UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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TUESDAY
JUNE 18, 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

*WILLIAM BUSIS, Chair, U.S. Trade Representative
MEGAN GRIMBALL, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
RUSSELL ADISE, Department of Commerce
SALIM MOIZ BHABHRAWALA, Department of Commerce
CHRISTOPHER BLAHA, Department of Commerce
ANDREW DEVINE, Department of Agriculture
*WENNY DONG, Department of Commerce
*BON FLEMING, Department of State
*KEVIN GILMARTIN, Department of the Treasury
DREW HART, Department of the 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
*MATTHEW SHAILER, Department of Agriculture

TANYA SMITH, Small Business Administration
ANDREW STEPHENS, 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
*SHELLY ZHAO, U.S. Trade Representative
ANNE ZOLLNER, Department of Labor

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

WITNESSES PRESENT
FABIO ALT, Dainese
CRAIG ANDERSON, Publishers Clearing House
JAMES ARCHIBALD, Wm. T. Burnett and Co.
ROBERT BECKWITH, Velocity Outdoor, Inc.
STANLEY BERNARD, Drexel Chemical Company
ANDY BINDER, HP Inc.
JON CHAMBERLAIN, Evenflo Company Inc.
ROBERT DeHAAN, National Fisheries Institute
ERIN ENNIS, US-China Business Council
BILL FAGERT, The Wooster Brush Company
MATTHEW FASS, Maritime Products International
FRED FERGUSON, Camp Chef
JAMIE FIOCCO, American Booksellers Association
ADAM FREEDMAN, Makrite North America
ROBERT GAITHER, Shen Wei USA
WANG GUIQING, China Chamber of Commerce For I/E Machinery and Electronic Products WILLIAM
HANVEY, Auto Care Association
RICHARD HARPER, Outdoor Industry Association
STUART HUDSON, Gorton's Inc.
LISA JACOBSON, Business Council for Sustainable Energy
STAN JANTZ, Evangelical Christian Publishers Association
JOHN KARSON, FX Mineral, Inc.
DEVI KELLER, Semiconductor Industry Association
ROBERT LAUTERBACH, Ball Corporation

WITNESSES PRESENT

RICK LITTLE, Everest Group USA
JEFF PECK, S'Well Bottle
BRANDON PECKMAN, Real Trading, LLC
MIKE POWELL, Primos Hunting
DANIEL REYNOLDS, Workman Publishing
MIKE RUSSO, SEMI
MARK SCHOENWALD, HarperCollins Christian Publishing
M. LUISA SIMPSON, Association of American Publishers
GEORGE SOUZA, Endeavor Seafood Inc.
JON SYVERSRON, Archery Trade Association
JIAN TAN, China Chamber of International Commerce
RICHARD TINBERG, The Bradford/Hammacher Group
JONATHAN VINER, KIK Custom Products
TOM VINING, National Elevator Industry Inc.
MICHAEL WAHL, AMG Aluminum North America, LLC
JESSICA WASSERMAN, Red River Foods
RONALD WEINBERG, Channel Products
JARED WESSEL, BYD Motors
LAUREN WILK, Aluminum Association
RUFUS YERXA, National Foreign Trade Council
HAICHENG ZHU, Zhejiang Chession Law
ROBERT ZUANICH, Silver Bay Seafoods
GARY ZURN, Big Rock Sports

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P-R-O-C-E-E-D-I-N-G-S

9:28 a.m.

MR. BURCH: Would the room please come to order?

CHAIR BUSIS: Good morning and welcome.

The Office of the United States Trade Representative in conjunction with the interagency Section 301 Committee is holding this public hearing in connection with the Section 301 investigation of China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

As explained in the notice published on May 17, 2019, the United States Trade Representative at the direction of the President is considering a modification of the action being taken in the investigation in the form of additional duties of 25 percent on a list of products from China with an annual trade value of approximately $300 billion.

The purpose of this hearing is to

receive public testimony regarding the proposed tariff action. The Section 301 Committee will carefully consider the testimony and the written comments, including post-hearing rebuttal comments, and will then make a recommendation to the Trade Representative.

Before we proceed with the testimony, I will provide some procedural and administrative instructions and ask the Agency Representatives participating in the hearing to introduce themselves.

This hearing is scheduled for seven business days, concluding next Tuesday, June 25th. Today is the second day of the hearing. We have 55 panels of witnesses scheduled to testify with over 300 individuals.

The provisional schedule has been posted on the USTR website. We have eight panels of witnesses scheduled to testify today. We will have a brief break between panels and a 50-minute break for lunch.

Each witness appearing at the hearing

is limited to five minutes of oral testimony. The light for you will be green when you start your testimony. Yellow means you have one minute left and red means your time has expired.

After the testimony from each panel of witnesses, the Section 301 Committee will have an opportunity to ask questions. The Committee representatives will generally direct their questions to one or more specific witnesses.

As stated in the May 17th notice, post-hearing comments including any written responses to questions from the Section 301 Committee are due seven days after the last day of the hearing.

As noted, the hearing is scheduled to conclude on June 25th which means that all post-hearing comments are due by no later than July 2nd. The rules and procedures for written submissions are set out in the May 17th notice.

Given the number of witnesses in the schedule, we request that witnesses when responding to questions be as concise as possible.

Witnesses should recall that they have a full opportunity to provide more extensive responses in their post-hearing submissions. No cameras or video or audio recording will be allowed during the hearing.

Written transcripts of the hearing will be posted on the USTR website and on the Federal Register docket.

We are pleased to have international trade and economic experts from a range of U.S. Government agencies. I invite them to introduce themselves.

MR. GILMARTIN: Kevin Gilmartin, the Treasury Department.

MR. SHAILER: Matt Shailer, the Foreign Agricultural Service, USDA.

MS. ZHAO: Shelly Zhao, USTR.

MS. DONG: Wenny Dong, Department of Commerce.

MR. FLEMING: Bon Fleming, Department of State.

MS. VON SPIEGELFELD: Cristina von Spiegelfeld, SBA, Small Business Administration.

CHAIR BUSIS: And I am Bill Busis, Deputy Assistant, USTR, for Monitoring and Enforcement and Chair of the Section 301 Committee.

Mr. Burch, you may call the first witness.

MR. BURCH: Our first witness for Panel 9 will be Brandon Peckman who is accompanied by Marc Peckman of Real Trading. Mr. Peckman, you have five minutes.

Can you turn on your microphone?

MR. B. PECKMAN: Thank you, and good morning. Real trading LLC is a small trading company that supports a wide array of small and mid-sized American distributors and end users.

One of our largest product lines is imported coal-drawn seamless stainless steel pipes and tubes, key staples in the supply chains of several critical U.S. industries such as oil and gas, petrochemical refining, generally manufacturing, automotive, and aerospace.

Through excellent quality and competitive pricing, Chinese mills have earned a large portion of our business.

We respectfully request this HTS subheading, 7304.41.60, be removed from the USTR's proposed Section 301 List 4 primarily because it is already subject to a 25 percent tariff under Section 232.

An additional 25 percent tariff on these products would cause severe and disproportionate economic harm to U.S. businesses, which would ultimately be forced to incur the cost via their tariffs or cancellation fees.

Our particular mills have been widely approved by end users, adhere to market pricing conditions, are highly respected in the market, and have supported U.S. firms to secure large projects that ultimately profit U.S. companies and boost our national energy infrastructure.

If anything, these manufacturers have

bolstered and expanded United States commerce. There are very few domestic U.S. mills that can manufacture these products, which are further constrained by limited size ranges and extremely tight capacity.

These products are not readily available domestically in sufficient supply. However, these products are in high demand and U.S. distributors largely rely on imported material, especially Chinese, to run their operations with a competitive edge.

Import data over the past few decades incontrovertibly proves that apparent consumption far exceeds domestic production, therefore, this is an import market.

In response to the 25 percent steel tariffs under Section 232 in March 2018, the Chinese Government took immediate action to address their steel mills' overcapacity by enforcing stricter environmental regulations, causing base material prices to rise above market level.

However, U.S. distributors and end users are still recovering from this sudden tariff market distortion as they were forced to restock their shelves with artificially higher priced inventory.

Instead of using this tariff advantage to level the playing field, domestic manufacturers increased their prices 25 to 40 percent overnight.

End users face much higher cost, domestic or abroad, which cause several major U.S. projects to delay or cancel. An additional tariff on these products from China would prompt all other global mills to immediately raise their prices as well.

Like before, U.S. companies would have no choice but to pay higher prices from every supplier, thereby mitigating the impact of any punitive action against China and instead backfiring on American firms and large industrial projects that gears to design, budget, and secure funding.

Furthermore, it takes anywhere from four to eight months from time of order placement to U.S. customs clearance. In addition to 232 tariffs, U.S. firms could potentially be held liable for additional tens of millions of dollars in proposed 301 tariffs.

This has a high potential to cause extreme distress to small businesses that lack the liquidity to absorb these high losses, increasing the risk of default or bankruptcy.

Due to the long process required to manufacture stainless pipes, U.S. firms cannot simply back out of these contracts.

American businesses will either be forced to absorb the cost of the additional proposed tariffs or the cancellation fees written in these contracts.

In many cases, U.S. firms must pay a portion of the contract upfront, 30 percent or more, or file irrevocable letters of credit in order for production to begin.

If Exxon ordered $10 million worth of

pipes from China, now they would be forced to pay an additional $5 million in tariffs under 232 and 301. The pipe is already in production, there's nothing they can do to avoid this extra cost as they cannot cancel these orders without paying the full value of material.

Incurring this loss would cause harsh financial stress to a small business such as ours and severely hamstring a large corporation which now must seriously consider cutting American jobs the in order to pay for this piping.

For these reasons alone, we strongly urge the administration to at minimum consider both a grace period of six months as well as an exclusions process in order to protect U.S. firms who have already made tremendous capital-intensive investments.

However, it is our firm position that these products should be removed from List 4 entirely as they are relied on subject to Section 232.

Perhaps even worse, when the proposed

tariffs are eventually rolled back, distributors would find the replacement costs have suddenly decreased overnight and the market value of their inventory would have plummeted 25 to 50 percent.

U.S. firms would be forced to incur major losses just to sell their inventory, which they were forced to purchase at artificially inflated, tariff-driven costs.

Moreover, these products have nothing to do with the scope of the original Section 301 investigation focusing on the PRC's unfair trade practices and intellectual property violations.

In fact, our major supplier, Chung Xi Walson, is a Taiwanese company that exports over 50 percent of its products to the United States. Again, our mills have provided strong support to our small company and our customers.

Overall, this additional tariff would serve as a major supply chain disruption that would create an unfair advantage for EU and other Asian manufacturers, and cause many international companies to move their operations outside the

U.S. in order to avoid the extra cost.

An additional tariff on these products would cause severe harm to U.S. importers, distributors, and ultimately end users in the oil, gas, petrochemical fabrication, and high-performance industries.

We again call upon the USTR to remove coal-drawn seamless stainless steel pipes and tubes from this latest list of tariffs. Thank you for your time and consideration.

MR. BURCH: Thank you, Mr. Peckman. Our next panel witness will be Michael Wahl of AMG Aluminum North America. Mr. Wahl, you have five minutes.

MR. WAHL: Good morning, Mr. Chairman, and Members of the Section 301 Committee. My name is Michael Wahl, I am the president of AMG Aluminum North America LLC.

We are a manufacturer of aluminum products, including aluminum grain refiner and master alloy products.

We opened our first production

facility in Wenatchee, Washington more than 50 years ago and we added a second plant in Henderson, Kentucky more than 30 years ago. Our company currently employs approximately 114 union and non-union employees.

The aluminum products that AMG Aluminum produces support the automotive, aerospace, energy, infrastructure and consumer durable markets in the United States.

AMG Aluminum supplies its aluminum grain refiner and master alloy products to aluminum manufacturers in the United States and in other markets who use these products during their melting and casting processes to ensure a fine and uniform grain structure in the aluminum and aluminum alloys they produce.

AMG Aluminum is the only U.S. producer of aluminum grain refiner and master alloys with a manufacturing expertise and capacity to meet the requirements of the aluminum industry.

There are two primary raw materials for the aluminum grain refiners we manufacture, aluminum ingot and metal salts, specifically titanium salts, boron salts, and zirconium salts.

Each of these metal salts is classified under Tariff Subheading 2826.90.90 as other complex fluorine salts. AMG Aluminum sources 100 percent of the metal salts we consume in our production process from China.

These salts are not produced in the United States and AMG Aluminum has not identified any other source outside of China that we could rely on to supply these essential raw materials at the volumes and quality levels needed to produce the highly effective grain-refining agents that our aluminum industry customers demand.

Metal salts account for the most significant portions of AMG Aluminum's raw material purchases other than aluminum ingot.

For this reason, imposing an additional 25 percent duty on our imports of these salts would cause a significant increase to AMG Aluminum's total costs of production.

This cost increase would also have indirect impacts of AMG Aluminum's customers in the U.S. aluminum industry and in many downstream industries.

And because foreign producers of aluminum grain refiner and master alloy products would not be subject to the proposed additional duty on imports of metal salts from China, AMG Aluminum's foreign-based competitors would gain a significant cost advantage in the U.S. market.

As a consequence of these factors, AMG Aluminum would lose significant U.S. market share to imports and our ability to compete in export markets would be compromised.

Moreover, why it would have substantial negative economic effects on AMG Aluminum, a U.S. manufacturer, the proposed duty on U.S. imports of other complex fluorine salts from China is unlikely to have any effect on China's acts, policies, and practices related to technology transfer, intellectual property, or innovation.

AMG Aluminum has imported titanium salts, boron salts, and zirconium salts from China for many years and we have never experienced any of the forced technology transfer practices that the United States identified in its Section 301 investigation.

For these reasons, AMG Aluminum strongly recommends that Tariff Subheading 2826.90.90 be removed from the list of products that would be subject to this latest round of Section 301 duties.

Finally, I note that the metal salts that AMG Aluminum imports from China are easily distinguishable from other salts that are classifiable under the same subheading.

Each of the metal salts we import can be described by their molecular formulas and by their individual CAS numbers in the same way that goods are described under tariff reduction legislation.

We included this information in our pre-hearing submission. Thank you for the opportunity to testify before the Committee today and for your consideration of my comments.

I look forward to answering any questions you may have.

MR. BURCH: Thank you, Mr. Wahl. Our next panel witness will be John Karson of FX Mineral, Inc.

Mr. Karson, you have five minutes.

MR. KARSON: All right, first of all, thank you to the USTR and the other parties here for the opportunity to speak. You have my written long submission but I'm going to just summarize it quickly today.

Like many other Americans, we generally support the basis for the Section 301 tariffs, however, there's two subheadings that have recently come off the exclusion list and I'd like to explain why they should stay on.

The two subheadings are 2818.10.10, artificial corundum crude, 2818.20, aluminum oxide other than artificial corundum.

So, first question, what is corundum

and why do we need it excluded from the tariffs? More common names for this are brown-fused alumina, tabular alumina.

First of all, these subheadings refer to minerals that are mined from the earth, subjected to some processing, and end up being very useful raw materials.

Corundum is just a phase of aluminum oxide where the crystal structure makes it heat-resistant. How heat resistant?

Well, these raw materials are used to make the bricks in mixtures that withstand 3000-degree temperatures of molten steel that's used in our steel mills.

They're also a necessary raw material in the production of iron, glass, cement, other alloys. These heat-resistant shapes and bricks are generally called refractories.

They're necessary to keep the U.S.A. competitive in producing everything from appliances, cars, bridges, structural, defense systems, home construction, just about everything in our daily lives.

One problem that I see is the way the items are classified and that might be why these items appeared on the tariff list after previous exclusion. Let me explain.

Aluminum oxide or corundum is produced from bauxite. We have some aluminum people on the panel here but bauxite is the mineral used to make aluminum metal. We call that metallurgical bauxite.

While we have vast resources for metallurgical bauxite all over the world to make aluminum, we are restricted to non-metallurgical sources to make refractories or alumina, which this category has.

So, I'm not looking to the bauxite, only a very specific non-metallurgical products made from a special grade of bauxite produced only in China, represented by these subheadings.

We get 97 percent of this category from other global sources but the 3 percent we get from China is for a good reason. We need it and cannot get it elsewhere.

I'm here today representing not only the refractory industry but the steel industry, foundries, cement plants, alloys, glass, other basic American industries that use refractories.

Here are some comments, public comments, made from some leaders of those organizations.

The Steel Manufacturers Organization representing members such as Nucor, Steel Dynamics, Gerdau, Sterling Steel oppose the tariff.

Philip K. Bell, President of the SMA states these products are imported predominantly from China and are not available in sufficient quantities or qualities from domestic or third-party sources.

While these products are an important component of the steel supply chain in the United States, imposing a 25 percent tariff of U.S. imports of these products will not effectively incentivize China to change its policies.

Charles Connors, President and CEO of an American refractory company, Magneco/Metrel, states a 25 percent tariff would be devastating to our company.

We would have no choice but to pass along the massive increases to our customers, U.S. Steel, AK Steel, ArcelorMittal USA, Nucor Steel, Alcoa, Steel Dynamics, just to name a few.

These tariffs will not hurt China but instead will unnecessarily harm American industry.

Thomas Gibson, President of the American Iron and Steel Institute, states AISI is the voice of the North American steel industry.

The domestic iron and steel industry has a significant presence in the economy, directly accounting for 387,000 American jobs and directly or indirectly supporting nearly 2 million American jobs.

While AISI supports the Administration's efforts to push China to reform its trade practice, we respectfully submit that adding a 25 percent tariff to some products may lead to unintended consequences for U.S. steel producers, and the list goes on.

We're not sure why these two subheadings were added back onto the annex but I'll state that the USGS Defense and Logistics Agency at the Department of Defense considers these to be strategic materials, as I mentioned in the full report.

In summation, some questions. Are these materials readily available domestically or from sources other than China? No. Are these materials strategic to the United States? Yes.

Will the tariff on these materials have a negative effect on the Chinese economy? No. Is the U.S. steel industry in favor of these tariffs on these raw materials? Absolutely not.

Will the tariffs on these items negatively impact the competitiveness of the U.S. steel industry? Yes, they will.

Can these tariffs on these items actually lead to a loss of jobs in the U.S. and increased jobs in China? Yes.

Will a tariff on these items impact American business and trade in a negative fashion? Yes. Would the U.S. markets still buy these items from China after the tariff? Yes, but at a higher cost.

We highly implore the USTR and those in the decision-making process to reinstate the tariff exclusion for those two subheadings, 2818.10 and 2818.20.

Thank you.

MR. BURCH: Thank you, Mr. Karson. Our next panel witness will be James Archibald of Wm. T. Burnett and Co.

Mr. Archibald, you have five minutes.

MR. ARCHIBALD: Good morning, Mr. Chair and Members of the 301 Committee. I am James Archibald, Vice President of Administration and Regulatory Affairs for William T. Burnett Company.

Burnett is a family-owned American company headquartered in Baltimore. It's been in business for over 100 years.

Our company and the U.S. consumers of products we make use a critical raw material known as fire-retardant rayon, or FR rayon, and are vitally interested in the tariff status of that raw material, which is essentially available only from china.

It's imported under subheading 5504.10.00, viscose rayon. This is a subheading that was initially on the proposed List 3 and is now back on the proposed List 4.

It was removed from supplemental List 3 following comments and testimony in August of 2018 demonstrating that it should be removed. I testified before this Committee on August 21, 2018 in that regard.

And the same reasons that compelled removal of that subheading from List 3 also compel that it be removed from proposed List 4.

Now, as to us, we have a manufacturing plant in Statesville, North Carolina, that employs around 155 workers and one in Phoenix, Arizona that employs around 25.

These plants make fire barrier material for mattresses, for domestic mattress manufacturers that enable the mattresses to past U.S. flammability laws and regulations.

Due to the competitiveness of the bedding business and foreign mattress imports, our margins on these important fire barrier products have steadily declined over the years and can only be described currently as thin.

The proposed tariff on rayon would further tighten the fire barrier market, significantly increase prices, and threaten our core business.

Basically, this FR rayon is an important necessary raw material and there's no production of this raw material in the U.S.A. The best estimates of worldwide production are around 20,000 tons annually with China being the largest supplier.

There is some percent, around 30 percent, producer elsewhere but nowhere near enough to meet the need of worldwide demand. We know that, we tried to source it from other countries, India, Spain, Germany, unsuccessful.

We imported under Subheading 9902.13.30, fire retardant viscose rayon, because this critical raw material is one of the products covered by the MTB as well as under the Subheading 5504.

We have in mind the customs guidance that products covered by the MTB still remain subject to ad valorem duties under 301. But we would urge that the reasons for being on the MTB also counsel that it be removed from proposed List 4.

While it wasn't excluded specifically under the last round, it never reached the exclusion stage because the whole category was removed. And we urge that it be removed and the reasons for prior removal not be discounted here.

Finally and importantly, the goods imported under the subheading in question are not strategically important or related to the Made In

China 2025 Program.

Indeed, to put the proposed tariffs on this critical raw material we can only obtain from China would do nothing to harm China. It will, instead, only harm us.

We will still have no choice but to purchase it from China but with the proposed tariff, purchasing at a higher price, harming us and our domestic mattress manufacturers who need our fire retardant barrier to pass federally mandated mattress burn tests.

For those reasons, I thank the Committee for its attention and urge that this material in this subheading be removed from proposed List 4.

Thank you.

MR. BURCH: Thank you, Mr. Archibald. Our next panel witness will be Robert Lauterbach of Ball Corporation.

Mr. Lauterbach, you have five minutes.

MR. LAUTERBACH: Thank you for the opportunity to appear before you this morning.

My name is Rob Lauterbach and I'm the Vice President of Global Sourcing for Ball Corporation.

Ball Corporation is a Fortune 500 manufacturing company with a 140-year history of providing well-paying jobs across our country. We're the world's largest producer of aluminum beverage cans.

Every single year we produce more than 40 billion cans in our U.S. facilities to supply our domestic customers. And Ball and its affiliates employ more than 7500 people across 20 states.

While we commend the Administration for taking the steps to address China's unfair trading practices and policies related to intellectual property, we respectfully request that the USTR continue to exclude aluminum can sheet from the scope of the Section 301 tariff.

Ball has a long history of using domestic aluminum producers in the U.S. because of the advantages that domestic supply provides in terms of lead time, freight, storage costs, and currency risks.

And we would prefer to rely exclusively on the domestic supply of can sheet for our U.S. operations.

Unfortunately, though, the U.S. supply has significantly decreased in recent years as aluminum manufacturers have converted production away from can sheet to higher-margin autosheet, moved can sheet production to locations outside the U.S. and have failed to meaningfully invest in increased domestic can sheet production capacity to meet our needs.

Because of a lack of domestic investment by our U.S. suppliers, we're currently unable to source all of our can sheet needs domestically and are forced to import supply from foreign suppliers.

In fact, the domestic shortage of can sheet has required Ball to triple the number of suppliers that we use. This drastically increases our freight and administration costs and the complexity of our supply chain.

The domestic supply shortage has intensified as the popularity of the aluminum beverage cans has grown rapidly.

U.S. consumers are increasingly concerned with the unsustainable amount of single-serve plastic packaging filling our landfills, waterways, and oceans.

Our customers understand that plastic waste is generally not recycled and recognize that aluminum cans are the most sustainable beverage package.

This increased demand combined with the certain exclusions that the Commerce Department granted us from the 10 percent Section 232 aluminum tariff and the knowledge that the can sheet was then outside the scope of the 301 Chinese tariff gave Ball the confidence to invest capital back into our domestic businesses.

Most notable was an investment of over $300 million in the construction of a new state-of-the-art manufacturing facility in

Arizona, and this was in addition to other significant job-creating and job-preserving investments in Texas and other states.

We understand the need to address China's unfair trade practices but can sheet has not been subject to these unfair practices, and including can sheet in the scope of the 301 Chinese tariff would not remedy nor counteract any of China's unfair trading practices.

Instead, the proposed additional 25 percent tariff on top of the already prevailing 13 percent tariff on can sheet imports would preserve the same market forces that have led the domestic producers to favor producing autobody sheet over can sheet.

We operate on thin margins. The effect of a 38 percent tariff on the price of our most important raw material threatens to stifle investment and job growth.

The proposed changes to tariffs creates disproportion harm to U.S. individuals, companies, and the communities in which we operate.

These tariffs would also result in a substantial loss of high-paying ancillary jobs in transportation, warehousing, service, and other industries.

We respectfully request that the USTR continue to exclude aluminum can sheet from the scope of the 301 Chinese tariff to help preserve American jobs and their positive effect on the U.S. economy, encourage and allow Ball to invest back into our U.S. businesses, and address our significant growth opportunity, and remain consistent with USTR's previous decision to exclude can sheet from this tariff.

Thank you for this opportunity to testify and I look forward to answering any questions you may have.

MR. BURCH: Thank you, Mr. Lauterbach. Our next panel witness will be Lauren Wilk of Aluminum Association.

Ms. Wilk, you have five minutes.

MS. WILK: Good morning and thank you

for the opportunity to testify today on behalf of the Aluminum Association and our member companies.

I appreciate this chance to share the aluminum industry's views regarding USTR's proposed modification to Section 301 tariffs applied to imports of Chinese-origin goods.

The Aluminum Association is the largest aluminum trade association in the United States, representing more than 120 companies across the entire value chain that produce 70 percent of the aluminum and aluminum products shipped in North America.

The Association represents aluminum production and jobs in the United States ranging from primary production to value added in semi-fabricated products to recycling as well as suppliers to the industry.

The U.S. aluminum industry generates nearly $71 billion in direct economic output and directly employs more than 162,000 workers.

While aluminum industry jobs have

grown 3.5 percent since 2013, the challenges that China poses in the global market are reducing incentives for future investment in the United States and putting significant stress on U.S. aluminum producers, a substantial concern if we want to maintain our momentum and ensure the U.S. industry's continued competitiveness.

China's trade-distorting behavior drives massive structural overcapacity in both primary aluminum production and the production of mid- and down-stream aluminum products.

This foundational problem, the result of massive subsidies bestowed by the Chinese Government on its aluminum producers confronts not only the aluminum industry in the United States but also around the world.

And the aluminum sector is an important case study for how the actions undertaken by the Government of China destabilized industries and investments around the world.

In fact, the OECD released a report on

market distortions in the aluminum industry in January of this year and that study finds that non-market forces in Government intervention are driving Chinese capacity growth.

Overall, the OECD profiled 17 aluminum firms that were geographically representative of the industry and found that 5 firms received 85 percent of all financial and non-financial subsidies and those firms were all in China.

USTR's proposed modifications to increase the scope of the Section 301 tariffs applied to imports of Chinese-origin goods would cover a significant number of aluminum products.

Notably, the proposed modifications to expand the scope of the 301 tariffs would newly cover aluminum products under HTS 7601, primary aluminum, 7604, bars, rods, and profiles including extrusions, 7605, wire, 7606, plate and sheet, 7607, foil, and 7608 and 7609, tube and pipe.

Several of these Chinese-origin products covered under those categories are also covered by Section 232 duties as well as anti-dumping and countervailing duty orders.

The Aluminum Association is glad to see the U.S. Government focus on imports from China and we believe that imposing Section 301 duties on Chinese-origin aluminum products will send an important signal to the Chinese Government concerning the urgent need to address overcapacity through government-to-government negotiated agreement.

A negotiated agreement that results in measurable, verifiable reductions in Chinese aluminum capacity for both the upstream and downstream segments of the value chain will allow for long-term fair market competition in the global aluminum industry.

In the meantime, the Association and its member companies will continue to evaluate and where appropriate address unfairly treated imports in specific sectors with targeted trade enforcement action to mitigate the domestic impact of structural overcapacity in China.

A durable, antidumping and countervailing duty remedy is the best course of action when an industry segment has been injured by unfairly traded imports.

Targeted antidumping and countervailing duty cases have led to a sharp decline in unfairly traded Chinese imports to the United States in key aluminum segments but China's subsidized overcapacity will continue to distort the global market for primary aluminum and aluminum products to the detriment of U.S. aluminum producers if not addressed directly.

Unfortunately, global exports of downstream aluminum products from China hit record levels in 2018, growing by nearly 25 percent year over year despite the Administration's Section 301 tariff regime and other trade actions.

According to aluminum research from CRU, only 29 percent of Chinese aluminum demand growth was domestic-led in 2018, the rest was export-led, compared with 74 percent domestic demand on average in the preceding five years.

Through the first four months of 2019, exports of those products from China have increased more than 10 percent.

The U.S. aluminum industry faces an ever-growing threat from producers in China that have long benefitted from support provided by the Chinese Government and its industrial policies.

We are pleased to see the United States engaged in bilateral and multilateral efforts to address China's market-distorting industrial subsidies and we encourage the U.S. Government to remain committed to pursuing negotiations to reduce the underlying issues that were identified in the 301 investigation.

Thank you again for the opportunity to testify today.

MR. BURCH: Thank you, Ms. Wilk. Our next and last final panel witness will be Ambassador Rufus Yerxa of National Foreign Trading Council.

Ambassador Yerxa, you have five

minutes.

AMBASSADOR YERXA: Thank you, Mr. Chairman and Members of the Committee for receiving my testimony today. I submitted a longer testimony to you and will summarize my comments today.

Many of you know FTC, an association here in Washington which is dedicated to making America more successful in the global economy by ensuring the adoption of competitive tax and trade policies, and strengthening a global rules-based system.

Our companies include many of the country's largest exporters, importers, and manufacturers, operating global supply chains and cumulatively with over $4 trillion in revenues.

We, of course, recognize how China's trade and investment policies continue to raise significant concerns and create discriminatory burdens for American companies, innovators, and workers. And these practices do remain a global challenge.

The U.S. needs to work closely with its other allies to build support for pressuring China to change these policies and, of course, the negotiations that have been undertaken by USTR and the Administration are welcome.

However, we strongly believe that imposing a 25 percent tariff on the additional $300 billion of imports at this particular time is the wrong approach for a number of reasons.

We do believe that it is a divisive and unwarranted acceleration of the dispute, likely to cause more harm than benefit because it will diminish rather than increase the likelihood of a comprehensive agreement and will have very significant impacts on the U.S. economy domestically.

Let me just summarize a couple of our key reasons. First of all, diminishing the likelihood of a successful deal, a major acceleration of tariffs and imports at this late stage of the intensive negotiations to us seems almost certain to harden positions and delay progress towards agreement.

It opens the U.S. to the charge that our tariffs have gone far beyond the aim of the original investigation and are motivated more by protectionist goals than a desire for a more open, mutually beneficial relationship.

It further increases the impression that the U.S. is willing to act unpredictably in using massive tariff increases, something we've done not just with China but with other trading partners over the last year.

And this diminishes U.S. credibility globally, making it more difficult to build an effective coalition of like-minded countries to pressure China into meaningful long-term changes.

The harm to the U.S. economy is obvious from the testimony you've heard today and I'm sure we'll hear more of.

It will further raise cost and uncertainty for American businesses and consumers who have already been harmed by successive rounds of tariffs and by retaliation from China.

This will significantly harm American manufacturers, farmers, and ranchers, reducing their profits at home because of higher supply chain costs while also reducing their exports.

And some American businesses, as you've also heard today, would be doubly harmed by tariffs that have already been put in place under Section 232 being accumulated on top of these tariffs.

Really, America's manufacturers and farmers are caught in the middle of this trade war, facing the prospect of, for example, agriculture needing long-term subsidies by the U.S. Government to offset the catastrophic and likely long-term harm to their ability to sell into China and other foreign markets.

For startups and small businesses engaged in the consumer hardware electronics or apparel sector, a 25 percent tax on core technologies could threaten their entire businesses.

And most importantly, new tariffs

would hit consumers' pocketbooks much more heavily than the tariffs we've had thus far.

Hardworking Americans are already struggling to pay their monthly living costs and should expect to see these costs increase as this relief is imposed.

So, we would urge the Administration to continue the negotiating process to withdraw highly counterproductive tariffs that have already been placed on some of our best allies and trading partners in order to create a better relationship with them in pressuring China towards change and using other strategies, including multilateral and plurilateral forces and negotiations, to bring China to an agreement.

Thank you very much, Mr. Chairman.

MR. BURCH: Mr. Chairman, this concludes all witness testimony from this panel.

MR. SHAILER: Thank you, Mr. Chairman. I actually have two questions for Mr. Brandon Peckman, Real Trading.

I'm sorry, just to reintroduce myself,

my name is Matt Shailer, I'm with the Foreign Agricultural Service and USDA. So, I had two questions.

I'll ask the first one, give you an opportunity to respond and then if you could answer the second?

What efforts has your firm taken to diversify your suppliers for steel pipe including from U.S. domestic producers since the United States imposed Section 232 tariffs on imported steel pipe in March 2018?

MR. B. PECKMAN: So, thank you for the question. First of all, it's not just steel we're looking at, it's a certain type of steel.

It's stainless steel seamless, which is a very special product, and as I mentioned in the testimony it is not domestically available in sufficient supply.

Less than a handful of mills that could theoretically make it are constrained by a very limited size range and could not cover even one-tenth of the demand in the U.S.

So, as far as finding a supplier in the U.S., it's really not possible for us.

MR. SHAILER: And then the second question is in the six-month grace period that you referenced or you proposed in your testimony, what steps would Real Trading and U.S. importers take during that period?

MR. B. PECKMAN: Well, the six-month grace period would more be an insurance for the companies who have already placed a lot of business with China and have this material on order and, as I mentioned, can't get out of these contracts.

Basically, their money's locked up. So, in some cases we have received an exclusion under Section 232 for some sizes.

The Commerce Department has concluded that it's not a threat to national security and it's not available in sufficient supply.

So, we have sold this material to our customers tariff-free and now they face that risk that potentially they may have to pay another 25 percent that they may have not have the budgeting of financing for.

So, this grace period would be to protect them.

MR. SHAILER: Thank you so much.

MR. B. PECKMAN: Thank you.

MS. DONG: Thank you. Hi, again, my name is Wenny Dong, I'm with the U.S. Department of Commerce. My question is for Mr. Wahl. I also have two questions.

So, first, what do you believe is the underlying cause for there being no qualified producers of metal salts required for aluminum grain refiner and master alloy products outside of China?

MR. WAHL: There used to be a U.S. supplier of these metal salts that is no longer in business in the United States.

There have been suppliers that have been used outside of China and from a reliability standpoint, we have had past experiences where they've decided to -- whether they produce them or not depends on other business sectors within their company and how well they're doing.

And they've cut us off on very short notice so the only real reliable supply is from China.

MS. DONG: Thank you. And as a follow-up, how quickly do you believe it's possible for non-China producers of these metal salts to ramp up production and replace Chinese suppliers?

MR. WAHL: At this point in time, I can't put a timeline on when that could be possible for that to happen, but I do not believe it's short-term.

MS. DONG: Thank you.

MR. FLEMING: Hi, I'm Bon Fleming, again, from the Department of State. This question is for Mr. Karson.

Mr. Karson, in your written testimony you state that other sources of these kinds of corundum are not as abundant, standardized, or generally as cost-effective as the Chinese versions.

Can you elaborate a little bit on these alternative sources and their viability?

MR. KARSON: It mostly has to do with the crystal structure of the material itself.

China was blessed with several, two, ranges that happen to have a crystal that's more uniquely made for alumina, whereas the rest of the world has crystal structure made for aluminum.

So, the only other real source of the raw material to make these materials would be Guyana in South America, but they don't have any production facilities at all, not even to crush the material let alone melt it.

Corundum is a melted material, you actually melt it and then grind it up again. So, there's no capacity there. They're not bringing anything over.

And again, just to make it clear, we've talked about aluminum, everybody knows the metal, corundum is actually what's used on sandpaper. That's aluminum oxide that's used in sandpaper but we're not talking about that particular code.

They divided that into two codes, one for the course material because there's already antidumping on abrasive material. So, this is the course material that we're talking about.

The only other supply would be a domestic supply but because of environmental and other constraints, they have not been able to produce enough material.

They produce only for the high-end abrasive market in the United States. They just cannot produce enough to supply the refractory market, which is much larger.

MR. FLEMING: Thank you.

MR. GILMARTIN: Kevin Gilmartin with Treasury Department again. I have one question for Mr. Archibald, and then a few follow-ups.

You note that Burnett has been sourcing essentially all its fire retardant rayon from China for years.

Can you provide any details about attempts to diversify your supply chain and source fire retardant rayon from other countries, particularly since it was removed from the proposed List 3 following comments and testimony in August 2018?

MR. ARCHIBALD: Certainly. As mentioned last August, we have tried some from Germany. Since the hearing last August, we've tried some from Spain.

It hasn't worked, the quality is not what is needed for this very important product because it's then used to pass the CPSC flammability standards.

MR. GILMARTIN: Thank you. And a few follow-ups, what factors have allowed China to achieve 65 percent of worldwide annual production of fire retardant rayon?

How long has China been the largest global supplier of fire retardant rayon and why is there no U.S. production of this material?

MR. ARCHIBALD: If we look at it

macro-wise, rayon, we all think of rayon as sort of being an American product.

What happened was when the apparel industry in this country moved to China, the rayon manufacturing in the U.S. dried up and moved to China as well.

What they then have done is developed these sophisticated manufacturing processes for this FR rayon. They do that because it's like a slurry manufacturing.

Rayon's made out of wood pulp and they're able to infuse this as it's being manufactured, that is, the fire retardant materials.

We've tried to, for example, to take regular rayon and ourselves work around that with American suppliers to coat it or things of that nature with the fire retardant properties.

It doesn't work because it has to be infused as part of the production process.

MR. GILMARTIN: Thank you.

MS. VON SPIEGELFELD: Good morning,

this is Cristina from the SBA. This question is for Mr. Lauterbach.

So, in your testimony, you noted that Ball purchases most of its aluminum can sheet domestically and just purchases from China to meet the remaining.

But in a fact sheet that's available from the Can Manufacturers Institute, it's called Aluminum Can Sheet Fact Sheet 232, it noted that 98 percent of the can sheet use to make beverage cans in the U.S. is produced domestically.

First of all, is this a number accurate? And whatever number that is, history explored other countries besides China?

And if you have not, what are the barriers to doing so?

MR. LAUTERBACH: So, the availability of can sheet to meet our needs has changed over the last several years as our requirements for can sheet have increased, and given the fact that our domestic sources have moved away from can sheet into autobody sheet.

So, while that figure may have been correct at that point, it's gotten worse since that point.

In other words, there's less availability of can sheet in the U.S. as they have shifted production to alternate types.

The second part of your question, yes, we are an international company that does business across the world. We use can sheet manufacturers throughout the globe.

As I said, we now use triple the number of sources that we had used before as it's necessary to find enough just to meet our domestic production.

MS. VON SPIEGELFELD: Sorry, this is a follow-up. Are you also using other aluminum can sheet from other countries besides China?

MR. LAUTERBACH: We source can sheet from obviously the U.S., Europe, from South America, from Korea, and then from China as well.

MS. VON SPIEGELFELD: Okay.

MS. ZHAO: I'm Shelly Zhao, USTR.

This question is for Ms. Wilk. In your view, what additional U.S. tariffs on Chinese aluminum have detrimental impacts on the Chinese aluminum industry?

And do you believe that the Chinese aluminum industry is a significant stakeholder in China's political system and whether its performance would have an influence on Chinese decision-makers?

MS. WILK: So, we do believe that the tariffs that have been imposed under the targeted antidumping and countervailing duty cases have had a significant impact and have caught the attention of that sector as well as other stakeholders in China's political system.

And I do think that increased tariffs would be an incentive to continue negotiations and other domestic actions that have led China to consider changing its production practices.

Aluminum is a very energy-intensive production process and so there are a number of policy actions that impact the production of aluminum worldwide but, certainly, also in China.

So, I think that to your question about whether impacting the aluminum industry in China would potentially have an impact on a political decision to, for example, continue negotiations, I do believe that's the case.

And I think engaging the Government bilaterally or multilaterally on these issues could be a very effective way to see a long-term solution to the structural overcapacity of aluminum in China.

CHAIR BUSIS: For those following the provisional schedule, Ambassador Yerxa was originally scheduled for Panel 3. He has been moved to this panel. Ambassador Yerxa, welcome, thank you so much for coming.

So, in your testimony you took a different view than we just heard. You didn't think the tariffs would be a good source of incentive for China to reach agreement.

Could you take this opportunity to elaborate on the types of approaches that you believe the Government should take, other than tariff actions and proposed tariff actions?

AMBASSADOR YERXA: Yes, I outlined some of that in my testimony.

I mean we think that it has been a major strategic misjudgment to have imposed tariffs on many of our best allies and trading partners under 232.

Because it's made it less likely for them to work with us and cooperate with us through plurilateral negotiations with China and through mechanisms like the WTO to try to bring China's practices into greater relief and to show where the need for change is.

We think China's more likely to respond to those signals than a sudden and rapid increase in tariffs. We recognize that 301 is an important instrument and there are times when use of tariffs would be justified.

And certainly, when the Administration started this effort, it basically monetized the damage from these practices at about $50 billion and brought the initial tranche of tariff increases.

But we think now, by accelerating at each stage when you don't reach an agreement, we think that China is likely to react negatively to that and we won't get much further at the negotiating table than we've already gotten.

That, of course, is a judgment the Administration has made so I want to make that point because we'll see if it works. But if it doesn't work, I'm not sure what Plan B is.

And we're hopeful that Plan B is not to keep these tariffs in place long-term. Across the board, you've heard obviously from a lot of people today how it affects their specific industry.

So, you hear that refrain from a lot of my businesspeople. We generally support the effort but by the way, if you do it in my sector it's going to have unintended consequences and adverse effects.

And we're worried very much about

losing the support of the rest of the world in pressuring China.

We think that global norms and the need for China to conform to global norms is ultimately something we shouldn't sacrifice for a bilateral trade conflict of this nature.

CHAIR BUSIS: Thank you, Ambassador Yerxa. I also have a follow-up question for Ms. Wilk. I don't know if I can ask you this because I'm not sure who all is in your Association but I'll give it a shot.

We had three of the witnesses testify about specific aluminum products or related products. There was aluminum salts, there's corundum and aluminum oxide, and the can sheet.

Does your Association take a position on those specific products?

MS. WILK: So, I would just note that we do represent companies that are engaged in various facets of these production processes.

We have in the past taken a position to support excluding from the 301 tariffs the raw materials and inputs that go into the aluminum production process that are not domestically available.

So, we took a position on that in September on List 301 products -- I'm sorry, List 3 products, that would have been subject to 301 tariffs. So, we've not considered the specific product categories that were mentioned today.

But generally speaking, I think we would distinguish between those raw materials and inputs that are domestically available versus those that are not.

And when it comes to aluminum products like sheet and plate, China certainly is a significant source of imports of those products generally, broadly, of those HTS categories.

And I think big picture, our view is that any action stemming from the 301 investigation should focus on China and bringing the Government to a negotiated agreement that would result in a reduction of the subsidies that are fueling the overcapacity there.

So, for that reason, we have not opposed the application of tariffs on these broad categories.

CHAIR BUSIS: I think in your post-hearing submission if you could consider identifying specific things that you consider raw materials not available except in China?

If that's possible, that would be helpful for the Committee. Thank you. Mr. Burch, you can release this panel.

Thank you.

MR. BURCH: We release this panel with our thanks. And would the witnesses for Panel 10 make their way forward?

CHAIR BUSIS: Mr. Burch, I think we're ready to start this panel.

MR. BURCH: Will the room please come to order? Mr. Chairman, our first witness for Panel 10 is Jamie Fiocco of American Booksellers Association.

Ms. Fiocco, you have five minutes.

MR. FIOCCO: Thank you. My name is

Jamie Fiocco, I am the President of the American Booksellers Association and the owner, with my husband, Michael, of Flyleaf Books in Chapel Hill, North Carolina.

On behalf of the American Booksellers Association, the ABA, and my store, I appreciate the opportunity to provide information in response to the request for public comments in these proceedings.

Our Association is a national, not-for-profit trade organization that works to help independently owned bookstores across the country grow and succeed.

ABA's core members, independent booksellers like me, are key participants in their community's local economy and culture. In addition, ABA actively supports and defends free speech and the First Amendment rights of all Americans.

ABA is Headquartered in White Plains, New York. ABA understands the Administration's serious concerns with China's failure to protect intellectual property and the related issues of forced technology transfers that are being discussed here.

However, the ABA believes imposing tariffs on books is a clear reversal of decades of U.S. policy that exempts books and other written material from trade restrictions. And to make this change would undercut important American policy interests.

In addition, imposing tariffs on books would seriously and proportionately damage U.S. small and medium-sized business, businesses like my bookstore, and consumers as well.

It is crucial to understand that even the most successful of independent bookstores operate on the thinnest of margins. And despite growth and success in recent years, bookselling is a highly volatile business.

If prices increase due to an increase in tariffs, the negative impact on the fiscal health of the bookselling world and on readers young and old would be significant.

Based on information from publishing colleagues, some 25 percent of books they publish are printed in China and the great majority of children's books and texts such as bibles are printed in China.

Not only would the proposed tariff impact what books are available and affordable to young readers and their families, it will impact what makes my store and other stores like mine unique.

In independent bookstores, sections are curated carefully by store owners to fit the needs of the communities in which the indie bookstore resides.

Tariffs on books would impose significant and unwarranted road blocks to creating a vibrant, diverse, children's book section for example.

This unfortunate result would impact both my business and the young readers and families in my community in ways that will have long-ranging impact on future readers.

There's a free expression issue at stake here as well. Any increase in the price of books would limit their sale, thereby limiting the exchange of ideas.

The importance of providing affordable books by a diverse range of authors to the residents of communities throughout this country cannot be overstated. Simply put, taxing books would be bad policy.

The proposed tariffs under Chapter 49 of the Harmonized Tariff Schedule would inflict harm on our customers, a diverse community of readers.

Imposing tariffs would also undercut fundamental American values such as the First Amendment right of every citizen to have access to a wide range of diverse voices and writings.

Any tariff on printed books, regardless of genre or title, would be a tax on every reader, whether they are community members who buy books in our store or whether they are school districts seeking to provide titles for students.

It will drive up the cost of books for everyone who reads. In many cases, especially in poorer areas, it may be the difference between whether a book is affordable to a reader or not.

The long-term impact that this could have would be significant. It will also disproportionately damage both U.S. businesses and consumers as well as critical priorities and values for our country.

Thank you for your consideration.

MR. BURCH: Thank you, Ms. Fiocco. Our next panel witness will be Daniel Reynolds of Workman Publishing.

Mr. Reynolds, you have five minutes. Can you please turn on your microphone?

MR. REYNOLDS: Good morning and thank you for this opportunity. My name is Daniel Reynolds, CEO of Workman Publishing.

On behalf of our 270 employees, our authors, our booksellers, and especially the readers who buy and enjoy our products, I'm here today to ask you not to impose tariffs on books and calendars.

I believe, like many in our industry, that tariffs on books printed in China would have a devastating impact on our industry and the people who enjoy and benefit from our products.

Workman today has become one of the largest family-owned independent publishers in America and we just celebrated our 50th anniversary.

Today nearly three-quarters of our catalog consists of four-color books, board books, and other types of unusual books that cannot be printed in the United States due to the lack of a trained workforce and capacity.

Their unique design, special features, use of innovative materials, and the assembly and technology required to make the final product demands that we go offshore to China to produce them. There is no other viable alternative.

As my company's CEO, I'm of course concerned about our bottom line and what it means to the health of our company and its place in the industry.

But what I most worry about, what keeps me up at night and brings me here today, is the impact that these proposed tariffs could have on children's books in particular.

In recent years there has been a renaissance in children's publishing and we've been both leaders and beneficiaries of this resurgence.

We create books with special features to help engage kids in reading and foster a love of books from the earliest years to middle school and beyond.

I'm particularly proud of our innovations and willingness to take chances and push the envelope of what a book is, which has resulted in some of the best-selling and most valuable educational children's brands like Brain Quest, which I have here, Big Fat Notebooks, Indestructibles, Fandex, Photiculars, Scanimation and dozens and dozens of individual titles.

This innovation is happening across the industry and it is great for kids. Our products gives our kids and parents and teachers a legitimate and compelling alternative to screens and other forms of electronics that are competing for their attention.

And these products are appealing enough, entertaining enough, and exciting enough to make kids choose a book instead and engage in the real learning that happens when they open it up and read. So much of this would not be possible without printing in China.

More than 30 years ago in the 1980s, printers began to grow and invest in China and the industry there has continuously invested in the kind of equipment, technology, and training of skilled labor that has allowed children's publishing to continue to evolve.

In our case, children's printers have helped us to, one, print on non-conventional materials like that of our Indestructible series for babies. They are printed on Tyvek, resulting in books that are chew-proof, waterproof, tear-proof, and nontoxic.

Two, experiment with materials and assembly techniques that allow us to create Photicular books which delight kids with moving images but also pack in a lot of reading and science.

Three, develop our many books-plus products, books on music with sound chips, a book about the human body that comes with a skeleton. And four, establish and expand our educational brands like Brain Quest, the Big Fat Notebooks, Fandex, and more.

There could not be a worse time to impose tariffs on books. Children's publishing is in its own process of shifting and evolving.

It is staking out its place in a world full of electronics in the distractions of apps, video games, and social media.

The only way for publishers like us to keep books relevant to kids is to be as nimble and creative as our digital counterparts.

And I fear that tariffs and the massive disruption in terms of prices and supply chains that they would force would derail this process.

These disruptions would have immediate and negative consequences for the children's book market. The bottom line is if tariffs are imposed, there will be fewer books available to American kids.

Lower-income families will be hit the hardest but the impact will be felt across society. When prices go up, sales go down, fewer books are sold, fewer published, and fewer will be in the hands of the kids who love them and need them.

Moreover, publishers will not be able to invest as vigorously in new titles, which will curtail our ability to bring new, creative books to market.

This will put all publishers at a significant disadvantage in our ability to compete with our digital competitors, and it'll weaken our ability as publishers and as parents to offer a page that's as compelling as the screen.

Thank you very much.

MR. BURCH: Thank you, Mr. Reynolds. Our next panel witness will be Mark Schoenwald of Harper Collins Christian Publishing. Mr. Schoenwald, you have five minutes.

MR. SCHOENWALD: Good morning, Mr. Chairman, and Members of the Section 301 Committee. Thank you for allowing me to speak to you today.

My name is Mark Schoenwald and I'm the President and Chief Executive Officer of Harper Collins Christian Publishing, a leading Christian book and bible publisher.

HCCP, as we're known as, has roughly 500 employees located primarily in Nashville, Tennessee and Grand Rapids, Michigan.

It is a parent company of the two largest Christian book and bible publishers in the U.S., Thomas Nelson and Zondervan, and operates with a mission to provide books and promote biblical principles and honor Jesus Christ.

I'm here with the specific request today that the proposed Section 301 tariff, Subheading 4901.99.00, for books, which includes 4901.99.00.40 for bibles, testaments, prayer books, and other religious books, be removed from the list of products from China to be subject to a 25 percent tariff as proposed in the May 17th announcement from USTR, Section 301, Docket Number USTR-2019-0004.

Historically, books of all kinds have received treatment different from that afforded to other forms of manufactured goods.

For example, their content is largely exempt from any kind of government regulation, whether they be novels, children's books, or any other form of writing.

And bibles, along with other sacred scriptures, are especially protected from government interference.

In addition, because of the special role of books in spreading knowledge and insight within our society, books are frequently exempt from taxation by local authorities.

Our government has long recognized that a wide and unhampered circulation of knowledge and religious thought is a fundamental characteristics of the United States. The printing of bibles is also unique.

Because of the specialized printing requirements and because of the expense of their printing, U.S. printers moved their bible-printing facilities abroad decades ago, leaving no substantial domestic manufacturing alternatives.

One of the unique characteristics of the bible is its size. There are over 800,000 words in a bible, about 10 times the size of an ordinary book.

Now, because of this, bibles are printed on unusually thin paper that cannot be fed into standard printing equipment and must be handled by specialized machines.

Bible covers too are frequently non-standard, often made of leather or other durable materials, stamped and embossed, designed so that the bible can lay open despite their size, and specially stitched to handle the weight.

And many bibles have decorative end papers and ribbon page markers. All these add up to substantially greater manufacturing costs that would be incurred of a production of an ordinary book.

As a result of these requirements, along with the other processes used for the manufacture of children's books, which you just heard about, of which HCCP is a leading Christian publisher and four-color books, the printing industry has segmented.

Much of the single-color trade book manufacturing continues to be done domestically where U.S. plants are highly competitive, while more expensive formats and color printing has largely shifted overseas, especially to China.

Close to 75 percent of HCCP's bible manufacturing expenses are incurred in China so the effect of a tariff will be widely felt among purchases of the bible.

In some cases, the resulting price increase will be so high that we will need to discontinue editions with features that bible consumers value the most and have come to expect.

Many of these bible purchases are churches, nonprofit organizations, ministries and schools, and other organizations that seek to study and spread the word of God.

Outreach efforts of these organizations will inevitably be affected by the cost increase imposed by these proposed tariffs.

We believe the Administration was unaware of the potential negative impact these proposed tariffs would have on bibles and that it never intended to oppose, quote, a bible tax, unquote, on consumers and religious organizations.

However, if printed books including

bibles are not removed from the fourth list of products from China to be subject to tariffs, when tariffs go into effect, consumers and religious organizations will face higher prices.

And churches, schools, ministries, and nonprofit organizations will have fewer resources to educate others and connect them with the Holy Bible.

Thank you.

MR. BURCH: Thank you, Mr. Schoenwald. Our next panel witness will be Craig Anderson of Publishers Clearing House.

Mr. Anderson, you have five minutes.

MR. ANDERSON: Members of the Committee, thank you for the opportunity to appear before this Committee today.

I'm appearing on behalf of Publishers Clearing House, also known as PCH, and our dedicated merchandise customers. We are deeply concerned by the administration's proposed inclusion of several basic household goods on List 4.

Many of PCH's products are included on this list but I am limiting testimony to our three priority categories.

First, tableware and kitchenware articles, second, flashlights, and third, portable electric lamps designed to function by their own source of energy. PCH hopes that the Administration will remove these household goods from the proposed list.

PCH was founded in 1953 by Harold and LuEsther Mertz, and their daughter, Joyce Mertz Gilmore, in the garage of their family home in Port Washington, New York to market magazine subscriptions.

In the 60-plus years since, PCH has developed into a diverse, industry-leading, omnichannel merchandise marketer that offers more than 7000 value-priced merchandise products via direct mail and e-commerce to U.S. consumers, and has more than 550 employees across New York, Massachusetts, and Maine.

Low and middle-income and mostly rural

households are the most important market segments for PCH and need quality products at value prices.

Most of our products retail between $9.95 and $19.95 and many of our customers utilize our free-credit, bill-me-later merchandise commerce model to pay in installments.

Our customers are highly price-sensitive and will immediately feel any increases in cost. Unfortunately, if the administration does not remove these products from the final list, PCH will be forced to raise prices.

China is not only the predominant supplier in each of these product categories, it is for all practical purposes the only supplier for our customers.

China supplies 83 percent of plastic tableware and kitchenware imported into the United States. China accounts for 94 percent of flashlight imports, and China supplies almost 75 percent of electric portable lamp imports.

No other country or group of countries, individually or combined, can substitute for China's production capacity.

Further, very few suppliers outside of China have the necessary equipment, from molds to tools, needed to produce any of these products.

The suppliers outside of China that do have the necessary equipment do not produce for our market segment.

It will be exceptionally difficult and costly for PCH to relocate its supply chains to third countries, and in some instances, it will simply not be possible.

This means PCH will be forced to pass the cost associated with any tariffs onto our customers. Given the market segment we operate in, an increase in prices will quickly lead to a decrease in sales.

Tariffs may be intended to encourage consumption of non-Chinese products, but they make our customers no more able to afford them. For example, our customers cannot just accept a high-priced flashlight.

If forced, they will simply choose not to purchase a flashlight at all. Naturally, this is concerning for PCH as lowered sales will impact our ability to grow and create new American jobs.

A decrease in sales will also affect the charitable organizations that benefit from PCH's commitment to contribute at least 40 percent of our annual profits to charity.

However, I am most deeply concerned when I think about the specific impact these tariffs will have on PCH's customers. The cost of many family activities, from baking to camping, will become too high.

Without lamps and flashlights, cars may not see customers walking their dogs at night and other customers may forego that key chain light that will help them find the keyhole late at night.

Parents who try to stretch their grocery budget may cut down purchases of healthy foods because they cannot afford containers they need to keep everything fresh.

PCH understands the Administration needs to address China's policies on forced technology transfer and infringement of intellectual property rights.

However, we believe tariffs on essential household items will hurt hardworking Americans more than they will impact China's trade and economic policies.

PCH requests that you consider removing these three categories from the list of goods imported from China that will be subject to tariffs under Section 301.

Thank you for the opportunity to appear today. I look forward to answering any questions you may have.

MR. BURCH: Thank you, Mr. Anderson. Our next panel witness will be Ms. M. Luisa Simpson of Association of American Publishers. Ms. Simpson, you have five minutes.

MS. SIMPSON: Good morning, Mr.

Chairman, and Members of the Section 301 Committee. My name is Luisa Simpson, President for the Association of American Publishers.

AAP represents both large and small publishers in the United States on matters of law and policy, and today we urge the Administration to exempt printed books under Chapter 49 of the Harmonized Tariff Schedule from any tariffs it may impose under Section 301 on products coming from China.

The imposition of tariffs on printed books would have an severe adverse economic impact on American publishers and partner businesses including booksellers and schools.

Because there are no alternatives to printing these books in China, the economic harm would in turn severely compromise the publishing industry's ability to invest in American voices and provide readers around the world with important books about culture, religion, history, and education.

Indeed, we believe that a vibrant

publishing industry in the United States powers American thought leadership around the world and should be a priority for the U.S. Government.

To be clear, the publishing industry shares the Administration's serious concerns with China's failure to protect intellectual property and the related issues of forced technology transfer that USTR has investigated in this Section 301 proceeding.

We do, however, believe that imposing tariffs on book production would have unintended harmful consequences that are the opposite of what this Administration intends.

Tariffs would wreak economic havoc on American publishers while having no discernible effect on the Chinese Government. Printing is somewhat of a legacy business, not a priority for China.

It is not part of the Made in China 2025 plan and likely of little interest to its innovation agenda. The damage to the United States, however, is greater than the sum of its economic harms.

The tariffs would upend decades of long-hailed U.S. policy of not imposing barriers to the importation of educational, scientific, and cultural material, given the importance of books to the existence or exercise of both religion and free speech.

Congress has even ensured that books are exempted from severe trade restrictions in the case of international emergencies.

It exempted books under the International Emergency Economic Powers Act and has consistently passed tariff bills making books duty-free even from pariah states.

We urge the administration to continue this important precedent of protecting American voices. The U.S. publishing industry is a premier creative force in a tough global market.

In addition to ensuring that American perspectives are prevalent throughout the world, the industry supports thousands of good U.S. jobs throughout the country.

American publishers do use qualified U.S. printers wherever possible but the reality is that our homegrown printing capacity has been extremely constrained since the 1980s.

Indeed, many of the most technically complex and innovative books, including many children's books, can only be produced in China because Chinese printers long ago invested in the most complex and labor-intensive manufacturing processes.

Again, American printers have neither the capacity to print these books at the volumes required, nor the specialized technical capability.

It would takes years and massive capital investment for other printers to try to develop anything resembling the resources available in China today.

Because U.S. publishers have no viable alternative printing sources, tariffs would be immediately devastating for the industry and its supply chain. Publishing is a business of thin margins.

Our member companies cannot absorb the cost of these tariffs and neither can their publishing customers.

Booksellers also have tight margins, while libraries and schools face exceedingly thin budgets with respect to acquiring materials.

Some publishers will be required to discontinue certain book product lines and cease investing in new products, thereby reducing choices for American readers.

Other publishers will be forced to reduce their workforce laying off highly skilled American workers. And still others, especially among the thousands of small publishers, could well be forced out of business altogether.

Inevitable increase in prices caused by the tariffs will force schools and libraries with tight budgets to buy fewer books.

Publishers would also be less able to discount or donate books to nonprofits serving lower-income children, and bookstores, especially the small and medium-sized bookstores that serve as focal points for so many communities already squeezed financially, also may be forced to close.

This damage would have a ripple effect across American education, from young children unable to pick up their first book to high costs for adults seeking new training to adjust to economic changes.

The effects on American growth, innovation, and future productivity, could be felt for decades.

In sum, it is hard to see any gain from tariffs on printed books, while the harm to American publishers, their customers, and American readers as well as the American voices that are so important to education, religion, history, and culture would be devastating.

Thus, we urge the Administration to exempt printed books under Chapter 49 of the Harmonized Tariff Schedule from any tariffs it may impose under this Section 301 proceeding.

Thank you for your time and for the opportunity to testify.

MR. BURCH: Thank you, Ms. Simpson. Our next panel witness will be Stan Jantz of Evangelical Christian Publisher's Association and Biblica.

Mr. Jantz, you have five minutes.

MR. JANTZ: Thank you. Members of the Committee, Mr. Chairman, thank you for the opportunity to provide information in response to this request for public comment.

I'm here to testify regarding the significant damage to book and bible accessibility that would effectively result from tariffs imposed on books and bibles per Annex 1 of USTR's May 14, 2019 notice.

The Evangelical Publisher's Association, or ECPA, was founded in 1974 as a 501(c)(6) nonprofit mutual benefit corporation to represent the interests of Christian publishers and the literature they publish.

I serve as ECPA's president and CEO.

ECPA is comprised of 96 publishing companies and 41 affiliate members who provide goods and services to the global publishing community.

Some of the publishing companies ECPA represents are owned by public corporations, some are owned by church denominations or national Christian ministries.

Many ECPA member publishers are family-owned. All ECPA members are united by a single mission: to make the message of Christ more widely known.

This message is communicated through books, bibles, and ancillary resources but the most direct channel for Christian message is the bible, the world's best-selling book.

It is estimated that 100 million bibles are produced and distributed in the world each year with 20 million of these sold or given away in the United States.

Publishers who belong to ECPA account for the majority of the bibles distributed within the U.S. A larger number of these, more than 50 percent, are printed in China.

While there are some domestic printing options available, the U.S. printers, as has been remarked already, that are comparable to China on price and quality do not have the capacity to meet current demand.

Chinese printers have developed the technology and the artistry to produce the kinds of bibles people want, which is why over 50 percent of the bibles published by ECPA members are printed in China.

In fact, more bibles are printed in China than any other country on earth. A 25 percent tariff imposed on bibles would cause a hardship for those ECPA publishers who depend on the bible for a large portion of their business.

Even more, the people who buy and read the bible would potentially have to pay a much higher price, perhaps higher than they could justify. Christians depend on the bible for their daily input of spiritual nourishment.

The bible is central to Christian

belief and practice.

A dramatic increase in the price of the bible, not to mention books that help people better understand the bible, would deter average Americans from getting the guidance and spiritual connectivity they depend on.

In summary, as I have talked with our members about the impact of the tariffs, I am hearing the same concern.

There will be significant damage to bible accessibility if bibles and books are not excluded. Some publishers believe such a tariff would place a practical limitation on religious freedom.

For sure we know that the competitive options for printing bibles outside of China are extremely limited, especially if the current average price of a bible is to be maintained.

Therefore, we respectfully request a tariff exemption for books and bibles printed in China.

It is also my privilege, and thank you

for the opportunity, to speak on behalf of Biblica.

Jeff Moran, President and CEO of Biblica, located in Colorado Springs, was scheduled to present on June 24th but will not be able to be here due to other circumstances. And so I will summarize his testimony.

Biblica, the International Bible Society, was founded in 1809 in Manhattan as the New York Bible Society, or NYBS. The NYBS began sharing the bible with the flood of immigrants entering the U.S. through Ellis Island.

In 1812 the NYBS began providing bibles for the military and in 1815 they did the same for prison inmates. Both of these ministries have continued to the present day.

During the 1950s, the society became the publishing sponsor of the New International Version, or NIV, of the bible.

When it was completed in 1978, the NIV quickly became the best-selling contemporary English translation of all time.

In 1988 the NYBS changed its name to the International Bible Society to reflect its new and widening scope of ministry. And in 2009 the International Bible Society changed its name to Biblica.

Today Biblica is involved with bible translation, bible access, and bible engagement in 55 countries. Providing access to the bible in print, audio, and digital formats is one of the Biblica's priorities.

Many people in the world cannot access the bible because they are illiterate. Others live in closed countries where bibles are not available, and those living in poverty cannot afford to purchase a bible.

Biblica believes everyone deserves the opportunity to access an engage with an easy-to-understand translation of the scripture.

A tariff on bibles printed in China would be damaging to Biblica's mission to provide bible's for people who need them most.

In Biblica's last fiscal year, Amity,

its printer in China, represented 72 percent of its investment in global bible publishing.

A tariff on bibles would dramatically affect the number of bibles Biblica is able to print and give away, impacting the religious freedom of individuals in countries where bible access is limited and often non-existent.

In addition, a tariff would drastically drain resources that Biblica would otherwise use for bible translation, access, and engagement.

Therefore, Biblica respectfully requests a tariff exemption for bibles printed in China.

Thank you for this time.

MR. BURCH: Thank you, Mr. Jantz. And Mr. Chairman, this concludes all witness testimony for this panel.

MR. GILMARTIN: My name is Kevin Gilmartin, I'm with the Treasury Department. I have one quick question for Ms. Fiocco and a quick follow-up after that.

First off, thank you for the testimony. What factors prevent your members from sourcing books and other printed materials outside of China? Is it just cost or is it more than that?

MR. FIOCCO: There's only one -- there are lots of types of books but if someone wants a title, there's only one version of it. We don't get to choose -- if an author publishes a book, it's with one publisher.

We're restricted on where we can source the books from, we often can't get them from other territories where the rights have been sold to someone else.

MR. GILMARTIN: And one quick follow-up?

MR. FIOCCO: Sure.

MR. GILMARTIN: What percentage of your members' products are from U.S. producers?

MR. FIOCCO: I can't answer that with figures. I could probably do some research for you and follow up, but I can say that we have a culture where we try to source as much as possible from U.S. manufacturers.

It's just something -- we're 2500 independent bookstores across the country. We're women-owned for the most part, a very diverse workforce, and we feel very passionately about believing in what we sell.

So, that's part of our process of evaluating what we sell in the stores. I can find some figures if they're available.

MR. GILMARTIN: That would be great. Thank you very much.

MR. FLEMING: Hi, my name is Bon Fleming, I'm with the State Department. I have a question for Mr. Reynolds.

Has Workman Publishing ever used or attempted to find alternative sources for printed products in the United States or in third countries?

And what, if any, obstacles have you faced or would you anticipate facing if you had to source your products outside of China?

MR. REYNOLDS: Yes, we work with many printers in the U.S. and in China and other countries. It really comes down to skillset and capacity.

The U.S. printing industry is a very vibrant industry but their focus is mostly on one-color, case-bound, paperback books without bells and whistles. Very good at what they do.

For them to develop the capabilities to do what we do in China would take years and it would require huge investment and set us back a couple years in our own publishing.

There are other countries, Korea and Malaysia, that we use for printing certain books but again, it's specific to a type of book, a type of skillset. And the capacity to absorb what is currently printed in China, they just do not have it.

The printing industry is a very efficient industry right now and even currently, if we try to move types of products from one printer to another, it causes delay in the production of those materials.

So, really, it's about capabilities and skillset and capacity, and can we adjust?

Maybe, in five years we can adjust to moving product away from China, but there's a lot of risks in it and what it would do to our business over that period of time would be very dramatic.

MR. FLEMING: Just a quick follow-up, what other country would you move to for a four-color printing process?

MR. REYNOLDS: Four-color printing, there is some capability in the U.S. There's Mexico, there's Korea, there's Thailand, there's, as I said, Malaysia.

So, those are all options for us. There's problems and we test the printing all the time. There are certain books that we have, like I said, that are printed on Tyvec.

There's only one printing plant in the world capable of doing it. We put a lot of stickers in our books to bring an interactive element to them, we put books in different formats, in a box format.

We developed these relationships with these printers over years. We developed the IP in our editorial offices and we find the right partner to that. That just doesn't happen overnight to change that.

MR. FLEMING: Thanks.

MS. DONG: Hi, my name is Wenny Dong. I'm with the Commerce Department. My question is for Mr. Schoenwald.

So, in a similar vein but focused on the types of bibles that are currently being imported from China, can you please kind of expand on any attempts to source these products domestically or from other countries and what that would be like?

Thank you.

MR. SCHOENWALD: About half our bibles from a unit perspective are imported from China and the reason is -- and I have an example here, it's hard to see and I'd be happy to approach the bench.

This is a bible that's made in the United States. It's simple groundwood paper that retails for $8 and it's a cardboard cover, and that's generally what we source here.

But then when you go to China, you get things like this, which is multiple piece covers, stitching, gilding, four colors, and the same thing with this.

It's $65, this is $50, which is art over board, cloth over board gilded edges in four color. We have attempted for years to diversify out of China and we would look at very similar places Mr. Reynolds referenced.

But I would use this as an example. Several years ago we launched an initiative to source bibles in Colombia, South America because they have some printing capabilities.

And we spent millions of dollars and sent a team down for over three years and they couldn't get it right.

We continually have, the two

consistent issues we have are, inconsistent quality and inconsistent capacity.

And so wherever we've tried, Korea, Italy, we do a little bit of business there but, again, the problem we always bump up against is inconsistent quality and inconsistent supply or capacity at these upper levels.

And so that's why we have had difficulty diversifying out of China.

MS. DONG: Thank you.

MR. SHAILER: My name is Matt Shailer, I'm with the USDA. My question is for Craig Anderson, Publishers Clearing House.

In your testimony you raised issues not with tariffs relating to publishing, but rather the potential tariffs on certain household goods needed by your customers. I read the annexes that you provided.

Has Publishers Clearing House searched for any alternative suppliers for these commodities?

I saw you listed some countries but

perhaps you could elaborate on their main disadvantages versus China?

MR. ANDERSON: Certainly. We have had success moving some categories and established a base in India but limited categories. No manufacturing available for the three categories in my documentation here.

We have also searched further in Southeast Asia and Vietnam in particular. The obstacles that we've encountered there is, one, finding factories that will produce the value-priced products that we sell, manufacture them at a price competitive to what we currently experience in China.

Scale of manufacturing, we've encountered factories that don't have the manufacturing base that the Chinese factories do. So, there are big-box retailers that have gobbled up all of the available manufacturing.

So, that's greatly extended lead times and also it's created some logistical disadvantages where we don't have scale in

Southeast Asia.

So, then we are encountering less-than-container-load pricing on trans-Pacific freight and/or moving the freight further north up the coast to consolidate where we do have a deeper scale. But that adds to lead times.

So, multiple speed bumps we've encountered.

MR. SHAILER: Thank you.

CHAIR BUSIS: Ms. Simpson, we'd like to explore a little bit what is perceived to be an advantage of manufacturing in China.

Do you know where the raw materials come from, the paper, the cardboard, or the ink? Where are those from?

MS. SIMPSON: It also varies but a large part of the production or sourcing for the materials also does occur in China.

And of course, there are different kinds of paper and if we are to look at the paper industry, that too is a problem here in the U.S.

As you may have read in many news

articles, we do have a severe problem in terms of finding paper in the U.S. There have been several paper mills that have closed.

So, in addition to the printing capacity issues that the publishing industry would face, printers themselves face a problem with sourcing their paper.

So, while there are sources for many things, paper does become a huge issue when you speak to the publishing industry.

CHAIR BUSIS: And there's testimony, I think you testified and Mr. Reynolds, that there's special techniques that Chinese printers are using.

Is the IP for those techniques or your trade secrets, is that owned by U.S. companies or Chinese companies?

MS. SIMPSON: So, it depends. The intellectual property for, of course, the content does belong to U.S. publishers.

There may be certain techniques within printing that might belong also to the printing company in terms of how they have developed printing machinery, how they employ the printing machinery to specialize in certain cutting procedures.

That might belong to a Chinese printer, but as Mr. Reynolds said, much of it is a collaborative partnership. The content does come from U.S. authors, U.S. editors, and the U.S. publishing company.

We look to China in part because they have developed this expertise over this 30-year period when specialization did move from the U.S. But I'd also like to emphasize that where we can print in the U.S. we do print in the U.S.

It's just that there are specialized needs that only China can meet in terms of skill and capacity. And, therefore, we do have no choice but to source our products from China.

CHAIR BUSIS: Mr. Reynolds, you mentioned the special techniques like the printing and so on. Who owns the IP for those techniques?

MR. REYNOLDS: We do. The publishers do that. We usually trademark a type of technology. You might have a book up there, our Photicular book on dinosaurs, it's up here, which is using lenses to make images move.

And we can bring that to any printer we want, China, domestic, and it's really with the Chinese printer that we work with, they were the ones to get the most efficient place to make that product affordable to consumers.

So, the printing stickers, printing other interactive elements in books is not a copyright that the printers have but it's a technique that we require for a lot of our books.

And just on the paper market, I just want to add that it's a very stressful situation in the U.S. in the paper market right now.

A lot of mills have closed down or transitioned over to corrugate because of the demand in corrugate for boxes in this country right now. Many paper mills have stopped making paper for books.

CHAIR BUSIS: A last question for Ms. Simpson. To your knowledge, when did production of certain books start to move to China and what was the reason for that move?

MS. SIMPSON: Well, I'll hazard that it's -- well, I guess I'll go to the date first.

The printer specialization movement began in the 1980s and I would look to American history to say that perhaps at that time there was a move by U.S. Government to look at what kind of production or manufacturing society we wanted to be.

And there was a move to invest in high-tech technologies more than manufacturing and that contributed to the movement to China, but in addition, cost is always a factor.

And the fact that skilled labor may have been slightly more economical in certain markets, that also may have contributed to that movement.

But certainly, it was a choice that some countries chose to look at manufacturing and some countries chose to look at higher production technologies or higher-tech industries.

And frankly, that's probably why the U.S. is a leader in terms of high-tech and why China is looking at our high-tech industries and why certain of their practices does seek to bring those sorts of high-technology industries to that country.

But in terms of manufacturing, they have an advantage there because they have invested in certain complex technologies as well as highly skilled workers with respect to printing.

MS. VON SPIEGELFELD: This is Cristina von Spiegelfeld from the SBA and this is directed to Mr. Jantz, although I think Ms. Simpson can also address this.

Do you believe U.S. printing companies would benefit from more business resulting from your members switching away from Chinese printing companies?

Or in other words, is there even any

interest in getting into the business? It seems that there's a demand for it and as you've said, it involves some sort of high-technology as well.

MR. JANTZ: I think it's primarily capacity. Already it's been mentioned, Mr. Reynolds mentioned it before, that some printers have gone out of business.

There's been a lot of consolidation in the U.S. printing industry and the capacity is just not there. So, if you move even a portion of those bibles and books printed in China to U.S. printers, it would overwhelm them.

And I think that's a serious concern. There is the capability, there's some very fine printers in the U.S. obviously, but their capacity even now is limited.

MS. SIMPSON: Just to add to Mr. Jantz's statement, as he said, there are U.S. printers that can do very good work in terms of certain kinds of printing.

But with respect to four-color printing, it has moved over to China and if we were to look at bringing that technology or that printing process back to the U.S., we're looking at significant capital investment as well as significant lead time in terms of training the workforce that can do or engage in that kind of printing process.

And to be quite candid, I think if we're looking at the situation now, it would be, I suppose, not close to nil but the interest from an investor in that market knowing the uncertainties we're facing with respect to the China tariff situation, it does not look like a solid business proposition, that you're going to invest in that kind of technology when you know there are already market leaders in that space in other jurisdictions.

CHAIR BUSIS: This question is for Mr. Jantz and I guess Mr. Schoenwald. In selecting your sources for your religious texts, are worker conditions a fact that you look at?

MR. SCHOENWALD: They are. We believe that our business with them, Western business investment, helps their economy, helps their workers.

And also, what we happen to publish in terms of the bible we believe from a foundational perspective helps the individual as well. We do work with the factories, we've had long-term relationships with these factories.

We don't jump around, we've been with them for years and we visit frequently throughout the year to monitor their staff and their production.

And we do talk to them about that, that that's important to us and we, again, for years have monitored that.

CHAIR BUSIS: Mr. Jantz, do you have anything to add to that?

MR. JANTZ: There's a little bit of an irony, I've been asked this before, and that is here's a nation, China, which is largely perceived as being atheistic, why is it that they print more bibles than any other country?

And besides their technology and all

that that goes into it, the Council on Foreign Relations has reported that tens of millions Chinese identify as Christians.

In fact, the Pew Foundation said it's around 5 percent, so that's about 70 million people in China.

And it's projected by the year 2030 there may be more Christians in China than there are in the U.S., which is kind of staggering to think about.

So, there is something going on in the growth rate, it's the fastest-growing religion in China.

So, even though the government has tried to manage, there is an official state church but there seems to be this cooperation that they do want to have this distinction of being a major supplier of bibles.

Now, most of those bibles, if not the majority, are exported but the fact that they do that is fully within the realm of the government.

And there seems to be a little bit of

a paradox but it seems to be because the Christian religion is the fastest-growing in China, there seems to be an acceptance of that.

MS. VON SPIEGELFELD: This question is for Ms. Fiocco, Mr. Jantz, and Ms. Simpson. Can you tell me what percentage of your memberships are small businesses? Just approximately.

MR. FIOCCO: 100 percent.

MS. SIMPSON: For the Association of American Publishers, we have 180 members. Of that, 161 are small and medium-sized businesses.

MR. JANTZ: We have 96 members. Of those publishers, around 70 and about 30 of those would be considered small business.

MS. VON SPIEGELFELD: Thank you.

CHAIR BUSIS: Mr. Burch, I think you can release this panel. Thank you.

MR. BURCH: We release this panel with our thanks. And would all the witnesses for Panel 11 make their way forward?

(Whereupon, the above-entitled matter went off the record at 11:19 a.m.)

MR. BURCH: Will the room please come to order?

CHAIR GRIMBALL: Before we begin with testimony, I would first like to introduce myself since I am the new addition to the panel. My name is Megan Grimball. I'm from the Office of General Counsel at USTR. You can proceed.

MR. BURCH: Madam Chair, I would like to note all witnesses on this panel have been seated. And our first witness is Jian Tan with the China Chamber of International Commerce accompanied by Ren Qing. Mr. Tan, you have five minutes.

MR. TAN: Good morning. My name is Jian Tan, a representative of China Chamber of International Commerce which represents 180,000 enterprises across all industries and sectors in China.

CCOIC requests that USTR not to proceed with the imposition of additional tariff on 300 billion U.S. dollars worth of China products. We noticed that more than 90 percent submitted written comments to object to the imposition of additional tariffs.

We also noticed that more than 90 percent of witnesses, having testified yesterday and this morning, expressed their deep concerns about the proposed modification.

These witnesses have explained how additional tariffs will hurt U.S. companies, workers and the consumers, including leading to child safety issues. Indeed, according to a research report by an American think tank, the proposed modification would lead to more than 2 million job losses and an additional annual burden of more than $2,000 on a family of four.

Given the harms to the U.S. interest, we believe the USTR should not proceed with the proposed modification. In addition, to impose additional tariffs on Chinese products is said to obtain the elimination of the Act's policies and practice covered in the investigation initiated in August 2017 since many of the covered acts, policies or practices have ceased to exist. All the alleged burdens and restrictions on the U.S. commerce have decreased. There's no basis to impose more additional tariffs.

First, the longstanding prohibition of compulsory technology transfer by the Chinese government has now been explicitly codified in the foreign investment law adopted this March.

Article 22 stipulates the state's encourage technical cooperation carried out according to voluntary principles and the business rose in the process of foreign investments.

Administrative organizations and their staff members should not use administrative means to force the transfer of technology. Furthermore, the foreign ownership restrictions with which the U.S. has concerns have been significantly reduced in the Negative List 2018 version, which introduced further opening up measures in 22 sectors.

Secondly, the State Council has decided to delete all of the legal provisions regarding the so-called discriminatory licensing restrictions this March, including several articles of the regulations on the administration over technology import and export and several subparagraphs of the implementing regulations for the Sino-Foreign Equity Joint Venture Enterprise Law.

In this regard, we noticed that the U.S. reasonably requests the panel in the relevant WTO disputes to suspend its work, and the panel has granted this request.

The Chinese FDI in the U.S. in 2018 declined to just $5 billion, approximately one-tenth of that in 2016.

Fourth, China has continued its effort to stringent protection of IP of both foreign and domestic right holders. For example, China has amended its trademark law and anti-unfair competition law this April. Now the amount of compensation can be up to five times of the actual loss of the right holders.

Finally, we call on the two

governments to make efforts together to reach a mutually beneficial agreement. Thank you.

MR. BURCH: Thank you, Mr. Tan. Our next panel witness will be Erin Ennis of U.S. China Business Council. Ms. Ennis, you have five minutes.

MS. ENNIS: Thank you. I won't use all of my time. You have my written statement. It looks very familiar for the statements that we have submitted for every previous hearing on the tariffs.

So let me just summarize. The U.S.-China Business Council have felt from the beginning of the Section 301 process that USTR correctly identified issues that needed to be addressed in the U.S.-China trading relationships, but we have opposed from the beginning the use of tariffs to try to achieve those goals.

Tariffs were not and are not the right tool to get China back to the table to address the issues that have been identified. And sadly, the actions that have been taken to date have had the unintended consequences of both causing China to double down on some of its own policies that the 301 investigation targeted, such as industrial planning, subsidies and other areas and frankly has caused the U.S. to begin to implement something that looks a lot like an industrial policy of our own trying to get American manufacturers to move their production out of one location into another one.

We do not believe that the implementation of List 4 is appropriate. We would strongly encourage you to not move forward on any tariffs listed in List 4. And we have been urging both governments, but I will encourage you again today, to get back to the negotiating table and talk about the substantive issues that you rightly identified in that 301 investigation because making progress on those will enable American companies to be more competitive in China as well as more competitive globally. Thank you.

MR. BURCH: Thank you, Ms. Ennis. The next panel witness will be Lisa Jacobson of Business Council for Sustainable Energy. Ms. Jacobson, you have five minutes.

MS. JACOBSON: Thank you and good morning. And thank you, Madam Chair and members of the Committee.

The Business Council for Sustainable Energy is a broad coalition of companies and trade associations representing the energy efficiency, natural gas and renewable energy sectors.

We were founded in 1992, and we advocate for policies that expand the use of commercially available clean energy technologies, products and services.

Our members include project developers, industrial manufacturers, equipment and technology providers, independent electric power producers, investor-owned utilities, public power and energy, and environmental service providers.

The Business Council for Sustainable Energy is also the home of the Clean Energy Business Network, which represents small and medium-sized American businesses providing clean energy technologies and services.

Together the Business Council for Sustainable Energy and Clean Energy Business Network represent a broad range of the clean energy economy from Fortune 100 companies to small businesses working in all 50 states and all Congressional districts.

The Business Council for Sustainable Energy testifies before you today to oppose the proposed modification of action of another tariff of up to 25 percent on the List 4.

The existing tariffs are already having a negative effect on U.S. industries, including our own, and the proposed tariffs will further exacerbate these negative impacts.

The affected industries include companies with energy interests, technology and service providers in energy efficiency, energy storage, demand response, information technology, manufacturing, natural gas, renewable energy and sustainable transportation.

These industries support over 3.5 million jobs in the U.S. today and are poised for significant growth in the years ahead, provided they have stable market conditions.

The existing tariffs on imports from China are affecting a range of raw materials, components and products that are important to domestic clean energy Industries.

Many of these American clean energy companies face intense competition from abroad and the prospect of paying up to 25 percent more for components puts U.S. industry at a competitive disadvantage.

Further, some U.S. clean energy technology sectors are relatively new with developing supply chains and utilize components that cannot be procured from anywhere but China at this time.

Higher priced components for energy

systems and infrastructure will add market barriers to advance natural gas, energy efficiency and renewable energy. This will negatively impact U.S. jobs and harm U.S. competitiveness in our growing international markets.

While we strongly oppose the pending actions, should it move forward we request that USTR establish an exclusion process for this proposed fourth tranche of tariffs.

Establishing an exclusion process for these affected clean energy industries to share important market impacts and request remedies is paramount to U.S. competitiveness, job creation and the continued growth of domestic energy industries.

In closing, the Council would like to highlight that it is also a signatory to a joint energy industry letter submitted to the public record yesterday, June 17, which also expresses its opposition to the use and continued escalation of China tariffs and its detriment to the American energy companies that signed.

The Council also thanks the Committee and USTR for its leadership in addressing China's unfair trade practices and looks forward to working with you to identify remedies and using mechanisms other than the imposition of tariffs to correct these practices. Thank you very much.

MR. BURCH: Thank you, Ms. Jacobson. Our next panel witness will be Andy Binder of HP Incorporated. Mr. Binder, you have five minutes.

MR. BINDER: Good morning. I'm Andy Binder. I'm the Vice President and General Manager of the Office Supply Solution Business at HP. I've been with the company 30 years serving in various engineering, marketing and sales roles.

And I really do appreciate the opportunity to testify today regarding the certain impact the proposed tariffs would have on HP's technology leadership, specifically proposed tariffs on two subheadings covering ink and toner cartridges.

I will offer an alternative solution that can achieve the same results without the unintended consequences of broad tariffs.

In 2018, HP requested the removal of these subheadings from the proposed first list of tariffs. We are pleased that the administration agreed. Thank you for that.

Today we ask you again to remove them from the newly proposed list of tariffs. HP is the worldwide leader in the design, manufacture and sale of printing systems, including the HP Inkjet and HP Laserjet brand of printers.

Our technology leadership in print has been enabled by our significant investments in innovation. HP invests hundreds of millions of dollars in research and development on imaging and printing every year resulting in over 19,000 patents worldwide. A significant portion of this investment is in our print-related R&D facilities located in California, Idaho, Oregon and Washington, which together support thousands of high paying U.S. jobs.

Infringers steal HP's intellectual property and provide cheap rip-offs to our ink and toner cartridges. In this regard, we're very supportive of the efforts to curb these abuses.

We are concerned, however, that the proposed tariffs ironically would help rather than hinder infringers. For this reason, we are seeking the removal of the subheadings related to ink and toner cartridges.

Given the importance of IP development, protection and enforcement to our business, we appreciate the administration's commitment to assuring a level playing field for IP intensive industries globally.

We have certainly encountered IP related challenges in China. However, we don't view broad-based tariffs as the most effective response.

We have found that Section 337 of the Tariff Act of 1930 to be the most effective tool because it completely excludes patent infringing imports. HP and others in our sector have been successful in combating IP violations using Section 337.

In 2011, HP obtained exclusion orders that blocked Chinese imports found to infringe on our patents and these orders are still in effect today.

It is important to appreciate that import bans such as those authorized under Section 337 are not only effective in the U.S., they are the cornerstone for effective intellectual property enforcement worldwide, even in China.

337 is a more surgical and effective instrument than the blunt tool of tariffs, which cause unnecessary collateral damage.

Broad-based tariffs would hurt HP projects relative to IP infringing products. Our prices reflect the fact that we invest heavily in R&D, quality, adherence to stringent environmental standards and offer post-sale services like warranty and recycling.

By contrast, the prices of these

suspect products reflect none of these compliance costs or the consumer benefits.

As such, an across the board tariff would make their prices more attractive relative to HP's innovative product that customers might otherwise purchase.

These tariffs would raise prices for HP consumers relative to the suspect goods and would not help us to keep suspect products out of the U.S. market.

Frankly speaking, for the printing supplies industry, these tariffs do more damage to the consumers and intellectual property holders like HP than it will do to the IP infringing products.

Such a result would conflict with the administration's goal of minimizing economic harm to consumers and would not be effective in advancing the goals of the Section 301 investigation.

HP respectfully requests the administration remove ink and toner cartridges specified in their submission from the final tariff list and encourage the expanded utilization of trade remedies already provided under Section 337 to exclude IP infringing products from entering the United States markets.

On behalf of HP, I thank the administration for its consideration of our request.

MR. BURCH: Thank you, Mr. Binder. Our last and final panel witness will be Haicheng Zhu of Zhejiang Chession Law. Mr. Zhu, you have five minutes.

MR. ZHU: Thank you. This is Haicheng Zhu from Zhejiang Chession Law Firm. We are a law firm based in Hangzhu, China. As a Chinese lawyer, again, I'm going to look at your eyes and tell you what kind of serious consequences that this administration is doing to WTO and the world economy.

First, the current Section 301 actions are illegal and are seriously weakening WTO, the most important multilateral trading system in the world.

China and the U.S. are both WTO members. And the international trade dispute happening between WTO members should be resolved through WTO mechanisms, not with unilateral actions without authorization from WTO.

The Section 301 actions and the related tariffs are illegal, and it's lynching international relationships. And it's unimaginable and intolerable in a civilized world.

Any unilateral action taken by WTO members would make WTO weak and unimportant. The other members may follow steps, such as in Zhejiang era. If you saw it's not functioning very well, that's why WTO came into existence, right? So let's work in WTO, make it more efficient.

Second, Section 301's mechanism is unreasonable. USTR is playing the role of police, judge, jury and the prosecutor, everyone at the same time. Due process is totally neglected here. Can you imagine what kind of result would come out of such kind of proceedings? We can see no fair result would come out of these proceedings.

A lot of accusations in Section 301 report are baseless. So procedural justice is also crucial when it comes to WTO rules. Thirdly, the current $300 billion list is against even U.S. domestic laws. Can you imagine that?

Now, let's turn our attention to U.S. domestic laws. Section 301 is authorized by Congress through USTR to proceed under the related laws. Even though there is such an authorization, it is overbroad and vague without clear standards. In the U.S. Constitution the right to taxes, duties belongs specifically to Congress.

Now the current administration can put almost everything exported from China to U.S. under Section 301 tariff. Clearly, this authorization either is too vague or the executive branch is going beyond the authorization.

So we can assume that very soon judicial reviews will be raised against current Section 301 laws and the related action. And we will see what a U.S. judges will say about it.

Fourth, Mr. Trump's quote of, trade wars are easy to win, is irrational. There is an ancient Chinese saying, one general's glory is built upon tens of thousands of soldiers' skeletons.

Here, in the trade war, even though no lives are being taken away, but the damage to the economy, the outcries of the entrepreneurs here, I'm sure today, before today and in the days upcoming, also the online comments, we will see virtually all of the people hate the tariffs. These would be the skeletons in reality.

Further, how would you define what is winning and how easy it can be? No war is easy to win. To be honest, even street fights are not easy to win. The winners either go to jail or they go to hospital. That's the reality world.

So we sincerely wish that things would change.

Fifth, we wish the textile products with headings 5407, 5801, 5903, 6001 and 6005 would be excluded because they were excluded from the first list in the $200 billion list. So there is no reason you should put back in again. There is no reason for you to do that.

Finally, we sincerely wish that everyone within the administration to do something about it, realizing the serious consequences that have been done to the world economy and to the WTO.

Within your power, I'm not asking you to stop everything, but within your power do something, please. Even if you cannot change the whole situation, but still, you can do something about it.

Eliminate as many products as possible from the list to do as less harm to the economy as possible. Let's make friends, not enemies to create a win-win situation, not a win-lose phenomenon, to better serve the world economy and to preserve the dignity and the function of WTO. Thank you.

MR. BURCH: Thank you, Mr. Zhu. Madam Chair, this concludes all of our testimony from this panel.

CHAIR GRIMBALL: Before proceeding with questions, I would like to just remind members of the audience there is no photography or recording allowed in these proceedings. I've seen a few cameras. Please pay attention to the rules that we've set forth. Thank you. We're ready to begin with questions.

MR. GILMARTIN: My name is Kevin Gilmartin. I'm with the U.S. Treasury Department. Thank you all for your testimonies so far today.

My question is for Mr. Tan. In your testimony you listed a series of measures that the Chinese government has taken so far to address concerns of the United States.

In your view, in your opinion, would China have taken these measures without the imposition of additional duties from the United States?

MR. TAN: I would actually let that my assistant, Mr. Ren Qing, answer this question. Thank you.

CHAIR GRIMBALL: Before you answer, could you please introduce yourself for the record?

MR. QING: Okay. Thank you. My name is Ren Qing. I assist Mr. Tan to provide testimony today.

Thank you for your question. Our observation is that the Chinese government has taken these kind of measures because they attach importance to the reasonable concerns raised by the Chinese government and also raised by the Chinese commerce.

These kind of measures are not the result of the additional tariffs imposed by the U.S. government, but it shows the sincerity of the Chinese government to resolve the concerns of the U.S. Commerce and to create a better business environment in China. And it also indicates a great sincerity for the Chinese government to resolve the issues and start a dialogue and negotiations with the United States. Thank you.

MR. GILMARTIN: Yes. Just --

MR. TAN: One word, one word. I would also add for the further opening up for the Chinese market. Thank you.

MR. GILMARTIN: Just a brief follow-up. Considering that many of the U.S. government's concerns have been longstanding, why in your opinion did it take the Chinese government a long time to address these concerns, which we have been repeatedly bringing up in different venues for years?

MR. TAN: From my observation, I think in the past several years, China has opened up its gates -- I think it is quicker and quickly. That's the reason.

MR. QING: Yes. To provide some more information, our observation is that China has consistently addressed the reasonable concerns raised by the foreign companies.

For example, regarding the intellectual property protection, in recent decades the Chinese government has consistently taken various measures to strengthen their protection, including the judicial protection and the administrative enforcement.

For example, China has three standalone IP courts in Shanghai, Beijing and the Guangzhou. China has established an intellectual property tribunal within this Supreme People's Court to strengthen the protection of investment in intellectual property.

Another example is the market success of foreign investment. China has continued to reduce the foreign ownership restrictions as mentioned by Mr. Tan before. Last year, China reduced our restrictions in more than 20 sectors. And it is said that in this year, the Chinese government again reduced the foreign ownership restrictions. Thank you.

MR. GILMARTIN: Thank you.

MS. DONG: Thank you for your testimony. My name is Wenny Dong. I'm with the Commerce Department. My question is for Ms. Ennis. So in your summary you had discussed -- you mentioned supply chains.

And my question is from your diverse group of members, since the 301 proceedings, what have you heard about them regarding supply chains and how does that fit into a bigger picture of just general trends that are happening with China and Asia and overall?

MS. ENNIS: Sure. So I think it's important to keep in mind that how companies view their supply chains depends on where their customers are.

U.S.-China Business Council members generally fall into three categories. Companies that make things in the U.S. and ship it to China. Companies that make things in China and ship it to the U.S. Companies that make things in China to access Chinese customers. Where you sit on that spectrum affects how you decide where you're going to do production.

So we have companies who produce things in the United States because of a desire to protect the high end IP that they have but require an input of a widget of some sort from China but are looking at moving their production out of the United States to Mexico, Europe or elsewhere to be able to get out of the cross-border tariff battles that the U.S. and China are having.

There are certainly companies that are producing in China to ship to the United States that are looking at moving their production out of China, but most of that were movement that seemed to be probably underway prior to this anyway because cost margins reducing in China. There's no really good alternative, however, for some products.

As we noted in our testimony for high end electronics in particular, the ecosystem that it requires to produce high tech consumer electronics really only exists in a handful of places, and you can't replicate that in other markets.

So there is no uniform answer, but I will say that every company is certainly looking at how they are affected by the various tariffs that have been put on by both sides and making decisions based on where they think their customers are going to be.

Could I offer just one thought on your question as well? I think it is important to keep in mind in terms of why China acted now is that China actually was moving on some of these things several years ago when we were negotiating a bilateral investment treaty.

That might be attributed to the fact that we were in the midst of negotiating the Trans-Pacific Partnership at the time. And so it was creating the outside pressure.

But based on U.S. and Chinese economists that we've talked to over the past year, there were no discernible effects of the tariffs in China in 2018 and yet China wanted to come back to the table by November and negotiate with the United States.

So we can talk about whether this is causation or correlation. But there certainly is plenty of evidence that China has been willing to act on these things before. We need to push them to lock those things in.

Many of the things that China has announced today are things that will go -- it will make some difference for companies. But it really does require the U.S. and China and frankly all of our trading partners to be engaging more directly on these things on the substance to ensure that it's not simply a law that's passed that has broad commitments that are never enforceable, but having the implementing regulations and the implementation of those things that will achieve the goal of that the 301 investigation laid out.

That is best done not through tariffs, however. That's best done through negotiation. And frankly, we think that you all probably are close and you just need to get back to the table.

MS. DONG: Thank you.

MR. FLEMING: Hi. I am Bon Fleming from the State Department. I have a question for Ms. Jacobson. What efforts have your members taken to diversify their suppliers of components, including from U.S. domestic producers, particularly since the United States imposed the Section 201 tariffs in January 2019?

MS. JACOBSON: Well, first of all thank you very much for the opportunity to share the Council's perspective. And we're a very broad industry association so I can't really speak for any one industry. But I'd like to share, you know, what I've been hearing.

And the Council, traditionally, has not been consistently involved in trade issues. But since this process and others have occurred, our members have really asked us to share the implications from their industries to government agencies and Congress.

So I think, number one, the concerns

that have been raised in the investigation are shared broadly by many of the industries that the Council represents. And they seek, like the U.S. government does, to remedy them as soon as possible.

But I think it's pretty important, as the previous speaker just said, that they have an implementation track. And so they need to be based on consistent negotiation and the hard work that all of you do.

I know you do work extremely hard to make progress on these issues. So we commend you for your time and your efforts. However, we think the tariff route is not a productive one.

But in terms of kind of the response, I guess I would say several things. You know, looking for example, I'll speak for one of our board members, the American Wind Energy Association.

Tom Kiernan, the CEO, testified last week before the Congressional committee and talked about the impact of tariffs. He noted, you know, in the United States that the wind industry has over 110,000 jobs in all 50 states. And they have made a tremendous effort to manufacture as much as they can here in the United States, 500 facilities around the country.

But there are just some components that cannot cost effectively be produced here in the United States. But that's not just one industry. I mean, I could talk about the fuel cell industry and lithium ion batteries.

I could talk about, you know, the whole digitization of the energy marketplace and that impacts all aspects of the energy supply chain and really does impact consumers.

There are some products that cost-effectively or from a supply chain perspective could not move within the timeline that you described.

And then the other point I would make is it's not just a facility. You know, we're talking about building an entire supply chain workforce. So we're talking about considerable time and considerable investment.

So in terms of from January 2018 to now, I mean, that, you know, investments are much more long lived, and they are not able to respond as quickly as that time period allows.

I think overall, too, we're at a time where this administration really wants to focus on U.S. energy dominance. We have such tremendous assets, and we want to see that grow and expand. But this is creating tremendous uncertainty in this marketplace.

And, again, it touches all aspects of the market. And it impacts small businesses to the largest of the corporate sector in this space. So they're watching closely and it's creating uncertainty, and they really hope that we can have a resolution soon.

MR. FLEMING: Just a follow-up, have any of your members explored how long it would take to move their supply chains outside of China?

MS. JACOBSON: I mean, I don't have a

quantitative response, but the answer is yes. I think everybody in the market has been noticing this and doing everything that they possibly can.

But this is a very price sensitive marketplace. We're talking about American households and businesses that rely on U.S. energy that is affordable and reliable and safe. And so this is, you know, a marketplace of prime concern for all of our economic activity.

MR. FLEMING: Thank you.

CHAIR GRIMBALL: Ms. Jacobson, I think it would be helpful for the panel, and I recognize that you're representing an industry coalition, but if you or members of your coalition could identify the specific raw materials and components of concern.

Perhaps that was in the letter that your coalition submitted yesterday, but if not, it would be helpful to have some specifics on those raw materials and the corresponding HTS lines

MS. JACOBSON: I'd be happy to work to

provide that to the committee.

CHAIR GRIMBALL: Thank you.

MS. DONG: Hi, Ms. Ennis. I have another follow-up question for you. So in your submitted testimony, it stated that the cost increases associated with the tariffs will inevitably be passed on to U.S. consumers.

And so we understand that the Fed's preferred inflation measure, the Core Personal Consumption Expenditures Price Index, has been at or below the Fed's target of 2 percent for years. In April it was, for example, 1.6 percent. So we were just wondering if you could please elaborate.

MS. ENNIS: Sure. So we talked to companies that manufacture products, both consumer goods and higher end goods as well as the retailers who sell them. What they tell us is that for Lists 1 and 2 in particular, there were industrial products where the price margins were high enough where they were able to work out some modifications either in taking a slightly lower profit, passing along or sharing some of the costs with their customers on it.

List 3, when it was at 10 percent, most companies told us that they probably found ways to absorb those costs. But when List 3 increased to 25 percent, companies said that that really was something they would have to pass on to customers.

For List 4, since the vast majority of the product are consumer goods, what companies tell us is that the profit margin for making those products is already extremely low. And so by increasing the cost of the production of those products that while the margins may seem fine in terms of broad indexes, for actual individual companies to be able to continue to make a profit off those products, the price will have to increase.

MS. DONG: Thank you.

MR. SHAILER: Hi. My name is Matt Shailer. I have a question for Andy Binder. Mr. Binder, besides your laptop facilities in

Chongqing, where else in China or outside of China does HP assemble laptop and personal computers?

MR. BINDER: Thank you for the question. Unfortunately, I'm not an expert on HP's laptop business. That's another business unit within HP. And so I wouldn't be able to -- I'd have to get back with you with the details on your question.

MR. SHAILER: Thank you. And then could you comment then, because it's related, what factors prevent you from sourcing from other countries outside of China? Is it just cost? Is it more than that? And then would you, HP, consider moving laptop personal computer assembly out of China as a result of additional tariffs?

MR. BINDER: Again, unfortunately, I'm not able to give you any detailed answer on the laptop question. But I will comment on the ink and toner cartridge production.

Moving our production out of China won't stop IP infringing products from coming into the United States. And that's where we believe Section 337 is really the tool for us to go out and exclude IP infringing products from entering the market.

And really the intention of this, of course, is to protect intellectual property and innovation of HP and other U.S.-based companies. So we would focus there.

That being said, our supply chain is quite complex, and it requires a lot of factors, including security as well as the logistics and the components that go into our manufacturing.

So for us to move things out of China would be a very deliberate and long process for us to do so without disrupting our customer and our supply chain and our supply chain security. So we would hope that the administration appreciates the complexity we have to deal with and the constraints related with moving our products out of China.

MR. SHAILER: Thank you.

CHAIR GRIMBALL: This question is for

Mr. Zhu. Of course, you commented a bit about the alleged inconsistency of the Section 301 investigation and these tariffs and proposed tariffs with WTO rules.

I would appreciate hearing from you, your views on whether China's retaliatory tariffs are WTO consistent.

MR. ZHU: Because, you know, U.S. made the first move. What kind of options do people have? I mean, at this moment, everyone is forgetting about WTO.

So also recently, there is also the news that India is also raising tariffs against the U.S. That's what's happening now. I mentioned it in here because the U.S. made the first wrong move, people are just getting maybe a little crazy or, you know, a little that kind of style. Who cares about WTO now?

So that's a big problem. So everyone should really get back to the table. Respect WTO. Respect the rules. You cannot blame me for your -- because you made the first move, you are expecting us to make the move that you wanted. It's not going to happen.

So I think you should not blame us on the retaliation, you know, tariffs. It's about why would you do the Section 301 in the first step? Think about it.

Because of the -- actually, in 1999, you raised this WTO case against U.S. relating to Section 301. Finally, luckily, U.S. got away from that case. It's because U.S. promised that it will never, ever you will take unilateral action since then.

Actually, this is against China, the Section 301, the first case of the WTO. Can you imagine that? Because after WTO's existence, people are just refraining from these kind of unilateral actions.

Now, everything is being forgotten. Everything is being put aside because U.S. is making the first wrong move. So I think people should really think about it. Thank you.

MR. BURCH: Madam Chair, may we

release this panel with our thanks?

CHAIR GRIMBALL: Take a 50 minute break for lunch and we'll reconvene at let's just say 1 o'clock.

(Whereupon, the matter went off the record at 12:06 p.m. and resumed at 1:03 p.m.)

MR. BURCH: Will the room please come to order?

CHAIR TSAO: Hi. Good afternoon. Welcome back. We have some new members to the Section 301 Committee for this particular panel.

So, before we start taking testimony, I would like to ask the new members to introduce themselves. I'll start.

I am -- my name is Arthur Tsao. I'm an Associate General Counsel at USTR, Office of General Counsel.

MR. SHEPPARD: Hi. I'm Wade Sheppard from Youth Department of Agriculture.

MS. MAIN: My name is Ann Main. I am a Senior Director for China Affairs at the Office of the U.S. Trade Representative.

MR. CARLSON: My name is Benjamin Carlson, from the International Trade Administration at the U.S. Department of Commerce.

MR. SECOR: Peter Secor, Office of Bilateral Trade Affairs, Department of State.

MS. VON SPIEGELFELD: Cristina von Spiegelfeld, Small Business Administration.

MR. BURCH: Mr. Chairman, I would like to note that all witnesses for Panel 12 have been seated. And our first panel witness is Robert Gaither of Shen Wei USA.

Mr. Gaither, you have five minutes. Can you please turn on your microphone?

MR. GAITHER: My name is Robert Gaither, Chief Executive Officer of Shen Wei USA located in Union City, California.

I'm appearing before you today on behalf of the 59 colleagues in our U.S.-based company and the millions of Americans who depend on our premium gloves, which offer unique handheld and performance technologies that demonstratively enhance a user's performance, safety, and comfort.

Shen Wei USA is a large U.S. supplier of high quality exam grade and performance gloves made from latex, nitrile, and high performance engineered yarns. We've been in operation for 35 years. Our products are widely used in hospitals, by emergency first responders, pharmaceutical manufacturing, dental offices, labs, automotive aftermarket, and industrial manufacturing facilities.

The hand protection products we supply cannot be manufactured in the United States due to the high cost of labor, materials, packaging and energy. Raising the tariff to 25 percent on our products from China will require us to raise prices to our customers.

The trade negotiation between U.S. and China has been disruptive to our operations. And we've lost business to other suppliers as customers anticipate the additional tariffs.

We have downsized our staff. Put

hiring and salary adjustments on hold. And pulled back on our development of new hand protection technologies.

Our company's President and Owner, Belle Chou appeared at the hearing on 8/20/2018 to testify about the reasons that made it impossible for us to quickly switch our source of supply to other countries to avoid the 25 percent duty being proposed for importation of our gloves from China.

I'd like to share a few facts that have impacted us since the start of the U.S./China trade negotiations.

We've put our R&D and launch of new products on hold. We've seen an increase in customer complaints on products we have transferred to Malaysia and Thailand. We've cut back on our marketing spend in the U.S. We are aggressively pursuing new customers in other countries to offset the business lost.

We've faced higher procurement costs for our products sourced elsewhere. And we cannot find replacements for our proprietary products we purchase from China. For example, our biodegradable glove technology underwent 945 days of testing to support our biodegradable claim and sustainability benefits. Because of the long testing cycle needed for this product, there is no other alternative available to replace the product for our U.S. customers.

This country's healthcare system uses 45 billion exam gloves annually, or 200 thousand tons, of which approximately 120,000 tons go to a landfill.

We feel the tariff will create a disruption in the supply chain, giving Malaysia a monopoly to inflate pricing and manipulate supply for disposable exam gloves. Malaysia is supplying more than 60 percent of the world's disposable gloves. If there is a geopolitical or unexpected event in Southeast Asia during an epidemic outbreak in the U.S., we fear American hospitals will not have the necessary supply, resulting in a safety and health risk to patients and healthcare workers.

There are more than 65 hundred healthcare distributors in the U.S., mostly small and medium sized enterprises that rely on suppliers like us to aid in their success. Our manufacturing line designs in China can produce short runs and offer low MOQs. This advantage has contributed to the success of new start-ups and small distributor businesses in the United States by minimizing their capital investments in finished goods.

The tariffs on China exam gloves will make them uncompetitive. The larger MOQ requirements from factories in Malaysia and Thailand make it impossible for the smaller to medium sized distributors to purchase exam gloves directly, significantly reducing the competitive environment.

Our products also must meet mandatory safety and dermatological standards, namely UL, NFPA, and SHA. For the past year we have contacted manufacturing facilities in Southeast

Asia, and they do not have the necessary equipment, capacity, and skilled labor required to produce the high quality performance products our customers have come to expect.

Our factories in China are the only third-party accredited SA8000 facilities of producing disposable gloves. The accreditation provides assurance to our customers, we provide ongoing and reliable assurance that our company is upholding social performance expectations, which is also continuously improving management systems to address and prevent social and labor risk. Every factory we contacted in Malaysia or Thailand, does not meet this accreditation.

Our company was experiencing significant growth prior to the tariff discussions. And was planning to invest in additional resources in the U.S. to expand the -- to support the expansion. Due to the proposed tariff increase, all new investments are on hold. And our focus is on cost reduction and downsizing.

I respectfully appeal to you that the products listed in our request be removed from the list of products from China subject to the proposed 25 percent tariff.

Thank you for the opportunity.

MR. BURCH: Thank you, Mr. Gaither. Our next panel witness will be Adam Freedman of Make Right North America.

Mr. Freedman, you have five minutes.

MR. FREEDMAN: Thank you very much for the opportunity to testify today. I am Adam Freedman, President if Make Right North America. We are the sales and regulatory affairs' office here in the U.S. for our parent company, Make Right Industries headquartered in Taipei, Taiwan.

In our factory located in Dongguan Province, China, we manufacture disposable safety face masks, also known as disposable respirators. We respectfully request that HTS 6307.90.98, specifically HTS 6307.90.98.89, under which our safety face masks are classified, be excluded from the proposed Section 301 tariff increase.

The type of respirators I'm referring to are used to protect American workers against toxic dust particles such as those found in coal mines, steel mills, and fertilizer plants.

These respirators are also FDA regulated medical devices and used in the hospital workplace to protect both healthcare workers, and the patient against such sophisticated viruses as tuberculosis and pandemic such as SARS, Avian Flu, H1N1 Flu, and Ebola.

Individual American consumers also purchase these face masks for home use such as remodeling, and also during emergencies such as wild fires and flood cleanup. Millions of these respirators are sold by Make Right and shipped to the U.S. in the private brand packaging of our customers such as Medline Industries, Cardinal Health, and the Home Depot.

We request exclusion from this proposed tariff increase for the following reasons. Number one. It would be extremely difficult to relocate our factory to another country outside of China as many of our raw materials are sourced in China, such as the inside filter material that performs the filtration work of the fine toxic particles.

Relocating our factory outside of China would result in significant increases in the cost of these raw materials. In addition, as our factory is highly regulated by the CDC and the FDA, relocating would take a significant amount of time to obtain the necessary government approvals which are required to ship products.

Number two. National emergency pandemic events as exemplified during the H1N1 Flu outbreak, Avian Flu, SARS, et cetera, created restricted supply. And some U.S. manufacturers had agreements with the U.S. government which allowed the government to have the first right to respiratory production.

This created an extremely tight supply of respiratory products for non-governmental use. During these times, the U.S. needs the production from Make Right to produce all the face masks it can as quickly as possible. Having our factory available to manufacture and ship product is a very good way to manage a pandemic or emergency risk. We need to stay in business to be a legitimate supplier during times of difficulty here, as opposed to counterfeit factory products.

If Make Right were no longer available to customers because of effects from increased tariffs, there will be insufficient supply of these products to satisfy U.S. demand. The anticipated stress on supply could jeopardize the health and safety of countless numbers of U.S. workers and consumers.

Number three. The fit of the respirators on the wearer's face is very important. OSHA requires all workers using the popular N95 disposable respirator, for example, to be fit tested before occupational use.

Make Right respirators have been used in the American workplace for a very long time. And millions of our respirators are sold each year in the U.S. market. Our respirators have been fit tested on American workers.

If a factory in the U.S. decides to change respirators because of increased costs due to increased tariffs, this would result in undue burden on American industry, as it would be very difficult for industry to re-fit test other respirators due to the large number of individuals already using our products. Moreover, American workers generally prefer to stay with the respiratory product they have been using for years.

Number four, the cost impact on Americans. Additional tariffs will be passed on by our importer customers to their distributors and end users. Some end users may not be able to afford this additional cost. And will choose not to use respiratory protection if the price becomes prohibitive. This may result in fewer American workers or individual consumers being protected in dangerous situations. Our current competitive pricing contributes to Americans using these products.

Number five. The USTR has previously recognized the special circumstances of companies that make health and safety equipment. It excluded, for example, certain protective head gear, such as safety helmets from Section 301 tariffs.

Make Right has a similar mission to make products which safeguard the health and safety of American workers by protecting their lungs and respiratory health. Make Right products therefore should be similarly excluded from Section 301 tariffs.

Again, we respectfully request that HTS 6307.90.98, specifically HTS 6307.90.98.89, under which our safety face masks are classified, be excluded from the proposed Section 301 tariff increase. Thank you very much for the opportunity to testify.

MR. BURCH: Thank you Mr. Freedman. Our next panel witness will be Fabio Alt of Dainese.

Mr. Alt, you have five minutes.

MR. ALT: Thank you. Dear members of the Committee. My name is Fabio Alt, and I'm the Director of Operations and Finance of Dainese USA, a subsidiary of the Italian corporation, Dainese SPA.

Dainese is internationally regarded as an industry leader in personal body protection and apparel for action sports such as motorcycling, mountain biking, and skiing. The mission of the company is simple, delivering and advocating safety in dynamic sports.

Our vision is to allow people to pursue their passions while reducing risk and saving lives. Dainese's products are the result of decades of research and development. Among the many leading products we have released, perhaps the most important breakthrough in motorcycling and skiing safety since the adoption of the helmet, has been the introduction of the personal air bag system.

AGV is our motorcycle helmet brand.

It is one of the historic and most technologically advanced motorcycle helmet manufacturer that has been investing in research and development for the past 70 years. AGV helmets are widely recognized as some of the safest helmets on the market. And they are used to contest in the highest form of motorcycle racing.

It is a company commitment to create the safest helmets possible. Which far exceeds the two-thirds minimums of the U.S. DOT and European ECE through an effort that we call, extreme standards.

The most comprehensive motorcycle fatality analysis report of all times, the COST 327 Report states that by increasing a helmet's impact absorption capacity by 30 percent, it will reduce the number of motorcycling fatalities by 50 percent.

The importance of those numbers has given AGV a benchmark by which to over-achieve. Unlike many other manufacturers, we develop helmets with a double certification, DOT and ECE, with entry level helmets such as this K-1 helmet that I brought here today.

These aspects are highly appreciated among the U.S. consumers. In addition to our helmets offering impact protection above the required minimums, we also ensure that the helmets are created in a way that offers passive safety by improved comfort, increasing the field of view, offering state of the art cooling, and reducing road noise. All factors that allow the wearer to be comfortable and undistracted, which is paramount in avoiding crash in the first place.

Our helmets are manufactured in two cutting edge factories in China as a result of decades of research and technological advancement that Dainese could not readily shift to another venue. Dainese USA estimates that it will take three to five years to transition the testing, tooling, and manufacturing infrastructure to the U.S. All of which would create costs beyond the company's capability.

We believe that there simply are no feasible nor realistic alternatives for Dainese to manufacture in the U.S. such a high quality product at the same price point.

Currently Dainese sells in the U.S. tens of thousands of helmets each year. And we contribute to decreasing fatalities and severe injuries across the nation. Imposing a tariff of 25 percent on helmets, which is the most important safety item, would force the company to raise the consumer prices drastically. This would in most cases price out our company and surely prevent the American motorcyclist from buying one of the safest helmets on the market -- or any helmet for that matter.

Every dollar earned by Dainese USA is reinvested in hiring more Americans. And to ultimately protect more Americans from injuries and fatalities. While tariffs are directed at balancing out the trade with China, it will ultimately come at the price of job losses to

Americans, as well as exposing sports enthusiasts and work commuters to greater risk.

If the new tariffs were put in place, we would most likely be forced to reduce our business efforts in the U.S., laying off several employees. An effect which likely contradicts the intent of the new tariffs. But most importantly, the tariffs could put in jeopardy the safety of the American motorcyclist and skiers, increasing also the cost of healthcare.

Currently, the estimated motorcycle riding population is about 12 million. As a company and brand known and recognized in motorcycle and ski safety apparel worldwide, we oppose to the increase of the tariff from China, as these actions will jeopardize our continued ability to invest in research and development, and provide the highest quality products to the American consumers.

We urge, therefore, the Committee and the Administration not to impose tariffs on the following subheadings, 3926.90.90 for visor and shields, 6506.10.30 for motorcycle helmets, 6506.10.60 for bike and ski helmets.

Thank you.

MR. BURCH: Thank you Mr. Alt. Our next panel witness will be Teresa Hack of Channel Products.

Ms. Hack, you have five minutes.

MS. HACK: Good afternoon Chairman and the Section 301 Committee. Thank you for allowing me to represent our company, Channel Products, share our story, and respectfully request for the exemption of six HTS codes from the proposed 25 percent tariff.

I am Teresa Hack, CEO of Channel Products. Our company invents and manufactures component systems and technologies designed to improve safety, ensure reliability, and enhance efficiency. We were established in 1972 in Ohio by a small group of visionaries with expertise in solid state physics. Our founder, Don Berlincourt invented the iconic small red pushbutton ignitor used on gas grills.

Channel's products found in gas barbeque grills, water heaters, agricultural heaters, space heaters, residential furnaces, and other products, are used by consumers and farmers across the United States. Needless to say, our products are part of a majority of Fourth of July celebrations.

I have been the CEO of the company since 2012, and we are proud to be a woman-led small business that drives our industry forward. Over the last 47 years we've experienced tremendous growth and we employ over 40 hard-working Americans and almost two hundred people globally.

Our company is facing extreme financial losses due to the Section 301 tariffs. While Channel understands the goals of the USTR and the Administration regarding China's aggressive and discriminatory trade policies, today I will outline three reasons why six HTS codes should be removed from the fourth list of products proposed to be subject to a 25 percent tariff. The six HTS codes cover 147 of our different products, especially our gas ignition systems and electronic controls. Products that are central to our business, as well as to consumers and the agricultural industry.

First, these tariffs will continue to do irreparable harm to our small business. The Section 301 tariffs from List One and Three have resulted in an unexpected cost of over $600,000, which is significant for a small business like ours. We have determined that an additional cost of the List Four tariffs on our business would be almost $1 million.

Our company has already had to reduce our engineering and manufacturing workforce, as well as our R&D investments, to be able to maintain financial stability that has been threatened by the Section 301 tariffs. These tariffs are crushing our small U.S. business, while benefitting our large foreign competitors. As an example, a wire harness that sells at 25 percent gross margin under the pre-tariff cost structure will immediately drop to a 9 percent gross margin if the Section 301 tariffs go into effect. This is insufficient to cover our administrative costs, and Channel is forced to absorb these costs.

Our customers are price sensitive and raising our prices would result in our inability to compete with large foreign competitors. It's with a heavy heart when I say our company has determined that if all List Four HTS codes are approved, Channel anticipates we will incur overwhelming financial and job losses. We will not be able to sustain our current business model beyond 2019.

Second, Channel Products cannot source our products outside of our wholly owned manufacturing facility in China. Otherwise, this would involve disclosing patented technology or proprietary manufacturing processes that are developed by Channel.

It is economically unfeasible for our small business to even contemplate funding a complete rebuilding of our supply chain, given the time horizon and investment required to ensure protection of our IP, control the quality, reliability and safety of our products, and remain competitive with our foreign competitors.

Additionally, the U.S. is not a competitive location within which to manufacture our products. The direct costs associated with purchasing from the U.S. instead of China, is approximately 125 percent higher, which would destroy our margins and be devastating for our business.

Third and finally, our products will not be effective in curbing China's predatory practices. Neither Channel nor our products are subject to any predatory acts by China such as cyber theft, market access, or forced technology transfers. Channel holds numerous U.S. patents on electrodes, igniters, and ignition systems, and none of our suppliers in China hold any intellectual property rights for these products.

In summary, we ask that our six HTS

codes, particularly those gas ignition systems and electronic controls, be excluded from the fourth list of products proposed to be subject to a 25 percent tariff. Otherwise, the future of our 47 year old company is at great risk.

I appreciate your time. And welcome any questions this Committee may have.

MR. BURCH: Thank you Ms. Hack. Our last and final witness for this panel is Stanley Bernard of Drexel Chemical Company.

Mr. Bernard, you have five minutes.

MR. BERNARD: Thank you. Headquartered in Memphis, Tennessee, Drexel Chemical Company is a family-owned U.S. manufacturer of generic off patent crop protection products, also known as pesticides. Literally starting from his kitchen table, Bob Shockey founded Drexel in 1972. And Drexel is still owned and operated by Mr. Shockey and his family. Today Drexel employs more than 400 people in nine production facilities located in Tennessee, Mississippi, Georgia, and Arkansas.

Primarily Drexel produces its products in its U.S. facilities from technical-grade pure pesticide active ingredients manufactured by other entities. The formulations and processes used in producing Drexel's products are developed in Drexel's research and development laboratory in Memphis, Tennessee.

Through necessity, most of these pesticide technical materials are imported from China because there is no other world source. A few of the pesticide technical materials may also be made in the U.S. or in countries outside of China, but those are sources mostly unavailable to Drexel for reasons I will explain.

In my Section 301 testimony of August 24, I described the impact upon Drexel's business and Drexel's ultimate customer, the American farmer. Although the initial List Three products subject to Section 301 tariffs included most of our chemical inputs for the production of generic protection -- crop protection products, when the final List Three was issued, three of Drexel's four largest products, the herbicides glyphosate, atrazine, and 2,4-D were removed from the list. The fourth, Metolachlor remained on List Three.

Of the remaining chemical inputs used by Drexel, those that were included in List Three and subject to a 10 percent tariff had also recently been granted a duty reduction thanks to the American Manufacturing Competitiveness Act. So the financial input was somewhat offset, but the implementation of Section 301 tariffs ultimately diminished the benefits seen through the miscellaneous trade bill.

Last month the List Three tariffs were increased 25 percent, and proposed tariffs up to 25 percent announced for another group of products imported from China -- that's List Four.

Between the products in List Three and those in the proposed List Four, 17 of the 20 pesticide active ingredients Drexel imports from China are included in Section 301 tariffs. In particular, tariffs on those products on the proposed List Four will be devastating to Drexel and American agriculture. These tariffs, combined with the List Three tariff increase to 25 percent, will impose an additional 25 percent cost on Drexel's four largest products, glyphosate, atrazine, 2,4-D, Metolachlor and others.

These four herbicides are also American agriculture's most widely used crop protection products. Of the conventional pesticide inputs used in U.S. agriculture, herbicides make up 86.6 percent of these inputs, with the four largest herbicides accounting for 76.4 of the herbicides used annually.

With the exception of one multinational agricultural chemical company, Corteva Agriscience, all of the multinational agricultural chemical companies that produce the inputs for crop protection products in the U.S. or Europe are foreign-owned entities. The multinational chemical companies produce the inputs for crop protection products for their own use, not for sale on the market, and certainly not to a generic competitor like Drexel. Thus, these sources are not available to Drexel.

The inclusion of glyphosate, atrazine, 2,4-D, and others in the final List Four will not harm the multinational chemical companies since they produce most of these products for their own use domestically, or somewhere outside of China, and consequently will not be subject to the 301 tariffs.

Instead, small producers of crop protection products, like Drexel, who have no source other than China for these inputs, will be the ones harmed by these potential tariffs. Adding 25 percent to the cost of Drexel's generic agricultural products will deprive Drexel of its ability to compete against the name brand multinational agricultural chemical companies.

Small farmers will result -- will suffer as a result. Approximately 75 percent of Drexel's customer base is comprised of small farmers. Small farmers often opt for cost-effective generic crop protection over name brand crop protection products, offered by the multinational chemical companies. If glyphosate, atrazine, 2,4-D and others included in List Four and subject to the 25 percent tariffs, the cost of Drexel's inputs will rise above the company's ability to absorb the cost increase.

Pesticides are an absolute necessity and a major input in U.S. agriculture. Without them weeds, insects, plant diseases would destroy a farmer's crops and livestock. U.S. agriculture, especially America's small farmers, do not have the manpower or financial whereforal to weed fields manually to prevent weeds, and other threats to crops overwhelming their farmland.

Unlike many of the consumer goods covered by the Section 301 tariffs, the decision of when to purchase and use an agricultural pesticide cannot be delayed or avoided. The added cost of these inputs would increase the price of Drexel's generic crop protection products. Drexel would have no choice but to raise its prices for these products, which consequently may result in Drexel's products being priced out of the market.

Since many of the name brand producers will not be subject to Section 301 tariffs, multinational can and will take advantage of the lack of competition product pricing from Drexel to increase their prices in the agricultural market.

In the end, small farmers will pay the price. While it is common knowledge that the U.S. trade dispute with China has negatively --

CHAIR TSAO: Sir?

MR. BERNARD: Impacted the value of commodities, --

CHAIR TSAO: Excuse me, sir? Could you wrap it up, please? Thank you.

MR. BERNARD: The farmers will face a double whammy.

The thing I really wanted to bring about in concluding was, agricultural chemicals should be treated as pharmaceuticals. They're indispensable to American agriculture.

It is not by accident that they have this connection, because they were developed by pharmaceutical companies. And are -- have to undergo the same regulatory requirements as pharmaceuticals.

Thank you.

MR. BURCH: Thank you Mr. Bernard. And Mr. Chairman, this concludes all witnesses' testimonies.

CHAIR TSAO: Okay. Before we start the questions, we have a new member to the Section 301 Committee.

Can you introduce yourself for the record?

MS. MITCH: Thank you very much for your testimony. I'm Sage Mitch with the Department of the Treasury.

(Off-microphone comments.)

MS. MITCH: So, my question is for Mr. Gaither. In your testimony you highlighted that Malaysia already is an alternate supplier for disposable gloves, but that there might be some issue with meeting the standard of gloves that you currently make in China.

What about non-Southeast Asian country options or other third country suppliers?

MR. BURCH: Can you turn on your microphone?

MR. GAITHER: Most of the production for exam grade gloves, or even non-exam grade gloves, almost 80 plus percent come out of Thailand and Malaysia.

The products that we have moved were nonindustrial products -- or, I'm sorry, non-exam grade products.

MR. BURCH: Can you pull the mic a little closer?

MR. GAITHER: The products that we have moved were non-exam grade products. And we've been getting consistent complaints from our customers that it's not the same quality that they were getting out of China.

MR. SECOR: My question is for Mr.

Freedman from Make Right. In your testimony you state that if Make Right products are no longer available to customers, there would be insufficient supply of these products to satisfy U.S. demand.

Could you give us a notion of what Make Right's current market share is for the products?

MR. FREEDMAN: Yes. It's hard to say exactly but between all of our import customers we could probably estimate, maybe, 5 percent.

MR. SECOR: And do you know where Make Right's competitors produce their products?

MR. FREEDMAN: There's very limited manufacturers of disposal respirators in the United States. There are a number in -- a much greater number in China.

MR. SECOR: And am I correct in understanding from your testimony that you only have the one factory, and it's in China?

MR. FREEDMAN: Yes. Correct.

MR. SECOR: At the time of the

pandemics you mentioned, SARS and the others, there were a lot of impediments to transportation of both people and products. Have you considered that in where you locate the production?

MR. FREEDMAN: I think -- the comment regarding the pandemics was more about supply in capacity. We were not able to produce as well as many other manufacturers -- able to produce enough to meet the immediate needs of the U.S. consumers. There were some situations where consumers were airfreighting in product because of that need. So, we have not made any factory decisions specifically based on -- or factory location decisions specifically based on the pandemics.

MR. SECOR: Thank you.

MR. SHEPPARD: Yes. My question is for Mr. Alt. You mentioned that, just -- you make the case that producing safety helmets in a third country other than the United States would be not feasible.

Does your parent company in Italy

retain any manufacturing, and is it possible to relocate any of it too there?

MR. ALT: To relocate where, sorry?

MR. SHEPPARD: Is it -- the parent company is in Italy, is that right?

MR. ALT: Yes.

MR. SHEPPARD: Is it possible to move any manufacturing there? Or is there any manufacturing base still there for helmets?

MR. ALT: Yes. Twenty percent of the helmets are produced in Italy currently. So we own a factory in Italy where we employ more than 100 people. But the majority of the helmets is made in China because, especially for these entry level helmets, the price point is very important for U.S. consumers.

There are still many states without helmet law, and we're trying to incentivize the consumers to buy helmets even in those states. And this is a very price sensitive product, unfortunately, for the motorcycle world. And China is really the only option that we have right now.

We have tried in the past to outsource in other countries, also India. We have invested money, technology, and time, but unfortunately the project failed. So, right now also we have long contracts with the Chinese partners. And we don't foresee it as being an option to manufacture these helmets in the U.S. currently.

MR. SHEPPARD: Okay. Thank you.

MR. ALT: Thank you.

CHAIR TSAO: Mr. Alt, I have a follow up question. With respect to the entry level helmets, --

MR. ALT: So this one for example is $180, retail price.

CHAIR TSAO: I guess, where do your competitors in this entry level -- for the entry level helmets, manufacture? Because you mentioned that it seems like it's not feasible really say for anybody to manufacture them here.

MR. ALT: Yeah. Most of them in China --

CHAIR TSAO: Okay.

MR. ALT: -- at this price point. But for example, our helmets that go between $800 to $1600 are manufactured in Italy. We can still make them there.

From 200 to 500, 600 is complicated -- almost impossible to provide such quality at this price if manufactured in the U.S. for example, or in Italy, or in Germany, or you know.

CHAIR TSAO: Basically all the entry level helmet manufacturers would be subject to the additional duties, if any?

MR. ALT: Yes.

CHAIR TSAO: Okay. Thank you.

MR. CARLSON: My question is for Ms. Hack. Could you please explain why alternative suppliers are not available to make cigarette lighters under Tariff Code 1913.80.20, or provide statuettes and other ornamental objects, plastic, under Tariff Code 9 - 3926.40.0?

MS. HACK: Sure. A couple of things regarding that. The classification under cigarette lighters, our ignition systems are a bit more complex then that. That's just where they fall under the codes. And so that in and of itself poses a different challenge.

There are a couple of reasons, to answer your question. One is intellectual property. For us to compromise our intellectual property would obviously compromise our business tremendously. And by sourcing elsewhere outside of our own wholly owned manufacturing facility, we would be doing just that. We would be exposing our IP as well as our manufacturing processes, and that in essence would compromise our entire business.

In addition to that, our competitors are much larger than us and they currently manufacture in Mexico and Canada and other locations such as that. Because we have a wholly owned manufacturing facility, it's not -- it's a difference between designed-to-manufacture versus designed-to-source.

We design to manufacture. We own that

entire process because it's proprietary. To design to source is completely different business model, and that does require us exposing our IP as I had mentioned. And so in order to keep the competitive landscape where we are a viable company, it's important that we control that IP and the process that goes along with it, which makes it impossible for us to outsource to other locations.

MR. CARLSON: Thank you.

MS. MAIN: My question is for Mr. Bernard from the Drexel Chemical Company. You testified before this Committee on August 24, 2018.

Now recognizing that some of the products that you raised in August were not included on the final tranche three list, we are still interested in what steps you may have taken since August to shift your supply chains?

MR. BERNARD: We looked to other countries, like India, or even sourcing in the United States. The problem with pesticides, like

I said, in trying to sum up is we're very closely related to the pharmaceuticals. The regulatory burden and the chemistry behind pesticide products -- there's just not many places where these products are made.

It's a limited industry in agriculture. It's -- they're complicated processes. For us to move manufacturing to some other location -- if you had to build a plant, it would take years. You have to go through the permitting process as well as the construction, and the start up trials and tribulations that are associated with chemical plants.

Then you have the regulatory issue with the EPA. If we were to successfully create a process in another facility, that facility has to be approved by EPA. We have to do a detailed analysis of five batches, submit it to EPA, and that takes some additional ten months for them to approve. So it's very difficult for us to move a facility.

We have gone to India on one product,

Diuron, giving them the necessary technology to make it. But, just the engineering alone is going to take a year. And the primary raw material in Diuron is phosgene. I don't know if you know what phosgene is, but it's a very, very hazardous material, and the cost of monitoring and handling phosgene, costs more than the plant itself.

It's a complicated issue to just pick up and move. And we're not talking about something like sewing together tennis shoes.

MS. MAIN: Thank you. So we have a second question for you.

MR. BERNARD: Okay.

MS. MAIN: In your estimation, if the tariffs were imposed on the pesticide inputs that are raised in your submission, what would the impact be on U.S. farmers? Would they still be able to meet their demands for pesticide products?

MR. BERNARD: That would increase their cost of production. Most pesticides, especially the core, the basic traditional pesticides, would go up 25 percent. The farmers have already been impacted by the tariff issues we have with China, and frankly, their commodities have gone down in price. Mine included. I've got a farm as well as raise cattle. So, my inputs will go up, and the income I receive will go down.

But this list -- or this group of tariffs will impact farmers in the area of billions of dollars.

MS. MAIN: Thank you.

MS. VON SPIEGELFELD: Hi. This question is for Ms. Hack. Ms. Hack, who are your main foreign competitors? Or from what countries are they from?

MS. HACK: Sure. Well, they do manufacturing in China, Mexico, Canada. No manufacturing here in the United States. It's all external in other countries.

MS. VON SPIEGELFELD: Thank you.

MR. BURCH: Mr. Chairman, we release

this panel with our thanks, and would the witness in Panel 13 make their way forward?

Would the room please come to order?

CHAIR TSAO: Okay. Before we begin, we also have a new member joining the Committee. I will ask her to introduce herself.

MS. JANICKE: Thank you. My name is Jean Janicke from the U.S. Department of Commerce.

MR. BURCH: Mr. Chairman, I would like to note that all the witnesses for Panel 13 are seated. And our first witness on this panel will be Stuart Hudson of Gorton's, Incorporated.

Mr. Hudson, you have five minutes.

MR. HUDSON: Good afternoon. I thank you for the opportunity to speak here today. My name is Stuart Hudson, Senior Seafood Purchasing Manager at Gorton's of Gloucester, Massachusetts. And I am speaking to you on behalf of the 440 workers that Gordon's employs here in the United States.

Gorton's submits this testimony in

partial opposition to proposed tariffs on imported seafood species that are simply further processed in China, not harvested or caught there, as it relates to the current trade dispute between the United States and China.

Gorton's fully supports this Administration's efforts to enforce U.S. intellectual property and patent rights that have been violated in China. But the tariffs on several specific items will negatively impact our business and the hundreds we employ across the U.S. And will greatly affect the American consumer's access to healthy, nutritious, affordably priced seafood.

Gorton's, along with other prominent seafood importers and manufacturers, has been, and continues to be actively seeking to establish alternative supply chains for seafood processing outside of China. However, we cannot do so in the next few weeks and/or months without causing irreparable harm to the health of our businesses and to the wallets of American consumers.

Gorton's has already been significantly affected by the tariffs enacted on imports of Chinese processed seafood items identified in List Three.

Originally that list included four of the largest volume species caught in the U.S. that aren't reprocessed in commercial quantities anywhere else in the world. Those species are pollock, cod, haddock, and salmon. Due in part to the potential monumental impact of businesses like Gorton's our employees and American consumers, these species were rightfully removed from List Three prior to final publication.

The reasons Gorton's and others presented for removing those species from tariff considerations at that time, still hold true. They are -- the species do not originate in or from China, they are only reprocessed there. Meaning they are simply converting frozen, headed and gutted fish, into frozen filets, portions or blocks. Currently there is no viable alternative to China as a wide scale reprocessing country for the non-Chinese origin species noted above.

For most major species, the supply chain works off of very thin margins and is unable to absorb the 10 percent or 25 percent tariffs being enacted or proposed. Therefore, any added tariffs will be pushed down to the end consumer. The result is that the price of U.S. seafood will go up for American families.

When faced with paying significantly more for seafood that they have come to enjoy and rely on for balanced nutrition and health benefits, many American families will be forced to switch to lower priced, less healthy options. And American seafood companies like Gorton's will be less competitive in our own country.

Finally, our 440 American jobs and thousands of others throughout the country are reliant upon the secondary processing that occurs in China, and no where else in the world with the capacity to satisfy U.S. demand.

Therefore, Gordon's requests that the seafood harmonized tariff codes previously removed by the USTR from List Three, be removed from List Four as well. Those codes are listed in the handout I have provided, and represent frozen forms of pollock, cod, haddock, and salmon.

In conclusion, access to free and unobstructed global markets of seafood is critical to the long term success of our Gloucester-based company and the hundreds of workers we employ.

A tariff on pollock alone would add more than $2 million per year in added raw material costs, which in turn would result in more costly seafood products for Americans, lower sales for Gorton's, and ultimately lost jobs for American workers.

We are asking the USTR to exempt from Section 301 tariffs, the List Four items detailed above, and provided to the Office of the U.S. Trade Representative in writing. Thank you very much for your time and thoughtful consideration to this important matter. I will be happy to answer any questions you may have.

MR. BURCH: Thank you Mr. Hudson. Our next panel witness will be George Souza of Endeavor Seafood, Incorporated.

Mr. Souza, you have five minutes.

MR. SOUZA: Thank you for the opportunity to speak with you -- thank you for the opportunity to speak with you today.

We supply -- my name is George Souza with Endeavor Seafood. We're --

MR. BURCH: Would you please pull the mic up a little bit?

MR. SOUZA: We're a Rhode Island-based importer of pollock, cod, salmon, and haddock that we supply to a number of manufacturers, restaurant chains, and distributors throughout the U.S.

The proposed Section 301 tariffs on the seafood items in List Four will result in serious hardship for our company, our customers, and also at our customers' businesses across the U.S.

We are unable to replace the product from other sources at this time, even though we've been trying. We estimate this will take an additional one to two years. We are asking you to exempt from Section 301 tariffs, the items in the document I presented you. Those are cod, Alaska pollock, haddock, and salmon. Please keep in mind these items were -- on List Four were exempted from List Three.

Pollock is a -- of a particular concern to us. The expertise we've -- that we've developed in this area is critical to our business, and is in essence an intangible asset. The imposition of tariffs would effectively extinguish the value of that asset.

I want to spend the rest of my five minutes talking about three areas of concern to us.

A key consideration in our asking for exemption is, the fish in question does not originate in China. It's caught elsewhere, headed and gutted, frozen, and then sent to China as well as other countries for reprocessing.

The reason for this is, the main wild fisheries are far from the population centers around the world. And also, they're caught in a very compressed time frame. All this product cannot possibly be processed and shipped directly to market, it has to go into these intermediate forms and -- for further processing.

Which brings me to my second question, of, why is China uniquely suited as a global processing hub? It's simple. They have the infrastructure and the expertise to meet global food safety standards as well as the exacting specifications of our customers.

Further processing has taken place in other countries over the years. First in Japan, then Korea, then Thailand. China emerged in the late '90s as a reprocessing center driven mainly by lower labor costs, lower investment costs, and a surge in foreign investments. Those cost advantages have since dissipated. And we are actively looking at other sources for the product. It's going to -- again, not to beat a dead horse, it's going to take years rather than months.

And lastly, we want to submit that the tariffs will hurt U.S. businesses more than they'll hurt Chinese businesses or the China 2025 initiative.

A 25 percent increase in the cost of these goods will certainly result in a contraction of our business and affect employment for us. We have two jobs on hold. Two jobs doesn't sound like a lot. It's a big deal for us. But this also takes place downstream at our customers.

The Chinese, they will ship their processing capacity to other markets, foreign markets, and their own domestic market.

And the final point is, we fully support the Administration's stance against theft of intellectual property and forced technologies transfer. In conclusion, we're asking that these items be exempted from 301 duties, especially the pollock items.

Thank you for your consideration.

MR. BURCH: Thank you Mr. Souza. Our next panel witness will be Jessica Wasserman of Red River Foods.

Ms. Wasserman, you have five minutes.

MS. WASSERMAN: Good afternoon. Thank you for the opportunity to testify today.

My name is Jessica Wasserman. And I'm an attorney with Greenspoon Marder testifying on behalf of Red River Foods and Giovanni Rana Pasta Company.

Red River Foods is an SME company and a leading U.S. supplier of pine nuts in Richmond, Virginia. I'm here today to request that pine nuts again, be removed from the list of products to be tariffed from China.

Giovanni Rana is a U.S. manufacturer of pasta products, located in Bartlett, Illinois, where it makes pesto sauce from pine nuts, employing several hundred workers. Rana has just expanded its plant in Illinois, employing additional workers. However, these tariffs and other tariffs -- Rana is threatened not only with tariffs on pine nuts now, but also on other imports of cheese and other items as part of the retaliation in the US/EU aircraft dispute.

So this level of tariffs will limit the possibility for further investment in the U.S. Rana uses mostly domestic suppliers for its manufacture of filled pasta products in the U.S., and imports a few key items that are not available in the U.S. The tariffs on pine nuts and cheeses are, as we speak, impacting Rana decisions about further expansion in Illinois.

With all due respect, we are surprised to find ourselves here again today. We submitted testimony, attended the hearing, and engaged in the available public act process to the fullest extent for the product -- list of products -- for the previous list of products.

As a result, pine nuts were appropriately removed from the list. In this case the system worked. We petitioned the government, we were heard, and were treated fairly. We were quite frankly stunned to find that pine nuts are now again under consideration. We were not informed at the outset of this process that the better option would have been to pursue a post-list exclusion, as opposed to a pre-list removal of pine nuts from the previous list.

As it turned out, USTR returned products removed according to one process, but not those excluded according to another. This absurd eventuality was never communicated in advance by USTR. And we feel that this situation is profoundly unfair.

We would add that it is very expensive and time consuming to twice have to fight for the lives of our Virginia company and on behalf of our key customers.

About 90 percent of pine nuts used in the U.S. are imported from China, which is surprising when I first learned it. And it is not possible to find another source of supply.

It takes significant time, up to 75 years, for pine nut trees to grow to maturity, so that changing to another supplier country is obviously not possible.

The U.S. will not emerge as a supplier of pine nuts, even with a 25 percent duty imposed on imports of pine nuts from China. The U.S. does not have the available land or the available labor to be a significant global supplier of pine nuts. And this will not change for the foreseeable future.

Finally, we do not believe that pine nuts are relevant to the technology policies and practices that USTR is aiming to deter. Pine nuts are a food product grown and harvested from medium sized trees that thrive in dry climates. The nuts are inside the pine cones and are removed from the cones after the cones are harvested.

There is no intellectual property or technology transfer aspect to the growing and harvesting of pine nuts in China. The harvesting of pine nuts in China is a decidedly low-tech process. Pine nuts are harvested by skilled climbers who scale the towering pine trees with long hooked tools.

Once in the canopy, the harvesters must knock each pine cone from the tree one by one. After the cones fall to the ground, they are collected in sacks and brought to aggregation centers for drying.

The small nuts are then removed from the cones and taken out of their hard shells. After deshelling, they are ready for grading, packaging, and shipping.

In China, pine nuts are harvested in remote pine forests in the Northeast of the country. Again, they are not relevant to this matter.

We again request that you again remove pine nuts from the list of products to be tariffed. And the item numbers are 0802.90.20, they are called -- and 0802.90.25. And they are called pinolias -- pinolis, as I think they originally came from Italy but now come from China.

Thank you for your attention to this important matter.

MR. BURCH: Thank you, Ms. Wasserman. Our next panel witness will be Robert DeHaan of National Fisheries Institute. Mr. DeHaan, you have five minutes.

MR. DEHAAN: Thank you and good afternoon. The National Fisheries Institute appreciates the opportunity to, again, appear before the Section 301 Committee, this time with respect to the List 4 Tariff proposal targeting an estimated $300 billion-plus worth of China sourced goods.

NFI urges the administration to omit seven specific Chapter 3 seafood tariff lines from any final List 4 action in this dispute consistent with USTR's own determinations in 2018 that products utilizing these tariff lines, in fact, support American fisherman and American communities, and therefore, should not be subject to any Section 301 China tariffs.

In successive September 2018 actions, USTR exempted a series of seafood tariff lines from Section 301 China duties because the products entered via these lines are predominantly harvested by American fisherman in U.S. waters, shipped to China for secondary processing, and then exported to the United States for consumption.

In taking this action, USTR recognized the irrationality of placing a Section 301 tariff on a product caught and landed by U.S. flag vessels and subjected to primary processing by Americans in the United States.

In taking these actions, USTR, in effect, agreed that placing a tariff on seafood produced from American fisheries contradicts one of the central rationales for seeking to punish China through the Section 301 process in the first place.

Namely, defending American workers from unlawful practices that make it difficult for them to compete on a level playing field in goods and services commonly traded across national boundaries.

Because of these exemptions, American processing plants have configured supply chains and developed pricing these fish to sell to American families.

Now, in an astonishing and disruptive reversal, USTR proposes to include these seven lines in the List 4 action, hammering U.S.-harvested Pacific cod, salmon, haddock, and cod variants with a 25 percent tariff for the privilege of feeding American consumers.

NFI opposes this proposal which, if finalized, as issued May 17, will have multiple negative consequences.

First, pulling U.S.-caught fish back into the Section 301 vortex will immediately punish American fisherman and the communities they sustain. These communities, primarily in Alaska, but also elsewhere, rely on salmon and cod fishing, and also on the flatfish harvesting that, regrettably, USTR did not include in the September 2018 exemptions.

As NFI explained then, use of China for secondary processing for these and other seafood products is the natural consequence of the lack of ready labor in remote communities, geographic proximity, and the fact that China is, or at least was, the largest export market for U.S. harvest.

Utilization of China in this fashion will not change in the near term, as we've heard. In the meantime, dramatically raising the cost to U.S. buyers of cod, salmon, and haddock will have an immediate competitive impact on the fisherman who labor to bring those products to market.

Armed with exemptions from the Section 301 tariff, these products have performed well in the U.S. market in recent months.

For instance, Pacific cod shipments from China to the U.S. have increased since the tariff was implement last year; up 9.8 percent in the 4th quarter of 2018, when compared year-over-year.

Because U.S. fisherman account for nearly 75 percent of the global P-cod harvest, this surge in domestic demand can only benefit American fisherman. They will not fair well when confronted with a 25 percent tariff for the foreseeable future.

Nor is there an available off-ramp from this challenge. China itself imposes 25-plus percent tariffs on the exact same products exported for consumption by China's 450 million-plus middle class consumers.

Russia has banned all U.S. seafood exports for five straight years in what is apparently a permanent action.

The European Commission, in coming days, may well retaliate against the United States in the Airbus aircraft subsidy case, in part, by slapping a 100 percent tariff on U.S. seafood exports, including salmon and cod.

Denied markets in which they can operate competitively, harvesters will ask why they invest in a money-losing proposition.

Lear had a point when he said to his daughter, nothing will come of nothing. Following through on the List 4 proposal, finally, will encourage U.S. seafood processors to source from third countries, unconnected to the underlying dispute.

Processors must have reliability of supply, and for these specific species, that will mean going to Norway, Iceland, Chile, Scotland, and elsewhere to obtain competitively priced raw material necessary to meet customer demand and keep employees working full time.

The Freezer Longline Coalition states in its List 4 comments that the U.S. decision to impose tariffs on reprocessed seafood has already caused many FLC member company customers in the U.S., China, and elsewhere, to refrain from the purchase of seafood from those companies and other harvesters.

Thus, in an effort to discipline the PRC for its unlawful and anti-competitive action, the administration will have encouraged U.S. manufacturers to turn away from American suppliers for the primary input into the manufacturer's finished products.

It's difficult to imagine an outcome more at odds with the rationale behind the Section 301 case against China.

The good news is that a solution is readily available simply by omitting all seven tariff lines from the final List 4 action. USTR will avoid these consequences, provide a competitive boost to American fisherman in need of help, and supply confidence to American seafood processors in need of certainty and reliability.

NFI implores USTR to stick to its September 2018 decision to exempt these seafood products for as long as the Section 301 dispute lasts. Thank you.

MR. BURCH: Thank you, Mr. DeHaan. Our next panel witness will be Matthew Fass of Maritime Products International. Mr. Fass, you have five minutes.

MR. FASS: Thank you and good afternoon. My name is Matthew Fass, President of Maritime Products International, based in Newport News, Virginia.

Maritime Products is a fourth-generation family-owned and operated company in the U.S. seafood industry for over 100 years and 4 generations.

My great grandfather is an oysterman in Virginia and our roots are deep in the domestic industry. However, as seafood supply has grown to become a very sophisticated global industry, our company has been able to survive and grow by developing a focus on importing and distribution of a variety of globally produced species.

U.S. producers of both wild cod and aquaculture items have done a terrific job developing their markets and Maritime does some local process production as well, but the estimates put domestic production, even at today's maximum sustainable yields currently supplying 15 to 20 percent of total U.S. demand, meaning, imported product, including several species with value-added processing in China, is absolutely critical for supply chains and consumers who rely on these products, as well as for U.S. jobs across our industry.

While we understand the importance of ensuring that China adheres to international trading obligations, many in our industry, as well as consumers of our products, have been hurt by both the tax effect and uncertainty brought by the tariffs.

And while we are hoping that all of the tariffs will be resolved sooner rather than later, we have at least appreciated what has seemed like an attempt to recognize some unique supply chains where the market is completely reliant on imports related to certain species.

Species that are, in fact, not harvested in China, but are just value-added processed there. We are now extremely concerned about the possible inclusion of these goods in the latest rounds of tariffs and urge their continued exemption.

All of these species are important, but one of the most critical supply chains in our market involves the trade of pollock processed in China.

China's developed a very efficient relationship with the U.S. regarding the value-added processing of pollock harvested from different areas in the world.

This pollock has become an integral part of many U.S. supply chains over the past two to three decades. Companies have spent a tremendous amount of time and money over the years on technical product development that has brought us to this point.

Many of these companies look like us, small, medium enterprises that are not billion-dollar multinational organizations with massive product development or R&D budgets.

While some policymakers seem so sure

of themselves, suggesting that supply chains can easily be shifted to other countries with minimal issues, this is the difference between fantasy and reality.

In addition to some of the technical expertise that takes years to build, relationships based on experience and integrity do not rise quickly, yet, these are critical factors when producing food that is in strong demand here and that we will feed to our families.

If the tariffs are now applied to this product, the result will be a virtual dollar-for-dollar increase, a dollar-for-dollar tax, and the cost of the product for everybody throughout the U.S. supply chain, including U.S. consumers.

There are no currency or price adjustments that will offset things, nor readily available alternatives for production.

Many of these species are considered value-based fish, meaning, species traditionally a little lower in cost than some other species.

Therefore, the cost increases are going to be felt hardest by consumers looking particularly for good value products, consumers who have the least amount of disposable income in our country, and all of this related to good healthy food choices that cannot be readily replaced.

I'm not a policy expert, but this would seem like the absolute last thing we'd want to tax this way.

I know there are some alternate voices, including a few in our U.S. seafood industry, advocating for continued exemption of the aforementioned species, but arguing for imposition of tariffs only on pollock.

I would respectfully suggest these voices represent a true minority of interests and this kind of result would represent a very bad public policy.

These are generally U.S.-focused pollock producers who have already built strong sales for their different specification of products, but who likely see an opportunity to use the tariffs to create some new unique advantages in their market.

This is especially true as supply chains for much of U.S.-only pollock is essentially controlled by a small group of entities.

While I would like any U.S. company and fisherman to achieve the best possible results for their products, this is not the way to achieve such a result.

Maritime and others here advocating for pollock are also every bit a U.S.-based company and our work in the supply chain directly supports numerous other U.S. companies and jobs.

I hope these tariffs are not played like a game subject to special interests manipulation in an effort to benefit individual companies who are already performing strongly and with no excess capacity, while inflicting harm throughout the numerous other parts of the supply chain.

It is worth repeating, we are an industry where maximum sustainable domestic seafood production fills only a relatively small portion of domestic demand.

While we know the tariffs cannot operate with perfect scalpel precision, it would seem very sensible to work with at least some care to exempt items exactly like these from tariffs in an effort to minimize domestic harm.

We are talking about food, healthy good value food, products not strategic to China nor even caught or harvested in China, and products that we cannot produce, and do not produce, in quantities that even began to approach consumer demand here.

In this current tariff situation, the administration has been able to recognize some unique product situations and properly exempt certain items when it is clear we are only hurting ourselves numerous ways with the imposition of tariffs.

We are asking that you continue to

make these efforts with thoughtful exemptions applied to these products moving forward. Thank you.

MR. BURCH: Thank you, Mr. Fass. Our last and final panel witness will be Robert Zuanich of Silver Bay Seafoods. Mr. Zuanich, you have five minutes. Can you turn your microphone on?

MR. ZUANICH: Silver Bay Seafoods is based in Sitka, Alaska. The company is owned by 600 commercial fisherman, which catches, processes, and sells Alaska salmon and other seafood.

We sell into both domestic and export markets, and understand how trade policies can dramatically influence our business.

In fact, we started our company back in 2006, when ever-expanding farm salmon imports had dropped Alaska salmon prices to record low prices.

To compete in that low-price environment, we would harvest and freeze our salmon in Alaska, and then ship to China for secondary processing into fillets and portions.

Much of that processing is performed by hand at a small fraction of U.S. labor cost. But conditions are changing. Today, we can completely process our higher value products in Alaska.

However, today's global seafood business has an unyielding focus on labor cost. Therefore, we must continue to rely on China processing for much of our salmon production. We simply have no other option to remain competitive.

We recognize the need to reorient our secondary processing activities. Rather than relying on China, or other countries, we are prepared to continue to invest in new equipment and automation in Alaska or elsewhere in the U.S.

We believe that transition cost away from foreign processing can, over time, be offset by consumer willingness to pay higher prices for Alaska salmon harvested and processed in the U.S.

Yet, this transition and the associated investment will take time. And in the interim Alaska salmon products must continue to enter the U.S. through China for our company to remain economically vital.

Why is this the case? Alaska and Russia are the world's two largest wild caught salmon producers. Currently, Chinese tariffs are only on Alaska salmon, not Russian salmon.

Consequently, the lower priced Russian salmon is now providing the salmon needed for China's export markets. This means consumers will be buying a greater percentage of Russian-caught salmon products exported from China.

The proposed tariffs on Chinese salmon product, or seafood products, will only worsen the existing problems caused by China's current tariffs on Alaska salmon.

And although we acknowledge that Russian salmon entering the U.S. through China would also be subject to the proposed U.S. tariffs, we will remain at a distinct disadvantage, vis-a-vis, Russian salmon.

Imposition of duties on select Chinese products may be part of the solution to eliminate China's unfair trade practices. However, a more balanced approach is needed to avoid a disproportionate impact on our company and other seafood companies in Alaska.

Accordingly, we respectfully request that salmon and cod be removed from the List 4 products now earmarked in the proposed tariffs. And I've identified those particular subheadings in the testimony I've submitted. Thank you.

MR. BURCH: Thank you, Mr. Zuanich. And, Mr. Chairman, this concludes all witnesses' testimonies.

MR. SHEPPARD: My first question is for Mr. Hudson. You state that the United States, certain product that is caught in the United States, can't be processed here, I'm assuming, due to the costs, but are there other countries where you could do the processing where there already is existing processing, such as

Mexico or Vietnam, other low-cost countries that would be competitive to China?

MR. HUDSON: We absolutely are exploring all of those options now. It is in our best interests as a company to have a geographically diverse supply chain.

We come back to time and time again, we have very high food safety and quality standards. And we are servicing a consumer base that is very value focused and cost absolutely is a significant factor in those decisions.

When you look at those different variables, you know, China, it didn't happen overnight. It took, like the other members said, 25 to 30 years before I entered the industry, that they were establishing these supply chains.

And there is a tremendous amount of expertise and infrastructure there that really just is the combination of food safety, quality, distribution channels, and that value that our consumer base relies on in order to get and keep, you know, nutritious seafood in their regular routine for meals.

MR. SHEPPARD: Okay. Thank you.

MR. HUDSON: Thank you.

MS. VON SPIEGELFELD: Good afternoon. This question is for Mr. Souza. You had stated that processing performed in China used to be performed in Japan, Korea, and Thailand, could you explain why those countries can no longer do it?

I mean, did they just disappear? Did everything move to China?

MR. SOUZA: Yes. The processing in those countries moved away because they pursued higher value-added activities, the investment in plants and processing went up. Things like electronics, for instance, one stock example of that, when we were operating in Thailand in the early '90s, they were talking about labor costs going up and competition for labor that was going to make fish processing unfeasible.

And what was a great example of that was driving to the factory, which was a modest fish processing factory, strictly low-tech, and you drove by a Sharp manufacturing plant. Those old enough to remember, sharper minds produce sharper products.

And you had the buses with labor and this factory was at least ten times the size of the largest fish processing plant. That's what drove processing for these other areas.

And that, today, irrespective of tariffs, is what is driving the processing away from China and is causing us to look for alternatives; tariffs notwithstanding.

CHAIR TSAO: Excuse me, sir, one follow-up, you said there's an existing trend of moving fish processing away from China, what's the time horizon for that shift?

MR. SOUZA: Well, we've been actively pursuing this for the last two years. I expect it's going to be another one to two years before you have meaningful movement for some of these products.

There already has been movement to

places like Vietnam, Thailand, Indonesia, even to Europe and the U.S., but it's going to take, for these very much handcrafted products, I'm estimating it's going to take another one to two years.

MR. SECOR: My question is for Ms. Wasserman. You mentioned that the, in the testimony, that China has 90 percent of the U.S. market for pine nuts. Do you know what global share China has?

MS. WASSERMAN: I think it's something similar. They are the primary supplier of pine nuts globally.

MR. SECOR: And do you know what other countries product pine nuts?

MS. WASSERMAN: Let's see, it's European countries, Italy and so forth, and maybe Turkey. It's been a while since I wrote these comments many months ago, but in our written submission, I do address all of that, but it is -- China is the global supplier.

MR. SECOR: So the other countries

would not be able to meet U.S. demand with a tariff on China.

MS. WASSERMAN: Absolutely not. It's really a small percentage. And again, you know, because it's trees, they have to grow to maturity and so forth, but as I mentioned with regard to the U.S., and, you know, other countries as well, it's partly the land value issues too.

In the U.S., especially, it's, you know, the growth of these trees, when we did have some domestic production, was in Arizona and Texas, and so the land value, and also, competition with oil and other natural resources on the same land was a big factor in the end of the U.S. supply.

MR. SECOR: Thank you.

CHAIR TSAO: Ma'am, is there a substitutable product for pine nuts?

MS. WASSERMAN: Gosh, not really. I mean, I don't know, would you want your pesto to have almonds? It's possible you could have almond pesto, but I mean, pesto is really the big

-- the product where pine nuts is used as ingredient most significantly.

But it's used also in salads and so on, but I don't think so. I think pine nuts have an absolutely unique taste, and flavor, and so forth, so it would be a little sad to not -- to have some other nut, you could, of course, try it.

MS. MITCH: Thank you. My question is for Mr. DeHaan. You've stated the NFI member companies also include processors of seafood, so my question is, why are these companies not capable of processing additional U.S. seafood instead of China, and how long could it take for these companies to expand to meet demand?

MR. DEHAAN: I'm sorry, your question is, why those companies can't do?

MS. MITCH: I believe your member companies also include U.S. processors of seafood, so I'm just trying to understand if they're able to meet some of the additional demand to process U.S. seafood instead of China.

MR. DEHAAN: Well, the first answer is that they do process U.S. seafood. So if you have a piece of white fish, value white fish, as Mr. Fass categorizes it correctly, that product may be harvested in the U.S., processed initially on a catcher/processor onboard, or landside, right, when it gets landed.

Then it goes to China for secondary processing, which is more -- which follows right after that, and then it comes to the United States where it's processed a third time to put it in the consumer form, the consumer-facing form, that a retailer or restaurant would require.

So that processing happens all the time and I can tell you, in our membership, I can tick off, one, two, three, at least ten states come to mind where we have processors who take product that comes from overseas and put that into final form for their customers in the U.S. with U.S. manufacturing jobs.

MS. MITCH: But they're not able to

fulfill that intermediate processing stage that happens in China at this time?

MR. DEHAAN: Not at this time. No.

MS. MITCH: Okay. Thank you. So then, as a follow-up, I was wondering why the expertise of the value-added processing that you'd mentioned isn't found in any third countries, such as Vietnam?

MR. DEHAAN: Well, first of all, the decision to go to China is not necessarily a decision that the seafood processor is making. It is a decision that's sort of collectively in the supply chain, and most importantly, it's made by the harvester and exporter.

So those companies are making a decision that they, for multiple reasons, have to go outside the U.S. to make sure that the product is handled right, handled at a competitive cost, and that that is done right.

The other challenge here is U.S. compliance. U.S. regulatory compliance and a whole sector of -- or a whole smattering of areas, if you will, is difficult to meet, cannot be, sort of, erected overnight, takes years to develop.

And then once you have that investment in the supply chain, you want to stick with it. So I think this is something that we discussed when I was before you in August of 2018, and I said, honestly, almost the exact same thing that I'm saying now, which is, that the level of commitment to a supply chain takes years to develop, maybe decades to develop, and cannot be, sort of, resurrected in another country overnight.

CHAIR TSAO: Mr. DeHaan, I have a follow-up question. Are you aware of any efforts by the Chinese suppliers for processing to lobby the Chinese Government to remove any of the Section 301 identified unfair trade practices acts and policies?

MR. DEHAAN: I'm not aware of -- I'm sorry, is your question that they would lobby their, say, MOFCOM, or whatever, to get rid of something that the U.S. -- that the administration here is objecting to?

CHAIR TSAO: That's correct. The acts, policies, and practices identified under this Section 301 investigation, are you aware whether the seafood processors in China are lobbying their government to remove those acts, policy, and practices?

MR. DEHAAN: No, I'm not aware of that, and I would say that a realistic assessment of how, in that country, private sector entities speak to their government would give you a strong indication of what level of activity is happening.

MS. JANICKE: My question is for Mr. Fass of Maritime. Can you give more detail on the distinction between the U.S.-caught and processed pollock and the U.S.-caught, but Chinese processed pollock?

You touched a little bit on your testimony, but we'd like more detail on the distinction between those two supply chains and production chains.

MR. FASS: Sure. I'm much more familiar with the Chinese-processed product, because that is a primary aspect of our business, and that is a very technical supply chain where, oftentimes, we will go over with national restaurant customers, or retail customers, and develop a custom private brand, or a special cut, a special fillet cut.

Sometimes it can be certain types of marinade, or breading, or dusting put on product, but it's often custom work done over there on a mass basis.

I'm not, honestly, as familiar with the specific -- some of the specifics of all the U.S.-caught processed product, because quite simply, there's a relatively few number of companies who do that work, and they control that supply chain.

I'm sure others here can probably speak to it a little better than I. They have pretty strong production and sales for their product right now with just other customers.

Some customers may be similar in certain ways to what's going on in China, but they're distinctly different entities, different buyers, different customers, but they have -- there has been, both anecdotally, but also, I can speak with personal experience, discussions with domestic suppliers or the domestic supply chains about, do you have the excess capacity to do this type of work, or that?

And right now, at least in my experience, the answer is no. So the product just goes to a different set of customers and it is very strong at capacity right now with domestic supply. I don't know if that answers your question.

MS. JANICKE: Thank you. It does, but at least my next question was about the capacity. You said, in general, that you thought U.S. processing only met, maybe, 15 to 20 percent of demand.

Are you able to speak specifically to

Pollock and what the distinction is about what the capacity is to meet U.S. demand?

MR. FASS: I'd rather somebody -- I was speaking to all -- essentially, all of seafood, and I'd rather somebody else answer the question, maybe, so I don't get my numbers in terms of actually what pollock represents in terms of domestic demand with domestic production.

I'm guessing Mr. Hudson might be able to answer that one.

MR. HUDSON: I guess that puts me on the spot here. So yes, Gordon's, the majority of the fish that we purchase is U.S.-caught, U.S.-processed, and we're, you know, very happy and proud to support that supply chain and American workers on that end.

The process is different. It's a -- the fish is caught on large trawlers that have the factories onboard, so it's a catcher/processor. It's very specific product form that is -- that comes out of that supply chain and it's, to others' points here, because of the limited space and limited workforce, they're producing, you know, three product forms.

They're all block form and they crank them out. Okay. You get into any of these tighter specifications, similar to what was being spoken about, they're just isn't the -- it's not setup to do that. It's setup to do one thing and it does it well.

I mentioned we buy -- a majority of our volume is this product and we struggle at times to source what we need for that.

The Alaskan producers are, they are selling to throughout the globe, and there are different markets, market dynamics going on there that can put pressure on the supply that we rely on for those products.

So I don't have the exact numbers as far as, you know, pollock-specific demand versus supply of U.S.-processed items, but I hope that gave -- gives you some insight as to what the limitations are there.

MS. MAIN: My questions are for Mr. Zuanich from Silver Bay Seafoods. First, in your testimony, you indicate that Silver Bay, already, is undertaking certain secondary processing in the United States for high-value salmon products.

You also indicate plans, over time, to shift secondary processing of low-value products to the United States, or its territories, we would appreciate further information on what type of a time horizon you would anticipate for that movement, including, because in your testimony, you seem to indicate that you would also need to acclimate U.S. consumers to the higher cost for those lower value products necessitated by the U.S. labor costs.

MR. ZUANICH: Yes, I think that accurately summarizes it and I would think five years. Right now, Bristol Bay sockeye, iconic species of salmon, we can fillet that and sell that domestically and compete.

But lower species of salmon, like pink salmon, and chump salmon, require a high-degree of hand labor to get it into a portion or fillet format. And we have tried, but when you think about it, we're freezing salmon in Alaska, putting it on a barge to Seattle, shipping it to China, where it's reprocessed, and sold back to the U.S. consumer.

We would love to get away from that. We'd lower our global footprint, everything would be great, but the fact is, we simply cannot compete with those relative labor costs.

We still come up 30, 40 cents a pound short by trying to do it in the U.S. So it's going to take a lot of investment toward automated equipment and then I think the U.S. consumer will pay more for a U.S. product that's harvested and processed here, but there is going to be an acclimation period to get them to that level.

Now, some at this table may disagree and say, a fish is a fish, and the consumer's going to buy the lowest priced, but I think U.S. consumers, and the world, would like a U.S.-

processed and harvested fish.

MS. MAIN: Thank you. One more question. If tariffs are raised on the lower value salmon products that you mentioned specifically in your submission, in your estimation, and recognizing this is a very general question, how would the raising of the tariffs affect the cost of these lower value products that would be paid by the U.S. consumer?

MR. ZUANICH: Well, what I'm more fearful of is that Chinese re-processors will simply focus on the lower Russian-priced product and send that into our country, and they will pick us up as the secondary source.

So we're challenged right now by that Chinese tariff. You know, they're buying Russian fish because it's cheaper. So we just feel adding the U.S. tariff on to that Chinese product, I don't know where we fit. That's why I'm here and I'm very fearful of what happens.

And I know, last year, we were removed, and I'm hoping that will happen again.

MR. BURCH: Mr. Chairman, we release this panel with our thanks and would all the witnesses for Panel 14 make their way forward?

Would the room please come to order? Mr. Chairman, I'd like to note that all the witnesses for Panel 14 have been seated and our first panel witness will be William Hanvey of Auto Care Association.

Mr. Hanvey, you have five minutes.

MR. HANVEY: Thank you. Good afternoon, Mr. Chairman and Members of the Committee. I am Bill Hanvey, President and CEO of the Auto Care Association and thank you for the opportunity to testify on behalf of our nearly 3,000 member companies representing 150,000 independent automotive businesses.

We are the voice of the $393 billion auto care industry, also known as the automotive aftermarket. We represent a significant sector of the U.S. economy, employing 4.6 million people, or 3 percent of the workforce.

We have members in every single

congressional district in the U.S. My goal today is to share three key points and challenges as reported by our members who have been impacted by the Section 301 tariffs from the first three tranches.

We expect more member companies to face the same challenges if additional tariffs are imposed on auto parts in this fourth tranche.

Before I start, let me share some background information. Our members manufacture, distribute, and sell parts, and perform vehicle repairs to ensure the safety of the driver and passengers, pedestrians, and other vehicles on the road.

In the auto sector, an original equipment manufacturer, or OEM, can set up a dedicated plant to produce a few parts in several million units, but we are the aftermarket.

We have thousands and thousands of SKUs in order to provide parts and service and repair for the 280 million vehicles on the U.S. roads today.

Aftermarket production is broad range, low volume, with limited runs. Our industry relies on imported parts through a complex global network of suppliers and even smaller sub-suppliers.

Therefore, the tariffs being imposed on Chinese imports are posing special challenges to our industry in attempting to cost effectively source components for our U.S. consumers.

First, the auto care supports the Trump Administrations efforts to address China's unfair trade policies related to forced technology transfer.

These practices jeopardize U.S. businesses' trade secrets, intellectual property, and global competitiveness.

Second, as we have testified previously, China is a critical trading partner and manufacturing hub in our industry's supply chain. Our members are already seeing a negative impact on business operations as a result of Section 301 tariffs from the first three tranches.

For example, one member reported a significant decrease in demand for their products, possibly due to uncertainty of the future and customers' unwillingness to take on inventory at inflated prices.

Many of our members are being forced by their distribution customers to absorb cost increases that are related to the tariffs, placing a heavy financial strain on their bottom-line.

Some retailers are just starting to accept cost increases passing through the supply chain and raising prices for the consumer. As prices increase, not only are American jobs lost, but safety critical maintenance is deferred, thus making American roads less safe.

The margin, pressure, and cash flow impact of financing the tariffs are causing severe financial stress. Many suppliers pay a 25 percent tariff when goods enter the country, but do not get paid by customers until the product is sold 360 days later.

One unintended consequence that every member is facing is the burden tariffs are having on company resources. According to a member, understanding the impact has consumed resources in purchasing, product management, sales, and customer service functions that otherwise would be devoted to growing the business.

In addition to 301 tariffs on imports from China, our industry also faces 232 tariffs on imposed steel and aluminum, and the looming 232 tariffs on imported auto parts.

Third, regarding the issue of shifting production on sourcing outside of China. In some cases, our members have been successful in identifying alternate sources in other countries, overall, at a higher cost, but lower than sourcing from China, considering the tariffs.

For products without an alternate source already in existence in another country, it would take at least 6 to 18 months, and likely years, to find and qualify a new source.

As mentioned before, low volumes, broad ranges, mean massive tooling investments that are extremely difficult to relocate.

We hope the administration will consider the severity of imposing tariffs and will continue engaging in dialogue with China to protect U.S. investments and promote free and fair trade that benefits the global growth of our industry.

We appreciate the opportunity to testify and obviously am available to answer any questions.

MR. BURCH: Thank you, Mr. Hanvey. Our next panel witness will be Tom Vining or National Elevator Industry Incorporated. Mr. Vining, you have five minutes.

MR. VINING: Good afternoon. My name is Tom Vining and I'm President of Otis Elevator Company Americas and appearing before you today in my capacity as President of National Elevator Industry, Inc., or NEII.

I am grateful for the opportunity to

deliver testimony to this committee for the second time on this issue.

NEII is the premier U.S. trade association representing the global leaders in building transportation industry. NEII's membership is comprised of Fujitec America, KONE, Mitsubishi Electric U.S., Otis Elevator, Schindler Elevator Corporation, ThyssenKrupp Elevator Corporation, and several other companies across the country.

Collectively, NEII member companies operate in all 50 states and over 200 countries. Directly, NEII members employ around 50,000 U.S. workers and indirectly support hundreds of thousands of U.S. jobs in the construction and real estate industries.

NEII and its member companies share USTR's goal of ensuring fair trade practices and the effective protection of intellectual property.

My comments today relate specifically to a single HTSUS subheading, namely subheading

8428.10.00, passenger and freight elevators.

For products like elevators and their parts and components, the proposed duties will have a multi-year impact whose negative effects will be borne not only by NEII companies, but also the entire real estate industry.

First, one of the unique aspects of an industry as regulated as the building transportation industry, is that there are extremely demanding qualifications and safety certification requirements for parts and systems.

It takes years for NEII companies to find and qualify suppliers with the ability to mass produce products at a competitive price.

Rearranging supply chains to avoid sourcing products from China is not a practical, short-term, or medium-term solution for NEII members who have established suppliers there.

In the long term, any efforts to move supply chains threaten to impede continual service and may negatively impact safety, all while the increased costs associated with sourcing products from new suppliers fall on the shoulders of U.S. businesses and customers.

Second, the increased costs will dire3ctly impact the construction and real estate industries as it will cost more to install elevators.

Elevators and elevator equipment are significant capital expenses. Companies of all sizes across the United States, with projects that incorporate elevators, will suffer the negative consequences of increased duties.

The higher costs will either be absorbed by NEII companies, more likely, pass on to our U.S. customers, from office buildings to shopping malls, hospitals, and airports, as well as federal, state, and local government buildings.

We expect that commercial and residential building owners will then pass along these increased costs along to companies and the individuals that purchase or lease space in the buildings.

Thus, over time, the compounding impact of the additional tariffs on elevators could affect many sectors of the U.S. economy.

The negative consequences of a reduction in demand for domestic construction and development will undoubtedly trickle down to NEII member companies and their employees working in the United States.

Third, the imposition of these additional tariffs might deter building owners from upgrading their building transportation products. Building owners periodically update their elevators to improve elevator operation and safety.

They often plan for years in advance to make the capital investment. Building owners facing higher costs may defer important or even necessary services or upgrades critical to the quality, reliability, and safety of buildings.

Finally, as highlighted in my previous round of testimony, the products of relevance to the building transportation industry are unrelated to any of the ten high-technology sectors the Chinese Government is seeking to promote through its Made in China 2025 Strategic Plan.

As such, tariffs on the building transportation industry products will not impede progress on the strategic plan.

NEII would like to thank the Committee for the relief it provided to our industry as a result of the product exclusion request granted on List 1. Our hope is that the Committee will recognize the same rationale that justified those requests, that moving supply chains is not a practical option for NEII members.

In conclusion, the imposition of Section 301 tariffs on the products that this industry sources from China will injure members of NEII, our U.S. customers, and our U.S. workers and suppliers without helping to drive the objectives underlying the imposition of these tariffs. Thank you.

MR. BURCH: Thank you, Mr. Vining.

Our next panel witness will be Jared Wessel of BYD Motors. Mr. Wessel, you have five minutes.

MR. WESSEL: Thank you, Chairman Tsao. For the record, my name is Jared Wessel. I am here on behalf of BYD Motors, LLC, an American manufacturer of battery electric buses, or BEBs, and battery electric trucks, and is for the 900 employees, including more than 750 union members.

We respectfully request that lithium-ion batteries be excluded from the list of items subject to Section 301 duties.

BYD manufactures BEBs in the United States. For the reasons I'll discuss today, USTR should refrain from imposing tariffs on this vital input to U.S. manufacturing in the growing BEB market. Tariffs would only harm U.S. manufacturing, jobs, and innovation, while slowing down the transition to electric transportation.

BYD is a U.S. manufacturing and job creation success story. BYD opened its U.S. headquarters in Los Angeles in 2011. Three years later, BYD opened its first U.S. electric bus manufacturing plant in Lancaster, California.

In the five years since then, BYD's employee base has grown 15-fold. In 2014, BYD also created a separate unit, BYD Energy, to manufacture electric vehicle battery packs and modules. The products at issue serve as inputs to BYD Energy.

This year, BYD announced its first regional service hub to support its customers in Northern California. BYD plans to open a number of these hubs in the next 12 to 18 months.

These service hubs will allow BYD to provide local support, technical service, training, and parts for its customer base. BYD hopes to grow its workforce as it expands its facility to encompass increased manufacturing.

BYD's total investments in U.S. manufacturing over the last seven years exceeds $250 million. BYD invests in its workers and community. BYD is proud that our manufacturing workers are members of SMART Local 105.

BYD and Local 105 recently signed an agreement increasing wages and implementing enhanced training opportunities. This year, BYD is introducing an apprenticeship program developed in partnership with SMART.

The intensive 18-month long program will provide classroom and field training. BYD has clearly demonstrated its commitment to investing in its workforce. BYD has a community benefits agreement in place with SMART and Job to Move America.

As part of this agreement, BYD has committed to work toward the goal of recruiting and hiring 40 percent of our workers from populations facing significant barriers to employment, such as veterans.

BYD is also launching a pre-apprenticeship program this year, whereby, the next generation of manufacturing employees can get on-the-job training to set them up for a career in clean transportation manufacturing.

Our U.S. manufacturing operations go

far beyond the assembly of imported parts. BYD incorporates more than 70 percent U.S. content, easily exceeding current Buy America standards for rolling stock, which requires only 65 percent U.S. content.

A 25 percent increase in the cost of lithium-ion batteries would significantly diminish the financial position of BYD's U.S. manufacturing business and eliminate the rationale for growth in our BEB operations.

BEBs are very expensive to manufacture and to purchase, often costing $750,000 or more per bus. Our U.S. manufacturing operations compete vigorously, striving to lower cost by scaling up operations.

This strategy requires significant expenditures in the United States, because our customers, mostly local and state municipalities, operate under severe budget constraints, and generally rely on much cheaper diesel buses produced by our competitors.

Electric bus suppliers can survive

only if they are able to demonstrate that their products are cost competitive. Increasing the cost of imported battery cells would raise costs across the board.

Efforts from battery cell manufactures to reduce costs would slow down significantly, which ultimatley harms the American taxpayer, and the transit agencies will be forced to spend more on electric buses.

The electric transit bus market is thriving, with more participants than any other bus market, and with manufacturers of all sizes investing significantly in increased operations across America.

In the last two years, Proterra, New Flyer, GILLIG, BYD, and GreenPower have all announced significant investments in this technology and the manufacturing of electric transit buses.

The industry has also seen rapid growth in demand, with nearly 10 percent of new transit buses purchased in the U.S. being zeroemission buses. Tariffs will jeopardize this growth.

The effects of the proposed tariff will also harm U.S. workers, both at BYD and its vendor partners. The tariffs would compel BYD to postpone indefinitely its planned expansion to a new 2-million-foot facility.

BYD's expenditures with U.S. vendors would necessarily follow. This would all hurt the BYD supply chain. These harms will be driven by the fact that, like other all-electric bus manufactures, BYD cannot use domestic sources for batteries.

EXO, the lone U.S. producer, and now part of a German company, makes its batteries in a pouch that is only suitable for certain bus manufacturers.

Moreover, EXO can only produce enough cells for less than 15 percent of the total number of buses sold each year.

As a final note, we remind this Committee that the decisions made in this room will have significant consequences in places like Lancaster, an area that has seen unemployment fall thanks in large part to BYD.

One of BYD's first manufacturing hires expressed how meaningful BYD's investment was to workers in the Lancaster area. Quote, BYD has really saved my life. Now I have a roof for my family, I have food for my family, and the future is definitely full of hope.

For these reasons, lithium-ion batteries should not be subject to additional tariffs. Thank you for your time.

MR. BURCH: Thank you, Mr. Wessel. Our next panel witness will be Mike Russo of SEMI. Mr. Russo, you have five minutes.

MR. RUSSO: Thank you, Mr. Chairman and thank you, Panel. Thanks for the opportunity to present testimony today. My name is Mike Russo and I'm the Vice President for Global Industry Advocacy at SEMI, the industry association representing the end-to-end global electronics manufacturing supply chain.

With more than 2100 members worldwide, including more than 430 American companies, SEMI represents the full range of semiconductor technology companies, including chip designers, equipment makers, material producers, and subcomponent suppliers.

Our member companies are the foundation of the $2 trillion electronics industry and its supply chain, which employs 350,000 high-skilled and high-wage jobs across the United States.

Semiconductors are essentially the brains of all electronics systems, making possible countless products on which we rely for business, communication, transportation, healthcare, entertainment, and virtually all activities of modern human endeavor.

These products have boosted economic growth, enhanced productivity, and driven innovation. And with the advent of emerging technology applications, such as autonomous driving, artificial intelligence, 5G communications, and a broader Internet of things ecosystem, this industry will continue to be central to U.S. growth and prosperity.

All of this has been made possible through intellectual property and SEMI's support efforts to better protect our valuable I.P.

The United States is the global leader in semiconductor manufacturing technology, holding more than 40 percent of the global market share. U.S. companies in this sector have historically exported more than 80 percent of what is produced domestically.

And as a result, the United States has long held a trade surplus in semiconductor-related exports. Trade has ensured that the U.S. has remained a global leader in semiconductor industry and the world has benefitted by that leadership.

In this industry, trade and innovation are intrinsically intertwined and by allowing companies to better tap into foreign markets, they are able to compete globally and grow their market share.

This trade, therefore, enables greater investments in research and development, which in turn fuels innovation and continued growth.

Indeed, a change to either affects the other. Without trade opportunities, innovation dries up, and without innovation, opportunities to export slow.

This is an especially important consideration when maintaining leadership and innovation is a priority. With that in mind, we believe that the imposition of a 25 percent tariff, on top of other tariffs, could be extremely harmful to the semiconductor manufacturing supply chain.

About 30 total tariff lines in the proposed Section 301 tariff list directly impact the semiconductor supply chain. These tariff lines include products that effectively enable this industry.

We request that these tariff lines be removed from the proposed Section 301 action.

Estimates from SEMI member companies suggest that these additional tariffs would cost millions annually in lost revenue, owing to reduced exports.

We also worry that these tariffs will impact competitiveness. The net impact of this trade action will be that firms not operating within the U.S. will receive an advantage.

In this industry that requires constant innovation and cutting-edge development to meet modern market demands, this change could well have long-term compounding impacts.

Further, these tariffs impact many items that are not widely available in terms of quality and cost from domestic sources as well as foreign non-Chinese sources.

Companies in our industry rely on certain products that are produced, often by U.S. companies in China. Companies in the semiconductor supply chain have spent years developing cost-effective and highly-qualified suppliers across the globe.

Our tools and products are extremely complex, precise, and difficult to manufacture, and it's not reasonable to simply assume one can replace a component from China that has been systematically designed and qualified for use in a tool or product with a component from another source.

This action will cause an unnatural shift in the global supply chain and stifle investments in innovation, endangering U.S. leadership in this sector, and would put thousands of jobs at risk.

We also believe that curbing investments in this high-value section will expand the U.S. deficit, threaten future growth, and not solve legitimate and longstanding concerns with China.

In closing, while we support efforts to ensure that our companies can compete on a level playing field, we can't cutoff access to foreign markets or upset market-driven forces that allow companies to compete globally, based on their ability to provide value to their customers.

Trade is critically important to the continued success of the global semiconductor industry. These tariffs will inflict unintended damage to companies operating within the U.S. and companies supplying them, stifle innovation, increase prices, threaten U.S. leadership and innovation, and critical technology capability, and potentially put thousands of U.S. jobs at risk.

Thank you very much and I look forward to your questions.

MR. BURCH: Thank you, Mr. Russo. Our next panel witness will be Devi Keller of Semiconductor Industry Association. Ms. Keller, you have five minutes.

MS. KELLER: Thank you. My name is Devi Keller. I'm the Director of Global Policy at the Semiconductor Industry Association, or SIA.

SIA is the voice of the U.S.

semiconductor industry. We represent companies that account for 95 percent of semiconductor production in the United States.

U.S. chip makers lead the world with roughly half over the $412 billion global market, and semiconductors are America's fourth-largest export, after airplanes, refined oil, and crude oil.

We have a global trade surplus of over $4.5 billion and trade surplus with China of $2.5 billion in 2018.

As stated in our previous submissions on the first three rounds of tariffs, SIA supports the administration's goal to address the discriminatory and burdensome trade practices of the Chinese government.

However we have made the case to the administration that tariffs imposed on semiconductors and the broader IT industry will only harm America's tech companies are an ill-equipped tool to address the problematic Chinese forced tech transfer and I.P. theft activities that are subject to the Section 301 investigation.

The administration's previously announced tariffs encompass nearly the entire semiconductor supply chain, including semiconductors, semiconductor manufacturing equipment, raw materials, printed circuit assemblies, et cetera.

This fourth round of tariffs now threaten virtually all information technology products and key purchases of semiconductors, including laptops, cellphones, printers, solid state drives, videogame counsels, televisions, displays, and more.

The U.S. IT sector is a significant and expanding segment of the U.S. economy that underpins hundreds of thousands of jobs, innovation, and U.S. leadership in critical must-win technology sectors, like AI and advanced networking technology.

IT spending accounts for approximately 4 percent of U.S. GDP in 2017, or around 8 percent of U.S. GDP, including telecom and Internet of things ending.

If tariffs on key consumer IT products are implemented, the economic consequences for the U.S. IT industry will be crippling. According to research commissioned by SIA and conducted by IEC, a premier provider of market intelligence, imposing tariffs on virtually all Chinese imported IT products would decrease the U.S. IT market by $70 billion over 2019 and 2020.

As a result of cutbacks and IT spending related cost increases, which is a direct result of the tariffs, and weakening of economic sentiment, the indirect macro result of weakening revenues, profits, and disposable incomes.

Prior to this escalating trade conflict, IT spending was forecasted to grow at 5 percent this year and 5.3 percent next year, but according to SIA commissioned research, if these tariffs are implemented on key consumer IT products, IT spending growth will drop almost 3 percentage points down to 2.1 percent this year and 2.4 percent next year.

This will have significant impacts on the IT sector in the form of cutbacks in R&D spending, job losses, and weak wage growth, as companies face slowing profitability and revenue.

A slowdown in IT revenues would also have knock-on effects for other connected sectors, via suppliers, partners, channel companies, distributors, and will greatly damage U.S. economic growth.

The same SIA commissioned research completed at the beginning of next year estimates that the additional tariffs on IT products would decrease U.S. GDP growth by 0.9 percent in 2019 and 0.3 percent in 2020 from the baseline forecast of 2.5 percent GDP growth, according to the Economist Intelligence Unit.

The additional tariffs on IT products would also weaken investment in new technologies, especially in technologies which United States maintains a clear advantage over China and other countries, such as AI, Cloud, big data, and analytics.

Such reduced investment could have an effect not only on our economic security, but our national security as well, as U.S.-designed microprocessors provide a critical backbone for modern American national security and military systems.

In conclusion, IT firms make up a significant sector of the U.S. economy and any slowdown in this sector will have a ripple effect through a broad range of other industries, greatly impacting U.S. economic growth.

There's no scenario in which tariffs on IT products is positive for the U.S. economy. As a result, we request that the U.S. administration remove key consumer IT products from the proposed tariff list that we have included in our written submission, and that includes 20 HTS lines.

That concludes my testimony. I'm happy to answer questions.

MR. BURCH: Thank you, Ms. Keller. Last and final panel witness will be Wang Guiqing of China Chamber of Commerce for Imports and Exports of Machinery and Electronic Products. Accompanying Mr. Guiqing is his interpreter, Frank Mou. Mr. Guiqing, you have five minutes.

MR. WANG: Thank you. Good afternoon. I an Wang Guiqing, Vice President of CCCME, China Chamber of Commerce for Import and Export of Machinery and Electronic Products. We have nearly 10,000 members. Please allow me to make the following comments.

Most products in this 300-page list are consumer groups for these products. Imports from China takes 42 percent of U.S. import from whole world and the resource can be more than 80 percent for some particular products.

It is difficult for U.S. importers to find alternatives in the short term. Chinese producers maintain a very low level of profit and therefore, the additional duties will be borne by U.S. importers and the customers.

For example, 80 percent of smartphones in the U.S. come from China. 80 percent additional duties mean extra $50 for each phone. And then there will also be an obvious rise of price on T.V. sets, laptops, microwave ovens, fans, electric tools, LED lights, and many other products.

In the 4th quarter this year, with ten percent additional duties, the retail price in the U.S. market for 1.7 cubic feet fridges, which is commonly used in U.S. families with low and medium income, has risen to $89 from $79.

If all the products are subjected to 25 percent additional duties, the retail price for almost all the products will go up.

U.S. companies import Chinese components with good quality and a reasonable price every year. After the imposition of additional duties, U.S. companies have to face with the dilemma of paying the duties or importing more expensive products from other countries.

Either way, they cannot abide the increase of production cost. According to data collected by ITC, after the imposition of additional 10 percent duties on components as models and of parts, there are some alternative supplies coming from countries, like Mexico and Japan, but there is an average price rise of 10 percent for products from these countries.

To avoid the additional duties, some companies may setup factories in other countries, but many parts will still be produced in China.

The extra transportation expenses, together with the investment, will make the production costs in those countries much higher than in China, and the extra part will also be borne by U.S. customers.

China took retaliation after U.S. imposing additional duties on 250 billion Chinese groups, Chinese imports of U.S. products have dropped by nearly 30 percent from January to May 2019.

If the 300 billion products are

subjected to additional duties, it will be for the harm to the U.S. and China industries. In the just concluded, China-California business volume and the China-Michigan Business Summit, company and local government representatives from both China and the U.S. all agree that trade war is harmful to both Chinese and U.S. interests and does not solve the demand of people from the two countries.

We urge the two sides to enhance economic and trade cooperation and deal with the trade friction problem. CCCME urges China and the U.S. to solve this dispute through consultation. Thank you for giving me this opportunity to testify.

MR. BURCH: Thank you, Mr. Guiqing. And, Mr. Chairman, this concludes all witnesses' testimonies.

MR. SHEPPARD: Hi. My question is for Ms. Hanvey. In your testimony, you claimed that sourcing from third countries is possible, but at a higher cost. How much more expensive is it to source auto parts from third countries?

MR. HANVEY: I don't know if I can put a definitive answer on that because the products range in complexity from Point A to Point B, so we could get back to you on an answer on that, but it would depend upon the particular auto part that we're speaking of.

MR. SHEPPARD: Okay. Thank you. I have a follow-up question as well about certification.

MR. HANVEY: Sure.

MR. SHEPPARD: If you were to relocate to alternative sources, what would the certification process be and how long would that take?

MR. HANVEY: Well, many of the plants that do manufacture the auto parts are ISO certified, so, you know, they would have to go through an ISO certification process if they already are not; ISO certified.

And as I mentioned in my testimony, it's a matter of finding those production facilities that would be able to manufacture the short run for those particular products, so ISO certification's a must, and then, obviously, the internal certification of the supplier themselves would have to be met, so it's a lengthy, significant process.

MR. SHEPPARD: Okay. Thank you.

MS. JANICKE: My question is for Tom Vining of NEII. Can you talk a little bit about what other countries, other than China, currently supply elevators to the United States?

MR. VINING: I can't say specifically, but let me put it in this way, that -- I can't speak for all the companies. I mean, there are a fair number of manufacturers, including Otis, that have domestic production, but there's a lot -- wide variety of different types of elevators.

The Chinese market is 60 percent, over 60 percent of the world's elevators are installed in the best market in China, so there's very well-established global supply chains that are in China that are very difficult to duplicate in other countries.

And I can speak that we only -- the only other country that, you know, we, as a company, import from is China right now, other than some other components.

MS. JANICKE: So that's the only current sourcing for elevators into the United States, is from China?

MR. VINING: Well, I'm saying for our company. There are other companies that certainly import components from other countries in the world, but I think all companies have a very significant presence in China, given the size of the market.

MS. JANICKE: All right. Thank you.

MR. VINING: So it's a very distributed global supply chain, depending on the product that's being supplied.

MS. JANICKE: Okay. Thank you.

CHAIR TSAO: Mr. Vining, I have follow-up question, to help us better understand the product, you're asking for exclusion of

HTSUS842810000?

MR. VINING: Right.

CHAIR TSAO: Is that the, you know, elevator frame itself? What is the products that would fall under this line?

MR. VINING: It's an entire elevator product, and so again, it only affects a certain number of elevators that, you know, have a high volume in China, a lower volume in the U.S. market that we're asking to be excluded.

CHAIR TSAO: So basically, it's the entire elevator.

MR. VINING: It's the entire elevators.

CHAIR TSAO: And you shipped it intact from China to the United States.

MR. VINING: Yes.

CHAIR TSAO: Okay. Thank you.

MR. SECOR: My question is for Mr. Wessel of BYD Motors. A similar question, are you asking for an exclusion on all lithium-ion batteries or just those batteries specific to your business?

MR. WESSEL: So my understanding is that, generally, what USTR's been doing is setting the products at the 8-digit tariff level, so the 8-digit is 85076000. My understanding, and I'll double-check with this in a post-hearing submission, but there's no 10-digit subdivision down below that.

And I know when this topic came up before, that was certainly one of the points that we made, was that, if you hit the 8-digit level, you're hitting a pretty wide swath of products.

I'm certainly not here talking about all of the lithium-ion batteries, but what I am saying is that, if you hit that large swath of products, you are going to hit the products that are the input to the Lancaster facility.

MR. SECOR: Okay. And what other countries besides China currently manufacture batteries?

MR. WESSEL: So at least for BYD, the way it works is that, the cells are specifically made as inputs into the downstream battery pack. So one of the reason that we can't use any domestic-made batteries is that, just as a matter of physics, they simply don't fit into the ultimate battery pack that's made at the U.S. facility.

That's fairly common in the industry. So my understanding from Proterra's submission back for List 3, was a similar argument, that they cannot use domestically produced, or even some other types of batteries, because they don't fit into the Proterra battery pack.

So, you know, basically the way this works is, the cells are specifically made, so you can't substitute a South Korean lithium-ion battery into a U.S. produced battery electric bus.

MR. SECOR: Do you know, in China, if these are being produced by Chinese companies or foreign joint venture ones?

MR. WESSEL: Yes, for the batteries that we make are being made by our parent company.

MR. SECOR: And since the original Section 301 action against China, has your company made any efforts to shift battery supply out of China?

MR. WESSEL: Well, so this is the first time that batteries have been on the list, so they were proposed -- my understanding was, a Canadian company tried to get lithium-ion batteries placed on List 3, candidly, in order to, you know, shift the competitive balance in favor of a Canadian company.

So, you know, given they haven't been on the list, the question's not really ripe, but what I can say is that, again, the battery is an essentially element to the bus.

You know, as I mentioned before, 70 percent of the value is U.S. content, but the battery pack is a special part of the bus and a lot of the bus is built around the battery pack, so given that, again, the cell that comes from China specifically designed to fit in that battery pack, it's incredibly difficult just to say, well, you know, take that and move it out of China.

The other kind of limiting factors would be the lack of lithium production in the United States, lithium refined in the United States. Not a lot of lithium refining ore production to get to a lithium cell that then eventually goes into our battery pack.

So as I think you've heard other people say, that infrastructure really doesn't exist in the United States.

MR. SECOR: And one last question, do you know if the firms making these batteries in China receive subsidies from the government as part of the new energy vehicle program?

MR. WESSEL: That, I don't know. The only thing I can say is that, you know, for BYD, BYD is a public-traded company, so any kind of government grants are disclosed in BYD's annual statement, and I would defer you to there if you want to look at that number.

MR. SECOR: Thank you.

MS. MITCH: Thank you very much. My question is for Mr. Russo. In our 301 investigation, we've documented examples of concerns with Chinese industrial policy, theft, coercion, and force technology transfer in the semiconductor industry.

In your testimony today, you've noted that the U.S. has its own robust semiconductor manufacturing industry, so why can't more U.S. companies relocated existing Chinese semiconductor manufacturing to the United States or third market, such as Taiwan?

MR. RUSSO: So there's a few reasons for that. So as you know, China has spent many years, actually, beginning in the mid-'90s, developing their manufacturing ecosystem, beginning with commodity manufacturing in general.

And through those years and years of development, they've developed a very substantial supply chain and manufacturing techniques, which have done two things, and this is a little bit unique to our industry.

One, they've been able to drive costs down. So if U.S. companies or companies with operations in the U.S. want to compete globally to maintain marketshare, they need to remain competitive from a price standpoint, but more importantly, that, in our industry, the qualification of tools, or parts that go into tools, materials, all the way up through, you know, the production of chips in general, it takes an extended period of time to qualify those, more than other industries.

And then once that qualification takes place, there's a shift in the supply chain. So what happens is, in the semiconductor industry, you know, I mentioned that we have over 2100 members. There's about 85 percent are small and medium-sized manufacturers.

The larger players are multinationals. Many of those multinationals have production capabilities within China, so what's happening now, which would become even more of a problem is that, it's not that, over time, if you could flick a switch and make that happen, that would be one thing, but in order to compete and to maintain the systems that are currently in place and qualify those equipment, what they're forced to do is, further segregate their manufacturing.

And as we speak, that's happening. Those multinationals that have capabilities in China, are moving, as we speak, to China.

If there's other opportunities to produce within the existing supply chain that are offshore, which, multinationals have that capability, it causes that shift; because of those reasons.

Part of it's price, and global competitiveness, but also the ability to qualify those various components through the semiconductor industry, which is very important, and then also, like the previous comment on batteries and how components are manufactured for specific sub-applications, et cetera, that's even more so in the semiconductor industry.

MS. MAIN: I have a couple of questions for Ms. Keller from the Semiconductor Industry Association.

First, in your testimony, which focuses heavily on your analysis relating to the impact of proposed tariffs on certain consumer goods, you speculate that additional tariffs on IT products would also weaken investment in new technologies, in which the United States currently maintains a clear advantage over China and other countries, such as artificial intelligence, Cloud, and big data, and analytics.

We would appreciate further information about how your association is viewing the connection between any proposed increased tariffs and this impact that you speculate on.

MS. KELLER: Yes, thank you for that question. So yes, the tariffs do increase costs for companies and for consumers, which will lower profitability and revenues, and this will translate to lower spending on R&D and investments.

I think it's the uncertainty environment as well, the unpredictable nature of this, that as companies need certainty to plan their investments and plan their spending, and plan R&D spending, and uncertainty around tariffs and also costs, does threaten companies' ability to plan for the future and invest in these key technologies.

So that's the correlation between the tariffs and the uncertain trade environment and the potential impact on investment in R&D spending.

MS. MAIN: And this would also be R&D spending specific to artificial intelligence, Cloud, and big data, and analytics?

MS. KELLER: So semiconductors in the IT sectors that we list in our submission, yes, they are the key drivers of these key technologies. Semiconductors are the foundational technology behind all tech, including AI and big data.

So yes, any slowdown in the IT sector impact on those companies, which are key purchasers of semiconductors, will have an impact on the semiconductor industry as well, and investment, and research in these critical must-win future technologies.

MS. MAIN: Thank you. One more question, in the conclusion of your written testimony, you highlight key consumer IT products which your association would like to have removed from the proposed tariff list.

You term them key consumer IT products, including those listed below, can you explain to us, then, is this rather lengthy list in Annex 1, is it a complete list or just an illustrative list of consumer IT products that you have -- in which you have concerns?

MS. KELLER: This is a priority list of products that were identified by SIA and member companies. So it is more illustrative, but it includes the top product lines.

You'll note that cell phones are the

top line, nearly $44 billion, followed by laptops and video game consoles. So I'd say this is a priority list, but not a fully complete list.

MS. MAIN: Do you have any intention to provide a more complete submission or an addendum on that?

MS. KELLER: I think we plan to keep it at this as our top priority lines for removal. If there are additional lines that are identified by SIA and member companies, we will follow-up with the Committee in a post-hearing submission.

MS. MAIN: Thank you.

MS. VON SPIEGELFELD: Good afternoon. This question is for Mr. Wang. You had testified that the additional duties on Chinese products harm U.S. companies and consumers. As you know, China has also imposed retaliatory duties on U.S. products imported into China.

In your view, does China's retaliation harm Chinese companies and consumers?

MR. WANG: China only takes the retaliation measures after U.S. took the initiative to levy additional tax, but I have to admit that there are impacts to Chinese companies and consumers.

From the data from January to May 2019, the export from China reduced by 8.4 percent, but I want to point out over 60 percent of the companies operating in China, foreign companies, in the form of joint ventures, they include companies from United States.

MR. BURCH: Mr. Chairman, we release this panel with our thanks. And would all the witnesses in Panel 15 make your way forward?

Would the room please come to order. Mr. Chairman, I'd like to note all witnesses for Panel 15 have been seated and our first panel witness will be John Chamberlain of Evenflo Company, Incorporated. Mr. Chamberlain, you have five minutes.

MR. CHAMBERLAIN: Good afternoon. My name is Jon Chamberlain and I'm the chief executive officer of Evenflo Company, Incorporated.

Evenflo is a nearly 100-year-old U.S. company. It is a leading manufacturer of car seats, strollers and other durable children's products. We design and create safe, easy to use, affordable gear to help caregivers raise babies, toddlers and big kids.

Evenflo manufactures many of its products in a state-of-the-art facility in Piqua, Ohio, and its additional U.S. offices in Miamisburg, Ohio, Charlotte, North Carolina and Boston, Massachusetts, where all told, nearly 400 U.S. employees are focused on research and development, design, manufacturing, marketing and sales of Evenflo's child safety and care products.

Last year, Evenflo appeared before this Committee during the consideration of a third set of products for additional 301 tariffs. At that time, we testified, opposed and were successful in getting several of our child products, including car seats, removed from the final list. These products and several others are now being reconsidered for additional duties under the current List 4 process.

Since the imposition of tariffs on List 3, and to the time when List 4 set of HTS codes was initially published for public comment, Evenflo has had the opportunity to do research to more fully look at its available options.

Specifically, Evenflo has examined how to best source components to support our domestic manufacturing capabilities. This enables us to react to the tariffs and still produce an affordable car seat for our consumers.

After all, car seats are required by law in all 50 states and the District of Columbia. In fact, parents cannot bring home a newborn from the hospital unless they have a car seat installed.

Regardless of this legal requirement, the National Center for Children and Poverty reports that up to 41 percent of U.S. children live in low-income families. Evenflo is pleased to report to this Committee that we have worked hard to ensure that we can mitigate the anticipated impact of the proposed tariff on car seats without causing economic strain on the American consumer.

That being said, Evenflo still urges the USTR to reconsider the inclusion of baby strollers and seat parts on List 4 of the 301 tariffs. These important safety and care items, and components, can only be economically sourced from trusted partners in China. They do not advance the administration's policy interests about China, and they are complimentary to the domestic car seat manufacturing process.

Unlike car seats, however, where there is existing infrastructure to expand in the United States, there is nothing comparable in the U.S. for strollers and other products. The capital investment to develop this capacity would be significant, the lead time would be years, and the return on investment would not justify the cost.

Yet, Evenflo assures the Committee

that finished car seats themselves can remain on the 301 tariff list. While U.S. manufacturing can support U.S. demand for car seats without materially increasing the price to consumers, the same is not true for strollers and other child gear.

Evenflo has a unique perspective on this issue, as we are one of only two companies in the child safety and care industry with significant manufacturing operations, producing an excess of nearly two million car seats annually in our Ohio plant, covering over 300 workers.

The other is Dorel Juvenile Group, which this Committee heard from yesterday, and which is in lockstep with Evenflo on being able to support car seat production domestically, even with the tariff. Simply put, we are prepared to maximize production in our U.S. facility to help meet the expanded need for domestically produced car seats if the tariff on that HTS code is finalized.

Evenflo is prepared to minimize any material impact on consumers, particularly low-income consumers, regardless of what the administration decides is necessary to secure Chinese compliance with intellectual property right rules.

Accordingly, Evenflo does not oppose the proposed imposition of the tariffs on Chinese goods, as it relates to car seats, but continues to believe that the baby strollers and seat parts should be removed from List 4.

That concludes my statement. I'll be happy to respond to any questions you may have.

MR. BURCH: Thank you, Mr. Chamberlain.

Our next panel witness will be Jeff Peck, of S'Well Bottle.

Mr. Peck, you have five minutes. Can you turn on your microphone, please?

MR. PECK: Can you hear me okay? So my name is Jeff Peck. I'm the president of Can't Live Without It, LLC, which does business as

S'Well or S'Well Bottle. And I want to obviously thank the Committee for letting us come down here today and have a moment to tell you our story.

Honestly spoken, I was told that this was going to be an exercise in theater, because decisions had already been made. But I've sat through quite a bit of the testimony this morning, and you guys are clearly asking questions and -- or considering what's going on. So thank you for that, regardless of the outcome.

S'Well was started by my wife, Sarah Kauss, actually, ten years ago. This is a company that manufactures stainless steel water bottles. Sarah started this company with a mission, and that mission is to reduce single-use plastics in the world. She has been wildly successful in doing that, wildly successful.

And when I first met Sarah, I thought she'd lost her mind, because who starts a water bottle company who has to manufacture in China, and gets involved with all the things that that means?

Sarah has grown this company over the last ten years, to 102 employees in New York City. And she wished she could be here today, but she's managing the company, right. And a small business is a fight every single day. And Sarah and I are certainly in the middle of that.

Over the last ten years, Sarah has been committed to moving manufacturing of this product to the United States. I have personally been a part of those efforts. We have worked with several engineering firms, starting as early as 2012. We have done significant studies and efforts to try and figure out how we can do this here.

I wish I was successful in that. We continue to try and do that. And so we are aligned with what the Committee is trying to do and what the administration is trying to do to bring manufacturing back to the United States, and I and Sarah support that, and continue to put our resources and effort and minds toward that goal.

Like so many of the folks that have testified here this morning, it's just not possible right now for us to do that, and would that we could, but we cannot. And the impacts to our business are similar to what you've heard so far, right. And we've submitted our oral testimony to you, right.

This severely hampers our growth plans. We are making moves into Canada and the European Union. We're going to have to put those on hold, right. We're putting hiring plans on hold, as we look at our balance sheets and try to move, you know, numbers from one account to another, to make sure that we can keep folks employed, we can continue to pay rent. And that's what this means for us.

S'Well is an opportunity cost for the USTR. And what I mean by that is, we are your ally on the ground in China. As odd as that might sound for a water bottle company, we wear the white hat and are boots on the ground in those provinces.

And I can tell you how IP works in China. I can tell you about writing banners to the police department. I can tell you that you get to know the vice mayor of the cities, not the mayor, because the vice mayor is the one that's responsible for international trade in these manufacturing towns.

I can you tell you that you have a lot of chicken dinners to win the trust of manufacturers. And then you use your supply to get them to help you protect your intellectual property. And that's what S'Well does, right.

That's what my wife does, on the ground, in China, not always in heels, in boots, right, meeting with these guys, meeting with these folks and getting U.S. interests and intellectual property protected and moved forward in China.

We spend a lot of money doing that. We work the Customs and Border Patrol in the United States to register our products. We have our law firms in China. We raid factories.

We do some other things there in terms of trying to have people tell us where our intellectual property is being violated, and working with the Chinese authorities to go in and stop those people in those tracks.

So one of the things I want to present to you is not just the standard story of hey, you know, this hurts our balance sheet, and we have to make real decisions, just like anybody who runs a lemonade stand or water bottle company needs to do. How do I keep people paid if I'm paying 25 percent higher cost of goods sold?

But what you are losing is an ally on the ground, because it's our boots pushing that American model of intellectual property forward in China, understanding the Chinese system and pulling the levers of supply and demand to get folks in China to start playing ball, so to speak.

The 25 percent tariff severely hampers our efforts to do that, right. And if I am the hero of that story, if my wife, who looks like

Wonder Woman, is the hero of that story, you are taking her off the ground in China, because she's going to be paying the U.S. government, rather than putting those resources to use to move the ball forward in a pragmatic, reasonable way to protect her rights. Nobody is more motivated than her to protect her international property. Nobody's going to fight harder than she is.

So one of the things I want to put to the Committee is a request to protect HTS Codes 9617.00.10, .30 and .40. This is just a water bottle. I know it might not rise to the level of high strategic brinkmanship with China, but it punches above its weight on the ground in China to help move the idea of intellectual property forward.

And you need folks like us, who are strident in those efforts, to move the ball forward there. I'm afraid that this tariff removes our ability to do that, and we allocate the resources to paying the government.

That concludes my statements. I'm

available for questions down the line.

MR. BURCH: Thank you, Mr. Peck.

Our next panel witness will be Richard Tinberg, of the Bradford Hammacher Schlemmer Group.

Mr. Tinberg, you have five minutes.

MR. TINBERG: Thank you.

Distinguished members of the Section 301 Committee, thank you for the invitation to appear here today, to discuss the impact that additional tariffs on Chinese goods as put forth on List 4, Additional HTS Codes, would have on our retail companies and our employees.

My name is Richard Tinberg. I'm the president and CEO of the Bradford Hammacher Group of Companies. Our companies consist of the Bradford Exchange and Hammacher Schlemmer, headquarters in Niles, Illinois, with offices in Florida, Ohio and New York.

Hammacher was founded in 1848, and Bradford in 1973, and combined, we've been in business for 171 years. At the low ebb, Bradford employs about 600 employees in the U.S., and Hammacher employs about 125. And then during the holiday season, we employ about a thousand. We are a hundred percent owned by employees, under an employee stock ownership program.

I have been president and CEO of our group for nearly 34 years, and I believe that I know our industry about as well as most. Bradford is the largest affinity marketer of art-based products in the U.S., and by affinity, I mean interest. In other words, if you're a a marine, and you have that interest, we develop products for that affinity.

You might be a Washington Redskins fan. You might enjoy a certain Disney movie. We develop products based on those things. We specialize in creating and developing, and then direct-marketing jewelry, collectibles, home decor, giftware, checks, coins, apparel and handbags.

We sell all of these through direct mail, print media, direct response mailers, catalogues and e-commerce. Nearly all of our products are custom-designed by us, and a majority of them are made in China.

We serve the middle class at Bradford. The average age of our customer is 60. The average household income is about the average at 64,000. Free trade is vital to us. We buy about $45 million of products from outside the U.S. annually. You can see a couple of samples here of some of the Christmas products and some of the American history products we develop.

We have heard that companies like ours could just divert our purchases to other countries such as Vietnam or Thailand, or that we could simply have our products made in the United States. And these aren't viable options for us, because we've tried to do that for the last 25 years, not to have all our eggs in the same basket.

First, most of our products require complex, costly tooling. We do not have the tens of thousands of dollars per product, and many months to have new tooling made and delivered to other factories in other countries. We have 20,000 different SKUs, different products.

Second, many of our products are hand-crafted and hand-painted. They require sophisticated artisans. We have spent many years helping factories in China develop the talent required for our products. We started back in 1986. We are not aware of any other countries other than China that have the artists with the skills and the numbers necessary to make many of the products that we develop.

Third, many of our products are licensed by major entertainment businesses, such as Walt Disney, Warner Brothers, the National Football League, Major League Baseball. Those licensors require us to use only certified factories, and that can take months and sometimes years, to ensure that the policy -- the factories have fair labor practices and are appropriate, environmentally and are clean, and treat their people well.

There are no -- to our knowledge, there are no certified factories in other countries that make a portion of the products that we sell.

Fourth, where possible, we have moved production of our product to countries other than China, and relocated the final assembly of product to the U.S., where practical. Yet production of the majority of our products remain in China, and there are no sources of supply in the United States to make the quantity and quality we need. In fact, for many of our other products, there no such source of supply anywhere in the world other than China.

To be clear, it's possible that certain goods should be taxed, but others should not. Therefore we are asking that you disapprove the List 4 tariffs for the jewelry, dolls, electric trains, Christmas and religious articles, clocks, music boxes and decorative plates be excluded.

We don't believe that Christmas and

religious items have ever borne much in the way of tariffs, if any, in the past, and we would hate to see that happen now. The survival of potentially hundreds and possibly thousands of jobs in the U.S. are at risk, and we want to be operating for another 171 years.

So that concludes my remarks, and I'd be happy to take questions.

MR. BURCH: Thank you, Mr. Tinberg.

Our next panel witness will be Rick Little, of Everest Group, USA.

Mr. Little, you have five minutes.

MR. LITTLE: Good afternoon. Thank you for having me here. My name is Rick Little and I'm a director at the Everest Group, USA. I'm writing to you to express my intense concern for the industry and to request our category of tie-down straps, bungee, webbing be exempt from these tariffs.

The tariff that President has implemented will have a direct impact on our business and our ability to maintain profitability, service our customers and adhere to the contracts that we have in place.

Everest sources our straps from specific contracted manufacturers in China, manufacturing the straps to the required quality and the scale that is not successfully developed elsewhere.

Almost all the products in the industry have come from China. We have contracts with key suppliers that significantly contribute to our industry. Forming relationships with these suppliers has taken years of time and financial investments.

Developing products that meet the standard of excellence is an intense process. And our source products undergo significant quality testing. If we are forced to sever these contracts and relationships, it would set us back for many years, training these new suppliers to match our efficiencies, along with the major capital expenditures.

In addition, we have supplier

agreements that do not allow us to move the manufacturing without written consent by our customers. We have invested thousands of dollars on securing these manufacturers, making them compliant to the U.S. labor standards, and in order to meet our customers' audit requirements.

In an effort to explore alternative avenues of manufacturing, we have done extensive research with India, Vietnam and Malaysia. None of these countries have the infrastructure in place nor the raw materials to help support the amount of volume and demand that our customers in the United States have, nor the expertise to manufacture the quality of products that we demand in our category.

A major consideration is the impact of the manufacturing these products, is the byproduct of wastewater and ground water contamination, which the above-mentioned countries have not been willing to take on at this point.

With limited options, our business

will not be able to replace the infrastructure in place, which has taken years to build, not to mention the environmental impact moving to a third countries or the United States would have.

I'm asking that we be granted an exclusion to these tariffs in order to maintain our business, fulfill our contracts, and supply the public with quality products that are safe for the American highways.

Everest Group, USA opposes the implementation of the duties on the following specific tariff headings: HTS 8479.89 and 5609.00.

The Everest Group position is that imposing the proposed duties on specific Tariff Subheading I would not be practical or effective to curb the elimination of acts, policy, practices, China related to technology transfer, intellectual property and innovation that are addressed in the findings of the investigation into these practices.

Thank you for your time and your

consideration.

MR. BURCH: Thank you, Mr. Little.

Our next panel witness will be Jonathan Viner of KIK Custom Products.

Mr. Viner, you have five minutes.

MR. VINER: Members of the 301 Committee, thank you for the opportunity to appear before you today.

` My name is Jonathan Viner, president of the Pool Division of KIK Custom Products, which uses key raw materials imported from China in its U.S. manufacturing process to produce cleaning and maintenance products for swimming pool water.

I'm also here representing the American families looking for safe recreational recreation, particularly in the summer months, and the small business owners who provide pool professional advice through independent pool stores and service nationwide.

KIK imports from China, cyanuric acid, CYA. We'll call it CYA for now. It's powder and cyanuric acid granules, which are key raw materials, and are classified in 2933.69.60.

KIK uses these imports in its U.S. manufacturing pool division, which conducts business under the BioLab, Inc. legal entity. This subheading currently faces a 3-1/2 percent tariff.

CYA powder is used to manufacture Trichlor, an EPA regulated material for pool sanitization. This is the most common form of sanitization for residential swimming pools in the United States. Trichlor is known in the industry to stabilize chlorine, which extends the usable life of chlorine treatments.

Trichlor is cost effective for use in pools because it stabilizes the chlorine sanitizer against the UV light of the sun, extending the time the chlorine concentration remains high enough to be effective.

Commonly, this product is used by consumers to clean their pools themselves, or by pool cleaning services, due to its ease of use, and it's longer lasting sanitization profile.

There is only one domestic manufacturer of CYA, and they have been challenged to meet KIK's demands requirements on a consistent basis, as KIK has grown over the last five years.

In 2018, the domestic supplier declared force majeure during a critical period of the year, and was unable to supply CYA to KIK, further driving the importance to rely on Chinese CYA to cover its needs. In addition, the domestic supplier of CYA also produces Trichlor, and is a direct competitor to KIK.

At BioLab's U.S. chemical manufacturing facility in Lake Charles, Louisiana, BioLab reacts the imported CYA powder with other chemicals to produce granular Trichlor. The granular Trichlor is then shipped to either one of BioLab's two U.S. packaging facilities, where the Trichlor is tableted into its finished form.

A 25 percent tariff on the raw

material CYA would increase the cost of all relevant end products manufactured in the U.S., United States significantly. This cost would be passed on to the end consumer, which could result in product substitution to non-stabilized chlorine sanitizers, making it more difficult to maintain a pool.

Trichlor base products, with CYA, make pool ownership easier and affordable. China is the major supplier of the subheading in which CYA powder and granules are classified. Under the subheading, 2933.69.60, China supplies two thirds of imports.

The next major producer, India accounts for only 12 percent of imports, and we believe, based on our understandings of the market, that India focuses on other chemicals in this subheading.

The proposed duties will not just disrupt our Chinese sourcing of these products, it will directly and negatively impact our employees. This includes the product designers and engineers, the sourcing and distribution experts, the marketing and sales forces, and of course, our manufacturing employees who depend on crucial imports and product line extensions to support their jobs.

The result of these tariffs will be harm to our company, and potentially the health and safety of American families doing nothing more than trying to enjoy home and community pools in the summertime.

Finally, I would like to add that the typical consumer of our products fall into three categories: First, individual American families that have a pool; second, small mom and pop professional retailers who provide expert advice on how to properly maintain a pool safely with chemicals like Trichlor, for sanitization; thirdly, the pool service industry that services residential pools and community pools many of us grew up using.

The service sector is almost completely made up of small businesses with the three largest pool service companies in the nation accounting for 5 percent of the market, combined.

As a result, we strongly believe HTS 2933.69.60, or at least the ten-digit subheading of cyanuric acid, 2933.69.60.50 should be removed entirely from the proposed Section 301 trade action.

We appreciate your consideration of our request. Thank you for giving me the opportunity to appear here today on this important topic.

MR. BURCH: Thank you, Mr. Viner.

And our last and final panel witness will be Bill Fagert of the Wooster Brush Company.

Mr. Fagert, you have five minutes.

MR. FAGERT: Mr. Chairman and members of the Committee, I'm Bill Fagert, president for the Wooster Brush Company, an American manufacturer founded over 168 years ago. The gentleman to my right has us by three years.

We are one of the oldest U.S.

manufacturers of paint applicators and have a long, proud tradition of American manufacturing.

Consistent with my testimony in August regarding this same key raw material, these hog bristles, I'm here again to address the reason the USTR should remove these paintbrush materials from the proposed list of products subject to additional tariffs.

The tariff provision for these unique hog bristles is provided at the top of my written testimony, and we've provided additional details in our written comments.

The hog bristles are distinctive in key inputs for our domestic manufacturing. They are unavailable from any other part of the world, and they leverage centuries of knowledge and tradition that enables the Wooster Brush Company to produce industry-leading products. For more than a century we have been sourcing these hog bristles that are produced from a very unique hog variety, raised only in Southwest China.

Given the unique source, and the

substantial impact the increased tariffs will have on our American manufacturer, we are deeply disappointed to see that these imports of hog bristles from China are again being considered for Section 301 tariffs, after they were previously considered and removed from List 3 by the administration.

Permit me to tell you a little bit about our company. We were founded in 1851, and are one of the oldest, one of the country's oldest manufacturers of paint applicators.

Wooster Brush is a dedicated American manufacturer, and has remained an independent, privately-owned company, producing more than 2,000 products for painters of all skill levels. We have over 888,000 square feet of manufacturing and warehouse facilities in the U.S., and sell our products in all 50 states.

Wooster's experience in the industry is unmatched. We maintain the highest quality standards, and continue industry-leading innovation, with our own in-house engineering, production, graphic design, and printing departments. Today we proudly employ more than 640 dedicated employees.

We're committed to U.S. manufacturing, and to our employees. During the last recession, Wooster was so steadfast in supporting U.S. jobs that it refused to reduce it's workforce, and instead its dedicated employees agreed to reduce work hours, so that the company did not have to lay off a single individual.

Like most U.S. manufacturers, Wooster sources materials both domestically and globally, including China. Imposing a 25 percent tariff will negatively impact Wooster and American consumers, by significantly increasing our domestic manufacturing costs. The financial impact of these tariffs on the company is significant.

The hog bristles we import from China are produced from substantially mature technologies. Given China's ancient traditions of calligraphy and painting, hog bristles would hardly be considered a strategic or advanced technology.

The particular hog bristles required by Wooster are unavailable domestically, or anywhere outside of Southwest China. They cannot be produced from U.S. hogs due to their quick-to-mature growth patterns, and the breed of hog is not raised outside of China.

We've included in our written testimony and comments a picture of this unique hog breed, from which the bristles are harvested. In the picture, that was taken in the 1930s of our third-generation owner, Donald Foss, visiting China to evaluate hog bristles that Wooster requires to make its industry-leading paintbrushes.

We've also provided a picture of paintbrushes produced from these unique bristles, and I have samples of them here as well.

The increased tariff on these hog bristles will not harm Chinese. Increasing the company's cost by 25 percent to source these unique raw materials will, without question, raise our production costs, hamper our competitiveness of these U.S.-based, U.S.-produced paintbrushes, and ultimately impact tradesmen and painter, painters who purchase these brushes.

We have a saying at Wooster. With the right tools, you can accomplish anything. We appreciate the administration's goal. Imposing additional taxes without equal consideration of the impact on domestic manufacturers and consumers is not the right tool.

Respectfully, Wooster believes imposing tariffs on low-cost technology hog bristles from China will do nothing to influence the Chinese government's trade policies. Instead, it will have a detrimental effect on a century-old producer and its consumers.

On behalf of Wooster Brush, and its more than 640 employees, we respectfully request the administration reverse this decision to tax hog bristles by 25 percent, and unnecessarily harm our ability to provide the right tools to our community of painters. Thank you.

MR. BURCH: Thank you, Mr. Fagert.

CHAIR BUSIS: Ms. Mitch, could you start the question?

MS. MITCH: So my first question is for Mr. Chamberlain.

In your submission, you've noted that in addition to imports, Evenflo is one of the few companies in the industry with U.S. manufacturing operations producing these products. Your testimony today elaborated that this was largely car seat products, specifically.

I'm curious if you do have any domestic manufacturing operations that could meet the capacity needed to replace Chinese imports in the other devices you mentioned, and how long it might take to shift production domestically, for those operations. Thank you.

MR. CHAMBERLAIN: Certainly. We have looked at a variety of alternatives, none of them being cost effective. The upfront capital investment, for example, strollers, which is a, you know, critical part of our business, the upfront capital is significant.

It would take us a couple of years to be able to do that, and the payback, yes, just doesn't show itself. So we have looked at alternatives, and just not found anything that we thought was acceptable.

CHAIR BUSIS: Mr. Chamberlain, you had mentioned, in your testimony that it sounds like certain components of the car seats were covered by List 3 tariffs but you were able to mitigate the effects of that. Could you give us a sense of what type of mitigation was done, you know, alternative sourcing or whatever it was?

MR. CHAMBERLAIN: Certainly, yes. We anticipated this potential, so we aggressively moved to look at supply chain alternatives. So we have moved some things out of China into other parts of the world, where we could have a sustained cost that would allow us to meet the expectations of this Committee and the administration.

MR. SECOR: My question is for Mr. Peck.

You testified that S'Well has itself been the victim of illegal intellectual property practices in China, when other factories and retailers unlawfully copied your patented process, creating additional price pressures on S'Well Bottles.

Could you give us an idea of the price differential between the illegal products and your own products, and evaluate sort of why the 25 percent tariff applying not only to your products but to those competitors as well wouldn't apply equally, and force them out as well.

MR. PECK: Good question. Yes. So, the price differential ranges, depending on where, you know, you sell the product. It can be anywhere from $10 to $15 less. So the message there is that I don't have a chance to sort of roll, sort of increased costs onto the consumer, right. I already face competition on the low end from knock-offs.

The reason why, for me, it's more detrimental is because my cost of goods are higher because of the way that we manufacture the product. We do a lot of safety testing on it. We have our engineers there, we have boots on the ground.

The intellectual property enforcement costs are significant for us. These are not borne by the folks that make copies of the product, so when we have a 25 percent tariff, for those guys, they might be coming in at a much lower COGS, cost of goods sold when they're assessed at CVP.

We've seen some folks claim a COGS of 40 cents a piece. 25 percent on 40 cents, it's not, nominally is not as much as what I pay. It's, I'm in the dollars here if we get up to 25 percent of my COGS. So it's materially larger for me, because of my outlays of the way I make my product. Does that make sense, answer your question?

MR. SECOR: Yes.

CHAIR BUSIS: Mr. Peck, is it your sense that the knock-offs, are they copying the design of the stainless steel water bottle or also the proprietary manufacturing technology?

MR. PECK: Well they're certainly copying the design. You know, we talk about the money that S'Well spends. And remember, this is playing by the rules here. Playing by the rules costs money. I'm in charge of that budget, so I can tell you how much that is.

So when you play by the rules, you play by the rules in the U.S., and you play by the rules in China. We have registered intellectual property in both. We have a trademark on the shape of the bottle, so when they make a copy of that, that's being violated.

We also have patents in China and the United States with regards to the manufacture of part of the bottle, and that is also being violated. Part of the issue with China is that it's so large that discovery of the infringers is a significant cost, right. If you wait until the moment that it arrives in the market, you're done, right, because the consumers only want lower prices. They don't really care if your intellectual property was violated along the way.

So you have to proactively be on the ground in China, ferreting these guys out. You have to form allies who are willing to play by the rules, who will tell you what's going on in one of these cities, and you have to be willing to brandish a big sticks, which means that you have to have law firms. And those law firms have to have local counsel. And you have to know, like I said, the chief of police and the vice mayor.

This is where the money goes that we're spending. And that's how we enforce it. If I wait to enforce it on the States side, I'm dead. So we enforce it in China. It took me four years, four years to get my S'Well mark registered in China, and that's a long expensive fight.

And with our margins, and the costs, 25 percent, I just don't have that budget anymore to fight that fight. I have to wait and see what happens on the States side rather than being active in China and enforcing it there.

MS. JANICKE: This question is for Mr. Tinberg.

In your testimony, you talked about a variety of different approaches, or challenges that you face in terms of alternative sourcing outside China. With a list of maybe 30 different HTS numbers for the products that you're asking for exclusions, could you give us any idea of maybe distinctions within that group?

Are there certain ones that face the artisan challenge? Are there certain ones that face the different types of challenges that you noted, just any way -- is there any way of sort of distinguishing it within the large group of products, sort of what alternatives you explored and what roadblocks you ran into? Thank you.

MR. TINBERG: Yes. We'll be submitting post-testimony definition of those. But generally, many of the products that are hard to source elsewhere are more complicated because of molds, because of the individual artistry. And those have high labor content.

We have sourced some of our products in Vietnam, primarily wood. Jewelry, we also do in India and Thailand. But they can't do some of the jewelry we do because some of our Chinese manufacturers have perfected the way to use stainless steel for men's rings and watches, and it's, we haven't found anyone in India or Thailand that can do that.

So generally, the products that we would be most interested in are those that have a very high labor content. You know, for example, on Christmas trees, pre-illuminated Christmas trees, those, the top of the line may have 2,000 lights in it. And we try to produce the most faithful rendition of the actual conifer leaf. And that requires an immense amount of labor.

And we have not found others yet that can do that quality, even though, as I've said, we've been, you know, searching for 25 years because we didn't want to have all our eggs in one basket, in one country that was the primary supplier.

MR. SHEPPARD: My question is for Rick Little.

You testified that third-country suppliers were not able to meet the infrastructure and wastewater related needs for manufacturing tiedown straps. Is the manufacture of these straps more infrastructure or pollutant heavy than other products such as rope or textile devices? Can you elaborate on these requirements?

MR. LITTLE: Well, I don't know -- I'm not a chemist, so I am not that familiar with the actual chemicals that are being used in it. I know that, you know, one of them is formaldehyde.

We have approached some potential manufacturers, suppliers in Vietnam, and they seem to have some real concern with the fact of introducing any of those kind of things into the environment, and turned us down. They literally said no, we're not interested in doing that.

And I believe they do other kind of textiles and clothing in Vietnam. But for whatever reason, they had turned us down, maybe a combination of the chemicals I'm just not aware of, that are involved. It is a little bit of a different process than clothing is, though.

MR. SHEPPARD: Okay. Thank you.

CHAIR BUSIS: Could you also provide the Committee with background on the product, where we might see it --

MR. LITTLE: Sure, sure.

CHAIR BUSIS: -- in our daily lives, and who your customers are?

MR. LITTLE: Across the street, at this construction site, they get used, in the form of slings when they're going to be lifting up heavy material.

When you're driving down the highway

and you see a tractor trailer truck that has a strap over top of it, holding down products, you would see it there. They're used for recreational purposes. They're kind of an all-around product.

And one of the really big problems that we have is, we would love to move our manufacturing to the United States if we could. If they could be competitive and we could move it here, we would do it in a heartbeat.

We can't. We don't have any alternatives. We don't have an alternative. Ninety -- I would estimate that 90 plus percent of all the tiedown straps and bungees manufactured are made in China.

So we really are kind of up against it where we don't have other resources that we can turn to, and -- we would do it, but it's just not there. It's not readily available to us.

CHAIR BUSIS: And do you know when the production moved to China? What era?

MR. LITTLE: I'm sorry?

CHAIR BUSIS: Was this, production was in China 50 years, or 20 years?

MR. LITTLE: Oh, how long it's been in China?

CHAIR BUSIS: Yes, yes.

MR. LITTLE: Boy, that's kind of outside of my knowledge base, but it's been a significant number of years. It's probably been closer to 30 plus years that it's been done there, really labor-intensive product to work with.

MS. VON SPIEGELFELD: This question is for Mr. Viner.

Besides China and India, where else can CYA be sourced from?

MR. VINER: To my knowledge, it's only -- as I referenced, there's one domestic supplier, that has a limited source, and it's only China. We're not aware that India can actually make CYA --

MS. VON SPIEGELFELD: Oh, okay.

MR. VINER: -- right now. So right

now, it's all coming from China.

MS. VON SPIEGELFELD: And just a follow-up question. Is there any indication that that company would increase its production or that there's any other interest in -- other companies have an interest in producing this?

MR. VINER: No. This -- because this is a raw material. CYA is a raw material that comes into the U.S. to make Trichlor, which gets into another, to the finished good. So you need a lot of urea, and heat, and sulphuric acid, and there's just not an abundance of that in certain areas of the U.S. So it is typically just found in China right now, so.

MS. VON SPIEGELFELD: So the domestic manufacturer also will be affected?

MR. VINER: Right. The domestic manufacturer has its one source where it manufactures it but they're not expanding.

MS. VON SPIEGELFELD: Okay.

MR. VINER: And then, as I said in my testimony, they declared force majeure last year, and just not consistent in their supply.

MS. MAIN: I have an additional question for you. When we look at your written testimony, although initially you request that HTS 2933.69.60 be removed, you then say, or at least the ten-digit subheading, 2933.69.60.50. Could you clarify your specific interests?

MR. VINER: Yes. So, the actual -- there's obviously a lot of chemicals under the eight-digit heading that was requested. And the chemical, the raw material that's in question, CYA is that ten-digit one.

So, you're going to have, the domestic supplier of CYA is going to be here later this week, and then they're going to be wanting to put the tariffs in place because Trichlor, our finished good, Trichlor is also under the same heading as CYA.

So, if it comes to the -- we're only really interested in removing the CYA from the actual tariff list, which is why we focused -- but it's because it's under the eight-digit heading, we said at a minimum, we would want to focus on that particular ten-digit coding being relieved from the tariffs, because that's just the, unique to the item that's impacting our manufacturing process.

CHAIR BUSIS: Could you give us a sense of why China's a predominant supplier in, for cyanuric acid? It sounds like a feed stock is urea. Urea, I presume, comes from petrochemicals, which -- so why is it that China is, can produce this chemical, and other, you know, other countries with feed stocks apparently do not?

MR. VINER: I'm not an expert on why certain countries don't do it, but it's, I think it's just, in the agricultural industry, where there's a lot of urea, it's just a, they're able to just be able to -- it's an offstream, and it's a way in which they can use that offstream to create another product, which is cyanuric acid.

We just don't have that. We've looked around the U.S., and it's just, there's no other source of supply.

MS. MAIN: I have a couple of questions for Mr. Fagert from the Wooster Brush Company.

First, in your testimony, you talk about the situation right now, which is that the hog bristles that you require to make your paint applicators are produced from a breed of hog that is not raised outside of China.

I wonder if you have any information about, at least theoretically speaking, if that breed of hog actually could be raised outside of China, let's say in the United States or in other Asian countries, and is that something that you have, something that you have explored?

MR. FAGERT: I can't say that we've explored it extensively, but we have explored it. And it comes down to the issues of time, quality and cost. You know, whether that breed of hog could be raised here is hard for me to say. It may very well be able to be.

Most U.S. producers want to get their

hogs to market in six months. So they're not real interested in raising a hog that takes a couple of years to get to the stage of being slaughtered.

We were working with an entity in India, who wanted to be in the business, and they tried for two years to submit samples to us of hog bristle for our use, and it just didn't get there.

So, you know, there's some infrastructure costs that take time, and then there's also a lot involved in taking the byproduct from a hog that's slaughtered and getting it to this, which we then can turn into a paintbrush.

It has to be sorted by color. It has to be sorted by length. It has to be oriented from butt end to tip end. A lot of things go into it that -- and then there's a lot of processing, to get it soft, to get it straight.

So there's art and knowledge that takes a lot of time to develop, and leads to the quality of the product. I'd be glad to leave these with you so you can feel what they're like.

CHAIR BUSIS: You -- thank you. We will come down and look at them, so thank you.

Mr. Burch, I think we're -- no more questions? I think we're, we can dismiss this panel.

MR. BURCH: Mr. Chairman, we release this panel with our thanks. And would the, all the witnesses make their way forward for Panel 16?

MR. BURCH: Will the room please come to order?

CHAIR BUSIS: This will be our last panel for today, and Mr. Burch, if you can call the first witness, please.

MR. BURCH: Mr. Chairman, our first witness for Panel 16 will be Fred Ferguson, of Camp Chef.

Mr. Ferguson, you have five minutes.

MR. FERGUSON: Okay, thank you. Good afternoon. My name is Fred Ferguson, and I am vice president of Government and Industry Relations for Vista Outdoor, the parent company of Camp Chef.

I am testifying today on behalf of my colleague, Brandon Sparrow, who is the brand's president. Brandon is attending one of the outdoor industry's largest trade shows and was unable to travel to Washington.

Brandon's focus at the show is to promote the Camp Chef brand, introduce new products, pursue new customers, and of course, discuss the tariff situation with existing retail partners. These conversations are essential to Camp Chef's longevity, in the face of new and existing tariffs.

Camp Chef is a consumer products and lifestyle brand that provides outdoor enthusiasts and families with an array of high-quality outdoor cooking products. Camp Chef is located in Hyde Park, Utah, where they employ 70 people.

We are asking the administration to remove certain HTS subheadings which cover pellet grills, steel grills, pizza ovens, and many other outdoor cooking products and accessories from the current list of proposed China 301 tariffs.

These products are all engineered, tested, marketed, and retailed in the United States, but they are physically manufactured in China, because that is where the infrastructure, capacity and expertise to produce quality products at affordable prices is located.

These actions absolutely are having a negative impact on both U.S. businesses and consumers. Camp Chef submitted written comments and testified before this Committee on multiple occasions. We detailed what tariffs would do to Camp Chef's business. Unfortunately, our predictions came true.

We were confident that new tariffs on portable water heaters would lead to dirtier dogs and colder children. And because of the List 3 tariff, we are now exiting that product altogether.

The overall sales for Camp Chef have

declined because of the 301 tariffs already in place. For example, the 10 percent tariff on List 3 products has increased our duty disbursement 165 percent.

This increase has led to a $20 retail price increase on one of our stoves. Prior to the tariffs, this stove was one of our best sellers. Now it barely moves off the shelf. Our testimony from 2018 was not some magical fortune-telling process. It was simple economics and market analysis. When prices increase, consumption decreases.

Relocating our manufacturing in the face of these tariffs is not a good option. Camp Chef has periodically examined other sources, and none provided the combination of quality, capacity, competitiveness and partnership that China offers.

Trying to move the production will cost at least as much as the proposed duties. Even if we could move production, competitors may stay in China, suffer the short-term loss, then have an enormous advantage once relations normalize.

Overall, China is the dominant supplier for all of our impacted products, and in some cases, account for 94 and 97 percent of total U.S. imports of that particular subheading. In our experience, the factories we work with in China have been our partners, and have developed into our best advocates. They protect the brand, because our success is their success.

These are not high-tech products, nor products that experience intellectual property problems. We fully understand the administration's concerns about Chinese industrial policies that target high-tech industries, and we understand the need to push back against intellectual property theft. But the Camp Chef products on the list simply have nothing to do with these topics.

These are reliable cooking products, used in our backyards, during the Fourth of July holiday, and at tailgates and campsites across

America. The future of Camp Chef, our employees, and a coveted American pastime is in serious jeopardy if the administration goes forward with its proposed action on tariffs.

Put directly, these tariffs are the biggest threat to the brand in its 30-year history. For the first time, Camp Chef is not growing, and may be forced to lay off employees now that the 10 percent tariff has been increased to 25 percent.

It's difficult to imagine the impacts to the Camp Chef family, and the local community should the fourth round of tariffs be implemented as proposed.

Thank you for the opportunity to testify. We urge the Committee to remove the outdoor cooking products and subheadings from the most recent tariff proposal list. Thank you.

MR. BURCH: Thank you, Mr. Ferguson

Our next panel witness will be Gary Zurn of Big Rock Sports.

Mr. Zurn, you have five minutes.

MR. ZURN: Good afternoon. My name is Gary Zurn, and I'm an owner-partner with Big Rock Sports. Big Rock Sports is one of the nation's largest distributors in the outdoor sporting goods industry. We carry over 170,000 products across three U.S. distribution centers, and serve more than 15,000 fishing, shooting, camping, taxidermy and marine retailers.

Our company is focused on developing relationships with independent retailers, and giving them the tools they need to succeed in today's marketplace. We do this by offering numerous exclusive business-building resources.

We are also unique, as we sit at the crossroads of a robust outdoor sporting industry, and touch both the retailers and the brand manufacturers, along with having a stable of our own brands that we import from a variety of countries, including China.

We are strongly committed to protecting the rights of hunters and anglers, and all outdoor enthusiasts. That is why we act as the voice and the advocate of the independent outdoor sporting goods retailer.

We have done this by participating in Washington, D.C. committee hearings that could impact the industry, support organizations that preserve sportsmen's rights, and keep our waterways and woodlands open to recreational outdoor sports. Furthermore, Big Rock Sports financially supports associations that protect our natural resources and access to them.

We understand the unfair trade practice of the Chinese government and need it to elicit change. While we understand the overall issues and perspective, we believe in an exemption for the sporting equipment companies is needed.

Our argument is that the exception of sporting companies is disproportionately burdened, that the new tariffs would pose on our industry. The sport fishing industry is impacted disproportionately because our current 10 percent federal excise tax on support fishing equipment already exists.

Very few other industries have a similar excise tax. We firmly believe that our industry will be facing significant challenges due to the layers of additional tax. This increased tariffs would be excessively burdensome on an industry already paying a significant excise tax.

In addition, our industry faces a complete lack of non-Chinese alternatives. Most of our product and most comparable products made by our competitors are sourced from China. Many of the products in the sport fishing industry are lower cost and have a disproportionately high labor cost.

Furthermore, many of the materials and components of the manufacturing infrastructure does not exist outside of China. For example, for an industry with relatively low margins to begin with, the 10 percent excise tax is significant for the companies who pay it. However, they do so willingly because of broad recognition that the taxes are put to good use.

The sport fishing industry excise tax goes into the Sport Fishing Restoration and Boating Trust Fund, which provides funds to state fish and wildlife agencies for fishery conservation and management products, boating access and aquatic education.

Import duties on fishing equipment are also collected by the fund, but we understand the proposed new tariffs would go into the general treasury.

Between the excise tax and import duties on fishing equipment, the sport fishing currently contributes over 150 million annually to this program, with the knowledge that improved fisheries conservation and fishing access provided by the program is good for fishing participation, and therefore the industry.

We firmly believe there's a high likelihood that the new proposed tariffs will substantially reduce consumer spending in our industry, and all the related services and products that come along with consumers engaging in our sport.

This likely reduction would more than offset proportional increases in excise tax contributions that may come from resulting higher product costs. Fewer fishing equipment purchases means less revenue into the tax fund, which ultimately means less funding for programs important to the Trump administration's priorities to improve public access to the outdoors.

In conclusion, given the negative impacts that these proposed additional tariffs on fishing equipment would have on U.S. jobs and businesses, fishing participation and conservative -- conservation funding, we request that the sport fishing equipment, including products under Heading 9507 of the Harmonized Tariff Schedule United States, and any of the products subject to the federal excise tax on fishing equipment be excluded from the Section 301 tariff list. Thank you for your time today.

MR. BURCH: Thank you, Mr. Zurn.

Our next panel witness will be Mike Powell of Primos Hunting.

Mr. Powell, you have five minutes.

MR. POWELL: Hello. My name is Mike Powell. I'm the general manager of Primos Hunting. I'm here today on behalf of my company, our sister companies, our suppliers, our retail partners, and most importantly, on behalf of the millions of people who purchase the products that we are so passionate about creating.

Primos is headquartered in Flora, Mississippi, and was founded in 1976. We manufacturer and source hunting accessories designed specifically for hunting turkey, elk, water fowl, predators and deer. Our sister companies include Champion, Blackhawk, Hoppy's and Outers.

We manufacture some of these products in Mississippi, Virginia, Indiana and Montana, employing 220 hard-working Americans. Although we are small, we are premier brands within our industry, that hunters know and rely upon for our specialized products.

We are all founded on the principles that we are our own customers, dedicated not only to creating the best hunting calls and hunting accessories, but to the education of consumers on how to get the best out of our products.

For example, I, like most of our employees, personally own and use all of our products. We have a series on the Outdoor Channel called, "Primos Truth About Hunting," which is currently in its 19th season, and is viewed each month by over a million hunters. If you haven't seen it, I'd ask that you, if you have the opportunity, to please check it out.

Our customers range from home or business owners installing our trail cameras as inexpensive security devices, or to track wildlife around their property, to avid outdoor enthusiasts, that use them as a scouting tool to hunt game for the meat that it provides.

They encompass all demographics of the

United States population, however, they tend to be very price conscientious. The proposed List 4 captures our trail cameras, hunting blinds, decoys, predator calls, shooting traps, metal targets, shooting rests, firearm slings, cleaning kits and patches.

As you can see, our portfolio is broad, and we pride ourselves on that diversity, our ability to meet the need of any hunter or target shooter. And while our customers are loyal to our brands, if our prices get too high, I have no doubt that they will simply choose to make do without until prices decrease again.

This translates to a reduction in demand for our products, and a business downturn that could result in layoffs. We are a small business unit. We absolutely cannot absorb a sudden increase in cost just to get our products across the border without passing that along to our consumers, especially not up to 25 percent. Plus, we will have to gain buy-in from our retail partners to make this happen.

Today, we source an estimated 70 percent of our products from China, because it is not possible to produce them here at an affordable cost. As a matter of fact, there are no alternative sourcing solutions for these goods at the quality, quantity and price that American hunters and shooters are willing to pay.

Our customers expect quality, and we demand it from our suppliers, at an affordable price. For example, we know that we can make our blinds in Malaysia or Bangladesh, but the quality of the products and reliability of the delivery would significantly diminish.

We are not willing to compromise quality by offering inferior goods to our customers. Similarly, some of our products could be made in Taiwan, but the expense of producing them would spike our retail prices as well.

We agree, the administration should address China's discriminatory practice towards intellectual property rights, however we do not believe that imposing punitive tariffs on consumer hunting products will convince China to change its behavior.

Going through with this proposed action will harm our business by jeopardizing our operations and employees across four states, as well as American consumers. We plead for the USTR to remove these products from the list.

Thank you for considering our request to testify on how these actions will negatively impact the ability of American shooters and hunters to affordably engage in activity and pastime as old as America. Thank you.

MR. BURCH: Thank you, Mr. Powell.

Our next panel witness will be Richard Harper, of Outdoor Industry Association.

Mr. Harper, you have five minutes.

MR. HARPER: Thank you. On behalf of Outdoor Industry Association, I am pleased to be here to provide testimony on the impact of the proposed tariffs of up to 25 percent on outdoor companies and their specific products. I'm particularly pleased to be with several colleagues that support the outdoor recreation economy today.

OIA is the trade association for more than 1,400 companies across the United States, including suppliers, manufacturers and retailers of outdoor products. The outdoor recreation economy generates more than $887 billion of consumer spending, and accounts for 7.6 million American jobs in the United States.

Our members produce some of the most innovative products that reach all corners of the globe, enriching people's lives by supporting healthy and active lifestyles. Many outdoor companies have already been harmed by punitive tariffs, first 10 percent, then 25 percent on List 3 products, including backpacks, sports bags, kayaks, bikes, camp chairs, camp stoves, leather ski gloves and headwear.

Our industry is working mightily to move production out of China, and there have been -- and have been successful in certain areas, such as backpacks, due to the extension of the

GSP program to those products. However, given the technical nature of our products, and the need often to certify factories, moving production can easily take three years or more.

List 4 tariffs would hit a broader range of outdoor goods, including all outdoor apparel, all outdoor footwear, tents, down sleeping bags, skis, snowboards, as well as components for non-down sleeping bags made in the United States, dealing a massive blow to the outdoor recreation economy, and also including several, many sporting goods.

Despite the fact that there is no commercially significant domestic production of many of the outdoor products listed in the Federal Register notice, they already face significant import tariffs, as high as 32 percent for a polar fleece jacket, and 37-1/2 percent for hiking boots.

An additional tariff of up to 25 percent on top of what some members are paying on List 3 products will raise costs for outdoor companies, cut already thin profit margins, hamper innovation and new product development, and depress U.S. job growth.

It could very well force some small and medium sized business to shut their doors, resulting in significant job losses, and will put many of these products out of reach for U.S. consumers.

We are also surprised and disappointed to note that some products removed from previous lists following public comments and a hearing, such as bicycle and snow helmets, have reappeared on List 4.

The administration has already thoroughly vetted these products and have determined that they should be excluded from any additional tariffs. Yet, we must now make the same case that we did less than a year ago, as to why these products should not face punitive tariffs as part of the China 301 investigation.

Having to revisit this debate creates even more uncertainty for outdoor companies, as they make critical decisions related to sourcing options, margins, retail prices and new job hires.

While outdoor companies are, as I mentioned, acting looking to diversify their sourcing options, in several cases China continues to dominate the market, with the infrastructure and skilled work force outdoor products require.

Other countries that are viable sourcing options may already be at capacity, and unable to accommodate a massive immediate shift from supply chains out of China. It will take additional time, significant investment, and training to shift sourcing to other countries.

Our members are prepared to do that, but additional tariffs at this time could negatively impact their ability to remain competitive, and make the necessary investments to do so.

In the meantime, human and capital resources that should be used to hire new employees, create exciting new innovative outdoor gear, and identify new sales and business opportunities will be devoted to supply chain management and tariff mitigation strategies.

In essence, outdoor companies are being asked to put growing their businesses on hold. In some cases, they'll be forced to make the decision to lay people off or stop operations altogether.

One outdoor company with over a hundred employees is looking at paying $13 million more in tariffs if the next round of tariffs is implemented. That is 10 percent of their gross sales.

With already thin profit margin, they will almost certainly go out of business. The life's work and dream of an outdoor enthusiast, who had an idea to start a business, would be finished, and the employees with good-paying jobs will be out of work.

And it's not just impacting members who source finished products out from China. We appreciate and support the administration's commitment to domestic manufacturing, yet these tariffs will also negatively impact made-in-USA goods.

Often overlooked in this debate is the fact that domestic manufacturers also utilize global value chains. These List 4 tariffs will target vital inputs used in domestic manufacturing of essential outdoor gear like footwear. They will incentivize companies to shift production overseas to remain competitive.

We urge the administration to resume negotiations with their Chinese counterparts in these matters, and develop a comprehensive solution that removes all existing punitive tariffs immediately, and prevents new ones from coming into effect.

I'm grateful for the opportunity to appear at this hearing. I thank you for your attention to our concerns in the important matter, and I look forward to your questions.

MR. BURCH: Thank you, Mr. Harper.

Our next witness will be Jon Syverson of Archery Trade Association.

Mr. Syverson, you have five minutes.

MR. SYVERSON: Mr. Chairman, members of the committee, my name's Jon Syverson. I'm the commercial officer at FeraDyne Outdoors, and I'm here on behalf of the Archery Trade Association. I'm also second to last.

The ATA urges you not to impose duties of up to 25 percent on archery equipment because the duties will have substantial adverse impact on the archery industry, including manufacturers and thousands of small business retailers that are the industry's backbone.

ATA members include a number of archery equipment manufacturers, such as my company, making some or all of their products in the U.S. But U.S. products are a minority of the archery goods purchased by Americans. China makes much of the archery equipment, with equipment from China dominating the moderately priced options. Archery imports from China last year were 49.5 million.

ATA has some 2,600 retail outlets as members, but many more retail outlets do not have the 75,000 of annual sales necessary to be a member. The typical retailers is an independent archery-only store. They typically have one or two locations and five or fewer employees.

The typical archery consumer goes to a local store for purchases and for advice about what to buy, fitting, setup, tuning, training, repairs and a place to practice.

Unlike most imports from China subject to the duties, archery products are already significant to a significant federal excise tax, 48.1 million worth in 2018.

ATA is particularly concerned about the impact on the small archery retailers that are key to our industry. Half of them have been in business for under ten years, and there is only a slender margin between profitable and loss years. But the tariffs will affect all levels of our industry.

The tariffs will have a trickle-down effect for the manufacturer-importer, or in our peak season, the immediate concern is the cost increase. A 25 percent tariff is not something we can simply absorb. We have low margins. We will have to raise prices, but with many purchase orders from retailers already in place, this will not be easy.

We will need to weigh the impact of potential cancelled orders. Many manufacturers like me will need to look for cost offsets, and their largest cost is labor, so they'll cut jobs.

The global archery supply chain is complex, so there's no quick work-around for the increased prices caused by the tariffs. Many manufacturers source both finished goods and raw materials from China.

The finished goods will see the 25 impact, but the hidden items of raw materials will feel just as dramatic an effect. The pieces and parts that go into each of these products, assembled in the U.S., will also be affected.

Since archery is an enthusiast category, what we sell is not critical, like food or healthcare. Consumers do not need what we sell. The tariff price increases will make the decision to buy much harder. I'm afraid that archery retailers and consumers do not yet appreciate the magnitude in increased prices coming their way.

As increases are passed on to retailers, they will raise prices to consumers. The price increase is enough to lead the average consumer to skip a purchase this year, in hopes that the tariffs will be gone later. For the retailer, this means fewer sales in the peak season, less store traffic for other products and less revenue.

When revenue drop at small archery retailers, they need to manage costs, and labor and inventory are their major costs. They will need to cut both. I'm confident many small archery retailers will close their doors. They do not have enough labor to cut, to make up the difference of the 25 percent tariffs.

The proposed duties will accelerate declines for the archery industry. It will have little or no impact in convincing China to change its ways. Less than 50 million of archery imports from China is incredibly small compared to the 300 billion of annual China imports proposed for new duties.

Since all archery equipment comes in under a single HTS subheading, and is readily identifiable, it is practicable to exempt such items from proposed increased duties.

In conclusion, the Archery Trade Association respectfully requests that USTR not impose additional duties of up to 25 percent on archery articles and equipment, and parts and accessories. I'll be pleased to take your questions.

MR. BURCH: Thank you, Mr. Syverson.

Our last and final panel witness for today will be Robert Beckwith with Velocity Outdoor.

Mr. Beckwith, you have five minutes.

MR. BECKWITH: Thank you and good afternoon. I know it's been a long day for everybody, so I'll try to keep this energetic.

I'm Bob Beckwith. I'm the president and CEO of Velocity Outdoor. On behalf of over 325 employees, I want to thank you for allowing me the opportunity to testify today.

By way of background, Velocity Outdoor is a leading provider of airguns, consumer optics, consumer lasers, archery products with a consumer market under well-known brands including Crosman, Benjamin, CenterPoint, LaserMax and Raven.

We are, in fact, the world's only company to mass produce airguns in the United States, and have been doing so for over a hundred years. Velocity Outdoor's airgun operations are in Western New York, and its archery operations are in Northern Wisconsin. Combined, we have over 325 employees.

We also have a Foreign Trade Zone in

both of our New York locations. The establishment of the FTZ enabled us to have a cost structure consistent with that of our foreign and foreign-sourced competitors. Therefore, we believe we have a unique perspective that the Committee should hear.

We support the United States' commitment to negotiate an agreement with China that will address long-standing concerns about China's industrial policies and protect U.S. IP. However, there are a number of codes included in the proposed tariff list, that will one, not accomplish those objectives, two, will cause harm to both the U.S. consumer and the economy, and three, put us, a U.S. manufacturer, at a disadvantage with foreign competition.

The codes I've included that are on Page 2, are essentially air rifles, air pistols, parts and accessories for those, BBs for those, rifle scopes for consumer use, archery articles and equipment, devices for consumer lasers, parts and accessories for sights, binoculars and certain airgun accessories.

First, inclusion of the codes will not accomplish the objectives outlined in the document. The products imported under these codes are generally outdoor products for consumer use, that do not contain significant technology, intellectual property or innovation. They rely on time tested, classic technology. Importantly, none of these products imported under the above codes are included as part of China's Made in 2025 program.

Secondly, inclusion of the codes will cause harm to both U.S. consumer and the economy. If the tariffs are enacted, Velocity Outdoor and many other outdoor companies will be forced to raise prices in the marketplace. The consumer will ultimately be forced to pay higher prices, or forego purchase altogether.

Paying a higher price will divert purchasing dollars from other products, and foregoing purchases will hurt the profits of manufacturers, wholesalers and retailers alike.

Third, inclusion of the codes will put U.S. manufacture at a competitive disadvantage with foreign competition, and will counteract the protections afforded U.S. manufacturers of the Foreign Trade Zone legislation of 1934.

Velocity Outdoor manufactures certain airguns in its Western New York facility, while others cannot be competitively made in the USA and are imported from China. To put it in perspective, we make over 700,000 airguns each year in our New York facility.

In addition to the over 200 jobs we have in New York, we estimate we're responsible for at least another 700 jobs in the region, from the parts we purchase. However, parts -- so parts purchased for manufacturing are purchased from all over the world, including China.

We take advantage of the protections afforded under the U.S. Foreign Trade Zone legislation of 1934, which allows something like a scope, which carries a higher duty rate than an airgun part, to be classified as an airgun part.

Inclusion of the codes will put us at risk of a competitive disadvantage to companies that have final assemblies and products outside of China. These competitors can import airgun parts and scopes from China, assemble them into an airgun and import the airgun with virtually no tariff.

Conversely, Velocity Outdoor's duty on those same items will increase from 3.9 percent to as high as 39.9 percent, a result of the proposed increase in tariffs, and the proposed inability to take advantage of the protections afforded by the Foreign Trade Zones.

Velocity Outdoor can neither absorb this cost increase, nor pass it on to consumers. This would force Velocity Outdoor to consider moving all of the manufacturing we have in the U.S. to outside the U.S., resulting in the loss of a significant number of U.S. jobs.

On behalf of over 200 employees in Western New York and 100 employees in Northern Wisconsin, I implore the Committee to exclude the airgun scope, airgun and scope codes identified above for the tariff increases.

Imports of just those two codes, the codes associated with airguns and scopes, represent less than 0.05 percent of the 300 billion in Chinese imports subject to potential tariffs. It's de minimis amount of the pool, but exclusion means everything to our employees and our company.

Airgunning and archery are, have a significant deep heritage in American culture and history. These are not areas where China's trying to steel an IP, so there's no real benefit to inclusion. However, inclusion will cause harm to both the U.S. consumer, the U.S. economy, and could result in the loss of good-paying U.S. jobs.

Please don't put American jobs at risk by including codes that will not accomplish the goals of the increased tariffs. Thank you.

MR. BURCH: Thank you, Mr. Beckwith.

Mr. Chairman, this concludes all

witnesses' testimonies.

MR. SHEPPARD: My question is for Mr. Ferguson.

I noted in your testimony you stated that there are -- the relocating your manufacturing in the face of tariffs is not an option, so pardon me when I belabor the point and ask, are there any viable alternatives, either in the U.S. or any other countries, if you had to relocate?

MR. FERGUSON: You know, as I mentioned, it's a periodic exercise that we do, regardless of these government actions. As part of my appendix, you know, we list the different products and codes that have been encaptured in this process. And in it, we have a chart that shows the percentage of those imports, the market share that China holds with those products.

And as I referenced in the testimony, two of the categories are 97 and 94 percent, and the smallest is our grill covers, which is 74 percent.

So as we go through the exercise, the potential pool of relocation opportunities is small. And then when you look at, okay, where could we potentially go? As you look at the cost associated with the move, with developing new technology, new relationships, it almost every time comes out to be not worth the effort.

MR. SHEPPARD: Okay, thank you.

MS. JANICKE: This question is for Mr. Zurn.

Along similar lines, you said in your testimony that there are no non-Chinese alternatives for these products. And I was wondering if you could describe if there has been any periodic exploration of other sourcing alternatives in other maybe low cost, low labor rate countries, or like what the -- any background in terms of what has already been looked into for other sourcing.

MR. ZURN: We do have some product that does not come from China, lower end. It is very selective products. Some of it comes out of the Caribbean, some of it out of Indonesia. About six -- 2/3 of the product, fishing product does come from China. The other third comes from countries such as Japan, Korea, Indonesia, Taiwan, which is your higher end rods and reels and product like that.

It's just the intensive labor cost associated with the lower end products, specifically your terminal tackle, lures and things like that, and the dyes tied to it all makes it cost prohibitive to go and source it anywhere else at this point.

MR. SECOR: My question is for Mr. Powell, along the same lines.

You mentioned that you have some manufacturing in the United States. On the list of items that you would like excluded, listed in your appendix, do you make any of those items in the U.S.?

MR. POWELL: No, sir. We do not. We manufacture game calls, primarily, in America. So these are instruments made of wood, latex, different reeds, different plastic materials that we sometimes make from a block of wood, or are component stage assembly.

We had, in the past, looked at taking that overseas, but the quality was not going to be high, so we kept that in Mississippi. Some of our sister companies have retained holsters and other manufacturing here domestically.

So where we feel that we have expertise that cannot be done affordably in other places, we proudly keep those types of goods in America. And where the rest of the market is typically sourcing blinds and some of the other goods, trail cameras, that are predominantly coming from China, that we try to keep quality up -- we also, in order to keep cost in line, have been sourcing from there as well.

MR. SECOR: And you mentioned in your testimony as well, having looked at prices in Taiwan, and then also considering Malaysia or Bangladesh, but thought the quality wasn't as good there. Have you looked at other countries as well?

MR. POWELL: Over the years, we have. We have looked at Taiwan, Vietnam, Bangladesh, Malaysia. And it depends on the class of goods, where we're looking. Obviously, Bangladesh can only be a cut-and-sew region.

We have had numerous samples sent for inspection, that did not cut it, so we did not transfer business to them. Can they make these types of goods? Yes. To the same quality and with the same reliability? Not currently. That's why, in the past, before this tariff, we did not choose to shift our goods to those countries.

MR. SECOR: Thank you.

MR. POWELL: Thank you.

MS. MITCH: Thank you very much. My question is for Mr. Harper.

You mentioned that several of your outdoor member companies are actively looking to diversify their sourcing options outside of China. Could you just elaborate this a little bit? When did these companies start looking for non-China sourcing options, if you're aware, and which third countries might be viable sourcing options for them?

MR. HARPER: Sure. I mean, I think where we've seen some of the success recently has been in travel goods, in backpacks and sport bags. And I think that was directly related to the expansion of the Generalized System of Preferences program to include those products, so that they're now duty-free if they're sourced from the Philippines, Thailand and Indonesia.

But as I mentioned in my testimony, a lot of those cases, it still can take years to develop a new supply chain, to develop a new relationship with vendors, make sure they have the capacity and the technical expertise to do those packs.

And so that remains true for other outdoor products in the apparel and footwear sector, but again it can take several years. So if you're looking at countries like Vietnam, or other countries in the South Pacific region, it takes time, energy and investment in training to be able to shift those supply chains.

And even for our larger brands, some of those countries like Vietnam could be at capacity for those products. And for the small and medium sized businesses, they may not be able to get a foot in the door.

So, there is -- there are companies that as I -- that are looking to diversify those supply chains, but it is certainly a challenge to do so, and it can take years to be able to fully shift those supply chains.

MS. MAIN: My questions are for Mr. Syverson from the Archery Trade Association.

In your testimony, you explained that there actually are a number of archery equipment manufacturers in the United States, including your own company, and that they make some or all of their products in the U.S.

Could you provide more details on what the structure is, how many archery equipment manufacturers there are in the United States, and which segments of the archery equipment manufacturing they are covering?

MR. SYVERSON: Well, there are hundreds of manufacturers in the United States that manufacture archery equipment, that supply equipment. One's sitting next to me right now.

And it varies anywhere from the smallest things. You know, there are, kind of, archery-related products that Primos makes. There's archery-related products that Velocity Outdoors makes.

It can be anything from a sling that holds the bow, that you carry with you in the woods, to arrows, to bows themselves, to crossbows, to targets, archery targets. It could be -- there's all kinds of different products that are made.

And it depends on what product it is. It could be an archery target, for example, that is predominantly made in the United States, but one piece or part has to be made somewhere else because of the reasons that we've all talked about, but that's basically how it is.

And each of them, you know, some have five employees, some have hundreds. You know, I have 320 employees and, you know, we've got lots of different variations in size of these manufacturers that are in the United States, and very, very, variable on the types of products that they, each of them make.

MS. MAIN: Thank you. Follow-up question, have you or any of the other members of the association that are manufacturers, have you started looking at alternative sources of supply other than China?

MR. SYVERSON: Yes, absolutely. We have looked at -- and we currently do use alternative sources as well. And so I think that I speak on behalf of all the members where, you know, everyone is looking for alternative sources to China.

There are certain things that, like we've talked about, long standing relationships that there's certain products and certain things that they're specialty to, they are specialized in.

China is a big thing in -- or archery is a big thing in China. And so it's very, there's a lot of archery-specific products and things and technologies that they have, that they use, because that's a big, archery is a big thing in China.

And lots of the -- you know, whether it be China, Japan, Taiwan, Korea, so they have technologies and things that we don't necessarily have access to either. But there are lots of different places, lots of different countries, from Vietnam, to Korea, to Taiwan, that we've all, look at and currently look at, and utilize.

MS. MAIN: Thank you.

(Off microphone remark.)

MR. SYVERSON: It's Syverson.

MR. BURCH: Can you turn on your microphone, so we can pick you up?

CHAIR BUSIS: There I go. Yes.

Could you explain what FeraDyne, what kind of products it's involved with, and where they're made?

MR. SYVERSON: So, FeraDyne Outdoors, we're actually in Superior, Wisconsin, so we're up on the northern part of Wisconsin. In fact, Bob, one of Bob's factories is right by ours. And we make archery-related products, varying from targets. We make targets, we make three-dimensional targets.

We have crossbows. We have -- broadheads is a big part of our business. We own five different broadhead companies. We have a sight company. We have a couple different sight companies. We have a release company, which is a, the part that you use to draw the bow back and it lets the string go. It's a mechanical release.

So we have, all in all, it's about 19 different brands of products that we own and make and manufacture. So we have, you know, our employees there that do different pieces and parts, whether -- how the things come in, or how we make them, from finishing it to taking it from whip to a finished good or whatever the case may be, straight from nothing to a finished good as well.

CHAIR BUSIS: So what were the factors that made it competitive for you to -- it sounds like you're doing manufacturing in the upper Northwest. What were the factors that allowed you to succeed in that, when so much manufacturing has moved offshore?

MR. SYVERSON: One, I'll use one example, is our targets that we make. They're big, bulky, and they take up a lot of room, and they're very freight sensitive. So that, like a product like that is very hard to import something like that. It makes sense of it.

So, the raw materials that make up, make them up, they -- you know, it's not worth it, I guess but, you know, ultimately. But when it comes down to smaller pieces and parts, whether it be fasteners, you know, whatever, those are the types of things where, when you start talking about volumes and the things that we do, you know, to be able to hit those volumes and do what need to do to be competitive, we have to look elsewhere.

CHAIR BUSIS: Mr. Beckwith, our last witness, so thank you. I do need some help with your testimony. So, because it's unusual because you both import and produce. And so you produce air rifles, it sounds like a significant number of air rifles in the United States, but yet you're not interested in a tariff on Chinese air rifles?

MR. BECKWITH: That's right, because the main competitors we have don't bring in a product finished from China, okay. They assemble with potentially Chinese parts. I don't know. I've never been to their factory, but I know where the product comes from. And they come in from other regions of the world.

CHAIR BUSIS: Okay.

MR. BECKWITH: So that they've taken

the model, okay, that we would have to go to, if the tariffs are enacted on finished goods and on parts.

CHAIR BUSIS: So I think your concern then is, the direct concern you would have is on the tariffs on air rifle parts. Is that right?

MR. BECKWITH: No. It's all the codes I listed. Certainly we import a number of product from, directly from China --

CHAIR BUSIS: Okay.

MR. BECKWITH: -- as well, where we cannot -- while we make 700,000 in our factory, there's more that we sell that we cannot make in our factory, competitively. And there's no other source in the world to go to, because for 2/3 of the world, our product is illegal, to own and even manufacturer.

So, you have to -- in China, for example, they have to have a license. And there's no new licenses going out. In Vietnam, the answer is no. In India, the answer is no.

CHAIR BUSIS: All right. Though, then

you import some air rifles --

MR. BECKWITH: Right.

CHAIR BUSIS: -- complete from China?

MR. BECKWITH: Yes, we do.

CHAIR BUSIS: But no one else in China sells air rifles? You're the only --

MR. BECKWITH: There are other ones that, there are other companies that do, but they're much smaller. Certainly there are other ones.

CHAIR BUSIS: Okay.

MR. BECKWITH: But they're not as competitive with us.

CHAIR BUSIS: So they don't compete with you? So you -- you're -- okay, I got it. And you, in fact, you could be affected by tariffs on air rifle parts as well?

MR. BECKWITH: That's correct. So if you think about what would go on there, you can take a series of parts from China or wherever else someone wants to make them, put them in a European country or someplace else, and bring that product in. Okay.

And now you've essentially avoided -- and that's what our -- there's competitors that do that, which is not why they did it. It's just what their business model was. They started there.

Well certainly, we could go do the same thing if we're not importing the product directly. Right now, we're importing it directly. It would cost us an incredible amount of time and money to do so.

CHAIR BUSIS: Right. Okay. And I'm not sure how long you've been in the industry, but can you, if you know, can you describe to us when it -- certainly like 50 years ago, somebody in your position would not be importing parts from China for air rifles. And now you are. Do you know when the transition occurred and why?

MR. BECKWITH: I'm sure it's occurred over the last 34 years. There are companies that used to exclusively manufacture the product in the U.S. that now exclusively import them from

China, okay. I mean, so they've gone the whole, the other way. We've been, really tried to be dedicated to U.S. manufacturing and not have to do that.

But over the time, in order to keep the price competitive, so consumers will still want to buy it, yes. We certainly had to be able to find the most inexpensive sources of parts. And the industry's done that and more.

CHAIR BUSIS: Any more questions for this panel?

Mr. Burch, I think we can release this panel.

MR. BURCH: We release this panel with our thanks. And we will recess until tomorrow at 9:30 a.m.

(Whereupon, the above-entitled matter went off the record at 5:19 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-18-19

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Neal R Gross

Court Reporter