

UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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WEDNESDAY

JUNE 19, 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 Philip Chen, Chairs, presiding.

PRESENT

WILLIAM BUSIS, Chair, U.S. Trade Representative
 ARTHUR TSAO, Chair, U.S. Trade Representative
 PHILIP CHEN, Chair, U.S. Trade Representative
 CHRISTOPHER BLAHA, Department of Commerce
 ZEKE BRYANT, Department of Agriculture
 KIM COPPERTHITE, Department of Commerce
 JAMES CROW, Department of State
 ANDREW DEVINE, Department of Agriculture
 TSERING DHONGTHOG, U.S. Trade Representative
 PAUL FARISS, Department of State
 MATTHEW FRATERMAN, Department of Labor
 JANET HEINZEN, U.S. Trade Representative
 JESSICA HUANG, Department of Commerce
 ANN MAIN, U.S. Trade Representative
 ALYSON MCGEE, Department of the Treasury
 BRYAN O'BYRNE, Small Business Administration
 JIM RICE, Department of Commerce
 MATTHEW SULLIVAN, Department of the Treasury
 SHELLY ZHAO, U.S. Trade Representative

ALSO PRESENT

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

WITNESSES PRESENT

ATHENA AI, Real Flame Company Inc.
 JAMES ARCHIBALD, STX, LLC
 WILLIAM BEGLEY, Sea Box, Inc.
 William Broxton, 5N Plus Semiconductors
 EDWARD BRZYTWA, American Chemistry Council
 JOHN COLONNA, K2 Sports
 ELLIOT DAVIS, Allegheny Technologies Inc.
 JIM DAY, 47 Brand, LLC
 GEORGE DICK, Four Colour Print Group
 MATT FEINER, SG Companies
 MARC FISHER, Fisher Footwear
 JOSEPH GRUCHACZ, Canaxy USA, Inc.
 BRADLEY HANDELMAN, Strikeforce Bowling LLC
 ERIC HARRISON, J. Renee' Group
 G. PAUL HENDRICKSON, Hendrickson Publishers
 MARC JOURLAIT, Kodak Alaris
 ALLAN KLINGE, Klinge Corporation
 ALEXANDER KOFF, VeriFone
 TREY KRAUS, Carlton's Men's Wear, Inc.
 STEPHEN LANG, American Bridal and Prom Industry
 Association
 JOHN LARNED, Global RFID Systems North America
 GREG MASON, Head USA, Inc.
 MADELINE McINTOSH, Penguin Random House LLC
 JOHN McLEMORE, Masterbuilt Manufacturing
 BRENT MERRIAM, NEMO Equipment, Inc.
 CHRISTOPHER MINER, Mobile Mini, Inc.
 SARAH MOE, Hallmark Cards Inc.
 MATTHEW MOEDRITZER, Society of Chemical
 Manufacturers and Affiliates
 RICK MUSKAT, Deer Stags LLC
 PATRINA NECKLES, Foison Packaging
 KENNETH O'BRIEN, Gemini Shippers Association
 CHRIS PESEK, Unicat Catalyst Technologies, Inc.
 MATT PRIEST, Footwear Distributors & Retailers
 of America
 MARK PROFFITT, MECO Corporation

EDWARD ROSENFELD, Steve Madden
GAIL ROSS, Krimson Clover
VISHAK SANKARAN, Bushnell
JAMES SILVER, International Tank Container
Organization
CHARLES STOUT, PDi Communication Systems
NICOLE VASILAROS, National Marine Manufacturers
Association
CHRISTOPHER VOLPE, United Legwear & Apparel Co.
MATTHEW WHALEN, Intex Recreation Corporation
GEORGE WHITE, Greeting Card Association
KURT WILSON, Exxel Outdoors
BRYAN WOLFE, Ascena Retail Group
KIM ZABLUD, District of Columbia Public Library
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1 P-R-O-C-E-E-D-I-N-G-S

2 9:27 a.m.

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

11 Acts explained in a notice published
12 on May 17, 2019, the U.S. Trade Representative,
13 at the direction of the President, is considering
14 a modification of the action being taken in the
15 investigation in the form of additional duties of
16 up to 25 percent on elicited products from China
17 with an annual trade value of approximately \$300
18 million.

19 The purpose of this hearing is to
20 receive public testimony regarding the proposed
21 tariff action. The Section 301 Committee will
22 carefully consider the testimony and the written

1 comments, including post-hearing rebuttal
2 comments, and will then make a recommendation to
3 the Trade Representative.

4 Before we proceed with the testimony,
5 I will provide some procedural and administrative
6 introductions, and ask the agency representatives
7 participating in the hearing today to introduce
8 themselves. The hearing is scheduled for seven
9 business days, concluding Tuesday, June 25th.

10 Today is day three of the hearing. We
11 have scheduled 55 panels of witnesses, with over
12 300 individuals scheduled to testify. The
13 provisional schedule has been posted on the USTR
14 website. We have eight panels of witnesses
15 scheduled to testify today. We will have a brief
16 break between panels, and a 50-minute break for
17 lunch.

18 Each witness appearing in the hearing
19 is limited to five minutes of oral testimony.
20 The light before you will be green when you start
21 your testimony, yellow means you have one minute
22 left, and red means your time has expired. After

1 the testimony from each panel of witnesses, the
2 Section 301 Committee will have an opportunity to
3 ask questions.

4 Committee representatives will
5 generally direct their questions to one or more
6 specific witnesses. As stated in the May 17th
7 notice, post-hearing comments, including any
8 written responses to questions from the Section
9 301 Committee, are due seven days after the last
10 day of the hearing.

11 As noted, the hearing is scheduled to
12 conclude on June 25th, which means that all post-
13 hearing comments are due by no later than July
14 2nd, 2019. The rules and procedures for written
15 submissions are set out in the May 17th Federal
16 Register notice.

17 Given the number of witnesses, and the
18 schedule, we request that witnesses, when
19 responding to questions, be as concise as
20 possible. Witnesses should recall that they have
21 a full opportunity to provide more extensive
22 responses in their post-hearing submissions.

1 No camera or video or audio recordings
2 will be allowed during the hearing. Written
3 transcripts of this hearing will be posted on the
4 USTR website, and on the Federal Register docket.

5 Okay, we're pleased to have
6 international trade and economic experts from a
7 range of US government agencies, and I would like
8 them to introduce themselves this time, starting
9 with myself. My name's Arthur Tsao. I am
10 associate general counsel at the U.S. Trade
11 Representative's office.

12 MR. FARISS: My name is Paul Fariss.
13 I'm a foreign affairs officer in the State
14 Department's Economic Bureau.

15 MR. BLAHA: Chris Blaha. I'm an
16 economist in the International Trade
17 Administration with the U.S. Department of
18 Commerce.

19 MS. DHONGTHOG: Tsering Dhongthog.
20 I'm from U.S. Tariff's China office.

21 MR. BRYANT: Good morning. My name is
22 Zeke Bryant from the Foreign Agricultural Service

1 of the U.S. Department of Agriculture.

2 MS. MCGEE: Good morning. My name is
3 Alyson McGee. I'm from the Treasury Department's
4 East Asia office.

5 CHAIR TSAO: And Mr. Bishop, we're
6 ready to proceed.

7 MR. BISHOP: Mr. Chairman, our first
8 witness on this panel is John Larned with Global
9 RFID Systems North America. Mr. Larned, you have
10 five minutes.

11 MR. LARNED: Good morning, Mr.
12 Chairman, ladies and gentlemen. My name is John
13 Larned. I am the president of Global RFID
14 Systems in Narragansett, Rhode Island.

15 I am a veteran. We are a certified
16 veteran-owned small business. I am also a return
17 Peace Corps volunteer, and well aware of the
18 impact of all things global. This is my
19 testimony reflecting the negative and
20 destabilizing impact of the current proposed Made
21 in China tariffs on my small, highly technical
22 engineering firm.

1 My company specializes in RFID. That
2 is radio frequency identification, a tracking and
3 tracing technology. Our annual sales are
4 approximately 2 million. We employ five people.
5 We contribute our fair share to Rhode Island's
6 small, very small business-oriented economy, and
7 the tariffs have created a major negative impact
8 on our company.

9 All of our products are highly
10 technical, highly engineered, and they generally
11 go through a six to eight month vetting process
12 with our customers, where they are qualified. We
13 have significant, what are called NREs, non-
14 recurring engineering expenses. That's generally
15 for tooling and engineering design.

16 Once a product is qualified and vetted
17 by our customers, it is very, very difficult to
18 change. It's a positive in normal economic
19 times. That's a, that's a positive thing,
20 because our customers don't go away, but when
21 there's something challenging like this tariff,
22 it's a crisis for us.

1 I dispute, or a couple of comments
2 that have been made by the administration. One,
3 every decision on trade will be made to benefit
4 American workers and families. I think that's a
5 very noble and important statement, and I'm in
6 full agreement with it, but it should also be
7 noted, some of these decisions in this tariff has
8 a negative impact on American workers and
9 families, and I'm a significant example of that.

10 I also dispute that any thought or
11 claim that China bears most of the burden of
12 these tariffs. At the very least, the burden of
13 the tariffs is shared 50/50, but I would submit
14 we, the American consumer, the American
15 businessman, the American worker, are penalized
16 every bit as much as the Chinese worker or
17 economy, and it's significant and it's important,
18 and that should be understood.

19 Pretty much the entire planet is
20 linked together in trade and commerce. It all
21 works, this is a highly sophisticated machine in
22 our, in our modern times. It all works much

1 better when there are fewer impediments to trade,
2 on all sides, not, and I understand it is most
3 important that China adhere to, adhere to our
4 goals, our standards of cooperation, our
5 standards of trust, and I agree with that.

6 But one of the best ways to promote
7 peace between countries is to promote and conduct
8 trade at all levels. Through business, we become
9 friends, we prosper together. I thank you all
10 very much for your time.

11 MR. BISHOP: Thank you, Mr. Larned.
12 Our next witness is Alexander Koff with VeriFone.
13 Mr. Koff, you have five minutes.

14 MR. KOFF: VeriFone opposes additional
15 tariffs on one discreet HDS heading, namely
16 8470.50.00. That's cash registers and point of
17 sale terminals, or POS terminals. This is a top
18 priority at the company, and is being monitored
19 at the highest levels, and I'm stepping in for
20 the President of North America, because he could
21 not be here today.

22 One of the world's largest POS

1 terminal vendors, VeriFone has over 1,200 US
2 employees. Its corporate headquarters are in
3 Silicon Valley, and has large operations in
4 Georgia and Florida. Other US operations are in,
5 and support for US jobs at our repair facilities
6 are in Illinois, and outside Sacramento.

7 VeriFone securely connects POS
8 terminals to payment services. It handles a
9 significant portion of the world's non-cash
10 transactions and processes more than \$7.6 billion
11 transactions annually.

12 VeriFone supports the testimony of the
13 Electronic Transactions Association, which you'll
14 hear immediately after me with Ms. Zirkle. But
15 as POS terminals are so critical to its business
16 in the US economy, it's testifying and submitting
17 its own comments on this one subheading.

18 When POS terminals were on proposed
19 List 1, this committee heard substantive
20 testimony, reviewed detailed written submissions,
21 and decided ultimately to remove them from the
22 final list.

1 The devices at issue here are
2 identical. The Committee decided once not to
3 subject them to an additional 25 percent tariff,
4 and that was the right call, and it still is the
5 right call. These items should again be removed
6 from proposed List 4.

7 Keeping them on the list has no impact
8 on China, but it has a huge negative impact on US
9 businesses and consumers, and I'll explain.
10 First, Chinese manufacturers are shifting their
11 POS terminal sales to non-US markets.

12 As the ETA explained in response to
13 List 1 in the written comments, the Asia-Pacific
14 region has seen an uptick in worldwide market
15 share, and 28.3 percent increase in units. So US
16 sales have declined over the same period with
17 Latin America and the Caribbean overtaking the
18 United States in shipments of new POS terminals.

19 So US sales declines will be readily
20 absorbed elsewhere, and particularly in Asia. So
21 POS terminals account for less than 1/10 of 1
22 percent of the proposed \$300 billion. 0.0083

1 percent. That's de minimis. Any impact on China
2 will be de minimis by this measure on this, on
3 this heading.

4 So including them will not change
5 China's policies, but increased POS terminal
6 sales costs directly impact the health of the
7 overall US economy. Unlike other industries that
8 you've heard in these testimony with a localized
9 impact, additional duties of up to 25 percent on
10 these items widely across all market sectors.

11 They particularly hurt smaller
12 companies and merchants. When VeriFone sells to
13 smaller merchants, it sells to a middleman who,
14 in turn, sells to the merchant. Margins are
15 tighter, upstream costs typically are amplified
16 downstream, and there is very little tolerance
17 for additional cost, whether it be 5 or 10
18 percent, or even 25 percent.

19 Higher costs mean merchants are not
20 updating equipment to the latest security
21 protections, and this creates a security gap,
22 which is a huge problem for all of us. Slimmer

1 margins and additional tariffs for smaller
2 businesses either, to one, forgo these upgrades,
3 which is the security gap, or two, to purchase
4 from VeriFone's competitors.

5 VeriFone has two major competitors.
6 One is French, and produces outside of China, so
7 it's not subject to the increased duties. Any
8 additional tariffs makes their products cheaper
9 by comparison, and any lost sales translate into
10 lost US jobs, and this French competitor has only
11 a fraction of the US jobs that VeriFone has.

12 Once merchants are embedded with a
13 competitor, they are lost for years, because they
14 move their entire payment systems to become
15 compatible with that POS terminal. The other
16 competitor is Chinese, and on May 15th of this
17 year, the President issued an executive order
18 seeking to secure our information and
19 communications technology and services supply
20 chain.

21 It guards against foreign adversaries,
22 and the Commerce Department has until October to

1 define what that term, foreign adversaries,
2 means.

3 VeriFone's software is contract
4 manufactured in China, but it uses US software
5 and technology, so tariffs make VeriFone's POS
6 terminals more expensive and less competitive, but
7 the Chinese will get subsidies, ensuring their
8 POS terminals are cheaper than VeriFone's and its
9 French competitor, and these Chinese companies
10 install Chinese software on the POS terminals
11 used in the United States. So if China is deemed
12 a foreign adversary, additional tariffs provide
13 an economic advantage, and pose a threat to
14 national security.

15 So in conclusion, VeriFone knows you
16 face tough choices, but tariffs on POS terminals
17 will not influence China, will create security
18 gaps for US merchants, will cost US jobs, and
19 will threaten national security.

20 As the Committee did with List 1, POS
21 terminals should be removed from List 4. Thank
22 you for your time, and I welcome any questions

1 you may have.

2 MR. BISHOP: Thank you, Mr. Koff. Our
3 next witness is Amy Zirkle with the Electronic
4 Transaction Association. Ms. Zirkle, you have
5 five minutes.

6 MS. ZIRKLE: Good morning. Good
7 morning, and thank you. My name is Amy Zirkle.
8 I'm the interim CEO of the Electronic
9 Transactions Association. ETA is the leading
10 trade association for the payments technology
11 industry, and we represent over 500 companies
12 involved in that business.

13 Last year, our members processed
14 nearly \$7 trillion in North America. As more
15 than 70 percent of the US GDP is retail spending,
16 and the majority of that is via electronic
17 payments, our members play a significant role in
18 the continued success of the US economy.

19 We're here to oppose additional
20 tariffs on two discreet subheadings covering cash
21 registers and point of sale terminals. Many of
22 you may know the point of sales terminal, when

1 you check out in a store, that's the swipe, dip,
2 tap, insert your card. That's what we're talking
3 about.

4 This is ETA's third time before the
5 interagency Section 301 Committee. Our first
6 time was on May 16, 2018, and we argued against
7 inclusion on List 1. Our second was on August 9,
8 2018, where we argued against inclusion on List
9 3.

10 The point of sale products that we're
11 testifying about today are the same items that
12 we've talked about in our prior appearances, and
13 both times, the Committee agreed that an
14 exemption from any additional tariffs was
15 justified.

16 You removed these two subheadings when
17 List 1 and List 3 were finalized, and they are
18 not currently subject to a 25 percent tariff, and
19 that was the right call, and they should, again,
20 be removed from the proposed List 4.

21 ETA appreciates the administration's
22 efforts, and its appearance today does not

1 minimize concerns about intellectual property
2 theft expressed throughout the entire 301
3 investigation. Our reasons for exempting point
4 of sale products have not changed.

5 Keeping these products on List 4 has
6 no impact on China, but has a huge negative
7 impact on US businesses, especially small
8 businesses and consumers. Among other things,
9 Chinese manufacturers are already shifting their
10 point of sale products to non-US markets.

11 Any further US downturn in sales will
12 be readily absorbed elsewhere in Asia, and likely
13 with lower cost and higher profit margins, given
14 shorter shipping distances. So there's very
15 little risk posed to Chinese contract
16 manufacturers, including POS terminals on List 4.

17 Keeping POS on List 4 will not result
18 in increased bargaining leverage that would
19 encourage them to lobby the Chinese government to
20 change policies, but additional tariffs on point
21 of sale products risks a security gap among all
22 retailers in the United States.

1 Besides the ETA, as well as retailers,
2 there have been significant comments raised, and
3 I please refer you to our written comments, which
4 offer greater detail and reference to those
5 comments urging no additional tariffs on point of
6 sale products.

7 As already noted, this Committee's
8 agreed that an exemption is warranted. You did
9 so twice, and you carefully listened to our
10 testimony, evaluated the detailed submissions,
11 and promptly removed point of sale products from
12 additional tariffs.

13 We urge you to do so again, given that
14 point of sale products are so vitally important
15 to the larger retailers, to small businesses, and
16 to the US economy. We should be able to end our
17 testimony here, but we have an additional reason
18 for exempting POS from List 4.

19 Since our last appearance, the
20 President issued an executive order in May
21 seeking to secure our information and
22 communications technology and services supply

1 chain. The Commerce Department has until October
2 to produce rules that can identify particular
3 countries or persons as foreign adversaries.

4 POS product hardware contract
5 manufactured in China for US companies uses US
6 software. That software is developed in the US,
7 it is injected in the US, it is US-based.

8 Additional tariffs will make such
9 products more expensive, less competitive, and
10 it's expected that Chinese manufacturers will be
11 subsidized in the event of additional tariffs,
12 and they install Chinese software on point of
13 sale products used here.

14 Besides harming US businesses, if
15 China is determined to be a foreign adversary,
16 additional tariffs would post a threat to
17 national security. The ETA stands ready to work
18 with this Committee cooperatively towards our
19 common goal of influencing China to curb its
20 policies, but for the reasons we provided in
21 response to List 1, to List 3, and again, here in
22 our response to List 4, we respectfully request

1 that these two tariff lines be again exempted
2 from any remedy.

3 Thank you so very much for your time,
4 and for your consideration, and I welcome any
5 questions you may have. Thank you.

6 MR. BISHOP: Thank you, Ms. Zirkle.
7 Our next witness is Charles Stout with PDI
8 Communication Systems. Mr. Stout, you have five
9 minutes.

10 MR. STOUT: Good morning. Is that on?
11 Okay. My name is Charles Stout, and I'm the
12 director of supply chain at PDI Communication
13 Systems. I'm here today on behalf of Lou
14 Vilaro, our president, Jim Mick, our general
15 manager, and all of the employees at PDI
16 Communication Systems.

17 Mr. Chairman and members of the
18 Committee, I'd like to thank you for the
19 opportunity to provide our testimony concerning
20 the products identified in the proposed List 4,
21 and the impact of the tariff increases to our
22 business in Springboro, Ohio.

1 Our purpose today is to request that
2 the harmonized tariff schedule with subheadings
3 8528.72.72 and 8528.72.68 be specifically
4 excluded from the proposed Tranche 4 list. PDI
5 Communication Systems is an American
6 manufacturing company founded in 1954.

7 We have been serving the healthcare
8 industry with our innovative healthcare
9 television display solutions since 1980.

10 Healthcare grade televisions are not the same as
11 the commoditized television products that are
12 available to consumers.

13 Our solutions have been designed for
14 the specific needs to healthcare facilities, but
15 because there is no specific HTS code defined for
16 healthcare grade televisions, we are lumped in as
17 part of the larger consumer television market.

18 We're sure that this committee is
19 aware of the impact of the tariff increase for
20 that huge market segment, but our small business
21 in Ohio is also affected by these HDS codes. Our
22 mission at PDI is to help patients, their

1 families, and health and wellness providers cope
2 with the boredom and anxiety of treatment, and to
3 improve the experience.

4 To accomplish our mission, we assemble
5 our personal televisions on our production line
6 at our factory in Springboro, Ohio. We also
7 offer a large screen line of wall-mounted
8 televisions that have been designed by PDI.

9 The wall-mounted televisions are
10 sourced and assembled in China to PDI's
11 specification. Our position is that the proposed
12 tariff will result in irreparable damage to our
13 company.

14 In our niche market, we compete
15 against the largest television producers in the
16 world, the battleships of South Korea, who are
17 not exposed to the increased cost that the tariff
18 imposes. We must operate our business within the
19 constraints of our customers' willingness to pay,
20 and in that regard, we're sure you're aware of
21 the downward pressure on pricing that the
22 television market in general has experienced.

1 Simply put, we cannot pass on these
2 tariff increases to our customers. At the
3 component level, we've already been hurt by the
4 List 3 enactment. Now, the proposed List 4
5 increases the tariff from 5 percent to 25 percent
6 on the heart of our business, and we, as the
7 importer, are responsible for paying the tariff.

8 Absorbing this kind of cost increase
9 drives our wall-mounted products into negative
10 margin. We've already negotiated best pricing
11 from our suppliers, and we cannot save our way
12 out by focusing on reduction in other areas. In
13 short, these increases threaten our viability.

14 Our company is 65 years old, and now
15 we are working hard to prevent PDI Communication
16 Systems from the risk of becoming collateral
17 damage in the trade war. Regarding sourcing, I
18 want to refer to the President's message, the US
19 doesn't make television sets anymore, and I
20 included a copy.

21 This was from a speech that he made on
22 the campaign in 2016, and I included it as an

1 addendum to my testimony today. So to be clear,
2 there are no television panel manufacturers in
3 the United States.

4 We have looked to assemble wall-
5 mounted televisions in Springboro, but we're
6 still impacted at 25 percent from the raw
7 materials, and setting up a supply chain cannot
8 be done instantly. It's taken us years to
9 establish the partnerships that we value so much.

10 Finally, we were asked to comment on
11 the proposed increase in relations to China's
12 acts, policies, and practices. I understand and
13 support the objective of leveling the playing
14 field, however, in this specific case, television
15 technology is already well understood.

16 It's been developed and deployed by
17 international companies for many years.
18 Unfortunately, it is no longer an American asset
19 to be protected. With no domestic alternatives,
20 with competitive pressure from South Korean
21 manufacturers, PDI's future is being threatened
22 by the proposed tariff increases.

1 Enacting the tariff will impose great
2 economic harm to our business that affects
3 American jobs in Springboro, Ohio, and you can
4 help by removing HDS codes 8528.7272 and
5 8528.72.68 from the proposed list. We thank you
6 for your time and attention, and look forward to
7 any questions. Thank you.

8 MR. BISHOP: Thank you, Mr. Stout.
9 Our next witness is Mark Jourlait with Kodak
10 Alaris. Mr. Jourlait, you have five minutes.

11 MR. JOURLAIT: Thank you. Good
12 morning. My name is Mark Jourlait. I'm the
13 chief executive officer of Kodak Alaris. Thank
14 you for the opportunity to testify this morning.
15 Based in Rochester, New York, Kodak Alaris is an
16 independent global technology company that was
17 created in 2013.

18 We are a leading provider of document
19 and information capture solutions such as optical
20 scanners, as well as photographic products,
21 including one-time use cameras. We are a trusted
22 technology provider for the US federal, state,

1 and local governments, including the IRS, US
2 Customs and Immigration Service, the Air Force,
3 the Navy, government representing about 20
4 percent of our revenue.

5 We also serve small and medium-sized
6 businesses in diverse markets, such as
7 healthcare, banking, insurance, education,
8 transportation, logistics, and retail.

9 Our product offerings include optical
10 scanners that are classified under subheading
11 8471.60.80 of the HTSUS, scanner parts classified
12 under subheading 7320.20.50, and non-
13 cinematographic camera for roll film, commonly
14 referred to as one-time use cameras, classified
15 under subheading 9006.53.01.

16 These subheadings are on the
17 preliminary version of List 4. We participated
18 and testified in the List 1 notice and comment
19 process, and the Committee subsequently removed
20 optical scanners from the preliminary version of
21 List 1.

22 Regrettably, the Committee has now re-

1 added the same exact scanners to List 4. I
2 respectfully urge the Committee to remove these
3 subheadings from the preliminary product list,
4 because additional duties, first of all, would
5 not be practical or effective in eliminating
6 China's unfair acts, policies, and practices
7 related to technology transfer, intellectual
8 property, and innovation.

9 Secondly, it would cause
10 disproportionate economic harm to US interests,
11 including small and medium-sized businesses, the
12 US government, and American consumers. And
13 finally, it would have a meaningful negative
14 impact on Kodak Alaris, including our US
15 operations.

16 So first of all, additional duties
17 would have no impact on China's behavior. We
18 develop and own all of our intellectual property.
19 Our research and development takes place in
20 Rochester, New York, which is where our numerous
21 patents are primarily owned, managed, and
22 protected.

1 We have three manufacturing facilities
2 in China, one of which is wholly owned and
3 operated by us with all Kodak Alaris employees.
4 A second factory is owned by Lidan, a long-time
5 partner and trusted Taiwanese company that has
6 been known for its diligence in maintaining
7 confidentiality, and protecting its customers
8 intellectual property.

9 The facility that manufactures our
10 one-time use cameras is owned and operating by
11 Guangzhou Achiever Industry, which we have done
12 business with for many, many years. Our
13 intellectual property associated with these
14 products is not strategically related to the Made
15 in China 2025 program, or other Chinese
16 industrial programs.

17 Secondly, additional duties on our
18 scanners will have a disproportionate economic
19 impact on our small and medium-sized customer
20 base. These smaller companies rely on our
21 scanner products and support services to compete
22 against larger companies while maintaining

1 affordable operating costs.

2 Additional duties have already been
3 placed on certain scanner parts under List 1 and
4 3. This resulted in Kodak Alaris raising its
5 prices on services provided to the installed base
6 of over 800,000 scanners in the United States.

7 If the scanners and additional scanner
8 parts are subject to increased duties, we've
9 estimated our price for scanners would need to be
10 increased by approximately 12 percent to offset
11 the increased duties.

12 Our ability to secure those price
13 increases would be limited by competition
14 sourcing from outside of China, resulting in a
15 higher risk of material financial impact on our
16 business.

17 With respect to our cameras, Kodak
18 Alaris maintains relationships with many small
19 and medium-sized drug stores, supermarkets, event
20 imaging business, and distributors. These
21 companies actively participate in our US
22 downstream supply chain operations, including

1 camera sales, color film development, scanning,
2 and printing operations.

3 This generates approximately \$14
4 million in added value for these firms annually
5 in the United States. Additional duties on
6 cameras will likely result in Kodak Alaris
7 raising prices, which may impact sales revenues
8 for these smaller firms and their participation
9 in the downstream film development market,
10 including the removal of our cameras from retail
11 shops.

12 Moreover, US consumers will be
13 impacted, as three quarters of a million of our
14 cameras are sold to US consumers annually for
15 casual photography and vacations.

16 Thirdly, cost increases associated
17 with additional duties may frustrate our plans
18 for investment and innovation and practical
19 applications of our products, which would have a
20 negative impact on our 700 employees here in the
21 United States.

22 Should additional duties be imposed,

1 our plans to develop more advanced business
2 process automation security solutions, such as
3 passport scanners that may benefit the US
4 government, and small and medium-sized
5 businesses, could be stalled or otherwise halted.
6 Shifting and manufacturing scanners outside of
7 China would require an investment of 1 to \$2
8 million, increase our cost of manufacture due to
9 more expensive supply chain, take upwards of a
10 year, and divert engineering focus from
11 innovation. At present, it appears those
12 collective costs would be in the range of the
13 proposed duties.

14 Finally, shifting the manufacturing of
15 our cameras outside of China is not a viable
16 option, as there is a low likelihood of locating
17 another suitable supplier, and even if we did, it
18 would take at least a year, and costs increase
19 approximately 75 percent.

20 For the reasons I've discussed, we
21 urge the Committee to remove subheadings
22 8471.60.80, 7320.20.50, and 9006.53.01 from the

1 proposed Section 301 action. Thank you again for
2 allowing me to testify today, and I welcome any
3 questions the Committee may have.

4 MR. BISHOP: Thank you, Mr. Jourlait.
5 Our final witness on this panel is Nicole
6 Vasilaros with the National Marine Manufacturers
7 Association. Ms. Vasilaros, you have five
8 minutes.

9 MS. VASILAROS: Thank you. My name is
10 Nicole Vasilaros, and I'm the senior vice
11 president for the National Marine Manufacturers
12 Association. NMMA is the largest recreational
13 marine industry trade association in the world.

14 Our 1,300 North American members
15 represent boat, engine, accessory, and trailer
16 manufacturers, and make up nearly 85 percent of
17 the marine products sold in the United States.
18 Boating significantly contributes to the US
19 economy with 170 billion in economic impact
20 supporting nearly 700,000 jobs, and 35,000 marine
21 businesses.

22 While some may see outdoor recreation

1 purely for its enjoyment value, our sector has a
2 significant economic impact. According to the
3 Bureau of Economic Analysis, outdoor recreation
4 accounts for 2.2 percent of gross national
5 product, and employs 4 and a half million people.

6 Boating and fishing are the largest
7 components of the outdoor economy, with 38.2
8 billion in economic value, and growing at a
9 faster rate than the overall economy. Why, then,
10 would this Committee target a sector with such a
11 significant economic benefit to the US economy
12 and US workforce?

13 Marine-related products have been
14 targeted on every list proposed by this
15 Committee, from navigation equipment and steering
16 wheels, to fabrication and entry-level vessels.

17 This fourth proposed list takes it one
18 step further, targeting life-saving equipment,
19 critical infrastructure materials, water sports
20 equipment, and fishing gear. Our industry is
21 uniquely American made.

22 95 percent of the boats that are sold

1 in the United States are made here in the US. 50
2 percent of the global marine market is based in
3 the United States. American manufacturers like
4 ours rely on a competitive global market, fair
5 pricing, and economic stability to grow their
6 business and hire more workers.

7 This latest proposal to tax an
8 additional 300 billion in imports will continue
9 to burden US businesses and US consumers. While
10 NMMA appreciates the administration's actions to
11 target unfair trade practices, we believe the
12 sweeping imposition of high and compounding
13 tariffs is not the solution.

14 Taxing US businesses that import
15 product is not a tax on China, and as the past
16 year has shown, does little to change Chinese
17 practices. Some products included on this
18 proposed list are essential to maritime safety,
19 and we implore the Committee to, at the very
20 least, remove these items.

21 Life jackets are critical life-saving
22 devices on the waterways. NMMA supports

1 mandatory wear of life jackets for children under
2 the age of 12, and in certain vessel operations.

3 The Coast Guard requires all vessels
4 to carry life jackets for each passenger onboard.
5 United States Coast Guard estimates that 75
6 percent of accidents in 2017 involved drowning.

7 Life jackets cost anywhere from 10 to
8 \$160, and a 25 percent tax on a family of 4 would
9 result in significant financial burden. This tax
10 would make it far more expensive to comply with
11 Coast Guard regulations, and will negatively
12 impact safety on the water.

13 This proposed list also targets an
14 array of codes tied to the sport fishing
15 industry. 70 percent of all boat trips involve
16 some sort of fishing. The boating and fishing
17 industry are proud of our conservation record,
18 coming together nearly 70 years ago to tax
19 ourselves for the benefit of aquatic resource
20 protection, habitat restoration, and education.

21 Known as the Sport Fish Restoration
22 and Boating Trust Fund, nearly 650 million is

1 collected annually through the motorboat fuel and
2 excises taxes paid on fishing equipment, such as
3 rods, reels, and lures.

4 This proposed list would impose an
5 additional 25 percent tax on top of the 10
6 percent tax already paid by sport fishing
7 importers. With small margins and a price
8 elastic product, such an increase will not only
9 negatively impact the sport fishing industry, but
10 their contribution to conservation efforts.

11 Lastly, inclusion of outdoor-related
12 equipment, from apparel to wake surfing gear,
13 only compounds the tariff impact on consumers.
14 Wake surfing, too, is a popular boating activity,
15 with this retail segment experiencing a recent 8
16 percent growth.

17 Wake surfing is attracting new and
18 younger consumers to the sport, and an important
19 economic driver of the boating economy.
20 Additionally, wake surfing is a strong physical
21 activity with important health benefits.

22 Subjecting wake surfing gear and other

1 related outdoor items to a 25 percent tariff will
2 not penalize Chinese companies, but rather the
3 American consumers.

4 The high and sweeping 301 tariffs are
5 already increasing the cost of doing business to
6 our 35,000 marine businesses, and making boating
7 less affordable for 142 million Americans that
8 take to the water each year.

9 Manufacturers do not have the luxury
10 of finding alternative suppliers for many of its
11 critical products targeted on this exhaustive
12 list. It could take years, and even decades, for
13 competitive suppliers to come online, if at all.

14 Quality and safety concerns,
15 particularly for life-saving devices, require
16 thorough supplier review, and cannot be quickly
17 transferred. US marine companies will be stuck
18 footing the bill, which will impact
19 profitability, increased cost to the end user,
20 decrease sales, eliminate jobs, reduce
21 investments in plants and equipment, and reduce
22 US global competitiveness.

1 I appreciate your time, and have
2 supplied the Committee with a more extensive
3 written comments, and specific HTS codes for
4 exclusion. Thank you.

5 MR. BURCH: Thank you, Ms. Vasilaros.
6 And Mr. Chairman, this concludes all witnesses'
7 testimonies.

8 MS. DHONGTHOG: I have a couple
9 questions for Mr. Larned. According to your
10 written testimony, you state that, at a minimum,
11 it would require 120 days to move your supply
12 chain outside of China. I just wanted to
13 confirm, is that correct?

14 MR. LARNED: That is absolutely
15 correct. My experience reflects pretty much what
16 everyone else has said, that the issue of moving
17 production to another country is tedious,
18 expensive, and long. So 120 days is the absolute
19 minimum. Thank you.

20 MS. DHONGTHOG: And the second
21 question I have for you is, where else has Global
22 RFID attempted to source smart cards, aside from

1 China?

2 MR. LARNED: We are able to source
3 them in Bangkok, Malaysia, Singapore, Taiwan, and
4 India.

5 MS. DHONGTHOG: Thank you.

6 MR. LARNED: But our preferred source
7 is China, and it, and it is not a simple matter
8 to just go back to our Thai supplier. Thank you.

9 MS. DHONGTHOG: Thank you.

10 CHAIR TSAO: Sir, I have a follow-up
11 question. Do you make the components for
12 finished goods, or does your company actually
13 make the finished goods?

14 MR. LARNED: We do both, sir.

15 CHAIR TSAO: Oh, okay.

16 MS. MCGEE: Hi. My question is for
17 Mr. Koff from VeriFone. Are there any non-
18 Chinese sources for the production of POS
19 terminals, and if so, would it be difficult to
20 shift production from China to these non-Chinese
21 sources, if the additional duties are imposed?

22 MR. KOFF: It's a great question.

1 There are some limited non-US sources of
2 production, such as the French competitors. They
3 actually contract manufacture in another
4 jurisdiction.

5 It is extremely difficult, however,
6 for VeriFone to make a change and transfer.
7 That's addressed to the ETA comments, which were
8 attached to the, to the written comments for
9 VeriFone.

10 There is a significant supply chain
11 cost to making that switch and making that
12 change, because it's not a simple one to one, and
13 VeriFone is looking at those possibilities, but
14 it can't make that change in a very quick, in a
15 quick manner.

16 MR. FARISS: All right. So this next
17 question's for Ms. Zirkle. I noticed you nodding
18 your head during Mr. Koff's response, so it's
19 similar to the question that he was just asked.
20 I have two for you, actually.

21 So any of the, are any of these
22 products that you have mentioned in your

1 testimony available to be sourced outside of
2 China?

3 MS. ZIRKLE: So there, as Mr. Koff had
4 said, we are working, in some instances, to move
5 some of those, but that is, again, time issues,
6 significant constraints, and significant cost as
7 a result.

8 You know, the piece too that I want to
9 emphasize here as well is all the work that's
10 related to software is done here in the US, and
11 the factories that we do have currently in China
12 have very robust security.

13 We do a significant amount of due
14 diligence to ensure that those factories are
15 built under significant and strict security
16 requirements as well, to ensure the level of
17 protection there.

18 But remember, the key for point of
19 sale is the software. The software's developed
20 in the US, it's injected in the US, so in
21 essence, those point of sale are just dumb
22 devices.

1 MR. LARNED: And that's a point that
2 I wanted to re-emphasize as well, in response to
3 your question.

4 CHAIR TSAO: All right. I have a
5 follow-up for both Ms. Zirkle and Mr. Koff. You
6 know, the Section 301 tariff actions have been in
7 place in various forms for almost a year.

8 Have you seen any actions taken by,
9 number one, your members, in response to the
10 Section 301 investigation tariff actions, in
11 general, and also, have you seen any actions done
12 from the suppliers, your Chinese suppliers, in
13 response to the Section 301 actions?

14 MS. ZIRKLE: Do you want to --

15 MR. KOFF: Thank you, Mr. Tsao, for
16 that question. So I wanted to update. So number
17 one, because these items were removed from List
18 1, where possible, VeriFone is looking very hard
19 at alternative sources.

20 However, I wanted to update you with
21 some of the latest reports taken from the Nilson
22 Report in September of 2018, Issue 1138. This is

1 consistent with the prior testimony. Asian POS
2 shipments have increased by 26 percent for POS
3 terminals. Latin American and the Caribbean has
4 increased by 76 percent. That's my first point.

5 My second point, I have three, the
6 second point is that market share of global
7 shipments to the United States with POS terminals
8 has dropped from 8.51 percent to 9.06 percent
9 over that period of time.

10 And that's consistent with what we've
11 been advising, which is that supply for these POS
12 terminals is being soaked up other places, so
13 there's going to be very little impact on China
14 for that. And so I think that's a direct
15 response to your question.

16 And the third point is that, in this
17 latest report, Newland, which is a Chinese-based
18 manufacturer founded in 1994 in Fuzhou, China,
19 now ranks number two in worldwide sales in the
20 latest Nilson Report.

21 And the number three is Centerm, which
22 is also a Chinese POS terminal manufacturer. So

1 in response to your question, there has been a
2 change. VeriFone is looking at this information.

3 Sales to the United States had been
4 declining, then there still have been those
5 national security threats, and that injection of
6 the, of the software, I think, is still extremely
7 relevant.

8 MS. ZIRKLE: Absolutely. I would
9 reiterate the points raised by Mr. Koff as well,
10 and some of our other member companies are
11 exploring movement outside of China, but again,
12 it's an issue around the time and the level of
13 effort that's involved in securing the skilled
14 labor, and undertaking that level of effort to
15 ensure that the devices are constructed
16 accurately and effectively.

17 So again, and the Nilson data is
18 absolutely critical to part of this larger
19 discussion and debate. And if additional details
20 are needed, we're happy to provide those as well.
21 Thank you.

22 MR. BLAHA: Actually, just another

1 quick follow-up to that. The numbers that you
2 were quoting, Mr. Koff, are those just Chinese
3 exports, or does that include some of the French
4 suppliers that you were referring to earlier?

5 MR. KOFF: Thank you, Mr. Blaha.

6 Those are worldwide POS terminals. So the Nilson
7 Report synthesizes worldwide data, and it's
8 extremely helpful. The figures that I'm quoting
9 are on page 10 and page 11 of the reports.

10 MR. BLAHA: And do you have a general
11 sense of what, and I apologize if you said this
12 already, what share China versus, say, this
13 French supplier has of global demand? Is, I
14 think you mentioned Chinese company is now number
15 two, was that? And is the French supplier number
16 one?

17 MR. KOFF: Yes, the French, the French
18 supplier is the largest shipment supplier, but
19 those numbers are also, need to be taken into
20 account of US sales, and in the US market,
21 VeriFone is the largest producer in the US
22 market, the largest importer of POS terminals

1 here, and also the largest US job supplier.

2 So as those Chinese sales and the
3 tariffs would impact that, that would also
4 concomitantly impact VeriFone sales, which would,
5 as I've testified, impact jobs.

6 MR. BLAHA: Thank you. And then I
7 have a question for Mr. Stout. Did I think,
8 understand your testimony correctly, that there's
9 two kind of televisions that you were referring
10 to?

11 One is the wall-mounted, and one is,
12 I think it was called the personal television,
13 and do I correctly understand that the components
14 for the personal ones are imported, and then you
15 manufacture the personal ones from those
16 components here, and the wall-mounted ones are
17 wholly imported from China? Is that right?

18 MR. STOUT: Yes, that's correct. We
19 manufacture, on our production line, a line of
20 personal televisions that range from 14, 15, 16,
21 19-inch, that we vertically integrate with a lot
22 of technology at our factory with the positioning

1 device to put typically in a dialysis clinic, or
2 emergency room, where the patient will have
3 access to a small screen display.

4 Some of the components for that are
5 sourced, the high technology components, the
6 touch screens, the displays from the pacific rim,
7 currently a couple of those are coming directly
8 from China that are exposed to the 25 percent
9 increase.

10 We had been manufacturing in South
11 Korea for years with our Korean partner that
12 works with us on the development of the, of the
13 main boards.

14 We have seen the competitive pressure
15 from the giants of the TV business in Korea that
16 put a lot of competitive pressure on South Korean
17 manufacturers that are no longer available, and
18 we've transitioned to China in 2007, after three
19 companies in Korea could no longer manufacture
20 solutions for us.

21 There are solutions that we could
22 explore, maybe in Taiwan, but not at the price

1 point, you know, getting back to the willingness
2 to pay for customers. So we have had very, very
3 strong, stable relationships with our supplier in
4 China.

5 One of the things that I did talk
6 about, the difference between the healthcare
7 grade television set and the consumer television
8 is how the patient interacts with the TV, special
9 safety considerations from Underwriters
10 Laboratories.

11 Also, very, very important is the
12 design for reliability. So when the patient is
13 in the hospital, the TV is basically always on.
14 Basically, 18 hours a day, and if the TV doesn't
15 work properly, then the patient's going to have
16 nothing to do but think about the problems that
17 they're having.

18 So part of our design and the
19 relationships that we develop with our suppliers
20 are to meet the critical reliability requirements
21 of a television versus what would be in a
22 consumer grade television set.

1 MR. BLAHA: Thank you very much. I
2 think some of your answer probably got to my
3 second question, but I think you mentioned
4 television panels in particular, and is that, is
5 that also part of your previous supplies from
6 Korea? Or are there other producers outside
7 China for the panels themselves?

8 MR. STOUT: Yes. The, so the, this is
9 the flat panel display. You know, the panels
10 that we're looking at. So they're, where panels
11 are available are getting really restricted. So
12 China, Korea, used to be Taiwan was a bigger
13 producer, but they're getting more difficult to
14 find.

15 MR. BLAHA: And if I understood
16 correctly, that, so those are available, but it's
17 just difficult to source from those other places,
18 mainly from cost --

19 MR. STOUT: Yes.

20 MR. BLAHA: -- metric?

21 MR. STOUT: Yes, yes, yes.

22 MR. BLAHA: Okay, thank you very much.

1 MR. STOUT: Okay.

2 MR. FRATERMAN: My question is for Mr.
3 Jurlait. Of the HTS lines which you have
4 requested for removal, which of those products
5 under those lines are the most difficult to
6 source outside of China, and why is that the
7 case?

8 MR. JOURLAIT: So our scanners are an
9 assembly of pretty complex electronics, and the
10 majority of those electronics are sourced,
11 single-sourced out of China. The software, the
12 firmware, is designed here in the United States.

13 The brains of our scanners, the DSP
14 processor, that's also US-made, but the bulk of
15 the rest of the components are single-sourced out
16 of China. Same for all of our competitors,
17 particularly Japanese competitors. They source
18 those components out of China.

19 MR. FRATERMAN: Are there any other
20 countries that we could, or that you could be
21 sourcing out of right now, or is China singularly
22 the primary factory?

1 MR. JOURLAIT: For the majority of
2 those components, it's single-source out of
3 China.

4 MR. FRATERMAN: Okay.

5 MR. JOURLAIT: Where we get the high
6 value add software/firmware and the DSP, those
7 are designed here in the United States.

8 MR. FRATERMAN: Great. Thank you.

9 MR. BRYANT: My question is for Ms.
10 Vasilaros. How much short-term capacity to meet
11 demand does the recreational marine industry
12 have, should the Chinese imports of these items
13 face tariffs, and if you do not currently have
14 that capacity, how long do you think it would
15 take to develop the capacity from alternative
16 sources?

17 MS. VASILAROS: So it depends on the
18 manufacturer. The products that we're talking
19 about here today are some of the components and
20 some of the gear, some manufacturers may have a
21 couple months' supply already in the United
22 States, and they have explored other options to

1 look elsewhere.

2 But keep in mind, particularly for
3 something such as a life jacket, there's a
4 critical quality component to it. They have
5 sourced these components for years, established
6 relationships, not only for the finished product,
7 but also all the raw materials and component
8 parts that are, that are available, and they're
9 most likely available in China. So it could take
10 months, if not years, and there's also, of
11 course, quality concerns.

12 MR. FARISS: Okay. So I have another
13 follow-up. This is directly mainly at Ms.
14 Zirkle, but anyone else, if you have something
15 similar, can speak on this. I know you addressed
16 software a little bit, but in terms of, and going
17 back to the IP concerns, have any association
18 members have any, had any difficulties with IP
19 theft or forced tech transfer in China?

20 MS. ZIRKLE: I'm not currently aware
21 of anything specific. However, what I'd like to
22 do is provide additional details back to the

1 Committee in line with the deadline established.

2 MR. FARISS: Okay. Great.

3 MS. ZIRKLE: Thank you.

4 MR. KOFF: And now, if I could just
5 add, I wanted to reinforce Ms. Zirkle's previous
6 comment that the key focus here, we do have large
7 supply chains, going to the question that you had
8 before, which was a hard switch, but it's
9 basically that dumb box.

10 However, there's certification
11 components that are put into. However, the
12 software, that IP, that major focus --

13 MR. FARISS: Yes.

14 MR. KOFF: -- is US-made and US-owned,
15 and it's conducted here. So thank you.

16 MR. LARNED: May I comment, sir? My
17 relationship with my Chinese partner is about 10
18 years, and it's a relationship of total trust.
19 We've had nothing but a positive experience, and
20 information is shared, technology is shared. It
21 has been most positive.

22 MR. FARISS: Thank you.

1 MR. JOURLAIT: Can I add to that
2 comment as well? In our case, for our scanners,
3 the real value add, the intellectual property,
4 the secret sauce is in the software or the
5 firmware, and the DSP, and those are all held
6 here in the United States, protected here in the
7 United States.

8 MR. STOUT: And I would add to that,
9 our experience as well, is a, we've really seen
10 no technology transfer requirements, but we've
11 had excellent partnerships and support from our
12 supplier for many, many years.

13 MR. BLAHA: Another question. I
14 apologize, Mr. Koff. I believe in your
15 testimony, you had referenced sales to SMEs. Do
16 you have an estimate, and if that would have, you
17 know, particular, the tariffs would impose a
18 particular burden on the capacity of SMEs?

19 Do you have an estimate of what share
20 sales go to SMEs versus non-SMEs, how big that
21 affected market might be?

22 MR. KOFF: VeriFone did submit written

1 comments and oral testimony in response to List
2 3. None of those products are on this particular
3 issue, and in that detailed written comments and
4 in the testimony, there was a description about
5 the three product segments that VeriFone serves.

6 For the interest of time here, that
7 was abridged, but in there, there's a description
8 of the amount of sales that went to that smaller
9 merchant market, and I can provide that in some
10 written comments during follow-up for you, if
11 that's helpful.

12 MR. BLAHA: Thank you very much. And
13 I guess also maybe another question for both you
14 and Ms. Zirkle. You, I think, both have
15 referenced Chinese subsidies that would, did I
16 understand correctly that the argument is the
17 Chinese producer would be provided with subsidies
18 that would allow them to even export to the US in
19 spite of a tariff? Is that, was that the
20 argument, or was it, did I misunderstand?

21 MR. KOFF: Yes. The understanding
22 that VeriFone has is that their main Chinese

1 competitor will be receiving subsidies, and it's
2 a result of those subsidies, they will offset the
3 25 percent impact.

4 So as a result, VeriFone is facing two
5 competitors, major competitors. It currently has
6 the market share position, where it's selling
7 here in the United States. It's supporting its
8 US jobs, and neither one of those will be
9 impacted by the tariffs, but VeriFone will.

10 And as a result, with those higher
11 costs, those other devices will be cheaper, and
12 as a result, the US sales will be lower. The
13 revenue will be lower, which translates into
14 risks for US jobs in Florida, in Georgia, and the
15 repair facilities in the other locations that I
16 mentioned.

17 MR. BLAHA: Thank you very much. A
18 question for Mr. Jurlait, if I may. Did I
19 understand your testimony correctly that costs of
20 sourcing from outside of China were as high as 75
21 percent higher?

22 And I was wondering if you could just

1 break that down as to what the, what makes the
2 difference of that? Why is it so much higher?

3 MR. JOURLAIT: That's on the one-time
4 use cameras. So you know those little kind of
5 vacation cameras that people will bring with them
6 to take pictures on vacation.

7 There are no viable alternative
8 sources that we've been able to identify to make
9 the specific components that we currently source
10 out of China, and the one alternative we did
11 explore would be prohibitive, cost-wise, and that
12 would be a 75 percent cost increase to us on
13 those one-time use cameras. So it's specific to
14 the cameras, not the, not the scanners.

15 MR. BLAHA: Thank you very much. And
16 I just have another question for Ms. Vasilaros.
17 Did I understand correctly that the US composes
18 about 50 percent of the global, kind of, water
19 sports market from your testimony?

20 MS. VASILAROS: Yes, that is correct.

21 MR. BLAHA: And if so, I guess, given
22 the importance of US demand to that, what's the

1 possibility of passing any tariffs back to the
2 China, via lower cost from producers?

3 What kind of ability do the, does US
4 companies who source from China have to negotiate
5 lower prices in response to any tariff?

6 MS. VASILAROS: Primarily, the US-
7 Chinese relationship is, for our global supply
8 chain, China is not a large boating market. So
9 in terms of passing back the costs, it's a really
10 one-sided deal.

11 So it's component parts, it is the
12 fabrication materials, such as fiberglass. It is
13 some of the gear that it's talked about on this
14 third list. So it is primarily a one-way impact,
15 and there's not a lot of benefit for the US
16 manufacturers to pass some of those costs back
17 onto China.

18 MR. BLAHA: Okay, thank you.

19 MR. BURCH: Mr. Chairman, we release
20 this panel with our thanks, and would all of the
21 witnesses for Panel 18 make their way forward?

22 Will the room please come to order?

1 Mr. Chairman, I have a few preliminary matters.
2 For the, for the members in the audience, there
3 is no recording and no taking pictures of this
4 hearing, just to note that.

5 And Mr. Chairman, all of the witnesses
6 in Panel 18 have been seated, and our first
7 witness on this panel is Bryan Wolfe with Ascena
8 Retail Group. Mr. Wolfe, you have five minutes.

9 CHAIR CHEN: Just one moment. Good
10 morning. This is Panel 18. We have new members
11 that have joined the Committee for this panel,
12 and I'd like each new member to introduce
13 themselves. I will start. My name is Philip
14 Chen. I am with the General Counsel's Office at
15 the United States Trade Representative.

16 MS. HEINZEN: I am Janet Heinzen. I'm
17 with the Office of Textiles at the U.S. Trade
18 Representative.

19 MR. FRATERMAN: Matthew Fraterman. I
20 am with the Department of Labor.

21 CHAIR CHEN: All right. Let's
22 proceed.

1 MR. WOLFE: Thank you. Good morning.
2 My name is Bryan Wolfe. I'm the vice president
3 of international trade for Ascena Retail Group,
4 on our behalf.

5 MR. BURCH: Mr. Wolfe, would you pull
6 your mic a little closer?

7 MR. WOLFE: Sorry. Ascena Retail
8 Group is a national specialty retailer offering
9 apparel, shoes, and accessories for women and
10 tween girls. Thank you for the opportunity to
11 testify.

12 Through our retail brands, Ascena
13 operates e-commerce websites and approximately
14 3,500 stores throughout the US, Canada, and
15 Puerto Rico. We employ 64,000 associates, and
16 our family of brands includes Ann Taylor, LOFT,
17 Lou & Grey, Dressbarn, Lane Bryant, Catherines,
18 Cacique, and Justice.

19 I'd like to make three basic points
20 about this investigation. Number one, first and
21 foremost, Ascena supports the efforts to address
22 the intellectual property issues, forced

1 technology transfers, under unfair trade
2 practices by China.

3 These issues impact our industry's
4 ability to create and advance American employment
5 due to the sale of counterfeit goods and the loss
6 of international sales growth opportunities,
7 including for Ascena's iconic brands.

8 Ascena is, and will continue to be, an
9 interested stakeholder for working towards the
10 improvement of Chinese IPR enforcement,
11 especially in the domains of trademark,
12 copyrights, patent, and trade secrets, which
13 directly impact the competitive edge and value of
14 fashion brands like ours.

15 While we have seen some progress in
16 recent years, these gains are inconsistent, and
17 completely insufficient to overcome systemic
18 problems that could damage the reputation of
19 retail companies, such as ours, as well as have a
20 negative financial impact on our associates and
21 shareholders.

22 Thus, Ascena unanimously supports

1 targeted efforts to ensure a sustained, long-term
2 solution to this problem. However, tariffs will
3 make our IP problems worse, not better.

4 Despite our trademarks being
5 registered in China, Ascena and others in our
6 industry continue to experience intellectual
7 property rights theft in China, primarily in the
8 form of counterfeits, but tariffs do not address
9 this problem.

10 In fact, additional tariffs may
11 encourage and add to the counterfeit problem at
12 attempts by counterfeiters to circumvent the
13 system to avoid the cost increases. Illegal
14 trade shipments will also likely become a day to
15 day problem.

16 Point two, Ascena and the entire
17 fashion retail industry is already highly taxed
18 for apparel and footwear imports, and Ascena
19 asked the administration to immediately remove
20 articles classified in Chapters 61 to 64, as well
21 as key fashion accessories from the list. We
22 have identified these articles in Appendix A.

1 Our products already carry a heavy
2 tariff burden, as prior to the special 301
3 investigation, our industry represented 6 percent
4 of all imports to the US, but paid 51 percent of
5 all duties collected.

6 Any additional tariff on these
7 consumer goods that are worn by every man, woman,
8 and child in America will end up hurting US
9 consumers, in addition to the companies and
10 workers who support them.

11 Imposing additional tariffs of up to
12 25 percent on our products will cause prices to
13 go up, sales to go down, and inevitably, jobs to
14 be lost.

15 Further, the US already imposes a
16 significant border tax on clothes and shoes. The
17 average duty rate for all US imports is less than
18 1.4 percent. However, duty rates for the
19 majority of apparel and footwear products average
20 13 percent.

21 Some tariffs are extraordinarily high.
22 Certain outerwear jackets and many upper body

1 garments Ascena imports face US duties as high as
2 27.7 percent and 32 percent, respectively.

3 Please don't add to our burden.

4 Point three, supply chains for the
5 retail fashion industry are extremely difficult
6 to move on short notice. Please consider the
7 following. In 2018, China accounted for about 42
8 percent of all apparel, and 69 percent of all
9 footwear imported into the United States.

10 China has emerged as the top supplier
11 because it has unparalleled supply chains that
12 have been developed over generations. While some
13 countries can provide alternatives for business
14 that is currently in China, all other countries
15 combined are ill-equipped to handle the sheer
16 volume that would be required to be shifted.

17 Fashion brands and retailers like ours
18 are making their purchasing decisions anywhere
19 from 6 to 12 months in advance. Therefore, it's
20 not possible to make changes today to shift near
21 term deliveries to alternative countries.

22 These goods, which have already been

1 ordered, will have to be, have to bear the added
2 cost of the tariffs, just as retailers like
3 Ascena enter the important back to school and
4 holiday selling seasons.

5 In fact, the mere threat that tariffs
6 could be imposed on nearly all remaining imports
7 from China has already accelerated a scramble
8 among importers to find alternative sources of
9 supply.

10 As a result, higher prices are already
11 on the horizon for American families, regardless
12 of the outcome of this investigation, or the
13 products selected for coverage.

14 Lastly, there is a lot of steps and
15 investments involved in finding new vendors.
16 Ascena, as standard practice, verifies that new
17 partners can produce the volume of products that
18 are needed at the right quality at the right
19 price point our clients are willing to pay.

20 These vendor verifications also
21 include review to ensure that new and existing
22 vendors all meet our codes of conduct, everything

1 from corporate social responsibility, to labor,
2 environment, and security requirements.

3 In summary, Ascena agrees with the
4 need to address China's unfair trade practices,
5 and hereby states its strong support for the
6 administration's efforts to improve the
7 protection of intellectual property rights, and
8 the other issues our nation has with China.

9 However, Ascena strongly opposes any
10 efforts to include or add footwear, apparel, and
11 fashion accessory products to the proposed list
12 of goods subject to additional tariffs of any
13 amount, and we remain firm in our conviction that
14 tariffs, which are taxes imposed on US companies,
15 US consumers, and US workers, are not the best
16 means to achieve that goal.

17 Tariffs will not fix the issues in
18 question. Please don't burden us with more
19 tariffs. Thank you for listening and considering
20 our viewpoint. I'll be happy to take any
21 questions.

22 MR. BURCH: Thank you, Mr. Wolfe.

1 Next panel witness will be Jim Day with 47 Brand,
2 LLC. Mr. Day, you have five minutes.

3 MR. DAY: Thank you. Good morning.
4 My name is James Day. I'm the vice president of
5 Global Supply Chain for 47 Brand, headquartered
6 in Westwood, Massachusetts. Thank you for the
7 opportunity to explain how the proposed tariff
8 increases for the goods imported from China on
9 List 4 will impact our business.

10 47 Brand is an industry-leading sports
11 lifestyle brand, and our story is the epitome of
12 pursuing and living the American dream. 47 was
13 founded in 1947 by twin brothers and Italian
14 immigrants, Arthur and Henry D'Angelo.

15 The twins started by selling pendants
16 and other sports memorabilia on the streets
17 around Fenway Park in Boston. Their
18 entrepreneurial adventure quickly grew from a
19 single street cart to a global brand that sells
20 high quality headwear, apparel, and accessories
21 to fans and fashion trendsetters alike.

22 47 Brand is a proud licensed partner

1 of the Major League Baseball, the NFL, NBA, NHL,
2 as well as over 900 colleges and universities,
3 just to name a few. We're also the exclusive
4 headwear provider to Operation Hat Trick, a
5 nonprofit organization that supports our
6 veterans.

7 We have about 348 employees in the US,
8 15 internationally. We own our headquarters in
9 Westwood, Massachusetts, with distribution
10 centers and manufacturing facilities across
11 Massachusetts.

12 We're affiliated with the Boston Red
13 Sox team store, located at Fenway Park, and also
14 have offices in Colorado and Arkansas. Most of
15 the products we import from China are finished
16 goods ready to sell with embroidered appliques or
17 screen printed team logos like this.

18 We also import blank product without
19 any logos. To sell this blank product, we work
20 with domestic production partners in California,
21 New Jersey, Texas, Massachusetts, and when
22 playoffs or other events occur, we may employ

1 additional factories around the country to
2 capture last night's game, decorate the various
3 blank t-shirts, hoodies, or quarter zips with the
4 winning team's logo, and have it in local stores
5 the next morning.

6 47 Brand fully supports the
7 administration's trade policy with China, which
8 is why we've been working aggressively to move
9 our sourcing out of China. However, this process
10 takes time to execute properly, and here's why.

11 As a condition of our agreements with
12 major league sports, colleges, universities, our
13 key customers, and major retailers, we are
14 required to comply with the Fair Labor
15 Association's code of conduct, the codes of our
16 major league licensors, and those of our retail
17 customers, such as Walmart and Dick's Sporting
18 Goods, just to name a few.

19 Further, we are required to coordinate
20 and execute social compliance audits, such as
21 WRAPs, SMETA, and FLA, conducted by third party
22 agencies, and provide signed affidavits to

1 document that each factory's operations meet
2 basic human rights, health and safety, and
3 corporate social responsibility requirements.

4 In addition, we must test our products
5 via third party labs to validate our products
6 comply with governmental product safety
7 regulations for each market in which we operate.

8 These stringent requirements make it
9 impossible to just pick up and move our
10 manufacturing and vendors out of China overnight,
11 because all of these audits and tests will need
12 to be reestablished with new factory partners and
13 raw material suppliers.

14 The entire process of coordinating
15 factory audits and working with factories to
16 implement remediation of code violations is also
17 time consuming and costly. In August of 2018, we
18 began developing our products with factories
19 located outside of China.

20 To date, we've received initial
21 product samples, started product testing,
22 scheduled the initial auditing of our new factory

1 partners. We are approximately 60 percent
2 complete with this effort, and will need 8 to 12
3 months of additional time to ensure all mandated
4 auditing and testing is completed properly.

5 If the proposed tariff increases are
6 implemented in the short-term, duties we pay will
7 increase from an average of 23 and a half percent
8 to 48 and a half percent. In combination with
9 the duty increases for articles on List 3, this
10 will result in an annual cost increase that
11 exceeds \$10 million, and eliminates our annual
12 profits entirely.

13 US consumers buy our products with
14 discretionary income. They cannot afford to pay
15 \$10 more for a t-shirt, \$15 more for a
16 sweatshirt, on top of already paying \$5 more for
17 a ball cap, and as a result, our business will
18 decline significantly.

19 If sales decline, overhead and labor
20 costs will need to be reduced, leading to the
21 elimination of jobs, which in turn, will make our
22 operation unsustainable. Please understand, we

1 are supportive of the President's trade policy
2 with China. We just need 8 to 12 months more
3 time to complete our transition properly.

4 In conclusion, we respectfully request
5 that this Committee exclude the HTS codes
6 submitted in our comments from those suggested
7 for increased duties in order to allow us the
8 necessary time to complete our transition of
9 production out of China, while maintaining our
10 profitable operations.

11 In addition, given the
12 disproportionate economic harm, we ask for an
13 exemption from these additional tariffs
14 immediately. Thank you for your considerations,
15 and the opportunity to share our story with you,
16 and I'll welcome any questions the Committee may
17 have.

18 MR. BURCH: Thank you, Mr. Day. Next
19 panel witness will be Christopher Volpe with
20 United Legwear and Apparel Company.

21 MR. VOLPE: Good morning. My name is

22 --

1 MR. BURCH: Mr. Volpe, you have five
2 minutes.

3 MR. VOLPE: Oh, I'm sorry. Good
4 morning. My name is Christopher Volpe, and I'm
5 the chief operating and chief financial officer
6 of United Legwear and Apparel Company. Thank you
7 for providing me the opportunity to testify here
8 today.

9 United Legwear is a privately held
10 company which generates \$575 million annually in
11 revenue. We license, design, manufacture,
12 import, and wholesale legwear, underwear, lounge
13 wear, children's apparel, bags, hats, and
14 accessories under such exclusive licenses as
15 Puma, Champion, Skechers, Weatherproof, and
16 others.

17 We employ more than 250 direct
18 employees, and 500 indirect employees in the
19 United States. These jobs represent highly
20 desired and needed positions within the US.

21 We offer health and dental benefits,
22 along with 401K retirement, term life insurance,

1 and continuing education to all of our employees.
2 Our average employee earns \$75,000 annually,
3 demonstrating the great level of employment we
4 offer in the US.

5 United Legwear supplies staple and
6 necessary consumer products to nearly every major
7 retailer in the United States at competitive
8 pricing for everyday shoppers. As a manufacturer
9 with a sourcing base concentrated heavily in
10 China, ULC has a strong interest in the proposed
11 determination of action with respect to the
12 recent tariffs under the Trump administration.

13 The significant negative impact that
14 the imposition of these tariffs has on many of
15 our product lines are proving detrimental to our
16 business every day, to our retail customers, and
17 ultimately, to American consumers.

18 These new tariffs coming on top of
19 high tariffs already in place will result in
20 higher consumer prices, lost sales, and fewer
21 opportunities for us to invest back in the US
22 supply chains, US workers, and our communities.

1 Higher prices on consumer products,
2 which is a direct and unavoidable consequence to
3 these tariffs, will reduce consumer expenditures
4 resulting in less consumer products being
5 purchased at retail, including, and of utmost
6 concern to our company, the purchase of socks and
7 related legwear we produce and sell.

8 We are respectfully requesting that
9 socks, as identified in 11 specific HTS lines be
10 excluded. And speaking to executive management
11 at our retail partners, which range from dollar
12 stores to off price retails, to clubs, to
13 department stores, and to specialty stores, all
14 consistently have agreed that if Tranche 4 is
15 instituted, it will mean higher retail prices,
16 and inflationary impact for consumers at all
17 social and economic levels in the US.

18 Clearly, China will not pay for these
19 tariffs, the US consumer will. Our overall
20 product sourcing out of China has been shifted to
21 the best of our ability, and to the best of the
22 capability and capacities available to us since

1 the trade war began.

2 In moving production out of China,
3 there are concerns and urgencies related to raw
4 material procurement, social conditions,
5 environmental conditions, and well-needed
6 infrastructure and expansion in developing
7 nations.

8 In 2018, we were an 85 percent China-
9 based company, sourcing-wise. In 2019, we're
10 down to 65 percent. We have not discovered
11 significant opportunities to shift production and
12 sourcing to US-based suppliers, which is, if
13 practical and cost efficient, is always
14 preferred.

15 The infrastructure employment based
16 pricing and wages do not allow us to produce
17 domestically. Instead, we seek the opportunities
18 in our company in growth for US jobs and
19 employment to be in sales, marketing, management,
20 technology, distribution, design, financial
21 planning, as well as retail.

22 These are jobs that we can contribute,

1 and help sustain and prosper in our participation
2 in growing the US economy for the current and
3 next generation. Legwear/socks has been the most
4 challenging to shift out of China because of the
5 pure volume of our business.

6 We produce 300 million pairs of socks
7 a year. Along with the lack of machinery and
8 facilities focused on socks outside of China, the
9 product is a core fundamental and essential
10 staple product for all US consumers and
11 households.

12 In imposing tariffs, we will not
13 achieve the goal of protecting IP infringement
14 matters, but penalize US consumers and US
15 companies throughout the, throughout the country.
16 Thank you, and I'm available for any questions.

17 MR. BURCH: Thank you, Mr. Volpe.

18 MR. VOLPE: Thank you.

19 MR. BURCH: Our next panel witness
20 will be Trey Kraus with Carlton's Men's Wear,
21 Incorporated. Mr. Kraus, you have five minutes.

22 MR. KRAUS: Thank you. Let me

1 introduce myself. My name is Trey Kraus, and I
2 currently own a 59 and a half year old iconic,
3 award-winning, family-owned and run men's and
4 women's apparel store in the resort city of
5 Rehoboth Beach, Delaware.

6 Today, I'm owner, buyer, and manager
7 for Carlton's that employs up to 15 associates at
8 any given time. I'm also involved in our
9 community. I'm past president of our Main Street
10 organization, an NRF American Retail champion,
11 and I'm on several nonprofit boards.

12 Prior, I worked in many capacities in
13 the American apparel manufacturing industry, from
14 shipping room to president. The loss of
15 American-made product was gradual but steady
16 since the mid-80s.

17 We struggled as the influx of less
18 expensive suits and sport coats from Asia
19 continued to dominate the market, in spite of
20 quotas and duties. Unfortunately, I was involved
21 in closing a dozen or so American factories.

22 As one can surmise, there has been an

1 ongoing trend of factories in America closing,
2 and not just in apparel. For the sake of the
3 American citizen and the American apparel
4 industry, I implore you, at the minimum, to
5 exclude the HTS codes from List 4 provided in my
6 written testimony and in my handout.

7 I'm very concerned for my city,
8 employees, customers, business, and family. This
9 List 4 round of tariffs will have a profound and
10 punitive effect on everyone in our local economic
11 community.

12 As we all know, this list is broad,
13 and touches many aspects of the average
14 American's life. For example, we might expect a
15 weekly living expense of \$500 to increase to 625,
16 which amounts to 6,500 a year. Add non-daily
17 expenses like TVs, air conditioners, apparel, et
18 cetera, and that increased cost of living can
19 jump much higher.

20 By definition, a tariff is a tax on an
21 imported product. That tax will be paid by the
22 American public, and goes to the government. It

1 does not cycle around our community. Businesses
2 will see reduced revenues, employment needs,
3 profits, and certain closures.

4 Speaking for our community, the local
5 nonprofits, which provide valuable services, will
6 see less donations and community support. In
7 Delaware, the largest workforce is in retail.
8 There are more than 50 percent more retail jobs
9 than the next highest sector, that being
10 healthcare.

11 Tourism is our fifth highest economic
12 industry. Retail and tourism requires disposable
13 income to thrive. The implementation of the
14 tariffs will reduce disposable or discretionary
15 income, reducing retail and tourism revenues.

16 Revenue reduction would threaten the
17 health of our communities. Jobs will be lost,
18 businesses will close, and everything else that
19 goes with trends like this. That should be very
20 concerning.

21 Continued use of tariffs for
22 diplomatic or political purposes will lead to a

1 cancer of vacancies in our now thriving city. So
2 is there anything I can do in my business to
3 lessen the impact of tariffs? Well, not really.

4 We will have to pass the increases
5 along. We are already receiving communications
6 from our vendors indicating that tariffs will not
7 only raise our wholesale prices, but they are
8 eliminating early bird advance booking discounts,
9 volume discounts, and buying group discounts. We
10 rely on these discounts to bolster our margins
11 and ensure our success, and I measure success as
12 being able to continue to remain open, not the
13 ability to buy the most current top of the line
14 Mercedes. Those days are long gone.

15 We do what we do because we love it.
16 Our margins are razor thin, as we steadily see
17 our fixed costs continue to soar. The real shame
18 is that we see the tariffs erasing almost all of
19 the gains made with the President's tax cuts.

20 Carlton's has made a name of selling
21 many familiar and popular brands of apparel, and
22 as a retailer, I have no say in where those

1 products are sourced. Currently, I would say
2 that 90 percent of the products we carry are made
3 in China.

4 Our success is predicated on selling
5 the best of the best brands. Many say that these
6 brands can just relocate their sourcing to
7 another country. That can take years. There are
8 so many factors.

9 The most important is the partnership.
10 When partnering with a factory, one needs them to
11 not only make a great product, but to be able to
12 deliver on time, keep competitive pricing, source
13 raw materials, follow product specifications, and
14 keep business secrets.

15 Additionally, product has already been
16 ordered and the source designated at least 12 to
17 18 months ahead of delivery. As an example, I am
18 currently buying products for the next year,
19 summer 2020.

20 Many say that we can look to American-
21 made products instead. Well, as you can infer
22 from my introduction, most American apparel

1 factories have closed. In apparel, American-made
2 products are either super luxury and expensive,
3 or expensive with inferior quality.

4 Can you see your neighbor heading off
5 to work in a, to a clothing factory? The
6 American dream does not include a job in a low
7 tech factory.

8 In summary, I am requesting that the
9 U.S. Trade Representative and the Trump
10 administration refrain from using tariffs, excuse
11 me, taxes, to reduce the trade deficit.

12 The economic health of my customers,
13 my main street, my business, my employees, and my
14 family hinge on not adding any more burden on the
15 back of small businesses. These List 4 tariffs
16 will have a severe impact on all our lives.

17 Please reconsider this strategy and
18 tactic for the well-being of the average American
19 citizen. We should not be used as weapons in
20 diplomacy. Thank you, and I'm happy to take any
21 questions.

22 MR. BURCH: Thank you, Mr. Kraus. Our

1 next panel witness will be Stephen Lang with the
2 American Bridal and Prom Industry Association.

3 Mr. Lang, you have five minutes.

4 MR. LANG: Thank you, Chairman Chen
5 and esteemed panel. My name's Steve Lang,
6 President for the American Bridal and Prom
7 Industry Association, and CEO of Mon Cheri
8 Bridals, located in Trenton, New Jersey.

9 Our industry produces bridal gowns,
10 prom dresses, bridesmaid dresses, mother of the
11 bride, flower girl, communion, quinceanera, and
12 tuxedos. The ladies and formal, ladies and men's
13 formal industry represents about 5 billion retail
14 volume.

15 I started my company in 1991 from my
16 kitchen, and over the last three decades, the
17 company has grown to approximately \$125 million
18 in retail sales, and about \$35 million outside of
19 the United States.

20 I feel I'm the typical American
21 entrepreneur. I mortgaged my home. I invested
22 all of my resources into building a successful

1 company. After working for other companies that
2 did not take care of their employees, I made a
3 commitment that Mon Cheri's employees would be
4 like my family.

5 We are basically a female-driven
6 industry. Most of my employees are female, and
7 have been with me since I've opened my doors.
8 I'm so committed to them that I plan to turn my
9 company into an ESOP.

10 I retire, I don't, I hopefully retire
11 by the time I'm 75. I'll be 65 next year, and my
12 bank has already committed to help me give these
13 female children in my work family the company.
14 This dream is now ready to evaporate, as my
15 industry is subject to increased tariffs.

16 Last year, we've paid multiple,
17 multiple millions of dollars in duties to US
18 customs, a figure that dwarfs any profit we've
19 ever earned in a single year. If a 25 percent
20 tariff is levied, we would face an additional
21 obligation of at least \$5 million.

22 That would bankrupt, not only my

1 company, but the dreams of my ESOP, and 30 years
2 of hard work. I would lose everything, as I sign
3 personally for all loans and leases, and
4 continued to plan doing that as I turned it into
5 an ESOP.

6 In terms of manufacturing, we love to
7 produce our top product in the USA. We can't
8 find qualified staff. Creation of these garments
9 is so labor intensive, our gowns are hand-beaded,
10 and contain as many as 100,000 hand-sewn beads
11 and crystals.

12 So lacking are people to work on these
13 gowns at home that even our retail customers
14 cannot find adequate people to do alterations.
15 Nobody wants to do this work anymore. In
16 addition, many of the specialized materials we
17 use are not even made in this country anymore.
18 In fact, they're made in China.

19 We've begun exploring production
20 outside of China, and currently produce in
21 Vietnam and Myanmar. However, all materials are
22 still sent from China. We just opened a factory

1 in India, and then got slapped with a 25 percent
2 duty.

3 I'm on my way to Turkey in January,
4 but we cannot produce all of our products there.
5 We utilize 50 factories to produce everything we
6 make. The tariffs will decimate our industry in
7 many ways.

8 First, the cash flow will bankrupt the
9 majority of the manufacturers. We're all asset-
10 based. We finance our stores. We're asset-based
11 borrowers. My bank has already told me they will
12 not lend me an additional \$5 million just to pay
13 duties. They'll pull my credit lines, and I'll
14 be done.

15 Second, the retailers would fail as
16 the manufacturers fail. Third, the ultimate
17 consumer would see prices rise dramatically, and
18 they'll buy from other countries with direct
19 websites selling to them.

20 This would cut out the American
21 manufacturers, retailers, and undermine any hope
22 that tariffs would bring back anything to this

1 country, or punish China. The tariffs will not
2 stop China from producing products, nor change
3 the waves of their resident businesses.

4 In fact, the tariffs will reward
5 China, as the factories will just set up
6 websites, and Alibaba will be sitting there
7 teaching them how to ship to America. We changed
8 the de minimis value on products coming into this
9 country to \$800.

10 We've opened the doors to these people
11 to create their own websites. I could actually
12 put a warehouse in Hong Kong and ship to my
13 customers, and not pay duties at all.

14 Why haven't I done it? That wouldn't
15 be very American, but that's what this tariff is
16 telling all manufacturers to do. Set up their
17 own warehouses, ship under the de minimis value,
18 and pay nothing to the U.S. Treasury. That's
19 horrible.

20 Think of the massive losses in
21 employment, duties, payroll tax, rent, the whole
22 industry. I posit that our GDP will drop

1 dramatically, because the apparel industry is one
2 of the big arms of commerce in this country.

3 Now, let me turn to the formation of
4 the ABPIA, the American Bridal and Prom Industry
5 Association. I created it in 2012 to protect the
6 industry from counterfeiting. I was challenged
7 by U.S. customs to come up with a way to help
8 them stop the one-off packages coming into this
9 country.

10 We prevail. To date, in 10 federal
11 lawsuits that we have won, we've shuttered 3,000
12 counterfeit websites. We've removed 30 million
13 images from manufacturers from the internet.
14 Only the American motion picture industry has
15 done the same job we have done in removing IP
16 from the internet.

17 Today, in San Francisco, we launched
18 a lawsuit. My attorneys are right now in San
19 Francisco with a lawsuit against Cloudflare, one
20 of the largest hosting entities in this country
21 that houses the counterfeit sites from India,
22 China, and the rest of the world.

1 If we win this lawsuit, we will gain
2 a tremendous advantage for everybody in this
3 country that's fighting counterfeiting. We were
4 challenged by you and your peers to create the
5 technology, and we did. I funded it.

6 We created a company called
7 Counterfeit Technology, that scans the internet
8 24/7, and can identify counterfeit product, and
9 create, automatically, the DMCA notices to take
10 them down.

11 You challenged us, we did it, and now
12 you're going to put me out of business. How can
13 I share this technology with everyone else if I
14 lose my home, everything I've worked for after 30
15 years? I'm 65. I don't want to work in a
16 supermarket to put food on my table. This is
17 what you're going to do to me and my industry.

18 Think about this. Counterfeiting is
19 a \$6 billion industry. A third to a half of it
20 hits the United States. Take an average duty
21 rate of 10 or 12 percent. You're talking about
22 \$30 billion. \$30 billion in additional revenue

1 to the Treasury.

2 I'm talking about 500, 600, \$700
3 billion in counterfeit product that could be
4 stopped with the technology I've developed. I've
5 done it. I've been asked to do it, and now
6 you're going to take it away from me. In
7 addition --

8 CHAIR CHEN: Mr. Lang, I apologize.
9 Your time is --

10 MR. LANG: I urge you --

11 CHAIR CHEN: -- expired.

12 (Simultaneous speaking.)

13 MR. LANG: -- to ask me about all of
14 the efforts that are going on with anti. I
15 cannot shift my production. It is impossible. I
16 run 50 factories. Myanmar, Vietnam does not have
17 the capacity to absorb us.

18 I'm trying, but I will be out of
19 business before I have a chance to finish, if you
20 put these tariffs in place. Thank you.

21 CHAIR CHEN: Thank you.

22 MR. BURCH: Thank you, Mr. Lang. Our

1 last final panel witness is Gail Ross with
2 Krimson Clover. Ms. Ross, you have five minutes.

3 MS. ROSS: Committee members, thank
4 you for allowing me to be here today. My name is
5 Gail Ross, and I am the chief operating officer
6 for Krimson Clover. We are a manufacturer of
7 women's apparel, primarily known for our unique
8 knit sweaters, dresses, and skirts.

9 My focus will be the development and
10 production timeline for taking a product idea
11 from a designer's sketch to a piece of apparel
12 that is in the stores for customers to buy. In
13 our case, this is an 18-month timeline, which is
14 why having tariffs announced with short notice is
15 so detrimental to us, and many small businesses.

16 We design two seasons of apparel each
17 year, fall and spring. For our upcoming fall
18 2019 line, which is the catalog you have in your
19 hands, we started designing in November of 2017.

20 From November to June 2018, we worked
21 with our factories to develop the line, and in
22 July, we placed our sales sample order with our

1 factories. Sales samples are what our sales reps
2 use to sell our product to retail dealers.

3 The factories then ordered materials
4 and produced the sales samples, which we received
5 in mid-October 2018, nearly a year before they
6 will be available to customers in retail stores
7 this fall. As you are well aware, the fourth
8 list of tariff HTS codes did not exist during
9 this time frame.

10 In October 2018, we set our prices.
11 At that time, the third list existed, and two of
12 our products, hats and bags, were on the list.
13 We set our prices for these items to include the
14 25 percent tariff.

15 From end October to March 2019, our
16 sales reps and in-house staff sold our line of
17 products to our dealers. We accepted orders that
18 did not include a tariff, except on the bags and
19 hats.

20 On May 13, 2019, the fourth list was
21 made public, and every single product that we
22 make is on the list. And as I've just described,

1 all of our products are being made as we speak,
2 so where does that leave us? What are our
3 options?

4 First, we could raise our prices to
5 our dealers. However, we anticipate that they
6 would cancel their orders or greatly reduce them,
7 leaving us with excess inventory, and thereby,
8 financial losses. Or we could absorb the tariff,
9 but 25 percent is a huge amount to absorb, and it
10 is not sustainable for us as a small, lean
11 business.

12 I've been asked why we don't just move
13 our production away from China. Our knit
14 garments are extremely complicated to make, and
15 the machinery isn't available in most countries,
16 including the United States.

17 There are factories in Europe and
18 Vietnam, but the number of units per style that
19 they require is three to four times more than in
20 China. When the fourth list was made public, I
21 started researching producing our less
22 complicated base layers in the United States.

1 I found that factories do have the
2 right machinery, but do not have enough capacity
3 to make our products in our production window.

4 Next, I started to look at Mexico, until the
5 threat of Mexican tariffs made us reconsider.

6 I'd like to wrap up with two key
7 points. As business owners, we plan our business
8 months, even years, in advance, and then we act
9 on our plan. If a tariff is announced and we
10 know what the HTS codes will be affected, and we
11 have sufficient lead time, which, for us, is 8 to
12 12 months, we can make good sound business
13 decisions about our pricing.

14 Second, if the goal is to reduce
15 production in China, again, we can plan for that,
16 but given our development timeline and the nature
17 of our products, we would need 18 to 24 months to
18 move our production to different countries, or
19 there will be devastating effects to our
20 business.

21 Thank you again for your time today,
22 and I would be happy to any, to answer any

1 questions you may have.

2 MR. BURCH: Thank you, Ms. Ross. And
3 Mr. Chairman, this concludes all witnesses'
4 testimonies.

5 MR. BLAHA: Thank you. I have a
6 question for Mr. Wolfe. There seems to be a
7 general impression that counterfeiting is worse
8 in China and by Chinese producers than elsewhere.
9 I guess, what -- tell us a little bit what has
10 been your experience with counterfeiting in China
11 and why -- I think you mentioned that tariffs
12 would make some concerns like that worse. Could
13 you elaborate on why that is the case?

14 MR. WOLFE: To us, the big challenge
15 is using our brand. So, our we have several
16 brands, so they're knocking off our brands
17 basically and selling them, a lot of times, in
18 the domestic market in China. So, even if we
19 register our trademarks in China with the proper
20 authorities and so forth, they're not able to
21 manage that and really enforce those trademark
22 ownerships that we actually would hold.

1 That also, again, opens up a lot of e-
2 commerce. The panel had mentioned the de minimis
3 opportunities, things like that, that allows
4 those kind of products to flow into the United
5 States. So, our consumers are buying it that
6 way, not paying any tariffs at all, getting an
7 inferior product impacting our sales
8 opportunities, because of our approach of doing
9 it correctly, quite frankly.

10 MR. BLAHA: Thank you. And I think
11 you also mentioned the back to school and holiday
12 shipment kind of window. When do those shipments
13 typically arrive in the United States?

14 MR. WOLFE: Back to school is
15 essentially kind of arriving now, in this case.
16 You know, will go through really the next few
17 months as those -- remember, we're fashion brand,
18 so our products are coming in, they're hitting
19 stores, new sets happen every three weeks or so
20 depending on what the product is.

21 Our Justice brand, of course, hits
22 tween girls. That's a huge opportunity for back

1 to school. They're all getting their new outfits
2 for the start of the school year, as well as they
3 continue to do that throughout the first, you
4 know, couple months of the school year.

5 Holiday sales, in terms of that
6 season, that'll start to arrive September,
7 October into, you know, as late as December as
8 well.

9 MR. BLAHA: Okay, thank you.

10 MS. MCGEE: Thank you for your
11 testimony. My question is for Mr. Day. I
12 understand that your company has already had to
13 adapt to increased duties as a result of the
14 Tranche 3 list of products. So I'm wondering if
15 you could talk a little bit more about what your
16 company did to adapt to those increased duties
17 and if you would utilize the same strategies for
18 Tranche 4.

19 MR. DAY: Given the timelines
20 associated with Tranche 3, we absorbed the costs,
21 and as a result took significant financial hit to
22 our bottom line. We had to lay off people for

1 the first time in our history, in February of his
2 year, 26 families in our company were impacted by
3 that. And with our expanded supply chain and
4 domestic partners across the United States, that
5 probably impacted roughly a couple hundred people
6 and their families.

7 So, our reaction, and what we did, is
8 not something that we can sustain. We're
9 extremely concerned about that, and given the
10 longevity of our employee base and the dedication
11 that they have to delivering the quality
12 products, you know, we cannot continue with that
13 strategy.

14 So, in our List 3 testimony, we were
15 very adamant about the fact that quality and
16 capacity associated with manufacturing headwear
17 in China just did not exist in other places, and
18 that's still true today.

19 We're working, quite frankly, with
20 Chinese factories to relocate to other countries,
21 right? So, the factory ownership of the China-
22 based factories are just picking up and moving

1 their operations to Vietnam.

2 Funny enough, they're moving the same
3 labor base. So the people in management that
4 work in the Chinese factories are actually being
5 moved to Vietnam and Myanmar and these other
6 countries in order to establish the manufacturing
7 in these other locations.

8 And so, still, Chinese manufacturers
9 are benefitting from even the move and the setup
10 of these new operations elsewhere. So the
11 overall goals of the administration to protect
12 intellectual property within our industry is such
13 that there is really no IP other than the logos
14 of the teams.

15 Major league sports has established
16 what they call the White List Database with
17 Chinese customs. And what the White List
18 Database does is it actually captures the names
19 and addresses of the manufacturers that we use.
20 They put them in a database, both in English and
21 Chinese, and we have to keep that listing up to
22 date at all times. And so this database is

1 updated with the list of qualified and certified
2 manufacturers within China and no exports can
3 leave China unless those factories are on that
4 database.

5 So that infrastructure within our
6 industry has existed for some time. It's a great
7 tool to utilize to mitigate counterfeit
8 transactions and counterfeit exports and could be
9 utilized as a model for other industries as well.
10 But the overall efforts that we have had to date
11 on List 3 just cannot be sustained, and as a
12 result we're moving as fast as humanly possible
13 outside of China, but, for the reasons that I
14 mentioned in my testimony, ultimately regulatory
15 burden and desire and need to ensure basic human
16 rights and health and safety of the workers in
17 these factories, we have to do things correctly.

18 And similar to the testimony that
19 others in this panel have said, we're doing the
20 right thing. We are following the policies. We
21 are trying to live up to the American way, if you
22 will, in being altruistic to our goals, and we

1 feel we're being penalized.

2 And so, you know, with that being
3 said, you know, the overall impact is
4 detrimental. The increased customs duties will
5 exceed \$10 million. That totally wipes out our
6 profits and is just going to be devastating, so
7 we need help and we ask for your careful
8 consideration in that regard.

9 MR. VOLPE: Can I add to that?

10 Similar to what Mr. Day said, United Legwear, we
11 were affected greatly by Tranche 3 based on our -
12 - we have a bag, accessory, hat, belt, and wallet
13 business. We do about \$100 million in that area
14 and that was all Tranche 3 driven.

15 We were forced to make radical
16 decisions to avoid being imposed the additional
17 tariff. So we accelerated production, brought
18 product in for what is really back to school,
19 which we just spoke about, probably Q1 of this
20 year. It disrupted our supply chain, disrupted
21 our cash flow, our inventory plans, disrupted our
22 ability to focus on our forward-going business

1 and really react-and-protect versus forecast-and-
2 drive.

3 So, we've shifted a lot of our
4 production from Tranche 3 out of China, but going
5 into Tranche 4, like I said in my testimony, we
6 have a 300 million unit need in socks. We're in
7 Cambodia, we moved to Vietnam, and the U.S. price
8 points just don't work for us and there's really
9 not open capacity in the U.S. in the sock
10 business.

11 We were able to react and respond on
12 the immediate for Tranche 3. We're shifting our
13 production out there, but Tranche 4 will be --
14 it'll be, you know, tragic for us because -- and
15 we're selling legwear to retailers like Family
16 Dollar, where the average consumer is shopping in
17 the store, walking to the store within a mile of
18 their home, going three or four times a week
19 because they don't have the money to shop all at
20 once, and their average purchase price of a sale
21 is \$10. So when you talk about any kind of
22 increase in price, it's tragic to these people.

1 So I just want to reiterate that
2 Tranche 4, within the legwear segment, is a huge
3 issue just because of the pure volume of capacity
4 and reactivity that's needed. And, again, that
5 would probably take us about 24 months to react
6 to, to get this machinery and equipment in place.

7 And in the tranche you've also
8 included sock machinery shipping into the U.S.,
9 so now you're imposing a 25 percent tariff on
10 sock machinery if we want to bring into the U.S.
11 and produce in the U.S. So, it's really, you
12 know, putting handcuffs on us from every angle.
13 Thank you.

14 MR. FARISS: And so, first of all,
15 thank you, everyone, for coming to testify with
16 us today. This is actually going to be a
17 question for Mr. Volpe.

18 Again, sticking with socks. So, you
19 spoke to your concerns, and the concerns of your
20 retail customers, TJ Maxxs, Walmarts, et cetera,
21 about the effects of a 25 percent tariff on the
22 cost of goods. What kind of impact do you expect

1 it to have on costs in terms of --

2 MR. VOLPE: Tranche 4, for us, between
3 Tranche 3 and Tranche 4, we're facing a \$10
4 million tariff tax hit for six months.

5 MR. FARISS: Okay.

6 MR. VOLPE: So, just on our basis
7 right now, we're talking \$20 million annually.
8 So, it's a considerable, concerning amount. And,
9 again, Tranche 3, because of the product
10 categories and the capacities available outside
11 China, we've been able to manage to some extent
12 on the immediate. The long-term is going to be
13 much more problematic.

14 The retailers, at this point, are
15 finally talking about price increases on Tranche
16 3, because originally everybody was, you know,
17 we'll sit and wait when it was 10 percent. Then
18 it went to 25 percent, everybody was like, well,
19 we're not hearing anything in the market. Now
20 everybody is blaringly screaming.

21 And we accelerated our production, we
22 brought it in for Q1 to get in before the tariffs

1 hit. Now we have flowing tariffs coming at 25
2 percent. We have the disruption of trying to
3 figure out how to fit, you know, \$50 million
4 worth of inventory at cost in a capacity plan of
5 25 million.

6 We're wasting our resources on trying
7 to scramble and protect, as I said, instead of
8 innovate and drive revenue, create jobs, and, you
9 know, do what we do best.

10 MR. FARISS: Okay. And thank you.
11 And one more quick follow-up. You spoke earlier
12 on the previous question about, you know, family
13 going to the store, having to make multiple
14 trips, that kind of thing. So, you will probably
15 be able to speak to this a little bit more. Has
16 your company done any research specifically on
17 the elasticity of demand for your products? You
18 know, the impact -- or what kind of impact do you
19 see on the sales of your products with these
20 prices going up?

21 MR. VOLPE: Well, in speaking to the
22 retailers that we've spoken to -- and, again,

1 it's been everybody from a dollar store to club
2 level, whether it be Costco. We produce 73
3 percent of Costco's legwear as a vendor, to give
4 you a perspective.

5 Everyone is -- you know, the answer
6 that we get -- I mean, I was sitting with the
7 chief executive officer of Meijer stores, which
8 is in the Midwest, a privately-held company, very
9 successful, and the answer is they can't answer
10 the question. They know that they're going to
11 buy less. If prices go up, they're going to sell
12 less. And it's an undetermined quantity and
13 value, but it's going to be an immediate response
14 from the retailers -- and I think I'm sitting
15 next to a retailer who can verify it -- that, you
16 know, open-to-buys are going to shrink just
17 because you don't know how a consumer is going to
18 react.

19 The retailer environment right now is
20 not very good. I think there's a lot of concern
21 with American consumers on where we stand with
22 trade, where we stand with inflation, where we

1 stand with the housing market.

2 I mean, I think that, you know, when
3 you look at inflationary rates that we're going
4 to see with these price points, a gentleman on an
5 earlier panel mentioned the same numbers I'm
6 looking at, it's like a 12 percent increase on
7 wholesale that we'll have to keep margin neutral.
8 And, again, that's stating margin neutral but it
9 doesn't necessarily mean that the margin dollars
10 are going to be the same.

11 So, I mean, I employ over 750 to 1,000
12 people within the U.S., directly and indirectly.
13 We offer tremendous benefits. We see huge job
14 opportunities. We have continuing education
15 programs. We invest in university graduates. We
16 have internship programs.

17 We do all kinds of things to be an
18 innovative cultural company that's the future of
19 this country. And in spending our time reacting
20 and trying to protect ourselves to stay in
21 business and to protect jobs there's not a way
22 we're going to do that efficiently.

1 MR. FARISS: Okay. Thank you, Mr.
2 Volpe.

3 MR. VOLPE: Thank you.

4 MS. HEINZEN: Thanks to all of you for
5 your testimony. I have a couple questions for
6 Mr. Kraus. Do you sell any Made in the USA
7 products in your store?

8 MR. KRAUS: Very little. Let's see,
9 belts. There are a couple of high-end premium
10 denim lines that we do buy from, but typically
11 they tend to be a little bit expensive and
12 inferior quality of both the textiles and the
13 make, let's say, the needle that's used to
14 manufacture stuff like that.

15 We do have occasionally some fragrance
16 that is made here. And, I'm sorry, I don't have
17 many to choose from and select from because
18 they've just -- they're not available. And the
19 few that -- you know, there was a company -- or
20 actually I think they're still around, they came
21 back, Bills Khakis, you know, waived the flag for
22 a long time.

1 And what ended up happening is, as
2 their costs kept growing, they priced themselves
3 out of the market by putting an inferior product
4 out at a very high price, uncompetitive. It's
5 one thing to have an expensive product when it
6 has all the bells and whistles and all, you know,
7 the niceties that it looks like that price. So,
8 it's a challenge for us to find American
9 products.

10 As an example, in the suit area, there
11 are a few remaining suit manufacturers, but where
12 my typical retail, average retail for a suit is
13 about \$500, \$600, Oxford Industries, Hickey
14 Freeman, they are in the \$2,000 area. My rural
15 agrarian backbone of my business cannot sustain
16 or handle those types of retails. So, we are
17 kind of forced to source offshore. And that,
18 today, has become Asia. It used to be Eastern
19 Europe.

20 MS. HEINZEN: Thank you.

21 MR. DAY: If I could add to that. 47

22 Brand used to manufacture headwear in the United

1 States and in the '80s we moved out of the United
2 States because of availability of labor, as well
3 as the textile industry in and of itself
4 relocated from the United States in the Southeast
5 to Asia as well.

6 So the cost of moving raw materials
7 from Asia back to the U.S. for manufacturing
8 became prohibitive. Again, the availability of
9 labor, in a lot of the products that we make,
10 it's extremely manual. It's not automated in any
11 way. These are hand-sewn, highly crafted
12 products, and this is what is the point of
13 difference at retail for many of the brands that
14 are here today, and probably in the buying
15 decisions for retailers that operate today.

16 So, just the pick-up-and-move
17 mentality is mind-blowing when you consider the
18 pride in which most brands take in their
19 products, not only in the development but in the
20 execution, as well as servicing our customers
21 around the country.

22 So, these Made in the United States is

1 hard to come by, particularly at the price points
2 that we're talking. There's no labor to do this
3 kind of work. People don't want to do cut and
4 sew, they want to do high tech, maybe automotive,
5 maybe computers, maybe pharmaceuticals, but, you
6 know, kids aren't coming out of college and going
7 into cut and sew.

8 And similarly, just to add, the
9 logistics within the United States is becoming
10 increasingly difficult. So, the movement of
11 products from any port, even upon entry, to our
12 distribution points around the country become
13 difficult because of the associated Department of
14 Transportation laws that were put in place with
15 the electronic logs for the drivers.

16 And although, again, great idea to
17 protect the infrastructure, there are no drivers
18 and -- incoming drivers for truckers into the
19 United States. So, once our goods do arrive at
20 the port, to get them to where they need to go
21 becomes increasingly difficult. Capacity is
22 minimized, costs go up, and on and on and on.

1 So, tariffs are one major point of
2 cost increases that manufacturers and retailers
3 and have to absorb, on top of many others that
4 are driving and impacting us today.

5 MS. HEINZEN: Thank you.

6 MR. FRATERMAN: Thank you, everyone
7 here, for your testimony. My question actually
8 is for Mr. Lang, and it's something that Mr.
9 Wolfe had also touched on as well, and I was
10 wondering if you can expand on the challenges
11 that your company and your association members
12 have faced in dealing with counterfeiting
13 specifically.

14 MR. LANG: Yeah. The upsurge in
15 counterfeiting -- and a lot of our counterfeiting
16 comes from one particular area in China, which is
17 Suzhou, which I guess you would call their Canal
18 Street. And a lot of enterprising people setup
19 websites, took our intellectual property, and are
20 starting to sell direct to consumers in the
21 United States.

22 And because, you know, customs has the

1 ability manpower-wise to stop trailer loads of
2 things coming into the port, the one-off packages
3 that are shipped by their postal service, and
4 then delivered by our postal service, come in
5 without duties, so forth. And we raised the de
6 minimis value so they don't have to understate
7 the value anymore, they can put whatever they
8 want.

9 So, what we did is we started -- we
10 created a technology. We met many times here in
11 Washington with all of these departments and
12 more, and Customs basically said, if you can
13 create technology that would be a great boon and
14 then you can share it with people, and we did
15 that.

16 So, we've closed 50 percent of the
17 counterfeiters and now we've become even more
18 aggressive. And, as I mentioned, we've gone
19 after Cloudflare which houses a lot of the
20 counterfeiters, not just from my industry, but
21 from many, many industries. They are basically
22 in violation of the DMCA law. If we win the case

1 that's in court now, you will see a lot of
2 counterfeiting in a lot of industries go down --
3 we've cut it by 50 percent.

4 As a matter of fact, the America
5 motion picture industry is now going to do an
6 amicus brief to support our game against
7 Cloudflare and may actually file their own suit.
8 We've actually led the path for this anti-
9 counterfeiting effort. We've gotten a lot of
10 publicity on it. And there is a way to do it.
11 There is a way to do it effectively.

12 MR. FRATERMAN: Thank you. I also --
13 quick follow-up question. I know you -- I know a
14 lot of the talk has been about China. Are there
15 any other countries that are a major source of
16 counterfeiting in formalwear specifically that we
17 should be aware of?

18 MR. LANG: Well, India is starting.
19 You're going to start to see it. It's now coming
20 out of Vietnam as well. It's whack-a-mole, and
21 as you stop one area you need to look elsewhere.
22 It's never going to go away. It's been here

1 forever. It's a trillion dollar industry
2 worldwide. You're going to see it coming out of
3 Africa as well. We've all seen the handbags and
4 so forth on the streets.

5 MR. FRATERMAN: Yeah.

6 MR. LANG: It's not going to go away,
7 and it takes a sophisticated technology -- it
8 takes two things: a way to identify the
9 counterfeit material on the internet; and 2, and
10 this is where there's a big hole, is the ability
11 for any government to step in and seize those
12 packages.

13 I mean, I've been to DHL facilities
14 where there's mountains and mountains of
15 counterfeit product coming in and it comes -- we
16 have a sieve here, it comes right through.
17 Customs does -- and I've met with Customs. I was
18 at a roundtable with probably 20 different
19 departments, including Homeland Security, and one
20 gentleman from Customs said, you know, "I am so
21 tired of this. I hear it over and over and over.
22 We just don't have the tools to catch the bad

1 guys."

2 MR. FRATERMAN: I actually -- only
3 because we're a little pressed on time, I just
4 have one quick final question and just want to
5 quickly address this. Is the Chinese government
6 doing anything to help you address these issues?

7 MR. LANG: Yes, they are because
8 what's happening is -- they're becoming more
9 prolific about it, because China's way out is the
10 same way it was for us or Taiwan or anyone else
11 that -- they're going to create their own brands
12 in the future. And they are going to -- and
13 there are this consideration of how they protect
14 their own brand. So, yes, we are getting
15 support.

16 We're getting tremendous support, even
17 in Chaozhou, which is the biggest city for
18 production. I've met with the head of all the
19 manufacturing, the local representatives from the
20 government, they're equally concerned to the
21 point -- I use 50 factories, 30 of them have just
22 contributed \$3,000 each to the ABPIA to fund our

1 efforts. Our burn rate is \$13,000 a month. I
2 actually have Chinese factories sending me money
3 to help me shut the counterfeiters out of
4 Northern China in Suzhou.

5 MR. FRATERMAN: Okay, great. Thank
6 you.

7 MR. CHEN: Thank you. And if I could
8 make one point here before I turn to my colleague
9 for the last question. My colleague on my right
10 would like to see if you would be interested, to
11 the extent possible, to provide additional
12 written information on the de minimis issue and
13 if you could explain a little further.

14 MS. HEINZEN: Yeah. Well, several of
15 you have commented on the current ability to
16 import goods under the Section 321 de minimis
17 issue. So, in any follow-up written comments, if
18 you would address any suggestions you have or
19 concerns on how we might go forward addressing,
20 you know, the issue of those kind of imports,
21 which are occurring now regardless of any
22 additional duties.

1 MR. LANG: Can I ask one question on
2 that? The competition we all face from even
3 legitimate businesses outside the United States
4 that see this de minimis threshold as being so
5 high, which is -- us who import, I can't bring a
6 button in without paying my 16.1 percent, yet
7 there's massive commerce being done where people
8 are shipping in and paying nothing. It's
9 patently unfair. And that's above and beyond the
10 25 percent issue. But our government needs to
11 recognize that we're worldwide competition
12 through the internet and there's tons of product
13 coming in, regardless of where it's made, and
14 it's coming in with no duties paid at all. I, as
15 a manufacturer --

16 MR. CHEN: Mr. Lang, thank you. If
17 you could provide that information in writing so
18 that we can proceed on schedule.

19 MR. LANG: Sure.

20 MR. CHEN: Appreciate it. Thank you
21 very much. Now for the final question.

22 MR. BRYANT: Yes. Thank you, again,

1 for your testimony. My question is for Ms. Ross.
2 How much might the increase in duties affect the
3 retail prices of your products? And how soon do
4 you think those price increases would come into
5 effect?

6 MS. ROSS: So, I submitted in paper
7 some of the price changes. I gave you some
8 examples of that, which I can run through right
9 now. We have one product, for example -- we have
10 a whole bunch in this category, but it's
11 currently at a 16.5 percent duty, so it would go
12 to 41.5. So, an example at retail would be \$179
13 would go to \$216.20.

14 And then probably the worst example is
15 we have a product category that's already at 32
16 percent duty, so it would go to 57 percent. So
17 the jump in retail would be \$109 to \$152.30.

18 To answer the second part of your
19 question, it's a little dependent on the timing
20 of when this goes into effect. So, if the timing
21 was 7/15, let's say, and it was based on port,
22 product coming through the port on 7/15, that's

1 different than if it's 7/15 and it's based on
2 leaving Asia.

3 So, that's part of the -- you know, we
4 can get a bunch of our product for fall in by,
5 call it 9/1, but if this goes into effect on
6 7/15, that hits everything. So then we'd have to
7 share that 25 percent with our retailers.

8 If it goes into effect on 10/1 or 9/1,
9 9/1 we'd have 90 percent of our product already
10 in, 10/1 we'd be done. And then spring '20
11 product, which would be coming in next February,
12 we would have to put the 25 percent in our retail
13 prices -- or our wholesale prices to our
14 retailers.

15 MR. BRYANT: Okay, thank you.

16 MR. CHEN: And one last request, my
17 colleague from the Department of Labor would like
18 to raise one issue for your consideration for
19 further written submission as you find
20 appropriate.

21 MR. FRATERMAN: Thank you, Chair.
22 Yes, I know that this was being talked about.

1 For anyone who is on the panel, we would love to
2 have more written testimony, if you're willing,
3 on the effects of counterfeiting on U.S.
4 employment. This is something that Mr. Wolfe and
5 Mr. Lang brought up. We are incredibly
6 interested. We want to make sure that we're
7 protecting the workers here. So if you do have
8 any testimony on that, we would be willing and
9 interested to hear from you. Thank you.

10 MR. BISHOP: We release this panel
11 with our many thanks and invite the members of
12 the next panel to please come forward and be
13 seated.

14 (Pause.)

15 MR. CHEN: Are all the witnesses here?

16 MR. BISHOP: Yes, Mr. Chairman, they
17 sure are. Before I announce this panel, I would
18 like to remind all members of our audience that
19 there is no photography, no recording, and no
20 streaming of today's hearing. Thank you.

21 Our first witness on this panel is
22 Matt Priest with the Footwear Distributors and

1 Retailers of America. Mr. Priest, you have five
2 minutes.

3 MR. CHEN: Before we start, can I just
4 have my new colleague here introduce himself?

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

8 MR. CHEN: Okay, thank you.

9 MR. PRIEST: Thank for the opportunity
10 to testify at this important hearing. FDR
11 represents 90 percent of the American footwear
12 industry, and I have the honor and privilege of
13 serving as its president and CEO.

14 It is not overly dramatic or
15 hyperbolic to state that the proposal to add
16 additional tariffs of 25 percent would be
17 catastrophic for our industry.

18 I cannot overemphasize the negative
19 impact that an additional 25 percent tariff would
20 have on U.S. footwear companies and consumers,
21 which already face a high tariff burden totaling
22 \$3 billion every year.

1 While imported consumer goods are
2 taxed at a rate on average of 1.9 percent,
3 current footwear tariffs average nearly 12
4 percent and can reach rates of up to 67 percent.
5 Adding 25 percent on top of these already high
6 duty rates would be a staggering cost that would
7 be impossible for companies to absorb.

8 Some have suggested that we simply
9 source our products from other countries to avoid
10 the increased tariffs that may be placed on our
11 products that are made in China.

12 What the U.S. government must
13 understand is that footwear is a very capital
14 intensive industry with years of planning
15 required to make sourcing decisions, and
16 companies cannot move factories in a short
17 timeframe to adjust to this new tax.

18 It has taken nearly 12 years to move
19 from 90 percent to 70 percent U.S. import volume
20 of shoes made in China. Our supply chain simply
21 cannot react in such a short amount of time just
22 as we are moving into back to school season, one

1 of the most important shopping periods of the
2 year.

3 Prices were agreed to and orders
4 places months ago, well before this most recent
5 round of proposed tariffs was announced.

6 Moreover, majority of the types of shoes that are
7 heavily produced in China are lower cost shoes
8 purchased by working American families at value
9 family retail chains.

10 One shoe in particular, a shoe classified in
11 subheading 6441979 currently has a duty rate of
12 37.5 percent plus \$0.90 a pair for an operational
13 duty rate of nearly 60 percent at the average
14 price for that subheading. Adding an additional
15 25 percent to the already high tax rate will push
16 the cost of the shoe to the point where it will
17 not be produced in China or anywhere else.

18 Almost a million and a half working
19 families purchased that shoe for their children
20 last year. That specific footwear will cease to
21 exist the moment these proposed tariffs take
22 effect, limiting options and making these shoes

1 inaccessible due to price. And that is just one
2 example of many that I could provide.

3 I think we can all agree that footwear
4 is a necessity, and because of the dynamics of
5 our global economy, consumers almost certainly
6 have to buy their shoes from overseas sources.
7 There should be no mistaking the fact that
8 American consumers pay and all duties levied
9 against an imported product, as demonstrated in
10 the charts that are contained in my written
11 submission.

12 As import duties rise on imported
13 footwear, costs do go up for consumers. As the
14 costs of imports rise or fall in a general sense,
15 whether based on the price of materials,
16 transportation, labor or duties, those cost
17 increases or savings are almost immediately
18 passed on to consumers.

19 It is my hope that at a minimum the
20 U.S. government can acknowledge this fact and
21 admit that an increase of tariffs applied to
22 Chinese goods is a tactic that is certain to

1 raise costs on Americans, reducing their ability
2 to purchase footwear, an obvious necessity.

3 This existential threat has united our
4 industry like I've never before seen. Nearly 175
5 footwear brands and companies sent a letter to
6 the president on May 20th voicing their unified
7 opposition to this proposed tax increase.

8 Most interestingly, domestic footwear
9 producers in places like Maine, Pennsylvania and
10 Oregon have voiced their opposition to the
11 proposal, as it directly impacts their ability to
12 manufacture footwear here in the United States,
13 directly undercutting the administration's stated
14 desire to move manufacturing back to our shoes.

15 This is why I respectfully request
16 that you immediately remove Chapter 64 in its
17 entirety, all of Chapter 64, from the proposed
18 list of \$300 billion in goods that was published
19 on May 17th.

20 FDRA supports efforts to strengthen IP
21 protection in China. That is why we are an
22 active participant in the special 301 process

1 conducted by USTR every year. But ultimately,
2 footwear is a comparatively low value sector. It
3 was not included in the Made in China 2025
4 strategy, and FDRA companies have witnessed a
5 significant shift of footwear factories in the
6 coastal regions of China to areas further inland.

7 Chinese factories along the coast are
8 increasingly focusing their production on higher
9 value products. U.S. footwear companies have
10 seen increased costs, worker turnover, labor
11 shortages. These are all economic indicators
12 that the Chinese government does not consider
13 footwear production to be a key tenant of its
14 industrial policy.

15 So since footwear is a sector that is
16 clearly out of the scope of Made in China 2025,
17 targeting footwear with these added tariffs will
18 needlessly drive up costs for American consumers
19 and have no impact on addressing our critical IP
20 concerns. These are serious issues that require
21 a serious response from our government.

22 But taxing Americans on products they

1 have to buy is not the approach, and it
2 ultimately does not drive much needed certainty
3 for our businesses and economic growth for the
4 American economy. Make no mistake about it.
5 We've heard this time and time again this past
6 few days. This tax will raise costs, drive down
7 demand and cost American jobs.

8 So on behalf of our hundreds of
9 members, our hundreds of thousands of workers and
10 our millions of consumers, we ask that you
11 abandon this regressive tax. Thank you for
12 providing me with an opportunity to testify, and
13 I look forward to your questions.

14 MR. BISHOP: Thank you, Mr. Priest.
15 Our next witness is Rick Muskat of Deer Stags,
16 LLC. Mr. Muskat, you have five minutes.

17 MR. MUSKAT: Thank you. I'm Rick
18 Muskat. I'm the president of Deer Stags. We're
19 a privately held, family owned, three generation
20 company. We celebrated our 55th anniversary last
21 month. I could not possibly articulate as well
22 as some of the earlier witnesses. I had prepared

1 a lot of remarks on the same subjects. You've
2 heard them. I could repeat them.

3 So perhaps I could make this a little
4 bit more personal on behalf of our employees and
5 also on behalf of our consumers. I put in, along
6 with my testimony, the written testimony, for you
7 a picture. I think you have it. The staff gave
8 it to you, a picture.

9 These are just some of our workers,
10 some of the people that work for us. Most of us
11 have been with us 15 years or more. There's one
12 woman in the picture that's been with us over 50
13 years. She started with my father in the '60s.
14 Her daughter now works for us.

15 Like some of the other companies that
16 have been up here, we work very hard on
17 protecting our workers, giving them a safe and
18 healthy work environment, provide health
19 insurance, 401k, life insurance, maternity leave,
20 flexible work time, work from home options so
21 they could help take care of their families.

22 I am incredibly concerned about the

1 impact this duty could have on them. If we're
2 forced to absorb the 25 percent increase in the
3 cost of our shoes, we cannot continue to have the
4 amount of people or potentially it could put us
5 out of business.

6 We're in the process of investing some
7 new capital investment on new systems, new
8 warehousing distribution facilities to
9 accommodate the shift of our business to the web
10 channel. That requires all new demands and new
11 skillsets. We're in the process of hiring new
12 people. If these duties hit and we can no longer
13 do that, we can't hire those people.

14 We can't put people into the
15 warehouses that we're moving to the center of the
16 country. Our warehouse is currently on the West
17 Coast, the nearest port of entry. And in fact,
18 it might cost these people their jobs. They're
19 often referred to as ordinary working class
20 people, but they're extraordinary people.

21 I also put into your package two
22 pictures that came from some of our consumers.

1 The first one here with these boots in the
2 picture actually was in a Twitter feed just this
3 past Sunday on Father's Day. This young son of a
4 father who served in the CIA and Afghanistan in
5 2001 calls them daddy's lucky boots. They happen
6 to be our boots. He was wearing these boots
7 during his tour of duty in Afghanistan, faced
8 combat, et cetera. You can read it for yourself.
9 It's touching. Those are our boots. We make
10 them in China. The boots retail for \$50.

11 The second picture is a pair of shoes
12 and a letter from a gentleman that worked in the
13 World Trade Center on 9/11. He was able to
14 escape the Twin Towers, had to walk an incredible
15 distance home, wrote us a letter and thanked us
16 because his feet were the only part of his body
17 that didn't hurt when he got home. These shoes
18 are made in China. They retailed at the time at
19 J.C. Penney and Kohl's. Places like that is
20 where I assume he bought them, for \$40.

21 Our consumer the everyday, ordinary
22 working class American cannot afford to pay more

1 for his shoes. These tariffs would increase
2 their price on average of 25 percent. We make a
3 lot of boy shoes. About half our pairs go to
4 children, to boys. Shoe purchases for boys are a
5 need, not a want. Kid outgrows his shoes, you've
6 got to buy him a new pair of shoes. The average
7 retail price of our shoes for boys is under \$25.
8 25 percent increase for those shoes will take
9 them to over \$30.

10 We either increase the price of our
11 shoes and see if they could be absorbed, which as
12 prior testimony has suggested, will reduce
13 demand. Or we try and absorb these increases,
14 and it costs our workers, potentially costs them
15 their job, possibly cost us our 55-year-old
16 company. Sorry. My sons, my daughter, two of my
17 nephews work in our company. They hitched their
18 future careers to our company, believing we can
19 do something special.

20 Their jobs, their futures are at
21 stake. I could talk at length about the
22 difficulties in moving the production, and if you

1 have time and you have questions about that, I
2 could explain to you in great detail why it would
3 be so difficult it would take us upwards of five
4 years or more to move our production outside of
5 China, even if capacity was available. If you're
6 interested, I could answer questions about that.
7 I'm concerned my time might run out.

8 On that behalf, I ask you to exclude
9 footwear in general, but in particular 640299.31.
10 That category covers manmade shoes, shoes with
11 the manmade uppers. Those are the moderate
12 priced or affordable shoes that retail in the
13 United States for under \$50, for under \$40, for
14 under \$25, the shoes that the working class
15 citizens and workers of our country can't afford
16 the increase. Thank you very much for your time
17 and attention.

18 MR. BISHOP: Thank you, Mr. Muskat.
19 Our next witness is Edward Rosenfeld with Steve
20 Madden. Mr. Rosenfeld, you have five minutes.

21 MR. ROSENFELD: There we go. Good
22 morning, and thank you very much for the

1 opportunity to be here today. My name is Ed
2 Rosenfeld. I am the chairman and CEO of Steve
3 Madden. Steve Madden is a fashion footwear and
4 accessories company that was founded in 1990 and
5 is headquartered in Long Island City, New York.
6 We currently have about 3,800 employees and
7 annual net sales of approximately \$1.7 billion.

8 In addition to our flagship brand,
9 Steve Madden, we also offer products under our
10 other owned brands, Dolce Vita, Betsey Johnson,
11 Blondo and Brian Atwood as well as under licensed
12 brands Anne Klein, Kate Spade and Superga. And
13 in addition to that, we design and source private
14 label footwear for a variety of retailers, with a
15 particular emphasis on the value priced retailers
16 like Walmart and Target.

17 And when you put all that together,
18 all of our brands and the private label work that
19 we do, we estimate that we account for about 8
20 percent of the women's fashion footwear market in
21 the United States, making us the market share
22 leader in that category.

1 So I'm here today because I am deeply
2 concerned about the proposed tariff on footwear
3 from China. As you've heard, nearly 70 percent
4 of all footwear in the United States is imported
5 from China. But in the fashion segment of the
6 market in which we operate, that percentage is
7 much higher. Last year, we sourced 94 percent of
8 our products from China. And these products are
9 already heavily burdened by duties. We currently
10 pay an average duty of 11 percent on the shoes
11 that we bring in from China.

12 So an additional 25 percent tariff on
13 top of these already high existing duties would
14 be impossible for us to absorb and would leave us
15 no choice but to implement immediate and
16 significant price increases to our consumers.
17 And we know that the consumers we serve are price
18 conscious, and so that increase in retail pricing
19 would undoubtedly reduce demand forcing us to
20 close stores and lay off workers.

21 I know it's been suggested by some
22 that we should simply move our production to

1 other countries. Unfortunately, that is not a
2 near-term solution. Footwear is a capital
3 intensive and labor intensive industry, and the
4 development of new capacity outside of the China
5 and the movement of production to new facilities,
6 as Rick said, would take years.

7 At this moment, there is no other
8 country with a footwear manufacturing base that
9 can match China in terms of pricing, quality and
10 speed to market, particularly with respect to
11 fashion products at value price points. Not only
12 does China possess footwear manufacturers and a
13 workforce with decades of experience and unique
14 expertise, it also has a sophisticated
15 infrastructure to support footwear production,
16 including a vast network of material suppliers.

17 In fact, even when we do move
18 production to other countries, the majority of
19 materials are still sourced from China, which
20 obviously drives up our costs and reduces our
21 speed to market. So while we are investing
22 heavily and working diligently to diversify our

1 sourcing to other countries, it will be years
2 before we could produce the majority of products
3 outside of China.

4 We at Steve Madden recognize that
5 there are real issues in our relationship with
6 China that need to be addressed, and we support
7 the administration's efforts to strengthen
8 intellectual property protections in China. That
9 said, we do not think that our industry, and more
10 importantly the American consumer, should be
11 pawns in that negotiation.

12 The implementation of the proposed
13 tariffs would function as a significant tax on
14 consumers and would have a devastating impact on
15 U.S. footwear companies like Steve Madden. As
16 such, we request that you abandon plans for any
17 additional tariffs on footwear, and in particular
18 that you exclude the tariff lines I listed in my
19 written testimony from the proposed list of \$300
20 billion of goods published on May 17th. Thank
21 you very much for the opportunity to be here. I
22 look forward to your questions.

1 MR. BISHOP: Thank you, Mr. Rosenfeld.
2 Our next witness is Eric Harrison with J. Renee'
3 Group. Mr. Harrison, you have five minutes.

4 MR. HARRISON: Good morning. My name
5 is Eric Harrison. I'm the Chief Executive
6 Officer of J. Renee' Group, and I along with my
7 brother, own a second generation family business.
8 We just last month celebrated our 41st year in
9 business. My mother and father founded our
10 company 41 years ago.

11 This morning I brought a couple of
12 examples just to show the impact the tariffs
13 would have on my business. We have two primary
14 brands that we import. 100 percent of our
15 production is in China and has been in China for
16 the last 35 years. The shoe on my right here is
17 our most recent brand that we acquired. It's a
18 luxé comfort brand, L'Amour des Pieds, and over
19 the last couple of years, we have imported over
20 18,000 pairs of this one shoe in various
21 materials and colors.

22 Currently, we're paying \$4.20 a pair

1 to import this shoe. And should the new tariffs
2 go into effect, that price will go up to
3 approximately \$14.70. That's a 350 percent
4 increase in price. As I'll mention probably more
5 than once, our ability to pass that cost on is --
6 to absorb that cost is really impossible. That's
7 going to go straight to the consumer. Instead of
8 this shoe selling for \$199, it will be \$229.

9 The shoe on my left here is from our
10 J. Renee' brand, which is the brand we've been in
11 business with for 41 years, actually a brand
12 named after my mother. This is a shoe that we've
13 done in numerous colors, materials over the last
14 couple of years. We've imported over 81,000 pair
15 of this shoe in the last couple of years at a
16 cost of about \$0.95 a pair.

17 Again, if these tariffs go into
18 effect, that price goes up to about \$4.50, almost
19 a 500 percent increase in the cost of duty on
20 that item. So you can see that this would be a
21 catastrophic event for my business, for my
22 company. As Mr. Muskat alluded to, I'm here

1 today really representing a few groups. We've
2 been in business for 41 years.

3 I have about 35 employees in Texas.
4 Of those, 50 percent have worked for my company
5 for more than 20 years, so as we grew, we hired
6 people, and they've stayed with us. And we've
7 provided healthcare, 401k, everything that a
8 small business should do to support their
9 employees. And their future is at stake. And
10 really, I'm concerned about them as much as I'm
11 concerned about myself.

12 One of our competitive advantages is
13 we import and stock and carry inventory in all of
14 the shoes that we bring in. So not only am I
15 here representing my employees, but I sell the
16 same high profile customers that some of the
17 other people on the panel do. But the backbone
18 of our business has been independent shoe stores.

19 And many, if not most, of these stores
20 are family-owned businesses, multi-generational
21 businesses that rely on me and rely on us to
22 carry that inventory and to be able to pull from

1 our inventory to diminish their outlay of cash
2 and then to rely on us to back them up. And
3 customers all over the country, I've heard from,
4 you know, just saying hey, keep up the fight
5 because we rely on you.

6 And so, not only is this tariff going
7 to affect our business, but there's hundreds and
8 thousands of family-owned retail shoe stores out
9 there that are going to be adversely affected
10 because again, as I'm happy to address going
11 forward, that cost is going to roll right into
12 the consumer.

13 Finally, there's a number of
14 stakeholders that are impacted by our business.
15 I got a note from my customs broker when I landed
16 yesterday. I'd like to close with his comment.
17 He said, with the bulk of my business -- we
18 happen to be his biggest customer. He started
19 his business the same time we started ours. But
20 he sent a note. He said, with the bulk of my
21 business coming from China, some clients are
22 either ceasing their import activities or greatly

1 scaling back, while some actually are going out
2 of business. We may be scaling back as well.

3 So for all the small businesses across
4 the country, retail stores, mom and pop stores
5 like me, all the stakeholders that we impact
6 through our business, I'm asking, as has everyone
7 on this panel, for the revision of these tariffs
8 that will go to the American consumer and
9 adversely affect all of those people. We support
10 the efforts of the administration but not on the
11 backs of hardworking, American businesses and
12 families. Thank you.

13 MR. BISHOP: Thank you, Mr. Harrison.
14 Our next witness is Matt Feiner with SG
15 Companies. Mr. Feiner, you have five minutes.

16 MR. FEINER: Good morning. I'm here
17 to testify on behalf of S.G. Companies where I am
18 the CEO and President. S.G. Companies is a 123-
19 year-old family-owned business that designs,
20 sources and sells value priced footwear and
21 apparel for the entire family.

22 SGA actually began as a domestic

1 manufacturer of slippers in Hackensack, New
2 Jersey, where we made and sold over a billion
3 pair of slippers of a period of 106 years. As
4 the last remaining major slipper manufacturer in
5 the U.S. in the early 2000s, and despite the very
6 high import duties from Asia, we could no longer
7 compete on price with all the other slipper
8 importers, and we were therefore forced to close
9 our New Jersey factory, lay off over 500 plus
10 employees, a tragic day in our company's history,
11 and reorganize our entire business based on
12 importing our goods like the rest of our
13 industry.

14 Over the past 17 years, we've
15 continued to compete and grow as a viable company
16 in the seasonal footwear, which are slippers and
17 flip flops mainly, and children's apparel space.
18 And we gradually increased our U.S. staff of 50
19 employees to over 100. Adding another 25 percent
20 duty on top of our already high duties would be
21 an exorbitant cost that would be impossible for
22 our company to absorb.

1 Given the nature of our low cost, low
2 margin seasonal footwear business, moving out of
3 China where we source all our footwear product
4 would be impossible in the short-term and likely
5 beyond due to factory capacity, pricing and
6 overall cost constraints. Such catastrophic
7 duties would most likely eliminate our projected
8 profit in 2019 due to the fact that we've already
9 quoted our prices to customers for that
10 timeframe.

11 Our retail customers have told us that
12 they will not accept any price increases on the
13 orders already quoted to them. And that leaves
14 our company with two bad and worse choices. One,
15 refuse to sell the product for a loss to said
16 customers, which would surely harm our
17 respective, long-term working relationships, or
18 two, hold onto the inventory in China until the
19 tariffs are lifted and pay hefty storage and
20 interest costs in the interim.

21 Foregoing all profit in 2019 in lieu
22 of the additional tariffs would put our lines of

1 credit at risk and would have a domino effect
2 causing us to reduce staff and seriously threaten
3 the viability of our 123-year-old company, which
4 would further impact many other U.S. small
5 businesses who have come to depend on us as a
6 vendor.

7 To be clear, most of our business is
8 comprised of opening price point footwear and
9 opening price point kids' apparel to the mass,
10 mid-tier and value channel to families who find
11 it difficult to afford a product above a \$20
12 retail. More tariffs would force us to
13 significantly increase our prices on all new
14 orders for 2020 and beyond to our retail
15 customers. And they in turn would do the same
16 for their consumers.

17 These American consumers are people
18 that live paycheck to paycheck and are the least
19 able to absorb the said price increases to simply
20 put shoes and clothes on their children. For
21 that reason, I would strongly suggest that no
22 footwear be given any additional tariffs, but if

1 that does come to pass, at least give some
2 consideration to not doing that on anything with
3 a \$10 landed or below so those families and such
4 are not affected. I've listed the specific duty
5 codes that we do business under.

6 One other point I'd like to emphasize
7 is that of the 100 or so U.S. employees who work
8 for S.G. Companies, close to 50 percent of them
9 have worked for us for over 10 years, 30 percent
10 for over 20 years, and a handful have been with
11 us over 30 years. It really is like a family.
12 Several of these ultra-loyal and extremely
13 competent employees would potentially lose their
14 jobs if these punitive tariffs are applied to our
15 product categories. This would be heartbreaking
16 and an utter travesty to these proud and capable
17 American workers.

18 In closing, while my testimony may
19 seem overly dramatic and ominous, I'm here to
20 tell you that it's very real. If these tariffs
21 go into effect, they very likely can and will
22 destroy amazing companies like ours. Again, S.G.

1 Companies is 123 years old, fourth generation
2 family-owned, and we would be very much at risk
3 of survival if additional tariffs on footwear and
4 apparel imported from China go into effect.

5 I humbly ask that you do the right
6 thing, protect us and allow us to carry on and
7 provide strong product at affordable prices for
8 working American families. Thanks for your --
9 thanks for considering this request and for
10 giving me the opportunity to speak here today. I
11 look forward to your questions.

12 MR. BISHOP: Thank you, Mr. Feiner.
13 Our final witness on this panel is Marc Fisher
14 with Fisher Footwear. Mr. Fisher, you have five
15 minutes.

16 MR. FISHER: Hello. My name is Marc
17 Fisher. I am the CEO of Marc Fisher Footwear.
18 We are based in Connecticut, and we design,
19 source and distribute affordable ladies' and
20 men's footwear. My family has been in the shoe
21 business for close to 100 years spanning four
22 generations. I've been working in the shoe

1 industry since 1980. I started at Nine West
2 Group, a company my father founded.

3 My tenure at Nine West, 1980 to 2003,
4 I was in charge of all product development and
5 sourcing. In 2005, I started Marc Fisher
6 Footwear. I began my company with four people,
7 and the company has grown today to employ 224
8 people. The majority of our shoes are sold to
9 middle class consumers and retail between \$20 and
10 \$80. We sell our shoes to retailers such as J.C.
11 Penney, Ross Stores, Designer Shoe Warehouse,
12 Macy's and T.J. Maxx.

13 This year we plan to import over 40 million
14 pairs of shoes with a value of over \$350 million.
15 85 are made in China, and we already pay an
16 average duty of 10 percent. The footwear
17 industry operates on a nine-month cycle from
18 design to customer delivery, and wholesale
19 pricing is determined six months in advance of
20 importation.

21 If we have these additional tariffs to
22 pay in the next 30 to 90 days, the burden will be

1 completely on our company because our customer
2 prices have already been established. And it's
3 extremely difficult to adjust once the purchase
4 order has been received by us. Over a three-
5 month period, this could cost my company over \$25
6 million in additional tariffs and will cause
7 severe financial jeopardy to our company.

8 If tariffs must be imposed, we need
9 time to adjust our future pricing to absorb the
10 tariff increase. We are already planning to move
11 a sizable amount of our production out of China.
12 This will also take time. I have considerable
13 experience from my career at Nine West learning
14 firsthand the difficulty of relocating
15 manufacturing and finding new sources of supply.
16 In 1992, at Nine West, we started shifting shoe
17 manufacturing to China as an alternative to
18 Brazil. It took us more than 10 years to move 35
19 million pairs of shoes.

20 In the process, we faced incredible
21 obstacles, shoes that never got made that we
22 purchased, late deliveries, poor quality. I

1 could go on for 10 minutes just on the obstacles.
2 While my experience would enable us to move
3 production to other countries more efficiently
4 than in the past, it would be impossible to move
5 our entire production out of China in less than
6 three to five years. Today, we only make 15
7 percent of our production outside China, in
8 countries such as India, Vietnam, Cambodia and
9 Ethiopia.

10 We have been working since 2012 to
11 diversify our sourcing base. It's a very slow
12 process. Practically everything that is needed
13 to make a shoe, from the soles, inner soles,
14 linings, ornamentation, leather, synthetic upper
15 materials will still need to come from China.
16 Factories in other countries lack the skills and
17 infrastructure to make the quality footwear that
18 our consumers expect and need.

19 Developing a new supply chain will
20 require enormous capital investment, training and
21 time. Today, China produces over 75 percent of
22 all footwear sold in America. I cannot imagine

1 the difficulties the industry is going to face as
2 we try to move over a billion pairs of shoes out
3 of China to be manufactured in different
4 locations around the world. There is simply not
5 enough factories anywhere worldwide to handle
6 this. And it's going to cause a major disruption
7 to all of our shoe companies in the entire
8 industry.

9 And ultimately, unfortunately, as
10 everyone here has been talking about, the
11 consumer is going to pay more for shoes. And all
12 of us sell the average consumer, and they don't
13 have more money to pay for shoes. In conclusion,
14 my company cannot afford to absorb these tariffs
15 immediately. It will create a serious financial
16 burden that will ultimately threat the American
17 jobs that you all want to preserve. I,
18 therefore, respectfully request that the tariff
19 provisions listed in my application for
20 appearance today be removed.

21 If, however, this request cannot be
22 granted, I respectfully request that the

1 imposition of the proposed tariffs be delayed at
2 least four months to enable our company to
3 account for any tariffs in its price negotiations
4 going forward with factories and customers. At
5 the very least, we need more time. Thank you for
6 the opportunity to allowing me to speak today and
7 share my concerns. Thank you.

8 MR. BISHOP: Thank you, Mr. Fisher.
9 Mr. Chairman, that concludes direct testimony
10 from this panel.

11 MS. DHONGTHOG: My question is for Mr.
12 Priest. You've noted that there are challenges
13 in moving production out of China. Are these
14 challenges the same across all footwear product
15 groups. Also, I wanted to ask are there footwear
16 products that are more severely impacted than
17 others, and if so, why.

18 MR. PRIEST: Yeah, it's a great
19 question. I appreciate you asking. For the most
20 part, if you look at the athletic industry, the
21 athletic footwear industry, they have been for
22 quite some time diversifying out of China and are

1 more heavily involved in Vietnam and Indonesia.

2 And so what's left behind are the
3 folks that are represented on this panel, and
4 that is value footwear at price points that are
5 affordable that are sold at value chain retailers
6 so that when you go to a Kohl's or a Walmart or
7 Target or J.C. Penney that you're having access
8 to these types of shoes. And we find that's
9 where we're less diversified as an industry.

10 So that shoe that I highlighted that
11 is almost 100 percent China, and that's because
12 they do it very well. They have the
13 infrastructure and the price points and the
14 quality that American consumers expect and
15 deserve. And so the biggest threat that this
16 has, that this proposed additional tariff has is
17 on working American families because those
18 segments of our industry are less diversified.
19 And that's why we're so concerned.

20 MR. FISHER: Could I add to that? Can
21 I add to that question?

22 MR. PRIEST: Sure. Yes.

1 MR. FISHER: Thank you. There are
2 certain types of footwear, like sneakers from
3 large companies, where these companies like Nike
4 making an Air Force 1 that can sell over 100
5 million pair of one style a year. They can
6 program out factories in different locations for
7 three to five years. Most of us in this panel
8 are in the fashion ladies' footwear business, and
9 we are making four to six different product lines
10 a year, meaning we're constantly changing our
11 styles from dress to boots to sandals.

12 And we have very small, limited amount
13 of pairs to produce of each style. And that type
14 of footwear becomes much more complex to move to
15 other countries on a quick, timely, you know,
16 basis than let's say a sneaker like an Air Force
17 1. So there's lots of complexities in the
18 ladies' fashion footwear business that aren't
19 faced by a Nike as my example was. Thanks for
20 the time.

21 CHAIR CHEN: Thank you.

22 MR. DEVINE: I have a follow up for

1 Mr. Priest. You mentioned a trend of footwear
2 production moving from coastal China to inland
3 China, and I wonder if you can elaborate on maybe
4 the comparative difficulty of moving production
5 within China to moving production to other
6 countries.

7 MR. PRIEST: That's a great question.
8 I think the challenge that we've seen where in
9 the coastal provinces you have very fully
10 integrated supply chains, so everything is there.
11 And what a lot of Chinese factories have tried to
12 do to help kind of take on some of the cost
13 increases in coastal provinces and labor rates,
14 the labor shortages that we've seen, a lot of the
15 variables that have pushed us out of China, in
16 particular, well before this administration took
17 -- came into effect has been done to try, you
18 know, has been done to try to push -- put
19 stitching in these other provinces. And the
20 Chinese government's focus to drive employment
21 within these internal provinces.

22 I think the one thing that is apparent

1 just by Chinese government policy is they view
2 footwear as a sunset industry meaning at some
3 point, they want to replicate the United States.
4 The United States makes more -- domestically
5 produced is more in our history than we've ever
6 done before this very day. We do it with less
7 people. We do higher value manufacturing.

8 So the Chinese see that, and they want
9 to get out of the footwear production business
10 and move upwards on the value chain and
11 particularly in these coastal provinces. So in
12 the meantime, they're trying to push more
13 employment, more opportunity, more capacity
14 within internal China. But that elongates the
15 supply chain. The access to ports takes many
16 more days to get to the ports to export out.

17 And it's not a solution that's going
18 to replicate or should I say kind of support the
19 full depth and breadth of what the Chinese
20 industry has been for us. And so that's why a
21 lot of companies have looked to move outside of
22 China. And those that are left are those price

1 sensitive and more difficult -- as Marc
2 indicated, more difficult segments of our
3 industry to manufacture there in the coastal
4 provinces.

5 CHAIR CHEN: Thank you. Department of
6 the Treasury?

7 MS. MCGEE: My question is for Mr.
8 Muskat. Thank you very much for your testimony.
9 Is it correct that 100 percent of your shoes are
10 sourced from China?

11 MR. MUSKAT: Yes. Actually, it would
12 be 99.9 percent. We have one small production
13 run in India with sandals every year.

14 MS. MCGEE: Okay. Earlier you offered
15 to go into some more detail about the challenges
16 you would face in sourcing from countries other
17 than China, so I'm wondering if you could
18 elaborate further on that.

19 MR. MUSKAT: Yes, thank you. I was
20 hoping to. As Marc indicated, most of the people
21 on this panel make fashion women's shoes with the
22 exception we make very basic men's and boy's

1 shoes. Our bestselling styles stay in our line
2 for 15 years or more. Most of our styles stay in
3 our line for five years or more. As Eric
4 indicated, our retailers rely on us to carry the
5 inventory and replenish their stores every single
6 week.

7 We currently stock over 4,200 skus.
8 Remember, a shoe is made in a lot of sizes. The
9 equipment to manufacture shoes is at the style
10 level and at the size level. We make 31 sizes of
11 boy's shoes and over 20 sizes of men's shoes. So
12 to move production of a basic men's shoe that's
13 been in our line and is one of our top selling
14 shoes, we have to move the cutting dies, the
15 outsole molds, all of the lasts, all of the
16 equipment that's necessary to make 51 different
17 sizes of shoes.

18 And once we get a style going, we flow
19 that inventory in every single month from our
20 factories to fill -- refill the need -- the
21 demand that was pulled out in the prior month.
22 We plan our inventories four, five months in

1 advance, and our product is flowing on a regular
2 basis. So it's not just how do we set up a
3 factory to make shoes. That's possible. How do
4 we set up a factory to make 4,200 different skus,
5 different styles, colors, sizes, widths to keep
6 the flow going into our inventory.

7 And now with more and more of the
8 business being sold through the web channel where
9 our orders are coming from individual customers
10 one pair at a time. We used to get a few orders
11 for a lot of pairs. Now we get a lot of orders
12 for one pair at a time. We have to carry an
13 inventory across 4,200 skus, and to properly
14 manage that flow on a cost-effective basis with
15 our investment in inventory and the capital that
16 it requires, it would take -- we haven't done the
17 research, but easily it would take five to 10
18 years, as Marc explained what happened with his
19 Nine West business, to ultimately move all of our
20 production somewhere else should we find
21 someplace else that can manufacture the quality
22 with the labor force standards and the product

1 safety standards that we enforce, et cetera, the
2 things you heard from so many other witnesses,
3 and the capacity, which right now doesn't seem to
4 exist. Thank you for your question.

5 MR. FARISS: So first of all, I'd like
6 to thank everyone for coming to testify with us
7 today. And my -- I have a couple questions for
8 Mr. Rosenfeld. I know you said if, correct me if
9 I'm wrong, but I believe you said 94 percent of
10 Steve Madden shoes are manufactured in China, so
11 a large majority. For the other 6 percent, could
12 you tell us where they are manufactured and what
13 factors took you to those other places outside of
14 China?

15 MR. ROSENFELD: Sure. The primary
16 countries of origin other than China would be
17 Mexico, Brazil and Italy. And we also have a
18 little bit in India, a little bit in Vietnam and
19 a handful of other countries. But it primarily
20 had to -- the products that we elected to make
21 outside of China primarily had to do with the
22 types of products and where there's a specific

1 expertise in other country.

2 MR. FARISS: Okay. And then just one
3 more follow. So I know you said even for shoes
4 you make outside of China, you still get a large
5 chunk of the materials from China. Are there any
6 other potential areas or countries where you
7 could get the materials you would need, or is
8 that not feasible?

9 MR. ROSENFELD: At this time, no.
10 Obviously were a tariff to be put in place over
11 time, as everybody looks to move outside of
12 China, one would think that infrastructure and
13 ecosystem would be developed in other countries,
14 but right now it doesn't exist.

15 MR. FARISS: Okay. Thank you.

16 MR. BLAHA: Thank you. If I may, I'm
17 first going to have a follow up question for Mr.
18 Rosenfeld. Given kind of the -- your mention of
19 the different countries for which other types of
20 shoes are produced and the local expertise I
21 guess that was driving that, more broadly, are
22 there certain types of shoes within the

1 categories represented by the panel here that are
2 easier or harder to move, leather versus fabric
3 versus something else, or --

4 MR. ROSENFELD: Yeah. I can tell you
5 for us, you know, one of the things we have a
6 diversified brand portfolio, and we also have
7 this private label effort. And so that enables
8 us to sell into all the different tiers of
9 distribution, essentially from luxury all the way
10 down to mass.

11 And what -- we're much less concerned
12 about products that go to -- the products that we
13 make for Saks Fifth Avenue or Nordstrom or
14 Bloomingdale's. We can figure out for many of
15 those products other countries to source them in.
16 But as you move down the value chain, it became
17 -- it becomes increasingly difficult. And when
18 you're thinking about the products that we make
19 for Target and Walmart and retailers like that,
20 there really is no other viable alternative
21 outside of China. And anywhere we move the
22 products would result in significant price

1 increases.

2 So unfortunately, those are the
3 products that if this tariff is implemented would
4 see the biggest price increases to the consumer.
5 And of course, those are the consumers that are
6 the least able to afford it.

7 MR. BLAHA: Okay. Thank you. And I
8 did have a question for Mr. Harrison. I want to
9 make sure I understood some of your testimony
10 correctly. I think you mentioned like a \$4.00.
11 There would be a \$4.00 increase in the cost to
12 import if these tariffs went into effect, which
13 would increase the overall cost import of \$14.00.
14 I want to make sure I understand. Is there a --
15 is part of the issue here that you couldn't only
16 have a specific tariff on a per pair basis and a
17 25 percent value ad valorem tariff would, if I
18 understood, exponentially increase the amount of
19 tariff that you way. Is that an accurate
20 assessment here?

21 MR. HARRISON: I think, yes. All I
22 was trying to highlight was what it costs us now

1 to import one pair of shoes and then what the
2 increase would be were this tariff to go into
3 effect, that only affects the amount of money on
4 the tariff, obviously no other cost.

5 MR. BLAHA: Okay. Thank you. And
6 then I think we've heard some testimony regarding
7 perhaps short versus long-term kind of impacts of
8 these tariffs and also some testimony concerning
9 the, I guess, correlation between the import
10 price and the retail prices. How would the
11 proposed tariffs on footwear affect the retail
12 price for your product either in the short-term
13 or given your order structure or any kind of
14 seasonality concerns? Is there any flexibility
15 to negotiate then lower prices in the future?

16 MR. HARRISON: Well, I think as has
17 been said a few times this morning that one of
18 the things we're dealing with right now is the
19 just complete uncertainty of where things are
20 going. We worked with our biggest customer last
21 week, Dillard's, and we're selling them product
22 to deliver for fourth and first quarter next

1 year. And we're telling that we're trying to
2 figure out what prices to quote them. So in the
3 short-term, we're really faced with the decision.
4 Either we have to eat that amount if it comes to
5 fruition, or we have to pass it through to the
6 customer.

7 In the long run, certainly that amount
8 is going to be passed through to the retail
9 consumer because really for the last five or 10
10 years already because of the pricing pressures in
11 our industry, we've been squeezing our factories,
12 squeezing our supply chain to try to drive down
13 costs as much as we can. So there's really no
14 room to drive down costs anymore, both for my
15 suppliers and for myself. So over the long-term
16 that cost is going to flow 100 percent through to
17 the consumers as has been said many times.

18 MR. BLAHA: Okay. Thank you.

19 MR. HARRISON: Thank you.

20 CHAIR CHEN: If I could ask a follow
21 up question. Over the past year, the value of
22 the Chinese RMB has been dropping, and I was

1 wondering if you could comment on how that works
2 into your cost considerations.

3 MR. HARRISON: I would probably like
4 to do a little research and report back on that
5 in my written after the hearing if I may.

6 CHAIR CHEN: Thank you.

7 MR. FRATERMAN: Great. Thank you
8 again everyone for testifying. My question is
9 for Mr. Feiner. Obviously, you've talked about
10 the proposed tariffs on how they're going to be
11 taking effect to the retail price of the product.
12 Can you give us an estimate of how long it would
13 take for these new prices to come into effect,
14 just a guess?

15 MR. FEINER: Sorry, can you -- I want
16 to make sure I understand your question. Can
17 you --

18 MR. FRATERMAN: Of course. So I guess
19 how would the proposed tariffs on footwear affect
20 the retail price of your product, and how long do
21 you estimate it would take for those new prices
22 to come into effect?

1 MR. FEINER: Yeah, I mean I think it
2 really all depends on when those increased costs
3 are passed along to our retail customers. We
4 would certainly aim to do it as soon as those
5 products are affected, so my sense would be
6 somewhere around holiday of '19 would be when
7 consumers would start to feel the effect. But
8 come spring of 2020, they would absolutely feel
9 it in a significant way.

10 MR. FRATERMAN: Okay. Now obviously
11 there are a lot of different layered concerns
12 here. I guess in general is your concern about
13 the rising cost or is it relation to the other
14 competitors in the United States would you say?

15 MR. FEINER: Yeah, my concern is about
16 just the rising cost. In the short-term, it's an
17 incremental \$4 million. If it's 25 percent is
18 the number, it would be about -- we project on
19 the remaining products that we'd import over the
20 next six months, it would be about a \$4 million
21 bill. When I go to my customers to say hey, I'm
22 going to need to charge you X number of whatever

1 their proportionate amount is, most of them are
2 going to say sorry, that's your issue.

3 And so in the very short-term, that
4 threatens our financial viability for sure.
5 Longer-term, we're very mass driven as well, so
6 there is no capacity available. We've looked.
7 We've looked in Vietnam. We've looked in
8 Indonesia. We've looked in other countries.
9 Whatever remaining capacity is available, that
10 capacity goes to the Nikes and the others of the
11 world that are much more a higher margin, higher
12 profitability item for them.

13 So the concern is that the slippers
14 and flip flops and the kids' lighted shoes that
15 we make for mass customers, really there's a
16 strong chance that it goes to just direct
17 factories. We're sort of the middle man. We
18 leverage our design and our willingness to
19 fulfill and warehouse and do things for big
20 customers that they very much like. But given
21 their need to make margin and deliver shareholder
22 value and such, they're going to find their best

1 option, and we won't be that best option any
2 longer if these tariffs go into effect, so that's
3 really my longer-term concern.

4 MR. FRATERMAN: And just to -- just
5 one last follow up question as well, obviously
6 you've been able to gradually increase your staff
7 since the '80s again due to the layoffs going
8 overseas. Do you foresee any potential layoffs
9 here in the U.S., specifically with your business
10 or in the industry in general because of these
11 tariffs?

12 MR. FEINER: Yeah, absolutely. I
13 mean, again like the viability of our company
14 really is at risk, and so in the short-term
15 absolutely. We're going to have to find a way to
16 digest these incremental tariffs in the short-
17 term.

18 If we are able to survive, we would
19 absolutely have to reduce our scale and find some
20 ways to invest and find other countries, but
21 again, the concern -- I heard it in the last
22 panel -- is I don't know if the time is available

1 for us to -- it does take two to three years plus
2 to really do that. And could we weather the
3 storm the survive, and that's really the concern
4 I have.

5 CHAIR CHEN: Mr. Feiner, could you
6 address the question that I directed to Mr.
7 Harrison about the effect on costs on the
8 exchange rate of the RMB falling over the past
9 year --

10 MR. FEINER: Yes.

11 CHAIR CHEN: -- and if that trend
12 continues.

13 MR. FEINER: Sure. I mean the rates
14 have shifted. It has not shifted enough to
15 really impact things in a big way. We have sort
16 of handshake agreements with most of our Chinese
17 manufacturers that unless it moves 10 percent one
18 way or another, we don't really impact the cost
19 significantly that we pay for our goods. And
20 they haven't. They've ranged from 3 percent, 4
21 percent, 5 percent. So it hasn't gone within --
22 beyond that zone to really impact. And it

1 certainly wouldn't negate the 25 percent that
2 we're talking about.

3 CHAIR CHEN: Thank you.

4 MR. DEVINE: Hello. I have a question
5 for Mr. Fisher. You talked in your testimony
6 about your background in successfully finding and
7 developing alternative sources for footwear. And
8 I wonder if you can elaborate on what factors
9 contribute to a successful move and if there are
10 any characteristics of a country that make it
11 more likely to be a successful producer of
12 footwear.

13 MR. FISHER: That's a good question.
14 Back in the early '90s, we produced 100 percent
15 of our footwear in Brazil. And in 1992, there
16 was kind of a financial crisis with the cruzeiro.
17 That's the Brazil currency. A lot of factories
18 just didn't ship shoes. It was catastrophic for
19 a lot of people. So started to look for other
20 sources. Obviously, there's a lot of things that
21 factor in to where you can move shoes. Where do
22 you have the labor? Where do you have the

1 materials? Where do you have the infrastructure,
2 the ports to ship out of?

3 So when we moved in '92, we started in
4 Taiwan, and we started slow. We kind of learned
5 the process of working with the Taiwanese
6 factories. Those Taiwanese factories two to
7 three years later started opening factories in
8 Southern China. And the process is slow because
9 as you move production to factories, different
10 factories, you have to train these factories.
11 You have to teach them how to cut leather, or you
12 have to teach them how to product the shoes the
13 way we expect the quality to be.

14 So moving products, you just can't say I'm
15 going to move 5 million, 10 million pairs of
16 shoes. There's a lot of trial and error. You're
17 experimenting with factories you've never worked
18 with, and you're developing as everyone's been
19 talking today, relationships with those
20 factories. Can they make what you want? Can
21 they deliver on time? Can they, you know, can
22 they meet your expectations? It takes years to

1 kind of develop that.

2 Seven years ago, eight years ago is
3 another example. We went to Ethiopia to try to
4 make ladies' footwear. And we kind of hit every
5 obstacle you could hit from not even being able
6 to get the shoes here on a timely basis. It
7 would take two months to get the shoes from
8 Ethiopia to here because they just didn't have
9 the roads, the infrastructure to make the shoes,
10 that they have the labor force with the skills
11 required because shoes are very like, it's all
12 hand stitched and it's all hand labor.

13 So there's many, many factors to
14 consider when you choose a country, when you
15 develop how long it takes, it's a long process.
16 And we're in the process of moving now to several
17 different countries, and it just takes time. And
18 what we're all concerned about is what happens in
19 the short-term where a company likes ours, just
20 imagine in a three-month period where do we come
21 up with \$25 million to pay additional tariffs.

22 We may never have the time to say hey,

1 two years down the road we moved another 50
2 percent of production out of China because we may
3 not be here. So you've got to give us the
4 chance. It took us back in the '90s 10 years to
5 move, but we moved one company. We were in the
6 forefront. Today, you're moving an industry.
7 You're asking an industry to move.

8 And then on top of the shoe industry,
9 you have toys and multiple other products that
10 also you're asking to move, and they're all going
11 to move to the same places. And there's only so
12 many people that can make all this stuff. And
13 those countries just don't have enough people.
14 They don't have the labor force. So there are
15 many, many factors here to consider. It's not an
16 easy task to say we're going to move because
17 you're asking an industry to move. It's like me
18 saying this building, you have a beautiful
19 building. I need you to move this building
20 across the street tomorrow. Figure it out. Move
21 the building. It takes time. Give us time.
22 Give us notification so we all can get through

1 this process.

2 None of us are saying stop the trade
3 war. No one on this panel has said that in the
4 last hour. I think we're all kind of harmonious
5 in saying we need time to do what we need to do.
6 We respect what the administration is trying to
7 do. Give us time and the American consumer who
8 we sell doesn't deserve to pay more for any of
9 the products that -- I've been here all day, that
10 I've been listening because the American consumer
11 is going to pay more.

12 We're going to have to pass on these
13 increases if all of us want to stay in business
14 because none of us can sustain within our margins
15 to pay 25 percent more in tariffs. So we're all
16 going to have to pass on the cost to our
17 customers. Our customers are going to sell less
18 shoes. People like Mr. Ed Rosenfeld who
19 represents Steve Madden, they're going to have
20 less salespeople in their stores. Maybe they're
21 going to close stores. It's a domino. This is a
22 domino.

1 It's like lighting a match in
2 California, and the next thing you know you have
3 a forest fire. And none of us want that. None
4 of us want that. So I -- sorry for my time. I
5 apologize. I hope I answered your question.
6 It's not easy to make this move. We can do it,
7 but it's going to take time. Thank you.

8 CHAIR CHEN: Thank you, Mr. Fisher,
9 and I thank all the witnesses for their testimony
10 this morning.

11 MR. BISHOP: We release this panel
12 with our many thanks.

13 (Whereupon, the above-entitled matter
14 went off the record at 12:31 p.m. and resumed at
15 1:08 p.m.)

16 CHAIRMAN TSAO: Good afternoon.
17 Welcome back. We have new people on the
18 committee so at this time I will like to ask
19 everybody to -- the new folks to introduce
20 themselves.

21 My name's Arthur Tsao, USTR, Office of
22 General Counsel.

1 MR. O'BYRNE: Bryan O'Byrne, U.S.
2 Small Business Administration's Office of
3 International Trade.

4 MR. CROW: James Crow, Department of
5 State, Office of Trade Policy and Negotiations.

6 MS. HUANG: Jessica Huang, U.S.
7 Department of Commerce, Office of Trade
8 Negotiations and Analysis.

9 MS. MAIN: Ann Main, USTR, Office of
10 China Affairs.

11 MR. DEVINE: Andrew Devine, U.S.
12 Department of Agriculture.

13 MR. SULLIVAN: Matthew Sullivan, U.S.
14 Department of Treasury, Office of International
15 Trade Investment Policy.

16 MR. BURCH: Mr. Chairman, I would like
17 you to know all witnesses have been seated.

18 And our first witness on Panel 20 will
19 be Christopher Miner with Mobile Mini,
20 Incorporated.

21 Mr. Miner, you have five minutes.

22 MR. MINER: Thank you. Good afternoon

1 members of the Section 301 Committee. Thank you
2 for the opportunity to testify today. My name is
3 Chris Miner and I'm the Senior Vice President and
4 General Counsel of Mobile Mini.

5 I'm there to request the removal of
6 containers classified under Subheading 8609 from
7 the Tranche 4 tariff list.

8 As you know, these containers appeared
9 on the proposed Tranche 2 tariff list and this
10 committee, after a thoughtful investigation,
11 rightfully excluded these containers from the
12 Tranche 2 tariffs.

13 For the reasons the committee relied
14 upon last year and for the reasons set forth in
15 my testimony today, I respectfully request that
16 the committee reaffirm its previous investigation
17 and remove containers from the proposed Tranche 4
18 tariffs.

19 As the country's largest provider of
20 portable storage solutions, Mobile Mini leases 20
21 and 40-foot refurbished marine cargo containers,
22 also known as shipping containers, to government

1 agencies, retailers, construction contractors and
2 other small businesses in need of extra storage
3 at their location.

4 Businesses, government agencies and
5 the military all choose steel shipping containers
6 because of their increased durability and
7 security. With 97 percent of all steel shipping
8 containers being manufactured in China, obtaining
9 these containers from China is critical to the
10 U.S. portable storage industries.

11 Containers should be removed from the
12 Tranche 4 tariff list for three reasons. First,
13 imposing increased duties on containers will have
14 no effect on eliminating China's unfair trade
15 policies and practices.

16 Second, there is no current or
17 prospective shipping container manufacturing
18 industry in the U.S.

19 Third, U.S. small businesses and their
20 employees will disproportionately suffer the
21 economic harm from any container tariffs.

22 The Section 301 tariffs have been

1 proposed in part to prevent unfair Chinese
2 actions and practices regarding technology
3 transfer, intellectual property and innovation.

4 However, shipping containers do not
5 involve high risks of IP infringement or theft of
6 trade secrets. In fact, containers are built to
7 an international standard so they are identical
8 and able to be transferred from ship to train to
9 truck.

10 With a basic design and low-tech
11 manufacturing, shipping containers do not impact
12 U.S. leadership in high-tech manufacturing and
13 thus are unrelated to the administration's
14 important intellectual property goals.

15 These containers are produced with the
16 primary purpose of shipping goods to the rest of
17 the world. Containers are merely a byproduct of
18 Chinese goods manufacturing. They are not
19 produced for the purpose of being sold into the
20 U.S.

21 Once Chinese goods are transported to
22 the U.S. via these shipping containers, the

1 containers are typically offered for sale as a
2 secondary usage as potential portable storage
3 containers.

4 With both large and small U.S.
5 portable storage businesses purchasing used
6 shipping containers at U.S. ports and then
7 repairing, welding and modifying these used
8 containers for domestic use, there is no
9 comparable shipping container manufacturing
10 industry in the U.S.

11 As a result imposing tariffs on the
12 import of these used shipping containers will not
13 protect any U.S. manufacturing industry, which is
14 the primary purpose of the Section 301 tariffs.

15 Furthermore, the demand to manufacture
16 containers solely for portable storage is too low
17 for a manufacturing industry to suddenly emerge
18 in the U.S.

19 The vast majority of the U.S. portable
20 storage industry consists of small blue collar
21 businesses with less than 20 employees. These
22 employees typically include multiple truck

1 drivers and welders.

2 The proposed tariffs on these
3 businesses' only source of product will add a
4 significant cost burden on and potentially
5 strangle the finances of these small businesses.
6 Imagine running a small business where suddenly
7 your cost of goods go up 25 percent with no
8 alternative to get raw product.

9 As the cost to acquire their primary
10 product rises, portable storage companies will
11 have to cut costs by scaling back operations and
12 laying off employees in addition to passing these
13 higher costs on to the American customers,
14 typically other small businesses, government
15 agencies and the U.S. military.

16 This impact would reduce the overall
17 competitiveness of the portable storage industry
18 in the U.S. as small businesses struggle with the
19 financial burden of higher costs. Putting
20 American truck drivers and welders out of work in
21 order to protect an American industry that
22 doesn't exist does not make sense and runs

1 counter to the goals of punishing China for their
2 misdeeds.

3 At Mobile Mini we employ over 300
4 truck drivers and hundreds of welders and
5 painters among others who repurpose these used
6 containers. As our costs rise due to the
7 proposed tariffs, it's these blue collar workers,
8 a key component in our company, who may bear the
9 highest risk of layoffs as we are forced to
10 purchase less product for them to refurbish and
11 deliver.

12 Imposing tariffs on 20 and 40-foot
13 shipping containers will certainly not eliminate
14 any of China's unfair practices or provide the
15 protections for which Section 301 was designed.

16 Tariffs on shipping containers instead
17 would inhibit the growth of the portable storage
18 industry in the U.S. by disproportionately
19 harming small businesses and potentially
20 eliminating a significant number of U.S. jobs.

21 For the foregoing reasons, Mobile Mini
22 respectfully requests that the committee remove

1 containers classified under Subheading 8609 from
2 the tariff list. We appreciate the important
3 work this committee is doing and thank you for
4 the opportunity to share our views.

5 MR. BURCH: Thank you, Mr. Miner.

6 Our next panel witness will be William
7 Begley with Sea Box, Inc. Mr. Begley, you have
8 five minutes.

9 MR. BEGLEY: (Off microphone comments).

10 MR. BURCH: Will you please turn on
11 your microphone?

12 MR. BEGLEY: Ladies and gentlemen of
13 the committee, good afternoon. I am William
14 Begley, Director of Modular Buildings for Sea
15 Box, Inc. in East Riverton, New Jersey.

16 Sea Box is a United States small
17 business and we manufacture and supply steel
18 shipping containers, modified containers and
19 shelters to the federal government, primarily to
20 the Armed Forces under contracts with the
21 Department of Defense.

22 We employ 292 highly skilled men and

1 women at our four New Jersey manufacturing
2 facilities. Our products are used by the United
3 States warfighter throughout the world, including
4 Afghanistan and the Iraq war zones.

5 We also provide our products to
6 civilian agencies such as GSA, the VA, the FAA
7 and special units sold to the White House.

8 Sea Box respectfully requests that the
9 committee delete Subheading 8609 from the final
10 list of products subject to the additional 25
11 percent tariff.

12 As a small business government
13 contractor we would request -- we would be
14 required to pay higher prices for containers
15 sourced from China. But this isn't simply a
16 matter of economics. It affects our nation's
17 national security.

18 Our imported containers are the
19 building blocks which we produce these products
20 for the Department of Defense. We modify
21 containers to transport missiles, to protect
22 munitions. We make mobile medical hospitals to

1 heal the wounded and mobile machine shops to
2 repair military equipment in the field.

3 We also make shower and latrines that
4 are used by our troops in the field. We provide
5 modified containers used to recover, transport
6 and contain weapon-grade enriched plutonium,
7 rendering it useless to terrorists.

8 If the proposed 25 percent tariff is
9 applied, we will need to pass along these
10 additional costs to our primary customer, the
11 United States government.

12 The tariff would be collected by Sea
13 Box and deposited into the Treasury, after which
14 the government's purchasing agents would pay us
15 back the same 25 percent due to the price
16 increases.

17 With regards to the existing
18 contracts, small business government contractors
19 will suffer Under fixed price contracts we bear
20 all cost risks including this unforeseen 25
21 percent increase not originally in our quoting
22 matrices.

1 Small businesses which already have
2 multi-year, fixed-price government contracts
3 would be unable to recover the additional tariff
4 costs and could potentially lose hundreds of
5 thousands of dollars on just a single contract.

6 For example, if this tariff is
7 implemented, CBOCs would lose more than \$100,000
8 on the plutonium contract that I'd mentioned
9 earlier. This could lead some businesses to
10 reduce their workforce headcounts as a result of
11 the lost profitability in the profit margins.

12 U.S. government contractors of any
13 size could lose contract opportunities to foreign
14 manufacturers under the Trade Agreements Act's
15 provisions. Domestic contractors which
16 manufacture or substantially transform containers
17 which begin as basic Chinese containers will find
18 their increased price, bid price, is less
19 competitive against countries such as Turkey,
20 Estonia or South Korea.

21 Fewer American contracts equal fewer
22 American jobs. And more importantly, if this 25

1 percent tariff is imposed the government itself
2 will be significantly and adversely affected.
3 The government solicitations placed by our
4 military and civilian agencies for tens of
5 thousands of shipping containers will experience
6 a price increase of at least 25 percent.

7 Some military customers will not be
8 able to provide items they need because of the
9 unforeseen per unit cost increases and the
10 warfighter will suffer or could suffer.

11 In summary, if an additional 25
12 percent tariff is imposed on containers under
13 Subheading 8609, U.S. small businesses will win
14 fewer government contracts and will lose
15 significant dollars under their existing
16 contracts. This translates to fewer American
17 jobs.

18 Government agencies will ultimately
19 pay the increase on new contracts via higher
20 prices benefiting no one. Finally, national
21 security will suffer.

22 We urge that the committee consider

1 all of this and remove Subheading 8609 from the
2 list. Thank you very much for your
3 consideration. I'll look forward to answering
4 your questions.

5 MR. BURCH: Thank you. Thank you, Mr.
6 Begley.

7 Our next panel witness will be Allan
8 Klinge with the Klinge Corporation. Mr. Klinge,
9 you have five minutes.

10 MR. KLINGE: My name is Allan Klinge
11 and I am the owner and president of Klinge
12 Corporation, a small business in York,
13 Pennsylvania. I appreciate the opportunity to
14 appear before the Section 301 Committee to
15 address the proposed application of up to an
16 extra 25 percent duty on containers specially
17 designed and equipped for carriage by one or more
18 modes of transport classified in Subheading
19 8609.00.00 Harmonized Tariff Schedule of the U.S.

20 Today I'm going to address three
21 points. First I'm going to give you some
22 background on Klinge. I will then talk about why

1 an additional 25 percent duty will cause
2 disproportionate economic harm to Klinge, a small
3 business. Third, I will explain how imposing an
4 additional 25 percent duty to container and tank
5 bodies will potentially aid China's Made in China
6 2025 program.

7 Klinge Corporation is a small business
8 in York, Pennsylvania which manufactures
9 refrigeration, heating and power generation
10 systems for ISO-insulated container bodies and
11 tank containers suitable for use in intermodal
12 shipping and local storage.

13 The two other major U.S. manufacturers
14 of such equipment, which still constitute a very
15 large part of the market share, have already a
16 number of years ago moved their production to
17 Asia. But Klinge has maintained its production
18 in the U.S.

19 Klinge was recently awarded the
20 Eastern Pennsylvania Export of the Year Award by
21 the SBA. Depending on the mix of customers in a
22 given year, approximately 55 to 80 percent of

1 Klinge's sales are for export.

2 As part of its business model Klinge
3 imports insulated container bodies from China and
4 then outfits them with refrigeration, heating and
5 power generation systems for export. Klinge also
6 exports tank container refrigeration and heating
7 systems to overseas customers, mostly in China.

8 Klinge employs approximately 69
9 employees in the U.S. and has been a steady job
10 creator, growing U.S. employment by over 100
11 percent in the past ten years.

12 Klinge has contributed to the U.S.
13 economy by purchasing \$8.5 million of goods and
14 services from U.S. companies. In our most recent
15 fiscal year a recent analysis by the York County
16 Economic Alliance showed the impact of these U.S.
17 purchases was estimated to be more than 80 jobs,
18 \$5 million in labor income, \$8.6 million in value
19 added and \$17.5 million in output.

20 If Klinge is forced to substantially
21 raise prices it will likely lose market share to
22 non-U.S. companies as a result and that market

1 share will not shift to other companies which
2 manufacture in the U.S.

3 Insulated container bodies that Klinge
4 imports and onto which our equipment is installed
5 before final sales as a completed refrigerated
6 system are manufactured almost exclusively in
7 China. There are no U.S. producers of insulated
8 container bodies.

9 In our other major market tank
10 containers for bulk liquid transport, Klinge does
11 not buy the tank containers ourselves, but we do
12 support this market by selling tank container
13 refrigeration and heating solutions to the tank
14 container manufacturers directly, as noted, most
15 of these in China. Klinge is already competing
16 with other companies outside of the U.S. for this
17 business.

18 Klinge relies on the ability to
19 purchase insulated container bodies and also to
20 sell refrigeration and heating tank container
21 equipment to tank container manufacturers.

22 These overseas manufacturers would

1 also be adversely impacted by an application of a
2 tariff on these goods because the additional cost
3 would be passed on to Klinge's customers
4 overseas. This would then limit Klinge's export
5 market.

6 If additional duties covering
7 containers, including the tank bodies and the
8 insulated container bodies produced in China are
9 imposed, we submit that this remedy for the
10 underlying Section 301 violation will not have
11 the intended effect but will rather have negative
12 unintended consequences for at least four
13 reasons.

14 Number one, any losses, incidents and
15 increased duties will accrue to the U.S.
16 impacting U.S. profitability, investments,
17 employers and shareholders.

18 Number two, the increased costs that
19 will result from the 25 percent increase in
20 duties will likely cause Klinge to lose market
21 share to competitors that do not manufacture in
22 the U.S.

1 Number three, if Klinge or some of its
2 primary customers in China to which Klinge
3 exports a sizeable amount of its product, such as
4 the tank container equipment, are ultimately
5 forced to pay the duty for covered merchandise as
6 a result of the increased duties or to have to
7 pay retaliatory duties in China, which is already
8 occurring for us, U.S. jobs will be in jeopardy.

9 In very general terms a tariff on
10 containers, the means of conveyance itself for
11 the majority of goods around the world will mean
12 additional transportation costs, which will
13 further drive up the cost to consumers in the
14 U.S. in addition to any other product-specific
15 tariffs which may be levied, in effect a double
16 tax.

17 Klinge operates in an extremely
18 competitive market. Our most significant
19 competitors do not manufacture in the U.S. but
20 rather in other countries including China, the
21 Netherlands and Germany. They're not nearly as
22 invested in the U.S. as Klinge and many of the

1 equipment manufacturers, as I mentioned, have
2 already moved out of the U.S. of the type of
3 equipment that we produce.

4 Thus, not only will the proposed
5 duties help manufacturing in these other
6 jurisdictions, but the competitive benefit will
7 help Klinge's competitors and also provide
8 incentive for Klinge to move its own
9 manufacturing out of the U.S. and possibly even
10 into China.

11 Klinge's major customers are many
12 countries, but a sizeable export to China is part
13 of Klinge's business and therefore Klinge may
14 ultimately be forced to restructure its supply
15 chain.

16 The proposed tariffs will also reduce
17 Klinge's ability to compete with Chinese
18 manufacturers of containers and of container
19 equipment which would potentially aid China's
20 Made in China program.

21 In summary, companies that have not
22 contributed to the unfair acts of China should be

1 spared the adverse consequence that result.
2 Imposing duties on articles produced by companies
3 that did not contribute to the harm and which
4 will not likely impact Chinese government policy
5 is counterproductive.

6 Consistent with these principles we
7 request USTR remove containers classified under
8 Subheading 8609.00.00 and establish transparent
9 exemption exclusion process. Thank you for your
10 time and consideration and for your efforts on
11 behalf of the U.S. small business community like
12 mine.

13 MR. BURCH: Thank you, Mr. Klinge.

14 Our next panel witness will be Patrina
15 Neckles with Foison Packaging. Ms. Neckles, you
16 have five minutes.

17 MS. NECKLES: Thank you for having me
18 here today. I'm Patrina Neckles. I am the
19 operations, Vice President of Operations of
20 Foison Packaging. We are a FIBC manufacturer out
21 of China.

22 Foison Packaging was established in

1 2004 and currently employs 35 people at our
2 Tucker, Georgia facility and 23 people at our
3 Houston facility. Our employees range from age
4 27 to 52 and include recent graduates, young
5 adults, mothers, fathers and grandparents, most
6 of whom are primary earners and caregivers of
7 their families.

8 Our CEO and owner of our company is a
9 U.S. national who owns our factory in China and
10 which provides our U.S. employees and customers
11 stability that we stand strong in our
12 independence from government control in China.

13 We also own and supply our rights to
14 our 11 independent contractors throughout the
15 U.S. As a small business operating at a fixed
16 profit margin, the timely and efficient sourcing
17 of merchandise, FIBC, is critical to our survival
18 as an ongoing concern.

19 There are simply no alternative
20 sources for the quality and quantity of the
21 products we sell, significantly and specifically
22 our patented designs that are used by the bulk

1 loads for peanuts which are purchased by farmers,
2 growers, processors, blanchers, cold storages and
3 mills throughout the southwest and southeast of
4 the U.S.

5 As such, we vehemently oppose the
6 implementation and additional tariffs on imports
7 of our merchandise from China as the increase
8 would constitute irreparable harm. The company
9 is a manufacturer, importer and distributor of
10 flexible intermediate bulk containers, FIBCs
11 classified under 6305.32.00 of the Harmonized
12 Tariff Schedule of the United States, UST --
13 HTSUS, excuse me, currently rated at 8.4 percent.

14 FIBCs are industrial containers, bulk
15 bags made of flexible woven polypropylene fabric
16 designed exclusively for storing and transporting
17 dry products including soybeans, peanuts, rice,
18 sand, fertilizer, mulch, rubber, carbon black,
19 coal and clay, PVC also known as polyvinyl
20 chloride, sugar, flour, oats, beans, including
21 coffee beans, pharmaceutical chemicals and
22 industrial chemicals, pulp and grain.

1 All of these commodities are grown,
2 processed and packed in FIBCs within the United
3 States and traded or sold nationally and abroad.

4 A large percentage of Foison Packaging's
5 imported FIBCs are utilized by American soy
6 farmers throughout the entire Midwest.

7 During our nation's natural disasters
8 from climate change our company supplies the U.S.
9 government with FIBCs to be filled and stacked to
10 form protective walls along our nation's coast to
11 relieve the impact of floods in addition to being
12 stacked on the fields as protective barriers to
13 our United States military men.

14 At the peak of numerous natural
15 disasters, our company supplies FIBCs to multiple
16 supermarket chains to load and protect foods from
17 being destroyed when their areas are under
18 flooding or in line of being contaminated.

19 As a mother of a strong woman who is
20 battling cancer, I personally see the brands of
21 Foison Packaging's customers throughout our
22 hospitals, doctor's offices and office treatment

1 centers.

2 The company's products are unique in
3 that they also meet and exceed numerous industry
4 standards that are essential to health and
5 safety. But this also results in higher cost,
6 especially for FIBCs that are to transport foods
7 for consumption, our customers' factories
8 sell/trade their processed goods by the ton in
9 our FIBCs, in which one FIBC carries 2,205 pounds
10 of their raw goods.

11 To ensure compliance with industry
12 standards and expectations, Foison Packaging
13 supports and is an active member of the following
14 organizations: FIBCA, the Flexible Intermediate
15 Bulk Container Association; APC, American Peanut
16 Association; GMA, the Georgia Mining Association;
17 APSA, which is the American Peanut Shellers
18 Association; TCGA, Texas Cotton Gin Association
19 and Cotton.org.

20 We have devoted significant resources
21 perfecting the product specifications for the
22 intended uses of our FIBCs and to forming

1 international relationships by identifying,
2 working with and validating foreign suppliers to
3 ensure consistently safe and reliable products.

4 Compliance with demanding
5 specifications are paramount to functionality of
6 these articles as they are primarily utilized in
7 the food industry. Foison Packaging's
8 proprietary products are critical to the safe
9 packaging and transportation of merchandise in
10 domestic industries including life sciences,
11 agriculture, pharmaceutical, farming, peanuts,
12 soybeans, rice, cotton, et cetera.

13 Design, development certification and
14 testing prior to production involves a one to
15 two-year lead time prior to bring products such
16 as antibacterial FIBCs to the market. The FIBC
17 supplied by Foison Packaging are not products in
18 the United States but are essential to numerous
19 domestic industries and U.S. jobs, not only to
20 our company but throughout the supply chain.

21 As such, inferior products will be
22 imported, albeit from alternative sources,

1 jeopardizing quality, design, safety,
2 availability and cost to our American companies
3 and people.

4 It is important to note that the items
5 at issue are not those benefitting from Chinese
6 industrial policies such as China 2025 which
7 identifies, for example, new energy vehicles,
8 NEVs, as one of ten priority sectors.

9 Such policies are focused on
10 developing and acquiring advanced technologies
11 which raise concerns that foreign companies may
12 be vulnerable to unfair practices related to
13 technology transfer.

14 The Chinese government did not employ
15 any tactics or regulate or intervene in Foison
16 Packaging's sourcing or production operations in
17 China. It did not require or pressure the
18 company or its suppliers to transfer technology
19 to any particular entity.

20 The technology at issue is not
21 cutting-edge but rather labor-intensive and
22 controlled and not the types of items that are

1 subject to the policies the USTR is attempting to
2 address.

3 To the contrary, only the U.S.
4 consumer, domestic industries and workers will be
5 penalized by the assessment of increased duties
6 on these items. For the reasons set forth above
7 we respectfully request that the USTR remove
8 subheading 6305.32.00 HTSUS from the list of
9 products from China it is considering for
10 increased duties. Thank you for your
11 consideration and your questions.

12 MR. BURCH: Thank you, Ms. Neckles.

13 Our next panel witness will be James
14 Silver with the International Tank Container
15 Organization. Mr. Silver, you have five minutes.

16 MR. SILVER: Good afternoon and thank
17 you for the opportunity to testify today. My
18 name is James Silver and I am a member of and
19 appearing on behalf of the International Tank
20 Container Association, otherwise known as ITCO.

21 With 170 members worldwide, ITCO
22 membership is open to companies involved in the

1 tank container business including owners,
2 operators, shippers, manufacturers, repair shops
3 and inspection companies.

4 Seventy-five percent of ITCO's members
5 have operational entities in the U.S. and its
6 members control approximately 77 percent of the
7 current global fleet of over 600,000 tank
8 containers with a market value of more than \$6.75
9 billion.

10 ITCO's members portable tanks --
11 excuse me. ITCO members portable tanks,
12 intermodal tanks and IMO tanks all fall under
13 subheading 8609.00.00 and as such ITCO
14 respectfully requests removal of said line item
15 from the proposed 25 percent tariff from list
16 number four.

17 Tank containers are a means of product
18 containment only and are reusable stainless steel
19 pressure vessels with lifespans of up to 25
20 years. The tanks are designed to carry hazardous
21 liquid cargoes in domestic and international
22 service with quick interchange between ship,

1 truck and rail.

2 In my written testimony submitted on
3 the 17th, I describe to the commission how the
4 tank container is similar in market condition
5 development to the 53-foot trailer.

6 The similarities are important because
7 a thorough investigation was made by this
8 commission in 2015 of the 53-foot unit,
9 investigation number 731 TA514 and TA1250, where
10 it was determined that the establishment of an
11 industry in the United States was not materially
12 retarded by reason of imports of containers from
13 China, as well as proving that there was no
14 established production in the USA.

15 Similar to the 53-foot unit in the
16 study, the T-11 tank has become the established
17 industry workhorse. The T-11 can readily be
18 converted into a T-12, 13 or 14 extending the
19 range of products carried. These tanks make up
20 over 90 percent of the existing global fleet.

21 The T-11 tank is identical to the
22 53-foot container in terms of market development

1 and production where historically only two
2 domestic producers built any known quantity of
3 tanks and both ceased production more than 20
4 years ago.

5 At their combined peak of production
6 the American manufacturers could produce no more
7 than 600 tanks per year or less than one and
8 one-half percent of the current global demand.

9 Eighty percent of the current annual
10 production of nearly 45,000 tank containers per
11 year are produced in China, 14 percent are
12 produced in South Africa and the remaining
13 balance are manufactured in Europe.

14 The tank cost has been relatively
15 stable due to continued overcapacity and factory
16 growth in China where production capacity has
17 increased by another 50 percent last year alone.

18 The tank cost of goods sold is roughly
19 85 percent materials, 60 percent of which may be
20 sourced in the EU and 15 percent labor. This
21 cost breakdown ensures that the tanks now and in
22 the foreseeable future will continue to be built

1 outside of the USA either in China or in other
2 developing nations with low labor rates or in
3 countries with long-term currency devaluation
4 against the U.S. dollar.

5 With labor rates responsible for only
6 15 percent of the total tank cost, the potential
7 for U.S. manufacturing base has been eliminated.

8 Typical to the 53-foot dry freight
9 container in the study, the demand side of
10 factory production is limited to a small number
11 of buyers consisting of tank owners, operators
12 and shippers.

13 On the tank leasing side, ten firms
14 purchase the majority of the annual production
15 and currently control 42 percent of the total
16 global fleet. All ten are ITCO members and 90
17 percent maintain offices and staff in the U.S.

18 The top ten operators buy a percentage
19 of their fleet and lease the remaining tanks from
20 the tank owners. The top ten operators currently
21 own over 34 percent of the global tank fleet.
22 Eighty percent of the top ten operators are ITCO

1 members and also maintain offices and staff in
2 the U.S.

3 Most, but not all, of the top ten
4 owners and operators are multinational companies.
5 If the tariffs are placed on the containers only
6 the domestic-based small business owner and
7 operator would suffer.

8 The domestic-only U.S.-based owner and
9 operator would either buy fewer tanks, hurting
10 their downstream base of truckers, shippers,
11 maintenance shops and inspection companies due to
12 reduced volume or the increased cost of the
13 container would be factored into the cost of the
14 transported goods and would be passed along to
15 the consumer, ensuring that only the U.S.-based
16 owner/operator would become noncompetitive.

17 Since the tanks are instruments of
18 international traffic under the 1972 Customs
19 Convention on Containers, the multinational tank
20 owners and operators will continue to purchase
21 their tanks tariff free in direct competition
22 with the domestic U.S. company, the only

1 tariff-paying purchaser, much to the domestic
2 U.S. owners' and operators' detriment.

3 We ask the committee members to please
4 read ITCO's full written comments as well as the
5 53-foot dry freight container study, Publication
6 4536 from June of 2015, as this will show
7 sufficient and ample reason why the containers
8 listed under Subheading 8606.00.00 should be
9 removed from the proposed tariff list. Thank you
10 for your time and consideration.

11 MR. BURCH: Thank you, Mr. Silver.

12 And Mr. Chairman, this concludes all
13 witnesses' testimonies.

14 MS. MAIN: I have a question for Mr.
15 Miner from Mobile Mini, Inc.

16 MR. MINER: Yes.

17 MS. MAIN: In your testimony you state
18 that 97 percent of all steel shipping containers
19 are manufactured in China and that obtaining
20 these containers from China is critical to the
21 U.S. portable storage industry.

22 Later in your testimony you explain

1 that containers are merely a byproduct of Chinese
2 goods manufacturing and that once Chinese goods
3 are transported to the U.S. via these shipping
4 containers then the containers are typically
5 offered for sale as a secondary usage.

6 So I wonder if you could just explain
7 generally speaking are there not other shipping
8 containers coming to the U.S. that represent
9 manufacturing from other countries that are then
10 brought into the secondary market? Or are all of
11 those shipping containers that are brought in
12 from other countries with their manufacturers,
13 are they also all being manufactured in China?

14 MR. MINER: It's a great question.
15 They all are made in China. I would have said
16 100 percent are made in China although I've seen
17 some industry stats that say 97 percent.

18 I've been in this industry ten years.
19 Mobile Mini's been in business 30 years. We're
20 the largest portable storage company in North
21 American so we get approached by everybody to
22 purchase their containers. And I've never run

1 across or heard of a container manufacturer
2 outside of China. Everything's in China.

3 And if you're wondering about a U.S.
4 market there's really no U.S. trading or
5 reselling market. You know, they come, they get
6 sold at the port. We buy them. We go put them
7 on rent.

8 If we sell them it'll be to a farmer
9 who's going to put it in a field or someone's
10 going to one-off dead end destination. There
11 isn't really a U.S. trading of those. It's,
12 like, they come and you buy them at the port and
13 then they're gone.

14 And, you know, most of the leasing
15 companies that we lease them in the U.S. to
16 people we're running at 80, 85, 95 percent
17 utilization and the other leasers that buy them
18 at the port and then go lease them to Walmart and
19 the U.S. military and stuff. There aren't extras
20 to go buy.

21 So they come from China, they end up
22 here and then that's it. There's really nowhere

1 else to go to go buy them.

2 MS. MAIN: One more question. You
3 talked about the transformation work that your
4 company undertakes --

5 MR. MINER: Yes.

6 MS. MAIN: -- on these containers. Is
7 all of that transformation work undertaken in the
8 U.S.?

9 MR. MINER: Yes. Yes, all of our
10 operations are in the U.S.

11 MR. SULLIVAN: Thanks. I have a
12 question for Mr. Begley. It's always good to
13 meet someone else from the Garden State.

14 In your testimony you discuss the
15 importance of China as a source of shipping
16 container components and products. Could you
17 elaborate about the viability and challenges of
18 sourcing from outside of China and whether you've
19 had any experience either currently or previously
20 trying to source from outside of China?

21 MR. BEGLEY: Well, yes. It's the
22 container business that Sea Box is involved with

1 is we, of course, we're not in the shipping
2 business at all, we take products and turn them
3 into other things that we then sell to the
4 government or industry.

5 There is very little sourcing of the
6 component products outside of China. I mean,
7 there are factories in some trades agreement
8 countries that do manufacture, but it's at such a
9 small rate that you can't be competitive.

10 So the answer to that is is that we
11 can source product in other parts of the world,
12 but if you ever want to be competitive and win
13 the deal you have to go to China. I mean, the
14 difference between the price could be as much as
15 six times, three times, two times.

16 And it's just because of the volume of
17 -- there are capabilities to manufacture at such
18 rates that you can buy the components that make
19 the deal, -- will make it work for you, with
20 your bid.

21 MR. CROW: I have a question for Mr.
22 Klinge. Good afternoon. You mentioned that most

1 of Klinge's refrigerated container bodies and
2 tank container supplies are located in China and
3 there's not an adequate supply from the U.S. In
4 fact, you mentioned that there are no producers
5 in the U.S. or third countries readily available
6 to Klinge.

7 Can you expand on this and provide any
8 details about recent attempts to source
9 refrigerated container bodies from other sources,
10 third countries?

11 MR. KLINGE: Yes, sir, thank you. No,
12 that's a very good question and kind of ties in
13 directly with the previous one. The insulated
14 container bodies used for refrigerated transport
15 actually have an even smaller percentage.

16 I'm not aware of any manufacturers
17 outside of China for this type of application.
18 Typically they go hand-in-hand with the dry
19 freight or the steel container manufacturing.

20 And what has happened over the last,
21 you know, 40 to 50 years is that industry really
22 transformed from being one focused here in the

1 U.S. and Europe to one focused primarily in Japan
2 and Korea and then now primarily, as we've seen,
3 focused in China.

4 So the -- all the facilities for the
5 manufacturing of these, which is not a cheap
6 undertaking in and of itself to put a facility
7 like this up currently that we are aware of, are
8 in China at this time. So for us it's not really
9 even a possibility to go and try to do other
10 sourcing.

11 I would mention, you know, that there
12 was a major shipping company that recently a
13 portion of one of their companies tried to set up
14 manufacturing in South America, and it was
15 actually forced to close that facility based on
16 economic --- It wasn't economically viable for
17 them to support that. Even though they were
18 close to the product, excuse me, that they wished
19 to ship they found it's still economically not
20 viable to do that. And that was after, you know,
21 many, many millions of dollars of investment they
22 still were not able to make it work in that

1 respect.

2 So it's not only me seeing it but
3 there's some quite large companies that have also
4 made attempts at this as well, so --

5 MS. HUANG: My question is for Patrina
6 Neckles of Foison Packaging. You mentioned in
7 your testimony that there is a one to two-year
8 testing and certification lead time required to
9 bring products such as antibacterial FIBCs to
10 market. The suggestion here appears to be that
11 any antibacterial FIBCs produced outside of China
12 would need to go first through this testing and
13 certification process. Is this accurate?

14 MS. NECKLES: Yes.

15 MS. HUANG: Could you tell us what
16 percentage of your FIBCs are antibacterial FIBCs
17 that need to go through this testing procedure?

18 MS. NECKLES: I would say at least 70
19 to 80 percent of our bags or our FIBCs need to go
20 through that process. In the event of -- even if
21 it's not for food consumption of what the
22 contents will be, you're thinking of chemicals,

1 you're thinking of rubbers, you're thinking of
2 certain insulation that is used for your car.

3 If it's not congruent to fit in the
4 part that it's supposed to then it would then
5 cause a big issue with actually the, like, if
6 we're talking about motor companies.

7 Some of our customers they actually
8 provide the raw material to the motor companies
9 so when they put the moldings in if it's not
10 clean within the bag and it has any components or
11 strings, which we've heard before from other
12 competitors, or their reviews that that's, you
13 know, would cause an issue.

14 Or if you're thinking of
15 pharmaceuticals, if you're thinking about certain
16 chemicals, even if it's industrial, it needs to
17 be cleaned. So at least 70 to 80 percent of our
18 bags need to go through that process.

19 MS. HUANG: Thank you.

20 CHAIRMAN TSAO: Mr. Silver?

21 MR. SILVER: Yes.

22 MR. DEVINE: Sorry, I have a follow up

1 for Ms. Neckles. Can you explain how a farmer
2 would use this? Is it a single use product or
3 they can reuse it over and over again?

4 MS. NECKLES: Yes. It's a single use
5 product. Some of the smaller operations for the
6 farmers with, let's say, soybeans or peanuts,
7 they will reuse the bag maybe up to five times.
8 It's to a five to one ratio, safety ratio.

9 But most of them they will fill and
10 ship abroad so it's just a single use for them
11 for -- that's for all of the farmers basically.

12 MR. DEVINE: Thank you.

13 MR. O'BYRNE: Mr. Silver, in your
14 testimony you note the cost of production for
15 T-11 tanks is roughly 85 percent for materials
16 and 15 percent for labor costs. You then state
17 that because labor cost is 15 percent the
18 potential for an American manufacturing base has
19 been eliminated.

20 Could you provide some additional
21 insight into the total production costs by dollar
22 amount? That is, what is the monetary different

1 between producing a T-11 tank in China versus in
2 the United States, assuming there was U.S.
3 supply? Thank you.

4 MR. SILVER: Thank you. Just looking
5 at the labor alone you'd end up with a multiple
6 of about four times where you'd have a welder on
7 staff making roughly \$4,400 a month, give or
8 take. But your welder in China is making \$1,100
9 U.S. dollars a month equivalent.

10 So you're already underwater by that
11 ratio and that ends up increasing the cost of a
12 tank by almost 40 percent. So too much of a
13 burden to overtake and buy any market share.

14 And that's just looking at the labor
15 alone. That's not looking at the cost of the
16 investment of the facilities. So you'd have a
17 negative rate of return, a negative internal
18 return on the facility cost and you'd still be
19 underwater with the pricing of the container
20 upside down in the marketplace.

21 MR. FRATERMAN: Thank you to everyone.
22 Mr. Silver, just a quick follow-up question. You

1 said the cost breakdown, obviously hearing the
2 4,400 versus the 1,100 for the welders being one
3 specific case, I have a two-part question.

4 Is there any type of labor that can be
5 done specifically in the U.S. that we can focus
6 here that we can expand on? And do you foresee
7 any potential circumstance for us to bring
8 specific labors like the welders that you had
9 just mentioned, back to the U.S.?

10 MR. SILVER: The only opportunity
11 would be in the components, which would be the
12 valves. But those are not built in China.
13 They're actually built in the United Kingdom, and
14 so there is a premium price because they're
15 stainless steel but the manufacturer does
16 actually have representation here in the U.S. and
17 supplies the U.S. market and employs U.S.
18 citizens as well.

19 But the primary manufacturing base or
20 the primary supplier is, for these valves in
21 particular, which is where the higher dollar
22 items come from, are actually based in the UK and

1 in France.

2 MR. FRATERMAN: Thank you.

3 MS. MAIN: One more question. In your
4 testimony you state that tank cost has been
5 relatively stable due to continued overcapacity
6 and factory growth in China, where production
7 capacity has increased by another 50 percent last
8 year alone.

9 Could you elaborate on that a bit?
10 This idea of overcapacity would seem to suggest
11 that, you know, if China were to come back to
12 more normal production patterns that it could
13 increase the potential for production in other
14 countries for them to become more competitive.

15 MR. SILVER: From our standpoint we
16 see them competing internally heavily against
17 themselves, so we've had one manufacturing plant
18 double their production line and another factory
19 do a completely new startup last year that can
20 produce 20,000 tanks.

21 And so 15 years ago, 20 years ago had
22 we attempted this maybe we could have maintained

1 some market share, but there are too many
2 builders and too many players in China.

3 What they're looking for now is
4 they're actually moving to lower cost centers
5 because if you get around Shanghai your labor
6 rates are a little higher versus other parts of
7 the country.

8 So they're actually relocating some of
9 these plants as we speak to try to just, you
10 know, keep the cost of labor down because that's
11 their really only variable.

12 So there's not going to be a slowdown
13 of the construction in China on these tanks and
14 on the containers. It's just an assembly line of
15 shops that are set up maybe nearly a mile long on
16 a production run and we just don't have the
17 capability to step in and finance it to build
18 something like that. So in the economies of
19 scale they're winning that battle.

20 MS. MAIN: Thank you.

21 MR. SILVER: Yes.

22 MR. BURCH: Mr. Chairman, we release

1 this panel with our thanks.

2 And would all the panel witnesses for
3 Panel 21 make their way forward?

4 (Pause.)

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

7 CHAIRMAN TSAO: We have a new member
8 joining the committee. I will ask him to
9 introduce himself.

10 MR. RICE: My name is Jim Rice. I'm
11 from the Industry and Analysis Unit of the
12 Commerce Department.

13 CHAIRMAN TSAO: Great, thank you.
14 We're ready to begin.

15 MR. BURCH: Our first witness for this
16 panel would be Matthew Whalen of Intex Recreation
17 Corporation.

18 Mr. Whalen, you have five minutes.

19 MR. WHALEN: Thank you. Good
20 afternoon. I'm here making comments on behalf of
21 Intex Recreation Corp., which is located in Long
22 Beach, California. The company has been in the

1 business of distributing consumer products for
2 over 50 years.

3 Intex's above-ground pools and spas
4 are storable and are typically used by families
5 for entertainment, relaxation, and exercise
6 during warm weather months.

7 Intex's storable pools are typically
8 imported as a kit which include the pool, a
9 ladder and a filter pump. These storable pools
10 have retail prices that typically range from \$150
11 to about \$1,000.

12 As storable pools are sold for
13 significantly less than in ground pools or
14 permanent above-ground pools, they appeal to a
15 more price-sensitive consumer that is seeking a
16 budget friendly option for heat relief, aquatic
17 exercise and overall family fun.

18 Mentioning the top three states for
19 sales of above-ground pools are Texas, Florida
20 and Ohio.

21 Intex also imports a broad range of
22 airbeds, all of which are designed to be placed

1 on the floor in the home or on the ground outside
2 when in use. Intex's airbeds provide a
3 structural stability and level of comfort for the
4 user that is similar to that of a traditional bed
5 at a fraction of the cost.

6 Airbeds are used as both permanent and
7 temporary sleeping solutions by everyday American
8 consumers, many of whom cannot afford the high
9 cost of purchasing a traditional mattress. U.S.
10 sales of airbeds are in the tens of millions of
11 units per year, with the average selling price of
12 about \$29.

13 Consumers use these beds for camping,
14 kids' sleepover parties, a guest bed for
15 out-of-town guests who can't afford hotel
16 accommodations, additional sleeping space in
17 hotels, vacation rentals and at resorts while on
18 vacation, as a transitional bed for military
19 service members, and a place for Americans to
20 sleep that are forced from their homes due to
21 natural disasters like hurricanes.

22 Indeed, Intex has donated thousands of

1 airbeds to U.S. states and territories that have
2 experienced natural disasters, including
3 Houston's recent Hurricane Harvey.

4 These everyday Americans are of modest
5 means so an airbed fills a critical need. The
6 top 11 states for per capita sales of airbeds are
7 Ohio, New Hampshire, Oklahoma, Nevada, Arkansas,
8 Texas, Arizona, Kentucky, South Carolina and
9 Florida. Note that nine of these eleven states
10 were won by President Trump in 2016.

11 Storable pools and airbeds are
12 available only from China. There is no practical
13 alternative source of supply in the United States
14 or elsewhere for these particular products or
15 comparable products.

16 Imposing any additional Section 301
17 duties on storable pools and airbeds will not be
18 practical or effective in obtaining elimination
19 of the acts, policies and practices of China
20 identified by the USTR.

21 Specifically, one, Intex has not been
22 subject to any foreign ownership restrictions or

1 administrative review to require or pressure it
2 to transfer technology.

3 Two, Intex has not been subject to any
4 discriminatory licensing requirements by China.

5 Three, in Intex's experience, China has not
6 unfairly sought to acquire U.S. companies or
7 their assets so that cutting-edge technologies
8 and/or intellectual property will be transferred
9 to Chinese companies.

10 And four, Intex is unaware of any
11 instances in intellectual property theft with
12 respect to its production of storable pools and
13 airbeds in China.

14 Intex is not aware of any domestic
15 industry that will be protected by the USTR
16 refusing to grant the requested exclusion from an
17 additional 25 percent Section 301 duties on
18 storable pools and airbeds.

19 If USTR excludes the eight-digit HTSUS
20 subheadings as requested such exclusions will be
21 narrowly tailored as the eight-digit subheadings
22 provided for the subject goods by name. The

1 provisions at issue are not basket provisions.

2 Intex works diligently to offer its
3 customers quality, durable products at an
4 affordable price. Intex business is highly
5 price-sensitive as it sells to every major U.S.
6 retailer. There is simply no way to avoid
7 raising retail prices if any additional Section
8 301 duties are imposed.

9 As a result, the imposition of any
10 additional tariffs will cause Intex and its
11 customers to lose significant sales and it will
12 unfairly penalize middle class Americans, a
13 significant percentage of whom already struggle
14 to make ends meet.

15 Thus, the tariffs would be extremely
16 disruptive to U.S. consumers. Thank you.

17 MR. BURCH: Thank you, Mr. Whalen.

18 Our next panel witness will be Brent
19 Merriam with NEMO Equipment, Inc. Mr. Merriam,
20 you have five minutes.

21 MR. MERRIAM: I'm Brent Merriam, the
22 Chief Operating Officer for NEMO Equipment. I'm

1 pleased to be here on behalf of NEMO and the
2 Outdoor Industry Association to provide testimony
3 on the impact of the proposed tariffs of up to 25
4 percent on outdoor companies and their products.

5 NEMO Equipment is a privately owned,
6 founder-led brand of outdoor gear and accessories
7 based in Dover, New Hampshire. We currently
8 employ 30 people in good-paying U.S. jobs that
9 require a variety of professional skills.

10 Over the last five years, NEMO has
11 grown annually by more than 25 percent in an
12 industry that's growing at about 2 percent per
13 year.

14 All product design and engineering are
15 done at our New Hampshire headquarters, but we
16 utilize a global value chain for the manufacture
17 of our products, including some production with
18 longstanding high quality manufacturing partners
19 in China.

20 Outdoor recreation is a powerful
21 economic driver in the U.S. responsible for \$877
22 billion in consumer spending and 7.6 million

1 American jobs.

2 Increasing tariffs on outdoor products
3 simply raises costs, stifles innovation and U.S.
4 job growth and puts pricing for outdoor gear out
5 of reach of many consumers.

6 Outdoor products already face import
7 tariffs of about 14 percent on average with some
8 as high as 37.5 percent.

9 NEMO supports the administration and
10 its efforts to negotiate an agreement with China
11 that will address longstanding concerns about
12 China's industrial policies and protect U.S.
13 intellectual property.

14 However, we are concerned about the
15 adverse impacts of the proposed tariffs on U.S.
16 consumers and small and medium-sized outdoor
17 businesses.

18 NEMO's line of camp chairs,
19 representing about 10 percent of our overall
20 business, was impacted by the Round 3 tariffs.
21 The recent increase in there tariffs to 25
22 percent is having a negative impact on our bottom

1 line, costing NEMO more than \$120,000 on goods
2 shipped to support our fall 2019 business.

3 For now, we have elected to absorb the
4 cost increases without passing them along to our
5 customers, as higher prices would be a deterrent
6 to purchase, slowing the pace of sales and
7 engendering customer dissatisfaction.

8 With our proposed Round 4 tariffs
9 looming, we have diverted our limited resources
10 to finding alternative sourcing for sleeping
11 bags, tents and sleeping pads, a difficult task
12 for some product categories.

13 In the case of down sleeping bags,
14 98.9 percent of all imports are from China.
15 Although there is some domestic manufacturing of
16 down sleeping bags, ultimately, there are very
17 few viable alternative sources outside of China,
18 which is where the infrastructure and expertise
19 are to meet consumer demand and expectations for
20 price and quality.

21 Developing alternative sourcing is an
22 ongoing research challenge for NEMO. Instead of

1 focusing our limited resources on developing new,
2 innovative products for future product lines, we
3 have been spending significant effort on
4 duplicative tooling and new vendor and raw
5 material evaluations.

6 Being forced to move away from trusted
7 manufacturing partners and quickly replace them
8 with new, unproven manufacturing resources
9 exposes NEMO and our customers to the risks of
10 quality issues.

11 The suddenness of the announcement of
12 the proposed Round 4 tariffs gives companies very
13 little time to develop alternate sourcing, adjust
14 pricing or otherwise make changes in their supply
15 chains to mitigate the financial impacts of the
16 tariffs.

17 Should the proposed tariffs be enacted
18 on the product categories that NEMO currently
19 manufactures in China, NEMO will pay more than
20 \$470,000 to support its Fall '19 business.

21 Without significant changes in our
22 supply chain and/or increasing pricing to our

1 customers, NEMO would be forced to pay more than
2 \$1.6 million in additional tariffs in 2020,
3 wiping out most of the profit we may have
4 forecasted.

5 Such a financial blow would be
6 devastating to our business, resulting in a
7 significant diversion of resources and forcing
8 difficult choices about hiring, workforce and
9 investment, hampering our growth.

10 The unintended consequences of the
11 proposed tariffs are adverse and significant,
12 particularly for small and medium-size U.S.
13 companies such as NEMO.

14 We respectfully request to have
15 several harmonized tariffs classifications
16 omitted from the final Round 4 list. These
17 classifications related to tents, sleeping bags
18 and sleeping pads, the core of NEMO's business,
19 and product categories for which there is no
20 commercially significant domestic production.

21 We urge the administration to resume
22 negotiations with our Chinese counterparts and

1 conclude an agreement which includes removing
2 these punitive tariffs immediately and refraining
3 from imposing any additional tariffs.

4 I'm grateful for the opportunity to
5 appear at this hearing. Thank you for your
6 attention to this important issue. I welcome any
7 questions.

8 MR. BURCH: Thank you, Mr. Merrier.
9 Our next panel witness will be Athena Ai from
10 Real Flame Company, Incorporated. Ms. Ai, you
11 have five minutes.

12 MS. AI: Thank you. Good day,
13 committee members and staff. Thank you for the
14 opportunity to appear at today's hearing.

15 I'm Athena Ai, Global Associate
16 Director of Real Flame Company, a corporation
17 based in Racine, Wisconsin.

18 I'm here to respectfully request that
19 administration exclude propane and outdoor fire
20 tables in column Imported from China, under
21 subheading 7321815000 HTSUS from the forced
22 change of Section 301 tariffs.

1 Real Flame is a family-owned
2 wholesaler of a wide range of indoor and outdoor
3 fireplaces as well as some other outdoor
4 products.

5 Real Flame's parent company, KSP,
6 Group, Inc., also owns two domestic manufacturing
7 concerns, Jensen Metal Products, Inc., and Jensen
8 Casting, Inc., which, altogether, employ about
9 140 people.

10 We're helping American manufacturing
11 for more than 90 years and are proud of our
12 American-made products. For years, Real Flame
13 made its product in the United States. However,
14 pressure by market demands were first sourced in
15 Mexico, then began developing business venture in
16 China, beginning 2002.

17 For us, this is really a truly a
18 balancing act to ensure we can keep our business
19 going and continue supporting our customer and
20 all of our hard-working employees.

21 Real Flame first began selling
22 ventless gel fuel fireplaces for more than 30

1 years. Over the years, we have grown beyond gel
2 fueled fireplaces to offer electric, propane and
3 natural gas fireplaces as well as many USA wood-
4 burning units.

5 New idea and design have been and
6 always will be an important part of what we do.
7 We were the first to market with gel fuel
8 fireplaces and we still design all of our
9 products, launching a number of innovative styles
10 and product lines that continue to resonate in
11 the U.S. marketplace.

12 Our business growth is based on a
13 group of dedicated team members in the U.S. who
14 handle and oversee everything from innovation to
15 product design to engineering, manufacturing and
16 on the road sales.

17 I plead for your sincere understanding
18 that the imposition of Section 301 tariff on
19 propane and outdoor fire table columns importing
20 from China would hurt our business tremendously.

21 Real Flame sells this product
22 exclusively from China, unlike a company that buy

1 widgets and such off the shelf in China, Real
2 Flame has invested heavily in developing
3 manufacturing facilities and production lines
4 that will maintain Real Flame's high safety
5 standard.

6 Since 2005, our product design team
7 has made numerous trips to China and put our
8 exclusive product line together. This is a very
9 time and resource-intensive product line for Real
10 Flame.

11 We spent years in staffing a liaison
12 office in Dongguan, China to oversee operation
13 ranging from product development to prompter
14 shipments.

15 As a company specializing in home
16 fireplaces and fire-related products, safety is
17 paramount to Real Flame.

18 We spent eight year and more than a
19 half million with various certification agency
20 including UL, ETL and CSA. We worked in tandem
21 with this laboratory to ensure the factories were
22 in compliance with our setup and safety standards

1 and procedure under internationally recognized
2 propane and natural gas approval certification.

3 Real Flame also worked with a group of
4 professionals to work on burners and other design
5 and product development to maintain the high
6 consumer safety requirement for this custom line
7 of product.

8 Each product needs to be manufactured
9 in a factory that passed regular safety audits.

10 Real Flame's safety audit is a tailor-made
11 program in assessing a facility's quality control
12 systems, workplace environment and the capability
13 in keeping with the standards set by industry
14 authorities.

15 Consequently, we cannot easily
16 establish or reach out to new manufacturing
17 facility outside of China for such product. Yet
18 propane, in the other table, column under
19 Subheading 7321815000 becomes subject to a 25
20 percent tariff, Real Flame will suffer
21 significant reduction in margin of this product
22 resulting in a dramatic reduction in

1 profitability and, at times, resulting in monthly
2 losses due to the seasonality of the effective
3 item.

4 The product comprises approximately 18
5 percent of Real Flame's annual sales. Real Flame
6 is the largest division by a profitability and
7 the main sales driver of KSP Group, Inc.

8 The increased costs associated with
9 the Section 301 tariff would cause sales in the
10 key product line to suffer which, in turn, would
11 negatively impact our entire business.

12 Lost sales and low-profit margin would
13 have an adverse effect on the lives of the 140
14 American associates employed full-time by a
15 company in the U.S.

16 Moreover, the increased cost in lost
17 sales revenues would severely impact the
18 company's ability to purchase product at the
19 levels needed to meet our custom demands,
20 resulting in strained or even terminated customer
21 relationship.

22 Real Flame has already faced a

1 significant reduction in profit margin from other
2 key products being covered by Section 301,
3 Tranche 3 Tariffs. This product include metals
4 in electric firebox and outdoor furniture.

5 Real Flame is just a family-owned
6 American company that does not have stronger
7 financial resources necessary to keep bearing all
8 of the losses in profit caused by the Section 301
9 tariffs.

10 This is why, today, I want to stand
11 here and respectfully request that we will not
12 see the only remaining major product that we
13 import from China that is now already subject to
14 Section 301 tariffs including on the Tranche 4
15 list.

16 Again, thank you for letting me
17 present this testimony.

18 MR. BURCH: Thank you, Ms. Ai. Our
19 next panel witness will be John McLemore with
20 Masterbuilt Manufacturing. Mr. McLemore, you
21 have five minutes.

22 MR. MCLEMORE: Hi. I'm John McLemore,

1 co-owner and executive vice president of product
2 strategy of Masterbuilt Manufacturing and Kamado
3 Joe. Thank you for your attention and allowing
4 me to testify.

5 Masterbuilt and Kamado Joe produces
6 outdoor grills, smokers and other cooking
7 products. We lead the outdoor cooking industry
8 and have been a successful business, in our
9 family, for nearly 50 years.

10 We sell products worldwide to
11 consumers to grill, smoke and enjoy entertaining.
12 Here in the U.S., we have offices located in
13 Columbus, Georgia and Atlanta, Georgia.

14 The majority, in fact, most all of our
15 products sold by Masterbuilt and Kamado Joe were
16 covered by these proceedings as our products are
17 manufactured in China.

18 Our top products were previously
19 covered by List 1, 2 and 3. We have analyzed our
20 product assortment and determined that a
21 substantial portion of our complete list of
22 products are subject to this proposed

1 supplemental action with these additional tariffs
2 of up to 25 percent.

3 As you will see in my report,
4 Masterbuilt and Kamado Joe request the removal of
5 specific codes including, but not limited to the
6 list in your report.

7 Much like I testified to this
8 committee last August, we had HTS codes that were
9 on the previous list, and I continue to request
10 that you do not impose the additional tariffs.

11 If our companies are subject to these
12 increased tariffs in this immediate time frame,
13 it will be very difficult for us to survive in
14 our industry.

15 To move products of these affected
16 products outside of China will simply take time.
17 You may recall, I expressed my concerns at this
18 previous hearing that these increased tariffs
19 will, if they were implemented, for our business,
20 it would force layoffs of our employees in
21 Georgia.

22 We had a small layoff in the fourth

1 quarter of last year as a result of some economic
2 conditions but also because of these tariffs.
3 Unfortunately, we had to go forward with two
4 additional layoffs that were specifically related
5 to these tariffs because they were too quick and
6 too high for us to absorb.

7 These reductions were a direct
8 correlation to the decrease in our margins that
9 we experienced because of these tariffs. The
10 decline in our margins are due to the requests
11 that we have received from our customers
12 demanding that we absorb additional costs
13 associated with these tariffs.

14 We have also seen a slowdown at retail
15 sales due to the increase at the retail level.
16 We continue to be concerned that if we are forced
17 to move production to the U.S. or any other
18 country other than China, it would take us at
19 least two to three years to complete that
20 transaction -- or that transition.

21 The mere transition in shifting
22 sources to other countries will increase costs

1 which will be passed along to our customers. If you
2 must implement additional tariffs, we would ask
3 and request that you impose them with a tiered
4 approach.

5 For example, we would recommend that
6 the additional tariffs be a 5 percent increase
7 for the first year of 2019, maybe 7.5 in 2020 and
8 10 percent in 2021 to allow us to plan.

9 Finally, we are all concerned about
10 the strength of our United States economy, and we
11 understand that something must be done. I have
12 personally seen how it affected my company and
13 that I've worked in for the past 46 years.

14 We simply could not react quick enough
15 for us to survive. We all must pass some of
16 these additional costs to our consumers, and it
17 simply slows down sales. And we need time -- and
18 it needs to be a reasonable amount, and it needs
19 to be over, again, enough time.

20 This affects every American consumer.
21 To conclude, we do not know what this extent is
22 going to do in negatively impacting our economy

1 as there are thousands of HTS codes and countless
2 products that affect all the consumers every day.

3 So we respectfully oppose the proposed
4 additional tariffs and ask that you would not
5 move forward with this proposed action. Thank
6 you for your time, and I look forward to your
7 questions.

8 MR. BURCH: Thank you, Mr. McLemore.
9 Our next panel witness will be Kurt Wilson of
10 Exxel Outdoors. Mr. Wilson, you have five
11 minutes.

12 MR. WILSON: Thank you. Members of
13 the Committee, I am Kurt Wilson. I am vice
14 president of manufacturing at Exxel Outdoors.
15 Thank you for the opportunity to appear here
16 today to save my manufacturing plant from closure
17 in Haleyville, Alabama.

18 At Exxel Outdoors, we manufacture non-
19 down sleeping bags and are the only manufacturer
20 of mass market commercial sleeping bags in the
21 country.

22 I'm also proud to say we are the

1 employer of choice in Haleyville as we offer a
2 great facility to work and provide good salaries
3 and benefits.

4 In fact, when Exxel purchased this
5 American plant from Brunswick, who was closing it
6 in 2000, we hired back its laid-off workers,
7 saving good jobs that would have otherwise gone
8 to China or Bangladesh.

9 Instead, we took the risk of
10 expanding, creating more jobs, even more so than
11 what was there when we purchased it from
12 Brunswick.

13 Additionally, we have a newly
14 developed military sleep system department which
15 manufactures and sells very compliant sleeping
16 bags to the United States military which has
17 brought even more jobs back to Haleyville.

18 Currently, we remain competitive by
19 sourcing from China a stuff sack used to store
20 and transport the sleeping bag and the manmade
21 fiber outer shell of the bag.

22 The parts are imported under HTS

1 Subheadings 42029231 and 63079098 respectively.
2 The new 25 percent tariffs on Exxel's imports
3 will give a huge cost advantage to our
4 competitors in Bangladesh and Cambodia and
5 further encourage additional foreign suppliers to
6 enter the market.

7 In the mass marketplace, the profit
8 margins are razor-thin. Our factory cannot absorb
9 anywhere near a 25 percent disadvantage compared
10 to Bangladesh and Cambodia.

11 To be absolutely clear, the proposed
12 25 percent tariffs on our raw materials from
13 China, which are required to produce our U.S.
14 sleeping bags, will force us to shut down our
15 factory immediately and permanently.

16 Exxel's U.S. plant produces opening
17 price point sleeping bags that compete -- compete
18 with Chinese, Bangladeshi and Cambodian
19 manufacturers. We compete head-to-head with
20 these countries, these nations.

21 We use the very same materials that
22 our competitors in China, Bangladesh and Cambodia

1 use. The big difference will be, if you impose
2 the Section 301 tariffs, our competitors in
3 Bangladesh and Cambodia will not pay the extra 25
4 percent tariff on their raw materials, which will
5 price us out of the mass retail market.

6 Our understanding is that Bangladesh
7 and Cambodia use free zones, so they pay no
8 tariffs on the same raw materials from the same
9 Chinese mills that supply Exxel, let alone an
10 additional tariff of up to 25 percent.

11 Our U.S. sleeping bags are dependent
12 on these raw materials from China because these
13 materials are not and cannot be made in the
14 United States. That is why these raw materials
15 were included in the last Miscellaneous Tariff
16 Bill enacted by Congress.

17 The closure of our plant would
18 directly cause the loss of many good jobs that
19 support families and communities and would harm
20 the economy of Haleyville and the region where 29
21 percent of the people are already living at the
22 poverty level.

1 Shuttering our factory will also
2 reduce revenues and harm jobs at our numerous
3 U.S. raw material suppliers in various states. I
4 ask that you remove both of these subheadings
5 from the final list of items facing an increase
6 in tariffs.

7 If the Committee considers that it
8 cannot remove the whole 8-digit subheadings,
9 there is another solution that has already been
10 effectively vetted.

11 In the Miscellaneous Tariff Bill
12 process in 2018, 10-digit breakouts were created
13 for the relevant products, and the breakouts can
14 be used again here to remove these products from
15 List 4.

16 As the Committee well knows, by
17 including these products into MTB, the
18 administration and Congress recognize the
19 importance to domestic sleeping bag manufacturers
20 of having access to duty-free components that are
21 not available in the United States in order to be
22 competitive with intense import competition from

1 low-cost Asian suppliers.

2 In our public comment filed on June
3 17, we cite the necessary language that would
4 facilitate such a breakout. We deeply appreciate
5 this administration's support for U.S.
6 manufacturing.

7 In the case for Exxel's U.S. factory,
8 however, these tariffs would actually undercut
9 that effort. These HTS numbers account for a
10 tiny fraction of the total amount of China's
11 exports to the United States.

12 Imports under the narrow MTB
13 definitions would even be less. China will
14 export the same volume of materials. The only
15 question is, will those materials be made into
16 sleeping bags in Alabama or in Bangladesh and
17 Cambodia?

18 Before coming to Washington, I looked
19 in the face of all of my associates and
20 colleagues and I told them that I thought the
21 government would do the right thing for U.S.
22 manufacturing.

1 I hope you will. Thank you for the
2 time. And I'm happy to answer any questions.
3 Thank you.

4 MR. BURCH: Thank you, Mr. Wilson.
5 Our next and final witness will be Mark Proffitt
6 with MECO Corporation. Mr. Proffitt, you have
7 five minutes.

8 MR. PROFFITT: Thank you. My name is
9 Mark Proffitt, and I'm the president of MECO
10 Corporation in Greenville, Tennessee. I'm here
11 again to testify in support of the
12 administration's proposed 301 actions and the
13 proposed 25 percent ad valorem duty to be
14 imposed.

15 Since charcoal grills was left off the
16 tariff list in Round 2, it's imperative to MECO
17 that charcoal grills would be included in the
18 next round of products on which the duty is
19 imposed, especially since the previous round
20 included both gas and electric.

21 In Greenville, we produce charcoal
22 barbeque grills, which is the core of our

1 business, except for two components: cooking
2 grids and leg kits. We manufacture substantially
3 all of the components for our grills in our
4 Greenville facility.

5 The Austin family started MECO 63
6 years ago with the goal of creating year-round
7 employment in semi-rural Tennessee because our
8 founders recognize that farming, specifically
9 tobacco crops, would not sustain our community in
10 the long-term. They wanted to provide jobs to
11 people in the local community, and they
12 successfully did just that.

13 Our manufacturing facility presently
14 employs 105 people, a decline of more than 85
15 percent from our peak. Before the Chinese
16 government began engaging in illegal trade
17 practices through intellectual property theft and
18 price and currency manipulation, we employed
19 nearly 900 people, producing both grills and
20 metal folding furniture in a community of only
21 15,000 residents.

22 Today, we operate almost 800 less

1 employees and our facility operates at less than
2 25 percent capacity. Our business has been
3 severely harmed by Chinese manufacturers that
4 steal MECO's designs, use MECO's marketing
5 materials under their brand name and even display
6 MECO's products in their showrooms.

7 These illegal and unfair practices not
8 only save them significant development costs
9 while infringing on our intellectual property,
10 but creates significant product confusion.

11 These underhanded tactics enable
12 Chinese manufacturers to sell into the U.S.
13 market at prices below MECO's material costs and
14 slowly erode our business.

15 A tariff on the Chinese charcoal grill
16 products will be the only way to level the
17 playing field for us to compete and preserve
18 MECO's manufacturing facility and our employees
19 as well as our opportunity to grow and create
20 jobs for our community.

21 Throughout my 29 years in
22 manufacturing, I fought to produce products in

1 the U.S., bought products from China and watched
2 our government continue to allow the Chinese to
3 take advantage of our manufacturing sector in the
4 U.S.

5 Please protect our country, our jobs
6 and our people from these despicable trade
7 practices levied against us by the Chinese
8 government. Without these tariffs, our company
9 may not survive.

10 Unfortunately, the tariff actions to
11 date have impeded MECO's ability to compete and
12 tip the scales further to the benefit of the
13 Chinese competitors. The 232 tariffs implemented
14 on steel in March of 2018 increased our cost of
15 steel approximately 25 percent.

16 We buy U.S. made steel. Therefore,
17 the exemption process does not provide relief to
18 MECO. The imposition of 301 tariffs in September
19 of 2018 on the grids and the leg kits that we
20 must import further raised our cost of
21 production.

22 Overall, these tariff actions raised

1 our total product costs by 10 percent. At the
2 same time, no duty was imposed on the competitive
3 Chinese products being imported into the U.S.

4 Efforts by the Chinese government to
5 devalue its currency to offset U.S. tariffs
6 further exacerbated the cost inversion imposed on
7 MECO. As a direct impact, we laid off production
8 employees in December and cancelled our plans for
9 a second production shift expansion.

10 This inversion and its impact is only
11 getting worse as the initial 10 percent duty that
12 was imposed in September increases to 25 percent.

13 It is crucial that charcoal grills,
14 HTS Code 7321.19.00 be included in the next list
15 of products on which 301 tariffs are imposed.

16 As a small company, MECO's ability to
17 sustain the erosion in margins is limited, and we
18 are running out of time.

19 I thank you for this opportunity to
20 speak before the Commission today, and I
21 appreciate your service to our great country.
22 And I welcome the questions and discussion that

1 should follow. Thank you.

2 MR. BURCH: Thank you, Mr. Proffitt.
3 And, Mr. Chairman, this concludes all witnesses'
4 testimonies.

5 MS. MAIN: My question is for Mr.
6 Whalen from the Intex Recreation Corporation. In
7 your testimony, you assert that the storable
8 pools and air beds that you import are available
9 only from China.

10 Could you please provide more
11 information on why you believe that to be the
12 case? For example, are there certification or
13 standards issues that would -- or other
14 constraints to moving your sourcing to a country
15 other than China?

16 MR. WHALEN: Well, these are fairly
17 complex products. The storable pools, they have
18 a vinyl liner. They usually have a steel frame.
19 They come with a ladder, which is comprised of
20 steel components as well as injection-molded
21 components.

22 And then there's a filter pump that's

1 supplied with the product, which is typically
2 injection-molded. It has motors. It has
3 controls and electronics to it, paper filters.
4 We also do a series of sand filters.

5 These are fairly complex manufacturing
6 operations that are all done in one factory for
7 us. There are three major suppliers of these
8 products in the U.S., and they handle basically
9 98 percent of the storable pool business in the
10 U.S. And they're all three located in China.

11 For us to move that facility, we'd be
12 moving injection-molding, steel pipe -- we make
13 all of our own steel pipe, do all of our own
14 bending and welding.

15 All the pump assembly work would have
16 to be moved and then all the actual manual labor
17 that produces the PVC liners. We also produce
18 all of our PVC, which we purchase from, in pellet
19 form, from Texas. They ship to China, and then
20 that is all calendared.

21 We calendar about 140,000 metric tons
22 of PVC a year. To move all of that production

1 outside of China would be very, very difficult
2 and extremely expensive. We currently employ
3 about 19,000 people in China in manufacturing.

4 Hope that answered your question.

5 MS. MAIN: Thank you. That seemed to
6 relate to the issue of the storable, above-ground
7 pools.

8 Could you also talk a bit about your
9 sourcing of air beds and why you believe that it
10 would not be possible to shift that sourcing
11 elsewhere?

12 MR. WHALEN: These are made in one of
13 the two facilities I just mentioned that we have.
14 So we've, again, we're producing today about a
15 105,000 air beds per day. And that facility
16 supplies 115 countries around the world, the U.S.
17 being the biggest market for air beds.

18 So to move that, again, we're running
19 about 5,000 employees in that production
20 facility. And, again, all the calendaring --
21 these calendaring machines take at least 18
22 months to purchase and 12 months to install --

1 just to install a calendar to make the PVC resin.

2 To do that and move it to another
3 country and outside of China plus finding the
4 employment base to support that as well as the
5 facilities to -- you know, containers and port --
6 it would be extremely difficult for us to do. It
7 would take quite a bit of time.

8 MS. MAIN: Thank you.

9 MR. O'BYRNE: Mr. Merriam, you
10 mentioned having to invest effort in alternative
11 tooling and raw material options in response to
12 the increase in tariff on camp chairs.

13 What types of standards or
14 certifications are involved in changing
15 suppliers?

16 MR. MERRIAM: Well, we have our own
17 internal auditing practices. So we have a
18 factory code of conduct, so we'll go through an
19 audit just to make sure that the factories that
20 we're working with are in social compliance.

21 Also we have to evaluate raw
22 materials. When you're talking about injection

1 molding components, particularly structural ones
2 that are like glass-reinforced nylons, you need
3 to make sure that they're going to behave in the
4 way that you've engineered them to behave.

5 There are standards in terms of
6 testing for like weight limits in chairs and
7 things like that that you need to be aware of an
8 make sure that your product meets those
9 standards.

10 I think, in the case of camp chairs,
11 if you look at import data, you know, 97 percent
12 of camp chairs in 2018 were imported from China.
13 So the number of options outside of China are
14 fairly limited.

15 MR. O'BYRNE: You also mentioned that
16 you're constantly innovating new products. Would
17 the cost you refer to, with respect to changing
18 sources, also be borne by bringing a new product
19 to market using the traditional suppliers?

20 MR. MERRIAM: I mean, I think we're
21 just trading costs. Like rather than spending
22 the time and effort in developing new products,

1 right now, as a company, we are spending the time
2 and effort in redefining our supply chain to
3 avoid a 25 percent tariff.

4 So we are going to be behind the eight
5 ball a little bit as we go forward. Like, it
6 will affect our ability to bring new products to
7 market over the next couple of years because we
8 need to basically figure out how to make existing
9 products elsewhere.

10 MR. O'BYRNE: And lastly, you
11 mentioned the timing of any tariff increase as a
12 particular hardship. How much lead time do your
13 contracts usually include?

14 MR. MERRIAM: We take orders six
15 months in advance of when we'll actually ship
16 them.

17 MR. O'BYRNE: Thank you.

18 MR. MERRIAM: You're welcome.

19 MR. CROW: My question is for Ms. Ai,
20 of Real Flame company. You highlight the
21 difficulty in switching production of your
22 products outside of China, mentioning

1 recertification, engineer training and general
2 costs.

3 Cumulatively, how long do you believe
4 it would take Real Flame to produce its products
5 outside of China?

6 MS. AI: That's a good question.
7 Actually, we started doing this since we see the
8 Tranche 3 started. So we're trying to look at
9 Vietnam, Indonesia, Thailand or other country,
10 even Mexico.

11 But, you know, again, back to the
12 certification, it takes time, you know, for all
13 the components for a grill stock or a fire table
14 stock, the valve, even the component needs to
15 have through. And that's our sub-supplier need
16 to apply their certification through the CSA.

17 And the CSA need to analyze their
18 facilities and also analyze all the print packet
19 from an engineer. So it will take almost like a
20 year to just finish that certification and audit
21 the factory.

22 So it's not just like we don't want to

1 move the production. It's just we need the time
2 to build up to a good factory who can handle this
3 and they understand this product, okay.

4 And majority of people right now, even
5 in China, we've been working with two factory,
6 okay, exclusive factory for these fire tables.
7 They still don't understand why we will use this.
8 And we have to educate them how to do this, how
9 to assemble this.

10 Even just one instruction manual would
11 take us forever, almost like a month, for our
12 engineer to translate from English to French to
13 Spanish. And then all these components needs to
14 follow the CSA procedure as well.

15 So just imagine, for this -- even we
16 are willing to do the outsourcing. It's just,
17 can we find a factory qualified right away? And
18 for the CSA, they also send the auditing people
19 every year to audit the factory so we can
20 maintain their certification.

21 And that certification, just for one
22 product, will take us three -- 30,000 U.S.

1 dollars, not including our time, engineer time,
2 print packet. And that procedure is just so
3 complicated, I cannot just say it just in one
4 sentence.

5 And that's why we want to plead,
6 giving us the time. You know, nothing just is
7 happening overnight. So that's why I'm here, to
8 plead this. Thank you.

9 MR. CROW: To your knowledge, is there
10 any current production of such products outside
11 of China, such as the countries that you
12 mentioned?

13 MS. AI: Not yet. Thank you.

14 MR. RICE: My question is for Mr.
15 McLemore from Masterbuilt. Can you elaborate on
16 why China is the only country where the products
17 you mentioned can be competitively sourced?

18 MR. MCLEMORE: It's not so much that
19 they are the only. It's, for us, they're
20 obviously the least expensive in our industry.
21 And, you know, we moved our manufacturing over
22 there in the early 90s, along with a lot of other

1 companies that were doing so.

2 And it created a competitive field for
3 everyone doing basically the same thing. So
4 we've been, since all of these tariffs have been
5 in conversation with you guys, looking at other
6 sources.

7 And there are other alternatives.
8 They will be more expensive, based on what we've
9 seen, even if we manufactured them here. So it's
10 not just a cost from our standpoint. It is
11 merely the timing.

12 You know, we've been in business for
13 46 years, and to impose something overnight, in
14 our industry, overnight is within three to six
15 months, is very devastating. So while the easy
16 route for us all is to say, hey, zero tariffs and
17 let's just go about our business, it's not about
18 us doing the easiest thing.

19 I'm all about protecting our country.
20 Our products are not subject to intellectual
21 properties. We're not a very high tech product,
22 so it's less of an issue with the pirating that

1 goes on.

2 The smaller, less expensive
3 accessories are knocked off, as the gentleman
4 from MECO implied. But our more complex products
5 which we do in all of Masterbuilt and Komado Joe
6 are not subject to that.

7 So our biggest complaint through this
8 process is, you know, don't do it, but don't do
9 it overnight. That's why, in my testimony, I
10 said, if it is going to be imposed, just give us
11 time. I mean, we've -- you know, I've got one
12 large mass retailer.

13 I've got competitors in the room, so I
14 won't give you any names, but one retailer, just
15 yesterday, said one new product that we're
16 launching that will go out in the spring of next
17 year has a \$3 million impact on it. One single
18 item.

19 So, for Masterbuilt, in our exciting
20 times, through all of this, we still had to go
21 through three layoffs. Not a hundred percent
22 because of your tariffs. There's economic

1 conditions and competition and things that do it.

2 But when you had a 10 percent, we
3 survived it. There was a question asked earlier.
4 When it was imposed, how long did it take for you
5 to see an impact at retail?

6 Since we sat here last August, the 10
7 percent was hitting before Christmas and in the
8 early part of this year because we knew it was
9 coming. The 25 percent will hit our industry and
10 our products, the way it's going right now, in
11 the latter part of this year and all of 2020.

12 It is very difficult for us to impose
13 a 25 percent, you know, tax on what we're doing
14 when our margins are not 25 percent in and of
15 themselves.

16 The other thing that I want everybody
17 to understand is our U.S. economy and people that
18 are out there will just decide not to buy. They
19 won't buy Masterbuilt, Kamado Joe, Charbroil,
20 Weber, you know, any product out there. They'll
21 just simply wait instead of upgrading on their
22 product.

1 All that does is cost us all some
2 sales and jobs. This is survivable for us if we
3 merely have time, just not overnight.

4 MR. RICE: Okay, thank you for that.

5 MR. MCLEMORE: Yes, sir.

6 MR. RICE: One other I have would be
7 how receptive are your chain suppliers to
8 amending their prices to help you accommodate the
9 tariffs?

10 MR. MCLEMORE: They have been, and
11 that's helped us some, but we are in a very low
12 cost industry. The lower cost items that we have
13 are the more difficult ones. The more high-end
14 products that we have have just a little bit more
15 room.

16 So we saw an impact at the retail
17 level that was not as bad because the factories
18 did help. You know, the exchange rate changing
19 and being volatile like it is, it's not such an
20 absolute that they can just say, hey, there's a
21 reduction here so we're going to offset that.

22 There's multiple factors -- labor

1 costs, material costs, R&D costs mixed in with
2 these tariffs, there's more of a challenge for us
3 all in this room because of the uncertainty. We
4 just simply cannot plan.

5 And we just need time to be able to
6 say, here's what's in front of us. And I can
7 work with all of my retailers and work with the
8 factories to do the very best we can to protect
9 this country and survive through this.

10 It's been a painful process for me.
11 I've been in it, in the family business for 46
12 years. I sold part of my company a couple years
13 ago, got a new private equity company. But I've
14 never seen anything impact our company quite so
15 drastically as these immediate tariffs.

16 And again, the word immediate is kind
17 of critical there. You know, we've had some in
18 the past. We survived, we passed along. The
19 exchange rate, even as crazy as it's been over
20 the past decade, has been survivable.

21 So it's more of an issue for us that
22 it's just hard for us to do it in such short a

1 time period.

2 MR. RICE: Okay, thank you.

3 MR. MCLEMORE: Yes, sir.

4 MR. FRATERMAN: Thank you everyone for
5 testifying. My question is for Mr. Wilson.

6 First, I just want to -- I presume the Exxel's
7 request, that you purchase your stuff sacks and
8 shells, that's from China. Correct?

9 MR. WILSON: That is correct.

10 MR. FRATERMAN: Okay. Is it possible
11 for Exxel to purchase those products from
12 Bangladesh or another country, by any chance, or
13 is it only China?

14 MR. WILSON: It is only China. And
15 actually our head-to-head competitors in
16 Bangladesh and Cambodia also purchase from the
17 exact same suppliers where we get our materials
18 from.

19 MR. FRATERMAN: Okay. Also, in your
20 testimony, you talked about the harm that jobs at
21 numerous U.S. raw material suppliers in various
22 states would experience. Can you just give us

1 like a geographic location, like where those
2 suppliers are going to be at?

3 MR. WILSON: Sure. In the thread
4 industry, primarily in North Carolina. In the
5 fiber industry, we do purchase some fiber from
6 Taiwan. But for the most part, our fiber that
7 goes in our bags comes from either South Carolina
8 or Georgia.

9 MR. FRATERMAN: Okay.

10 MR. WILSON: And the plant in Georgia
11 just recently built a brand new facility
12 primarily to support our plant. With the mass
13 quantities that we run through our facilities,
14 we're in the seven digits bags a year, it takes a
15 lot of fiber.

16 And with the partnership that we have,
17 they leaned forward in order to meet our
18 capability. So that's where we're coming from
19 and where it would actually have a spider effect
20 across other industries and across other states
21 as well.

22 MR. FRATERMAN: And it seems like,

1 based off your testimony, the fact that you were
2 able to still maintain competitiveness in the
3 U.S. is really great. Just kind of a ballpark
4 figure, how many jobs were you able to keep in
5 the U.S.?

6 MR. WILSON: As of today, we're -- the
7 testimony shows 120. But we're in a growth cycle
8 right now, so we're hiring just as fast as we can
9 to support our new military programs. And we're
10 up to 140 right now.

11 MR. FRATERMAN: That's fantastic.
12 Thank you.

13 MR. WILSON: You're welcome.

14 CHAIR TSAO: A quick follow-up, Mr.
15 Wilson, do your sleeping bags compete with
16 sleeping bags imported from China, finished
17 products?

18 MR. WILSON: Yes, they do. Actually,
19 not the ones that we manufacture in Alabama. Our
20 bags that are manufacture in Alabama primarily go
21 to big-box storefronts. And for the most part,
22 we manufacture a rectangular sleeping bag.

1 Your higher end bags coming from
2 China, for the most part, are more mummy-style
3 bag and we don't compete with that head-to-head.

4 CHAIR TSAO: And I guess this relates
5 -- a question to Mr. Merriam as well. Are those -
6 - there are two different bags you're talking
7 about here, right?

8 MR. WILSON: They are.

9 CHAIR TSAO: Okay.

10 MR. WILSON: Yes, very much so. I
11 think you've got a down fill, which is a higher
12 end fill. We're at the beginning price point for
13 the consumer. And, which is one of the reasons
14 why people that are getting into camping maybe
15 for the first time, they come to a lower price
16 bag. And our bag fills that requirement.

17 CHAIR TSAO: So basically, it sounds
18 like both of your companies are at different
19 levels of the market. Is that fair to say --
20 with respect to sleeping bags?

21 MR. WILSON: Very much so.

22 CHAIR TSAO: Okay, got it. Thank you.

1 MR. WILSON: Thank you for the
2 questions.

3 MR. DEVINE: My question is for Mr.
4 Proffitt. If these tariffs were to come into
5 effect for charcoal grills, what do you estimate
6 is your capacity to increase production?

7 And then, at the end of the day --
8 excuse me -- and how many jobs would that
9 support? And, at the end of the day, what would
10 you expect the impact to be on U.S. consumers?

11 MR. PROFFITT: Thank you for that
12 question. And I'm glad you ask. We have
13 significant capacity to increase jobs. As I was
14 thinking about that being a potential question
15 this morning, I was thinking about that.

16 And it's -- we could easily scale our
17 production today three times the volume that
18 we're at within two months. And we can easily
19 double that again in about six to nine months.

20 And as I sat here listening to this
21 testimony and reading some of the prior
22 testimony, you know, a lot of what folks are

1 saying is true. But, for instance, Mr. Whalen,
2 over here, talked about some of the products that
3 they can't purchase here in the U.S.

4 And we can make those very products he
5 talked about, specifically the ladders and
6 different metal components. That is the work we
7 do in the U.S., and that's the skill we have.

8 And that's the manufacturing base we
9 desire to protect. Without an effective
10 manufacturing base, people don't have jobs with
11 which to earn money to then turn around and spend
12 for all these products.

13 We cannot become a service economy.
14 We cannot send all these jobs to China. Mr.
15 McLemore mentioned a minute ago similar aspects
16 of what, you know, where jobs could -- where we
17 can fulfill these product needs.

18 I can fulfill his product needs on
19 some of these smoker products in Tennessee. And
20 we can manufacture those products here if China
21 is brought under control. We've been a large
22 manufacturer in the past.

1 We make metal products. We've got a
2 plastics producer just down the street by us that
3 supports us today with our plastics needs. I can
4 make metal products, plastic products. I can
5 assemble those products. I can service all these
6 guys.

7 I can provide the jobs necessary to
8 offset the jobs that are supposedly going to not
9 exist or go to China because of the tariffs if we
10 effectively apply the tariffs as you have
11 proposed.

12 Go forward and apply the tariff at the
13 25 percent rate. That's what's got to happen.
14 We have to bring China under control. You're
15 ruining manufacturing base as it exists today if
16 we do not follow through with this endeavor.

17 MR. DEVINE: Thank you.

18 (Simultaneous speaking.)

19 CHAIR TSAO: Actually, I think it's
20 only fair to -- he mentioned Mr. Whalen by name.
21 And Mr. McLemore and so it's only fair for you to
22 respond.

1 MR. MCLEMORE: Can I reply to that?

2 Yes, I would like to -- absolutely. If that
3 could happen, it cannot happen tomorrow.

4 There is absolutely no possible way
5 for any single country or facility to take on all
6 of this in such a short time period. We welcome
7 any opportunity to manufacture in the United
8 States, physically, ourself, which we are looking
9 at through acquisitions which we are looking at.

10 These things take time. So for Mark
11 and I to have a conversation and that happen
12 overnight is just not possible.

13 Can that happen in six months? No.
14 It will take years for us to do this, even with
15 somebody that has the capability of doing it
16 because of the tooling. It takes our company 12
17 to 18 months to put a single product on the
18 market even in the current factories. It's very
19 complex products.

20 Now a charcoal product that's \$49, we
21 can do relatively quick. That's a different
22 story. A lot of our products take very expensive

1 -- sometimes \$500,000 to a million dollars in
2 tooling -- to manufacture these things.

3 So that's a great point. But earlier,
4 I said, it just cannot be done overnight.

5 CHAIR TSAO: And, Mr. Whalen, do you
6 have any response?

7 MR. WHALEN: Thank you. Well, again,
8 our storable pools are very complex products.
9 And we sell them to the mass retailers as a kit,
10 so we're putting together the pool, the frame,
11 the ladder, all the lateral components, the
12 entire filter pump, which is an electrical
13 product, UL certified.

14 All those components go into a box and
15 to the mass retailer at a very reasonable price.
16 Now I could maybe source some tubing or plastic
17 components in the U.S., but I'd have to export
18 them.

19 I can't get them into one place where
20 I can manufacture everything. The only thing
21 that Intex purchases outside of our own factory
22 are screws and motors. Everything else is

1 generated internally.

2 We even make all of our own injection-
3 mold for all of our products. We're very
4 vertical and that allows us to provide very good
5 value to the consumer at retail.

6 MS. AI: Could I also make a special,
7 additional remarks here? From my testimony, you
8 know, our company also own the domestic
9 manufacturing, okay, why we need to do that
10 outside of the country?

11 We are so proud of our Made in USA
12 products. But now, nowadays, to look at the
13 revenue, the import products supporting Made in
14 USA product companies. Why?

15 Because all the Made in USA product is
16 just the pricing. Our customer just cannot
17 afford that and force us to do that balancing
18 act, okay. And we support all the U.S.
19 manufacturing workers here.

20 And we don't want to say we cannot do
21 this, you know, from the States. But our
22 customer need to understand, could they pay for

1 that? Right now, all the Made in USA facility
2 right now, we are serving to high end. That
3 means very limited quantity, okay, and they are
4 willing to pay a high price.

5 But for the majority of our end
6 customers, we are talking about all the online
7 customers, Lowes, Home Depot. Just ask them, do
8 they want to pay for that kind of Made in USA
9 product?

10 They always say, no, sorry. And
11 that's why we constantly, still, keep this Made
12 in China. Just like I say this is not -- we are
13 now willing to do that, but the situation make us
14 to do that. And this is just the situation.

15 And we want to go back, come back to
16 Made in USA, but give us time. And we have to
17 make sure all the material costs, labor costs
18 will be competitive. Again, all the committee
19 members, competition is very transparent, okay?

20 It is -- we want to do it or we just
21 give up the business. Thank you.

22 MR. BURCH: Mr. Chairman, we release

1 this panel with our thanks. And would all the
2 witnesses come forward on Panel 22?

3 (Pause.)

4 MR. BURCH: Will the room please come
5 to order? Our first witness for Panel 22 is Kim
6 Zablud with the District of Columbia Public
7 Library. Ms. Zablud, you have five minutes.

8 MS. ZABLUD: Thank you. Good
9 afternoon. Thank you for the opportunity to
10 appear today on behalf of the District of
11 Columbia Public Library, its more than 400,000
12 customers, and the more than 140,000 people
13 working in public libraries across the country.

14 My name is Kim Zablud. I'm the
15 Director of Public Services for the D.C. Public
16 Library. I appear today to ask you to support
17 libraries and our work by not imposing tariffs on
18 books.

19 The D.C. Public Library is a dynamic
20 source of books, programs, technology, online
21 learning tools, and community meeting space that,
22 when combined with expert staff, improves the

1 quality of life for District residents of all
2 ages.

3 Like public library systems across the
4 country, books are the foundation for how people
5 think of, and what they expect from, their
6 library. Books help us achieve our mission of
7 making information available to people no matter
8 who they are, where they live, or how much money
9 they have.

10 Today I will talk about some of the
11 work that our library does, how a 25 percent
12 tariff would impair that work, and what that
13 could mean for the people whom we and our
14 colleagues across the country serve.

15 The D.C. Public Library promotes
16 literacy and provides books and programs for
17 children and their parents and caregivers,
18 starting at birth. One such program is Books
19 from Birth. Launched with Dolly Parton's
20 charity, Imagination Library, this program mails
21 one high quality children's book every month to
22 every kid in D.C. under the age of 5. In the

1 three years since this program began, more than
2 44,000 children have participated. This year we
3 will deliver our one millionth book. We are
4 proud of the fact that through targeted outreach
5 we have our largest enrollment numbers in low
6 income neighborhoods, with more than 80 percent
7 of children living in those neighborhoods
8 enrolled.

9 A high percentage of children's books
10 are printed and bound in China. Even more
11 important for our purposes are the types of
12 children's books. The thick board books for our
13 littlest readers and the books with moving parts
14 that make early motor skills fun are produced
15 almost exclusively in China. A 25 percent tariff
16 on children's books would increase the cost to do
17 some of our most important work, helping all D.C.
18 children fall in love with the written word and
19 understand the power of reading.

20 The D.C. Public Library's book budget
21 is set for next year. We estimated that we would
22 purchase more than 150,000 books to make sure

1 that our collection has the new books people want
2 and that old or damaged books are replaced. We
3 also plan on purchasing more than a quarter
4 million books to reopen the District of
5 Columbia's glorious new central library, which
6 has been closed for a three-year modernization.
7 With a 25 percent tariff, the only way to stay
8 within our budget would be to purchase fewer
9 books for District residents.

10 A library's collection is one of the
11 main reasons customers visit their library. Our
12 goal is that, by 2022, 75 percent of District
13 residents have active library accounts, 5 million
14 library items are borrowed, and 5 million visits
15 happen annually. There is a direct correlation
16 between the amount that a library spends on books
17 and the number of books a city's residents read.

18 While we are currently on our way to
19 meeting this goal, this tariff would undercut our
20 ability to provide the quantity of books our
21 residents need and stymie the work of creating a
22 city of readers. All public libraries will face

1 the same challenge with the tariff. It would
2 limit their buying power and directly diminish
3 the amount our communities read.

4 My favorite thing about public
5 libraries is that there is equal dignity for
6 everyone who walks through the door. Everyone is
7 a reader, a student, a learner, and a scholar at
8 every stage of their life. Please do not put
9 tariffs on books and make reading less
10 accessible.

11 I thank you for the opportunity to
12 appear. And I'd like to show you a couple
13 visuals in the time I have left, visual aids.
14 So, here I have two books. These are the kinds
15 for the littlest readers. You can see here, this
16 one has braille, so it's raised. And it also has
17 different shapes so your kids can put their
18 fingers through. Puppets. And these are really
19 aimed at not just reading, but singing, talking,
20 and reading with kids so that it's an actual
21 interactive experience with the really, really
22 little guys.

1 This is a book we very much need.
2 It's a full color graphic novel. And this is
3 what those reluctant teen readers can't get
4 enough of. It hits an audience with these
5 beautiful pictures that otherwise we have a very
6 difficult time connecting with.

7 And then last, two classics here. Two
8 great examples of the type of full color books
9 that we need in the library. This first one,
10 Last Stop on Market Street, features diverse
11 characters, which is so critical because kids at
12 a young age need to see themselves in books and
13 they need to see the rest of the world around
14 them reflected.

15 And Llama Llama, these are sort of a
16 modern classic where you get kids learning about
17 going to school for the first time or getting a
18 sibling. Great teaching messages there, it's
19 very rhythmic. And I will plug that if you have
20 not read Llama Llama Red Pajama with all its
21 Llama mama drama, I would pick it up. Thank you
22 very much.

1 MR. BURCH: Thank you, Ms. Zabrud.
2 Our next panel witness would be George Dick with
3 Four Colour Print Group. Mr. Dick, you have five
4 minutes.

5 MR. DICK: Thank you. I've been
6 helping publishers manufacture books in China
7 since I founded my company in 1985. I broker
8 printing services between Chinese printing
9 companies and U.S. book publishers. Because I
10 buy the freight to transport the books from China
11 to the USA, I am officially the importer of
12 record, and as such, the burden of paying the
13 tariff would fall upon my company.

14 In turn, I must add the cost of the
15 tariff to the invoice presented to the book
16 publishers after I deliver the books to their
17 warehouse or, as the case may be, to their
18 garage. The cost of these tariffs will be
19 devastating to the book publishing industry, and
20 hardest hit would be the market sector known as
21 trade book publishers.

22 Trade books are those traditionally

1 sold through book stores as opposed to textbooks
2 distributed by school systems. Trade books are
3 sold across America by thousands of small,
4 privately-owned book shops in every city, as well
5 as on the internet by publishers and, of course,
6 by Amazon.

7 I estimate that 90 percent of all
8 children's picture books are printed in China,
9 many by large publishers from which you may have
10 already heard. But there are hundreds of other
11 small publishers scattered across every corner of
12 America that compete in the same marketplace.
13 These are my customers.

14 Art books, photography books, guide
15 books, cookbooks, graphic novels, instructional
16 books, educational books, you name it, all would
17 be affected. Other market segments, such as
18 academic, medical, and scientific books that are
19 printed in full color would also be damaged.

20 Twenty percent of the business my
21 company handles are books published by university
22 presses, from every state in the union. Some

1 have already closed due to financial
2 difficulties, and this would only worsen the
3 problem.

4 Book publishers and printers operate
5 on very thin profit margins, so this tariff
6 cannot be absorbed by either. And since books
7 are very price sensitive, it would be very
8 difficult for publishers to raise the cost of
9 their books to cover the cost of the tariff.
10 Some book prices could double.

11 Ultimately, the effect of the Chinese
12 tariffs would be to severely curtail the
13 publishing activities of trade book publishers.
14 This would cause fewer books to be published,
15 jobs lost at publishing companies and in your
16 neighborhood bookstores, less choice for parents
17 who wish to read their children a bedtime story,
18 and higher prices for anyone who wishes to
19 educate and enjoy themselves reading a book. Do
20 you really wish to make America dumber and more
21 bored?

22 I would also like to add further my

1 opinion as to this entire idiotic trade war
2 described by President Trump as good for America
3 and easy to win. A trade war, like most all
4 other wars, creates massive collateral damage
5 that politicians don't care about or consider. I
6 will tell you, having traveled to China regularly
7 for over 30 years, that neither China nor Chinese
8 people are the enemy.

9 The printers I represent in China are
10 owned by hard-working, risk-taking entrepreneurs
11 and the workers in these factories cherish their
12 jobs. Chinese people love Americans and they
13 treat us with the deepest courtesy and respect.
14 China is our friend.

15 It is completely ignorant to believe
16 that Americans will be better off because of
17 tariffs. That some manufacturing jobs, including
18 those in the printing industry, are now located
19 in low wage countries like China is not a bad
20 thing for America. It is a good thing. I can
21 tell you that many of these jobs are mind-numbing
22 repetitive, exacting a serious physical toll, and

1 we are fortunate we have foreign workers to
2 handle them for us. But do not cry for nor
3 criticize China as low wage labor is a necessary
4 step in a country's economic development, the
5 same as we in America went through in the early
6 20th Century.

7 Luckily, we can now devote our
8 resources to the more intellectual and better
9 paying tasks of creating the content for books,
10 designing and illustrating them to be useful and
11 appealing, and to distributing them widely and
12 inexpensively for the enjoyment and education of
13 all. This is the wonder and the glory of free
14 trade.

15 Best of all, free trade confers
16 benefits to all parties and peoples involved.
17 Americans benefit by having access to beautiful
18 books at low cost, our Chinese friends benefit
19 with increased employment, rising wages, and
20 business expansion. We need no government
21 authority to help us or tell us to do this. We
22 only ask that no government authority prevent us

1 from conducting our business.

2 To think stopping trade with China
3 will bring jobs back to the USA is folly. We
4 cannot afford, nor do we want, to force the
5 return of low wage, dead end manufacturing jobs
6 here in the USA. We are all made richer by free
7 trade with China and I implore you, Congress, and
8 the President to stop this self-destructive
9 foolishness. Thank you.

10 MR. BURCH: Thank you, Mr. Dick. Our
11 next panel witness will be G. Paul Hendrickson
12 with Hendrickson Publishers. Mr. Hendrickson,
13 you have five minutes.

14 MR. HENDRICKSON: Members of the
15 Committee, thank you for the opportunity to
16 provide information in response to your request
17 for public comments.

18 I am here to testify regarding the
19 significant damage to Bible access and religious
20 activities that would practically result from the
21 tariffs imposed on Bibles and books per Annex 1
22 of the May 14 notice. I am, therefore,

1 requesting that at least Bibles be removed from
2 the proposed tariffs.

3 Hendrickson Publishers of Peabody,
4 Massachusetts was founded in the early '80s as a
5 family-owned business, and it remains so today.
6 I serve as general manager. We have
7 approximately 25 employees, all in Peabody,
8 Massachusetts. We publish Bibles, Bible
9 reference materials, Christian scholarly works
10 and Christian living materials. Each year we
11 publish approximately a million Bibles and Bible-
12 related products for distribution, primarily in
13 the United States, but also for overseas markets.

14 The Bible is the central document of
15 the Christian faith, transcending theologies and
16 denominations from Protestant to Catholic to the
17 Orthodox Church. According to the Center for the
18 Study of Global Christianity, 73.7 percent of
19 Americans self-identify as Christians, and an
20 estimated 20 million Bibles are purchased each
21 year in the United States.

22 We publish the Bible in over 500

1 formats to make it widely accessible. We offer
2 low cost Bibles for as little as 2.99, allowing
3 Bible access to churches, not-for-profit
4 organizations, and those in economically
5 disadvantaged neighborhoods. We offer large
6 print and giant print Bibles for those with
7 special vision needs. Children's Bibles with
8 colorful images. Study Bibles, and scholarly
9 versions in Hebrew and Greek. Of all of these
10 Bibles, approximately 65 to 70 percent have been
11 printed in China in recent years.

12 The cost to print Bibles in China is
13 substantially less than in the United States. In
14 October of 2018 we obtained four quotes for
15 Bibles printed domestically and in China. The
16 U.S. quotes averaged 80 percent higher, with a
17 range of 46 to 106 percent higher than the
18 identical Bible being published and printed in
19 China.

20 But cost difference is not the only
21 factor. Domestic printing is operating at
22 capacity. At least three domestic printing

1 companies have ceased operations in the past two
2 years. The remaining two U.S. companies able to
3 print Bibles face staffing shortages at their
4 printing plants that limit the operations of
5 second and third shifts.

6 Further, paper shortages have
7 worsened. The raw materials for paper supplies
8 increasingly are being allocated to non-book
9 uses, such as shipping materials. So Bible and
10 book print runs in the U.S. are now running
11 longer than ever. As a result, shifting Bible
12 printing to this country is not a viable
13 alternative to printing in China. Further,
14 printing services in other parts of the world
15 cannot match the quality or price available for
16 Bibles printed in China.

17 If the proposed 25 percent tariff is
18 imposed on Bibles, as a family-owned business we
19 would be forced to pass along some of that cost
20 to our customers. We are extremely concerned
21 that the increased prices would prevent many
22 middle and low income Americans from being able

1 to afford Bibles, interfering with the practical
2 ability for them to engage with their faith.

3 In summary, there will be significant
4 damage to Bible access and religious activity if
5 tariffs are imposed on Bibles printed in China.
6 Shifting the printing of those Bibles elsewhere
7 is not a viable option. And as the central
8 document for the entirety of the Christian faith,
9 we are concerned that the proposed tariffs on
10 Bibles will have the unintended consequence of
11 impinging on the religious activities of
12 Americans of all age groups, denominations, and
13 political affiliations. Therefore, we
14 respectfully request a tariff exemption for
15 Bibles printed in China. Thank you, and I would
16 be happy to answer any questions.

17 MR. BURCH: Thank you, Mr.
18 Hendrickson. Our next panel witness will be
19 Madeline McIntosh with Penguin Random House, LLC.
20 Ms. McIntosh, you have five minutes.

21 MS. MCINTOSH: Thank you for the
22 opportunity to appear today on behalf of Penguin

1 Random House and its more than 4,500 U.S.-based
2 employees. My name is Madeline McIntosh. I'm
3 the CEO of Penguin Random House. We're the
4 largest U.S. publisher of consumer books. I ask
5 you to support us by continuing the longstanding
6 American policy of keeping books free of tariffs.

7 A 25 percent tariff would hit every
8 facet of the book industry hard, from publishers,
9 authors, booksellers, and wholesalers, to
10 libraries, schools, and literacy organizations.
11 Consumers would also feel serious pain and small
12 U.S. businesses would likely close.

13 PRH supports American jobs and
14 American manufacturing and we endorse the
15 administration's efforts to address China's
16 unfair practices, but we respectfully submit that
17 a tariff on books would not serve those goals.
18 It would harm many Americans and undermine
19 American literacy.

20 Last year we published more than 5,600
21 new books and sold and distributed more than 350
22 million books. All work on content, creation,

1 and sale of these books is done by U.S. employees
2 with diverse talents working in our offices and
3 warehouses in New York, Colorado, Washington
4 State, California, Indiana, Maryland, and
5 Florida.

6 As for printing, three quarters of
7 PRH's total books are printed in the U.S. For
8 various reasons, however, we have printed some
9 portion of our books in China since the 1980s.
10 No other country in the world has the capacity
11 and the expertise to take over the entirety of
12 the printing we now do in China. It would take
13 years and huge amounts of capital to try to
14 change this.

15 We use Chinese printers for a very
16 specific kind of printing. Eighty-two percent of
17 the books we print in China are children's
18 picture, preschool, and board books. Examples I
19 can show today that you may be familiar with are
20 Pat the Bunny, Richard Scarry's Busy Busy
21 Construction Site, and the now 50-year-old, well-
22 loved Very Hungry Caterpillar which, as you can

1 see, as an example, it's not just the color
2 illustrations but it's the fact that the China
3 printers are able to create special printing,
4 special use of paper, and, in this case, the very
5 well-known holes that the caterpillar makes his
6 way through.

7 The remaining books are full color
8 adult books with illustrations, including
9 cookbooks, art and photography books, reference,
10 and instruction books. Two examples here are
11 George Bush's Portraits of Courage, which, as you
12 can see here, has beautiful, fully illustrated,
13 complex presentations of injured veterans, as
14 well as our Smithsonian reference books. This
15 one particularly appropriate now with the 50th
16 anniversary of the Moon landing.

17 We currently print approximately 94
18 million units annually in China. That printing
19 volume cannot move elsewhere in any foreseeable
20 timeframe. There simply is not enough capacity
21 outside of China to handle all the printing that
22 we alone do in China. In fact, we recently had

1 to reduce the four color volume under contract to
2 a U.S. printer because they could not deliver
3 that volume on schedule.

4 Major capital investment would be
5 needed for new capacity, and with the low margins
6 on printing any investor would wait many, many
7 years for possible returns. Ensuring effective
8 regulatory and labor compliance programs adds
9 more time and expenses.

10 We publish many high quality,
11 beautifully produced adult four color and
12 reference books that require significant
13 investment in terms of both content acquisition
14 and production, and that appeal to a diverse
15 readership. If tariffs are imposed this will
16 seriously shrink the scope and diversity of
17 illustrated books we can make available to our
18 readers.

19 Literacy initiatives distributing free
20 books to children, such as First Book, Raising a
21 Reader, and Dolly Parton's Imagination Library,
22 will be severely and adversely impacted by the

1 tariffs.

2 First, the clear majority of books
3 that we sell to literacy programs are printed in
4 China. Second, these programs purchase their
5 books at high discount rates that leave no room
6 to buffer a 25 percent increase in cost. This
7 tariff poses the greatest threat to the vitality
8 of these programs that some of the have ever
9 faced.

10 Studies have shown the most important
11 indicators of a child's academic success are
12 books in the home and how frequently adults and
13 children read together. Tariffs would raise
14 prices and reduce available titles, severely
15 damaging prospects from meeting these goals.
16 Underprivileged and underserved communities will
17 be the hardest hit.

18 Under the First Amendment, the United
19 States has long embraced as a core value the free
20 flow of information. I urge the administration
21 not to impose this harmful burden on books,
22 especially because a tariff on books will not

1 help achieve the Section 301 goals. Thank you.

2 MR. BURCH: Thank you, Ms. McIntosh.
3 Our next panel witness will be George White with
4 the Greeting Card Association. Mr. White, you
5 have five minutes.

6 MR. WHITE: Thank you for the
7 opportunity to testify today. My name is George
8 White. I'm the president of the Greeting Card
9 Association, and I'm also the general manager for
10 consumer products of the C.M. Paula Corporation
11 in Mason, Ohio.

12 Since 1941, the GCA has served as the
13 U.S. trade association for the greeting card and
14 social expressions industry. The GCA represents
15 more than 200 publishers, most of whom are start-
16 ups and small- to medium-sized businesses, as
17 well as suppliers that provide production
18 services for the industry.

19 The GCA requests that greeting cards
20 be excluded from the list of products subject to
21 the proposed additional 25 percent tariff, which
22 would place a unique and excessive burden on our

1 affected members, the majority of whom lack the
2 resources and the logistical flexibility to
3 absorb the increased costs or located alternate
4 sources of production. Most members also act as
5 scope to develop new production infrastructure in
6 other countries.

7 Elaborately designed and ornamented
8 cards are highly valued and of growing importance
9 in our marketplace for millennials, who are now
10 spending more on greeting cards than baby
11 boomers. Millennials are seeking higher end,
12 differentiated cards to send to the increasing
13 number of friends and relatives that they deem to
14 be card-worthy. These are the very cards that
15 are mostly now hand assembled in China and
16 threatened by these proposed tariffs.

17 My company, Up With Paper, a wholly-
18 owned subsidiary of C.M. Paula, is a typical
19 example. We have close to 150 employees in Ohio
20 and Connecticut, more than a third of which are
21 dedicated exclusively or primarily to Up With
22 Paper. Our greeting cards all feature elaborate

1 paper engineering, pop-ups, and embellishments,
2 like these I've got here, all requiring intensive
3 hand assembly. Our best-selling cards are
4 incredibly complex, some requiring 50 or more
5 individual hand touches done in the right order.
6 They require finely trained hand assemblers.

7 Before trade opened with China, some
8 of our simple pop-up card lines were printed and
9 die cut in the U.S. and then trucked over the
10 border to Mexico for hand assembly. Our best
11 selling card lines introduced since the early
12 '90s were launched after trade opened with China
13 and 100 percent are made in Chinese hand assembly
14 factories.

15 We have since explored manufacturing
16 options in Vietnam, India, Guatemala, and Mexico,
17 but none have been able to provide the hand
18 assembly expertise at a price anywhere near what
19 we are producing in China now.

20 In 15 years, backed by hand assembly
21 manufacturing in China, we have more than
22 quadrupled the size of Up With Paper, the growth

1 of which has funded significant further growth by
2 our holding company. The proposed tariffs would
3 add \$1.2 million in new cost to our business,
4 which is simply unsustainable. If we could find
5 the hand assembly quality we need domestically,
6 the wholesale price for our product would need to
7 increase by 5 to 10 times, making our product
8 unsaleable.

9 New tariffs could also have negative
10 impact on other sectors of the economy. More
11 than half of all greeting cards purchased each
12 year are delivered their intended recipient by
13 the United States Postal Service. Last year more
14 than 2.6 billion cards, invitations, and
15 announcements were delivered by mail. The Postal
16 Service is the only affordable option for these
17 deliveries. And the only alternative for
18 consumers demotivated by price or the lack of
19 desirable cards is to simply abandon card
20 selling.

21 The proposed tariffs would reverse the
22 growth of the most important mail stream

1 currently available to the USPS: highly
2 embellished unique cards mailed by millennials.
3 The Postal Service faces billions of dollars in
4 losses from steep declines in business first
5 class mail due to the adoption of electronic
6 delivery options for bills and statements. It
7 would be harmed by any further loss of profitable
8 single piece first class mail.

9 Postal Service reporting reveals that
10 greeting card volumes have been comparatively
11 stable and there has been a slight rebound since
12 2016. But volume stability remains fragile.
13 That recovery is also threatened by recent
14 actions by the Postal Service to impose a single
15 largest increase in the stamp price in the
16 history of the Postal Service.

17 Greeting card consumers are thus now
18 facing a postage increase and the prospect of
19 tariffs that would generate higher prices and
20 reduce their current options. This adds up to a
21 second government imposed burden on the industry
22 in less than six months, putting at risk the

1 broader health of the postal system, as well as
2 our industry.

3 It is important to note that greeting
4 cards also leverage other types of mail important
5 to the Postal Service. Put simply, greeting
6 cards are the most desired content of the mail
7 stream. Fewer and less innovative cards would
8 jeopardize the viability of advertising mail
9 pieces, raising the prospect of additional volume
10 and revenue losses for the Postal Service. This
11 would also curtail the most attractive way for
12 millennials to enter the mail stream, where the
13 Postal Service needs them to stay.

14 We urge the following factors be
15 considered. One, tariffs would pose particular
16 challenges for greeting publishers, who are
17 mainly small and mid-size businesses with limited
18 production alternatives and for whom negative
19 impacts are magnified. Two, tariffs would be
20 passed along to consumers in the form of higher
21 prices. And three, the industry is already
22 strained as a result of the recent and unusually

1 high postage rate increase, jeopardizing our
2 sector and putting the Postal Service and the
3 broader mailing industry at a risk.

4 For these reasons, we believe greeting
5 card should be excluded from the list of new
6 products subject to tariffs. Thank you for your
7 attention to our views and the opportunity to
8 comment, and I'd be happy to answer questions.

9 MR. BURCH: Thank you, Mr. White. Our
10 final panel witness will be Sarah Moe with
11 Hallmark Cards, Incorporated. Ms. Moe, you have
12 five minutes.

13 MS. MOE: Thank you. Mr. Chairman and
14 members of the Section 301 Committee, thank you
15 for the opportunity to testify today.

16 Founded in 1910 and still led by
17 members of the founding family, Hallmark has over
18 26,000 domestic employees and 30,000 worldwide.
19 The company sells consumer products in more than
20 30 languages in over 100 countries.

21 Hallmark has a significant
22 manufacturing presence in the United States and

1 is committed to growing its U.S. manufacturing
2 capacity. However, there are some products that,
3 for cost or capability reasons, cannot be made
4 here. Many of those products are currently
5 sourced in China.

6 We respect the goals of the
7 administration. However, it will take time for
8 us to modify our supply chain and effectively
9 exit China, and the immediate impact of the
10 tariff could have substantial impact on our
11 domestic operations.

12 While many Hallmark products have been
13 included on list four, I will focus on two,
14 greeting cards and Christmas ornaments, that are
15 at the core of our business, first, greeting
16 cards.

17 The significant majority of our cards
18 are produced in Kansas by more than 900
19 employees. They have dramatically increased
20 production at this facility in recent years, but
21 there is another segment of our greeting card
22 line that requires hand assembly and/or hand

1 packaging, operations that are cost prohibitive
2 in the United States or that use proprietary
3 processes developed by our strategic Chinese
4 suppliers with whom we have been working closely
5 since 2006.

6 Consistent with our slogan, when you
7 care enough to send the very best, these
8 suppliers employ sophisticated printing,
9 finishing techniques, and hand labor to make
10 cards that embody the creativity intended by the
11 artists at our headquarters.

12 While some types of printed products
13 might quickly switch from one printer to another,
14 our cards do not. Our suppliers have begun the
15 process of establishing facilities in other
16 countries, but it will take time for them to
17 reach capacity. There is no domestic source
18 available for these cards and they have never
19 been made in the United States.

20 So what will happen if a tariff is
21 levied on greeting cards? First, the tariff will
22 impair the competitiveness of our entire greeting

1 card line and undermine the stability of key U.S.
2 operations, including manufacturing, creative,
3 and retail jobs.

4 Two, given the industry practice of
5 printing the price on the cards, a tariff will
6 present a pricing fiasco. We simply can't raise
7 prices.

8 We must change every SKU by changing
9 thousands of design files and discarding cards
10 already in our distribution center and in stores
11 since we can't possibly sell an identical card at
12 different prices. Thus, in the interim, Hallmark
13 will bear the cost of the tariffs.

14 Three, this may cause consumers to
15 send fewer greeting cards, diminishing their
16 important role in helping consumers emotionally
17 connect in life's most important moments.

18 And finally, as Mr. White noted, fewer
19 greeting card purchases will adversely impact the
20 Postal Service since more than half of all cards
21 are mailed, providing much needed revenue for the
22 struggling Postal Service.

1 Christmas ornaments are a second
2 critical product. The majority of our offerings
3 consist of Hallmark keepsake ornaments which
4 incorporate unique artistry and technology,
5 including lights, sound, and motion. They are
6 sold through Gold Crown stores and command a
7 premium price, averaging about \$20.00 an
8 ornament.

9 The majority of our keepsake ornaments
10 have been sourced from China, which excels in
11 precision manufacturing techniques and hand
12 labor. There are few manufacturers that can meet
13 our requirements. However, Hallmark has
14 identified a few smaller secondary factories in
15 Sri Lanka and Thailand, but they have limited
16 capacity and we continue to explore additional
17 options.

18 Given the precision required, it will
19 take time to completely exit China. And to be
20 clear, there is no production base for this type
21 of product in the United States. So what will
22 happen if tariffs are imposed on Christmas

1 ornaments?

2 First, since keepsake ornaments are
3 already premium priced, passing along the tariff
4 costs would price them out of the market and
5 potentially put the long-term health of the brand
6 at risk.

7 Second, keepsake prices are printed on
8 the packaging, so Hallmark may also be required
9 to fully absorb this tariff in 2019.

10 Third, any decline in Hallmark's
11 margins for Christmas ornaments will have a
12 significant impact on the company's overall
13 operations, including those I mentioned earlier.

14 And finally, fewer keepsake purchases
15 combined with fewer greeting card purchases will
16 reduce traffic in Hallmark's Gold Crown stores
17 since many shoppers come to these stores
18 specifically in search of these products.

19 This will harm the stores' overall
20 stability and success. The local Hallmark Gold
21 Crown stores are, for the most part,
22 independently owned and operated. Decreased

1 sales will hit small businesses the hardest.

2 We thank you for listening to our
3 concerns about these two important products, and
4 I'd be very happy to answer any questions or show
5 you the lights, sound, and motion included in our
6 keepsake ornaments.

7 MR. BURCH: Thank you, Ms. Moe. And
8 Mr. Chairman, this concludes all witnesses'
9 testimonies.

10 MS. MAIN: I have some questions for
11 Ms. Zabrud from the District of Columbia public
12 library. First of all, if you were able, can you
13 provide more specificity on what percentage of
14 the printed material that the D.C. library
15 purchases is sourced from China?

16 And if you are able, can you break
17 that down into two answers that would correspond
18 to the two different HTS codes that you include
19 in your testimony, one which relates to printed
20 books, et cetera, and the other which relates to
21 children's picture, drawing, or coloring books?

22 And related to that, in your

1 testimony, you also talk about the impact not
2 only on the D.C. Library, but all public
3 libraries, and so I wonder if you also have
4 information on a general number on the percentage
5 of the printed material that all public libraries
6 source from China?

7 MS. ZABLUD: Great questions. I'll
8 answer what I can, but I don't have all of that
9 information. I'm much more focused on just
10 buying the books I need at the prices I can get
11 them for to maximize the dollars.

12 I do understand that our children's
13 books, some of the samples that I gave that have
14 kind of the moving parts and the manipulatives
15 are almost exclusively purchased in China.

16 I don't know what percentage of budget
17 that is for us exactly or for public libraries,
18 but I would say that I think it's fair to say
19 that at least 25 percent of all of the books we
20 circulate are children's material or juvenile
21 material, but I can't give you an exact breakdown
22 of how that compares to our budget.

1 I would say that usually the
2 purchasing chains that public libraries use and
3 the vendors we work with are fairly consistent,
4 so whatever the experience in D.C. is, that would
5 be, it would be a fairly typical mirror,
6 particularly for the other big urban systems.

7 MS. MAIN: One more question.

8 MS. ZABLUD: Yeah.

9 MS. MAIN: If you are able, can you
10 talk a bit about how these readership segments
11 breaks down in your library in terms of what
12 percentage of the consumers come in and want to
13 actually pick up a hard copy book versus what
14 percentage of your consumers come in and they
15 read online, they would take out books online?

16 MS. ZABLUD: No, great question, and
17 as we talk about the growing numbers of readers
18 and some of the goals that the public library
19 has, the number of items read and borrowed is
20 increasing.

21 What's particularly fascinating to me
22 is that print continues to steadily increase in

1 circulation. We are seeing no decline based on
2 all of the online and digital resources
3 available. Instead, we're seeing big jumps in
4 digital reading, but basically it's a sum total
5 of more reading going on overall.

6 I think it's the combined convenience
7 factor where I can get the book I want. I can be
8 reading in the car now and I can be reading at
9 home by the bed. And this format works for me
10 here, and this format works for me there is
11 actually a good thing for reading.

12 So as great as the digital boom is, we
13 have, our customers are reading hard copy books
14 in the same, if not more numbers than before.

15 MS. MAIN: Thank you.

16 MR. SULLIVAN: Thank you. I have a
17 question for Mr. Dick. You mentioned that
18 tariffs would be ineffective in bringing back
19 book printing to the United States. Could you
20 elaborate on that a little bit more?

21 And, you know, in your testimony, you
22 mentioned that you estimate that 90 percent of

1 all children's books are printed in China. More
2 generally, are there any book printing hubs
3 outside of China where books could be sourced
4 from?

5 MR. DICK: The question really
6 concerns that of capacity, and currently there is
7 not the capacity to ramp up production in the
8 USA. That's not to say it can't be done, but it
9 is a multi-year process.

10 And I will also add that given that as
11 tariffs can be imposed, tariffs can be removed.
12 Let's say things improve with China. A business
13 owner would be foolish to invest a huge amount of
14 money in a plant and then find out all of a
15 sudden we are now going to be competing again
16 with China, and so it is unlikely in my opinion
17 that anyone would again expand production
18 drastically to cover this.

19 That leaves other countries in the
20 world, and again, there are countries out there
21 that are doing manufacturing. The key element
22 though is capacity.

1 There is just -- right now, China does
2 offer the lowest pricing, the highest quality,
3 and, you know, they are out competing, you know,
4 the rest of the world.

5 Now, will that last forever? I don't
6 think so. You know, there is already some
7 manufacturing being moved to, let's say, China, I
8 mean, sorry, to Malaysia or maybe India, but they
9 don't also manufacture paper, and without paper,
10 there is no book, and so again, that is a huge
11 hindrance to their taking on this kind of work.

12 So I don't see, you know, there would
13 be a lot of near term pain, and when I say near
14 term, that would be three to five years, and I
15 just don't think many publishers, certainly the
16 smaller ones, could withstand that, and even the
17 larger ones, if they had to raise their prices,
18 people aren't going to be able to pay and they'll
19 just decide to spend their money on something
20 else.

21 MR. CROW: I have a question for Mr.
22 Hendrickson. In your testimony, you note that

1 Hendrickson prints a substantial number of its
2 various Bibles and Bible-related products in
3 China due to current factors in the printing
4 industry, and that shifting printing of these
5 elsewhere is not a viable option for your
6 company.

7 Along with capacity, could you
8 elaborate further on why this is and why shifting
9 printing elsewhere is not a viable option?

10 MR. HENDRICKSON: We regularly look at
11 what the alternatives are for printing our Bibles
12 in particular. Europe is an area that we examine
13 regularly.

14 We do a little bit less than 10
15 percent of our Bibles are printed in Europe.
16 Europe is very good at high end, for color,
17 exotic leather cover Bibles.

18 They can compete with China price wise
19 on that one category of Bibles. Everything else,
20 all other categories of Bibles, when we get
21 competing bids from Europe, they can't compete
22 with China.

1 Now, and that's, I'm primarily
2 referring to Italy, Germany, and Denmark. There
3 are other parts of Eastern Europe where the
4 quality that they produce, at least for Bibles,
5 is not up to what is available from China.

6 So as we look to Europe, which we
7 regularly do, it's a very limited, very narrow
8 set of very high end Bibles that we can print
9 there, and we do.

10 Within the U.S., there's a major cost
11 difference, and there are a few Bibles that we
12 can print in the U.S., and those are ones that
13 are not for color.

14 They're single color and are low end,
15 and the reduced shipping allows us to get some of
16 those economically printed in the U.S., but it's
17 very limited, and right now, they are at
18 capacity. They do not want more orders from us
19 here in the States.

20 MR. CROW: Thank you.

21 MR. RICE: I have some questions for
22 Ms. McIntosh. You mentioned that the majority of

1 your books printed in China are children's books.
2 Are those books printed elsewhere in the world
3 and what are the barriers to accessing those
4 locales?

5 MS. McINTOSH: So the two -- I would
6 say that there are three chief factors. One is -
7 - and to answer your direct question, no.

8 Almost all of this printing for those
9 books, for Pat the Bunny, for example, takes
10 place in China, and they are simply able to
11 provide the lowest cost, high quality, high level
12 of professional service that is simply not
13 available to us anywhere else.

14 Similar to the comments related to
15 greeting cards, you can imagine the high detailed
16 work involved in, you know, placing Daddy's
17 Scratchy Face in the exact right space.

18 It's a very specialized activity, and
19 my historical knowledge of the printing business
20 is that it's really since the 1980s that global
21 printers specialized.

22 And here in the United States, where

1 obviously if I could do all of my printing in the
2 U.S., I would, because it would simply allow me
3 to get to market faster, but I can't because the
4 U.S. printing industry does not have the ability
5 to do this work and they, as we keep emphasizing,
6 there is a real crisis of capacity in the U.S.,
7 and so they are not even able to deliver to the
8 demand that we have for the current work that we
9 would like to give them.

10 MR. RICE: Okay, are those the same
11 issues that you run across for the non-children's
12 books?

13 MS. McINTOSH: Yes, I mean the non-
14 children's books or the regular black and white
15 adult books that we manufacture here in the
16 United States, we do them here because that's
17 what these printers are specialized to do. The
18 children's books, particular those books that are
19 for the youngest readers, are the ones that are
20 entirely done at this point in China.

21 MR. RICE: Okay, thank you.

22 MR. O'BYRNE: Mr. White, I have three

1 questions for you, and let's take them one at a
2 time. You mentioned that ornamental cards are a
3 growing importance in your industry and are hand
4 assembled in China. Can you approximate what
5 share of greeting card demand are such ornamental
6 cards?

7 MR. WHITE: That's an extremely
8 difficult question. I cannot give you a good
9 estimate for that. I would be happy to come back
10 to try, but I will say if you look at where the
11 volume, the number of units, percentage is going
12 to be greater of non-ornamental cards. Where the
13 ornamental cards are hitting home and making an
14 impact is in the dollar volume.

15 And that's why when I mentioned that
16 millennials are now buying more than baby
17 boomers, which is a shock to people who haven't
18 heard that statistic before, it's because they
19 are spending more dollars. They're still not
20 buying as many units as baby boomers, but they're
21 buying more dollars.

22 So to answer your specific question, I

1 would like to get back to you with the best
2 information that I can.

3 MR. O'BYRNE: That would be fine. The
4 second question, are non-ornamental cards also
5 hand assembled?

6 MR. WHITE: No, so the greeting card
7 industry runs the gamut from what I would call an
8 ink on paper card, which literally is a piece of
9 paper that has ink printed on it that is just
10 printed, and a significant majority of those are
11 done in the United States, such as the ones that
12 she was talking about are done at Hallmark in
13 Kansas City or at American Greetings, which are
14 the two largest manufacturers.

15 The complexity is that, you know, if
16 you just look at this card, you can see all of
17 these are all different pieces and each of these
18 has to be glued on individually by hand. The
19 string has to be glued on. That's what has to be
20 hand assembled.

21 But, no, the basic ink on paper can
22 definitely be done in the United States in a

1 printer. We're faced with the same capacity
2 issues that the gentleman and the lady ahead of
3 us have talked about.

4 MR. O'BYRNE: And lastly, outside of
5 China, what degree of production is there? What
6 kind of capacity is there for both non and
7 ornamental cards?

8 MR. WHITE: So the key with the cards
9 first is quality and second is cost, and where
10 China sets themselves apart on the hand assembly
11 is their ability to do hand assembly at extremely
12 high quality with a very low cost.

13 The percentage of hand assembled cards
14 that are done outside of China is quite small.
15 It would be, I'm quite confident, less than a
16 quarter, and it's probably less than 10 percent.
17 We have looked at other factories for ours.

18 Now, my company's cards are among the
19 most complex in the industry. There are a lot of
20 other companies that do complex cards, including
21 Hallmark, American Greetings, and others. They
22 may be able to source elsewhere as the complexity

1 goes down.

2 And we've looked at Malaysia. We've
3 looked at Guatemala. We've looked at India.
4 We've looked at Vietnam and we have not been able
5 to find the quality that we need to be able to do
6 our cards.

7 MR. DEVINE: My question is for Ms.
8 Moe. You mentioned that you are exploring
9 possible alternative sources outside of China for
10 both the greeting cards and Christmas ornaments,
11 but you said that you needed more time before
12 they come up to capacity, so I just wonder --
13 estimate how much time it would take?

14 MS. MOE: Sure, our best effort, our
15 best insight right now is that the full exit
16 could not be until 2021 or 2022. With our
17 strategic suppliers who are willing to actually
18 exit China with us, they are also running into
19 problems in the new host countries.

20 So even if we were able to flip a
21 switch today, we still are faced with the
22 problems of securing the machinery, securing

1 adequate labor, not to mention the permits and
2 other requirements necessary to establish
3 production in that host country, and those
4 timelines keep slipping as these other countries
5 or our suppliers work to advance that plan.

6 MR. DEVINE: And then quickly, do you
7 have a ballpark figure of what the total economic
8 cost of these tariffs would be on your business?

9 MS. MOE: I do, but we do not disclose
10 that.

11 MR. DEVINE: Thank you.

12 MR. BURCH: Mr. Chairman, we release
13 this panel with our thanks. And would the
14 witnesses in Panel 23 make their way forward?

15 Would the room please come to order?
16 Mr. Chairman, I'd like to note all witnesses for
17 Panel 23 are seated and our first panel witness
18 will be Greg Mason with Head USA, Incorporated.
19 Mr. Mason, you have five minutes.

20 MR. MASON: Good afternoon. My name
21 is Greg Mason. I'm president of Head Penn
22 Racquet Sports, a division of Head USA,

1 Incorporated, which is a leading sports equipment
2 company headquartered in Boulder, Colorado.

3 Thank you for the opportunity to testify on this
4 important matter before the committee.

5 I'm here today to talk about the 25
6 percent tariff being proposed on tennis balls.
7 Under the Penn brand, Head USA makes the best-
8 selling tennis balls in America. We supply more
9 than 60 percent of all branded balls sold in the
10 United States.

11 We fully support the USTR in its
12 efforts to obtain the elimination of China's
13 unfair acts, policies, and practices related to
14 technology transfer, intellectual property, and
15 innovation. However, none of those goals are
16 furthered by imposing a tariff on tennis balls.

17 As such, we respectfully request that
18 the USTR remove HTS subheading 95066100, a
19 narrowly defined tariff that covers only tennis
20 balls, from the list of subheadings covered by
21 list four.

22 We believe it's warranted for a few

1 reasons. First, a 25 percent tariff would be
2 devastating to Head USA, a medium-sized U.S.
3 company. Head USA was the last company to
4 manufacture tennis balls in the United States,
5 finally relocating to China in 2009, almost 10
6 years after the last of our competitors moved
7 production overseas.

8 Since then, we have invested over \$25
9 million in building a wholly-owned, state-of-the-
10 art, largest tennis ball production facility in
11 the world. Relocating wholly-owned production
12 outside of China would require a similar
13 investment and would take years to complete.

14 Moreover, we're not aware of any
15 contract manufacturer outside of China that can
16 produce the volume that we require to supply more
17 than 60 percent of the U.S. market while also
18 adhering to the very tight specifications
19 required by the International Tennis Federation
20 to make a tennis ball that is legal for play.

21 If tennis balls became subject to a 25
22 percent tariff, we would be forced to raise the

1 price of Penn tennis balls and the consumer would
2 pay, and that, we anticipate, would have
3 incredibly negative consequences, including a 50
4 percent reduction of our tennis ball sales in the
5 United States, millions of dollars in lost
6 revenue, potentially a 15 percent reduction of
7 our 120-person workforce, and the curtailment of
8 U.S.-based R&D investments, and the severing
9 relationships with our network of U.S.
10 distributors and sales agents. These are
11 uniformly small U.S. businesses and independent
12 entrepreneurs.

13 Second, a 25 percent tariff on tennis
14 balls would increase costs for the 18 million
15 tennis players in the United States, and limit
16 our ability to promote tennis as a sport.

17 Given our market share, a tariff on
18 Penn tennis balls would cause price increases and
19 potentially also a shortage of tennis balls
20 across the United States, especially since our
21 competitors would face difficulties scaling up to
22 our production levels in the short or medium

1 term.

2 In addition, the tariff would get in
3 the way of our ongoing efforts to promote tennis
4 as a sport and fund other charitable causes,
5 specifically programs in concert with the United
6 States Tennis Association and the Tennis Industry
7 Association to promote physical fitness across
8 the U.S.

9 We support tennis in elementary
10 schools and nonprofit organizations. We donate
11 balls to schools and nursing homes'
12 rehabilitation facilities.

13 We sponsor numerous championships and
14 causes, including through our pink tennis ball
15 cans, breast cancer research, ACEing Autism,
16 which is a national program, the ITF Wheelchair
17 Tennis championships, among other events that are
18 we engaged with.

19 We're also a partner with the global
20 environment charity Cool Earth, which saves over
21 7,000 acres per year of mature rainforest from
22 destruction. Any increase in the tariff would

1 reduce our support for these and other charitable
2 efforts once that would go into effect.

3 Third, a tariff on tennis balls would
4 not be effective to obtain the elimination of
5 China's unfair acts, policies, and practices
6 related to technology transfer, intellectual
7 property, and innovation.

8 Tennis balls account for only 0.007
9 percent of total U.S. imports from China and are
10 therefore a drop in the bucket. More
11 importantly, tennis balls have no connection to
12 Made in China 2025 or any other unfair Chinese
13 policy or practice.

14 Finally, tennis balls can be removed
15 from the list without removing products of
16 concern to the USTR. The HTS subheading for
17 tennis balls covers tennis balls and only tennis
18 balls.

19 For these reasons, Head USA
20 respectfully asks the USTR to remove the HTS
21 subheading from the list. Thank you again for
22 the opportunity to testify and I'll be open to

1 any questions you would ask afterwards.

2 MR. BURCH: Thank you, Mr. Mason. Our
3 next panel witness will be Bradley Handelman of
4 Strikeforce Bowling, LLC. Mr. Handelman, you
5 have five minutes.

6 MR. HANDELMAN: Thank you for the
7 great opportunity to testify at this important
8 hearing. My name is Brad Handelman. I'm the
9 president and owner of Strikeforce Bowling.

10 Strikeforce Bowling is the leading
11 manufacturer and distributor of bowling consumer
12 products in the United States. My company
13 employs 50 full time people and many part time
14 subcontractors throughout the country.

15 Therefore, I feel responsible for these 50
16 families and I take this responsibility very
17 seriously.

18 Generally, the bowling community is
19 made up of small businesses serving middle income
20 America. In addition to the families we employ
21 for both manufacturing and distribution, we rely
22 heavily on foreign vendors, more specifically,

1 China.

2 To me, it's not overly dramatic to say
3 that an additional 25 percent will not just
4 increase cost to consumers, it will destroy
5 industries such as the one I work for and in, and
6 that I love, bowling.

7 The cost will prohibit families from
8 bowling and spending time together, from
9 purchasing more product. That's my own selfish
10 view on my company and my industry.

11 What about the families that have
12 growing children that have to purchase footwear
13 out of necessity or purchase other products that
14 are absolutely necessary? Can these families
15 afford to pay more?

16 The median income in the United States
17 is approximately \$62,000. A family has
18 approximately 500 hours in disposable income. If
19 that family uses their disposable income for
20 regular necessary household items, there won't be
21 any left for extras. In our case, it's bowling
22 footwear. In Greg's case, it's tennis balls. In

1 other cases, products that have made this economy
2 move forward. If costs are going up, jobs will
3 be lost, and I can promise you that families and
4 companies will be destroyed.

5 In the last round of tariff increases,
6 bags, nylon bags, increased 25 percent. We now
7 pay 42.6 percent in nylon bowling bags. Like
8 footwear, there are few manufacturers in the
9 United States.

10 We aren't bringing these jobs back to
11 the United States. As our president has stated
12 many times, unemployment is the lowest it's been
13 in 50 years, and we, the United States, do not
14 have the workforce to produce these products, and
15 we should be proud of that.

16 We're looking to resource to other
17 countries. It takes years and millions of
18 dollars to develop sourcing in other countries.
19 Again, forget doing this type of production in
20 the United States.

21 Sourcing in other countries is a huge
22 issue for our company. From reading and speaking

1 to other executives, it's an issue for public
2 companies too such as Nike and Walmart.

3 We've tried to move some of our
4 sourcing. It takes years, and now forget it.
5 All of the capacity in the other countries such
6 as Vietnam, Cambodia, and Bangladesh will be
7 taken up by the same large public companies.

8 Footwear and bowling remain a very
9 price sensitive industry. We will be unable to
10 move quickly and be forced to both raise prices
11 and absorb costs.

12 This will lead to fewer products being
13 sold, less revenue volume, let net income, and
14 thus less investment in our business and our team
15 members. These tariffs will have a major impact
16 on my company and on my employees' companies.

17 I wish we had margin to absorb this
18 additional cost. If we pass it on, we will lose
19 customers. We are reevaluating our business
20 model with the intent of changing our footprint.

21 The most dreaded aspect of this job
22 for me as the owner is firing employees and their

1 families, and we won't have any choice.

2 Therefore, I respectfully request that you
3 immediately remove Chapter 64 in its entirety
4 from the proposed list of \$300 billion in goods
5 published May 17.

6 I realize that much of this dispute is
7 focused on IP protection in China and
8 strengthening that. This is extremely important
9 for all industries that spend so much on R&D.

10 Altering trade policy in a way that
11 increases the tax burden that footwear consumers
12 bear every year is not the way to get at China's
13 industrialized policy and forced technology
14 transfers, IP theft, and other tariff and non-
15 tariff barriers.

16 In closing, on behalf of Strikeforce
17 and the 50 families we employ, and the entire
18 footwear industry, and the whole bowling
19 industry, I ask that you not raise taxes and
20 tariffs on consumer products. We thank you for
21 the opportunity to testify and I look forward to
22 any questions you may have.

1 MR. BURCH: Thank you, Mr. Handelman.
2 Our next panel witness will be Vishak Sankaran of
3 Bushnell. Mr. Sankaran, you have five minutes.

4 MR. SANKARAN: Good afternoon. I am
5 Vishak Sankaran, president of Bushnell Holdings.
6 As a way of background, Bushnell was founded 65
7 years ago and is a leading industry manufacturer,
8 designer, and retailer of sport optics and
9 ancillary equipment for hunting, shooting, and
10 golfing.

11 My colleague appeared before you on
12 May 2018, and I personally appeared before this
13 committee last August to explain how the then
14 proposed tariffs would harm Bushnell, our
15 employees, and our customers. I'm back again
16 because once again, we face a serious threat as
17 many of our key products are now on list four.

18 We were very pleased by your previous
19 decision to remove rifle scopes and red dot
20 scopes from the proposed lists one and three, but
21 alas, that was short lived.

22 To our surprise and dismay, these

1 products are now back on list four. Frankly,
2 this seems puzzling, ridiculous, and extremely
3 challenging as I try to manage our business in
4 the face of this uncertainty.

5 The case for removal of rifle scopes
6 and red dot scopes was strong then, and it
7 remains so now. Nothing has changed, not our
8 products, not the impact on the business, not the
9 risks, not even your rationale in the Federal
10 Registry notice for the evaluation criteria on
11 which products should be included.

12 In addition to those products, now
13 there are others such as powder reloading scales,
14 binoculars, rings and bases, and other ancillary
15 accessories for rifle scopes included. The
16 specific HTS subheadings these products are
17 classified under are provided in the appendix of
18 our written testimony.

19 Imposing punitive tariffs on these
20 products will provide no leverage in the
21 negotiations with China to change its IPR and
22 industrial policies. Instead, they will only

1 lead to higher costs for everyday hunters and
2 sportsmen.

3 This is made clear by the fact that
4 the previously levied tariffs on our products
5 captured on lists one, two, and three have done
6 nothing to incentivize the Chinese government to
7 change its practices.

8 Our consumers are avid enthusiasts,
9 outdoor enthusiasts, but even small price
10 increases can be painful to the most dedicated of
11 sportsmen. I speak from experience when I say
12 that tariffs have a negative impact on the demand
13 for our products.

14 Higher prices decrease demand and that
15 is not how we grow our business or the U.S.
16 economy. If it was, the president wouldn't have
17 fought so hard for tax cuts.

18 We cannot sustain the impact of these
19 tariffs. Your decision will determine if an
20 iconic American brand such as ours grows our
21 business or not.

22 Already the combination of Section 302

1 and, I'm sorry, 232 and 301 tariffs forced us to
2 raise prices on certain products. As expected,
3 demand and sales of those goods saw declines.
4 This has led to temporary shutdowns and one in
5 three layoffs in our Oroville, California
6 operations.

7 The consequences will become only more
8 significant if the administration imposes tariffs
9 on additional products of ours.

10 We manufacture our products in China
11 because simply there is no other option. While
12 we have explored alternative sources and do
13 manufacture some of the higher end goods in other
14 locations outside of China, we cannot meet the
15 quality our customers demand at a cost that keeps
16 these goods on the shelves.

17 Finding factories outside of China
18 with the capacity to meet our volume requirements
19 is another issue with shifting production to
20 another country.

21 At the end of the day, these tariffs
22 are going to cause damaging price increases to

1 hunters and sportsmen and will likely eliminate
2 certain products from our retail offerings.

3 The U.S. Fish and Wildlife Service
4 estimates there are over 20 million Americans
5 that participate in wildlife viewing, and over 15
6 million that participate in hunting activities.

7 The tariffs will not just impact those
8 individuals, but will also harm the economies of
9 most of the country where hunting is a way of
10 life.

11 Primarily this includes states such as
12 Montana, Nebraska, South Dakota, Wyoming, Alaska,
13 and several others where hunting is not only a
14 pastime, but also a source of food.

15 As stated in my previous testimony, we
16 agree that the administration should continue to
17 press China to changes its discriminatory
18 practices towards intellectual property rights.

19 I know you have many difficult
20 decisions to make to achieve that goal, but
21 applying tariffs on a consumer hunting and
22 wildlife watching product is not the answer. In

1 this case, we think more harm will befall
2 American consumers than the Chinese government.

3 At the minimum, I urge you to uphold
4 your previous decision to not place tariffs on
5 red dot and conventional rifle scopes, and hope
6 you find it reasonable to extend an exclusion for
7 binoculars.

8 Thank you for your consideration of my
9 testimony and views on this important matter. I
10 look forward to answering your questions.

11 MR. BURCH: Thank you, Mr. Sankaran.
12 Our next panel witness will be James Archibald
13 with STX, LLC. Mr. Archibald, you have five
14 minutes.

15 MR. ARCHIBALD: Thank you, and good
16 afternoon, Mr. Chairman and members of the
17 committee. I'm James Archibald, the vice
18 president of administration and regulatory
19 affairs for STX, which is an American sporting
20 goods company based in Baltimore.

21 It's been in the business of designing
22 and manufacturing and selling sports equipment

1 and protective padding and protective eyewear
2 currently for the sports of lacrosse, ice hockey,
3 and field hockey for almost 50 years. It's a
4 significant provider of articles that help keep
5 American youth and mostly young Americans
6 physically fit and strong.

7 Others in the sporting goods industry
8 and others here today have addressed other
9 subheadings. I'll address the five that relate
10 directly to us. Those are the specific headings
11 set forth in the written submission.

12 They basically fall into three
13 categories, those that cover sports equipment
14 that protects while the player is engaged in
15 either lacrosse or field hockey under the
16 specific subheadings noted in my materials, the
17 subheading that covers field equipment, lacrosse
18 goals and bounce back rebounders, the protective
19 equipment being the chest padding that is now
20 required, I'll speak more to that in a moment,
21 lacrosse gloves, and protective eyewear which is
22 required by the governing bodies for girls'

1 lacrosse and field hockey.

2 One of the overarching reasons for
3 leaving these subheadings, removing them from the
4 list is the inevitable cost increases that will
5 occur.

6 Indeed ironic to me and a little bit
7 concerning that just in the last session, the
8 House Ways and Means Committee reported out
9 favorably a bill that will have, and will once
10 enacted, provide a deduction for the purchase of
11 sporting equipment because of the aid that it
12 provides to keep our folks healthy and
13 consequently reduce medical costs.

14 There's been plenty of data on medical
15 costs, the costs incurred between those that are
16 active, those that are inactive. There have been
17 studies referred to in detail by Tom Cove when he
18 testified here last August from the Sports
19 Fitness and Industry Association noting the
20 research that has been done on that.

21 If we focus on the protective athletic
22 equipment for a moment, particularly that

1 relating to lacrosse, and use a recent example
2 that has just come up, the governing bodies have
3 mandated a protective -- both chest protector and
4 shoulder pad protector to prevent something
5 called commotio cordis which can occur when a
6 lacrosse ball or a baseball hits the chest and
7 hits the heart right when it's at a certain bit
8 of its cycle, and when that happens, the heart
9 stops, and if you don't have defib out on the
10 field, it's a really serious situation, so that's
11 been mandated.

12 It's been mandated with all sorts of
13 testing as you might require as to what it must
14 do, and as well, we're mandating to have our
15 factories audited to show that the QC and the QA
16 is up to snuff on this sort of thing.

17 We have the factories that can do
18 this. To move that production to another place
19 now would never happen by the time this is
20 required, particularly with the audits that are
21 required that the factory has to go through
22 before you can even begin to make the materials.

1 Similar situations with respect to our
2 glove production and with respect to the
3 protective eyewear, again there have been changes
4 recently in that that requires to change the
5 specs.

6 If we are going to keep these
7 materials on the list, and I would urge that they
8 be removed, at least we would say give us more
9 time to move our factories and our production,
10 something that would take two or three years, but
11 give us that time while these negotiations are
12 ongoing.

13 I appreciate it very much and would
14 ask as well the committee keep in mind a lot of
15 our competitors are Canadian, CCM, Bauer. They
16 can bring their products in through Canada not
17 subject to the same issues we are.

18 We live by the American rules and are
19 at a competitive disadvantage with these
20 particular items remaining on the schedule.

21 Thank you very much.

22 MR. BURCH: Thank you, Mr. Archibald.

1 And our final panel witness will be John Colonna
2 with K2 Sports. Mr. Colonna, you have five
3 minutes.

4 MR. COLONNA: Thank you and good
5 afternoon. Thanks for having me. I'm John
6 Colonna, president of K2 Sports. I'm very proud
7 to represent our portfolio consisting of eight
8 authentic and iconic American brands built around
9 one really strong American brand, the K2 brand.
10 K2 is the original American ski and snowboard
11 brand. It's the Coca-Cola of snow sports as we
12 look at it.

13 It was founded in 1962 in Washington
14 state. The brand, because of cultural
15 connection, expanded into snowboards in 1987, and
16 was the first ski brand in the industry to
17 specifically engineer a product for the
18 performance standards of women in 1999, which
19 created our women's alliance.

20 We have innovated by developing the
21 first half ski in 1962 to show that technology to
22 the world, put U.S. Olympic athletes on podiums,

1 such as our friend, Jonny Moseley, and most
2 importantly, supported the progress and support
3 in the industry surrounding it.

4 Our products are all consumer goods
5 used by Americans for recreation and outdoor
6 activities. These products have clear physical,
7 mental health, and safety benefits associated to
8 them, and our goal is simple, continue to grow
9 our business and continue to provide these
10 benefits for American consumers.

11 We were more than alarmed by the
12 potential impact of the tariffs on list four.
13 Our skis, snowboards, snowboard bindings, boots,
14 inline skates, and even our life saving avalanche
15 airbags are all effected. These products
16 comprise 80 percent of our volume from China.

17 With an additional 25 percent duty,
18 our cost of goods sold would increase by several
19 million dollars. That's over a 1,300 percent
20 increase as it stands right now.

21 These incremental tariffs will be
22 devastating to our business. We simply cannot

1 absorb these costs and will unfortunately be
2 forced to pass most of these costs on to our
3 consumers.

4 The resulting price increases would
5 trigger a loss of market share to our foreign
6 competitors who mostly manufacture in Europe and
7 with an advantage of their owned factories; these
8 are branded factories.

9 These competitors are not being
10 penalized with the 25 percent tariff, giving them
11 a very strong advantage over the American ski and
12 snowboard brand.

13 There is virtually no U.S.
14 manufacturing of our products in place today.
15 The little that does exist in the U.S. is for
16 branded products. It's about one percent, and
17 there's no way we can enter and leverage their
18 capacity because it is a branded opportunity that
19 they manage themselves, so there is simply no
20 manufacturing alternative for us as a company
21 right now.

22 K2 Sports owns its production factory

1 in China in order to maintain production quality,
2 costs, and most importantly, proprietary
3 information. Our innovation process starts and
4 finishes in Seattle in our development center for
5 all products before entering production in our
6 factory.

7 And this is a very intentional
8 structure of our process to avoid putting the
9 company's intellectual property at stake, letting
10 out any innovation secrets, and most importantly,
11 not allowing any transfer of technology rights to
12 a Chinese entity.

13 Obviously, any decision to move
14 sourcing of our products would create a massive
15 business disruption and loss of capital and human
16 resource investments that have been made in the
17 last period of a few years of time. It is simply
18 not economically viable for K2 to move production
19 out of China.

20 Americans are spending about \$72
21 billion annually on snow sports right now,
22 supporting about 472 local and nationwide

1 resorts, and it's basically providing about
2 695,000 jobs within the industry in the U.S., and
3 to benefit, that industry is contributing about
4 \$11 billion in federal, local, and state taxes.

5 With these tariffs, the numbers will
6 drop dramatically for American equipment brands
7 and for the American users. We would love to
8 keep that spending focused on the American
9 companies and that's why I'm here today.

10 K2 appreciates the administration's
11 objectives with regard to China's discriminatory
12 practices and infringement of intellectual
13 property.

14 We understand that we are asking you
15 to make a very difficult decision, but applying a
16 25 percent tariff on snow sports is just not the
17 answer, especially on a life saving device such
18 as our avalanche safety airbag.

19 So by trying to influence the Chinese
20 government to make changes, you are inadvertently
21 hurting us, Americans, and American companies.

22 K2 sports has a proud portfolio of

1 iconic American outdoor sports brands with a
2 combined 402-year history in winter sports both
3 in the United States and internationally. We are
4 very proud of maintaining global market share
5 with our American brands and representing our
6 country in this industry.

7 Our goal is maintaining industry
8 leadership, continuing to support health and
9 wellness, safety, and as important, progress the
10 sports we represent.

11 Through an aggressive turnaround
12 strategy, one that is uniquely focused on winning
13 in the U.S. for the K2 brand, K2 posted our first
14 growth year in nearly a decade.

15 We have overcome ownership changes,
16 numerous leadership changes, and serious
17 competitive advantages -- disadvantages,
18 apologies, to rebuild our business.

19 Ultimately, the tariff increase from
20 list four will only hit K2 sports, the American
21 consumers, and will drastically impact the
22 695,000 jobs this industry has built.

1 So I thank you very much for your time
2 and consideration, listening to my point of view,
3 and I'm also open very much for questions, so
4 thank you.

5 MR. BURCH: Thank you, Mr. Colonna.
6 And Mr. Chairman, this concludes all witnesses'
7 testimonies.

8 CHAIR CHEN: Yes, my colleague from
9 the Department of Treasury?

10 MR. SULLIVAN: Thanks, I have a
11 question for Mr. Mason. You mentioned that your
12 company supplies about 50 percent of U.S. tennis
13 ball consumption, which I presume is mostly
14 coming from Chinese production.

15 Do you know where the other 50 percent
16 of production comes from in terms of their
17 sourcing? Is it also coming from China or other
18 places?

19 MR. MASON: Yeah, we're about 60
20 percent of the U.S. market. The remainder is
21 probably the percentage broken down between
22 Thailand and the Philippines.

1 MR. SULLIVAN: In terms of where
2 they're sourcing their materials from or --

3 MR. MASON: Our two largest
4 competitors manufacture through third party, one
5 in third party and one a wholly-owned
6 manufacturing facility, and one is in Thailand
7 and one is in the Philippines.

8 MR. SULLIVAN: In the Philippines,
9 okay. And could you elaborate a little bit more
10 on why you'd expect the 25 percent tariff to lead
11 to a 50 percent drop in sales and a 15 percent
12 drop in employment?

13 MR. MASON: Tennis balls are, we hate
14 to use the word commodity, but often it is, and
15 so the belief is, and it's been proven time after
16 time, when you take even a \$0.10 or \$0.20
17 increase on a can of tennis balls, that the U.S.
18 consumer will go to another brand and go to
19 another option.

20 And so with a large percentage of our
21 business at the mass market and the big box
22 stores, every penny matters, and so for Penn to

1 take a 25 percent increase when the competition
2 does not would have a devastating impact to us.

3 MR. CROW: I have a question for Mr.
4 Handelman. Your comments appear to mostly deal
5 with tariffs on bowling footwear. Does your
6 product line extend beyond footwear, and you
7 mentioned bowling bags, or is that your primary
8 business?

9 MR. HANDELMAN: We import and
10 manufacture bowling footwear, bowling bags, pins,
11 and accessories, and under accessories, it's
12 towels, gloves, cleaners, polishes made in the
13 U.S., and products like that.

14 MR. CROW: How important is China as a
15 source for bowling products in general? You
16 mentioned that you'll lose customers if you pass
17 on this tariff to them. Are your main customers
18 individuals or businesses?

19 MR. HANDELMAN: We sell mostly B2B.
20 However, we do sell to some consumers. All of
21 our competitors source from China as well,
22 whether it's bags, or shoes, or accessories, so

1 the entire industry is in China right now.

2 We are the only bowling bag
3 manufacturer to import parts and actually
4 manufacture the bag in the U.S., thereby creating
5 a competitive advantage for us as costs go up,
6 but the greater good here is that it's bad for
7 our end user consumer.

8 The end user consumer will either not
9 buy product or stop bowling all together because
10 the sport is too expensive.

11 MR. CROW: Thank you.

12 MR. RICE: My question would be for
13 Mr. Sankaran. Could you elaborate on the impact
14 of potential additional tariffs on the range of
15 outdoor optics, the binoculars and the scopes?

16 MR. SANKARAN: In terms of the impact,
17 the impact would be primarily not just for us,
18 but for the industry. The primary source of
19 production for these products is China today, and
20 if we were to have these tariffs go into effect,
21 we would have no choice but to pass those onto
22 our customers in some shape or form.

1 And as we pass them onto our customers
2 or the retailers, what we have seen from some of
3 the prior products which had tariffs is they have
4 chosen to pass them on with their margin added to
5 the consumers, and so I'll give you an example.

6 Take a product that today, say, sells
7 for \$99. By the time those tariffs go into
8 effect and it gets passed on through the
9 retailers with their margin added, that now
10 becomes a \$129, \$139 product. If you take a \$199
11 rifle scope, and that now becomes suddenly a \$249
12 rifle scope for the consumer.

13 That's a pretty significant impact for
14 a consumer, and we unfortunately had seen this on
15 some of our products, and the impact of that as
16 we saw in our results is that the consumer
17 reacted by buying less, unfortunately, and in
18 some cases, we saw as much as 40 percent
19 reduction in our sales.

20 I do want to point out it's not that
21 our desire is to pass on and hurt the consumer.
22 We try very hard not to let that happen, and we

1 use every means possible, whether we can extract
2 costs in the supply chains, whether we can work
3 with our vendor partners.

4 We can try to move production
5 elsewhere, but it's not as simple and easy to do
6 that, unfortunately, because you've got to go
7 where the supply chain exists, and the supply
8 chain for our products is glass, and glass is
9 largely limited to certain places.

10 So we can say we'll move our
11 manufacturing anywhere, including the U.S., but
12 the majority of the components still have to come
13 from the same place, and that's a challenge.

14 MR. RICE: Okay.

15 MR. SANKARAN: I hope I was able to
16 explain that to you.

17 MR. RICE: Oh, yeah, thank you very
18 much. As a follow up actually, is it possible to
19 source these kind of products outside of China?

20 MR. SANKARAN: We absolutely have been
21 continuously trying to do that. Like I mentioned
22 in my testimony, there are some high end products

1 we do acquire from other countries, but the
2 biggest challenge we find is the supply chains
3 are not fully robust and developed in all of the
4 countries, and so even if you try to move it, it
5 has not been easy to find enough capacity and
6 vendors in other countries.

7 We have no desire to be dependent on
8 one country. It is just not our desire. It's
9 just what today the manufacturing situation is in
10 our industry that is forcing us to be there. We
11 continuously strive to find alternatives.

12 MR. RICE: Okay, thank you.

13 MR. O'BYRNE: Mr. Archibald, you
14 mentioned that few factories outside of China are
15 capable of producing lacrosse safety equipment.
16 Could you elaborate on this point?

17 MR. ARCHIBALD: Sure, and actually
18 there are a few very number of factories that do
19 this even currently in China. Let's take, for
20 example, the lacrosse industry where there are
21 really three significant players, STX, Warrior,
22 and Cascade Maverick. It would not be unusual

1 for a certain protective device to be made for
2 all three of us in the same factory.

3 The reason is the audits that are
4 required by the safety organizations for the
5 protective equipments, audits of the factory to
6 have the factory demonstrate that they can meet
7 the QC tables that have been set.

8 So to move it, you've got that issue,
9 the tooling costs to move the various tooling or
10 to create the new tooling, and we've just had to
11 go through that with goggles because the safety
12 bodies changed the dimensions in such a way
13 everybody had to re-engineer their goggles
14 because they changed the head form on which
15 they're tested and it had a different coefficient
16 of friction.

17 So you've got that, and third, on the
18 cut and sew matters on the goggles, it really is
19 not simple stuff. It's taken lots of years and
20 lots of expertise to get where it is, not to say
21 it can't be replicated, but it's going to take a
22 number of years for the reasons I've alluded to.

1 MR. O'BYRNE: I think you've answered
2 some of this already, but what do you see are the
3 obstacles to manufacture of such equipment
4 outside of China?

5 MR. ARCHIBALD: It is developing a
6 comparable factory that can meet the items we
7 just talked about. It's developing a workforce
8 within the factory that is skilled enough to do
9 what needs to be done to meet the safety
10 standards that are required on us, and it's the
11 cost of the retooling, which in a couple of the
12 areas, we didn't get to. I didn't have enough
13 time. It's in the written materials.

14 But with respect to the composites
15 that we use for the ice hockey sticks and for the
16 lacrosse handles, to replicate that factory in
17 another place, be it Vietnam or whatever, is in
18 the many millions of dollars. We know because
19 we're looking at possibly doing that and we have
20 the time crunch.

21 And as was said in the last panel,
22 it's just not something that can be done right

1 away, and hopefully if we're going to move
2 forward, it would be done in a way that would
3 give American interests time to not get harmed in
4 the process.

5 MR. O'BYRNE: And lastly, given that
6 you seem to be working towards a new product to
7 meet the new standard, would a non-Chinese
8 producer be significantly less optimal to
9 manufacture the new product?

10 MR. ARCHIBALD: It would be because of
11 the time that R&D has spent with the factory and
12 because of the hard deadlines that we've got.
13 January 1, 2021, we've got to have the product
14 out there.

15 And of course to do that, we all know
16 the lead times to do that really would be
17 impossible because you'd have to have another
18 factory up and running and able to pass the
19 factory audits that are conducted by the SEI,
20 Sports Equipment Industries, which is a part of
21 ASTM, so it would really be physically impossible
22 to get it done in that time for those reasons.

1 MR. O'BYRNE: Thank you.

2 MR. FRATERMAN: Thank you, everyone,
3 for your testimony. My question is for Mr.
4 Colonna. You mentioned in your testimony that
5 major competitors are producing in Eastern
6 Europe. Is it not possible for K2 to diversity
7 their production either to Eastern Europe as well
8 or somewhere else?

9 MR. COLONNA: It would require us
10 actually moving and building a factory. All of
11 our competitors own their manufacturing bases.
12 They're not open for production, and obviously
13 capacity is tight in most of them, so significant
14 around both in Europe and any other country.
15 That's been the biggest variable for us.

16 MR. FRATERMAN: Okay, so there's no
17 plans for that?

18 MR. COLONNA: It would like Nike going
19 to Adidas and asking for a favor.

20 MR. FRATERMAN: Okay, great. Thank
21 you.

22 CHAIR CHEN: Mr. Colonna, if I could

1 follow up on your testimony, you mentioned that
2 you own your own production facility in China.

3 MR. COLONNA: Yes.

4 CHAIR CHEN: And that part of the
5 reason for this was concerns about your company's
6 intellectual property and innovation. I was
7 wondering if you could speak a little bit more
8 about the risks that you perceived that led you
9 to make the decisions that you did in terms of
10 how you do your procedures and how you do the
11 ownership?

12 MR. COLONNA: Yeah, I'd say our
13 industry, as fun as it is, it's very much focused
14 on product innovation and developing benefits for
15 the consumer, so even shared resources within our
16 industry is not looked upon as a healthy thing.

17 So for us, it was very, very important
18 that we maintain all of our innovative insights
19 and practices in our development center which is
20 south Seattle, Des Moines, Washington, and
21 package that up and hand it over to a factory
22 that we own just to ensure that competitively

1 nothing would get shared and nothing would put us
2 at a disadvantage in the marketplace, so it's
3 something that we've been very conscious of as we
4 go through this process.

5 CHAIR CHEN: Did you consider or were
6 there conditions that made you consider whether
7 you would take on a joint venture in your
8 facility in China?

9 MR. COLONNA: Not at this time. I
10 wasn't part of the actual decision. It was a
11 decision made about three or four years ago. We
12 do consider the ability to open up production
13 capacity in there, but again, for that
14 competitive nature, it would be outside of our
15 industry and something, reverse seasonality that
16 would allow us to maintain that strict
17 relationship.

18 CHAIR CHEN: Thank you.

19 MR. BURCH: We release this panel.

20 CHAIR CHEN: Yeah, thank you all for
21 your testimony.

22 (Pause.)

1 MR. BURCH: And would all the
2 witnesses for Panel 24 make their way forward?
3 Would the room please come to order?

4 CHAIR BUSIS: We're going to again
5 reintroduce ourselves. There are some different
6 members, so please start.

7 MR. SULLIVAN: Matthew Sullivan, U.S.
8 Department of the Treasury.

9 MR. DEVINE: Andrew Devine, U.S.
10 Department of Agriculture.

11 MS. COPPERTHITE: Kim Copperthite,
12 U.S. Department of Commerce.

13 CHAIR BUSIS: Was the mic on? I think
14 -- try that again because I think -- yeah.

15 MS. COPPERTHITE: Kim Copperthite,
16 U.S. Department of Commerce.

17 MR. CROW: James Crow, U.S. Department
18 of State.

19 CHAIR BUSIS: And Bill Busis, deputy
20 assistant at USTR for monitoring and enforcement
21 and Chair of the Section 301 Committee. So our
22 last panel today is an important one. It's about

1 chemicals and some raw materials, so let's go for
2 it. Thank you.

3 MR. BURCH: All right, Mr. Chairman,
4 this is the last and final panel for today, and
5 the first panel witness will be Elliot Davis of
6 Allegheny Technologies, Incorporated. Mr. Davis,
7 you have five minutes.

8 MR. DAVIS: Good afternoon, I'm Elliot
9 Davis, senior vice president --

10 MR. BURCH: Will you please turn on
11 your microphone?

12 MR. DAVIS: Good afternoon. I'm
13 Elliot Davis, senior vice president and general
14 counsel of Allegheny Technologies, Incorporated
15 or ATI. ATI is headquartered in Pittsburgh,
16 Pennsylvania and operates manufacturing
17 facilities throughout the United States.

18 ATI is a producer of advanced
19 speciality metals and complex components. Our
20 products support diverse markets and industries
21 such as aerospace and defense, oil and gas,
22 energy, medical, electronics, and general

1 industrial markets.

2 The focus of my testimony today is
3 ATI's production of zirconium, hafnium, and their
4 derivative alloys, materials that are essential
5 to many critical defense applications.

6 ATI produces these metals which have
7 special properties and are exceptionally
8 resistant to corrosion and high temperatures at
9 our facilities in Millersburg, Oregon and
10 Huntsville, Alabama.

11 ATI has conducted operations involving
12 zirconium for more than 60 years. ATI was the
13 first U.S. company to be an industrialized
14 manufacturer of zirconium, and our company
15 continues to be a leader in zirconium metallurgy.

16 Zirconium products are used in a
17 variety of applications, including the cladding
18 of fuel rods for nuclear reactors operated by the
19 Navy and civilian authorities, military and
20 commercial aircraft engines, and many other
21 industrial and electronic applications.

22 Likewise, hafnium products are used in

1 a variety of national security and defense-
2 related applications.

3 ATI's customers for these products
4 include the United States government, other
5 specialty material producers, and the companies
6 that comprise the global aerospace and defense
7 sector.

8 Our company's zirconium and hafnium
9 production operations involve the consumption of
10 two main inputs, zirconium oxide powder, or what
11 we call fused zircon, which is classifiable under
12 harmonized tariff schedule subheading 8109.20.00,
13 and zirconium oxychloride, also known as ZOC,
14 which is classifiable under HTS subheading
15 2827.49.50.

16 ATI consumes both fused zircon and ZOC
17 as input materials. Optimum performance is
18 obtained when ZOC is the major input.

19 Less than a year ago, ATI requested
20 that this committee remove fused zircon and ZOC
21 from the list of products that were ultimately
22 subjected to an additional 10 percent duty under

1 Section 301.

2 After considering the information and
3 comments submitted by ATI, these materials were
4 among a very small number of products that were
5 removed from the list of products subject to an
6 additional 10 percent duty starting in September
7 2018.

8 We urge the committee to again
9 recommend the removal of fused zircon and ZOC
10 from the list of products that could soon be
11 subject to an additional 25 percent duty.

12 Fused zircon and ZOC should be
13 exempted from Section 301 duties for three
14 principal reasons. First, these inputs are not
15 produced in commercial quantities in the United
16 States, and have not been for quite some time.

17 ATI would prefer to source these
18 materials domestically to strengthen the security
19 of our supply chain, but they are not
20 manufactured in the United States in commercial
21 quantities, if at all. Environmental factors in
22 particular make it difficult to produce these

1 materials in the United States.

2 While ATI purchases very limited
3 amounts of fused zircon from a small U.S.
4 producer, cost and availability have always been
5 an issue. With respect to ZOC, ATI has no option
6 but to purchase all of its needs from China as
7 there are no other large scale producers of ZOC
8 in the world.

9 Second, the imposition of an
10 additional 25 percent duty will significantly
11 increase ATI's costs sourcing these materials.
12 Fused zircon and ZOC, which account for a
13 significant portion of the costs to manufacture
14 zirconium and hafnium, are already subject to
15 normal duties of 5.5 and 4.2 percent
16 respectively.

17 Imposing an additional 25 percent duty
18 on these inputs will result in the U.S.
19 government and ATI's other domestic customers
20 paying significantly higher prices for zirconium
21 and hafnium.

22 Third, imposing an additional 25

1 percent duty on these products will hurt ATI's
2 competitiveness in selling zirconium, hafnium,
3 and their derivative alloys to our overseas
4 customers. These additional duties will only
5 enhance the competitiveness of other global
6 suppliers which will not have to absorb these
7 same cost increases.

8 For these reasons, ATI respectfully
9 requests that the Section 301 committee again
10 recommend the removal of the harmonized tariff
11 schedule classifications applicable to fused
12 zircon and ZOC from the list of products
13 potentially subject to an additional 25 percent
14 duty.

15 We presume that the committee's
16 removal of these materials from the list of
17 products that were subject to an additional 10
18 percent duty starting last September reflected a
19 determination based on national security
20 considerations.

21 There have been no changed
22 circumstances during the intervening period that

1 would justify a different outcome, and we urge
2 that fused zircon and ZOC again be excluded from
3 the imposition of any additional duty pursuant to
4 Section 301. Thank you.

5 MR. BURCH: Thank you, Mr. Davis. Our
6 next panel witness will be Chris Pesek with
7 Unicat Catalyst Technologies, Incorporated. Mr.
8 Pesek, you have five minutes.

9 MR. PESEK: Thank you. I'd like to
10 thank the Committee for the opportunity to appear
11 at this hearing to discuss the impact of the
12 Administration's proposed tariffs on Unicat
13 Catalyst Technologies, Inc.

14 My name is Chris Pesek. And I'm the
15 Global Sales Manager for Unicat. Unicat Catalyst
16 is a Texas based small to medium sized importer
17 of catalysts and catalysis related chemicals to
18 the petrochemical industry.

19 Unicat was established in 2000,
20 despite significant obstacles for startups in the
21 catalyst markets.

22 Unicat defied the odds through a

1 unique business model that emphasizes
2 complimentary services, including installation
3 assistance, maintenance, training, trouble
4 shooting, and consulting.

5 Unicat has established itself as the
6 only U.S. based catalyst company competing in
7 both purification and synthetic gas catalyst
8 markets.

9 About 70 percent of Unicat's annual
10 revenue is generated by products that are now
11 subject to the 25 percent tariffs under USTR's
12 most recent modification to Section 301 action,
13 Tranche 3.

14 These tariffs that were imposed by the
15 Administration as part of Tranche 3 will
16 eventually put Unicat out of business.

17 We recently lost two sales that would
18 have brought in almost three million dollars in
19 revenue. Approximately 10 percent of our average
20 annual revenue.

21 Those lost sales were -- those lost
22 sales were a direct result of the 25 percent

1 tariffs. And this is just the beginning.

2 The remaining 30 percent of Unicat's
3 annual revenue is generated by products covered
4 by HTS Subheading 2818.20.00. Which is part of
5 the proposed Tranche 4, the subject of today's
6 hearing.

7 Imposing these tariffs proposed in
8 Tranche 4 will cause disproportionate economic
9 harm to the U.S. economy and to Unicat. If
10 subheading 2818.20.00 is not removed from Tranche
11 4, finalizing Tranche 4 will hasten the day on
12 which Unicat will be forced to close its doors.

13 Unicat's closure will have other major
14 negative economic consequences. Before the
15 Administration began imposing tariffs as part of
16 this action, Unicat was discussing and evaluating
17 the possibility of constructing a catalyst
18 manufacturing facility in Alvin, Texas, so that
19 it could begin producing some of its catalysts
20 here in the United States.

21 When USTR imposed the 10 percent
22 tariff as part of Tranche 3 however, Unicat was

1 forced to cancel its potential expansion.

2 That plant would have employed up to
3 15 people. And been the first synthetic gas
4 catalyst manufacturing facility built in the
5 United States since the 1960s.

6 As you know, one of the
7 Administration's objectives for imposing tariffs
8 on China is to bring back U.S. manufacturing.

9 In this case, imposition of tariffs is
10 having the exact opposite effect, depriving
11 Unicat of the revenue stream it needs to
12 construct a U.S. manufacturing plant, and create
13 U.S. jobs in catalyst manufacturing, sales,
14 research and development.

15 In addition, just like the tariffs on
16 catalysts in Tranche 3, the proposed tariffs on
17 aluminum oxide in Tranche 4 would have a
18 negligible impact on the Chinese economy and
19 China's aluminum oxide industry.

20 And they would have no effect on
21 obtaining the elimination of China's acts,
22 policies, and practices.

1 China does not export large volumes of
2 aluminum oxide to the United States. And the
3 aluminum oxide is not part of China's Made in
4 2025 initiative.

5 At the same time, when Unicat exits
6 the U.S. market prices of catalysis related
7 aluminum oxide products will likely increase for
8 U.S. refineries, pesticides and chemical
9 companies. Making them less competitive.

10 It is also important to note that USTR
11 already found that the subheading 2818.20.00 did
12 not meet its criteria for inclusion in Tranche 3.
13 USTR proposed to include this subheading in
14 Tranche 3, but ultimately did not.

15 The criteria that USTR used as the
16 basis for removing subheading 2818.20.00 from
17 Tranche 3, appears to be substantively identical
18 to the criteria that USTR is relying upon to
19 determine whether to remove tariff subheadings
20 from Tranche 4.

21 As a result, for the same reasons that
22 USTR rejected the inclusion of subheading

1 2818.20.00 in Tranche 3, USTR should remove that
2 subheading from Tranche 4.

3 In conclusion, Unicat respectfully
4 requests that USTR remove HTS subheading
5 2818.20.00 from Tranche 4.

6 Thank you again for the opportunity to
7 present our views. And we would be happy to
8 answer any questions after the session.

9 MR. BURCH: Thank you Mr. Pesek. Our
10 next panel witness will be William Broxton with
11 5N Plus Semiconductors.

12 Mr. Broxton, you have five minutes.

13 MR. BROXTON: Mr. Chairman and members
14 of the Committee, I'm William Broxton Alexander,
15 Senior Director of Corporate Development and
16 Innovation Management for 5N Plus Semiconductors.

17 I'm here to request the removal of
18 unwrought germanium imported from China and
19 classified under the harmonized tariff schedule
20 of the United States, subheading 8112.92.60.

21 With a list of products that would be
22 subject to a proposed tariff of up to 25 percent.

1 In addition, germanium is also subject to regular
2 duties at the rate of 2.6 percent, cumulatively a
3 higher tariff of almost 28 percent, would trigger
4 severe economic hardship for the company,
5 heighten national security implications, and
6 create negative commercial repercussions.

7 For these and other reasons I will
8 discuss, ready and unabated access to germanium
9 should be a key factor to the USTR's final
10 determination.

11 5N Plus is a leading U.S. producer of
12 specialty semiconductor wafers. 5N Plus produces
13 these wafers at a small manufacturing facility
14 located in St. George, Utah.

15 It employs 46 people. And it is
16 invested significantly in capital equipment and
17 building improvements over the past eight years.

18 5N Plus needs germanium to produce
19 wafers for solar cells that are used on various
20 types of satellites, mostly pertaining to
21 military and commercial uses.

22 These include, for example,

1 communication, weather, astronomical, scientific
2 research, reconnaissance, and military
3 satellites, such as those used for early missile
4 warning.

5 5N Plus is the sole U.S. domestic
6 space qualified germanium wafer supplier to the
7 national security space. And is one of only two
8 such worldwide suppliers. The U.S. Government is
9 our largest end user. As the Committee may
10 recall, Germanium appeared originally on USTR
11 proposed List 3 of products to be accessed high
12 tariffs.

13 5N Plus provided public testimony to
14 this Committee on August 20, 2018. And
15 submitted comments shortly thereafter.

16 In addition, we obtained letters of
17 support to remove germanium from List 3 from
18 official within the White House Office of Trade
19 Policy and Manufacturing, DoD, the Department of
20 Commerce as well as from a commercial customer.

21 5N Plus has built a close working
22 relationship with the U.S. Government. And

1 worked hard to become the largest supplier of
2 solar cells used in military satellites and
3 secondary applications.

4 By way of background the Company's
5 contract with the Defense Logistics Agency
6 commenced in March 2018, making our company the
7 sole provider and manager of this strategic
8 stockpile.

9 Pursuant to that contract, 5N Plus is
10 responsible for upgrading a portion of the
11 existing high purity germanium inventory to
12 include unfinished germanium wafers, which are
13 needed for various national security space
14 applications.

15 The six same assertions 5N Plus made
16 to the Committee last August in support of
17 removal of germanium from List 3, remain highly
18 relevant today.

19 They are number one, the semiconductor
20 wafer market requires germanium to produce solar
21 cells used in satellites required by defense in
22 commercial industries, with the U.S. Government

1 being the largest end user of such wafers.

2 Number two. For a number of years, no
3 active mines in the United States have produced
4 the grave quality or quantity of germanium needed
5 by 5N Plus to make the highly valued wafers for
6 commercial and military customers.

7 China produces more than 65 percent of
8 the world's refined germanium. With the United
9 States purchasing 20 percent of that figure.

10 Number three. There are currently no
11 suitable alternative suppliers of germanium
12 within the United States or elsewhere in North
13 America.

14 While germanium mines exist in Germany
15 and Russia, those do not have the capacity, even
16 in the aggregate to produce the level of
17 germanium required by 5N Plus or the U.S.
18 Government's national defense stockpile.

19 Number four. The other national
20 security space qualified producer of wafers is
21 located in Belgium. That producer sources the
22 majority of its germanium from China.

1 Assessing an increased tariff on
2 imported germanium from China provides an unfair
3 and undeserving advantage to the European
4 competitor in the satellite industry, where slim
5 margins are the norm.

6 Adding the high tariff to 5N's costs
7 would cause disproportionate economic harm to the
8 company, resulting in a loss of U.S. jobs, a drop
9 in R&D related funding and similar investments,
10 and a massive reduction in its customer base.

11 Having no -- number five. Having no
12 suitable alternative sources of germanium, 5N
13 Plus has no other viable option then to source
14 this critical mineral from China.

15 If that supply chain becomes
16 economically foreclosed, wafers for building
17 commercial and military satellites, or for
18 sustaining the U.S. stockpile of germanium wafers
19 will have long term, negative strategic
20 implications for U.S. national security.

21 Number six. Further placing tariffs
22 on germanium will not be affective in eliminating

1 China's acts, policies, and practices related to
2 technology transfer, intellectual property, and
3 innovation.

4 Clearly the mining of germanium does
5 not entail high level technology that would
6 facilitate China's Made in China 2025 objective.

7 It is important to note that 5N Plus
8 is not the only interested party to endorse the
9 criticality of germanium. The Department of
10 Interior released a list of critical minerals
11 last year, designating germanium and other
12 minerals for which there is heavy reliance on
13 imports, as vital to national -- the nation's
14 security and economic prosperity.

15 The DoD has also recognized germanium
16 as a critical mineral since as early as '91.
17 More recently the Department of Commerce noticed
18 the United States relies on imports of 35
19 critical minerals, and lacks any domestic
20 production for 14 of these critical minerals,
21 including germanium.

22 Furthermore, even USTR states in its

1 May 17, 2019 Federal Register Notice that List 4
2 excludes critical minerals, despite the USTR
3 proposing that germanium, a widely proclaimed
4 critical material, be subject to additional
5 duties up to possibly 25 percent.

6 Taken into consideration the
7 importance of germanium to the DoD, other federal
8 agencies, and the private sector, we respectfully
9 urge USTR to remove germanium from List 4 of
10 proposed goods.

11 Indeed, several government agencies
12 last week recommended to the President that the
13 United States should work to increase access to
14 critical minerals by expanding imports of such
15 minerals that are not available in the U.S. in
16 sufficient quantities.

17 Thank you. And I welcome any
18 questions you may have.

19 MR. BURCH: Thank you Mr. Broxton.
20 Our next panel witness will be Edward Brzytwa
21 with the American Chemistry Council.

22 Mr. Brzytwa, you have five minutes.

1 MR. BRZYTWA: The American Chemistry
2 Council appreciates the opportunity to testify
3 today on the proposed 25 percent additional
4 tariff on another 300 billion dollars in U.S.
5 imports from China, including 11 billion dollars
6 in chemicals and plastics imports.

7 ACC holds the position that a
8 prolonged trade war between the United States and
9 China, in which chemicals being subjected to
10 higher tariffs becomes a fixture, not an
11 exception, could reverse the fortune of the U.S.
12 chemical manufacturing sector.

13 Our industry's future growth depends
14 on a strong U.S./China trading relationship, full
15 access to China's large and growing market, and a
16 certain and predictable trade policy. Not
17 threats of more or higher tariffs.

18 While we continue to support the
19 Administration's efforts to address unfair trade
20 practices in China, including inadequate
21 protections of IP and forced technology transfer
22 practices, chemicals must be taken off the front

1 lines of this trade war.

2 We urge the Administration to get back
3 to the negotiating table, end the trade dispute,
4 and lift the China Section 301 additional
5 tariffs.

6 With regard to proposed List 4, we
7 respectfully urge the Section 301 Committee to
8 remove, at a minimum, the 214 eight-digit U.S. --
9 HTS codes for chemicals and plastics, which are
10 in Chapters 28, 29, 32, 33, 34, 35, 36, 38, and
11 39.

12 If the list tariff -- List 4 tariffs
13 come into effect, the total value of U.S.
14 chemicals and plastics imports from China,
15 subject to tariffs across all four lists, will
16 reach 26.4 billion dollars.

17 This would amount to the biggest tax
18 increase that U.S. chemical manufacturers have
19 ever experienced. China's retaliatory tariffs
20 are simultaneous impacting 11 billion dollars in
21 exports of U.S. made chemicals and plastics,
22 resulting in a decrease in U.S. exports by 24

1 percent from December 2017 to December 2018.

2 The U.S. chemical manufacturing sector
3 is one of the hardest hit sectors in the current
4 volley of tariffs between the United States and
5 China. A 25 percent tax increase on 26.4 billion
6 dollars in chemicals and plastics products is
7 unsustainable for a majority of chemical
8 manufacturers regardless of size.

9 Due to their early position in the
10 manufacturing supply chain, when the chemical
11 industry's costs increase, it causes a ripple
12 effect across the U.S. economy, impacting
13 downstream customers that rely on chemicals to do
14 business. Ultimately, U.S. consumers will pay
15 higher prices for goods and services.

16 The timing of the trade dispute with
17 China is especially harmful for our industry.
18 The shale gas revolution has given U.S. chemical
19 manufacturers an unprecedented competitive
20 advantage at producing high demand chemistries at
21 low costs, exporting them around the globe.

22 The uncertainty created by the tariffs

1 on U.S. chemical imports, the artificial cost
2 increases, and the resulting retaliatory tariffs
3 on our exports are threatening investments. And
4 could all but nullify the historical gains our
5 industry has witnessed over the past ten years.

6 For U.S. chemical manufacturers a
7 prolonged trade war with China could cause the
8 gift of the shale gas revolution to wither and
9 fade. Significantly undermining our industry's
10 global competitive advantage.

11 Because chemistry touches 96 percent
12 of all manufactured goods, the U.S. manufacturing
13 sector, and in face the entire U.S. economy,
14 thrives when the cost to produce and import
15 chemicals is low.

16 Many of the products in List 2, 3, and
17 4, are inputs to chemical manufacturing.
18 Building block chemicals, raw materials and feed
19 stocks that can only be sourced from China.

20 If the current situation continues,
21 the companies want to produce -- and the
22 companies want to produce chemicals that require

1 these inputs it will be forced to move production
2 to or invest in other countries.

3 High paying, high skilled jobs will
4 move from the United States to other markets.
5 U.S. hiring may slow, and U.S. production
6 facilities could close.

7 Small and medium sized chemical
8 manufacturers will bear the disproportionate
9 effects of these tariffs because they will not be
10 able to mitigate their impacts in the same way
11 that multinational companies can.

12 We believed the Administration
13 listened to our case for removing essential
14 chemicals from the tariff lists.

15 In September 2018 U.S. chemical
16 manufacturers welcomed the Administration's
17 removal of three billion dollars in chemicals and
18 plastics imports from the final U.S. List 3.

19 To ACC and our members it appeared
20 that the Administration had determined that these
21 141 products were essential to U.S. manufacturing
22 and agriculture. And therefore, should not be

1 subjected to tariffs.

2 However, in an unexpected reversal,
3 the Administration's proposed List 4 includes at
4 least 114 chemicals and plastics products that
5 had been taken off the proposed List 3. These
6 products accounted for 2.68 billion in imports in
7 2017.

8 The Administration's reversal on these
9 products is surprising, injecting more confusion
10 and greater uncertainty in the U.S. chemical
11 sector.

12 Also confusing, is the significant
13 overlap between the chemical products in the
14 miscellaneous tariff bill in all the China
15 Section 301 tariff lists.

16 These products should not be subjected
17 to any additional tariffs as the U.S.
18 International Trade Commission and Congress
19 deemed them essential to U.S. manufacturing
20 competitiveness.

21 At the G8 -- G7 Summit in Canada in
22 June 2018, the Administration stated that one of

1 its goals is to eliminate tariffs globally. ACC
2 and our members support this goal, and welcome
3 opportunities to assist the Administration to
4 achieving it immediately.

5 Tariff elimination for chemicals must
6 lead to the lowest possible bound and most
7 favored nation rates of the WTO, and the
8 avoidance of additional duties on top of applied
9 duties.

10 With this we urge the Administration
11 to lead the world into a new era of fairer,
12 broadly beneficial global trade and investment.

13 Thank you.

14 MR. BURCH: Thank you Mr. Brzytwa.
15 Our next panel witness will be Matthew Moedritzer
16 with the Society of Chemical Manufacturers and
17 Affiliates.

18 Mr. Moedritzer, you have five minutes.

19 MR. MOEDRITZER: Good afternoon. And
20 thank you Section 301 Committee for the
21 opportunity to testify today.

22 My name is Matt Moedritzer. And I

1 manage legal and government relations for the
2 Society of Chemical Manufacturers and Affiliates
3 or the acronym SOCMA.

4 SOCMA is the only U.S. based trade
5 association solely dedicated to the specialty and
6 fine chemical industry. A 300 billion dollar
7 industry that is fueling high paying jobs in
8 local economies across the United States.

9 SOCMA members play an indispensable
10 role in the global chemical supply chain,
11 providing specialty chemicals to companies in
12 markets ranging from aerospace and electronics to
13 pharmaceuticals and agriculture.

14 Tranche 4 essentially captures all
15 remaining Chinese origin chemicals, with
16 exceptions for certain pharmaceuticals and rare
17 earth minerals.

18 SOCMA respectfully requests that USTR
19 delist Chinese origin chemicals in HTS Chapters
20 9, 13, 15, 21, 28, 29, 32, 33, 34, 35, 37, 38,
21 and 39 from proposed Tranche 4.

22 To aid in your evaluation, please

1 consider SOCMA comments filed Monday, which
2 include a data sheet. And I brought a copy
3 today, not that you can see it. But I just want
4 to give you an idea of what the table looks like.

5 But in the comments is a data sheet
6 that lists hundreds of individual product lines
7 imported by SOCMA members with eight to ten digit
8 HTS number, chemical name, chemical abstract
9 service number, as well as corresponding
10 justifications for delisting, which often detail
11 a degree of economic harm and whether viable
12 alternate sources exist.

13 In any event, specialty chemical
14 inputs make good candidates for delisting for the
15 following three reasons. One, speciality
16 chemical manufacturers as a sector of the
17 chemical industry are particularly exposed to
18 Tranche 4 tariffs.

19 More than half of SOCMA members are
20 small and medium sized enterprises. Speciality
21 chemistry brings uniquely manufactured substances
22 to market often through small batch production.

1 Speciality chemical manufacturers thus
2 face higher business costs as a segment within
3 the chemical industry. And often face equivalent
4 or potentially lower net revenues and bulk
5 chemical manufacturers.

6 The batch manufactured products they
7 create are not afforded the economies of scale.
8 And so many such firms must also concentrate
9 their operations around one or a relatively small
10 number of facilities.

11 Batch chemical producers are not
12 single product companies. Many producers have
13 hundreds of products in their portfolios, each
14 requiring a unique set of inputs.

15 All such inputs are vitally important
16 to the quality and consistency of the final
17 product. Changing any one component therefore
18 can have significant effects.

19 Reason number two. Speciality
20 chemical supply chains are particularly
21 integrated into China.

22 Many speciality chemical manufacturers

1 will be disproportionately burdened given the
2 degree to which chemical inputs are often
3 unavailable outside China.

4 To illustrate this point, please
5 consider that chemicals made up nearly half of
6 the tariff lines delisted from U.S. Tranche 3.

7 Please also consider that chemicals
8 make up over half the tariff savings from the
9 current miscellaneous tariff bill cycle, and
10 roughly half of all MTB products are sourced from
11 China.

12 These de-listings and number of
13 chemical petitions that have been vetted and
14 cleared by the U.S. International Trade
15 Commission for Tariff Relief speaks volumes
16 regarding how dedicated the Chinese supply chain
17 is for certain chemical tariff provisions.

18 SOCMA wishes to flag two sector
19 specific impacts in particular. The flavors and
20 fragrances industry is particularly exposed to
21 Tranche 4.

22 One SOCMA member for instance, uses

1 over three thousand different ingredients to
2 create their fragrance and flavor formulas. Many
3 of which come exclusively from China, and are
4 indicated as such in SOCMA comments.

5 If implemented as proposed,
6 significant costs may be passed along to American
7 consumers that use end products on a daily basis.

8 Also, certain pigment intermediates
9 previously listed then delisted from Tranche 3,
10 are now relisted on Tranche 4.

11 The Committee will hear from Jean Yoho
12 of Sun Chemical, a SOCMA member, tomorrow morning
13 who will flag two pigment intermediates in
14 particular, that have no viable sourcing
15 alternates. And if tariffed to 25 percent would
16 alter the industry as we know it.

17 Reason number three. Delisting
18 Chinese origin chemical inputs will impede Made
19 in China 2025.

20 For years the Peoples Republic of
21 China has been incentivizing Chinese
22 manufacturers to move up the value chain by

1 providing export subsidies.

2 While roughly half the overall goods
3 imported from China are inputs, nearly every line
4 item in the HTS chapters, there's 28 inorganic
5 chemicals, and 29 organic chemicals by definition
6 is an input that industry uses to manufacture new
7 chemicals.

8 By placing tariffs on the raw
9 materials or intermediates coming into the U.S.,
10 the Administration is aiding the Chinese plan for
11 2025.

12 This increase in tariffs will increase
13 the costs of manufacturing higher value products
14 in the U.S., and make the U.S. less globally
15 competitive.

16 Also, if the U.S. is the only
17 manufacturer, this increase would make these
18 markets more attractive for entry. And this
19 opens up the door for Chinese companies to move
20 into these markets.

21 By keeping the status quo, the
22 Administration keeps domestic manufacturing

1 competitive on the global market. And does not
2 incentivize others to enter these high end,
3 technically challenging, and expensive to enter
4 markets.

5 In conclusion, thank you for the
6 opportunity to appear before the Committee this
7 afternoon.

8 Thank you also for your work these
9 past months and for your consideration of SOCMA
10 justifications to delist Chinese origin chemicals
11 in the aforementioned HTS Chapters from proposed
12 Tranche 4.

13 MR. BURCH: Thank you Mr. Moedritzer.
14 And our last final panel witness for the day will
15 be Joseph Gruchacz with Canaxy USA, Incorporated.

16 Mr. Gruchacz, you have five minutes.

17 MR. GRUCHACZ: Thank you.
18 Respectfully request HTS 2933.96.01.5 be exempt
19 from the 25 percent tariff. And thank you for
20 having me back.

21 Last August 20 I testified regarding
22 this same product. Following my appearance the

1 HTS was excluded off the September 17 list of
2 items assigned the 10 percent tariff.

3 The product, chlorinated
4 isocyanurates, are chemicals used for water
5 treatment in sanitizations. These EPA regulated
6 chemicals kill harmful bacteria hence important
7 to American's health.

8 Primarily used in pool and spa with
9 some drinking water applications, ISOs are
10 imported in two forms, bulk, which is then
11 processed at U.S. factories, and as well as in
12 consumer sized pails.

13 Canaxy USA is a Georgia corporation,
14 and is a very small business. Within the USA
15 Canaxy USA sells imported ISOs as well as several
16 other very low volume chemicals.

17 Today's purpose is to address Chinese
18 sourced product. However, we feel an
19 understanding of the overall activity is --
20 business activity is also important.

21 Domestic production has three ISO
22 producers, one is wholly Chinese owned. I know

1 of no domestic ISO producer closing during the
2 last 25 years, or ever. But I've been involved
3 for 25 years.

4 The commutative annual capacity of
5 those three producers is 306 million pounds. The
6 three manufacturers petitioned the Department of
7 Commerce to complete antidumping reviews
8 annually.

9 Unlike others, other testimony from
10 others today whose products have no U.S.
11 production, in this case the domestic producers
12 dominate.

13 Below is some actual import data
14 concerning this HTS supplied by the United States
15 Census Bureau's trade online database. The
16 values shown are FOB, which is declared value
17 less ocean freight.

18 The highlighted yellow line is Chinese
19 activity. Some comments, in 2017 all six
20 countries which had companies manufacturing ISOs
21 exported to the USA. Year to date, only two,
22 Japan and India.

1 Japan's ISOs to the U.S. increased 20
2 percent in 2018 over 2017. In 2017, three
3 Chinese producers exported to the USA. In 2018,
4 one, and in 2019 there will be none with or
5 without the 25 percent tariff.

6 Using the total year estimate of
7 imports being about 24 million pounds, imports
8 represent about 8 percent of the domestic
9 production capacity.

10 Current duties on the Chinese ISOs.
11 Only two Chinese manufacturers are now eligible
12 to export to the USA due to their cooperation
13 with the cost of U.S. antidumping reviews.

14 In 2018, only one Chinese manufacturer
15 exported to the U.S. Currently the commutative
16 duties on that manufacturer which did export to
17 the U.S. last year, is 39.97 percent. The other
18 manufacturer has higher duties.

19 Although we are not here today to talk
20 U.S. antidumping calculations, which are complex,
21 once under review survival is challenging. An
22 example of the challenges is the processes' use

1 of surrogate countries, third countries, to
2 determine what Chinese manufacturing costs should
3 be.

4 For the current antidumping rate,
5 Mexico was used as a surrogate manufacturing
6 country. Which may not accurately represent,
7 estimate what the Chinese manufacturing costs
8 should be.

9 The current antidumping rate of 33.63
10 percent was calculated using data during the
11 period June 2016 to May 2017.

12 Between 2017 and '18, Chinese imports
13 to the U.S. were valued at 5.5 percent higher
14 than Japanese imports. The Japanese have a zero
15 percent antidumping duty while the Chinese
16 product has the 33.

17 In 2018 Chinese product was imported
18 at values 4 to 15 percent -- excuse me, 2018,
19 Chinese product was imported at values 4 to 15
20 percent higher than all other origins.

21 Unfortunately for Canaxy, the timing
22 lag between the data used for antidumping

1 analysis and then more recent import values, is
2 detrimental to Canaxy.

3 Respectfully request the HTS not get
4 the 25 percent tariff. Canaxy has been working
5 with the Chinese supplier such that 2018 data
6 shows the price of Chinese products increasing 11
7 percent from 2017/18.

8 We ask that the Trade Commission not
9 implement the 25 percent. And allow the
10 antidumping process to alone manage this
11 product's viability in the USA.

12 Adding 25 percent to the existing 39
13 percent duties creates a hopeless situation for
14 Canaxy's efforts.

15 Such activities are ongoing such as
16 development of safer formulations with lower U.S.
17 DOT hazards classifications, and continued
18 payment of the thousands of dollars of EPA fees
19 to the EPA by registration's owners -- for reg --
20 for EPA fees during this period of zero sales
21 most likely will cease.

22 We are not asking for an opportunity

1 to sell more a few months from now. Rather,
2 implementing the 25 percent tariff, you are
3 leaving open the possibility -- by not
4 implementing the 25 percent tariff, you are
5 leaving open the possibility for us to
6 participate years from now for this HTS, because
7 we'd still see there's a potential opportunity.

8 Canaxy is a small business of which
9 the product generate approximately -- this
10 product, this HTS generated approximately 80
11 percent of its revenue in 2018.

12 After years of working with this
13 product, adding the 25 percent tariff will
14 greatly jeopardize our existence.

15 While many large corporations spoke
16 today and making their cases during these
17 hearings, we are a very small company making our
18 case.

19 But I'm even more thankful that my
20 government would take the time to let me speak.
21 Thank you very much.

22 MR. BURCH: Thank you Mr. Gruchacz.

1 And Mr. Chairman, this concludes all witnesses'
2 testimonies.

3 MR. DEVINE: I have a couple of
4 questions for Mr. Davis. One about fused zircon
5 and one about ZOC.

6 So you mentioned for fused zircon that
7 there is -- you have sourcing in China. And then
8 there's also a U.S. source.

9 But are there any other sources in the
10 world for fused zircon?

11 MR. DAVIS: There aren't, at the
12 current time, that are commercially available.
13 We have one other source that's located in Africa
14 that we're attempting to qualify right now.

15 And the initial qualifications have
16 been hopeful. And we believe that they may be
17 able to supply some significant portion of our
18 needs. Maybe 40 to 50 percent.

19 MR. DEVINE: So as for ZOC, have you
20 had any other similar optimistic stories in other
21 countries? Or is there some technical reason why
22 China is the only country that can produce it?

1 MR. DAVIS: I think it's the
2 environmental issues. It's quality, safety, all
3 of the issues around -- around production of a
4 reactive metal like zirconium.

5 And I'm not sure why others haven't
6 gotten involved, other than they're not going to
7 be competitive with the Chinese, I suppose.

8 MR. DEVINE: Thank you.

9 MR. SULLIVAN: Thank you, I have a
10 couple of questions for Mr. Pesek. Could you
11 just explain a little bit more what type of
12 manufacturing Unicat foresees in -- or has in the
13 U.S. vis-a-vis what imports from China?

14 In particular, you talked about your
15 considering expanding in the U.S. But then not,
16 decided not to do it because of the 10 percent
17 tariff.

18 Can you just explain a little bit more
19 about the thinking either for future expansion,
20 or what you currently do in the U.S. versus what
21 you import from China?

22 MR. PESEK: Yes. So, right now we

1 probably import about 95 percent of our products
2 from China.

3 We are constantly looking into and
4 evaluating possibilities of manufacturing here.
5 But more niche speciality products.

6 Our industry is dominated by very
7 large multinational companies, mainly in Europe.
8 So, Unicat, even though we started up in 2000, is
9 probably the newest catalyst company in the
10 United States.

11 And there's only couple that are in
12 the United States. And they're small niche kind
13 of companies.

14 So, we've just now -- we're in an
15 industry that's very conservative. The refining
16 and petrochemical industry.

17 So there's very big barriers to entry
18 to this market, both in capital and in
19 sophistication and taking a risk on a new
20 catalyst supplier.

21 And so those have been -- and that's
22 what has taken, you know, 15 to 20 years to get

1 to a size now to where we are looking at
2 potential, you know, investments in the United
3 States.

4 We have a joint venture that we just
5 started up about two years ago. And that
6 manufacturing is here in the United States.

7 But we take, we take the structure
8 from China. And we dip precious metals on those,
9 so.

10 But we're constantly looking at
11 opportunities, so.

12 MR. SULLIVAN: And you mentioned some
13 of the main competitors are European MNCs. Where
14 do they source their products from?

15 Is it also from China? Or other
16 sources?

17 MR. PESEK: Some in China. Most of
18 the big ones in Europe are in their home
19 countries. You know, for example BASF is a
20 German company, so they're in Germany.

21 But a lot of them are in their home
22 countries. And either China or India. And we

1 don't have access to them, you know, going back
2 to the Nike versus like Under Armor example.

3 These are big multinationals who would
4 like to see us out of the business, so.

5 MR. SULLIVAN: Thank you.

6 MR. CROW: I have a question for Mr.
7 Alexander. Could you further explain the
8 difference in quality between the unwrought
9 germanium sourced from China and that available
10 from Europe?

11 I know you mentioned capacity. So I
12 would also ask, is there any way they -- any
13 prospect of them increasing capacity?

14 MR. BROXTON: Well, the germanium
15 comes in different forms. So the unwrought
16 germanium metal that we buy is a certain purity
17 of metal.

18 And then -- but the dominant use of
19 germanium is the germanium tetrachloride that
20 goes into fiber optics. So a lot of the
21 suppliers of germanium will tune that germanium
22 accordingly.

1 So, the type that we needed as 5N,
2 59's purity comes from China. And they have the
3 best capability and quantity. And they control
4 the market in that.

5 But one bit of clarity I'll add as
6 well, is we're space qualified. Where we went
7 through an 18-month qualification cycle with a
8 supplier of metal.

9 And so if you change anything because
10 of the small impurities that can impact the final
11 device that's on a satellite, there's a long
12 qualification process.

13 So in terms of having a ready supply
14 and the grade and quality that we need, that
15 comes from China.

16 But we do add all the value and the IP
17 in St. George, Utah. And growing crystals and
18 making these types of wafers, that's a lot of IP
19 there.

20 But we keep that inside our company in
21 St. George, Utah.

22 MR. CROW: Thank you.

1 MS. COPPERTHITE: Mr. Brzytwa, I have
2 a couple of questions for you. You specifically
3 indicate that there are certain chemicals not
4 produced in the United States and not produced in
5 third countries. Thus, leaving China as the sole
6 source of production.

7 Can you identify some of these
8 chemicals?

9 MR. BRZYTWA: I can identify a lot of
10 those chemicals if I had the time. There's a
11 long list. You know, we can provide that
12 information in post-hearing.

13 But the point is, is that even in the
14 miscellaneous tariff bill, there's a wide array
15 of chemicals that the Congress and the
16 International Trade Commission identified as
17 essential the manufacturing competitiveness in
18 the United States.

19 We found that, I think, over 76
20 percent of the chemicals that are in the MTB,
21 overlapped with the chemicals that are in China's
22 Section 301 List 2 and 3.

1 We haven't done the math yet on List
2 4. But, I mean, 76 percent's a big number. And
3 so the idea is that, those are all chemicals that
4 you can only find from -- in other parts of the
5 world.

6 And I guess only in China in these
7 instances. So, you know, why should we be
8 undermining U.S. manufacturing competitiveness by
9 imposing a tariff that you can't find in the
10 United States?

11 MS. COPPERTHITE: And my second
12 question. How much of the chemicals imported
13 from China are from related party trade between a
14 U.S. firm and it's Chinese subsidiary?

15 MR. BRZYTWA: So, the chemical
16 manufacturing world is, at least for North
17 America, quite integrated.

18 You have a lot of related party trade
19 between the United States, Canada, and Mexico.
20 You see that with respect to Japan, Europe, you
21 know, a lot of related party trade.

22 I think with China there are certainly

1 U.S. manufacturers that have made long time
2 investments in China. A good bulk of that could
3 be related party.

4 But, you know, we can definitely bring
5 those numbers back to you.

6 CHAIR BUSIS: Mr. Brzytwa, you
7 mentioned the shale gas revolution, which
8 increased competitiveness in the U.S. chemical
9 industry, which is great for all of us.

10 And I presume it increases
11 competitiveness because of its, I think used for
12 feed stocks for some previous chemicals.

13 But at the same time you mentioned
14 that we need Chinese feed stocks for certain
15 chemicals.

16 MR. BRZYTWA: Um-hum.

17 CHAIR BUSIS: So could you sort of
18 explain the difference between the shale gas and
19 how that affects feed stocks, and the feed stocks
20 that we still need from China?

21 MR. BRZYTWA: Um-hum. So the shale
22 gas is not just the main feed stock for the

1 production of chemicals in the United States.

2 It's also the chief source of energy.

3 So, it's a very low cost source of
4 energy for the plants, chemical manufacturing
5 plants to operate in the United States. And this
6 is really a feature of the chemical industry in
7 the United States over the last ten years.

8 So, this is why we're so competitive.
9 You know, in speaking with our members who do
10 import from China, they import certain types of
11 feed stocks that just aren't available in the
12 United States, from China.

13 Certain raw materials that they then
14 are using to manufacture into other chemicals
15 inside the United States. I think one example we
16 had was one member imported a product from China
17 that they then use as an input into manufacturing
18 a chemical.

19 So, it was like eight parts U.S.
20 product, one part Chinese product. But if they
21 couldn't get that Chinese product, they would
22 have to just cease making that product entirely

1 inside the United States.

2 So, it's a -- there are lot of -- as
3 you know, I mean, there are thousands of tariff
4 lines on chemicals. And many of those products
5 are -- you can only source from China.

6 You can't find it anywhere else in the
7 world. You can't find it in the United States.

8 CHAIR BUSIS: Can you get a -- so
9 there's only so many chemical elements.

10 MR. BRZYTWA: Right.

11 CHAIR BUSIS: And a lot of these are
12 just nitrogen, you know, nitrogen, chlorine,
13 hydrogen, carbon. So, why is it, and certainly
14 China doesn't have more nitrogen or chlorine or
15 carbon then we do.

16 So can you give us a sense of why do
17 certain feed stocks only come from China?

18 MR. BRZYTWA: I think that it's where
19 production has gravitated over the course of
20 decades. That you -- companies have made, you
21 know, built these feed stocks in China, the
22 production of these feed stocks.

1 And I think they've ceased to produce
2 them in the United States. So, it's a, I think,
3 a challenging situation.

4 But, you know, if our companies want
5 to continue to produce chemicals in the United
6 States in a competitive way, they need access to
7 these particular feed stocks, or raw materials,
8 or building block chemicals.

9 You know, this is, this is why we're
10 worried about the situation with tariffs.
11 Because we want to continue to be globally
12 competitive.

13 CHAIR BUSIS: So to be clear, I guess
14 we're saying like feed stock can still be, what
15 we call a feed stock, could still be an
16 intermediate chemical. It comes from other feed
17 stocks?

18 MR. BRZYTWA: Yes. It's an input.
19 Right.

20 CHAIR BUSIS: Okay.

21 MR. BRZYTWA: It's an intermediate
22 input.

1 CHAIR BUSIS: Okay.

2 MS. COPPERTHITE: And for Mr.
3 Moedritzer. You mentioned certain HTS categories
4 of chemicals specifically as inputs, the import
5 of which allows U.S. chemical, specialty chemical
6 manufacturers to produce higher value products.

7 Are tariffs on the more basic chemical
8 products of greater concern to speciality
9 chemical producers than tariffs on the more
10 relatively processed chemical products?

11 MR. MOEDRITZER: So, tariffs on --
12 tariffs on the inputs as compared to tariffs on
13 the products that SOCMA members are formulating
14 here in the States?

15 MS. COPPERTHITE: Much like what Mr.
16 Brzytwa indicated. The distinction between the
17 most basic chemicals, and how they move through
18 the chain of processing.

19 Are those of more concern to you? Or
20 the intermediates which are then also used to
21 produce specialties, are those of more concern to
22 you?

1 MR. MOEDRITZER: Yes, ma'am. Thank
2 you for your question. So, I think it just
3 depends on the sector. And it depends on the
4 chemistry.

5 So often the raw materials will be
6 sourced from China. Or it could be an
7 intermediate.

8 But say if you're importing the raw
9 materials, then you could be making an
10 agrochemical active ingredient here. And then
11 shipping elsewhere globally for it to be
12 formulated.

13 So, I think it's just highly dependent
14 on the chemistry. I wish I had a better answer
15 for you.

16 But, perhaps I could follow it up with
17 some -- in a post-hearing submission with maybe
18 like a sector specific breakdown.

19 MS. COPPERTHITE: Thank you. That
20 would be helpful.

21 CHAIR BUSIS: Mr. Gruchacz, is that
22 pronounced? Okay. So, your testimony mentions,

1 and I want to make sure this is right, is it 306
2 million pounds of domestic production?

3 MR. GRUCHACZ: Yes.

4 CHAIR BUSIS: Okay.

5 MR. GRUCHACZ: That's per capacity --

6 MR. BURCH: Can you speak into the
7 microphone?

8 MR. GRUCHACZ: Sorry. That already is
9 their capacity. I know right now they're running
10 near that.

11 CHAIR BUSIS: Okay.

12 MR. GRUCHACZ: But I don't know, just
13 because of confidentiality. I can't tell you
14 exactly how much they're running.

15 CHAIR BUSIS: Okay. All right. And
16 so then you gave us a helpful chart which has, I
17 guess, it's with imports.

18 And we have -- it looks like the most
19 we have here is around 30 million pounds. Which
20 is 10 percent of the U.S. production.

21 And China has only been about, the
22 highest is about nine million pounds. Which is,

1 looks like only about 3 percent of the U.S.
2 production.

3 MR. GRUCHACZ: Yes.

4 CHAIR BUSIS: Yeah, okay. So, you
5 know, oftentimes we see the opposite of high
6 numbers where China is like 97 percent over the
7 U.S.

8 But here we see only a 3 percent of
9 our total, compared to U.S. production. It's not
10 jumping out that this is something we really need
11 the Chinese product.

12 Could you elaborate?

13 MR. GRUCHACZ: I ag -- you know, I
14 agree. I'm here arguing for my small company who
15 has spent numerous years working with this
16 chemical. And we'd like to keep going.

17 This year we will import nothing
18 because of the antidumping process. If the 25
19 percent duty were to go on in addition to that,
20 we would probably just say no mas.

21 Because we don't -- we can't even keep
22 doing the right things. It may not be possible

1 to do the right things and then be viable in the
2 future.

3 Whereas I would like to survive, my
4 company Canaxy would like to survive. And we're
5 just saying, if the 25 percent was not
6 implemented, as the 10 percent wasn't in last
7 September, we could at least keep going.

8 But with the 3 percent you mentioned,
9 is, without doing the math in front of me is
10 correct. This year it will be zero for sure.

11 And it's really just basically, it's
12 just giving it a shot, asking for a lifeline.

13 CHAIR BUSIS: And we're sympathetic.
14 But I'm just trying to understand.

15 MR. GRUCHACZ: Oh, yeah.

16 CHAIR BUSIS: So why -- but given the
17 other sources it's, you know, 30 times the size
18 of China.

19 Can you have access to any of those
20 other sources? Either from the United States or
21 from the rest of the world?

22 MR. GRUCHACZ: I went door to door

1 when the 25 percent was announced. I went to
2 Japan three weeks ago. And went door to door to
3 the three producers.

4 Two of them -- two of them were at --
5 kind of wanted to talk to me. But they're all
6 out of capacity.

7 As the other -- as the other countries
8 I show, Spain, Italy, I think there's another one
9 there, it's cease -- Mexico, ceased shipping to
10 the U.S.

11 Japan was able to take advantage of
12 that. So they're basically saying they have --
13 they told me they have no capacity.

14 So, I tried to look for viability in
15 another way. India. India has kind of an
16 exclusive with somebody in the U.S. So, I was
17 out of luck.

18 But, yeah, the U.S. producers are
19 doing very well, as they come from China stuff.

20 CHAIR BUSIS: I see. And when --
21 okay, this is, you know, obviously this doesn't
22 involve the dumping duties, this particular

1 process.

2 MR. GRUCHACZ: Right.

3 CHAIR BUSIS: Can you -- can you
4 afford to buy from China with the current level
5 of antidumping duties?

6 MR. GRUCHACZ: No. That's why it will
7 be zero this year. I mean, it's not a -- there
8 will be no market for it. I mean, not so much to
9 buy.

10 But that's why I say it's zero. Now,
11 we're going to -- we've been doing things the
12 last two years to get in good rapport or get into
13 good with the antidumping process to show we're
14 good global partners.

15 And that's what we've been working on.
16 We're just the timing of our latest performance
17 of the data used makes it right now, it's a very
18 bad situation.

19 Again, all I'm saying is we -- we're
20 trying to do the good global supply part, you
21 know, activities to pull out of that. But it
22 will take time.

1 Adding the 25 percent, I just say, and
2 may just say, we'll just never get over that
3 hump.

4 CHAIR BUSIS: Thank you for the
5 clarification. It's very helpful.

6 Members of the 301 Committee, any more
7 questions for this panel?

8 (No response.)

9 CHAIR BUSIS: Mr. Burch, I think we
10 can release this panel and we can recess until
11 tomorrow at 9:30? Right? Okay.

12 MR. BURCH: Right.

13 CHAIR BUSIS: Thank you.

14 (Whereupon, the above-entitled matter
15 went off the record at 5:26 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: 06-19-19

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.



Court Reporter

NEAL R. GROSS

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