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 Klover
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
AMY ZIRKLE, Electronic Transactions Association

C-O-N-T-E-N-T-S

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

9:27 a.m.

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

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

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

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

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

Each witness appearing in the hearing is limited to five minutes of oral testimony. The light before you will be green when you start your testimony, yellow means you have one minute left, and red means your time has expired. After the testimony from each panel of witnesses, the Section 301 Committee will have an opportunity to ask questions.

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

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

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

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

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

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

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

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

MR. BRYANT: Good morning. My name is Zeke Bryant from the Foreign Agricultural Service of the U.S. Department of Agriculture.

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

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

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

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

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

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

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

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

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

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

Pretty much the entire planet is linked together in trade and commerce. It all works, this is a highly sophisticated machine in our, in our modern times. It all works much better when there are fewer impediments to trade, on all sides, not, and I understand it is most important that China adhere to, adhere to our goals, our standards of cooperation, our standards of trust, and I agree with that.

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

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

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

One of the world's largest POS

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

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

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

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

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

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

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

So US sales declines will be readily absorbed elsewhere, and particularly in Asia. So POS terminals account for less than 1/10 of 1 percent of the proposed $300 billion. 0.0083 percent. That's de minimis. Any impact on China will be de minimis by this measure on this, on this heading.

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

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

Higher costs mean merchants are not updating equipment to the latest security protections, and this creates a security gap, which is a huge problem for all of us. Slimmer margins and additional tariffs for smaller businesses either, to one, forgo these upgrades, which is the security gap, or two, to purchase from VeriFone's competitors.

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

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

It guards against foreign adversaries, and the Commerce Department has until October to define what that term, foreign adversaries, means.

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

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

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

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

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

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

We're here to oppose additional tariffs on two discreet subheadings covering cash registers and point of sale terminals. Many of you may know the point of sales terminal, when you check out in a store, that's the swipe, dip, tap, insert your card. That's what we're talking about.

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

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

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

ETA appreciates the administration's efforts, and its appearance today does not minimize concerns about intellectual property theft expressed throughout the entire 301 investigation. Our reasons for exempting point of sale products have not changed.

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

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

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

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

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

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

Since our last appearance, the President issued an executive order in May seeking to secure our information and communications technology and services supply chain. The Commerce Department has until October to produce rules that can identify particular countries or persons as foreign adversaries.

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

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

Besides harming US businesses, if China is determined to be a foreign adversary, additional tariffs would post a threat to national security. The ETA stands ready to work with this Committee cooperatively towards our common goal of influencing China to curb its policies, but for the reasons we provided in response to List 1, to List 3, and again, here in our response to List 4, we respectfully request that these two tariff lines be again exempted from any remedy.

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

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

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

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

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

We have been serving the healthcare industry with our innovative healthcare television display solutions since 1980. Healthcare grade televisions are not the same as the commoditized television products that are available to consumers.

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

We're sure that this committee is aware of the impact of the tariff increase for that huge market segment, but our small business in Ohio is also affected by these HDS codes. Our mission at PDI is to help patients, their families, and health and wellness providers cope with the boredom and anxiety of treatment, and to improve the experience.

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

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

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

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

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

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

This was from a speech that he made on the campaign in 2016, and I included it as an addendum to my testimony today. So to be clear, there are no television panel manufacturers in the United States.

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

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

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

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

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

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

We are a leading provider of document and information capture solutions such as optical scanners, as well as photographic products, including one-time use cameras. We are a trusted technology provider for the US federal, state, and local governments, including the IRS, US Customs and Immigration Service, the Air Force, the Navy, government representing about 20 percent of our revenue.

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

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

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

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

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

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

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

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

Secondly, additional duties on our scanners will have a disproportionate economic impact on our small and medium-sized customer base. These smaller companies rely on our scanner products and support services to compete against larger companies while maintaining affordable operating costs.

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

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

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

With respect to our cameras, Kodak Alaris maintains relationships with many small and medium-sized drug stores, supermarkets, event imaging business, and distributors. These companies actively participate in our US downstream supply chain operations, including camera sales, color film development, scanning, and printing operations.

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

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

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

Should additional duties be imposed,

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

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

For the reasons I've discussed, we urge the Committee to remove subheadings 8471.60.80, 7320.20.50, and 9006.53.01 from the proposed Section 301 action. Thank you again for allowing me to testify today, and I welcome any questions the Committee may have.

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

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

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

While some may see outdoor recreation

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

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

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

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

95 percent of the boats that are sold

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

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

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

Life jackets are critical life-saving devices on the waterways. NMMA supports mandatory wear of life jackets for children under the age of 12, and in certain vessel operations.

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

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

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

Known as the Sport Fish Restoration and Boating Trust Fund, nearly 650 million is collected annually through the motorboat fuel and excises taxes paid on fishing equipment, such as rods, reels, and lures.

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

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

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

Subjecting wake surfing gear and other

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

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

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

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

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

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

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

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

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

China?

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

MS. DHONGTHOG: Thank you.

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

MS. DHONGTHOG: Thank you.

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

MR. LARNED: We do both, sir.

CHAIR TSAO: Oh, okay.

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

MR. KOFF: It's a great question.

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

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

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

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

So any of the, are any of these products that you have mentioned in your testimony available to be sourced outside of China?

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

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

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

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

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

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

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

MS. ZIRKLE: Do you want to --

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

However, I wanted to update you with some of the latest reports taken from the Nilson Report in September of 2018, Issue 1138. This is consistent with the prior testimony. Asian POS shipments have increased by 26 percent for POS terminals. Latin American and the Caribbean has increased by 76 percent. That's my first point.

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

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

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

And the number three is Centerm, which is also a Chinese POS terminal manufacturer. So in response to your question, there has been a change. VeriFone is looking at this information.

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

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

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

MR. BLAHA: Actually, just another

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

MR. KOFF: Thank you, Mr. Blaha. Those are worldwide POS terminals. So the Nilson Report synthesizes worldwide data, and it's extremely helpful. The figures that I'm quoting are on page 10 and page 11 of the reports.

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

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

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

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

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

MR. STOUT: Yes, that's correct. We manufacture, on our production line, a line of personal televisions that range from 14, 15, 16, 19-inch, that we vertically integrate with a lot of technology at our factory with the positioning device to put typically in a dialysis clinic, or emergency room, where the patient will have access to a small screen display.

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

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

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

There are solutions that we could explore, maybe in Taiwan, but not at the price point, you know, getting back to the willingness to pay for customers. So we have had very, very strong, stable relationships with our supplier in China.

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

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

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

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

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

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

MR. STOUT: Yes.

MR. BLAHA: -- metric?

MR. STOUT: Yes, yes, yes.

MR. BLAHA: Okay, thank you very much.

MR. STOUT: Okay.

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

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

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

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

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

MR. FRATERMAN: Okay.

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

MR. FRATERMAN: Great. Thank you.

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

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

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

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

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

Committee in line with the deadline established.

MR. FARISS: Okay. Great.

MS. ZIRKLE: Thank you.

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

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

MR. FARISS: Yes.

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

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

MR. FARISS: Thank you.

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

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

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

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

MR. KOFF: VeriFone did submit written

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

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

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

MR. KOFF: Yes. The understanding that VeriFone has is that their main Chinese competitor will be receiving subsidies, and it's a result of those subsidies, they will offset the 25 percent impact.

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

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

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

And I was wondering if you could just

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

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

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

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

MS. VASILAROS: Yes, that is correct.

MR. BLAHA: And if so, I guess, given the importance of US demand to that, what's the possibility of passing any tariffs back to the China, via lower cost from producers?

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

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

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

MR. BLAHA: Okay, thank you.

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

Will the room please come to order?

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

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

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

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

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

CHAIR CHEN: All right. Let's proceed.

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

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

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

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

I'd like to make three basic points about this investigation. Number one, first and foremost, Ascena supports the efforts to address the intellectual property issues, forced technology transfers, under unfair trade practices by China.

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

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

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

Thus, Ascena unanimously supports

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

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

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

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

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

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

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

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

Some tariffs are extraordinarily high. Certain outerwear jackets and many upper body garments Ascena imports face US duties as high as 27.7 percent and 32 percent, respectively. Please don't add to our burden.

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

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

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

These goods, which have already been

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

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

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

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

These vendor verifications also include review to ensure that new and existing vendors all meet our codes of conduct, everything from corporate social responsibility, to labor, environment, and security requirements.

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

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

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

MR. BURCH: Thank you, Mr. Wolfe.

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

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

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

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

47 Brand is a proud licensed partner

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

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

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

We also import blank product without any logos. To sell this blank product, we work with domestic production partners in California, New Jersey, Texas, Massachusetts, and when playoffs or other events occur, we may employ additional factories around the country to capture last night's game, decorate the various blank t-shirts, hoodies, or quarter zips with the winning team's logo, and have it in local stores the next morning.

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

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

Further, we are required to coordinate and execute social compliance audits, such as WRAPs, SMETA, and FLA, conducted by third party agencies, and provide signed affidavits to document that each factory's operations meet basic human rights, health and safety, and corporate social responsibility requirements.

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

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

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

To date, we've received initial product samples, started product testing, scheduled the initial auditing of our new factory partners. We are approximately 60 percent complete with this effort, and will need 8 to 12 months of additional time to ensure all mandated auditing and testing is completed properly.

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

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

If sales decline, overhead and labor costs will need to be reduced, leading to the elimination of jobs, which in turn, will make our operation unsustainable. Please understand, we are supportive of the President's trade policy with China. We just need 8 to 12 months more time to complete our transition properly.

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

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

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

MR. VOLPE: Good morning. My name is --

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

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

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

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

We offer health and dental benefits, along with 401K retirement, term life insurance, and continuing education to all of our employees. Our average employee earns $75,000 annually, demonstrating the great level of employment we offer in the US.

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

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

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

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

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

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

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

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

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

These are jobs that we can contribute,

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

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

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

MR. BURCH: Thank you, Mr. Volpe.

MR. VOLPE: Thank you.

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

MR. KRAUS: Thank you. Let me

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

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

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

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

As one can surmise, there has been an

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

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

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

By definition, a tariff is a tax on an imported product. That tax will be paid by the American public, and goes to the government. It does not cycle around our community. Businesses will see reduced revenues, employment needs, profits, and certain closures.

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

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

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

Continued use of tariffs for diplomatic or political purposes will lead to a cancer of vacancies in our now thriving city. So is there anything I can do in my business to lessen the impact of tariffs? Well, not really.

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

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

Carlton's has made a name of selling many familiar and popular brands of apparel, and as a retailer, I have no say in where those products are sourced. Currently, I would say that 90 percent of the products we carry are made in China.

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

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

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

Many say that we can look to American-made products instead. Well, as you can infer from my introduction, most American apparel factories have closed. In apparel, American-made products are either super luxury and expensive, or expensive with inferior quality.

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

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

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

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

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

next panel witness will be Stephen Lang with the American Bridal and Prom Industry Association. Mr. Lang, you have five minutes.

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

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

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

I feel I'm the typical American entrepreneur. I mortgaged my home. I invested all of my resources into building a successful company. After working for other companies that did not take care of their employees, I made a commitment that Mon Cheri's employees would be like my family.

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

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

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

That would bankrupt, not only my

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

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

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

We've begun exploring production outside of China, and currently produce in Vietnam and Myanmar. However, all materials are still sent from China. We just opened a factory in India, and then got slapped with a 25 percent duty.

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

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

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

This would cut out the American manufacturers, retailers, and undermine any hope that tariffs would bring back anything to this country, or punish China. The tariffs will not stop China from producing products, nor change the waves of their resident businesses.

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

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

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

Think of the massive losses in employment, duties, payroll tax, rent, the whole industry. I posit that our GDP will drop dramatically, because the apparel industry is one of the big arms of commerce in this country.

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

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

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

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

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

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

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

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

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

MR. LANG: I urge you --

CHAIR CHEN: -- expired.

(Simultaneous speaking.)

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

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

CHAIR CHEN: Thank you.

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

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

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

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

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

From November to June 2018, we worked with our factories to develop the line, and in July, we placed our sales sample order with our factories. Sales samples are what our sales reps use to sell our product to retail dealers.

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

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

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

On May 13, 2019, the fourth list was made public, and every single product that we make is on the list. And as I've just described, all of our products are being made as we speak, so where does that leave us? What are our options?

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

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

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

I found that factories do have the right machinery, but do not have enough capacity to make our products in our production window. Next, I started to look at Mexico, until the threat of Mexican tariffs made us reconsider.

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

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

Thank you again for your time today, and I would be happy to any, to answer any questions you may have.

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

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

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

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

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

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

Our Justice brand, of course, hits tween girls. That's a huge opportunity for back to school. They're all getting their new outfits for the start of the school year, as well as they continue to do that throughout the first, you know, couple months of the school year.

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

MR. BLAHA: Okay, thank you.

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

MR. DAY: Given the timelines associated with Tranche 3, we absorbed the costs, and as a result took significant financial hit to our bottom line. We had to lay off people for the first time in our history, in February of his year, 26 families in our company were impacted by that. And with our expanded supply chain and domestic partners across the United States, that probably impacted roughly a couple hundred people and their families.

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

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

We're working, quite frankly, with Chinese factories to relocate to other countries, right? So, the factory ownership of the China-based factories are just picking up and moving their operations to Vietnam.

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

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

Major league sports has established what they call the White List Database with Chinese customs. And what the White List Database does is it actually captures the names and addresses of the manufacturers that we use. They put them in a database, both in English and Chinese, and we have to keep that listing up to date at all times. And so this database is updated with the list of qualified and certified manufacturers within China and no exports can leave China unless those factories are on that database.

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

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

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

MR. VOLPE: Can I add to that? Similar to what Mr. Day said, United Legwear, we were affected greatly by Tranche 3 based on our -- we have a bag, accessory, hat, belt, and wallet business. We do about $100 million in that area and that was all Tranche 3 driven.

We were forced to make radical decisions to avoid being imposed the additional tariff. So we accelerated production, brought product in for what is really back to school, which we just spoke about, probably Q1 of this year. It disrupted our supply chain, disrupted our cash flow, our inventory plans, disrupted our ability to focus on our forward-going business and really react-and-protect versus forecast-and-drive.

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

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

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

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

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

Again, sticking with socks. So, you spoke to your concerns, and the concerns of your retail customers, TJ Maxxs, Walmarts, et cetera, about the effects of a 25 percent tariff on the cost of goods. What kind of impact do you expect it to have on costs in terms of --

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

MR. FARISS: Okay.

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

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

And we accelerated our production, we brought it in for Q1 to get in before the tariffs hit. Now we have flowing tariffs coming at 25 percent. We have the disruption of trying to figure out how to fit, you know, $50 million worth of inventory at cost in a capacity plan of 25 million.

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

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

MR. VOLPE: Well, in speaking to the retailers that we've spoken to -- and, again, it's been everybody from a dollar store to club level, whether it be Costco. We produce 73 percent of Costco's legwear as a vendor, to give you a perspective.

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

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

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

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

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

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

MR. VOLPE: Thank you.

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

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

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

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

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

MS. HEINZEN: Thank you.

MR. DAY: If I could add to that. 47 Brand used to manufacture headwear in the United

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

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

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

So, these Made in the United States is

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

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

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

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

MS. HEINZEN: Thank you.

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

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

And because, you know, customs has the

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

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

So, we've closed 50 percent of the counterfeiters and now we've become even more aggressive. And, as I mentioned, we've gone after Cloudflare which houses a lot of the counterfeiters, not just from my industry, but from many, many industries. They are basically in violation of the DMCA law. If we win the case that's in court now, you will see a lot of counterfeiting in a lot of industries go down -- we've cut it by 50 percent.

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

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

MR. LANG: Well, India is starting. You're going to start to see it. It's now coming out of Vietnam as well. It's whack-a-mole, and as you stop one area you need to look elsewhere. It's never going to go away. It's been here forever. It's a trillion dollar industry worldwide. You're going to see it coming out of Africa as well. We've all seen the handbags and so forth on the streets.

MR. FRATERMAN: Yeah.

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

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

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

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

We're getting tremendous support, even in Chaozhou, which is the biggest city for production. I've met with the head of all the manufacturing, the local representatives from the government, they're equally concerned to the point -- I use 50 factories, 30 of them have just contributed $3,000 each to the ABPIA to fund our efforts. Our burn rate is $13,000 a month. I actually have Chinese factories sending me money to help me shut the counterfeiters out of Northern China in Suzhou.

MR. FRATERMAN: Okay, great. Thank you.

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

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

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

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

MR. LANG: Sure.

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

MR. BRYANT: Yes. Thank you, again,

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

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

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

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

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

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

MR. BRYANT: Okay, thank you.

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

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

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

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

(Pause.)

MR. CHEN: Are all the witnesses here?

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

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

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

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

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

MR. CHEN: Okay, thank you.

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

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

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

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

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

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

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

Prices were agreed to and orders places months ago, well before this most recent round of proposed tariffs was announced. Moreover, majority of the types of shoes that are heavily produced in China are lower cost shoes purchased by working American families at value family retail chains.

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

Almost a million and a half working families purchased that shoe for their children last year. That specific footwear will cease to exist the moment these proposed tariffs take effect, limiting options and making these shoes inaccessible due to price. And that is just one example of many that I could provide.

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

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

It is my hope that at a minimum the U.S. government can acknowledge this fact and admit that an increase of tariffs applied to Chinese goods is a tactic that is certain to raise costs on Americans, reducing their ability to purchase footwear, an obvious necessity.

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

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

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

FDRA supports efforts to strengthen IP protection in China. That is why we are an active participant in the special 301 process conducted by USTR every year. But ultimately, footwear is a comparatively low value sector. It was not included in the Made in China 2025 strategy, and FDRA companies have witnessed a significant shift of footwear factories in the coastal regions of China to areas further inland.

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

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

But taxing Americans on products they

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

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

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

MR. MUSKAT: Thank you. I'm Rick Muskat. I'm the president of Deer Stags. We're a privately held, family owned, three generation company. We celebrated our 55th anniversary last month. I could not possibly articulate as well as some of the earlier witnesses. I had prepared a lot of remarks on the same subjects. You've heard them. I could repeat them.

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

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

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

I am incredibly concerned about the

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

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

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

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

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

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

Our consumer the everyday, ordinary working class American cannot afford to pay more for his shoes. These tariffs would increase their price on average of 25 percent. We make a lot of boy shoes. About half our pairs go to children, to boys. Shoe purchases for boys are a need, not a want. Kid outgrows his shoes, you've got to buy him a new pair of shoes. The average retail price of our shoes for boys is under $25. 25 percent increase for those shoes will take them to over $30.

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

Their jobs, their futures are at stake. I could talk at length about the difficulties in moving the production, and if you have time and you have questions about that, I could explain to you in great detail why it would be so difficult it would take us upwards of five years or more to move our production outside of China, even if capacity was available. If you're interested, I could answer questions about that. I'm concerned my time might run out.

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

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

MR. ROSENFELD: There we go. Good morning, and thank you very much for the opportunity to be here today. My name is Ed Rosenfeld. I am the chairman and CEO of Steve Madden. Steve Madden is a fashion footwear and accessories company that was founded in 1990 and is headquartered in Long Island City, New York. We currently have about 3,800 employees and annual net sales of approximately $1.7 billion.

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

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

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

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

I know it's been suggested by some that we should simply move our production to other countries. Unfortunately, that is not a near-term solution. Footwear is a capital intensive and labor intensive industry, and the development of new capacity outside of the China and the movement of production to new facilities, as Rick said, would take years.

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

In fact, even when we do move production to other countries, the majority of materials are still sourced from China, which obviously drives up our costs and reduces our speed to market. So while we are investing heavily and working diligently to diversify our sourcing to other countries, it will be years before we could produce the majority of products outside of China.

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

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

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

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

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

Currently, we're paying $4.20 a pair

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

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

Again, if these tariffs go into effect, that price goes up to about $4.50, almost a 500 percent increase in the cost of duty on that item. So you can see that this would be a catastrophic event for my business, for my company. As Mr. Muskat alluded to, I'm here today really representing a few groups. We've been in business for 41 years.

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

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

And many, if not most, of these stores are family-owned businesses, multi-generational businesses that rely on me and rely on us to carry that inventory and to be able to pull from our inventory to diminish their outlay of cash and then to rely on us to back them up. And customers all over the country, I've heard from, you know, just saying hey, keep up the fight because we rely on you.

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

Finally, there's a number of stakeholders that are impacted by our business. I got a note from my customs broker when I landed yesterday. I'd like to close with his comment. He said, with the bulk of my business -- we happen to be his biggest customer. He started his business the same time we started ours. But he sent a note. He said, with the bulk of my business coming from China, some clients are either ceasing their import activities or greatly scaling back, while some actually are going out of business. We may be scaling back as well.

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

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

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

SGA actually began as a domestic

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

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

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

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

Foregoing all profit in 2019 in lieu of the additional tariffs would put our lines of credit at risk and would have a domino effect causing us to reduce staff and seriously threaten the viability of our 123-year-old company, which would further impact many other U.S. small businesses who have come to depend on us as a vendor.

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

These American consumers are people that live paycheck to paycheck and are the least able to absorb the said price increases to simply put shoes and clothes on their children. For that reason, I would strongly suggest that no footwear be given any additional tariffs, but if that does come to pass, at least give some consideration to not doing that on anything with a $10 landed or below so those families and such are not affected. I've listed the specific duty codes that we do business under.

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

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

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

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

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

MR. FISHER: Hello. My name is Marc Fisher. I am the CEO of Marc Fisher Footwear. We are based in Connecticut, and we design, source and distribute affordable ladies' and men's footwear. My family has been in the shoe business for close to 100 years spanning four generations. I've been working in the shoe industry since 1980. I started at Nine West Group, a company my father founded.

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

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

If we have these additional tariffs to pay in the next 30 to 90 days, the burden will be completely on our company because our customer prices have already been established. And it's extremely difficult to adjust once the purchase order has been received by us. Over a three-month period, this could cost my company over $25 million in additional tariffs and will cause severe financial jeopardy to our company.

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

In the process, we faced incredible obstacles, shoes that never got made that we purchased, late deliveries, poor quality. I could go on for 10 minutes just on the obstacles. While my experience would enable us to move production to other countries more efficiently than in the past, it would be impossible to move our entire production out of China is less than three to five years. Today, we only make 15 percent of our production outside China, in countries such as India, Vietnam, Cambodia and Ethiopia.

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

Developing a new supply chain will require enormous capital investment, training and time. Today, China produces over 75 percent of all footwear sold in America. I cannot imagine the difficulties the industry is going to face as we try to move over a billion pairs of shoes out of China to be manufactured in different locations around the world. There is simply not enough factories anywhere worldwide to handle this. And it's going to cause a major disruption to all of our shoe companies in the entire industry.

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

If, however, this request cannot be granted, I respectfully request that the imposition of the proposed tariffs be delayed at least four months to enable our company to account for any tariffs in its price negotiations going forward with factories and customers. At the very least, we need more time. Thank you for the opportunity to allowing me to speak today and share my concerns. Thank you.

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

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

MR. PRIEST: Yeah, it's a great question. I appreciate you asking. For the most part, if you look at the athletic industry, the athletic footwear industry, they have been for quite some time diversifying out of China and are more heavily involved in Vietnam and Indonesia.

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

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

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

MR. PRIEST: Sure. Yes.

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

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

CHAIR CHEN: Thank you.

MR. DEVINE: I have a follow up for

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

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

I think the one thing that is apparent

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

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

And it's not a solution that's going to replicate or should I say kind of support the full depth and breadth of what the Chinese industry has been for us. And so that's why a lot of companies have looked to move outside of China. And those that are left are those price sensitive and more difficult -- as Marc indicated, more difficult segments of our industry to manufacture there in the coastal provinces.

CHAIR CHEN: Thank you. Department of the Treasury?

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

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

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

MR. MUSKAT: Yes, thank you. I was hoping to. As Marc indicated, most of the people on this panel make fashion women's shoes with the exception we make very basic men's and boy's shoes. Our bestselling styles stay in our line for 15 years or more. Most of our styles stay in our line for five years or more. As Eric indicated, our retailers rely on us to carry the inventory and replenish their stores every single week.

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

And once we get a style going, we flow that inventory in every single month from our factories to fill -- refill the need -- the demand that was pulled out in the prior month. We plan our inventories four, five months in advance, and our product is flowing on a regular basis. So it's not just how do we set up a factory to make shoes. That's possible. How do we set up a factory to make 4,200 different skus, different styles, colors, sizes, widths to keep the flow going into our inventory.

And now with more and more of the business being sold through the web channel where our orders are coming from individual customers one pair at a time. We used to get a few orders for a lot of pairs. Now we get a lot of orders for one pair at a time. We have to carry an inventory across 4,200 skus, and to properly manage that flow on a cost-effective basis with our investment in inventory and the capital that it requires, it would take -- we haven't done the research, but easily it would take five to 10 years, as Marc explained what happened with his Nine West business, to ultimately move all of our production somewhere else should we find someplace else that can manufacture the quality with the labor force standards and the product safety standards that we enforce, et cetera, the things you heard from so many other witnesses, and the capacity, which right now doesn't seem to exist. Thank you for your question.

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

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

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

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

MR. FARISS: Okay. Thank you.

MR. BLAHA: Thank you. If I may, I'm first going to have a follow up question for Mr. Rosenfeld. Given kind of the -- your mention of the different countries for which other types of shoes are produced and the local expertise I guess that was driving that, more broadly, are there certain types of shoes within the categories represented by the panel here that are easier or harder to move, leather versus fabric versus something else, or --

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

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

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

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

MR. HARRISON: I think, yes. All I was trying to highlight was what it costs us now to import one pair of shoes and then what the increase would be were this tariff to go into effect, that only affects the amount of money on the tariff, obviously no other cost.

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

MR. HARRISON: Well, I think as has been said a few times this morning that one of the things we're dealing with right now is the just complete uncertainty of where things are going. We worked with our biggest customer last week, Dillard's, and we're selling them product to deliver for fourth and first quarter next year. And we're telling that we're trying to figure out what prices to quote them. So in the short-term, we're really faced with the decision. Either we have to eat that amount if it comes to fruition, or we have to pass it through to the customer.

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

MR. BLAHA: Okay. Thank you.

MR. HARRISON: Thank you.

CHAIR CHEN: If I could ask a follow up question. Over the past year, the value of the Chinese RMB has been dropping, and I was wondering if you could comment on how that works into your cost considerations.

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

CHAIR CHEN: Thank you.

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

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

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

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

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

MR. FEINER: Yeah, my concern is about just the rising cost. In the short-term, it's an incremental $4 million. If it's 25 percent is the number, it would be about -- we project on the remaining products that we'd import over the next six months, it would be about a $4 million bill. When I go to my customers to say hey, I'm going to need to charge you X number of whatever their proportionate amount is, most of them are going to say sorry, that's your issue.

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

So the concern is that the slippers and flip flops and the kids' lighted shoes that we make for mass customers, really there's a strong chance that it goes to just direct factories. We're sort of the middle man. We leverage our design and our willingness to fulfill and warehouse and do things for big customers that they very much like. But given their need to make margin and deliver shareholder value and such, they're going to find their best option, and we won't be that best option any longer if these tariffs go into effect, so that's really my longer-term concern.

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

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

If we are able to survive, we would absolutely have to reduce our scale and find some ways to invest and find other countries, but again, the concern -- I heard it in the last panel -- is I don't know if the time is available for us to -- it does take two to three years plus to really do that. And could we weather the storm the survive, and that's really the concern I have.

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

MR. FEINER: Yes.

CHAIR CHEN: -- and if that trend continues.

MR. FEINER: Sure. I mean the rates have shifted. It has not shifted enough to really impact things in a big way. We have sort of handshake agreements with most of our Chinese manufacturers that unless it moves 10 percent one way or another, we don't really impact the cost significantly that we pay for our goods. And they haven't. They've ranged from 3 percent, 4 percent, 5 percent. So it hasn't gone within -- beyond that zone to really impact. And it certainly wouldn't negate the 25 percent that we're talking about.

CHAIR CHEN: Thank you.

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

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

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

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

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

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

We may never have the time to say hey,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Miner, you have five minutes.

MR. MINER: Thank you. Good afternoon

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

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

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

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

As the country's largest provider of portable storage solutions, Mobile Mini leases 20 and 40-foot refurbished marine cargo containers, also known as shipping containers, to government agencies, retailers, construction contractors and other small businesses in need of extra storage at their location.

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

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

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

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

The Section 301 tariffs have been

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

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

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

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

Once Chinese goods are transported to the U.S. via these shipping containers, the containers are typically offered for sale as a secondary usage as potential portable storage containers.

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

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

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

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

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

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

This impact would reduce the overall competitiveness of the portable storage industry in the U.S. as small businesses struggle with the financial burden of higher costs. Putting American truck drivers and welders out of work in order to protect an American industry that doesn't exist does not make sense and runs counter to the goals of punishing China for their misdeeds.

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

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

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

For the foregoing reasons, Mobile Mini respectfully requests that the committee remove containers classified under Subheading 8609 from the tariff list. We appreciate the important work this committee is doing and thank you for the opportunity to share our views.

MR. BURCH: Thank you, Mr. Miner.

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

MR. BEGLEY: (Off microphone comments).

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

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

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

We employ 292 highly skilled men and

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

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

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

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

Our imported containers are the building blocks which we produce these products for the Department of Defense. We modify containers to transport missiles, to protect munitions. We make mobile medical hospitals to heal the wounded and mobile machine shops to repair military equipment in the field.

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

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

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

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

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

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

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

Fewer American contracts equal fewer American jobs. And more importantly, if this 25 percent tariff is imposed the government itself will be significantly and adversely affected. The government solicitations placed by our military and civilian agencies for tens of thousands of shipping containers will experience a price increase of at least 25 percent.

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

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

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

We urge that the committee consider

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

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

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

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

Today I'm going to address three points. First I'm going to give you some background on Klinge. I will then talk about why an additional 25 percent duty will cause disproportionate economic harm to Klinge, a small business. Third, I will explain how imposing an additional 25 percent duty to container and tank bodies will potentially aid China's Made in China 2025 program.

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

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

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

Klinge's sales are for export.

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

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

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

If Klinge is forced to substantially raise prices it will likely lose market share to non-U.S. companies as a result and that market share will not shift to other companies which manufacture in the U.S.

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

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

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

These overseas manufacturers would

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

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

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

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

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

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

Klinge operates in an extremely competitive market. Our most significant competitors do not manufacture in the U.S. but rather in other countries including China, the Netherlands and Germany. They're not nearly as invested in the U.S. as Klinge and many of the equipment manufacturers, as I mentioned, have already moved out of the U.S. of the type of equipment that we produce.

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

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

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

In summary, companies that have not contributed to the unfair acts of China should be spared the adverse consequence that result. Imposing duties on articles produced by companies that did not contribute to the harm and which will not likely impact Chinese government policy is counterproductive.

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

MR. BURCH: Thank you, Mr. Klinge.

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

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

Foison Packaging was established in

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

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

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

There are simply no alternative sources for the quality and quantity of the products we sell, significantly and specifically our patented designs that are used by the bulk loads for peanuts which are purchased by farmers, growers, processors, blanchers, cold storages and mills throughout the southwest and southeast of the U.S.

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

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

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

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

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

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

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

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

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

We have devoted significant resources perfecting the product specifications for the intended uses of our FIBCs and to forming international relationships by identifying, working with and validating foreign suppliers to ensure consistently safe and reliable products.

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

Design, development certification and testing prior to production involves a one to two-year lead time prior to bring products such as antibacterial FIBCs to the market. The FIBC supplied by Foison Packaging are not products in the United States but are essential to numerous domestic industries and U.S. jobs, not only to our company but throughout the supply chain.

As such, inferior products will be imported, albeit from alternative sources, jeopardizing quality, design, safety, availability and cost to our American companies and people.

It is important to note that the items at issue are not those benefitting from Chinese industrial policies such as China 2025 which identifies, for example, new energy vehicles, NEVs, as one of ten priority sectors.

Such policies are focused on developing and acquiring advanced technologies which raise concerns that foreign companies may be vulnerable to unfair practices related to technology transfer.

The Chinese government did not employ any tactics or regulate or intervene in Foison Packaging's sourcing or production operations in China. It did not require or pressure the company or its suppliers to transfer technology to any particular entity.

The technology at issue is not cutting-edge but rather labor-intensive and controlled and not the types of items that are subject to the policies the USTR is attempting to address.

To the contrary, only the U.S. consumer, domestic industries and workers will be penalized by the assessment of increased duties on these items. For the reasons set forth above we respectfully request that the USTR remove subheading 6305.32.00 HTSUS from the list of products from China it is considering for increased duties. Thank you for your consideration and your questions.

MR. BURCH: Thank you, Ms. Neckles.

Our next panel witness will be James Silver with the International Tank Container Organization. Mr. Silver, you have five minutes.

MR. SILVER: Good afternoon and thank you for the opportunity to testify today. My name is James Silver and I am a member of and appearing on behalf of the International Tank Container Association, otherwise known as ITCO.

With 170 members worldwide, ITCO membership is open to companies involved in the tank container business including owners, operators, shippers, manufacturers, repair shops and inspection companies.

Seventy-five percent of ITCO's members have operational entities in the U.S. and its members control approximately 77 percent of the current global fleet of over 600,000 tank containers with a market value of more than $6.75 billion.

ITCO's members portable tanks -- excuse me. ITCO members portable tanks, intermodal tanks and IMO tanks all fall under subheading 8609.00.00 and as such ITCO respectfully requests removal of said line item from the proposed 25 percent tariff from list number four.

Tank containers are a means of product containment only and are reusable stainless steel pressure vessels with lifespans of up to 25 years. The tanks are designed to carry hazardous liquid cargoes in domestic and international service with quick interchange between ship, truck and rail.

In my written testimony submitted on the 17th, I describe to the commission how the tank container is similar in market condition development to the 53-foot trailer.

The similarities are important because a thorough investigation was made by this commission in 2015 of the 53-foot unit, investigation number 731 TA514 and TA1250, where it was determined that the establishment of an industry in the United States was not materially retarded by reason of imports of containers from China, as well as proving that there was no established production in the USA.

Similar to the 53-foot unit in the study, the T-11 tank has become the established industry workhorse. The T-11 can readily be converted into a T-12, 13 or 14 extending the range of products carried. These tanks make up over 90 percent of the existing global fleet.

The T-11 tank is identical to the 53-foot container in terms of market development and production where historically only two domestic producers built any known quantity of tanks and both ceased production more than 20 years ago.

At their combined peak of production the American manufacturers could produce no more than 600 tanks per year or less than one and one-half percent of the current global demand.

Eighty percent of the current annual production of nearly 45,000 tank containers per year are produced in China, 14 percent are produced in South Africa and the remaining balance are manufactured in Europe.

The tank cost has been relatively stable due to continued overcapacity and factory growth in China where production capacity has increased by another 50 percent last year alone.

The tank cost of goods sold is roughly 85 percent materials, 60 percent of which may be sourced in the EU and 15 percent labor. This cost breakdown ensures that the tanks now and in the foreseeable future will continue to be built outside of the USA either in China or in other developing nations with low labor rates or in countries with long-term currency devaluation against the U.S. dollar.

With labor rates responsible for only 15 percent of the total tank cost, the potential for U.S. manufacturing base has been eliminated.

Typical to the 53-foot dry freight container in the study, the demand side of factory production is limited to a small number of buyers consisting of tank owners, operators and shippers.

On the tank leasing side, ten firms purchase the majority of the annual production and currently control 42 percent of the total global fleet. All ten are ITCO members and 90 percent maintain offices and staff in the U.S.

The top ten operators buy a percentage of their fleet and lease the remaining tanks from the tank owners. The top ten operators currently own over 34 percent of the global tank fleet. Eighty percent of the top ten operators are ITCO members and also maintain offices and staff in the U.S.

Most, but not all, of the top ten owners and operators are multinational companies. If the tariffs are placed on the containers only the domestic-based small business owner and operator would suffer.

The domestic-only U.S.-based owner and operator would either buy fewer tanks, hurting their downstream base of truckers, shippers, maintenance shops and inspection companies due to reduced volume or the increased cost of the container would be factored into the cost of the transported goods and would be passed along to the consumer, ensuring that only the U.S.-based owner/operator would become noncompetitive.

Since the tanks are instruments of international traffic under the 1972 Customs Convention on Containers, the multinational tank owners and operators will continue to purchase their tanks tariff free in direct competition with the domestic U.S. company, the only tariff-paying purchaser, much to the domestic U.S. owners' and operators' detriment.

We ask the committee members to please read ITCO's full written comments as well as the 53-foot dry freight container study, Publication 4536 from June of 2015, as this will show sufficient and ample reason why the containers listed under Subheading 8606.00.00 should be removed from the proposed tariff list. Thank you for your time and consideration.

MR. BURCH: Thank you, Mr. Silver.

And Mr. Chairman, this concludes all witnesses' testimonies.

MS. MAIN: I have a question for Mr. Miner from Mobile Mini, Inc.

MR. MINER: Yes.

MS. MAIN: In your testimony you state that 97 percent of all steel shipping containers are manufactured in China and that obtaining these containers from China is critical to the U.S. portable storage industry.

Later in your testimony you explain

that containers are merely a byproduct of Chinese goods manufacturing and that once Chinese goods are transported to the U.S. via these shipping containers then the containers are typically offered for sale as a secondary usage.

So I wonder if you could just explain generally speaking are there not other shipping containers coming to the U.S. that represent manufacturing from other countries that are then brought into the secondary market? Or are all of those shipping containers that are brought in from other countries with their manufacturers, are they also all being manufactured in China?

MR. MINER: It's a great question. They all are made in China. I would have said 100 percent are made in China although I've seen some industry stats that say 97 percent.

I've been in this industry ten years. Mobile Mini's been in business 30 years. We're the largest portable storage company in North American so we get approached by everybody to purchase their containers. And I've never run across or heard of a container manufacturer outside of China. Everything's in China.

And if you're wondering about a U.S. market there's really no U.S. trading or reselling market. You know, they come, they get sold at the port. We buy them. We go put them on rent.

If we sell them it'll be to a farmer who's going to put it in a field or someone's going to one-off dead end destination. There isn't really a U.S. trading of those. It's, like, they come and you buy them at the port and then they're gone.

And, you know, most of the leasing companies that we lease them in the U.S. to people we're running at 80, 85, 95 percent utilization and the other leasers that buy them at the port and then go lease them to Walmart and the U.S. military and stuff. There aren't extras to go buy.

So they come from China, they end up here and then that's it. There's really nowhere else to go to go buy them.

MS. MAIN: One more question. You talked about the transformation work that your company undertakes --

MR. MINER: Yes.

MS. MAIN: -- on these containers. Is all of that transformation work undertaken in the U.S.?

MR. MINER: Yes. Yes, all of our operations are in the U.S.

MR. SULLIVAN: Thanks. I have a question for Mr. Begley. It's always good to meet someone else from the Garden State.

In your testimony you discuss the importance of China as a source of shipping container components and products. Could you elaborate about the viability and challenges of sourcing from outside of China and whether you've had any experience either currently or previously trying to source from outside of China?

MR. BEGLEY: Well, yes. It's the container business that Sea Box is involved with is we, of course, we're not in the shipping business at all, we take products and turn them into other things that we then sell to the government or industry.

There is very little sourcing of the component products outside of China. I mean, there are factories in some trades agreement countries that do manufacture, but it's at such a small rate that you can't be competitive.

So the answer to that is is that we can source product in other parts of the world, but if you ever want to be competitive and win the deal you have to go to China. I mean, the difference between the price could be as much as six times, three times, two times.

And it's just because of the volume of -- there are capabilities to manufacture at such rates that you can buy the components that make the deal, -- will make it work for you, with your bid.

MR. CROW: I have a question for Mr. Klinge. Good afternoon. You mentioned that most of Klinge's refrigerated container bodies and tank container supplies are located in China and there's not an adequate supply from the U.S. In fact, you mentioned that there are no producers in the U.S. or third countries readily available to Klinge.

Can you expand on this and provide any details about recent attempts to source refrigerated container bodies from other sources, third countries?

MR. KLINGE: Yes, sir, thank you. No, that's a very good question and kind of ties in directly with the previous one. The insulated container bodies used for refrigerated transport actually have an even smaller percentage.

I'm not aware of any manufacturers outside of China for this type of application. Typically they go hand-in-hand with the dry freight or the steel container manufacturing.

And what has happened over the last, you know, 40 to 50 years is that industry really transformed from being one focused here in the

U.S. and Europe to one focused primarily in Japan and Korea and then now primarily, as we've seen, focused in China.

So the -- all the facilities for the manufacturing of these, which is not a cheap undertaking in and of itself to put a facility like this up currently that we are aware of, are in China at this time. So for us it's not really even a possibility to go and try to do other sourcing.

I would mention, you know, that there was a major shipping company that recently a portion of one of their companies tried to set up manufacturing in South America, and it was actually forced to close that facility based on economic --- It wasn't economically viable for them to support that. Even though they were close to the product, excuse me, that they wished to ship they found it's still economically not viable to do that. And that was after, you know, many, many millions of dollars of investment they still were not able to make it work in that respect.

So it's not only me seeing it but there's some quite large companies that have also made attempts at this as well, so --

MS. HUANG: My question is for Patrina Neckles of Foison Packaging. You mentioned in your testimony that there is a one to two-year testing and certification lead time required to bring products such as antibacterial FIBCs to market. The suggestion here appears to be that any antibacterial FIBCs produced outside of China would need to go first through this testing and certification process. Is this accurate?

MS. NECKLES: Yes.

MS. HUANG: Could you tell us what percentage of your FIBCs are antibacterial FIBCs that need to go through this testing procedure?

MS. NECKLES: I would say at least 70 to 80 percent of our bags or our FIBCs need to go through that process. In the event of -- even if it's not for food consumption of what the contents will be, you're thinking of chemicals, you're thinking of rubbers, you're thinking of certain insulation that is used for your car.

If it's not congruent to fit in the part that it's supposed to then it would then cause a big issue with actually the, like, if we're talking about motor companies.

Some of our customers they actually provide the raw material to the motor companies so when they put the moldings in if it's not clean within the bag and it has any components or strings, which we've heard before from other competitors, or their reviews that that's, you know, would cause an issue.

Or if you're thinking of pharmaceuticals, if you're thinking about certain chemicals, even if it's industrial, it needs to be cleaned. So at least 70 to 80 percent of our bags need to go through that process.

MS. HUANG: Thank you.

CHAIRMAN TSAO: Mr. Silver?

MR. SILVER: Yes.

MR. DEVINE: Sorry, I have a follow up

for Ms. Neckles. Can you explain how a farmer would use this? Is it a single use product or they can reuse it over and over again?

MS. NECKLES: Yes. It's a single use product. Some of the smaller operations for the farmers with, let's say, soybeans or peanuts, they will reuse the bag maybe up to five times. It's to a five to one ratio, safety ratio.

But most of them they will fill and ship abroad so it's just a single use for them for -- that's for all of the farmers basically.

MR. DEVINE: Thank you.

MR. O'BYRNE: Mr. Silver, in your testimony you note the cost of production for T-11 tanks is roughly 85 percent for materials and 15 percent for labor costs. You then state that because labor cost is 15 percent the potential for an American manufacturing base has been eliminated.

Could you provide some additional insight into the total production costs by dollar amount? That is, what is the monetary different between producing a T-11 tank in China versus in the United States, assuming there was U.S. supply? Thank you.

MR. SILVER: Thank you. Just looking at the labor alone you'd end up with a multiple of about four times where you'd have a welder on staff making roughly $4,400 a month, give or take. But your welder in China is making $1,100 U.S. dollars a month equivalent.

So you're already underwater by that ratio and that ends up increasing the cost of a tank by almost 40 percent. So too much of a burden to overtake and buy any market share.

And that's just looking at the labor alone. That's not looking at the cost of the investment of the facilities. So you'd have a negative rate of return, a negative internal return on the facility cost and you'd still be underwater with the pricing of the container upside down in the marketplace.

MR. FRATERMAN: Thank you to everyone. Mr. Silver, just a quick follow-up question. You said the cost breakdown, obviously hearing the 4,400 versus the 1,100 for the welders being one specific case, I have a two-part question.

Is there any type of labor that can be done specifically in the U.S. that we can focus here that we can expand on? And do you foresee any potential circumstance for us to bring specific labors like the welders that you had just mentioned, back to the U.S.?

MR. SILVER: The only opportunity would be in the components, which would be the valves. But those are not built in China. They're actually built in the United Kingdom, and so there is a premium price because they're stainless steel but the manufacturer does actually have representation here in the U.S. and supplies the U.S. market and employs U.S. citizens as well.

But the primary manufacturing base or the primary supplier is, for these valves in particular, which is where the higher dollar items come from, are actually based in the UK and in France.

MR. FRATERMAN: Thank you.

MS. MAIN: One more question. In your testimony you state that tank cost has been relatively stable due to continued overcapacity and factory growth in China, where production capacity has increased by another 50 percent last year alone.

Could you elaborate on that a bit? This idea of overcapacity would seem to suggest that, you know, if China were to come back to more normal production patterns that it could increase the potential for production in other countries for them to become more competitive.

MR. SILVER: From our standpoint we see them competing internally heavily against themselves, so we've had one manufacturing plant double their production line and another factory do a completely new startup last year that can produce 20,000 tanks.

And so 15 years ago, 20 years ago had we attempted this maybe we could have maintained some market share, but there are too many builders and too many players in China.

What they're looking for now is they're actually moving to lower cost centers because if you get around Shanghai your labor rates are a little higher versus other parts of the country.

So they're actually relocating some of these plants as we speak to try to just, you know, keep the cost of labor down because that's their really only variable.

So there's not going to be a slowdown of the construction in China on these tanks and on the containers. It's just an assembly line of shops that are set up maybe nearly a mile long on a production run and we just don't have the capability to step in and finance it to build something like that. So in the economies of scale they're winning that battle.

MS. MAIN: Thank you.

MR. SILVER: Yes.

MR. BURCH: Mr. Chairman, we release

this panel with our thanks.

And would all the panel witnesses for Panel 21 make their way forward?

(Pause.)

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

CHAIRMAN TSAO: We have a new member joining the committee. I will ask him to introduce himself.

MR. RICE: My name is Jim Rice. I'm from the Industry and Analysis Unit of the Commerce Department.

CHAIRMAN TSAO: Great, thank you. We're ready to begin.

MR. BURCH: Our first witness for this panel would be Matthew Whalen of Intex Recreation Corporation.

Mr. Whalen, you have five minutes.

MR. WHALEN: Thank you. Good afternoon. I'm here making comments on behalf of Intex Recreation Corp., which is located in Long Beach, California. The company has been in the business of distributing consumer products for over 50 years.

Intex's above-ground pools and spas are storable and are typically used by families for entertainment, relaxation, and exercise during warm weather months.

Intex's storable pools are typically imported as a kit which include the pool, a ladder and a filter pump. These storable pools have retail prices that typically range from $150 to about $1,000.

As storable pools are sold for significantly less than in ground pools or permanent above-ground pools, they appeal to a more price-sensitive consumer that is seeking a budget friendly option for heat relief, aquatic exercise and overall family fun.

Mentioning the top three states for sales of above-ground pools are Texas, Florida and Ohio.

Intex also imports a broad range of airbeds, all of which are designed to be placed on the floor in the home or on the ground outside when in use. Intex's airbeds provide a structural stability and level of comfort for the user that is similar to that of a traditional bed at a fraction of the cost.

Airbeds are used as both permanent and temporary sleeping solutions by everyday American consumers, many of whom cannot afford the high cost of purchasing a traditional mattress. U.S. sales of airbeds are in the tens of millions of units per year, with the average selling price of about $29.

Consumers use these beds for camping, kids' sleepover parties, a guest bed for out-of-town guests who can't afford hotel accommodations, additional sleeping space in hotels, vacation rentals and at resorts while on vacation, as a transitional bed for military service members, and a place for Americans to sleep that are forced from their homes due to natural disasters like hurricanes.

Indeed, Intex has donated thousands of

airbeds to U.S. states and territories that have experienced natural disasters, including Houston's recent Hurricane Harvey.

These everyday Americans are of modest means so an airbed fills a critical need. The top 11 states for per capita sales of airbeds are Ohio, New Hampshire, Oklahoma, Nevada, Arkansas, Texas, Arizona, Kentucky, South Carolina and Florida. Note that nine of these eleven states were won by President Trump in 2016.

Storable pools and airbeds are available only from China. There is no practical alternative source of supply in the United States or elsewhere for these particular products or comparable products.

Imposing any additional Section 301 duties on storable pools and airbeds will not be practical or effective in obtaining elimination of the acts, policies and practices of China identified by the USTR.

Specifically, one, Intex has not been subject to any foreign ownership restrictions or administrative review to require or pressure it to transfer technology.

Two, Intex has not been subject to any discriminatory licensing requirements by China. Three, in Intex's experience, China has not unfairly sought to acquire U.S. companies or their assets so that cutting-edge technologies and/or intellectual property will be transferred to Chinese companies.

And four, Intex is unaware of any instances in intellectual property theft with respect to its production of storable pools and airbeds in China.

Intex is not aware of any domestic industry that will be protected by the USTR refusing to grant the requested exclusion from an additional 25 percent Section 301 duties on storable pools and airbeds.

If USTR excludes the eight-digit HTSUS subheadings as requested such exclusions will be narrowly tailored as the eight-digit subheadings provided for the subject goods by name. The provisions at issue are not basket provisions.

Intex works diligently to offer its customers quality, durable products at an affordable price. Intex business is highly price-sensitive as it sells to every major U.S. retailer. There is simply no way to avoid raising retail prices if any additional Section 301 duties are imposed.

As a result, the imposition of any additional tariffs will cause Intex and its customers to lose significant sales and it will unfairly penalize middle class Americans, a significant percentage of whom already struggle to make ends meet.

Thus, the tariffs would be extremely disruptive to U.S. consumers. Thank you.

MR. BURCH: Thank you, Mr. Whalen.

Our next panel witness will be Brent Merriam with NEMO Equipment, Inc. Mr. Merriam, you have five minutes.

MR. MERRIAM: I'm Brent Merriam, the Chief Operating Officer for NEMO Equipment. I'm pleased to be here on behalf of NEMO and the Outdoor Industry Association to provide testimony on the impact of the proposed tariffs of up to 25 percent on outdoor companies and their products.

NEMO Equipment is a privately owned, founder-led brand of outdoor gear and accessories based in Dover, New Hampshire. We currently employ 30 people in good-paying U.S. jobs that require a variety of professional skills.

Over the last five years, NEMO has grown annually by more than 25 percent in an industry that's growing at about 2 percent per year.

All product design and engineering are done at our New Hampshire headquarters, but we utilize a global value chain for the manufacture of our products, including some production with longstanding high quality manufacturing partners in China.

Outdoor recreation is a powerful economic driver in the U.S. responsible for $877 billion in consumer spending and 7.6 million

American jobs.

Increasing tariffs on outdoor products simply raises costs, stifles innovation and U.S. job growth and puts pricing for outdoor gear out of reach of many consumers.

Outdoor products already face import tariffs of about 14 percent on average with some as high as 37.5 percent.

NEMO supports the administration and its efforts to negotiate an agreement with China that will address longstanding concerns about China's industrial policies and protect U.S. intellectual property.

However, we are concerned about the adverse impacts of the proposed tariffs on U.S. consumers and small and medium-sized outdoor businesses.

NEMO's line of camp chairs, representing about 10 percent of our overall business, was impacted by the Round 3 tariffs. The recent increase in there tariffs to 25 percent is having a negative impact on our bottom line, costing NEMO more than $120,000 on goods shipped to support our fall 2019 business.

For now, we have elected to absorb the cost increases without passing them along to our customers, as higher prices would be a deterrent to purchase, slowing the pace of sales and engendering customer dissatisfaction.

With our proposed Round 4 tariffs looming, we have diverted our limited resources to finding alternative sourcing for sleeping bags, tents and sleeping pads, a difficult task for some product categories.

In the case of down sleeping bags, 98.9 percent of all imports are from China. Although there is some domestic manufacturing of down sleeping bags, ultimately, there are very few viable alternative sources outside of China, which is where the infrastructure and expertise are to meet consumer demand and expectations for price and quality.

Developing alternative sourcing is an ongoing research challenge for NEMO. Instead of focusing our limited resources on developing new, innovative products for future product lines, we have been spending significant effort on duplicative tooling and new vendor and raw material evaluations.

Being forced to move away from trusted manufacturing partners and quickly replace them with new, unproven manufacturing resources exposes NEMO and our customers to the risks of quality issues.

The suddenness of the announcement of the proposed Round 4 tariffs gives companies very little time to develop alternate sourcing, adjust pricing or otherwise make changes in their supply chains to mitigate the financial impacts of the tariffs.

Should the proposed tariffs be enacted on the product categories that NEMO currently manufactures in China, NEMO will pay more than $470,000 to support its Fall '19 business.

Without significant changes in our supply chain and/or increasing pricing to our customers, NEMO would be forced to pay more than $1.6 million in additional tariffs in 2020, wiping out most of the profit we may have forecasted.

Such a financial blow would be devastating to our business, resulting in a significant diversion of resources and forcing difficult choices about hiring, workforce and investment, hampering our growth.

The unintended consequences of the proposed tariffs are adverse and significant, particularly for small and medium-size U.S. companies such as NEMO.

We respectfully request to have several harmonized tariffs classifications omitted from the final Round 4 list. These classifications related to tents, sleeping bags and sleeping pads, the core of NEMO's business, and product categories for which there is no commercially significant domestic production.

We urge the administration to resume negotiations with our Chinese counterparts and conclude an agreement which includes removing these punitive tariffs immediately and refraining from imposing any additional tariffs.

I'm grateful for the opportunity to appear at this hearing. Thank you for your attention to this important issue. I welcome any questions.

MR. BURCH: Thank you, Mr. Merrier. Our next panel witness will be Athena Ai from Real Flame Company, Incorporated. Ms. Ai, you have five minutes.

MS. AI: Thank you. Good day, committee members and staff. Thank you for the opportunity to appear at today's hearing.

I'm Athena Ai, Global Associate Director of Real Flame Company, a corporation based in Racine, Wisconsin.

I'm here to respectfully request that administration exclude propane and outdoor fire tables in column Imported from China, under subheading 7321815000 HTSUS from the forced change of Section 301 tariffs.

Real Flame is a family-owned wholesaler of a wide range of indoor and outdoor fireplaces as well as some other outdoor products.

Real Flame's parent company, KSP, Group, Inc., also owns two domestic manufacturing concerns, Jensen Metal Products, Inc., and Jensen Casting, Inc., which, altogether, employ about 140 people.

We're helping American manufacturing for more than 90 years and are proud of our American-made products. For years, Real Flame made its product in the United States. However, pressure by market demands were first sourced in Mexico, then began developing business venture in China, beginning 2002.

For us, this is really a truly a balancing act to ensure we can keep our business going and continue supporting our customer and all of our hard-working employees.

Real Flame first began selling ventless gel fuel fireplaces for more than 30 years. Over the years, we have grown beyond gel fueled fireplaces to offer electric, propane and natural gas fireplaces as well as many USA wood-burning units.

New idea and design have been and always will be an important part of what we do. We were the first to market with gel fuel fireplaces and we still design all of our products, launching a number of innovative styles and product lines that continue to resonate in the U.S. marketplace.

Our business growth is based on a group of dedicated team members in the U.S. who handle and oversee everything from innovation to product design to engineering, manufacturing and on the road sales.

I plead for your sincere understanding that the imposition of Section 301 tariff on propane and outdoor fire table columns importing from China would hurt our business tremendously.

Real Flame sells this product exclusively from China, unlike a company that buy widgets and such off the shelf in China, Real Flame has invested heavily in developing manufacturing facilities and production lines that will maintain Real Flame's high safety standard.

Since 2005, our product design team has made numerous trips to China and put our exclusive product line together. This is a very time and resource-intensive product line for Real Flame.

We spent years in staffing a liaison office in Dongguan, China to oversee operation ranging from product development to prompter shipments.

As a company specializing in home fireplaces and fire-related products, safety is paramount to Real Flame.

We spent eight year and more than a half million with various certification agency including UL, ETL and CSA. We worked in tandem with this laboratory to ensure the factories were in compliance with our setup and safety standards and procedure under internationally recognized propane and natural gas approval certification.

Real Flame also worked with a group of professionals to work on burners and other design and product development to maintain the high consumer safety requirement for this custom line of product.

Each product needs to be manufactured in a factory that passed regular safety audits. Real Flame's safety audit is a tailor-made program in assessing a facility's quality control systems, workplace environment and the capability in keeping with the standards set by industry authorities.

Consequently, we cannot easily establish or reach out to new manufacturing facility outside of China for such product. Yet propane, in the other table, column under Subheading 7321815000 becomes subject to a 25 percent tariff, Real Flame will suffer significant reduction in margin of this product resulting in a dramatic reduction in profitability and, at times, resulting in monthly losses due to the seasonality of the effective item.

The product comprises approximately 18 percent of Real Flame's annual sales. Real Flame is the largest division by a profitability and the main sales driver of KSP Group, Inc.

The increased costs associated with the Section 301 tariff would cause sales in the key product line to suffer which, in turn, would negatively impact our entire business.

Lost sales and low-profit margin would have an adverse effect on the lives of the 140 American associates employed full-time by a company in the U.S.

Moreover, the increased cost in lost sales revenues would severely impact the company's ability to purchase product at the levels needed to meet our custom demands, resulting in strained or even terminated customer relationship.

Real Flame has already faced a

significant reduction in profit margin from other key products being covered by Section 301, Tranche 3 Tariffs. This product include metals in electric firebox and outdoor furniture.

Real Flame is just a family-owned American company that does not have stronger financial resources necessary to keep bearing all of the losses in profit caused by the Section 301 tariffs.

This is why, today, I want to stand here and respectfully request that we will not see the only remaining major product that we import from China that is now already subject to Section 301 tariffs including on the Tranche 4 list.

Again, thank you for letting me present this testimony.

MR. BURCH: Thank you, Ms. Ai. Our next panel witness will be John McLemore with Masterbuilt Manufacturing. Mr. McLemore, you have five minutes.

MR. MCLEMORE: Hi. I'm John McLemore,

co-owner and executive vice president of product strategy of Masterbuilt Manufacturing and Kamado Joe. Thank you for your attention and allowing me to testify.

Masterbuilt and Kamado Joe produces outdoor grills, smokers and other cooking products. We lead the outdoor cooking industry and have been a successful business, in our family, for nearly 50 years.

We sell products worldwide to consumers to grill, smoke and enjoy entertaining. Here in the U.S., we have offices located in Columbus, Georgia and Atlanta, Georgia.

The majority, in fact, most all of our products sold by Masterbuilt and Kamado Joe were covered by these proceedings as our products are manufactured in China.

Our top products were previously covered by List 1, 2 and 3. We have analyzed our product assortment and determined that a substantial portion of our complete list of products are subject to this proposed supplemental action with these additional tariffs of up to 25 percent.

As you will see in my report, Masterbuilt and Kamado Joe request the removal of specific codes including, but not limited to the list in your report.

Much like I testified to this committee last August, we had HTS codes that were on the previous list, and I continue to request that you do not impose the additional tariffs.

If our companies are subject to these increased tariffs in this immediate time frame, it will be very difficult for us to survive in our industry.

To move products of these affected products outside of China will simply take time. You may recall, I expressed my concerns at this previous hearing that these increased tariffs will, if they were implemented, for our business, it would force layoffs of our employees in Georgia.

We had a small layoff in the fourth

quarter of last year as a result of some economic conditions but also because of these tariffs. Unfortunately, we had to go forward with two additional layoffs that were specifically related to these tariffs because they were too quick and too high for us to absorb.

These reductions were a direct correlation to the decrease in our margins that we experienced because of these tariffs. The decline in our margins are due to the requests that we have received from our customers demanding that we absorb additional costs associated with these tariffs.

We have also seen a slowdown at retail sales due to the increase at the retail level. We continue to be concerned that if we are forced to move production to the U.S. or any other country other than China, it would take us at least two to three years to complete that transaction -- or that transition.

The mere transition in shifting sources to other countries will increase costs which will passed along to our customers. If you must implement additional tariffs, we would ask and request that you impose them with a tiered approach.

For example, we would recommend that the additional tariffs be a 5 percent increase for the first year of 2019, maybe 7.5 in 2020 and 10 percent in 2021 to allow us to plan.

Finally, we are all concerned about the strength of our United States economy, and we understand that something must be done. I have personally seen how it affected my company and that I've worked in for the past 46 years.

We simply could not react quick enough for us to survive. We all must pass some of these additional costs to our consumers, and it simply slows down sales. And we need time -- and it needs to be a reasonable amount, and it needs to be over, again, enough time.

This affects every American consumer. To conclude, we do not know what this extent is going to do in negatively impacting our economy as there are thousands of HTS codes and countless products that affect all the consumers every day.

So we respectfully oppose the proposed additional tariffs and ask that you would not move forward with this proposed action. Thank you for your time, and I look forward to your questions.

MR. BURCH: Thank you, Mr. McLemore. Our next panel witness will be Kurt Wilson of Exxel Outdoors. Mr. Wilson, you have five minutes.

MR. WILSON: Thank you. Members of the Committee, I am Kurt Wilson. I am vice president of manufacturing at Exxel Outdoors. Thank you for the opportunity to appear here today to save my manufacturing plant from closure in Haleyville, Alabama.

At Exxel Outdoors, we manufacture non-down sleeping bags and are the only manufacturer of mass market commercial sleeping bags in the country.

I'm also proud to say we are the

employer of choice in Haleyville as we offer a great facility to work and provide good salaries and benefits.

In fact, when Exxel purchased this American plant from Brunswick, who was closing it in 2000, we hired back its laid-off workers, saving good jobs that would have otherwise gone to China or Bangladesh.

Instead, we took the risk of expanding, creating more jobs, even more so than what was there when we purchased it from Brunswick.

Additionally, we have a newly developed military sleep system department which manufactures and sells very compliant sleeping bags to the United States military which has brought even more jobs back to Haleyville.

Currently, we remain competitive by sourcing from China a stuff sack used to store and transport the sleeping bag and the manmade fiber outer shell of the bag.

The parts are imported under HTS

Subheadings 42029231 and 63079098 respectively. The new 25 percent tariffs on Exxel's imports will give a huge cost advantage to our competitors in Bangladesh and Cambodia and further encourage additional foreign suppliers to enter the market.

In the mass marketplace, the profit margins are razor-thin. Our factory cannot absorb anywhere near a 25 percent disadvantage compared to Bangladesh and Cambodia.

To be absolutely clear, the proposed 25 percent tariffs on our raw materials from China, which are required to produce our U.S. sleeping bags, will force us to shut down our factory immediately and permanently.

Exxel's U.S. plant produces opening price point sleeping bags that compete -- compete with Chinese, Bangladeshi and Cambodian manufacturers. We compete head-to-head with these countries, these nations.

We use the very same materials that our competitors in China, Bangladesh and Cambodia use. The big difference will be, if you impose the Section 301 tariffs, our competitors in Bangladesh and Cambodia will not pay the extra 25 percent tariff on their raw materials, which will price us out of the mass retail market.

Our understanding is that Bangladesh and Cambodia use free zones, so they pay no tariffs on the same raw materials from the same Chinese mills that supply Exxel, let alone an additional tariff of up to 25 percent.

Our U.S. sleeping bags are dependent on these raw materials from China because these materials are not and cannot be made in the United States. That is why these raw materials were included in the last Miscellaneous Tariff Bill enacted by Congress.

The closure of our plant would directly cause the loss of many good jobs that support families and communities and would harm the economy of Haleyville and the region where 29 percent of the people are already living at the poverty level.

Shuttering our factory will also reduce revenues and harm jobs at our numerous U.S. raw material suppliers in various states. I ask that you remove both of these subheadings from the final list of items facing an increase in tariffs.

If the Committee considers that it cannot remove the whole 8-digit subheadings, there is another solution that has already been effectively vetted.

In the Miscellaneous Tariff Bill process in 2018, 10-digit breakouts were created for the relevant products, and the breakouts can be used again here to remove these products from List 4.

As the Committee well knows, by including these products into MTB, the administration and Congress recognize the importance to domestic sleeping bag manufacturers of having access to duty-free components that are not available in the United States in order to be competitive with intense import competition from low-cost Asian suppliers.

In our public comment filed on June 17, we cite the necessary language that would facilitate such a breakout. We deeply appreciate this administration's support for U.S. manufacturing.

In the case for Exxel's U.S. factory, however, these tariffs would actually undercut that effort. These HTS numbers account for a tiny fraction of the total amount of China's exports to the United States.

Imports under the narrow MTB definitions would even be less. China will export the same volume of materials. The only question is, will those materials be made into sleeping bags in Alabama or in Bangladesh and Cambodia?

Before coming to Washington, I looked in the face of all of my associates and colleagues and I told them that I thought the government would do the right thing for U.S. manufacturing.

I hope you will. Thank you for the time. And I'm happy to answer any questions. Thank you.

MR. BURCH: Thank you, Mr. Wilson. Our next and final witness will be Mark Proffitt with MECO Corporation. Mr. Proffitt, you have five minutes.

MR. PROFFITT: Thank you. My name is Mark Proffitt, and I'm the president of MECO Corporation in Greenville, Tennessee. I'm here again to testify in support of the administration's proposed 301 actions and the proposed 25 percent ad valorem duty to be imposed.

Since charcoal grills was left off the tariff list in Round 2, it's imperative to MECO that charcoal grills would be included in the next round of products on which the duty is imposed, especially since the previous round included both gas and electric.

In Greenville, we produce charcoal barbeque grills, which is the core of our business, except for two components: cooking grids and leg kits. We manufacture substantially all of the components for our grills in our Greenville facility.

The Austin family started MECO 63 years ago with the goal of creating year-round employment in semi-rural Tennessee because our founders recognize that farming, specifically tobacco crops, would not sustain our community in the long-term. They wanted to provide jobs to people in the local community, and they successfully did just that.

Our manufacturing facility presently employs 105 people, a decline of more than 85 percent from our peak. Before the Chinese government began engaging in illegal trade practices through intellectual property theft and price and currency manipulation, we employed nearly 900 people, producing both grills and metal folding furniture in a community of only 15,000 residents.

Today, we operate almost 800 less

employees and our facility operates at less than 25 percent capacity. Our business has been severely harmed by Chinese manufacturers that steal MECO's designs, use MECO's marketing materials under their brand name and even display MECO's products in their showrooms.

These illegal and unfair practices not only save them significant development costs while infringing on our intellectual property, but creates significant product confusion.

These underhanded tactics enable Chinese manufacturers to sell into the U.S. market at prices below MECO's material costs and slowly erode our business.

A tariff on the Chinese charcoal grill products will be the only way to level the playing field for us to compete and preserve MECO's manufacturing facility and our employees as well as our opportunity to grow and create jobs for our community.

Throughout my 29 years in manufacturing, I fought to produce products in the U.S., bought products from China and watched our government continue to allow the Chinese to take advantage of our manufacturing sector in the U.S.

Please protect our country, our jobs and our people from these despicable trade practices levied against us by the Chinese government. Without these tariffs, our company may not survive.

Unfortunately, the tariff actions to date have impeded MECO's ability to compete and tip the scales further to the benefit of the Chinese competitors. The 232 tariffs implemented on steel in March of 2018 increased our cost of steel approximately 25 percent.

We buy U.S. made steel. Therefore, the exemption process does not provide relief to MECO. The imposition of 301 tariffs in September of 2018 on the grids and the leg kits that we must import further raised our cost of production.

Overall, these tariff actions raised

our total product costs by 10 percent. At the same time, no duty was imposed on the competitive Chinese products being imported into the U.S.

Efforts by the Chinese government to devalue its currency to offset U.S. tariffs further exacerbated the cost inversion imposed on MECO. As a direct impact, we laid off production employees in December and cancelled our plans for a second production shift expansion.

This inversion and its impact is only getting worse as the initial 10 percent duty that was imposed in September increases to 25 percent.

It is crucial that charcoal grills, HTS Code 7321.19.00 be included in the next list of products on which 301 tariffs are imposed.

As a small company, MECO's ability to sustain the erosion in margins is limited, and we are running out of time.

I thank you for this opportunity to speak before the Commission today, and I appreciate your service to our great country. And I welcome the questions and discussion that should follow. Thank you.

MR. BURCH: Thank you, Mr. Proffitt. And, Mr. Chairman, this concludes all witnesses' testimonies.

MS. MAIN: My question is for Mr. Whalen from the Intex Recreation Corporation. In your testimony, you assert that the storable pools and air beds that you import are available only from China.

Could you please provide more information on why you believe that to be the case? For example, are there certification or standards issues that would -- or other constraints to moving your sourcing to a country other than China?

MR. WHALEN: Well, these are fairly complex products. The storable pools, they have a vinyl liner. They usually have a steel frame. They come with a ladder, which is comprised of steel components as well as injection-molded components.

And then there's a filter pump that's

supplied with the product, which is typically injection-molded. It has motors. It has controls and electronics to it, paper filters. We also do a series of sand filters.

These are fairly complex manufacturing operations that are all done in one factory for us. There are three major suppliers of these products in the U.S., and they handle basically 98 percent of the storable pool business in the U.S. And they're all three located in China.

For us to move that facility, we'd be moving injection-molding, steel pipe -- we make all of our own steel pipe, do all of our own bending and welding.

All the pump assembly work would have to be moved and then all the actual manual labor that produces the PVC liners. We also produce all of our PVC, which we purchase from, in pellet form, from Texas. They ship to China, and then that is all calendared.

We calendar about 140,000 metric tons of PVC a year. To move all of that production outside of China would be very, very difficult and extremely expensive. We currently employ about 19,000 people in China in manufacturing.

Hope that answered your question.

MS. MAIN: Thank you. That seemed to relate to the issue of the storable, above-ground pools.

Could you also talk a bit about your sourcing of air beds and why you believe that it would not be possible to shift that sourcing elsewhere?

MR. WHALEN: These are made in one of the two facilities I just mentioned that we have. So we've, again, we're producing today about a 105,000 air beds per day. And that facility supplies 115 countries around the world, the U.S. being the biggest market for air beds.

So to move that, again, we're running about 5,000 employees in that production facility. And, again, all the calendaring -- these calendaring machines take at least 18 months to purchase and 12 months to install --

just to install a calendar to make the PVC resin.

To do that and move it to another country and outside of China plus finding the employment base to support that as well as the facilities to -- you know, containers and port -- it would be extremely difficult for us to do. It would take quite a bit of time.

MS. MAIN: Thank you.

MR. O'BYRNE: Mr. Merriam, you mentioned having to invest effort in alternative tooling and raw material options in response to the increase in tariff on camp chairs.

What types of standards or certifications are involved in changing suppliers?

MR. MERRIAM: Well, we have our own internal auditing practices. So we have a factory code of conduct, so we'll go through an audit just to make sure that the factories that we're working with are in social compliance.

Also we have to evaluate raw materials. When you're talking about injection molding components, particularly structural ones that are like glass-reinforced nylons, you need to make sure that they're going to behave in the way that you've engineered them to behave.

There are standards in terms of testing for like weight limits in chairs and things like that that you need to be aware of an make sure that your product meets those standards.

I think, in the case of camp chairs, if you look at import data, you know, 97 percent of camp chairs in 2018 were imported from China. So the number of options outside of China are fairly limited.

MR. O'BYRNE: You also mentioned that you're constantly innovating new products. Would the cost you refer to, with respect to changing sources, also be borne by bringing a new product to market using the traditional suppliers?

MR. MERRIAM: I mean, I think we're just trading costs. Like rather than spending the time and effort in developing new products, right now, as a company, we are spending the time and effort in redefining our supply chain to avoid a 25 percent tariff.

So we are going to be behind the eight ball a little bit as we go forward. Like, it will affect our ability to bring new products to market over the next couple of years because we need to basically figure out how to make existing products elsewhere.

MR. O'BYRNE: And lastly, you mentioned the timing of any tariff increase as a particular hardship. How much lead time do your contracts usually include?

MR. MERRIAM: We take orders six months in advance of when we'll actually ship them.

MR. O'BYRNE: Thank you.

MR. MERRIAM: You're welcome.

MR. CROW: My question is for Ms. Ai, of Real Flame company. You highlight the difficulty in switching production of your products outside of China, mentioning recertification, engineer training and general costs.

Cumulatively, how long do you believe it would take Real Flame to produce its products outside of China?

MS. AI: That's a good question. Actually, we started doing this since we see the Tranche 3 started. So we're trying to look at Vietnam, Indonesia, Thailand or other country, even Mexico.

But, you know, again, back to the certification, it takes time, you know, for all the components for a grill stock or a fire table stock, the valve, even the component needs to have through. And that's our sub-supplier need to apply their certification through the CSA.

And the CSA need to analyze their facilities and also analyze all the print packet from an engineer. So it will take almost like a year to just finish that certification and audit the factory.

So it's not just like we don't want to

move the production. It's just we need the time to build up to a good factory who can handle this and they understand this product, okay.

And majority of people right now, even in China, we've been working with two factory, okay, exclusive factory for these fire tables. They still don't understand why we will use this. And we have to educate them how to do this, how to assemble this.

Even just one instruction manual would take us forever, almost like a month, for our engineer to translate from English to French to Spanish. And then all these components needs to follow the CSA procedure as well.

So just imagine, for this -- even we are willing to do the outsourcing. It's just, can we find a factory qualified right away? And for the CSA, they also send the auditing people every year to audit the factory so we can maintain their certification.

And that certification, just for one product, will take us three -- 30,000 U.S.

dollars, not including our time, engineer time, print packet. And that procedure is just so complicated, I cannot just say it just in one sentence.

And that's why we want to plead, giving us the time. You know, nothing just is happening overnight. So that's why I'm here, to plead this. Thank you.

MR. CROW: To you knowledge, is there any current production of such products outside of China, such as the countries that you mentioned?

MS. AI: Not yet. Thank you.

MR. RICE: My question is for Mr. McLemore from Masterbuilt. Can you elaborate on why China is the only country where the products you mentioned can be competitively sourced?

MR. MCLEMORE: It's not so much that they are the only. It's, for us, they're obviously the least expensive in our industry. And, you know, we moved our manufacturing over there in the early 90s, along with a lot of other companies that were doing so.

And it created a competitive field for everyone doing basically the same thing. So we've been, since all of these tariffs have been in conversation with you guys, looking at other sources.

And there are other alternatives. They will be more expensive, based on what we've seen, even if we manufactured them here. So it's not just a cost from our standpoint. It is merely the timing.

You know, we've been in business for 46 years, and to impose something overnight, in our industry, overnight is within three to six months, is very devastating. So while the easy route for us all is to say, hey, zero tariffs and let's just go about our business, it's not about us doing the easiest thing.

I'm all about protecting our country. Our products are not subject to intellectual properties. We're not a very high tech product, so it's less of an issue with the pirating that goes on.

The smaller, less expensive accessories are knocked off, as the gentleman from MECO implied. But our more complex products which we do in all of Masterbuilt and Komado Joe are not subject to that.

So our biggest complaint through this process is, you know, don't do it, but don't do it overnight. That's why, in my testimony, I said, if it is going to be imposed, just give us time. I mean, we've -- you know, I've got one large mass retailer.

I've got competitors in the room, so I won't give you any names, but one retailer, just yesterday, said one new product that we're launching that will go out in the spring of next year has a $3 million impact on it. One single item.

So, for Masterbuilt, in our exciting times, through all of this, we still had to go through three layoffs. Not a hundred percent because of your tariffs. There's economic conditions and competition and things that do it.

But when you had a 10 percent, we survived it. There was a question asked earlier. When it was imposed, how long did it take for you to see an impact at retail?

Since we sat here last August, the 10 percent was hitting before Christmas and in the early part of this year because we knew it was coming. The 25 percent will hit our industry and our products, the way it's going right now, in the latter part of this year and all of 2020.

It is very difficult for us to impose a 25 percent, you know, tax on what we're doing when our margins are not 25 percent in and of themselves.

The other thing that I want everybody to understand is our U.S. economy and people that are out there will just decide not to buy. They won't buy Masterbuilt, Kamado Joe, Charbroil, Weber, you know, any product out there. They'll just simply wait instead of upgrading on their product.

All that does is cost us all some sales and jobs. This is survivable for us if we merely have time, just not overnight.

MR. RICE: Okay, thank you for that.

MR. MCLEMORE: Yes, sir.

MR. RICE: One other I have would be how receptive are your chain suppliers to amending their prices to help you accommodate the tariffs?

MR. MCLEMORE: They have been, and that's helped us some, but we are in a very low cost industry. The lower cost items that we have are the more difficult ones. The more high-end products that we have have just a little bit more room.

So we saw an impact at the retail level that was not as bad because the factories did help. You know, the exchange rate changing and being volatile like it is, it's not such an absolute that they can just say, hey, there's a reduction here so we're going to offset that.

There's multiple factors -- labor

costs, material costs, R&D costs mixed in with these tariffs, there's more of a challenge for us all in this room because of the uncertainty. We just simply cannot plan.

And we just need time to be able to say, here's what's in front of us. And I can work with all of my retailers and work with the factories to do the very best we can to protect this country and survive through this.

It's been a painful process for me. I've been in it, in the family business for 46 years. I sold part of my company a couple years ago, got a new private equity company. But I've never seen anything impact our company quite so drastically as these immediate tariffs.

And again, the word immediate is kind of critical there. You know, we've had some in the past. We survived, we passed along. The exchange rate, even as crazy as it's been over the past decade, has been survivable.

So it's more of an issue for us that it's just hard for us to do it in such short a time period.

MR. RICE: Okay, thank you.

MR. MCLEMORE: Yes, sir.

MR. FRATERMAN: Thank you everyone for testifying. My question is for Mr. Wilson. First, I just want to -- I presume the Exxel's request, that you purchase your stuff sacks and shells, that's from China. Correct?

MR. WILSON: That is correct.

MR. FRATERMAN: Okay. Is it possible for Exxel to purchase those products from Bangladesh or another country, by any chance, or is it only China?

MR. WILSON: It is only China. And actually our head-to-head competitors in Bangladesh and Cambodia also purchase from the exact same suppliers where we get our materials from.

MR. FRATERMAN: Okay. Also, in your testimony, you talked about the harm that jobs at numerous U.S. raw material suppliers in various states would experience. Can you just give us like a geographic location, like where those suppliers are going to be at?

MR. WILSON: Sure. In the thread industry, primarily in North Carolina. In the fiber industry, we do purchase some fiber from Taiwan. But for the most part, our fiber that goes in our bags comes from either South Carolina or Georgia.

MR. FRATERMAN: Okay.

MR. WILSON: And the plant in Georgia just recently built a brand new facility primarily to support our plant. With the mass quantities that we run through our facilities, we're in the seven digits bags a year, it takes a lot of fiber.

And with the partnership that we have, they leaned forward in order to meet our capability. So that's where we're coming from and where it would actually have a spider effect across other industries and across other states as well.

MR. FRATERMAN: And it seems like,

based off your testimony, the fact that you were able to still maintain competitiveness in the U.S. is really great. Just kind of a ballpark figure, how many jobs were you able to keep in the U.S.?

MR. WILSON: As of today, we're -- the testimony shows 120. But we're in a growth cycle right now, so we're hiring just as fast as we can to support our new military programs. And we're up to 140 right now.

MR. FRATERMAN: That's fantastic. Thank you.

MR. WILSON: You're welcome.

CHAIR TSAO: A quick follow-up, Mr. Wilson, do your sleeping bags compete with sleeping bags imported from China, finished products?

MR. WILSON: Yes, they do. Actually, not the ones that we manufacture in Alabama. Our bags that are manufacture in Alabama primarily go to big-box storefronts. And for the most part, we manufacture a rectangular sleeping bag.

Your higher end bags coming from China, for the most part, are more mummy-style bag and we don't compete with that head-to-head.

CHAIR TSAO: And I guess this relates -- a question to Mr. Merriam as well. Are those -- there are two different bags you're talking about here, right?

MR. WILSON: They are.

CHAIR TSAO: Okay.

MR. WILSON: Yes, very much so. I think you've got a down fill, which is a higher end fill. We're at the beginning price point for the consumer. And, which is one of the reasons why people that are getting into camping maybe for the first time, they come to a lower price bag. And our bag fills that requirement.

CHAIR TSAO: So basically, it sounds like both of your companies are at different levels of the market. Is that fair to say -- with respect to sleeping bags?

MR. WILSON: Very much so.

CHAIR TSAO: Okay, got it. Thank you.

MR. WILSON: Thank you for the questions.

MR. DEVINE: My question is for Mr. Proffitt. If these tariffs were to come into effect for charcoal grills, what do you estimate is your capacity to increase production?

And then, at the end of the day -- excuse me -- and how many jobs would that support? And, at the end of the day, what would you expect the impact to be on U.S. consumers?

MR. PROFFITT: Thank you for that question. And I'm glad you ask. We have significant capacity to increase jobs. As I was thinking about that being a potential question this morning, I was thinking about that.

And it's -- we could easily scale our production today three times the volume that we're at within two months. And we can easily double that again in about six to nine months.

And as I sat here listening to this testimony and reading some of the prior testimony, you know, a lot of what folks are saying is true. But, for instance, Mr. Whalen, over here, talked about some of the products that they can't purchase here in the U.S.

And we can make those very products he talked about, specifically the ladders and different metal components. That is the work we do in the U.S., and that's the skill we have.

And that's the manufacturing base we desire to protect. Without an effective manufacturing base, people don't have jobs with which to earn money to then turn around and spend for all these products.

We cannot become a service economy. We cannot send all these jobs to China. Mr. McLemore mentioned a minute ago similar aspects of what, you know, where jobs could -- where we can fulfill these product needs.

I can fulfill his product needs on some of these smoker products in Tennessee. And we can manufacture those products here if China is brought under control. We've been a large manufacturer in the past.

We make metal products. We've got a plastics producer just down the street by us that supports us today with our plastics needs. I can make metal products, plastic products. I can assemble those products. I can service all these guys.

I can provide the jobs necessary to offset the jobs that are supposedly going to not exist or go to China because of the tariffs if we effectively apply the tariffs as you have proposed.

Go forward and apply the tariff at the 25 percent rate. That's what's got to happen. We have to bring China under control. You're ruining manufacturing base as it exists today if we do not follow through with this endeavor.

MR. DEVINE: Thank you.

(Simultaneous speaking.)

CHAIR TSAO: Actually, I think it's only fair to -- he mentioned Mr. Whalen by name. And Mr. McLemore and so it's only fair for you to respond.

MR. MCLEMORE: Can I reply to that? Yes, I would like to -- absolutely. If that could happen, it cannot happen tomorrow.

There is absolutely no possible way for any single country or facility to take on all of this in such a short time period. We welcome any opportunity to manufacture in the United States, physically, ourself, which we are looking at through acquisitions which we are looking at.

These things take time. So for Mark and I to have a conversation and that happen overnight is just not possible.

Can that happen in six months? No. It will take years for us to do this, even with somebody that has the capability of doing it because of the tooling. It takes our company 12 to 18 months to put a single product on the market even in the current factories. It's very complex products.

Now a charcoal product that's $49, we can do relatively quick. That's a different story. A lot of our products take very expensive

-- sometimes $500,000 to a million dollars in tooling -- to manufacture these things.

So that's a great point. But earlier, I said, it just cannot be done overnight.

CHAIR TSAO: And, Mr. Whalen, do you have any response?

MR. WHALEN: Thank you. Well, again, our storable pools are very complex products. And we sell them to the mass retailers as a kit, so we're putting together the pool, the frame, the ladder, all the lateral components, the entire filter pump, which is an electrical product, UL certified.

All those components go into a box and to the mass retailer at a very reasonable price. Now I could maybe source some tubing or plastic components in the U.S., but I'd have to export them.

I can't get them into one place where I can manufacture everything. The only thing that Intex purchases outside of our own factory are screws and motors. Everything else is generated internally.

We even make all of our own injection-mold for all of our products. We're very vertical and that allows us to provide very good value to the consumer at retail.

MS. AI: Could I also make a special, additional remarks here? From my testimony, you know, our company also own the domestic manufacturing, okay, why we need to do that outside of the country?

We are so proud of our Made in USA products. But now, nowadays, to look at the revenue, the import products supporting Made in USA product companies. Why?

Because all the Made in USA product is just the pricing. Our customer just cannot afford that and force us to do that balancing act, okay. And we support all the U.S. manufacturing workers here.

And we don't want to say we cannot do this, you know, from the States. But our customer need to understand, could they pay for that? Right now, all the Made in USA facility right now, we are serving to high end. That means very limited quantity, okay, and they are willing to pay a high price.

But for the majority of our end customers, we are talking about all the online customers, Lowes, Home Depot. Just ask them, do they want to pay for that kind of Made in USA product?

They always say, no, sorry. And that's why we constantly, still, keep this Made in China. Just like I say this is not -- we are now willing to do that, but the situation make us to do that. And this is just the situation.

And we want to go back, come back to Made in USA, but give us time. And we have to make sure all the material costs, labor costs will be competitive. Again, all the committee members, competition is very transparent, okay?

It is -- we want to do it or we just give up the business. Thank you.

MR. BURCH: Mr. Chairman, we release

this panel with our thanks. And would all the witnesses come forward on Panel 22?

(Pause.)

MR. BURCH: Will the room please come to order? Our first witness for Panel 22 is Kim Zablud with the District of Columbia Public Library. Ms. Zablud, you have five minutes.

MS. ZABLUD: Thank you. Good afternoon. Thank you for the opportunity to appear today on behalf of the District of Columbia Public Library, its more than 400,000 customers, and the more than 140,000 people working in public libraries across the country.

My name is Kim Zablud. I'm the Director of Public Services for the D.C. Public Library. I appear today to ask you to support libraries and our work by not imposing tariffs on books.

The D.C. Public Library is a dynamic source of books, programs, technology, online learning tools, and community meeting space that, when combined with expert staff, improves the quality of life for District residents of all ages.

Like public library systems across the country, books are the foundation for how people think of, and what they expect from, their library. Books help us achieve our mission of making information available to people no matter who they are, where they live, or how much money they have.

Today I will talk about some of the work that our library does, how a 25 percent tariff would impair that work, and what that could mean for the people whom we and our colleagues across the country serve.

The D.C. Public Library promotes literacy and provides books and programs for children and their parents and caregivers, starting at birth. One such program is Books from Birth. Launched with Dolly Parton's charity, Imagination Library, this program mails one high quality children's book every month to every kid in D.C. under the age of 5. In the three years since this program began, more than 44,000 children have participated. This year we will deliver our one millionth book. We are proud of the fact that through targeted outreach we have our largest enrollment numbers in low income neighborhoods, with more than 80 percent of children living in those neighborhoods enrolled.

A high percentage of children's books are printed and bound in China. Even more important for our purposes are the types of children's books. The thick board books for our littlest readers and the books with moving parts that make early motor skills fun are produced almost exclusively in China. A 25 percent tariff on children's books would increase the cost to do some of our most important work, helping all D.C. children fall in love with the written word and understand the power of reading.

The D.C. Public Library's book budget is set for next year. We estimated that we would purchase more than 150,000 books to make sure that our collection has the new books people want and that old or damaged books are replaced. We also plan on purchasing more than a quarter million books to reopen the District of Columbia's glorious new central library, which has been closed for a three-year modernization. With a 25 percent tariff, the only way to stay within our budget would be to purchase fewer books for District residents.

A library's collection is one of the main reasons customers visit their library. Our goal is that, by 2022, 75 percent of District residents have active library accounts, 5 million library items are borrowed, and 5 million visits happen annually. There is a direct correlation between the amount that a library spends on books and the number of books a city's residents read.

While we are currently on our way to meeting this goal, this tariff would undercut our ability to provide the quantity of books our residents need and stymie the work of creating a city of readers. All public libraries will face the same challenge with the tariff. It would limit their buying power and directly diminish the amount our communities read.

My favorite thing about public libraries is that there is equal dignity for everyone who walks through the door. Everyone is a reader, a student, a learner, and a scholar at every stage of their life. Please do not put tariffs on books and make reading less accessible.

I thank you for the opportunity to appear. And I'd like to show you a couple visuals in the time I have left, visual aids. So, here I have two books. These are the kinds for the littlest readers. You can see here, this one has braille, so it's raised. And it also has different shapes so your kids can put their fingers through. Puppets. And these are really aimed at not just reading, but singing, talking, and reading with kids so that it's an actual interactive experience with the really, really little guys.

This is a book we very much need. It's a full color graphic novel. And this is what those reluctant teen readers can't get enough of. It hits an audience with these beautiful pictures that otherwise we have a very difficult time connecting with.

And then last, two classics here. Two great examples of the type of full color books that we need in the library. This first one, Last Stop on Market Street, features diverse characters, which is so critical because kids at a young age need to see themself in books and they need to see the rest of the world around them reflected.

And Llama Llama, these are sort of a modern classic where you get kids learning about going to school for the first time or getting a sibling. Great teaching messages there, it's very rhythmic. And I will plug that if you have not read Llama Llama Red Pajama with all its Llama mama drama, I would pick it up. Thank you very much.

MR. BURCH: Thank you, Ms. Zablud. Our next panel witness would be George Dick with Four Colour Print Group. Mr. Dick, you have five minutes.

MR. DICK: Thank you. I've been helping publishers manufacture books in China since I founded my company in 1985. I broker printing services between Chinese printing companies and U.S. book publishers. Because I buy the freight to transport the books from China to the USA, I am officially the importer of record, and as such, the burden of paying the tariff would fall upon my company.

In turn, I must add the cost of the tariff to the invoice presented to the book publishers after I deliver the books to their warehouse or, as the case may be, to their garage. The cost of these tariffs will be devastating to the book publishing industry, and hardest hit would be the market sector known as trade book publishers.

Trade books are those traditionally

sold through book stores as opposed to textbooks distributed by school systems. Trade books are sold across America by thousands of small, privately-owned book shops in every city, as well as on the internet by publishers and, of course, by Amazon.

I estimate that 90 percent of all children's picture books are printed in China, many by large publishers from which you may have already heard. But there are hundreds of other small publishers scattered across every corner of America that compete in the same marketplace. These are my customers.

Art books, photography books, guide books, cookbooks, graphic novels, instructional books, educational books, you name it, all would be affected. Other market segments, such as academic, medical, and scientific books that are printed in full color would also be damaged.

Twenty percent of the business my company handles are books published by university presses, from every state in the union. Some have already closed due to financial difficulties, and this would only worsen the problem.

Book publishers and printers operate on very thin profit margins, so this tariff cannot be absorbed by either. And since books are very price sensitive, it would be very difficult for publishers to raise the cost of their books to cover the cost of the tariff. Some book prices could double.

Ultimately, the effect of the Chinese tariffs would be to severely curtail the publishing activities of trade book publishers. This would cause fewer books to be published, jobs lost at publishing companies and in your neighborhood bookstores, less choice for parents who wish to read their children a bedtime story, and higher prices for anyone who wishes to educate and enjoy themselves reading a book. Do you really wish to make America dumber and more bored?

I would also like to add further my

opinion as to this entire idiotic trade war described by President Trump as good for America and easy to win. A trade war, like most all other wars, creates massive collateral damage that politicians don't care about or consider. I will tell you, having traveled to China regularly for over 30 years, that neither China nor Chinese people are the enemy.

The printers I represent in China are owned by hard-working, risk-taking entrepreneurs and the workers in these factories cherish their jobs. Chinese people love Americans and they treat us with the deepest courtesy and respect. China is our friend.

It is completely ignorant to believe that Americans will be better off because of tariffs. That some manufacturing jobs, including those in the printing industry, are now located in low wage countries like China is not a bad thing for America. It is a good thing. I can tell you that many of these jobs are mind-numbing repetitive, exacting a serious physical toll, and we are fortunate we have foreign workers to handle them for us. But do not cry for nor criticize China as low wage labor is a necessary step in a country's economic development, the same as we in America went through in the early 20th Century.

Luckily, we can now devote our resources to the more intellectual and better paying tasks of creating the content for books, designing and illustrating them to be useful and appealing, and to distributing them widely and inexpensively for the enjoyment and education of all. This is the wonder and the glory of free trade.

Best of all, free trade confers benefits to all parties and peoples involved. Americans benefit by having access to beautiful books at low cost, our Chinese friends benefit with increased employment, rising wages, and business expansion. We need no government authority to help us or tell us to do this. We only ask that no government authority prevent us from conducting our business.

To think stopping trade with China will bring jobs back to the USA is folly. We cannot afford, nor do we want, to force the return of low wage, dead end manufacturing jobs here in the USA. We are all made richer by free trade with China and I implore you, Congress, and the President to stop this self-destructive foolishness. Thank you.

MR. BURCH: Thank you, Mr. Dick. Our next panel witness will be G. Paul Hendrickson with Hendrickson Publishers. Mr. Hendrickson, you have five minutes.

MR. HENDRICKSON: Members of the Committee, thank you for the opportunity to provide information in response to your request for public comments.

I am here to testify regarding the significant damage to Bible access and religious activities that would practically result from the tariffs imposed on Bibles and books per Annex 1 of the May 14 notice. I am, therefore, requesting that at least Bibles be removed from the proposed tariffs.

Hendrickson Publishers of Peabody, Massachusetts was founded in the early '80s as a family-owned business, and it remains so today. I serve as general manager. We have approximately 25 employees, all in Peabody, Massachusetts. We publish Bibles, Bible reference materials, Christian scholarly works and Christian living materials. Each year we publish approximately a million Bibles and Bible-related products for distribution, primarily in the United States, but also for overseas markets.

The Bible is the central document of the Christian faith, transcending theologies and denominations from Protestant to Catholic to the Orthodox Church. According to the Center for the Study of Global Christianity, 73.7 percent of Americans self-identify as Christians, and an estimated 20 million Bibles are purchased each year in the United States.

We publish the Bible in over 500

formats to make it widely accessible. We offer low cost Bibles for as little as 2.99, allowing Bible access to churches, not-for-profit organizations, and those in economically disadvantaged neighborhoods. We offer large print and giant print Bibles for those with special vision needs. Children's Bibles with colorful images. Study Bibles, and scholarly versions in Hebrew and Greek. Of all of these Bibles, approximately 65 to 70 percent have been printed in China in recent years.

The cost to print Bibles in China is substantially less than in the United States. In October of 2018 we obtained four quotes for Bibles printed domestically and in China. The U.S. quotes averaged 80 percent higher, with a range of 46 to 106 percent higher than the identical Bible being published and printed in China.

But cost difference is not the only factor. Domestic printing is operating at capacity. At least three domestic printing companies have ceased operations in the past two years. The remaining two U.S. companies able to print Bibles face staffing shortages at their printing plants that limit the operations of second and third shifts.

Further, paper shortages have worsened. The raw materials for paper supplies increasingly are being allocated to non-book uses, such as shipping materials. So Bible and book print runs in the U.S. are now running longer than ever. As a result, shifting Bible printing to this country is not a viable alternative to printing in China. Further, printing services in other parts of the world cannot match the quality or price available for Bibles printed in China.

If the proposed 25 percent tariff is imposed on Bibles, as a family-owned business we would be forced to pass along some of that cost to our customers. We are extremely concerned that the increased prices would prevent many middle and low income Americans from being able to afford Bibles, interfering with the practical ability for them to engage with their faith.

In summary, there will be significant damage to Bible access and religious activity if tariffs are imposed on Bibles printed in China. Shifting the printing of those Bibles elsewhere is not a viable option. And as the central document for the entirety of the Christian faith, we are concerned that the proposed tariffs on Bibles will have the unintended consequence of impinging on the religious activities of Americans of all age groups, denominations, and political affiliations. Therefore, we respectfully request a tariff exemption for Bibles printed in China. Thank you, and I would be happy to answer any questions.

MR. BURCH: Thank you, Mr. Hendrickson. Our next panel witness will be Madeline McIntosh with Penguin Random House, LLC. Ms. McIntosh, you have five minutes.

MS. MCINTOSH: Thank you for the opportunity to appear today on behalf of Penguin

Random House and its more than 4,500 U.S.-based employees. My name is Madeline McIntosh. I'm the CEO of Penguin Random House. We're the largest U.S. publisher of consumer books. I ask you to support us by continuing the longstanding American policy of keeping books free of tariffs.

A 25 percent tariff would hit every facet of the book industry hard, from publishers, authors, booksellers, and wholesalers, to libraries, schools, and literacy organizations. Consumers would also feel serious pain and small U.S. businesses would likely close.

PRH supports American jobs and American manufacturing and we endorse the administration's efforts to address China's unfair practices, but we respectfully submit that a tariff on books would not serve those goals. It would harm many Americans and undermine American literacy.

Last year we published more than 5,600 new books and sold and distributed more than 350 million books. All work on content, creation, and sale of these books is done by U.S. employees with diverse talents working in our offices and warehouses in New York, Colorado, Washington State, California, Indiana, Maryland, and Florida.

As for printing, three quarters of PRH's total books are printed in the U.S. For various reasons, however, we have printed some portion of our books in China since the 1980s. No other country in the world has the capacity and the expertise to take over the entirety of the printing we now do in China. It would take years and huge amounts of capital to try to change this.

We use Chinese printers for a very specific kind of printing. Eighty-two percent of the books we print in China are children's picture, preschool, and board books. Examples I can show today that you may be familiar with are Pat the Bunny, Richard Scarry's Busy Busy Construction Site, and the now 50-year-old, well-loved Very Hungry Caterpillar which, as you can see, as an example, it's not just the color illustrations but it's the fact that the China printers are able to create special printing, special use of paper, and, in this case, the very well-known holes that the caterpillar makes his way through.

The remaining books are full color adult books with illustrations, including cookbooks, art and photography books, reference, and instruction books. Two examples here are George Bush's Portraits of Courage, which, as you can see here, has beautiful, fully illustrated, complex presentations of injured veterans, as well as our Smithsonian reference books. This one particularly appropriate now with the 50th anniversary of the Moon landing.

We currently print approximately 94 million units annually in China. That printing volume cannot move elsewhere in any foreseeable timeframe. There simply is not enough capacity outside of China to handle all the printing that we alone do in China. In fact, we recently had to reduce the four color volume under contract to a U.S. printer because they could not deliver that volume on schedule.

Major capital investment would be needed for new capacity, and with the low margins on printing any investor would wait many, many years for possible returns. Ensuring effective regulatory and labor compliance programs adds more time and expenses.

We publish many high quality, beautifully produced adult four color and reference books that require significant investment in terms of both content acquisition and production, and that appeal to a diverse readership. If tariffs are imposed this will seriously shrink the scope and diversity of illustrated books we can make available to our readers.

Literacy initiatives distributing free books to children, such as First Book, Raising a Reader, and Dolly Parton's Imagination Library, will be severely and adversely impacted by the tariffs.

First, the clear majority of books that we sell to literacy programs are printed in China. Second, these programs purchase their books at high discount rates that leave no room to buffer a 25 percent increase in cost. This tariff poses the greatest threat to the vitality of these programs that some of the have ever faced.

Studies have shown the most important indicators of a child's academic success are books in the home and how frequently adults and children read together. Tariffs would raise prices and reduce available titles, severely damaging prospects from meeting these goals. Underprivileged and underserved communities will be the hardest hit.

Under the First Amendment, the United States has long embraced as a core value the free flow of information. I urge the administration not to impose this harmful burden on books, especially because a tariff on books will not help achieve the Section 301 goals. Thank you.

MR. BURCH: Thank you, Ms. McIntosh. Our next panel witness will be George White with the Greeting Card Association. Mr. White, you have five minutes.

MR. WHITE: Thank you for the opportunity to testify today. My name is George White. I'm the president of the Greeting Card Association, and I'm also the general manager for consumer products of the C.M. Paula Corporation in Mason, Ohio.

Since 1941, the GCA has served as the U.S. trade association for the greeting card and social expressions industry. The GCA represents more than 200 publishers, most of whom are start-ups and small- to medium-sized businesses, as well as suppliers that provide production services for the industry.

The GCA requests that greeting cards be excluded from the list of products subject to the proposed additional 25 percent tariff, which would place a unique and excessive burden on our affected members, the majority of whom lack the resources and the logistical flexibility to absorb the increased costs or located alternate sources of production. Most members also act as scope to develop new production infrastructure in other countries.

Elaborately designed and ornamented cards are highly valued and of growing importance in our marketplace for millennials, who are now spending more on greeting cards than baby boomers. Millennials are seeking higher end, differentiated cards to send to the increasing number of friends and relatives that they deem to be card-worthy. These are the very cards that are mostly now hand assembled in China and threatened by these proposed tariffs.

My company, Up With Paper, a wholly-owned subsidiary of C.M. Paula, is a typical example. We have close to 150 employees in Ohio and Connecticut, more than a third of which are dedicated exclusively or primarily to Up With Paper. Our greeting cards all feature elaborate paper engineering, pop-ups, and embellishments, like these I've got here, all requiring intensive hand assembly. Our best-selling cards are incredibly complex, some requiring 50 or more individual hand touches done in the right order. They require finely trained hand assemblers.

Before trade opened with China, some of our simple pop-up card lines were printed and die cut in the U.S. and then trucked over the border to Mexico for hand assembly. Our best selling card lines introduced since the early '90s were launched after trade opened with China and 100 percent are made in Chinese hand assembly factories.

We have since explored manufacturing options in Vietnam, India, Guatemala, and Mexico, but none have been able to provide the hand assembly expertise at a price anywhere near what we are producing in China now.

In 15 years, backed by hand assembly manufacturing in China, we have more than quadrupled the size of Up With Paper, the growth of which has funded significant further growth by our holding company. The proposed tariffs would add $1.2 million in new cost to our business, which is simply unsustainable. If we could find the hand assembly quality we need domestically, the wholesale price for our product would need to increase by 5 to 10 times, making our product unsaleable.

New tariffs could also have negative impact on other sectors of the economy. More than half of all greeting cards purchased each year are delivered their intended recipient by the United States Postal Service. Last year more than 2.6 billion cards, invitations, and announcements were delivered by mail. The Postal Service is the only affordable option for these deliveries. And the only alternative for consumers demotivated by price or the lack of desirable cards is to simply abandon card selling.

The proposed tariffs would reverse the growth of the most important mail stream currently available to the USPS: highly embellished unique cards mailed by millennials. The Postal Service faces billions of dollars in losses from steep declines in business first class mail due to the adoption of electronic delivery options for bills and statements. It would be harmed by any further loss of profitable single piece first class mail.

Postal Service reporting reveals that greeting card volumes have been comparatively stable and there has been a slight rebound since 2016. But volume stability remains fragile. That recovery is also threatened by recent actions by the Postal Service to impose a single largest increase in the stamp price in the history of the Postal Service.

Greeting card consumers are thus now facing a postage increase and the prospect of tariffs that would generate higher prices and reduce their current options. This adds up to a second government imposed burden on the industry in less than six months, putting at risk the broader health of the postal system, as well as our industry.

It is important to note that greeting cards also leverage other types of mail important to the Postal Service. Put simply, greeting cards are the most desired content of the mail stream. Fewer and less innovative cards would jeopardize the viability of advertising mail pieces, raising the prospect of additional volume and revenue losses for the Postal Service. This would also curtail the most attractive way for millennials to enter the mail stream, where the Postal Service needs them to stay.

We urge the following factors be considered. One, tariffs would pose particular challenges for greeting publishers, who are mainly small and mid-size businesses with limited production alternatives and for whom negative impacts are magnified. Two, tariffs would be passed along to consumers in the form of higher prices. And three, the industry is already strained as a result of the recent and unusually high postage rate increase, jeopardizing our sector and putting the Postal Service and the broader mailing industry at a risk.

For these reasons, we believe greeting card should be excluded from the list of new products subject to tariffs. Thank you for your attention to our views and the opportunity to comment, and I'd be happy to answer questions.

MR. BURCH: Thank you, Mr. White. Our final panel witness will be Sarah Moe with Hallmark Cards, Incorporated. Ms. Moe, you have five minutes.

MS. MOE: Thank you. Mr. Chairman and members of the Section 301 Committee, thank you for the opportunity to testify today.

Founded in 1910 and still led by members of the founding family, Hallmark has over 26,000 domestic employees and 30,000 worldwide. The company sells consumer products in more than 30 languages in over 100 countries.

Hallmark has a significant manufacturing presence in the United States and is committed to growing its U.S. manufacturing capacity. However, there are some products that, for cost or capability reasons, cannot be made here. Many of those products are currently sourced in China.

We respect the goals of the administration. However, it will take time for us to modify our supply chain and effectively exit China, and the immediate impact of the tariff could have substantial impact on our domestic operations.

While many Hallmark products have been included on list four, I will focus on two, greeting cards and Christmas ornaments, that are at the core of our business, first, greeting cards.

The significant majority of our cards are produced in Kansas by more than 900 employees. They have dramatically increased production at this facility in recent years, but there is another segment of our greeting card line that requires hand assembly and/or hand packaging, operations that are cost prohibitive in the United States or that use proprietary processes developed by our strategic Chinese suppliers with whom we have been working closely since 2006.

Consistent with our slogan, when you care enough to send the very best, these suppliers employ sophisticated printing, finishing techniques, and hand labor to make cards that embody the creativity intended by the artists at our headquarters.

While some types of printed products might quickly switch from one printer to another, our cards do not. Our suppliers have begun the process of establishing facilities in other countries, but it will take time for them to reach capacity. There is no domestic source available for these cards and they have never been made in the United States.

So what will happen if a tariff is levied on greeting cards? First, the tariff will impair the competitiveness of our entire greeting card line and undermine the stability of key U.S. operations, including manufacturing, creative, and retail jobs.

Two, given the industry practice of printing the price on the cards, a tariff will present a pricing fiasco. We simply can't raise prices.

We must change every SKU by changing thousands of design files and discarding cards already in our distribution center and in stores since we can't possibly sell an identical card at different prices. Thus, in the interim, Hallmark will bear the cost of the tariffs.

Three, this may cause consumers to send fewer greeting cards, diminishing their important role in helping consumers emotionally connect in life's most important moments.

And finally, as Mr. White noted, fewer greeting card purchases will adversely impact the Postal Service since more than half of all cards are mailed, providing much needed revenue for the struggling Postal Service.

Christmas ornaments are a second critical product. The majority of our offerings consist of Hallmark keepsake ornaments which incorporate unique artistry and technology, including lights, sound, and motion. They are sold through Gold Crown stores and command a premium price, averaging about $20.00 an ornament.

The majority of our keepsake ornaments have been sourced from China, which excels in precision manufacturing techniques and hand labor. There are few manufacturers that can meet our requirements. However, Hallmark has identified a few smaller secondary factories in Sri Lanka and Thailand, but they have limited capacity and we continue to explore additional options.

Given the precision required, it will take time to completely exit China. And to be clear, there is no production base for this type of product in the United States. So what will happen if tariffs are imposed on Christmas ornaments?

First, since keepsake ornaments are already premium priced, passing along the tariff costs would price them out of the market and potentially put the long-term health of the brand at risk.

Second, keepsake prices are printed on the packaging, so Hallmark may also be required to fully absorb this tariff in 2019.

Third, any decline in Hallmark's margins for Christmas ornaments will have a significant impact on the company's overall operations, including those I mentioned earlier.

And finally, fewer keepsake purchases combined with fewer greeting card purchases will reduce traffic in Hallmark's Gold Crown stores since many shoppers come to these stores specifically in search of these products.

This will harm the stores' overall stability and success. The local Hallmark Gold Crown stores are, for the most part, independently owned and operated. Decreased sales will hit small businesses the hardest.

We thank you for listening to our concerns about these two important products, and I'd be very happy to answer any questions or show you the lights, sound, and motion included in our keepsake ornaments.

MR. BURCH: Thank you, Ms. Moe. And Mr. Chairman, this concludes all witnesses' testimonies.

MS. MAIN: I have some questions for Ms. Zablud from the District of Columbia public library. First of all, if you were able, can you provide more specificity on what percentage of the printed material that the D.C. library purchases is sourced from China?

And if you are able, can you break that down into two answers that would correspond to the two different HTS codes that you include in your testimony, one which relates to printed books, et cetera, and the other which relates to children's picture, drawing, or coloring books?

And related to that, in your

testimony, you also talk about the impact not only on the D.C. Library, but all public libraries, and so I wonder if you also have information on a general number on the percentage of the printed material that all public libraries source from China?

MS. ZABLUD: Great questions. I'll answer what I can, but I don't have all of that information. I'm much more focused on just buying the books I need at the prices I can get them for to maximize the dollars.

I do understand that our children's books, some of the samples that I gave that have kind of the moving parts and the manipulatives are almost exclusively purchased in China.

I don't know what percentage of budget that is for us exactly or for public libraries, but I would say that I think it's fair to say that at least 25 percent of all of the books we circulate are children's material or juvenile material, but I can't give you an exact breakdown of how that compares to our budget.

I would say that usually the purchasing chains that public libraries use and the vendors we work with are fairly consistent, so whatever the experience in D.C. is, that would be, it would be a fairly typical mirror, particularly for the other big urban systems.

MS. MAIN: One more question.

MS. ZABLUD: Yeah.

MS. MAIN: If you are able, can you talk a bit about how these readership segments breaks down in your library in terms of what percentage of the consumers come in and want to actually pick up a hard copy book versus what percentage of your consumers come in and they read online, they would take out books online?

MS. ZABLUD: No, great question, and as we talk about the growing numbers of readers and some of the goals that the public library has, the number of items read and borrowed is increasing.

What's particularly fascinating to me is that print continues to steadily increase in circulation. We are seeing no decline based on all of the online and digital resources available. Instead, we're seeing big jumps in digital reading, but basically it's a sum total of more reading going on overall.

I think it's the combined convenience factor where I can get the book I want. I can be reading in the car now and I can be reading at home by the bed. And this format works for me here, and this format works for me there is actually a good thing for reading.

So as great as the digital boom is, we have, our customers are reading hard copy books in the same, if not more numbers than before.

MS. MAIN: Thank you.

MR. SULLIVAN: Thank you. I have a question for Mr. Dick. You mentioned that tariffs would be ineffective in bringing back book printing to the United States. Could you elaborate on that a little bit more?

And, you know, in your testimony, you mentioned that you estimate that 90 percent of all children's books are printed in China. More generally, are there any book printing hubs outside of China where books could be sourced from?

MR. DICK: The question really concerns that of capacity, and currently there is not the capacity to ramp up production in the USA. That's not to say it can't be done, but it is a multi-year process.

And I will also add that given that as tariffs can be imposed, tariffs can be removed. Let's say things improve with China. A business owner would be foolish to invest a huge amount of money in a plant and then find out all of a sudden we are now going to be competing again with China, and so it is unlikely in my opinion that anyone would again expand production drastically to cover this.

That leaves other countries in the world, and again, there are countries out there that are doing manufacturing. The key element though is capacity.

There is just -- right now, China does offer the lowest pricing, the highest quality, and, you know, they are out competing, you know, the rest of the world.

Now, will that last forever? I don't think so. You know, there is already some manufacturing being moved to, let's say, China, I mean, sorry, to Malaysia or maybe India, but they don't also manufacture paper, and without paper, there is no book, and so again, that is a huge hindrance to their taking on this kind of work.

So I don't see, you know, there would be a lot of near term pain, and when I say near term, that would be three to five years, and I just don't think many publishers, certainly the smaller ones, could withstand that, and even the larger ones, if they had to raise their prices, people aren't going to be able to pay and they'll just decide to spend their money on something else.

MR. CROW: I have a question for Mr. Hendrickson. In your testimony, you note that

Hendrickson prints a substantial number of its various Bibles and Bible-related products in China due to current factors in the printing industry, and that shifting printing of these elsewhere is not a viable option for your company.

Along with capacity, could you elaborate further on why this is and why shifting printing elsewhere is not a viable option?

MR. HENDRICKSON: We regularly look at what the alternatives are for printing our Bibles in particular. Europe is an area that we examine regularly.

We do a little bit less than 10 percent of our Bibles are printed in Europe. Europe is very good at high end, for color, exotic leather cover Bibles.

They can compete with China price wise on that one category of Bibles. Everything else, all other categories of Bibles, when we get competing bids from Europe, they can't compete with China.

Now, and that's, I'm primarily referring to Italy, Germany, and Denmark. There are other parts of Eastern Europe where the quality that they produce, at least for Bibles, is not up to what is available from China.

So as we look to Europe, which we regularly do, it's a very limited, very narrow set of very high end Bibles that we can print there, and we do.

Within the U.S., there's a major cost difference, and there are a few Bibles that we can print in the U.S., and those are ones that are not for color.

They're single color and are low end, and the reduced shipping allows us to get some of those economically printed in the U.S., but it's very limited, and right now, they are at capacity. They do not want more orders from us here in the States.

MR. CROW: Thank you.

MR. RICE: I have some questions for Ms. McIntosh. You mentioned that the majority of your books printed in China are children's books. Are those books printed elsewhere in the world and what are the barriers to accessing those locales?

MS. McINTOSH: So the two -- I would say that there are three chief factors. One is -- and to answer your direct question, no.

Almost all of this printing for those books, for Pat the Bunny, for example, takes place in China, and they are simply able to provide the lowest cost, high quality, high level of professional service that is simply not available to us anywhere else.

Similar to the comments related to greeting cards, you can imagine the high detailed work involved in, you know, placing Daddy's Scratchy Face in the exact right space.

It's a very specialized activity, and my historical knowledge of the printing business is that it's really since the 1980s that global printers specialized.

And here in the United States, where

obviously if I could do all of my printing in the U.S., I would, because it would simply allow me to get to market faster, but I can't because the U.S. printing industry does not have the ability to do this work and they, as we keep emphasizing, there is a real crisis of capacity in the U.S., and so they are not even able to deliver to the demand that we have for the current work that we would like to give them.

MR. RICE: Okay, are those the same issues that you run across for the non-children's books?

MS. McINTOSH: Yes, I mean the non-children's books or the regular black and white adult books that we manufacture here in the United States, we do them here because that's what these printers are specialized to do. The children's books, particular those books that are for the youngest readers, are the ones that are entirely done at this point in China.

MR. RICE: Okay, thank you.

MR. O'BYRNE: Mr. White, I have three

questions for you, and let's take them one at a time. You mentioned that ornamental cards are a growing importance in your industry and are hand assembled in China. Can you approximate what share of greeting card demand are such ornamental cards?

MR. WHITE: That's an extremely difficult question. I cannot give you a good estimate for that. I would be happy to come back to try, but I will say if you look at where the volume, the number of units, percentage is going to be greater of non-ornamental cards. Where the ornamental cards are hitting home and making an impact is in the dollar volume.

And that's why when I mentioned that millennials are now buying more than baby boomers, which is a shock to people who haven't heard that statistic before, it's because they are spending more dollars. They're still not buying as many units as baby boomers, but they're buying more dollars.

So to answer your specific question, I

would like to get back to you with the best information that I can.

MR. O'BYRNE: That would be fine. The second question, are non-ornamental cards also hand assembled?

MR. WHITE: No, so the greeting card industry runs the gamut from what I would call an ink on paper card, which literally is a piece of paper that has ink printed on it that is just printed, and a significant majority of those are done in the United States, such as the ones that she was talking about are done at Hallmark in Kansas City or at American Greetings, which are the two largest manufacturers.

The complexity is that, you know, if you just look at this card, you can see all of these are all different pieces and each of these has to be glued on individually by hand. The string has to be glued on. That's what has to be hand assembled.

But, no, the basic ink on paper can definitely be done in the United States in a printer. We're faced with the same capacity issues that the gentleman and the lady ahead of us have talked about.

MR. O'BYRNE: And lastly, outside of China, what degree of production is there? What kind of capacity is there for both non and ornamental cards?

MR. WHITE: So the key with the cards first is quality and second is cost, and where China sets themselves apart on the hand assembly is their ability to do hand assembly at extremely high quality with a very low cost.

The percentage of hand assembled cards that are done outside of China is quite small. It would be, I'm quite confident, less than a quarter, and it's probably less than 10 percent. We have looked at other factories for ours.

Now, my company's cards are among the most complex in the industry. There are a lot of other companies that do complex cards, including Hallmark, American Greetings, and others. They may be able to source elsewhere as the complexity goes down.

And we've looked at Malaysia. We've looked at Guatemala. We've looked at India. We've looked at Vietnam and we have not been able to find the quality that we need to be able to do our cards.

MR. DEVINE: My question is for Ms. Moe. You mentioned that you are exploring possible alternative sources outside of China for both the greeting cards and Christmas ornaments, but you said that you needed more time before they come up to capacity, so I just wonder -- estimate how much time it would take?

MS. MOE: Sure, our best effort, our best insight right now is that the full exit could not be until 2021 or 2022. With our strategic suppliers who are willing to actually exit China with us, they are also running into problems in the new host countries.

So even if we were able to flip a switch today, we still are faced with the problems of securing the machinery, securing adequate labor, not to mention the permits and other requirements necessary to establish production in that host country, and those timelines keep slipping as these other countries or our suppliers work to advance that plan.

MR. DEVINE: And then quickly, do you have a ballpark figure of what the total economic cost of these tariffs would be on your business?

MS. MOE: I do, but we do not disclose that.

MR. DEVINE: Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks. And would the witnesses in Panel 23 make their way forward?

Would the room please come to order? Mr. Chairman, I'd like to note all witnesses for Panel 23 are seated and our first panel witness will be Greg Mason with Head USA, Incorporated. Mr. Mason, you have five minutes.

MR. MASON: Good afternoon. My name is Greg Mason. I'm president of Head Penn Racquet Sports, a division of Head USA, Incorporated, which is a leading sports equipment company headquartered in Boulder, Colorado. Thank you for the opportunity to testify on this important matter before the committee.

I'm here today to talk about the 25 percent tariff being proposed on tennis balls. Under the Penn brand, Head USA makes the best-selling tennis balls in America. We supply more than 60 percent of all branded balls sold in the United States.

We fully support the USTR in its efforts to obtain the elimination of China's unfair acts, policies, and practices related to technology transfer, intellectual property, and innovation. However, none of those goals are furthered by imposing a tariff on tennis balls.

As such, we respectfully request that the USTR remove HTS subheading 95066100, a narrowly defined tariff that covers only tennis balls, from the list of subheadings covered by list four.

We believe it's warranted for a few

reasons. First, a 25 percent tariff would be devastating to Head USA, a medium-sized U.S. company. Head USA was the last company to manufacture tennis balls in the United States, finally relocating to China in 2009, almost 10 years after the last of our competitors moved production overseas.

Since then, we have invested over $25 million in building a wholly-owned, state-of-the-art, largest tennis ball production facility in the world. Relocating wholly-owned production outside of China would require a similar investment and would take years to complete.

Moreover, we're not aware of any contract manufacturer outside of China that can produce the volume that we require to supply more than 60 percent of the U.S. market while also adhering to the very tight specifications required by the International Tennis Federation to make a tennis ball that is legal for play.

If tennis balls became subject to a 25 percent tariff, we would be forced to raise the price of Penn tennis balls and the consumer would pay, and that, we anticipate, would have incredibly negative consequences, including a 50 percent reduction of our tennis ball sales in the United States, millions of dollars in lost revenue, potentially a 15 percent reduction of our 120-person workforce, and the curtailment of U.S.-based R&D investments, and the severing relationships with our network of U.S. distributors and sales agents. These are uniformly small U.S. businesses and independent entrepreneurs.

Second, a 25 percent tariff on tennis balls would increase costs for the 18 million tennis players in the United States, and limit our ability to promote tennis as a sport.

Given our market share, a tariff on Penn tennis balls would cause price increases and potentially also a shortage of tennis balls across the United States, especially since our competitors would face difficulties scaling up to our production levels in the short or medium term.

In addition, the tariff would get in the way of our ongoing efforts to promote tennis as a sport and fund other charitable causes, specifically programs in concert with the United States Tennis Association and the Tennis Industry Association to promote physical fitness across the U.S.

We support tennis in elementary schools and nonprofit organizations. We donate balls to schools and nursing homes' rehabilitation facilities.

We sponsor numerous championships and causes, including through our pink tennis ball cans, breast cancer research, ACEing Autism, which is a national program, the ITF Wheelchair Tennis championships, among other events that are we engaged with.

We're also a partner with the global environment charity Cool Earth, which saves over 7,000 acres per year of mature rainforest from destruction. Any increase in the tariff would reduce our support for these and other charitable efforts once that would go into effect.

Third, a tariff on tennis balls would not be effective to obtain the elimination of China's unfair acts, policies, and practices related to technology transfer, intellectual property, and innovation.

Tennis balls account for only 0.007 percent of total U.S. imports from China and are therefore a drop in the bucket. More importantly, tennis balls have no connection to Made in China 2025 or any other unfair Chinese policy or practice.

Finally, tennis balls can be removed from the list without removing products of concern to the USTR. The HTS subheading for tennis balls covers tennis balls and only tennis balls.

For these reasons, Head USA respectfully asks the USTR to remove the HTS subheading from the list. Thank you again for the opportunity to testify and I'll be open to any questions you would ask afterwards.

MR. BURCH: Thank you, Mr. Mason. Our next panel witness will be Bradley Handelman of Strikeforce Bowling, LLC. Mr. Handelman, you have five minutes.

MR. HANDELMAN: Thank you for the great opportunity to testify at this important hearing. My name is Brad Handelman. I'm the president and owner of Strikeforce Bowling.

Strikeforce Bowling is the leading manufacturer and distributor of bowling consumer products in the United States. My company employs 50 full time people and many part time subcontractors throughout the country. Therefore, I feel responsible for these 50 families and I take this responsibility very seriously.

Generally, the bowling community is made up of small businesses serving middle income America. In addition to the families we employ for both manufacturing and distribution, we rely heavily on foreign vendors, more specifically, China.

To me, it's not overly dramatic to say that an additional 25 percent will not just increase cost to consumers, it will destroy industries such as the one I work for and in, and that I love, bowling.

The cost will prohibit families from bowling and spending time together, from purchasing more product. That's my own selfish view on my company and my industry.

What about the families that have growing children that have to purchase footwear out of necessity or purchase other products that are absolutely necessary? Can these families afford to pay more?

The median income in the United States is approximately $62,000. A family has approximately 500 hours in disposable income. If that family uses their disposable income for regular necessary household items, there won't be any left for extras. In our case, it's bowling footwear. In Greg's case, it's tennis balls. In other cases, products that have made this economy move forward. If costs are going up, jobs will be lost, and I can promise you that families and companies will be destroyed.

In the last round of tariff increases, bags, nylon bags, increased 25 percent. We now pay 42.6 percent in nylon bowling bags. Like footwear, there are few manufacturers in the United States.

We aren't bringing these jobs back to the United States. As our president has stated many times, unemployment is the lowest it's been in 50 years, and we, the United States, do not have the workforce to produce these products, and we should be proud of that.

We're looking to resource to other countries. It takes years and millions of dollars to develop sourcing in other countries. Again, forget doing this type of production in the United States.

Sourcing in other countries is a huge issue for our company. From reading and speaking to other executives, it's an issue for public companies too such as Nike and Walmart.

We've tried to move some of our sourcing. It takes years, and now forget it. All of the capacity in the other countries such as Vietnam, Cambodia, and Bangladesh will be taken up by the same large public companies.

Footwear and bowling remain a very price sensitive industry. We will be unable to move quickly and be forced to both raise prices and absorb costs.

This will lead to fewer products being sold, less revenue volume, let net income, and thus less investment in our business and our team members. These tariffs will have a major impact on my company and on my employees' companies.

I wish we had margin to absorb this additional cost. If we pass it on, we will lose customers. We are reevaluating our business model with the intent of changing our footprint.

The most dreaded aspect of this job for me as the owner is firing employees and their families, and we won't have any choice. Therefore, I respectfully request that you immediately remove Chapter 64 in its entirety from the proposed list of $300 billion in goods published May 17.

I realize that much of this dispute is focused on IP protection in China and strengthening that. This is extremely important for all industries that spend so much on R&D.

Altering trade policy in a way that increases the tax burden that footwear consumers bear every year is not the way to get at China's industrialized policy and forced technology transfers, IP theft, and other tariff and non-tariff barriers.

In closing, on behalf of Strikeforce and the 50 families we employ, and the entire footwear industry, and the whole bowling industry, I ask that you not raise taxes and tariffs on consumer products. We thank you for the opportunity to testify and I look forward to any questions you may have.

MR. BURCH: Thank you, Mr. Handelman. Our next panel witness will be Vishak Sankaran of Bushnell. Mr. Sankaran, you have five minutes.

MR. SANKARAN: Good afternoon. I am Vishak Sankaran, president of Bushnell Holdings. As a way of background, Bushnell was founded 65 years ago and is a leading industry manufacturer, designer, and retailer of sport optics and ancillary equipment for hunting, shooting, and golfing.

My colleague appeared before you on May 2018, and I personally appeared before this committee last August to explain how the then proposed tariffs would harm Bushnell, our employees, and our customers. I'm back again because once again, we face a serious threat as many of our key products are now on list four.

We were very pleased by your previous decision to remove rifle scopes and red dot scopes from the proposed lists one and three, but alas, that was short lived.

To our surprise and dismay, these

products are now back on list four. Frankly, this seems puzzling, ridiculous, and extremely challenging as I try to manage our business in the face of this uncertainty.

The case for removal of rifle scopes and red dot scopes was strong then, and it remains so now. Nothing has changed, not our products, not the impact on the business, not the risks, not even your rationale in the Federal Registry notice for the evaluation criteria on which products should be included.

In addition to those products, now there are others such as powder reloading scales, binoculars, rings and bases, and other ancillary accessories for rifle scopes included. The specific HTS subheadings these products are classified under are provided in the appendix of our written testimony.

Imposing punitive tariffs on these products will provide no leverage in the negotiations with China to change its IPR and industrial policies. Instead, they will only lead to higher costs for everyday hunters and sportsmen.

This is made clear by the fact that the previously levied tariffs on our products captured on lists one, two, and three have done nothing to incentivize the Chinese government to change its practices.

Our consumers are avid enthusiasts, outdoor enthusiasts, but even small price increases can be painful to the most dedicated of sportsmen. I speak from experience when I say that tariffs have a negative impact on the demand for our products.

Higher prices decrease demand and that is not how we grow our business or the U.S. economy. If it was, the president wouldn't have fought so hard for tax cuts.

We cannot sustain the impact of these tariffs. Your decision will determine if an iconic American brand such as ours grows our business or not.

Already the combination of Section 302

and, I'm sorry, 232 and 301 tariffs forced us to raise prices on certain products. As expected, demand and sales of those goods saw declines. This has led to temporary shutdowns and one in three layoffs in our Oroville, California operations.

The consequences will become only more significant if the administration imposes tariffs on additional products of ours.

We manufacture our products in China because simply there is no other option. While we have explored alternative sources and do manufacture some of the higher end goods in other locations outside of China, we cannot meet the quality our customers demand at a cost that keeps these goods on the shelves.

Finding factories outside of China with the capacity to meet our volume requirements is another issue with shifting production to another country.

At the end of the day, these tariffs are going to cause damaging price increases to hunters and sportsmen and will likely eliminate certain products from our retail offerings.

The U.S. Fish and Wildlife Service estimates there are over 20 million Americans that participate in wildlife viewing, and over 15 million that participate in hunting activities.

The tariffs will not just impact those individuals, but will also harm the economies of most of the country where hunting is a way of life.

Primarily this includes states such as Montana, Nebraska, South Dakota, Wyoming, Alaska, and several others where hunting is not only a pastime, but also a source of food.

As stated in my previous testimony, we agree that the administration should continue to press China to changes its discriminatory practices towards intellectual property rights.

I know you have many difficult decisions to make to achieve that goal, but applying tariffs on a consumer hunting and wildlife watching product is not the answer. In this case, we think more harm will befall American consumers than the Chinese government.

At the minimum, I urge you to uphold your previous decision to not place tariffs on red dot and conventional rifle scopes, and hope you find it reasonable to extend an exclusion for binoculars.

Thank you for your consideration of my testimony and views on this important matter. I look forward to answering your questions.

MR. BURCH: Thank you, Mr. Sankaran. Our next panel witness will be James Archibald with STX, LLC. Mr. Archibald, you have five minutes.

MR. ARCHIBALD: Thank you, and good afternoon, Mr. Chairman and members of the committee. I'm James Archibald, the vice president of administration and regulatory affairs for STX, which is an American sporting goods company based in Baltimore.

It's been in the business of designing and manufacturing and selling sports equipment and protective padding and protective eyewear currently for the sports of lacrosse, ice hockey, and field hockey for almost 50 years. It's a significant provider of articles that help keep American youth and mostly young Americans physically fit and strong.

Others in the sporting goods industry and others here today have addressed other subheadings. I'll address the five that relate directly to us. Those are the specific headings set forth in the written submission.

They basically fall into three categories, those that cover sports equipment that protects while the player is engaged in either lacrosse or field hockey under the specific subheadings noted in my materials, the subheading that covers field equipment, lacrosse goals and bounce back rebounders, the protective equipment being the chest padding that is now required, I'll speak more to that in a moment, lacrosse gloves, and protective eyewear which is required by the governing bodies for girls' lacrosse and field hockey.

One of the overarching reasons for leaving these subheadings, removing them from the list is the inevitable cost increases that will occur.

Indeed ironic to me and a little bit concerning that just in the last session, the House Ways and Means Committee reported out favorably a bill that will have, and will once enacted, provide a deduction for the purchase of sporting equipment because of the aid that it provides to keep our folks healthy and consequently reduce medical costs.

There's been plenty of data on medical costs, the costs incurred between those that are active, those that are inactive. There have been studies referred to in detail by Tom Cove when he testified here last August from the Sports Fitness and Industry Association noting the research that has been done on that.

If we focus on the protective athletic equipment for a moment, particularly that relating to lacrosse, and use a recent example that has just come up, the governing bodies have mandated a protective -- both chest protector and shoulder pad protector to prevent something called commotio cordis which can occur when a lacrosse ball or a baseball hits the chest and hits the heart right when it's at a certain bit of its cycle, and when that happens, the heart stops, and if you don't have defib out on the field, it's a really serious situation, so that's been mandated.

It's been mandated with all sorts of testing as you might require as to what it must do, and as well, we're mandating to have our factories audited to show that the QC and the QA is up to snuff on this sort of thing.

We have the factories that can do this. To move that production to another place now would never happen by the time this is required, particularly with the audits that are required that the factory has to go through before you can even begin to make the materials.

Similar situations with respect to our glove production and with respect to the protective eyewear, again there have been changes recently in that that requires to change the specs.

If we are going to keep these materials on the list, and I would urge that they be removed, at least we would say give us more time to move our factories and our production, something that would take two or three years, but give us that time while these negotiations are ongoing.

I appreciate it very much and would ask as well the committee keep in mind a lot of our competitors are Canadian, CCM, Bauer. They can bring their products in through Canada not subject to the same issues we are.

We live by the American rules and are at a competitive disadvantage with these particular items remaining on the schedule. Thank you very much.

MR. BURCH: Thank you, Mr. Archibald.

And our final panel witness will be John Colonna with K2 Sports. Mr. Colonna, you have five minutes.

MR. COLONNA: Thank you and good afternoon. Thanks for having me. I'm John Colonna, president of K2 Sports. I'm very proud to represent our portfolio consisting of eight authentic and iconic American brands built around one really strong American brand, the K2 brand. K2 is the original American ski and snowboard brand. It's the Coca-Cola of snow sports as we look at it.

It was founded in 1962 in Washington state. The brand, because of cultural connection, expanded into snowboards in 1987, and was the first ski brand in the industry to specifically engineer a product for the performance standards of women in 1999, which created our women's alliance.

We have innovated by developing the first half ski in 1962 to show that technology to the world, put U.S. Olympic athletes on podiums, such as our friend, Jonny Moseley, and most importantly, supported the progress and support in the industry surrounding it.

Our products are all consumer goods used by Americans for recreation and outdoor activities. These products have clear physical, mental health, and safety benefits associated to them, and our goal is simple, continue to grow our business and continue to provide these benefits for American consumers.

We were more than alarmed by the potential impact of the tariffs on list four. Our skis, snowboards, snowboard bindings, boots, inline skates, and even our life saving avalanche airbags are all effected. These products comprise 80 percent of our volume from China.

With an additional 25 percent duty, our cost of goods sold would increase by several million dollars. That's over a 1,300 percent increase as it stands right now.

These incremental tariffs will be devastating to our business. We simply cannot absorb these costs and will unfortunately be forced to pass most of these costs on to our consumers.

The resulting price increases would trigger a loss of market share to our foreign competitors who mostly manufacture in Europe and with an advantage of their owned factories; these are branded factories.

These competitors are not being penalized with the 25 percent tariff, giving them a very strong advantage over the American ski and snowboard brand.

There is virtually no U.S. manufacturing of our products in place today. The little that does exist in the U.S. is for branded products. It's about one percent, and there's no way we can enter and leverage their capacity because it is a branded opportunity that they manage themselves, so there is simply no manufacturing alternative for us as a company right now.

K2 Sports owns its production factory

in China in order to maintain production quality, costs, and most importantly, proprietary information. Our innovation process starts and finishes in Seattle in our development center for all products before entering production in our factory.

And this is a very intentional structure of our process to avoid putting the company's intellectual property at stake, letting out any innovation secrets, and most importantly, not allowing any transfer of technology rights to a Chinese entity.

Obviously, any decision to move sourcing of our products would create a massive business disruption and loss of capital and human resource investments that have been made in the last period of a few years of time. It is simply not economically viable for K2 to move production out of China.

Americans are spending about $72 billion annually on snow sports right now, supporting about 472 local and nationwide resorts, and it's basically providing about 695,000 jobs within the industry in the U.S., and to benefit, that industry is contributing about $11 billion in federal, local, and state taxes.

With these tariffs, the numbers will drop dramatically for American equipment brands and for the American users. We would love to keep that spending focused on the American companies and that's why I'm here today.

K2 appreciates the administration's objectives with regard to China's discriminatory practices and infringement of intellectual property.

We understand that we are asking you to make a very difficult decision, but applying a 25 percent tariff on snow sports is just not the answer, especially on a life saving device such as our avalanche safety airbag.

So by trying to influence the Chinese government to make changes, you are inadvertently hurting us, Americans, and American companies.

K2 sports has a proud portfolio of

iconic American outdoor sports brands with a combined 402-year history in winter sports both in the United States and internationally. We are very proud of maintaining global market share with our American brands and representing our country in this industry.

Our goal is maintaining industry leadership, continuing to support health and wellness, safety, and as important, progress the sports we represent.

Through an aggressive turnaround strategy, one that is uniquely focused on winning in the U.S. for the K2 brand, K2 posted our first growth year in nearly a decade.

We have overcome ownership changes, numerous leadership changes, and serious competitive advantages -- disadvantages, apologies, to rebuild our business.

Ultimately, the tariff increase from list four will only hit K2 sports, the American consumers, and will drastically impact the 695,000 jobs this industry has built.

So I thank you very much for your time and consideration, listening to my point of view, and I'm also open very much for questions, so thank you.

MR. BURCH: Thank you, Mr. Colonna. And Mr. Chairman, this concludes all witnesses' testimonies.

CHAIR CHEN: Yes, my colleague from the Department of Treasury?

MR. SULLIVAN: Thanks, I have a question for Mr. Mason. You mentioned that your company supplies about 50 percent of U.S. tennis ball consumption, which I presume is mostly coming from Chinese production.

Do you know where the other 50 percent of production comes from in terms of their sourcing? Is it also coming from China or other places?

MR. MASON: Yeah, we're about 60 percent of the U.S. market. The remainder is probably the percentage broken down between Thailand and the Philippines.

MR. SULLIVAN: In terms of where they're sourcing their materials from or --

MR. MASON: Our two largest competitors manufacture through third party, one in third party and one a wholly-owned manufacturing facility, and one is in Thailand and one is in the Philippines.

MR. SULLIVAN: In the Philippines, okay. And could you elaborate a little bit more on why you'd expect the 25 percent tariff to lead to a 50 percent drop in sales and a 15 percent drop in employment?

MR. MASON: Tennis balls are, we hate to use the word commodity, but often it is, and so the belief is, and it's been proven time after time, when you take even a $0.10 or $0.20 increase on a can of tennis balls, that the U.S. consumer will go to another brand and go to another option.

And so with a large percentage of our business at the mass market and the big box stores, every penny matters, and so for Penn to take a 25 percent increase when the competition does not would have a devastating impact to us.

MR. CROW: I have a question for Mr. Handelman. Your comments appear to mostly deal with tariffs on bowling footwear. Does your product line extend beyond footwear, and you mentioned bowling bags, or is that your primary business?

MR. HANDELMAN: We import and manufacture bowling footwear, bowling bags, pins, and accessories, and under accessories, it's towels, gloves, cleaners, polishes made in the U.S., and products like that.

MR. CROW: How important is China as a source for bowling products in general? You mentioned that you'll lose customers if you pass on this tariff to them. Are your main customers individuals or businesses?

MR. HANDELMAN: We sell mostly B2B. However, we do sell to some consumers. All of our competitors source from China as well, whether it's bags, or shoes, or accessories, so the entire industry is in China right now.

We are the only bowling bag manufacturer to import parts and actually manufacture the bag in the U.S., thereby creating a competitive advantage for us as costs go up, but the greater good here is that it's bad for our end user consumer.

The end user consumer will either not buy product or stop bowling all together because the sport is too expensive.

MR. CROW: Thank you.

MR. RICE: My question would be for Mr. Sankaran. Could you elaborate on the impact of potential additional tariffs on the range of outdoor optics, the binoculars and the scopes?

MR. SANKARAN: In terms of the impact, the impact would be primarily not just for us, but for the industry. The primary source of production for these products is China today, and if we were to have these tariffs go into effect, we would have no choice but to pass those onto our customers in some shape or form.

And as we pass them onto our customers or the retailers, what we have seen from some of the prior products which had tariffs is they have chosen to pass them on with their margin added to the consumers, and so I'll give you an example.

Take a product that today, say, sells for $99. By the time those tariffs go into effect and it gets passed on through the retailers with their margin added, that now becomes a $129, $139 product. If you take a $199 rifle scope, and that now becomes suddenly a $249 rifle scope for the consumer.

That's a pretty significant impact for a consumer, and we unfortunately had seen this on some of our products, and the impact of that as we saw in our results is that the consumer reacted by buying less, unfortunately, and in some cases, we saw as much as 40 percent reduction in our sales.

I do want to point out it's not that our desire is to pass on and hurt the consumer. We try very hard not to let that happen, and we use every means possible, whether we can extract costs in the supply chains, whether we can work with our vendor partners.

We can try to move production elsewhere, but it's not as simple and easy to do that, unfortunately, because you've got to go where the supply chain exists, and the supply chain for our products is glass, and glass is largely limited to certain places.

So we can say we'll move our manufacturing anywhere, including the U.S., but the majority of the components still have to come from the same place, and that's a challenge.

MR. RICE: Okay.

MR. SANKARAN: I hope I was able to explain that to you.

MR. RICE: Oh, yeah, thank you very much. As a follow up actually, is it possible to source these kind of products outside of China?

MR. SANKARAN: We absolutely have been continuously trying to do that. Like I mentioned in my testimony, there are some high end products we do acquire from other countries, but the biggest challenge we find is the supply chains are not fully robust and developed in all of the countries, and so even if you try to move it, it has not been easy to find enough capacity and vendors in other countries.

We have no desire to be dependent on one country. It is just not our desire. It's just what today the manufacturing situation is in our industry that is forcing us to be there. We continuously strive to find alternatives.

MR. RICE: Okay, thank you.

MR. O'BYRNE: Mr. Archibald, you mentioned that few factories outside of China are capable of producing lacrosse safety equipment. Could you elaborate on this point?

MR. ARCHIBALD: Sure, and actually there are a few very number of factories that do this even currently in China. Let's take, for example, the lacrosse industry where there are really three significant players, STX, Warrior, and Cascade Maverick. It would not be unusual for a certain protective device to be made for all three of us in the same factory.

The reason is the audits that are required by the safety organizations for the protective equipments, audits of the factory to have the factory demonstrate that they can meet the QC tables that have been set.

So to move it, you've got that issue, the tooling costs to move the various tooling or to create the new tooling, and we've just had to go through that with goggles because the safety bodies changed the dimensions in such a way everybody had to re-engineer their goggles because they changed the head form on which they're tested and it had a different coefficient of friction.

So you've got that, and third, on the cut and sew matters on the goggles, it really is not simple stuff. It's taken lots of years and lots of expertise to get where it is, not to say it can't be replicated, but it's going to take a number of years for the reasons I've alluded to.

MR. O'BYRNE: I think you've answered some of this already, but what do you see are the obstacles to manufacture of such equipment outside of China?

MR. ARCHIBALD: It is developing a comparable factory that can meet the items we just talked about. It's developing a workforce within the factory that is skilled enough to do what needs to be done to meet the safety standards that are required on us, and it's the cost of the retooling, which in a couple of the areas, we didn't get to. I didn't have enough time. It's in the written materials.

But with respect to the composites that we use for the ice hockey sticks and for the lacrosse handles, to replicate that factory in another place, be it Vietnam or whatever, is in the many millions of dollars. We know because we're looking at possibly doing that and we have the time crunch.

And as was said in the last panel, it's just not something that can be done right away, and hopefully if we're going to move forward, it would be done in a way that would give American interests time to not get harmed in the process.

MR. O'BYRNE: And lastly, given that you seem to be working towards a new product to meet the new standard, would a non-Chinese producer be significantly less optimal to manufacture the new product?

MR. ARCHIBALD: It would be because of the time that R&D has spent with the factory and because of the hard deadlines that we've got. January 1, 2021, we've got to have the product out there.

And of course to do that, we all know the lead times to do that really would be impossible because you'd have to have another factory up and running and able to pass the factory audits that are conducted by the SEI, Sports Equipment Industries, which is a part of ASTM, so it would really be physically impossible to get it done in that time for those reasons.

MR. O'BYRNE: Thank you.

MR. FRATERMAN: Thank you, everyone, for your testimony. My question is for Mr. Colonna. You mentioned in your testimony that major competitors are producing in Eastern Europe. Is it not possible for K2 to diversity their production either to Eastern Europe as well or somewhere else?

MR. COLONNA: It would require us actually moving and building a factory. All of our competitors own their manufacturing bases. They're not open for production, and obviously capacity is tight in most of them, so significant around both in Europe and any other country. That's been the biggest variable for us.

MR. FRATERMAN: Okay, so there's no plans for that?

MR. COLONNA: It would like Nike going to Adidas and asking for a favor.

MR. FRATERMAN: Okay, great. Thank you.

CHAIR CHEN: Mr. Colonna, if I could

follow up on your testimony, you mentioned that you own your own production facility in China.

MR. COLONNA: Yes.

CHAIR CHEN: And that part of the reason for this was concerns about your company's intellectual property and innovation. I was wondering if you could speak a little bit more about the risks that you perceived that led you to make the decisions that you did in terms of how you do your procedures and how you do the ownership?

MR. COLONNA: Yeah, I'd say our industry, as fun as it is, it's very much focused on product innovation and developing benefits for the consumer, so even shared resources within our industry is not looked upon as a healthy thing.

So for us, it was very, very important that we maintain all of our innovative insights and practices in our development center which is south Seattle, Des Moines, Washington, and package that up and hand it over to a factory that we own just to ensure that competitively nothing would get shared and nothing would put us at a disadvantage in the marketplace, so it's something that we've been very conscious of as we go through this process.

CHAIR CHEN: Did you consider or were there conditions that made you consider whether you would take on a joint venture in your facility in China?

MR. COLONNA: Not at this time. I wasn't part of the actual decision. It was a decision made about three or four years ago. We do consider the ability to open up production capacity in there, but again, for that competitive nature, it would be outside of our industry and something, reverse seasonality that would allow us to maintain that strict relationship.

CHAIR CHEN: Thank you.

MR. BURCH: We release this panel.

CHAIR CHEN: Yeah, thank you all for your testimony.

(Pause.)

MR. BURCH: And would all the witnesses for Panel 24 make their way forward? Would the room please come to order?

CHAIR BUSIS: We're going to again reintroduce ourselves. There are some different members, so please start.

MR. SULLIVAN: Matthew Sullivan, U.S. Department of the Treasury.

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

MS. COPPERTHITE: Kim Copperthite, U.S. Department of Commerce.

CHAIR BUSIS: Was the mic on? I think -- try that again because I think -- yeah.

MS. COPPERTHITE: Kim Copperthite, U.S. Department of Commerce.

MR. CROW: James Crow, U.S. Department of State.

CHAIR BUSIS: And Bill Busis, deputy assistant at USTR for monitoring and enforcement and Chair of the Section 301 Committee. So our last panel today is an important one. It's about chemicals and some raw materials, so let's go for it. Thank you.

MR. BURCH: All right, Mr. Chairman, this is the last and final panel for today, and the first panel witness will be Elliot Davis of Allegheny Technologies, Incorporated. Mr. Davis, you have five minutes.

MR. DAVIS: Good afternoon, I'm Elliot Davis, senior vice president --

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

MR. DAVIS: Good afternoon. I'm Elliot Davis, senior vice president and general counsel of Allegheny Technologies, Incorporated or ATI. ATI is headquartered in Pittsburgh, Pennsylvania and operates manufacturing facilities throughout the United States.

ATI is a producer of advanced speciality metals and complex components. Our products support diverse markets and industries such as aerospace and defense, oil and gas, energy, medical, electronics, and general industrial markets.

The focus of my testimony today is ATI's production of zirconium, hafnium, and their derivative alloys, materials that are essential to many critical defense applications.

ATI produces these metals which have special properties and are exceptionally resistant to corrosion and high temperatures at our facilities in Millersburg, Oregon and Huntsville, Alabama.

ATI has conducted operations involving zirconium for more than 60 years. ATI was the first U.S. company to be an industrialized manufacturer of zirconium, and our company continues to be a leader in zirconium metallurgy.

Zirconium products are used in a variety of applications, including the cladding of fuel rods for nuclear reactors operated by the Navy and civilian authorities, military and commercial aircraft engines, and many other industrial and electronic applications.

Likewise, hafnium products are used in

a variety of national security and defense-related applications.

ATI's customers for these products include the United States government, other specialty material producers, and the companies that comprise the global aerospace and defense sector.

Our company's zirconium and hafnium production operations involve the consumption of two main inputs, zirconium oxide powder, or what we call fused zircon, which is classifiable under harmonized tariff schedule subheading 8109.20.00, and zirconium oxychloride, also known as ZOC, which is classifiable under HTS subheading 2827.49.50.

ATI consumes both fused zircon and ZOC as input materials. Optimum performance is obtained when ZOC is the major input.

Less than a year ago, ATI requested that this committee remove fused zircon and ZOC from the list of products that were ultimately subjected to an additional 10 percent duty under

Section 301.

After considering the information and comments submitted by ATI, these materials were among a very small number of products that were removed from the list of products subject to an additional 10 percent duty starting in September 2018.

We urge the committee to again recommend the removal of fused zircon and ZOC from the list of products that could soon be subject to an additional 25 percent duty.

Fused zircon and ZOC should be exempted from Section 301 duties for three principal reasons. First, these inputs are not produced in commercial quantities in the United States, and have not been for quite some time.

ATI would prefer to source these materials domestically to strengthen the security of our supply chain, but they are not manufactured in the United States in commercial quantities, if at all. Environmental factors in particular make it difficult to produce these materials in the United States.

While ATI purchases very limited amounts of fused zircon from a small U.S. producer, cost and availability have always been an issue. With respect to ZOC, ATI has no option but to purchase all of its needs from China as there are no other large scale producers of ZOC in the world.

Second, the imposition of an additional 25 percent duty will significantly increase ATI's costs sourcing these materials. Fused zircon and ZOC, which account for a significant portion of the costs to manufacture zirconium and hafnium, are already subject to normal duties of 5.5 and 4.2 percent respectively.

Imposing an additional 25 percent duty on these inputs will result in the U.S. government and ATI's other domestic customers paying significantly higher prices for zirconium and hafnium.

Third, imposing an additional 25

percent duty on these products will hurt ATI's competitiveness in selling zirconium, hafnium, and their derivative alloys to our overseas customers. These additional duties will only enhance the competitiveness of other global suppliers which will not have to absorb these same cost increases.

For these reasons, ATI respectfully requests that the Section 301 committee again recommend the removal of the harmonized tariff schedule classifications applicable to fused zircon and ZOC from the list of products potentially subject to an additional 25 percent duty.

We presume that the committee's removal of these materials from the list of products that were subject to an additional 10 percent duty starting last September reflected a determination based on national security considerations.

There have been no changed circumstances during the intervening period that would justify a different outcome, and we urge that fused zircon and ZOC again be excluded from the imposition of any additional duty pursuant to Section 301. Thank you.

MR. BURCH: Thank you, Mr. Davis. Our next panel witness will be Chris Pesek with Unicat Catalyst Technologies, Incorporated. Mr. Pesek, you have five minutes.

MR. PESEK: Thank you. I'd like to thank the Committee for the opportunity to appear at this hearing to discuss the impact of the Administration's proposed tariffs on Unicat Catalyst Technologies, Inc.

My name is Chris Pesek. And I'm the Global Sales Manager for Unicat. Unicat Catalyst is a Texas based small to medium sized importer of catalysts and catalysis related chemicals to the petrochemical industry.

Unicat was established in 2000, despite significant obstacles for startups in the catalyst markets.

Unicat defied the odds through a

unique business model that emphasizes complimentary services, including installation assistance, maintenance, training, trouble shooting, and consulting.

Unicat has established itself as the only U.S. based catalyst company competing in both purification and synthetic gas catalyst markets.

About 70 percent of Unicat's annual revenue is generated by products that are now subject to the 25 percent tariffs under USTR's most recent modification to Section 301 action, Tranche 3.

These tariffs that were imposed by the Administration as part of Tranche 3 will eventually put Unicat out of business.

We recently lost two sales that would have brought in almost three million dollars in revenue. Approximately 10 percent of our average annual revenue.

Those lost sales were -- those lost sales were a direct result of the 25 percent tariffs. And this is just the beginning.

The remaining 30 percent of Unicat's annual revenue is generated by products covered by HTS Subheading 2818.20.00. Which is part of the proposed Tranche 4, the subject of today's hearing.

Imposing these tariffs proposed in Tranche 4 will cause disproportionate economic harm to the U.S. economy and to Unicat. If subheading 2818.20.00 is not removed from Tranche 4, finalizing Tranche 4 will hasten the day on which Unicat will be forced to close its doors.

Unicat's closure will have other major negative economic consequences. Before the Administration began imposing tariffs as part of this action, Unicat was discussing and evaluating the possibility of constructing a catalyst manufacturing facility in Alvin, Texas, so that it could begin producing some of its catalysts here in the United States.

When USTR imposed the 10 percent tariff as part of Tranche 3 however, Unicat was forced to cancel its potential expansion.

That plant would have employed up to 15 people. And been the first synthetic gas catalyst manufacturing facility built in the United States since the 1960s.

As you know, one of the Administration's objectives for imposing tariffs on China is to bring back U.S. manufacturing.

In this case, imposition of tariffs is having the exact opposite effect, depriving Unicat of the revenue stream it needs to construct a U.S. manufacturing plant, and create U.S. jobs in catalyst manufacturing, sales, research and development.

In addition, just like the tariffs on catalysts in Tranche 3, the proposed tariffs on aluminum oxide in Tranche 4 would have a negligible impact on the Chinese economy and China's aluminum oxide industry.

And they would have no effect on obtaining the elimination of China's acts, policies, and practices.

China does not export large volumes of aluminum oxide to the United States. And the aluminum oxide is not part of China's Made in 2025 initiative.

At the same time, when Unicat exits the U.S. market prices of catalysis related aluminum oxide products will likely increase for U.S. refineries, pesticides and chemical companies. Making them less competitive.

It is also important to note that USTR already found that the subheading 2818.20.00 did not meet its criteria for inclusion in Tranche 3. USTR proposed to include this subheading in Tranche 3, but ultimately did not.

The criteria that USTR used as the basis for removing subheading 2818.20.00 from Tranche 3, appears to be substantively identical to the criteria that USTR is relying upon to determine whether to remove tariff subheadings from Tranche 4.

As a result, for the same reasons that USTR rejected the inclusion of subheading

2818.20.00 in Tranche 3, USTR should remove that subheading from Tranche 4.

In conclusion, Unicat respectfully requests that USTR remove HTS subheading 2818.20.00 from Tranche 4.

Thank you again for the opportunity to present our views. And we would be happy to answer any questions after the session.

MR. BURCH: Thank you Mr. Pesek. Our next panel witness will be William Broxton with 5N Plus Semiconductors.

Mr. Broxton, you have five minutes.

MR. BROXTON: Mr. Chairman and members of the Committee, I'm William Broxton Alexander, Senior Director of Corporate Development and Innovation Management for 5N Plus Semiconductors.

I'm here to request the removal of unwrought germanium imported from China and classified under the harmonized tariff schedule of the United States, subheading 8112.92.60.

With a list of products that would be subject to a proposed tariff of up to 25 percent.

In addition, germanium is also subject to regular duties at the rate of 2.6 percent, cumulatively a higher tariff of almost 28 percent, would trigger severe economic hardship for the company, heighten national security implications, and create negative commercial repercussions.

For these and other reasons I will discuss, ready and unabated access to germanium should be a key factor to the USTR's final determination.

5N Plus is a leading U.S. producer of specialty semiconductor wafers. 5N Plus produces these wafers at a small manufacturing facility located in St. George, Utah.

It employs 46 people. And it is invested significantly in capital equipment and building improvements over the past eight years.

5N Plus needs germanium to produce wafers for solar cells that are used on various types of satellites, mostly pertaining to military and commercial uses.

These include, for example,

communication, weather, astronomical, scientific research, reconnaissance, and military satellites, such as those used for early missile warning.

5N Plus is the sole U.S. domestic space qualified germanium wafer supplier to the national security space. And is one of only two such worldwide suppliers. The U.S. Government is our largest end user. As the Committee may recall, Germanium appeared originally on USTR proposed List 3 of products to be accessed high tariffs.

5N Plus provided public testimony to this Committee on August 20, 2018. And submitted comments shortly thereafter.

In addition, we obtained letters of support to remove germanium from List 3 from official within the White House Office of Trade Policy and Manufacturing, DoD, the Department of Commerce as well as from a commercial customer.

5N Plus has built a close working relationship with the U.S. Government. And worked hard to become the largest supplier of solar cells used in military satellites and secondary applications.

By way of background the Company's contract with the Defense Logistics Agency commenced in March 2018, making our company the sole provider and manager of this strategic stockpile.

Pursuant to that contract, 5N Plus is responsible for upgrading a portion of the existing high purity germanium inventory to include unfinished germanium wafers, which are needed for various national security space applications.

The six same assertions 5N Plus made to the Committee last August in support of removal of germanium from List 3, remain highly relevant today.

They are number one, the semiconductor wafer market requires germanium to produce solar cells used in satellites required by defense in commercial industries, with the U.S. Government being the largest end user of such wafers.

Number two. For a number of years, no active mines in the United States have produced the grave quality or quantity of germanium needed by 5N Plus to make the highly valued wafers for commercial and military customers.

China produces more than 65 percent of the world's refined germanium. With the United States purchasing 20 percent of that figure.

Number three. There are currently no suitable alternative suppliers of germanium within the United States or elsewhere in North America.

While germanium mines exist in Germany and Russia, those do not have the capacity, even in the aggregate to produce the level of germanium required by 5N Plus or the U.S. Government's national defense stockpile.

Number four. The other national security space qualified producer of wafers is located in Belgium. That producer sources the majority of its germanium from China.

Assessing an increased tariff on imported germanium from China provides an unfair and undeserving advantage to the European competitor in the satellite industry, where slim margins are the norm.

Adding the high tariff to 5N's costs would cause disproportionate economic harm to the company, resulting in a loss of U.S. jobs, a drop in R&D related funding and similar investments, and a massive reduction in its customer base.

Having no -- number five. Having no suitable alternative sources of germanium, 5N Plus has no other viable option then to source this critical mineral from China.

If that supply chain becomes economically foreclosed, wafers for building commercial and military satellites, or for sustaining the U.S. stockpile of germanium wafers will have long term, negative strategic implications for U.S. national security.

Number six. Further placing tariffs on germanium will not be affective in eliminating

China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

Clearly the mining of germanium does not entail high level technology that would facilitate China's Made in China 2025 objective.

It is important to note that 5N Plus is not the only interested party to endorse the criticality of germanium. The Department of Interior released a list of critical minerals last year, designating germanium and other minerals for which there is heavy reliance on imports, as vital to national -- the nation's security and economic prosperity.

The DoD has also recognized germanium as a critical mineral since as early as '91. More recently the Department of Commerce noticed the United States relies on imports of 35 critical minerals, and lacks any domestic production for 14 of these critical minerals, including germanium.

Furthermore, even USTR states in its

May 17, 2019 Federal Register Notice that List 4 excludes critical minerals, despite the USTR proposing that germanium, a widely proclaimed critical material, be subject to additional duties up to possibly 25 percent.

Taken into consideration the importance of germanium to the DoD, other federal agencies, and the private sector, we respectfully urge USTR to remove germanium from List 4 of proposed goods.

Indeed, several government agencies last week recommended to the President that the United States should work to increase access to critical minerals by expanding imports of such minerals that are not available in the U.S. in sufficient quantities.

Thank you. And I welcome any questions you may have.

MR. BURCH: Thank you Mr. Broxton. Our next panel witness will be Edward Brzytwa with the American Chemistry Council.

Mr. Brzytwa, you have five minutes.

MR. BRZYTWA: The American Chemistry Council appreciates the opportunity to testify today on the proposed 25 percent additional tariff on another 300 billion dollars in U.S. imports from China, including 11 billion dollars in chemicals and plastics imports.

ACC holds the position that a prolonged trade war between the United States and China, in which chemicals being subjected to higher tariffs becomes a fixture, not an exception, could reverse the fortune of the U.S. chemical manufacturing sector.

Our industry's future growth depends on a strong U.S./China trading relationship, full access to China's large and growing market, and a certain and predictable trade policy. Not threats of more or higher tariffs.

While we continue to support the Administration's efforts to address unfair trade practices in China, including inadequate protections of IP and forced technology transfer practices, chemicals must be taken off the front lines of this trade war.

We urge the Administration to get back to the negotiating table, end the trade dispute, and lift the China Section 301 additional tariffs.

With regard to proposed List 4, we respectfully urge the Section 301 Committee to remove, at a minimum, the 214 eight-digit U.S. -- HTS codes for chemicals and plastics, which are in Chapters 28, 29, 32, 33, 34, 35, 36, 38, and 39.

If the list tariff -- List 4 tariffs come into effect, the total value of U.S. chemicals and plastics imports from China, subject to tariffs across all four lists, will reach 26.4 billion dollars.

This would amount to the biggest tax increase that U.S. chemical manufacturers have ever experienced. China's retaliatory tariffs are simultaneous impacting 11 billion dollars in exports of U.S. made chemicals and plastics, resulting in a decrease in U.S. exports by 24 percent from December 2017 to December 2018.

The U.S. chemical manufacturing sector is one of the hardest hit sectors in the current volley of tariffs between the United States and China. A 25 percent tax increase on 26.4 billion dollars in chemicals and plastics products is unsustainable for a majority of chemical manufacturers regardless of size.

Due to their early position in the manufacturing supply chain, when the chemical industry's costs increase, it causes a ripple effect across the U.S. economy, impacting downstream customers that rely on chemicals to do business. Ultimately, U.S. consumers will pay higher prices for goods and services.

The timing of the trade dispute with China is especially harmful for our industry. The shale gas revolution has given U.S. chemical manufacturers an unprecedented competitive advantage at producing high demand chemistries at low costs, exporting them around the globe.

The uncertainty created by the tariffs

on U.S. chemical imports, the artificial cost increases, and the resulting retaliatory tariffs on our exports are threatening investments. And could all but nullify the historical gains our industry has witnessed over the past ten years.

For U.S. chemical manufacturers a prolonged trade war with China could cause the gift of the shale gas revolution to whither and fade. Significantly undermining our industry's global competitive advantage.

Because chemistry touches 96 percent of all manufactured goods, the U.S. manufacturing sector, and in face the entire U.S. economy, thrives when the cost to produce and import chemicals is low.

Many of the products in List 2, 3, and 4, are inputs to chemical manufacturing. Building block chemicals, raw materials and feed stocks that can only be sourced from China.

If the current situation continues, the companies want to produce -- and the companies want to produce chemicals that require these inputs it will be forced to move production to or invest in other countries.

High paying, high skilled jobs will move from the United States to other markets. U.S. hiring may slow, and U.S. production facilities could close.

Small and medium sized chemical manufacturers will bear the disproportionate effects of these tariffs because they will not be able to mitigate their impacts in the same way that multinational companies can.

We believed the Administration listened to our case for removing essential chemicals from the tariff lists.

In September 2018 U.S. chemical manufacturers welcomed the Administration's removal of three billion dollars in chemicals and plastics imports from the final U.S. List 3.

To ACC and our members it appeared that the Administration had determined that these 141 products were essential to U.S. manufacturing and agriculture. And therefore, should not be subjected to tariffs.

However, in an unexpected reversal, the Administration's proposed List 4 includes at least 114 chemicals and plastics products that had been taken off the proposed List 3. These products accounted for 2.68 billion in imports in 2017.

The Administration's reversal on these products is surprising, injecting more confusion and greater uncertainty in the U.S. chemical sector.

Also confusing, is the significant overlap between the chemical products in the miscellaneous tariff bill in all the China Section 301 tariff lists.

These products should not be subjected to any additional tariffs as the U.S. International Trade Commission and Congress deemed them essential to U.S. manufacturing competitiveness.

At the G8 -- G7 Summit in Canada in June 2018, the Administration stated that one of its goals is to eliminate tariffs globally. ACC and our members support this goal, and welcome opportunities to assist the Administration to achieving it immediately.

Tariff elimination for chemicals must lead to the lowest possible bound and most favored nation rates of the WTO, and the avoidance of additional duties on top of applied duties.

With this we urge the Administration to lead the world into a new era of fairer, broadly beneficial global trade and investment. Thank you.

MR. BURCH: Thank you Mr. Brzytwa. Our next panel witness will be Matthew Moedritzer with the Society of Chemical Manufacturers and Affiliates.

Mr. Moedritzer, you have five minutes.

MR. MOEDRITZER: Good afternoon. And thank you Section 301 Committee for the opportunity to testify today.

My name is Matt Moedritzer. And I

manage legal and government relations for the Society of Chemical Manufacturers and Affiliates or the acronym SOCMA.

SOCMA is the only U.S. based trade association solely dedicated to the specialty and fine chemical industry. A 300 billion dollar industry that is fueling high paying jobs in local economies across the United States.

SOCMA members play an indispensable role in the global chemical supply chain, providing specialty chemicals to companies in markets ranging from aerospace and electronics to pharmaceuticals and agriculture.

Tranche 4 essentially captures all remaining Chinese origin chemicals, with exceptions for certain pharmaceuticals and rare earth minerals.

SOCMA respectfully requests that USTR delist Chinese origin chemicals in HTS Chapters 9, 13, 15, 21, 28, 29, 32, 33, 34, 35, 37, 38, and 39 from proposed Tranche 4.

To aid in your evaluation, please

consider SOCMA comments filed Monday, which include a data sheet. And I brought a copy today, not that you can see it. But I just want to give you an idea of what the table looks like.

But in the comments is a data sheet that lists hundreds of individual product lines imported by SOCMA members with eight to ten digit HTS number, chemical name, chemical abstract service number, as well as corresponding justifications for delisting, which often detail a degree of economic harm and whether viable alternate sources exist.

In any event, specialty chemical inputs make good candidates for delisting for the following three reasons. One, speciality chemical manufacturers as a sector of the chemical industry are particularly exposed to Tranche 4 tariffs.

More than half of SOCMA members are small and medium sized enterprises. Speciality chemistry brings uniquely manufactured substances to market often through small batch production.

Speciality chemical manufacturers thus face higher business costs as a segment within the chemical industry. And often face equivalent or potentially lower net revenues and bulk chemical manufacturers.

The batch manufactured products they create are not afforded the economies of scale. And so many such firms must also concentrate their operations around one or a relatively small number of facilities.

Batch chemical producers are not single product companies. Many producers have hundreds of products in their portfolios, each requiring a unique set of inputs.

All such inputs are vitally important to the quality and consistency of the final product. Changing any one component therefore can have significant effects.

Reason number two. Speciality chemical supply chains are particularly integrated into China.

Many speciality chemical manufacturers

will be disproportionately burdened given the degree to which chemical inputs are often unavailable outside China.

To illustrate this point, please consider that chemicals made up nearly half of the tariff lines delisted from U.S. Tranche 3.

Please also consider that chemicals make up over half the tariff savings from the current miscellaneous tariff bill cycle, and roughly half of all MTB products are sourced from China.

These de-listings and number of chemical petitions that have been vetted and cleared by the U.S. International Trade Commission for Tariff Relief speaks volumes regarding how dedicated the Chinese supply chain is for certain chemical tariff provisions.

SOCMA wishes to flag two sector specific impacts in particular. The flavors and fragrances industry is particularly exposed to Tranche 4.

One SOCMA member for instance, uses

over three thousand different ingredients to create their fragrance and flavor formulas. Many of which come exclusively from China, and are indicated as such in SOCMA comments.

If implemented as proposed, significant costs may be passed along to American consumers that use end products on a daily basis.

Also, certain pigment intermediates previously listed then delisted from Tranche 3, are now relisted on Tranche 4.

The Committee will hear from Jean Yoho of Sun Chemical, a SOCMA member, tomorrow morning who will flag two pigment intermediates in particular, that have no viable sourcing alternates. And if tariffed to 25 percent would alter the industry as we know it.

Reason number three. Delisting Chinese origin chemical inputs will impede Made in China 2025.

For years the Peoples Republic of China has been incentivizing Chinese manufacturers to move up the value chain by providing export subsidies.

While roughly half the overall goods imported from China are inputs, nearly every line item in the HTS chapters, there's 28 inorganic chemicals, and 29 organic chemicals by definition is an input that industry uses to manufacture new chemicals.

By placing tariffs on the raw materials or intermediates coming into the U.S., the Administration is aiding the Chinese plan for 2025.

This increase in tariffs will increase the costs of manufacturing higher value products in the U.S., and make the U.S. less globally competitive.

Also, if the U.S. is the only manufacturer, this increase would make these markets more attractive for entry. And this opens up the door for Chinese companies to move into these markets.

By keeping the status quo, the Administration keeps domestic manufacturing competitive on the global market. And does not incentivize others to enter these high end, technically challenging, and expensive to enter markets.

In conclusion, thank you for the opportunity to appear before the Committee this afternoon.

Thank you also for your work these past months and for your consideration of SOCMA justifications to delist Chinese origin chemicals in the aforementioned HTS Chapters from proposed Tranche 4.

MR. BURCH: Thank you Mr. Moedritzer. And our last final panel witness for the day will be Joseph Gruchacz with Canaxy USA, Incorporated.

Mr. Gruchacz, you have five minutes.

MR. GRUCHACZ: Thank you. Respectfully request HTS 2933.96.01.5 be exempt from the 25 percent tariff. And thank you for having me back.

Last August 20 I testified regarding this same product. Following my appearance the

HTS was excluded off the September 17 list of items assigned the 10 percent tariff.

The product, chlorinated isocyanurates, are chemicals used for water treatment in sanitizations. These EPA regulated chemicals kill harmful bacteria hence important to American's health.

Primarily used in pool and spa with some drinking water applications, ISOs are imported in two forms, bulk, which is then processed at U.S. factories, and as well as in consumer sized pails.

Canaxy USA is a Georgia corporation, and is a very small business. Within the USA Canaxy USA sells imported ISOs as well as several other very low volume chemicals.

Today's purpose is to address Chinese sourced product. However, we feel an understanding of the overall activity is -- business activity is also important.

Domestic production has three ISO producers, one is wholly Chinese owned. I know of no domestic ISO producer closing during the last 25 years, or ever. But I've been involved for 25 years.

The commutative annual capacity of those three producers is 306 million pounds. The three manufacturers petitioned the Department of Commerce to complete antidumping reviews annually.

Unlike others, other testimony from others today whose products have no U.S. production, in this case the domestic producers dominate.

Below is some actual import data concerning this HTS supplied by the United States Census Bureau's trade online database. The values shown are FOB, which is declared value less ocean freight.

The highlighted yellow line is Chinese activity. Some comments, in 2017 all six countries which had companies manufacturing ISOs exported to the USA. Year to date, only two, Japan and India.

Japan's ISOs to the U.S. increased 20 percent in 2018 over 2017. In 2017, three Chinese producers exported to the USA. In 2018, one, and in 2019 there will be none with or without the 25 percent tariff.

Using the total year estimate of imports being about 24 million pounds, imports represent about 8 percent of the domestic production capacity.

Current duties on the Chinese ISOs. Only two Chinese manufacturers are now eligible to export to the USA due to their cooperation with the cost of U.S. antidumping reviews.

In 2018, only one Chinese manufacturer exported to the U.S. Currently the commutative duties on that manufacturer which did export to the U.S. last year, is 39.97 percent. The other manufacturer has higher duties.

Although we are not here today to talk U.S. antidumping calculations, which are complex, once under review survival is challenging. An example of the challenges is the processes' use of surrogate countries, third countries, to determine what Chinese manufacturing costs should be.

For the current antidumping rate, Mexico was used as a surrogate manufacturing country. Which may not accurately represent, estimate what the Chinese manufacturing costs should be.

The current antidumping rate of 33.63 percent was calculated using data during the period June 2016 to May 2017.

Between 2017 and '18, Chinese imports to the U.S. were valued at 5.5 percent higher than Japanese imports. The Japanese have a zero percent antidumping duty while the Chinese product has the 33.

In 2018 Chinese product was imported at values 4 to 15 percent -- excuse me, 2018, Chinese product was imported at values 4 to 15 percent higher than all other origins.

Unfortunately for Canaxy, the timing lag between the data used for antidumping analysis and then more recent import values, is detrimental to Canaxy.

Respectfully request the HTS not get the 25 percent tariff. Canaxy has been working with the Chinese supplier such that 2018 data shows the price of Chinese products increasing 11 percent from 2017/18.

We ask that the Trade Commission not implement the 25 percent. And allow the antidumping process to alone manage this product's viability in the USA.

Adding 25 percent to the existing 39 percent duties creates a hopeless situation for Canaxy's efforts.

Such activities are ongoing such as development of safer formulations with lower U.S. DOT hazards classifications, and continued payment of the thousands of dollars of EPA fees to the EPA by registration's owners -- for reg -- for EPA fees during this period of zero sales most likely will cease.

We are not asking for an opportunity

to sell more a few months from now. Rather, implementing the 25 percent tariff, you are leaving open the possibility -- by not implementing the 25 percent tariff, you are leaving open the possibility for us to participate years from now for this HTS, because we'd still see there's a potential opportunity.

Canaxy is a small business of which the product generate approximately -- this product, this HTS generated approximately 80 percent of its revenue in 2018.

After years of working with this product, adding the 25 percent tariff will greatly jeopardize our existence.

While many large corporations spoke today and making their cases during these hearings, we are a very small company making our case.

But I'm even more thankful that my government would take the time to let me speak. Thank you very much.

MR. BURCH: Thank you Mr. Gruchacz.

And Mr. Chairman, this concludes all witnesses' testimonies.

MR. DEVINE: I have a couple of questions for Mr. Davis. One about fused zircon and one about ZOC.

So you mentioned for fused zircon that there is -- you have sourcing in China. And then there's also a U.S. source.

But are there any other sources in the world for fused zircon?

MR. DAVIS: There aren't, at the current time, that are commercially available. We have one other source that's located in Africa that we're attempting to qualify right now.

And the initial qualifications have been hopeful. And we believe that they may be able to supply some significant portion of our needs. Maybe 40 to 50 percent.

MR. DEVINE: So as for ZOC, have you had any other similar optimistic stories in other countries? Or is there some technical reason why China is the only country that can produce it?

MR. DAVIS: I think it's the environmental issues. It's quality, safety, all of the issues around -- around production of a reactive metal like zirconium.

And I'm not sure why others haven't gotten involved, other then they're not going to be competitive with the Chinese, I suppose.

MR. DEVINE: Thank you.

MR. SULLIVAN: Thank you, I have a couple of questions for Mr. Pesek. Could you just explain a little bit more what type of manufacturing Unicat foresees in -- or has in the U.S. vis-a-vis what imports from China?

In particular, you talked about your considering expanding in the U.S. But then not, decided not to do it because of the 10 percent tariff.

Can you just explain a little bit more about the thinking either for future expansion, or what you currently do in the U.S. versus what you import from China?

MR. PESEK: Yes. So, right now we

probably import about 95 percent of our products from China.

We are constantly looking into and evaluating possibilities of manufacturing here. But more niche speciality products.

Our industry is dominated by very large multinational companies, mainly in Europe. So, Unicat, even though we started up in 2000, is probably the newest catalyst company in the United States.

And there's only couple that are in the United States. And they're small niche kind of companies.

So, we've just now -- we're in an industry that's very conservative. The refining and petrochemical industry.

So there's very big barriers to entry to this market, both in capital and in sophistication and taking a risk on a new catalyst supplier.

And so those have been -- and that's what has taken, you know, 15 to 20 years to get to a size now to where we are looking at potential, you know, investments in the United States.

We have a joint venture that we just started up about two years ago. And that manufacturing is here in the United States.

But we take, we take the structure from China. And we dip precious metals on those, so.

But we're constantly looking at opportunities, so.

MR. SULLIVAN: And you mentioned some of the main competitors are European MNCs. Where do they source their products from?

Is it also from China? Or other sources?

MR. PESEK: Some in China. Most of the big ones in Europe are in their home countries. You know, for example BASF is a German company, so they're in Germany.

But a lot of them are in their home countries. And either China or India. And we don't have access to them, you know, going back to the Nike versus like Under Armor example.

These are big multinationals who would like to see us out of the business, so.

MR. SULLIVAN: Thank you.

MR. CROW: I have a question for Mr. Alexander. Could you further explain the difference in quality between the unwrought germanium sourced from China and that available from Europe?

I know you mentioned capacity. So I would also ask, is there any way they -- any prospect of them increasing capacity?

MR. BROXTON: Well, the germanium comes in different forms. So the unwrought germanium metal that we buy is a certain purity of metal.

And then -- but the dominant use of germanium is the germanium tetrachloride that goes into fiber optics. So a lot of the suppliers of germanium will tune that germanium accordingly.

So, the type that we needed as 5N, 59's purity comes from China. And they have the best capability and quantity. And they control the market in that.

But one bit of clarity I'll add as well, is we're space qualified. Where we went through an 18-month qualification cycle with a supplier of metal.

And so if you change anything because of the small impurities that can impact the final device that's on a satellite, there's a long qualification process.

So in terms of having a ready supply and the grade and quality that we need, that comes from China.

But we do add all the value and the IP in St. George, Utah. And growing crystals and making these types of wafers, that's a lot of IP there.

But we keep that inside our company in St. George, Utah.

MR. CROW: Thank you.

MS. COPPERTHITE: Mr. Brzytwa, I have a couple of questions for you. You specifically indicate that there are certain chemicals not produced in the United States and not produced in third countries. Thus, leaving China as the sole source of production.

Can you identify some of these chemicals?

MR. BRZYTWA: I can identify a lot of those chemicals if I had the time. There's a long list. You know, we can provide that information in post-hearing.

But the point is, is that even in the miscellaneous tariff bill, there's a wide array of chemicals that the Congress and the International Trade Commission identified as essential the manufacturing competitiveness in the United States.

We found that, I think, over 76 percent of the chemicals that are in the MTB, overlapped with the chemicals that are in China's Section 301 List 2 and 3.

We haven't done the math yet on List 4. But, I mean, 76 percent's a big number. And so the idea is that, those are all chemicals that you can only find from -- in other parts of the world.

And I guess only in China in these instances. So, you know, why should we be undermining U.S. manufacturing competitiveness by imposing a tariff that you can't find in the United States?

MS. COPPERTHITE: And my second question. How much of the chemicals imported from China are from related party trade between a U.S. firm and it's Chinese subsidiary?

MR. BRZYTWA: So, the chemical manufacturing world is, at least for North America, quite integrated.

You have a lot of related party trade between the United States, Canada, and Mexico. You see that with respect to Japan, Europe, you know, a lot of related party trade.

I think with China there are certainly

U.S. manufacturers that have made long time investments in China. A good bulk of that could be related party.

But, you know, we can definitely bring those numbers back to you.

CHAIR BUSIS: Mr. Brzytwa, you mentioned the shale gas revolution, which increased competitiveness in the U.S. chemical industry, which is great for all of us.

And I presume it increases competitiveness because of its, I think used for feed stocks for some previous chemicals.

But at the same time you mentioned that we need Chinese feed stocks for certain chemicals.

MR. BRZYTWA: Um-hum.

CHAIR BUSIS: So could you sort of explain the difference between the shale gas and how that affects feed stocks, and the feed stocks that we still need from China?

MR. BRZYTWA: Um-hum. So the shale gas is not just the main feed stock for the production of chemicals in the United States. It's also the chief source of energy.

So, it's a very low cost source of energy for the plants, chemical manufacturing plants to operate in the United States. And this is really a feature of the chemical industry in the United States over the last ten years.

So, this is why we're so competitive. You know, in speaking with our members who do import from China, they import certain types of feed stocks that just aren't available in the United States, from China.

Certain raw materials that they then are using to manufacture into other chemicals inside the United States. I think one example we had was one member imported a product from China that they then use as an input into manufacturing a chemical.

So, it was like eight parts U.S. product, one part Chinese product. But if they couldn't get that Chinese product, they would have to just cease making that product entirely inside the United States.

So, it's a -- there are lot of -- as you know, I mean, there are thousands of tariff lines on chemicals. And many of those products are -- you can only source from China.

You can't find it anywhere else in the world. You can't find it in the United States.

CHAIR BUSIS: Can you get a -- so there's only so many chemical elements.

MR. BRZYTWA: Right.

CHAIR BUSIS: And a lot of these are just nitrogen, you know, nitrogen, chlorine, hydrogen, carbon. So, why is it, and certainly China doesn't have more nitrogen or chlorine or carbon then we do.

So can you give us a sense of why do certain feed stocks only come from China?

MR. BRZYTWA: I think that it's where production has gravitated over the course of decades. That you -- companies have made, you know, built these feed stocks in China, the production of these feed stocks.

And I think they've ceased to produce them in the United States. So, it's a, I think, a challenging situation.

But, you know, if our companies want to continue to produce chemicals in the United States in a competitive way, they need access to these particular feed stocks, or raw materials, or building block chemicals.

You know, this is, this is why we're worried about the situation with tariffs. Because we want to continue to be globally competitive.

CHAIR BUSIS: So to be clear, I guess we're saying like feed stock can still be, what we call a feed stock, could still be an intermediate chemical. It comes from other feed stocks?

MR. BRZYTWA: Yes. It's an input. Right.

CHAIR BUSIS: Okay.

MR. BRZYTWA: It's an intermediate input.

CHAIR BUSIS: Okay.

MS. COPPERTHITE: And for Mr. Moedritzer. You mentioned certain HTS categories of chemicals specifically as inputs, the import of which allows U.S. chemical, specialty chemical manufacturers to produce higher value products.

Are tariffs on the more basic chemical products of greater concern to speciality chemical producers than tariffs on the more relatively processed chemical products?

MR. MOEDRITZER: So, tariffs on -- tariffs on the inputs as compared to tariffs on the products that SOCMA members are formulating here in the States?

MS. COPPERTHITE: Much like what Mr. Brzytwa indicated. The distinction between the most basic chemicals, and how they move through the chain of processing.

Are those of more concern to you? Or the intermediates which are then also used to produce specialties, are those of more concern to you?

MR. MOEDRITZER: Yes, ma'am. Thank you for your question. So, I think it just depends on the sector. And it depends on the chemistry.

So often the raw materials will be sourced from China. Or it could be an intermediate.

But say if you're importing the raw materials, then you could be making an agrochemical active ingredient here. And then shipping elsewhere globally for it to be formulated.

So, I think it's just highly dependent on the chemistry. I wish I had a better answer for you.

But, perhaps I could follow it up with some -- in a post-hearing submission with maybe like a sector specific breakdown.

MS. COPPERTHITE: Thank you. That would be helpful.

CHAIR BUSIS: Mr. Gruchacz, is that pronounced? Okay. So, your testimony mentions, and I want to make sure this is right, is it 306 million pounds of domestic production?

MR. GRUCHACZ: Yes.

CHAIR BUSIS: Okay.

MR. GRUCHACZ: That's per capacity --

MR. BURCH: Can you speak into the microphone?

MR. GRUCHACZ: Sorry. That already is their capacity. I know right now they're running near that.

CHAIR BUSIS: Okay.

MR. GRUCHACZ: But I don't know, just because of confidentiality. I can't tell you exactly how much they're running.

CHAIR BUSIS: Okay. All right. And so then you gave us a helpful chart which has, I guess, it's with imports.

And we have -- it looks like the most we have here is around 30 million pounds. Which is 10 percent of the U.S. production.

And China has only been about, the highest is about nine million pounds. Which is, looks like only about 3 percent of the U.S. production.

MR. GRUCHACZ: Yes.

CHAIR BUSIS: Yeah, okay. So, you know, oftentimes we see the opposite of high numbers where China is like 97 percent over the U.S.

But here we see only a 3 percent of our total, compared to U.S. production. It's not jumping out that this is something we really need the Chinese product.

Could you elaborate?

MR. GRUCHACZ: I ag -- you know, I agree. I'm here arguing for my small company who has spent numerous years working with this chemical. And we'd like to keep going.

This year we will import nothing because of the antidumping process. If the 25 percent duty were to go on in addition to that, we would probably just say no mas.

Because we don't -- we can't even keep doing the right things. It may not be possible to do the right things and then be viable in the future.

Whereas I would like to survive, my company Canaxy would like to survive. And we're just saying, if the 25 percent was not implemented, as the 10 percent wasn't in last September, we could at least keep going.

But with the 3 percent you mentioned, is, without doing the math in front of me is correct. This year it will be zero for sure.

And it's really just basically, it's just giving it a shot, asking for a lifeline.

CHAIR BUSIS: And we're sympathetic. But I'm just trying to understand.

MR. GRUCHACZ: Oh, yeah.

CHAIR BUSIS: So why -- but given the other sources it's, you know, 30 times the size of China.

Can you have access to any of those other sources? Either from the United States or from the rest of the world?

MR. GRUCHACZ: I went door to door

when the 25 percent was announced. I went to Japan three weeks ago. And went door to door to the three producers.

Two of them -- two of them were at -- kind of wanted to talk to me. But they're all out of capacity.

As the other -- as the other countries I show, Spain, Italy, I think there's another one there, it's cease -- Mexico, ceased shipping to the U.S.

Japan was able to take advantage of that. So they're basically saying they have -- they told me they have no capacity.

So, I tried to look for viability in another way. India. India has kind of an exclusive with somebody in the U.S. So, I was out of luck.

But, yeah, the U.S. producers are doing very well, as they come from China stuff.

CHAIR BUSIS: I see. And when -- okay, this is, you know, obviously this doesn't involve the dumping duties, this particular process.

MR. GRUCHACZ: Right.

CHAIR BUSIS: Can you -- can you afford to buy from China with the current level of antidumping duties?

MR. GRUCHACZ: No. That's why it will be zero this year. I mean, it's not a -- there will be no market for it. I mean, not so much to buy.

But that's why I say it's zero. Now, we're going to -- we've been doing things the last two years to get in good rapport or get into good with the antidumping process to show we're good global partners.

And that's what we've been working on. We're just the timing of our latest performance of the data used makes it right now, it's a very bad situation.

Again, all I'm saying is we -- we're trying to do the good global supply part, you know, activities to pull out of that. But it will take time.

Adding the 25 percent, I just say, and may just say, we'll just never get over that hump.

CHAIR BUSIS: Thank you for the clarification. It's very helpful.

Members of the 301 Committee, any more questions for this panel?

(No response.)

CHAIR BUSIS: Mr. Burch, I think we can release this panel and we can recess until tomorrow at 9:30? Right? Okay.

MR. BURCH: Right.

CHAIR BUSIS: Thank you.

(Whereupon, the above-entitled matter 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.

Neal R Gross

Court Reporter