UNITED STATES TRADE REPRESENTATIVE

+ + + + +

301 COMMITTEE

+ + + + +

SECTION 301 TARIFFS PUBLIC HEARING

+ + + + +

THURSDAY
JUNE 20, 2019

+ + + + +

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., Megan Grimball and Philip Butler, Chairs, presiding.

PRESENT

PHILIP BUTLER, Chair U.S. Trade Representative
MEGAN GRIMBALL, Chair, U.S. Trade Representative
EMILY BLEIMUND, Department of Health and Human Services
KIM COPPERTHITE, Department of Commerce
PAUL FARISS, Department of State
MICHAEL FINN, Department of Commerce
MATTHEW FRATERMAN, Department of Labor
KEVIN GILMARTIN, Department of the Treasury
JANET HEINZEN, U.S. Trade Representative
VICTORIA KAO, Department of Commerce
JENNY MORGAN, Department of Agriculture
BONNIE RESNICK, Department of the Treasury
TRACY ROY, Customs & Border Protection
WADE SHEPPARD, Department of Agriculture
RICH STETSON, Department of Commerce
ARI SULBY, Department of State
JOHN VANDERWOLF, Department of Commerce

IAN WALLACE, Department of Commerce
TIMOTHY WINELAND, U.S. Trade Representative
AUDREY WINTER, U.S. Trade Representative

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

WITNESSES PRESENT
SYED MATEEN AFZAL, PDC Machines
JOHN ALOFS, Eyewear by ROI
TOBIAS BAUMGAERTEL, Sandler Nonwoven Corporation
JACALYN BENNETT, Bennett & Company
FRANK BODIN, Nordic Group USA
Kenneth Bradley, Eschenback Optik of America Inc.
DIMITRI CRETIKOS, Nelson Rigg USA
KATHI DUTILH, Milliken & Company
PETER ERDMAN, Hisense USA Corporation
BERT ESHAGHPOUR, Wego Chemical Group
DANIEL FABRICANT, Natural Products Association
KIMBERLY GLAS, National Council of Textile Organizations
JODI GRACEY, Trek Bicycle Corporation
JULIE HECKMAN, American Pyrotechnics Association
KIM HEIMAN, Standard Textile Co., Inc.
DOUG HILL, AFX Helmets North America Inc.
ROBERT HUBBARD, Team Three Group
RALPH IVES, Advanced Medical Technology Association
STEVE JACARUSO, Jack Rogers
CHARLES JOHNSON, International Safety Equipment Association
AJIT KHUBANI, Telebrands Corporation
ALEX KOFF, Specialized Bicycle Components, Inc.
KATHY LaVANIER, National Candle Association
BRANDEE LEPAK, National Bicycle Dealers Association
JOHN LOGUE, Royale Pigments and Chemicals
MORGAN LOMMELE, Bicycle Product Suppliers Association/PeopleForBikes
RYAN McFARLAND, Strider Sports International

JOE MELI, PAJ, Inc.
ROBERT MEYER ZU WESTRAM, EMS-CHEMIE North America Inc.
MATT MOORE, Quality Bicycle Products, Inc.
STEVENSON MOORE, Phoenix Aromas & Essential Oils
BARBARA NEGRON, North American Natural Casing Association
LINDA O'NEILL, Health Industry Distributors Association
DANIEL PEART, Phantom Fireworks Companies
PATRICIA PHILLIPS, SNP, Inc.
CHRIS SACKETT, Bell Sports, Inc.
MICHAEL SAIVETZ, Richloom Fabrics

SCOTT SCHLOEGEL, Motorcycle Industry Council (MIC)

LARA SIMMONS, Medline Industries, Inc.

SIDNEY STEIN, Stein Fibers, Ltd.

DENNIS TRICE, Mitsubishi Chemical Corporation

PAUL VITRANO, Indian Motorcycle and Polaris Industries, Inc.

CRAWFORD WAGNER, Jewelry Television

GREG WILLIAMSON, CamelBak Products LLC

JEAN YOHO, Sun Chemical Corporation

LU YU, China Chamber of Commerce for I/E of Foodstuffs, Native Produce, and Animal By-Products

WEI ZHAO, Jilin Pharmaceutical USA Inc.

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

(9:29 a.m.)

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

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

The purpose of this hearing is to receive public testimony regarding the proposed tariff action.

The Section 301 Committee will

carefully consider the testimony and written comments, including post-hearing rebuttal comments, and will then make a recommendation to the Trade Representative.

Before we proceed with testimony, I will provide some procedural and administrative instructions, and will 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 4 of the hearings. We have scheduled 55 panels of witnesses with over 300 individuals scheduled to testify.

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

Each witness appearing at the hearing is limited to five minutes of oral testimony. The light before you will be green when you start your testimony, yellow means that you have one minute left, and red means that 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 2, 2019. The rules and procedures for written submissions are set out in the May 17th 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 cameras, or video, or audio recording will be allowed during the hearing. Written transcripts of this hearing will be posted on the USTR Web site and on the Federal Register docket.

We are pleased to have today, international trade and economic experts from a range of U.S. Government agencies. If you could introduce yourselves?

MS. ROY: Tracy Roy from U.S. Customs and Border Protection.

MR. FARISS: Paul Fariss from the State Department's Bureau of Economic and Business Affairs.

MR. STETSON: Rich Stetson with the Office of Textiles and Apparel at the U.S. Department of Commerce.

MS. HEINZEN: Janet Heinzen with the Office of Textiles at USTR.

MS. WINTER: Audrey Winter with the

Office of China Affairs at USTR.

MR. SHEPPARD: Wade Sheppard with the Department of Agriculture.

MR. GILMARTIN: Kevin Gilmartin with the Treasury Department.

MR. FRATERMAN: Matthew Fraterman, Department of Labor Office of Trade Policy and Negotiations.

CHAIR GRIMBALL: And I'm Megan Grimball from USTR and the Office of General Counsel. Mr. Bishop, we're ready to begin.

MR. BISHOP: Madam Chairman, our first witness on this panel is Michael Saivetz with Richloom Fabrics. Mr. Saivetz, you have five minutes.

MR. SAIVETZ: Good morning. My name is Michael Saivetz. I am the COO of Richloom, a company founded by my grandfather in 1957. This is my second time presenting testimony on the dire impact that Section 301 tariffs will have on our company and our customers.

Since my grandfather founded the

company 61 years ago, Richloom has become one of the largest suppliers of textiles in the U.S.

At our headquarters in New York, our designers and product development specialists create fabric to meet the needs of our U.S. customers.

Our staff in New York, Indiana, North and South Carolina work closely with customers to create products that meet their manufacturing needs. Those U.S. jobs depend on our extensive international supply chain, including imports from China.

Today, I want to specifically address the impact that tariffs on chenille and cut corduroy would have on Richloom and our U.S. customers.

Both of these products represent key inputs to the U.S. furniture industry and companies making a soft home goods, such as pillows, as well as companies supplying the RV industry.

Like Richloom, all of these industries

are already suffering from the last round of tariffs, which raised costs for key inputs and undermine their competitive position with respect to foreign competition.

I want to remind the Committee that both chenille and corduroy were targeted in the last round of Section 301 tariffs. At that time, the Committee determined not to impose tariffs on these two key products due to the economic harm that would have resulted.

The economics behind that decision has not changed. I urge you to stick by your prior analysis and refrain from imposing tariffs on either of these products.

New tariffs on chenille and corduroy would be particularly dire for the furniture industry, which is Richloom's primary customer for both textiles.

The U.S. furniture industry that relies on Richloom's chenille and corduroy compete directly with foreign furniture manufacturers. New tariffs imposed on fabric inputs undermine their ability to compete with those foreign furniture makers.

Increased material costs resulting from these tariffs could raise the price of domestically-produced furniture significantly.

Indeed, I have seen estimates that the tariffs could result in a $100 to $200 increase in the retail price of a sofa. The competitive impact of such a price increase to U.S. manufacturers should be obvious.

U.S. furniture manufacturers will lose market share to foreign producers, putting American companies and American jobs at risk.

The impact will also be felt by American consumers. The increased price of furniture home goods will come directly from the pockets of American families, hitting low-income families particularly hard.

And Richloom will also be harmed. If our customers lose a market share, so do we. I want to be clear, this is not hypothetical. I have experienced it firsthand. After the last round of tariffs in September of 2018, I saw the impact on my own business and on that of my customers.

In the furniture, soft home, and RV industries, prices increased and demand shrank. Jobs have already been lost in all of these. As their inputs costs rise, more and more of the activity of these industries moves offshore, jeopardizing good American manufacturing jobs.

Since the prior round of tariffs was imposed, Richloom has seen a slowdown in U.S. business as well, and the slowdown is not due to customers shifting purchasing to American-made textiles or non-Chinese textiles, it is due to a decline in the U.S. industries that rely on textiles as inputs.

At the same time, Richloom has seen a growth in our international business, as manufacturers that rely on textile inputs move to other countries. This shift in our business away from supplying U.S. customers has resulted in changes to our own operations.

We have been forced to cut staff in U.S. customer support and distribution center, including our South Carolina facility in this photo. Further tariffs will only exacerbate the situation.

We know from experience that tariffs will have an unintended consequence of harming U.S. manufacturing and pushing jobs offshore. I'm here to ask you not to make matters worse by imposing even more tariffs on the textiles that supply U.S. manufacturing industries.

I'm happy to answer any questions and I thank you for the opportunity of being here.

MR. BISHOP: Thank you, Mr. Saivetz. Our next witness is Kimberly Glas with the National Council of Textile Organizations. Ms. Glass, you have five minutes.

MS. GLAS: Thank you. I'm pleased to be here today. NCTO represents the full spectrum of the U.S. textile sector, from fiber through finished sewn products, as well as suppliers of machinery, chemicals, and other products and services with a stake in the prosperity of our industry.

China's rampant abuse of intellectual property rights and I.P. theft has gone on for far too long at the direct expense of U.S. textile industry and its supply chain, resulting in the loss and contributing to the loss of over million U.S. manufacturing jobs in this critical sector.

We have detailed this in our previous submissions to the Committee. To effectively respond to China's predatory trade practices in our sector, we believe the administration needs to address the exports from China that are disrupting our market and distorting our trade; exports of end items to the United States.

Underscoring why we are requesting these end items, finished apparel, home furnishings, and other made-up textile goods, they equate for 93.5 percent of U.S. imports from China in our sector, while fiber, yarn, and fabric imports from China only represent 6.5

percent.

China's growth in the U.S. textile market has been meteoric. It has become the single largest contributor to our U.S. trade deficit in our particular sector, which totaled nearly $101 billion in 2018.

If the United States truly wants to resolve China's rampant IPR abuse, pillar sectors of the Chinese economy will need to be included on the 301 retaliation list.

Leaving sectors that are highly sensitive within China's economy off the list has actually weakened U.S. leverage throughout the negotiating process, delaying a long overdue remedy to the systemic trade problem.

It is for these reasons that NCTO's pleased the proposed Tranche 4 includes finished imported items for China, which have the most significant impact on U.S. employment, production, and investment.

We believe this move will lead to re-shoring of production in the U.S. and the Western

Hemisphere production platform, and will also address and mitigate China's rampant trade distortions.

Further, we believe that parties have benefitted from China's unfair trade practices have greatly exaggerated the potential impact on consumers that might result with higher prices associated with tariffs on end products.

There are literally hundreds of options to source and produce apparel around the world, many of which can be done duty free from our Free Trade Agreement and trade preference partners, particularly in the Western Hemisphere where the U.S. textile industry's top destination for our exports.

Tariffs are assessed at the price of the merchandise when sold for export to the United States, not the retail value.

While we support the inclusion of finished products on Tranche 4 for all the reasons I just mentioned, I want to stress that we have very serious concerns that certain inputs, already vetted by the administration and removed from previous retaliatory tariff lists, are back on the list for proposed duties.

Adding tariffs on imports of manufacturing inputs that are not made in the U.S. and often made only in China, raises the costs for American companies and makes them less competitive with China.

Such a move would worsen our trade deficit with China and directly harm domestic textile manufacturing. Outcomes diametrically opposed to the administration's stated goals with the China 301 and the broader trade policy efforts.

We believe it would be illogical to reverse previous determinations that found a legitimate case for an exclusion, as such, we believe that the integrity of the earlier exclusion review should be upheld, and we urge the U.S. Government to institute a fair, transparent, and expeditious exclusion system for all retaliation tranches.

In addition, while we don't have time to fully discuss this topic in our oral testimony today, we want to highlight a significantly growing concern related to the 321 de minimis provision in light of the 301 retaliatory tariffs.

This creates a concerning and substantial loophole at a time when the administration is spearheading efforts to address China's unfair trade practices and we're asking the administration to apply retaliatory tariffs to de minimis shipments.

We are literally under attack in this area and you have no further to look than U.S. Government, our own efforts on IPR theft in this sector, which is the single largest sector for IPR seizures by DHS of any sector in years 2016 and 2017.

By adopting these recommendations, the administration could provide a level of much overdue relief to an industry that has been directly targeted and heavily damaged by China's industrial policy.

To the contrary, failure to include end products while keeping certain manufacturing inputs on this list for this sector will, in fact, be a significant net benefit to the Chinese and condone their illegal activity in the textile and apparel sector.

And one last point, earlier this week there was testimony given related to expanding GSP preferences to other countries around the world for textile and apparel in a way to "shift sourcing out of China".

We believe that the Chinese textiles -- expanding this program will be a significant detriment to the United States industry and will give China backdoor access to the U.S. market, since China would get a duty break of 65 percent of the value of all eligible products.

We strongly oppose efforts to give new duty breaks to Chinese textiles through GSP and we ask for your support with that matter. Thank you for the opportunity to provide input.

MR. BISHOP: Thank you, Ms. Glas. Our next witness is Sidney Stein with Stein Fibers Limited. Mr. Stein, you have five minutes.

MR. STEIN: I am Sidney Stein III, Vice President of Stein Fibers and I am appearing today to ask for the 301 Committee to remove flame-retardant rayon from the proposed Section 301 tariffs.

I am no stranger to this room. I've been in front of the ITC at least six times for dumping cases in this room. And also, please excuse if I misread, I am trying out new glasses, progressive lenses, and they do get me messed up from time to time. These doctors are all messed up.

Stein Fibers has a straightforward mission, to meet our customers' fiber requirements by combining the most extensive stock and product offerings in the marketplace with unsurpassed responsiveness.

Now, in our fifth decade, started in 1976, we are among the largest suppliers and producers of polyester fiberfill and non-woven fibers in North America, with annual shipments exceeding 500 million pounds.

As a customer-oriented company, Stein Fibers focuses on efficient logistic and excellent sales support. Based on these qualities, we have developed long personal relationships by consistently leveraging our network to support our client's needs.

With global sourcing strategies, long-term relationships, contacts to overseas suppliers, and domestic production facilities, Stein Fibers has distributed polyester and other related products, like rayon viscose, as well as a domestic producer with a green focus.

You may visit us online. Stein Fibers opposes the action by the United States Trade Representative to impose retaliatory tariffs up to 25 percent on import flame-retardant, which is FR, viscose staple fiber from China as part of the $300 billion list.

This product is specifically

classified under Harmonized Code Schedule HTS, Line 5504.10.00, along with other types of viscose rayon staple fiber.

It was previously proposed as part of the $200 billion list and was removed from the public comment process for that tranche. We are disappointed that this product is back on the list for proposed duties after being vetted previously.

While we applaud the administration's effort to address China's unfair trading practices, we strongly urge the USTR to focus on finished textile and apparel products as opposed to manufacturing inputs, like FR rayon, where increased costs have significant economic consequences for U.S. companies utilizing these inputs.

Among other end uses, FR rayon is a component in a mattress, which we all slept on last night, in the form of a barrier non-woven material that is necessary to comply with the CPS Code 1633 flammability test.

This test was dictated, and this is the most important part, by the Federal Government over 15 years ago for mattresses in order to be safer in case of fire.

To give an idea of the impact of a 25 percent additional tariff on FR rayon fiber used in mattress application, this fiber comprises 75 percent in a mattress and a single mattress has 25 pounds, a single mattress, of total fiber content.

For illustration purposes, we can estimate the current FR rayon staple fiber is worth $1.10 a pound. A 25 percent tariff would increase and raise that cost to over $1.37, or 27-1/2 cents per pound increase, as a result of $5.16 per increase in a mattress would be attributed to costs of FR portion in the mattress alone.

The U.S. mattress market has become increasingly price sensitive and internationally traded with the advent of construction that it be compressed into small shape and shipped direct to customers.

Raising costs on viscose rayon fiber for the mattress made in the United States will likely result in domestic market share for the use producers while hurting their supplies, including our company.

Given that improving U.S. manufacturers' competitive position in relation to China is a key goal of the 301 case, we do not understand the logic of increasing manufacturing costs.

There are no other products known in our industry that can be substitute for FR rayon because of what the government did. There is no FR rayon made in the United States.

As a result the U.S. manufacturers must rely on imported fibers, further given the safety concerns with flammability, mattress, and standards required by the U.S. Government, the quality and consistency of this fiber is key.

While limited amount of fiber is available in Europe and European Union, FR rayon is produced mainly in China, which offers a superior product in this case.

In closing we request the USTR once again excludes viscose rayon as additional tariffs on this product that would, in fact, cause disproportionate economic harm to U.S. business and consumers. Thank you for this opportunity.

MR. BISHOP: Thank you, Mr. Stein. Our next witness is Tobias Baumgaertel with the Sandler Nonwoven Corporation. Mr. Baumgaertel, you have five minutes.

MR. BAUMGAERTEL: Good morning, ladies and gentlemen. My name is Tobias Baumgaertel. I'm the CEO of Sandler Nonwoven Corporation and I appreciate the opportunity to express strong opposition to the inclusion of viscose rayon fibers with the HTS Code 5504.10.00, on the proposed retaliation list.

Sandler Nonwoven Corporation is a wholly-owned and operated subsidiary of Sandler A.G., a German firm. Our operations in the U.S.

commenced in 2015, began with an initial investment of $15 million U.S. dollars in Perry, Georgia.

The existing facility, the first stage of our U.S. expansion, which currently employees 30 people and manufactures non-woven fabric roll goods that are used in the production of personal hygiene products.

Stage 2 will add a new building and an additional product line to expand into new products for a highly-innovative and globally-active industry.

This investment of $65 million is expected to create 70 more new, clean, and safe jobs in Perry, Georgia. Mid to long-term, we will consider a Stage 3 investment to create 40 to 50 more jobs for a total of 110 to 120 new jobs in Georgia.

In light of these potential tariffs, we now must review this investment. We believe that imposing increased duties on viscose rayon staple fibers would inflict serious economic harm on U.S. interests, including Sandler Nonwoven Corporation.

It is well-documented and recognized by the Office of the United States Trade Representative, U.S. International Trade Commission, and other federal agencies that numerous U.S. companies, including Sandler, must import viscose rayon staple fibers from China and elsewhere because no domestic production exists after the 2005 closure of the last remaining viscose rayon producer, Liberty Fibers.

The lack of a domestic source for this necessary raw material has led numerous American manufacturers to seek import duty relief via the Miscellaneous Tariff Bill process.

In fact, ten provisions providing relief for viscose rayon staple fibers were included in the most recent MTB measure. Additionally, after considering the public comments, received and response to proposed List 3, which was released on July 17, 2018, USTR ultimately removed viscose rayon staple fibers from the final List 3.

As USTR considers imposing additional duties of up to 25 percent of viscose rayon staple fibers, Sandler would like to share more information about the substantial negative impact of these or other additional duties.

Viscose rayon fibers function as the absorbent element in many personal hygiene items. Viscose cannot be replaced by any other absorbent fiber without causing serious shortages and massive price increases because alternative absorbent fibers, such as cotton or lyocell, are much more expensive.

Furthermore, we expect our demand for viscose rayon fibers to increase by as much as 100 percent in the wake of intense discussions about plant-derived materials, natural origins, microplastics, and marine littering.

Under the conditions of said tariff proposals, domestically produced raw materials would be costlier than imported material. Sandler will then no longer be able to proceed with the previously explained investments.

It is our firm belief that tariffs on the fibers in question will also create cost advantages for overseas manufacturers of finished products, such as wet wipes, thus encouraging the import of such products into the United States.

This impacts domestic manufacturing further down the supply chain. Converters that use our inputs to manufacture consumer products may find themselves unfit to compete with imports that are not subject to corresponding tariffs.

In short, subjecting viscose rayon staple fibers with the HTS Code 5504.10.00 to the proposed retaliatory duties would impose significant economic harm in many U.S. companies, including Sandler.

With this in mind, Sandler Nonwoven Corporation respectfully requests that viscose rayon fibers be removed from the proposed Annex Section 1 target retaliation List 4.

Imposing tariffs on viscose rayon staple fibers will not eliminate China's adverse acts and policies and these materials are not part of the products China seeks to promote in its Made in China 2025 program.

Instead of successfully leveraging change to China's negative trade practices, this proposed duty would cause significant damage to Sandler and many other U.S. companies without any benefit.

Thank you very much. I would be happy to answer any questions you may have.

MR. BISHOP: Thank you, Mr. Baumgaertel. Our next witness is Kim Heiman with Standard Textile Company Incorporated. Ms. Heiman, you have five minutes.

MS. HEIMAN: Thank you. Ten months ago, I spoke to this Committee on behalf of our hardworking, dedicated American textile workers in Union, South Carolina and Thomaston, Georgia.

Their jobs are threatened by the proposed tariffs on unbleached cotton fabric. I requested that three categories of unbleached cotton fabric be removed from Tranche 3.

Standard Textile very much appreciates that this Committee took our comments under careful consideration and removed unbleached fabric from Tranche 3.

In doing so, this Committee necessarily concluded that imposing additional tariffs on unbleached fabrics would cause disproportionate harm to one medium-sized business.

But your decision did much more than that. Your decision provided us with the confidence to further expand our domestic manufacturing resources and deepen Standard Textile's commitment to U.S. manufacturing.

I am here today because by reversing this decision and putting unbleached fabric back on Tranche 4, the livelihoods of our American manufacturing workers are again threatened.

In the early 2000s, our 79-year-old medium-sized, 4th generation, family-owned business headquartered in the great Cincinnati, Ohio, purchased two shuttered textile plants in

Union and Thomaston.

We reopened those closed plants, we brought textile manufacturing jobs back to two very deeply distressed communities, and I am here to ensure that those families, and those communities, are not forgotten.

Our supply chain is designed so that Standard Textile can control our proprietary manufacturing processes while at the same time, maximizing our ability to manufacture as much as possible in the United States.

Our U.S. value add includes, American cotton, American yarn, American finishing, American cutting and sewing, and American packaging.

However, due to the high cost differential, Standard Textile cannot move all of its weaving to the United States. Standard Textile accounts for over 97 percent of the unbleached fabric imported from China.

Why? Because our competitors import finish sheets from countries such as India and

Pakistan at a duty rate of only 6.7 percent. I assure you, unlike us, these competitors do not generate U.S. manufacturing jobs.

You might also be wondering why we don't simply source unbleached fabric or finished product from unrelated suppliers in other countries.

Importing unfinished fabric from our wholly-owned facility in China enables us to actually protect our own intellectual property. It also allows us to protect our proprietary manufacturing processes and the quality of our products.

Given that this investigation is intended to protect U.S. intellectual property, it would be an ironic result for you to compel us to outsource our intellectual property to third parties in India and Pakistan.

Most importantly, in reliance on this Committee's previous decision over the past ten months, Standard Textile invested an additional $8 million in our U.S. plants, bringing our total

U.S. investment to $75 million.

In addition, we increased our headcount at those facilities by more than 50. So today, we employ over 450 American textile manufacturing workers, where jobs are desperately needed.

Needless to say, Standard Textile was shocked and dismayed that unbleached cotton fabric is now back on Tranche 4. The stated objective of this administration is to bring manufacturing jobs back to the United States.

Your original decision allowed Standard Textile to pursue that objective by investing further in our U.S. manufacturing facilities by adding more manufacturing jobs.

If you reverse that decision now, you will, one, cause disproportionate economic harm to a single medium-sized business, two, you will jeopardize the jobs of 450 American manufacturing workers, and three, you will genuinely, seriously, and permanently undermine Standard Textile's efforts to bring manufacturing back to this country.

Finally, I hope that you will think of these faces and their families as you consider our effort to reinvent the future of American textile manufacturing. Thank you.

MR. BISHOP: Thank you, Ms. Heiman. Our final witness on this panel is Kathy Dutilh with Milliken & Company. Ms. Dutilh, you have five minutes.

MS. DUTILH: Thanks for the opportunity to comment today. Milliken & Company, headquartered in Spartanburg, South Carolina, is a U.S. manufacturer of performance apparel and industrial fabrics, specialty chemicals, and floor covering.

Our company employs more than 5700 associates. We operate in ten states. Over the past 154 years, we've drawn upon our textile and chemical expertise to develop hundreds of innovative products, which we sell in the United States and around the world.

The proposed additional duties of 25

percent on List 4 products will affect the continued innovation, competitiveness, and economic viability of global businesses.

Milliken sources products from China primarily to support its U.S. manufacturing operations. We request the removal of certain specific tariff subheadings from the proposed List 4, which cover products previously removed from the final List 3 after the public comment period.

At Milliken's request, 14 tariff lines were removed from the final List 3, 9 of those tariff lines were organic compounds listed in Chapter 29. These compounds are needed raw materials and chemical additives for our specialty chemical business.

Four tariff lines from Chapter 32 included disperse dyes and vat dyes, and these inputs are colorants and dyes for our fabric division. One tariff line was for rayon fiber, listed in Chapter 55, this fiber, not available in the United States, is crucial to our non-woven business.

USTR supported our request to remove these tariff lines for a variety of reasons, which we presented. Some of those products, there are no U.S. or global alternative supply other than China, or there's only one U.S. supplier with limited capacity, or producers are unable to assume the quality and liability of risks associated with the inputs.

The negative effects of the tariff increases on List 3 products important to Milliken have already been felt by all three business units. We've experienced a loss of market share because our Canadian and Mexican competitors are able to source the very same inputs at the lower duty rate.

More expensive imported inputs hurts U.S. manufacturers, makes them less competitive with other foreign producers, and puts U.S. jobs at risk.

In conclusion, we applaud the efforts of this administration to address the Chinese policies and practices related to technology transfer, intellectual property, and innovation.

We support tariffs on finished textiles and home furnishing end products, and we favor an exclusion process for imported manufacturing inputs.

We urge you to accept our request to eliminate the tariff subheadings listed in these comments to assure Milliken a level playing field in the future.

We appreciate the attention this administration has given to the economic engine of this country, namely, U.S. manufacturing. Thanks for the opportunity to comment on this recent action.

MR. BISHOP: Thank you, Ms. Dutilh. Madam Chairman, that concludes direct testimony from this panel.

MS. HEINZEN: Good morning and thank you all for being here. I have a question for Mr. Saivetz. What percentage of Richloom's imports of chenille and corduroy fabric would you estimate are used as inputs in U.S. manufacturing as opposed to, say, the craft industry or other home uses?

MR. SAIVETZ: Ma'am, thank you for your question. It's roughly about 75 to 80 percent of those two categories are used as inputs to manufacturing in the U.S.

MS. HEINZEN: If these products are removed from the list, but other finished products incorporating these fabrics remain on the list, would that improve the competitiveness of the U.S. manufacturers you supply?

MR. SAIVETZ: I believe it would. As our product is used as inputs, it helps U.S. manufacturers and U.S. furniture manufacturers compete against offshore manufacturing, so they would be more competitive.

MR. GILMARTIN: This is Kevin Gilmartin again from the Treasury Department. Thank you for your testimonies this morning. I have one question for Ms. Glas and then one follow-up as well.

Can you expand on the challenges posed by what you called the loophole provision, in which the de minimis shipments from China are exempted from 301 duties. What impact do you believe this has had or will have on the administration of 301 products on -- 301 duties on Chinese products?

MS. GLAS: Thank you for your question. To expand a bit on my statement, and this will be submitted as part of our longer comments in this process, what we're asking the administration to do is to apply the 301 retaliatory tariffs on Section 321 de minimis shipments, which are shipments of $800 or less on a single product for a single day.

We believe that this is a significant loophole. Currently, these shipments, if they qualify for de minimis, you know, don't have duties attached to it. It will be, certainly, something that the Chinese will look to take advantage of as e-commerce has exploded over the last decade.

You're seeing the totality through CBP's analysis of de minimis shipments have exponentially increased over the last few years.

If retaliatory tariffs are applied on finished product coming out of China, I think more and more of the e-commerce sector will look to take advantage of the duty-free savings by using the de minimis provision, and this will create an unintended loophole to some of the actions that the administration is planning to take.

So we're asking this administration to look at this extremely closely and to also apply retaliatory tariffs on these de minimis products. Thank you.

MR. GILMARTIN: Thank you for that. One follow-up as well. You also stated your view that much of the apparel being imported from China could be made in the Western Hemisphere, where much of the production uses U.S.-made fibers, yarns, and fabrics.

Is there sufficient capacity in this

hemisphere to replace U.S. imports from China?

MS. GLAS: So right now, currently, we receive 40 percent of our imports for -- 40 percent of our apparel is coming from China. That means 60 percent is coming from somewhere else in the world, including our Free Trade Agreement partners.

The U.S. fiber, yarn, and fabric manufacturing industry, 70 percent of our exports go to our Western Hemisphere trade partners and our trade preference partners.

Our industry is ready, able, and willing to add capacity to making more of those fiber, yarn, and fabric. We think that the region is well-positioned to take some of that market share, and we also believe that the other 60 percent, as I noted earlier, where other apparel can be made, I mean, there's more than one option than China.

And I think you're seeing a lot of brands and retailers looking to diversify their supply chains beyond China, so we think this is an opportunity that would help our U.S. manufacturing base.

MR. GILMARTIN: Thank you.

MR. FARISS: So thank you again to everyone for coming and testifying today. Just a question for Mr. Stein. From your vantage point as a supplier to the U.S. mattress industry, how have the additional 301 duties on mattresses imported from China as part of Tranche 3 affected the competitiveness of U.S. made mattresses, and in that same vein, has your business experienced any positive effects from the 301 duties on Chinese mattresses?

MR. STEIN: There is no -- to my knowledge, Chinese mattresses are not coming in at this point, today, to our knowledge. So that's the last part of your question.

So if you can repeat the first part.

MR. FARISS: Yes. So from your vantage point as a supplier to the U.S. mattress industry, how have the additional 301 duties on mattresses imported from China as part of Tranche

3 affected the competitiveness of U.S. made mattresses?

MR. STEIN: Well, anything -- I got to be honest with you, just like Kim said, right now, anything in the textile industry from China is hurting the U.S. market. No question about it; in finished apparel.

Mattresses, the FR rayon, as I said, there is nothing else being produced here. If the government is going to impose the FR flammability test, what are we going to do?

The only place it's made, in a big way, is in China and a very small way, in Europe. Europe cannot handle the amount of mattresses made here with their capacity of production of FR rayon. We need China.

If that answers your question, but I will add one other thing, I wear a few, two, hats here, my twin daughters own a store, and when they heard I was coming down here today, they said -- and I was looking -- and I do their books, and interesting, they buy garments from the United States for little babies, they embroider names, when babies are born, and I noticed they were buying some from more and more Chinese imports.

And I said, why are you doing that? We can't compete with the domestic manufacturers. That says it all right there. We cannot compete with China. I'm too expensive. I can't compete with Amazon. Thank you.

MR. FARISS: Thank you, Mr. Stein.

CHAIR GRIMBALL: Mr. Stein, I have one follow-up question, you did mention that the European market has a limited ability to provide the FR rayon fabric or -- fabric, thank you, to the U.S. market. Could you be specific as to what --

MR. STEIN: Well, I'm talking about the fiber that goes in the mattresses.

CHAIR GRIMBALL: Oh, excuse me.

MR. STEIN: Not the fabric.

CHAIR GRIMBALL: Could you be specific as to the portion of the U.S. market that

European production could --

MR. STEIN: I am going to do more research and I'll make sure that we put that in the follow-up.

CHAIR GRIMBALL: Thank you.

MS. ROY: Good morning. My name is Tracy Roy. I'm from U.S. Customs and Border Protection. This question is for Mr. Baumgaertel. Good morning. In your testimony, you described the negative impact that inclusion on the 301 list of viscose rayon fibers would have on your company, which sources this product from China to make non-woven fabric for use in sanitary products.

What about the inclusion on the list of finished sanitary products from China? Would inclusion on the 301 list increase the competitiveness of your buyers who make these products in the United States?

MR. BAUMGAERTEL: Could you repeat the second part of the question, please, concerning the finished products?

MS. ROY: Okay. What about the inclusion on the list of the finished sanitary products from China? Would inclusion on the 301 list increase the competitiveness of your buyers who make these products in the United States?

MR. BAUMGAERTEL: Absolutely, but we need to distinguish between the products we make which are raw goods being converted into finished products for the personal hygiene industry, but further down the supply chain, our customers converting raw goods into finished products, they might be more concerned about products being imported from China.

And if I could talk on their behalf, that, of course, would protect their business.

MS. ROY: Okay. Now I have another question for you. And in turn, would it result in a competitive boost for your company if viscose rayon fibers are not subject to 301?

MR. BAUMGAERTEL: I'm not sure if I got your question right. Did you say that an exclusion will be beneficial for our company?

MS. ROY: Yes.

MR. BAUMGAERTEL: Of course it will, because we are sourcing fibers globally. It doesn't matter where they come from. It could be Europe, it could be Asia, it could also be the U.S., depending on the fiber.

In this case, we are talking about the viscose fiber. If we are open to source globally, if we have access to any markets, and China is an important market for raw materials, such as viscose fibers, we will be for sure more competitive.

MS. ROY: Thank you.

MR. STETSON: Morning. I have a question for Ms. Heiman of Standard Textile Company. Thank you for your testimony. You noted that Standard's main competition for its finished sheets and pillow case products is from producers in India and Pakistan.

Do you also compete against finished products imported from China?

MS. HEIMAN: Yes. We also compete

against finished products imported from China, but today, we're really here to talk about the fact that our unbleached fabric that we bring from China to integrate into a vertical manufacturing process with the U.S. -- our U.S. plants, is really critical to us because we have over 75 patents and our products all have proprietary know-how behind them.

And if we are not able to manufacture the unbleached fabric in our plant using our patented processes and our patented know-how, then we're not able to really do what we need to do to stay competitive in this market. Does that answer your question?

MR. STETSON: Thank you. An additional question is, would the proposed inclusion on the 301 list of bed sheets and pillow cases from China improve Standard's competitiveness in the U.S. market?

MS. HEIMAN: No, it really wouldn't improve our competitiveness. Mainly because, again, I guess, today, we would have to then move our purchasing to Pakistan or India.

Our competitors mainly buy in Pakistan, India, Bangladesh, and the duty there is only 6.7 percent. So everything would just move from China to these other countries, given that it's impossible to be competitive in the U.S. on those products, unless you have some proprietary know-how.

MR. STETSON: Thank you.

MR. FRATERMAN: Thank you, everyone, for coming and testifying today. My question is for Ms. Dutilh. You testified that the products Milliken sources from China were removed from the final List 3 and are now on List 4.

Has Milliken made any efforts to find alternative sources for these products, and if so, what has the results been?

MS. DUTILH: Don't know too many details about that, but I do know that our sourcing people are looking for other options, but there are still products that only China makes, especially in our -- for our specialty chemical division, so organic compounds, and dyes, and pigments.

So the U.S., kind of, isn't in that space anymore, so it all migrated to China many, many years ago, so China, in many cases, is our only option.

MR. FRATERMAN: Great. Thank you.

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

CHAIR GRIMBALL: Mr. Bishop, we'll start in one minute.

MR. BISHOP: Okay. Madam Chairman, our first witness on this panel is Dennis Trice with Mitsubishi Chemical Corporation. Mr. Trice, you have five minutes.

MR. TRICE: Good morning, Ms. Chairperson and Members of the Committee. I am Dennis Trice, Executive Advisor and former President and CEO of Mitsubishi Chemical America, Inc.

Together with Japan's Mitsubishi Chemical Corporation and our 21 U.S. subsidiaries, MCA is a global leader in the production of advanced chemicals for consumer products, medical and industrial applications, transportation, construction, and countless other industries.

As I testified when I appeared before you last August, our company has been and continues to be committed to growing our business in this country.

We have invested approximately 900 million US dollars in over 31 locations across the United States over the past ten years and now employ over 3000 skilled American workers.

Our U.S. operation contribute billions of dollars annually to the U.S. economy. Among our most significant recent investments is a $38 million state-of-the-art manufacturing facility near Memphis, Tennessee, operated by our subsidiary, MCI Solutions U.S., Inc.

This Tennessee facility accounts for

virtually all U.S. production of formulated electrolyte lithium-ion batteries that power American-made electric vehicles, like the Tesla Model 3, and Nissan Leaf.

Among the key inputs for this plant are certain specialty chemicals, including certain lithium salts and certain carbonate esters. Currently, we import these products for China under HTS subheadings 2826.90.90 and 2920.90.51.

China is the only viable source for these materials in the quantities and at the quality levels that we require. They are absolutely critical to the success of our investment in Memphis and our ability to manufacture electrolyte for lithium-ion batteries in America.

In turn, they make lithium-ion battery production in the United States possible at plants like the Nissan factory in Smyrna, Tennessee and the Panasonic factory in Reno, Nevada.

Since USTR's decision last September to exempt these products from proposed Section 301 tariffs, we've been able to increase production at our Memphis plant and increase our workforce there by 25 percent.

And we're currently facing a decision about whether to make even more investments there. Thus, we were deeply concerned to see that imports of lithium salts and carbonate solvents from China are again being considered for 301 type tariffs.

Tariffs would be disastrous for our investments in the future of the Memphis plant and its workforce.

And while we've been working to develop new sources outside of China, this -- that is a multi-year effort that requires massive investments and a stable investment climate.

In the meantime, and for the next several years at least, China is likely to remain the sole viable source of many of these inputs and their component chemicals.

Accordingly, as I testified last year, if Section 301 tariffs are imposed, we'll have no choice but to pay them. The cost of even the 10 percent tariffs would be so high that it would force us to reconsider our investments in the United States and our plans to continue to grow our manufacturing footprint in this country.

Worse yet, the tariffs will not only hit our U.S. operations, but those of downstream U.S. industries, such as the lithium-ion battery industry, the electric vehicle industry, and the tens of thousands of Americans employed by these industries.

The tariffs will also greatly undercut the efforts of U.S. manufacturers and other U.S. industries to remain competitive and develop new energy-efficient and high-performance products.

They will also harm nascent efforts to develop upstream resources, like lithium mining and chemical refining by cutting off existing U.S.-based demand for these raw materials.

The U.S. Government should support the

growth of this fledgling industry domestically, both upstream and downstream, not create incentives to move it overseas.

At the same time, the tariffs are unlikely to address the Chinese Government policies discussed in USTR's Section 301 report. For years, we have been able to source these materials from China without encountering intellectual property rights infringement or force technology transfers.

On behalf of MCA and its over 3000 U.S. employees, as well as the whole of this new emerging industry, we deeply appreciate this opportunity to present the facts.

While we understand and appreciate the policy goals of this Section 301 action to provide a level playing field for U.S. companies and all Americans, we respectfully submit that the proposed tariffs would have precisely the opposite of their intended effect if applied to imports of these specialty chemicals.

Accordingly, as it did last year, USTR

should once again exempt imports of lithium salts and carbonate solvents from the proposed 301 tariff list. Thank you for your attention and I welcome any questions that you may have.

MR. BISHOP: Thank you, Mr. Trice. Our next witness is Jean Yoho with Sun Chemical Corporation. Ms. Yoho, you have five minutes.

MS. YOHO: Thank you, Section 301 Committee, for the opportunity to testify today. My name is Jean Yoho and I'm the head of procurement for the Sun Chemical's pigments division.

Sun Chemical has been manufacturing pigments since 1907. Today, the performance pigments division is a global leader in pigment industry, offering a wide array of pigments, effects, and preparations for all the coatings, cosmetics, plastic, inks, and specialty markets.

Sun is the largest pigment manufacturer remaining in the U.S. and we have over 580 employees at eight manufacturing sites. We have noted six specific HTS subheadings from

Chapter 29 in our testimony and comments that we are asking to be de-listed.

Five of the six of the chemicals were proposed on Tranches 2 and 3, and then de-listed. Two of the six are only available in China. After the crucial inputs were de-listed, Sun relied on this and believed the USTR recognized that the 25 percent tariffs caused unreasonable economic hardship and that the chemicals are only available in China.

In the cases of 1,8 NAA, which is under 2917.39.08, and BONA, which is 2918.29.25. Sun is the grateful to the USTR for the previous recognition of hardship that led to the de-listing, but we must once again ask that the USTR de-list these six products.

Dissimilar to other industries, reformulating pigment formulation is not simple. And despite the downstream diversity, our chemical supply chain nearly always leads back to China.

The components used for chemical

manufacturing, unlike inputs to other industries, can be shifted to -- cannot easily be shifted to other manufacturers in other locations. It requires particular infrastructure and expertise to meet purity and performance demands.

Add in regulatory burdens and moving production back to the U.S. is not a viable option for many listed Chinese origin chemicals.

Our domestic manufacturing sites are already under extreme economic pressure to be competitive against foreign pigment manufacturers. Any additional economic burden could cause Sun to be forced to reduce staff or even restructure our manufacturing, thus causing reduction of jobs in Michigan, South Carolina, and Ohio.

Our Michigan plant, with 141 jobs, for example, would be particularly exposed because five of the six of the chemicals are used in the production of pigments at that facility.

To demonstrate our concern, I'd like to use lithol rubine, also known as pigment red

57:1, as an example. This pigment is widely used in the production of printing inks and various coatings.

There are many printing inks and coating producers in the U.S. and two of the largest producers of inks produces pigment domestically. There are two key intermediates required. One is produced in Cincinnati by Sun Chemical and the other one is only produced in China, and it's BONA.

BONA is on the dyes intermediates appendix to the tariff schedule, and thus, we can import duty free into the U.S. under 2918.29.25. Now this tariff, its HTS number is included under Tranche 4.

Our second notable example is perylene red, which Sun Chemical is the only U.S. manufacturer of this pigment. This pigment is used in decorative, and industrial, and automotive paints.

The key intermediate required is 1,8 NN, and this is only produced in China. There are no other producers. We already operate under a very competitive market against Europeans, Koreans, and Indian pigment manufacturers making this same product.

Adding a 25 percent tariff leaves Sun at a competitive disadvantage while creating a competitive advantage for our foreign competition, who will not be burdened with additional tariffs on China-only feedstocks.

The entire U.S. colorant industry was known to be endangered after the completion of the Uruguay Round in 1994. This was the reason the intermediate chemicals for dye appendix to the U.S. tariff schedule was created.

We therefore believe that any item on this appendix should be automatically removed from List 3 and not included in List 4.

Sun agrees with that the Chinese industrial policies restrict U.S. commerce, nevertheless, we support resolution through constructive and continued dialog, and at the very least, the ability to purchase these products in the meantime at a cost previously thought to be stable after such tariff lines were de-listed from Lists 2 and 3.

Lastly, we have filed comments with the interagency's committee for future reference and note that Sun Chemical is a member of the Society of Chemical Manufacturers and Affiliates and our requested de-listings will be referenced in the SOCMA's testimony and comments as well.

Thank you sincerely for the opportunity to testify today and thank you for your tireless these past months, and thank you for your consideration.

MR. BISHOP: Thank you, Ms. Yoho. Our next witness is Patricia Phillips with SNP, Incorporated. Ms. Phillips, you have five minutes.

MS. PHILLIPS: Good morning, Chairman and Section 301 Committee. I am Pat Phillips, President of SNP, Incorporated, a small woman-owned and family-operated U.S. specialty chemical company based in Durham, North Carolina.

It was founded by my father, a World War II veteran, in 1961. We supply synthetic and natural rheology modifiers and customized coating formulations to the paper, packaging, textile, and other industrial markets.

On behalf of SNP's 20 team members, I thank you for the opportunity to appear to you today. SNP respectfully requests that USTR remove alginic acid, classified under HTS subheading 3913.10.00 from the proposed list of products subject to Section 301 tariffs.

USTR already acted in 2018 to remove this HTS code for alginic acid from its proposed second list of products subject to the Section 301 tariff, and all general duties on alginic acid have been temporarily removed through the miscellaneous tariff bill.

Through these actions, Congress, ITC, and USTR have all expressed that alginic acid imported into the U.S. should not be subject to tariffs.

Unlike other products currently are

proposed to be subject to the 301 tariff, alginic acid is a naturally-occurring compound. It's found in the cell wall of specific type of seaweed that naturally grows off the coast of China.

SNP imports the alginic acid to be manufactured into specialty chemicals which are used in paper making, paper coatings, textiles, printing, and certain specialty industries.

While SNP is supportive of the goals USTR and the administration have outlined in various reports detailing China's aggressive and discriminatory policies today, I'd like to outline the three reasons why alginic acid should be excluded again from the list of proposed tariffs.

First, a tariff on alginic acid will cripple SNP. Our family is proud that we have grown our small business to serve as the largest industrial supplier of alginic acid in the United States and there are no other domestic suppliers like SNP.

A majority of our production would be impacted, while providing our foreign competitors who supply U.S. customers with a competitive advantage, because our foreign competitors would not be subject to the tariff, it is unlikely that SNP would be able to pass our costs along to our customers if we wanted to remain competitive.

For approximately the last 50 years, SNP has been able to provide the U.S. manufacturing industries with alginate products necessary to meet U.S. consumer demand for green, biodegradable products.

Alginic acid is a sustainable and natural alternative to many petroleum-based synthetic polymers. For example, our alginic product's very unique natural properties make it a critical component to the paper maker trying to achieve compostability and recyclability for the environment.

As U.S. manufacturers seek to make green products, demand for alginate-based coatings have significantly increased, however, the proposed tariff jeopardizes our ability to supply our U.S. customers.

Second, alginic acid is not available from any other suppliers outside of China in the quantities needed to supply SNP's U.S. customers. China is the principle area for where the majority of the brown algae seaweed is grown naturally and manufactured into a limited supply of alginic acid.

Furthermore, SNP is unaware of any U.S.-based harvesting and manufacturing into the alginic acid necessary to create our products.

Therefore, developing a sufficient seaweed supply and manufacturing capacity in the U.S., or anywhere else outside of China, is technically and economically infeasible.

Simply said, China's supply of alginic acid is necessary and pivotal to SNP and our U.S. industrial customers. Lastly, a tariff on alginic acid will not be -- and lastly, a tariff on alginic acid will not be effective in curving China's Made in China 2025 industrial policy.

Alginic acid is not among the list of advanced technologies that are targeted by Chinese Government policies. As such, we believe that targeting these tariffs on alginic acid will not curb China's predatory policies.

In conclusion, SNP respectfully requests that alginic acid be removed again from USTR's list of products proposed to be subject to the 25 percent tariff.

Our family is working hard to continue to grow and invest in our small business that my father started 58 years ago. Sadly, last week, the founder of our company, my dad, passed away, but this issue is so vital to our company, and to our customers that we serve, I had to be here today and I -- when I appeared last, he was very proud and he was really grateful that we were able to accomplish to get it off the list, and I know that he feels that way again today.

Thank you for your time and I'll be happy to answer any questions the Committee may have.

MR. BISHOP: Thank you, Ms. Phillips. Our next witness is Robert Meyers zu Westram, with EMS-CHEMIE North America, Incorporated. Mr. Zu Westram, you have five minutes.

MR. MEYER ZU WESTRAM: Thank you very much. I am Robert Meyers Zu Westram. I am the President of EMS-CHEMIE North America. We are a manufacturer of specialty polymers located in Sumter, South Carolina, and we are producing plastic material pallets that we are selling to our customers and they are producing thousands and different products in plastic materials from these.

We are supplying the automotive industry, to the health and medical industry, and a lot of other very important industrial applications. All our raw materials are sourced from U.S. sources here in the United States, with one exception, which is dodecanoic acid, which is coming from China.

China is the only source of these materials globally. There are just a few minor suppliers which do not have enough capacity to meet these needs.

We are using, especially this raw material, for nylon material which is called nylon-612, which is used especially in the automotive industry for fuel line applications and pneumatic pipe applications.

So if the tariffs are applied for these long-chain acids, this means that we have to increase our prices to our customers and we are supplying more than 20 customers for the auto -- in the automotive industry, selling their products to the OEMs, GM, Ford, and Fiat-Chrysler.

It is for them, not possible, really, to transfer these price increases because of the nature of this automotive business and this long-term contract that they have.

So our customers are getting under pressure, they are losing competitiveness, and in the short term, they will need to look for other materials, for other sources, so other nylon-612 materials, which are then need to be imported, which would then cause an increase of the trade deficit again.

In a long-term or midterm scenario, they would out-phase these kind of products and use alternative materials. For EMS' means, we are losing business. We are under cost pressure then and our production capacity is not utilized anymore.

So we need to lay off employees and we will not invest in the planned capacity expansion that are currently on our two or three-year plan horizon. And we cannot develop any new and innovative materials based on this raw material.

I, therefore, request to remove these long-chain acids from the List 4 of the additional tariffs. Thank you very much.

MR. BISHOP: Thank you, Mr. Meyer zu Westram. Our next witness is Bert Eshaghpour with Wego Chemical Group. Ms. Eshaghpour, you have five minutes.

MR. ESHAGHPOUR: Thank you. Good day.

My name is Bert Eshaghpour. I'm the principle of Wego Chemical Group, Inc. Wego Chemical is a 40-year-old family-owned business, specializing in import and distribution of specialty chemicals from China.

Our 100-plus loyal and dedicated employees have already been impacted by the trade dispute with China. Additional tariffs will continue to impact the health of our 40-year-old company and our dedicated staff of 100 employee professionals.

Further impact will be imposed on thousands of employees and workers of our 1000-plus customers across these United States of America.

Tariffs upon these articles would harm Wego's ability to sell our products competitively and will drastically impact our customer's ability to meet the demands of customers across the United States.

Tariffs of List 2 and 3 have already impacted costs and supply chains across the USA.

Our customers tell us their planned investments and plant expansions are being delayed due to the uncertainties of competitiveness if these tariffs remain in place for long term.

Many of the specialty chemicals that we import are on the USA Miscellaneous Tariff Bill of 2018, that was signed by President Trump in October 2018, because they're only manufactured in China, and not manufactured in the United States.

Therefore, tariffs will only add to costs of manufacturers which will be passed on to their consumers. There are no alternatives or choices for these raw materials.

The specialty chemicals that Wego distributes go into a wide array of industries, including, but not limited to, the coatings, auto industry, food and paper industry, construction, and oil drilling industries.

As such, there's a very high likelihood that implementation of any further tariffs on specialty chemical products would result in significant price increases for downstream U.S. manufacturers and consumers.

If the costs of additional tariffs cannot be passed on to consumers, the automotive coatings industry, the construction industry, would have to reformulate in the long run, some of the products, since there are no alternatives to China sourcing.

Reformulation is a costly and lengthy process with no guarantee of success and great risks of loss of performance and quality.

The U.S. chemical industry walked away from many of these specialty chemicals many decades ago and shutdown their facilities due to, A, environmental and safety issues, second, lack of competitiveness against the imported material, the average market consumption of these specialty chemicals are relatively small, and therefore, not worthwhile for U.S. chemical manufacturers to commit to such production, given their required capital requirements.

U.S. industry would have trouble to

restart production of these specialty chemicals, even if they were interested to do so. Most of these plants were dismantled or repurposed decades ago.

It would take two to five years to obtain necessary licenses and develop budgeting to produce any of these specialty chemicals in the U.S.

Meanwhile, U.S. auto industry, construction industry, oil industry, and all related industries will have a tremendous disadvantage and will not be able to compete against imported auto and construction chemical materials.

With such a wide ranging list of products and raw material subject to tariff, it is inevitable that the added costs will impact American families who are still struggling to recover from the last recession.

In some cases, their jobs can be at risk if their employers in the manufacturing sector cannot pass on costs and have to cut their jobs.

If American manufacturers lose export business due to retaliatory tariffs, then they will have to cut their jobs. Thank you for the opportunity for me to present a mid-sized business owner's point of view in this attempt by our government to improve our trade relations with China. Thank you.

MR. BISHOP: Thank you, Mr. Eshaghpour. Our final witness on this panel is John Logue with Royale Pigments and Chemicals. Mr. Logue, you have five minutes.

MR. LOGUE: Thank you for allowing me to speak in front of the Committee today. My name is John Logue and I am the CEO of Royale Pigments and Chemicals and its affiliated companies, Shorechem and AWSM.

We are a specialty chemical manufacturer, distributor, importer, and exporter. We supply high-end performance chemicals into electronics, metals, pharmaceutical, agrochem, nuclear, gas production, and aerospace.

85 percent of our chemicals we sell are sourced offshore, as they are no longer domestically manufactured in the United States. A majority of these chemicals toll manufacture in China.

Section 301 tariffs will significantly harm our ability to compete in the market and may eventually put us out of business. Royale and its affiliates represent $15 million in sales and nine employees, which technically defines us as a small business.

These employers handle sales, marketing, quality, technical services. The rest of our business model is outsourced to other small businesses in the United States, including transportation, warehousing, finance, regulatory, compliance, legal, and accounting.

Indirectly, we employ close to 65 additional people, the multiplier effect of putting us out of business is, 74 jobs will be eliminated.

That's folks who work at our converters, our accountants, truckers, warehouses, engineers, and many more. I don't think that's the intent of the administration.

This is the second time that I've appeared before the Committee to urge you to keep the following product off the list, 2826.90.90, other complex fluorine salts. We ask that you remove it from the list for several reasons.

The number one reason to remove it from the list is that these are critical raw materials no longer produced in the USA and they go into high-end specialty chemicals that our customers export around the world.

Putting these items on the exemption will help our domestic manufacturers downstream remain competitive against global competitors, many of them in China.

Increasing our domestic manufacturing costs plays directly into the Chinese 2025 plan of creating a Chinese economy based on higher value products. We may win the battle, but will eventually lose the war as our higher end manufacturers lose their competitiveness globally.

Second, bringing production back to the United States on these products, if economically feasible, could take years to accomplish, and only if we had the capital administrative support long term.

In light of current legislative uncertainty, this seems incredibly risky for a variety of reasons, including regulatory compliance from all branches.

Thirdly, many of our customers have options to buy products out of Europe. There are no punitive tariffs on European chemical manufacturers. We will be forced to raise prices. The Europeans will most likely raise their prices, but not to the 25 percent level, just enough to take our business.

The end result would be lost business from my company and higher costs to U.S. companies that need chemicals not produced in the

USA to make their goods.

From an economic perspective, our business, we purchase approximately $7 million of products from China on this HTS code. With the 301 tariffs at 25 percent, that's an additional $1.75 million of cost that we have to pass on to customers.

The price of many items in several markets within the United States will go up, including electronics, pharmaceutical, herbicides, aluminum products, construction materials, fire retardants, and aerospace defense.

This puts a huge financial strain on my cash flow with the outlay of cash while waiting for sale and payment. I had to deal with one of my customers who was importing a specialty chemical from China. It's only manufactured in China.

Our customer is fed up with the rising costs and unstable supply chain from China. They offered to pay the capital expenditure in higher pricing for a couple years for us to put up a small manufacturing unit in one of our locations.

Unfortunately, they pulled out, as their cost position directly tenable to higher tariffs on their other products, went up and they had to pull the deal.

This would have diversified my business, created a new product to sell into the U.S. market, competing with a Chinese product, and I would have hired at least two additional sales reps.

All of my outsource business would have been experienced growth with me as a customer. We have been forced to abandon doing business in Europe due to barriers in entry due to regulations, requiring a payment of registration process in order to be able to sell product. This is called reach.

I had to tell longstanding customers that we would not be stocking products domestically in the United States because of pricing, competitive, non-competitive terms, when compared to the outlay of cash.

The voice on the other end of the phone call when I told them of this decision to not stock products because of its pricing, was major in that my decision had major negative implications on their business.

Being in the chemical business is hard enough. Operating a business with so much uncertainty makes it much harder. It is illogical placing tariffs on products that have not been in the United States -- not been made in the United States in the last 20 years, with little likelihood of future productions.

I hope that the Committee will take my comments and business experiences in earnest and take the item listed below off the 301 list. Thank you.

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

MS. COPPERTHITE: Good morning, Mr. Trice. I'm from Commerce Department and I have the first question of the panel here. My name is Kim Copperthite, just so I introduce myself.

You testified that qualifying use for supply of the products you reference would be a length process, could you expand on what the qualifying process entails and how many years it takes?

MR. TRICE: Thank you. And let me try to clarify. The challenge is not just qualification, the challenge is supply. The supply of these materials are only available from China, practically. Over 80 percent of the capacity for this product is in China.

So from a qualification standpoint, it's kind of -- it's not really the critical issue. It's the ability to get the quantity and the quality of raw materials that we need.

MS. COPPERTHITE: Okay. And a follow-up question, to the best of your knowledge, do all lithium-ion automotive battery producers source such inputs from China?

MR. TRICE: Could you ask that

question again, please?

MS. COPPERTHITE: Sure. To the best of your knowledge, do all lithium-ion automotive battery producers source such inputs from China?

MR. TRICE: Actually, we are the primary producer of the electrolyte for the major producers of batteries in the U.S., primarily being Nissan in Smyrna and Panasonic in Nevada, who supplies Tesla.

So majority of what is used in those batteries today is coming from us. Of course, as we've said, our raw materials are coming from China.

MS. COPPERTHITE: Thank you.

MR. FARISS: So for those of you who weren't here earlier, my name is Paul Fariss. I'm with the Department of State. Thank you all for your testimonies today and, Ms. Phillips, my condolences for the loss of your father.

I just have a few quick questions for Ms. Yoho right now. You mentioned Mexico and Canada, could you just tell us where Sun's major

pigment competitors are located?
MS. YOHO: Thank you for the question. Our major competitors are, for the ink side of our business, with the 25 percent tariff, they are able to import Chinese-made pigments, make inks, and they do not have -- when they send them back to the U.S., do not have the 25 percent tariff goes with them because it changes the tariff code to a different heading.
So for our ink side that makes inks here using pigments, they have to endure this 25 percent tariff. And so now they become uncompetitive against China and Canada.
Our other competitors are actually European pigment makers, Indian pigment makers, Korean pigment makers, and Chinese finished pigment makers.
MR. FARISS: Okay. And as a follow-up, so do all these competitors also source their reference input chemicals from China?
MS. YOHO: The two that I listed, BONA

and 1, 8 NA are only made in China and they are the primary intermediates needed to make perylene reds and BONA, red 57:1, so you can't mix those two pigments without those intermediates.

MR. FARISS: Okay.

MS. YOHO: And so everybody has to source them from China.

MR. FARISS: Okay. Thank you. And then, finally, you mentioned that moving production of these products back to the United States is not feasible, what elements of such production is the U.S. missing?

MS. YOHO: A lot of the infrastructures have been changed into other aspects. We actually looked at, two years ago, trying to make 1,8 NAA and the infrastructure was no longer available. We would have to bring in and do a high CapEx for machinery from Germany and China, plus the environmental cost from the waste stream lines made it completely uncompetitive to even begin to make this material here.

MR. FARISS: Okay. Thank you.

MR. GILMARTIN: My name is Kevin Gilmartin. I'm with the Treasury Department. Thank you all for your testimonies today. I appreciate your presence. I have a few questions for Ms. Phillips from SNP.

First, can you expand a bit more broadly on alginic acid and what types of goods it's an input for?

MS. PHILLIPS: It's used prolifically in the food and pharmaceutical industry and then in the industrial industry as a thickener and a rheology modifier.

The alginic acid has a unique characteristic of holding a tremendous amount of water. If you can think of seaweed, it's seaweed, and it holds and grabs water.

Well, that water retention component is very unique and it's very important, and when you're using specialty chemical and you're trying to produce products that need the water holding, especially in barrier types of coatings.

So it's very unique and it's because of the natural -- the nature, the way it produces the seaweed, and what it imparts in the product, which is the alginic acid.

MR. GILMARTIN: And in your testimony, you also noted that alginic acid is not available from suppliers outside China in the quantities that you need?

MS. PHILLIPS: That's correct.

MR. GILMARTIN: Can you expand a bit more on those suppliers that do exist and the extent to which SNP is able to have flexibility in sourcing some of the inputs from those suppliers?

MS. PHILLIPS: Yes, the seaweed is the Macrocystis laminaria species, it's a brown seaweed, and it's only grown naturally in four areas in the world, so, you know, off the coast of Norway, off the coast of France, off the coast of Chile, and off the coast of China, and we use all of it, because it's only -- it's El Ninos, it's weather, it's nature, you never know what type of a crop you're going to have.

You never know what the pollution and the different things in the ocean are going to -- how that's going to affect the yield, and so as a result, you have no options but to make sure that you have a supply of the seaweed when it's available, and China is the largest availability, and that's where we source it.

We wouldn't be able to supply our U.S. customers with the specialty chemical products that we produce from that raw material unless we had -- without China.

MR. GILMARTIN: Thank you.

MS. PHILLIPS: You're welcome.

MR. SHEPPARD: Hello. I'm Wade Sheppard from Department of Agriculture. I have a few questions for Mr. Meyers zu Westram. In your testimony, you stated that additional tariffs would increase the cost of your products, since there was no alternative that's approved by your customers.

Could you expand on what you mean by

approval? Are you referring to a certification process?

MR. MEYER ZU WESTRAM: Yes. These products are approved with a specific production location. So that means the automotive industry, for instance, in the U.S., they approve a production location, a product with a production location, and this is, in this case, it's in South Carolina, in Sumter.

So if products are imported, this needs an additional new approval process, which typically takes about a year and is very expensive.

MR. SHEPPARD: Another question for you. How would you gauge the possibility that such tariffs would induce the creation of DDDA outside of China?

MR. MEYER ZU WESTRAM: Well, this is a fermentation process. This is a very special bio-based material. There is just a small production in Germany from Evonik. I don't think that this production can be increased that much that -- what the industry really needs.

I mean, there was -- this would probably take very long and this is a horizon which is, minimum, takes about five years, considering all these chemical plants that you need for this. All this process technology you need for this.

MR. SHEPPARD: Okay. One final question. Do you know if DDDA is used in the production of any other products, other than the ones you mentioned?

MR. MEYER ZU WESTRAM: In agro products?

MR. SHEPPARD: Other products. Yes.

MR. MEYER ZU WESTRAM: In other products. Yes, of course. DDDA is used for multiple applications. So we are -- our consumption at EMS-CHEMIE is about 5 percent of the global production.

So there are -- and I would estimate that about 40 percent is going to the plastic industry and the rest is going in coatings, in cosmetics, and other applications.

MR. SHEPPARD: Thank you.

MS. ROY: Hi. My name is Tracy Roy. I'm from CBP. This question is for Mr. Eshaghpour. Mr. Eshaghpour, you outlined several factors that has made U.S. production of the referenced specialty chemicals uncompetitive, including environmental and safety standards as well as the small scale of production.

Can you expand on why China remains competitive and is it simply lower environmental standards or cost?

MR. ESHAGHPOUR: The decision why many of the domestic industry manufacturers to do away with their production, some of it spans over the last three decades, four decades, and some are more recent.

And general production capabilities in China have allowed them to be competitive and replace the global producers for some of these products.

And domestic industry, I feel that,

it's just personal opinion, the amount of dollars in many of these chemicals are not significant enough for them to have wanted to continue, and they moved on to produce other products that have larger dollar implications on their businesses.

And so they did away with the smaller products. Many of the products we handle are relatively small in the bigger picture and that's why it was not worthwhile for them to continue. They discontinued for those purposes.

MS. ROY: Thank you so much.

MR. ESHAGHPOUR: You're welcome.

MR. FRATERMAN: Thank you. Mr. Eshaghpour, I have a quick follow-up question. In your testimony, you mentioned that American jobs could be put at risk if the employers and manufacturing can't pass on their cost.

I just kind of wanted to gauge a time frame. How long do you think it would take for the job loss? Would it be an immediate effect or would it take some time, and if so, approximately how much do you think?

MR. ESHAGHPOUR: I think it's instantaneous --

MR. FRATERMAN: Instant.

MR. ESHAGHPOUR: -- because the impact of such 25 percent increase in cost cannot be absorbed along the chain of import, distribution, it will end up at the manufacturers that are then producing products that are going to the consumer.

That's where their problem will be, how to pass on; how quickly to pass on. I don't think it can be absorbed by most elements along the chain. It's just such a big, impactful change that it needs to be passed on very quickly.

MR. FRATERMAN: Great. Thank you very much.

MS. WINTER: Good morning. My name is Audrey Winter and this is a question for Mr. Logue, I believe you pronounce it. You toll manufacture these fluorine salts and my question is, can they -- you say that they're toll manufactured, basically, only in China, but could they be toll manufactured elsewhere and does anyone else, any of your competitors, toll manufacturer them or manufacture them themselves elsewhere?

MR. LOGUE: We used to manufacture these products in the United States, but many of these plants, and as Mr. Eshaghpour was talking about, these are small production runs, small products, less than a million pounds, specialty products like Mr. Trice was talking about, and the cost of these capital expenditure of doing these products is extremely high because your infrastructure and plant infrastructure for making these products is large.

The EH&S, and the environment health and safety requirements for putting up a plant like this are prohibitive.

And as I said, you know, we used to have a plant in the United States, and it was from the 1930s, and we had to shut it down, and the Chinese put up a new plant, brand new, so it's quite difficult to compete against the Chinese in manufacturing, you know, old plant to new plant.

And we've actually spent a lot of time looking at bringing some of these products back to the United States, but without certainty of what's going on, I mean, you can't rely on a tariff to protect you, protect your investment, you have to go on what the base costs are.

And it's, you know, a big capital expenditure to put these plants in. And they're small specialty molecules. And, you know, we just don't make these products in the United States anymore.

And they do take a long time to verify. Some of our products take three to four years. We just got one, we're about a week away from getting it qualified, but with the U.S. Government, and it's taken three and a half years, and it's only made in China.

That's a 25 percent tariff right on the top line of the United States Government.

MS. WINTER: So if I'm understanding you correctly, these particular salts are not made anywhere else, in other words, your competitors are also sourcing these salts from China.

MR. LOGUE: Most of our competitors are sourcing them out of China. They are made in, I believe, one location in Europe, but again, you know, the Europeans have something called REACH, which is a trade barrier, and we're kind of shocked that the Trump Administration hasn't, you know, said anything about REACH, and, you know, how much it costs to register products.

It's a barrier to entry and, you know, so basically, the Europeans, knowing that the price has gone up from China, just raise their prices.

So it creates -- it plays right into the 2025 plan for the Chinese. Our manufacturers are high-end manufacturers of very specialty products. It raises those prices and it makes our high-end chemical manufacturers uncompetitive in a global market, which then makes Chinese manufacturers want to get into these marketplaces as well.

I mean, it's -- we win the battle, but lose the war.

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

(Pause.)

MR. BISHOP: Mr. Chairman, our first witness on this panel is Lu Yu, with the China Chamber of Commerce for I/E of Foodstuffs, Native Produce, and Animal By-Products.

Ms. Yu, you have five minutes.

MS. YU: Thank you. Your committee Section 301 is U.S. domestic law, the 301 investigation that U.S. Government is imposing against the Chinese products is an action of unilateralism and trade protectionism. It's a violation of the WTO principles, and damages the multilateral trading system.

The current proposed tariff list by the U.S. government include 1,192 agricultural products, HTS codes. The total ex parte value of the above productions products in 2017 amounted to over $1.9 billion U.S. If the U.S. levies 25 tariff or above, HTS codes, agricultural products, it means unreasonable high tariffs will be imposed to all the agricultural products exported from China to the U.S.

As is known to all, the production of Chinese tea, Panax and other agricultural products ranks first in the world. Wild Chinese green tea, specialty teas, ginseng and the Panax account for over 90 percent of the total import of those products for the U.S. For more than 50 percent of the products from China to the U.S., there will be no replacements.

In the meantime, agricultural products that the U.S. imports from China are mainly raw materials, which help create a great number of employments for the U.S. food processing companies.

Agricultural products from China also contribute to stabilizing food price, add to the terminal consumer market, and adding to the variety of the foods on the dairy dining table of consumers.

The China Chamber of Commerce of Import and Export of Food Stuffs, Native Produce, and Animal By-Products have nearly 7,000 member companies across China. The overall food under agricultural products import and export value of its members accounts for 70 percent of China's total.

Therefore, on behalf of the China's food and agricultural industry, we recommend to remove the 1,192 agricultural products HTS codes from the proposed tariff list.

In April this year, on the Second Belt and Road Forum for International Cooperation, held in Beijing, China, Chinese President Xi Jinping announced at his keynote speech at his opening ceremony, that China will take a series of major reform, and opening up masters, and to make stronger institutional and structural moves to boost high quality opening up.

These measures include the following five aspects: Expanding market access for foreign investment in more areas; intensifying efforts to enhance international cooperation in intellectual property protection; increasing the import of goods and services on an even larger scale; more effectively engaging the international macroeconomic policy coordination, working harder to ensure the implementation of opening up related policy.

The unilateral actions started and taken by the U.S. have caused a negative influence on agricultural products trade between the two countries. From January to April in 2019, China's agricultural products exports to the U.S. have decreased by 24.1 percent, year-on-year. It's a series of five months consecutive decline from this member 2018.

The agricultural products imports from the U.S. to China, from January to April in 2019, have decreased by 62.2 percent year-on-year, and there has been a ten months consecutive decline since last July.

It is not hard to see from the figures that there is no winner for trade disputes. Only by strengthening cooperation on an equal footing, with mutual benefits and mutual aspects, can China and the U.S. realize win-win outcomes.

Thank you for your attention.

MR. BISHOP: Thank you, Ms. Yu.

Our next witness is Stevenson Moore with Phoenix Aromas & Essential Oils.

Mr. Moore, you have five minutes.

MR. MOORE: Good morning, and thank you for this opportunity to appear today. I'm here on behalf of Phoenix Aromas & Essential Oils.

Phoenix is an importer and distributor of chemical products which are primarily used in food flavorings and fragrances. They're a New Jersey company. They've got about a hundred employees, and they've been around since 1994.

The majority of their products is vanillin, which is a synthetic flavor that's used in flavorings and fragrances. And the majority of where they import their product from is from China. As such, Phoenix is deeply concerned that imposing a 25 percent tariff on vanillin will harm Phoenix, its employees, its customers, and ultimately, the American consumer.

Just a, as an initial matter, vanillin was already listed as one of the goods subject to tariff last year. Phoenix submitted a comment to that, and through the hearing process, it was removed from the list of goods. We believe that removal was proper then, and we believe that it is proper now.

As I'm sure you're aware that the stated purpose and the whole reason that we're here today is to discuss what we can do and whether or not these tariffs will have an effect on halting China's unfair business practices that encourage forced technology transfer.

Vanillin is a synthetic vanilla flavor

that was discovered in the 1850s. The first commercial sale of it was about 20 years later. And the process that's used today to produce most of the vanillin that's sold was discovered and has been around since the 1970s. So the idea that we're looking at an area where there's going to be forced technology transfers is just not really the case here.

Second, the economic realities dictate that the tariff is not going to serve American interests. So, global vanillin consumption accounts for about 60,000 metric tons in 2018. And then synthetic vanillin consumption is about 99 percent of that, so your normal, you know, natural vanillins, very small percentage.

In 2017, the United States imported $51 million worth of vanillin, of which 37 million was sourced from China. For comparison, the second, third and fourth largest sources of U.S. imports of vanillin combined only accounted for slightly more than $12 million U.S. of product.

This is a product of the reality of just where the production occurs. So in 2017, China produced 27,000 metric tons of vanillin -- sorry, 38,000. And in 2018, they produced 41,000. So, total global production that same year was about 61,000 metric tons. So, you know, close to 2/3 of the production is coming out of China.

And in comparison, North American production, those same two years was, I believe, like 1,240 metric tons and 1,290 metric tons in 2017 and 2018, respectively. Compared to consumption, those two years, North America consumed roughly 18,000 and 19,000 metric tons.

So the reality is, is that domestic production cannot satisfy domestic demand. So this leads to a situation where Phoenix is going to have to source its production from China, and it's going to end up paying a 25 percent tariff, on top of its 5.5 percent duty that it currently pays.

That cost is going to get passed on to

Phoenix's customers, who in the end are going to have to pass it on to the American consumer. In addition, Phoenix's customers, or our U.S. customers, right, they are companies who manufacturer things with vanilla flavor in them, or fragrance, right, they're going to have to pay this duty cost, whereas European producers who sell their products in the American market will not. They'll still be able to source their vanillin from China.

So, the idea that this is going to help, you know, halt technology, that's not going to happen in this case. The idea that this is going to benefit the American worker, that's also not going to happen in this case.

It's going to end up harming Phoenix. It's going to end up harming Phoenix's customers, and it's going to end up harming the American consumer as a whole. And because of that, we're respectfully requesting that it again be removed from the list of goods subject to tariff.

MR. BISHOP: Thank you, Mr. Moore.

Our next witness is Daniel Fabricant, with Natural Products Association.

Mr. Fabricant, you have five minutes.

MR. FABRICANT: Thank you. Thank you for the opportunity to testify.

NPA was founded in 1936 to promote and protect the unique values and shared interest of retailers and suppliers of natural nutritional foods and natural products. We're the oldest and largest trade association in the space, with over 1,100 members in retail, manufacturing, wholesale distribution of natural products, including foods, dietary supplements, health and beauty aids.

NPA is the leading trade association for the dietary supplement industry, which is an estimated $45-billion industry in the U.S. What's important in the context of today's hearing is to emphasize that our industry is made up mainly of small and medium-sized businesses.

While the industry has existed for many years, it has only recently, really since the mid '90s, transformed to a major engine of economic growth, going from 2 billion in 1994 to $45 billion now.

Today, America's the undisputed global leader in dietary supplements, but that leadership position is certainly threatened, as these tariffs get put into effect. Three reasons our members are so concerned, and why we are exceeding over exemptions -- exemptions for over a hundred ingredients on the List 4.

First is, many businesses could be forced to close up shop altogether. That's not meant to be hyperbole. These tariffs are simply unsustainable and unaffordable for them, since China is the single largest global supplier of safe, reliable, cost-effective raw materials for their products.

Second is that these tariffs for our industry could have the exact opposite result of their intent. They could actually reduce finished product manufacturing jobs here in the us, and send those jobs overseas, as it would be cheaper to do that than pay the tariffs being proposed.

And finally, our economic competitors in Europe, other parts of Asia and South America would be the big winners, as they'd be able to maintain supply for any differing demand for these products.

We're also seeking guidance from the government on how the exclusion process will work, what the standards will be for granting exclusions. Now, it's been almost a year since we testified at a similar hearing on List 3, and we still have no process for exclusions on List 3.

The issue at hand is whether these raw materials are available in safe supply from other sources, and I'm here to tell you that they simply are not. China has, and will continue to be, the virtual sole source on the globe that handle large scale demand of finished product manufacturers in the U.S.

This is the result of years of

collaboration between our two countries, including the development of quality assurance programs, safety programs, good manufacturing practices and regulatory compliance. As a result, the largest FDA foreign office is located in China.

In short, we have largely built today's positive and proven supply chain, and we want to continue being the primary beneficiary of that hard work. This American innovation, like in so many other areas, is why we are the world leader. This is what drives future product sales for this industry.

This is why industry analysts currently project a 10 percent compound annual growth rate over the next ten years. That impressive future, and the jobs and economic growth it would provide, would go straight from the U.S. to our economic competitors if we're not provided the justified relief we're seeking. It's that simple.

So again, thank you for the

opportunity today to testify. Happy to answer any questions. This is a complex issue. We certainly applaud the administration's effort to help American jobs and businesses, and we want to work with you to maintain our global leadership in that area. Thank you.

MR. BISHOP: Thank you, Mr. Fabricant.

Our next witness is Frank Bodin with Nordic Group, USA.

Mr. Bodin, you have five minutes.

MR. BODIN: Mr. Chairman, the committee, first of all, let me thank you for taking the time to listen to my testimony. I am part of a request dated June 12th to ask the USTR to exempt certain items from Section 301 tariffs at List 3 and List 4.

I have attached the same attachment as in that application, ref Appendix A and B in this testimony.

I represent Nordic Group, from Boston, and the Hadley Company from Wareham in Massachusetts.

As stated, my name is Frank Bodin. I am a Norwegian citizen, but I have lived in the U.S. now for over 25 years. I'm educated in California, California State University at Fresno, and I worked, well 30 years now in the seafood business and 20 of them here in America.

I've also spent a large portion of my professional life living and working in Asia, and began producing and making seafood products from China in 1993. I have a long and broad experience in the global business of seafood, and in particular, the overseas processing for the American market.

The seafood products we are importing from China are based on raw material that are sold and sourced from third country to the Chinese processors, in cooperation with us.

In our case, it's mainly whitefish. It's primarily cod, haddock and pollock. These are converted into finished products that we import and sell into the distribution channels here in the U.S.

It has been a cost efficient production for over 20 years, and benefits mainly the middle and lower income American consumers the most. Any cost increases will therefore hurt them more than any other. They find our products in their local family restaurants and fast food outlets, QCR. These segments are very price sensitive, and any increases in cost will quickly affect their sales.

The raw materials are pure commodities, and the world market decides the cost value on a global scale. These battle between supply and demands is what determines what fisherman will get for their harvest at the end.

Every decision maker in the value chain watches changes in supply as well as changes in demand, and the market has a tendency to react to news and information faster than the actual flow of products through the pipeline. Therefore, we already see and feel the impact of the tariff discussions.

The import tariffs on our seafood products from China will have two consequences as far as I can see. It will first drive prices to the consumer up. The profitability in China, as well as in all parts of the value chain, are already squeezed, and there is no room to compensate any cost increase, least of all, tariffs.

Therefore, the unavoidable consequence will be price increases. Thereafter, the price increases will cause a reduction in demand, and will inevitably lead to reductions in raw material prices globally, which again then will hurt fishermen in the USA, Europe and everywhere else.

The impact on the Chinese economy will be negligent if not zero. There is very little consumption of these products in China, and the Chinese processing industry can easily divert, and sell products into Europe and other nations. These tariffs will therefore hurt us, the American businessmen, fishermen, as well as consumer the most.

Products from China represent 35 to 50 percent of the seafood we sell into the companies I represent. In a small margin business, any loss in volume will quickly turn a profitable business into an unprofitable business.

Just by the threat of tariffs, we've started to hatch and plan. Our pipeline, on a normal basis, can be six months or more. But we're already stockpiling to prepare for the worst.

This is already costing us a lot of money. Therefore, we are in some ways weakening ourselves to survive the impact of tariff, if it comes. But we do not see any other, or better alternatives.

We have begun work to change our value chain to the all the processing countries, however, we are finding that within a fairly short timeline, two, three years, it will be very difficult to establish comprehensive processing of products in other nations. Especially for smaller to medium sized companies like ours, it can be close to impossible.

I sincerely hope I have contributed to the understanding and consequences of us, the smaller businessmen in the U.S. seafood business if import tariffs are implemented on seafood products from China.

As stated, I've been in the business for more than 30 years, and in the U.S. for over 20 years. I came here because of the possibilities America can bring to me and my family. I have one American son, a Norwegian son studying and living here in the U.S., and my wife has just become an American citizen, and I'm planning to do the same within a few years.

Thank you very much for listening.

MR. BISHOP: Thank you, Mr. Bodin.

Our next witness is Barbara Negron, sorry, Barbara Negron, with North American Natural Casings Association.

Ms. Negron, you have five minutes.

MS. NEGRON: Members of the 301

Committee, my name is Barbara Negron. I'm here on behalf of the North American Natural Casing Association, known as NANCA.

I am here to explain why natural casings, which fall under HTS heading 0504.00.00, covering guts, bladders and stomachs of animals other than fish, whole and in pieces thereof, should be removed again from the list of products subject to 25 percent duty.

Imported natural casings from China are crucial to U.S. producers of natural casings sausage. Tariffs will not influence Chinese practices with respect to tech transfer or IP protection, but harm the U.S. economy because the imported products is not available by U.S. suppliers.

NANCA is the association of U.S. companies that produce natural casings by cleaning, salting, packing them in the U.S. slaughterhouses. Our members are small, medium sized privately owned family businesses that employ over a thousand people in ten U.S. states.

NANCA promotes the trade of American casings around the world, and the sale of NANCA members is over $475 million. Natural casings are animal small intestines, harvested during the slaughter of hog, lamb and sheep in the United States. But first, the raw, natural casings must be sorted according to size.

The sizing step is not performed in the United States, but imported natural casings from China are just reimported U.S. product sized in China, as part of the processing operation of NANCA U.S. members.

The hog, lamb and sheep casing industry are unusual because imported into the United States from China, are driven by exported, from the United States. In 2018, U.S. exports to China of natural hog totaled over $257 million, while imported of the same product after sizing in China were $112 million.

Because there is no sizing operation in the United States, there is no existing or potential U.S. industry that will be, will benefit from the proposed 25 percent tariff. The U.S. producers and consumers of the sausage made in natural casings would suffer too.

Faced with additional tariff on the sized natural casing, NANCA's members and customers would not size natural casings in the United States because of the high cost of labor, tooling and real estate. Instead, these casings would be continued to be sized in China, giving an unfair advantage to European imports of sized natural casings, as they would not face the same increased costs.

European natural casings sausage makers are only the other major producer of natural casings sausages, globally. So, the proposed tariffs cede the natural casing market to Europe, at the expense of U.S. producers, jeopardizing U.S. jobs, and putting them at a disadvantage, vis a vis Europe.

Hog, lamb and sheep casings are low-tech product, and have been in production for thousands of years. There is no evidence China misappropriated IP as to these products, or that these products benefit from China's industry policy, including Made in China 2025 program.

Also due to Ag Department restrictions, the U.S. natural casing industry and sausage makers that use imported natural casings in the United States are not permitted to import Chinese-origin products or natural casings due to African swine fever.

So imposing duties on reimported U.S. product does not affect the Chinese products, but harm U.S. sausage makers and NANCA members. The proposed tariff will help hurt NANCA, its members, its customers, and ultimately, the consumers.

Thank you very much for your attention.

MR. BISHOP: Thank you, Ms. Negron.

Our final witness on this list is Wei Zhao, with Jilin Pharmaceutical USA, Incorporated.

Mr. Zhao, you have five minutes.

MR. ZHAO: Yes, good morning, Chairman and this Section 301 Committee. I am Wei Zhao, president of Jilin Pharmaceutical.

Established in 1996, we are a New Jersey-based company, with strong backgrounds in food production and quality control. We act on behalf of the U.S. manufacturers to purchase and to source ingredients that meet unique specifications. I thank you for the chance to speak at this hearing today.

Alginates are the key component in noodles, sauce and the desserts, is critical for thickening and stabilizing properties in the finished product. Alginates are derived from alginic acid, a compound found in brown algae, also known as seaweed.

We request that USTR remove alginates classified under U.S. HTS subheading 3913.10.00 from the proposed list of the items subject to additional tariffs, again, due to the following reasons.

First, there's no manufacturing base

for alginate in the U.S. China is dominant in the manufacture of the alginate because it is the biggest harvester and the processor of the brown seaweed. Seaweed is not harvested in the United States due to high cost and environmental regulations.

Meanwhile, the majority of alginic acid processors are located in Qingdao, a coastal area of China, where the seaweed is plentiful and close by for harvesting.

In addition to the lack of the seaweed, production of the alginate products is troublesome in the U.S. because it results tremendous amounts of the wastewater, something that Chinese manufacturer accept.

Secondly, alginate products is not a part of the Made in China 2025 program. The Chinese government designed industrial policies by targeting at once the technologies, such as semiconductor and IT, among others. Alginates are not a type of the advantage of technology.

In fact, alginates were discovered by

a British chemist in 1881. Videos regarding the manufacturing process of alginates are available as public information on the Internet.

Third, 301 tariff would harm U.S. industry and the consumers. Downstream products, such as noodles and the deserts that depends on the alginates are supplied by our U.S. manufacturers to supermarket and nationwide, and over 60 foreign countries, result workable substandards for alginate.

The tariffs would resulting in raising the cost of living for U.S. consumers, and to reduce our manufacturers' ability to compete in foreign markets.

Lastly, alginate has already been investigated and excluded by the U.S. Trade Representative during the review process in July 2018 for additional tariffs on imports totaling $16 billion from China.

Alginates appears on the first proposed list of 284 categories, and there was one note, only five items removed from the final list after review. We believe that this is the words, expression by USTR that additional tariffs to alginates would be damaging to U.S. interest.

In conclusion, we request that alginates would be removed again from the proposed list Section 301 tariff list. The proposed tariffs will not have accomplished the goal of the administration, but would be harm to U.S. consumers.

Thank you for your consideration.

MR. BISHOP: Thank you, Mr. Zhao.

Mr. Chairman, that concludes direct testimony from this panel.

MR. SHEPPARD: Hello. Wade Sheppard with the Department of Agriculture. My first question is for Ms. Lu Yu.

In your testimony, you noted that, the impact of the 301 tariffs on Chinese agricultural exports, and highlight the importance of the Chinese market for U.S. agricultural. But given your organization's focus on bilateral trade, I'm just curious to know if you've also expressed concerns to the Chinese government about the impact that their tariffs are having on U.S. products.

MS. YU: Thanks for your question. Just so you mention, you have -- maybe you have noticed that our Ministry of Finance have announced the publication, and to do the exclusion of the import from America.

So, the first lines is about $15 billion U.S. import from American. So we heard from our members. We organized several meetings among our members. We are preparing. We have already preparing for the apply for the exclusion of some products, like dairy products, like feed products, which we are based on facts, and also based on our members' reactions. Yes.

MR. SHEPPARD: Thank you very much.

MR. WALLACE: Ian Wallace, Department of Commerce. My question is for Stevenson Moore.

In your testimony, you noted that China is by far the largest producer of vanillin. Can you comment on how long it would take for another country to ramp up production?

MR. MOORE: That'd be hard for me to say. I mean, Phoenix is a distributor. We import. We're not involved in the production process. What I can say is, I think it would -- to hazard a guess, I think it would be quite a while.

For instance, the European market, I believe in 2018 they produced about 16,000 metric tons. They also had to actually import to meet their domestic demand. So they imported about 2,000 metric tons. And they only export about 208 metric tons. So that's the second largest producer, after China.

The third is India, which only produces a little bit less than 4,000 metric tons. If there's suddenly a 25 percent tariff on 41,000 of 61,000 metric tons, I think it'll be a while before anybody is able to make up that difference.

MR. WALLACE: Thank you.

MS. ROY: Tracy Roy, from U.S. Customs

and Border Protection. This question is for Mr. Fabricant.

In your testimony, you describe the heavy reliance of your industry on sourcing dietary ingredients from China. Can you comment on what makes China unique in its ability to serve your industry's needs? For example, do the ingredients originate in China, or is China processing capacity especially robust?

MR. FABRICANT: It's a little bit of both. You had some ingredients that just the technology was only sucralose, which is a non-caloric sweetener, which is used in a lot of our products. The technology transfer was only done between companies here in the U.S. and China, to make the facility in China.

It's kind of a challenging chemical process, to say the least, and so it's a little bit of both. There's certainly, minerals were very heavily sourced from China. A lot of the botanicals on List 4 are heavily sourced from China, native to China, not that they can't be grown elsewhere, but it's a bit of both.

MS. ROY: Thank you.

MR. FARISS: This is Paul Fariss, Department of State. Thank you again to all of you for your testimonies today. I just had a question for Mr. Bodin.

You mentioned in your testimony that there are significant challenges to adjusting your supply chains. Does the processing capacity currently exist in the United States or in other countries to absorb the volume of product that you process in china?

MR. BODIN: The simple answer is no. I can illustrate it like this. We have, in a city called Qingdao, that was mentioned before, just in the processing of whitefish that I'm involved with, you talk today about some 40 factories established in China.

It's manual labor, most of it, but the investment is still -- they are increasing capacity, pledge freezes like air freezers, everything else you need. So to take that capacity and lift it into any other nation is going to require a huge investment and quite a long time line.

Secondly, you have the training of all the other companies that are manufacturing, food safety issues, they're producing to specifications, et cetera, et cetera.

The third element that I can mention is a little bit of a story. We've already talking to people, for instance, in Vietnam. And the first thing they would say to us, coming in there now, is that, why are you coming here? Are you coming here because USA is threatening with 25 percent tariffs?

And we have a little bit hard time answering that. And the follow-up question comes then, our understanding is that USA wants to go to zero percent in the future sometime. What will you do then? Will you go back to China, will you abandon us?

So, to convince them to do the investments is also very, very hard. So in other words, I say two, three years. It might even be impossible, to be honest with you, to get the whole thing moved over.

MR. FARISS: Okay, thank you.

MR. GILMARTIN: This is Kevin Gilmartin with the Treasury Department. I have one question for Ms. Negron.

In your testimony, you note the detrimental impacts of African swine fever on exports of Chinese-origin casings. So due to the African swine fever concerns, do you already have contingency plans to move processing to other countries? And in general, to what other countries could sizing, could the sizing process be moved?

MS. NEGRON: Okay. First, you must understand that we are not importing Chinese casings because of the African swine fever. And secondly, you should understand that our casing facilities in China are dedicated only to the selection of casings from countries like the United States, Canada, for hog casings, that is.

Now, saying that we have looked into the fact of possibly moving it to other countries, but the Chinese casing selectors are quite accurate. They've been doing it probably for more than a hundred years. And to be competitive in the world market, especially against the Europeans, who also select in China, the accuracy of the work that is done in China is very, very important to us.

So when we are saying this, we are actually working with USDA. A team of USDA inspectors are on their way, actually tomorrow, to China to review our standards again. And we don't believe that moving it to another place at this moment would be beneficial for our industry.

MR. GILMARTIN: Thank you.

MS. WINTER: Hello. My name is Audrey Winter and this is a question for Mr. Zhao.

Welcome. Could you just -- one of the previous panelists, or one of the previous witnesses said that this brown algae grows in France, Mexico and Chile. Is that accurate also from your perspective?

MR. ZHAO: Oh yes. You are mentioned that company up here just in the last count, as MP, right? Yes. The alginate is also called alginic acid. It is a name of the group of the material. And in manufacture from the brown seaweed, it's a special type of brown seaweed. It's mainly available in Chile and in China.

So, the public information indicate that, in the past couple of years, that China has harvest natural seaweed like, something like around 90,000 ton, and the same amount in Chile. But in the past couple of years, because five years ago, there's a shortage happened, because bad weather, and that make short, the seaweed shortage happened, that reminded the Chinese company, they send their people, set up during winter with the seaweed connecter in Chile, who can do their market.

So the last information indicate that, even in year for 2015, China import 100,000 tons of seaweed from Chile and Peru. The 90 percent of them is brown seaweed that used for the alginate or alginic acid manufacture. So that meant the Chinese companies have been controlled almost 80, 90 percent of the brown seaweed.

But that made the production of the alginic acid and the alginate in non-China country become more and more difficult. Is major impossible.

MS. WINTER: So, you've mentioned Chile as a source of this seaweed. Is there no seaweed from France or from Mexico, as I believe I heard?

MR. ZHAO: I think in European countries, there's -- brown seaweed is available. The amount is smaller, much smaller. And I do believe, based on my knowledge, there's a manufacturer in the European country, they manufacture the alginate, but is a high-end material. Small volume, but it's very high priced. It's used for pharmaceutical and dental application.

And the seaweed I mention, in the, my

testimony, is for FCC grade. It's a low grade of the alginate for food production. And as MP mentioned, the alginate, alginic acid, is for technical grade. It's low grade, for technical application.

MS. WINTER: So European manufacturers of desserts and other things that use this thickening agent that comes from the alginates, they get their supplies from China as well. Is that correct?

MR. ZHAO: I understand that China exported the food grade alginate to European country at good quantity, but I don't know which company is the end user. But they did export to European country, the food grade alginates.

MS. WINTER: And if the tariff on alginates does go into effect, what impact -- I mean, wouldn't -- you know, is it viable for you to turn to these other sources of supply? And also, is there none of this seaweed growing in U.S. coastal waters? You say that, but I just want to confirm that.

MR. ZHAO: U.S., in California, in the San Diego area, we do have the brown seaweed, that could use it for the manufacture for the alginate or the alginic acid. But because of the California environmental regulations, there's no harvest. Nobody collect the seaweed from the ocean.

And some years ago, I have been trying to talk to the local company in California, and let them make investment. And they trying to buy the boat, to catch seaweed from ocean, and export to China. But they're -- finally, they told me that it, this project has been, you know, finished, because the government, the state government for California gave them a right license. They cannot do that.

Thank you very much.

MR. BISHOP: We release this panel with our many thanks. We will now take a lunch break and stand in recess until 1:05.

(Whereupon, the above-entitled matter went off the record at 11:56 a.m. and resumed at

1:08 p.m.)

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

Mr. Chairman, I would like to note that Panel 28, all the witnesses are seated. And would you like to announce the new panel members?

CHAIR BUTLER: We'll let them introduce themselves when they ask questions. That'll be fine.

MR. BURCH: When they have a question, okay.

CHAIR BUTLER: Thank you.

MR. BURCH: Our first panel witness on this panel is John Alofs, with Eyewear by ROI.

Mr. Alofs, you have five minutes.

MR. ALOFS: Ladies and gentlemen of the Commission, I'd like to thank you for your time today. My John Alofs, and I'm founder, CEO of Eyewear by ROI.

My company designs, manufactures and distributes designer and fashion eyewear frames and sunglasses from our Phoenix, Arizona headquarters to customers throughout the U.S., Canada, Mexico, Australia, Japan, Taiwan, Korea and throughout Europe.

There are two main components to my testimony today, the first being medical and health related, the second consumer and business.

Eyewear and sunwear are widely used Class I medical devices regulated by the FDA. Prescription eyewear and the optical frames used to make them are the most widely used medical devices in the U.S. and throughout the world. 64 percent of all Americans wear prescription eyeglasses, with 78.6 million pairs of new eyewear dispensed annually.

219 million Americans, or 85.7 percent of the U.S. population wear nonprescription or prescription sunwear. What other consumer good, let alone medical device can you name that's used by over 85 percent of American?

These sunglasses are designed to protect against exposure to harmful UV rays, which have been linked to cataracts and macular degeneration. Increasing the cost of these most common of all medical devices would likely have a negative public health impact.

If consumers' costs go up, individuals would delay, if not refrain, from having eye exams. By delaying eye exams, eye-related conditions such as cataracts, macular degeneration, diabetic retinopathy and glaucoma could go undetected.

One hundred percent of our eyewear and sunwear production, which we manufacture under licensing agreement with our licensors is all done in China. Eighty-three percent of all eyewear and sunwear sold in the United States is produced and imported from China, primarily because there's no mass production of optical frames existing in the United States.

If you were to take off your glasses and look at the temple tip, chances are better than eight out of ten that the temple tip is stamped, made in China. The U.S. vision care market is a $42 billion business with over 15 billion consisting of eyewear and sunwear.

The manufacture of eyewear frames and sunwear requires no significant technology or innovation, and so has nothing to do with the intellectual property and technological issues with China that President Trump is attempting to combat. Simply stated, eyewear and sunwear is a low-tech manufacturing process.

Over the years, I have investigated moving some of our production to countries such as Vietnam and Cambodia, but the quality of the goods coming from these optical factories were not up to our standards, and thus would have been rejected by our customers.

A 25 percent tariff on Chinese-made optical products will be neither practical nor effective means to alleviate China's unreasonable acts, policies and procedures.

If the proposed fourth list of tariff numbers, China 301 goes into effect, the result to my 33-year-old business would be devastating, causing me to lay off workers, raise prices to existing customers, which would undoubtedly lower my sales, and I could possibly lose rights to some of my longtime licensees because we couldn't make the minimums.

Given the uproar over the 2.3 percent IRS excise tax on the sale of medical devices imposed to support Obama-Care, which Congress has twice voted to suspend until at least the end of this year, it's difficult to understand the reasoning behind imposing a 25 percent duty directly on medical devices, such as eyewear and sunwear.

The economic fallout from imposing a 25 percent tariff, as proposed, could cause the U.S. economy to go into recession, and President Trump's chances of reelection going with it. As James Carville said during Bill Clinton's successful '92 campaign, it's the economy, stupid.

Thank you for your time.

MR. BURCH: Thank you, Mr. Alofs.

Our next panel witness will be

Crawford Wagner, with Jewelry Television.

Mr. Wagner, you have five minutes.

MR. WAGNER: Distinguished members of the Section 301 Committee, thank you for the invitation to appear today, and discuss the impact that additional tariffs on Chinese goods as put forth on List 4 would have on our company and our employees.

My name is Crawford Wagner, and I'm the chief financial officer of Jewelry Television, also known as JTV.

JTV is one of the largest retailers in the U.S., supporting over 1,400 jobs and headquartered in Knoxville, Tennessee. Our company is principally owned by our employees. JTV reaches consumers through the Internet and live TV programming, 24 hours a day, 7 days a week, to 82 million U.S. households.

The jewelry industry is unique in that most jewelry products cannot be sourced from the United States. JTV is thus largely dependent upon foreign sources for both raw materials and established manufacturing infrastructure.

JTV procures 190 million annually in product from vendors outside the United States. These purchase are largely in goods not available from U.S. sources. Over many years and at great expense, JTV has built a complex global supply chain for raw materials, manufacturing and product development.

Approximately 46 percent of JTV's product, or 87 million annually is sourced from China. JTV serves a middle America demographic with an average item price of less than $100, a price point not possible to achieve without a supply chain like JTV's.

Given this dependence, we are extremely concerned about the proposed List 4 tariffs on products coming from China. We have identified 17 HTS codes that we must source from China today and in the foreseeable future.

We support the administration's efforts to level the global playing field when it comes to trade. There are indeed many bad actors who have taken advantage of the United States. This unfairness, however, is not the case with China as it relates to the jewelry industry.

To the contrary. Chinese jewelry and raw material suppliers have been necessary partners in developing a robust and growing U.S. jewelry industry. Our Chinese vendors have unique raw materials and manufacturing infrastructure which doesn't exist in the U.S.

In fact, we have been very active for many years, and particularly during the past six months, in reducing our reliance on raw materials and manufacturing from China. Our head of international supply chain, who was originally from Jaipur, India, and now lives in the U.S., has simply been unable to transfer our sourcing out of China to other Asian countries, due to the skillset gaps, regulatory burdens, and challenges in achieving the same kind of craftsmanship and tooling we receive in China.

Thus, we have great concern about the immediate and unphased implementation of additional 25 percent tax, on top of a 5-1/2 tax we already pay on imports from China. Without, at minimum, a phased implementation, or a delayed transition period to allow for supply chain adjustments, the impact of a 25 percent cost increase to the direct consumer jewelry industry will be draconian.

It will negatively impact not only our employees in Tennessee, but could place our quality and affordable products out of reach for over one million middle-income American customers who depend on us. Simply stated, the harm caused by a 25 percent tariff on the 17 tariff code products identified by JTV would appear to rest with U.S. companies, employees and consumers, not China.

Unfortunately, we have recent firsthand experience with the effects of a new tax. Just last year, as a result of a U.S. Supreme Court decision, JTV became the subject of a new Internet sales tax. That new tax added to the cost of our products has resulted in a roughly 10 percent reduction in sales, and a 1/3 reduction in profitability.

In summary, with JTV's current commitment to a supply chain with manufacturing in China, we cannot change that supply chain on short notice. And a 25 percent tariff, on top of a 5-1/2 percent tariff, on top of a recently implemented Internet sales tax, will be draconian to our company, our employees and our customers.

Should the conclusion be to move forward with the List 4 tariffs, we feel strongly there is a case for industry exemptions. At the very least, we ask for a phased approach, and adequate time to make supply chain adjustments.

For the past 25 years, JTV has had a mission to open the world of jewelry and gemstones to every American. With the right policies in place, we hope to accomplish that mission for the next 25 years.

I'd like to thank the committee for allowing me to testify today, and we look forward to working with this administration, and members of Congress to ensure that fair trade policies are adopted.

Thank you again, and I'm happy to answer any questions you have now or at a later date. Thanks.

MR. BURCH: Thank you, Mr. Wagner.

Our next panel witness will be Joe Meli, of PAJ, Incorporated.

Mr. Meli, you have five minutes.

MR. MELI: Good afternoon. My name is Joe Meli. I am vice president of Marketing and Brand Development for Prime Art and Jewel, or PAJ.

Based in Dallas, Texas, PAJ has supplied jewelry products to tens of millions of working class Americans for over 40 years, selling over 20,000 pieces of high-quality affordable jewelry each day.

The proposed duties on 13 categories of jewelry products on List 4, that are listed in PAJ's written testimony and comments, will have a debilitating effect on our business.

This is because one, our ability to provide high-quality, affordable jewelry to U.S. consumers depends on the sophisticated supply chain, specific resources and skilled labor currently available from our China-based facilities, and two, there is no viable alternative location to replace China-based manufacturing of our products.

As a result, the proposed additional tariff would negatively impact our employees and their families in the Dallas-Fort Worth area, our American retail consumers and their employees across America, and countless working class American consumers, including members of the Armed Forces.

I'm here today on behalf of PAJ to implore you to remove these 13 jewelry subheadings from List 4, and this is why.

First, setting up jewelry manufacturing operations in the United States is not an option because that capacity does not currently exist. Even if U.S. manufacturing capacity were to be built up over many years, labor costs would be four to five times higher, and facility costs would be at least double, resulting in jewelry prices triple to the current price levels.

This would render jewelry we sell unaffordable to working class Americans. PAJ has already explored options other than China for its manufacturing base. We tried subcontracting manufacturing to other countries, including Thailand, but the quality, delivery time and consistency was unacceptable to both our U.S. consumer and U.S. retail customers, including Afi's, JTV, QVC, Kohl's, Macy's, Walmart and JC Penney.

In the end, we determined that China was the best location to meet our American consumer demand for affordable, high quality jewelry, and we've been able to meet that demand for the past 30-plus years.

Second, our decision to establish a wholly American owned manufacturing facility in

China ensures that our intellectual property and proprietary information are protected, and that we can continue to source the materials we need from our reputable parties.

If additional tariffs force PAJ to subcontract manufacturing to a third country, we could lose control of our IP, and rampant theft of designs would lead to a devastating loss of customers.

Third, many of our products depend on raw materials sourced from China. Our designs include various sizes and types of freshwater pearls, nephrite jade and cubic zirconia, cut from rock crystals. And these products are accessible mainly in China. Without direct access to these materials, the price of manufacturing becomes prohibitive.

Fourth, having a U.S. taxpaying manufacturing facility in China under common American ownership allows PAJ to ensure our continued compliance with local and international regulatory requirements. It also allows us to hire and train the local labor face in the highly detailed and sophisticated process required to manufacture jewelry that meets American consumer standards.

We could lose oversight over these processes if we moved manufacturing sites and no longer had full control over our day-to-day operations.

We are a member of the Responsible Jewelry Council, and adhere to the Code of Practices, which addresses human rights, labor rights, environmental impact, mining practices and product disclosures. The Council and our largest retailers inspect our factory annually to ensure it meets their standards.

We cannot ensure we would pass their audits if we outsource our operations to third-party manufacturers in other countries. Relocating our manufacturing to another country, even if it was possible, would risk losing control of our longstanding record of protecting our IP, proprietary information, and maintaining high standards, which we have achieved by using our American-owned manufacturing facility in China.

The impact of the additional tariff on PAJ is real and cumulative, because there are no alternative viable sources of manufacturing these products. There's a real chance that PAJ's employees will lose jobs, our customers' employees will lose jobs, and hundreds of American families will suffer.

Against that backdrop, the impact that the inclusion of these jewelry product categories on List 4 would have on leveling the playing field with China is minimal at best. While we support the administration's efforts to respond to China's policies that coerce American companies into transferring their technology and IP to Chinese enterprises as part of China's industrial plans, the items in the categories listed in my testimony and written comments, are not strategically important or related to such plans.

In conclusion, I ask that the committee consider that the workers of America will bear the brunt of this well-intentioned policy initiative, and balance that impact against any benefit derived from including jewelry products on List 4.

Thank you for your time, and I'd be happy to take further questions or provide additional information.

MR. BURCH: Thank you, Mr. Meli.

Our next panel witness will be Steve Jacaruso, with Jack Rogers.

Mr. Jacaruso, you have five minutes.

MR. JACARUSO: Good afternoon. I first would like to thank the -- for you allowing me to appear in front of you today. It's an honor, and really great that I have the opportunity to express my company's concerns with respect to the potential increase in tariffs.

I'm the chief operating officer of a company called Jack Rogers. The brand was founded in 1960, and became famous with someone that you might know, Jackie Kennedy. She went to Capri, and brought back a sandal, with whip-stitched leather and iconic rondel, that would become the classic Jack Rogers sandal.

We've been manufacturing it in Florida since then, so since 1960. I'm here today to urge you from refraining from imposing additional tariffs on footwear and fashion accessories imported from China. We're currently paying 12 percent duty, so it's a significant charge for a small company like ours.

We share your frustration that a trade deal has not been settled with China, and agree that more needs to be done, so like all nations are on the same playing field as the United States.

We continue to support your efforts to achieve a fair and meaningful deal with China, to ensure that U.S. companies, and U.S. workers they employ, can compete. That being said, we strongly oppose using shoe and accessories tariffs as a bargaining chip to secure the deal.

As a heritage brand starting in 1960, we produced a hundred percent of our product in the United States. Like most other companies, we started sourcing our products overseas. This was due to pricing, materials, capacity, and skillset. Our core product is hand-stitched, and it's very difficult to find the craftsmanship.

Currently, we still have 25 percent of our production in the United States, passed down from the generation from the original manufacturer, which is more or less at their full capacity. Therefore, we currently source in China and other countries as well.

Prior to your announcement, we began to diversify away from China. However, from our experience, it can take over a year before we're able to fully execute, and transition to other factories in other countries.

The mere threat of these tariffs has already caused us to scramble, to find other factories out of China who could possibly produce our product, and puts an unfair burden on a small

U.S. heritage company like ourselves.

Currently we have less than 40 employees. It's hard to compete with large companies getting production space. Therefore, the tariff acts -- the tariffs affects small companies like us even more.

In addition, this process takes a significant amount of time, and is further challenging to our high penetration in excess of 50 percent of our total production. The proposed change would have a significant impact on Jack Rogers' financial condition.

In fact, it could reduce our profits by over 40 percent. This would then require us to find other cost opportunities, which could result in employee layoffs. I'm concerned with these higher tariffs. We'll need to raise our prices, therefore risk lower sales. The outcome does not appear great for a company about to celebrate its 60th anniversary.

In our opinion, the short-term effect of this would be detrimental to the economy. It is our strong hope that you can negotiate a deal without having these new taxes on U.S. companies, especially small companies such as Jack Rogers, who's already producing in the United States, the U.S. workers and the U.S. consumers, who are trying to protect this new agreement.

I thank you and appreciate your time.

MR. BURCH: Thank you, Mr. Jacaruso.

Our next panel witness will be Jacalyn Bennett, of Bennett and Company.

Ms. Bennett, you have five minutes.

MS. BENNETT: Thank you to this distinguished committee for hearing my testimony today.

My name is Jacalyn Stuart Bennett. I am the owner, founder, president, CEO and head designer of Bennett and Company, which I founded over 37 years ago.

We are a small women's minority business of 40 employees, based in the city of Newburyport, Massachusetts, where we design lingerie, sleepwear and daywear, in our

Newburyport headquarters, which is housed in a 17th century structure that was originally built to promote global trade.

I was the first American woman to open a wholly-owned factory in China after privatization in the 1990s. My factory manufactures highly specialized and constructed lingerie, sleepwear and daywear garments.

While many of my competitors closed up shop and moved their entire operations offshore, I chose to keep my design and technical headquarters in Newburyport, where we are one of the largest employers and taxpayers in the city.

I started my own company because I wanted to provide a safe environment for young female designers to work in, as I did not have this when I started my career in New York City in the 1970s.

As a woman, and an entrepreneur of Scottish, Irish, German and French heritage, my philosophy has always been to give back. I support and give back to over 60 charities in our communities and throughout the United States.

I recently created a wellness center at our Newburyport public school system, benefitting over 2,000 students and their teachers, and Anna Jaque's Hospital has also asked me to create a wellness center.

We provide scholarships, internships, and -- at our facilities in Newburyport. The Fashion Institute of Technology in New York receives a large scholarship from me every year. This is my alma mater where I earned my master's degrees, and am the youngest recipient of lifetime achievement award in business and humanitarian efforts.

We provide scholarships to the Massachusetts College of Art in Boston, and the Northern Essex Community College in Haverhill. The support that I give today is only possible through the success of Bennett and Company.

In the 1990s, I worked in the city of Lowell, Massachusetts at the request of its mayor. We were trying to keep a local factory, Lowell Lingerie in business. I placed a test order with that factory. After three months of working with the stitchers, they told me that they were not interested in sewing anymore.

The factory closed, and today the sewing industry has mostly left the United States. And it is not coming back. I have tried to set up sewing factories in ten other countries, including England, Ireland and Haiti. Nothing worked, so I decided to focus on building my factory in China, where the quality of work is highly evolved.

It took over 25 years to build my China lingerie factory to the quality and specifications that we are famous for. The type of product and level of complexity manufactured at our factory cannot be replicated or shifted to another country. We are heavily invested in China. These garments cannot be sourced anywhere else. Believe me, we have tried, and we have failed.

This garment does not contribute to

China's industrial policy. Imposing the China 301 tariff List 4 on lingerie products that we import will have a devastating impact upon Bennett and Company. We will not be able to absorb any portion of the 25 percent, as we already pay 16 to 32 percent in duties to the United States.

Bennett and Company will be put out of business. Everything that I and my team have worked for over the past 37 years will be lost. My long tenured and cherished team will be laid off. What will happen to their families?

The intricately detailed lingerie products that we sew in our highly skilled China factory will no longer be available to the U.S. customer if this List 4 tariff is imposed. The support that I am able to provide to over 60 organizations in our communities and in the United States will end.

The loss of our committed businesses to longtime vendors and suppliers will produce a devastating ripple effect. Please keep in mind the loss that will be felt by each and every individual, their families, the communities, our country.

Please exclude lingerie, sleepwear and daywear from the China 301 List 4 tariffs. I do not believe that this little garment is going to hurt the United States in any way. But this tariff will put our small American minority entrepreneurial company out of existence.

Please allow Bennett and Company and our lingerie industry to continue to be an important contributor to Newburyport, Massachusetts and to the United States of America.

Thank you for your time. I am grateful for this honor.

MR. BURCH: Thank you, Ms. Bennett.

Our next panel witness will be Charles Johnson, with the International Safety Equipment Association. Mr. Johnson, you have five minutes.

MR. JOHNSON: Thank you. And thank you, Mr. Chair, and all the panelists, for this opportunity to testify.

The International Safety Equipment Association represents the manufacturers and distributors of personal protective equipment and other safety technologies. For more than 80 years, ISEA has set the standards for PPE technologies and supported the interests of its member companies that are united in the goal of protecting the health and safety of people worldwide.

Safety solutions made and marketed by our members represent the majority of products protecting American workers today. Our members are engaged in the production of a broad range of products from first aid kits and gas detection devices to safety glasses and high visibility vests.

As such, ISEA members have not reached a consensus in support of or in opposition to recent actions taken or proposed by the U.S. Government on tariffs to be placed on Chinese products. However, ISEA's membership has come to an agreement that a subset of products we represent should be excluded from the fourth tranche of tariffs for 301 purposes on Chinese goods.

We've previous submitted a comprehensive list of the HTS codes we are requesting to be removed. Taken together, they represent four major categories: Hand protection, largely gloves, represented by 12 HTS codes, from seamless plastic gloves and medical rubber gloves, to sewn and formed hand protection solutions; eyewash, emergency eyewash and shower-related products and components, the HTS codes in question cover vital feed stock components in specific plumbing categories; garments and clothing, together representing 14 HTS codes, taken together representing high visibility products; and eyewear, taken together seven HTS codes, covering components such as lenses and frames, and whole products such as goggles.

In these four areas of occupational safety protection, there are specific factors which lead ISEA to our request for removal from the fourth list.

The first is the unique impact that cost has on the provision of safety equipment that is widely used in these four categories. Increased tariffs applied to the four categories in question will add cost to all U.S. employers, and notably, for small and medium size employers in the non-regulated space.

Essentially, for any employer who is going beyond the requirements of occupational safety regulation, the impacts of higher priced safety equipment in these categories will be decreased safety protection.

In particular, small and medium sized employers, including the self-employed, who have unique regulatory requirements for their employees, may choose to not purchase PPE, or purchase lower priced and less protective PPE because of increased prices due to tariffs. The result will be less protection for American workers.

In addition to the impact on safety for U.S. workers, when employees have the option to downgrade protection equipment, much of the use of these products is mandated by OSHA and other federal, state and local regulation. As such, the demand is incredibly inelastic.

Employers that purchase a wide range of PPE often have a set budget, or an annual PPE budget. And precipitous increases in safety expenditure mandated by regulation will be difficult or impossible to absorb.

More importantly, for the HTS codes for gloves, safety eyewear and high visibility products, there is no substantial manufacturing in the United States, certainly not enough supply, to supply the levels needed to protect the nation's workforce.

For regulated safety equipment, for which there is no alternative to Chinese products, U.S. firms will be forced to bear the increased cost, due to tariffs, and no impact will be felt on Chinese firms who supply these products.

For this reason, ISEA does not believe that imposing increase duties on these HTS codes would be a practicable or effective way to obtain the elimination of China's actions, policies and practices of forced technology transfer, or dumping of excess inventory.

These impacts would be disproportionately felt by small employers. Small employers who purchase PPE at retail would likely select lower price product that offers less protection from the hazards of the job.

Also, there would be impacts on the U.S. Government and other entities engaged in disaster relief and recovery. The items in question, specifically gloves, are essential for response and recovery from all types of disasters.

The proposed tariffs will make response and recovery more expensive for all actors, from the government down to homeowners. Medical gloves of rubberized rubber -- I'm sorry, of vulcanized rubber, and gloves of seamless plastic are essential for public emergency response, and increased costs will affect the national stockpile.

ISEA again has not taken a position on the administration's current trade agenda, but for these four product categories, tariffs on Chinese products will have severe negative impact on occupational safety for American workers. Therefore, we ask again that these specific tariffs be removed from the final list.

Thank you for your attention.

MR. BURCH: Thank you, Mr. Johnson.

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

CHAIR BUTLER: Thank you. And thank you for coming, and thank you for your testimony.

My name's Phil Butler. I'm with the U.S. Trade Representative's Office, Office of General Counsel. We're going to do some questions for you, and I'd ask that the agency representatives please introduce yourselves as you as your question. Thank you.

MS. KAO: I'm Victoria Kao and I'm from the Commerce Department.

Mr. Alofs, thank you for being here. What were the factors that initial led to base all of your production in China?

MR. ALOFS: I'm sorry. I couldn't hear you.

MS. KAO: What were the factors that initially led you to base all of your production in China? And you had mentioned the poor quality, in terms of production in other Asian countries. In your assessment, why is that, and how could it be improved?

MR. ALOFS: The first part of your question, when I started the business, we were making most of our product in Italy. It got very price prohibitive. The Chinese took most of the materials and manufacturing machinery over to China. They're very fast learners. They do an amazing job, especially in the Pearl Delta region where our factories are.

And so, while we've tested product from other countries, everything is integrated. China makes the metal pieces for the temple tips. They make the acetate. They make the titanium. It's all done right there, where other places have to import different materials to try to put it all together.

And the work, the quality of the work and the workmanship coming out of Shenzhen and Guangzhou is basically second to none. And there is no other place to go. They make 83 percent of all the eyewear and 87 percent of all the sunwear. It's not like there's another supply chain I could go to.

If this tariff takes place, I'll take all 25 percent, I'll take the hit, and I will pass it on to my customers, and they'll pass it on to the American consumer, because I have no place else to go.

MR. ALOFS: So do you -- can the processes in the other countries, other Asian countries be brought up to snuff?

MR. ALOFS: Well, like Cambodia, Vietnam, they do less than one half of one percent of the production that comes into the United States. So there's no place to go. I mean, they really can't take on any more product, take any more of the capacity.

China owns the market. And they do a phenomenal job with it. And I wouldn't try to lower our quality and try something else. I have to keep it where it is. So it has to pass the test.

MS. KAO: Thank you.

MR. ALOFS: Thank you.

MR. SULBY: My name is Ari Sulby from the Department of State.

Mr. Matthews, you indicate, by my quick math of your testimony that 54 percent of your jewelry is sourced from other countries other than China. Would you be able to increase imports from these countries should the tariffs go into effect?

MR. MATTHEWS: Well, we're in the

process of trying to do that, but largely unsuccessfully. As I mentioned earlier, the head of our international sourcing is actually from Jaipur, India. And I've had great hopes that India could really take on more volume. And largely, to this point, we've been unsuccessful of growing our Indian operations to the degree that I thought we could.

When we've looked at India, they really lack the skillsets of the same way in our industry that China has. The regulatory environment in India is very, very challenging, as far as growing business. And the craftsmanship and tooling is just not nearly the same as what we've experienced in China.

So even with great hopes, even with making investments, the growth there of the supply chain has just been really a fraction of what we've been able to achieve in China.

MR. SULBY: And the second question, if I might, you discuss how the raw materials and high quality manufacturing to make this jewelry is unavailable in the United States. Could you elaborate on what type of manufacturing and raw material are needed that is unavailable?

MR. MATTHEWS: Sure. So really, the domestic jewelry infrastructure is nonexistent, really from a manufacturing capacity and from a supply standpoint. And there's a number of raw materials that are important to us that just, you know, our industry is largely, a big percentage of our business is colored gemstones.

Well colored gemstones are just not made in the United States. Colored gemstones are made in places around the world, including China. You look at freshwater pearls. The freshwater pearl industry has been developed in China. Almost all of the capacity is in China.

Chinese peridot, Chinese peridot is made in China. Aquamarine, there's others. This -- we just happen to be in an industry where those stones are not available in the U.S. Almost in every instance, it's from somewhere outside the U.S. and a lot of instances it's in

China.

MS. RESNICK: Thank you. My name is Bonnie Resnick and I'm with the Treasury Department. And I would like to ask a couple of questions of Mr. Meli, if I may.

Could you clarify the status of PAJ's commonly owned facility in China? Is it wholly owned by PAJ without a local -- I'm sorry. Is it wholly owned by PAJ, without a local Chinese partner?

MR. MELI: I do not have that information, but I'd be happy to supply it for you.

MS. RESNICK: Thank you. Another question. You mentioned the loss of intellectual property control related to subcontracting in third countries. Is it possible to secure control through the contracts themselves?

MR. MELI: Ideally, if that were possible, it could be done. Unfortunately, given the nature of the business that we do, the ultimate question is, do you control every step of the manufacturing process from beginning to end?

As soon as you allow a third party into that process, that's where the porosity occurs. That's where intellectual property is lost. Because we own our facilities, we can control all intellectual property that flows into it and subsequently, out of it, to the greatest possible extent.

Given the fact that third-party countries would not have these restrictions, and again, we're not subject to the same regulations that we are currently under, no, we could not do that.

MS. RESNICK: Thank you. And also, is it your position that you can protect IP in China then, but not other countries? Is that how you would put it?

MR. MELI: I would say that, to the extent that it is at all possible to protect IP, under our operations and due to our facilities being American-owned, that's the greatest

protection we can offer, ourselves, as a company.
In the industry at large, no. It's extremely difficult to protect intellectual property, other than a wholly-owned facility. Absolutely, yes. Thank you.

MR. FRATERMAN: Great. Thank you, everybody for being here. Matthew Fraterman, Department of Labor, Office of Trade Policy and Negotiations. My question is for Mr. Jacaruso.

Can you expand on your statement regarding Jack Rogers' effort to diversify away from China? And how have such efforts been progressing so far?

MR. JACARUSO: Yes. You know, because of the lead times and everything else, and where the world's going with e-commerce, we're trying to expedite our product, to get it to the United States sooner. So we've looked at areas like the Dominican Republic.

We're actually -- and this is going to help us in lean times, but we're also looking at Vietnam and Brazil as well. You know, what we're trying to do is diversify as we grow as a company. So, that's what, that's been the process. We don't want to be in all, you know, one place, because obviously there's risk there, obviously, with the tariffs is a perfect example of that.

MR. FRATERMAN: Just as a quick follow-up, what obstacles are you currently facing in diversifying?

MR. JACARUSO: You know, I think the biggest thing is time. You know, we're hand-stitched, and it's really a craft to stitch our whipstitch. So that's problem number one, where, you know, it really takes a skillset.

So for instance, even our U.S. manufacturer currently sends it to Mexico, and in Mexico they actually hand-stitch it, and they have people that take the product home, and then come back a week later, and provide it to the tanneries.

The second point is our size. You know, it's all about pairs, number of pairs. So when we've tried to go to other factories outside of China, more or less the first thing they say is, how many pairs? And we just, we can't compete with the larger guys who's also scrambling to leave China as we speak. So that's probably the biggest challenge.

MR. FRATERMAN: Great. Thank you.

MS. ROY: Hello. My name is Tracy Roy. I'm from U.S. Customs and Border Protection. My question is for Ms. Bennett.

Hi, Ms. Bennett. Could you please elaborate on the difficulties involved in shifting production outside of China? And is it impossible to find skilled labor in other apparel-producing countries?

MR. BENNETT: Thank you very much for the question. I appreciate it. I started my career in 1973, when I graduated college. I started in India. I did start to try to work in India. I tried to build a factory in India. I built factories in Sri Lanka, the Philippines, Indonesia, Malaysia.

We are working with a joint, a former joint venture partner of mine that was a joint venture partner in Korea. So I have worked with about 14 different countries. And the type of -- what I had to do, over the 40 years that I have been in this industry, is that I have had to leave countries because the quality or the quantities were too difficult or too small to actually manufacturer in the specific countries that I worked in.

People were not interested in doing hand-sewing, hand-beading, doing hand embroidery, hand sequin work. In India, yes they were, however, all of the orders that I placed in India were late, and were rejected. Hence, I ended up owning them.

So, I do agree with all the gentlemen that spoke before me. It is extremely difficult to do the kind -- anything that has hand work and hand-detailed, and also the quality, and the regulations that we've had to enforce in order to satisfy all of our -- all of the -- excuse me, all of the stores that we supply in the United States.

We cannot do this elsewhere. And as I said, I've worked in 14 different countries. I started joint venture factories in ten different countries. Also, some of the countries were extremely unsafe for my 90 percent female labor force.

Most people are not -- are -- first of all, do not know about sewing, and we actually have to supervise the sewing in our factories, pattern-making, stitching, all of the detail work that we're famous for.

We've also had to change and shift the type of garments that we've made over the last 40 years, from doing basic garments. All of those garments were moved to other countries by other people. We were not able to fight or compete.

So I ended up shifting my focus to niche business of highly, highly, highly complicated lingerie products, which over the last 27 years, through joint ventures in, other joint ventures in China, and then my wholly-owned factory in China.

We put all of our facilities and all of our focus on creating factories in the nearby community, that they were able to do elastics and straps and bows and detailing, that in order to create a vertical process for time, and again, most of my garments are so complicated, they may have anywhere between 30 to 45 different components.

So having all of that componentry in one place is absolutely essential. If one bow doesn't match, it could eliminate and send -- my customers could send back an entire shipment, that we would not be able to -- I don't have a warehouse to store, you know, 2,000 garments.

MS. ROY: Understood. Thank you so much. If I could ask just one more question.

MR. BENNETT: Please, anything.

MS. ROY: What validation are you referring to with respect to a new factory?

MR. BENNETT: I don't have the money,

nor do I have the emotional time to start a new factory at my age. I am at the age of retirement, and frankly, I do sew, and I do train my employees and the people that I work with, to sew.

And all of the new team members that we bring into our China factory, I do train them to sew. I would not have the energy, nor the money that I put in. My entire everything has been put into this company. I would not be able to shift.

We have tried, and as I shared, we are working with -- we have one customer that has eliminated China as, you know, a possibility. And we have been trying over a few years now to work in Vietnam.

But the quality and the workmanship is really for T-shirts and knitwear, and it is not the kind of quality -- they could never make the types of garments that we make. They just wouldn't be able to, because we have tried. I've given test orders to Vietnam, and number one, the samples come in six months late. And by that point my customers have moved on to a different season and are not interested.

MR. WINELAND: Thank you.

MS. ROY: Thank you so much.

MR. BENNETT: I apologize if that it was too lengthy.

MS. ROY: No. Thank you so much.

MR. BENNETT: Thank you so much for the questions.

MR. WINELAND: Hi. I'm Timothy Wineland from USTR.

Mr. Johnson, your written testimony primarily talks about the lack of any substantial manufacturing in the United States for safety products. Could you talk a little bit about other than China and the United States, alternate source countries for some of the products?

MR. JOHNSON: Thank you for the question. Instead of talking about the countries, which I can address, I can say that, for the four product categories we have identified here, these are all product categories for which the safety, the regulated safety component of that particular product area is a subset of a much broader product category.

So for instance, high visibility work clothing that is in the regulated space follows the cut-and-sew apparel industry. So the same countries where the apparel industry has located, is exactly where we have to go for that expertise.

Similarly for protective eyewear, the protective eyewear brands and products are sourced from the same areas where eyewear, such as ROI, has located to produce. Eyewash and showers, the components that we need for those products are produced in the same place where plumbing products have relocated, and so on and so forth.

So we are an industry of specialized products that are following the broader trends in the broader category, in quite frankly, the same HTS categories that we've identified where our products reside.

So, in all four of these categories, the vast majority of production is in China. Whether or not it could be relocated or would be relocated to where each of those broader product areas have moved, globally, is something that of course, many of our members are exploring. But we have not seen any -- I can't report on any major trend right now that would identify a particular country.

MR. BURCH: Mr. Chairman, we release this panel with our thanks. And would the Panel 29 make their way forward?

CHAIR BUTLER: Thank you.

(Pause.)

MR. BURCH: Would the room please come to order? Our first panel witness for Panel 29 is Syed Mateen Afzal with PDC Machines. Mr. Afzal, you have five minutes.

MR. AFZAL: Thank you. Good afternoon, esteemed committee members. I thank you for the opportunity to speak with you here today. My name is Mateen Afzal. I'm part owner and CEO of PDC Machines located in Warminster, Pennsylvania.

We are a second generation family owned business for over 40 years. We manufacture industrial compressors and high pressure equipment that is used in a vast array of markets, including the industrial gas and renewable energy industries.

PDC works very closely with all the U.S. national labs and the Department of Energy providing key data on our compressor technology to further R&D efforts in hydrogen technology.

Currently, we employ over 80 employees, have 75,000 square feet of manufacturing space, and have sales and services offices in Japan, South Korea, and China. We recently had the honor of receiving the prestigious E award from the Department of Commerce in recognition of our significant growth in exporting. Our company has always had a global reach with our product spanning over 51 countries and six continents worldwide.

In 2018, our total sales booked was 32 million, an 18 percent increase from the prior year. We are projecting another 20 percent increase for 2019. Of the 32 million in sales booked, 65 percent is dedicated towards export revenue due to the enormous demand in growth in the hydrogen economy, particularly in China which equates to about 43 percent of total sales.

The Chinese market has a tremendous growth plan for hydrogen infrastructure over the next few years having a direct impact on our current and continued plans for our manufacturing capabilities and detainment and retention of our workers.

Although most of our direct suppliers are domestic, the source of stainless carbon and alloy steel material come from China. Please reference Exhibit A included with my testimonial for details on those cost impact.

In summary, material supply affected by the tariff on average have incased by 25 percent. To date, we have been able to work with our vendors to mitigate the overall price effects due to the tariff enabling us to absorb much of it completely in turn protecting our customer from increases no their purchase price.

On the customer side, however, Chinese customers are -- our Chinese customers are being taxed on importing our products as well and have experienced increases ranging from 5 to 25 percent depending on the product. Please reference Exhibit B for these details.

The market competition is growing globally. China had strong government incentives and managed to buy local. In addition, our European competition is not subject to tariffs and are able to provide a more competitive price.

This, coupled with increase in supply costs, will price our equipment out of the market in China. In fact, they have already demanded that we absorb all of the price increases due to the tariff, including the import tax. This is no small ask of a small privately family owned business such as ours.

We will not be able to bear the additional costs without adversely affecting our bottom line for much longer. Small privately owned businesses, like ours, are the life bread of this economy.

While we appreciate and certainly understand the intent of the policy, the adverse effects we are beginning to see will continue to drive our prices and costs up, open the door for foreign competition and in the end have the potential for staggering the growth of our business. I thank you for your time.

MR. BURCH: Thank you, Mr. Afzal. Our next panel witness will be Lara Simmons with Medline Industries Incorporated. Ms. Simmons, you have five minutes.

MS. SIMMONS: Thank you. Good afternoon. Thank you for the opportunity to represent Medline Industries. My name is Lara Simmons and I have the honor of serving as Medline's president of quality assurance and regulatory affairs.

Medline is the largest privately held medical supply company in the United States. We sell over 200,000 different medical supplies, most of which are commodity in nature. Our products are used in every setting where patients receive health care.

Based out of Northfield, Illinois, Medline employs more than 15,000 people in the United States. We manufacture our products all over the world, including here in the United States where we've more than doubled our manufacturing footprint in the past five years. We now have 22 manufacturing sites here in America.

I'm here today to express our concern about the potential inclusion of medical supply products, most of which are FDA regulated Class I and Class II medical devices in the proposed Section 301 action. Attached to our written testimony is an annex indicating the specific HTSUS subheadings in the proposed action that have concerned us and the representative FDA product code.

We believe that any tariffs on these products will not advance the Section 301 action goals, will have a disproportionate negative effect on our business, and will almost immediately increase cost to the U.S. health care system.

To give you an idea of the volume of imports on these critical medical devices, Medline alone imports more than 130 million isolation gowns, 290 million disposable operating room towels, and more than 4 billion exam gloves each year. Inclusion of gowns, surgical drapes, and exam gloves alone would result in nearly $60 million of tariff costs to our company and to the health care system.

Almost immediately the cost increase associated with these tariffs would be passed on to the hospitals, surgery centers, long-term care facilities, individual consumers, and government programs who purchase our products. Hospitals operate on thin margins which makes absorbing these cost increases difficult.

Skilled nursing facilities, for whom gloves and incontinence products are over 50 percent of their medical device spend, operate on even smaller margins. According to some studies, the national media and operation margin for skilled nursing facilities is one-half of a percent.

The Administration has engaged in a number of actions that are intended to reduce health care costs, however the imposition of a duty on products consumed by essentially every single health care provider would directly undermine any benefit from the other policy changes the Administration is implementing.

Finding alternative sources of supply for these products to minimize the cost impact of the duties is not a viable option in the near or medium term. These products are not made in the United States and some of these products are effectively available only from China. For example, China accounts for more than 97 percent of the total imports of vinyl gloves.

Starting production in the U.S. or any third country would be a time consuming expensive process due to the FDA regulatory procedure that is required for these products.

Developing a compliant quality system for FDA regulated Class I and Class II medical devices requires, among other steps, facility registration, procedure, and process development and deployment, development and installation of environmental controls, facility upgrades, equipment purchase, installation, and process validation, and multiple rounds of audits to ensure regulatory compliance and to verify the effectiveness of the quality system. This process can take more than two years.

While there are some FDA approved production facilities outside of China, the FDA process is both facility and product specific. Even if there was sufficient production capacity outside of China, which for many of these products there is not, this lengthy qualification process would apply.

Furthermore, tariffs on these products will not discourage Chinese technology transfer policies. Our imports are inexpensive, low technology, large volume products that are not subject to patents. The China 2025 strategy does not prioritize these low technology, low margin, high volume products.

I believe that the Administration recognize the impact tariffs would have on health care costs and that is why several of these products, including incontinence wipes, exam gloves, and underpants, were not included within the scope of the final List 3 tariffs. It is critical that these codes are once again removed prior to the implementation of this action.

To conclude, given that the proposed tariffs on these low margin products would not advance the Section 301 goals, tariffs would disproportionately harm our U.S. business and workers and tariffs would increase costs for the

American health care system and consumers, we request that these products be removed from the final Section 301 tariff list.

We have included the full list of subheadings we are most concerned about in our formal submission. Thank you very much for your time.

MR. BURCH: Thank you, Ms. Simmons. Our next panel witness would be Linda O'Neill with the Health Industry Distributors Association. Ms. O'Neill, you have five minutes.

MS. O'NEILL: Thank you, and good afternoon. HIDA very much appreciates the opportunity to testify before you this afternoon. HIDA is the Health Industry Distributors Association. We are the medical surgical trade association for those wholesalers, including Medline to my left, so you've got a tag team here in front of you.

Our members deliver medical products and supplies, manage logistics for the nation's doctors, hospitals, nursing homes, and all health care settings across the country. We distribute everyday sort of medical products and services from gloves and gowns, diagnostics, laboratory services, and capital equipment.

Tariffs on critical health care products put a risk to our nation's public health preparedness. They don't even hurt -- they hurt us individual, as you heard from Lara from Medline, but collectively it puts at risk our nation's public health preparedness capabilities.

It also puts at risk the supply chain continuity to have these products available for our customers, as well as during times of an event. Simply put, the risk to health care and public health from tariffs far outweigh any benefit from trade and economics.

HIDA remains grateful to USTR for their willingness to remove some health care products, as you just heard, from the first proposed list, as well as the third proposed list. Of critical importance to us were the gloves and gowns, as well as the products that

Lara mentioned, that were removed from the proposed third list before it became final.

We would urge you to take a close look at that again. That was done with a lot of thought and collaboration with the agencies that that is impacted by the most. While we oppose all health care products being on that tariff list, we would encourage you to take a special look at the ones you had already previously removed for good reason.

HIDA agrees with what you heard on the previous panel from the International Safety Equipment Association about that risk to preparedness. Exam gloves, isolation gowns, et cetera, are used to protect health care workers, first responders, and patients from the spread of infectious diseases. Infection prevention products and diagnostics are also critical to responding to any type of pandemic or public health crisis.

I'm sure everyone's been seeing the headlines, Ebola is once again an epidemic on the

African continent. A single case coming here to the U.S. would substantially increase the demand for all these personal protective equipment and supplies overnight.

We saw that happen in 2014 when Ebola was here. We saw it in 2009 when we had the H1N1 episode where the demand for gloves -- I'm sorry, masks increased 500 percent in a month.

Those are huge commodity type products that we are very depending on from China. Adding a 25 percent tariff at the type of time would absolutely critical and really hurt the supply chain.

Additionally, the inclusion of these products in the final tariff list would undermine recent public private partnerships that we've got designed to collaborate on supply chain capabilities and the work that we're doing with the Office of the Assistant Secretary for preparedness and response.

Additionally, at risk is just the continuity and availability of that supply in general. Many products, there's no other country individually or in combination has any close to the manufacturing capacity to replace what we get from China.

Health care in the U.S. has benefitted from a global supply chain that actually drives down the cost of these products. It's important that we understand the complexities of the U.S. health care supply chain so tariffs and trade policies do not unintentionally threaten the product availability and impact our preparedness capabilities.

China is one of the top three countries where we get medical products. That goes up drastically depending on the product. As you heard about, gloves especially are almost 100 percent manufactured in China. The same is true for some of the other personal protective equipment like gowns.

There are not alternative manufacturing facilities. And, as you heard from Lara, it takes months, if not years, to setup any sort of separate shop because of the FDA regulatory requirements.

In addition, because these are such low commoditized type products, tariffs will also have the unintended consequence of disrupting what today is a highly efficient low cost supply chain. These critical products are readily available at low demand -- I'm sorry, high demand, low prices. They are low margin commodity products. They are going to be sold at a loss.

While we'll be selling -- setting down the cost down the chain that is not going to be easily absorbed by our customers who are the hospitals and nursing homes who are on fixed reimbursement quite a bit for Medicare and Medicaid. Faced with operating at losses, some manufacturers could be forced to re-access their ability to stay in that market.

HIDA believes that including health care products on the final tariff list will negatively impact the safety of health care providers and their patients, as well as our ability to respond to public health events.

We especially urge the USTR, as I mentioned before, to take a look at the previous decision for the products that were removed because of their importance to public health preparedness which were done after careful review and consultation with other agencies.

We greatly appreciate the opportunity to share these concerns with you this afternoon and I'm happy to follow up with any additional information that you would like.

MR. BURCH: Thank you, Ms. O'Neill. Our next panel witness would be Ralph Ives with Advanced Medical Technology Association. Mr. Ives, you have five minutes.

MR. IVES: Thank you. My name is Ralph Ives. I'm the executive vice president for the Advanced Medical Technology Association, AdvaMed. Thank you for the opportunity to present AdvaMed's views before this Section 301 committee.

We provided this committee a detailed written submission, which we hope will be the basis for any decisions USTR makes concerning proposed action affecting our industry.

AdvaMed supports the Administration's determination to ensure that China abides by international trade rules that have served the global community well since 1948. We share the Administration's concerns about measures China might adopt to capture substantial market share of our industry under made in China 2025.

We have long called for comparable reciprocal market access for medical technology trade between the United States and China. We believe there are ways to move towards that goal that would benefit patients and industry in the United States and China. We hope such an approach could be considered by both governments in the near future.

We believe imposing tariffs on our health care related industry is not the right action as health care products have traditionally been exempt from trade sanctions for humanitarian purposes. We believe imposing tariffs -- excuse me, we are now facing additional -- sorry.

To date, our industry has -- I apologize, our industry has had additional 25 percent tariffs imposed on about $860 million of medical technology products into the United States and an almost $5 billion over exports to China. In addition, an estimated over $100 billion -- million of component parts from China are subject to an additional 25 percent tariffs.

We are now facing additional 25 percent tariffs on another set of medical devices and components. Our written submission provides the HTS codes of main concern. We are asking that all existing additional tariffs on medical devices be removed and no new tariffs be imposed on products we identify in our written submission. These tariffs are not helping our industry compete in China and are likely to be imposing costs on U.S. health care.

We are also very apprehensive about

non-tariff measures the Chinese authorities could take. We are a heavily regulated industry in both the United States and China, and in China subject to substantial government involvement in purchases. We view both of these policy areas as being potential ways the Chinese government can impose discriminatory measures that would be long-lasting and perhaps irrevocable.

We are an American success story. Much of the medical technologies in the market today were invented in the United States. We are winning by the Administration's own metric the trade deficit. Our industry has consistently run a trade surplus on a global basis.

Our industry's trade with China in all medical technology products is basically balanced, rely on international trade including imports of components and semifinished products from China to remain -- to retain our leadership in a highly and increasingly competitive global market.

We respectfully request that tariffs

not be used on medical technology and related components. We urge the two parties to return to negotiations to develop ways to address concerns of our industry with respect to trade and investment in China. Thank you very much for your time. I'm pleased to answer questions.

MR. BURCH: Thank you, Mr. Ives. Our next panel witness would be Kenneth Bradley with Eschenback Optik of America Incorporated. Mr. Bradley, you have five minutes.

MR. BRADLEY: Thank you, and good afternoon members of the Section 301 committee. My name is Kenneth Bradley. And while I appear on your list of witnesses today as representing Eschenback Optik of America, I am actually here today to testify as the chairman of the Board of Directors of The Vision Council. The Vision Council is a not-for-profit organization representing the manufacturers, suppliers, and retailers of the optical industry.

I'm also here today voicing the concerns of the United States Optical Community, an ad hoc group consisting of The Vision Council, the American Academy of Ophthalmology, the National Association of Opticians and Optometrists, the Opticians Association of America, the National Association of Vision Care Plans, OneSight, and Prevent Blindness.

We oppose any additional customs duties on optical products from China. These include spectacle lenses, spectacle frames, sunglasses, reading glasses, and certain low vision devices including absorptive filters, telescopes, monoculars, and binoculars. These products are classified under various subheadings in Chapter 90 of the tariff.

U.S. interests will experience economic hardship if these optical products are subjected to an additional tariff of upwards of 25 percent. China is the dominant low cost manufacturer of optical products. Research conducted by The Vision Council estimates that of the 315 million pairs of spectacle frames, spectacle lenses, sunglasses, and reading glasses purchased by U.S. adults during a recent 12-month period, 200 million of them, or 65 percent, were of Chinese origin.

China is particularly dominant when it comes to producing spectacle frames for the U.S. market supplying 83 percent of the market volume, 85 percent of over-the-counter reading glasses, and 82 percent of sunglasses. Other countries, and especially the U.S., lack the capacity to provide these levels of production.

The Vision Council projects that a 25 percent additional duty would result in the following annual duty increases. For spectacle frames $119 million, for spectacle lenses $17 million, for sunglasses $39 million, for reading glasses $12 million.

Obviously, these increases will have an impact on the U.S. companies which import the optical products and which will pay the duty increase initially. Vision Council members have reported that these additional costs could result in layoffs, canceled expansion, and even company closures in the U.S. if companies cannot pass off these costs because of existing contractual obligations or the threat of customer defection.

It will also result in lost sales in the U.S. Increased tariffs will jeopardize annual sales of upwards of 29 million units of spectacle frames alone, which translates into $2 billion at the retail level in the U.S. These lost sales will impact not just the distributors and retailers of optical products, but also the U.S. based eye care professionals, optical laboratories, and retailers who prescribe and dispense these medical devices to patients and consumers.

Perhaps most importantly, the other losers will be those U.S. citizens who need these medical devices to improve their quality of life. The optical products are, in fact, some of the most widely used medical devices in the U.S.

Sixty-four percent of the U.S. population wears eyeglasses, 164 million people who are purchasing approximately 79 million new pairs of prescription eyeglasses each year, 219 million Americans wear sunglasses to protect against harmful UV rays, while 27 million Americans suffer from low vision. These are people with visual impairments that cannot be corrected with typical eyeglasses, contacts, or surgery.

From our perspective, a 25 percent tariff on these medical devices will sting patients more than would the 2.3 percent medical device excise tax that Congress and the Administration have so far twice put off the enforcement of.

Increased duties on optical products will have a negative impact on vision health as well. Cost is a leading factor cited by those who need corrective eyewear but who fail to obtain it. Eye exams will be put off resulting in serious eye diseases such as glaucoma, macular degeneration, and cataracts going undiagnosed.

And those reliant on Medicaid to subsidize their eye care needs will be hurt if eye care professionals who service the Medicaid population are unable to do so without incurring a loss.

Optical products that do not contain any industrially significant technology, nor have Vision Council members, reported being forced by Chinese business partners to share technology. These products will not contribute to China's industrial policies or its made in China 2025 initiative.

Thus, an additional tariff on optical products, be it 25 percent or some other amount, will have no impact on alleviating China's unreasonable and discriminatory practices. It will simply be a tax on key medical devices that U.S. consumers and eye care patients will ultimately be forced to absorb. Thank you very much for your time.

MR. BURCH: Thank you, Mr. Bradley. Our next panel witness will be Robert Hubbard with Team Three Group. Mr. Hubbard, you have five minutes.

MR. HUBBARD: Thank you very much.

Hello, everyone, and thank you for allowing me to speak today. First, may I reference the stated purpose of this public hearing as I understand it, and I quote, "Request for comments concerning proposed modification of action pursuant to Section 301 China's acts, policies, and practices related to technology transfer, intellectual property, and innovation, 84 Fed. Reg. 22564, May 17, 2019."

I speak to you today from the vantage point of a non-foods disposable supplier to the food service industry. Our products are relatively unsophisticated, not for resale items used to run restaurants. You will see a full list of the impacted products on Exhibit A attached from the so-called List 4 currently being proposed.

There is no inappropriate technology transfer, IPR theft, nor loss of innovation occurring in this marketplace today. These products are operating expenses for the restaurants that use them and create no income for the restaurant.

Further, their manufacturer is a simple extrusion, injection molding, or converting operation requiring no particularly advanced skill set, nor machinery. There is literally nothing to gain in protecting, again quoting, "technology transfer, intellectual property, and innovation" by imposing these crippling tariffs on such products.

My testimony today will focus on the impact the proposed additional tariffs will have on America's food service distributors, restaurants, and ultimately their consumers.

Coupled with the previous List 1, 2 and 3 tariffs, implementation of these List 4 tariffs will effectively mean every non-food disposable item sold to food service distribution will incur a crippling tariff that will force drastic changes in the sourcing process.

These drastic changes are dangerous and ultimately will place the American consumer at risk of harm. There does not currently exist sufficient capacity to replace this production outside of China leaving companies like ours only two viable long-term options.

First, and also the only immediately available short-term solution, we can continue to source from proven FDA compliant China factories and pass the tariff expense on to our distributors who will then pass these significant cost increases to the restaurants and ultimately the consumers.

While it is true the Chinese factories have tried to help offset the 10 percent tariffs previously imposed on other categories thus limiting the impact to the restaurant and consumer, that is simply not viable with tariffs of 25 percent. These will have to be passed through to the marketplace.

Further, considering most in this industry believe eventually a compromise will be negotiated between China and the USA, it is very unlikely these reputable Chinese factories will move their operations to other countries until the final deals are made and published.

That leaves us a very unattractive second choice should these tariffs be implemented and stay in place for more than a few months.

We will be forced to consider buying our products from the multitude of small startups in underdeveloped countries around the world that will spring up from nowhere to take advantage of this once in a lifetime previously unthinkable opportunity that has been thrust upon them.

In either case, the consumer is the loser. They will either pay significantly more for their meal to cover the costs -- to cover the rising operative costs at the restaurant or have their health placed in jeopardy due to low quality, unsanitary non-food grade resin disposables being served with their meals. The worst part of the scenario, the trusting consumer will have no idea this is happening until after the fact.

T3G today has staff on the ground in China that performs factory inspections for good manufacturing practices, fair wages, child labor, corporate citizenship, as well as no foreign government ownership of the partner factory.

In addition, T3G does pre-shipment inspections on goods from our China factories to ensure they are manufactured to the approved specifications and requirements and from acceptable raw material components prior to accepting delivery and shipping these products to the USA.

This is not only to ensure the reputations of our distributor customers, but more important to ensure the safety of the American consumer.

Aside from the previously stated fact that alternative sources to replace all the products listed in Exhibit A below and the volumes required don't exist, it is not feasible for T3G to continue our current inspection processes with these products being sourced all over Asia, India, and Africa.

In addition, there is no viable

expectation that any meaningful quantity of these products will return to the USA. And, even if some of them did, it would take years to build the facilities and pass the requirements to begin production.

T3G will not participate and be party to the importation of products that place the consumer at risk. Thus, it is very likely that honorable companies like ours will ultimately lose business to other less scrupulous offshore based importers that can simply disappear overnight and change their company's name should an issue with contamination arise.

It is very likely that reputable U.S. based importers like ours will lose much of our business to non-U.S. based companies importing from unreputable suppliers and underdeveloped countries around the world at a lower cost than our tariff-ridden products can compete.

In summary, I wish to express directly to the USTR and this committee my sincere belief in the negative consequences of these tariff actions and ask that we not place the consumer at risk when there is no benefit to the stated goal of the tariff effort. Thank you for your time today with my sincerest regards.

MR. BURCH: Thank you, Mr. Hubbard. And, Mr. Chairman, this concludes all witnesses testimonies.

MS. MORGAN: Good afternoon. My name is Jenny Morgan from the Department of Agriculture. Mr. Afzal, what percentage of the overall industry sources is raw materials from China?

MR. AFZAL: I don't have that information, but I can look into it for you.

MS. MORGAN: Okay, thank you. But are there any other alternatives of the necessary raw materials for these products, that you know of?

MR. AFZAL: Yes. So, there are three or four local mills located in the United States, but it depends on the size of the raw material that you're looking for. So, our -- between stainless and carbon materials between 12 and 24-

inch round bar diameter is what we're interested in.

For diameters below 13 inches we can source it in the United States and the prices are competitive with international mills, specifically China. However, when you go above the 13-inch mark the prices become cost prohibitive and that's mainly because the mills in the United States don't stock those larger materials and it then becomes custom.

So, when you look at the larger size materials it becomes 25 to 50 percent sometimes above the cost included with the tariff. So, it's ultra cost prohibitive for us.

MS. MORGAN: Great, thank you.

MS. ROY: This is Tracy Roy from U.S. Customs and Border Protection. This question is for Ms. Simmons. Of the HTS subheadings that you have requested for removal, which of those products are the most difficult to source outside of China, and why?

MS. SIMMONS: Without getting into

exhaustive detail, so exam gloves, particularly the vinyl exam gloves, are extremely difficult to source outside of China, surgical gowns, drapes, incontinence products largely because of the process it requires to get a factory compliant with the FDA requirements, get the process validation.

If they have to purchase equipment there can be a very long lead time on some of this equipment. The lead time for an incontinence machine is almost a year. So, it's an extremely lengthy, time consuming, and costly process to move these products to other countries.

MS. ROY: Thank you. I just have one more question.

MS. SIMMONS: Mm-hmm.

MS. ROY: Also, if you supply products to U.S. government programs, we would request additional information in a post-hearing submission about the potential impact of the proposed tariffs on those programs.

MS. SIMMONS: We will provide that for you.

MS. ROY: Thank you so much.

MS. RESNICK: Hi, I'm Bonnie Resnick with the Department of the Treasury and I have a few questions for Ms. O'Neill. First, we were wondering whether suppliers outside of China would have the capacity to ramp up production in the event of a health emergency.

MS. O'NEILL: My understanding would be, no, especially when you're looking at the gloves and gowns. Just like Lara talked, there isn't really any capable manufacturing -- much less day-to-day capacity, much less during times of a crisis when you've got about 100 percent of your gloves coming from China already, so there really isn't.

And it takes a long time, as Lara just talked about, to setup something in another country because of FDA and other types of regulations, and it just doesn't exist right now.

MS. RESNICK: Thank you. And also, as

for the previous set of questions, if your members supply products for U.S. government programs we would request additional information on the -- in a post-hearing submission about the potential impact of the proposed tariffs --

MS. O'NEILL: Okay.

MS. RESNICK: -- on those programs. Thank you.

MS. O'NEILL: You're welcome.

MS. BLEIMUND: Good afternoon. My name is Emily Bleimund from the U.S. Department of Health and Human Services. This question is for Mr. Ives from AdvaMed. If the proposed tariffs went into effect, could you please describe the strategies that U.S. purchasers might use to encourage Chinese suppliers to reduce their pricing?

MR. IVES: We have 400 members in AdvaMed and they manufacture around the world and they manufacture the full range of medical technology products. Many of these companies have long-term contracts in China and other places.

And as you probably know better than I, the way they sell these products in the United States is they are paid often through third parties. That is the medical device company doesn't sell directly and get a price from -- excuse me, the insurance company or Medicaid and Medicare funds the purchase of the procedure and then the hospital purchases from the manufacturer.

So, we don't have a direct relationship in many products. Some we do, as Lara and Linda indicated, but for a lot of products it's just indirect arrangement. So, I'm sure our companies would try to convince their suppliers, if they are not the supplier in the company itself, to reduce the price. That's part of a negotiation, but given long-term contracts, that's not something they can do overnight.

MS. BLEIMUND: Thank you. Another question. If your position is that export price is directly tied to final prices in the U.S., have we seen a decline in U.S. prices as the yuan has devalued over the last year?

MR. IVES: Have we seen a decline in the price?

MS. BLEIMUND: In U.S. prices.

MR. IVES: Well, first of all, as an association we do not get into pricing. I think the antitrust lawyers up there will let you know that we can't develop pricing data from our members. So, I do not know --

MS. BLEIMUND: Okay.

MR. IVES: -- what the pricing -- I do know in aggregate the prices of medical technology products over the last 25 years have gone down relative to the price of health care. And I could see if we have a recent study that would confirm that for this most recent year, but we do not get prices from our manufacturers for medical devices.

MS. BLEIMUND: Okay, thank you. And finally, can you please provide more detail about your concerns with non-tariff measures that could potentially be imposed by the Chinese government?

MR. IVES: Sure, that's the easiest one. So, I mentioned both regulatory and payment. On the regulatory side, we are regulated in China much the way we are here. The Chinese, they keep changing the name, but basically it's Chinese Food and Drug Administration and they could do -- this is kind of my Walter Mitty, maybe reverse Walter Mitty of what could happen.

The CFDA would go, oh here is an application for a regulatory approval from an American company. Here is the pile that we put those applications in and when we get around to it we'll get around to it. So, basically there could be a delay just in terms of the way they decide to administer the programs.

Also, some of our members have seen, and we've talked to our friends at the U.S. government about this, seen some of the products purposely delayed on the market while the Chinese competitor will get up to speed. And I can provide examples. So, that's the regulatory side.

On the payment side, we're facing a variety of payment methods throughout China, including DRGs which are piloting, and you're familiar with DRGs, including more specifically tendering programs in each of the providences and some of the cities.

In the tendering programs, the government officials administering the programs have a great deal to say about how products are purchased, including where the products are purchased from, including who sells the product. So, we have had cases that our members have actually won the tender and then somehow they've lost the tender.

We know of cases where provincial governments will say, no foreign companies need apply, and we've gone to those provincial governments and tried to convince them. We've gone to our friends at USTR and Commerce and also had their support. That could be magnified in terms of non-tariff measures that the Chinese government could employ. I could go on, but I think you've heard enough.

MR. FINN: My name is Michael Finn. I'm with Department of Commerce. This is one question for Mr. Bradley. What impact does vision insurance or vision care provider -- provided under broader health insurance plans have on the direct costs that will be borne by patients?

MR. BRADLEY: Managed vision insurance in terms of the direct cost borne by patients will have to be adjusted over time if tariffs raise the cost of the recommended solutions by the manufacturing community.

In the short run, the capitated rates of reimbursement that are offered the providers under vision care insurance will see their profit margins diminish dramatically because they will be forced to absorb the effect of the tariff in their profit margin until the vision care plans can adjust in the long run to what might be a higher cost structure.

But this is great speculation at this point in time if that vision care plan adjustment would ever take place.

MR. FINN: Thank you.

MR. SULBY: Ari Sulby with the Department of State. My question is for Mr. Hubbard. Could you please provide some details as to the alternate sources that exist even if in sort of small quantities for your products, and what would prevent these products or these other suppliers from expanding production?

MR. HUBBARD: Sure, absolutely. And it's going to vary a little bit. I think, as you will notice, there are 50 classifications on our list in Exhibit A, so I'll hit a high -- I'll hit a few of the high points.

Gloves is an obvious one that's been discussed by Lara and Linda. Some 97 percent of food service vinyl gloves are made in China. It would be very, very difficult to move that somewhere else. Other versions of gloves, there are alternatives, but I refer back to the inspection process that we talked about and there's been a lot of discussion about FDA requirements, et cetera, so it's quite challenging.

If you move to other items like cutlery, there is domestic manufacturing in the USA, manufacturing of cutlery and similar types of products, but it's not normally directed to the food service industry. The U.S. food service industry imports 85 -- 80 to 85 percent of their plastic cutlery from China.

So, could those machines be moved? Of course they could. There are some currently being made in Vietnam. There are other countries that are doing that today.

But what I would tell you is that we moved -- we actually worked with the Vietnam factory about six years ago and tried to make that work as an alternative source to China and after about two and a half or so years basically that operator got out of the business because they couldn't compete.

So, would they be able to compete with a 25 percent tariff from China? You know, you would certainly say, yes, they could, but what is the timeframe by which they could actually start these factories up and fill the massive capacity that's required in order to do so?

In the case of towels, napkins, and tissues, we have a very nice presence in the United States and Canada in those categories, you know, companies like Kimberly-Clark, for example, that are in that business.

But the question that has to be asked is, would, you know, those companies make an investment in the infrastructure required and the personnel required and the facility assets required knowing that there's a negotiation taking place and in a few months would basically potentially remove the tariff, or at the very least reduce it greatly, leaving them with an asset that they can't use anymore.

So, across different categories I

think my statement holds true that it really is not -- it's not replaceable in the short term.

MR. BUTLER: Thank you all for coming today.

MR. BURCH: Would the witnesses for Panel 30 make their way to the front?

(Pause.)

MR. BURCH: Would the room please come to order? Our first witness on Panel 30 would be Chris Sackett with Bell Sports, Incorporated. Mr. Sackett, you have five minutes.

MR. SACKETT: Thank you very much. Before we start, I'd like to pass around some props here we have of some helmets to show you guys as I go through my testimony here. My name is Chris Sackett, Vice President of Bell Sports. In addition to Bell, our iconic brands include Giro, Blackburn, Copilot, Krash! and Raskullz.

Collectively, we are designers, producers, and sellers of a variety of consumer products that provide bicycle, motorcycle, skateboard, skiing, and snowboard enthusiasts a safe and comfortable riding experience. We employ over 500 people in the United States, where we design and engineer our products. A quarter of workforce supports the assembly of helmets in our Foreign-Trade Zone located in Rantoul, Illinois.

Some of my testimony may sound familiar to a few of you. That's because we were here last August testifying for the removal of the exact same products from List 4 that you removed during the same process for List 3. I must admit, it's unfortunate that we are here again responding to precisely the same information and request and questions under the same criteria as before.

We've not been given an explanation as to why the public is again being put at risk of having these safety-critical products penalized. Nothing has changed regarding our industry, our company, our products, or our customers. As before, the products included on the proposed tariff list captures our entire line of bicycle, motorcycle, and snow sport helmets, as well as front and rear bicycle lights. But now, new to the list of List 4, are bike and snow goggles, bike bells, training wheels, knee and elbow protection padding worn by kids first learning to ride, as well as bicycle locks, baskets, seat covers, and safety flags.

Just about every product we make and sell will have this additive tax if the administration goes through with this action. If faced with higher prices, we fear that our nation's bicyclists, motorcyclists, skateboarders, skiers, snowboarders, and parents of participants will choose to use formerly owned, subpar, damaged, or knocked off products.

Helmets are designed as a single impact safety item. After that first impact, the helmet should be replaced, as its ability to properly protect you from a second impact is greatly diminished. If prices rise someone's child may have an accident while riding a bicycle on bald tires or with damaged helmets.

Despite all but three states having helmet laws for motorcyclists and other two-wheeled motor-driven vehicles and nearly half of the states having bicycle helmet laws, riders may forego utilizing these products or use compromised products, choosing to risk their own safety.

Can you imagine the impact right here in Washington, D.C., where at least 5 percent of commuters are cyclists or use e-bikes or e-scooters or motorcycles? All of them regularly riding alongside and in between cars and buses while dodging potholes and lost tourists. I've only been here a few days, but the number of riders is impressive. But concerning were the numbers of near misses I've already seen. Why would we want to disincentivize people from riding with the proper safety equipment?

Most of our products are sold through retail outlets to price sensitive customers. To meet these retail price requirements, we are always in pursuit of the highest quality and most competitive product costs. To date, we have yet to find an alternative that provides the know-how, cost, infrastructure that would make another location a truly viable option to China.

Helmets are required to pass certification tests here in the U.S. at CPSC to ensure the safety of consumers, which makes production quality critical and cost of moving production prohibitive, as a move of factories would require re-certification and a ton of re-certification costs.

Also important to production considerations are the manufacturing process and business aspects of the companies with whom we work. Prior to any production, we conduct a quality manufacturer social and C-TPAT audit. Finally, we review and test materials used in the production of our products against Prop. 65 to ensure products are free of such materials.

The factories in China meet our exacting standards. Moving production elsewhere in the near to medium-term is not feasible for these highly regulated, safety critical products. We do applaud the administration's efforts to address China's industrial policies and discriminatory practices towards intellectual property and rights. We truly do. However, we do not believe imposing tariffs on these products, for which the opportunities to source outside of China are limited, will influence China to change its behavior.

Further, this could incentivize our current Chinese manufacturers, who today do not sell direct to consumers, to begin to do so via online channels as our volumes deteriorate, further ending sales for American businesses. Frankly, that could also increase the opportunities for counterfeit and inferior products.

As we previously testified, we urge you to again remove all protective helmets, bicycling and snow sport safety, and other accessory products from the proposed tariff list. Thank you for listening to our concerns and for your consideration on our request.

MR. BURCH: Thank you, Mr. Sackett. Our next panel witness will be Paul Vitrano with Indian Motorcycle. Mr. Vitrano, you have five minutes.

MR. VITRANO: Mr. Chair, members of the Committee, good afternoon. I'm Paul Vitrano, Senior Assistant General Counsel of Indian Motorcycle Company, which is a subsidiary of Polaris Industries. I'm here today to respectfully urge USTR to remove motorcycle parts and accessories classified in HTSUS subheading 8714.10.00 from the list of products for which duties could be imposed pursuant to this Section 301 investigation.

Any duties imposed on these motorcycle parts and components will especially harm Indian Motorcycle in connection with the production of its latest motorcycle platform in Spirit Lake, Iowa, which the company specifically designed to appeal to riders globally. Conversely, any duties imposed on Chinese motorcycle parts will not harm our foreign competitors, which produce finished motorcycles outside of the United States but import them into this country.

Indian Motorcycle Company was America's first motorcycle manufacturer, founded in 1901. Polaris acquired the company in 2011 and brought Polaris-engineered Indian Motorcycle models to market in 2014. Indian Motorcycle's century-old American traditions continue today, and it proudly supports thousands of jobs in the American Midwest.

Indian Motorcycles' primary motorcycle assembly plant is located in Spirit Lake, Iowa. Its sole engine assembly plant is located in Osceola, Wisconsin. Its primary R&D facility is located in Wyoming, Minnesota, and its headquarters is located in Medina, Minnesota. The company distributes its motorcycles through 185 dealers in the United States and more than 300 dealers in 45 countries around the world.

Indian Motorcycles is concerned about the proposal to impose Section 301 tariffs on motorcycle components and parts. We expressed similar concerns in response to the proposal to include such products on List 1 of the Section 301 China tariffs. Indian Motorcycle is grateful that USTR considered our concerns and omitted HTSUS 8714.10.00 from List 1. We respectfully that those products be omitted again.

The company uses parts imported from China in all Indian Motorcycle models produced at its Spirit Lake, Iowa factory, as well as for replacement parts and accessories for those motorcycles sold in the United States. The parts and accessories include, but are not limited to, cast wheels, brake components, radiator components, muffler components, frame components, fenders, chain guards and tensioners, headlight assemblies, and sprockets.

Imposing duties on motorcycle parts imported from China would harm Indian Motorcycle's ability to compete with European and Asian manufacturers of finished motorcycles, which use many of the same Chinese parts and components in question. Tariffs would increase the production costs of Indian Motorcycles U.S. made motorcycles, while our European and Asian competitors will continue sourcing Chinese parts and components without a similar increase in production cost.

In particular, any duties on motorcycle parts will negatively impact our recent launch of the internationally-focused FTR 1200 models. Tariffs on inputs on the FTR 1200 models will make Indian Motorcycle less competitive against European and Asian motorcycle producers, both in the U.S. market and in third country export markets.

Although Indian Motorcycles stands firmly behind the administration's goal of fair trade, we respectfully request USTR to exclude motorcycle parts and accessories from the list of products subject to 301 tariffs. Excluding motorcycle parts from the tariffs will avoid the unintended consequence of providing foreign-based motorcycle manufacturers with a competitive advantage over Indian Motorcycle and its U.S.-produced motorcycles. Thank you.

MR. BURCH: Thank you, Mr. Vitrano. Our next panel witness is Morgan Lommele, with the Bicycle Product Suppliers Association and PeopleForBikes. Ms. Lommele, you have five minutes. Can you turn on your microphone, please?

MS. LOMMELE: Members of the Section 301 Committee, thank you for the chance to testify on behalf of PeopleForBikes and the Bicycle Product Suppliers Association. I'm the Director of State and Local Policy at PeopleForBikes, and PeopleForBikes and the BPSA are one unified 501(c)6 bicycle industry trade group. We represent 150 manufacturers, suppliers and distributors of bicycles, bicycle parts, and bicycle components and accessories to the U.S. market, which is essentially the majority of the $88 billion U.S. bike industry.

I want to describe a few of the products that would be subjected to potential price increases due to proposed new tariffs. And I also want to describe why bikes and bike riding are important parts of the fabric of American life and we think should be prized and really not punished.

I'll preface with one appeal to the Committee. My wide-eyed hope is that this hearing is not treated like a formality in order to proceed with a new tax on a cherished American product and a new tax on the American consumer. I'll ask that my testimony be heard for what it is, respect for this process but an appeal for relief for our industry.

The price of the family bike ride is going up. Bike riding is going down. Tariffs are causing this. If you're not a cyclist and not quite following why tariffs on bikes and bike products are an issue, I'd ask that you think of a product that's essential to your lifestyle or a hobby that you love, or a product that brings you closer to the outdoors, your family, or your emotional wellbeing.

For a third of Americans, this describes the power of bicycles. And, for me, my fellow panelists, and the industry I proudly represent, this is how I describe the role that bikes play in our professional and personal lives and why we're beyond worried about these potential new tariffs.

Our industry, from billion dollar enterprises, mostly to Main Street mom-and-pop business, is anxious about this latest round of tariffs, which will be passed along to our customers. Sales tax and business tax collections at all levels of government will suffer. For some local bike stores, the small, time-tested, family-owned businesses that are already struggling because of low margins and e-commerce, not to mention a decline in participation, this new government fee may be the final blow that puts them out of business.

I'm not trying to be sensationalist, but this is truly turning business as usual on its head and it will be impossible for many in our industry to adjust. No other industry finds itself in the position of being challenged by new tariffs on every one of its products from China in one year. Now all products purchased to ride bikes safely and comfortably are or could be subject to additional duties. U.S. companies have no alternative manufacturing capacity readily available elsewhere, and imposing tariffs on these goods will cause harm to consumers through higher prices and fewer choices.

We understand the need to fix trade practices with one of our biggest trading partners, but the bike industry feels caught in the cross hairs of a dispute that it neither caused nor would benefit from under any circumstance.

Our bike industry does not suffer from intellectual property theft by Chinese companies. More expensive bike products from China won't open the door for resurgence of U.S. manufacturing. Domestic production essentially died 20 years ago, and labor costs here continue to make it difficult to build anything but expensive, custom bicycles. The bike industry in China operates from manufacturing plants that take up more than 50 million square feet of factory space. Even in the face of large new tariffs that hit home, these facilities simply cannot be relocated quickly. Some of our infrastructure is literally bolted to the ground.

That said, we've identified 13 HTS headings that we respectfully request be removed from the final list. This list includes seat posts, stems, fenders, racks, rims, handlebars, bar ends, axles, tag-along bikes, strollers, bike locks, bike helmets, lighting products, kids' balance bikes, and lithium ion batteries. Of the 142 headings on the list that in some way, shape, or form affect the bike industry, exempting these particular products from additional tariffs would spell welcome relief, both financial and emotion for our industry.

To offer a bit of color commentary about these products, I'll add that helmets and lights, which were exempt from previous Section 301 tariffs on the third list, are lifesaving products for riders across all ages and abilities. Any action that makes them less affordable and accessible would reduce their use. The bike parts on the list are replacement parts that extend the life of a bike and keep it safe. If they're more expensive, bike riders will delay badly needed service and maintenance.

Finally, kids' balance bikes appeal to children typically before they learn how to ride a pedal bike. As you could imagine, adults who don't start biking early in life are much less likely to ride bikes into adulthood, which means fewer future customers for our industry's products.

Tariffs on the products we selected in our request will jeopardize American safety, harm small businesses, and prevent families from providing easy access to bikes for their kids. The specific HTS headings that cover these products are detailed in our written comments.

I'll finish by painting a broader picture of the role that bikes play in the U.S. Bikes are fun and safe. They improve health, reduce road congestion, preserve air quality, and contribute to quiet, appealing cities and towns. Tariffs don't mean trouble just for the bike business but for the 100 million Americans who enjoy riding bikes.

Our core interest in growing cycling in the U.S., not just to grow our business but to boost bicycling for results that can be seen locally. If new tariffs are imposed, these benefits that are enjoyed by all will shrink. We face higher prices, lower sales, lower ridership, less active kids, reduced tax revenues, and more business uncertainty.

We respect the administration's need to impose tariffs on China, but the bike industry has been affected by every recent tariff action and is already reeling. We'd like a break. On behalf of the entire bike industry, your local bike shop, and the 100 million American bike riders, we ask that bicycle-related products be removed from the Section 301 List 4. Thank you for your time and for your service.

MR. BURCH: Thank you, Ms. Lommele. Our next panel witness would be Matt Moore with Quality Bicycle Products, Incorporated. Mr. Moore, you have five minutes.

MR. MOORE: Thank you, Chair and members of the Committee. My name is Matt Moore. I'm the General Counsel of Quality Bicycle Products, which you probably never heard of. We are the largest wholesale distributor of bicycle products to retailers in the United States. We also distribute globally. We're headquartered in Minnesota. We have warehouses in Pennsylvania, Nevada, and Aurora, Colorado. We employ over 750 employees at those locations, and we have employees in a total of 20 states in the United States.

We were founded. We're privately held, founded in 1984, in our owner's garage, and we've grown since that time to be a leading distributor. I was heartened and also concerned by the names of witnesses appearing and the products and industries they represent, because, as a wholesale distributor, we carry over 45,000 different products.

Some of those we source ourselves, but many of them we buy from vendors, approximately 600 different vendors. And they come from all over the world, including the United States and China. I'm told by our data analysts that 17,929 products that we distribute have a country of origin of China and will be subject in one shape or form to either a tariff that is already in place, or they will be on List 4.

I have some solid numbers. That's 40 percent of our products. The tariffs on an annualized basis actually equal 20 percent of our annual net profit. The tariffs that we will pay at the 25 percent rate on all four of these lists, and potentially on some products from Europe as well, 20 percent of our annual net profit. That's 750 people working hard all year, and that's the money we have left at the end of the year.

That just doesn't go in the bank or to the shareholders. That's the money we need to hire new employees, to innovate new products, to expand our operations, make them more efficient by investing in software. And that is money that we are not going to have if additional tariffs are put into place.

As Morgan alluded to, the bicycle industry has been affected by every round, every skirmish in this tariff war, and it's having a cumulative effect. The cumulative effect, again, the breadth of products, how do we re-source 17,929 products in a reasonable amount of time? Again, we are buying those products from others. We don't have control over where they're made. We are a downstream wholesale distributor.

Our choice is to raise prices, try and eke out some concessions from suppliers, but, at the end of the day, we still have a cash flow crisis. We have to pay the additional tariff upon import. If we imported in January, it may sit in a warehouse until May or June before we recover the revenue that we've invested in that product.

That means additional capital costs. We have to get additional capital to run our business, and we pay interest on that capital. These are costs that I have not heard others speak of, but they are the ones that are going to hit the bottom line in the future. And we have just started to see the impact of that as we've gone into our next budget cycle.

Positions that departments ask for have been cut. The prospect of profit sharing for our employees, based on our results so far, this year has vanished. These are real impacts. People will not be hired because we are not able to afford it. In other industry companies, competitors, I have learned, have the same cash flow crisis. They've had to lay off employees because they can't afford to meet payroll.

Now, Morgan talked about some of the

specific categories of components. Helmets have been raised. Again, those were previously excluded. They should be excluded again. I would additionally erase the kind of catch-all provision 8714.99.8000. That has a wide variety of things in it that already bears a duty rate of 10 percent. An additional duty would put that at 36 percent. Those are basic repair parts that every bike shop needs to serve their customers.

Last, balance bikes. Ryan will tell you about balance bikes and his company. Balance bikes are a gateway to a life of cycling. I strongly urge you to exclude balance bikes from these proposed tariffs. That would be a knife in the heart for the bike industry because it will impact our sales now and into the future. Thank you, and I'm available for questions.

MR. BURCH: Thank you, Mr. Moore. Our next panel witness will be Ryan McFarland with Strider Sports International. Mr. McFarland, you have five minutes.

MR. MCFARLAND: Members of the

Committee, good afternoon. My name is Ryan McFarland. I am the Founder and Chief Enthusiast, they call me, at Strider Sports International. We're a small company based out of Rapid City, South Dakota. Thank you for this opportunity to testify today.

Our company started in my garage when I designed and built a special bike for my very young son to balance and ride on two wheels at just two years old. We have revolutionized the entry point to the bike industry. Twelve years later, we are the global leader, the number one brand, in this entirely new category of children's balance bikes. We have sold over 2 million bikes into 78 countries worldwide, and we employ nearly 50 people in Rapid City, South Dakota.

Today our bikes inspire active, healthy play for kids starting as young as one years old up to six years old. I'm not here to talk about business today because you've been listening to that all day about what the damage is of these tariffs. I'd love to manufacture our bikes in South Dakota, but that just isn't feasible. That ship has sailed, and it's going to take a long time to get that back.

So we're really stuck between a rock and a hard place here with these tariffs. If we stay in China and pay the tariffs, it's going to kill us. If we try and move, it's going to kill us. So, today, I want to talk about what's really at stake: the future physical health of our citizens and possible financial stability of our nation.

Screen addiction is a real threat. Our two year olds are spending two hours a day on screens. By eight years old, kids are spending as many as seven hours a day on screens. Our children's brains are literally being restructured due to this flood of visual stimulation that's coming into them. They sit there. They are inactive, obsessed, and stuck, and we've all seen it.

Childhood obesity is at an alarming

rate and climbing. If we don't get kids active and healthy now, our problems 10 and 20 years from now will be exponentially greater. The financial burden of an obese society and the related healthcare costs may be one of our nation's greatest long-term financial threats.

Even our life expectancy, for the first time in our nation's history, in spite of all our medical advances and all of our wealth, has declined. I'm here to say that we have a solution sitting right here, right before us. It's so close at hand we're almost overlooking it. And we're about to kill it with these tariffs.

We need to get kids on bikes. We need to get kids moving. In 2017, I made a commitment to address this problem and formed a nonprofit, Strider Education Foundation. We are on a mission to teach every kid in America how to ride a bike in kindergarten PE class and make riding as fundamental to education as reading, writing, and arithmetic. Screen addiction is a very real and powerful drug. We need a powerful alternative, and the bicycle is that alternative.

Kids are not going to work out for the good of their health. They're going to do what's fun and what makes them feel good, and right now that is the digital screen. Bicycling offers something special, something very special that no other physical activity can offer. It has an allure that can get kids off screens and outside and moving. It is that taste of freedom and independence that comes with mobility.

You know, we are hardwired to crave mobility from birth. It is what makes us squirm and wiggle on the living room floor until we can crawl. It's what makes us pull ourselves up on the couch and try to stand and walk. Riding feeds that instinctual craving. It maybe is the only thing that has that power that can get kids off screens. The balance bike makes riding a reality for kids as young as 18 months, an age so young that we can preempt this pit, this digital pit that kids are falling into.

Our nation needs kids on bikes. Our nation needs Strider in the picture. Balance bikes are the first rung on this ladder towards a good mental and physical health. If that first rung is removed, nobody climbs the ladder. Biking builds confidence and personal responsibility. It teaches kids to be attentive to their environment, not detached and lost in their screens.

Biking helps kids develop a driver's mentality versus a passenger's mentality. Our entrepreneurial nation is built on people who like being drivers, who like being engaged and aware, and who like being in control of their own destiny, all of which is seeded into the heart of a child as they ride their bike around their neighborhood.

Strider appreciates the administration's efforts to eliminate China's unfair trade practices, but there must be a better way to achieve this than the proposed blanket tariffs, which will reduce the number of kids on bikes. On behalf of Strider and the children all across America, we respectfully request that the USTR remove children's products from the proposed list, particularly balance bikes classified in subheadings 9503.00.0071 and -73. Thank you very much.

MR. BURCH: Thank you, Mr. McFarland, and Mr. Chairman, this concludes oral witnesses' testimonies.

MR. FRATERMAN: Thank you, panel, for your testimony. Name's Matthew Fraterman, Department of Labor, Office of Trade Policy and Negotiations.

My question is for Mr. Sackett. You said in your testimony that moving production elsewhere in the near or medium term wouldn't be feasible. And my question is is there any long-term plan to move production and has your company made any effort to seek suppliers outside of China?

MR. SACKETT: Yes, so we have, you might already know we do light assembly and manufacturing in the U.S. already, a majority of our bicycle helmets are light assembled and manufactured in Rantoul, Illinois, but it's about the maximum we could do here in the states with regulatory, basically headwind.

So we do as much as we can here in the U.S. and everything else is done in China because of the capabilities that those factories have that we do not possess and are not able to build here.

MR. FRATERMAN: Okay. And I'm guessing that includes the suppliers then as well, like?

MR. SACKETT: Yes.

MR. FRATERMAN: Okay.

MR. SACKETT: Yes.

MR. FRATERMAN: Thank you.

MS. RESNICK: Thank you. I'm Bonnie Resnick with the Department of the Treasury and I have a couple of questions for Mr. Vitrano. Are there any other countries that produce the products that your company currently sources from

China? And if so, what are the barriers that exist to switching your source of supply?

MR. VITRANO: The products at issue here are wide and long list. There certainly are suppliers of various aspects of the products under this HTS code elsewhere, but we leverage a global supply chain and a global market.

We're one of two U.S. motorcycle manufacturers and so alone we don't have the scale to move our supply chain in total or in substantial part without being able to leverage the existing suppliers, many of whom are in China.

Having said that, you know, we are unrelated to this trade policy issue, we are in the midst of a supply chain review. And we're looking for competitive suppliers all over the country. I was here a few weeks ago talking about European suppliers.

So that was yet another challenge and moving target, if you will, in dealing with the situation we're in right now.

MS. RESNICK: Thank you. And since the time of the original Section 301 action against China, has your company made any efforts to ship its battery supply outside of China?

MR. VITRANO: I cannot comment on that. I haven't reviewed battery in preparation for this hearing. I know, like many of our components we source from a variety of sources and I believe we do source outside of China as well. But I could follow up on that.

MS. RESNICK: Thank you.

MS. ROY: Good afternoon. This is Tracy Roy from U.S. Customs and Border Protection. This question is for Ms. Lommele. How are you?

MS. LOMMELE: Good, thanks. How are you?

MS. ROY: I'm well, thank you. Since the time of the original Section 301 action against China have your members made any efforts to shift their supply outside of China?

MS. LOMMELE: Generally speaking I

would consider all the member companies to have considered moving out of China. I know of some companies that have shifted some manufacturing, but for the most part it's an established supply chain that is firmly rooted in China and can't be moved overnight.

So I think as businesspeople do there's always a long-term consideration of how to adapt, but in the short term nothing has been, nothing, I'd say the wide majority of our suppliers have stayed in China to manufacture bicycles and bicycle products.

MS. ROY: Okay, thank you.

MR. WINELAND: Thank you. Mr. Moore, question for you. You said as a wholesale distributor that you're not manufacturing a lot of the 17,000 products that you're sourcing from China. Has your company begun to look to identify alternate countries that are making those same products in an effort to address the tariff situation

MR. MOORE: Thank you. Certainly we

are doing that. We are always looking for new vendors. Again, a product mix is we try to have available the products that bicycle retailers need and that consumers want to buy. So we are constantly onboarding new vendors.

For our own products that is also true. We've explored production in Taiwan as well as Vietnam. I know of one that -- the issue with that is that we do not own the factories and with only one exception I can think of in the bicycle industry no major bicycle brand owns its factory.

We buy from factories that exist and are either owned by Taiwanese companies or by Chinese companies for the most part, although there is some production, a smatter of production in other countries those are the dominant players.

So we would need to convince a manufacturer to move its factory or it would have to decide to do so based on inputs from numerous customers as no one player really dominates a particular factory. We all get in line to source bicycles and other products from these same suppliers.

MR. WINELAND: A follow-up then. As you say, then you hear input from a variety of other customers, do you sense that they, that the manufacturers are hearing from others and are beginning to think about those types of moves?

MR. MOORE: They are, especially with respect to Taiwan where a lot of, if it's not from China it's likely from Taiwan. But as our submissions have stated, approximately 97 percent of bicycle production is in China, especially children's bicycles and affordable mass market bicycles.

The higher priced specialty end is a little more flexible in where production can happen. That is why some of that is located in the United States and we're starting to see some production there or has been maintained over the years.

But again, it's the same factory may

have made both types of bicycles so we're dealing largely with the same suppliers.

But there are moves but again, finding a site, building a building, getting the equipment, training the workers and that last one is extremely important, training the workers on how to weld thin-walled metal tubing or lay out carbon fiber to make a high performance carbon bicycle frame, those don't happen overnight. So it will be a long process if tariffs stay in place, five to ten years horizon for something like that.

MR. VANDERWOLF: No. I have a question for Paul from Indian. Does Harley-Davidson have the -- is impacted the same way from their parts? Do they get them from China as well?

MR. VITRANO: I certainly can't comment on our competitor's supply chain, but as I mentioned earlier, the industry is not that large and the OEMs do share many suppliers generally, but I couldn't speak to anything specifically.

CHAIR BUTLER: Mr. McFarland, you note that the severe and disproportionate impact that additional duties will have. Can you provide more detail on this? Can you also please share any data supporting this statement with the committee as a follow-up to this hearing?

MR. MCFARLAND: Yes. I mean, price increase will decrease the number of kids' bikes purchased. The percentage of that I can't say. It would be a speculation but it absolutely would be a decrease.

Now, the bigger concern, however, is when there are tariffs that are going to affect prices on multiple products and the family budget has to start absorbing these costs increase on, you know, everything, not just bicycles, everything, the priority of purchasing a bicycle, whose price was just raised moves further and further down the list of family priorities on that stretched budget.

So it's not just the price increase on

the bike that's going to impact us. It's the prioritization of all of the tightened budgets of the American family that's going to really, really push the prioritization of getting kids on bikes down the list.

CHAIR BUTLER: Thank you and thank you all for coming.

MR. BURCH: Mr. Chairman, I release this panel with our thanks.

And would the witnesses for Panel 31 make their way forward?

(Pause).

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

Madam Chairman, would you like to make an introduction?

CHAIR GRIMBALL: Yes. I am the new member of the panel for this afternoon although I was here this morning. My name is Megan Grimball. I'm an Assistant General Counsel from the Office of General Counsel at USTR. Thank you.

MR. BURCH: Madam Chairman, our first witness for this panel would be Dimitri Cretikos with Nelson Rigg, USA.

Mr. Cretikos, you have five minutes.

MR. CRETIKOS: I'd like to thank the 301 Committee for this opportunity to testify today.

MR. BURCH: Can you pull the microphone up a little closer?

MR. CRETIKOS: Okay. My name is Dimitri Cretikos and I am the proud owner and president of Nelson Rigg, USA, which is a second-generation family-owned business and we're located in southern California.

We specialize in the production of vehicle covers, soft luggage and rainwear. My late father Nick Cretikos moved us legally to the U.S. in 1982 for the purpose of opening and expanding his business and growing and supporting our family to better our lives here in the United States of America.

We have always fought hard to make

great products and offer them at affordable retail prices. Given our business model from the beginning this has always had its challenges being that we supply wholesale distributors who in turn supply dealers who in turn sell to the retail consumer.

Understandably everyone used to make money and have worthwhile margins. Over the last five years general manufacturing costs have increased due to raw materials, labor rates, exchange rates, ocean freight and even the 18 and one-half percent duty that we already pay on our products.

Due to these steadily increasing prices, one can make necessary adjustments in our pricing structure that could be implemented at a normal rate.

Stabbing businesses like ours with enormous tariffs with little to no notice has ultimately had a game-changing effect on how we're able to continue to keep the doors open.

Call them what you may, tariffs are

taxes. They're all going to hurt American companies and the consumer. We are the ones that have to pay this, not the Chinese and it really isn't fair.

Greatly increasing the tariffs will dramatically reduce margins on all products across the supply chain and the backlash will also be felt down the line through to the end consumer.

Hugely increased tariffs could change the way our business has operated for the last three decades. Hugely increased tariffs could potentially eliminate some companies like ours being able to work with distributers. There just wouldn't be enough margin shared by the manufacturer, distributer and the dealer.

Retail prices would have to drastically spike making products less affordable for the consumer and less profitable for dealers and distributors. We would have to eliminate a high number of SKUs due to the fact that we could no longer import them and be competitive. Some of these items have been a staple for us for decades.

We're also proud that we manufacture for the majority of the OEMs in our industry. So this increase has also had a ripple effect that has been felt through this channel.

For years we have worked hard to increase our standards, exceed expectations in the manufacturing process and develop proprietary materials used exclusively by us. We have built 20-plus-year relationships with key factories that will take even longer to replicate or replace in any other country and even her on U.S. soil.

We have and still are looking to manufacturing in the U.S. but there is still no way to do it and be competitive with our current business model. Here at Nelson Rigg we do our part towards greatness with employing U.S. workers, contributing to the economic base in our city and state.

We understand the strive for change.

We see the need to strengthen our economy. We see the need to make our country great, but there's ways to doing it.

And punishing U.S. companies and small businesses with unfair, unreasonable tariffs is not the way. I've also attached the HTS codes that affect our products.

And thank you in advance for your consideration. I'm here to answer any questions.

MR. BURCH: Thank you, Mr. Cretikos.

Our next panel witness will be Scott Schloegel with the Motorcycle Industry Council. Mr. Schloegel, you have five minutes.

MR. SCHLOEGEL: Okay, thank you. Madam Chair and committee members, thank you for the opportunity to testify here before the Section 301 Committee this afternoon.

My name is Scott Schloegel. I'm the Senior Vice President for Government Relations at the Motorcycle Industry Council, known as MIC. MIC's membership consists of more than 700 domestic and international manufacturers, distributers and retailers of motorcycles, parts, accessories and related goods and services, including insurance, finance, media and others with a commercial interest in the motorcycle industry.

We are a nearly $40 billion industry with more than 12.2 million motorcycles in use across the country. MIC's members also manufacture all-terrain vehicles, known as ATVs, and recreational off-highway vehicles known as ROVs.

All 12.2 million of those motorcycles, as well as millions of ATVs and ROVs require maintenance and replacement parts regularly, many of which may be coming from China.

Safety is of paramount interest to our manufacturers and their members. A critical component to motorcycle safety is ensuring that riders are properly attired with Department of Transportation, DOT, compliant helmets, as well as protective clothing and body armor that is safe and affordable.

I brought an example of protective clothing with me today and one of our member companies has an example of their helmets. I apologize. I couldn't get my jacket to hang up there, but it is a protective motorcycle jacket that I've laid down in front of us here.

Tariffs are taxes. Additional taxes on protective headgear, clothing and other body armor would have an unintended consequence of disincentivizing motorcyclists from purchasing safety gear. These items were proposed for tariffs on a previous list but they were removed.

We believe that for the sake of safety they should be removed from consideration again. Therefore, we respectfully request that the committee remove HTS 6506.10.30, HTS 6506.10.60, HTS 3926.20.90.50 and HTS 3926.90.99 from the most recent tranche of proposed tariffs on Chinese goods, also known as List 4.

Fully 25 percent of the retail sales volume of American motorcycle outlets come from parts, accessories and riding apparel. The average motorcycle owner spends more than $510 per year on tires, routine repairs and replacement parts.

They cannot afford to have an additional 25 percent tax burden added to their annual maintenance costs. The MIC respectfully requests the removal of HTS 8714.10.00 which applies to parts and accessories for motorcycles.

By significantly increasing the cost of parts and accessories, motorcyclists will be disincentivized from performing routine maintenance such as replacing critical safety items like tires and brake pads, similar to the pads that I have with me here today.

Lastly, the MIC requests the removal of HTS 8507.60.00 pertaining to lithium ion batteries. HTS 8518.21.00 and HTS 8518.29.80 pertaining to speakers.

We also request the removal of HTS 8711.20.00, 8711.30.00, 8711.40.00 and 8711.40.60 which cover motorcycles with engine capacities greater than 50 cc but not greater than 800 cc.

And additional 25 percent tariff on these items will harm American businesses and consumers because tariffs are taxes that we pay, not the Chinese.

In closing I would like to note that the MIC supports the administration's effort to level the playing field with China and we believe that you can be successful in doing that through negotiations rather than through tariffs.

Thank you for your consideration of this request and thank you for considering the potential financial and safety harm that could come as a result of an additional 25 percent tariffs. I'd be happy to answer any of your questions.

MR. BURCH: Thank you, Mr. Schloegel.

Our next panel witness will be Paul Vitrano with Polaris Industries, Inc. Mr. Vitrano, you have five minutes.

MR. VITRANO: Madam Chair, members of the committee, good afternoon again. I am Paul Vitrano, Senior Assistant General Counsel of

Polaris Industries.

On behalf of Polaris and its Teton and Kolpin divisions, I'm here today to respectfully urge USTR to remove youth off-road vehicles, protective helmets and goggles, audio speakers and off-road vehicle snowplows from the list of proposed products to be subject to the fourth Tranche of tariffs in this Section 301 investigation.

Polaris is the major American power sports manufacturer and invests heavily in America. Polaris has created over 9,000 jobs in the United States including 5,800 manufacturing jobs in 14 manufacturing facilities across nine states.

Polaris invests nearly $300 million annually in R&D and improvements to our U.S.-based facilities, including a soon to be completed $50 million distribution facility in Nevada.

Since 2011 we have made approximately $410 million in U.S. capital investments, including a $194 million state-of-the-art manufacturing facility in Alabama, with the capacity to employ up to 1,700 employees.

Teton Outfitters is a subsidiary of Polaris. Teton has been a leader in the power sports apparel and technical gear market since its inception in 1998. Founded in the Rocky Mountains and headquartered in Idaho, Teton utilizes the best components available to design and develop products under the Climb and 509 brands with a discernible quality and functions.

Teton's helmets and goggles are currently manufactured in facilities meeting its capability requirements around the world, including in China.

In 1943, Howard Kolpin, a hunter, an archer and a sportsman began his company in Wisconsin as a means to make products he could use while pursuing his favorite pastimes.

Since then, Kolpin has developed a rich history of providing customers with a wide array of hunting products, outdoor accessories and innovative power sports aftermarket solutions for all brands of vehicles. Kolpin was acquired by Polaris in 2014 and operates as a division of Polaris Sales, Inc.

Polaris strongly commends the president and USTR's effort to foster the fair trade practices necessary to support American manufacturing jobs.

However, the combined effect of duty-free vehicle trade under NAFTA and the imposition of Section 301 tariffs on components significantly limits Polaris' ability to compete while causing almost no effect to our foreign competition with different supply chains.

That is why we have asked USTR to exempt from the Section 301 China tariffs all parts used in the manufacture, repair and sale of power sports vehicles in the United States.

With respect to List 4, Polaris requests relief for finished goods as well as components used in vehicles assembled in our U.S. factories.

Polaris youth off-road vehicles are the only vehicles of their kind that are sold in the United States by a major power sports manufacturer. These unique vehicles directly address the greatest safety risk to youth ORV riders operating adult-sized vehicles by providing age, size and power-appropriate alternatives.

In order for such vehicles to be attractive to the U.S. parents, however, it is essential that they hit a value price point. To be able to deliver products with the right combination of quality, capability and cost, Polaris designs the youth ORVs in the United States but manufactures them in China at its wholly owned subsidiary.

By using a wholly owned subsidiary rather than a joint venture, Polaris has avoided the very kind of technology transfer issues that are at the heart of this Section 301 investigation.

It would be unfair and inappropriate

to penalize companies like Polaris which manufacture in China under conditions consistent with the end goals of the Section 301 determination.

Moreover, subjecting these products to a 25 percent additional tariff will not encourage relocation of manufacturing these products away from China. Polaris has made significant long-term investments in its China operations and cannot walk away from them.

Instead, Polaris will be forced to absorb and/or pass along to consumers the increased tariff costs. This in turn will decrease demand for youth ORVs because parents may simply decide they cannot afford to purchase these products for their children.

Regarding Teton's fiberglass and carbon fiber helmets there is no alternative to manufacturing in China regardless of cost.

Although Teton annually explores resourcing options outside of China, Teton knows of no U.S. or third country manufacturers with the necessary technical ability and capacity to manufacture fiberglass and carbon fiber helmets with pre-impregnated fiberglass or carbon fiber. In our confidential comments we provided letters from two of our suppliers also attesting to this fact.

Teton noted the unavailability of alternative suppliers in our comments to the proposed List 3 and we are grateful that USTR omitted fiberglass and carbon fiber helmets from that final list.

Polaris urges USTR not to impose duties on youth ORVs, protective helmets and goggles, audio speakers and ORV snowplows. Thank you.

MR. BURCH: Thank you, Mr. Vitrano.

Our next panel witness will be Jodi Gracey with Trek Bicycle Corporation. Ms. Gracey, you have five minutes.

MS. GRACEY: Members of the Section 301 Committee, thank you for the opportunity to testify today on behalf of Trek Bicycle

Corporation.

My name is Jodi Gracey and I am employed by Trek as the Director of Global Trade and Logistics. I am responsible for Trek's trade compliance program and its functions including tariff classification, free trade qualification and customs valuation.

I am a licensed U.S. customs broker and have firsthand insight into the significant impact of tariffs to Trek and the U.S. bicycle industry.

Trek was born in a barn over 40 years ago in Waterloo, Wisconsin and has grown from its two founders into a global company with more than 3,000 employees.

Today, Trek manufactures its bicycles in Asia, Europe and the United States. We have also expanded our production beyond the bicycle to include almost every product used on the bicycle or on a bicycle rider.

We continue to assemble customized, high-end bicycles, framesets and wheels domestically in our factory in Waterloo, Wisconsin. However, as is the case with other bicycle companies, Trek utilizes a well-established global supply chain that has required years of investment and development to meet safety, quality and pricing requirements.

The bicycle industry, as does Trek, depends heavily on Chinese manufacturing for the global bicycle market. As such, Trek has already been forced to increase prices to cover the recent Section 301 tariffs.

Through Tranche 3, the annual impact of Section 301 tariffs to Trek's business is $30 million. The additional $30 million, which is paid by Trek, requires us to pass these costs onto our customers.

The implementation of a 25 percent duty on Tranche 4 products would only further injure Trek's business and ultimately Trek's U.S. customers. Products such as bicycle jerseys, footwear, helmets, lights and locks, if included on the list, would result in an additional $8 million of duties paid by Trek and its customers. This would force Trek to raise prices.

Trek is deeply concerned that price increases will not only affect the consumer but also small business owners and their employees. Trek is one of the largest bicycle companies in the U.S. with domestic sales exceeding $500 million.

We sell our products to 1,600 independent bicycle retailers nationwide. Trek also owns and operates retail stores in the U.S. employing more than 750 people.

Price increases on bicycles, parts and accessories impact product sales, which in turn reduces store traffic for other services such as bicycle repair and maintenance provided by these small businesses and their employees.

Trek strives to make bicycling safer by designing and selling products that address safety concerns. Trek engineers manufactures and sells lights and helmets. These critical safety products are included on the proposed Tranche 4 even after being removed from Tranche 3.

By including helmet and light safety products on the list, these products become less accessible, jeopardizing the wellbeing of both children and adults and discouraging overall ridership.

Trek is sympathetic to the issues addressed in the Section 301 investigation as we are protective of our intellectual property rights for our own innovative products. However, Trek has not experienced issues related to its technology or intellectual property as a result of sourcing our products from China.

Moreover, the technology used to produce bicycles and bicycle products is neither central to the Made in China 2025 program nor a national security risk.

In conclusion, the implementation of the proposed Tranche 4 will likely result in higher prices for our customers and in turn reduce overall sales without meeting the stated objectives of the Section 301 investigation.

The risk with higher costs via tariffs are the 2,100 people Trek employs in the U.S. and the thousands more people employed by our network of independent bike dealers.

Trek respectfully requests the U.S. Trade Representative to remove bicycle safety products from the proposed list. Trek additionally requests all bicycle products included on the proposed Tranche 4 be removed.

A complete list of tariff headings, which include bicycle products, will be included in our official written comments. On behalf of Trek Bicycle Corporation, thank you for your time and your consideration.

MR. BURCH: Thank you, Ms. Gracey. Our next panel witness will be Doug Hill with AFX Helmets North America, Incorporated. Mr. Hill, you have five minutes.

MR. HILL: Thank you. Members of the Committee, I'd like to thank you very much for the opportunity to provide testimony today. You've heard some amazing testimony in this room from some very, very large companies.

My testimony comes from a true mom and pop company. As a matter of fact, mom and pop are in the room today. I'm pop, and mom is sitting back there, and we're 50 percent of the employees of AFX.

I'm the president and the CEO of the company. I have over 40 years' experience in the motorcycle engine, with the main focus being on safety helmets. I'm here today in strong opposition to proposed tariffs on these motorcycle helmets.

The tariff codes I will address are 6506.10.30, and 6506.10.60. These tariff codes represent 100 percent of the construction of motorcycle helmets, and how all motorcycle helmets are produced today.

At AFX, we support free and fair trade, and we certainly support the administration's efforts to help level the international playing field by ensuring that our trading partners are not tilting it to their advantage.

But the answer cannot be disadvantaging the unrelated motorcycle helmet industry, and motorcycle consumers, by pricing affordable and safe helmets out of the hands of typical American consumers. Yet unfortunately, that's exactly what tariffs of up to 25 percent on helmets produced in China would do to our industry.

Tariffs are taxes. Foreign countries do not pay these taxes. American businesses and consumers who purchase these goods under tariff will pay all of the burden of these increased costs if these proposed tariffs were to go into place.

This would undeniably be a severe economic and unintended safety consequence for innocent American consumers. AFX helmets are designed in America, and are state of the art compliant with the most stringent of global safety standards, such as DOT, FMVSS-218, and ECE 22.05.

And even though we meet the highest global safety standards, we've priced our product at a comfortable retail price point to be more than affordable to the average American consumer. In fact, the A in AFX stands for affordable.

Since our inception 23 years ago, we've delivered over 1.72 million helmets into the American market, with an average retail price point of less than $100. We offer a helmet that's long on safety, but gentle on the consumer's wallet.

From a business point of view, we are certainly proud of that success at our market price point, but the accolade that makes us more proud is the approximately 450 lives we've saved since we delivered that first affordable helmet to American consumers.

Our fear is that if this tariff was to come into place, it may deter riders from purchasing or upgrading this most important piece of safety gear, the motorcycle helmet. At trade shows and events nationwide, we routinely see riders wearing helmets that should long be retired.

Increased cost to the consumer will only prolong the continued use of outdated safety gear. We encourage riders to replace their helmets after five years of use. With increased prices to the consumer, they may in fact choose to buy low cost novelty helmets, Exhibit A of my submission, that are not safe, and are certainly not DOT compliant.

AFX has worked extensively with NHTSA over the last 20 years to help educate consumers on the dangers of these novelty helmets. In fact, with the encouragement of NHTSA, we designed a specific helmet -- Exhibit B, which I have a physical example here.

We can pass it around later, if we like -- to fight the novelties. This helmet uses patented private technology, Exhibit C, and I have an example of Exhibit C here, a cutaway showing this patented technology, that could only be economically produced in China by one of our manufacturers that is, in fact, American-owned.

There are no reputable domestic helmet manufacturers to protect with this proposed tariff. The last American-made helmet production facility ceased operations over two decades ago.

All we have now in America are the clandestine manufacturers of unsafe novelty helmets. We strongly urge you to remove the above noted tariff numbers from our -- from the proposed list of goods that could be subject to proposed tariff increases in this dispute.

Safety has to be affordable. Consumers must be able to count on their elected officials to always act in the best interest of the safety of its citizens. American consumers must not be the ones to bear the brunt of this proposed tariff cost, or its unintended safety consequence.

Thank you very much for allowing me to provide testimony today, and I would look forward to your questions.

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

next panel witness will be Alexander Koff with Specialized Bicycle Components, Incorporated. Mr. Koff, you have five minutes.

MR. KOFF: I am testifying -- I am testifying on behalf of Bob Margevicius, who could not be here today. Bob is the executive vice president of Specialized Bicycle Components, and Specialized is an American bicycle company founded in California and headquartered in Morgan Hill.

Specialized was founded in '74 and employs over 1,200 U.S. workers. It supplies nearly every product that a bike rider might use, from complete bicycles to component parts, accessories, and apparel. Bob is a member of the BPSA, which testified in the earlier panel, and he served on the BPSA Board for 26 years, and serves as a safety -- on a chair of a safety committee.

He also serves on the Industry Trade Advisory Committee, ITAC 4, on consumer goods, and as you know, I see some nodding heads, that represents a wide range of products, including bicycles. Bob asked that I testify on behalf of bicycle industry and cyclists everywhere, and I'm doing so today to raise three distinct points.

First, Specialized supports the detailed and thoughtful comments you received in the preceding panel, 30 from Bell Sports, PeopleForBikes, Quality Bicycle Products, and Strider Sports International, as well as those on this panel, from Trek Bicycle, all which urge against the imposition of additional tariffs on bike and bike products.

Second, the impact of additional tariffs on this industry is worth restating. You've heard it before, but the bicycle industry has been directly or indirectly affected by every recent tariff action taken by the U.S.

The Section 232 actions on steel and aluminum, which increased the cost of materials used by manufacturers, the EU Section 301 investigation, which is proposing added tariffs on many of the items on China List 3, and the 301 investigation itself, adding tariffs from List 1 on GPS bike computers and ball bearings, on List 2, adding tariffs on e-bikes and e-bike motors. And this was the industry segment which buoyed sagging sales in other areas of the industry.

List 3, which is adding tariffs on bike parts and accessories, and now List 4, which is proposing tariffs on bike products that aren't really on the other lists. Those cumulative effects are staggering.

No other industry finds itself in this unenviable position, and as you've heard, roughly 90 percent of the bike imports are for children, and the technology used to make them is not central to China, Made in 2025.

Finally, point three, the principle reason Bob asked me to be here today is to request that de minimis shipments be removed from all China Section 301 exemption lists, and let me explain. On March 10th in 2016, Customs and Border Protection raised the value of shipments of merchandise imported by one person on one day, that generally may be imported free of duties and taxes from $200 to $800.

The raising of the de minimis exemption is due to an amendment of the Tariff Act of 1930, incurred in the Trade Facilitation and Trade Enforcement Act of 2015, and that's codified in the Code of Federal Regulations at 19 C.F.R. 10.151. There are already exceptions to the exemption.

For example, no alcoholic beverages, cigars, or cigarettes are permitted to be exempt from the payment of duty and tax. That's in 10.153(f) of Title 19. And similarly, no merchandise of a class or kind that's provided for in a tariff rate quota, or TRQ, can be exempt, and that's in 10.153(g) of Title 19.

But the tariff subheadings subject to 301 additional duties do qualify for the de minimis import exemption. So merchandise under $800 are exempted from any duties, including the additional 301 duties. For the bike industry, this is a major ambiguity, and permits a potentially serious loophole on the shipments of bicycle parts and components that are ordered online.

And you heard this testimony in Matt Moore's statement to the 301 EU list. De minimis sales through Internet portals and e-commerce marketplaces permit the shipment of products to U.S. consumers without the need to pay tariffs.

Specialized understands from experience and discussion in the industry, and with other industries, that the annual import value of such de minimis shipments has increased dramatically since the cap has increased from 200 to $800 in March of 2016, and Specialized is unable to provide actual figures, however, because the annual import figures typically tracked by the ITC here in this building, or by CBP, are no longer tracked for de minimis imports.

So in conclusion, because such an, internet sales from China fall outside the 301 additional tariffs, and because the dollar values of bicycle parts and components are typically below that $800 de minimis limit, Specialized urges consideration of withdrawing the de minimis exemption on Chinese imports pursuant to this 301 process, or at least those tariff subheadings that are applicable to bicycle parts and components.

The United States currently does this for cigars, cigarettes, and alcohol. It should do so for bikes too, particularly given that cumulative effect that we talked about. Thank you for your time and consideration. On Bob's behalf, I welcome any question you may have.

MR. BURCH: Thank you, Mr. Koff, and Madam Chairman, this concludes all witnesses testimonies.

MS. MORGAN: Good afternoon. My name is Jenny Morgan from the Department of Agriculture. Mr. Cretikos, this question is for you. I saw in your attachment the list of products that your company imports and distributes. I was wondering, is China the sole source for any of these products?

MR. CRETIKOS: Currently, yes. I mean, we --

MS. MORGAN: And if you could scoot up your mic.

MR. CRETIKOS: Okay.

MS. MORGAN: Thank you.

MR. CRETIKOS: Many years ago, we used to also produce in South Korea and in Taiwan. Labor costs increased to the point that the factories that we still deal with now ended up moving their facilities to China. So 100 percent of them, yes, at this point, are made in China.

MS. MORGAN: Thank you so much.

MR. VANDERWOLF: Hi, this is John Vanderwolf from the Department of Commerce International Trade Administration. My question is for the Motorcycle Industry Council. Your members are requesting that several products are excluded from potential tariffs. Are any of these products produced in other countries?

MR. SCHLOEGEL: Thank you for that

question. It's a good question, and I believe most, if not all of them probably are produced in other countries. However, in some instances, as you just heard from Mr. Cretikos, who is one of our member companies, China is the only company that is producing their particular product.

Certainly, there's an extreme cost that's associated with shifting from one country to another. A lot of the initial startup costs that you have that would be associated with that, and then you also have the issue of moving from one country to another.

For example, I was here a couple weeks ago, also testifying about the proposed tariffs of up to 100 percent on motorcycle parts and accessories from EU countries. And so if you move from here to, or if they are available in the EU countries, you may be shifting from a 25 percent tariff to what could potentially be 100 percent tariff, and you're in negotiations right now, the USTR is, with Japan.

And you're looking at UK, and so it

could end up becoming a bit of a game of whack-a-mole by just shifting from one country to another.

MR. VANDERWOLF: I have a follow, or another question. Since the time of the original 301 against China, are you aware of any efforts of your members to shift their battery supply from outside of China?

MR. SCHLOEGEL: So I haven't had specific discussions about the battery supply chain. I could check with our membership to see whether or not they've had discussions about that or not.

MR. VANDERWOLF: Okay. Thank you.

MR. SCHLOEGEL: Thank you.

MR. FRATERMAN: Thank you everyone on the panel, for your testimonies today. My question is actually for Mr. Vitrano. Thank you again for coming out. You mentioned that your company took or is considering taking efforts to mitigate the tariff impact. Can you explain these efforts in a little more detail?

MR. VITRANO: We've taken a variety of counter measures, including weighing in on a multitude of trade-related actions that have been going on over the last year or so. Specifically, I'll point to something I mentioned earlier, which was, we're in the midst of an enterprise-wide review of our supply chain, and although tariff related matters are only a small part of the puzzle, we're considering that as we look to rationalize and optimize our supply chain.

For our industry, as you've heard from me and many others, safety is paramount. These are motor vehicles that we manufacture here in the U.S., and so having, you know, a supply chain that's established, mature, and high quality is essential. And so we don't -- even if we could change suppliers, we do not do that lightly because of the criticality of the parts that we source.

MR. FRATERMAN: Great. Thank you so much.

MS. ROY: Tracy Roy from U.S. Customs

and Border Protection. This question is for Ms. Gracey. How much of the tariff would you pass on to the consumer?

MS. GRACEY: That's a great question. I can follow up further within my post-summary written statement. However, we have passed on costs. We review with our supply chain team, do an analysis of our different products, where they are sourced from, and then make the difficult decision as to what products need to have a price increase.

MS. ROY: I have another question. Have you passed on to consumers the lower cost resulting from the devaluation of the yuan over the last several months?

MS. GRACEY: Again, I'll have to follow up in written comments.

MS. ROY: Okay. And also you mentioned that you manufacture bicycles in Asia, Europe, and the United States, but that you also rely heavily on Chinese manufacturing. Are there certain inputs or products that are only available from China?

MS. GRACEY: Yes, that is correct.

MS. ROY: Can you expand on that?

MS. GRACEY: Absolutely. So there are certain bicycle parts, components, that are produced only in China, and as a result of that, if we were to move manufacturing, say, to the United States, we would be, we would incur the tariff cost of those parts, and have to incorporate those into our U.S. manufacturing end product prices.

MS. ROY: And the final question, would you manufacture in the United States and Europe? I mean, what do you manufacture in the United States and Europe?

MS. GRACEY: In the United States, we have an operation in Waterloo, Wisconsin, which focuses on high-end customized bicycles, bicycle frame sets, and wheels, and in Europe, we also have a bicycle assembly operation that is both more of your standard production bicycles, as well as some of those high-end customized bicycles.

MS. ROY: Thank you so much.

MS. GRACEY: Thank you.

MR. WINELAND: Mr. Hill, I wanted to ask you, you indicated there's no domestic production of helmets, of course. It's kind of a two-part question. Are there countries other than China that are manufacturing helmets that meet the relevant standards and quality levels that you need, and are you seeing any potential shifts in the manufacturing of those helmets because of the tariffs and their impact?

MR. HILL: Thank you. That's an excellent question. We have approximately 50 percent of our helmets produced in China. The rest of our helmets are produced in the country of Taiwan.

Our Chinese manufacturer is actually an American-owned company, using patented technology that's licensed to them from the Australian inventor. So we have our products made mostly in China and Taiwan, and some of our manufacturers have looked at shifting their facilities to Vietnam, as an example.

However, the cost of doing that is absolutely phenomenal. I mean, you have to set up a whole new production facility, and I understand the Committee has never been in a helmet factory, but it's much akin to a car factory. There's a lot of heavy machinery to try to move, and it's just not economically feasible.

So my purpose here today is to put some sensibility into motorcycle helmets. We're not protecting any home manufacturers anymore, so we'd like to get these tariff numbers dropped off, and keep making affordable helmets for American consumers.

MR. WINELAND: Just a follow-up. You mentioned Taiwan factories. Are they at capacity, or is there room for expansion of those production facilities?

MR. HILL: No, they're currently running at capacity. We, myself and my wife just returned from a tour of Asia, all our factories, and nobody can build anything any faster than they're currently doing it.

Most helmet manufacturing has shifted to the country of China in the last 10 years. Taiwan has actually seen a diminished production of motorcycle helmets.

CHAIR GRIMBALL: I do have a follow-up question. So you mentioned that in America, there is only a -- the production of what you call unsafe novelty helmets?

MR. HILL: Yes, that's correct. If you look at Exhibit A, the, I've just identified one of the sources for those helmets.

CHAIR GRIMBALL: Do these novelty helmets advertise themselves as having any sort of safety function at all, or are they --

MR. HILL: No. The craziest part is they advertise as being a novelty helmet, and on their same website, they sell a little sticker with the little DOT word on it that that consumer can put on the back of their helmet and make itself compliant.

And that's one of the things, and my example was, sorry, my example B here, we worked extensively with the National Highway Safety Traffic Administration to devise permanent labeling for these DOT labels, and the DOT have actually adopted our template for the industry.

CHAIR GRIMBALL: This is perhaps a leading question, but would it be safe to say that even if these novelty helmet manufacturers had the same type of inputs, or had access to the patents that are being used in your Taiwan facility, that they would not be in a position to produce the type of product you're producing domestically?

MR. HILL: No, they wouldn't want to do that. The novelty helmet manufacturers exist to sell the thinnest most possible, small helmet, and they're selling it to a market that sometimes doesn't even want to ride or wear with -- wear a helmet.

So we try to educate consumers by making a small, lightweight product that uses the most advanced technology in the world to offer a viable certified product for these consumers to wear. And it's been one of our better selling products.

Since we've introduced that product, we've sold almost 25,000 of those, and we anticipate that we've taken 25,000 novelty helmets out of the marketplace with this unique product.

CHAIR GRIMBALL: Thank you.

MR. HILL: Thank you very much for your question.

MS. RESNICK: Hi, I'm Bonnie Resnick with the Department of the Treasury, and I have a couple of questions for Mr. Koff. I was wondering if Specialized produces all of its goods domestically, and if not, where else the company sources from.

MR. KOFF: I will get back to you in post-hearing comments on that question.

MS. RESNICK: It -- okay. Thank you. And I guess another question, many bicycle producers and trade associations have argued that the bicycling industry is extremely reliant on China for their supply chain. And many companies in various industries make the argument that they had to transfer production or sourcing to China because of the cheap labor costs in China.

How was Specialized able to continue to compete with those who chose to switch their production to China, and just generally speaking, please feel free to provide in your written testimony, if that's preferable, how are your bicycles priced compared to Chinese manufactured bicycle products.

MR. KOFF: So my understanding from the industry, and from the testimony from the six prior panels, is that the bicycle industry had left the United States, and domestic production, in mass form, about 20 years ago, when there was a trade action here at the ITC, and we can provide more follow-up information and background on that data.

So my understanding is that there will

not be a resurgent, that there has been a reexamination, and it just is not going to return here for U.S. manufacturing, that in the United States, there is a limited amount of domestic high-end production, but that doesn't satisfy the market need that's a particular market niche, which doesn't not compete with general bicycle production for children, and for regular adults who aren't in the special high carbon, high fiber, highly specialized lightweight materials, the ones that may be produced by Trek, that Jodi was talking about, or the other ones that were discussed on the previous panels, but we can provide you more and additional information about those specific issues and why the industry left.

MS. RESNICK: Thank you, that's very helpful. And finally, can you describe the impact that the de minimis imports that would otherwise be subject to tariffs have had on your business?

MR. KOFF: I can, I can describe what the impact is on the industry in general, and I can get back to you on more specific issues as it relates to Specialized itself. First of all, for the industry on the de minimis, as was described, as I referenced before Matt Moore from Quality Bicycle Products submitted written comments in response to the proposed EU tariffs regarding the subsidies on aircraft from the WTO decision, and in those comments, which I can provide, you certainly could have access to, but we can provide those in the post-hearing submission.

There's descriptions about how online retailers will move forward, and they're actually selling without the ability, or without the result of charges from the additional tariffs.

So the impact on the industry is, in this particular industry with hundreds of individual parts, many of which, if not most of which, are below $800, they could be coming in, and you're competing essentially as a retail industry with an online industry, and that could destroy the retail industry.

And it's worth pointing out that in

the bike industry, in the bike world, you're asking in the, in the comments here, in the Federal Register notice, what is the disproportionate impact on small and medium-sized businesses and consumers in the United States?

Well, the mom and pop bike industries are in every town throughout the United States. Those are the ones that are supplying local jobs. Those are the ones that are supplying the bikes for the kids, and those are the ones that are being harmed and damaged in many ways by being unable to sell their particular products because they're competing with an online retailer.

So the bricks and mortars that you have grown up with, where you can actually go and get your bike serviced, where a helmet could be shifted on top of your child's head, those things are at risk, and so that's affecting that particular industry.

You asked the question, how does it affect Specialized in particular, and on that, I'll get back to you on specific details for that particular company, if that's helpful.

MS. RESNICK: Yes, that would be helpful. Thank you very much.

CHAIR GRIMBALL: I actually have a follow-up question for Mr. Schloegel. I think in your response to panel questions, you mentioned, and others have mentioned, this overlap between bicycle parts that are on the current proposed list, and parts that are on the list being considered for the large civil aircraft 301. I am also involved in that.

Some of you may remember me from those hearings. I would be interested, and I think those involved in the industry analysis of both these 301 would be interested in understanding the types of bicycle products that are being produced in China versus the types of products that are being produced in Europe, and how might tariff rates, if tariffs are placed on bicycle parts coming from Europe, how those tariff rates might affect the behavior of your membership in determining where to produce -- where to source their bicycle components from.

For example, if high-end bicycle parts or accessories are being imported from Europe, if a tariff of 25 percent were levied on both -- on that same part coming from Europe and China, how might members of your --- of your membership, rather -- respond to that? Either in post-written comments, or anyone, actually, can answer this question.

MR. SCHLOEGEL: Yes. Well, thank you for that follow-up. I'll take a quick stab at it, and it looks like Mr. Vitrano's got some thoughts on it as well. I would say first off that we have, you know, we've got 700 members of our, of the motorcycle, we're motorcycle parts, but Motorcycle Industry Council.

So we've got more than, or 700 members of that. In some cases, those are longstanding contracts, where you've got, you know, it's specialized technology, and I know Mr. Vitrano talked about this in the EU hearing, about the muffler that they're putting on one of their bikes now.

But, so in some cases, it's specialized technology. In some cases, it's longstanding contracts that they have. In other cases, it may be the, you know, meeting certain technical standards, and that's just helping them with the decision as to where they're sourcing from.

Certainly, if the question is, you know, how does a 25 percent tariff from China compare to a 25 percent tariff on goods from Europe, and would that, you know, which would they decide to source from in that instance? I'm not sure whether they could answer that, or whether they -- I could certainly put that out there and see what their thoughts are on it, but different manufacturers also have, you know, kind of focuses from Europe or -- versus Asia too, in terms of where they sourced from. But I'll -- let me see what I can pull up together for you, and I'll put that in the response. Thank you.

MR. VITRANO: Madam Chair, if I may,

and with the caveat that this is somewhat of a generalization, you're really talking about, when it comes to motorcycle parts, two different sets of issues.

When it comes to the China parts, again, generally they're going to be less complex parts of longstanding global supply chains that serve the industry generally, as opposed to -- as I testified at the EU hearing -- much of what's driving the activity, from our company at least, is highly technical, high quality, branded products that appeal to niche markets.

One of the things that I mentioned was this new motorcycle line that we put out last month, the FTR 1200. It was intentionally designed to appeal to European and other global motorcyclists, as opposed to most of our product line, which is, the U.S. is the core market for that.

So in order for us to be able to build the bikes in Iowa and export them around the world, they need to have features and components that appeal to the global rider, and many of those high-end exhaust, brake suppliers, and the like, the marquee brands are out of Europe.

And so that makes it, although technically feasible to go to an alternative supplier, from a brand equity, and a, you know, a cache standpoint, there are no alternatives.

MR. KOFF: Could I -- can I add one additional piece to that for the bike industry? And again, I'm going to go back Matt Moore's comments from Quality Bicycle Products, when he was also testifying on behalf of BPSA, in that proceeding, that one additional flavor that Mr. Schloegel and Mr. Vitrano talked about, agree with both of those. They're more specialty, and they're more complex, but they're also proprietary.

So for instance, the Campagnolo products out of Italy, which are the complex derailers, and things are not typically compatible with those units. You can only get them from Italy. And it's not recommended to mix and match what you may have for those particular Italian imports, so it's hard to obtain them.

MR. VANDERWOLF: I have a follow-up question for Alex. Sorry about this, but Alex, Bob is a member of our ITAC, and I actually am the designated federal officer, so I've talked to him a lot about this, and I know most of the production comes from China and Cambodia.

My question is, how much of that production can be switched to Cambodia immediately, and then also long-term?

MR. KOFF: I can answer, again, the way I answered to Treasury, which is, there's two parts. One is the industry answer, and one is the Specialized answer. Specialized answer first, we'll talk with Bob and we'll get you answer on their specific company, and how it's going to take to do it.

For the industry, it's a longer process, because a bicycle is a very complex machine, and as I understand it, to service that bicycle as Mr. Hill discussed for, you know, his helmet industry, it's a supply line, and you need to have all of the various component parts in one set place, and I'm just not familiar with how detailed Cambodia is in response to all of those individual parts.

So it's -- in talking with the panel, for another, for the, one of the first China measures, the China Section 421 measure on the, on those issues, one of the first cases was on certain garment wire hangers, and there, the question was whether or not a safeguard measure at the China, specific safeguard measure, would be effective in providing safeguard to the U.S. industry for a limited period of time.

And in that particular case, it's a much easier decision because a certain garment wire hanger, if you've ever seen it, can be packed up, put on the back of a truck, shipped across the border to Vietnam, and all you need is a steady supply of wire -- garment wire hangers.

And the supply chain for the shipment from Vietnam to the United States may be three months on the boat. Now, if your inventories are six months, there's going to be no safeguard for that industry, and that was persuasive to the Bush administration in saying that Section 421 would not be a remedy, and effective, safe.

Now, in response to your question for Cambodia, I don't know the answer for the company specific level, but at the industry, they've answered that by saying they can't move it that quickly. It's just not that simple a product.

MS. ROY: I just have a follow-up question for anyone who has -- who can answer. With regard to the same scenario, with regard to if the EU sanction or remedy versus the 301 fourth Tranche, if both of the parts were both 25 percent, and from a domestic consumer, does anyone have any idea as to whether they would opt for a part from Europe as opposed to China, I mean, because you're not dealing with a supply chain at that point.

I'm just a domestic consumer, and I'm ordering online or whatever. So would that person opt for a European part versus a part that was originating in China? Just a question, especially if there is the same rate of duty.

MR. VITRANO: I would say that would depend entirely on the part in question, or the product in question. As I mentioned earlier, when it comes to certain European aftermarket components, the brands and the technical wherewithal is very high, and they are very appealing to U.S. riders.

So they may opt for that for that reason, regardless of the cost parity, but it's really going to be dependent on the particular product. Most of the things that I've been talking about in my testimony are inputs to vehicles that we make in the U.S., so it would be equally damaging.

MR. KOFF: Can I add an additional point? Mr. Schloegel, were you going to talk?

MR. SCHLOEGEL: Go ahead.

MR. KOFF: No? So just to follow that up, I think I agree with Mr. Vitrano. It's a bit of apples and oranges, because the parts aren't directly interchangeable. You may not have the same parts produced in Europe that you would have, but if we're going to theoretically say that they are produced in the same place, and that the parts are identical, my suspicion is that the consumers would look at price and a perception of quality.

You know, is a part perceived made in Europe a better product? But I appreciate the question because from the EU perspective, it seems that there's a lot attention drawn to the fact that this particular industry has been battered and is really trying to gasp for air.

There's been a large number of items that have been put on all of these lists, and relief from any of them would be really quite helpful. I think that was the thrust of Bob's comments, but just to point out, on China List 2, there were very, very small amounts that were removed from the list in terms of overall HTS headings.

So one of the ones that was removed was the shipping containers, and there were I think no less than six different shipping container companies that came in to testify. I wanted to point out that here today, you had at least six bicycle industry companies that were testifying, and when you add in the helmet industries as well, you're into the double digits of people who are showing up and talking about this now.

And just to reinforce, those bicycle helmets and these other helmets that these gentlemen are talking about were on List 3, and there were two criteria in the Federal Register Notice that was examined.

Number one, will having these items on this list influence China to change its policies? And number two, what's the disproportionate impact on US small businesses and consumers?

And it's not just these 10 plus companies that are talking about it. The Committee itself decided these should be removed.

Nothing's changed, and I think the appearance here today is that people are saying nothing has changed, so it doesn't matter whether it's an EU product or a China product, a helmet shouldn't be on this list, and everybody seems to have agreed that it should be removed from the list.

But I think the harder questions are: what about these other products? And that's, I think, where we know that you're making tough choices, and that's the reason why I think Specialized has said, you can still give some relief, at least limited pointed relief, by at least protecting the bicycle industry from the de minimis imports from the online resellers.

MR. SCHLOEGEL: I would just add one last point to kind of underscore the apples to oranges comparison, and that is that, you know, in this situation is, with the China tariffs, it's a much more widespread problem than, that I think the administration is trying to address, versus in the EU tariffs, where it really is a Boeing versus Airbus situation, and during that testimony, Mr. Austell, Ted Austell from Boeing, also did testify to the fact that he thought that this should, others, such as the motorcycle industry, shouldn't be part of the tariffs, that this dispute should just be applying to the aircraft industry, rather than capturing a bunch of other industries.

MR. HILL: Sorry. If I could just add one last thing, I know Paul wanted the one last thing, but I've got the one, one last thing. In the motorcycle helmet industry, we don't have the option of purchasing products from the European Union.

There is no factories in the European Union that will build for customers. There are some brands in Europe, but they build for themselves. So any tariffs that -- vis-a-vis China versus Europe, it's going to affect the motorcycle helmet industry if these tariffs come into place on Chinese-produced goods. Europe tariffs have little or no meaning for motorcycle helmet manufacturing.

MR. SULBY: My last question is still on this sort of apples to oranges, EU versus China question. And I would ask anyone who has insight to reply in the post-hearing comments so that we can get to our last panel for the day.

But obviously the proposed tariff list in this -- in this action is at the HTS level. To what extent can the products in these HTS classifications be delineated, EU versus China, at either the 10 digit level or otherwise? And we'll look forward to reviewing that in the post-hearing submission.

MR. BURCH: Madam Chairman, we release this panel with our thanks, and would the witnesses for Panel 32 make their way forward?

CHAIR GRIMBALL: I think we're ready for the last panel for the day. Thanks for your patience.

MR. BURCH: Yes. Our first panel witness for Panel 32 is Kathy LaVanier with the National Candle Association. Ms. LaVanier, you have five minutes. Oh, can you turn on your microphone?

MS. LAVANIER: All right. Thank you for the opportunity to testify today. As he said, I'm Kathy LaVanier, the president of the National Candle Association, also known as the NCA.

It was founded in 1974. The NCA is the major trade association representing the majority of US candle manufacturers and their suppliers. While the NCA fully supports the administration's efforts to combat the Chinese government's harmful technology and intellection property practices, I'm here to ask the administration to remove certain candle-making components from its final Section 301 list.

They are, one, specialty glass candle vessels, including votives, two, paraffin wax, and three, beeswax. These components are classified under four HTSUS subheadings, which we've provided in our recently submitted written comments.

The NCA requests removal of these four

codes for several reasons. In particular, small and medium-sized US manufacturers who rely on imports of glass candle vessels and wax for producing filled candles here in the United States, will be harmed by increased cost of goods, making them less competitive both in the US and globally.

Meanwhile, Chinese producers of glass vessels and wax will remain largely unaffected, as they'll shift sales to countries such as Vietnam and Mexico, who will not have to pay the additional tariffs on these same components.

This gives them an insurmountable competitive cost advantage over our US producers. The truth is that for an already vulnerable industry, an increase of 25 percent in duties on main components threatens to shift manufacturing for US-made products, like these, I've got set up here, overseas, resulting in a loss of American jobs.

The shift overseas would not only be bad for the US candle-making industry, but it would also result in harm to US consumers in the form of lower quality products. The thousands of jobs created in the USA by NCA members are good-paying jobs, and our members' employees take a lot of pride in making high quality products that are both safe and healthy for the environment.

We are skeptical that foreign producers would be as careful in ensuring their candles meet the highest safety standards and environmental standards of domestically-produced candles. US candle makers cannot simply shift to alternative sources for glass and wax.

For instance, glass design newness and variety are key to driving sales in the candle industry. Really key. Due to its focus on automation, the US glass-making industry is not positioned to supply us with the broad range of glass vessels that drives sales with the end consumer.

They prefer, instead, to focus on larger runs of more lucrative work like wine and beer bottles. There are also no viable alternative sources for glass vessels in other foreign countries.

For instance, the NCA is aware that Mexico does not have the adequate equipment and personnel in place at this time to produce the design range and quantities of glass needed by the entire US candle industry.

Even if Mexico invested in new equipment and ramped up production, the ramp up time would take more than a year. Further, the production of wax in the US has been greatly reduced, and there is not a significant, sufficient supply of domestic wax to meet the demands in the US market.

Beeswax has fallen victim, sadly, to worldwide colony collapse disorder, and this has not been resolved. As a result, we have already seen a reduction of supply and a steep increase in the price of the beeswax, even before we considered tariffs.

Regarding paraffin, US oil refineries

have nearly ended wax production because they can use that same feedstock to instead produce much more valuable high-end lubricants. The tariffs would simply make all of these tough situations even worse.

The NCA also recognizes the concerns surrounding the Chinese government's Made in China 2025 policy notice. We respectfully submit that the glass candle vessels and wax are not part of the high tech sectors in China's policy.

We also submit that the consumers of candles, such as members of religious communities who purchase votive candles, are not the high tech consumers targeted by China's policy. Thus, our request for removal of glass vessels and wax does not seek to undermine the intended goal of Section 301.

For all these reasons, the NCA asks the administration to remove specialty glass candle vessels, paraffin wax, and beeswax from its proposed list of products subject to the Section 301 tariffs. Committee members, thank you very much, and I look forward to answering your questions.

MR. BURCH: Thank you, Ms. LaVanier. Our next panel witness is Peter Erdman with Hisense USA Corporation. Mr. Erdman, you have five minutes. Oh, can you please turn on your mic?

MR. ERDMAN: Thank you for having me here. I appreciate the time. Members of Section 301 Committee, thank you for the opportunity to testify today. I appreciate your willingness to consider our testimony.

My name is Peter Erdman. I am the vice president of marketing and business development for Hisense USA Corporation, located in Suwanee, Georgia. Founded in 2001, Hisense is an importer and distributor of consumer products with a focus on television monitors and projectors, as well as dehumidifiers, air conditioners, stove top ovens, and dishwashers.

Originally located in Los Angeles, California, Hisense moved its operations to

Suwanee, Gwinnett County Georgia in 2007. Since that time, Hisense has made considerable real property and workforce investments in Suwanee, Georgia, where it maintains its corporate headquarters, R&D, and warehousing facilities.

Currently, Hisense employs 127 full-time workers. Hisense is well-respected -- is a well-respected corporate citizen of Georgia, and an active supporter and sponsor of USA Soccer, and many local charities, school systems, and nonprofit organizations.

In 2015, Hisense obtained the licensing rights for the Sharp TV brand, and markets its TV products under the Sharp name, as well as under the Hisense brand. Hisense has expanded its product line into many other products, such as dishwashers, microwave ovens, air conditioners, and dehumidifiers.

Hisense products are sold at Walmart, Costco, Best Buy, and Amazon, and many more boutique and big box retailers. In 2010, Hisense expanded its corporate headquarters by 7,000 square feet to build a US R&D center.

The US is the most important international market for Hisense, and it has made a significant investment in its R&D center. In fact, Hisense invests 5 percent of its annual sales revenues back into its US R&D.

The local R&D team provides industrial design, product testing, competitive analysis, and display technology studies. Hisense is committed to growing our US operation, and developing our Georgia workforce.

The proposed Section 301 List 4 product list contains many of the consumer products Hisense imports and sells in the United States. In particular, increased tariffs are proposed on dishwashing machines, microwave ovens, smart laser TV projectors, and panels, smart screen TV monitors, sound bars -- I'm sorry. Sound bar theater systems, dehumidifiers, and air conditioner parts.

We are appearing here today to express our concerns and highlight issues raised by this new round of tariffs. We supplied a detailed list of the tariff numbers of concern with our comments filed on Monday, June 17, 2019.

Because of the eight-digit HTSUS subheadings are broad by necessity, imposing tariffs at the eight-digit level will impact products at the 10-digit level, such as Hisense consumer products I just mentioned.

Such items are not an appropriate target for the Section 301 tariffs. Hisense products are the subject of the present comments, and are designed primarily for home use at the proposed -- and the proposed tariffs on these items would have a disproportionate impact on individual consumers of such items.

These consumers would be especially affected by the proposed tariffs. To the best of our knowledge, the majority of these items, especially the TV panels and laser projectors, are not wholly manufactured in the United States.

We have no option but to import these items, and the predominate source is China. It is difficult to imagine that other countries would be able to replace China as a supplier of these items, at least within a year's time, and it would be difficult to foresee Hisense manufacturing these products in the United States without a lengthy disruption of supply.

Should the administration ultimately impose additional duties on Hisense's imported products, absolutely no US manufacturers would benefit from the additional market protection. Instead, the additional duties would ultimately reduce competition for the products, which, in turn, would raise prices for American consumers and homeowners.

Moreover, the consumer products that I previously listed represent a large portion of Hisense current and future sales and are vitally important to Hisense viability as a company and its plans for US growth and expansion.

If the administration imposes tariffs on these products, it will financially jeopardize Hisense, a company that has made a significant investment in the United States, and affect jobs in Georgia without helping a single US manufacturer or manufacturing job.

CHAIR GRIMBALL: Mr. Erdman, I see you have a ways to go, but I have to ask you to conclude.

MR. ERDMAN: I'm sorry?

CHAIR GRIMBALL: I have to ask you to conclude --

MR. ERDMAN: Sure.

CHAIR GRIMBALL: -- very soon. Thank you.

MR. ERDMAN: Okay. So on behalf of Hisense, I appreciate the opportunity to testify on the impact proposed, that determination of acts and pursuant to Section 301, Hisense will supplement this testimony with post-hearing responses to questions posed by the panel, and appropriate comments. Thanks.

MR. BURCH: Thank you, Mr. Erdman. Our next panel witness will be Greg Williamson with CamelBak Products, LLC. Mr. Williamson, you have five minutes.

MR. WILLIAMSON: Great. Thank you, and thanks for the opportunity to speak today. So as noted, my name is Greg Williamson. I'm president of CamelBak, the premier brand in hydration products, such as bottles, reservoirs, and backpacks, as well as hydration systems designed and purpose-built for the US military.

We're based in Petaluma, California with a distribution facility in San Diego. In total, employing over 125 full-time US employees. As noted, we proudly supply our products to the US military, as well as the consumer market. I'm here today -- consumer market.

I'm here today to discuss plastic and stainless steel bottles for water and other liquids, which make up the vast majority of our sales. Imposing tariffs up to 25 percent on these products would harm our company, our employees, raise prices for our customers, not to mention the negative implications it has on the environment. More to -- more to come on that later.

I would not be here today if we could absorb the cost of the potential tariff increases. We simply cannot. Imposing such tariffs on these products would lead to higher retail prices, and inevitably, would dissuade consumers from purchasing reusable over disposable bottles.

One of the many benefits of CamelBak bottles is that they allow consumers to keep their beverages fresh and available wherever and whenever they need, and in the process, provide an effective and environmentally friendly alternative to single-use plastic bottles or paper cups.

We have done extensive research on our sourcing options, yet we cannot find alternative sources outside of China that can produce our bottles in the quantity, or to the quality, that we require. The tooling and capital expense to produce these products is very high, and suppliers outside of China are either too costly or do not have the technology to produce our products.

Even if alternative sources were available, the time and resources required to move the manufacturing of our products would be economically unbearable. Just a little bit more on the products themselves. We offer a variety of options -- I have a few laid out here -- to our customers, ranging from bottles with reusable straws, squeeze bottles for sport applications, vessels designed specifically for consuming coffee and tea, in addition to pour-style tops, ideal for consuming water on the go.

Our stainless steel bottles have insulated properties through vacuum seal -- through the vacuum seal created between the two outer walls. This seal allows drinks to stay cold for up to 24 hours, and hot for up to 6.

Our plastic bottles are made from Tritan or polypropylene plastic, and are all BPA-free. These products are particularly popular and relevant in kids' line, and are used safely by millions of school children each year.

Our plastic bottles also have leak-proof top options to ensure no water is wasted if they're accidentally bumped, rattled, or dropped. We know the more variety we offer, the less likely people are to use disposable bottles, many of which end up in oceans, rivers, parks, or litter in your own neighborhood.

Our reusable bottles greatly reduce the amount of plastic waste, which, as you know from recent reports, is a tremendous ecological problem. Environmentally friendly bottles have become essential for people with active lifestyles in everyday life, whether at home, in the office, at your kids' soccer game, soccer games, or while enjoying the outdoors.

They are critical for maintaining hydration during any physical activity when the other options are wasteful plastics, or no water at all. Hydration equals good health, optimal performance, and safe heat management.

Hydration is CamelBak's business. The

use of plastics across the United States and the world has skyrocketed to unsustainable levels. In 2017, Americans spent an estimate $13.7 billion on bottled water, a 17 percent increase from 2016.

This makes the United States the biggest user of bottled water on the planet. While only accounting for 4 percent of the world's population, Americans are responsible for 15 percent of total world consumption of disposable water bottles.

Many of the plastics heavily consumed by society are single use plastics, which are promptly disposed of after use. Although some of this plastic is recycled, most is not, and part due to improper disposal practices in our recycling facilities. This is not good for our planet.

We are doing our best to stop this trend. Getting consumers to ditch disposable is a core mission of our company. Presently priced lower than the average case of bottled water, reusables provide an opportunity for consumers to reduce waste without negatively affecting their buying and lifestyle choices.

Tariffs would increase the price of reusable bottles, pricing them out of the market. No longer will reusable bottles be accessible to all, thereby discouraging consumers from making healthier and more sustainable choices.

Simply put, the higher the cost of reusable bottles, the more likely consumers are to opt out of disposable bottles, which are -- which -- opt for disposable bottles, which would make the plastic waste problem even more severe.

If we wanted to minimize stray plastic in oceans, waterways, roadsides, and landfills, we should encourage the use of reusable products like CamelBak hydration systems, not impose punitive tariffs up to 25 percent, which inevitably would lead to more plastic trash.

We urge you to remove reusable hydration products from the proposed tariff list. Thank you for listening to our concerns, and for your consideration of our request.

MR. BURCH: Thank you, Mr. Williamson. Our next panel witness will be Julie Heckman with American Pyrotechnics Association. Ms. Heckman, you have five minutes.

MS. HECKMAN: Good afternoon, Madam Chairman, and the Section 301 Committee. I am Julie Heckman, executive director of the American Pyrotechnics Association, which was founded in 1948, and is the principal safety and trade association for the firework industry.

I appreciate the opportunity to discuss the implications of the proposed tariffs, not only on the US firework industry, but on the local communities, nonprofit organizations, and millions of Americans who celebrate their freedom each 4th of July with fireworks.

The firework industry shares the administration's desire to negotiate meaningful trade solutions with China. However, the broad scope of the most recently proposed tariffs, particularly those on fireworks, would raise costs on American businesses, and their downstream customers.

Additionally and uniquely, thousands of nonprofits and small municipalities nationwide will suffer significantly. Their skies could be dark next Independence Day. The APA formally requests that HTS subheadings for professional display fireworks and consumer fireworks be removed from the proposed products subject to increased tariffs.

Those products are imported under HTS subheadings 3604.10.10 and 3604.10.90. Fireworks are not high tech products covered by Chinese industrial policy, including its Made in China 2025 plan, and therefore, increased duties on fireworks would have zero impact on China's policies and practices.

China is actually credited with the development of fireworks, dating back to the second century, BC, and the discovery of gunpowder. The formulas used to manufacture fireworks remain relatively unchanged since the mid-1900s.

Fireworks are made by hand, involving a highly skilled, well-trained, labor intensive process. That manufacturing process, combined with excessive regulations, beginning in the mid-1970s, drove US firework companies to rely on those solely on imported products.

Since 1976, China has been the dominant global manufacturer and supplier of fireworks. Over the past four decades, US firework companies have cultivated close relationships with their Chinese industry colleagues to produce the highest quality and safest fireworks ever made.

Safety is and will remain our highest priority. During the past several years, the firework industry has experienced uncertainties in doing business with China, and has even explored firework production in other countries, such as Vietnam, Cambodia, India, and Mexico.

But what we've learned is that the long-term commitment of Chinese manufacturers to understand and adhere to US regulatory guidelines is not easily duplicated. It would take between 10 and 15 years to transition meaningful and safe production to another region.

The proposed tariffs on fireworks would cause severe economic harm to the industry, nonprofits, and municipalities nationwide. 98 percent of APA member companies are classified as small businesses. These small businesses are multi-generation family businesses with strong ties to their communities, creating thousands of full-time and part-time local jobs.

Sales of consumer fireworks support thousands of nonprofit organizations, including churches, veterans' groups, youth sports, and other philanthropic groups. A 25 percent hike in price will severely hurt their fundraising abilities.

The vast majority of professional firework displays are small municipal and nonprofit sponsored displays costing less than $15,000. These small municipalities are already cash strapped, and struggle each year to secure funding for their 4th of July Independence Day shows.

For these small cities and towns, the proposed 25 percent tariff would, in many cases, mean they would no longer be able to afford an Independence Day firework display.

Fireworks are classified by the U.S. Department of Transportation as explosives, and are subject to specific markings on shipping cartons and containers. All firework containers received at US ports must have shipping manifests that include the UN identification number, proper shipping name, and hazard class.

These requirements coupled with the existing fireworks import surveillance program have familiarized custom agents with both professional display and consumer fireworks. That's making enforcement of any tariff exemption for fireworks both feasible and efficient.

APA members are patriotic. They bleed red, white, and blue. We sincerely hope that the

Committee will grant our request to exclude fireworks from the most recent round of tariffs so that Americans across this great nation can celebrate their freedom this 4th of July and beyond by lighting the skies, and celebrating the way that John Adams wanted. With bonfires and illuminations from one end of this continent to the other. Thank you.

MR. BURCH: Thank you, Ms. Heckman. Our last panel witness for the day will be Daniel Peart with Phantom Firework Companies. Mr. Peart, you have five minutes.

MR. PEART: Thank you. Good afternoon, Madam Chair, members of the Section 301 Committee. My name is Daniel Peart, director of government affairs for Phantom Fireworks Companies of Youngstown, Ohio.

We appreciate the opportunity to appear before you today to offer the concerns of Phantom Fireworks regarding the proposed up to 25 percent tariff on imported Chinese fireworks.

Unequivocally, and for the record, it

would be absolutely impossible to find alternate sources to replace the supply of Chinese fireworks. It would be impossible to replace the Chinese fireworks. China, including Hong Kong, supplies 97 and three quarters percent of all consumer fireworks, and 86 and three quarters percent of all professional display fireworks to the United States.

The non-Chinese 2 and a quarter percent of consumer fireworks, and the 13.2 percent of professional display fireworks come from a total of 10 countries.

Phantom fireworks imports 99.8 percent of all the fireworks we sell from China. Virtually every firework we sell comes from China. The reasons it would be impossible for the other, the other 10 countries to step up and meet the fireworks supply needed in the US is multi-fold.

These countries do not have the manufacturing capacity to produce enough fireworks to meet US demands. The countries now lack the ability to produce the variety of fireworks that China produces.

The countries produce a limited number of items, rather than the full line of fireworks that Americans demand. China has over 1,000 years of experience in making the fireworks, while no other country has anywhere near that depth of knowledge of experience.

Fireworks manufacturing in China is a rural endeavor, which products being crafted by hand rather than by high tech machinery. This is about as low tech of a manufacturing process as you can imagine.

Labor costs in most of these other countries are much higher compared to that of the rural labor cost in China. The consequence is that American importers will have no choice but to continue importing from China and pay the tariff, and Americans will pay the tariff, not China.

The proposed tariff on fireworks will not affect China one bit. China will lose very few of its American customers until the American consumers react to the higher prices and stop buying as many fireworks.

For the sake of argument, if China does lose orders on fireworks due to the proposed tariff, the manufacturing is all done in rural areas, not the largest cities, so the loss of employment will have minimal impact.

We don't believe the loss of employment in China due to the imposition of the proposed tariff on fireworks is even a remote possibility. The American importers will then cut their orders, however China will simply shift its production for other markets, such as South America, Europe, the UK, Russia, Asia, Australia, and the domestic Chinese market.

The American importers will have no choice but to pass the bulk of the tariff cost onto the American consumers. Consequences will follow. The higher prices will lead to a reduction in the number of fireworks purchased.

This will mean less income to the

American companies, which will result in a reduction in employment and wages paid, less expansion, and less taxes, and firework-specific taxes, paid to federal, state, and local governments.

Uniquely, because so much of the temporary venue firework sales at retail are conducted by a charitable 501(c)(3) organizations, these charities will lose, and will have less money available to fund their much needed good work.

We believe an exemption from the tariff on fireworks is justified for the following reasons. It is impossible to find a ready alternate source to replace the imported Chinese fireworks to the US.

Two, because we will be forced to continue to buy the fireworks from China, China will suffer little or nothing as a result of this tariff imposition. Three, there will be substantial economic loss to the American economy, and the proposed tariff on fireworks would be ineffective in eliminating the acts, policies, and practices of China, that motivated the U.S. Trade Representative's issuance of the notice, and would not advance the U.S. Trade Representative's policy objectives.

We respectfully urge you to exempt fireworks from the proposed tariff. Thank you for your time and opportunity to present the views of Phantom Fireworks.

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

MR. VANDERWOLF: Hi, I'm John Vanderwolf from the U.S. Department of Commerce International Trade Administration. My name, my question's for Kathy of the National Candle Association.

Can you explain or expand on why you referenced candle inputs must be sourced from China? Also, what is China's place in the respect to the global marketplace of these products, and what are the difficulties associated with sourcing materials needed for candles from other countries?

MS. LAVANIER: Yes. In, well, I'll start with the glass.

MR. VANDERWOLF: Okay.

MS. LAVANIER: And the glass for candles has to be made under a special process, dictated by ASTM, to make it safe for the thermal shock that happens when candles are used. So we implemented that as an industry several years ago, and in fact, the fires due to candles have dropped by more than half since we implemented these undertakings.

So it's a great thing, but it makes it imperative that the manufacturer follow these strict means by which they have to produce the glass in order for us to buy it to use it for candles. And in my, in my career, I, actually for a very large candle purveyor, was sent to Mexico, Guatemala, Thailand, Vietnam, looking for other manufacturers of glass that could make glass according to these, the rules that are set forth to do that, and was not able to find any that could do that.

So that made it very difficult from the start. In Europe, there's glass available in Europe, but because it's so expensive, even if they switched to making it according to the ASTM protocol, we couldn't afford it, as far as using it for our candles.

It would make them too expensive in the marketplace. So that leaves us then with the US and the Chinese manufacturers that actually implemented the ASTM standards so that they could produce against that.

The other issue we have with glass is that the candle, the glass makers in the US, if I want to make a, this piece of glass, I've decided I like that shape, and I'd like to make it, I would have to pay 70,000 for the tooling, and take 250,000 pieces.

If I go to China, same piece of glass. I would need to pay about $3,000 for the tooling, and take 5,000 pieces. And in a glass business, we're very much a fashion-driven industry. It's all about fast fashion for us, so we need to constantly be changing up what we offer so that it looks new and exciting and different, and keeps up with the decor trends.

And taking 250 to 300,000 pieces at a go doesn't really enable us to leverage that. So we do use US glass to the full extent that we can, but when we need to be fast fashion, we need the help of China and their glass manufacturing capabilities.

As far as beeswax and paraffin, both are in short supply globally already. We find it hard to get it even when we have China available. If we take China out of the mix, we now have an even much bigger problem. So we are taking wax from every source that we can get it already, and because of the high-end lubricants being so great, and making so many profits for the oil folks, it's making it impossible for us to talk them into making a byproduct wax out of it instead.

And the bees, I think we're all familiar with that situation and what's going on there, and it's really just, really tough to get beeswax. So we've looked at all of those possibilities as, to the full extent that we can, and that's where we've come. We come up short without China. But great question.

MR. SULBY: My question is for Mr. Erdman, from Hisense. Could you expand on the severe harm you indicated Hisense would suffer -- should additional tariffs be imposed on these products?

MR. ERDMAN: Primarily the harm would be toward the employees and the families of the employees at Hisense in Georgia. There would also be harm to the retailers that we supply in the United States, including Best Buy, Walmart, Amazon, Target, et cetera.

This business, the TV business is a very low margin business, so it's very difficult because we're a small company fighting against some very big companies. Samsung, Sony, et cetera.

So the harm would be really toward the people who work at the company, and the people they support, and then the people who we supply.

MR. SULBY: So how much of your products are sourced from China, and what other countries are they sourced from?

MR. ERDMAN: When you say source, I'd say if you use a television as an example, I'd say I don't know the exact percentage, but it would be high 90s are sourced out of China. You know, historically, the TV business that was in the United States was back in the 1960s.

That business gradually moved over to Asia, because the technology changed. Some of it went to Japan, some of it went to Korea, and then it went to China. At this point, there's very little of it in Japan, and then some it in Korea. We can't source anything from Korea because it's our big competitor there. So primarily, we have to get our parts and products from China.

MR. SULBY: Lastly, you cite in your

testimony that no -- none of these products are wholly made in the United States anymore. Are any of these products partially made or partially manufactured, or otherwise finished in the United States?

MR. ERDMAN: I cannot recall the name of the company. There's one company in South Carolina that kind of stamps a Made in USA on their television box, and literally they bring a built TV to the United States, and then maybe put a remote control in there. I don't consider that really manufacturing.

MR. SULBY: All right. Thank you.

MR. FRATERMAN: Really quickly, Mr. Erdman, I just wanted to follow up. In the first part of that question, you said that the employees would be the ones who were the most severely impacted by this, and I guess I wanted a little bit more detail on that. In regards to the employees in Georgia, I'm assuming, correct?

MR. ERDMAN: Correct.

MR. FRATERMAN: Okay. Would that be

an entire facility shutting down? Would that be certain employees in just the warehouse being laid off, and not necessarily the corporate? Who exactly would be affected by that?

MR. ERDMAN: Because the product is a very low margin product, and the competition is fierce, it could be across the board of all parts of the company, which would include, it could be sales, it could be marketing, it could be parts supply, it could be service group, it could be the supply chain group. It's basically all the components that are put together to build and distribute a product in the US.

MR. FRATERMAN: Great. Thank you very much.

MR. ERDMAN: Sure.

MR. FRATERMAN: Thank you.

MS. ROY: Tracy Roy from U.S. Customs and Border Protection. This question is for Mr. Williamson. Have you investigated alternatives to sourcing your water bottles from outside of China, either domestically or from third countries?

MR. WILLIAMSON: Yes, thanks for the question. We have, and like a lot of companies, we periodically undergo, you know, global sourcing and supply chain reviews. It's just part of normal operating practice to keep a monitor on cost. Our most recent one was just over 12 months ago.

Investigated over 30 different manufacturers in several countries, and it all led back to where we are, which is in China, that can deliver the capacity, the quality, the speed to market, and the other capabilities needed to service our business. So we have done that.

MS. ROY: Okay. I have one more question. Can you elaborate on how you expect an additional tariff on Chinese water bottle imports to affect your supply chain and US consumption?

MR. WILLIAMSON: Sure. At the end of the day, this is a consumer product, as we all know. It's a discretionary consumer product, where there are alternatives, mainly bottled water, and you know, we sell the majority of our products through retail distribution.

The obvious ones, both, you know, brick and mortar, and e-tail, and have seen in the past actions, whether it's for a variety of reasons, when we take price up or take price down, there's a -- the consumer's reaction to a discretionary product like ours. So it's a sensitive product.

It's a competitive market with, you know, consumer alternatives. So as retail prices go up, we see sale through, and consumption of the product go down, and obviously that's not good for the health of the business, or the industry.

So we would anticipate to happen, as the only alternative for us in this scenario is to pass the cost on to our retailers, who will ultimately pass it on to the consumer.

MS. ROY: Thank you.

MS. MORGAN: Good afternoon. My name's Jenny Morgan from the U.S. Department of

Agriculture. I have a question for Ms. Heckman. You mentioned that fireworks cannot be produced in necessary volume elsewhere. What sort of investment and timeline would be expected for other production facilities to ramp up production?

MS. HECKMAN: Well, the US, in 2018, imported 277 million pounds of fireworks from China. Our domestic production, 6.7 million pounds, and those were very unique specialty products. The days of manufacture in the USA went away in the mid-70s, and it's really sad because the Italians, who brought that trade with them for the beautiful displays that we see, we used to have a couple dozen Italian, three, four, fifth generation family businesses manufacturing. None of them manufacture anymore.

It's just, it's so labor intensive, and it's dangerous. You're dealing with highly energy, you know, highly energetic materials, and it is all made by hand. Very, very little automation. China is the star.

75 percent of the professional display fireworks are imported from China, so what you're going to see at the 4th of July show, D.C. mall, 75 percent will be from China, and you will see specialty products from Spain, Japan, Italy, and Germany, that help balance out that show.

Those countries could never manufacture the volume of product that would be needed, and when you look at the consumer fireworks, 99 percent backyard fireworks, we're talking cones, fountains, sparklers, the things that Americans just love to celebrate in their backyard, 99 percent come in from China.

And I mentioned, and I think this is more in my written testimony as well, we have so many problems dealing with China. Every year, it's a different issue, whether we're going to have shipping containers willing to take our dangerous cargo.

You know, we're first class tickets on those cargo ships. Whether the ports are going to shut down. We have two ports that we can get product out of China. One of them keeps shutting down. Really difficult. If this industry could move its manufacturing, it would've done it. It would've done it.

And that's why there is, there has been exploration of Cambodia, Vietnam, looking at Mexico. But I will tell you, the quality of the products that we had, and the safety, and this stuff has to be safe for multi-modal transportation, handling, use, and in front of those spectators.

So whether it's backyard use or spectators, safety is our number one priority. And so it's a, it's a real, it's a real challenge. And it would probably take 10 to 15 years to figure out how to do it elsewhere. Thank you.

MS. MORGAN: Great. Thanks. I have another question. You mentioned Independence Day displays. Can you expand on what type of seasonal demand structure fireworks have, and the nature of firework orders?

So for instance, do you purchase Chinese fireworks under a contract, or what flexibility do you have to negotiate lower prices with China?

MS. HECKMAN: Well --

MS. MORGAN: The Chinese suppliers.

MS. HECKMAN: -- you know, and I'm the trade association person, so I don't get into pricing or contracts, as that's anti-trust issues. But every year, there are additional costs that the industry incurs, whether China raises cost on the paper components, or it's the chemicals and the raw materials.

Then there are the additional burdens of the container ships. You know, when trade with China is good, you know, it's really hard for this industry to get space as dangerous cargo on ocean vessels. But when trade is struggling, we're the first class tickets, and for a high price, you can get as much space as you want on all those, you know, container ships.

When it comes to contracts, like the

D.C. show typically is a three-year contract. It's awarded that way. Other municipal shows are one-year, and they are booked very far out in advance.

So thankfully, these tariffs don't impact, you know, this 4th of July coming up in two weeks, but they potentially could have a significant impact if there's a 25 percent hit, and when we talk about the industry, really, the bread and butter is the 4th of July.

There will be over 16,000 Independence Day shows for the Independence Day holiday alone. And what the, what these companies go through to make that happen, we take over the rental truck industry, because there aren't enough trucks to move that stuff.

There's not enough equipment to do them all on July 4th. That's why some are on July 1st, why some are on the 2nd, why some are on the 3rd, why some are on the 5th. Not enough equipment, and not enough trained pyrotechnicians. So this industry goes through a lot to help America celebrate its pride and patriotism.

MS. MORGAN: Thank you.

MR. FRATERMAN: Thank you. Mr. Peart, or Peart, I'm sorry. I just have one last question for you. You argue in your testimony that it would be impossible to replace China's capacity as a source for US importers, and I know Ms. Heckman touched on that.

I just wanted to hear from you as well. Can you give us a larger sense of the differences between Chinese firework capacity and that of other domestic and international sources?

MR. PEART: Yes, of course. As Julie mentioned, domestically, they're just, and at least as it relates to the consumer product, consumer fireworks, the domestic production, I don't know that it even exists anymore.

MR. FRATERMAN: Okay.

MR. PEART: I don't think there's any domestic production of consumer fireworks, period. In terms of internationally, as I mentioned in my testimony, China makes 97.75 percent of the world's fireworks.

What I have here from the U.S. International Trades Commission 2019 statistics, the next country in third place is Israel, with 1.08 percent of the fireworks imported, or excuse me, exported into the United States. That's number three after China and Hong Kong.

MR. FRATERMAN: And Hong Kong. Okay, Hong Kong is the other one?

MR. PEART: Right.

MR. FRATERMAN: Okay.

MR. PEART: Right. 96.34 percent from China, 1.41 percent from Hong Kong. So it's, it just doesn't exist, and as both Julie and I mentioned before, you don't have factories in other countries that are making the entire line, the entire product line available.

For example, Phantom Fireworks may have, of one category of fireworks, something called the multi-tube aerial kick. It's an aerial item. We may have 200 SKUs that are alive in our product inventory right now.

A new factory will come up from Israel, or from Japan, or from Spain, and they're making a multi-tube aerial kick, and they've got three, and they want you to buy one of them. So it just isn't there.

And that may be the only thing that factory is making, and then there's the factory in Japan that's making a party popper item. So to be able to consolidate your purchasing without spending money all over the country, because we're not a massive industry. We're growing, and we're getting bigger, but we're certainly not to the extent of some of the other industries that are before you here today. It would be, it would be an insurmountable task to replace without notice in a year's time to the consumer.

MR. FRATERMAN: Great. Thank you so much.

CHAIR GRIMBALL: Mr. Peart and Ms. Heckman, I have a question either of you can answer, and the question concerns individual consumer behavior, so your backyard firework user, for example.

Fireworks are a specialty product. One that I assume is not used every day by consumers like, for instance, a tumbler, or a water bottle. So can you give us an idea of how increased prices on fireworks, something that is used occasionally, maybe on the 4th of July, New Year's Eve, how an increased price might affect an individual consumer's decision to buy a firework for a special occasion.

MS. HECKMAN: I'll go first, and then I'm going to pass it off to the consumer guy. You know, it is a discretionary product, but I will tell you, if you look at the consumption numbers that we've tracked since the Consumer Product Safety Commission issued regulations on consumer fireworks in 1976, consumption was 29 million pounds.

That was the bicentennial. We're at 277 million pounds. Forty-nine states allow it. Consumption, pardon me, is soaring. But American families, they budget for this activity.

It's the one thing they budget for. They might not be able to afford a vacation, but they'll have their family fun, and they will have a budget. So if they have $100 budget, and there's a 25 percent tariff, they're getting less for their money. They're going to spend that $100.

You may have a few that go, well, we can probably pony up and maybe a buck 25 won't really hurt us, but when you get to the bigger spenders, that 25 percent's really going to add up, and impact businesses like Phantom Fireworks.

MR. PEART: Yes, I agree with Julie's sentiments, and then just to add a little bit more relevant example to the answer. Our customers, we are maybe the most seasonal product that exists, you know? Christmas trees might want to have a word with us, but fireworks are really only used, unless you're fortunate to live in a warm weather state in the south, where the New Year's, where it's warm outside for New

Year's, it's typically a once a year commodity.

The majority of our customers purchase from us one time a year. So we do have a high amount of customer loyalty, where people come back to our stores year after year after year, and they keep buying our products.

Nobody remembers what they buy. Nobody remembers, I bought two Screaming Mimi's and a -- no. I remember I spent $500. I remember I spent $250. And what will end up happening if these proposed tariffs of up to 25 percent are affecting the fireworks industry, they may come in again and spend $250, they may come again and spend $500.

They're going to get 25 percent less product, and they're going to see it. Of course it'll be on the news, and of course people will know about it. They're going to realize that they spent the same amount of money and they're getting a staggering amount less product.

And again, being a fragile uber-seasonal industry like we are, where we, our industry is fragile enough that the day of the week that the 4th of July falls on significantly impacts our success.

Last year, the 4th of July was on a Wednesday. Everybody in the industry knows and will tell you, when the 4th is on a Wednesday, you tighten your belt a little bit, because there aren't as many parties. Sales are not quite as brisk as they would be when it falls on a Friday, Saturday -- When it's easier to plan those types of parties. So the price increases are real.

When there was an economic downturn back around 2010, people didn't come out as much. We noticed that maybe the $500 customer continued to come out. Maybe he spent $300 or $400. What we noticed without question is the majority of our sales are the impulse buyer that remembers, I need 4th, I need fireworks. It's July 3rd, it's July 4th. Let's go spend 60, 70, $80, and get a couple of sparklers and a rocket.

Those customers went away. And with an increase of 25 percent, those will be the customers that get hit the hardest for sure.

CHAIR GRIMBALL: Thank you.

MR. BURCH: Madam Chairman, we release this panel with our thanks, and we will recess until tomorrow, 9:30.

(Whereupon, the above-entitled matter went off the record at 5:17 p.m.)

B

T

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: 06-20-19

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