved their supply chains to deliver high-
5 quality products to U.S. customers at competitive
6 prices.

7 The apparel industry has had
8 exceptionally-high tariffs for generations, and
9 we have lost lower-paying manufacturing jobs
10 steadily during that time. Some of those jobs
11 have gone overseas and some have gone into other
12 sectors in the economy. However, global supply
13 chains have allowed us to maximize better-paying
14 jobs to our competitive advantage, jobs in
15 design, IT, logistics, and compliance. Higher
16 tariffs will not bring those jobs back.

17 We, as a country, don't have the
18 capacity or, frankly, the desire to create the
19 low-paying manufacturing jobs you would need to
20 replicate China's capacity. What we do have as a
21 country is the desire, capability, and capacity
22 to build more higher-paying jobs and value chains

1 that emphasize the skills I mentioned above and
2 which deliver real value to the final product.

3 Supply chains are global value chains.
4 Today's supply chains are integrated around the
5 world, and the "made in" label on any shoe or
6 garment fails to consider the value of U.S.
7 designers, engineerings, artists, logisticians,
8 accountants, and many other professionals who
9 endeavor every day to bring products to market
10 profitably. The result is that supply chains are
11 highly complex and incredibly important to
12 supporting jobs in the U.S.

13 Imposing tariffs to punish the
14 originating country also damages U.S. supply
15 chains and puts these American jobs at risk.
16 While we recognize the issues with China's IP
17 forged technology transfer practices, we ask
18 ourselves if the cost of tariffs to U.S.
19 companies and consumers causes more harm than the
20 problem they are trying to solve.

21 VF products are produced at six VF-
22 operated factory locations in three countries,

1 employing over 12,000 associates, and
2 approximately 700 independent contractor
3 manufacturing facilities in approximately 50
4 countries throughout the world. We also operate
5 40 distribution centers and more than 1500 retail
6 stores.

7 Our ability to manage the supply chain
8 helps support the jobs of approximately 31,000 VF
9 associates in the United States. Tariffs on HTS
10 Chapter 61, 62, and 64 will have negative impacts
11 on the flexibility of VF's sourcing operations
12 and inhibit our ability to manage costs, while
13 none of these products are referenced in the Made
14 in China 2025 industrial policy.

15 VF builds supply chains that uphold
16 important worker safety, labor, and environmental
17 standards. To diversify/mitigate rising costs
18 and take advantage of GSP for travel goods over
19 the past several years, VF has reduced its
20 production in China to other countries and
21 regions, while ensuring compliant supply chains
22 are established.

1 VF is committed to safety and
2 sustainability in its supply chain, and we audit
3 the activities of each contractor producing VF
4 product everywhere across the globe. This
5 investment into capacity-building in other
6 countries cannot be rushed and cannot be
7 accomplished overnight. We simply cannot shift
8 all production from China to facilities in other
9 regions and countries that do not have the
10 capacity/capability to manufacture quality
11 products.

12 VF welcomes the pursuit of
13 constructive policies. Rather than putting in
14 place tariffs that are harmful to U.S. companies,
15 we believe the Administration should embrace
16 trade policies that further encourage the trend
17 of apparel and footwear sectors shifting sourcing
18 out of China. For example, the Administration
19 could work with Congress to expand the U.S. GSP
20 Program to include apparel and footwear.

21 In addition to the potential
22 disruptions to our global supply chain, VF is

1 concerned about the rising trade tensions that
2 could impede our sales of VF brands in China by
3 attracting Chinese retaliation in the form of
4 non-tariff barriers or decreased perceptions by
5 Chinese consumers.

6 Asian has been the fastest-growing
7 market for VF in the last decade. Expanding
8 opportunities in the region continues to be a key
9 priority for VF. In fiscal 2019, our revenue
10 increased about 20 percent there, and it
11 represented about 6 percent of our total revenue
12 globally.

13 In summary, tariffs impact VF's
14 operations and have the potential to limit access
15 to one of our most important markets. We
16 strongly support the Administration's goals to
17 improve intellectual property protection. It's
18 our belief that tariffs on companies, U.S.
19 companies, are not the way to achieve that goal.

20 Thank you very much.

21 MR. BURCH: Thank you, Mr. Fox.

22 Our next panel witness will be Karen

1 Giberson of Patricia Nash Designs.

2 Ms. Giberson, you have five minutes.

3 MS. GIBERSON: Good afternoon.

4 I'm Karen Giberson. I'm the President
5 and the CEO of the Accessories Council, which is
6 a not-for-profit trade association based in New
7 York. We represent over 320 companies in the
8 fashion accessories industry. I'm here this
9 afternoon to read testify on behalf of Patricia
10 Nash, one of our vibrant, woman-owned brands.

11 Patricia Nash is one of the fastest-
12 growing brands in our portfolio. They have a
13 loyal fan base, and their customer loves their
14 vintage-inspired products. They're based in
15 Nashville -- or, rather, in Knoxville, Tennessee,
16 and were founded in 2010. They're in the
17 wholesale and retail business, making products
18 from fashion accessories, handbags, jewelry, and
19 footwear. They purchase leather and materials
20 from all over the world and transport those
21 materials to their factory partners in China, who
22 produce the finished goods for them. They, then,

1 import them to the U.S. and distribute to their
2 retail partners and direct customers.

3 The majority of the business is
4 wholesale sales to Dillard's, Macy's, HSN, QVC,
5 Von Maur, Belk, Marmax, and Zappos. They employ
6 approximately 40 full-time employees and have 110
7 subcontractors who are located across the United
8 States. Their full-time staff includes positions
9 in sales, merchandising, customer service,
10 design, ecommerce, production, photography,
11 marketing, administration, and logistics.

12 They source from China not only for
13 the lower cost, but also because they have
14 longstanding partnerships with their factories,
15 who have developed specific skills in working
16 with leather and have exquisite handcraftsmanship
17 to make their very specific designs. The
18 factories have invested in infrastructure to be
19 compliant to serve their larger retailers and
20 meet their volume needs.

21 Even before starting the Patricia Nash
22 brand, they worked with these same factories for

1 years to create products for other brands. It
2 would take years for them to fully shift
3 operations and train another partner with their
4 workmanship standards. And even if they could
5 find alternative and affordable suppliers outside
6 of China, it would be difficult to switch.
7 Unfortunately, they have found that other nearby
8 countries with similar expertise do not have the
9 capacity to handle their business.

10 Sourcing in the United States or other
11 countries would make their goods cost-prohibitive
12 for the majority of U.S. women. There are very
13 few brands in the United States for leather bags
14 and other products that offer the value and
15 craftsmanship of Patricia Nash.

16 These additional duties and costs will
17 result in higher price points in the long term
18 and reduce demand and lower sales of their
19 leather products. In the short term, their
20 company has been forced to absorb price
21 increases, which financially impact the company
22 and its employees. Advertising on social

1 platform and editorial will decrease, as many
2 women cannot afford to purchase their items,
3 causing overall reduction in sales, both at
4 retail and in wholesale companies.

5 The majority of the goods they sell
6 are already dutiable at a very high rate. Many
7 of them were impacted on List 3, including
8 luggage and handbags, which are, indeed, some of
9 the highest tariff rates of any products imported
10 into the United States.

11 They are being disproportionately
12 harmed by these tariffs and unable to grow and
13 expand their classifications that their
14 competitors currently sell because they have less
15 profit to reinvest in the company. Lower
16 expected profits will result in lower pay for
17 their staff, potential layoffs, and/or stunted
18 growth of the company.

19 They would greatly appreciate a
20 reconsideration of these increased tariffs or any
21 other proposed against Chinese imported fashion
22 items.

1 Thank you.

2 MR. BURCH: Thank you, Ms. Giberson.

3 Our next panel witness will be Michael
4 Jeppesen, Wolverine Worldwide.

5 Mr. Jeppesen, you have five minutes.

6 MR. JEPPESEN: Thank you. Thank you,
7 Mr. Chair and Members of the Council here.

8 MR. BURCH: Will you please pull your
9 microphone up?

10 MR. JEPPESEN: Thank you, Mr. Chair
11 and Members of the Council.

12 My name is Mike Jeppesen. I'm the
13 President of Global Operations for Wolverine
14 Worldwide. We're based out in central Michigan.
15 We have been in business for more than 130 years.
16 Started out as a bootmaker in Rockford, Michigan,
17 in 1883.

18 We have grown into one of the largest
19 performance and lifestyle companies in the world.
20 We are selling approximately 100 million pairs of
21 footwear around the world across our 12 brands
22 that we own: Bates, Cat Footwear, Chaco, Harley-

1 Davidson Footwear, Hush Puppies, HYTEST, Keds,
2 Merrell, Saucony, Sperry, Stride Rite, and the
3 Wolverine brands. Each year, we reach somewhere
4 around 200 countries in the world where we are
5 servicing customers.

6 This proposed tariffs action under
7 consideration today would negatively impact our
8 company, U.S. retail partners, and consumers.
9 Footwear already faces an incredible high tariff
10 burden. The tariffs we pay in average is about
11 11.3 percent. Our industry a year pays about \$3
12 billion in tariffs to the U.S. Government's
13 import of footwear around the world.

14 Tariffs are not new to our industry.
15 For Wolverine, our athletic shoes are currently
16 taxed at a rate of around 20 percent. Our hiking
17 boots are 17.5 percent, and our children's shoes,
18 ironically enough, carry the highest rates,
19 ranging from 48 percent to 67.5 percent of the
20 landed cost price.

21 Adding a new 25 percent tariff on top
22 of these already very high tariffs would be

1 substantially increasing the U.S. footwear
2 companies. It would mean higher costs for our
3 consumers and potentially job loss across the
4 industry.

5 It's extremely difficult for companies
6 like us to shift production out of China to avoid
7 harm from the tariffs. It takes years of
8 planning to establish new facilities and do the
9 capital investments. Our company has shifted
10 production out of China over the last six years,
11 but we still source a large proportion of our
12 product from China today. Further transition out
13 of China would be made even more challenging by
14 the fact that most of U.S. footwear companies are
15 now trying to move into a limited number of
16 footwear sourcing countries at the same, as a
17 result of this tariff.

18 We are concerned that this action will
19 raise footwear tariffs, and therefore, have an
20 immediate and lasting effect on Wolverine. There
21 are very few companies in the U.S. that service
22 directly a market segment as Wolverine does.

1 Whether it is the family buying our children's
2 brands for back-to-school activities, the factory
3 workers that rely on our work boots or safety
4 footwear, or the individuals that enjoy running
5 or hiking, the proposed tariffs touch each of
6 these areas, covering every type of footwear and
7 activity in the U.S. Increasing duties on the
8 submitted Harmonized Tariff Schedule that
9 represents Wolverine's top 10 HTS lines would
10 have a direct impact on our company and our
11 consumers.

12 In closing, I just want to make the
13 observation that the threat of a tariff is the
14 same as implementing of a tariff, due to the long
15 lead time it takes for our supply chain to
16 adjust.

17 Thank you again for the opportunity to
18 testify on this important issue, and I welcome
19 the opportunity to answer any question you may
20 have.

21 MR. BURCH: Thank you, Mr. Jeppesen.

22 Our next panel witness will be Rick

1 Helfenbein with American Apparel and Footwear
2 Association.

3 Mr. Helfenbein, you have five minutes.

4 MR. HELFENBEIN: Thank you.

5 I represent the American Apparel and
6 Footwear Association, the national trade
7 association for the apparel and footwear
8 industry, its suppliers, and our consumer
9 partners.

10 Thank you for the opportunity to
11 testify.

12 Our team represents more than 300
13 companies and a thousand world-famous brands.
14 Our industry employs nearly 4 million U.S.
15 workers and contributes more than \$400 billion in
16 annual U.S. retail sales.

17 And we want to be clear. We support
18 your efforts to seek resolutions to our numerous
19 underlying disputes with China. However, we want
20 to be sure that the focus is on the real problems
21 and that we aren't involved as international
22 pawns in a chess game that endangers our

1 underlying trading partnerships and our nation's
2 economy. Plus, tariffs work against significant
3 progress that we have made in IPR by potentially
4 adding to the counterfeit problem and slowing any
5 IPR progress that we've achieved within the
6 Chinese court system.

7 So, for today, let's focus on two key
8 points for our industry. No. 1, we are deeply
9 disturbed that the Administration proposes to
10 include apparel, footwear, and home textiles as
11 items to be additionally tariffed. We are
12 already heavily tariffed, and we are asking, as
13 clear as we can ask, that these items be removed
14 immediately.

15 No. 2, we actively promote Made in
16 USA. And we are dumbfounded that the new tariff
17 list includes several categories of imported
18 textile shoe materials equipment and machinery
19 that our members need to make product in the USA.
20 We are also asking that these items be removed
21 immediately.

22 Now, in terms of point No. 1, please,

1 please don't tax the U.S. consumer. As I
2 mentioned, we are deeply concerned that the
3 Administration proposes to include apparel and
4 home textiles. That's in Chapter 61 and 64. You
5 will see in my notes Attachment No. A.

6 Our products already carry a heavy
7 tariff. Prior to the 301, our industry
8 represented 6 percent of all imports. Yet -- yet
9 -- we already paid 51 percent of all duties
10 collected. Our products do not intersect with
11 the underlying issues that the Administration is
12 trying to address with regards to forged
13 technology transfer and IP theft. Any tariff on
14 these consumer goods that are used by every
15 American will end up hurting U.S. consumers in
16 addition to the companies and workers who support
17 them. Prices will go up; sales will go down;
18 jobs will be lost.

19 So, consider the following, if you
20 will:

21 The United States already imposes a
22 significant border tax on our products. The

1 average duty rate for all U.S. imports is 1.4
2 percent. However, our average rates for our
3 products range from 10.8 to 14.2 percent. Some
4 tariffs are really, really high. They go to 28
5 percent, 32 percent, 67 percent. And we ask you,
6 as a group, aren't we burdened enough? Please do
7 not add to that burden.

8 And China is the top supplier of these
9 clothing items to the United States by far. In
10 2018, China was 42 percent of all apparel; 69
11 percent of all footwear imported into the United
12 States. All other countries combined -- all
13 other countries combined -- are ill-equipped to
14 handle the sheer volume that we would be required
15 to move out of China.

16 This will result in significant cost
17 increase to the American consumer and, what's
18 worse, a decrease in the product integrity, which
19 causes concern especially -- especially -- with
20 product safety issues.

21 Imposing tariffs will raise prices for
22 every American. The average consumer buys eight

1 pairs of shoes and 68 garments. Disrupting the
2 supply chain will affect it. People will have to
3 pay more or just simply buy less. At a 25
4 percent duty rate, we estimate a family of four
5 will pay at least \$500 more.

6 And the other thing of key importance,
7 don't tax the U.S. manufacturer. We actively
8 promote Made in USA. And yet, you've included
9 circular knitting machines for hosiery, looming
10 machines, embroidery machines, knitting machines.
11 All these things are used to make textile apparel
12 and footwear in the United States. And a 25
13 percent tariff on that would be unconscionable.
14 And we get these machines from China, and if
15 they're not the No. 1 supplier, they're in the
16 top five.

17 So, in summary, you've heard us grouse
18 about several issues that affect our members and
19 our industry. We are pleased that the
20 Administration is talking to China, but, you
21 know, you've got to accelerate these issues
22 because, as another panelist just said, even the

1 mere threat of them is a disruption to this
2 supply chain. So, more tariffs, quite frankly,
3 and as clearly as I can say it, are not a cure
4 for what ails us. Please, please don't hurt us.
5 Don't hurt the American consumer. Don't hurt our
6 economy.

7 And thank you for taking the time to
8 listen.

9 MR. BURCH: Thank you, Mr. Helfenbein.

10 Our next panel witness will be Monica
11 Gorman with New Balance Athletics, Inc.

12 Ms. Gorman, you have five minutes.

13 MS. GORMAN: Thank you, and good
14 afternoon. We appreciate the opportunity to
15 participate today and to present the views of New
16 Balance Athletics.

17 My name is Dr. Monica Gorman, and I'm
18 the Vice President of New Balance's Responsible
19 Leadership and Global Compliance Divisions.

20 New Balance is globally headquartered
21 in Boston, Massachusetts. Together with our
22 affiliates, we employ approximately 8,000 global

1 associates, with U.S. offices in Boston and
2 Lawrence, Massachusetts; Warren, Michigan, and
3 St. Louis, Missouri.

4 New Balance is the only major athletic
5 footwear company to maintain manufacturing in the
6 United States for more than 75 years. We own
7 five footwear manufacturing facilities in New
8 England, with more 1600 manufacturing associates.
9 We recently purchased a sixth facility in
10 Methuen, Massachusetts, and we will open an
11 advanced manufacturing operation there in 2020.
12 Our affiliate, Warrior Sports, owns an equipment
13 manufacturing facility in Sterling Heights,
14 Michigan. We are especially proud of our Made
15 premium footwear collection, which contains
16 domestic value of 70 percent or greater.

17 New Balance supports the
18 Administration's efforts to achieve fair and
19 balanced trade with China and improve the
20 protection of intellectual property. Indeed, New
21 Balance is actively engaged in IP protection in
22 China. In August 2017, we secured a landmark

1 legal victory in the Chinese courts against a
2 major Chinese counterfeiter named New Boom. New
3 Balance received the highest intellectual
4 property damages ever awarded to a Western
5 company inside China.

6 New Balance respectfully urges USTR to
7 remove from its tariff target list the specific
8 components that are used in footwear
9 manufacturing in the United States. As I discuss
10 here, tariffs on these products will cause
11 disproportionate harm to domestic manufacturing
12 interests and will not be effective to obtain the
13 elimination of Chinese acts, policies, and
14 practices found to be in violation of Section
15 301.

16 New Balance's five U.S. manufacturing
17 facilities in New England are supported by a
18 global supply chain that has been planned and
19 built over decades. Today, in order to maintain
20 the levels of production needed to keep our U.S.
21 factories full and competitive, we must use some
22 imported components from China.

1 For example, American-supplied leather
2 is stitched together with imported soles and
3 inserts to produce millions of pairs of American-
4 made shoes annually. We also import raw
5 materials to make some outsoles in Boston.

6 We have undertaken significant effort
7 to redirect sourcing to non-Chinese suppliers
8 wherever possible, but these supply chains take a
9 minimum of 18 months to redirect and in some
10 cases cannot be fully recreated outside of China.

11 China's own focus on advanced
12 manufacturing has shifted footwear production
13 outside of China, as our industry is not relevant
14 to the goals of Made in China 2025. At the same
15 time, uncertainty surrounding trade with
16 alternative sourcing countries, such as Mexico,
17 has had a chilling effect on investment
18 opportunities to develop capable and competitive
19 non-Chinese sources.

20 We choose to make shoes in the United
21 States because it is the right thing to do, even
22 though it is less profitable. The existing duty

1 rates on imported components are low, ranging
2 from zero to 5.3 percent. Based on our
3 preliminary analysis of a 25 percent punitive
4 tariff, we project millions in additional costs
5 for our five New England factories. These
6 increased costs would upend the fragile financial
7 model for domestic manufacturing that, against
8 the mainstream of our industry, we have been
9 committed to sustaining.

10 I want to stress that we use imported
11 components from China to sustain the scale of our
12 U.S. footwear manufacturing that keeps 1600
13 people fully employed. We work with U.S.
14 suppliers wherever possible, but the reality is
15 that the U.S. supply chain is simply too small
16 and too limited in scale to support the current
17 depth and breadth of our U.S. manufacturing.

18 It took us years to nurture a domestic
19 supply chain strong enough to create our
20 successful, very compliant, military athletic
21 shoe, a supply chain that includes 15 American
22 companies, but it can only support a small subset

1 of the finished shoes that we produce
2 domestically.

3 Our domestic manufacturing business
4 has already been hit by retaliatory tariffs that
5 China has placed on American footwear exports.
6 China is one of our top five global export
7 markets for U.S.-made footwear.

8 We support the Administration's goal
9 of leveling the playing field for American trade
10 with China. However, our unique business model
11 and increasing product demand require us to work
12 with manufacturing partners around the world,
13 including China. The proposed Tranche 4 tariffs
14 on footwear components will risk the viability of
15 our Made in USA footwear business, our company's
16 overall financial health, and thus, our ability
17 to maintain and reinvest in the American
18 factories that we have worked so hard to sustain
19 for the past 75 years.

20 Thank you again for this opportunity
21 to present our views on this matter of serious
22 concern to our company. I look forward to your

1 questions.

2 MR. BURCH: Thank you, Ms. Gorman.

3 Our last and final panel witness will
4 be Sean Georges with Shoe Carnival.

5 Mr. Georges, you have five minutes.

6 MR. GEORGES: Thank you. Thank you.

7 We're honored and humbled to be here.

8 I am Sean Georges, Senior Vice
9 President of Human Resources and Corporate
10 Counsel for Show Carnival. You may not be aware
11 of that retailer. We're a 40-year-old company
12 based in Evansville, Indiana. Last year, over \$1
13 billion in annual sales, with nearly 400 stores
14 in 35 states, and we've got a few in Puerto Rico
15 as well.

16 We employ now over 5,000 human beings
17 in our stores across the range of these 400
18 stores in 35 states. We are headquartered, and
19 our central distribution center is, in
20 Evansville, Indiana.

21 We focus, our laser focus is on
22 families in America. We are working towards

1 being the No. 1 retailer to fill that niche, but
2 we have a strong focus on all family members in
3 kind of the heartland of America, if you will.

4 We have a completely unique, a value-
5 based retail concept, and we would invite you to
6 experience it at some point, both in stores and
7 online.

8 Our customers are loyal. We build
9 relationships with our customers in the
10 communities in which we operate, and we have
11 built that strength of those relationships.

12 Right now, we are in the middle of a
13 10-year strategic development of this company, a
14 growth path to double the size of Shoe Carnival,
15 so that we can reach West Coast to East Coast
16 throughout the United States. That strategy is
17 being developed and includes -- there were
18 comments earlier with another panel -- includes
19 significant infrastructure investments, a great
20 deal of IT investments in systems and in our
21 traffic management systems, and all of the
22 supporting and infrastructure systems that help

1 you to build a company in our modern world.

2 We would like to respectfully object
3 to, and we would like to enter our opposition to,
4 the current proposal. We've talk numbers here.
5 Up to 25 percent in additional tariffs in the
6 footwear marketplace, and it's already been
7 stated, the range of the headwinds that exist
8 right now. Footwear is, because of an historical
9 anomaly meant to protect an industry in which we
10 built and developed shoes -- we're pleased to
11 have New Balance with us -- but that has resulted
12 in this situation where we are now considering
13 adding 25 percent on top of what ranges between
14 12 percent at an average up to 67 percent for a
15 pair of shoes. Just remarkable.

16 We know that this will happen, just
17 like gravity. There will be decisions made all
18 the way along the whole spectrum of this from
19 manufacturers to the end impact with the customer
20 when they come in the store or when they purchase
21 something online. There will be a decision as to
22 the sharing of costs, and we know that there will

1 be an adverse impact on our customer.

2 And our customers are moderate, hard-
3 working Americans that live on a budget. We
4 think this is going to hurt the very people that
5 the President, we think, has committed to when he
6 stated, "We want to make America great again."
7 We think that is something that needs to be
8 thought through.

9 We've talked here today, and others
10 with much more understanding than I have talked,
11 about how capital-intensive this industry is. We
12 know that these decisions will not be able to be
13 made quickly, as far as how we respond and react.

14 We would just like to remind you of
15 how price-sensitive our customers are and most
16 Americans are. When we see a delay in tax
17 refunds, we see an impact on our sales. When we
18 see job losses in local communities, we see an
19 impact. Anytime you impact the take-home pay of
20 our consumer, we have an impact on their sales.
21 Please consider the people who are really not
22 represented here in this room, not the retailers,

1 not the manufacturers, but our consumers.

2 We thank you very much. I'd be
3 honored to answer any questions. Thank you.

4 MR. BURCH: Thank you, Mr. Georges.

5 Mr. Chairman, this concludes this
6 panel of witnesses.

7 MR. DEVINE: This is Andrew Devine
8 with the U.S. Department of Agriculture. I have
9 a few questions for Mr. Fox.

10 First, you mentioned that you have six
11 VF-operated factories in three countries. So,
12 presumably, at least two of those factories are
13 outside of China, is that correct?

14 MR. FOX: All three are outside of
15 China. In fact, they're in the Western
16 Hemisphere.

17 MR. BURCH: Can you please pull your
18 mic a little closer?

19 MR. FOX: Sure.

20 MR. BURCH: And repeat what you just
21 said.

22 MR. FOX: All three of those factories

1 are in the Western Hemisphere, two in Mexico and
2 one in Honduras.

3 MR. DEVINE: Got it. So, what's the
4 capacity to shift production outside of China to
5 those existing factories in the Western
6 Hemisphere?

7 MR. FOX: We like to operate our
8 factories at full capacity. So, the availability
9 of capacity is virtually nil to shift into those
10 facilities.

11 MR. DEVINE: Okay. Thank you.

12 You also noted in your testimony that
13 you're working to establish supply chains outside
14 of China that are compliant with worker safety
15 and environmental standards. Could you elaborate
16 a little more on the processes and costs
17 associated with that kind of a shift, and how
18 have you minimized those costs in China?

19 MR. FOX: Sure, sure. So, as our
20 sourcing departments go and seek out new
21 manufacturers who have capacity and capability to
22 manufacture our products, before we can ever sign

1 a purchase order, issue a purchase order to those
2 suppliers, they have to go through rigorous
3 factory audits to ensure there's worker safety in
4 the facilities; there is product safety
5 requirements that are involved related to things
6 like CPSC regulations, to ensure that those
7 factories can source intermediary raw materials
8 that go into the products. The lead time for
9 setting all of that up and getting authorization
10 can take many months.

11 MR. STETSON: My name is Rich Stetson.
12 I'm with the Office of Textiles and Apparel at
13 the U.S. Department of Commerce.

14 And I have a question for Ms.
15 Giberson. In your summary testimony, it's noted
16 that Patricia Nash Designs company has already
17 made some adjustments to operate under the
18 increased 301 tariffs. Can you describe what
19 those adjustments are and how you might adjust to
20 tariff increases for the products now being
21 proposed for additional tariffs?

22 MS. GIBERSON: Thank you.

1 Handbags and luggage were impacted in
2 List 3. And what they have done with their
3 existing reorderable styles is they've had to
4 absorb the extra costs. So, they're not making
5 as much profit on those items. But any new
6 styles that they're introducing into the market,
7 they have to pass the costs along. So, they're
8 ultimately charging more for the products to
9 balance it out.

10 MR. SECOR: My question is for Mr.
11 Jeppesen from Wolverine.

12 You indicated that Wolverine has
13 already shifted some production out of China. I
14 wonder if you could elaborate on the reasons why
15 you have done that.

16 MR. JEPPESEN: Yes. I wish I could
17 take credit for foresight seven years ago when we
18 started this process that we would be in the
19 situation we are today, but that's not the case.
20 We started moving out of China back in 2012,
21 simply because of shortage of labor and increased
22 cost in China. Over the last six-seven years, we

1 moved about half of our production out of China,
2 mainly into countries like Vietnam, Cambodia,
3 Bangladesh, India, and Indonesia. But, by far,
4 the majority of the production is moving to
5 Vietnam.

6 MR. SECOR: And can you explain
7 whether you could move more of your production
8 out of China and what sort of lead time would be
9 involved in that?

10 MR. JEPPESEN: Yes, sure. There's a
11 natural limitation to how much we can move out of
12 China, simply because of the size of these
13 countries we are moving into. Vietnam has about
14 7 or 8 percent of the total population that China
15 has. There are 1.4 billion people in China and
16 about 100 million in Vietnam. And we are getting
17 to the point as an industry right now that we are
18 maximizing the available capacity and labor that
19 is involved in the shoemaking process in Vietnam
20 today.

21 Footwear is still a very, very labor-
22 intensive production. There's about 120 people

1 involved in making one pair of shoes. It takes a
2 lot of people to run a factory. These facilities
3 are often 3-, 4-, 5-, 10-, or 15-thousand-people
4 facilities. So, when we moved into Vietnam
5 initially, we would start out in Ho Chi Minh,
6 move up to Hanoi, down to Mai Phuong. Now we are
7 kind of crossing over the border to Cambodia,
8 just in order to find labor that can make the
9 shoes for us.

10 I think that there is a limitation to
11 how much we, as an industry, can move into
12 Vietnam from China today, and I think we are
13 getting very close to maxing that out.

14 MR. SECOR: Thank you very much.

15 MR. HART: My question is for Mr.
16 Helfenbein. As I understand it, AAFA has long
17 had concerns about IPR infringement and
18 counterfeiting of goods by Chinese producers.
19 What measures do you recommend the U.S.
20 Government take to address these longstanding
21 concerns, if not through the current 301
22 mechanism?

1 MR. HELFENBEIN: Well, actually, the
2 301 makes it worse, not better, because you'll
3 see a proliferation of counterfeiting in America,
4 people trying to beat the price increase
5 illegally, and we're not real happy about that.

6 You know, we've had some luck in China
7 on the ground in the courts. We know for a fact
8 locally, because we've been there and we've
9 asked, that the courts are being stricter in
10 China because they actually don't want the
11 counterfeiting, either.

12 But, you know, it's a slug fest and
13 it's going to take years, and the U.S. Government
14 can get involved in a lot of ways, including one
15 of our bigger problems today is what comes in by
16 U.S. mail. And if we had certificates of
17 authenticity for products that came into the
18 U.S., it would solve a lot of our problems.

19 In the apparel industry, if you see
20 someone wearing a red shirt, you go out and buy a
21 red shirt. That's kind of the way it works. We
22 don't really have this transfer-of-technology

1 problem. So, we don't want to confuse a 301,
2 which a real transfer of technology, versus a
3 counterfeit, which is a knockoff of an existing
4 brand.

5 MR. HART: Okay. Beyond
6 counterfeiting, are there any obstacles or key
7 costs that you're concerned with in terms of
8 moving production outside of China?

9 MR. HELFENBEIN: Well, as I mentioned
10 earlier, China has a 42 percent market share.
11 And you could say, you know, as a group, how
12 could you be so stupid to have so much in China?
13 And the truth of the matter is we've been trying
14 to get out of China for years, but they just seem
15 to do it better than anybody else. And there are
16 limited places to where we can go. The second
17 largest is Vietnam, and you guys all know these
18 numbers very well because these are textile
19 numbers, which is around a 13-14 percent share of
20 market. So, that's 55 percent between two
21 countries. Then, you add the next three, which
22 is India, Indonesia, Bangladesh, that's 70

1 percent of the U.S. market.

2 So, the question which we blow back
3 is, where are we going to go? We don't have a
4 place to go. We're stuck. And therefore, if we
5 get hit with these tariffs, it's going to hurt
6 really bad.

7 MR. HART: One more follow-up. In
8 your testimony, you also note concern about
9 tariffs on equipment on HTS Chapter 84.

10 MR. HELFENBEIN: Yes.

11 MR. HART: Would you mind expanding on
12 the types of equipment and the members that you
13 have that would be affected by this?

14 MR. HELFENBEIN: Yes, absolutely. For
15 example, we make socks in America. It's not
16 terribly labor-intensive. You buy the equipment.
17 And your options of buying the equipment, you can
18 buy from China or you can buy from Italy. And a
19 lot of people buy from China because they are
20 lower-cost. So they make socks in America.

21 And then, some of the textile that we
22 make in America and the footwear that we make in

1 America, you heard from Monica earlier, you're
2 taxing the equipment that we use to make products
3 in America. And you had actually removed this.
4 They were in the First Tranche and you guys
5 pulled them off. And now, in this Tranche, you
6 put them back again. So, we're asking you to
7 please remove them.

8 Thank you.

9 MR. HART: Thank you as well.

10 MR. JACKSON: Hi. I'm Bill Jackson
11 from the Office of Textiles at the Office of the
12 U.S. Trade Representative.

13 I have a follow-up question for Mr.
14 Helfenbein. I think that you've been quoted
15 publicly as saying that the industry has been
16 moving out of China over recent years. Could you
17 comment, both apparel and footwear, could you
18 comment on the reasons behind that and where you
19 see that going, even independent of the 301
20 process that we're discussing today?

21 MR. HELFENBEIN: Yes. Long about six
22 years ago, prices in China started accelerating

1 very rapidly, prices of labor. And everybody was
2 trying to leave. And as they would try to leave,
3 China would raise their productivity. That's
4 units per operator per day. And they managed to
5 remain competitive.

6 We just couldn't find enough places to
7 go to get out. And now, if we get hit with a 25
8 percent, and if we're clearly shown the exit
9 door, quite frankly, like I said earlier, we
10 don't have a place to go. So, that 25 percent is
11 just going to whack us right on the head.

12 And I wish we could say we were so
13 brilliant for those of us who did make every
14 effort to move out six, seven, eight years ago.
15 But it's tough and it's really hard to find good
16 places to work. And one of the things that
17 Americans like today is high quality in their
18 products. They like high quality. They like low
19 price. And if you can't compete in those arenas,
20 this stuff just doesn't sell.

21 So, we're real cautious about how we
22 do it. We watch the product. We watch the

1 environment. We watch the sustainability. And
2 our choices are really, really limited. So, if
3 we could move more product out of China, we
4 would, but we haven't been able to. And we have
5 tried.

6 MR. JACKSON: Thank you.

7 I also have a question for Ms. Gorman.
8 You noted in your testimony that New Balance has
9 developed a very compliant shoe, very compliant
10 footwear, which I think, presumably, means that
11 all or almost all of the components are made in
12 the United States. Could you elaborate a little
13 bit on the process by which you identified and
14 contracted with, or even developed, the
15 manufacturers in the United States in order to
16 provide those inputs to your U.S.-made footwear?

17 MS. GORMAN: Sure. I think as I said
18 in my testimony, this was a multiyear process for
19 us. So, it's something that we began a good
20 five, six, seven years ago, and in many cases
21 worked hand-in-hand with -- we knew the
22 components that we needed, the materials that we

1 needed -- we worked hand-in-hand with companies
2 that would be able to provide those.

3 But the reality is that, when the rest
4 of our industry left and went offshore, a lot of
5 that supply chain went with it. So, in many
6 cases, we were starting from scratch, and we've
7 been able to build it for that very shoe, but
8 it's still relatively limited supply and it's
9 taken us a long time because the equipment, the
10 capabilities, the speed to market has been gone
11 for a while. And so, we're having to build it
12 from scratch.

13 MR. JACKSON: And just to follow up on
14 that, and for those who aren't aware of the Berry
15 Amendment compliance concerns, sales to the
16 Department of Defense for the U.S. military. So,
17 for those Berry-compliant shoes, are any of those
18 available for public sale or are those strictly
19 for purchase by the Department of Defense?

20 MS. GORMAN: You know, I will have to
21 get back to you on that. I'm entirely sure
22 today. I'll get back to you on that.

1 MS. WINTER: This is a question for
2 Mr. Georges from Shoe Carnival. Thank you for
3 your testimony.

4 MR. GEORGES: Yes, ma'am.

5 MS. WINTER: You said that you're in
6 the process of making very significant
7 investments to grow your business. Can you say
8 what percentage of your supply currently comes
9 from China?

10 MR. GEORGES: Yes. We discussed this
11 the other day. It looks as though it's on the
12 order of 75 percent is China-based. Probably the
13 biggest portion of that has to do in the brown
14 shoe area, what we call rather it, than athletic,
15 sort of breaking the world down. So, women's
16 footwear and brown shoe, men's footwear, comes
17 from China, yes, ma'am.

18 MS. WINTER: And I think -- I mean, I
19 haven't looked at these numbers right before this
20 meeting, but I'm part of the team that looks at
21 Chinese counterfeiting and piracy and things like
22 that -- I believe that China accounts for around,

1 roughly, that number percentagewise of U.S.
2 counterfeits, not necessarily in the footwear and
3 apparel industries. But can you comment on what
4 your program is to, since a large portion of your
5 supply is from China, what is your program to
6 address possible counterfeits from China that
7 come into the United States? And what is your
8 company's policy around ensuring that you're not
9 selling counterfeits to the United States?

10 MR. GEORGES: Yes, ma'am. We work
11 closely -- so, we are a retailer. We've got a
12 combination of first cost and, then, landed
13 footwear. We work closely with the
14 manufacturers, with the vendors who have, in our
15 view -- certainly, we would support them in
16 identifying and fighting and scrapping with
17 respect to ensuring we've got a clean supply
18 chain and we don't have these kinds of products
19 coming forward. But, generally, that's left in
20 the hands of the manufacturer. So, we don't get
21 involved tremendously beyond identifying and
22 helping to lay out the supply chain, as far as

1 those kinds of situations. So, I'd probably have
2 to leave it to maybe Mike Jeppesen to help answer
3 that question in greater detail.

4 I just threw you a ball, Mike. I
5 don't know if that's all right.

6 MR. JEPPESEN: Yes, I really don't
7 know. I mean, we don't have many retail stores
8 ourselves. I'm not sure exactly how much import
9 there is of counterfeiting to the U.S. today. I
10 know it's an issue for the industry, but I don't
11 have any statistics to support it.

12 MS. WINTER: The last I looked, the
13 percentage is much higher like from China than
14 from some of the other countries that Mr.
15 Helfenbein mentioned. In other words, a large
16 percentage of the counterfeits come from China.
17 So, it's interesting to me to note that other
18 countries are making that their objective as much
19 as China still is. And this is, you know, I've
20 been looking at this for 15 years and not seeing
21 the counterfeit numbers go down significantly.

22 MR. JEPPESEN: Yes, I mean, 70 percent

1 of the footwear comes from China. So, that's
2 probably where the counterfeit comes from as
3 well.

4 MS. WINTER: But the other countries
5 that could possibly make or are already making
6 these footwear materials or footwear, their
7 counterfeit numbers are, quote/unquote, "better".
8 And that's actually something that I think is
9 important to recognize in this 301 context.

10 MR. JEPPESEN: Absolutely.

11 MS. WINTER: Thank you.

12 CHAIR BUSIS: I think we may release
13 this panel. Thank you.

14 MR. BURCH: We release this panel with
15 our thanks.

16 And would the Panel 7 witnesses make
17 their way forward?

18 Madam Chair, I'd like to note that all
19 witnesses for Panel 7 have been seated.

20 And our first panel witness for this
21 panel will be Charles Gaenslen of Loftex Home.

22 Mr. Gaenslen, you have five minutes.

1 CHAIR GRIMBALL: Before you begin, Mr.
2 Gaenslen, I should introduce myself since I am
3 the new addition to this panel. For the record,
4 Megan Grimbball from the Office of General Counsel
5 at USTR.

6 Please proceed.

7 MR. GAENSLLEN: Great. Thank you for
8 inviting me.

9 I'm Charles Gaenslen, CEO of Loftex
10 Home. Loftex Home is the wholly-owned subsidiary
11 of Loftex Industries, based on China. We're
12 based in the Shandong Province of China. We're
13 one of the four largest vertically-integrated
14 towel manufacturers in the world, primarily
15 making bath towels and beach towels, worldwide,
16 but the U.S. is our largest market. And we
17 supply most of the major mass-market retailers in
18 the U.S. So, our largest customers would be
19 Walmart, Target, Kohl's, Costco, and others.

20 We were established in 1980, and of
21 the four largest vertically-integrated towel
22 manufacturers in the world, we're unique in that

1 we're privately-held. The rest of our
2 competition are public companies.

3 We entered the U.S. market in 2004 and
4 have made substantial investments in our U.S.
5 presence. We formed a U.S. team, which is now
6 composed of about 40 people, of which 13 are in
7 our New York office and handle all phases of
8 design, distribution, account executive, and
9 sales, and another 25-26 people in our warehouse
10 in New Jersey.

11 We formed our warehouse in New Jersey.
12 We bought the land. We built the building. And
13 total investments, total foreign, total direct
14 investment in the U.S. market in terms of New
15 York office team and New Jersey warehouse total
16 about \$28 million. We employ a total of about 40
17 people, a total payroll of about \$2.9 million.

18 One of the key questions that you're
19 certainly asking us and we're prepared to answer
20 is, as an alternative to Loftex in China, and
21 China production as a whole in the towel world,
22 Loftex has about 12 percent of the U.S. market in

1 bath towels. China as a whole has about 40
2 percent, a little bit more than 40 percent.

3 The majority of our competition
4 doesn't lie in the U.S. U.S. towel manufacturing
5 left the country in the 1990s and early 2000s.
6 That manufacturing went to, besides China, went
7 to India, Pakistan, Turkey, and a few other
8 countries. But our primary competition lies in
9 India and Pakistan and Turkey at present. There
10 has been some reinvestment in the U.S.
11 manufacturing capacity for towels, but it
12 represents probably not more than 4 percent of
13 the total U.S. market needs at present.

14 The cost for Loftex to replace our
15 fixed investment, because it is a capital-
16 intensive business, would be about \$400 million,
17 and I've included this in our confidential
18 calculations as to how we arrive at this. But if
19 we were to make that kind of a move to move our
20 entire production, vertically-integrated
21 production, from China to any other country,
22 whether it be U.S. or otherwise, would be about

1 \$400 million. To replace the entire China
2 capacity, it would be an investment of about \$1.5
3 billion.

4 But it's not just the money. You
5 know, the money is important because that would
6 have a cost impact to the consumer of about 13
7 percent. And the calculations are included in
8 our confidential submission. But it's more than
9 that. And that 13 percent is a direct hit on the
10 consumer, of course. But it would take the time.
11 It's really not an option for us to do something
12 like that. It is the money, but it's also the
13 time. It would take us two, three, four years to
14 do that.

15 And even when it's all said and done,
16 the processes and the quality controls we've
17 built up over the years are not something that
18 are created overnight anywhere. And we pride
19 ourselves in having the highest level of quality.
20 Our sustainability practices are top in the
21 industry. We were the first home textiles
22 manufacturer in the world to achieve a Made in

1 Green certification.

2 And we've made significant investments
3 in our sustainability practices. We won the
4 Walmart Sustainable Supplier of the Year Award in
5 2018, as an example of what we've achieved. But
6 this takes time.

7 And so, the two to three years to
8 build the capacity doesn't include what it takes
9 to have control of your processes, so that your
10 quality is top-notch.

11 Now the cost to relocate our capacity
12 might add 13 percent to the consumer's price tag,
13 but it's not just that. So, what's the capacity
14 outside of China? China represents about 40
15 percent of the U.S. towel market. There is
16 excess capacity sitting in India and Pakistan,
17 and to a lesser extent, Turkey, but that excess
18 capacity today would not be more than 12 percent
19 of that 40 percent.

20 So, as the retailers start shifting --
21 if the 25 percent tariff goes in place, and the
22 retailers start shifting their supply from China

1 to other markets, you inevitably will have price
2 increases, will start to come into play. As
3 capacities fill up in other countries, the prices
4 go up. Our estimate is that an equilibrium
5 point, even putting aside the fact that the rest
6 of the world can't handle our capacities, the
7 equilibrium point would be an increase of
8 somewhere between 10 and 15 percent. So, all
9 roads lead to a 10 to 15 percent increase to the
10 consumer.

11 The bath towel, putting aside beach
12 towels, the bath towel market is about \$2.2
13 billion at retail in the U.S. A 10 to 15 percent
14 increase, you're looking at a consumer tax of
15 about \$300 million.

16 CHAIR GRIMBALL: Please conclude.

17 MR. GAENSLER: Pardon?

18 CHAIR GRIMBALL: Please conclude your
19 time.

20 MR. GAENSLER: Okay. So, outcomes:
21 lost jobs; direct investment by Chinese
22 companies, Loftex and others. In our case, lost

1 jobs estimate, 25 percent, maybe \$600,000 in
2 local jobs. Depending on the timeframe, it could
3 be longer; it could be more. If the tariffs last
4 longer, the impact on jobs goes up. A 13-15
5 percent increase in price is \$300 million and an
6 outflow of foreign direct investment.

7 MR. BURCH: Thank you, Mr. Gaenslen.

8 Our next panel witness will be Troy
9 Benavidez with American Standard.

10 Mr. Benavidez, you have five minutes.

11 MR. BENAVIDEZ: Thank you.

12 Madam Chairman, Members of the
13 Committee, on behalf of American Standard, part
14 of LIXIL Americas, I'm honored to provide
15 testimony on the proposed List 4 tariffs for our
16 respective products.

17 For nearly 150 years, the iconic
18 American Standard brand has protected the health
19 of the nation, as one of the world's largest
20 manufacturers of plumbing products, including
21 toilets, facets, showers, sinks, and bath
22 fixtures. We provide high-quality, EPA

1 WaterSense water-saving products for the American
2 consumer at accessible prices.

3 We stand behind our products, and the
4 tradesmen and tradeswomen who helped craft,
5 install, and service them nationwide, at the core
6 of the American housing market's strength and
7 growth.

8 At American Standard, we employ over
9 1200 workers in the U.S. and have operations in
10 Illinois, Kentucky, Michigan, New Jersey, New
11 York, Ohio, and Texas. Our products are
12 distributed nationwide through a network of more
13 than 11,000 outlets, half of which are locally-
14 owned kitchen and bath plumbing wholesalers and
15 showrooms, in addition to do-it-yourself home
16 centers, hardware stores, and online retailers.

17 The employees and their families of
18 these retail and wholesale distributors rely on
19 our plumbing products to meet their customers'
20 home renovation and remodeling demands in their
21 local communities.

22 As you heard this morning from

1 Plumbing Manufacturers International, the
2 plumbing industry plays a vital role in local
3 economies. Overall, the industry contributes
4 over \$85 billion to the American economy, about
5 half of 1 percent of America's GDP.

6 As you consider the next round of
7 action in the trade dispute with China, we want
8 to express our concern about how changes in the
9 global trading practices, including with China,
10 may harm U.S. businesses. We support policies to
11 protect innovation, ensure fair competition
12 between countries, and enforce intellectual
13 property laws here in the United States and
14 around the world, including China. However, it's
15 important to pursue these initiatives in a way
16 that recognizes the complexity of global supply
17 chains and results in least harm for American
18 consumers.

19 Our bathroom fixtures are sourced
20 through a global, diverse supply chain,
21 approximately 80 percent of which is from outside
22 China. Our products are not part of China's Made

1 in China 2025 strategy and are sourced globally
2 for one reason: to provide the greatest value to
3 American consumers.

4 Also, these proposed tariffs may
5 create a risk to maintaining the public health,
6 hygiene, and sanitation. At a time when we are
7 underinvesting in water and plumbing
8 infrastructure, and have over 1.7 million U.S.
9 citizens lacking access to acceptable plumbing,
10 it is crucial that the cost of the basic toilet,
11 shower, or faucet remains accessible.

12 Manufacturing in the United States
13 would increase the average price of our toilets,
14 putting our products outside the reach of the
15 American consumers we serve today. It is our
16 view that our plumbing products should not be
17 subject to increased tariffs. Imposing these
18 additional tariffs on our toilets, faucets,
19 showers, sinks, and bath fixtures would cause
20 disproportionate economic harm, affecting the
21 hundreds of thousands of jobs that rely on our
22 products.

1 These industries, their workers, and
2 our products drive the American economy.
3 Significant price increases could directly impact
4 the ability of this industry to remain profitable
5 and to continue to be an engine of growth for the
6 U.S. economy.

7 The number of people entering the
8 plumbing and building trades is declining
9 significantly. We are committed to partnering
10 with vocational schools, public officials, trades
11 people, and more, to help reverse this decline.
12 But if plumbing products become more expensive
13 and consumers reduce their purchases, then good-
14 paying jobs in the plumbing trade will also
15 decline. In short, imposing tariffs on these
16 plumbing goods may cause economic and potential
17 public health harm.

18 Over 1.7 million Americans whose homes
19 still lack acceptable plumbing would find it
20 harder to obtain products they need. Our
21 distributors, their employees, and the health of
22 the building industry would be adversely

1 affected. Demand for plumbing products would
2 decrease, and there would be a direct impact on
3 housing starts, including delays and slowdowns.
4 Over the longer term, these tariffs would delay
5 or reduce demand for plumbing and construction
6 jobs, affecting the income of American workers.

7 We will continue to plumb the everyday
8 cycle of life, so U.S. consumers' lives are
9 improved. We appreciate your consideration of
10 our point of view and greatly value our role in
11 helping to fuel the American economy.

12 Thank you.

13 MR. BURCH: Thank you, Mr. Benavidez.

14 Our next panel witness will be Daniel
15 Nation with Parkdale Mills, Incorporated.

16 Mr. Nation, you have five minutes.

17 MR. NATION: Good afternoon, and thank
18 you.

19 My name is Dan Nation. I'm Director
20 of --

21 MR. BURCH: Will you please turn on
22 your microphone?

1 MR. NATION: Sorry.

2 Good afternoon, and thank you.

3 My name is Dan Nation. I'm Director
4 of Government Relations at Parkdale, which is a
5 103-year-old textile company headquartered in
6 Gastonia, North Carolina.

7 When I define what Parkdale is, I like
8 to start with American-made and globally-traded.
9 We operate 28 yarn-spinning and consumer product-
10 producing facilities in eight states, employing
11 5200 people. Our annual payroll exceeds \$170
12 million, and our benefit package ranks within the
13 top 20 of all industrials. Additionally, we have
14 operations in Mexico, South America, and
15 throughout Central America, all as a result of
16 the passage of regional free trade agreements.

17 We're the largest single consumer of
18 U.S.-grown cotton, representing almost 50 percent
19 of domestic consumption. We export over 400
20 containers per week of yarns for the weaving and
21 knitting industries, which represents 80 percent
22 of our production in our U.S. plants. To give

1 you some perspective, our annual production
2 produces enough yarn to manufacture 2.14 billion
3 T-shirts.

4 As an upstream producer of textile
5 inputs going to finished apparel and home
6 furnishings, our success is directly tied to the
7 stability of those downstream manufacturers.
8 Parkdale is keenly interested in the ongoing
9 Section 301 case against China. Due to China's
10 massive and disruptive impact on the U.S. market
11 and the key overseas textile and apparel markets.

12 As such, we have strongly supported
13 President Trump's initiatives to recalibrate what
14 has clearly been a lopsided and often severely
15 unfair trading relationship between the U.S. and
16 China, a broken relationship that has routinely
17 come at the expense of U.S. manufacturing
18 investment, output, and most importantly, U.S.
19 manufacturing jobs.

20 As evidence of the lopsided nature of
21 this relationship, I note that, in 2018, the U.S.
22 ran a trade deficit in textile and apparel

1 products with China of \$46.6 billion. In fact,
2 at 46 percent, China represented nearly half of
3 the total U.S. trade deficit in textiles and
4 apparel last year. Statistics also indicate that
5 China dominates global markets, as they own
6 nearly 40 percent of total world textile and
7 apparel exports.

8 There's little doubt that China's
9 extreme position in the global textile and
10 apparel marketplace has been advanced by an
11 elaborate system of illegal practices, which
12 include state-sponsored subsidies, unethical
13 labor and environmental practices, and theft of
14 intellectual property.

15 Consequently, Parkdale supports the
16 existing Section 301 case against China. With
17 that stated, we believe the effectiveness of this
18 case has been greatly diminished through the
19 omission of fully-finished textile and apparel
20 products of the various 301 Tranches currently in
21 effect. A decision to include apparel and
22 finished textile home furnishings would be

1 supported by the following:

2 First, according to reports, the
3 textile and apparel sector is the largest single
4 provider of industrial employment in China, with
5 approximately 24,000 enterprises responsible for
6 over 10 million direct jobs. This does not
7 include the tens of millions of workers in China
8 employed in support sectors, such as chemicals,
9 machinery, and shipping. If the United States
10 wants to resolve China's rampant IPR abuse,
11 sectors that are critical to their economy will
12 need to be finally included in the 301
13 retaliation list.

14 Threatening China's illegal
15 stranglehold on hundreds of billions of dollars
16 of exports in the textile sector will greatly
17 enhance U.S. leverage in these negotiations. In
18 our estimation, leaving high-employment sectors
19 off of the list that are critical to China's
20 economy has played a major role in the failure to
21 reach an IPR settlement with China.

22 Secondly, the impact on U.S. consumers

1 of including finished textiles and apparel on the
2 retaliation list is being greatly exaggerated by
3 importers and retailers. The application of a
4 penalty tariff would only impair U.S. consumers
5 if there were no viable alternatives to China.
6 The textile and apparel industry is unique among
7 industrial sectors in that virtually every region
8 and country produces and exports textile and
9 apparel products.

10 In terms of the U.S. market, finished
11 apparel and home furnishings are sourced from
12 nearly 100 different countries, according to the
13 U.S. Department of Commerce. In fact, the United
14 States imported over \$77 billion in textile and
15 apparel goods from sources other than China in
16 2018. To argue that the American consumer will
17 be deprived of choice or forced to pay
18 significantly more for their textile and apparel
19 goods ignores the reality of the numerous and
20 varied global suppliers in this sector.

21 Finally, a significant source of U.S.
22 textile and apparel imports is the Western

1 Hemisphere. The U.S. enjoys a \$35 billion two-
2 way textile trade relationship with the nations
3 of the Western Hemisphere. The overwhelming
4 majority of Western Hemisphere textile exports
5 comes to the U.S. duty-free from our free trade
6 partners who produce finished apparel and home
7 furnishings that compete directly in the U.S.
8 market with Chinese-made product.

9 By finally addressing China's massive
10 illegal trade activity in the textile sector, the
11 Trump Administration could help direct new
12 investment, production, and employment through
13 the U.S.-Western Hemisphere textile and apparel
14 production chain.

15 In summary, the U.S. textile industry
16 has been the victim of an aggressive set of
17 predatory trade practices on the part of China
18 for decades. China's illegal actions have
19 contributed to loss of millions of U.S. jobs in
20 the textile sector and throughout the various
21 support industries that service domestic textile
22 manufacturing.

1 The Trump Administration has a
2 generational opportunity to finally address this
3 blatantly-unfair and illegal situation.
4 Including finished textile and apparel products
5 on the 301 retaliation list would greatly enhance
6 the Administration's leverage in the ongoing
7 negotiations and help redirect trade in this
8 sector to the Western Hemisphere. Doing so would
9 not disadvantage U.S. consumers due to the
10 numerous and vibrant sourcing alternatives that
11 exist in terms of global textile and apparel
12 production.

13 As a result, we strongly urge the U.S.
14 Government to move forward with enacting penalty
15 tariffs on the finished textile and apparel items
16 as part of a \$300 billion list in the pending
17 China 301 IPR case.

18 Thank you for the opportunity to
19 provide this testimony.

20 MR. BURCH: Thank you, Mr. Nation.

21 Our next panel witness will be Phil
22 Poel with Ember Technologies.

1 Mr. Poel, you have five minutes.

2 MR. POEL: Good afternoon, Members of
3 the Panel, and thank you for allowing me to
4 testify today on behalf of Ember Technologies.

5 My name is Phil Poel, and I'm the
6 Chief Operating Officer. And I am here to
7 request that the HTS tariff that is 8516.79.00
8 for electrothermic appliances or elsewhere
9 specified under this be removed from the list
10 that is subject to the 25 percent tariff in China
11 right now. More specifically, we're requesting
12 that our temperature-adjustable mugs, like the
13 one here I brought that's sitting right here, be
14 removed from this list.

15 Ember Technologies was founded in 2010
16 by an inventor and entrepreneur, Clayton
17 Alexander, who holds more than 100 patents
18 worldwide and is the inventor of the General
19 Electric LED light bulb Infusion.

20 Alexander's uses of thermoscience
21 while working on the LED light bulb led him to
22 create Ember Technologies. The company makes

1 drinkware and dishware that can be thermally
2 controlled. The company's first product, the
3 Ember Travel Mug, was launched in 2016. These
4 products and accouterments constitute our entire
5 business. Although our new products are coming
6 and will be online soon, that is provided Ember
7 survives these potential additional tariffs.

8 Ember is located in Westlake Village,
9 California, and employs only 58 people, most of
10 them who are dedicated to product design,
11 engineering, development, logistics, customer
12 service, and sales.

13 The company's creation and rise to its
14 very definition of the 21st century American
15 dream has been by taking simple ideas and
16 transforming them into technology that has the
17 potential to transform basic household items into
18 devices that work for you.

19 Because of the uniqueness of our
20 company and our products, shifting sourcing to
21 another country at this point would not be
22 feasible. Furthermore, in addition to the likely

1 cost increases related to shifting production, we
2 believe that our suppliers would not be able to
3 match the demands of our product.

4 The imposition of tariff on these
5 products would eventually shift sourcing from
6 China to another country or vendor in Asia, maybe
7 Mexico, but not to the United States, in a timely
8 manner that would allow Ember to meet its
9 customer demands. Instead of creating jobs in
10 America, the move would hold back the growth of
11 innovation, and companies like ours would
12 certainly risk job loss to our employees.

13 To reemphasize the point, a critical
14 cost for our company is innovation. We are able
15 to provide high-paying jobs to Americans because
16 our employees dream of products never created
17 before. Transforming those dreams into reality
18 requires raising large amounts of capital that
19 are repaid to our investors. This increased
20 tariff cost would inhibit our company's ability
21 to continue innovating and attracting these
22 additional investments.

1 We ask you to consider that we are a
2 very small company with relatively low sales at
3 this time. The Chinese are not getting access to
4 the value of our products because the U.S. value-
5 add is truly in our innovation. It is what
6 enables us to provide high-paying jobs for the
7 product development team. The imposition of
8 tariffs does nothing to hurt China, but it does a
9 lot to hurt our company.

10 We have some extremely innovative
11 products getting ready to be online. I can't
12 discuss them in this open setting, but I have
13 provided details in my business proprietary
14 written submission. If we are subject to
15 additional tariffs on our mugs, it will be
16 devastating and impact our ability to our
17 innovation and our new products.

18 We do not presume to advise on the
19 appropriate level of trade to be covered by the
20 additional duties, given our company's
21 comparatively small nature and lack of overall
22 size of perspective.

1 We further submit that imposing
2 additional tariffs on our goods is punitive to
3 the American consumer, as our profit margins, as
4 you have heard before from other testimony in
5 this testimony, are single digits per product.
6 And in some instances, the impact of additional
7 tariff of even 10 percent would be absolutely
8 passed onto our customers and not taken.

9 Our products are already at the high
10 end for drinking mugs because of this added
11 technology. Retailers have indicated to us that
12 higher pricing will preclude our product from
13 being carried by their stores. Further duties on
14 these products would not impact whatsoever on
15 China's acts, policies, and practices regarding
16 technology transfer, intellectual property, and
17 innovation. The industry is neither cutting-edge
18 nor a proprietary sector for China in its 2025
19 development objectives.

20 In closing, you have heard from a lot
21 of large, very large, billion-dollar
22 organizations. Ember is a small company,

1 growing, full of innovation and opportunity, and
2 it's one of the reasons I left big business to go
3 there.

4 I urge the Committee to consider
5 removing this HTS 8516.79.00 from the list of
6 products subject to the 25 percent tariff if
7 imported from China and preserve our new and
8 innovative American company.

9 I look forward to answering any of
10 your questions. Thank you.

11 MR. BURCH: Thank you, Mr. Poel.

12 Our next panel witness will be Jeffrey
13 Kaufman with Home Fashion Products Association.

14 Mr. Kaufman, you have five minutes.

15 MR. KAUFMAN: Thank you.

16 Good afternoon, Madam Chair and
17 Members of the Committee, and thank you for
18 giving us the opportunity to address you today.

19 My name is Jeff Kaufman. I'm here
20 representing the home textile industry, as the
21 President of the HFPA, the Home Fashion Products
22 Association. I'm also the President/Chief

1 Operating Officer of Avanti Linens, a family-
2 owned, home furnishings business in Moonachie,
3 New Jersey, with 150 employees. Avanti was
4 founded in 1969 and we're celebrating our 50th
5 year in business.

6 The HFPA is a trade group with 47
7 members, representing an industry of over 500
8 companies with \$27.6 billion in retail sales
9 annually. Our members are mostly small and mid-
10 sized companies, many of which are privately-held
11 family businesses. While most of our products
12 our companies sell are made abroad, our members
13 all have significant domestic operations,
14 including warehousing, design, marketing, sales,
15 and accounting. They each employ anywhere from a
16 few dozen to several hundred people in good-
17 paying, career-building jobs in the U.S.

18 Regardless of the reason, imposing
19 additional tariffs on the home fashion products
20 that we design, market, and sell would
21 significantly hurt our members, their tens of
22 thousands of employees, and the business of other

1 small and mid-sized companies that work with and
2 for our member companies. Increasing tariffs,
3 whether on products from China or any other
4 country, will lead to significantly higher prices
5 and, inevitably, lower sales and fewer jobs in
6 our industry. These proposed tariffs, if
7 implemented, have the potential to put many of
8 our companies out of business.

9 As changes in the retail landscape
10 continue to bifurcate retailers into a small
11 group of winners and a growing list of the weak
12 and dead, we have lost our ability to pass cost
13 increases along to our retail customers. The
14 choices we face with imposition of these tariffs
15 are: No. 1 is to take business at little or no
16 profit or decline the sales opportunity. Neither
17 option is a good one, and both will lead to a
18 less profitable business with fewer employees and
19 less ability to invest in the future.

20 And regardless of the outcome of the
21 trade dispute, the textile manufacturing business
22 will not be coming back to this country. There

1 is a small, vocal, alleged domestic industry that
2 has supported higher tariffs, thinking it would
3 revitalize U.S. manufacturing. Unfortunately,
4 the infrastructure of a textile industry no
5 longer exists. It would take years and billions
6 of dollars of investment to rebuild the yarn
7 factories, weaving mills, and dye houses we need
8 to support domestic manufacturing in this low-
9 margin business.

10 It's difficult to envision investors
11 in such facilities, knowing that if a future
12 administration or Congress reduced or eliminated
13 the tariffs, their investments would become
14 worthless. Additionally, if the industry could
15 be rebuilt, the cost of producing goods in the
16 U.S., even with additional duties, would be
17 uncompetitive and result in a hidden tax to the
18 consumer by raising the cost of family essentials
19 by up to 25 percent. The HFPA members believe
20 additional tariffs are effectively a regressive
21 tax, negatively affecting lower and middle-class
22 families the most.

1 There's been a lot of talk about
2 moving production to other countries as a
3 solution to the tariff problem. Textiles are
4 currently produced in other countries, but these
5 countries don't have the capacity to absorb the
6 production from China. Even if the existing
7 facilities in countries like Pakistan, India, or
8 Turkey could absorb the increase in production,
9 the demand for those sources would undoubtedly
10 drive prices up to match an increased cost of the
11 same articles from China with the tariffs. And
12 these countries wouldn't invest in new
13 manufacturing capacity based on the China
14 tariffs, knowing that it could be reversed at
15 anytime. And they also know that they could be
16 next on the tariff hit list.

17 The HFPA polled its members and was
18 informed that existing alternative sources are
19 not cost-competitive for most categories of
20 product that are produced in China. In some
21 cases, the production capabilities don't exist or
22 the raw materials aren't available. Where there

1 is production, the capacity is nowhere near
2 enough to absorb what is currently sourced from
3 China. So, prices would rise with the increase
4 in demand. So, whether the tariffs are paid or
5 we move production to another country, the end
6 result will be the same--higher prices, lower
7 sales, lower profitability, less investment, and
8 less jobs. It bears repeating that it will be
9 the U.S. consumers and U.S. businesses who will
10 pay for the tariffs, not China.

11 The move to Asia over 20 years ago
12 transformed our industry. It was not easy for
13 our members to switch from manufacturing to
14 importing, and many were unable to do so and went
15 out of business. While most of our companies no
16 longer manufacture in the U.S., some do have
17 substantial fill and finishing operations in the
18 U.S., employing thousands of employees. If they
19 could not import their materials, primarily
20 shells for filling, they would have to lay off
21 much of their workforce.

22 Our companies are still substantial,

1 vibrant businesses that hire Americans, buy a
2 wide range of goods and services in this country,
3 and support their local communities. We do not
4 see how higher tariffs on top of what we already
5 pay in higher-than-average tariffs, that will
6 terminate thousands of jobs, drive up prices for
7 all Americans, and still have no chance of
8 bringing back domestic manufacturing in our
9 industry, will help our country.

10 On behalf of our member companies and
11 others in the home textile industry, we urge you
12 do not support additional tariffs on imported
13 home fashion goods, regardless of originating
14 country, and remove the applicable tariff
15 subheadings indicated in our filed comments from
16 the proposed List 4.

17 Thank you.

18 MR. BURCH: Thank you, Mr. Kaufman.

19 Our last and final panel witness will
20 be Stephen Knerly with the Association of Art
21 Museum Directors.

22 Mr. Knerly, you have five minutes.

1 MR. KNERLY: Madam Chair and Members
2 of the Committee, my name is Stephen Knerly. I
3 am a partner in the Law Firm of Hahn Loeser &
4 Parks. Thank you for the opportunity to speak to
5 you today on behalf of the Association of Art
6 Museum Directors, an organization whose members
7 include 220 of the directors of major art museums
8 in the United States.

9 Before beginning, I would like to take
10 a moment to thank the staff of the Committee.
11 I've had a number of occasions last week to call
12 them, and they have been unfailingly helpful,
13 responsive, and patient.

14 The AAMD opposed the proposed
15 imposition of a 25 percent tariff on works of art
16 of Chinese origin, including paintings, drawings,
17 collections, and antiques. The AAMD was
18 surprised to see Chinese-origin artworks listed
19 in the proposed tariff, as they were excluded
20 from the prior 10 percent tariff. And in the
21 notice for this hearing, the statement was made
22 that product exclusions granted by the Trade

1 Representative on prior tranches would not be
2 affected.

3 The AAMD hopes that the inclusion of
4 the art categories is simply a mistake, a mistake
5 that will be rectified before tariffs are
6 imposed. There are many reasons not to include
7 artworks in the proposed tariff categories that
8 are spelled out in the letter from the AAMD
9 provided to this Committee, but allow me to
10 summarize just a few.

11 Works of art of Chinese origin have
12 been traded and used in countries around the
13 world for hundreds of years. As early as the
14 15th century, Chinese porcelain was exported to
15 Europe. Because China has been an exporter of
16 works of art for centuries, works of art made in
17 China, but long out of China, are bought and sold
18 on the world's markets every year, and then, can
19 be freely brought into the United States. These
20 works are unlikely to be recent exports from
21 China because China prohibits the export of much
22 of its artwork and antiquities.

1 As a result, the proposed tariff on
2 the importation of Chinese-origin artworks is
3 unlikely to accomplish the announced purpose of
4 the proposed tariff--to deter China from
5 activities that burden or restrict U.S. commerce.
6 There are those in China who may actually be
7 happy to see Americans pay more for Chinese
8 artworks because the Chinese are avid collectors
9 of Chinese art around the world, and they will
10 now enjoy a competitive advantage over Americans
11 in those marketplaces.

12 Yet another reason not to impose
13 tariffs will be the effect on the U.S. art
14 market, the largest in the world. Auction
15 houses, dealers, and galleries are unlikely to
16 want to import Chinese-origin works to sell in
17 the United States because of the tariff and the
18 increased cost. That business may well shift to
19 other art markets of the world, including the No.
20 2 auction art market, China.

21 Therefore, the likely result of the
22 tariff on Chinese-origin works of art will be a

1 reduction in the U.S. art market, a significant
2 penalty to American art museums and collectors, a
3 competitive advantage for buyers from other
4 countries, including the Chinese, and a potential
5 increase for art markets, including the Chinese
6 art market.

7 But, for American art museums, this is
8 not just about commerce, but, rather, the effect
9 that a tariff can have on the ability of American
10 museums to educate the American public about the
11 great cultures of the world. They do this
12 through great works of art that can educate and
13 inspire us. They are able to do this through
14 acquiring, exhibiting, and studying works of art
15 from around the world, including China. And they
16 acquire works, essentially, in two ways. They
17 buy them or they receive them as gifts or
18 bequests.

19 If the tariff is imposed, as buyers on
20 the international market, American museums will
21 pay a higher price to acquire and bring home to
22 America works of art of Chinese origin. The vast

1 majority of works that come to American museums
2 come as gifts or bequests from private
3 collectors, and those individuals will now be at
4 a competitive disadvantage in trying to buy
5 Chinese-origin works of art outside the United
6 States for importation into the United States.
7 The end result, American museums will lose
8 donations and the American public loses the
9 opportunity to see, study, and be educated and
10 inspired by great art from China.

11 For all of these reasons, the AAMD
12 requests that this Committee remove the art
13 categories from the proposed tariff and follow
14 decades of precedent in not imposing tariffs on
15 art, art and the free exchange of ideas that art
16 represents.

17 Thank you for your time this
18 afternoon, and I am happy to answer questions.

19 MR. BURCH: Madam Chairman, this
20 concludes these panels of witnesses.

21 MR. HART: My question is for Mr.
22 Gaenslen. Can you confirm that -- do you have

1 any source of, do you source any of your imports
2 from the U.S.

3 MR. GAENSLER: We source cotton from
4 the U.S. In fact, a large portion of our cotton
5 purchases are from U.S. sources.

6 MR. HART: Thank you.

7 MR. SECOR: My question is for Mr.
8 Benavidez. You mentioned that 80 percent of your
9 supply chain is outside China. Do you source
10 product in the United States?

11 MR. BENAVIDEZ: Yes, we do all of our
12 bathing manufacturing and shower manufacturing in
13 the United States. What we source from China is
14 mainly our toilet manufacturing.

15 MR. SECOR: And would it be possible
16 to do any of that toilet manufacturing in the
17 United States?

18 MR. BENAVIDEZ: There are no suppliers
19 or manufacturing capability in the U.S. as it
20 exists now. So, we would have to build a
21 manufacturing site in order to be able to do
22 that.

1 MR. SECOR: And are there any
2 manufacturing facilities outside the United
3 States and outside China you could use instead?

4 MR. BENAVIDEZ: Demand, global demand
5 for these type of products is significant, and
6 we're pretty much at capacity. So, we are
7 exploring other sources, but we have not been
8 able to identify other suppliers.

9 MR. SECOR: Thank you.

10 MR. STETSON: I have a question for
11 Mr. Nation of Parkdale Mills. And that is,
12 several of the apparel companies have submitted
13 testimony in this hearing that has indicated that
14 they have begun to shift some of their production
15 out of China. And given Parkdale's supply
16 relationships in the United States and elsewhere
17 in the Western Hemisphere, have you seen any
18 evidence to date of that production that may have
19 shifted from China to the Western Hemisphere
20 producers?

21 MR. NATION: We have seen some
22 indication of shifts, sourcing shifts, not major,

1 but, yes, we have seen some change. And when I
2 say that, you have to look at the whole Western
3 Hemisphere. You look at what's going on in the
4 Indian region, NAFTA, CAFTA, Canada. But we have
5 seen some sales, a little bit of uptick that I
6 think could be associated with that, yes.

7 MR. STETSON: Thank you.

8 In addition to that, is there
9 sufficient capacity, in your opinion, in the
10 Western Hemisphere to accommodate a meaningful
11 and greater shift in production from China to the
12 Western Hemisphere?

13 MR. NATION: We could certainly take
14 in a meaningful amount of shift. Again, when you
15 talk about all the countries, all the FTAs that
16 we operate within, between that and other regions
17 in the world, I believe there is significant
18 capacity, yes. There is a lot of overcapacity of
19 textiles on this planet.

20 MR. STETSON: Thank you.

21 MS. WINTER: This question is for Mr.
22 Poel from Ember. Thank you very much for your

1 testimony. You mentioned other products that you
2 might be bringing online. Are you planning to
3 source these products from China? Or where will
4 they be made?

5 MR. POEL: They are currently set to
6 be manufactured in China because they are similar
7 technology, and we have not been able to find a
8 producer in the United States, a complete
9 producer, to manufacture them. So, yes, at this
10 point they are, yes.

11 MS. WINTER: And the electrothermic
12 qualities of things of the devices, mugs and
13 things that you're making --

14 MR. POEL: Yes?

15 MS. WINTER: -- you talk about the
16 innovation and the U.S. value-added. Are these
17 innovative properties protected by patents or is
18 it trade secrets that you're -- you know, what
19 type of intellectual property makes up this
20 innovation that is the U.S. value-add that you
21 have mentioned?

22 MR. POEL: So, we currently hold

1 almost 100 patents all around this product, which
2 has been built up over the last 11 years. And in
3 my written statement, you will see the original
4 patent actually started back almost 50 years ago
5 in the seventies for heating a unit like this.

6 What we have done is taken that idea, innovated
7 upon it, made it better, and now have transferred
8 this type of technology into medical products,
9 into other homecare products and health products
10 that the United States does not currently have
11 right now and does not have the capability to
12 manufacture. We're excited about bringing that
13 to market.

14 MS. WINTER: The facilities that you
15 use in China to make them, do you wholly own the
16 ones that are making the mugs now that you have a
17 sample of here?

18 MR. POEL: It's all contract, 100
19 percent, yes.

20 MS. WINTER: And will that be the case
21 for your new products that you can't discuss yet?

22 MR. POEL: That is true, yes. That

1 is, right now -- everybody has mentioned the
2 supply chain for it and the reason for keeping it
3 there, as well as all of the components we're
4 sourcing comes from that region. And thus, to
5 build them there, it's the viable option for us
6 in the world.

7 MS. WINTER: And how do you protect
8 the intellectual property in your contract
9 manufacturing? What do you do to ensure that the
10 intellectual property, the various patents you
11 mention, stay secret?

12 MR. POEL: Yes --

13 MS. WINTER: Well, the patents are
14 public, but, you know, the trade secrets and the
15 knowhow that go with them, how do you protect
16 this? Or do you --

17 MR. POEL: In two ways. You're
18 exactly right with regard to the content. The
19 design and the development which is done in the
20 United States which is under lock and key, the
21 manufacturing of that is also done, if you want
22 to say, under lock and key. And if you've been

1 through or had the chance to visit a factory that
2 we manufacture at, when you come into those
3 factories, no keys, no phones. No, it's very
4 much a lockdown situation, similar to other, I
5 would say, very sensitive products that are built
6 for the medical industry as well. So, they're
7 protected through our vendor.

8 MS. WINTER: And are you subject to, I
9 would say, visits or things by Chinese
10 authorities that maybe want to ask questions
11 about customs and exportation or price? I mean,
12 we've heard these kinds of situations --

13 MR. POEL: Yes.

14 MS. WINTER: -- before where it's
15 unclear why you're really being visited, but
16 you're being visited and computer data
17 information that may be sensitive is being
18 requested. Have you been subject to these kinds
19 of, quote/unquote, "visits"?

20 MR. POEL: It's a great question. I
21 would answer it two ways. One, I don't think
22 they really care about my little coffee cup and

1 the technology that's in it. Second, the
2 technology that we have is old technology and I
3 don't think of any interest to them. How we are
4 utilizing it is what's different, and we have not
5 been subject to any of that.

6 MS. WINTER: Okay. Thanks a lot.

7 MR. POEL: Thank you.

8 MR. JACKSON: Thank you. First of
9 all, I would just like to ask a follow-up
10 question to Mr. Gaenslen. You indicated that
11 your company does purchase raw cotton from the
12 U.S. Do you purchase any cotton yarn from the
13 United States?

14 MR. GAENSLEN: No. We purchase a
15 substantial amount of raw cotton. We don't
16 purchase any yarn from the U.S. We're a fully
17 vertically-integrated operation. So, important
18 in our quality control is that we control every
19 aspect of our production. So, once the raw
20 cotton comes into our complex, we control every
21 aspect of spinning, weaving, finishing,
22 distribution. Nothing -- nothing -- gets

1 exported for further finishing anywhere else
2 outside of our factory.

3 The amount of cotton we're importing
4 from the U.S. farmers is substantial and, in
5 fact, growing. Because as the U.S. retailers are
6 looking to have more sustainable practices and
7 factory practices and more sustainable product,
8 we're seeing a shift towards sustainable cotton,
9 which tends to favor U.S. farmers.

10 So, for example, we're switching, a
11 lot of our major retailers are switching to BCI
12 cotton, which stands for Better Cotton
13 Initiative. In order to source BCI cotton supply
14 to retailers' needs, more of our cotton is
15 getting shifted to the U.S. because, simply put,
16 that's where the majority of the BCI cotton is
17 coming from.

18 MR. JACKSON: What percentage of your
19 total cotton purchases would you say are from the
20 U.S.?

21 MR. GAENSLEN: I'd like to --

22 MR. JACKSON: Ballpark?

1 MR. GAENSLEN: I'd like to come back
2 with an exact number, but, ballpark, I think
3 we're looking at about 25-30 percent.

4 MR. JACKSON: Okay. Thank you.

5 And I have a question for Mr. Kaufman.
6 What has been the trend in recent years with
7 respect to your members sourcing from China? Is
8 it more or less than it was 5 or 10 years ago?
9 And what do you believe, if there have been
10 changes, what do you believe are the reasons for
11 any shift? And do you see any trends, again,
12 independent of the 301 process, moving forward
13 into the future?

14 MR. KAUFMAN: I think on a percentage
15 basis, it's less. There's been a number of
16 countries that have come on strong. India is a
17 major producer, particularly on the towel side
18 and also on the sheet side in cotton. Bangladesh
19 has also come on in the last five years or so as
20 a more important producer. Pakistan continues to
21 grow, and as Mr. Gaenslen mentioned, Turkey.
22 Portugal is a relatively minor player.

1 And I think we've all tried to move as
2 much as we can to try to diverse our base. So, I
3 think that trend has continued. There's "X"
4 amount of capacity, and whether or not the other
5 countries are going to continue to invest in
6 infrastructure is up to debate at this point. I
7 think, certainly, with what's going on now,
8 everybody is talking about it and looking at it.
9 But, clearly, there's been a move out of China to
10 the degree we can.

11 There are categories that aren't made
12 anywhere else. Printing, for example, on towels,
13 and particularly shower curtains and polyester,
14 primarily is done in China. There's very little
15 -- we've been pushing India to do it. It's a
16 major investment, and there's been a couple of
17 false starts.

18 So, there's some kind of finite
19 categories that just haven't found a home
20 anywhere else in the world. But, for the big
21 categories, there are other players out there,
22 and that has grown.

1 MR. STETSON: I have a question for
2 Mr. Knerly, representing the Association of Art
3 Museum Directors. And that is, can you expand on
4 the competitive disadvantage that U.S. museums
5 would face, should tariffs on the art be imposed?

6 MR. BURCH: Can you turn on your mic?

7 MR. KNERLY: Yes. American museums
8 are purchasers of works of art abroad, including
9 works of Chinese art. And they will now have a
10 competitive disadvantage, because in order to
11 bring those works into the United States, they
12 would now be subject to the tariff that is not
13 applicable to other buyers.

14 So, if you think about a great Chinese
15 work of art that comes onto the auction market in
16 London, and an American museum bids on that
17 particular work, they're going to have to include
18 another 25 percent in order to win that bid from
19 an economic standpoint.

20 But, as I think I indicated, the vast
21 majority of works that come into an American art
22 museum come in through donations and bequests.

1 And for collectors who will be on those
2 marketplaces, they will have the same
3 disadvantage.

4 Many times, collectors actually buy
5 works at the request of museums, and working with
6 collectors, that will be immediately donated.
7 Other times they come along the way in terms of
8 donations and bequests. But every time that
9 American person shows up at that auction in
10 London, he starts out 25 percent in the hole in
11 terms of attempting to acquire the same work
12 which is being bid on by collectors from around
13 the world.

14 And the Chinese themselves are
15 significant collectors of Chinese art. So, as I
16 think I indicated, this sort of turns topsy on
17 its head, whereby the Chinese will actually be
18 advantaged in terms of their ability to buy great
19 works of art and take them back to China.

20 MR. STETSON: Thank you. And will you
21 know, roughly, how much of a museum's art is of
22 Chinese origin of the market?

1 MR. KNERLY: Oh, it depends. There
2 are museums that have significant Asian
3 collections, the Asia Society, the Cleveland
4 Museum of Art, the Metropolitan. There are other
5 museums where the Asian collections and the
6 Chinese collections are less significant. But
7 American museums hold amongst the greatest
8 collections of Chinese art in the world. I'm
9 pretty confident I can say that.

10 MR. STETSON: And finally, how price-
11 sensitive is the demand for art?

12 MR. KNERLY: Well, certainly with
13 respect to museums that operate on not the
14 greatest budgets in the world, it's very price-
15 sensitive, and 25 percent is hugely significant
16 in order to be priced out of the marketplace.
17 Obviously, with collectors, depending upon their
18 own resources and their own desire to buy, it may
19 be slightly less, but I don't think it's a lot.
20 Nobody wants to spend 25 percent more for the
21 same object, especially when they're bidding at
22 auction.

1 MR. STETSON: Thank you.

2 CHAIR GRIMBALL: Mr. Knerly, I do have
3 an additional question. Could you give us an
4 idea perhaps of the amount of new -- well, not
5 new, but new to the United States market -- the
6 amount of new Chinese art that is coming into the
7 United States versus the amount of art that is
8 already in the United States that may be
9 interchanged between museums or on loan?

10 MR. KNERLY: I actually can't. I can
11 refer you to the submission that was made by
12 Sotheby's and Christie's that does give you the
13 figure for Chinese works of art coming into the
14 United States. I've forgotten exactly what it
15 is, but I know it's in their submission.

16 The works that go between museums in
17 the United States are works that are for
18 exhibitions and exhibition loan. They're not
19 works that change hands on a permanent basis.
20 And so, the ability of any particular museum to
21 be able to educate its public with its collection
22 rests with its collection, notwithstanding the

1 ability to be able to do exhibitions.

2 So, the amount of art that comes in
3 versus the value of the amount of art that's
4 already here I think is an incalculable figure,
5 simply because American art museums don't value
6 their collections. If you look at the balance
7 sheet of almost every American art museum, you
8 will not find the art on that balance sheet. So,
9 the other piece of your question, which is the
10 value of Chinese art already in the United
11 States, I suspect nobody knows the answer to that
12 question.

13 CHAIR GRIMBALL: I think I was more
14 focused on sort of the percentage, not
15 necessarily the dollar value that's added. So,
16 should I take from your comment that exhibitions
17 where art is exchanged between the museums is
18 uncommon and really the focus of museums has been
19 acquiring art to add to their collections?

20 MR. KNERLY: No, you shouldn't take
21 that conclusion because it's both. So,
22 exhibitions are, yes, a significant portion of

1 what American art museums do. And they do
2 enhance the ability of each museum to be able to
3 present great works of Chinese art. But building
4 the permanent collection is also a significant
5 way. Because when a work of art comes through an
6 exhibition, it's going to be onsite for, let's
7 say, six months. Whereas, when a work of art is
8 acquired, it now can be studied, conserved,
9 written about. The public of that particular
10 museum can come back as many times as they want
11 in order to see and be educated and learn with
12 respect to that object.

13 So, both exhibitions and enhancement
14 of the permanent collection are ways that the
15 American public is able to see great Chinese art.
16 That permanent collection-building, however, will
17 now, if this tariff is imposed, be significantly
18 impacted, we believe.

19 MR. BURCH: Madam Chairman, we release
20 this panel with our thanks.

21 And will Panel 8 make their way
22 forward?

1 Would the room please come to order?

2 Madam Chairman, I would like to note
3 this is our last panel for the day, Panel 8.

4 And our first panel witness will be
5 Glenn Hughes with the American Sportfishing
6 Association.

7 Mr. Hughes, you have five minutes.

8 MR. HUGHES: Thank you.

9 Good afternoon, and thank you for
10 sticking it out for eight panels today. Six
11 speakers to go.

12 My name is Glenn Hughes, and I'm the
13 President of the American Sportfishing
14 Association. ASA is a national, nonprofit trade
15 organization made up of more than 800 members,
16 including these fine gentlemen that are with us
17 today. Since 1933, we have represented the
18 companies that make the fishing equipment that
19 anglers use to catch fish. That includes the
20 rods, reels, lines, and lures, tackle boxes,
21 fishing nets, waders, and even bobbers.

22 The sportfishing industry requests

1 that the sportfishing equipment, including all
2 products under heading 9507 of the HTS of the
3 United States, be excluded from the Section 301
4 tariff list. The tariffs would cause
5 disproportionate economic harm to the majority of
6 our industry that is already paying a unique 10
7 percent excise tax.

8 We understand the position of the
9 President regarding the current trade relations
10 with China, and we support realigning the trade
11 agreements to correct the unfair trade practices.
12 However, we are deeply concerned about the
13 impacts of these tariffs on all the manufacturers
14 who attempt to provide the equipment for what the
15 American public calls its favorite pastime,
16 fishing.

17 Fishing isn't just something that you
18 do on the weekends. It's big business.
19 Recreational fishing supports 800,000 jobs, and
20 it contributes \$125 billion to the U.S. economy
21 each year. More than 49 million Americans went
22 fishing this past year, made up of kids,

1 families, and friends. That's more than played
2 golf and tennis combined. This sport gets the
3 kids outdoors and participating in something as
4 American as mom and apple pie.

5 More than 90 percent of the
6 sportfishing industry is made up of small
7 businesses. A 25 percent tariff on fishing-
8 related equipment won't be paid by the Chinese
9 companies. It will be paid by these small
10 businesses here in the U.S., and some, if not
11 all, the cost will be passed on to the American
12 families.

13 What's more, our fishing tackle
14 manufacturers are already paying the tax I
15 mentioned before, and that supports conservation.
16 Since the passage of the Dingell-Johnson Act of
17 1950, manufacturers of fishing equipment have
18 paid up to a 10 percent federal excise tax every
19 year to support the Sport Fish Restoration and
20 Boating Trust Fund. Additional import duties of
21 3.7 to 9.2 percent are also collected on every
22 fishing rod, reel, line, lure, hook, and tackle

1 box and put into that fund. That adds up to more
2 than \$150 million each year.

3 These tax revenues pay for a
4 significant portion of each state fish and
5 wildlife agency and fisheries conservation
6 projects, as well as the development and
7 maintenance of boating access and support for
8 aquatic education. Most state fish and wildlife
9 agencies are funded solely through the excise tax
10 and fishing license fees. Over the last 10 years
11 alone, these fishing tackle manufacturers have
12 provided more than \$1.35 billion to state fish
13 and wildlife agencies. These funds have
14 contributed to more than 4460 fishing access
15 areas being constructed and/or maintained,
16 another 1640 fish hatcheries also constructed or
17 maintained, and more than 2.2 billion hatchery-
18 raised fish.

19 These tariffs, added to the cost of
20 fishing equipment, are expected to result in a
21 substantial reduction in consumer spending.
22 Fewer fishing equipment purchases means less

1 revenue to the Trust Fund, which ultimately means
2 less funding for programs important to the Trump
3 Administration's priorities to improve public
4 access to the outdoors.

5 Now regarding production,
6 approximately 60 percent of the fishing equipment
7 in the U.S. is imported, and two-thirds of these
8 imports come from China. For some product
9 categories, China produces 100 percent of the
10 equipment sold in the U.S.

11 Today, there is literally not enough
12 existing infrastructure, including the
13 facilities, technology, and employees, outside of
14 China to make the necessary fishing tackle to
15 meet the demand of our anglers each year. Our
16 industry supply chains have developed in China
17 over decades, and in most cases the ability to
18 affordably produce these products in other
19 countries just does not exist. Moving the entire
20 supply chain would take considerable time and
21 cost much more than continuing production in
22 China.

1 To reiterate, these additional tariffs
2 on fishing equipment would place an unfair burden
3 on the sportfishing industry. These tariffs will
4 lead to a decrease in fishing tackle purchases
5 and fishing participation and conservation
6 funding.

7 We request that the sportfishing
8 equipment, including all products under the
9 heading 9507 of the HTS of the U.S., be excluded
10 from the Section 301 tariff list.

11 Thank you very much.

12 MR. BURCH: Thank you, Mr. Hughes.

13 Our next panel witness will be Harlan
14 Kent with Pure Fishing.

15 Mr. Kent, you have five minutes.

16 CHAIR GRIMBALL: Mr. Kent, before you
17 begin, I neglected to have new members of our
18 panel introduce themselves. So, please, if you
19 can give us one moment?

20 MS. HUANG: Jessica Huang, Department
21 of Commerce.

22 MS. SMITH: Tanya Smith, the Small

1 Business Administration.

2 MR. KENT: Great. Glad you could join
3 us.

4 And good evening.

5 My name is Harlan Kent, and I am the
6 CEO of Pure Fishing, Inc. We sell fishing tackle
7 under the iconic brands Berkley, Shakespear, Ugly
8 Stik, Abu Garcia, and Penn. We proudly
9 manufacture fishing baits and fishing lines in
10 the U.S. today.

11 I am here today representing the 2,700
12 people who work at Pure Fishing, Inc.,
13 headquartered in Columbia, South Carolina, and
14 the close to 50 million people in the United
15 States who are actively engaged in the sport of
16 fishing, as Glenn has talked about.

17 We support the Administration's goals
18 of fair trade policies to ensure a healthy U.S.
19 economy. With that said, I am requesting that
20 recreational fishing equipment categories that
21 fall into the HTS U.S. Codes 9507.30.2, which is
22 fishing reels; 9507.10, which is fishing rods,

1 and 9507.90, which is fishing kits that are
2 really combos with tackle boxes and baits, and
3 are part of the Section 301 List 4, be excluded
4 from the proposed 25 percent tariff rate.

5 These duties are excessive for fishing
6 tackle manufacturers, already paying high duty
7 and tax rates, and would, if enacted, result in
8 double taxation. There are compelling reasons
9 why these fishing tackle categories should be
10 exempted from additional duties.

11 No. 1, fishing tackle manufacturers
12 already pay significant duties and excise taxes.
13 Manufacturers of these product classes of
14 recreational fishing tackle already pay the
15 equivalent of a 16 percent excise tax on the cost
16 of goods for sales in the U.S. as part of the
17 Sport Fish Restoration and Trust Fund, which
18 funds state and wildlife agencies for fishery
19 conservation and management projects, boating
20 access, and aquatic education.

21 Pure Fishing alone is already paying
22 over \$25 million a year in these excise taxes.

1 In addition, manufacturers pay just under 4
2 percent duties on these classes imported from
3 China already.

4 No. 2, the majority of fishing rods,
5 reels, and combo kits are manufactured in China.
6 Ninety-eight percent of all fishing reels with a
7 cost of less than \$8.45, i.e., the less expensive
8 reels sold to youths, new anglers, and anglers
9 with modest incomes, that are sold in the U.S.
10 are manufactured in China. Just under 70 percent
11 of all fishing reels sold in the U.S. are
12 manufactured in China. Eighty-nine percent of
13 fishing rods, or poles, as some people refer to
14 them, sold in the U.S. are manufactured in China.
15 Almost 80 percent of fishing combo kits are
16 manufactured in China.

17 No manufacturing infrastructure exists
18 in the U.S. currently to replace production of
19 fishing rods, reels, and combos, nor in any other
20 country. We literally have no place for which we
21 could transfer production in the short term. We
22 have started to look at insourcing and onshoring

1 our options, but, realistically, it will take us
2 two to three years.

3 No. 3, anglers are price-sensitive
4 shoppers. You've heard that about a number of
5 products today. And price increases would be
6 required to offset the increases of cost. This
7 will, we believe, because of the elasticity, drop
8 the sales of these products by up to 20 to 30
9 percent, lead to less fishing, and thereby less
10 licenses sold, and less funding for conservation
11 purposes, less funding of catch-and-release
12 benefits to protect our resources, and result in
13 a reduction of Pure Fishing's number of U.S.
14 employees, which will have to be cut to offset
15 the increase in our costs, not to mention other
16 U.S. manufacturers forced to make the same
17 decisions.

18 No. 4, the majority of our retailer
19 customers, well over a thousand, are small
20 businesses, local fishing dealers, moms and pops,
21 who will lose sales and possibly have to close
22 because of higher prices.

1 No. 5, the two largest non-U.S.-based
2 manufacturers of fishing reels, Shimano and
3 Daiwa, which are our biggest competitors, are
4 both based in Japan, along with the majority of
5 their manufacturing, which they will not be
6 paying the same tariffs, and therefore, will have
7 an unfair advantage over U.S. manufacturers like
8 Pure Fishing.

9 In closing, fishing is a passion for
10 many hard-working Americans, and a key part of
11 their family traditions. Please don't make it
12 cost-prohibitive for them to enjoy this important
13 outdoor pastime.

14 If you remember nothing else I have
15 said, U.S. workers and U.S. consumers will be
16 hurt and foreign companies will be helped.

17 Thank you for the opportunity to speak
18 with you today.

19 MR. BURCH: Thank you, Mr. Kent.

20 Our next panel witness will be Tim
21 MacGuidwin with The Catch Company. Mr.
22 MacGuidwin, you have five minutes.

1 MR. MacGUIDWIN: Good afternoon.

2 My name is Tim MacGuidwin and I am the
3 COO of Catch Co., a small, Chicago-based fishing
4 goods retailer and manufacturer. Catch Co. began
5 in 2012 as a company called Mystery Tackle Box.
6 The company's vision was to help anglers across
7 the country discover the best new fishing
8 products.

9 Our two founders invested over
10 \$100,000 of their personal savings, spent their
11 nights and weekends packing boxes in their
12 garage. Today, Catch Co. has over 100,000
13 monthly members receiving mystery tackle boxes.
14 And we have shipped over 3.5 million boxes over
15 the life of the company.

16 We directly and indirectly employ over
17 70 people in the U.S., especially in Illinois,
18 Tennessee, and Colorado.

19 We also manufacture over two million
20 artificial baits per year, almost all of which
21 are designed here in the U.S. An example product
22 we make in this category you can see on the back

1 of my testimony.

2 These are plastic assembled products
3 made to look like bait fish, used for catching
4 bass and other game fish. The overwhelming
5 majority of these products are manufactured in
6 China and retail from \$3.00 to \$15.00 per pack.

7 Catch Co. supports the goals of the
8 301 tariff to level the playing field for
9 American companies. However, we believe the
10 tariffs in our category will have a
11 disproportionate negative impact on small
12 businesses, consumers, and the environment. The
13 tariffs will have no effect on its primary goals,
14 and it puts our company at risk of going out of
15 business.

16 Therefore, we respectfully request an
17 exclusion for all products under 9507, but
18 especially artificial baits and flies.

19 The first reason this category should
20 be exempt is that these products have very little
21 intellectual property. And the IP in this
22 category is not any kind of strategic advanced

1 technology. No Chinese companies are trying to
2 force tech transfer via acquisitions, and no
3 Chinese players are trying to infiltrate our
4 networks to steal IP.

5 The goals of the tariff simply do not,
6 do not impact this category.

7 Second, as others have mentioned, our
8 industry is unique in that we already pay both an
9 import duty of 9 percent and then a 10 percent
10 sales tax in the form of a federal excise tax.
11 Nationally, this excise tax currently generates
12 \$150 million per year, which goes to fund the
13 Sport Fish Restoration and Boating Trust Fund,
14 which provides funds to the states' Fish and
15 Wildlife Agencies for fishery conservation and
16 management projects. Reducing demand for fishing
17 reduces the funds to ensure clean, sustainable
18 access to America's waterways.

19 Third, the tariff will have a
20 disproportionate impact on our industry, which is
21 overwhelmingly small businesses. 80 percent of
22 the companies earn less than \$1 million in

1 revenue per year, and roughly 40 percent of all
2 goods in the U.S. in this category are sourced
3 from China.

4 In our category, adding these new
5 tariffs to the existing duties and excise tax
6 will increase our effective import tax to more
7 than 50 percent above the manufacturing costs.

8 Fourth, our consumer represents a wide
9 swath of the American consumer, with almost 50
10 million anglers in the U.S. and very -- a very
11 large portion of them are in below the median
12 income. It's a very approachable sport. These
13 increased costs will cause disproportionate harm
14 to this group.

15 Finally, these tariffs will have a
16 disproportionate impact on my company, including
17 potentially driving us out of business. Catch
18 Co. is still a start-up company. And even though
19 we are growing at over 35 percent a year, like
20 most players in our industry, our profit margins
21 are very tight.

22 The number one product we manufacture

1 and sell is artificial baits. Our engineers and
2 designers develop most of these products in the
3 U.S. but we manufacture most of these goods with
4 our factory partners in China. We've invested a
5 significant amount of our limited capital and
6 resources to finding quality suppliers, visiting
7 their factories, and setting up our supply chain.

8 We have spent time trying to find
9 other locations in the U.S. and in other near-
10 shore locations, but no one can match China for
11 quality and capacity. This is why 47 percent of
12 the imported goods in this category come from
13 China.

14 We will not be able to transfer our
15 products to other locations without a significant
16 and costly effort, and the product quality and
17 cost will be much worse. Anglers are very price
18 sensitive, so we don't believe we'll be able to
19 pass on these costs to consumers without a
20 corresponding reduction in demand.

21 Our estimates show that the tariffs
22 will reduce our profits by up to 30 percent, via

1 reduced gross margins or from reduced demand
2 after raising prices. As a result of these
3 tariffs, we will reduce capital investments in
4 the U.S., reduce new product development, reduce
5 hiring, and potentially go out of business.

6 The risk from these tariffs to our
7 business is existential, and that is why we have
8 put in the effort to travel here today.

9 To summarize, adding the tariffs will
10 hurt small businesses, hurt low income consumers,
11 hurt the environment, and will not be effective
12 to change China's practices. Accordingly, we
13 believe the USTR should exclude 9507.90.7,
14 artificial baits and flies, from the proposed
15 tariff list.

16 Thank you for your attention.

17 MR. BURCH: Thank you, Mr. MacGuidwin.

18 Our next panel witness will be Patrick
19 Gill with TackleDirect. Mr. Gill, you have five
20 minutes.

21 MR. GILL: Good evening and thank you
22 for having me provide testimony this evening.

1 My name is Patrick Gill. I'm the CEO
2 of TackleDirect. TackleDirect is part of the
3 eCommerce Outdoors Network of specialty stores,
4 and is headquartered in Egg Harbor Township, New
5 Jersey.

6 eCommerce Outdoors is a direct
7 marketing company and multi-channel specialty
8 retailer, as well as an importer/exporter of
9 fishing tackle primarily. We operate two
10 physical retail store locations in southern New
11 Jersey, and two online stores that sell outdoor
12 products, primarily fishing tackle, to consumers
13 throughout the U.S. and around the globe.

14 Our first ecommerce store,
15 TackleDirect.com, the world's premier fishing
16 outfitter, began in 1997 as a dorm room project,
17 and is a growing leader in the online sporting
18 goods category.

19 As an ecommerce, as well as brick and
20 mortar retailer of fishing equipment, employing
21 close to 100 people in the U.S., we are deeply
22 concerned with the impacts proposed in Section

1 301 tariffs of up to 25 percent will have on
2 domestic jobs, fishing participation, and
3 conservation funding.

4 Recreational fishing equipment is
5 already subject to a unique 10 percent excise
6 tax, as well as other import taxes, as you know.
7 Adding additional tariffs of up to 25 percent
8 would be difficult for the industry to withstand.
9 Of the approximate 90,000 SKUs sold by
10 TackleDirect, we estimate there will be at least
11 34,000 potentially subjected to the Section 301
12 tariffs, including but not limited to fishing
13 rods, fishing hooks, fishing reels, fishing line,
14 fishing leader, fishing landing nets and similar
15 nets, and artificial bait and flies.

16 While the recreational fishing
17 industry shares the same concerns as other
18 industries impacted by these tariffs, namely
19 higher costs that will be passed on to the U.S.
20 consumer, the sport fishing industry would be
21 uniquely burdened by these proposed tariffs,
22 given the existing excise tax and other import

1 duties paid by the industry.

2 Unlike most other industries, the
3 recreational fishing industry is already subject
4 to this 10 percent federal excise tax for most
5 fishing equipment, which is collected at the
6 first point of sale in the U.S. As mentioned by
7 other speakers, these funds go to support Sport
8 Fish Restoration and Boating Trust Fund, the
9 SFRBTF, which provides funds to state and
10 wildlife agencies for fishery conservation and
11 management projects, including boating access and
12 aquatic education.

13 The inevitable reduction in consumer
14 spending resulting from the new proposed tariffs
15 would more than offset proportional increases in
16 excise tax contributions that may come from
17 resulting higher product costs.

18 Recreational fisherman are
19 historically a price-sensitive group. When
20 prices go up, many anglers simply look for other
21 lower-cost ways to enjoy their day with their
22 families and friends.

1 Consequential losses resulting from
2 tariffs on the fishing industry, which has a
3 broader reach than many other industries,
4 collaterally will detrimentally affect fishing-
5 related sales of boats, trucks, fuel, travel,
6 food, bait, et cetera. Approximately \$7 billion
7 in U.S. fishing equipment retail sales is a
8 critical component of driving an overall economic
9 impact of over \$125 billion in the U.S. annually.

10 In addition to harming the large
11 number of U.S. small businesses who import and
12 sell fishing equipment from China, reduced
13 consumer spending would put conservation funding
14 at risk as well. Fewer fishing equipment
15 purchased means less revenue into the SFRBTF
16 fund, which ultimately means less funding for
17 programs important to the Trump administration's
18 priorities to improve public access to the
19 outdoors.

20 I respectfully implore the committee
21 to take into consideration the negative impacts
22 that these proposed additional tariffs on fishing

1 equipment would have on fishing participation,
2 conservation funding, U.S. jobs, and businesses
3 directly and collaterally, and make the decision
4 to exempt sport fishing equipment from the new
5 proposed Section 301 tariffs.

6 Thank you for your time and
7 consideration. And I look forward to your
8 questions.

9 MR. BURCH: Thank you, Mr. Gill.

10 Our next panel witness will be Jordan
11 Davis with O. Mustad & Son Americas. Mr. Davis,
12 you have five minutes.

13 MR. DAVIS: Thank you.

14 My name is Jordan Davis, and I am the
15 President and Chief Sales Officer for O. Mustad &
16 Son Americas. We are a manufacturer of hooks,
17 line, lures, tools, and other accessories. Our
18 office is located in Miami, Florida. And we are
19 the outright owner of our main manufacturing
20 facility in Wuxi, China.

21 I want to begin by asserting our
22 support of the position of the administration

1 regarding current Chinese trade practices and
2 support the correction and realignment of said
3 practices specifically in regard to intellectual
4 property in high tech fields. However, the
5 disproportionate effects the proposed tariffs
6 will have on our collective businesses within the
7 recreational fishing industry, as I will outline
8 further, should be considered.

9 Based on the grounds of these
10 disproportionate impacts, I would like to request
11 on behalf of Mustad and family, that the products
12 under heading 9507 of the Harmonized Tariff
13 Schedule be excluded from Section 301.

14 Further, I would like to request that
15 any products subject to a federal excise tax as
16 part of the Federal Aid in Sport Fish Recreation
17 Act of 1950, commonly known as the Dingell-
18 Johnson Act, be excluded as well.

19 These excise taxes associated with the
20 Dingell-Johnson Act, in conjunction with current
21 duties placed on sport fishing equipment, provide
22 substantial funding for state fish and wildlife

1 agencies. Over the past 10 years, more than \$1.3
2 billion has been allocated towards the state
3 agencies, helping to offset growing budget
4 shortfalls at the state level.

5 However, these federal excise taxes
6 place the sport fishing industry in a unique
7 situation. Specifically, the proposed tariffs
8 create a compound effect when taken in
9 conjunction with the current excise taxes of 10
10 percent which are levied on the sale of all sport
11 fishing products.

12 This is important to consider because
13 state-level budget shortfalls will only be
14 compounded by additional tariffs, as associated
15 increase in the cost of sport fishing products
16 will likely be passed on to customers. These
17 price increases will negatively affect consumer
18 spending within the categories. Historically,
19 recreational anglers have proven to be a very
20 price-sensitive group.

21 A decrease in consumer spending will
22 have a dual effect.

1 First, federal excise tax revenue will
2 likely decline in proportion to consumer
3 spending, and; second, a downturn in angler
4 participation is likely to take place as
5 participating in recreational fishing would be a
6 more expensive pastime as a result of these
7 increases.

8 It should be noted that any downturn
9 in angler participation will have a direct impact
10 on state-level fish and game funding as license
11 revenues would decline as a result. According to
12 studies conducted by Southwick Association --
13 Associates, excuse me, and cited by the American
14 Sport Fishing Association, a 15 percent increase
15 in Tennessee's one-day fishing license price
16 would result in 28 percent decrease in the number
17 of people buying that license annually. That's
18 more than 24,000 people not fishing in the State
19 of Tennessee.

20 For context, the current one-day
21 resident license costs \$6.50. An increase of
22 less than \$1.00 amounts to more than \$150,000 in

1 lost license revenue. You should consider the
2 impact a 25 percent increase on the cost of
3 hooks, lures, lines, rods, reels, nets, and other
4 sport fishing items would have on the sales and,
5 in turn, the tax revenues associated.

6 Further, substantial price increases
7 as a result of the additionally proposed tariffs
8 will have a negative effect on the sales revenues
9 of the hundreds of small to medium sized
10 businesses within the sport fishing industry.
11 The ASA reports 80 percent of fishing tackle
12 companies record sales of less than \$1 million a
13 year. A decline in their revenues will
14 inevitably have a negative impact on the wages
15 and jobs of the 800,000 Americans who make a
16 living within the sport fishing industry.

17 Further, companies of this size are
18 generally not capitalized well enough to
19 immediately invest and deploy U.S. manufacturing
20 operations to avoid the coming tariffs, leaving
21 them little choice other than to pass on the
22 cost. This obviously risks a decline in their

1 income.

2 The alternative, which is even less
3 palatable, is for those companies to absorb all
4 or some of the tariff impact into their margins,
5 which is equally if not more likely to cause
6 financial harm.

7 In closing, the proposed tariffs
8 create a number of initially unforeseen or
9 possibly unknown circumstances which impact not
10 only the revenues of companies within our
11 industry but the state and local Fish and Game
12 Agencies, the Federal Fish and Wildlife Service,
13 and the millions of Americans that are employed
14 by or involved with the sport fishing industry.
15 As such, we kindly ask that the products under
16 heading 9507 of the Harmonized Tariff Schedule be
17 excluded from Section 301.

18 Thank you for your time.

19 MR. BURCH: Thank you, Mr. Davis.

20 Our last panel witness will be Jeffrey
21 Moore with W.C. Bradley and Zebco Holdings. Mr.
22 Moore, you have five minutes.

1 MR. MOORE: Thank you. And thank you
2 for your attention through a long day.

3 My name is Jeffrey Moore. I am the
4 Vice President of Operations for Zebco, a U.S.
5 company headquartered in Tulsa, Oklahoma, which
6 has been producing recreational fishing equipment
7 for more than 70 years.

8 I am here today to respectfully
9 request the United States not impose Section 301
10 tariffs on recreational fishing equipment.
11 These tariffs represent a unique and potentially
12 existential threat, both to Zebco and to the
13 recreational fishing industry as a whole, as
14 experience has repeatedly shown that consumers
15 are very price sensitive and will choose
16 alternative, less expensive recreational options.

17 In my testimony today I would like to
18 make four points:

19 Why Zebco began importing merchandise
20 from China around 2001;

21 Why we are still importing merchandise
22 from China today;

1 The special circumstances of the 10
2 percent excise tax the sport fishing industry
3 currently pays;

4 And what is at stake for Zebco and the
5 recreational fishing industry if the U.S. imposes
6 these List 4 of Section 301 tariffs.

7 Zebco began producing fishing reels in
8 Tulsa, Oklahoma, in the late 1940s, and continued
9 production until 2001, shortly after U.S. trade
10 policy shifted favorably towards China. The U.S.
11 supported China joining the WTO, and Chinese
12 goods were granted permanent Most Favored Nation
13 duty treatment.

14 Zebco, like every one of our
15 competitors and most other U.S. consumer goods
16 manufacturers, were compelled by the economic
17 realities to either outsource production of goods
18 or close our business entirely. Zebco's entire
19 U.S.-based component supply chain closed as well.

20 The suppliers Zebco once relied on to
21 build fishing tackle in the U.S. no longer exist
22 in the United States.

1 A lot of people have misconceptions
2 about companies that moved production to China,
3 as if for some unexplained reasons hundreds of
4 companies with long histories of producing goods
5 in the U.S. suddenly lost their sense of
6 patriotic identity. Zebco never lost our
7 American pride, but like every other rational
8 economic actor, manufacturing goods in China
9 became an unavoidable choice.

10 We weren't the first company to shift
11 production to China, not by a long shot. In
12 fact, we were the last major fishing reel
13 manufacturer to leave U.S. production. We held
14 on in the U.S. as long as we could.

15 The point is, U.S. trade policy drove
16 the change; we followed your lead.

17 We understand that policies change.
18 And we can adapt like we did before. That said,
19 we cannot move our supply chain overnight. Over
20 the last 10 years we have spent significant time
21 and money researching the central sources of
22 supply for fishing tackle outside of China.

1 Despite these ongoing efforts, Zebco has not
2 successfully found any non-Chinese sources
3 capable of producing the quantities and the
4 quality we require.

5 This is especially true since Zebco's
6 product portfolio spans a wide range of goods
7 from less expensive entry level equipment to
8 high-end equipment.

9 It is also very important to note that
10 the recreational fishing equipment is already
11 subject to a 10 percent excise tax. Unlike most
12 other industries, upon the first sale of fishing
13 equipment in the United States a 10 percent
14 excise tax is paid. Zebco and the sport fishing
15 industry would be uniquely overburdened by
16 additional duties on top of the current 10
17 percent excise tax.

18 Please don't mistake my reference to
19 this excise tax as a complaint. The excise taxes
20 paid by Zebco and the fishing industry go into
21 the Sport Fish Restoration and Boating Trust
22 Fund, which provides funds to state Wildlife

1 Agencies for fishery conservation and management
2 products, boating access, and aquatic education.
3 Zebco willingly pays these taxes as we believe it
4 allows affordable access for U.S. families to
5 enjoy America's abundant natural resources.

6 In many years, Zebco's import duties
7 and excise tax payments exceed the amount earned
8 in profit. We estimate that Zebco's direct and
9 indirect contributions to excise taxes exceed
10 \$350 million since the law went into place.

11 We believe the imposition of these
12 proposed tariffs puts recreational fishing at
13 risk of being taxed into a sport for only the
14 wealthy. Recreational fishing is an especially
15 family-friendly activity that children and adults
16 enjoy. Zebco takes pride in providing affordable
17 access to quality fishing equipment. This is the
18 model we've built our company on.

19 We distributed millions of rods,
20 reels, and combos every year that have a retail
21 price point below \$20. Because these purchases
22 of fishing equipment are contingent on disposable

1 income, they are extremely price sensitive.
2 Simply put, supplemental tariffs of up to 25
3 percent will have the effect of pricing many of
4 the 49 million recreational anglers out of the
5 sport.

6 Increased cost, especially at lower
7 price points, will surely result in many American
8 families being unable to afford this pastime. As
9 a result, any Section 301 duties will cause
10 severe economic harm to Zebco. They will also
11 harm, cause harm to conservation programs due to
12 reduced funding via the excise tax, resulting in
13 significantly reduced sales of fishing equipment.

14 For this reason we respectfully
15 request that you remove the subheadings affecting
16 recreational fishing gear from the scope of 301
17 duties. If the subheadings are not removed, we
18 respectfully request that a product exclusion
19 process be adopted concurrently with the
20 implementation of any such duties.

21 Thank you for your attention.

22 MR. BURCH: Thank you, Mr. Moore.

1 And, Madam Chairman, this concludes
2 panels of witnesses.

3 MR. HART: I have a question for Mr.
4 Hughes. I think we've gone over this a little
5 bit, but just to confirm.

6 Are there substitutes to imports from
7 China, either domestically or in third countries?

8 MR. HUGHES: So, and if you don't mind
9 I'd also like to be able to defer to Mr. Kent --

10 MR. HART: Yes.

11 MR. HUGHES: -- who runs the largest
12 company in the world, and Mr. Moore who's close,
13 in the top five certainly.

14 That right now China is the number one
15 exporter of fishing rods and reels. As a matter
16 of fact, they have two-thirds of the world's
17 market. And the next closest is Japan at about
18 less than 20 percent.

19 And so, right now the manufacturing
20 infrastructure does not exist in the rest of the
21 world outside of China, and just in pieces,
22 mostly less than 5 percent in smaller countries

1 around Asia and other parts of the country --
2 other parts of the world.

3 MR. KENT: To build on what Mr. Hughes
4 just said, that manufacturing that is, that does
5 exist in Japan is controlled by two Japanese
6 competitors of us as U.S. manufacturers.

7 In the rod manufacturing, if you add
8 up all of the rods produced in China and then all
9 the rods produced in other countries outside of
10 the China, the other countries represent about 5
11 percent of what China manufactures. So it is a
12 huge percentage of the total global capacity that
13 they control.

14 MR. HART: And in terms of the price
15 and quality of sports fishing equipment across
16 the ranges, does that vary depending on the
17 source or the exporter?

18 MR. KENT: It's pretty broad in terms
19 of all, all different price points across it.
20 So, yes, the business has essentially been
21 shifted there regardless of what the price points
22 are.

1 MR. HART: Okay. And then one final
2 question.

3 If tariffs were to be put on, what
4 degree of U.S. production do you think might be
5 able to increase or meet demand?

6 MR. KENT: The issue is -- and I will
7 also ask my colleague to, to make his assessment
8 -- the issue is, is that it is a highly, there
9 are two issues, on reels it is a very capital
10 intensive business, so the ability to get
11 production up and running it's really driven by
12 time. So, it would be a 2- to 3-year process for
13 that.

14 The issue with rod manufacturing is it
15 is very labor intensive. You literally are
16 threading guides on a rod. And that would be
17 complicated in terms of training a workforce to
18 get them up to that level and that quality level
19 required.

20 MR. MOORE: And if I may add, please,
21 that as I mentioned in my testimony, when we
22 moved manufacturing from Tulsa, Oklahoma, all of

1 our sub-supplied network, processes that are not
2 available today in the U.S., preclude us from
3 bringing that production back. Many of those
4 things probably would not be able to be permitted
5 in our -- in the U.S. today.

6 MR. HART: Thank you.

7 CHAIR GRIMBALL: Mr. Kent, I had an
8 additional question concerning the fishing reels
9 produced by the Japanese manufacturers Shimano
10 and Daiwa.

11 MR. KENT: Yes.

12 CHAIR GRIMBALL: Could you give us an
13 idea of the current price difference between the
14 products that are sourced in China versus
15 products that are sourced in Japan? Currently
16 situated, are those prices the same? Is one
17 cheaper than the other?

18 Or anyone.

19 MR. KENT: No. In a good, better,
20 best world, the reels coming out of Japan would
21 be better and best. I would say would be
22 predominantly better and best. But there is some

1 good coming out of there.

2 The reels coming out of China cover
3 all of those price points.

4 MR. MOORE: If I may add, the two
5 tariffs up to \$8.45 price represent about 98
6 percent of all fishing reels coming into the U.S.
7 That is we estimate 80 to 90 percent of the U.S.
8 market. A very price-sensitive group. Those
9 would be retail prices somewhere in the
10 neighborhood of almost \$100 for reels in those
11 price ranges.

12 MR. GILL: I would add the two
13 Japanese companies you mentioned, a large amount
14 of their fishing reel manufacturing is actually
15 in China. Very little is manufactured in Japan.

16 But as stated earlier, they're not
17 subject to these, these tariffs in Japan, so
18 oftentimes the product is manufactured in China,
19 brought to other parts of the world before its
20 actually comes to the U.S. in some cases with
21 some of the competitors that are not U.S.
22 headquartered. If that makes sense.

1 MR. SECOR: One follow-up for Mr.
2 Kent.

3 Are there other aspects of the
4 manufacturing done in the U.S., the design work
5 for example?

6 MR. KENT: Yes. We do, we do all of
7 our design work here in South Carolina as well as
8 our facility in Iowa.

9 MR. SECOR: Thank you.

10 MS. HUANG: My question is for Tim
11 MacGuidwin.

12 You said in your testimony that no
13 other countries are practical substitutes for
14 sourcing from China, citing price and quality.
15 Can you expand on why in your view it is
16 infeasible to source from other countries or
17 domestically in the United States?

18 And, to your knowledge are the
19 products in question produced outside of China at
20 all?

21 MR. MacGUIDWIN: To answer the last
22 question first, yes, a significant portion of the

1 products are made outside of China. As I
2 mentioned, 47 percent of the imports are from
3 China. And there's kind of a laundry list of
4 some other countries that are manufacturing the
5 artificial baits and lures.

6 One thing to note about that is some
7 of the biggest countries are actually owned
8 facilities by some of our competitors. For
9 example, the second biggest country that
10 manufacturers artificial baits is Estonia. And
11 that's actually from an owned facility by a
12 European company Rapala VMC.

13 So, there are other places in the
14 world that can do the manufacturing for these
15 products. What we have found as a small company
16 is it's very difficult to get access to somebody
17 else's owned facility in one of these other
18 countries. And for those that we have found, we
19 have tried some other countries like the
20 Dominican Republic and Costa Rica. We have not
21 been able to both see the level of quality or the
22 capacity that we need to meet the demands of our

1 consumer.

2 MS. HUANG: Thank you.

3 MR. DEVINE: I'm Andrew Devine from
4 the U.S. Department of Agriculture. I have a few
5 questions for Mr. Gill.

6 First of all, with regard to your
7 online business do you import and warehouse the
8 products that you import from China in the U.S.
9 before distributing to customers or do they go
10 directly to customers?

11 MR. GILL: Yeah, everything is
12 imported either direct or through distributors
13 here in the U.S. and warehoused and shipped from
14 the U.S.

15 MR. DEVINE: Okay.

16 MR. GILL: 100 percent.

17 MR. DEVINE: A number of witnesses on
18 the panel have mentioned that price sensitivity
19 of anglers, but you've said specifically that
20 they may choose to find other activities instead
21 of fishing. So I'm going to ask you this
22 question but it really applies to the whole

1 panel.

2 Do you have evidence to support that,
3 that anglers are price sensitive?

4 MR. GILL: I don't have specific
5 evidence. But I believe the industry has done
6 some studies over the years. I don't know if Mr.
7 Glenn Hughes can talk to that as the industry as
8 a whole.

9 But I can, I mean, obviously listening
10 to other testimony in other industries, the price
11 sensitivity is an issue in many industries. One
12 thing I'll say about recreational, multi-
13 generational pastime sport like fishing, it's
14 really about share of wallet. Right?

15 So, you're a young or kind of up-and-
16 coming young family. You have to choose between
17 the money that you spend, whether it's the
18 movies, or going out on a boat or, you know,
19 going out and spending time at the beach, or
20 taking a trip in a park. Fishing equipment is
21 just one component of a much larger economic
22 impact in the U.S.

1 If the core equipment that you need to
2 take that outing is considerably more money to
3 the consumer, you may actually opt out of that
4 trip altogether, which would impact fuel, boats,
5 fishing licenses, apparel, and food, and all the
6 other ancillary purchases that happen as part of
7 planning a trip. And the fishing equipment is
8 actually a very small portion of that total cost.

9 So, while we could certainly follow up
10 with the committee on data in the industry, it's
11 more about, I think the better way to look at it
12 is the American, young American family and how
13 they spend their money, and where they spend it
14 in terms of cost.

15 And it's, it's very difficult already
16 on the industry due to challenges with access,
17 participation, fisheries management, all sorts of
18 things that are making fishing more difficult in
19 the U.S., and has happened for many years.
20 Adding cost of the core equipment to take that
21 outing, it only reduces the participation
22 further.

1 MR. HUGHES: Mr. Devine, if I may add
2 to that?

3 MR. DEVINE: Sure.

4 MR. HUGHES: So, as has been stated by
5 Mr. Moore, just if you reference, for example,
6 the pricing of fishing licenses. So, one of
7 these things, something that's somewhat unique to
8 fishing and hunting, of course, is that to
9 participate you need licenses, and at least
10 between the ages of 16 and 65.

11 And, so, studies have been done by
12 Southwick Associates. And just to reiterate and
13 add to what Jeff said, you know, Tennessee we
14 have done a survey with Southwick Associates
15 regarding the pricing of fishing licenses, again
16 that average generally between \$15.00 and \$20.00
17 per state. To add just a 10 percent increase to
18 the license in Tennessee would be a reduction of
19 40,000 anglers. In Oklahoma a 10 percent
20 reduction would be 19,000 anglers. In Kentucky a
21 10 percent license hike would be 12,500 anglers.
22 So, they would chose to not replace their fishing

1 license.

2 And, again, a fishing license makes
3 up, you know, a similar consistent revenue for
4 the U.S. Fish and Wildlife Agencies and for the
5 state Fish and Wildlife Agencies.

6 MR. DEVINE: Thank you. And just one
7 last question.

8 You mentioned you sell 90,000 SKUs and
9 that approximately 34,000 of those would be
10 subject to 301 tariffs. Is the remaining 56,000
11 other substitutes or can consumers -- yeah,
12 that's the question.

13 MR. GILL: I understand the question.

14 So, as stated by some of the other
15 speakers giving testimony, there are certain
16 categories in fishing where 95 to 100 percent of
17 the product is actually manufactured in China.
18 For example, fishing rods has a very high
19 percentage.

20 And of, of that percentage in our
21 assortment that is not manufactured in China, a
22 lot of that is in other categories outside of

1 fishing tackle. So, we sell marine supplies,
2 marine electronics, apparel, other boating
3 accessories, and other categories outside of
4 fishing that make up that SKU count.

5 But in the core components of fishing
6 equipment, I would actually estimate that the
7 34,000 SKUs is probably on the low side. In the
8 core categories in our assortment, the
9 percentages that are manufactured in China are
10 actually much higher.

11 You can just walk around our retail
12 store and take a look in a warehouse and just
13 look at the country of origin, and the majority
14 of what we sell is manufactured in China in the
15 core categories that we sell.

16 MS. SMITH: Good afternoon.

17 Mr. Gill just answered the question
18 that I had. And my question actually is directed
19 to Mr. Davis. One moment.

20 Thank you for your answer, Mr. Gill.

21 MR. GILL: You're welcome.

22 MS. SMITH: We have heard quite a bit

1 of how the industry on different levels would be
2 affected. And in your testimony you state that
3 these tariffs will have such a negative impact on
4 wages, jobs, over 100 -- over 800,000 Americans
5 who are making a living in the sport fishing
6 industry will be impacted.

7 Can you tell me how your company will
8 be directly impacted by this? And one other, are
9 you considered a small business?

10 MR. DAVIS: Yeah, a very small
11 business. I'll withhold our revenue as a
12 proprietary piece of information. But we employ
13 15 people in the U.S.

14 We're a, we're a global company. Our
15 ownership is based in Norway and we operate in
16 160 countries via distribution. And so we have
17 similar operations throughout the world.

18 Specifically towards here, the 15
19 people that we employ we cover 100 percent of
20 their medical costs. We have one of the best
21 paid time off packages. I think you could
22 compare it to the rest of the industry. We do a

1 lot to support them in philanthropy and
2 volunteerism by giving them extra paid time off
3 for those things.

4 If we had to pass on a 25 percent
5 price increase to consumers, and I, I can
6 emphatically state that we would not be able to
7 afford to absorb even half of that, our bottom
8 line is not that healthy, as I'm sure my
9 colleagues here would attest to their businesses
10 as well, we have to find that savings somewhere.

11 Hypothetically speaking, let's say the
12 revenues weren't impacted as far as the volume of
13 purchases from consumers, we're still making 25
14 percent less, you know. And that's going to
15 impact the 100 percent healthcare coverage we
16 offer, the extra days off. We pay, I would
17 imagine, a higher wage than most other companies
18 in our industry. Again proprietary, but I'd be
19 happy to share that privately. Those things
20 would all be impacted.

21 We just don't have the variable cost
22 structure because of the way our company is built

1 to find those costs in other areas because so
2 much administration happens within our, within
3 our offices here.

4 MS. SMITH: Thank you very much.
5 That's very helpful.

6 MS. WINTER: This question is for Mr.
7 Moore from Zebco. Thank you for your testimony.

8 From what I'm picking up from all of
9 you, it sounds like about half of the equipment
10 is made in China and half is made elsewhere, with
11 spikes being in China for some, you know, up to
12 90 or 100 percent for certain types of equipment.
13 If roughly half is made outside China, and you
14 say you've been working for 10 years to, you
15 know, try to find other sources, is it possible
16 that those efforts could be redoubled so that you
17 would for at least certain product lines, product
18 types, be able to, to find other sources given
19 that there is some sourcing from outside China,
20 whether it's in the United States or just outside
21 China?

22 Or is that, you know, how do you see

1 the future there given that that's the future
2 that is upon us?

3 MR. MOORE: Thank you. Thank you for
4 the question.

5 I'll answer in two ways. As I
6 mentioned in my testimony, we were an American
7 manufacturer since even before the '40s. We
8 made, we were the Zero Hour Bond Company before
9 we made fishing reels.

10 When we made the hard decision to
11 outsource beginning in the late '90s, it was a
12 long-term project. We spent a couple years
13 studying, about three or four years to fully
14 outsource that production from the time we made
15 that hard decision until we fully closed our
16 production facilities in Tulsa and laid off 400
17 workers.

18 In direct response to your answer, I
19 think I have two comments. One is, is the
20 approximation of half, respectfully, is low.
21 It's probably more 70 or 80 percent of rods and
22 reels specifically are in China. And that's the

1 business that Zebco is in.

2 So, although baits, and lines, and
3 other things may be made in other countries, our
4 company, for the categories that we sell, at a
5 bare minimum 80 percent of that production
6 capacity in the world is within China.

7 And as I've mentioned again in my
8 testimony, we've spent almost 10 years looking.
9 We looked very hard at Vietnam. We looked very
10 hard at India. Costs were almost three times
11 what they are in China from those countries.

12 So, so even if tariffs are a burden,
13 that cost is still going to be lower than what we
14 believe we can buy products of equal quality in
15 those other countries. So, in short, we, as my
16 colleagues have stated, we will have no option
17 but to pass that additional cost increase along
18 to the consumer.

19 Thank you. I hope I answered your
20 question.

21 MS. WINTER: Thank you. You did.

22 So, since you, many of you have gone

1 from producing things here to producing things in
2 China, is the, is part of the attractiveness of
3 China government policies that support that
4 production, like, you know, just, I don't know,
5 land, being able to produce somewhere?

6 Do you -- I guess you own your own
7 facilities there or is it contract?

8 To the extent you own them, what is
9 the -- or even for your contractors -- how is
10 China making it so that they are able to produce
11 so much more cheaply than, let's say, Vietnam or
12 another country that you've tried to look at?

13 In other words, do you sense or do you
14 know that Chinese government policies at the
15 local, provincial, or even central level are
16 causing this, you know, causing the ability of
17 your suppliers to supply at such low prices?

18 MR. MOORE: Thank you. To my
19 knowledge there's no special government
20 incentives on the fishing industry. Fishing is
21 unique in that the complexity of the product for
22 the retail price is pretty unique.

1 If you think about a fishing reel
2 that's imported into the U.S. below that 2.70,
3 which is a very -- \$2.70 U.S., which is a very
4 large number of reels, you have gears, you have
5 bearings, you have many different manufacturing
6 processes such as plastic injection molding,
7 metal die casting, zinc die casting, you know,
8 there's a lot that goes into that platform.

9 So, in direct, again in direct answer
10 to your question, I believe that it was, it was
11 the source of labor at the beginning, but today
12 they now have the supplier network, bearings,
13 bushings, gears, all the things that we do not
14 have in the U.S. today, are only able to find
15 there.

16 MS. WINTER: Thank you, sir.

17 MR. MOORE: Thank you.

18 MR. BURCH: We now release this panel
19 of witnesses with our thanks.

20 We will recess this hearing until
21 tomorrow.

22 CHAIR GRIMBALL: We will begin

1 tomorrow at 9:30 a.m.

2 Thank you for your participation,
3 thank you to members of the panel for your
4 participation as well.

5 (Whereupon, the above-entitled matter
6 went off the record at 5:49 p.m.)

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In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-17-19

Place: Washington, DC

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Court Reporter

NEAL R. GROSS

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