UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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FRIDAY
JUNE 21, 2019

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

PRESENT

WILLIAM BUSIS, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
JULIE ADAMS, Department of State
ADA BACETTY, Department of Agriculture
CHRISTOPHER BLAHA, Department of Commerce
PRAVEEN DIXIT, Department of Commerce
MATTHEW FRATERMAN, Department of Labor
JEAN JANICKE, Department of Commerce
COURTNEY LANG, Department of Commerce
PETER MAIER, Department of the Treasury
SAGE MITCH, Department of the Treasury
TANYA SMITH, Small Business Administration
ANDREW STEPHENS, Department of Agriculture
ARI SULBY, Department of State

SHELLY ZHAO, U.S. Trade Representative

ALSO PRESENT

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

WITNESSES PRESENT
CARLO BARGAGLI, Ideaitalia Contemporary Furniture
JAMES BARTHEL, Primex Family of Companies
MIKE BOBER, Pet Industry Joint Advisory Council
JAMES CANNON, American HFC Coalition
STEVE CISTULLI, Coolpad Americas
JASON CLERKE, Garrett Hewitt International
JOSEPH COHEN, Snow Joe LLC
JAMES DAILY, SimpliSafe Inc.
JEFF FERRY, Coalition for a Prosperous America
DAVID FRENCH, National Retail Federation
PETER GOGGI, Tea Association of the U.S.A., Inc.
EVA HAMPL, United States Council for International Business
THOMAS HARMAN, Balsam Brands Inc.
LANCE HART, DEMDACO
PAUL HUNT, PetSmart Inc.
LINDSEY HUTZLER, Lindsey Hutzler
MIKE JACOBSEN, Ridge Tool Company
COLLEEN KARIS, Colleen Karis Designs LLC
KATIA KELSO, Ulla Johnson
ALEXANDER KOFF, Nearly Natural
JOHN KUNES, Fuling Plastics USA
DOUGLAS LAUER, Old World Christmas
D.J. McGUIRE, Instructor of Economics at Tidewater Comm. College
HILARY MOFFETT, Occidental Chemical Corporation
LINDA MOORE, TechNet
MARY JO MUOIO, GEODIS
KURT NAGLE, American Association of Port Authorities
DAVID PARRISH, Blount
HUN QUACH, Retail Industry Leaders Association
BRYAN RILEY, National Taxpayers Union
NICK SALZA, Leaf Tea

HEATHER SHEPARDSON, Rauch Brands

DAVID SNYDER, American Property Casualty Insurance Association
STEVEN STOKES, Propel Trampolines LLC
KEN STRAIT, Tractor Supply Company
SCOTT SVIHULA, Hula Consulting LLC
K.C. SWANSON, Coalition of Services
MARTY THOMAS, Moen Incorporated
PETER TOMPA, Global Heritage Alliance
M. TRAVIS STIER, American Down and Feather Council
CRAIG UPDYKE, National Electrical Manufacturers Association
JASON WALKER, Firsd Tea North America, LLC
JOSH WERTHAISER, Feather and Down Downlite
JARED WESSEL, Spectrum Brands Holding

NAOMI WILSON, Information Technology Industry Council

ANN WILSON, Motor & Equipment Manufacturers Association

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

(9:29 a.m.)

MR. BISHOP: Will the room please come to order.

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

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 U.S. Trade Representative.

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

The hearing is scheduled for seven business days, concluding Tuesday, June 25th. Today is Day 5 of the hearing. We have scheduled 55 panels of witnesses with over 300 individuals scheduled to testify.

The provisional schedule has been posted on USTR's 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 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 Federal Register notice.

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

No cameras, or videos, 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're pleased to have international trade and economic experts from a range of U.S. Government agencies, and at this time, I would like to ask the Committee to introduce ourselves. I'll start.

My name is Arthur Tsao. I'm an Associate General Counsel at the U.S. Trade Representative's Office.

MS. ADAMS: Good morning. I'm Julie Adams from the State Department's Bilateral Trade Office in the Economic and Business Affairs Bureau. Thank you.

MS. JANICKE: Good morning. I'm Jean

Janicke from the Department of Commerce International Trade Administration.

MS. ZHAO: Good morning. Shelly Zhao, Office of the U.S. Trade Representative.

MS. BACETTY: Good morning. Ada Bacetty, U.S. Department of Agriculture, Foreign Agricultural Service.

MS. MITCH: Thank you. I'm Sage Mitch with the Treasury Department.

MR. FRATERMAN: Matthew Fraterman. Department of Labor.

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

MR. BISHOP: Mr. Chairman, our first witness on this panel is Peter Goggi with the Tea Association of the USA, Incorporated. Mr. Goggi, you have five minutes.

MR. GOGGI: Thank you. Thank you, Mr. Chairman and Members of the Committee. The Tea Association of USA thanks you for the opportunity to respond to the proposed modification of actions pursuant to Section 301, China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

Our recommendation is to remove black and green teas, HTS subheadings 0902, and instant tea, extracts of tea, the 2101 series, from the proposed product list.

As the President of the Tea Association of the USA, I appreciate the opportunity to present testimony to the Section 301 Committee about the importance of the tea industry in the United States and the disproportionate economic harm these tariffs would have on U.S. tea businesses and U.S. consumers.

Founded in 1899, the Tea Association of USA, Incorporated was formed to promote and provide the interests of the tea trade in the United States and is the recognized independent authority on tea.

It is also one of the oldest trade organizations in the U.S. Our members span the full tea supply chain from growers to packers.

The tax and duty-free import of tea was one of the founding tenets of the American Revolution. The free and unencumbered import of pure tea from its origin is a centuries' old tradition.

The purpose of the tariffs is to change China's practices relating to technology transfers, intellectual property, and innovation. Imposing punitive tariffs on tea would not be effective in changing these practices because tea exports are actually a very small part of China's overall tea sector.

Most tea that China's produces is consumed domestically. Moreover, the tea trade does not suffer from unfair technology transfers, theft of intellectual property, or stifled innovation.

Further, punitive tariffs would have a disproportionate economic impact on small and medium-sized enterprises because most of the U.S. importers, those that pay the tariffs, are small businesses.

The United States is not a tea producing nation. There is virtually no commercial tea grown that needs to be protected by tariffs, nor are there any farm-based jobs that would be protected.

Like wine, tea varies dramatically due to local terroirs, which is a combination of geography, climate, and local manufacturing techniques.

China has many unique teas that are unavailable elsewhere due to their unique cultivars, terroirs, and processing methods. In the area of specialty tea, many teas are unable to be sourced anywhere else in the world.

Tea production long predates China's rise as a manufacturing powerhouse. It is a rural-based, long-term crop that was not designed to capture foreign business. It's primary market is domestic, which will benefit from a rise in supply due to smaller exports.

Further, the percentage of tea exported from China is minimal and China would not be impacted. According to the figures from the International Tea Committee 2017 annual bulletin of statistics, China produces about 5.2 billion pounds of tea and retains about 4.5 billion pounds for domestic consumption.

China's exports of approximately 42.7 million pounds to the U.S. is less than 1 percent of their total production. This quantity is not a meaningful amount of tea considering their huge production.

The imposition of tariffs on Chinese tea will not impact the Chinese producer, the exporter, or their government. However, it will negatively impact the U.S. consumer.

We strongly urge you to forego a tax or tariff on tea as it will negatively impact American businesses and citizens, and will have virtually no effect on the trade issues with China.

I thank you for the opportunity to provide my testimony to this Section 301 Committee.

MR. BISHOP: Thank you, Mr. Goggi. Our next witness is Jason Walker with First Tea North America, LLC. Mr. Walker, you have five minutes.

MR. WALKER: Thank you. First Tea North America and I personally thank you for the opportunity to respond to the proposed modification of action pursuant to Section 301, China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

On behalf of our company, our customers, and U.S. tea consumers, we request the removal of black and green teas related to HTS codes 0902 and instant tea extracts of the 2101 series from the proposed list.

As the marketing director of the leading importer of Chinese specialty teas in the U.S., I appreciate the opportunity to present testimony to the Committee about the importance of the tea industry in the U.S. and the economic harm that these tariffs would have on U.S. tea businesses and U.S. consumers.

The current success and future growth of the U.S. tea industry, particularly specialty tea, is shaped by access to Chinese tea imports.

The expressed intent of the tariffs is to change China's practices related to technology transfers, intellectual property, and innovation. Imposing these punitive tariffs on tea would not be effective in changing these practices because tea exports are a very small part of China's overall tea sector.

Most tea that China produces is consumed domestically. Moreover, the U.S. tea trade does not suffer from unfair technology transfers, theft of intellectual property, or stifled innovation.

Further, punitive tariffs on tea would have a disproportionate economic impact on small and medium-sized enterprises because most of the U.S. importers, those that pay the tariffs, are small businesses.

Tea production long predates China's

rise as a manufacturing powerhouse. It is a rural-based, long-term crop that was not designed to capture foreign business, and according the International Tea Committee 2017 Annual Bulletin of Statistics, China produced approximately 5.2 billion pounds of tea and retained approximately 4.5 billion pounds of tea for domestic consumption.

China exports less than 1 percent of total tea production to the U.S., that's 0.042 billion pounds. This quantity is not a meaningful amount of tea from the perspective of Chinese tea producers.

The imposition of tariffs on Chinese tea will not impact the Chinese producer, exporter, or the tea industry in China, however, it will negatively impact U.S. tea businesses and the U.S. consumer.

The U.S. is not a tea-producing nation. There is virtually no commercial tea grown that needs to be protected by tariffs, nor are there any farm-based jobs that would be protected.

Tea is a growing industry in the U.S. with specialty tea as a significant driver of that growth. The American tea industry is growing at an annual rate of 3 to 6 percent, with specialty teas as an important contributor to that growth.

The U.S. imported over 263 million pounds of tea in 2018. By volume, 15 to 20 percent of all tea imported in the U.S. each year comes from China, but in dollar value, Chinese teas represent nearly 30 percent of teas imported to the U.S.

Many of the Chinese teas imported were higher value teas compared to the tea imports from other countries, so the Chinese portion of U.S. tea imports is a significant contributor to the value of tea products in the U.S.

On any given day, half the U.S. population is drinking tea and they are increasingly drinking more higher value specialty teas like Chinese teas.

Like wine, tea varies dramatically due to local terroir. China has many unique teas that are unavailable elsewhere due to their unique cultivars, their terroirs, and their processing methods.

In the area of specialty tea, many teas cannot be sourced from anywhere else in the world.

Chinese teas have a significant historical and cultural value to America. The Boston Tea Party and similar events of the American Revolution were motivated by onerous and unreasonable impediments to the import of Chinese tea.

Given the circumstances, an increased tariff on China teas will harm U.S. tea businesses and the American tea-drinking public significantly more than any economic impact on the tea industry in China.

We strongly urge you to forego a tariff on tea as it will negatively impact American businesses and citizens, and have no effect on the trade issues with China.

Thank you for the opportunity to provide my testimony to this Committee.

MR. BISHOP: Thank you, Mr. Walker. Our next witness is Eva Hampl with the United States Council for International Business. Ms. Hampl, you have five minutes.

MS. HAMPL: Thank you. And good morning to the Committee. The United States Council for International Business welcomes the opportunity to, again, provide comments and recommendations on the proposed Section 301 tariffs.

USCIB promotes open markets, competitiveness, and innovation. Our members include top U.S.-based global companies and professional services firms from every sector of the economy, with operations in every region of the world.

As the U.S. affiliate of the International Chamber of Commerce, the International Organization of Employers, and the

Business Industry Advisory Committee to the OECD, USCIB has a unique global network through which it provides business views to policymakers and regulatory authorities worldwide, and works to facilitate international trade investment.

USCIB submitted comments on the first three lists of proposed tariffs, which have now taken effect, and again, against which China has retaliated. Our members are very concerned that these proposed tariffs, effectively imposing tariffs on all Chinese imports, will stifle the U.S. economy and not achieve the Administration's goal of changing China's behavior.

Rather than creating more opportunities for U.S. business, sweeping tariffs will restrict U.S. agriculture, goods, and services exports, and raise costs for businesses and consumers.

China's retaliation and threats of future retaliation further exacerbate uncertainties caused by this proposed action.

USCIB strongly urges the

administration to consider the significant negative consequences of U.S. companies and American jobs before taking further action.

The negative impact of such tariffs on U.S. consumers and industry appears disproportionate to the intended purpose of the 301 action. The impact of USCIB members of various industries spans many chapters of the Harmonized Tariff Schedule, including Chapters 29, 39, 48, 61, 62, 63, 64, 66, 67, 69, 71, 73, 76, 84, 85, 87, 90, 91, 94, 95, and 96.

Goods affected, which we ask to be removed from the list include, but are not limited to, various consumer electronics, including laptops and other computers, tablets, mobile phones, e-readers, connected devices, gaming consoles, and televisions, as well as power mops, electric shavers, electric air fresheners, ink and toner cartridges, small appliances, like coffee makers and pressure cookers, toys, footwear and apparel, and sucralose.

Further details on these products, including specific HTS codes, are included in our written submission.

China's forced technology transfer requirements, state interventions, and other unfair practices harm many U.S. companies, workers, and consumers, as well as U.S. competitiveness.

However, these tariffs can also similarly endanger the U.S. economy. Given the close relationship of the U.S. and Chinese markets, the imposition of yet another set of tariffs would affect many sectors vital to the U.S. economy and jobs, severely impacting U.S. consumers and competitiveness.

Specifically, this proposed list now include categories of products that only impact U.S. companies and not their global competitors. Ceding market share to competitors is not weakening the Chinese economy, it is merely weakening the U.S. market.

Consumer products generally, and

electronics specifically, are heavily impacted by this proposed list of goods. USTR specifically broke out certain products from List 3 for the reason of disproportionate impact on consumers. This list adds them back in.

The Administration has indicated that the goal of imposing tariffs on Chinese imports is to provide leverage in its negotiation with China on its unfair trade practices.

If that is the goal, then we strongly urge the Administration to continue engaging in a dialog with China to negotiate an outcome. This should include developing a strategy with clearly-defined objectives, a direct negotiating mechanism with the Chinese, targeted deliverables, and deadlines with measurable results.

The administration should also coordinate in various available forums with like-minded trading partners who are similarly afflicted by China's actions on intellectual property rights, forced technology transfer, and discriminatory industrial policies.

Tariffs are taxes paid by U.S. companies and consumers. Taxing Americans and the uncertainty created in the market by these actions does not make the U.S. economy more competitive.

Thank you for the opportunity to testify and I look forward to your questions.

MR. BISHOP: Thank you, Ms. Hampl. Our final witness on this panel is D.J. McGuire, instructor of economics and Tidewater Community College. Mr. McGuire, you have five minutes.

MR. MCGUIRE: Good morning and thank you for inviting me here today. My name is D.J. McGuire. As mentioned, I'm an instructor in economics at Tidewater Community College in Norfolk, a contributor to the Bering Drift Blog, and a member of the More Perfect Union Podcast.

I am here to discuss the tariffs proposed under docket USTR 2019-4. I recommend that all of the proposed tariffs be canceled rather than implemented, as they will be counterproductive and damaging to the American economy.

This does not mean that I am sanguine about the behavior to the Chinese Communist Party. Quite the opposite, in fact. The Chinese Communist Regime has manipulated the goodwill of the United States and our allies time and again in the realm of geopolitics and in the realm of economics.

It should not surprise us that the Chinese Communist Party has broken its promises to us and to our allies, for even now, they are breaking a promise to the people of Hong Kong. The promise that the former British colony's history of reference for the rule of law would be respected.

Not only is this bad faith suspended, but not withdrawn, heartbreaking to the people of that city, it would also mean the end of an era when Hong Kong was a shining example of economic freedom.

The fall of that Hong Kong shows that

Xi Jinping and his cohorts have very different ideas for the global economy, ideas far darker than ours.

That said, to recognize the problem and to devise the correct solution are two very different things. In this case, the proposed tariffs, and indeed, the preceding tariffs on Chinese goods already in place, are ill-advised.

Contrary to the assertions of many, these tariffs are taxes that will be paid by the importers, namely, our fellow Americans. Asking them to pay for the bad actions of the Chinese Communist Party is unfair, unnecessary, and damaging to our economy.

They will lead to higher prices for goods and services, and for inputs. More costly goods and services lead to a higher cost of living, lower savings from Americans, and a lower supply of financial capital for entrepreneurs and for small businesses.

More costly inputs will lead firms to reduce production in employment, to raise prices, or to do both. Consumption investment and savings will all be negatively impacted by these tariffs.

If we wish to reduce our imports from Communist-controlled China, and we should wish to do so, there is a way to accomplish that without the collateral damage these proposed tariffs would bring.

The tariffs would make Communist-controlled China relatively less attractive as a source of goods and inputs compared to our allies and to other democracies in the region.

There is another way to achieve this. Namely, by lowering tariffs and trade barriers with those allies and those fellow democracies. This would achieve the same relative impact, vis-a-vis, Communist-controlled China, with the added benefit of the prosperity that freer trade will bring to all who would take part; lower prices, higher savings, more business investment, and more jobs.

Indeed, such an arrangement is already

in place, namely, the Trans-Pacific Partnership. Before we left the TPP in 2017, it was intended to be the framework for a Pacific-wide free trade area, and in fact, it is just that today, only without us.

It would far more advantageous to us and damaging to the Chinese Communist Party if we were to rejoin the Trans-Pacific Partnership rather than maintaining the tariffs currently in place, let alone adding to it, as proposed in this docket.

Ronald Reagan was arguably the most hostile American president to the Soviet Regime. He spent eight years in office deploring, opposing, and resisting the Soviets, yet, even he recognized that the grain embargo on the Soviet Union that he inherited was far more trouble than it was worth. He lifted it three months into his presidency.

These proposed tariffs, as well as those already in place on Chinese imports, are also more trouble than they're worth. The existing tariffs should be lifted, the proposed tariffs in this docket should be canceled, and trade barriers with our allies and with our fellow Pacific democracies should be lowered.

I thank you again for your time.

MR. BURCH: Thank you, Mr. McGuire. And, Mr. Chairman, that concludes all witnesses' testimonies.

MS. BACETTY: All right. Good morning. Mr. Goggi, thank you for your testimony today. Your testimony discusses the effects additional tariffs may have on green and black tea sourced from China.

You've provided the information on the size of the tea industry, but I was hoping whether you could provide some information on whether it would be economically important in certain regions of China, if you could elaborate on that.

MR. GOGGI: When you look at the imports of Chinese tea into the U.S., they're predominantly -- 70 percent of the green imports into the United States are Chinese origin, and about 9 percent are black; from black teas.

When you look at the production regions, most of the teas are produced in rural areas. And it really spans, virtually, east to west across the southern portion of China, so it's multiple areas within China that would be impacted, not just one more than another.

MS. BACETTY: Thank you. In your view, how would you impose -- how would any imposition of tariffs affect Chinese suppliers?

MR. GOGGI: Well, fundamentally, it wouldn't, because they don't pay the tariff. The people who are importing the tea pays the tariff. While there are some teas that China produces that one could call inelastic because they're so unique and so expensive that people would still buy them, even with the expense, a large amount of tea, particularly the green that I referred to before, would just be passed on to the consumer.

When one looks at tariffs traditionally, the first thing that a supply chain looks at is, where can we find that savings in the supply chain? Tea supply chain is very transparent and is very minimal markups along the way, so no one could bear the brunt of a 25 percent addition.

So what happens is that, if you operate under a contract from the United States Tea Association, for example, the buyer is responsible. So if I'm an importer, I buy from China, and then I sell to a packer, the packer is the one that owns, ultimately, the 25 percent tariff.

What's he going to do with it? He's going to pass it on to his consumer in terms of price. So it really falls into, there's no slush point within the value chain that allows anybody to gain this 25 percent back and it's going to go right to the American consumer.

MS. BACETTY: Thank you.

MR. GOGGI: You're welcome.

CHAIR TSAO: Sir, I have a follow-up. Are there any -- I guess, I'm trying to get an idea, what's the segment of the market in terms of the tea market, where would the Chinese tea lie in that segment? Are they in the higher end, middle end, or lower end?

MR. GOGGI: The answer is yes. When we kind of look at the tea market in the U.S., there's a lot of fuzzy definitions, but you look at grocery, you know, a Lipton tea bag for example, specialty tea, which can exist in store shelves, higher end teas, but mainly these days refers to mom-and-pop, brick-and-mortar stores, Teavana-type of places, mail order, et cetera.

Then you have food service as well, so Chinese tea cuts across all of those forms. So whether it's part of a blend in a restaurant that's serving sweet tea down South, or whether it's a unique gongfu that's being sold online by mail order, it's there.

So there isn't one section of the tea market that is not touched by Chinese tea.

CHAIR TSAO: But I understand that, but are there segments of the tea market that are more affected by any imposition of duties than others?

I mean, I would imagine a rare Pu-Erh is probably more price inelastic.

MR. GOGGI: So the specialty tea would be less impacted in terms of people's ability or willingness to pay more money, and where the consumer would really bear the brunt is the lower end commercial teas where they need to seek alternate solutions or pay more for the tea, which means a poorer quality of product ultimately.

MS. ADAMS: Good morning.

MR. GOGGI: Morning.

MS. ADAMS: Mr. Walker, thank you for your testimony. We understand that your company is a subsidiary of Zhejiang Tea Group, I'm not sure I pronounced that correctly, that's China's largest tea exporter.

What effects would the tariffs have on Zhejiang?

MR. WALKER: On Zhejiang Tea Group,

again, because of the amount of tea that stays within China, the impact would be negligible to that group.

MS. ADAMS: Thank you. Does Zhejiang Tea Group have plans to reach out, that you're aware of, to the Government of China to encourage the government to eliminate policies and practices that are the subject of this investigation? Are you aware of that?

MR. WALKER: I know they are in contact. I'm not sure what kind of messages have been relayed back and forth related to that.

MS. JANICKE: Good morning. This question is for Ms. Hampl of USCIB. You noted in your testimony the importance of dialog and coordination at the government level, and my question is whether, given your description of your organization's engagement internationally, whether your organization is engaged in a similar dialog and coordination to address the practices in China, either with like-minded countries or with your Chinese counterparts?

MS. HAMPL: Thank you for the question. Yes, so we are, as I mentioned, the U.S. affiliate to the Business and Industry Advisory Committee at the OECD, as well as work with the International Chamber of Commerce, and then also the International Organization of Employers, and that's part of the work with the International Labour Organization.

And on trade issues specifically, and China more pointedly, we work through the ICC as well as also, at the OECD. Of course, we work -- this work is done in quite different ways, so at the ICC, which is a -- you know, we're working on the business side with various partners that are facing these same issues, the OECD has the advantage that we also, again, work with the different business associations that are partners through the OECD, but the OECD, of course, China is not a member of the OECD.

They do often sit in meetings and so we have the opportunity to sometimes even have that dialog directly, but yes, the short answer is, we absolutely work with our partners, and one thing we're certainly finding in our companies, of course, are also active globally is that, everyone is really facing the same issue.

And even with everything going on right now between the U.S. and Europe, you know, one of the main issues that is connecting us are the troubles we're facing with China.

So we're trying to, from a business perspective, do our part, and, kind of collectively, inform the governments of those issues, and we would have, from that perspective, certainly been encouraging, and also our respective governments to do the same.

MS. JANICKE: Thank you.

MS. ZHAO: If I may follow-up, Ms. Hampl, could you elaborate on the single practice that is the most concern to your organization?

MS. HAMPL: A single practice by?

MS. ZHAO: A single unfair practice you're experiencing with China.

MS. HAMPL: Well, there's really no

good answer to that because there's so many things. We certainly, from a business perspective, agree with the findings of the 301 report.

The single practice that is currently the biggest concern to us are the administration's tariffs being imposed on our -- on the imports that our companies need in order to be competitive in the global market.

But certainly, I mean, intellectual property issues, the force tech transfer, I mean, those are quite central to what poses the problem for our companies.

USCIB also submits every year, comments on the investigation on China's compliance with its WTO commitment, so I'd be happy to share a much longer document of the running issues that we face.

The reason that we're here today is not because China isn't a problem, and because it's not a difficult market, and because these issues don't need to be resolved, it's because this proposed solution is not having the effect currently of resolving those issues.

We believe that the only way out of this would be to have a, hopefully, resolution in the form of a deal that actually resolves the core problems that were cited in the 301 report.

These tariffs, particularly this tranche, that targets consumer goods, which the Administration has previously specifically stated were not going to be targeted, has such a disproportionate effect on the U.S. economy that we fail to see how this is supposed to make us more competitive and help with our -- especially our innovative industries, where we are market leaders right now.

MS. MITCH: Thanks very much for your testimony. My question is for Mr. McGuire, in your testimony today, you focused on the domestic impacts on American consumers from the tariff measures under discussion, but I would be interested if you've analyzed the extent to which tariffs might reduce receipts to producers in

China, either through price reductions or lower production volumes also.

MR. MCGUIRE: Well, the assumption on that comes from either -- comes from the possibility that the United States is in a position where we can effectively change the terms of trade.

The first problem with that is, it assumes that the United States, as an economy, is large enough, in terms of GDP share, to do so, that is currently under debate.

The second thing is, that theory, effectively, invites, if not commands, retaliation, because the Chinese economy is second, only to ours, in GDP share, and in fact, larger than ours through purchase power, person power, parity measurement.

So in terms of whatever gains of trade we might get, assuming they would happen, they would be wiped out by retaliation.

The other thing we have to remember is, in regards to Chinese exporters and the

Chinese economy, it is still very much a state-run and a state-controlled economy over there.

And to the extent that any damage might come to any exporters, it would almost certainly be countered by a various government policy that the regime would put in place to keep their exporters going, that's assuming the exporters are politically favored in Beijing, otherwise they have much bigger problems than our tariffs.

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.

(Whereupon, the above-entitled matter went off the record at 10:07 a.m. and resumed at 10:17 a.m.)

MR. BISHOP: The first witness is Lindsey Hutzler of Hutzler Manufacturing. Ms. Hutzler, you have five minutes.

MR. HUTZLER: Good morning and thank you for the opportunity to testify before you today. My name is Lindsey Hutzler and as an employee of a Connecticut-based small business that designs and manufactures kitchenware, as a member of the International Home and Housewares Association, and as a volunteer who works with students considering careers in science, technology, engineering, and math, the ramifications of the List 4 China 301 tariffs are of particular concern to me.

These tariffs pose a threat to the 30.2 million small businesses which employ almost half of the U.S. workforce, and to students considering further training and employment in STEM and the manufacturing sector.

Of particular concern are the following HTS codes which I would like to ask for removal, 3924.10.40, tableware and kitchen articles, not otherwise included or specified, of plastics, 4010.11.00, 4901.10.00, 4901.99.00, 4819.10.00.40, 8471.30.01, 8471.41.01, 8471.49.00, 8471.60.20, and 7206.10.00 through 7429.00 regarding the importation of stainless steel and iron materials which may be used to produced aircraft and molds domestically.

While we produce domestically and source locally whenever possible, technology, materials, and manufacturing processes needed in production are not available or come at a prohibitive cost to small business, which must be passed on to consumers in order to merely break even.

Let us consider the following scenario, which is playing out across industry in America today. If a business opts to move their production domestically, the investment involved in purchasing the associated machinery will average one half million U.S. dollars.

In order to amortize its investment, it then becomes necessary to raise the price of goods and to reduce ones workforce. This domino effect will stunt industry growth and development by limiting capital available for job vacancies, resources for R&D, and investments in technology.

It is estimated that List 4 could lead

to a loss of over 936,000 jobs. There is a cost to making goods in America which no one speaks about or is willing to accept.

Shifting sourcing is difficult, if not impossible, as we no longer have the infrastructure, the newest technology, or the labor force for manufacturing in the United States.

Over the past two decades, manufacturing has been outsourced to locations such as Mexico, Indonesia, and of course, China, which leads the world in manufacturing output at over two trillion U.S. dollars.

Over the next decade, it is estimated that 60 percent of manufacturing jobs will go unfilled in the United States due to a widening skills gap.

Our education system has yet to bridge the gap with industry, as even students who pursue advance training in STEM are facing high attrition rates.

A report issued by the U.S. Department

of Education found that between 2003 and 2009, 48 percent of students with a Bachelor's Degree and 69 percent of those with an Associate's Degree in STEM-related fields, had left those fields by 2009.

Even if this loophole is closed, jobs may not be available for these graduates due to increased production costs, and to the expense to school districts, which averages anywhere in the tens to hundreds of thousands of dollar to education high school students in STEM.

A trade policy that promotes the exchange of goods and ideas without adding unnecessary cost to the supply chain, that does not increase the value of those goods, is paramount.

Of greater concern is the need for the U.S. Government to provide stronger protections for intellectual property and consumer safety. We need to enforce patents in order to continue to encourage innovation in the United States and to take a stricter stance against counterfeits flooding the market.

Let us have harsher restrictions against bringing in food, chemicals, and pharmaceutical produced in China which lack the appropriate oversight that we expect to have in the substances which we put in our bodies.

While our trade partners must also play by the rules and the administration's efforts to enforce this are commendable, it should not come at a cost to our global competitiveness and to American taxpayers.

This financial burden should not be shouldered by the small businesses which make up the bulk of employers among the nation's workforce or against the next generation of students pursuing STEM, as we currently face adrift professionals willing to pursue these careers.

Thank you again for the opportunity to testify before you today and I look forward to answering your questions.

MR. BISHOP: Thank you, Ms. Hutzler.

Our next witness is James Cannon on behalf of American HFC Coalition. Mr. Cannon, you have five minutes.

MR. CANNON: Good morning. I'm here representing the American HFC Coalition. I'm not going to read my written statement that's in front of you. I want to basically summarize it and make four points.

The first point is that we're supporting the imposition of 25 percent Section 301 tariffs on two ten-digit tariff headings. The first tariff heading covers a refrigerant called R-134A. This is what's found in your automobile. It gives you air conditioning in your car.

The second tariff heading covers three discreet HFC components, they are blended, and when in the form of a blend, this is what cools your home. It's in your home air conditioner or it's in the grocery store in the freezer cabinet.

Secondly, these products are manufactured in the United States and China, but

China has built enormous capacity, C, from the attachments.

China's capacity towers over the entire U.S. market, and yet, we are, perhaps, the world's largest market for air conditioning. So they have built excess capacity, targeted at this market, and shipped here.

As a result of that, the Coalition has filed two separate anti-dumping cases, both were successful in 2016. The International Trade Commission found we were materially injured. The Commerce Department found that R-134A was dumped by 167 percent, and that's the duty rate.

They found that the HFC blends were dumped by 101 percent and up. More recently 285 percent in terms of the duty rates that are on these products.

And yet, with their enormous capacity, my third point is, the imports from China continue to enter the U.S. market and seize market share.

Since the original investigation,

Customs has, in multiple cases, investigated evasion of the order. Most recently, on June 3rd, the Department of Commerce has started an anti-circumvention inquiry to stop imports that are evading these tariffs.

But most importantly, the individual components found in the tariff heading that ends in 35, last two digits of the ten digit are 35. These are the home air conditioner components.

They have increased from, essentially, 11,000 tons in 2016, when the dumping order was put in place, to 47,000 tons, right?

So these imports, this massive capacity targeted at the U.S., right, are hammering the U.S. industry.

Now, my fourth point is, a little bit of history about this, so these refrigerants are second, third-generation refrigerants. Freon was invented in the United States years ago, but it has a negative impact on the ozone layer.

It's now been under the Montreal protocol band, and the EPA has put in phase-outs for the first generation. So your car used to use something called R-22, your home used to use R-12, actually, I got this backwards.

Car used R-12 and your home used R-22. These HFCs are the next generation. They were developed by the U.S. companies who are the members of the HFC Coalition in the United States, who are manufacturing these products here.

We are now moving on to the third generation and we want to develop future generations of these products, which become more and more environmentally friendly.

So this technology, which historically has been developed in the United States, is seeing an onslaught from China, much like the Chinese have targeted the energy market for alternative sources of energy, right?

So solar energy, or wind power, China has targeted that to develop. They have also targeted this market to develop these refrigerants. If we cannot earn an adequate return on investment, we won't be around, we won't be able, to invest in the new future technology.

And so this is a perfect candidate for the Section 301 duties. These are high-paying manufacturing jobs. The end product is a bulk intermediate chemical. It's not a product that consumers buy. You don't buy iso tanks of refrigerant.

So the American HFC Coalition, for these reasons, fully supports the imposition of 25 percent duties because it's fully consistent with the Section 301 program. Thank you very much.

MR. BISHOP: Thank you, Mr. Cannon. Our next witness is Hillary Moffett with the Occidental Chemical Corporation. Ms. Moffett, you have five minutes.

MR. MOFFETT: Thank you. Good morning. My name is Hillary Moffett, Senior Director of Government Affairs for Occidental Petroleum Corporation.

I'm appearing today on behalf of Occidental Chemical Corporation. Occi is a U.S. manufacturer of chlorinated isocyanurates and we support the imposition of Section 301 tariffs on imports of these products from China.

Sodium dichloroisocyanurate and trichloroisocyanuric acid, or dichlor and trichlor, we'll use that in the future, are disinfectants used in residential swimming pools.

You may know these products as the tablets that homeowners use in their swimming pools or the shock that they add to their pool when the season first opens.

Imposition of a 25 percent tariff on Chinese dichlor and trichlor will greatly benefit U.S. manufacturers and the workers as we compete with imports from China.

The United States is the world's largest market for dichlor and trichlor. As a result, producers in China built enormous capacity to supply the U.S. market. Statistics available from SRI show that Chinese producers have over 200,000 metric tons of capacity.

And by comparison, the total Chinese market consumes only 7000 metric tons. These imports targeted the U.S. market years ago. In 2005, Occidental, together with other manufacturers, petitioned for relief under the anti-dumping law.

The U.S. Department of Commerce investigated and found that imports of dichlor and trichlor from China were being sold at less than fair value.

The International Trade Commission concluded that the unfairly traded imports were causing materially injury to U.S. manufacturers and the workers.

After only a few years, however, the Chinese imports had captured an even larger share of the U.S. market.

Supported by subsidies from the Chinese Government, the Chinese dichlor and trichlor industry continued to grow and target the U.S. market. In 2014, Commerce concluded that China's imports were benefitting from illegal subsidies and the ITC, again, found that the U.S. industry was suffering material injury.

This industry provides high-paying manufacturing jobs to hundreds of employees across the country. The imported products are bulk, intermediate chemicals that are further processed into tablets and packaged for retail sale to consumers.

Imposition of tariffs will not have a significant impact on the ultimate consumer of chlorinated isocyanurates. At the same time, placing tariffs on dichlor and trichlor will assist an industry that has suffered the effects of unfair trade for many years.

China has built excess capacity using government subsidies and that capacity is squarely aimed at the American market.

As such, the imposition of tariffs on imported Chinese chlorinated isocyanurates is fully consistent with the purpose of Section 301 remedy.

Finally, I'd like to acknowledge the concerns of importers of other chemical products that are covered by the same eight-digit tariff heading covering dichlor and trichlor.

Our request is limited solely to the imports of dichlor and trichlor classified under the ten-digit tariff heading, 2933.69.60.15. When List 2 was first proposed, several companies opposed the imposition of tariffs on chemicals covered by the eight-digit tariff heading.

Occidental does not support the imposition of Section 301 tariffs on the full tariff category at the eight-digit level. However, it is entirely appropriate and consistent with the goals of Section 301 to impose the tariffs on dichlor and trichlor classified under the subheading 2933.69.60.15.

Thank you for your attention and I'm happy to take any questions.

MR. BISHOP: Thank you, Ms. Moffett. Our next witness is Jeff Ferry with the Coalition of a Prosperous America. Mr. Ferry, you have five minutes.

MR. FERRY: Thank you. Good morning. I'm the Chief Economist with the Coalition for a Prosperous America. We are a bipartisan organization of domestic manufacturers, labor unions, and family farm organizations.

We represent the interests of over 4 million Americans. Our membership includes domestic producers in industries like machinery, electronic components, auto and truck components, video security products, and more.

We count among our members, the nation's largest labor federation, the AFL/CIO, the National Farmers Union, and dozens of family-owned manufacturing firms all across the U.S. employing many thousands of Americans.

We are strong supporters of the Section 301 tariffs on China and strongly support extending the tariffs to the full range of U.S. imports from China, with the minimum number of exclusions.

Many of our members report that their

businesses are doing better since the imposition of the tariffs. We support the tariffs for both national security and economic reasons.

Government officials have heard many misleading statements from many critics of the tariffs, Wal-Mart, Amazon, and hundreds of other retailers have a vested interest in suggesting the tariffs are causing harm to consumers.

Many of these statements are highly misleading and often factually incorrect. The economics team at CPA has built the only economic model of the impact of across the board tariffs on China on the U.S. economy.

To do this, we constructed what economists call a sector-by-sector partial equilibrium model of U.S. imports from China, and then a general equilibrium model of the U.S. economy based on the widely used REMI model.

We looked at what would happen to the U.S. economy if permanent across the board tariffs of 25 percent were applied to all Chinese imports from 2020. We looked at how this would impact the U.S. economy over five years through 2024.

Our analysis assumes that international producers who export from China to the U.S. would respond to tariffs by shifting production out of China, with the majority of the shift going to third countries, and a minority going back to the United States.

These shifts are already underway. Our model forecasts that those shifts accelerate between 2019 and 2024. We found that by 2024, the impact of across the board China tariffs would be to boost U.S. GDP by $125 billion and add up to 721,000 jobs to the U.S. economy.

So to be clear, across the board tariffs on China imports will boost jobs and economic growth in the United States. The growth impact comes from two sources, first, the tariffs lead to a general reduction in the cost of U.S. imports because most of the shifting of production out of China goes to countries where costs are lower than producing in China.

And secondly, a portion of the production that comes back to the United States boosts the U.S. economy. U.S. goods imports from China last year totaled $540 billion, with a permanent 25 percent tariff, our China imports will fall 46 percent to just $292 billion.

You may be wondering if our forecast shows a strong, sustained, positive impact from Section 301 tariffs, why do other economic models generate such negative, doom-laden forecasts of the impact of tariffs?

Well, those other models ignore the real-world business decisions to exit production in China and reshore some production to the United States. In most cases, those models are funded by interest groups like retailers who want to sell cheap Chinese imports here and don't care how many U.S. jobs are sacrificed along the way.

Let me talk about one additional result from our economic model. Our model shows that across the board tariffs generate tariff revenue for the Federal Government of $126 billion in 2020, falling to $73 billion in 2024.

We also ran a scenario where we assumed the Federal Government spends all the tariff revenue. You can think of that spending as an infrastructure program, but it could be on other government programs too.

In that case, our model shows that by 2024, this program of combined across the board tariffs on China and government spending generates additional GDP growth of $167 billion and an additional 1.05 million jobs for the U.S. economy.

That's over 1 million new jobs from tariffs and spending the revenue.

I want to close with a quote from a businessman in Utah. As you may know, last September, the 301 action put a 10 percent tariff on bicycles imported from China. Today, about 95 percent of the bikes sold in the U.S. are imported from China or Taiwan.

On June 1st, the tariff rate on bikes rose to 25 percent and there's concern in the industry how this will impact bike sales and whether or not the U.S. can begin manufacturing bikes in volume again.

I believe we can, but instead of my own views, I want to quote Ali Yazdian, an immigrant from Iran who owns Alta Racks, a maker of bikes in Utah. Here's what he said, and I quote, As an immigrant, I have seen the tyranny that exists in most of the world. It is real. There are countries and people that hate our way of life. China's Government is one of those.

Our democracy is a direct threat to communism and how they control their population. To me, tariffs are not just about price fairness, it's about spreading democracy and human rights as rights at birth, not given by a nation or a government.

Mr. Yazdian then went on to comment about his industry and the skeptics who say the U.S. will never be able to manufacturer bicycles here, he said, and I'm quoting, I am baffled by the comments --

CHAIR TSAO: Sir, if you can conclude your remarks. Thank you.

MR. FERRY: I'll just finish this sentence. I am baffled by the comments that we can't build bikes and other components here. We invented electricity, the refrigerator, and air conditioning. We invented penicillin and eradicated many diseases.

We need to get back to buying products for quality that last for a lifetime. Thank you.

MR. BISHOP: Thank you, Mr. Ferry. Our next witness is Brian Riley with the National Taxpayers Union. Mr. Riley, you have five minutes.

MR. RILEY: Thank you. My organization, the National Taxpayers Union, has supported administration efforts like the Tax Cut and Jobs Act, and NAFTA Modernization, via the USMCA, and we appreciate the opportunity to make the following four points this morning about the Section 301 tariffs.

Number one, China's policies have not

improved since the Section 301 process began. In fact, I think most people who observe the situation would say China's policies towards U.S. commerce have actually gotten worse since the 301 process was initiated and not better.

Number two, adding new tariffs to as much as $300 billion in imports means that the total cost of these Section 301 tariffs combined would represent the biggest tax increase, in real dollar terms, that's been imposed on Americans since the conclusion of World War II.

Number three, it's great that there's an exclusion process for companies. Unfortunately, not every small business across the country can afford to hire some D.C. law firm to represent them, and it would be great if there was a way to design some kind of small business exemption that would not only help American small businesses, but would really reduce the burden on USTR in trying to decide, well, are we going to tax fireworks, but not pillows, or Bibles and not tea.

And then I would just conclude with the following excerpt from a letter that we released last year that was signed by more than 1100 U.S. economists from both -- with representatives from both Republican and Democratic administrations, and 15 Nobel Laureates, and they concluded their letter by saying, a higher level of protection would raise the cost of living and injure the great majority of our citizens.

I think that turned out to be the case when a similar letter was sent to Congress in 1930 and tariffs were the wrong approach then, and we think they're the wrong approach now. Thank you.

MR. BISHOP: Thank you, Mr. Riley. Our final witness on this panel is David Snyder, with the American Property Casualty Insurance Association. Mr. Snyder, you have five minutes.

MR. SNYDER: Good morning and happy Friday. After listening to the testimony, just what I've heard this morning, I realize how tough your job really is, so you have our total support as you continue to work through these difficult issues.

My name is Dave Snyder. I represent the American Property Casualty Insurance Association that has as its members, more than 1200 insurers and reinsurers that provide the majority of the property casualty insurance in the United States.

We also have members that operate around the world, including those in China and I am personally familiar with our trade negotiations in China for more than a decade and a half.

Our members in the United States insure tens of millions of consumers, large and small business, non-profits, and governments for loss or damaged property, including millions of claims for auto repairs and replacements annually.

I suspect that we're involved in financing, one way or another, virtually every sector that you've heard from so far and that you will hear from.

We're not direct importers, but we have a critical role to play on behalf of our policyholders. It's not unusual for us, for example, to engage with governments to reduce the costs of our consumers, whether they be businesses, farmers, governments, non-profits, or individual consumers.

We often engage in their behalf to reduce the costs that they ultimately pay through their insurance premiums as we engage with government in areas such as highway safety, building construction design standards, and now with regard to tariffs.

We estimate that a 25 percent tariffs on imported auto repair parts would increase our costs by 2.7 percent, or $3.4 billion in terms of increased premiums that our customers will have to pay.

The negative effects of tariffs, however, go beyond the increased direct costs of the parts. If there are disruptions in the part supply chain, for example, that could mean an additional day or more of car rental coverage, and if that were done across the United States, on average, that would increase the costs that our policyholders ultimately bear by a half billion dollars.

With respect to auto-related costs, if it costs more to repair a car that the car then needs to be totaled, that means that repair shops lose business as well, and on, and on, and on.

You can see the impacts that are the result of our role as a pass-through mechanism and financier for virtually the entire population in the United States in all of our various entities.

As noted, a 25 percent tariff on auto parts would likely significantly increase out-of-pocket costs for consumers and result in lost revenue for collision repair shops.

But beyond the direct costs of tariffs passed to consumers through the insurance mechanism, and the cost of supply chain disruptions, the uncertainty and unpredictability of future insured costs, may also have a negative effect on premiums.

Our sector is unique in that we charge a premium today and we really don't know what the costs of providing that product or service is until the future.

So we use past costs and we do our best to predict what the future costs will be, but you can imagine that uncertainty and unpredictability, ultimately, can have a negative impact on the premiums that we charge in order to assure that we're able to do the job for our customers and maintain our solvency.

So from my own experience in working with China, several recommendations we would make, first of all, we have fully supported all the trade agreements that the United States has negotiated recently, including the TPP, and believe that it would add value.

We have also had a good experience in

working with the Chinese on win-win approaches as opposed to lose-lose approaches, which ultimately, tariffs are, and we're always anxious to work with our government in achieving the best results, not only for our companies, but more importantly, for our consumers.

So in conclusion, we ask for as rapid a successful conclusion as possible with the negotiations with China, but so far, unfortunately, have resulted in tariffs, higher insurance costs, and the possibility of more tariffs and related costs, disruptions, and uncertainty.

Please consider us a partner in everything that you do from here on out. Thank you very much.

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

CHAIR TSAO: Before we begin, Ms. Hutzler, I just want to clarify for the record, are you here to testify in your personal capacity or on behalf of your industrial organization?

MR. HUTZLER: On behalf of Hutzler Manufacturing.

CHAIR TSAO: Got it. Thank you.

MS. BACETTY: Thank you, Ms. Hutzler. Thank you for your testimony today. As a graduate, a proud STEM graduate myself, your testimony hit home for me, and you discussed the employment in the STEM and manufacturing sectors.

So in your view, if you could, share with us the harm these sectors have experienced due to China's unfair practices with respect to force technology transfer and IP theft.

MR. HUTZLER: I don't have testimony to share on that. That is outside of my scope.

MS. BACETTY: If you could, as a follow-up, provide any written testimony, if you can, later on, or just link us up. Thank you.

MR. HUTZLER: Happy to do so.

MR. FRATERMAN: Thank you, everyone on the panel, for coming here today. My question is for Mr. Cannon. In your submission, your written submission, your organization supports the imposition of additional duties on two ten-digit subheadings of 2903.39.20, but not the other ten-digit subheadings.

Can you elaborate on your reasoning for making this specific request?

MR. CANNON: So I'll give you a more fulsome response in post-hearing, where I can write it down, and also protect confidentiality of the U.S. producers, but just in general terms, big picture, the categories that we're supporting are the heartland of, kind of, automotive and household air conditioning; the big volume.

You know, there's maybe $200 million in imports from China in the R-410A space, which is home air conditioning. The other tariff categories are not all made in the United States, depending on which category, and so it's sensitive.

And there was opposition, I think, to this category when it was, I want to say, on List 2. It's List 2 or List 3. We did not, at that time, know we needed to come forward, but we do support two discreet tariff headings for the reasons that, that's what we manufacture -- are still able to manufacture here, and that is, they are very major important commercial products.

MR. FRATERMAN: Thank you.

MS. JANICKE: And a similar question for Ms. Moffett from Occidental Chemical. Appreciate that you have also identified a very discrete ten-digit item within the broader eight-digit category, and even earlier this week, we heard testimony about a different ten-digit breakout from that category.

So if you could also share, I mean, you touched on it today, but any additional details on the honing in on this particular breakout for the imposition of tariffs, we'd appreciate it. Thank you.

MR. MOFFETT: Sure. And I'll certainly follow-up more in written testimony, but just want to be clear that we understand that there has been some opposition to the eight-digit. We want to recognize and be cognizant of that, and be very targeted in our response here.

So that's why we have been very specific about the ten-digit code to apply just to dichlor and trichlor so that we can not be at odds with some of our other U.S. manufacturers, so happy to follow-up more, but that's sort of big picture.

MS. ADAMS: Thank you all very much for your testimony today. My question is for you, Mr. Ferry. Can you explain a little more about what your study found in terms of the impact that the tariffs would have on downstream manufacturers?

MR. FERRY: Yes. I'd be happy to. What we found was that as production moved out of China, the average cost of the total imports declined. It did not increase. This is very important concept to understand.

A lot of the media comment has been, well, you just add 10 or 25 percent to the cost of an import, and that's what it costs, but that's not what we see happening.

We already see large volumes of production leaving China, going to Southeast Asia, Vietnam, Thailand, Malaysia, Indonesia, Mexico.

Now, if import prices decline, then it doesn't affect U.S. downstream manufacturing. So therefore, that's how you get the economic growth. Now, there will be specific industries where there could be an effect, and in that case, there would need to be a policy to help those industries, possibly through tariffs, or through another method.

Does that answer your question?

MS. ADAMS: Yes. Thank you. I wondered, could you explain more about your estimates on job growth in the United States, like, why employment would grow in sectors that are not directly by the tariffs?

MR. FERRY: Sure.

MS. ADAMS: Like financial services?

MR. FERRY: Sure. So today, or last

year, we imported $540 billion worth of production -- worth of goods from China. The model shows that a small percentage of that returns to the United States each year, culminating in $69 billion of additional production in the United States in 2024, five years from today.

Now, this is very exciting and I got to say, we already see this. In recent weeks, we've seen companies like Restoration Hardware and Stanley Tools saying, we are taking production out of China and bringing it back to the United States.

Now, we all know, U.S. labor costs are higher than China, but there are many other reasons to bring production back home.

So what you get is multi-billion dollar production leaving China, coming back to the United States, growing year after year, obviously, that creates revenue, investment, profit, and jobs in those specific industries, which are industries like communications equipment, furniture, footwear, tools.

But through standard economic multiplier effects, those workers have more money, they spend more money in their community, so you get more jobs across the United States.

So our core forecast is 721,000 additional jobs in the U.S. economy by 2024.

CHAIR TSAO: Mr. Ferry, I have a follow-up. We've been taking testimony, so this is the fifth day of taking testimonies, and we received a lot of testimonies from business owners and other witnesses that discuss the negative effects that the tariffs would have with respect to manufacturing in the United States.

How would you respond to those testimonies that we have heard so far?

MR. FERRY: That's a good question. You know, consumer prices are apparently an obsession with many people, and it's easy to say, consumer prices will go up, oh, my God, the world will fall apart, and people will go vote in a different way.

In reality, if you look at the U.S. economy over the longer term, back in the 1950s and '60s, the real price of goods was far higher than it is today, yet, we had far less income inequality, we had happy growing cities from one coast to the other, not just concentrated in the coasts around certain industries.

And the reason for that is that we manufactured a lot of our goods here rather than running the world's largest trade deficit, largest in history, $600 billion last year, in 43 years of consecutive trade deficit.

So what I'm saying to you is, if you look at consumer prices in any one moment, you could say, oh, yes, I could save myself a nickel by going to Wal-Mart and buying that Chinese import today.

But if you look out over the next 20 or 30 years and say, what kind of jobs do we want to have in this country and what do we think will increase the prosperity of the entire country, the productivity of the entire country, and the level of equality in the entire country, you have to say to yourself, the international record and our own record as a country shows very clearly that manufacturing products here, not running a trade deficit, increases everybody's prosperity and will make us all better off in 20, 30, 40, and 50 years.

So I would urge all the government officials to take the long-term view as they consider the Section 301 tariffs.

MS. MITCH: Thank you very much for your testimony. My question is for Mr. Riley. So Mr. Ferry's testimony suggests that the additional tariffs would have a positive effect on the U.S. economy. This appears to be different from the conclusions of your organization's analysis and study.

Could you just elaborate a little more to help us understand what accounts for these differing conclusions?

MR. RILEY: I can explain our position and I'm not -- I don't want to -- I'm not familiar with the details of the modeling that you've done, but I will say that my statement, if you would have called the economics of George Washington, or George Mason, or American University, or consulted most of the economists in the Federal Government, or looked at pools of economists across the country, or look at the letter that we submitted last year from over 1100 economists, the idea that when we have more freedom and the opportunity to buy the best goods and services from across the globe, we are more prosperous through the comparative advantage, as described by David Ricardo from the time of Adam Smith, and the founding of the United States, which was, in part, because of opposition to the King of England restricting our trade with all parts of the world.

I think also, if you look around the globe, those countries that are most prosperous are clearly those that have the most economic freedom and that are the most open to trade and investment.

So I think there's the economic theory and also, the real-world evidence, which supports the idea that lower tariffs are good.

And I will acknowledge, though, that some of the supporters of this action believe it is a tool to reduce foreign barriers. I don't think it's working that way, but I understand that not everybody who supports this action is encouraging higher barriers.

Thank you for your question.

MS. ZHAO: This question is for Mr. Snyder. Could you please elaborate on the assumptions that underlie the conclusions that are summarized in your testimony?

MR. SNYDER: Sure. And thank you very much. The first thing I want to say is, we've been able to get as precise as we possibly could with respect to autos and auto parts, but the effect on tariffs would be much broader.

It would affect construction materials, consumer goods, and on, and on, and on, and of course, when there are fires or other catastrophes, those are the kinds of things that need to be replaced or in some case, repaired.

So we see the potential is much broader, but we've been able to do our best with calculating in the auto area. We have more data there and we have more confidence there, but we expect the impacts to be much broader in terms of our costs virtually covering every element of property casualty insurance.

So we made certain assumptions about the numbers of parts that are imported. With respect to China, for example, late last year, our companies received a notice from the -- a major supplier of auto parts that the costs for auto glass went up 10 percent, and I suspect that they've gone up to the additional 25 percent.

So we have bits and pieces of data like that that we've used to do our best in terms of calculations. Now, the overall impact I talked about was a tariff on all imported repair parts.

We're still trying to calculate the

exact effect from the tariffs on China, but we expect they'll be significant, using the example that I just provided of auto glass, which is one of the most frequently replaced products with respect to auto repair.

The other cost estimates we provided as well are based upon the larger impacts of tariffs across the board, and we'll continue to refine to the extent we can, the particular impacts on China tariffs.

But we're sort of secondary in that, we have to rely on what others produce and what others charge us. And so our ability to calculate is somewhat limited, but we've provided you with the best information that we have.

And as we continue to refine that, we will provide it, but we are seeing immediate impacts in cases of auto part, and I gave you an example of that with respect to the glass.

And we fully expect impacts, really, very broadly across a wide range of products and materials that individuals and businesses lose when there's a fire or a natural catastrophe.

CHAIR TSAO: Mr. Snyder, I have a follow-up. In your testimony, you mentioned that your industry, the insurance industry, has engaged with China to try to achieve a win-win and not a lose-lose situation.

Can you elaborate on the efforts that your industry has done to, I guess, encourage the Chinese Government to remove the unfair trade practices identified under Section 301 and also, elaborate on whether you have had any success in achieving that result. Thank you.

MR. SNYDER: Sure. Thank you very much. So we've found some success. I won't say that it's been easy, but we have had some success in regulatory dialogs, including U.S. Government agencies, many of whom were around the dais this morning.

And I thank you for those efforts as well as our state regulators. Industry, and in working with our colleagues and counterparts in China, we've been able to achieve some progress over the years.

Would we like to see a whole lot more? Absolutely. Have we brought to the attention, through various coalitions, of our concerns on the IP issues and the demands for providing the Chinese with critical IT information?

We have absolutely done our best to raise those issues as well. So we have found that constant engagement has produced some success, but I think having measurable, enforceable outcomes, the kinds of overall objectives that I think the administration has set out, we're all in, generally, support of.

But we also feel that it's our job with respect to our policyholders and our consumers to try to explain what we're seeing developing as the potential impacts on them through the insurance premiums, which they may ultimately pay. Thank you.

MS. JANICKE: Yes, I have one follow-up question for Mr. Ferry. You said that your model did show small, but some reshoring into the

United States, and in your response to the question from my colleague from State, you mentioned a couple of sectors that might be seeing U.S. domestic growth.

I guess, are those the sectors where your model showed some reshoring or can you elaborate more on what the sectoral detail is there?

MR. FERRY: Yes. So the model shows reshoring based on our analysis of the top ten sectors of imports from China. And those include, if I remember correctly, to give you some examples, cellphones is number one, computers is number two, and it's then followed by sectors like furniture, toys, apparel.

And most of the reshoring occurs in those latter sectors, in other words, very, very small amount of reshoring in computers and cellphones, but significant reshoring in apparel, furniture, toys, and that's based on the fact that reshoring has already begun in those sectors.

And I would add that, I would love to see the government make it a priority to get the technology sector to reshore. You may have seen in this morning's Wall Street Journal, Apple is now pursuing taking production, 30 percent of its production, out of China, probably to Southeast Asia.

It would be a great win for the United States and American workers if the government could provide some solution that would get Apple to reshore some of that production to the United States, because it's a shame that Foxconn, a Taiwanese company, is talking about moving computer production to the United States, but not Apple, Incorporated. Thank you.

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

(Pause.)

MR. BISHOP: Will the room please come to order? Mr. Chairman, our first witness on the panel is Peter Tompa with the Global Heritage

Alliance. Mr. Tompa, you have five minutes.

MR. TOMPA: Thank you. The Global Heritage Alliance and the Committee for Cultural Policy oppose tariffs on collections and collectors' pieces classified under HTS9705 and antiques classified under HTS Heading 9706.

USTR correctly exempted these items from 10 percent tariffs and should exempt them, for the same reasons, for 25 percent tariffs.

Moreover, the Federal Register states that prior product exclusions will not be affected, so it is possible that both headings are mistakenly listed for 25 percent tariffs.

In any case, imposing duties on art objects that have been previously been exempt from customs duties will cause disproportionate harm to the small or medium size business of the U.S. Art trade as well as museums and collectors.

Moreover, proposed tariffs will only benefit China's mercantilish approach to art that has already been facilitated by the State Department's controversial 2009 decision to embargo cultural goods at the Chinese government's request.

Tariffs on cultural goods listed in these headings would be unprecedented. Such artifacts are unlike most manufactured goods. Art is not typically subject to customs duties because our government has generally sought to encourage cultural exchange.

Moreover, many cultural goods that fall under HTS9705 and all the cultural goods that fall under HTS Heading 9706 are not of recent Chinese manufacture but were produced long ago and have been collected for decades, if not hundreds of years, not only in China itself, but elsewhere in the Far East, United States and Europe.

Simply placing duties on such objects will not hurt Chinese industry, but place further disincentives on Americans from importing Chinese cultural goods long held in third countries, including our allies in Europe and Japan.

Almost 90 years ago, Congress exempted

antiques in order to encourage the free flow of artistic and cultural materials into the United States from tariffs.

The 100-year old definition of an antique, using the Tariff Act of 1930, was formalized in the Educational, Scientific and Cultural Materials Importation Act of 1966, which made importation of antiques made prior to a hundred years before their date of entry duty free.

The same act enabled duty free importation of ethological objects. Therefore, imposing 10 percent, and now 25 percent tariffs on cultural goods that fall under HTS Numbers 2705 and 2706 would change longstanding precedent, allowing entry of such goods duty free and may, in fact, even be inconsistent and contrary to Congressional authority.

Reversely, new import duties would also play further into the hands of the PRC and auction houses with the governing elite, like Poly Group, a company associated with a major

Chinese weapons producer, controlled by the family of former leader Deng Xiaoping and China Guardian Auctions, run by Chen Dongsheng, the grandson-in-law of the PRC's founder, Mao Zedong.

China is now the world's largest market for art antiquities. Yet, incredibly, rather than helping U.S. business to compete, our own State Department has, instead, severely damaged the ability of U.S. auction houses and dealers to import Chinese art from third countries for resale.

In 2009, China first asked the United States to place import barriers on Chinese art and antiques. A U.S.-China bilateral agreement, under the Cultural Property Implementation Act, was signed in 2009 and renewed in 2014 and 2019.

The U.S.-China Bilateral Agreement already covers virtually all Chinese art and artifacts from the Paleolithic era to the time period as well as monumental, sculptural and wall art over 250 years in age.

The government of China itself sought

a renewal of the 2209 agreement in 2018. Why? Because U.S. import barriers facilitate the movement of the global market for Chinese art into China itself.

After the enactment of the original bilateral agreement in 2009, the auction market for art and antiques in mainland China experienced a 500 percent growth between 2009 and 2011. And by 2011, the Chinese auction market surpassed all other countries in the world with $9.3 billion in total sales volume.

Imposing high tariffs on the limited universe of artifacts that may still be imported into the U.S. under current CBP procedures -- that is, artifacts documented as being outside of China as of the 2009 effective date of import restrictions, will do absolutely nothing to achieve the purported aims of the proposed tariffs.

Instead, such tariffs will further damage the ability of the small businesses of the art and antiquities trade to import Chinese art from third countries and to gain consignments from foreign collectors as well as make it even more difficult for collectors and museums here to acquire such art.

Thank you for your consideration of these issues which are so important to American museums, collectors and the small businesses of the art and antiquities trade.

MR. BISHOP: Thank you, Mr. Tompa. Our next witness is Colleen Karis with Colleen Karis Designs, LLC. Ms. Karis, you have five minutes.

MS. KARIS: Good morning. Thank you for your time and for listening to the background on my company and how the proposed List 4 tariff on pictures, designs and photographs, which is HTS 4911.91.4040, would affect our business.

Our company is a small one, but it has a vibrant business. And, no, I don't speak for any large trade association or other group today. I hope to put a face on what this proposal will mean for many businesses like mine.

My name is Colleen Karis, and I'm the president of Colleen Karis Designs. I'm a proud Kentucky girl whose family history is rooted deeply in the military.

I'm a Daughter of the American Revolution. My maternal grandfather served all the way back to WWI, while my paternal grandfather took part in the invasion of Normandy in WWII.

I grew up as an Army brat on bases all over the world. My father served 26 years in the Army, including three tours in Vietnam as an Army ranger before coming out of retirement after 9/11 to head communications on a Navy refueling ship in the Persian Gulf.

Sorry, so personal. As a child raised within the military, I learned the importance of self-reliance. That helped give me an entrepreneurial spirit to pave my own way in life.

In college, I studied Art Administration at the University of Kentucky and have used that education to become an art industry professional for over the past 25 years.

For the past 25 years, I have run a successful home art and decor business in Los Angeles which imports our products from China. I always wanted to be an artist myself, but in building this business, I found a way to work with artists, direct them and create unique artwork that our company sells to the mass market at discount prices.

I started from nothing, in my living room, and now, all these years later, our company has strong relationships with billion-dollar U.S. retailers, and we sell our products, on a large scale, all over the country.

Our company creates one of a kind works of art utilizing U.S. artists exclusively. We've regularly engaged and paid approximately 30 artists over the past ten years to create artworks exclusively for Karis Designs.

Those original designs are reproduced, mainly on canvas with a number of unique treatments in China for distribution to major U.S. discount retail chains.

Our current -- our children's products are an especially strong part of our business and many of these products include treatments that are hand-embellishments such as glitter, sequins, rail skirts, mermaid fabrics, cut-out shadow boxes, educational maps and alphabets.

In order to produce these embellishments, our manufacturer in China utilizes proprietary machinery that is one of a kind and invented just for production of this customized wall art.

Developing this commercial platform cost the company hundreds of thousands of dollars over the past 15 years and required more than a hundred visits to Asia to create these current procedures and machinery for high speed and high volume production.

I was on most of those trips myself and can tell you firsthand it was a painstaking, grueling process to get to where we are today.

But with what we've now developed, we're able to bring cutting edge designs to the mass market at a large discount in a little over a month from when we first send those designs to the factory floor.

What we've also learned from over the past decade of analyzing our industry is that this manufacturing platform is not obtainable here in the United States. We have constantly reviewed all of our manufacturing options during this time to obtain the lowest cost structure possible.

And we know there is no high volume manufacturer in the U.S. that can reproduce the volume of product with hand-embellishments at the prices required for our retail partners.

I would love to be able to move manufacturing to our country, but the past decade of intensive study has shown we can't obtain the low-cost level needed to provide the heavily discounted prices necessary for sale through our retail chain partners.

So the net effect to us is that the proposed 25 percent tariff would transform our company from a vibrant, profitable one to one that is operating at a substantial loss, with no cost-cutting or other path that would allow us to achieve sustainability. Sorry -- so personal.

Again, we have looked at this issue for years to get to our costs at the lowest point possible. And instituting a tariff like this one would upend our business within a matter of months without leaving us any room to maneuver or possibly cope with such a seismic change.

We've employed ten people and 30 artists over our history, which, again, is not the largest business you'll hear from today, but our company has been a dependable source of income and growth for these people for many years now.

And we've filled a real need in the United States for quality home art products that are affordable for the average consumer.

And the last item I would mention on

this is that, as I understand it, our product category doesn't fall within any of the ten priority sectors for the Made in China 2025 initiative.

Therefore, putting the tariff on our product category would not deter any unfair business practices by China, but it would severely impact small businesses like mine that fill a much needed niche in this country.

It is my hope that we will combat China's problematic activities with something that is more tailored to address the real misconduct at issue. Thank you. Sorry.

MR. BISHOP: Thank you, Ms. Karis. Our next witness is Alexander Koff on behalf of Nearly Natural. Mr. Koff, you have five minutes.

MR. KOFF: Nearly Natural appreciates the opportunity to submit this statement for the record. Robbie Singer, the founder and CEO of the company, was unable to be here due to international travel.

So in his place, I'm here to strongly

urge the removal of two HTS headings, specifically 67021040 and 67029035 which deal with artificial flowers.

These products are only available from China -- only. There are no alternative sources of supply, and their import values are de minimis, accounting for less than one-fifth of 1 percent of the proposed $300 billion of additional tariffs. That's 0.0186 percent.

Nearly Natural is a fully integrated U.S. manufacturing company that makes artificial flowers and plants that are so real, they look nearly natural, the name of the company.

It is a U.S. business that employs roughly 100 people in Miami, Florida. The company has over 5,000 product offerings. The vast majority of its sales are as back end fulfillment for major e-commerce players.

They charge a wholesale price to the channel partner, and the channel partner charges a retail price to the ultimate consumer. Margins are shrinking, and there's little tolerance for any increase in prices.

Its major non-U.S. competitors are in China. And the company sources all of its components from China. These are low-tech items that are not on the Made in China 2025 program.

Recently, the company made major investments to expand international sales in significant volumes to Latin America. And given the time constraints, please see the written comments for more details on that.

Nearly Natural appreciates the tough position that you're in, and the comments in no way minimize IP theft concerns. But Nearly Natural has conducted a very careful, sober examination of the potential tariff headings and they're only urging the removal of two, despite being negatively impacted by others.

Additional tariffs on these two discrete subheadings would have no effect on China's policies and would cause a disproportionate effect at home, and I'll explain.

The bottom line: if these two specific headings are included on List 4, likely Nearly Natural will go out of business. One hundred good paying jobs in Florida will be lost, and you'll be delivering the U.S. market to their Chinese competitors.

In the artificial flower and plant market, literally hundreds of thousands of low-tech individual components are made by hand in China each year via individual molds.

The component manufacturing business is labor intensive, low wage and is not something that's competitive here in the United States. Customers cannot tolerate variations between what they see in a catalogue and what is delivered to their door.

Each component, the veining on an individual leaf, a stem with a particular twist or even a thick branch where the stems and leaves are anchored at a particular angles must be identical to what is shown in the catalogue picture.

The only way to ensure that each component is identical is to make each component from the same individual mold. But the Chinese companies are the ones that own the molds and their associated intellectual properties. So there's a proprietary issue here too.

This is why virtually all of the U.S. imports come from China. Shifting production out of China would require starting over from scratch. The Chinese manufacturers built their molds and developed their expertise over the last 30 years.

And as each new mold requires a sizable capital investment, and as each mold has a limited production run each season, a production shift away from China is just not economically feasible or viable.

Third country manufacturers lack the know-how and artistry developed over the past three decades in China. And Nearly Natural has explored other markets and confirmed it has no other alternative but to buy its components from

China.

And the U.S. import figures, by value, from the USITC data web show that over 95 percent are coming from China. The additional tariffs have no effect on China because production is staying there. They own the IP. There are no alternative sources of supply. And it's too expensive to relocate production.

Plus, these two tariff lines apply to low-tech items not related to Made in China 2025 affect labor intensive, non-strategic industries and they are not the type of jobs China wants to keep.

So any protest by the Chinese companies will have no impact or effect in changing China's policies. But this will have a huge impact, a disproportionate impact here at home, like on Nearly Nature.

While it's difficult for the company to recover inflationary cost increases, a 25 percent recovery is inconceivable. In this industry, higher prices translate to a significant reduction in demand which means fewer sales, lost revenue and job loss. It's a highly price-elastic market.

At 25 percent, the company is out of business. Its strategic initiative to increase its sales force and expand to Latin America will cease, and only the Chinese manufacturing companies would remain.

In conclusion, Robbie Singer dedicated the last 20 years to this industry, yet he stands to lose everything. Like Ms. Karis, it's very personal to him.

Putting him out of business will not change China's IP policies, but rewards its Chinese competitors. For these reasons, Nearly Natural respectfully requests that these two -- two lines -- be excluded.

And the company stands ready to work with the Committee to cooperatively influence China to curb policies. Thank you for your time. I welcome your questions.

MR. BISHOP: Thank you, Mr. Koff. Our

next witness is Jason Clerke with Garrett Hewitt International. Mr. Clerke, you have five minutes.

MR. CLERKE: Thank you very much. And thank you to the Committee for taking my testimony today. Since I've been listening to testimony this morning, I've also decided to kind of step away a little bit from my written testimony.

My company, Garrett Hewitt International, has been around for 55 years and making cosmetic brushes in Asia.

I am here to talk about two codes in particular, even though I have listed three on my written testimony: 9603.30, 40 and 60. I've actually decided to remove 20 from my testimony, and I'll explain why as we go through this.

Garrett Hewitt International, again, has been around for 55 years. I'm actually the fourth owner of the company. I've owned it for 12 years. We have seen great growth. I've been able to triple the size of the company. And we make primarily cosmetic brushes.

Cosmetic brushes are something that have always been made in Asia. They've never been made in the USA. And bringing them back -- or -- well, bringing the production to the USA is not something that is feasible for a couple of reasons.

One is the supply of the primary product. The different components that make up a brush, the hair and the handle and the labor are the primary parts. The hair is farmed from goats and ponies in the Gobi Desert.

Prior to brushes being made in China, they were being made in Japan and Korea. As those countries got too expensive, because the labor cost is more than 50 percent of the cost of a cosmetic brush, it slowly made its way to China, where it's been for more than 20 years now.

We started the first factories, actually in Japan, 55 years ago. Our first customer was Max Factor. They're still a customer of ours now.

And what's happened, as that industry has grown very big in China, most of -- more than 95 percent of the cosmetic brushes in the world come out of China.

There's a small amount that come out of Germany -- very high end, very expensive because the labor costs, honestly, are so high.

So it would be very prohibitive to bring manufacturing of cosmetic brushes to the U.S. because all the raw materials, the handles, are actually made by specialized handle manufacturers, not even our factories.

That got too expensive even for our Chinese factories, so there are specialized handle manufacturers. The goat hair is coming from central China. The labor force is specialized in China. There is nobody in the USA who knows how to make brushes. Originally, the Koreans and the Japanese went over to China and they actually taught the Chinese how to make brushes.

It's an incredibly skilled job. It takes more than a year to learn how to make brushes. So bringing them here is not something that is realistic. And in doing so, because more than 50 percent of the cost is labor, it would more than quadruple the cost of brushes.

We work on very tight margins. My customers are the largest multinational companies in the world -- the Estee Lauders, L'Oreals of the world -- right down to startup makeup artist brands and everything in between.

We also export, so even though it ships directly from China to Europe and other countries around the world, we also contribute to our country's revenues, international revenues as well, from our exports as well.

If these tariffs were put on brushes, it will be passed directly through to the consumer, bottom line. We don't have the margins to absorb 25 percent. We may be able to absorb a couple percent. My customers can only absorb a couple percent. So in the end, it's going to the customer.

And you've got to realize that if a brush even goes up by 10 cents, that's going to end up at 50 cents more on the other end, but it's more likely to go up 50 cents. So at retail, you know, we're talking about $7.50 or $3.50.

I support technology, the 301, Section 301. We have to stop the technology transfer. We have to stop the counterfeiting. But what we are actually finding is that the government in China, probably in conjunction with the U.S. government -- I don't know.

I don't have the big studies that some of these people are coming in with today. I can only talk this from a personal level, but I know that we have to get letters from our customers to say if okay for our factories to manufacture and export brushes with Gucci or Dolce & Gabbana on it.

We protect our trademarks for our customers. The other thing is we do source from the U.S. when we can. When I bought this company 12 years ago, there was no production in the U.S. Our company did not source at all from the U.S.

We're doing over $2 million in sourcing from the U.S. now because the U.S. are very good at producing small, highly automated brushes. And that takes you why I decided to remove the 02 from -- I'm sorry, the 20 from the list because we do actually buy highly automated lip and nail brushes from U.S. manufacturers.

And I do encourage that we keep doing that and keep supporting that industry. But any other type of brushes is not realistically going to come back here and it's going to hurt our company, and it's going to hurt the U.S. consumer. Thank you very much.

MR. BISHOP: Thank you, Mr. Clerke. Our next witness is Katia Kelso with Ulla Johnson. Ms. Kelso, you have five minutes.

MS. KELSO: Thank you. My name is Katia Kelso. I'm the director of production at Ulla Johnson. Since the brand started in 1998, Ulla Johnson has had a dedicated global following from retailers across U.S., Europe, Australia and Asia.

Ulla Johnson has become a staple brand known for custom prints, intricate embroideries and fine tailoring, all of which have earned her an extremely loyal customer base.

Although the company is headquartered in New York City, we work with vendors across the globe, including China, to manufacture our high end products. As such, we're extremely concerned that the proposed additional tariffs of up to 25 percent on products manufactured in China.

I've listed the HTS codes we oppose on my testimony you have in front of you. We believe that imposing additional duties on apparel will cause disappropriate economic harm to the U.S. interests, particularly small and medium size businesses, like Ulla Johnson, and the consumer.

China is a valuable source for our company and the fashion industry. It provides high quality manufacturing, expertise, manufacturing infrastructure, none of which exists in the same capacity in the United States.

Careers in trade that rely on skills such as patent making and sewing are no longer viable options for the younger generation as these trades have been phased out of the American economy over the last few decades.

While China has focused on these skills, and thus manufacturers in China have been valued and necessary partners in developing a robust and growing fashion industry in the United States.

The implementation of a 25 percent tax on the products listed will result in a substantial price increase in our products which could place what we pride as quality products out of reach for the American customers.

Alternatively, Ulla Johnson would have to absorb this cost, depriving Ulla Johnson, a United States company, a fair enumeration for their innovations. The economic losses for the company could result in a reduction in staff numbers, having an adverse effect on the overall unemployment numbers in the United States.

Adding punitive tariffs on these products is not an effective way to obtain the elimination of China's acts, policies and practices at issue in the 301 investigation.

In 2017, the total value of textiles and clothing China exported to the United States was just over $42 million. In comparison, China exported almost double that amount to East Asia and the Pacific, at $81 million and one-and-a-half that amount, $63 million, to Europe and central Asia.

While China exports a significant amount of textiles and clothing to the United States, these proposed tariffs would have limited impacts on China's exports of textiles and clothing because the majority of China's exports goes to East Asia, central Asia, the Pacific and Europe.

We also know that in retaliation to

the increased tariffs imposed, China has raised tariffs on a number of U.S. imports, including soy bean and wine. This Tit-for-Tat with China will only inhibit United States exports, deprive the United States' citizens a fair remuneration for their innovations and otherwise undermine American manufacturing services and innovation.

The very outcomes that President Trump believes that China's laws, policies and practices might cause will, instead, by caused by these proposed policies. Thank you.

MR. BISHOP: Thank you, Ms. Kelso. Our final witness on this panel is Kurt Nagle, with the American Association of Port Authorities. Mr. Nagle, you have five minutes.

MR. NAGLE: Thank you. And thank you for providing this opportunity for the American Association of Port Authorities to present testimony on behalf of our U.S. public port members who own and manage facilities that import and export most of our nation's international cargo.

AAPA is concerned about the overall impact of additional Chinese tariffs on port-related jobs as well as specific concerns related to ship-to-shore cranes and cargo-handling equipment used at ports.

Seaports are on the front line of the ongoing U.S. trade policy uncertainty. As international trade hubs, seaports are vital economic engines. Seaport cargo activity accounts for over one-quarter of the U.S. economy and is responsible for $378 billion annually in federal, state and local tax revenues.

In terms of jobs, the cargo moving through U.S. ports supports nearly 31 million American jobs. In addition, for every $1 billion in export goods shipped through U.S. ports, an additional 15,000 jobs are created.

My comments today reiterate last year's List 3 Hearing testimony and emphasize the scale of this latest list, List 4. The expanded 301 tariffs on cargo moving through ports will have significant consequences.

The total Section 301 tariffs on Chinese commodities and China's retaliatory responses to date would cover 8.4 percent of trade through America's ports by value. In California alone, the impact could be as much as 20 percent of containerized cargo imported throughout the state.

Job loss and economic harm can be expected in the maritime sector and throughout the U.S. supply chain that ports support.

In last year's testimony, we also expressed particular concern over proposed tariffs on ship-to-shore cranes. We were pleased that the U.S. Trade Representative decided not to include ship-to-shore cranes in the final List 3 after the hearing.

However, we are deeply disappointed ship-to-shore cranes and other tariff codes that include port equipment are back on the proposed List 4. Tariffs on port equipment will have a detrimental impact on ports and their ability to fund needed infrastructure investments.

At a time when infrastructure investment is a national priority, we urge you to avoid increasing the cost of infrastructure through the imposition of new tariffs. There is considerable pressure to make ports more efficient.

U.S. ports and their private sector partners plan to make significant investments to modernize port infrastructure by spending $155 billion over a five-year period. As business leaders, however, they are concerned about making these sizable investments in an unstable trade environment.

We urge you to, once again, delist port equipment, especially equipment where no U.S. manufacturer exists. Ship-to-shore cranes, Tariff Code 8426.19.00 are of special concern due to their high cost and no U.S. manufacturer.

Many of the U.S. container ports have or plan to order these expensive pieces of cargo-handling equipment. With a cost of up to $14 million per crane, a 25 percent tariff would cost millions of dollars that might otherwise be spent on other infrastructure investments.

It would also put American ports at a competitive disadvantage with Canadian and Mexico ports. Port equipment is also covered by 8426.12.00, mobile lifting frames on tires and straddle carriers, and 8426.10.00, transporter cranes, gantry cranes and bridge cranes.

We urge you to delist these codes as well. AAPA has joined forces with other impacted associations and companies through Americans for Free Trade to highlight the detrimental impact of tariffs on U.S. manufacturers, farmers and businesses.

We stand with this coalition and others such as Tariffs Hurt the Heartland, to encourage the use of other strategies to address the important issues of intellectual property theft, forced technology transfers and other unfair trade practices.

Thank you again for the opportunity to testify. I'll be happy to answer any questions.

Thank you.

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

MS. BACETTY: Thank you very much. Mr. Tompa, in your testimony you discussed art and various antiquities that would be negatively affected by some of the tariffs.

Could you provide a brief description of some art pieces or antiquity pieces that are currently being imported from China and would be subject of the proposed tariff?

MR. TOMPA: Well, I think there's maybe some confusion here. The tariffs are, we understand, that are imposed by country of origin in China. So our concern are the materials coming from third countries, like Britain, et cetera.

There's, in fact, very little coming directly from China, at least in the categories that I'm stating. And there's two reasons for that. Number one is China itself -- and I don't have that in our paperwork, but they have export controls on anything later than 1911, so they want to keep that in the country.

There's some dispute as to what can be taken out before then, but you at least have to try to get an export permit, and that's generally unavailable, is my understanding, unless you have, you know, contacts in China.

Then number two is there's the U.S. import restrictions that were imposed in 2009 and have been continued and recently reaffirmed. And so those limit things coming from China, so you have to actually prove it was out of China as of the date of the initial restriction in 2009 to bring it in.

So, because of that, at least in the categories that I'm talking about, there is very little coming directly from China.

MS. BACETTY: Thank you for the clarification. One more question. Could you describe or mention which third countries --

MR. TOMPA: Sure.

MS. BACETTY: -- that are -- would be most affected?

MR. TOMPA: Yes, I mean, the major one is the UK. I mean, there's a lot of trade between the United States and the UK in these categories. In fact, the British Antique Dealers Association also put in a paper, which it sort of shows their concern about this as well.

MS. BACCETY: Thank you.

CHAIR TSAO: A follow up, how large is this bilateral trade between U.S. and UK of Chinese origin antiquities?

MR. TOMPA: I would have to probably -- I think the -- my recollection is the BADA put in some paperwork on that. I'll have to check with them, and we'll probably have to do a supplement on that. Thanks.

MR. BLAHA: Sorry, Chris Blaha from Department of Commerce. I had a question for Ms. Karis. I think you had indicated that the manufacture infrastructure to make your products in the United States just wasn't available.

But I also reference that you looked at other manufacturing options. I was wondering if you could just elaborate on what those other manufacturing options you had looked at, and in particular, if there were any third countries that could do the hand-embellishments you were referring to.

MS. KARIS: I can follow up with more of a written answer that's more concrete, instead of just talking off my head. But we have looked at manufacturers in the United States, and they are not able to reproduce our art with the embellishments.

They can print art, but it's not the same. And that's kind of what our niche is in this industry. I have made things in Vietnam, and it was a very primitive process, and the volume was not there.

It took -- and plus the lead times to the port are three times as long. So we have a large volume, and it just can't -- from what I found, it cannot make it anywhere else.

MR. BLAHA: Thank you. And just, I guess, and one other question, if I may. I think you had referenced some type of proprietary machinery, I think, in your testimony. I was wondering if you could just elaborate on what that was too.

MS. KARIS: Again, it's proprietary, so I'm happy to follow up with pictures and examples, but I do have competition in this industry and I'd rather not disclose the machinery that was made just for my business.

MR. BLAHA: I see. Okay, so this is machinery in China that was made specifically for your business?

MS. KARIS: Yes.

MR. BLAHA: Okay, thank you very much.

MS. KARIS: Thank you.

MS. MITCH: Thank you. My question is for Mr. Koff. You've noted in your testimony that virtually all U.S. imports of these items come from China and that your major non-U.S. competitors are in China and also using Chinese-sourced products.

So kind of, because of this, could you just elaborate a little more on how your company might suffer disproportionately under tariffs if all of these competitors are facing the same increased tariff levels on Chinese products?

MR. KOFF: All of -- can you clarify? When you said all of them, are you saying --

MS. MITCH: It seems to me, since all of them are sourcing from China and all of the artificial foliage products are coming from China, they would be on kind of an equal playing field under the increased tariff levels.

So I was just curious on how kind of your company experience would be different from non-U.S. competitors who are also facing the higher tariff levels.

MR. KOFF: Well, the question, I think, that was asked -- and thank you for your question -- in the Federal Register notice was how will U.S. businesses be disproportionately impacted.

And so this U.S. business will be disproportionately impacted vis-a-vis its Chinese competitors and because, I think, you need to understand that the market is in two distinct components.

There are the components themselves that are brought in, and then there's the finished product that is assembled here. So essentially, just like you go to a florist industry and they buy cut flowers that may come in from Latin America or from some other places and they assemble them, it's the same idea in this industry.

So there's a distinct difference between those in China, who are making the components, the low-end, low-wage situation, and then sending them to the United States and then we're producing them.

They have a cost advantage and a cost competitive advantage, comparative advantage in that marketplace. The reason why, with higher-end costs, they can be -- the U.S. industry and in particular Nearly Natural can be competitive is because of the shipping.

And this is addressed in the comments themselves. And vis-a-vis the shipping, if you're going to import a finished product, which is the higher-end, higher value, that finished product, roughly half of the value of that product is the shipping.

And if you take the width of the pot in which it's put into, there's a lot of empty space. But you can be much more competitive if you nest the pots, as the components themselves. And those components are imported and then, when they're broken apart and manufactured in the factory in Miami, you then have two distinct advantages by doing that in Miami.

Number one, you can sell it down in Latin America with a faster time frame for delivery than you could get by delivering it from China.

And, number two, it's cheaper because you can make up that cost difference in savings from the shipping by paying higher wages here, so you are cost-competitive.

And that's the reason why this particular industry has expanded sales because they're trying to get into that higher margin of sales outside of the back end fulfillment. Does that answer your question?

MS. MITCH: I think so. So it's in third markets that you're seeing the difference with your Chinese competitors then mostly in these higher-end products?

MR. KOFF: No, no. The Chinese product -- let me be absolutely clear.

MS. MITCH: Sorry.

MR. KOFF: We're competing with the Chinese producers, not on the component products.

MS. MITCH: Right.

MR. KOFF: On the components, they own that market. They own the IP, and we can't move to a different market so we're stuck. Unlike other industries where you can source from other places, we cannot.

And the company has done a very sober analysis to try and understand what products are being hit. And I know I'm talking a lot, but can I go back and give you some figures? Would that be okay, Chairman Tsao?

CHAIRMAN TSAO: Sure.

MR. KOFF: Okay, so let's talk bluntly. We understand that on China List 1, 38.5 percent of the duties were exempted from List 1. On List 2 and 3, it was 1.7 percent of the duties by HTS Number were exempted and 4.7 percent were exempted.

So looking at List 4, knowing that you guys have a very tough call on what you're going to exempt, there seems to be a reluctance to exempt tariff headings. And previously exempted items are also back on that list.

So what the company did is they took a very careful analysis to determine what they're going to look to, to ask you about. They looked -- and this is detailed a little bit in the comments, but I think it's worth reiterating here, on three distinct headings.

They looked at 6913.9050 and 8306.29.00. Both of those impact the company in terms of increased costs. But both of those have roughly 60 to 80 percent imports from China. So there are alternative sources of supply.

For that reason, knowing the pressures you're facing, they said, all right, we're not going to ask for relief on that.

Go to the second level. If you look at 9505.1025 and 9505.1040.10, those deal with pretty much ornaments. Over 95 percent of those tariffs come in from China.

So that fits the questions that you asked throughout these proceedings over the last five days and in the preceding three lists. But the client looked at this and said, you know what, we're going to be hurt. An additional 25 percent is going to cut into our margins, but we can still survive so we're not going to ask for tariff relief there.

But when it comes to the artificial

flowers, the components, the guts of what they make, they said this is a global killer for our business. So they did a very careful, sober analysis and they looked through all of this to try and determine what was going on.

And we know that there's a difference in the administration. Take, example, Dr. Navarro's comments to CNN in June of -- June 5th, 2019. And he said, look, China bears most of the burden on the tariffs. They're forced to lower their prices and have fewer exports.

We have seen virtually zero impact on price inflation. So the whole idea that somehow the American consumer is bearing this is nonsense. So we understand that there's one aspect on that.

And vis-a-vis consumers, there's also the other side with the Trade Partnership Worldwide, when they did the Tariffs Hurt the Heartland study. And in that study, they estimated that 2,389 per year of additional costs would be on U.S. consumers.

And that was started by Joe Francois, who was here at the ITC as their Chief of Research and Acting Director of Economics. We didn't focus on the impact to the consumer and whether this would raise prices to them because know that there's differences in opinion on that.

We focused on just two discrete items that you asked in your tariff heading, in your Federal Register notice. And this is going to hurt them. It's going to kill them. And it's clear that it's focused not on the Chinese competitors in the finished space.

If you take away their components, it will deliver that space to the Chinese competitors who are already there. And they're going to be the only ones left. Thank you for the additional time.

MS. ADAMS: Thank you all very much for your testimony. My question is for Mr. Clerke. My original question actually you answered quite nicely in your testimony, about the product of the makeup brushes originating in

Korea and Japan and then being shifted to China as those countries developed and their labor got more expensive, I guess.

I wonder if you could foresee that happening in the current situation, where the Chinese labor continues to get more expensive. Would you see this kind of manufacturing devolving to other markets with less expensive labor? And would a timeline be something that your company could handle?

MR. CLERKE: Yes, it's a very good question. And it's yes, something we are looking at because we do foresee that happening.

You know, as the Chinese, you know, wages are increasing and as the middle class increases, these type of very manually intensive low-wage labor type jobs are becoming less desirable and it's getting harder and harder to actually find workers in this field to make these type of brushes.

So we have been looking to move production. And to be completely candid, we looked to the U.S. We were hoping that we could really automate the process of actually making a higher-end brush here in the U.S.

We worked with our manufacturers that make the very highly-automated nail brushes and lip brushes. And we spent a lot of time with them, trying to develop it. And unfortunately, it's just one of those things that we could not perfect.

It is a very highly skilled, manual intensive job. So we realize that it needs to stay manufactured in that way. So we went to Indonesia earlier this year, actually, and we were looking at possibly Indonesia. You know, it's a great growing manufacturing market.

But we ran into a few different obstacles there. One of them was just the logistics of getting all the raw materials down there. The other part of it is well honestly just the work ethic and the abilities of the Indonesian people versus the Chinese people.

It just wasn't there. So we went down

there and we very closely watched very similar industries -- wig making, eyelash making, these type of industries.

And we watched how the workers work and compared it to the way that the Chinese and, in the past, the Koreans work. It's just a slightly different work ethic. And the productivity level was so much lower.

We've investigated Vietnam, and there is actually a small amount of brush making that has moved to Vietnam. But the productivity level and that costs are actually, even though the labor cost is less, we're finding the productivity level is that much lower that it's not working out.

It's just, again, it's a different culture. We're finding it harder to work that way. So honestly, right now, we're looking at moving production away from the coast, where there is more of a labor shortage, and moving it to inland China where there is actually more of a need for this type of employment.

And even though logistically some of the infrastructure isn't set up there yet for it, it's still within China and we can easily do it. So we're looking at about a two-year time frame to do that. And we're in the process of doing it now -- to inland China. No one else is there yet, but we would like to be the first ones there.

MS. ADAMS: Thank you very much.

MR. BLAHA: I apologize. A follow-up question, if I may. You kind of just mentioned moving from coastal to inland China. Can you just, given the emphasis and importance you put on regarding the labor force and the labor costs there, what are the differences, if any, between the labor forces of coastal and inland China, and how does that factor into that?

MR. CLERKE: Yes, so un the coastal cities, there's a lot more work honestly, so the employers and especially a lot more of the high-tech employers are willing to pay a lot more money to some basic labor type jobs.

When those industries, those more high-tech industries are not in existence as much in central China, so the general labor costs for this type of work is lower in the central China area. And in some ways it's actually closer to our source of raw materials.

We are making both synthetic and goat hair brushes or natural hair brushes. And the biggest issue is actually the supply of the natural hair, and that is very close to the source so it also helps us with transportation and getting it to the factory.

MR. BLAHA: Thank you. I guess the inland China labor force productivity would still be higher than that in Vietnam that you referenced though? Is that still --

MR. CLERKE: No, actually, it's -- productivity is higher and actually the cost is very similar, so from region to region within China, the minimum wage does vary. And also just the going wage does vary. So it would be lower in inland China and we would have the available work source.

One of the issues I have, as I'm sure you've probably heard this before, but when Chinese New Year runs around, everybody kind of flees from the coast, goes inland back to their villages where they're originally from. So unfortunately, a lot of these people are, you know, working away from home to be able to support their families.

And they go back for the holidays. Well, a lot of the time, in our industry and in a lot of industries, probably 30 to 40 percent of the people do not return to the actual -- to their jobs. So you've got to then go and retrain more people every year.

So we figured if we move the business to where the actual labor source is coming from, these people can stay with their families. They can actually work in that area, and we're going to be able to maintain the work force and not have it constantly turn over and have to keep training.

MR. BLAHA: Okay. Thank you.

MR. CLERKE: You're welcome.

MR. FRATERMAN: Great, thank you, everyone on the panel, for your testimony today. My question is for Ms. Kelso. Just out of curiosity, what other countries besides China do fine tailoring and custom prints for fabrics?

MS. KELSO: We produce in a lot of other countries. We produce in India, Peru, Turkey. We're looking to go into Portugal at the moment. Every country is like good at doing different things, basically.

Like India is great at doing handwork; it's great at cottons. China's really good with silks and prints. So if we were to move production, which we're looking at.

We're pricing all of our new season in India at the moment, but India has to import the silk from China to produce in India. So currently producing silk garments in India is more expensive than producing them in China.

Knits is also another thing that China

is, you know, very good at. It has all the machinery and the skills. And that's not something we could move to India. We could look at moving to Peru, but obviously out of Peru labor is a lot more expensive.

Peru also does a lot more hand-knits rather than machine-knits, so there are options, but there's not options for everything. And again, time is a big issue for us.

Like, you know, we plan our supply chain 12 months in advance. We can't just pick up and move today, next week, a month. Like we need 12 months to kind of place groups in new countries and also to source new factories.

Like we're at capacity with a lot of our factories in India. And to give them more work would mean we're at risk at late deliveries and all sorts of things. So we do really do need time to move things.

MR. FRATERMAN: Thank you. And just one quick follow-up. You kind of mentioned why these countries weren't options for Ulla Johnson in terms of production.

I just kind of want to get an idea. You said long-term. Would it be possible in the long-term to move production away from China to other places like Portugal, Peru or anywhere else in particular?

MS. KELSO: I mean, in the long long-term, yes. I think knits is a very hard thing. Knits is a -- has got a lot of special machinery that other countries don't have, and it's, you know, going to take a long time for them to get it or, you know, it's going to be a great expense to get things there.

Also, countries like Portugal, labor is a lot higher in Portugal than it is in China. So, yes, I think in the long long-term, you know, five, ten years, it's something that can happen, but not in the near distant future.

MR. FRATERMAN: And just to confirm, you said that was ten years. Correct?

MS. KELSO: Yes, I think it's going to take a whole while. Like it's a very big industry that, you know, China has been working on -- like it's been a growing country for all this, since we started dismantling things in like Mid-town in New York.

You know, there's not the capacity of factories. And over the years, as stuff has been taken offshore, you know, China has built up and it's going to take a lot of time for those other countries to kind of build up as well. It's not -- yes, I would say five, ten years for sure.

MR. FRATERMAN: Okay, great. Thank you very much.

MS. ZHAO: My question is for Mr. Nagle. Would you describe in more detail the available sources of supply for the products that you mentioned, like ship-to-shore cranes and port equipment as well as the process and timing to switch to an alternate supplier?

MR. NAGLE: Sure. In general, the -- almost all of the production of the ship-to-shore cranes, particularly, is in China. Even if it's a non-Chinese company, most of the actual manufacturer of the cranes themselves is in China.

So that the vast majority, and usually when there is request for proposals put out, it tends to be the Chinese manufacturer that, in often cases, is the only respondent and one available to be able to meet those needs.

Some cranes also require or some ports also require specific low profile cranes if their facilities are near airports, like Port Everglades and such. And on the low profile cranes, absolutely, there is no other manufacture other than in China.

The other thing I guess that's important is that these are primarily, the manufacturer is the, in Chinese -- in China, it's the facility -- I mean, really the unit itself, the steel structure.

Whereas the technology involved is put onto the crane once it reaches here in the U.S. and generally is a either a U.S. or European company. So the actual drive for the train --

for the crane, the technology is being put on after and, let's say, often, from a U.S. manufacturer or European manufacturer, not -- it's not high technology from China.

MS. ZHAO: Thank you. I have a follow-up question. You discussed the effects on U.S. ports in your testimony. What do you think are the effects on Chinese ports?

MR. NAGLE: In terms of the crane manufacturer itself?

MS. ZHAO: Yes. Oh, sorry, imposition of duties.

MR. NAGLE: Oh. Well, I think in general, the, you know, we've seen an impact on U.S. -- particularly U.S. exports to China. So in terms of volumes moving through U.S. ports to China and therefore then Chinese ports, they're certainly seeing -- have seen a reduction in products coming from the United States.

We've not seen, to date anyway, a reduction in the volumes of goods coming through China. In many cases, what we saw over the last year and a half was actually an increase in goods moving through the system from -- including Chinese ports obviously -- then into the United States, as there was certainly a lot of effort by a number of shippers, et cetera, to try to advance those shipments, build up inventories in advance of, at that time, the potential of the last list going from 10 percent to 25 percent.

So we've not seen, to date, a reduction in those volumes.

MR. BLAHA: Thank you. Mr. Koff, another follow-up, if I may. I think you had referenced that the Chinese brush firms own the IP, as I understood it.

And I guess, but also that there were multiple -- or molds were used for one season or there was a seasonality to the molds. I wonder if you could just elaborate on -- essentially what is the time length over which the IP applies?

Or -- so, I guess if changing -- is changing a mold from season to season, is there all new IP for that? Or is it relatively -- is there less friction essentially on a seasonal basis because there would be no IP constraints for the next season's molds? I'm not sure if I'm stating this correctly, but --

MR. KOFF: Yes, let me take a stab at it. And it's also detailed in the comments that we have, starting at Page 5 of those comments.

Basically, the Chinese companies own the molds, and those molds are reusable. So those molds are something that apply for one particular product.

And as notes in the publicly available comments -- and I'm trying to find the exact footnote for you -- the molds are estimated to perhaps be $20,000 per mold. It's a capital intensive investment to redo one of those molds.

And some of these flowers -- this is at Footnote 15 -- one mold could cost as much as $20,000. And some complex components themselves could require multiple molds. So the idea is that China has had 30 years to develop their cache of individual molds.

And as a result of developing these over the years, they've built, in a capital intensive ability, a certain number of molds per year. And they haven't had to do a heavy lift immediately for all the molds in a one-year period of time.

So they own the molds. To recreate everything would require a significant capital intensive investment. Besides the capital intensive investment, you also have the work force which has been trained over the last 30-year period, for two generations.

So it's just not feasible to move production to any other location. They just -- they literally have no options. And, you know, well, I've been here. I've seen you over the last five days, testifying.

This one industry, they can't -- unlike all the other ones that have been talking about it -- they just don't have the ability to move it because it's not a widget. It's a very complex product that has no other source of supplies.

And I have the data from the USITC data web to sort of show that. Does that answer your question?

MR. BLAHA: I believe so. Just to clarify, so the IP constraints, whatever frictions the IP might make to -- inability to move outside of China -- would apply across multiple seasons?

So it's not the case that a new seasonal offering means that that constraint doesn't apply?

MR. KOFF: Correct. The company purchases seasonally, which means that -- and the reason why we talked about that, it means that in terms of the capital intensive cost to buy a new mold, they will only use a mold for a particular season.

So it's just not economically viable to invest for that mold because it's only used for one season. But the IP ownership is with the

Chinese entity, and they own those mold full stop.

So it doesn't matter whether it's a seasonal investment or not. The Chinese have the component and they have the component business, period. Has that answered your question?

MR. BLAHA: Okay, thank you. Yes, I think so.

MR. KOFF: Okay.

MR. BISHOP: Mr. Chairman, we release this panel with our thanks.

CHAIRMAN TSAO: We'll take a lunch break right now. We'll reconvene at 1:05, 1305. Thank you.

(Whereupon, the above-entitled matter went off the record at 12:08 p.m. and resumed at 1:05 p.m.)

CHAIR BUSIS: Thank you. Welcome to our afternoon session of today's hearing. Before we start with our testimony, I'm going to repeat some of the administrative instructions for the afternoon witnesses, and then the Committee will introduce itself. 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 you have one minute left, and red means your time has expired. After the testimony from each panel of witnesses, the Section 301 Committee will have an opportunity to ask questions. Committee representatives will generally direct their questions to one or more specific witnesses.

As stated in our May 17 notice, post-hearing comments, including any written response to questions from the Section 301 Committee, are due seven days after the last day of the hearing. Our hearing is scheduled to conclude on June 25, which means that all post-hearing comments are due by no later than July 2nd.

Given the number of witnesses, we request that, when responding to questions, witnesses 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 website, and on the Federal Register docket. At this time, I'm going to ask our Committee members to introduce themselves for the, for the witnesses, and also for the court reporter.

MR. FRATERMAN: Matthew Fraterman, Department of Labor.

MR. MAIER: Peter Maier, Department of Treasury.

MS. ZHAO: Shelly Zhao, Office of the U.S. Trade Representative.

MR. DIXIT: Praveen Dixit from the Department of Commerce.

CHAIR BUSIS: And I'm Bill Busis, Deputy Assistant USTR for Monitoring and Enforcement, and Chair of the Section 301 Committee. Mr. Burch, you may call the first witness. Thank you.

MR. BURCH: Mr. Chairman, our first witness for Panel 36 will be Josh Werthaiser with Feather and Down, Down Lite. Mr. Werthaiser, you have five minutes.

MR. WERTHAISER: Thank you very much. Thank you to the USTR panel for allowing us to take part in these hearings. We do appreciate a chance to allow our voices to be heard.

My name is Josh Werthaiser. I am the president of Down Lite, and a second generation family member of the organization. We are 36 years old with roots dating back more than 100 years. We are a leading domestic manufacturer of top of bed products, as well as natural fill insulation.

We have five factories located throughout the United States, employing over 500 people. We are very proud of what we do in putting Americans to work building quality bedding and insulation that is used in multiple channels, including home, hospitality, and outdoor.

Our home customers range from Walmart to Bloomingdale's. Our hospitality include customers such as Starwood and Marriott, and Patagonia, Columbia, and North Face are brands that we work with in the outdoor segment.

We sell domestically in the United States, as well as outside, to countries like Canada, Europe, as well as various other regions throughout the rest of the world.

We fully respect the efforts of the administration and the drive towards fair trade practices, while protecting the US intellectual property. The concern we have is over the announcement of the fourth list, and more specifically, the inclusion of HTSUS subheading 0505.01.00, feather for a kind used for stuffing and down.

Should this tariff go into effect as currently constructed, or structured, we believe there will be adverse impacts opposite of what the administration is attempting to achieve, unfair trade.

The administration previously recognized and understood these arguments when List 3 was proposed, and -- excuse me -- and this subheading was removed before the final List 3 was issued.

It is important to understand that our, where our supply chain comes from. The material that we purchase, the feather and down, is a byproduct of the poultry industry, and therefore, we, as an industry, have to go to countries where they consume duck and goose meat.

Specifically to the US market, while duck is consumed in a small amount in the US, it is not a core staple of our diet. In fact, the US consumption of these proteins only generates about 2 percent of the total global feather and down supply, far less than our market consumes on an annual basis.

Due to this low percentage, the supply base existing domestically has never been tariffed or dutied before, or ever had a duty on it before. When you look at the global supply chain, the market that consumes the most goose and duck in the world is China.

In fact, they consume more duck and goose than any other, than all of the other countries combined, actually driving 80 percent of the total supply of feather and down around the world.

To put this in perspective, in 2017, we imported 16, as an industry, 16.4 million kilos of feather and down. 14.4 million of those, of that material came from China, which is 88 percent. 2 million came from other regions, or 12 percent.

If we purchased all of the domestic material available, it's about 1.3 million kilo of feather and down, and combine that with all of the material we were able to get outside of the US, another 2 million. That's only 3.3 million, which is far less than the more than 16.4 million kilo we need as an industry.

Downlite, and others in our industry,

will have no choice but to continue sourcing feather and down from China, due to their dominance of the supply chain. Another concern we have is job loss.

Tariffs, obviously, to us, would basically mean higher costs that we would then have to pass on to our customer base, and in turn, to theirs. We do not have the margins within our, within our pricing to go ahead and be able to absorb, so we would have to pass those on dollar for dollar.

These higher prices would debilitate the demand within our industry due to price elasticity that exists. Lower demand would force Downlite and other companies within our industry to have to reduce their workforces due to the lower demand.

In addition, domestic companies that provide products like packaging, boxes, labels, they would also feel the effects of this as well. Another concern, and possibly even bigger, is the fact that it would potentially make the US less competitive compared to neighboring nations. Countries like Canada and Mexico, for example.

Those countries, along with others, would be able to import the components at beneficial levels, manufacture the finished products, and then ship it into the US without impacts of tariffs.

I've provided a confidential document for your review, along with the comments, that shows the competitive landscape both with and without tariffs. And as can be seen on those documents, US manufacturing loses its competitive edge versus manufacturing in regions, in regions such as our neighboring countries, should this tariff go into effect.

I would like to close with a quick story. As mentioned previously, we manufacture bedding within the hospitality industry. Through our distributors and products, we enter a wide variety of hotels, including, actually, the Trump Hotels.

Post-election, we were honored to

receive a call from the administration to have our bedding put into the White House. The concern we have is if this tariff goes through as it's currently proposed, we, along with other domestic manufacturers in our industry, will lose our competitive ability to produce these goods domestically in the US.

Once again, I would like to urge the USTR to consider removing HTSUS subheading 0505.10.00 from List 4, allowing us to keep Americans working, and to fairly compete in the global market.

Thank you for allowing me the time to take, or thank you for allowing me to take part in the hearings, and I welcome your questions.

MR. BURCH: Thank you, Mr. Werthaiser. Our next panel witness will be M. Travis Stier with the American Down and Feather Council. Mr. Stier, you have five minutes.

MR. STIER: Thank you. The American Down and Feather Council's member companies are American manufacturers and traders, and Josh's company is one member. Combined, our association may account for close to 90 percent of all the down and feather bedding products sold in the US market, whether as OEM manufacturers, like him, or as importers.

We thank the Committee for listening to our concerns and hopes. I am going to be much briefer than Josh, since he covered a lot of great topics. Rather than read our written testimony word for word, I'll move quickly to our best argument, on page 4.

This Committee appeared to accept this argument in August 2018, and excluded down and feather materials from the List 3 10 percent tariffs at that time. As Josh indicated, down and feather is a byproduct of the meat industry, which also means that increased demand never leads to increased supply of this material.

Chickens and turkeys, being land fowls, have no down. It turns out that, consistently, from decade to decade, the past couple decades, around 80 percent of the global supply of down and feather comes from China. Europe has had, historically, around 10 percent of global supply. The USA and Canada now account for close to 2 percent of global supply.

The US market demand for down fluctuates with price. US bedding demand hovers around 10 to 12 percent of global supply, while US demand in apparel, or down jackets, currently consumes another 10 to 12 percent of global supply.

Since Europe and other places consume a large portion of the down they produce, American manufacturers and importers must use Chinese down to satisfy a significant portion of American demand, and my understanding would be at least 75 percent of American down products contain Chinese down in any given year, within the last decade. And US ITC statistics can support this testimony.

The lack of availability outside China means that tariffs on down would harm American consumers much more than Chinese producers of down and feather materials.

Aside from that, the ADFC's position is that the tariffs on List 4 would generally be bad for the economy on domestic demand, and quite likely lead to layoffs in the domestic manufacturing sector during a period of economic adjustment.

For these reasons, the ADFC opposes all of the List 4 tariffs. Thank you for listening. I now yield the balance of my time.

MR. BURCH: Thank you, Mr. Stier. Our next panel witness will be Carlo Bargagli with Ideaitalia Contemporary Furniture. Mr. Bargagli, you have five minutes.

MR. BARGAGLI: Thank you, Mr. Chairman, and thank you for having me. We are essentially case good manufacturer. Therefore, we make bedrooms. We make them in North Carolina.

There are very few case good manufacturers left in this country. They all moved to Asia, and especially South Asia. Now, there are certain components that we use for the assembly of our bedrooms, which are here, covered by these tariffs.

Glides for drawers, metal of certain kinds that would be basically undermounts, so feet for case goods, et cetera, et cetera, that we bring in from China. We engineer them, design them, and we outsource them in China.

The reason we outsource them in China is because they are, the unit itself costs pennies, so we're talking a drawer glide, to hit our price points, therefore, on the promotional end of the business, might cost $1, $1.10, $1.15, and we virtually can't find anybody in the world to manufacture that specific product, that needs a certain, has technology involved, and also very low cost. We can't find them anywhere else in the world.

Now, the point that I am interested in making is, there are other manufacturers of case goods, promotional bedrooms, especially in Malaysia, Indonesia, Vietnam, and these guys will be allowed to buy the same components that, generally speaking, we design and we make because our technical technology is Italian. We figure it out in Italy, and then we farm it out, and the benefits come to this factory in the US.

These guys will be able to bring in duty-free assembled bedrooms, okay, and they will be more promotional, and they will be having a competitive advantage over the labor costs and everything else, which we're fighting, and we learned how to compete with that.

But they would be able to bring in these components in their countries duty-free, and then export, or in the United States. My same retailers will bring in their bedrooms, basically, with this big advantage.

And that's what I, and that's why I'm here, and I'm asking your consideration on this. Now, we are a small factory, about 300 people. And we can't pass along these increases to our retailers, because, again, they have a way to source the same product we make, or similar product to the one we make, in the Southeast Asia. Not China.

The result being, we would lose our business. We'd have to probably close the factory that's been operating since 2005, so 10 years, and let go of 300 people. Not a big situation in this, in this market, but still, a situation that we very much care for.

This is the essence of my, of my being here, and I ask for your consideration. The two tariff numbers are 8302.42.3015, and 8302.42.3065, and this is for the 301 duties. Thank you very much, and I welcome any questions.

MR. BURCH: Thank you, Mr. Bargagli. Our next panel witness will be James Barthel with the Primex Family of Companies. Mr. Barthel, you have five minutes.

MR. BARTHEL: Good afternoon, Chairman, and the Section 301 Committee. Thank you for allowing me to represent our company, the Primex Family of Companies, share our story, and respectfully request for the exemption of 13 HTS codes from the proposed 25 percent tariff.

I'm James Barthel, Chief Financial Officer of Primex. We are small, 75-year-old family business with 150 employees based in Lake Geneva, Wisconsin. Our company's offerings span from clock parts to weather stations, which are used in the healthcare, education, retail pharmacy, manufacturing, and engineering sectors.

We are in over 30 percent of hospitals in the United States, and one of the largest suppliers of weather stations and clocks in North America, through our mass online and direct channels.

This business was literally started on a kitchen table, part-time, by an innovative entrepreneur who wanted to make a better life for his family and have an impact on his community. It's a classic American story, built on sweat equity and innovation.

While we are supportive, and understand the goals that USTR and the administration have outlined in various reports detailing China's aggressive and discriminatory policies, today I'd like to outline 3 reasons why 13 HTS codes should be removed from the proposed fourth list of projects, products, subject to a 25 percent tariff. The 13 HTS codes include alarm clocks, wall clocks, and thermometers, all products central to our business.

First, these tariffs will continue to do unrectifiable harm to our business. The Section 301 tariffs have put Primex, primarily our Chaney Instrument Company, in an unsustainable loss position.

We have had products on each of USTR's four lists of products subject to tariffs, with the potential impact from products on this fourth list being over $1 million. We have already paid over $3 million in Section 301 tariffs from our small, from our products on USTR's List 1, 2, and 3, which not only has resulted in the elimination of all of our profit, but has put us in a loss position, an approximate 20 percent reduction in our workforce, and reduction in our R&D

initiatives.

It's not our Chinese suppliers who are paying the price of the tariffs. It's our small, Wisconsin-based business, and ultimately, our employees. This bleeding will only become more severe with the tariffs proposed for our products on List 4.

It is impossible to pass along these tax increases to our customers, due to our foreign competitors, who are not subject to these tariffs. In addition, our retail customers typically have a very inelastic demand profile. Primex, formally a profitable company, is in jeopardy solely because of the Section 301 tariffs.

Second, Primex cannot source our products outside of China. Our supply chain has taken almost three decades to develop via small, private, family-owned businesses in China. These are not state-influenced or state-driven companies seeking high technology.

As a small business now operating at

a loss position because of tariffs, there is no way possible to completely rebuild our supply chain, and no bank would fund such an endeavor.

Third, our products will not be effective in curving China's predatory practices. Neither Primex, nor our products, are subject to any predatory acts by China, such as cyber theft, market access, or forced technology transfers.

The technology used is simple, and is generally considered a late, low-technology product. They are not made through advanced technology manufacturing. People buy our products for the utility they provide, not necessarily because of technology in the product.

In summary, we ask that our 13 HDS codes, particularly those alarm clocks, wall clocks, and thermometers, be excluded from the proposed fourth list of products to be subject to a 25 percent tariff because of the unrectifiable economic harm to Primex, as we cannot source our products outside of China, and our products would not be effective in curving China's predatory practices. I appreciate your time, and welcome any questions this Committee may have.

MR. BURCH: Thank you, Mr. Barthel. Our next panel witness will be John Kunes with Fuling Plastics USA. Mr. Kunes, you have five minutes.

MR. KUNES: Thank you. Mr. Chairman, members of the Committee, my name's John Kunes. I'm executive vice president for Fuling Plastics USA, Incorporated. I'm here to discuss reasons why we feel that the USTR should remove plastic tableware from the proposed list of subject, products subject to the additional 25 percent tariff. The top of my written testimony contains the Harmonized Tariff Schedule subheading for this product.

Fuling is a global supplier of plastic tableware, and it's operations include a manufacturing facility in Allentown, Pennsylvania, where we manufacture a broad range of products for the food industry, and it's use in commercial food service.

We're proud that we sell our products to five of the nation's six largest fast food chains, as well as restaurant distributors, wholesalers, and other retail outlets. Our company's near-term goal is to continue to transfer production to our Allentown facility, as the mass, the vast majority of our customers are located in the United States, and they prefer to purchase domestically manufactured product.

Though through increased automation and process improvements, we still believe that many more of these products can be transferred to our Allentown facility without compromising the cost effectiveness that made it successful.

This will allow us to increase manufacturing jobs in Pennsylvania to those who may have been pushed out of a job in today's high-tech market.

We want to emphasize that Fuling acts in alignment with the administration's goal to bring manufacturing jobs back to the US, particularly those jobs that are vulnerable to outsourcing overseas.

The State of Pennsylvania, as well as the Lehigh Economic Development Corporation have both provided letters to support Fuling's contribution to the local economy, including the jobs that we've created for the local workforce in the Lehigh Valley.

Imposing 25 percent tariff on imports of plastic tableware will negatively affect our expansion plans and ability to transfer more production to the United States. The increased financial burden resulting for the additional tariffs will negatively impact the company's growth, cash flow, will increase costs, and will ultimately will impact sales.

The increased product cost and potential decline of revenue could likely delay or even derail our expansion plans in Allentown. Perhaps equally important is that the proposed increased duties are likely to be largely transferred to Fuling's customers, including fast food restaurant franchise owners, who, in turn, will likely pass these costs onto the American consumer, particularly those who rely upon fast food as a source of quality, affordable meals.

Overall, Fuling believes the proposed tariff measures on plastic tableware will disproportionately harm US interest, American manufacturing interests, domestic fast food interests, and the American consumer's interest.

Lastly, we respectfully assert that imposing the tariffs on plastic tableware -- excuse me -- that will impact the American consumers and fast food business, is unlikely to help the administration achieve its goal of influencing the Chinese government to change or eliminate unfair trade practices.

These low-tech products are not those targeted by the Chinese government in an effort to pursue advanced technologies. Moreover, there are no risks that these tableware products, or their production technologies, have been or will be subject to forced intellectual property or technology transfers.

In conclusion, Fuling believes that imposing tariffs on plastic tableware products will only cause harm to a number US interests, and hardworking Americans, and would not achieve any identifiable benefits.

Therefore, on behalf of Fuling Plastics USA, I respectfully ask this Commission to remove plastic tableware from the proposed list of products to be subject to the 25 percent tariff. Thank you for your time. I'd be willing to take any questions at the end.

MR. BURCH: Thank you, Mr. Kunes. Our next panel witness will be Jared Wessel with Spectrum Brands Holding. Mr. Wessel, you have five minutes.

MR. WESSEL: Good afternoon, Chairman Busis, and members of the Section 301 Committee. For the record, my name is Jared Wessel, counsel to Spectrum Brands Holdings. Thank you for the opportunity to appear before you today.

Let me tell you a little about my client. Spectrum Brands is an American manufacturer and global consumer products company headquartered in Middleton, Wisconsin. A member of the Russell 1000 Index, Spectrum Brands offers a broad portfolio of leading value-based consumer brands, such as Kwikset locks and Remington household electric appliances.

Our products are sold in stores like the Home Depot and Lowe's. We respectfully submit that tariffs on the items noted in our request to testify, and attached to my testimony today, would be counterproductive to American interests.

Specifically, these tariffs would harm US manufacturing, US consumers, and weaken US brands vis-a-vis their foreign competitors. These harms would not be offset by any impact on the Made in China 2025 program, or any other program at issue in the Section 301 investigation.

First, I would like to talk about locks and lock components. Parts from many of our locks begin their journey at our, at our advanced manufacturing facility in Denison, Texas. That facility sources raw materials in the United States, fabricates and die cast the lock components, then ships them to China to be further processed.

Approximately 25 employees in the Denison facility work on the products that are ultimately shipped to China. Spectrum Brands often then reimports the lock components for final manufacturing in Charlotte, North Carolina.

Our Charlotte facility produces made to order residential locks for the protection of the American home. Roughly 36 percent of the final value of these North Carolina products is made in America, and approximately 23 percent of the final value of all locks we sell in the United States is made in America.

Around 16 employees in North Carolina work on the products that come from China, and that could be subject to the Section 301 duties. We spend close to $5 million on engineers to work on the products at issue here. Tariffs would cripple the American jobs associated with our locks.

Spectrum Brands cannot simply move sourcing back to the United States, or to a third country. Spectrum Brands has built highly connected global supply chains, incrementally established over the last 20 years.

Any unwinding of this would take years to accomplish, would be highly disruptive. It would force substantial price increases. More than sales will be lost.

Spectrum Brands will be forced to shrink its R&D and marketing budgets as cash flow decreases. Needless to say, R&D spending is the lifeblood of our future, and for our locks that R&D has done domestically.

In sum, tariffs on locks and lock components will not only injure us today, but also cripple Spectrum's future as an innovator. This cannot be what the administration intends.

I would also be remiss if I did not mention the obvious. These tariffs would increase prices on lock sets, a key component of security for American homeowners, making it less likely they would upgrade or replace aging lock sets, when they otherwise would or should.

Similarly, tariffs on our household electric appliances will have a severe impact on our customers. Our customers have an average income under $70,000, which puts them squarely in America's middle class. Every dollar matters for these customers.

It is important for the Committee to realize that the tariff impact is likely to be significantly higher than 25 percent tariff applied at the border. This is due to the fact that the tariff is assessed before distributor and retailer margins, and other markups.

As a result, the tariff impact is compounded across the distribution chain. Lastly, Section 301 tariffs would potentially cause irreversible damage to our American brands, which will come at the expense of American jobs.

Our foreign competitors, who can

source from China tariff-free, and ship final products from other Asian countries tariff-free, would have an unearned price advantage.

Similar to the situation with locks and lock components, as our sales dried up, it would negatively impact the good-paying US jobs that go into making Spectrum Brands, such as the R&D and the product development.

These adverse impacts caused by the tariffs would have no justification. Our products have no relation to the technologies of the Made in China 2025 program. Thank you for your time.

MR. BURCH: Thank you, Mr. Wessel. Mr. Chairman, this concludes all witnesses' testimonies.

MR. MAIER: Peter Maier from the Department of Treasury. I've got a question for Mr. Werthaiser. First of all, thank you for your testimony. I know that you've already addressed this question to a certain degree in your testimony, but what would be the effect on your industry if the additional tariffs apply to both the down and feather material, as well as the pre-filled Chinese pillows and comforters?

MR. WERTHAISER: Thank you for your question. With the duty being on both components, it doesn't change the competitive landscape with China. With that though, the competitive landscape would shift to other countries outside of the United States.

Perfect example is Canada, where they can go ahead and import the different components at the duty rates that they have at this point in time, manufacture it into a finished good, and then ship that directly into the United States. That's, I provided some math, some numbers behind that to prove that point.

So the bigger concern is not the fact that the Chinese would gain the advantage, but that other countries would gain the advantage. The place where China would gain an advantage is what the products that we export from the United States to those other locations.

So for example, there are products that we manufacture currently today, where, for customers that have locations in Europe, even the Middle East. Different places where we would basically be paying a premium for the materials, manufacturing it here, and then shipping it directly to those customers there, with the tariffs built in, whereas the Chinese direct seller could go directly to those customers now. And so that's where it would benefit them.

But for the domestic market, the bigger threat is not China getting the advantage, but other countries closer to us that would gain that manufacturing advantage. Does that answer your question? Thank you.

MR. STEPHENS: This is Andrew Stephens with USDA. Question for Travis Stier. How many employees are there in the United States that sew things out of, out of down products?

MR. STIER: Did you say sew? Cut and sew?

MR. STEPHENS: Yes, or assemble,

whatever the process is.

MR. STIER: Assemble?

MR. STEPHENS: Yes.

MR. STIER: Okay. Just to tally up our seven member companies, and these are estimates, but pretty good estimates. My company, 100, Josh's company, 100, Hollander, many, many more. I think on the order of 2,000. And other companies combined in the United States, probably less than 500, total.

MR. STEPHENS: And I remember as a child that my grandmother worked doing some sewing in a, back in the 1960s in Louisiana, Missouri. How many jobs like this are in rural areas?

MR. STIER: I'm sorry, I misunderstood.

MR. STEPHENS: In rural areas of the country.

MR. STIER: Hollander's factories, in particular, are spread throughout many rural areas of the country. They have about 12 around the country, a lot of them in, several of them in Kentucky, 1 in rural Georgia, Pennsylvania, Compton, in Los Angeles. Josh is in Arizona, I believe? Yes.

MR. WERTHAISER: We have a location, actually, outside of Indianapolis, in a town called Middletown, Indiana, so that is in more of a rural location as well. We're in a town called Monroe, North Carolina, which is about an hour outside of Charlotte, so that's more in a rural location as well. So a lot of the jobs that we do have are located in those regions.

MR. STEPHENS: Thank you.

MS. ZHAO: This question is for Mr. Bargagli. What percent of the value of your furniture comes from drawer slides and the metal handles and mountings? Could you give a few examples?

MR. BARGAGLI: Yes. I would say, over all 15, 18, maybe 20 percent, depending, we manufacture very few styles, and try to keep the volume up.

So it might change from one style to the other, but on average, I would say between, they represent between 15 and 20 percent. It's all the dressing up of the furniture. The handles, the feet, the glides of the drawer. All that product.

A lot of that product, we had to farm out in China, because it had some processes that are not friendly, environmentally-wise. Therefore, there are very few countries in the world that would even, and that has to do with the finishing.

But to answer your question about, I would say between 15 and 20 percent of the sales cost is represented by those two specific tariffs and imports.

MS. ZHAO: Thank you.

MR. BARGAGLI: Sure.

MS. ZHAO: And how much would the cost to produce of items that would be increased by the tariffs?

MR. BARGAGLI: You know, it would be

anywhere between 3 and 5 percent, we are here in Washington, D.C., and let's say one of our biggest customers is Bob's Furniture, and you all heard of him, because of the advertising and everything else.

Now, to just give you an example, we are in a 799 to $899 price range for bed, dresser, mirror, night stand, chest. That's all called the package. And we sell it to them for about half the price that will be North Carolina.

And if we were to go up 5, 6 percent, that 5, 6 percent would trigger $100 more on the retail price point, and at that point, our furniture would not be selling, our package, because again, they would bring it in from Indonesia, Malaysia.

You need to remember something, and I want to bring this up, if you don't mind. 10 years ago, 15 years ago, there were the anti-dumping assessed to furniture. Wood furniture from China, all these gentlemen that owned the factories in China, they were mostly Taiwanese, very smart people.

They moved their factories to Vietnam, to Indonesia, to Malaysia, and kept doing business duty-free. Now, those are my competitors. They are very, very capable people. We already got a fight with the much higher labor, packing cost, et cetera, et cetera. So please, give us a break here.

CHAIR BUSIS: So to follow up on that, so you currently do not --

MR. BARGAGLI: I wouldn't be able to get to my retailer, even 3 percent under the market condition, or 4 percent increase, without losing the business.

CHAIR BUSIS: So, but you don't face direct competition for assembled Chinese furniture because of the dumping duties right now? Is that right?

MR. BARGAGLI: Wood furniture, absolutely not, because they come in, again, from southeast, Indonesia, Malaysia, because of the anti-dumping. Yes, sir, that is affirmative.

CHAIR BUSIS: All right. Thank you.

MR. BARGAGLI: Sure.

MR. FRATERMAN: Great. Thank you, everyone on the panel, for your testimony today. My question is for Mr. Barthel.

You state that labor and raw material cost prevent changing production from China, but are there any other countries with similar labor and raw material costs to China that could produce these products?

MR. BARTHEL: No.

MR. FRATERMAN: Okay.

MR. BARTHEL: That's short.

MR. FRATERMAN: All right. Great. Thank you.

MR. DIXIT: Thank you. Firstly, on behalf of the Department of Commerce, I do want to thank all the panelists, and I know I meet tens of hundreds of businesses, probably, but many familiar faces in the crowd, but my question is directed to Mr. Kunes. You talked about an expansion plan in Allentown. Can you give us a sense of what that expansion plan would displace in terms of imports?

MR. KUNES: Yes.

MR. DIXIT: And also, yes, go ahead. Yes.

MR. KUNES: The expansion plan, at this point, is under evaluation on which products we want to make there, and what the comparative economics are.

As, I think as spelled in our detailed written comments, you know, we currently make, you know, straws there, and stirrers, but we're looking to bring other, the lobby food service items that we will bring in, so they'll fit the same market niche that we're in today.

But they'll, but right now, our primary product is cutlery, and the margin on that will be able to fuel and finance those expansion plans.

MR. DIXIT: Okay. Okay. And from the Pennsylvania plan then, what share of your supply comes from that plant?

MR. KUNES: I'm sorry?

MR. DIXIT: What share of the current supply comes from that plant?

MR. KUNES: Boy --

MR. DIXIT: Just roughly.

MR. KUNES: It, of our total business, I would say probably 10 to 15 percent.

MR. DIXIT: Okay.

MR. KUNES: That's real round numbers though.

MR. DIXIT: No, that's fine. Yes, yes. The other thing you have talked about is there's a, there's a cost squeeze phase from both the retail side, as well as the distribution side. Am I right on that? I --

MR. KUNES: I'm sorry, could you --

MR. DIXIT: You are facing a cost squeeze, right?

MR. KUNES: Yes.

MR. DIXIT: And some of that cost squeeze is coming from your import side, right? I mean, you're paying higher cost to the importers, and some of it to your domestic distributors?

MR. KUNES: Well, no. Right now, all we're facing as far as cost increases is what we're speaking about today, is this subheading under the Harmonized Tariff Schedule. The products that we make in Allentown, we source the, all the raw materials in the United States.

MR. DIXIT: Okay.

MR. KUNES: So the products that are currently being manufactured in Allentown, there's no impact. It's our future growth plans that --

MR. DIXIT: Okay, I see.

MR. KUNES: -- would be impacted by this.

MR. DIXIT: I see. So, okay, thank you. Thank you.

MR. KUNES: You're welcome.

MR. SULBY: Hi, Ari Sulby from the Department of State with a question for Mr. Wessel. You testified that you take the first step of manufacturing locks, you produce that in the United States, you ship the locks to China for some sort of intermediate processing, and then ship them back to the United States for final assembly.

Could you please provide some explanation as to why that sort of intermediate step can't be done in the United States or in third countries?

MR. WESSEL: No, thank you for your question, and I'll expand in a post-submission filing, but as a general matter, and I think you've heard this a lot from other people who have testified on different panels, a lot of the ecosystem for some of that die casting, et cetera, is over in China.

So you know, that, the, that step of the production process has its own ecosystem, has its own suppliers, and a lot of that is over in China.

MR. DIXIT: You mentioned in your testimony that there is some R&D being done in the US, right? If this tariff were to take place, then how is the R&D affected, and can you give me a sense of how much of the, roughly, profit, goes into R&D?

MR. WESSEL: Yes. For the specifics, I think I'll put that in a post-hearing submission. But I think generally, you know, obviously the, for any company, the R&D and product development is the function of the cash flow coming in.

And you know, as we testified, the cash flow, et cetera, would potentially be impacted by the tariffs, and as that would happen, that could, that could hurt the cash flow that goes into the R&D and product development.

CHAIR BUSIS: Go on, yes.

MR. STEPHENS: I have a question from Mr. Barthel from Primex. You said you have very specific clocks and other instruments, but then you listed some probably very large Harmonized Tariff Schedule numbers that would include hundreds of millions of dollars of trade.

I wonder if in the post-submission brief, you could explain more specifically if there's a way to address your interests, but not all of the other items in those categories?

MR. BARTHEL: Are you just -- excuse me -- you're just saying the List 4 items, or the ones that we're already paying tariffs on, or --

MR. STEPHENS: The List 4.

MR. BARTHEL: To understand your question.

MR. STEPHENS: List 4, right.

MR. BARTHEL: And specifically related to what? Clocks, or --

MR. STEPHENS: Yes. I mean, if there's a, I didn't see it in your testimony. I don't know if you've already put in your other submissions, any way to describe those products more specifically, instead of saying, here are some rather general tariff code numbers.

MR. BARTHEL: Okay, yes. We can follow up with that --

MR. STEPHENS: Okay.

MR. BARTHEL: -- subsequently.

MR. STEPHENS: And then, a question for Mr. Bargagli.

MR. BARGAGLI: Sure.

MR. STEPHENS: How many jobs are at risk at your factory?

MR. BARGAGLI: We've got about 300 people.

MR. STEPHENS: And they would all be at risk?

MR. BARGAGLI: In Conover, that's Hickory, North Carolina, and then we've got some people working around the factory, our maintenance, electricians, et cetera, et cetera. Plant was established in 2005.

As a matter of fact, we already were existing in Italy, and what we did, we moved a big portion of our assembly lines for the, just specifically US, NAFTA, it was called at the time, market. So we've been bringing in and supplying about 10,000 rooms a month, since 2005, to the key retailers we do business with.

MR. STEPHENS: Thank you.

MR. BARGAGLI: Sure.

MR. DIXIT: Mr. Bargagli, can I, in your testimony, you mentioned a 20 percent increase in labor cost.

MR. BARGAGLI: I'm sorry, can you repeat that?

MR. DIXIT: You mentioned a 20 percent increase in labor costs.

MR. BARGAGLI: Yes, sir. We started in 2005. My average hourly cost at the factory was $8.50. Right now, I cannot find people for less than $12. Not only, I can't find them, period, because of the situation.

We, ours is a rural area, mostly Hispanics. Good people, great workers. Can't find them anymore. They don't verify, whatever. I mean, we just can't find them. So we're --

MR. DIXIT: Okay. Now, just --

MR. BARGAGLI: Even if we were to expand, that's why I say, I don't have much expansion plans, because the few factories around us, mostly upholstery and furniture, because case goods, as I said, they're done. There are none. They're all overseas.

We are, we are always chasing people, and that, obviously, in every industry, raises, you know, the labor cost, but we are at least 20 percent, finding. And now, you remember what I said, the southeast, South Asia, which is my competitors in bedrooms, they're paying maybe 50 cents an hour.

MR. DIXIT: Yes.

MR. BARGAGLI: So that's already a big challenge. We wish we can, we can afford staying here and keep growing here, but you guys have got to help us on these tariffs of those little components.

CHAIR BUSIS: Mr. Kunes, so I take that you import some Chinese plastic tableware, as well as produce other food service items in your factory. If you made tableware in your Pennsylvania factory, would tariffs on the tableware, at that point, assist your competitiveness?

MR. KUNES: Let me make sure I understand your question. Right now, as I've stated before, we have no concrete plans to put tableware in Pennsylvania, and maybe other products.

But right now, I guess my position, and I may not be answering your question, because I'm not sure I completely understand it, but is that, you know, this tariff will have to be passed onto our customers, and will, may put us in a noncompetitive situation.

CHAIR BUSIS: Okay. Well, but if there were the tariff on the tableware, wouldn't that make it more attractive to produce tableware in Pennsylvania?

MR. KUNES: Yes, the problem with that is, it's a long-term expansion plan. There's not a quick way to build injection molding facility to make cutlery in the United States.

That's compounded also by the fact that most American mold making won't make cutlery anymore. So any expansion of cutlery industry in the United States is really suspect.

CHAIR BUSIS: Mr. Wessel, has your Spectrum, is it, there is a Chapter 98 number for US goods assembled overseas and returned. Have you investigated whether, and I'm not a Customs expert, but have you examined whether your products might be eligible for this tariff treatment?

MR. WESSEL: Yes, well, we specifically have not, and I appreciate you flagging that, but I will just say kind of more broadly, you know, there's, in order to be able to use that provision, it's basically simple assembly in China, to the extent that if you go beyond simple assembly, you potentially run outside the ability to use that provision.

So I would certainly, I would certainly caution about relying too much on that provision for, you know, for any manufacturing, given the strictness on the assembly provision in there.

CHAIR BUSIS: Any more questions? Mr. Burch, you may call the next panel. Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks, and would the panel members of 37 make their way to the front?

PANEL 37

MR. BURCH: Mr. Chairman, all of the panel members for 37 are seated, and our first panel witness will be David Parrish with Blount. Mr. Parrish, you have five minutes. May you please turn on your, turn on your microphone?

MR. PARRISH: I am a senior vice president of supply chain for Blount International. Thank you for allowing me to appear today. We appreciate the Committee's approval of our original petition to remove chainsaw parts, classified --

MR. BURCH: Can you please pull the microphone up a little bit more?

MR. PARRISH: Okay. To remove our original tariff, under the classified number HTS 8467.9.101, from List 1. We hope that you come to the same conclusion today, regarding List 4.

For those of you that are not familiar with our company, Blount is a manufacturer of, and marketing professional in consumer lawn and garden equipment, forestry equipment, including log splitters manufactured in our Kansas City facility.

Blount is a market leader in chainsaw and guide bars for chainsaws. We sell products in more than 110 countries around the world. We also are a US manufacturer with 1,200 employees, 800 employees in our Portland, Oregon facility, which serves as our global headquarters, and as well as a manufacturing plant, producing chain and other saw chain accessories.

We have eight additional manufacturing and distribution sites in Arizona, Missouri, Illinois, Wisconsin, South Dakota, also employing around 400 additional American workers.

We petition, we are petitioning the Committee that by imposing increased duties on chainsaw parts will severely strain Blount's ability to continue to produce in the US, using US labor.

It is the United States's best economic interest to remove chainsaw parts from the final list for categories subject to the additional 25 percent tariff. Specifically, Blount submits that imposing increased duties on item in question will, which was previous granted as an exclusion on List 1, List 1, will affect, in effect, will not be in effect in obtaining elimination of China's acts, policies, and practices.

Our factory in China is 100 percent wholly owned by Blount, produces our chainsaw bars in question, and fully controls the production processes, as well as intellectual properties, including both trademarks and patents.

The subject products would, by no means, be considered cutting edge technology, nor part of China's Made in China 2025 initiative, acquiring technology, becoming a leader and global provider of the same.

Our US operations are already being, negatively impacted by Section 232, the steel tariffs, as well as 301 tariffs already in effect through, in Lists 1 through 3. We rely on steel of over 90 percent of our total US manufactured products.

Due to the 232 tariffs on imported steel, we have seen our US supplies increase by over 30 percent, which, compounded by paying $4 million in additional duties on 301. We are opposing tariffs, by imposing tariffs on our chainsaw bars on List 4, we have to absorb over $2 million in additional costs.

This burden will greatly hamper our ability to continue investing in the, in the US. We will continue to, we ask the Committee to grant relief on the items in question so we can instead invest those dollars in manufacturing jobs in our US operations.

As the manufacturers of these products, our entire business is built around this inputs. If we were able to manufacture these parts in the US, we would. However, in order to maintain our US manufacturing and global competitiveness, we have been forced to globalize production.

If we move all of this production back to the US, it would take millions of dollars, and investment, and 5 to 10 years of time to execute. China is currently the number one supplier of chainsaw parts, according, accounting for about 33 percent of the total market.

Other primary suppliers, including, other primary suppliers would include Germany, Canada, Sweden, and Japan. There is no contract manufacturing of this product any place in the world. Our competitors are owned, own all the capacity in non-China markets.

Blount does not currently have capacity in its US plants, in either Canada or Brazil, to absorb the production of bars in China. Any production shift would only take, would take years to implement, and drastically increase manufacturing cost in the US markets.

The imposition of tariffs on List 4 on Blount's products will cause job loss in the US, and negatively affect all industries that rely on this category of finished goods.

Therefore, we respectfully request that bars that we manufacture in China, classified under HTS 8467.9.101 be removed from the list of items subject to additional tariffs. Thank you for the opportunity to appear today, and I appreciate any questions you may have.

MR. BURCH: Thank you, Mr. Parrish. Our next panel witness will be Joseph Cohen with Snow Joe, LLC. Mr. Cohen, you have five minutes.

MR. COHEN: Thank you. Good afternoon. I'm Joseph Cohen, the founder and CEO of Snow Joe. I appreciate the opportunity to testify today about the enormous harm that would be caused to American consumers, and small and medium-sized businesses if additional tariffs are imposed on outdoor products.

This is my fourth time testifying

before this Committee. We have had products on every list proposed to date. I have appreciated the Committee's careful consideration of the impact of these tariffs on ordinary consumers, and I am grateful for the removal of two of the tariff lines of concern to my company from the first and second final lists.

Unfortunately, these two products, snow throwers and log splitters, have been added back in this proposed tariff list, along with a number of other products, such as lawnmowers, chainsaws, that are of critical importance to my company.

I have included copies with my testimony, of examples of consumer products that would be impacted by List 4. Collectively, if List 4 goes into effect, alongside the other earlier tariff lists, virtually all of our highly affordable electric and battery powered tools will be impacted.

I don't think it would be an overstatement to say that such a scenario would present an existential threat to my company. As I have testified in the past, I'd launched Snow Joe as a junior in high school.

At the time, we sold only one product, an electric snow shovel that you could buy for less than $100. Called the Snow Joe, we took our first order with the television channel, QVC, the product sold out in seven minutes, and our company was born.

Fifteen years later, Snow Joe is a thriving and rapidly growing company, which creates work for hundreds of Americans, and achieves retail sales of nearly $400 million.

We take pride in our continued development of innovative and high-quality outdoor tools for American consumers of all ages, who seek to clear their own snow, do their own yard work, and care for their own gardens and homes.

We invest heavily in American R&D, and provide work for approximately 400 people, primarily in the greater New Jersey and New York areas. The proposed tariffs, if implemented, would be devastating to my company's ability to remain competitive, and create high-quality, well-paying American jobs.

We are currently expanding with a new distribution center in North Carolina. However, due to cost pressures and uncertainties caused by prior rounds of tariff, Snow Joe has been forced to put on hold our efforts to also expand into Washington state.

With additional tariffs, we will have no choice by to make painful and substantial layoffs in the United States. Many of Snow Joe's products are designed and developed in the US, but they are manufactured in China out of necessity.

When Snow Joe was launched, we were not able to identify any US suppliers of electric and cordless consumer outdoor tools. That remains the case today. Had we been able to procure these products domestically, we would have.

Snow Joe regularly sources from US suppliers, where feasible. For example, Snow Joe produces its ice melt from Delaware, and produces cleaning supplies in New York and New Jersey.

As I have testified in the past, it is simply not realistic to manufacture these products in the US. For example, the seasonal nature of many of our products provides little incentive for the massive investment that would be needed to create new production facilities.

Each of our non-gas powered outdoor tools require special and costly equipment. For a small but growing company like mine, investment in building a new factory in the US from scratch for each product is not commercially feasible, nor are there any available third country sources for these products.

In an effort to mitigate the impact of Section 301 tariffs, I've traveled throughout Asia, Mexico, and the U.S. to meet with potential new suppliers. None have the skills or equipment to produce these tools. None.

Because we cannot identify any US or third country supply source outside of China for these products, and in light of the significant hurdles to building such capacity in the United States or elsewhere, we have no choice but to rely on existing sources in China.

If tariffs are imposed, we will be unable to offset these impacts of these tariffs by shifting suppliers. As a result, the tariffs will essentially act as a tax on US consumers who rely on affordable, easy to use products that make their lives easier and safer.

At the same time, higher prices will result in lower demand, and revenues for Snow Joe will decline and threaten to stifle the growth that we've worked so hard to maintain over our 15 years in operation.

For all of these reasons, Snow Joe respectfully requests that the USTR remove, again, from the final list, electric and cordless snow shovels, snow throwers, and log splitters, and not add lawnmowers, chainsaws, and hedge and string trimmers to this new final List 4. Thank you for this opportunity to present these views today. I'm happy to answer questions.

MR. BURCH: Thank you, Mr. Cohen. Our next panel witness will be Ken Strait with Tractor Supply Company. Mr. Strait, you have five minutes.

MR. STRAIT: Thank you, Mr. Burch. Long week for you guys, I'll bet. Thanks for the, allowing me to testify regarding the impacts of the tariffs on Tractor Supply Company, and more importantly, on our customers.

Tractor Supply is the largest operator of rural lifestyle retailer stores in the US, employing nearly 29,000 Americans, and operating about 1,800 stores across 49 states. Tractor is often the only source of affordable quality basic products of indispensable, yet vulnerable, segment of the population, that being farmers, ranchers, and their families.

Many of these essential products must be sourced from China, because no alternatives of equivalent caliber are available at price points that our working class customers can afford. So if List 4 tariffs are implemented, a higher cost basis will inevitably result in prohibitively high prices for these important products, forcing American families, who have already been hit by three rounds of tariffs, to do without more items they really need for their safety and livelihood.

Therefore, we respectfully ask that the Committee remove the four product categories that I will discuss today from proposed List 4.

While we understand the administration's policy goals with respect to China, imposing additional tariffs on these particular codes will not further administration's objectives, because comparable items are not manufactured in the United States in significant numbers, and they do not require any sensitive intellectual property or high-tech manufacturing methods.

Putting additional tariffs on these items will only strain the already tight budgets of farm families. I have included photos of each product category in the back of your packets.

First, log splitters. I testified regarding removal of log splitters during the Committee's List 2 hearing, and the Committee welcomed, Committee's welcomed response was to remove it to List 2.

Circumstances have not changed, and I ask again that the Committee, to remove it from List 4, based upon the same facts. Log splitters remain a very important category for the rural farmer, and stay essential to the clearing and maintenance of the land, and provide a substantial way to turn wood into an economic heating fuel for homes and barns. I've provided the backup in my written comments.

Tractor also requests removal of flashlights, and non-electric portable heaters from List 4. Because of their importance to the farmers and ranchers, especially when inclement weather hits, flashlights allow farmers and ranchers to check on their livestock, and perform their round the clock maintenance that is so often necessary for these demanding lines of work.

Portable heaters are used on a regular basis to heat barns, and keep livestock alive and healthy during cold spells. During weather emergencies, these two products can be the difference between life and death, providing a dependable, non-electric source of warmth for a family, and the light needed to locate a safe shelter and necessary provisions in a blackout.

Both flashlight and non-electrical portable heater technologies date back to the late 1800s, and in no way relate to China's high-tech priorities.

While certain high-end flashlights are available in US manufacturing, flashlights are not manufactured in the United States at a price point Tractor's customers can afford. And while manufacturers in other countries offer competitively priced alternatives, issues of quality and consistency currently exclude those sources as immediate options.

The same is true regarding non-electric portable heaters at the requisite level of quality and safety at the price point that Tractor Supply customers can afford is currently only available from China.

We are years away from being able to source these two products from another country, so the price increase that would result from the additional tariffs would leave many rural Americans without affordable options, rendering their jobs more difficult and hazardous on a daily basis, and making it harder for them to cope with weather in emergency situations.

Lastly, Tractor requests removal of protective steel toe work boots, because of their importance to farmers, ranchers, and factory workers. These aren't luxury goods like sandals or tennis shoes. Rather, they are indispensable work equipment that working class Americans need to protect themselves while performing physically demanding work in hazardous settings.

While comparable work boots are manufactured in the United States, they can cost up to four times as much as the work boots we currently import from China, putting them out of reach for many of our hardest working citizens.

Additionally, there is no advanced technology associated with manufacture of these boots. The steel toe of the work boot provides is necessary protection against a horse hoof or a falling tool. By at least eliminating this narrowly protected footwear category from the list, you would be allowing farmers and ranchers to continue to safely do their work.

In closing, Tractor understands United States's policy goals with respect to China, and we support the intentions. However, we urge the Committee to exclude these four subheadings from List 4, because imposing additional duties on these codes will punish hardworking American farmers, ranchers, and their families in rural areas, while doing nothing to combat China's unfair trade practices. Thank you. Glad to answer any questions.

MR. BURCH: Thank you, Mr. Strait. Our next panel witness will be Steven Stokes with Propel Trampolines, LLC. Mr. Stokes, you have five minutes.

MR. STOKES: Ladies and gentlemen of the Committee, I'd like to thank you for allowing me to be here today. I want to start out by expressing how grateful I am to live in this great country.

I love the United States and the opportunities it gives its citizens to follow their dreams and better their lives, no matter what circumstances they come from.

Take me, for example. My father died when I was very young. My brothers and I were raised by our single mother, who tried her best to give us what she could, and despite our circumstances, we have all become contributing members of society.

Currently, I am, I have multiple people depending on me for work. They come from all walks of life. Some of them are retired veterans who served our country. Others are a few years away from retirement. Some are in school, and others are just starting small families.

They all are very different in stages of life, but they all have one thing in common. They will all be affected by this tariff. Actually, everyone in America will be directly or indirectly affected by this tariff.

I keep hearing how China is paying for these tariffs, but from my, from what I have seen and heard and experienced, this is far from the truth. For example, all of my agricultural products were affected by List 2. I was forced to lower my profit margins, and raise my pricing to my customers to get these needed products flowing.

Unfortunately, not everyone can just raise their pricing every time there is a new tariff. Many businesses and other -- my business and many others have annual contracts, and many products that they cannot -- I'm sorry.

My business has many -- my business and many others have annual contracts on many products, and they cannot be renegotiated during the contract period.

Businesses that can raise their pricing are doing so, and the American consumer is paying for it at checkout. Products for Christmas will start shipping in the next 60 days, and these tariffs will greatly affect the affordability of these products for many American families this holiday season.

A lot of my products are not produced in America, because no one wants to make them here, or the cost would be too high for the average American to see the value of purchasing it.

I understand that we need to force China to play fair, by the rules of world trade. However, I do not understand why we are making American citizens and US-owned small businesses pay for these tariffs.

I ask you, how is this doing any good? Most small businesses run on very small profit margins, and we are not able to weather the storms of this trade war. If you, if you charge just my companies these tariffs, it will affect needed products for kids, our farmers, and public safety departments.

If implemented, these tariffs will force many small businesses like mine to close the doors and leave their employees out of work. As you know, small businesses are a big part of what makes America great, but you must not use us as pawns.

When this trade war with China, with China is over, you just can't reset the playing board, like you would do in a game of Chess, and put us back in our place.

I plead with you to keep our employees employed, and our economy growing, by not going forward with the below tariffs that I've listed. The list below has the HTS codes that will affect me the most.

The first one has to do with some outdoor products, and the second one has to do with farming equipment, and the third one has to do with safety equipment to keep officers and fire departments and public work employees safe, and the last one has to do with trampolines, the main source of my business, and we, and what kids enjoy in America. I thank you for your time, and I yield the time back over.

MR. BHABHRAWALA: Thank you, Mr. Stokes. Our next panel witness will be Ann Wilson with Motor & Equipment Manufacturers Association. Ms. Wilson, you have five minutes.

MS. WILSON: Thank you. Good afternoon, and thank you for the opportunity to testify today. My name is Ann Wilson, and I serve as the senior vice president of the Motor & Equipment Manufacturers Association, or MEMA.

MEMA represents 1,000 vehicle suppliers that manufacture new, original equipment, and aftermarket components and systems for use in passenger vehicles and commercial vehicles.

Our members lead the way in developing advanced, transformative technologies that enable safer, smarter, and more efficient vehicles across the United States and the globe.

Our members range from multinational corporations to small and medium-sized, locally located enterprises. Vehicle suppliers are the largest manufacturing sector in the United States, directly employing nearly 900,000 Americans in all 50 states.

Including the indirect jobs in communities across the country that depend on our sector, our total employment impact is 4.26 million US jobs, and motor vehicle suppliers contribute more than 75 percent of the value of today's vehicles.

I am actually dismayed to be here today to discuss a new set of trade restraints. USTR has proposed 25 percent tariffs on $300 billion of additional imports from China. Now, virtually all imports from China will face a large 25 percent tariff.

Make no mistake about it. These proposed tariffs are taxed on the American public. The members of MEMA are very concerned about the following. One, the cumulative impact on both consumers and our industry of now 550 billion in exports from China facing 25 percent tariffs, and secondly, the ability of USTR to process in a fair and expeditious manner the thousands of vital exclusion requests planned for Tranche 3, and presumably occurring at some point for Tranche 4.

New Tranche 4 tariffs on motor vehicles and related materials and products proposed by USTR, coupled with the large scale Tranche 3 tariffs, will significantly harm impact on US consumers who rely on affordable parts for the repair and maintenance of their vehicles.

Motor vehicle component, motor vehicle component sensors manufacturers will also face large cost increase that will be forced to be passed onto these consumers.

Keep in mind that there is currently about $60 billion worth of deferred and unperformed maintenance on passenger vehicles in this country. This is everything from cracked windshields, faulty mufflers, and worn brakes.

These proposed tariffs will exacerbate this problem, causing real potential for safety risk for the American public. New Tranche 3 and Tranche 4 25 percent tariffs are much more problematic than the previous 10 percent tariffs on the 200 billion in imports from China.

At a minimum, MEMA respectfully requests that the Tranche 4 products addressed in our detailed comments be removed from USTR's proposal. We also reiterate our concerns that Tranche 3 tariffs, and urge their appropriate exclusions.

MEMA member companies operate in a global supply chain of domestic and international suppliers and customers. However, parts imports from China are only about 13 percent of our total imports, less than half of what our members import from Mexico, and the volume of imports from China is very similar to the volume from Canada, the EU, and Japan.

We have been contacted by what we call Tier 2 and Tier 3 suppliers, often the major employer in small communities across this country, with concerns about the large scale 25 percent tariffs moving profitable companies into red, precipitating bankruptcies, and posing other threats.

MEMA strongly supports, and has for a long time, supported this administration's objectives, and the USTR China Section 301 investigation. We understand that intellectual property theft, forced technology transfers, and a range of other Chinese market distorting practices must be eliminated.

However, MEMA urges USTR to reconsider both Tranche 4 and Tranche 3 tariffs, as they will have significant adverse impact on consumers and US vehicle parts suppliers. We support a much more measured approach in attaining these objectives.

Sustained bilateral negotiations with China, with pocket progress as it occurs, as well as multilateral negotiations and pressure in concert with our USMCA, EU, Japan, and other allies, level the playing field with China over the long-term. Thank you very much for you attention. I'll be happy to answer your questions.

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

MR. MAIER: Peter Maier from Treasury. The first question is for Mr. Parrish from Blount. You had already partially, you had already addressed the issue that a lot of your, the supply from countries outside of China is primarily owned by competitors.

Could you talk about the other alternatives for alternative supply chains coming from countries outside of China, or shifting production from China to other parts of southeast

Asia, and what other alternatives there might be for your industry?

MR. PARRISH: Yes, thank you for your question. Our two primary competitors are in Europe. They have not been impacted by 232 tariffs as we have. We, they have not been impacted by 301 tariffs, for sure.

There are no other bar manufacturers globally, other than ourselves and these two other competitors, primarily. We do not have the capacity in our own facilities to increase brick and mortar.

If we did, it would take several years, as I had mentioned, and several million dollars. That time passing would put us out of the market and out of the business.

MR. MAIER: Thank you.

MR. SULBY: My question is for Mr. Cohen. It's good to see you again, and thank you for coming to another one of these hearings. You've obviously testified about the challenges that you face, both in prior lists and this list, in terms of finding alternate supply.

Could you give us a sense of your operations in China themselves? How many employees, sort of revenue? Is it a wholly owned subsidiary? Is it contract manufacturing? Just an overview of sort of how your operations in China work.

MR. COHEN: Yes, sure. It's good to be back. To sort of give you a sense, so most of the manufacturing in China is contract manufacturing, that these are on exclusive basis to Snow Joe.

We have a very high threshold for quality standards and requirements to supply us. At the end of the day, consumers react with us. It's our brand, it's our reviews on Amazon and our retailers that count.

So you know, for us, it's all about the relationship and the partnership. You know, we're very specific on who we choose to work with, because at the end of the day, we are concerned of factories sometimes taking our innovation and moving it through the back door and back channel.

But I think, you know, like I've mentioned in previous testimony, it's who you work with at the end of the day that's going to be that true steward of a bilateral relationship between vendor and supplier.

So for us, we have pretty good, solid supply chain in China. Now, having said that, we've taken this 301 investigation very seriously. I've just got back from Vietnam two weeks ago. I've never seen a more packed flight between Vietnam and Taiwan.

People, when they can, are trying to move production, and Snow Joe's a good example. We sell garden hoses to Walmart. We make those in China. We had made them in China, and we started moving those to Taiwan.

Where we can, we absolutely will try to mitigate the risk, and I think, to that affect, the administration's goal is working. Having said that, the more complicated tools, like power tools that we're talking about today, are only made in China.

Been to, you know, Mexico. I mean, I'll give you a good example. I found one supplier in Guadalajara that's willing to do it. In America, none. And I asked for the bill of materials of what, a sample product. 85 percent of that bill of material to product the product was made in China.

So the threshold of this 35 percent or something like that to get qualified to say it's made in Mexico, so that sort of is a deflated exercise.

But in terms of the employee count in China, it's about 2,000 employees that collectively, through the contract manufacturers, are working on our product, but also others as well, for Europe and other countries that they sell to.

MR. DIXIT: Mr. Cohen, did I hear you right that you've moved some of your operations from China to Taiwan?

MR. COHEN: Taiwan and Vietnam.

MR. DIXIT: And Vietnam? And so labor costs are not an issue for you?

MR. COHEN: Aside from -- in what regard?

MR. DIXIT: In Taiwan.

MR. COHEN: In Taiwan? So a lot of the hose process, for example, to a degree, more costly when you balance the tariff, was comparable. Our volume is big, so they're willing to take the business, and it's a, you know, China won't get that business back. So I think that's a, it's a good balance in that case. But the tools, no one makes it.

MR. DIXIT: And --

MR. COHEN: Power tools, I should say.

MR. DIXIT: Power tools?

MR. COHEN: Yes.

MR. DIXIT: And the suppliers from China, are they the same ones that are moving to Taiwan and Vietnam?

MR. COHEN: No, these are new

suppliers.

MR. DIXIT: These are completely new suppliers for the same, thank you.

MR. COHEN: Yes.

CHAIR BUSIS: Mr. Cohen, we have a little extra time because we had a cancellation. So I want to ask you this question.

MR. COHEN: Sure.

CHAIR BUSIS: When you first came to testify, you were talking about your snow blower as like a brand new product, the personal snow blower. But now, I see you've, you're in these really rather mature markets, lawnmowers, chainsaws, string trimmers.

Are you, are you innovating there, or how is it that you're entering all of these, with a new brand, entering all of these different markets?

MR. COHEN: That's a great, yes, great question. We get it a lot.

CHAIR BUSIS: Okay.

MR. COHEN: So the customer speaks.

The reviews are online. I mean, for us, it's, people, we get asked this question a lot. How have we grown so quickly? We're a very digitally native business.

Most of our team are probably one of the few manufacturers that have over 27 full staff tech developers that are on our team, all based in New York and New Jersey. Consumers are telling us where they're, you know, what their challenged with in the products that they're using in the market today.

Everything is moving towards cordless and battery technology. We're one of the first, you know, companies to produce a cordless snow blower. The concept was, you know, people thought we were crazy. You know, how is a battery going to be powerful enough to clear your driveway or your walkway?

Battery technology is getting there, and especially in other industries like cars and other larger battery capacity projects are coming to market. That's opening up peoples' eyes to the fact that, hey, you know what? I don't want to use a gas engine anymore. We want to use a battery powered product.

But to answer sort of your question, how did we get into other categories, one, there was a need, we're seeing consumers, but also, it only snows a couple months of the, of the year. We need something to do the other eight months, and keep the, keep the team moving. So it's nice to balance.

MR. FRATERMAN: Okay. Thank you, everyone, for your testimony. Mr. Cohen, I'd actually like to follow-up with a question as well. In your testimony, you talked about the 400 people primarily in your company in the New York/New Jersey area. Are these R&D? Is this manufacturing? Like, sales, administrative? What kind of employees do you have in this area, specifically?

MR. COHEN: Sure. So as I mentioned a few moments ago, so tech, so full stack tech developers. Obviously we have a huge customer service base. It's part of why our brand has grown. We service the heck out of our customers. R&D, art and design, marketing, sales, product enhancement, user lab and user testing group focus that we have. It's a big part of our team in New Jersey.

We also have some distribution folks, and we run a big e-commerce operation. But these are all high-paying, high-quality jobs. People love, I mean, we have a very low turnover ratio. People love working with us, and we're growing. We had 200 and some odd people last year. We're up to 400. By the end of next year, assuming there's no more headwinds in our way, we'll have probably close to 600.

And we're proud of that. We love what we do. It's just, as I mentioned, again, this is just, this is tough, and I think more than anything else is that now we're in the season of setting, you know, we talked about chainsaws and pressure washers, 2020's business.

That's happening now, and retailers,

unfortunately, waiting. They want to see what happens with this investigation. They want to see what happens with this meeting coming up between the two presidents. Will there be a deal? Will there not be a deal?

In the meantime, we need to keep marching forward. I can't tell my team to not keep hiring or not keep building or growing. Otherwise, we're going to start, you know, falling behind. So it's a very, you know, hopefully, this comes to a swift resolution.

MR. FRATERMAN: Great. Thank you very much.

MR. COHEN: You're welcome.

MR. FRATERMAN: Mr. Strait, could you explain why it would take years to source from other countries when they already have manufacture competitively priced alternatives?

MR. STRAIT: The, I included in your packets our mission and values card. There's a part in there that talks about being a dependable supplier. For us, part of that dependable supplier is, it has to do exactly what the customer expects.

Our customers travel about 20 miles each way to our stores. Their time's really tight. They, and they, if we end up giving them a product, even 1 percent, 2 percent defects, that can mean thousands of customers have to go to the store twice. Once to exchange it for a defective product.

So we're really, we're really careful and stringent about the quality standards we do, and making sure that we make it to their specifications. The, what I've found, especially from List 1, 2, and 3, trying to resource a lot of that product, it takes quite a while, if you think about our process, we first have to, most things are not readily available in the kind of manufacturing that we have done.

We have to convince a quality manufacturer to invest to do it, then we, then we have to make sure that, when we go through it, that they're making it to the specifications that we want, and the way our customer wants them, and then we have to go through the testing, in the field testing. And so, you know, you can do it in 16, 18 months sometimes, but it's usually 2 to 3 years.

MR. FRATERMAN: Okay. And just one quick follow-up, I know you mentioned the 1 percent defect in the alternatives. Is that an approximate estimate? Has that been the case for you historically, or --

MR. STRAIT: I was just using that as an example.

MR. FRATERMAN: Okay.

MR. STRAIT: You know, we, I talk about four different categories here, and carry thousands of categories. In these four different categories, the return rate for defects varies pretty drastically.

But for instance, in a footwear category, you may get 1 percent. 2 percent would, it would be, wouldn't be surprising when you retool and go to a new manufacturer, once you've gotten through all the testing, all the, all the investment in molds and production, to, for the beginning stages, to be at 2 percent instead of 1 percent.

It may take a year or two to refine that with them. Well, that, you know, if you sell a million boots, you start talking about thousands of customers that have to come back to the store to get their boot returned, and it's, for us, that is not being a dependable supplier.

We try to make sure that, for every one of our customers, and, you know, we hire our customers as our sales associates. They care about each other. They're not going to sell something for us that they don't think is dependable for their neighbor next door.

So it's a, it's an interesting, different business. It's like 1,800 small businesses. Each store is its own, you know, we know, our store manager doesn't just know the customer's name. They know their dog's name. They know what they call their horse.

So it's a very intimate relationship that they have to maintain, and all that's based on quality and dependability.

MR. FRATERMAN: Great. Thank you.

CHAIR BUSIS: Yes, a follow-up. I just want to investigate a little bit what you talked about price points, and I think you see them as rather fixed, and maybe that's not right. But if you have a certain price point where you need to sell a product, don't you have some leverage with your Chinese producer to say, look, you want to produce this for me, I need this certain price point, I can't meet that price point if you keep charging me the same amount?

MR. STRAIT: Yes, we have, in some categories, we've got a lot of leverage, and other categories, we have very little in comparison to some of the big guys. But in every case, we competitively bid out what we're doing.

We don't have a huge staff, so we can't do it every season for every product, but the, generally, we've been able to hold prices on most things that we've bought up until the last year or two.

The, and yes, we do pull that leverage, and yes, some of them will, even after that, be able to lower a little bit, but in no cases have I gotten back on any of the List 1, 2, and 3, 25 percent. That just hasn't happened.

We, and in some cases, we've leveraged it like crazy. We've been able to resource some things, but most of these, we're still waiting for the development, and trying to convince some quality manufacturers to invest where we need them to invest.

We too, I spent three weeks in Vietnam just recently, and I can get opening price point kind of quality that our customer wouldn't like, but to get them to invest to do the quality we need is very difficult in most of our categories.

MR. DIXIT: Before I get to Mr. Stokes, I wanted to ask Mr. Cohen a question. You talked about business uncertainty, and the way you defined sort of, and a lot of businesses talk about what business cost, and uncertainty associated with it.

When you sort of implied the certainty that might be associated with it, is if the trade dispute got resolved, right? So I'm trying to get a better sense, how much of your long-term planning is based really on the trade dispute, and how much of it is just your general line of expansion, because the trade, the trade dispute, if there is no settlement, is that a certainty or uncertainty?

MR. COHEN: So I got off the phone as, I took the Amtrak to come here yesterday, so the conversation I had with one of my major retailers was, we're not releasing any Q1, Q2 spring orders to you until the tariff matter is resolved, or you present a substantial reduction to the cost going into next year.

MR. DIXIT: Okay.

MR. COHEN: And that's, we're not talking about a small program. It's $100 million program. So that's our real pressure, so I don't, I don't know how to answer that buyer, and that VP on the phone, but the conversation is, you know, I'm here in D.C. I'm going to make my best argument. I'm going to do the rounds that I need to do, and I'm hopeful that there's a resolution. But normally, we would've had those orders already.

MR. DIXIT: Okay.

MR. COHEN: And when I have those orders, I get to leverage the suppliers in China, and get them to make sure the produce on schedule, sometimes get better costing, and the normal course of business.

So I think to Ken's point, he was in Vietnam. You mentioned some lower opening price point items. That's what we're seeing with Taiwan or Vietnam. The tools, the China suppliers know that there are no alternatives, so they're not really moving. Yes, 2 percent, 3 percent, you'll get some movement. But they're laughing at the fact of going to 25 percent. They're just saying, no, deal with it. It's a problem.

MR. DIXIT: And you mentioned the flight to Vietnam was full.

MR. COHEN: Packed.

MR. DIXIT: Packed, okay. And I've heard from other businesses, but does Vietnam have the capacity to really be producing the type of stuff that's in China?

MR. COHEN: So they're choosing, I guess, the better opportunities for them. I think they're also concerned. I think some people you're seeing, they're like, how do we know this isn't a short-term thing that you're going to run right back to China once the deal is potentially done? So you have to deal a little bit of that.

Again, lower tech items, I think it's a good source. I think it, and anyways, a good exercise for any business to not put all your production value in one location like China.

And again, I do think after this exercise, China is going to get hurt quite a bit, and those factories like me that are buyers, I won't come back on some of those items. But some of those items that are a necessity to be produced there, right now, that's the only, that's the only choice we have.

And again, I want to reiterate this, there's nobody else. I've called dozens and dozens of people once this hearing started, within the US, Mexico. No one wants to build it or do it, or they'll build you a component or a part.

No one will build the full product end to end. It just doesn't exist. It's, there's no, it's not there. Yes.

MR. DIXIT: Okay. Thank you, thank you.

MR. STEPHENS: So I have a question for Mr. Stokes, you described your products briefly, and trampolines, I understand, but can you give a little bit more explanation about what the other products are, and their uses?

MR. STOKES: Yes. Definitely. For

example, HTS code ending in 9590, it's, I do farm equipment, and that equipment encompasses a lot of fencing for farmers.

I had a lot of farmers come to me and request some panels that I had made in China for myself. My mustang that I adopted was breaking through all the panels that I was purchasing, so I, on one of my trips to China, I produced one to hold my mustang in, and other people came and requested it, and it turned into a business.

And it's a galvanized, heavy-duty tubing panel to keep very aggressive animals, you know, such as a mustang, when you first adopt it, contained.

The coding in 9889, I've developed a personal popup safety barrel. It's a collapsible barrel that looks like the ones on the roads, you know, for construction, but it collapses down to 3 inches, so our officers can put it in their trunks. The firefighters can have it in their trucks.

You know, people that are doing

utility work on the side of roads, you know, can pop it up and have that extra protection. We have tow truck drivers being hit, and police officers, and so it's a product that doesn't exist in the marketplace, and I just took it to market this year.

And of course, 0030 is my, or, yes, 0030 is my trampolines, which is totally a kids-based market.

MR. STEPHENS: Thank you. And how many jobs in America are at risk from these tariffs?

MR. STOKES: That I employ directly, a little under 30, but there's a lot of indirect. I have a lot of third party warehousing in California, in Carson, in Cerritos, and then I also have some third parties that specialize in customs, duties, and brokering, and all of that kind of stuff, and indirectly, you know, it's probably 50 to 60 jobs that would be affected by my company alone.

MR. STEPHENS: Thank you.

MR. DIXIT: Mr. Stokes, you haven't, you talked about Chinese sources of imports, but you haven't talked about non-Chinese sources. Are there other sources besides China from which you can get some of your stuff?

MR. STOKES: Yes, I've been looking into, for the last year, and actually have orders, in Vietnam, that I placed, and they still haven't shipped. I placed them six months ago, and they're slow with production, and the cost is actually a little bit higher than what I was getting from China.

But like I said, they still haven't shipped, so I've been struggling with the production being on time and shipping on time, and the main reason for that is the company I worked with in China for the last 10 years has heavily invested in equipment, automated equipment to produce my units. They've grown with me.

Ten years ago, when I went to them, the, this owner of the factory, Mr. Lou is what we call him in English, but he was willing to invest money and help me grow to become the company we are today.

MR. DIXIT: Can I get back to Mr. Parrish once, please? You talked about steel prices going up, and you know, the 30 percent cost, increases in cost for you. Steel, and this was what time period, because steel prices have started to come down, right?

MR. PARRISH: Yes, thank you for your question. At the time that the 301 tariffs went into place, as you all know, the steel market went up significantly in the US.

We started a price point at around $500 a ton, prior to that. It went up to $900 a ton for our products. Our, as I mentioned earlier, our two primary competitors are in Europe.

There's really three big players in this market. It's us and two others. They were not impacted by that, so we really had no position or ability to pass along those cost increases to our customers in the US, so we absorbed all those costs.

It's been extremely hurtful, and put us in a position where we're not competitive already, and these tariffs will complicate that even more, and put us in a position where it's putting jobs in jeopardy for our business in the US.

MR. DIXIT: The next question is for Ms. Wilson. And you mentioned in your testimony that about, what, 13 percent of the parts come in from China, right? Are there niche products that are coming in from China, in terms of parts, and can some of these be sourced from Mexico or Canada also, given the tariffs?

MS. WILSON: I think you have to look at the industry, and sort of two components are, to overuse the word, but two, in two sections. One is original equipment, and then the other one would be in the aftermarket, and particularly in the light vehicle aftermarket.

So if you look in the original

equipment piece, I think some folks have mentioned this before, resourcing raw materials or intermediate goods into the original equipment market takes time.

For obvious reasons, you know, the safety, the durability, all of that. It cannot be done immediately. When it comes to the aftermarket, for the most part, this country has elected not to regulate aftermarket components, so that the vast majority of your aftermarket components are not regulated when you go get your car serviced, and price becomes a very important element of this.

There's been significant investment in China because of that. We have a system, and I know, I've testified before this Committee before, talking about good, better, best, to give a consumer a choice when they go to get new brakes, to get new windshield wipers, anything like that.

Think about it this way. The average age of a car is about 12 years old, and so you're going to choose depending on when your car's out of warranty. What makes sense for you, as a consumer?

Our industry has actually seen reshoring, as we would call it, of some of that manufacturing, particularly to Mexico. But this has proved to be very problematic.

This has, you know, two weeks ago, I think we really saw significant concerns in our members about the long-term viability of being able to bring, continue to bring components from Mexico into the United States.

About, well, it's like two months ago, we had a significant slow-down between Mexico, and the border, between Mexico and the United States, as far as being able to bring that in. So that rush to reshore it into Mexico has slowed down tremendously.

So all of this has led to an atmosphere where, you know, I think a couple of the other witnesses have mentioned this, what we see going on in our industry is the compound of fact of 232 tariffs on steel and aluminum, the 301 tariffs with the Tranche 4, the uncertainty about the new NAFTA/USMCA, and the real potential for obviously more tariffs on imported autos and parts.

And you know, I know I've talked to many of you many, many times, and you're probably sick of seeing me and my other people like me talk about this, but I cannot reiterate enough, we have 1,000 member companies. I talk to CEOs all the time. These kinds of tariffs are going to affect the cost to consumers.

It's going to affect and it is affecting jobs right now. Our folks are not filling open jobs that they have because they're not sure that at the end of the quarter, the end of the year, they're going to be having those components, and it's affecting investment.

So you're talking about global companies who can decide, are we going to put investment in the United States? Are we going to put it in Asia, where the aftermarket and all of the vehicle manufacturing is growing? Are we going to put it in Europe? Which of those three places are we going to put it?

And if they know their investment has a long-term opportunity to make good in one of those other two areas, they will do it, and this country will suffer from this. We may not see it immediately, but we will suffer from it. And it's happening right now.

MR. DIXIT: And so what share of the aftermarket comes from China?

MS. WILSON: What share of the aftermarket?

MR. DIXIT: Yes.

MS. WILSON: I don't know. Let me find out and we'll get that back to you in the written comments.

MR. DIXIT: Yes. And I'd be interested in knowing how it has changed over the last --

MS. WILSON: Yes, and I think the important thing is to keep in mind, it depends on the part too.

MR. DIXIT: Yes. Okay.

MS. WILSON: So things like brake rotors, those are pretty much done overseas. But on the other hand, there are other things that are done in the United States. It just depends.

But the other part to remember is, this isn't just an aftermarket issue. We have a heavy vehicle supplier who was in Tranche 1, who was bringing intermediate motors into the United States. They are very close to having to file for bankruptcy, because they cannot find those motors at the price that they have.

Door hinges. They were in the first Tranche. They were taken out of the first Tranche. They're back in now. You know, that's a very small company in Michigan that was, they came here and testified. You all listened to them.

Door Tranche, door, I can't even talk this afternoon. I'm sorry. Door hinges were not in that Tranche, but they're back on the list now. I mean, again, this is going to affect consumers' prices, but it's also going to affect jobs and investment.

MR. DIXIT: Thank you.

MR. STEPHENS: Just a follow-up with Ann Wilson. I'm Andrew Stephens from the Department of Agriculture, and we've been paying more attention to automobile trade policy these days for a couple of reasons.

One, the six largest exporters of autos and parts to the United States are also the six largest importers of agricultural products from the United States in the world, but also because automobiles, and particularly parts, are a big presence and a big contributor to rural prosperity. Can you talk a little bit about that?

MS. WILSON: I, you know, I actually find this to be one of the most fascinating pieces of my job. You know, manufacturers produce good jobs, and they can be the, you know, central piece on a small community, but what we have going on globally is a global supply chain, so we will see things like sensor manufacturing. That is primarily in Asia. They are not our members.

I mean, you know, you want to yell at somebody about sensor manufacturing, I bet I could find somebody to yell at, but don't yell at us. But what we do do in this country is we bring sensors in, we program them in the United States, because that's where we have our IP and our IP production, then we will bring, take them, they may go back out to Asia or Europe or Mexico for further manufacturing, and then come back to the United States for final manufacturing.

So each of those pieces in here produces jobs. The other part that we have to keep in mind is, in the world we're in right now, every vehicle, whether it's farm equipment, whether it's a tractor trailer, or it's your personal vehicle, they are more and more dependent on electrification. I'm not talking about pure electric vehicles, but electrification.

And that is, I know, one of the things that you're really grappling with when you think about China 2025 is, how do we kind of balance this out? China's moving forward with a very aggressive policy, one which we have not completely embraced here, but we can't cut ourselves off, because you know what's going to happen?

China's going to set the standard that our manufacturers are going to have to comply with later on, because one of the most interesting conversations I ever had was with a very, very smart engineer from one of our European companies. He said, the difference is, in the past, you could make brakes for two or three different standards. They didn't want to. It's expensive, but they could do it.

They could make them in Europe, they could make them in North America, and maybe someplace else, to slightly different standards. So the problem is, now, cars, vehicles, cars, but that would go for farm equipment too, and tractor trailers are so complicated.

Cyber security is so important, privacy is so important, and the electrification of it is so important. So we can't make them to multiple standards. Whoever gets there first with a big enough market, and with the standard, it's the standard that everybody else is going to have to comply with.

And that really should worry us, as a country, because we may allow, unnecessarily, China to win that battle. They'll set the standard, they'll have the market, and at some point, when we try to catch up with it, we'll have to catch up, it'll be on their terms.

MR. STEPHENS: And one question for David Parrish. We've heard from some other panelists that one of the perhaps unintended consequences is that Chinese companies will gain a greater market share, because ultimately, I, and perhaps maybe the internet is facilitating that, that they can sell direct to retailers or direct to customers. Do you see that in your segment?

MR. PARRISH: Not necessarily in our segment. We're certainly in that space as well, ourselves. We're a fully integrated supply chain, so our products are sourced primarily in countries where we sell the product.

That's where we manufacture our goods, that allows us to have that footprint necessary to be competitive on a global basis. So I don't see that as a threat to us, necessarily.

MR. STEPHENS: Thank you.

CHAIR BUSIS: We'd like to thank this panel for particularly sincere and thoughtful testimony, and we really appreciate it. Mr. Burch, you can call the next panel, please.

MR. BURCH: Mr. Chairman, we release this panel with our thanks, and would all of the witnesses for Panel 38 make their way to the front?

(Pause.)

CHAIR BUSIS: Mr. Burch, we can start

this next panel.

MR. BURCH: Would the room please come to order? Mr. Chairman, would you like to make introductions to the staff?

CHAIR BUSIS: We'll do that before -- when we do questions. That's a good point. Thank you.

MR. BURCH: All right. Our first witness for Panel 38 will be Hun Quach with the Retail Industry Leaders of Association. Ms. Quach, you have five minutes.

MS. QUACH: Good afternoon. On behalf of the Retail Industry Leaders Association, thank you for the opportunity to provide the retail perspective on the administration's proposed 301 action.

My Name is Hun Quach. I serve as Vice President for International Trade at RILA, a trade association that represents the world's largest and most innovative retail companies. We account for more than $1.5 trillion in annual sales and millions of American jobs.

RILA has testified at every public hearing warning about the impact of the administration's tariffs. We've highlighted specific products where, in fact, prices have increased, explained the complexity of our supply chains and outlined the sourcing challenges and lack of availability of certain products elsewhere in the world.

Today I'd like to focus on the individual customers, from babies to grandmas that would be impacted by the proposed tariffs. If enacted, the average American family will shell out an estimated $2,300 in additional costs. Simply stated, tariffs are a hidden tax that Americans pay.

As I mentioned, the Tranche 4 tariffs are a tax on baby essentials like car seats and strollers. These items are required by state and federal law, and they are amongst the highest cost item for new families.

New safety requirements mean that families cannot simply just borrow or hand down these items should they become too expensive because of the tariffs.

The Tranche 4 tariffs are a tax on kids. According to the Toy Association, 85 percent of all toys sold in the United States are imported from China, but everyone knows that toys have no relationship to the Section 301 investigation and therefore should be removed.

In addition, items that kids don't just want but need, like clothing and shoes, are on the Tranche 4 list. We already pay, for example, 64 percent tariffs on kids' canvas sneakers. Adding a 25 percent tariff to that would absolutely raise the price on those items for American families.

Tranche 4 tariffs are also a pet tax. When adopting a new pet, owners need items like pet beds, food bowls and, of course, pet toys. For many of these items there are few sourcing alternatives, and thus tariffs will increase the cost of owning a pet.

Tranche 4 tariffs are also a tax on

teachers. On average, teachers pay $479 annually out of their pockets for school supplies. The proposed tariffs will exacerbate teacher expenses on classroom essentials like scissors, crayons, markers, pens and pencils. Many school supplies are already subject to an additional 25 percent tariff on Tranche 3.

Tranche 4 tariffs are also a tax on college students. Last year the average cost of college tuition and fees was nearly $35,000. The proposed tariffs would mean more expensive freshman essentials like laptops, school supplies, bike helmets, and if the student's lucky, a gaming console or maybe a TV.

Tranche 4 tariffs are a tax on homeowners who generally buy new appliances for their new homes. Items like microwaves, coffee makers, vacuums, other kitchen essentials like cookware, cutting boards, dish towels, plates, cups, forks, spoons, knives. Also hangers and curtains are on the lists, too.

Tranche 4 tariffs are a tax on the

local handyman. Equipment such as drills, saws and other power tools are crucial in getting the job done right. The tool bag would also include flashlights and batteries alongside tarps and tow straps.

In addition to work tools and steel-toed boots, the entrepreneur needs office supplies like a computer and laptop and printer to run the business, all of which are on the tariff list.

Tranche 4 tariffs are attacks on family reunions and holiday parties. At the Fourth of July party next month in grandma's backyard, you'll find many items on the tariff list, from grills and smokers, food and condiment containers, oil, festive decorations, outdoor blankets, pillows, umbrellas and even pool floats.

Paper plates are on the Tranche 3 list, but beware because switching the plasticware means that you're also going to be subject to a tariff. Outdoor cushions and pillows, too. Taxing American families at all stages of life is not the solution to changing China's discriminatory behavior against U.S. companies.

In fact, it would do greater harm to U.S. economic interests. The three previous rounds of tariffs have already proven this.

This is why RILA respectfully requests the removal of nearly 780 tariff lines from the proposed list of products subject to the 301 tariff. Several items such as TVs, log-splitters, fleece fabrics, car seats and cash registers were previously removed from the prior tranches, which we very much appreciate and should be taken off the final Tranche 4 list.

Americans are experiencing low income and enjoying a record streak of economic growth, but the risk of rising prices means lower sales, which could result in layoffs and store closures. The ripple effect of these tariffs will be felt in every sector of the American economy.

The imposition of this latest round of

proposed tariffs would cost self-inflicted damage and bring greater uncertainty to people across this country in all stages of their lives.

We are encouraged by the upcoming meeting between President Trump and President Xi. We encourage and urge the administration to not impose any more tariffs while the United States and China are working on a negotiated agreement.

In conclusion, we ask that you think of the millions of American families, our customers, who effectively pay the price of any tariff. Thank you, and I'm happy to answer any questions.

MR. BURCH: Thank you, Ms. Quach.

Our next panel witness will be K.C. Swanson with the Coalition of Services Industries. Ms. Swanson, you have five minutes.

MS. SWANSON: Hi, thank you. This is K.C. Swanson with the Coalition of Services Industries. We appreciate the opportunity to make comments today on the proposed List 4 tariffs.

Just to give you a little background on the U.S.-China services trade relationship, China was the second largest services export market for U.S. service providers in 2017 with $56 billion in U.S. services exports and a $38 billion trade surplus in services.

From 1999 up to around 2007 the U.S. maintained a services trade surplus with China of around $1 billion, but since then exports in services have really surged, rising from around $1.3 billion in 2007 to $38 billion in 2017.

The steps the U.S. takes today on these tariff lines will determine whether America continues to lead the global market in fields like Telecom, computers and other Internet-connected devices or begins to fall behind foreign competitors.

CSI members build the key infrastructure that underlies U.S. cloud and other technologies and services. A product market that's originating in China actually reflects manufacturing and other inputs from both the U.S. and many other countries.

U.S. services providers use these manufactured inputs to deliver their services therefore increasing the costs of these inputs, will negatively impact U.S. services providers and impact on the U.S. retailers and consumers.

Many of the articles covered by List 4 are consumer items. It is not feasible for U.S. companies to quickly switch production out of China for these products since sourcing decisions involve complex determinations and evaluations of price, quality and compliance with technical standards, consumer product standards and ethical sourcing commitments.

In the short and medium term, the only impact of these tariffs would be higher costs for U.S. companies and consumers. Unlike previous lists, the proposed tariffs will have a disproportionate impact on consumers, particularly low-income consumers.

Speaking just a little bit about laptops, tablets and e-readers, tariffs on laptops, tablets and other computers are a drag on innovation. Raising the cost of laptops and tablets will harm productivity of small businesses since they may delay upgrading to newer machines.

The impact of more expensive laptops is also acute for schools and students who depend on them for enhancing educational outcomes. For a student today, a laptop is more a necessity than a luxury good and higher prices are hardest to bear for lower income students.

In this way, tariffs on laptops and tablets exacerbate the digital divide. Augmented reality and virtual reality products. Industries including service-oriented ones across the U.S. are just beginning to adopt AR/VR products for use in advanced research, worker training, health care, commerce, communications and many other high value economic and social uses, advanced technology products, video game consoles and remote controls, mobile phones and connected devices.

These items require an investment by consumers. The majority of consumers are sensitive to fluctuations in price for items like video game products. Two-thirds or 66 percent of consumers consider price when deciding to purchase a game. An imposition of 25 percent tariffs would weaken demand for these products among average consumers.

Mitigation challenges. Targeting phones and connected devices with 25 percent tariffs would directly hurt the competitiveness of U.S. firms across a range of industries, slowing down U.S. innovation and resulting in price hikes for consumers and enterprise customers.

The primary beneficiaries of this action would be competitors to the U.S. technology sector in Korea and elsewhere. The key challenge that U.S. producers of phones and connected devices face under proposed 25 percent tariffs is the difficulty of shifting production out of China in line with the proposed timeframe for List 4 without suffering significant economic harm.

For example, producing a phone requires cameras, displays, memory, sensors and printed circuit board assemblies, as well as producer-specific equipment to assemble. Compelling U.S. producers of these listed devices to immediately shift supply chains would be an undue hardship insofar as it would throw off planning efforts and sourcing for already in progress production cycles and threaten profits in the United States.

In many cases, there is no plausible and commercially reasonable option for U.S. producers to shift production out of China under a foreseeable time horizon.

CSI stands ready to work with the administration to address Chinese trade barriers in a manner that minimizes the threat of reciprocal punitive measures while acknowledging the need for systemic change. I thank you and look forward to your questions.

MR. BURCH: Thank you, Ms. Swanson.

Our next panel witness would be David French with the National Retail Federation. Mr. French, you have five minutes.

MR. FRENCH: Thank you. My name is David French and I am Senior Vice President of Government Relations for the National Retail Federation. NRF is the world's largest retail trade association representing all retail sectors.

Retail is the nation's largest private sector employer, supporting one in four U.S. jobs, a total of 42 million working Americans. Contributing $2.6 trillion to annual GDP, retailer is a daily barometer for the nation's economy.

Thank you for the opportunity to testify today regarding proposed tariffs on roughly $300 billion in Chinese goods, around 60 percent of which are consumer products.

The retail industry agrees with the need to address China's unfair trade practices and deliver a fair and balanced trade agreement that levels the playing field for U.S. businesses and workers. However, we believe tariffs are the wrong approach.

Tariffs are taxes paid by American businesses and consumers, not foreign governments. We've heard from countless retailers that are already feeling the impact of tariffs currently in place and are alarmed about the possibility of expanding tariffs to cover nearly everything the U.S. imports from China.

Tariffs of this scope would lead to higher costs for American consumers and fewer jobs for American workers. In fact, according to Trade Partnership Worldwide the additional tariffs combined with those already implemented, as well as retaliation, would jeopardize more than 2 million U.S. jobs and raise costs for the average U.S. family of four by more than $2,000 each year.

The proposed tariffs covers a far greater range of consumer products than the previous lists, including apparel, footwear, cellphones, computers, televisions, toys, household appliances and cookware.

We also note with alarm the large number of children's products, including diapers, strollers, car seats, highchairs, playpens and swings.

Forcing American families to pay more for everyday products isn't the answer to holding China accountable. NRF commissioned research on the consumer impact of the proposed tariffs. The study found that American consumers would pay $4.4 billion more each year for apparel, $2.5 billion more for footwear, $3.7 billion more for toys and $1.6 billion more for household appliances because of the tariffs.

A TV made in China, for example, that costs $250 today would cost $308 after the tariffs are applied. These higher costs will be paid by households at all income levels, but tariffs are really a regressive tax that hits families living paycheck-to-paycheck the hardest.

These are the consumers who can least afford to pay more for everyday staples.

For most of the consumer products on the list, there are very few alternative sources of supply. Where alternatives exist it could make years to make the shift which would most likely be to countries other than the United States.

Global supply chains are very complex. Retailers engage in a lengthy process to verify the potential suppliers can produce the volume of products that are needed at the highest quality and at a competitive price.

These verifications include audits to ensure business partners meet various corporate social responsibility, labor, environmental, security and regulatory requirements.

The difficulty of moving sourcing out of China is particularly relevant to apparel and footwear. For example, sweater production requires higher capital investment for linking and looping equipment than for a garment that just requires stitching. More importantly, sweater production requires workers skilled in the linking production process.

These capital and labor requirements make it difficult to shift production outside of China.

It would also be impossible for all market participants in our industry to simultaneously move sourcing to other countries. The capacity does not exist.

Those markets that have the maturity to produce these goods are already doing so. In the short term, retailers would be forced to continue to use Chinese suppliers and pass on higher costs to their consumers, just in time for the holiday shopping season.

Finally, the proposed tariffs will have a disproportionate impact on small retailers. 98 percent of retail companies are small businesses and many rely on trade to stay competitive in a rapidly-changing retail environment while serving their local communities.

Small retailers, which are not direct importers, cannot easily move their supply chains and lack the market power to negotiate with their supply chains.

NRF respectfully requests that the consumer products noted in our submitted comments are removed from the proposed tariff list. We support efforts to achieve better trade deals but American consumers shouldn't be caught in the crosshairs.

It's time to reevaluate a strategy based solely on tariffs and work with our allies to put concentrated international pressure on China.

Thank you for the opportunity to testify, and we look forward to continuing this important discussion.

MR. BURCH: Thank you, Mr. French.

Our next panel witness will be Linda Moore with TechNet. Ms. Moore, you have five minutes.

Can you please turn on your microphone?

MS. MOORE: Yes. Can you hear me now?

MR. BURCH: Yes.

MS. MOORE: Thank you. My name's Linda Moore. I'm the President and CEO of TechNet. We represent 82 dynamic American companies ranging from startups to the most iconic companies on the planet and we welcome this opportunity to share our perspective today.

First, I want to be clear that we believe China must be held accountable for its anti-competitive practices, including intellectual property theft, forced technology transfer and cyber espionage.

We share the Trump administration's goal of securing lasting and enforceable changes from the Chinese government that will protect American innovators and their ideas, allow U.S. companies a chance to compete on a more level playing field and improve market access. Tariffs, however, are not the solution.

The U.S. instead should be working with our allies to pressure China to change its trade practices. With U.S. leadership such a coalition would no doubt be robust, focused and determined in achieving this shared goal. It is still not too late for that.

However, escalating these tariffs through their proposed List 4 would keep moving us in the wrong direction. Tariffs are taxes that hurt all Americans, consumers, workers and businesses of all sizes.

Should the proposal List 4 move forward virtually no product involved in the U.S.-China commerce will have been left untouched by tariffs. This includes popular consumer technology products that Americans have come to rely upon each day, like connected devices, cameras, TVs, keyboards, video game consoles and accessories, headphones, computers, smartphones, watches and printers among many other things.

More specifically, imposing proposed tariffs on laptop computers would have an adverse impact on consumers, small businesses and schools due to increased costs and disruptions to U.S. companies' supply chains.

Additionally, these tariffs would not remedy the problem of intellectual property theft by the Chinese due to the fact that U.S. companies' laptop supply chains are currently optimized to protect against IP theft.

In addition, moving ahead with tariffs on ink and toner cartridges would harm U.S. technology leadership and investment while inadvertently promoting intellectual property theft by legitimate and lower quality products more commercially attractive in the short term.

The administration proposed tariffs on these products in the first tranche and was right to remove them. They should do so once again.

Moving ahead on List 4 will also further limit consumer choices and raise prices on many other non-technology products such as food, clothing, office supplies and even contact lenses that American online and market delivery companies are putting within easier reach for U.S. consumers to enjoy every day.

Our message today is twofold. Do not move forward with this List 4. But also take stock of the negative impact this tariffs policy has had to date and the further economic damage another escalation would inflict.

Over the past year, the U.S.-China trade war has led to higher prices for consumers on a wide range of products, disrupted supply chains, threatened long-term projects such as datacenters, raised costs for small businesses and shifted capital away from long-term investments in R&D.

In the official comments TechNet has filed with USTR, we have expanded on these points and I would refer you to those for additional information. However, I want to stress two key points from that.

First, one of the most concerning ways the ongoing trade war hurts the American technology industry and our nation's long-term economic competitiveness is how these tariffs impact private investment in research and development by reallocating capital away from those efforts.

When all is said and done, we do not know what kinds of technological breakthroughs we will cede to our international competitors by forfeiting investments in the next wave of innovation, the very innovations we will need to maintain our technological edge over China and other competitors.

And by the time we find out, it could be too late for us to catch up. R&D investments not being made today will hurt our economy, our workers and our global leadership role for years to come.

The second key point is that tariffs on technology are not only hurting the American tech sector. Our industry's products have become foundational technologies and critical productivity tools for a wide range of traditional industries like agriculture, manufacturing, health care and other key parts of our economy.

In conclusion, China must be confronted about its unfair trade practices but continuing these tariffs will have a devastating impact on the long-term health of the U.S. economy. We hope that President Trump and Chinese Leader Xi will meet at the G20 Summit later this month and make real progress to resolve this.

In the meantime, we urge the administration not to escalate this trade war by moving ahead with this fourth wave. Thank you again for this opportunity.

MR. BURCH: Thank you, Ms. Moore.

Our next panel witness will be Mary Jo Muoio with GEODIS. Ms. Muoio, you have five minutes.

MS. MUOIO: Thank you. Hi, my name's Mary Jo Muoio. I'm a Senior Vice President for Trade Services and Government Relations for GEODIS U.S. I'm a personally licensed customs broker, and I work to support the customs brokerage services offered for GEODIS and our clients.

GEODIS U.S. appreciates the opportunity to provide comment and testimony on the additional proposed Section 301 tariffs. GEODIS U.S. is a service company providing logistic services to international traders. A key service area is customs brokerage.

Customs brokers are licensed by the Department of Homeland Security after meeting expertise and eligibility requirements including U.S. citizenship.

Customs brokerage is a profession which expertise includes tariff and customs laws, rules and regulations for the clearance of imported or exported goods from Customs and Border Protection and other regulating federal agencies, preparation of import or export documents including determination of admissibility requirements and computation and payment of duties, taxes and other charges accruing thereon for each product, each importation.

The customs brokerage industry consists of several thousand firms ranging from sole proprietors to large importers -- employers.

While most customs brokerage firms represent numerous clients from multiple sectors, some brokerage companies serve as the agent for one primary client and/or one primary industry.

The customs brokerage market is very competitive and the service expectations from clients are very demanding. The profit margins are tight and the trend has been on price reductions due to downward pricing pressure. Successful businesses acting as agents for clients depend on high volume repetitive transactions.

Trade disputes between the U.S. and other countries challenge those two key components for successful business, volume and repetition. Expansion of the trade remedy tariffs to comprehensive coverage of goods of

Chinese origin, that is the expansion to Tranche 4, would exacerbate the challenges for brokerage companies and impact brokerage companies of all sizes.

As many importer interests have and will comment, the expansion of trade remedy tariffs to Tranche 4 will add tariff and non-tariff barriers to their businesses.

What happens to importers happens to their service providers. Indeed, previous presentations in the most immediate past panel specifically mentioned the downward impact to customs brokers when they were questioned about employment.

The trade remedy tariffs have a consequential negative impact on customs brokers. The trade remedy tariff actions increase the processing time and cost for brokers when preparing and filing customs entries for goods subject to Section 301 tariffs.

Processing costs include significant programming and system costs to accommodate new

Harmonize Tariff Schedule numbers, update classification product libraries to tie specific goods to the appropriate Section 301 tariff number, receiving commercial invoice data with the additional Section 301 information such as uniquely descriptive product information to identify goods which may be exempt from the tariffs and the like.

These systems and programming costs are customarily not costs which can be passed on to the client. Absorbing these costs is difficult. Passing these cost increases the financial burden clients are experiencing due to the tariffs.

Brokerage costs also increase for each entry of goods subject to the 301 tariffs as preparation time increases significantly due to the need to verify critical dates, such as the regulatorily accurate date of arrival of a carrier, increased data input, monitoring of bond, customs bond sufficiency, and dramatically increased management of customs duties payments.

Increased complexity and increased processing time erode the thin transactional margins for brokers. Absorbing these costs is difficult.

Passing increased production costs onto clients may not be possible due to contractual arrangement and where it is possible it increases the financial burden clients are experiencing due to the tariffs.

Thank you for your time, and I would be happy to answer any questions related to my testimony.

MR. BURCH: Thank you, Ms. Muoio.

Our next panel witness will be Naomi Wilson with the Information Technology Industry Council. Ms. Wilson, you have five minutes.

MS. WILSON: Thank you very much for your time. It's a pleasure to be here again. ITI represents over 65 of the world's leading tech companies. They're the most innovative companies in the world and they are largely responsible for U.S. technological leadership around the globe.

As you have heard from my colleagues on this panel, the negative consequences of tariffs are real and they are significant and wide-ranging. At this point in time ITI recognizes, of course, China's unfair practices and policies; however, there is no resolution currently in sight and the negative consequences of tariffs and other policies continue to mount.

Today I'd like to focus on illustrating the deleterious potential impact of USTR's proposed List 4 tariffs on technological competitiveness, supply chain security and community access to technology that improves education and health care.

Starting with the final products on List 4, as my colleagues have also mentioned, these will be of immediate and real impact to consumers and their daily lives, including tools that they use for both home and work. Some of these business and consumer essentials include computer and television monitors, print-fax-copy machines, projectors, keyboards, laptops, e-readers, et cetera.

However, focusing on emerging technologies, I would like to underscore that increasing cost for consumers, while a significant concern, is not the only concern. U.S. and multinational companies that ITI represents are currently considered industry leaders in innovation, leading the pack in next-generation emerging technology.

The U.S. government has made clear that it wants to address China's unfair policies and practices in part to safeguard U.S. technology from theft or disclosure and make sure that U.S. companies maintain their competitive advantage, especially with respect to technology that may be valuable for national security.

However, U.S. and multinational companies' leadership and competitive edge in the tech sector is not guaranteed, especially at a time when Chinese companies are becoming increasingly innovative and competitive in their own right.

While U.S. companies are still generally regarded as leading in the development of IoT, AI, machine learning and virtual reality, the competition is increasingly neck-in-neck. While companies absolutely want to level the playing field in China and around the globe, policies such as tariffs risk hamstringing companies' competitiveness and technological leadership.

We urge the U.S. government to consider these potential unintended and long-term consequences.

With respect to supply chain security we understand that some assume that supply chains can be easily rerouted to third countries or to the United States. As my colleagues have mentioned, this is neither cost effective nor does it account for the complexity of the global supply chain.

Moving supply lines, if and where possible, takes at least 18 to 24 months. This assumes that alternative suppliers exist and have the capacity and skills to produce quality and cost effective products.

Finding those new suppliers in other locations is not as simple as moving to a new facility, and it involves significant work to navigate regulatory barriers, negotiate new contracts and a plethora of other resources like trained employees and local infrastructure.

The notion that moving production of certain products or components outside of China is inherently more secure, vastly oversimplifies supply chain security and the steps that companies already take to secure their complex supply chains.

Companies have had years to ensure that they maintain appropriate control over their products and facilities at each juncture in the supply chain and that experts are in place to oversee these operations.

This is a meticulous and complex effort. And assumptions that security automatically improves based on shifting locations is a gross oversimplification of a very complex process that requires knowledge and skill sets of true supply chain security experts.

Rerouting supply chains also diverts valuable time and resources that would otherwise be used to increase efficiencies in supply chains, ensure implementation of the latest security measures or investments in developing next-generation cutting-edge technologies.

My last point is the effect on our communities. Another unfortunate consequence of List 4 would be the increased expenses and reduced access to technology for basic health, emergency, educational and community services. This includes schools and libraries, hospitals and clinics, all of which rely on ICT-enabled machines and tools to provide the latest in patient care and education.

I cite these examples in order to make clear the ramifications of these tariffs. We are not talking about an inconvenience for large tech companies alone.

These tariffs will punish Americans with increased costs, less access to technology that enables improved health and education services and will ultimately undermine U.S. technological competitiveness.

Thank you for your time. I look forward to your questions.

MR. BURCH: Thank you, Ms. Wilson.

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

MR. MAIER: Peter Maier from Treasury. My first question will be for -- am I not close enough? Sure. Sorry. My first question is for Ms. Quach. What steps have the RILA members taken to diversify supply of imported merchandise since the initial 301 tariffs took effect last year?

MS. QUACH: Thanks so much for the question. I think for our RILA members, we've been taking a very close look at our supply chain since the beginning of the tariff threat.

I would say that RILA members have not been -- are under threat with these tariffs under 301. We've also been under threat under the Section 232 steel and aluminum tariffs.

We've also faced tariffs on solar panels that we've installed in our stores, on our stores and in our distribution centers. And then we've also faced tariffs on our imported washing machines.

And so when we think about the supply chain and being thoughtful about changing our sourcing and our sourcing strategies, we've done so for the products that make the most sense.

As some of my colleagues and the other panelists have discussed over the last five days and an additional two days next week, I think that these supply chains are quite complex.

I think you look at products, and I know that David had mentioned sweaters, cotton sweaters as an example. I think the complexities of things like apparel are really complicated, and it's not as simple as just being able to lift a factory and move it.

And I think Naomi also talks a little bit about some of that intellectual property protection that we're trying to enforce, not only from a U.S. defensive perspective but also encouraging other countries to pursue. I think all of those types of steps are really complex.

So if you're looking at manufacturing a shoe, for example, making sure the technology that goes into the shoe that makes it faster, more comfortable, better for the athlete, I think those are the kinds of things that we're not willing to just willy-nilly share that with any new manufacturer. We want to make sure that the brands are protected. We want to make sure that our technology and innovation is protected.

So I guess in a long way of explaining to you, each product has got to be a little bit different. Changing your sourcing patterns for things like a mug and paper plates is going to be different for things like apparel to log-splitters and televisions.

MR. MAIER: Okay. As a follow-on question I just wanted to ask your opinion on since the 301 tariffs apply to all imports from China, how has that offered retailers leverage to demand suppliers bear a share if not all of the cost of the proposed tariffs?

MS. QUACH: Sure. And before I start I want to also commend the panel for -- the committee for putting together this great panel. I think that we all represent different parts of the global value chain and so being able to highlight and sit next to our folks that are providing services to our retailers, building the technology that our member companies utilized, as well as our customs brokers that really do make trade flow on a daily basis for us.

They bear a lot of the questions, thank you, for a lot of our member companies when we're trying to answer the question, when are the question what are the tariffs actually taking effect?

So I really do commend the committee

for putting this great panel together.

I think with respect to the question about leverage, look, our member companies are among the largest. We represent the top companies in each pillar, so when you're talking about grocery, home improvement, consumer electronics, apparel, we represent them all.

And while we have that opportunity to leverage the volume and the quantity that we demand from our suppliers, it's not that easy to be able to say please pick up your toy manufacturer in China, and please move it to another country.

For products like stickers, for example, on Tranche 2 we talked to a lot of our member companies where they said, look, stickers is going to take a year. For things like plastic stickers, you would think that it would just be something that's substitutable. You can just substitute one heart sticker made in China for another heart sticker made in Taiwan.

But unfortunately things like

contracts, things like logistics and transportation are all factors in deciding whether or not a customer or a retailer moves that supply chain.

We've also, I was just in a conversation with one of our retailers talking about moving that, some of the sourcing with where they have been able to move it out of China to another country in the Western Hemisphere. And what I heard from that retailer was our folks are really, really good at transportational logistics in China and in Asia.

But when you move it into the Western Hemisphere, we have less leverage. We have less experience. We have less contacts.

And so building that trust, building that leverage, as you refer to, with new suppliers is going to be a challenge. And it's not something that we can penetrate on a regular basis for every product across this proposal.

MR. FRENCH: If I could follow on what Hun added, add something to what Hun said? You know, leverage is -- leverage works for the largest importers, but it may not work for all folks in the retail community. A lot of small businesses don't have that same kind of leverage.

The largest companies exert their leverage every single day and have squeezed many parts of their supply chain pretty far already and are certainly trying to continue to do that. But not everybody has the same amount of leverage, and there's only so much of these tariffs that can be pushed back upstream.

MR. MAIER: Thank you.

MR. SULBY: Ari Sulby from State, with a question for Ms. Swanson. As part of this 301 investigation from the very beginning, CSI has provided numerous examples of onerous Chinese restrictions and limits on U.S. service suppliers, whether in ecommerce or telecommunications or financial services.

Could you please provide the committee with a sense of the overall cost of these restrictions on the U.S. service industry?

MS. SWANSON: I would have to check and get back to you on that. I think that would be very difficult to estimate because in some cases there are really opportunity costs that are hard to calculate.

I will add that China just recently issued draft measures for governing the cross-border transfer from China of personal information, which seemed extremely rigorous and seemed likely, if anything, to sort of shut down the transfer of personal information out of China to a large degree.

It's really hard to put a price tag on things like that. I could sort of look. I could check into it and see if I can get back to you with something, but there are so many different sectors covered, as you mentioned, Telecom, financial services, insurance.

Some of those industries like Telecom and insurance and banking face substantial equity caps, and it's hard to put a price on the opportunity cost there when you're limited to 49 percent or less. So it's a bit difficult to put a precise number on those kinds of restrictions.

MR. SULBY: If I may follow up? You mentioned new regulations that have occurred very recently that your member companies would find onerous. Are there other examples of new regulations or increasing of onerous regulations that you would bring to our attention? And obviously, we would welcome that in a post-hearing submission.

MS. SWANSON: Well, these are very recently released and we're sort of still looking at them because they deal with personal information and they seem to be very sweeping.

They're of particular interest, but we will be happy to follow up with you as we look at them sort of more carefully and get more member input. They were just released within the past week actually.

MS. ZHAO: I'm Shelly Zhao, USTR. This question is for Mr. French. You had discussed the challenges your members face in moving sourcing and finding alternatives such as in the apparel sector. Similar to the question we had asked of RILA, could you expand on the efforts your members have taken to diversify their supply of merchandise imported from China?

MR. FRENCH: Supply chains are constantly looking for the most efficient source of manufacturing. Sometimes those choices involve assessing whether the capacities exist in the United States, other parts of the world, places where we might have free trade agreements.

These are decisions that every company is probably making on a regular basis. Supply chains have been relocating out of China over the past decade or so as it is, and I think that supply chains continue -- will continue to accelerate those decisions.

But there is a general lack of capacity in the rest of the world. For example, 48 percent -- 58 percent of the footwear imported into the United States comes from China. 88 percent of the toys sold in the United States come out of China, and 35 percent of apparel. There's just not a lot of capacity in other parts of the world to fill in these gaps.

MS. QUACH: If I could also add to David's comments, I think that there are three elements that I think that this committee should consider. The first is the fact that our member companies are constantly asking us, in the question about leverage, how long are these tariffs going to be in place?

And I think that is a critical decision as to whether or not they break ties with their longstanding manufacturers, suppliers, vendors, logistics providers, folks throughout the supply chain to determine whether or not it is an opportune time to leave.

And if there is a sourcing opportunity in another country, I think that there are some questions about the stability of some of those existing agreements.

For items like televisions, one of the alternative countries could be a country like

Mexico, and I think given the potential for a 25 percent tariff on all products coming in from Mexico, I think that that starts putting into question whether or not it's worthwhile to break those agreements with manufacturers in China to simply manufacture and avoid those tariffs in Mexico with the potential that those threats can come back.

So I think that that question about how long it will last and whether or not to move now or later, I think, is a critical question. I think that also applies to all of our free trade agreement partner countries, whether it's NAFTA or CAFTA or any of the other free trade agreements that exists around the world.

The second piece is that for certain products like finished apparel, you know, we've talked a little bit about the penetration that China has into the United States. We also note that the penetration for those products coming into the United States from elsewhere, not the United States, I think is really key.

And so when we're looking at those folks that are perhaps suggesting that finished apparel should remain on this final list I would point to the fact that they're looking to bring manufacturing back to the Western Hemisphere. They're not suggesting that these products are going to come back to the United States.

And so that is a fundamental question that this committee needs to consider in determining whether or not it is in America's economic interests, in America's consumer interests, in America's national security interests to put this burden on American consumers and middle class American families that buy, for example, apparel.

And then the last piece that I wanted to mention is that for this administration, and I think it's as they pursue this tariff strategy, it is also -- it would also be very helpful if the administration would consider other opportunities like providing incentives, utilizing programs like the generalized system of preferences to incentivize some of this manufacturing to leave China and work with some of the developing countries that we currently participate -- that currently participate in the GSP program.

CHAIR BUSIS: And a very sophisticated vertical flag, I see, so --

(Laughter)

CHAIR BUSIS: -- please go ahead, Ms. Swanson.

MS. SWANSON: I just wanted to leverage off what Hun just said and just talk a little bit about the digital divide because I know the administration, for example, the FCC chair has talked about closing the digital divide as being his number one priority. And I know that that's been a bipartisan effort in Congress as well.

And we see that as a real risk. There was a PEW Center study that found that for families with incomes of less than $30,000 a year, I think only three in ten owned a smartphone. Less than half had a traditional computer.

I mean, when you start layering on 25 percent tariffs on, you know, relatively higher priced goods it's really -- threatens to push those products out of reach of regular -- a lot of regular consumers.

And we see that as a risk, too, that that's obviously an unintended consequence of going after China's unfair trade practices. But it really looks like it's going to ricochet back and hurt a lot of regular Americans at a time when there's a lot of concern across the board about that digital divide widening.

MS. LANG: Courtney Lang, Department of Commerce. This question is for Ms. Moore. I was wondering if you could estimate what proportion of your members' products are currently manufactured in China?

MS. MOORE: I do not know the answer to that. TechNet is made up of all parts of the American innovation ecosystem. We have ten venture capital firms. We have startups to the largest companies. And they represent all kinds of products and innovation, so --

MS. LANG: Thank you. As a quick follow-up, could you talk a little bit about what factors might be relevant to sourcing products outside of China? So is it just costs or are there other factors that your member companies theoretically would consider if they were to source from outside of China?

MS. MOORE: Yes, and I think a lot of my fellow panelists have addressed a lot of these things. It's cost. It's security. It's the experts that are needed to maintain security of the supply chain.

It's a whole host of things that the companies would need to go through that are incredibly capital-intensive and also time-intensive because maintaining the integrity of the supply chain on technology products in particular is incredibly important.

And then there's also the cost, also

the fact that it's important that U.S. technology products be close to the markets in which they're trying to sell. And we do try to sell globally to remain competitive against China and other overseas technology companies.

MS. LANG: Thank you. Just one final question, kind of based on all of that then what do you think the likelihood of your member companies moving, you know, their supply chains outside of China is based on kind of this most recent tranche of tariffs?

MS. MOORE: Yes, very hard to say based on things that already have been raised, which is how long will this take to be resolved? You know, are there other countries that are on the list too besides Mexico that might, you know, come back into play?

As you probably know as well as I do, uncertainty is the last thing you want in business. It is the thing that makes you least successful because you can plan the least to maintain what you want to do with your company but also what your customers can expect.

So I think that every company is doing, you know, what they feel is in their best interest of their company and their customers and their employees.

But I will say just one other thing, you know, 43 percent of my members are small and medium-sized companies. We do have very large companies, too, but 43 percent of ours are small and as I mentioned, ten of our companies are venture capital firms who invest in hundreds of startups who are trying to develop the next big thing.

And so during this time when all of our companies are trying to maintain their competitive edge over China and other countries on 5G, augmented reality, artificial intelligence and all kinds of new products so that we have envisioned or haven't envisioned yet, this is really hurting our competitiveness.

And so I think that more than anything we are very hopeful that President Trump and

President Xi can come to some sort of understanding. And I know that all of you are working to resolve this as fast as you can, too.

MS. SWANSON: If I could just add one more item related to that about timing it's that for some of our members who make products like phones, for example, a lot of that has to be sold into the Christmas period, and so it's really important that those products be in development and heading into mass production really by June in order to meet those goals of being in stores and volume by November.

And so for tariffs to come along in short order could really disrupt U.S. companies' sales volumes in a real damaging way that could have kind of longer term consequences. So I just wanted to flag that as an issue, too. Thanks.

MS. QUACH: I think in addition to the items that we've already discussed and that my colleagues here have already shared, I think that there are a couple other elements that might impact that change in sourcing. One of those is capacity.

I know that some of our member companies have had conversations with folks in the administration suggesting that they should just move their supply chains to other countries like Vietnam. I think that capacity is a significant challenge. This global competition, whether it's in apparel or even home appliance, tools, pet gear, food, all of this is a global competition.

And so if we want U.S. retailers to be competitive, we must find ways to give them those opportunities. Putting tariffs certainly puts a constraint upon that growth, not only in our jobs but also the growth of our companies.

But when it comes to capacity, it's not just something that if we leave China all of a sudden we'll be able to find an opportunity to manufacture those products in a country like Vietnam.

Some of that requires expertise on consumer electronics that just doesn't exist, worker training. It requires a level of infrastructure that we know lacks in certain places.

We also know that from a product safety perspective, items like car seats and booster seats we have to go through significant testing. We work with the product manufacturer to ensure that when they come into the United States it not only meets state and federal requirements, but it also is going to keep the child that's in the car safe.

That's something from a brand reputation perspective we're not willing to take.

MR. FRATERMAN: Great. I'd like to thank the panel again for their testimony. My question is for Ms. Muoio. You talked about in your testimony the operating costs of trade brokerage are increasing because of the additional costs incurred related to having to update your tariff schedules to reflect the Section 301 tariffs.

But isn't the need to update the

tariff schedules a necessary cost of business for trade brokerage? And moreover, isn't maintaining this database one of your value adds for your customers?

MS. MUOIO: So absolutely, a tariff classification database is a living document or a living system because tariff numbers change, as you well know, regularly. The challenge here is that, number one, we're now adding a tariff number or multiple tariff numbers to an entry declaration that we didn't have to report before.

And it's not just a matter of kind of sitting down, if you will, in front of a typewriter and typing in a ten-digit number. It's that the information we use to identify that number and report that number starts very far upstream in automated systems or automated purchase orders that feed into the commercial invoices that feed into the brokerage systems.

So it's not -- to override that is costly. To go upstream and implement this information is costly.

Finding out, you know, one of the earlier panels they talked about, you know, is there something unique about your clocks, more unique than the tariff number that's applied to those provisions.

That's great, except it's very difficult to use common descriptions on commercial invoices to meet these very specific product descriptions, and therefore no is it isn't it on a 301, what 301 applies and what exclusion applies?

So yes, this is what we do for a living, but this is adding a layer of complexity that is not the norm.

MR. FRATERMAN: Okay. Quick follow-up to that, in your personal experience do you find that the U.S. updates its tariff schedules more or less often than other countries that you serve in?

MS. MUOIO: Yes. There are some that are more frequent and some that are less frequent.

MR. FRATERMAN: Okay.

MS. MUOIO: The frequency of the tariff update is just fine, if you will. That's normal. We're all accustomed to that. The translation of that information over to Customs and Border Protection and into their automated system is where timing is of the essence.

MR. FRATERMAN: Are there certain -- can you just kind of give us an example of what countries do update more or which ones update less? Is there certain ones that stand out for you? Particularly where does China kind of fall on this list?

MS. MUOIO: I'm going to verify that information and send it in a supplemental testimony.

MR. FRATERMAN: Perfect. And just one last question.

MS. MUOIO: Sure.

MR. FRATERMAN: Have the same adjustments in tariff schedules been offset at all by higher demand for brokerage services, either to understand the Section 301 tariffs products originating from China and their exemptions, or as customers shift supply of chains from China to other countries?

MS. MUOIO: So what we have seen over the last year or so is an increased engagement with our clients around 301 and tariff strategies, conversations that started out: How can I avoid the impact of the 301 tariffs? And those conversations have matured into: How can I mitigate the impact of the 301 tariffs?

So most of the engagement with brokers has been around kind of consulting-type conversations, which very often are provided at no cost from between the customs broker and our clients. It's just part of the service. You can call us up. We talk to you about things like that.

So there's increased engagement I would say then with my firm for 37 years now. In the last year I've talked to more CEOs and CFOs around this topic than I talked to within the first 36 years of my career. So there's increased engagement with customs brokers. I will not say there's increased revenue.

MR. FRATERMAN: Okay. Thank you very much.

MS. MUOIO: You're welcome.

MR. SULBY: If I might ask one quick follow-up on one specific part of your last answer. We were talking about sort of specific descriptions for products. Obviously we've been doing a product exclusion process from several of the tranches.

Did I understand correctly that those exclusions, those descriptions are not working, or that it's very difficult to use them in the customs process? Could you expand upon that at all?

MS. MUOIO: Where they're not aligned word-for-word with the tariff description, it does create a level of complexity. So anytime you can describe a product exactly the way it's described in the tariff schedule, it makes it much easier to make the appropriate declarations.

MS. QUACH: I think, if I may?

MS. MUOIO: Sure, Hun.

MS. QUACH: From a product exclusion process, and I will say that we are, the retail industry is grateful for the administration providing a product exclusion process for Tranches 1 and Tranches 2. We advocated strongly for Tranche 3, and we're excited that that process will launch at the end of the month.

We are hopeful that Tranche 4 will also have a product exclusion process assigned to it immediately upon the announcement of any final Tranche 4 tariff, which we hope never happens.

But to answer your question specifically about the product descriptions, for example, RILA filed a product exclusion request for icemakers. Our product exclusion request was specifically denied. However, there were additional product exclusion requests made for icemakers, manufacturing a specific size of ice.

What that now requires is those buyers

to go back to the manufacturer to determine whether or not that specific size of ice is being produced by perhaps it's ten different models of ice machines. Then you determine from those ten models which ones qualify and which ones don't.

It's not as simple as just an eight or a ten-digit HTS line that we can work with our brokers to exclude. We literally have to go back to some of these product descriptions and sort of open up the manual, which, again, we're not -- we're grateful to have two of our four that were approved.

We're hopeful that there will be more. Thus far there have been zero product exclusion requests approved for Tranche 2.

So we're anxious to see what Tranche 3 will look like. I know the administration has proposed that about 60,000 petitions will likely come in. But given the volume of $200 billion worth of products, I can promise you for things like handbags you're going to see a whole lot of those petitions.

MS. MUOIO: And it's very similar to the way the MTB works in terms of the descriptions that we need to make entry are much more specific than what's in the tariff.

MR. STEPHENS: I have a question for Naomi Wilson. So in your written submission you have two lists, one for consumer products and the other for components.

Can you -- and maybe in a post-hearing submission -- how many of any of the components are on the previous list, and how many are you aware of that were candidates and then were then excluded?

MS. WILSON: I'll have to get back to you specifically on if any were entered for exclusion. We, ITI, have not asked for exclusions on any items because our position is that the tariffs in general are not an effective policy, and so we don't want to advocate for exclusions as a way of mitigating the impact, though we fully understand why other associations and retailers would do so.

So I will have to get back to you on that, but the reason in particular that we list final products and the components is to show the cumulative impact on our companies and on consumers.

It's not just when it's on a final product that it's affecting the broader supply chain and the company, if anything, at the component level it becomes much more complex because you're talking about specific junctures in the supply chain and, you know, whether or not you can find an alternative to that, as others have mentioned, whether or not you have the time and capacity to do that and all of that is time away from other resources that are really needed to gain and continue to have the competitive edge in technology.

MR. STEPHENS: Thank you.

CHAIR BUSIS: I have a follow-up for Ms. Quach. So do you have -- you testified that you would prefer that 780 tariff lines be removed from this proposed action. Do you have an estimate of how many jobs in China are reliant on producing those products covered by the 780 tariff lines?

MS. QUACH: I do not.

CHAIR BUSIS: Okay. And a question for Mr. French. You mentioned that there's not enough capacity, production capacity in other countries to fill in the gaps. There's only from China and not exporting. Would you -- do you view that as enough demand capacity in other countries to absorb the production from China that would not come to the United States?

MR. FRENCH: Demand, I'm not sure I understand the --

CHAIR BUSIS: Okay.

MR. FRENCH: -- way you're saying --

CHAIR BUSIS: So you're saying that other countries can't fill the -- can't produce what China is now producing. So now China has X production. Is there capacity in other countries to absorb that production of China?

MR. FRENCH: Are you -- I'm sorry.

CHAIR BUSIS: Yeah.

MR. FRENCH: Let me rephrase that. Are you asking, is China's production that would not be coming to the United States going to other parts of the world?

CHAIR BUSIS: Would it go to some other countries, or would it affect China's economy for the fact that they can't sell those things?

MR. FRENCH: I'm speculating, but I presume it would find -- it would affect China's economy and it would go to other countries, but I'm purely speculating.

MS. WILSON: If I can weigh on that? So I'm a China specialist by background. To answer the question with respect to the impact on the Chinese economy, it's important to keep in mind that this is a managed economy with much more tools at its disposal than the U.S.

The Chinese government will find a job for every single person. They operate at pretty much 100 percent full employment because they assign people jobs for everything.

They literally instead of having parking meters, they have people who go to your car and take your ticket, not because they don't have the technological or infrastructure ability to do that, but in order to maintain full employment.

And this is not even approaching the discussion on how they subsidize certain sectors of their economy of which you are aware, but it's important to keep in mind those are tools that are still at China's disposal.

And just by sheer numbers, to answer your second question in terms of the capacity of other markets, no. Other markets do not have the capacity in terms of skills and tools and facilities to match what China can match. They're an exceptionally valuable and influential market.

MS. SWANSON: If I could just briefly add to that, too? If you take a more complex item --

MR. BURCH: Can you speak into the microphone?

MS. SWANSON: Sure. If you take a more complex item like a phone you really need to do your manufacturing in an area where there are nearby suppliers that can provide things like printed circuit board assemblies and sensors and semiconductors and all the pieces -- complicated pieces that go into the phone, which is one of the complicating factors when you think about taking production out of China and doing it somewhere else.

It's not a simple kind of substitution. You need to recreate the whole environment around the mobile phone production itself, for example. And that's very, very complex and multilayered and takes a long time.

So when you --

CHAIR BUSIS: This is the question of production. I was talking about demand, but okay.

MS. SWANSON: Mm-hmm.

CHAIR BUSIS: I think -- any more questions for this panel?

No? Okay.

Mr. Burch, this was an excellent panel, thank you. You've given us a lot to think about.

MR. BURCH: Mr. Chairman, I release this panel with our thanks.

And would the witnesses for Panel 39 make their way forward?

(Pause.)

MR. BURCH: Would the room please come to order? Our first panel witness for Panel 39 will be Heather Shepardson of Rauch Brands. Ms. Shepardson, you have five minutes.

Will you please turn on your microphone?

MS. SHEPARDSON: Hello, my name is Heather Shepardson and I'm the chief executive officer of Rauch Brands. While I'm based in Seattle, Washington, our headquarters are in Gastonia, North Carolina where we also have a

U.S.-based distribution center. Today I'm not just representing my brand, but our 75 employees.

We began as a family business in 1952 selling basic glass Christmas ornaments, tree skirts, and stockings. Today our goal is to provide quality, affordable, Christmas decorations to average Americans. We work very hard every year to create a treasure trove of new designs that Americans will cherish and pass on to new generations for their Christmas celebrations.

The Christmas ornaments made by Rauch Brands have brought joy and happiness into homes, creating everlasting traditions throughout the years. We consistently hear from our customers that holiday budgets are tight. As the National Retail Federation found in its annual surveys, the average American family spends $60 per consumer on decorations annually, and nine out of ten Americans say they celebrate Christmas, according to a Pew research survey.

My testimony will focus on subheading

9505.1010 which covers glass Christmas ornaments. This tariff line ordinarily has a zero duty rate. A tariff of up to 25 percent is unfathomable to me and my colleagues in the industry, most of which are also small businesses.

China accounts for almost three-quarters of imports of this tariff line, with remaining markets taken up niche producers including from Europe, which make higher price point ornaments usually bought by affluent customers.

No other country has the capacity to manufacture the broad array of ornaments currently made in China, and certainly not at the price point that most Americans can and are willing to accept. We don't want to be the Grinch who stole Christmas that had to raise prices on Christmas ornaments in order to cover the cost of this substantial tariff.

I also want to state something that I believe the Administration appreciates. The products under this subheading are completely separate from those that benefit from the Chinese industrial policy that you are working to change. Rauch Brands supports efforts to protect American intellectual property, at the same time we believe including Christmas ornaments in the fourth round of tariffs on China will disproportionately hurt Americans and take some of the joy out of the holiday seasons.

The Christmas season is a special time. The holiday tradition brings families together where everyone has a sense of belonging, which is also important for children because it helps them feel accepted and part of the family unit.

Our company strives to provide affordable quality decorations to help families create memories and to celebrate. The top two holiday traditions are buying and setting up a Christmas tree, and second most is parents picking out a new ornament with their children so by the time their kids leave the nest they will have a collection of their own. An increase in the cost will limit our ability to provide these new styles and designs of ornaments that our customers look for every year during this family shopping trip.

Everyone across the country is following the ongoing trade dispute with China. I know there are longstanding problems with China and I support the Administration's efforts to ensure American companies are treated fairly, but my products are not high technology. They are not part of any industrial plan.

I understand the Made In China 2025 program is focusing on aviation, telecommunications, and computer networks. Needless to say, it doesn't include Christmas ornaments. I joined with other small Christmas companies to find -- to file comments under the Sourcing Alternatives Not Technically Available Coalition, SANTA.

And SANTA coalition hopes that the Administration will agree with us in the spirit of the holidays and American family traditions not to raise prices on ornaments this year. I'd be happy to answer any questions you may have.

MR. BURCH: Thank you, Ms. Shepardson. Our next panel witness will be Douglas Lauer with Old World Christmas. Mr. Lauer, you have five minutes.

MR. LAUER: Thank you. My name is Doug Lauer. I'm the president and CEO Of Old World Christmas and I'm grateful for the opportunity to appear before you today. I find myself in the company of fellow competitors in Heather and Lance. Very seldom do we find ourselves on the same side of an issue, but we've banded here together to give you our consolidated views.

I traveled here from Spokane, Washington to ask that you, please remove tariff lines associated with glass and plastic Christmas tree ornaments from the list of proposed tariffs on imports from China.

My small 24-person operation would face lost revenue, lost profit, and even fewer employees, if the tariffs are put in place. Old

World Christmas is a small business headquartered in Spokane that was founded in 1979. We take great pride in supplying affordable Christmas decorations to American families. Holiday budgets are always a news story and I know 2019 will be no different.

I wish to focus on glass Christmas ornaments imported under 9505-10-10 and plastic ornaments imported under 9505-10-25, which are largest segments of the Christmas ornament market. These tariff lines currently face no duties and for good reason. Who wants to place a tax on Christmas?

That is why the threat of the 25 percent tariffs is sending shockwaves through my small company and the entire industry. China dominates both of these markets accounting for those three -- accounting for over three-quarters of all imports.

I can only address the impact this will have on our customers and the customers of small Christmas shops across the country. In our written comments on these products, we joined with other small businesses that import and sell these products. We are all facing significant financial damage that can threaten our very existence.

We believe there are compelling reasons to remove this tariff from the proposed fourth round of tariffs on China. Increasing the cost of celebrating Christmas will simply hurt American families. Old World Christmas is concerned the proposed tariffs will necessarily lead to an increase in prices for Christmas ornaments, which will substantially reduce our volume of sales.

I think the Administration realized the vulnerability of companies like mine in asking if proposed tariffs would hurt small and medium size businesses, or would hurt American consumers, an extent that outweighs any benefit in our ongoing dispute with China.

As many of this panel may be aware, Christmas ornaments are often sold in small locally-owned stores and boutiques across the country from major metropolitan areas to tourist locations. We believe that number is between 50 and 75,000 stores.

Many of my customers shop every year with a limited, specific, budget to spend on ornaments. A duty of up to 25 percent on these imports would be devastating on U.S. small and medium size businesses and retailers that sell these products. Thank you again for the opportunity to appear before you today and I'm pleased to answer any questions.

MR. BURCH: Thank you, Mr. Lauer. Our next panel witness will be Lance Hart with DEMDACO. Mr. Hart, you have five minutes.

MR. HART: Thank you members of the 301 Committee. My name is Lance Hart, President of DEMDACO. And I also am fortunate to serve this year as president of the GHTA which is a Major Trade Association, The Gift and Home Trade Association that represents companies -- over 200 to 250 companies that are concerned about the same products we are discussing today.

While it is only June, I ask for members of this committee to come together in spirit -- oh, thank you, sorry -- spirt of the holidays and remove Christmas-related items from the proposed list of items subject to a tariff of up to 25 percent.

I'm here today on behalf of my company, our 135 wonderful employees, our friends, and neighbors who give us the opportunity of helping them celebrate a wonderful time of year, the winter holiday season.

As the Administration recognizes, small businesses are the heart and soul of the American economy. And like so many small businesses, we operate on thin margins. For more than 20 years, DEMDACO has sought to lift the spirit in times of celebration, where comfort is needed, or just to put a smile on someone's face. The Christmas holiday season is a major part of our business, both for Christmas and other holiday-related products.

The hand curated gifts we develop and distribute are chosen for their potential to help people nurture goodness in their lives and the lives of others, celebrate family and friends, and encourage people to treat themselves. It is a great joy to have the opportunity to work in this business and my company loves this work.

We partner with American and international artists representing a wide range of styles and mediums and whose work is consistent with our values. Products are curated through this filter, then carefully reproduced by skilled craftspeople around the world. Under the DEMDACO brand product categories include gifts, home decor, entertaining, fashion, baby, holiday, and outdoor related products. DEMDACO also maintains a partnership with artist, Susan Lordi, who offers her popular Willow Tree sculptures.

Our major holiday-related products are classified under HTS subheadings 9505-10-25 for Christmas ornaments not made of glass or wood, and subheading 9505-10-30, which covers nativity scenes and figurines. DEMDACO products made in China consist of figurines, photo frames, ornaments, keepsake boxes, and other types of gifts and home decor.

The production of our ornaments and holiday accessories is dominated by Chinese manufacturers. Indeed China counts for over 85 percent of all imports by value.

Small businesses, such as DEMDACO, do not have the market impact or budgets to shift production quickly. Thus, DEMDACO would be unlikely to move production before the 2021 holiday season, and even that would be difficult.

The proposed tariffs would have significant negative impact on our business, limiting our company's efforts to support local communities, community organizations, and ultimately threaten our ability to stay in business.

As I'm sure you appreciate, DEMDACO products are far from the high tech products that are in the forefront of the discussions with

China. There is no significance to the country's strategic technology initiatives, and policies related to intellectual property from my industry.

These labor intensive goods are not the type China seeks to develop in its attempt to advance industries related to information technology, robotics, aerospace, engineering, railway, electric vehicle, power transmission, medical devices, and agricultural machinery.

In fact, many of the factories that manufacture DEMDACO products have been asked by the Chinese government to move further inland to make room for the above-mentioned high tech production facilities, which are such a concern to the U.S. and to this Administration.

We partnered with some of these other small companies to create the Holiday Ornament Holiday Occasion, or HOHO coalition, asking that these and other related tariff lines be removed from the final -- from the proposed list of tariffs. The comment filed by this coalition provides further technical information, including the relevant trade data for these products. I would strongly urge the committee to agree to remove all tariff lines in the coalition's filing.

Christmas is the time of year that Americans yearn for symbols to celebrate the season. Please do not put DEMDACO's future in jeopardy and increase the cost of Christmas for the average person. Thank you for the opportunity to appear before you today, and I'm also happy to answer any questions.

MR. BURCH: Thank you, Mr. Hart. Our next panel witness will be Thomas Harman with Balsam Brands Incorporated. Mr. Harman, you have five minutes.

MR. HARMAN: Good afternoon. I will get right to it. On behalf of American consumers and my 136 colleagues, I urge the USTR to remove prelit artificial Christmas trees from List 4.

My name is Thomas Harman. I'm the founder and CEO of Balsam Brands. I'm here to testify on behalf of our flagship brand, Balsam Hill, American's leading specialty retailer of artificial Christmas trees. You may know us from the millions of catalogs we send out each year via the Postal Service or from the Christmas tree-themed float in the Macy's Thanksgiving Day parade.

Every Christmas season I appear on talk shows as a leading expert on Christmas trees. While this is beneficial to our business, it pales in comparison to the importance of my appearance before you today. I am grateful to the 301 Committee for the attention you're giving to this matter.

I started Balsam Hill in 2006 from my apartment. I was inspired to create lifelike trees that families could enjoy year after year, particularly prelit trees that free consumers from the inconvenience of untangling and stringing Christmas lights on their trees.

Since its founding in 2006, Balsam Hill has grown into a thriving business that employs 137 people in the U.S., virtually all in well-paying white collar positions. We have been growing 20 percent per year for ten years and our direct employment footprint includes Idaho, California, and Maryland.

We indirectly employ hundreds of additional workers in Idaho, California, New Jersey, Georgia, Missouri, and Indiana. In 2006, we were honored to be named one of the 25 companies on Forbes' inaugural list of America's best small companies.

Before I discuss our unique situation, I want to note that I have deep personal appreciation for what this Administration is trying to accomplish with the proposed tariffs. Before starting Balsam Hill, I was president of my family's small steel wire manufacturing company in Cleveland where we struggled to compete against cheaper Chinese imports and watched our customers move their manufacturing offshore. However, the imposition of tariffs on artificial Christmas trees will not further the

U.S. objectives in combating China's trade practices.

Why do we believe that this cherished consumer product should be removed from List 4? First, 100 percent of prelit artificial Christmas trees sold in the United States are manufactured in China -- 100 percent.

If the tariffs are imposed, American consumers will be forced to pay more for their Christmas trees since there are no alternative sources of supply anywhere in the world. For context, no artificial Christmas trees of any kind are manufactured in the United States today, and prelit Christmas trees have never been made in the United States.

Second, the only viable source for prelit Christmas trees is China. Production of prelit Christmas trees is low tech and requires massive amounts of manual tedious labor. Our trees typically have over 1,200 lights. Stringing the lights must be done by hand and is extremely time consuming.

The task is so low tech and undesirable that as early as 2006, Chinese authorities in the region where most of our trees were manufactured began pressuring one of our suppliers to relocate its factory to make room for higher tech jobs.

The only known non-Chinese manufacturer is a small factory remaining in Thailand, which I visited. Twenty years ago Thailand had a Christmas tree manufacturing base, but its economy has advanced and the tree factory is closed. The remaining Thai factory now focuses on unlit trees for the European market, and not on prelit trees.

Because of the huge amount of manual labor required for the manufacturing and light stringing processes, the need for good roads and port infrastructure to transport bulky trees and the large capital investment required for a new tree factory, prelit tree manufacturing will not move out of China in the foreseeable future.

Third, imports of prelit artificial

Christmas trees are approximately $600 million a year, merely .2 percent of the proposed 300 billion in List 4. Artificial Christmas trees are certainly not part of the Made In China 2025 initiative and not of interest to the Chinese government.

You may be wondering if switching to fresh cut trees is a realistic alternative for American consumers. Per Nielsen statistics run annually for the past eight years, 80 percent of the Christmas trees used by Americans to celebrate Christmas are artificial.

Fresh cut trees cannot replace artificial ones because it takes about ten years from planting to harvesting a tree. Moreover, they are outlawed in many public buildings for fire safety reasons, and can trigger an allergic reaction for some people.

In closing, not only would the proposed tariffs on prelit artificial Christmas trees drive up prices for American consumers, it would also threaten 400 U.S. jobs and will force us to scale back our business and stop investing in job creation and growth.

This November, starting on Thanksgiving weekend, over 80 million American households and more than 100,000 American churches will setup their artificial Christmas trees to usher in the Christmas season. The Christmas tree is the single most important icon in American holiday celebrations and tariffs on Christmas trees would hurt American consumers, American workers, and the most widely celebrated religious holiday in this country.

Please exclude prelit artificial Christmas trees from Section 301 tariffs. Thank you for your time and I look forward to your questions.

MR. BURCH: Thank you, Mr. Harman. Our next panel witness will be Mike Bober from Pet Industry Joint Advisory Council. Mr. Bober, you have five minutes.

MR. BOBER: Thank you very much. Good afternoon. My name is Mike Bober and I'm the president and CEO of the Pet Industry Joint Advisory Council, PIJAC.

As a leading trade association for the pet industry, we represent members of all aspects of the companion animal -- companion animal care community, from manufacturers and retailers of food and products to distributors and service providers. We represent small local business, as well as some of the largest businesses in the country and some of the largest chains around the world.

As you might expect, there are very few issues that these organizations all can agree on, this is the rare exception. This list, this fourth list and the previous lists that have come before it, are universally problematic for those of us in the pet care community.

It's fitting that I should be here speaking before you today on national Take Your Dog to Work Day. It's an observance which celebrates and encourages the positive impacts that our canine companions have on focus, physical and emotional health in the workplace, and a host of other positive benefits.

We play a large part in encouraging pet friendly practices in corporate offices large and small. A recent article indicated that Amazon's headquarters in Seattle currently has 7,000 dogs registered to accompany their owners to work.

Unfortunately, the current tariff actions and those that have come before them are far less pet-friendly. Responsible pet ownership require a commitment to the health and well-being of the animals with whom we share our lives. In many cases, the products that American pet owners purchase to fulfill that commitment come from China.

This is especially true of products under tariff line 6307.90.75 which are toys for pets of textile materials. I believe the last statistic I saw on that was that more than 90 percent of those products come from China, and then plastic items such as bowls and toys which are included in tariff line 3924.90.56.

The vast majority of these products are imported from China and cannot simply be replaced with similar goods from alternative sources. This comes from our members who have begun the process of trying to find those alternatives and have been stymied, either because of capacity issues in competing markets, or simply a lack of an effective supply chain, or resources on the ground to do that.

These are not the only areas in which the newly proposed tariffs will impact pet owners' ability to care for their companions. Pet garments designed for both therapeutic and aesthetic purposes, training equipment including puppy pads and enclosures, and glass housing such as terraria and aquaria will all be subject to new tariffs that will necessarily result in higher costs to pet owners.

When I spoke before you last August I pointed out that List 3 included tariff lines that covered the importation of certain live fish that are unique to China. Those tariffs put American importers, who are contractually bound to provide the specific fish at a given price point to their retail partners, in an untenable situation that has had a disastrous impact on their business. I hate to say it, but we told you so.

While the live animal categories included in the current list impact far fewer businesses in the pet care community, their impacts on those who will be affected will be the same.

PIJAC acknowledges that the trade imbalance with, and unfair trade practices of, China need to be addressed and we're encouraged to see that the Administration is confronting these challenging issues. We wish to point out, however, that the current and planned tariffs, and the resultant Chinese retaliations, are having a significant impact on the pet trade and the two-thirds of American households with whom we are partners in pet care.

Retaliatory trade restrictions put into place by the Chinese have also impacted the pet trade, and will impact the millions of pet owners across the country in terms of both cost and availability of animal care products. Not only are we finding that these costs have increased, but interactions with Chinese governmental agencies and businesses have also been affected and have been passed on to everyone in our supply chain.

Both of our communities' major annual trade shows have reported that participation by Chinese companies has dropped significantly over the last year, with trade uncertainly cited as a contributing factor in these decisions.

Our allies in the pet food sector have also indicated that discussions that seemed quite promising a year ago, in terms of opening the Chinese market to American pet food products, have all but ground to a halt as a result of these back and forth retaliatory actions.

PIJAC requests that the Administration

reconsider the inclusion of items vital to the pet trade and to pet owners' responsible care for their companions in this latest round of duties. We've been effected by each previous round of tariffs and by the result in retaliations.

We welcome the opportunity to discuss the details further, and we will be providing examples and tariff lines in subsequent additional information in our testimony. Happy to answer any questions you might have. Thank you very much for your consideration.

MR. BURCH: Thank you, Mr. Bober. Our next panel witness will be Paul Hunt with PetSmart Incorporated. Mr. Hunt, you have five minutes.

MR. HUNT: Thank you. Members of the 301 --

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

MR. HUNT: Thank you. Members of the 301 Committee, my name is Paul Hunt. I'm senior vice president of sourcing and product development for PetSmart. I wanted to start today -- I thought Friday afternoon after hearing from hundreds of witnesses we could all use a therapy dog. And so, this is Chobey and Chobey decided to join us as a local therapy dog.

Every day he works with nursing homes, hospitals, schools, and all the -- and all his needs PetSmart sells. Sadly, Chobey and his owners, along with pet parents across the country, are facing an increase to prices necessary for their pet products due to these proposed tariffs.

Thank you for the opportunity to appear before the committee today. I am here, not only on behalf of PetSmart, but also the millions of pet parents across the country. PetSmart is the largest pet specialty retailer of services and solutions for the lifetime needs of pet. At PetSmart, we love pets and we believe pets make us better people.

We are concerned the proposed tariffs on basic pet needs will raise the cost of pet ownership. As we know with Chobey, pet ownership has tangible benefits as it relates to stress, happiness, general health, and well-being of families, children, seniors, and veterans. It's our hope that this positive impact on Americans and their pets will persuade the Administration to remove certain pet items from the proposed list.

PetSmart strongly supports the fair treatment of U.S. companies as they do business in China, and with other trading partners. However, PetSmart is concerned that the Administration's efforts to address these valid concerns regarding Chinese practices has begun to financially impact majority of American households that own pets, due to the increased cost for basic products.

We understand, given the scope of the proposed action, that you cannot remove every tariff line impacting PetSmart. As such, we are not requesting that every impacted product relevant to our business be removed from the list. Instead, after careful consideration we request the exclusion of five tariff items related -- tariff lines related to certain pet care products.

PetSmart selected these tariff lines based on overall dollar impact to our customers and because these items are essential for the health and safety of pets. Our plastic water bowls fall under the first exemption we request, which is 3924.90.5650.

PetSmart imports a range of basic consumer products necessary for pet ownership under this line of plastic items, including pet toys, bowls for food, water, aquariums, accessories, liter pans, and scoops. Each and every pet parent will purchase an item under this tariff line. China dominates this sector with over 75 percent of all the imports.

As any puppy owner knows, puppy pads are also an essential product for puppies that are being trained, as well as dogs that live in apartment buildings. Our second requested exemption is tariff line 4818.90.0000. The Administration understood our past request for the exemption of puppy pads as it was originally considered for List 3 but was removed. We would ask that it again be removed.

Our third exemption request is for textile pet toys, tariff line 6307.90.7500. This tariff line includes many popular textile pet toys for dogs and cats including some of our most popular items. Pet toys are purchased by dog and cat owners to occupy the attention of their pets and allow the pet owner and the pet to play together. This product is almost completely controlled by China, with 98 percent of all imports.

As one of our highest tariff line items or pet retailers, we request the exemption for tariff line 6307.90.9889, which includes pet beds and carriers. These items are necessary for comfort and transport of pets throughout their life. China supplies three-quarters of all these products to the United States.

Many of Americans think about cats and dogs when they think about PetSmart, but we also provide products for specialty pets, such as birds, fish, reptiles. As such, we request an exemption for tariff line 7013.99.9000. This line includes glass aquariums and terrariums. Our fish, lizard, and reptile pet parents will agree, these products are absolutely necessary for the ownership of this pet category.

The proposed tariffs will almost certainly result in widespread cost increases to nearly two of every three households that own a pet. While the overall potential tariff impact is much greater to PetSmart and our pet parents across the country, these five line items constitute the largest impact to our consumers, while being essential to the benefit of owning a pet.

We respectfully request these exemptions for these five line items on behalf of millions of pet owners across the U.S. We see the value in the human animal bond and we want a world where there is more pets like Chobey. A higher cost of pet ownership creates a barrier to this unconditional love that only a pet can provide. Thank you very much and I'm happy to answer any questions.

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

MR. TSAO: We have some new committee members joining this particular panel. At this time, I would like to ask them to introduce themselves. I'll start with myself, Arthur Tsao, USTR.

MS. Smith: Hi. My name is Tanya Smith from Small Business Administration.

MS. Huang: Jessica Huang, U.S. Department of Commerce.

MR. MAIER: All right. Peter Maier from Treasury and I'll go ahead with my question. My question -- first question is for Heather Shepardson of Rauch Brands. Can you elaborate on why you believe China is uniquely capable of producing glass Christmas ornaments that suit your price and quality needs?

MS. SHEPARDSON: Yes. So, as an example, here is an ornament made in China. The technical capability -- you need to have a glassblowing machine, you need to have a insert that creates the reflector, need to have skilled painters to paint all the glitter lines. So, you need equipment, you need skills to be able to do this.

Every time we try to source somewhere else, it can take two years to onboard a new factory in China. So, going to a new country or try to bring it here, it's possible but it would be, you know, at least 10 to 50 times the cost.

I personally have a unique experience because, while we make ornaments in China, we also make ornaments in Poland. Our ornaments in Poland, in order to cover the costs of manufacturing in Poland, retail for $60 apiece. This ornament retails for roughly $7. So, all of our ornaments that are in the middle market -- or the market that's accessible to most Americans which are made in China will now become more expensive, or if my other choice is to move them they become very expensive.

So, I don't have significant options to move my production elsewhere. We have looked, but so far we haven't come up with a good alternative that will meet the needs of, you know, making these types of ornaments at what we would call an acceptable price point for the average American, which is roughly between 5 and $14 per ornament.

Sometimes we make a box of ornaments with, you know, really tiny ornaments that might retail for $5, you know, for 20 of them, but on average it's between $5 and $12 for these types of ornaments.

MR. MAIER: Thank you.

MS. SHEPARDSON: You're welcome.

MS. SMITH: My question is for Douglas Lauer, Old World Christmas.

Good afternoon.

MR. LAUER: Hello.

MS. SMITH: What portion of the glass and plastic Christmas ornaments that you sell come from China?

MR. LAUER: 100 percent.

MS. SMITH: Are there other potential sources for these products?

MR. LAUER: We had a supply chain risk, in that we were buying very large percentage of our business from one factory in China, so to eliminate some of that risk we needed to find some new factories. And I decided to also go further and eliminate that risk of only being in China.

So, I spent a substantial amount of time in Cambodia and Vietnam looking at factories, hired an agent to take me around to factories, we got samples made. Not only were their prices higher, infrastructures are difficult, you know, getting products to port, but also the quality wasn't nearly what we needed, and the prices were higher because it was taking them longer to manufacture.

Prior to that, 25 years ago, we made products in Germany. We were interested in having a lower price point. We spent two and a half years with our China factory teaching them how to manufacture and the result of that was we offered a low product to the consumer, we gave more margin to our retailers, and we were more profitable ourselves.

MS. SMITH: Thank you.

MR. FRATERMAN: Thank you, everyone, on the panel for your testimony. My question is for Mr. Hart. In your testimony you mentioned that China accounts for 85 percent of all the imports by value of the products in question. Where do the other 15 percent come from?

MR. HART: Well, they come from -- for us primarily they would come from India. We're about 90 percent China and 10 percent India.

MR. FRATERMAN: Ninety percent China, 10 percent India? So, there is no domestic production then, correct?

MR. HART: Not for us, no.

MR. FRATERMAN: Okay. Would there be any possibility for domestic production or is that not possible?

MR. HART: Well, I think there are some in our industry, but it's very minimal. For us we've, in the past, had an experience trying to look for domestic manufacturing and it never materialized, so -- and we've never been able to make it competitive.

MR. FRATERMAN: Great, thank you.

MR. TSAO: I have a follow-up question for that Christmas ornament industry. How large is the U.S. market for your Chinese suppliers? In other words, are we their largest market for Christmas ornaments or do they actually ship to Europe or other countries as well?

MR. LAUER: The factories -- some factories will specialize in design or art for European countries, which has a different look than the American market. Most of the factories that we're now in, probably 75 percent upward is for the U.S. but they also manufacture for Europe and maybe Australia. But hardly any of our factories do any local domestic China business.

MR. TSAO: If that's the case -- I mean what, if any, actions have your suppliers taken in response to any proposed tariffs? Anybody?

MS. SHEPARDSON: So, we -- obviously with the tariffs coming, we've been trying to price negotiate with them in order to get our costs down so we can, you know, live through the next nine months and see what happens after that.

But in discussions with them about what are you guys doing to do, their only choice is to try to find another country in which to bring their skill set to and open a factory. But, you know, that means starting from scratching building a factory, investing the capital, training people or moving people. I mean, that is at least a two-year proposition that we're talking about -- at least.

I mean, to me that seems like it would be fast, but our -- we make about 100 million ornaments in China a year, like single ornaments. And so, we have roughly core -- four core factories and we've been having discussions with all four of them about what their plans are.

And some of their plans is just to close shop, find something else to do, because we recently had a $1.5 million order that I said if you don't give me a better price on I'm going to not -- I can't do the order because I don't have enough margin to cover the tariff at the cost that they were giving me because my customer wasn't willing to take a price increase.

And they -- the best they could do was a 5 percent price reduction otherwise they weren't interested. So, I mean we're talking big numbers to a factory and everyone is pushing as hard as they can and there's nowhere else to go -- so closing.

MR. LAUER: Over the last couple years we've had challenges with getting the prices that we used to get anyway out of China, materials, labor, we won't do business with factories that aren't trying to comply with the environmental standards in China. Our main factory is up north near Beijing. Or we won't use any factories that aren't compliant from social needs and labor rates.

We do that because we have a conscience, but we also have customers that will audit. So, over the last two years we've been getting price increases and we've been getting some flak from our customers who have said, you're starting to hit the top end of the price point. And so, this tariff is going to make it 25 percent more and we're going to lose units.

MR. HART: I was going to add, too, to that, that, you know, the Chinese manufacturers -- we have about 100 manufacturers that we work with for a different breadth of product. We have about 4,700 products. And, you know, the Chinese economy is -- you guys are well aware of this I'm sure, but they're building a middle class in labor. A lot of the younger people are not -- are migrating out of the factory environment.

So, they're having challenges with that.

But when we've gone back to them -- there's three things that I might mention in addition to my colleagues. We've talked to them about the currency -- because of the currency depreciation in China they've been willing to give us some concessions on that, because it's depreciated 10 percent over the last year or so.

They've certainly given us some pricing concessions especially since we went from -- or it's been talked about going from 10 to 25 percent, because they know their business on some of our larger suppliers and partners is at jeopardy.

And then, one particular manufacturer that we've talked to for one of our major lines has said -- because we've talked to them about we would need to look at Vietnam or Thailand or some other countries to produce this resin product in particular. And they're willing to actually go to other countries and help teach the skill set, the painting on this particular product which is very complicated. So, that's a couple of the things they're doing.

MS. ZHAO: My question is for Mr. Harman. You mentioned in your testimony a factory in Thailand that focuses on non-lit trees for Europe. Does it also produce prelit trees?

MR. HARMAN: Yes. The factory in Thailand produces some prelit trees for the European market with lights that they import from China, but it's -- the challenge for importing to U.S., it's a very small factory that could maybe support 5 percent of our products that we import and we're a small percent of the overall artificial Christmas tree market.

MS. ZHAO: So, to your knowledge, does that have enough capacity to increase production to fill your demand, five percent?

MR. HARMAN: I don't think so. So, the -- I've been to the factory, I've toured it. It's an industrial park and it's surrounded by other brands, American brands, that we've heard of actually. Perhaps they would be able to source more land somewhere else near a port in Thailand and expand over time.

But, again, right now they're such a small percentage of even just our -- of our needs, that they would have a hard time fulfilling any meaningful part of U.S. demand that's greater than, say, 2 percent, 3 percent even if they expanded 10 or even 50-fold.

MS. ZHAO: And, to you knowledge, do you know of perhaps other viable sources for prelit trees?

MR. HARMAN: I personally -- so, Balsam Hill sells Christmas ornaments, millions of dollars in Christmas ornaments and many other Christmas products and I have traveled all over the world sourcing in Europe, in the Philippines, in India and Thailand and Vietnam and China and I have not found any other place that we believe could make the trees.

Mexico may be a possibility. There is one Chinese supplier that's opened in Mexico and our team has checked that factory out and determined that they are far below our quality production standards, so maybe over many years they may catch up. So, it is, I think, a big challenge.

One of our major suppliers of Christmas trees has sent a delegation to several neighboring countries to try and figure out if they could move production there, looking at countries like Cambodia and Vietnam.

And because, again, you know, I think as a good visual prop, it is such a labor intensive thing to put Christmas lights strung on the trees and they go out the branch and they get clipped on and they go out the next branch, they come back in. I mean, it would take me about two hours to string the lights on a tree. There are massive amounts of labor that are needed to do these.

It's a handy craft with over 10,000 workers doing this in China. And there is so much pressure right now in countries like Cambodia and Vietnam from these tariffs that taking this low value work -- the workers are already going to other industries.

So, they feel like -- one of the factories I spoke to when I asked what their plans were, they said they'll fulfill orders at the prices that they have now and if they don't get orders they'll close, which was shocking to me but that's the reality of where we are as an industry in artificial Christmas trees.

I will add, I think for unlit artificial Christmas trees there is -- we could get those from Thailand and perhaps other places, but once you get to the labor of putting the lights on that's where the real challenge comes in. And that's why we're specifically asking to exclude prelit artificial Christmas trees. We're trying to be as narrow and focused as possible.

MS. HUANG: Thank you for your testimony. My question is for Mike Bober of the Pet Industry Joint Industry -- Joint Advisory Council.

In your testimony you mentioned your

members experience with finding alternative sources for products under 6307.9075 and 3924.9056, and the difficulties they face with capacity limitations and limitations with resources on the ground amongst other issues.

Can you elaborate more on their experience if they looked at domestic sourcing, and also if they were able to research how long it would take to build capacity at the sources they were looking at?

MR. BOBER: I can certainly go back to my members and try to get more complete anecdotal reports on these things. I can tell you that what they told to me in preparation for this is that they had explored a number of sources, both domestic and foreign.

Domestic sources always had a significantly higher price point. Foreign sources problems ran everything from capacity shortages to delivery delays to just general product quality standard concerns.

I can certainly request more specifics

for you if you'd like them and turn them around to you, but from the general feedback that I got from my members the complaints pretty much run the gamete of everything you've heard today.

And, in a lot of cases, because these are lower value, lower price point products they tend to fall further down the pipeline when they are being put up against competing higher value opportunities for some of these alternative markets.

MS. HUANG: Thank you.

MR. STEPHENS: My question is for Paul Hunt from PetSmart. And I just want to say to the rest of the panel is I'm a fan of Christmas, but I've been trying to explain the relevance of these hearings to my teenage children and when I tell them that Chobey, the therapy dog, was here my 18-year-old daughter will be very interested.

By my question is, for each of the products you specified in your testimony there is at least some production outside of China. Can you describe the feasibility of increasing production of those products from other countries?

MR. HUNT: Yeah. So, we have spent a lot of time -- I have the pleasure of leading a global sourcing team, and so we have since, gosh, over a year ago been working to drive production into different areas and I would tell you we are constantly evaluating sourcing. And it's very different for different categories.

The expertise to make a plastic bowl is very different than that of cut and sew. And so, we have to look at each one of those categories individually and understand them individually for their merits. And currently we actually -- I think this is going to your question.

We are diversifying our sourcing. We actually are importers of record from seven different countries now. So, we have been actively moving that where possible, but I would tell you our experience is very consistent with the experience you heard from the Christmas tree industry or the Christmas industry.

It's, you know, moving the scale of product that we have to move is pretty much impossible in the short-term. And so, it takes years to setup the infrastructure and the supply chain, whether you're talking about an ornament or a plush doll, to get the quantities that we need at the price.

MR. STEPHENS: Thank you.

MR. BURCH: MR. Chairman, we release this panel with our thanks. Would all witnesses from Panel 40 make their way to the front?

(Pause.)

Would the room please come to order? Mr. Chairman, this is the last and final panel for today and the first panel witness will be Marty Thomas with Moen Incorporated. Mr. Thomas, you have five minutes.

MR. THOMAS: Mr. Chairman and members of the committee, my name is Marty Thomas, Senior Vice President Supply Chain of Fortune Brands Home & Security, which is the parent company of

Moen Incorporated. Moen is one of the world's largest manufactures of plumbing supplies, including the leading faucet brand in North America.

We're a proud employer of 2,500 U.S. employees. On behalf of those 2,500 U.S. employees, I'm here to explain why the USTR should remove specific faucet components from the proposed list of products subject to additional tariffs under Section 301.

I have two main arguments today. First, these components cannot be produced anywhere else other than in China. We know this because we've been actively searching for alternative suppliers outside of China for over the last year. For reasons I will explain later, they simply do not exist.

Second, these components support our U.S. manufacturing presence and are critical to our U.S. employees. This is unfortunately the second time we're appearing in front of the panel on the exact same components that were previously removed from List 3.

Moen previously appeared in front of this panel making the same arguments I'm about to make to you as to why the components should be removed from the tariff list, and the committee agreed.

Of the thousands of codes requested for removal only 286 were actually removed, including the four codes we're discussing today, and they were removed for good reason. Because the USTR understood that these components support U.S. manufacturing and cannot be found anywhere else but in China.

Unfortunately, these components have been added back to List 4 to the detriment of companies like Moen which relied on their removal from List 3. To be clear, Moen's a U.S. manufacturer. We sell faucets and other products to retailers, builders, and wholesalers all over the United States and 90 percent of those faucets are assembled in our two North Carolina factories.

The components we source from China are combined with other critical parts, like the cartridge, which are manufactured by Moen in our Sanford, North Carolina factory and are used by our hundreds of U.S. workers when assembling finished faucets. Putting a tariff on these components necessary for our U.S. made products would only hurt our U.S. manufacturing presence.

As we told you last August, the vast majority of the world's faucet component volume is sourced from China because that is where the equipment and labor exists. Simply put, China is the only viable option. This is still true even a year after the initial 301 duties were imposed.

Over the past year we've continued to try to move production from China. We've looked at qualified suppliers in eight separate countries. It is not possible to find what we need in the quantities required. This is not just a Moen issue, it's an industry issue.

First, the equipment we need to cast the parts, polish them, and then finish them exists in scale only in China. The second reason, that these processes are also very labor intensive and China is the only country that has the people who have the experience and the desire of this type of work.

Manufacturing components is hard technical dirty work. It's much more skilled and labor intensive process than you may expect requiring significant capital investments, but also one that is absolutely critical in our overall operations.

Finishes for faucets such as chrome or bushed nickel must be consistent in order to give the final product a cohesive look. Defects in faucet finish are unacceptable both to our production processes and to the consumer.

Because of these factors, China's ability to manufacture faucet components does not currently exist in any other country with the volumes our U.S. factories need, and this has been true for at least 15 years.

Over the last year, we have moved a

significant portion of our China sourcing to other countries, including the United States. Specifically, we've moved over 20 percent of our sourcing buy from China to other countries and we'll have another 10 percent moved out of China by the end of the year.

But as we told you last summer and as I need to tell you again today, we're unable to move the faucet components out of China. We have a longstanding trusted relationship with our suppliers. We estimate the move away from China would take years because we're essentially starting from square one.

We'd have to identify potential plant locations, conduct environmental studies, get permits, build new factories, install and verify all new equipment, and conduct process and product validations and qualifications.

To now reverse the USTR's prior decision and put the tariffs back on these critical components would unfairly hurt U.S. plumbing manufacturers like Moen. It would not mean that these components could be sourced from the United States.

All it would mean is that companies would take these components and assemble them in other low cost countries like Vietnam or Cambodia versus the United States. And it certainly would not help American industry, to the contrary it would simply hurt it. Moen absolutely supports the Administration's concerns over China's practices related to technology transfer, intellectual property innovation.

If the United States imposes Section 301 tariffs on faucet components from China, it would decrease the competitiveness of faucets manufactured and assembled in the United States and could give an unintended benefit to foreign competitors who assemble their products in other low cost countries outside of China.

For these reasons, on behalf of the American workers, we ask that you make the decision that you made last year and once again remove these components from the list. I thank you for your time and attention. I look forward to your questions.

MR. BURCH: Thank you, Mr. Thomas. Our next panel witness will be James Daily with SimpliSafe Incorporated. Mr. Daily, you have five minutes.

MR. DAILY: Thank you. Good afternoon. My name is Jim Daily. I'm the deputy general counsel at SimpliSafe. Thank you for the opportunity to testify today. SimpliSafe was founded in 2006 and we're based in Boston. We manufacture and sell security systems directly to end-user customers that can be connected to a central monitoring center.

Our products include door, water, and glass break sensors, motion and smoke and carbon monoxide detectors, security cameras, video doorbells, and temperature monitors.

SimpliSafe markets and sells our products across the United States, primarily through direct online sales, and as well as online platforms such as amazon.com and through retailers such as Best Buy. These products help keep American businesses and homes safe.

My testimony today will focus specifically on products classified under the U.S. Harmonized Tariff Schedule 3926.90.99, 8517.70.00, and 8531.80.90. These subheadings include a range of plastic parts that we import and use in our completed security products.

These include articles made of plastic, and parts of telephone sets for the transmission or reception of voice, images, and other data, and electric sound or visual signaling apparatus. I'm here today to urge the committee to remove the subheadings I've identified from the list of products facing a 25 percent tariff increase.

Imposing additional duties on the subject products; one, would not be practical or effective in eliminating China's unfair acts, policies, and practices; two, it would result in disproportionate economic harm to U.S. interests and key stakeholders, including small and medium size businesses, local government entities, and American consumers; and third, would have a meaningful negative impact on SimpliSafe, including our U.S. operations due to limited alternative sources.

First, by imposing additional duties on the security system products and parts imported by SimpliSafe will not reduce China's unfair acts, policies, and practices relating to U.S. intellectual property. This is because SimpliSafe owns all the IP rights in our products designs. Our intellectual property is protected in the United States and China and elsewhere through patents, trademarks, and trade secrets.

Furthermore, the company has worked with our Chinese manufacturers for almost ten years and we have yet to see any Chinese competitors obtaining our security system technology and then dominating the field.

This is because the company successfully maintains close relationships with these manufacturing partners and we implement agreements with them containing robust confidentiality and IP provisions, and we demand strong indemnification from them in these contractual arrangements.

Second, these additional duties will have a disproportionate impact on small and medium size businesses, U.S. consumers, and local government entities. This is because SimpliSafe cannot absorb a 25 percent increase on our costs for our security system products, and our retailers are unlikely to shoulder this cost as well.

The additional cost of these duties will most likely then be passed on to U.S. consumers. This substantially increases the price on security products that families, businesses, and local government entities use to protect themselves.

Third, the negative impact on SimpliSafe's U.S. operations and the limitation on viable alternative sourcing options outside of China are compelling reasons to remove these subheadings from products facing increased tariffs. SimpliSafe has already been struggling to absorb the increased costs associated with additional duties imposed on products subject to China's tariffs.

Additional duties on the List 4 products may force us to increase the cost of our products and will certainly negatively impact research and develop efforts concerning our new products. This will threaten the innovation of our products and negatively impact us and stifle job growth in the United States more broadly.

SimpliSafe currently has 700 employees located in the Boston area. We may need to explore the feasibility of transferring certain of these roles to operations outside the U.S. Due to limited alternative sourcing options, finding cheaper alternatives outside the country may be our best option.

For these three reasons mentioned today, SimpliSafe respectfully requests that subheadings 3926.90.99, 8517.70.00, and

8531.80.90 be removed from the list of tariff headings subject to additional duties. This concludes my testimony. I appreciate the opportunity to testify and look forward to answering your questions.

MR. BURCH: Thank you, Mr. Daily. Our next panel witness will be Craig Updyke with the National Electrical Manufacturers Association. Mr. Updyke, you have five minutes.

MR. UPDYKE: Thank you. Before I begin, Mr. Burch, I note that there is a tape recorder in front of me. Is that -- that's for the committee? Okay. Thanks very much for the opportunity to speak with you today. My name is Craig Updyke and I serve as director of trading commercial affairs for the National Electrical Manufacturers Association, or NEMA.

NEMA represents nearly 325 electrical equipment and medical imaging equipment manufacturers that make safe, reliable, and efficient products and systems. Our combined industries account for 360,000 American jobs in more than 7,000 facilities covering every state of the union.

These industries produce $106 billion in shipments annually and $36 billion in annual exports of electrical equipment and medical imaging technologies.

NEMA shares the Administration's concerns regarding China's intellectual property practices and the exclusionary nature of the made in China 2025 program. U.S. electrical and medical imaging manufacturers support a comprehensive approach to international trade that results in free and open global markets.

We remain hopeful that the outcomes of discussions between China and the United States, as well as other countries in trade group -- groups of countries with whom the U.S. is engaged will help to assure a more level playing field through the application of clear, binding, and enforceable trade rules in compliance with international norms of intellectual property protection.

While some NEMA member companies manufacture their own products in China, many others source finished goods, as well as components from contractual partners in China. In particular, many of our member companies source components from China into the U.S. to support their U.S. manufacturing operations.

Many NEMA members are already faced with 25 percent additional tariffs on needed imports from China. Placing additional tariffs on the products included on List 4 or Tranche 4 that are within or adjacent to NEMA's scope will not help support and could further materially injure the global competitiveness of our industries, their U.S. manufacturing operations, and their employees

In particular, tariffs on imported components impose a cost burden on U.S. manufacturers that are competing against unencumbered imports of finished goods. The imprecision of broad-based tariffs, such as those that have been implemented since July 6th of 2018 and those at issue here today, is accompanied by collateral damage up and down global supply chains that is better avoided.

If tariffs on additional products are judged by the Administration to be a necessary attention-getting tool to support U.S. companies trying to do business in China, we urge the use of tariffs to be much narrower than proposed.

Furthermore, we urge that the scope of the tariffs exclude at the outset rather than much later through an exclusion request and review process any items where tariffs would do significant and disproportionate harm to NEMA members U.S. operations and exports and be very short-lived.

I would note, however, that at the present time the additional tariffs in place since July of 2018 have not brought about such positive changes in China. Thank you very much for this opportunity to address you today and I welcome any questions you may have. Thanks.

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

next panel witness will be Steve Cistulli with Coolpad Americas. Mr. Cistulli, you have five minutes.

MR. CISTULLI: Thank you very much. Members of the agency committee, thank you for the opportunity to provide comments on the proposed list of goods subject up to a 25 percent tariff if imported from China.

My name is Steve Cistulli. I'm the chief executive of Coolpad Americas. Specifically, Coolpad Americas requests that the HTSUS tariff classifications associated with our products, which are uniquely designed family-focused pet trackers, child and elderly wearables, and family-focused phones be removed from the final list. Attached to my written testimony is a complete listing by code.

Coolpad Americas is a consumer electronics company that focuses on re-imaging how to use technology to reconnect the modern digital family. We are headquartered in Frisco, Texas. We have satellite offices in Bellevue, Washington, and Kansas City, Missouri, and we support our partner operations there, and we employ a total of about 35 people.

Our mission is to become the leading provider of family centric connected technology and design products and services that enable better family experiences with safety and security at the heart of everything we do.

Coolpad recently pivoted its business model in the U.S. to drive R&D in the family technology space most recently with the introduction of the Coolpad FamilyLabs application and platform as a service.

FamilyLabs is a family-focused service platform designed to help connect, manage, and monitor devices across all family members and can be thought of really as an operating system for the modern digital family.

The reason for the shift is because we're seeing an increasing number of family members, including children and elderly, using technology. Respectively, there's a growing concern from parents to keep their family safe from inappropriate content, cyber bullying, cyber predators, and most seriously screen addiction.

As mentioned, our new FamilyLabs application is the first all-inclusive family management application that lets users communicate, locate, and provide remote support to multiple family members. Parents can locate and track multiple family members including kids, parents, and pets.

They're able to manage a safer online experience though content filtering and screen time limits, as well as provide remote support which is a critical feature that allows parents to set reminders for scheduled activities and provide important medication reminders for the elderly.

The hardware we import is simply the mechanism to allow us to deliver this integrated family-focused software experience. This value proposition and innovation towards family technology is being threatened by the proposed tariffs, which will affect our company's U.S. based operations and risk further development in this area for us.

The primary development of this technology is being done in the United States with only the physical hardware manufacturing done overseas in China. FamilyLabs is a full end-to-end U.S. developed technology, including our ability to ensure that end-user data remains in the United States.

Our organization already takes safety and security very seriously meeting and exceeding the highest standards of U.S. compliance as evidenced by our added safety and security measures which have already achieved compliance in many of our products including our Dyno Smartwatch for children.

We probatively partnered with global security experts to rigorously test our technology prior to public release. Currently, the hardware on to which our software is loaded is produced in China. The technology for manufacturing our tablets, wearables, and other small devices has evolved in China and is not readily available in other countries based on our current business scale.

Placing up to a 25 percent tariff on our products will cause significant harm to our small but growing company just as we are beginning to gain a foothold in the U.S. market. We do not presume to offer you a suitable proposed tariff on our products as any tariff will harm our business.

Further, the imposition of tariffs on our items will not influence nor change China's practices, policies, or acts with respect to intellectual property and trade secrets. We are the innovators and we keep this innovation and intellectual property protected here in the United States.

Our devices can enter the United States as lifeless boxes. Our software developed in the United States could then give these lifeless boxes a heartbeat. I believe our products being made in China will not contribute to China achieving its goals for 2025 because the technology loaded on these boxes is being developed and protected in the United States.

We're asking your support in removing the HTS tariffs we submitted from the final list of products subject to additional tariffs from China. Thank you very much for your time. Look forward to your questions.

MR. BURCH: Thank you, Mr. Cistulli. Our last panel witness for the day will be Mike Jacobsen with Ridge Tool Company. Mr. Jacobsen, you have five minutes.

MR. JACOBSEN: Thank you. Good afternoon. My name is Mike Jacobsen, Counsel to Ridge Tool Company. Thank you for the opportunity to appear before you today. Ridge Tool is an American manufacturer founded in 1923 and based in Elyria, Ohio. In 1923, Ridge Tool invented the modern pipe wrench.

We continue to develop, manufacture, and market tools and equipment for professional tradesmen, including equipment used in plants, construction sites, oil fields, and other harsh environments.

We currently make over 300 tools under our trademark the Rigid brand in over 4,000 models and sizes. Our Elyria facility includes 17 acres of R&D, marketing, sales, and manufacturing. We employ over 1,000 hardworking Americans with a significant presence in Ohio, Pennsylvania, and Virginia.

I'm here today to request that professional tools entering the United States under HTSUS 8467.8910 and 8467.290090 remain on List 4. As I will explain, continued inclusion of these professional tools would fulfill the stated goals of the Section 301 by benefitting American tool makers and U.S. manufacturing while not harming American consumers.

Ridge Tool makes professional tools in Elyria that would be classified under these tariff codes, including professional plumbing and electrical tools for joining pipe and electrical cables.

To manufacture these tools systems we harden and precision grind raw jaw forgings and machine these raw inputs to exact tolerances in the United States to create a finished product. We then include the tool together with jaw sets to accommodate specific size tubes and cable connections in a kit to sell to professional contractors.

Ridge Tool has spent significant funds on R&D to make these tools, including investing in technology at the machining stage. We also regularly invest significant funds in workforce training and onboarding of new hires to support these product lines.

I would also like to note that the committee previously considered putting tools under HTSUS 8467.8910 on the list of products subject to Section 301 tariffs.

Unfortunately, the products were removed before the final list was -- the list was finalized and we think that the decision to do so was based on a misperception that these tools are for the DIYers or weekend warriors. They are not. And that is clearly shown by the pictures we have provided in our written submission. I attached those pictures to my testimony.

Based on our long experience as a tool manufacturer and designer, these tools are used by professional tradesmen for mainly large commercial and nonresidential construction projects. Very few of these items are likely to be sold in big box retailers, but instead are likely sold to professionals through industrial distribution channels.

This is an important fact for how any tariff might -- impact might be felt. First, if Section 301 tariffs are imposed the primary impact will likely be to cause U.S. purchasers to buy more tools made in the United States. U.S. consumers may also import more tools from third countries including Germany, Switzerland, France, and Italy.

Second, any increase in cost will be

passed on primarily to industrial customers not everyday Americans doing DIY projects at home causing a very small impact, if any, on the average final consumer. This is exactly the kind of minimal and defused impact that fits the goals of the Section 301 investigation.

Lastly, I would like to note to the committee that we have had to spend considerable resources in addressing IP issues in China, particularly those surrounding our Rigid brand trademark. Samples of infringing trademarks can be found as attachments to my testimony. These are the types of IP issues that form the genesis of the Section 301 investigation.

For these reasons, USTR should continue to include HTSUS 8467.8910 and HTSUS 8467.290090 to the list of tariff lines subject to duties under the Section 301. Thank you.

MR. BURCH: Thank you, Mr. Jacobsen. And, Mr. Chairman, this concludes all witnesses testimonies.

MR. STEPHENS: My question is for

Marty Thomas. And just a personal note, I renovated my bathroom years ago and I became familiar with a lot of plumbing products. I took the bathroom down to the studs, did the plumbing, the wiring and the drywall, so --

MR. THOMAS: All Moen?

MR. STEPHENS: Some. But you mentioned that you looked at qualified suppliers in eight countries. Could you describe some of the shortcomings? And you did, in your testimony, talk about the skills. Are there also environmental issues with the plating? What is it specifically that's the largest challenges?

MR. THOMAS: Absolutely. There's about three different things we can talk about quickly. Number one is the capital outline. So, what we're talking about, so just so everybody knows, these are the -- the parts of the plumbing that you see are the zinc diecast parts that are plated to all the various different finishes that consumers have taste for, everywhere from chrome to bushed nickel to matte black to gold.

So, this is what we're talking about that we're having difficulty finding anywhere else out there. The complicated product that you would think is what we can't find, we can find these in many other countries. We've moved these to many countries around the world. This is the valve body that actually turns your shower on and off.

So, this is a cast part with a lot of machining, welding, plastic molded parts, assembly, and everything else. This is the 20 percent we've been able to move and the 10 percent we will move.

This, the difficulty is it is a diecast product which is a high pressure molten metal casting process which is extremely capital intensive. Hundreds of millions of dollars to startup a plant would be required. So, that's the first hurdle.

With all the supply already being in China, there's no impetus for one of them to go out and make that capital investment. And, sure, this left American and it left Western Europe 20 to 30 years ago for labor, and as we all know, also for environmental issues.

So, getting into any other country you're going to have a long pot just to get the capital that you're going to need to do that, but then you're going to have a long list of environmental and permit issues.

Lastly, please, when you diecast it is a very rough product that comes out of that mold and you have a thousand-some employees standing there in front of polishing wheels all day long, that's what they do, to turn it from a rough cast into the most beautiful finish you can image.

And finding that labor, as you're hearing from a lot of people right now, these other countries are taped out on labor right now. So, I hope I answered your question.

MR. STEPHENS: Thank you. And how many jobs at your American facilities are at risk because of the tariffs?

MR. THOMAS: So, there would be 1,500

jobs in North Carolina. That's in New Bern and Sanford where we actually manufacture this and assemble this, it's 1,500 jobs, sir.

MR. STEPHENS: Thank you.

MR. THOMAS: You're welcome.

MR. TSAO: Mr. Thomas, a follow-up. How many -- how large is the U.S. market for your Chinese suppliers?

MR. THOMAS: Oh boy, I don't know the answer to that, but I'll try to find an answer for you. You're asking, so out of everything that China does for zinc diecasting, what percent comes to America. Is that your question?

MR. TSAO: That's correct. How large is the U.S. market share for your suppliers for those products?

MR. THOMAS: I don't know the answer to that question, but I'll try to get you an answer. I apologize.

MR. TSAO: Thank you.

MS. HUANG: Thank you for your testimonies. My question is for James Daily of

SimpliSafe. In your written comments you say you have never sourced security systems from other countries and that it would take several years to replicate your supply in China. Do you say this based on your experience with China or from investigating other potential suppliers in other countries?

MR. DAILY: Thank you for the question. So, we came to that conclusion both from our experience in China and from our attempts to source in other countries. Since the List 3 tariffs came out and added almost, I would say, more than 50 percent of our products, probably closer to 75 percent of our products, to that list we've been trying to source in different countries and we have been to date unsuccessful.

You know, again, the idea that the box in which the, you know, the manufacturer is located that's the easy part, it's the expertise, it's the supply chain, it's the complicated material that goes there. So, that's why we have been to date unsuccessful in locating this into a different country.

MS. HUANG: Are you aware if your competitors source parts of their supply chain outside of China?

MR. DAILY: I am not specifically aware if -- but I would presume that there are competitors. We are competing in a broad industry. I would assume there are competitors that do it elsewhere.

MS. HUANG: I have one more question. In your testimony you also said that due to limited sourcing options finding cheaper alternatives outside the country may be your best option. Can you elaborate more on where those cheaper alternatives are if you haven't done any research on that?

MR. DAILY: So, in terms of cheaper alternatives, we have -- I don't mean to say we have not done any research on that. We are seeking cheaper alternatives, and those are -- where we are looking is primarily in Asia.

And this is about jobs being in danger in the U.S., we've had to hire additional -- we're not a big company. We've had to hire additional people to work on this question, and so this is diverting resources from R&D that are -- that we would -- you know, could otherwise be investing with our engineering and product teams.

MS. HUANG: May I ask, then, is it the jobs in the U.S. that you would be outsourcing the -- to find a cheap alternative you'd be taking those jobs in the U.S. and potentially moving them elsewhere?

MR. DAILY: That's a possibility, correct, engineering jobs and product design jobs, yes.

MS. HUANG: Thank you.

MR. DAILY: Thank you.

MS. ZHAO: This question is for Mr. Updyke. Have NEMA members faced IP issues in China such as those addressed by this investigation, this 301 investigation?

MR. UPDYKE: Well, we represent quite

a few companies. And, as I stated in my testimony, we do sympathize and associate ourselves with the concerns that the Administration has about intellectual property protection and technology transfer in China.

MS. ZHAO: And do your members think that the cost of relocating and training a new labor force would outweigh the long-term benefits of changing China's technology transfer practices?

MR. UPDYKE: I'm sorry, could you repeat the question?

MS. ZHAO: Do you think that your members think that the cost of relocation and training a new labor force would outweigh the long-term benefits of changing in China's technology transfer practices?

MR. UPDYKE: Well, I think that's quite a large question and we represent over 300 companies, so maybe I'll take that question back and try to address that in our post-hearing submission.

MR. ZHAO: Thank you.

MS. SMITH: Good afternoon. My question is for Coolpad Americas, Mr. Cistulli. You stated that the mass production of tablets, wearables, and other small devices is not readily available in any other country. Have you explored whether other countries can produce your products?

MR. CISTULLI: Thank you. Yes, we have. The issue is not about potentially viable countries for further production. The issue comes down to scale for our particular company and where we are today.

And so, without scale we have almost no leverage here in the United States to negotiate with our current customer base, and without scale we have limited to no negotiation power in those viable countries. So, we have investigated India. We have investigated Vietnam as alternatives. But again, without scale we have very little leverage.

MS. SMITH: Thank you. One more question. What are the barriers other countries need to overcome to be able to produce the heart where you need and then the scale?

MR. CISTULLI: So, I think there are two questions there. One -- let me generalize on the first one. When it comes to creating U.S. carrier grade products for the mobile industry, certain standards need to be met.

I think the industry has been successful in bringing up countries such as South Korea. They've been successful in bringing up Vietnam. And again, barriers to entry in bringing up those countries include water, education, facilities, et cetera, it's taken many years. India is not too far behind.

But for the factories who have ramped up quickly enough to support those larger OEMs, they're at maximum capacity in terms of setting up lines and then running product through those lines. In addition to that, with what's been happening, even being able to negotiate airline as well as ship capacity also needs to change.

It was mentioned earlier in other

testimony, it takes us, you know, 6, 12 months to plan that capacity in just shipping alone. So, there are viable alternatives but you have to have some version of scale.

Where we are today, China offers the options where you can have shorter and smaller runs for things like tablets and wearables and some of the products that we have.

MS. SMITH: Thank you. Thank you very much.

MR. CISTULLI: Thank you.

MR. MAIER: Okay. I'm Peter Maier from Treasury. I've got a question for Mr. Berry from the Ridge Tool. What is the market share in the United States of tools that are imported from China or just materials sourced from China?

MR. JACOBSEN: Hi. Mike Jacobsen filing in --

MR. MAIER: Sorry.

MR. JACOBSEN: -- for Mr. Berry. No problem. I can try to find that information out for you. I don't have it offhand, but I can look it up and try to provide it in our post-hearing submission.

MR. MAIER: I've got a second question. If it's for post-hearing submission that's fine as well. Do you think levying a tariff on tools may encourage Chinese suppliers to ask their government to address the unfair Chinese trade practices found in this investigation?

MR. JACOBSEN: I can also answer that in post-hearing.

MR. MAIER: Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks and we will recess until Monday at 9:00, 9:30.

MR. TSAO: Yeah, just administrative note, we will be in a different -- for the record, we'll be in a different facility room.

MR. BURCH: Courtroom B.

MR. TSAO: Right, Courtroom B for Monday at 0930. We're in recess.

(Whereupon, the above-entitled matter went off the record at 5:26 p.m.)

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This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-21-19

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