UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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MONDAY
JUNE 24, 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

PHILIP BUTLER, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
SHARON BROWN-HRUSKA, Department of State
CAITLYN CACKOSKI, Department of Agriculture
WON CHANG, Department of the Treasury
ERIC FRATER, Department of State
MATTHEW FRATERMAN, Department of Labor
TRACY GERSTLE, Department of Commerce
KEVIN GILMARTIN, Department of the Treasury
JANET HEINZEN, U.S. Trade Representative
JESSICA HUANG, Department of Commerce
KYLE JOHNSON, Department of Commerce
ADAM KLEIN, Department of Agriculture
ELISA LOESER, Department of Agriculture
LINDA MARTINICH, Department of Commerce
ENRIQUE MASON, JR., Department of Agriculture
KEITH SCHNELLER, U.S. Trade Representative
PETER SECOR, Department of State

ANDREW STEPHENS, Department of Agriculture
IAN WALLACE, Department of Commerce
TIM WINELAND, U.S. Trade Representative

ALSO PRESENT

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

WITNESSES PRESENT

FARAH AHMED, Fragrance Creators Association
DAVID AQUINO, SharkNinja Operating LLC
SAGE CHANDLER, Consumer Technology Association
SONJA CHAPMAN, Topsville, LLC
WESLEY CLINE, Zurn Industries
NICOLE BIVENS COLLINSON, Everlane, Inc.
WIN CRAMER, JLab Audio
JOHN FRASCOTTI, Hasbro, Inc.
NEIL GILSTRAP, Happy Gorilla Game Studio
KATHERINE GOLD, Goldbug
BRIAN HANNIGAN, National Association of Foreign-Trade Zones
BRENDAN HOFFMAN, Vince Holding Corp.
LIZ HUFF, Anatomical Worldwide
JULIA HUGHES, U.S. Fashion Industry Association
BRANDON INGERSOLL, LiceGuard, LLC
STAN JEWELL, Renfro Corporation
ERIC JACOBSON, American Lighting Association
KENDRA JONES, Epson America
REILLY KIMMERLING, Kidde
CRISTEN KOGL, Zebra Technologies Corporation
RICHARD KRAUSE, Capital Brands Distribution, LLC
MATTHEW LeBRETTON, Rubber and Plastic Footwear Manufacturers Association
GRIF LESHER, ZeniMax Media Inc
DONALD LEVY, The Levy Group
JOSEPH LUCAS, CJ BIO America
MARK MAROON, Maroon Group LLC
MIKE MASSEY, Ragan and Massey Inc.
REBECCA MOND, The Toy Association
JENNIFER NEWTON, Plush Apparel LLC

CHRIS NOVAK, CropLife America
JAMES OSGOOD, Klean Kanteen, Inc.
ROBERT RANUCCI, Christie Digital Systems USA
CHRISTINE ROBINS, Char-Broil LLC
CYNTHIA ROWLEY, Cynthia Rowley
JOSEPH SHAMIE, Delta Enterprise Corporation
BRIAN SMITH, LBC Bakery Equipment

PETER SMITH, Carter's Inc.

CHARLIE SOUHRADA, North American Association of Food Equipment Manufacturers

KELLY SPEAKES-BACKMAN, Energy Storage Association

JESSE SPECTOR, Software and Information Industry Association

ROBERT STACK, Robert Stack Customs Law

KATIE TANGMAN, Columbia Sportswear Company

DAVID TANNER, Boardriders

CHOON TEO, Zhejiang Medicine Co. Ltd.

JASON TRICE, Jasco Products Company LLC

ROBERT M. WORTMAN, Forever 21

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

(9:30 a.m.)

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

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

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

The Section 301 Committee will

carefully consider the testimony and the written comments, including post-hearing rebuttal comments, and will then make a recommendation to the 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 6 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 this 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 run out.

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 video, or audio recording will be allowed during the hearing. Written transcripts of this hearing will be posted on the USTR Web site and on the Federal Register notice.

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 themselves starting with myself.

My name's Arthur Tsao. I'm an Associate General Counsel at USTR.

MR. FRATERMAN: Matthew Fraterman, Department of Labor.

MS. GERSTLE: Tracy Gerstle, Department of Commerce.

MR. BROWN-HRUSKA: Sharon Brown-Hruska, Chief Economist at Department of State.

MR. GILMARTIN: Kevin Gilmartin, with the Treasury Department.

MR. SCHNELLER: Keith Schneller, USTR.

MR. STEPHENS: Andrew Stephens, USDA.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Choon Teo with Zhejiang Medicine Company, Ltd. Mr. Teo, you have five minutes.

MR. TEO: Thank you. Good morning, Members of the Section 301 Committee. My name is Choon Teo. I'm the Chief Scientific Officer of the Zhejiang Medicine Company.

Thank you for this opportunity to discuss why the committee should not impose tariffs on products we provide to U.S. companies.

These products are critical to the U.S. manufacturing of vitamins, pharmaceuticals, and other products. Imposing tariffs on these products will injure U.S. economy and cost the loss of American jobs.

The tariff will disrupt the supply chain, thereby, reducing growth and employment in the United States.

ZMC is a global leader in the

production of fat-soluble vitamin and dietary supplement. We specialize in large-scale production of vitamins, quinolone, and anti-drug-resistant antibiotics and other products.

We have a trusted supplier of a number of well-known American companies, including Pfizer and Proctor & Gamble. These companies support hundreds of thousands of jobs in the United States. These great American companies have selected us to provide the most high-quality inputs, allowing them to better serve their U.S. customer and compete globally.

Of note, we are an independent and publicly-listed company, uncontrolled by the Chinese Government, and we are not part of programs like Made in China 2025.

` The tariff that we oppose and that are discussed in our written submission, can be roughly divided into three categories, one, product that goes into vitamins and other supplements, such as vitamin E and beta carotene, two, essential oil that goes into aromatics, such as cosmetics, and three, mint essential oil that goes into a wide-variety of U.S.-made vitamins, cosmetics, and prepared foods.

Many of these products make Americans healthier. Vitamin E is an antioxidant that prevents heart disease, promote immune function, and even lower the risk of cancer.

Similarly, taking beta carotene is associated with many health benefits. It can decrease symptoms of asthma, prevent certain cancer, and is used to treat disease such as HIV/AIDS and Alzheimer's.

There's no reason that the Committee should make these products more expensive. Raising the prices of these inputs will be counterproductive to the present effort to control healthcare costs.

Members of the Committee, it is important that we be intellectually honest with each other. The products of which I speak are made in China because the United States made a choice, as a society, not to produce them domestically.

The last plant in the United States closed decades ago because of the environmental and health regulations made it virtually impossible to manufacture these products.

In addition, the closure of these plants allow American companies to streamline the supply chain to better serve the American consumer and compete globally.

The production of these products did not move to China because of Made in China 2025 or I.P. theft, and placing tariffs on these products will not bring any jobs back to America.

China has invested heavily in facilities and infrastructure to enable the manufacturing of these products. Coupling this with the focused training of human capital, China has created a mature environment to manufacture these products.

Many world-leading producers of fat-soluble vitamin has located their facilities to China. These producers include BASF of Germany, which invested over $10 billion in Guangzhou, China. DSM, the largest vitamins and food-additive company out of the Netherlands, has also invested heavily in China in recent years.

The main driver were the mature ecosystems, including available human resources, mechanical hardware, and process knowhow.

More importantly, China has improved the art of environmental and industrial risk management to encourage the production of these products. It would take years for any company to ramp-up production in the United States.

Engineers would need to be trained on delicate, complicated, and sometimes dangerous manufacturing processes, and the lack of consistent supply chain for material would heighten the risk for accident.

I know the mandate of this Committee is not easy. It has to review thousands of tariffs and determine how the tariff will affect our lives, the lives of Americans. I also know that the United States Government is extremely interested in creating jobs.

Implementing the proposed tariffs on these products will have the exact opposite effect. And I thank you for your time. Happy to answer any questions.

MR. BISHOP: Thank you, Mr. Teo. Our next witness is Mike Massey with Ragan and Massey, Incorporated. Mr. Massey, you have five minutes.

MR. MASSEY: Good morning. I'm testifying today asking for HTS 2931.90.90.51 to be removed from the list of potential tariffed items. The current tariff on that particular HTS is 3.7 percent, and with the proposed 25 percent, the total tariffs would be 28.7 percent.

Specifically, in our situation, these comments pertain to 95 percent dry and glyphosate technical acid, and we use that acid as an intermediate in our manufacturing process to make isopropylamine salted glyphosate acid.

According to the Trade Census in 2017, the aggregate imports of this HTS were only $143 million. There are no other sources of this commodity directly from manufacturers in any other country, including the United States.

Glyphosate acid is used to produce the most widely applied herbicides in the United States, and that's the various salts of soluble glyphosate acid and represent a significant cost in the production of key agricultural products.

In the U.S., because of environmental regulations and other regulatory barriers, and now more so capital barriers to entry, there is only one source of the product, and that particular company does not sell dry glyphosate acid to anybody else in the United States, and doesn't produce it.

The implementation of these tariffs will not be an effective tool or a practical tool to obtain the elimination of China's acts, policies, and practices, as defined in the 301 investigation, and they will cause disproportionate harm to farmers and land maintenance entities across the United States.

Our business meets the size criteria established by the SBA to be classified as a small business, and these tariffs represent a significant threat to our business and to the employment we have in Louisiana. Thank you very much.

MR. BISHOP: Thank you, Mr. Massey. Our next witness is Mark Maroon with Maroon Group, LLC. Mr. Maroon, you have five minutes.

MR. MAROON: Members of the Committee, thank you for allowing me to testify before you today. My name is Mark Maroon, Chief Technology Officer of Maroon Group.

This is now my fourth appearance in front of you. Products my company requires for our operations have been at issue in all previous retaliatory tariffs implemented by the U.S. Trade Representative.

I hope that my appearance at all of your hearings highlights the seriousness of this issue for Maroon Group. We are paying these tariffs and simply put, we need your help.

As we are all aware, the tariffs on the third list of imported products for China increased an additional 25 percent on June 15th. This list includes 47 HTS codes which covers 76 of our specialty chemical products, and even at the additional 10 percent duty rate, has impacted our company and our ability to provide to our U.S. manufacturing customers.

The Section 301 tariffs impacted tens of millions of dollars of our sales last year. We, not China, pay the duties on these products to U.S. Customs.

I am here today because your proposed fourth list of potential HTS codes includes another four subheadings covering 33 of our products, which we must import from China regardless of tariff.

China may be able to withstand this so-called trade war for an extended period of time, but we cannot.

Additional tariffs on the four HTS subheadings will have the potential to remove much needed raw material streams from our domestic landscape and remove needed competition from the U.S. market, eventually driving up the cost even more to these products for our customers and the eventual consumer.

We will provide more detail in our written submission on this topic. In my remaining time, I want to tell you why these additional List 4 tariffs are affecting our company.

My earlier use of the phrase must import from China was intentional. In most cases, these chemicals are not produced in the United States. As I have previously testified, our company engages in the sourcing and supply of complex and high-formulated chemicals.

These are not commercial off-the-shelf chemicals available from abundant sources. We must import from China.

As an example, let me highlight one of the HTS subheadings that the proposed list contains, 2933.69.60. China is the only viable source for this chemical which impacts many of our chemical products and ingredients.

In 2018, over 47 million kilograms were imported into the U.S. from China. The next closest countries were Germany and Japan, and their combined total was 5.4 million kilograms.

If we remove China as our source, where else can we go? There is no U.S. manufacturer of the chemicals we require under this HTS subheading. Why? Because the production involves a chemical process that U.S. companies have not taken on for many years, but not limited to state and federal environmental regulations.

Can we go to third-country suppliers? No. First, the import data confirms that other countries do not produce sufficient quantity to import into the U.S. to even begin to support demand.

Second, Maroon Group has been in business for over 40 years, and we know the global landscape, and competition, and there is nothing we can do to change the supply chain. We rely on China, not because of costs, but because of quality and availability.

Even if we could, it would take Maroon Group and our customers literally years to identify, test, and qualify new sources before they could be brought into the U.S. market, and even more years to ramp-up production to meet U.S. demand.

All the while, the imposition of these tariffs would result in reduced supplies in the U.S. market and increased prices for our customers and ultimate U.S. consumer.

Further, these tariffs are just shifting production and purchasing from China to Europe and Japan companies, and not U.S. companies. These foreign companies are ultimately our competitors, so they just -- most certainly will not sell to us, and also love the fact that we have to pay more duty.

We're a U.S. company that employs hundreds of workers and we are getting caught in the crosshairs of this trade war. Small and mid-sized U.S. companies, such as Maroon Group, and our U.S. customers, have become the pawns in this much larger trade dispute.

So in closing, I ask that you please carefully consider my testimony and the more detailed written submission, and respectfully request that you exclude the HTS subheadings we identify in our submission from your final list. Thank you.

MR. BURCH: Thank you, Mr. Maroon. Our next panel witness will be Joseph Lucas with CJ BIO America. Mr. Lucas, you have five minutes.

MR. LUCAS: Thank you for the opportunity to provide testimony here today. My name is Joe Lucas, and I'm responsible for the CJ BIO Animal Nutrition Business in North America.

I'm also serving as a current board member of the American Feed Ingredients Association. First, I will provide some background on CJ BIO and CJ Group. CJ BIO employs approximately 200 people in our Fort

Dodge, Iowa facility where we produce feed-grade amino acids for use in animal diets.

Our fermentation process creates a market for approximately 10.8 million bushels of corn annually from U.S. farmers. We are a pioneer in advance fermentation technology that creates high-quality products and is also environmentally sound.

CJ BIO is a member of CJ America, a subsidiary of CJ Group. CJ Group employs more 12,000 people in 47 states. Our businesses here include packaged foods, transportation and logistics, and of course, CJ BIO.

We have made substantial investments in the United States, and we are proud to employ the thousands of CJ members here in the USA.

I'm here today to request that Chinese exports of feed-grade amino acid additives lysine, threonine, and tryptophan be added to the proposed modification of action to prevent long-term irrevocable harm to a domestic U.S. amino acid producers.

I'd like to take a moment to discuss the importance of amino acids in animal agriculture. They are the building blocks of all proteins, both plant and animal. They are used by nutritionists to balance the diet of the animal while lowering excess dietary protein.

Replacing a portion of dietary protein with amino acids has many benefits, including the reduction of nitrogen excretion into the environment. The use of supplemental lysine, threonine, and tryptophan has allowed U.S. pork producers to routinely decrease nitrogen excretion rates by 30 percent, while also lowering their costs. Poultry producers experience similar benefits.

CJ has made significant investment in U.S. amino acid production. Since 2013, we have invested over $400 million in Fort Dodge, Iowa. We would prefer to continue investing in the U.S. market, provided the competitive environment remains free and fair among producers.

We recently began production of feed-grade threonine in this same facility, an incremental investment of $50 million. U.S. production of other important amino acids is part of our long-term plan for this market.

Again, assuming free and fair competition among producers. The U.S. market is highly competitive, with numerous domestic producers besides CJ BIO.

Customers have significant choice and abundant supply. However we believe subsidized Chinese producers, with zero investment in U.S. production, are clearly dumping product into the market at significantly below market prices.

In the case of lysine and threonine, there is more than enough domestic production capacity to supply the U.S. market and substantial exports to other countries.

Part of the reason for Chinese producers dumping into the U.S. market is the impact of African swine fever in China. Demand in China has gone down due to the reduction of the Chinese swine herd by over 30 percent.

Thus, Chinese producers have chosen to increase their exports to the U.S. rather than produce them here, causing damage to an important U.S. industry.

In just the first four months of 2019, Chinese exports of lysine to the U.S. were 2.4 times the volume for all of calendar year 2018 and over six times the level of 2017. We should also consider the risk of African swine fever spreading into the U.S. with such a dramatic increase in feed-grade amino acid imports.

CJ requests that the USTR consider the importance of maintaining a healthy, competitive, and growing production base for feed-grade amino acids in the United States. The current dumping activity on the part of subsidized Chinese producers is the result of a unique set of circumstances, primarily African swine fever, which will do long-term harm to the U.S. industry.

One final point I believe should be considered by USTR, several other important feed additives can only be sourced from China today. It would be truly unfortunate if we allowed a similar trend to start for these important feed-grade amino acid products.

Over time, we could lose our U.S. manufacturing base. This has already happened for several other feed additives. CJ desires to grow, invest, and employ more people in our U.S. business.

We respectfully request the feed-grade amino acids lysine, threonine, and tryptophan be added to the proposed modification of action. Thank you again for the opportunity to be here today, and I look forward to any questions from the panel.

MR. BURCH: Thank you, Mr. Lucas. Our next panel witness will be Farah Ahmed with Fragrance Creators Association. Ms. Ahmed, you have five minutes. Can you please turn on your microphone?

MS. AHMED: Let me start over. Sorry about that. Thank you. Good morning, Chairman

Tsao and distinguished Committee Members. Thank you for the opportunity to appear.

My name is Farah Ahmed, and I'm the President and CEO of the Fragrance Creators Association. We are the principle trade association representing the fragrance industry and our membership includes more than 69 members companies, which generate billions in annual revenue.

Approximately 75 percent of our members are small U.S.-based businesses. Our industry employs millions of Americans in producing, developing, and distributing American-made scented products throughout the country and for export.

Fragrance Creators supports the administration's goals of promoting American manufacturing and the growth of an exceptionally strong U.S. economy, and given that at the heart of fragrance creation is intellectual property, we face the costs of Chinese intellectual property theft and unfair trade practices.

This is why we have spent time meeting with the USTR and the administration over the last year, listening and learning, to better appreciate the goals vis-a-vis China.

And it's because of that understanding, I am not here today to discuss all List 4 tariff lines that impact the U.S. fragrance industry. I'm here to focus on these -- on those tariff lines that, if enacted, will undermine both my membership and the administration's mutual goals.

Specifically, I'm talking about job losses, not profit losses. The viability of our manufacturing and associated jobs will be threatened by tariffs on three categories of products: essential oils, concentrates of essential oils, and retinoids of fruits and plants classified in Heading 3301 of the HTS.

Odiferous and aromatic compounds under Chapter 29 and certain other organic and inorganic chemical compounds and hydrocarbons under Chapters 15, 21, 28, and 33.

Let me elaborate on why that's so. First, our industry is being impacted on several fronts. We rely on heavily on several key inputs manufactured in locations that cannot be changed, and our costs on each are increasing.

Just last month, I testified in opposition to aspects of the Airbus case, cautioning the administration about the devastating impact that retaliatory tariffs on essential oils, from arguably our most important source, would have on our industry.

Earlier, we submitted comments in opposition to the imposition of 25 percent tariffs on key Chinese inputs as part of List 3. Our members were grateful that those effects resulted in the removal -- or those efforts resulted in the removal of several tariff lines form that list.

However, not only did most of those inputs remain on List 3, but a number of those lines were removed -- that were removed were added back to the proposed List 4.

Second, we do not have alternative sources. These are not commoditized products. Our members spend millions developing fragrances that depend on essential oils sourced from particular locations.

While they may be imported in the same category, an essential oil of jasmine, for example, smells different depending on whether it's sourced from Florida, France, or Southern China.

Each geography is critical for particular scents and particular products. Unique and unreplicatable factors, like microclimate, are what produce such diversity of scent.

Third, our members cannot absorb these costs. For example, one of my members is a small veteran-owned business that recently invested in a new manufacturing facility in rural Georgia, designed it, built it from the ground up, and increased employee count.

In my discussions with them, they're

unclear whether they will be able to maintain those jobs if their input costs, including those -- including the oils from which they rely from China increase by 25 percent.

The same holds true for many of my U.S. manufacturing members with low-margin sales. Unavoidable increases in input costs simply raise costs and reduce margins, sometimes to the point of unprofitability.

Finally, these effects will be felt throughout the economy. This is not just an issue effecting those of us who appreciate fine fragrance or fancy cologne, fragrance is a defining element of many of the products that you and I, and every0one here today, use every day, including home cleaning products, window cleaners, laundry detergent, personal care products, like shampoo, deodorant, moisturizer, that new car smell, feminine hygiene products, candles and air fresheners, kitty litter and puppy pee pads, industrial uses including odor control for hog farms, scenting natural gas so it's detectable in the event of a leak, and even products used for training our military to simulate combat conditions use scent.

And lastly, I'll point out, scented business cards, as an example, and happy to share these with the Committee to distribute, so you can get a sense of what I'm talking about in terms of the impact of scent, so I'll leave these here. Thank you.

In other words, this affects all of us. Some of my members will be forced to cut or offshore jobs, others of them will be forced to spend millions to reformulate products in lieu of maintaining or expanding employee count, and all will be forced to increase prices on inputs to -- in products --

CHAIR TSAO: Ma'am, can you wrap it up, please?

MS. AHMED: Yes, sure. As a result, we respectfully request that the Committee's exclusion of these products from the proposed List 4. Thank you for the opportunity to address you today, and I appreciate your consideration of our comments. Happy to answer questions.

MR. BURCH: Thank you, Ms. Ahmed. Our last panel witness will be Chris Novak with Crop Life America. Mr. Novak, you have five minutes.

MR. NOVAK: Good morning, Mr. Chairman and Members of the Panel, and thank you for the opportunity to testify today.

My name's Chris Novak. I'm President and CEO of Crop Life America, and I'm here today on behalf of Crop Life America as well as RISE.

I would like to thank Ambassador Lighthizer as well as all of you for this opportunity to share our thoughts.

Our member companies produce, sell, and distribute virtually all of the crop protection products used by American farmers, ranchers, and landowners to ensure healthy crops and strong yields.

We appreciate the administration's desire to counteract practices that unfairly burden U.S. commerce and the administration's goal of further opening China's market to U.S. goods.

However, we believe that imposing tariffs on key pesticides used by farmers and consumers will disproportionately burden U.S. interests, while having little effect on China.

In our June 17th written comments, we identified 28 tariff provisions covering a range of ingredients used in many pesticides. We urge the USTR to remove these provisions from the scope of the proposed action.

The crop protection industry and the downstream users would face increased costs of several hundred million dollars per year if the tariffs go into effect at 25 percent.

In fact, after the administration imposed tariffs last September on certain agro chemicals, the producer price index for these products skyrocketed.

If further tariffs are imposed, the impact will be felt not only by our members, but by American farmers, nurseries, turf protection companies, and ultimately American consumers.

American farmers are already suffering in the wake of catastrophic weather events and reduced market opportunities. The proposed tariffs will only exacerbate these problems.

The tariff provisions listed in our comments cover some of the most widely used pesticidal chemicals in America. Many of these chemicals are either not made outside of China or are unavailable in sufficient quantities.

To put this in perspective, Chinese products accounted for more than 3/4 of the 2018 volume of U.S. imports affected under these provisions. Within individual product lines, the impact is even more dramatic.

For example, Chinese products accounted for almost 90 percent of 2018 imports under a provision for herbicides that are used widely on wheat, corn, and soybeans. Many of the chemicals covered by the proposal are not produced in the United States, and it is not easy to re-source these products.

All new sources for pesticide active ingredients used in the U.S. market are subject to a time-consuming and expensive EPA clearance process.

Given limited existing capacity outside of China, and the difficulties of bringing new sources online, it is inevitable that the additional tariffs will increase the prices of critical crop protection chemicals in the U.S.

Many of the tariff provisions identified in our comments were previously proposed for inclusion in the third round of Section 301 tariffs. Our members were very appreciative when USTR removed these chemicals from the final scope of that action.

We believe that this decision reflected the unique harms that would result from the tariffs on these products. We are, therefore, very concerned to see that the new proposal includes the same provisions, as well as additional provisions covering other key pesticides and ingredients.

We do appreciate the administration's willingness to undertake measures to discourage the continuation of trade practices that disadvantage American companies and products.

However, the proposed tariffs are unlikely to substantially advance this goal. Instead, these tariffs would have immediate negative effects on agro chemical production and distribution in the United States, and for American farmers and other pesticide users.

These negative effects include increased costs for crop protection products and reduced profitability for American farmers. The tariffs will also result in increased costs for American and global consumers.

Ultimately, the burden of these tariffs will fall disproportionately on American shoulders. Thank you again for your time. I would be happy to answer any questions.

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

MR. GILMARTIN: Thank you, everyone, for your testimonies this morning. Again, my name is Kevin Gilmartin. I'm with the Treasury Department. I have one question for Mr. Teo and one follow-up as well.

You stated in your testimony that you're requesting removal of three categories of goods: inputs into vitamins and dietary supplements, essential oils for cosmetics, and mint essential oil for a variety of uses.

You mentioned that these products are not produced in the United States, but didn't mention or discuss if they are available from other countries. What efforts have you made to source these products from other countries?

MR. TEO: Actually, I represent the Chinese producer of these products, so there are mostly three big competitors in supply of these products, BASF Germany, DSM of the Netherlands, and Zhejiang Medicine Company out of China.

As I've stated in my testimony, even

two of our biggest competitors are moving their operations to China because of the ecosystem the Chinese has created.

MR. GILMARTIN: Thank you. One quick follow-up. Could you estimate roughly the number of workers in China that are engaged in producing these products?

MR. TEO: Zhejiang Medicine employs about 7,000 employees. That is from R&D all the way to sales and marketing. We have about 1,100 people in R&D and about 2,000 in sales and marketing, so minus administrative, probably about half the company is engaged in manufacturing.

MR. GILMARTIN: Thank you.

CHAIR TSAO: Mr. Teo, I have a follow-up question. You say you represent a Chinese producer.

MR. TEO: Yes.

CHAIR TSAO: Are you aware of, not just necessarily your company, but your industry, what effort has your industry made in China to request the Chinese Government to address the concerns that the Section 301 Committee investigation has raised with respect to Chinese trade practices?

MR. TEO: Zhejiang Medicine hasn't been communicating with the Chinese Government directly. This is basically on a company effort to try to get our product off the list; the tariff list.

We think that regardless of what happens with the tariffs, if all these manufacturers has decided that China has the best ecosystem to manufacture these products, so the tariff would just end up hurting American and American companies' competitiveness globally.

MR. STEPHENS: This is Andrew Stephens at USDA. I have a question for Mr. Massey and I want to welcome him back to the Committee, because I remember his testimony from last year.

So in your testimony, you stated that there are no sources of this commodity directly from manufacturers in any other countries. How many manufacturers are there in other countries and what is their capacity?

MR. MASSEY: How many manufacturers work?

MR. STEPHENS: So maybe you can't buy it, but is it produced outside of China?

MR. MASSEY: Not this. There are some salt producers, but we make salt in the United States from the acid.

MR. STEPHENS: Okay. And is the availability from other countries, or the lack thereof, impacted by any requirements for EPA registration and approval of these foreign manufacturing facilities?

MR. MASSEY: Yes, the EPA has to approve the plants and I know of nobody today that has plans to build a new plant. So for example, in the other country, somebody set out to build a glyphosate acid plant, they would have to build the plant and then get approval by the EPA, and that's very, very time-consuming --

MR. STEPHENS: Okay. And you

mentioned that glyphosate is the most widely used herbicide in the United States, why is that?

MR. MASSEY: It is for cost standpoints and for, it's just a very good herbicide. It has very little environmental impersistency, it does a real good job on -- it's used mostly -- it is the primary herbicide used on soybeans, and my facility is mostly on soybeans, which is one of the largest commodities in the United States.

MR. STEPHENS: And because of its pervasive use, then it's been part of a lot of technological changes that have driven efficiency and increased yields in the United States.

MR. MASSEY: Absolutely.

MR. STEPHENS: And without that, then both the farmers could face higher costs and lower productivity or lower output.

MR. MASSEY: That's true and as an economy, we will too.

MR. STEPHENS: Thank you.

MS. GERSTLE: Mr. Massey, in your

comments, you also noted that capital is a key driver of the decision of companies not to produce here in the U.S. Can you elaborate?

MR. MASSEY: This is pure speculation, okay? There are less capital available for investments in glyphosate due to current litigation in the United States --- litigation risks in the United States.

This is also -- to continue this tariff on glyphosate moves us toward opportunities for monopolies by the other U.S. producer -- by the only U.S. producer.

MR. BROWN-HRUSKA: Did you note who that -- who the -- who's the other producer?

MR. MASSEY: Bayer, in the United States. The only producer of the dry acid.

MS. GERSTLE: So there's been a lot of innovation in herbicides for soybeans, what are some of the alternatives that farmers are using for soy?

MR. MASSEY: Well, one of the issues is that crop protection tools that are available for soybeans center around GMO technologies that, for example, soybeans that are glyphosate tolerant, you must use glyphosate to take advantage of that tolerance, right?

There is also another compound called glufosinate. Glufosinate is a herbicide, it's also produced in China, but it also has some production in India. And it is not -- it doesn't have all the characteristics of glyphosate, and there's another group of soybean seeds that are resistant to glufosinate, but they're not resistant to glyphosate.

By far, the largest market share of GMO plants, and not just soybeans, but in every crop, or the trait that they have is glyphosate tolerance.

MS. GERSTLE: So my name is Tracy Gerstle and I'm here representing Commerce today, and I have questions for Mr. Maroon. Mr. Maroon, in your comments, you basically stressed that for all of the substances listed in your testimony, that they can only be imported from China, but you do note that there are other sources, the EU, Japan, and others.

And so I was wondering, could you just elaborate a little bit more as to how some of these other countries who actually have, I would say perhaps more challenging regulatory regimes for the production of these chemicals, how have they managed to continue to production of substances that you're saying, because of EPA and other regulations, are no longer produced in the U.S.

MR. MAROON: Thank you for the question, first. It's really a different answer for different chemicals, right? Almost a unique answer for every one, and a lot of my commentary was a collective commentary based on the vast number of HTS codes in the products under the majority -- sorry, the largeness of that number of products under each HTS.

But having said that, the -- I'll reference, as an example, the one I referenced in my oral testimony, where there is production in a couple other countries.

Some of the other key factors in the ability to produce effectively would be, first, the upstream raw material availability, or intermediates, as we would call them, right, and the intermediates in the vast majority of the cases of the products, the chemicals, that I reference are not produced in the U.S.

The intermediates are typically China, a few other Asia countries, and historically Western Europe has been strong in this intermediate class. Why? Because the science behind these chemical additives themselves were originally created by German companies for the most part.

Most notable of which would be BASF, and its legacy of companies, in my case, a company by the name of Ciba-Geigy, okay, they're actually Swiss, that turned into German, if that makes any sense.

So upstream raw materials is of critical importance -- local availability of those raw materials.

MS. GERSTLE: And you're saying that those couldn't be imported to the U.S.? They're not available for import from EU and other countries or is this proprietary?

I mean, I know that there are some substances that are owned by certain companies, but I just, could you perhaps just elaborate --

MR. MAROON: The intermediates --

MS. GERSTLE: -- seeing that a lot of the upstream intermediates aren't available? I'm just wondering, can you elaborate?

MR. MAROON: It's a global landscape. You can get what you want wherever you want, right? So yes, you could import those to the United States, but then you will pay duty on the raw material, standard duty, coming into the United States, and transportation costs, right?

Which is typically, today, I don't know, 50 cents a kg on average, right? So why add those incremental costs on something that is already competitive in its nature, and you want to keep the cost down to the end user.

MS. GERSTLE: Thank you.

MR. MAROON: You're welcome.

MR. FRATERMAN: Matthew Fraterman, Department of Labor. I'd like to thank the panel for their testimony and my question is for Mr. Lucas. Mr. Lucas, in your testimony, you mentioned concern that Chinese dumping of certain additives could lead to China being the only source for these additives.

Once this happens, how difficult is it to recreate a source in another country, and just an estimate, how much time would you assume it would take as well?

MR. LUCAS: Thanks for the question. Regarding the first part, the ability of the industry to rebuild capacity could take years, potentially, you know, five to ten years.

I know that the construction of our Fort Dodge facility, for instance, was a multi-year project, and every time we go through an expansion, it's a substantial investment of not only construction costs, but time, to apply the incremental capacity.

So I think that the recovery could be as long as, you know, five or six years, if indeed we were completely replaced by imports from China.

MR. FRATERMAN: Great. Thank you very much.

MS. GERSTLE: Mr. Lucas, have you considered applying for an Anti-Dumping Countervailing Duties Application through the U.S. Department of Commerce for those substances? Are you familiar with that process?

MR. LUCAS: I am familiar with the process. Thanks for the question. We see the current opportunity or the current chance to impose something similar were unsuccessful in that attempt, we would consider countervailing duties as another option for our business in order to continue to thrive here, and produce for the United States, and employ people, and do all the things that CJ wants to do.

So I guess the short answer is, we will consider that if we're unsuccessful today.

MS. GERSTLE: Thank you.

MR. BROWN-HRUSKA: Sharon Brown-Hruska. I'm with the State Department. Ms. Ahmed, I wanted to ask you: how many Americans are employed in the manufacture of scented products?

MS. AHMED: Thanks for your question, I'm hoping we can give a more succinct number in our post-hearing comments, but several thousand.

MR. BROWN-HRUSKA: Okay. Are there other sources for these ingredients outside of China?

MS. AHMED: For many of them, no, they're not. If you think of it similar to wine in that, particularly, the essential oils, it's the microclimate, the soil, that there actually have been efforts to try to find other sources, and it just hasn't been successful, so I guess the short answer is no.

CHAIR TSAO: And a quick follow-up.

I mean, I understand that, like, wine, right, the scents are unique to its terroir, right, the region, microclimate, but are there substitutability between, even though the scents are not exactly correct, but from a business economic perspective, are there any substitutable scents that you can source from outside of China?

MS. AHMED: My understanding is that there's not. And it's a great question, which signals to me that we should flesh this out more in post-hearing comments in terms of the economic aspect and why. Thanks.

MS. GERSTLE: I know it varies widely by product, but can you give us a sense of, for different products, what percent of the overall formulation is actually the fragrance?

MS. AHMED: Yes, no, you're absolutely right. It can range from 100 percent for some of the full essential oil products that are sold as the essential oils, and it could go all the way down to just a few percentage points in mass-produced, you know, cleaning products.

So it's really difficult to say and this information, particularly in the blended fragrances, are trade secrets, so it's difficult to ascertain, but we can certainly give you a sense in our post-hearing comments.

MR. SCHNELLER: I'm Keith Schneller from USTR, and I have three different questions for Mr. Novak from Crop Life America. You mentioned that new factories and sources for active pesticide ingredients are subject to time-consuming and expensive EPA clearances.

Can you give us an estimate of about how long that process takes from EPA to approve a new chemical?

MR. NOVAK: Thank you, Mr. Schneller, within our written comments we include an estimate that it could take three to five years to re-source a new chemistry.

Today, we know that EPA has statutory deadlines for new products that are supposed to be approximately two years, and yet, they're running at least a year behind those targets.

MR. SCHNELLER: All right. And you stated that even where approved non-Chinese sources currently exist, they do not likely have available capacity sufficient to meet demand.

Can you give us a sense of how much of global capacity for the production of pesticide active ingredients is in China? Is it half? More than half?

MR. NOVAK: I do have those numbers included within our written statement where we have included estimates of the total Chinese supply of chemistry to the world. About 5 percent of what they're producing is being sold here in the U.S., but that makes up, I think, if I recall my numbers, approximately 57 percent of our total imports.

MR. SCHNELLER: Okay. And one last comment. In your post-hearing comments, can you provide a breakdown by ten-digit HTS code of these -- of those products that, in your view, are not available in sufficient supply outside of China?

MR. NOVAK: Yes, I'd be happy to submit that. Thank you.

MR. SCHNELLER: Thank you very much.

MR. STEPHENS: One more question for Mr. Novak, so Mr. Massey gave us a good sense of the importance of glyphosate, but as he pointed out, it's primarily soybean production that is really centered on the use of glyphosate.

Tell us about some of the other products and how they impact, like you mentioned, wheat, corn, and particularly, horticulture.

MR. NOVAK: Certainly, glyphosate is used in corn, cotton extensively as well, and drawing on one point, someone had asked about innovation within the industry, our member companies, it will take about 12 years to move from proof of concept, through the regulatory process, the testing that's done, it's about a $350 million investment that our companies make to bring a new technology forward.

To the extent that the bread and butter of our industry, then, is the generic chemistries. That's a significant hurdle and Mr. Massey talked about the capital required, not only to license a new product and do all the testing, that $350 doesn't include the cost if you had to build new manufacturing.

But to the extent that the generic chemicals that are covered within this list, the triazine herbicides mentioned in my testimony that's roughly 90 percent coming from China, those are products that are staples for American farmers.

Triazine's used on wheat and corn extensively. Glyphosate, again, across a number of different crops. Dicamba 2, 4-D, also included on this list, and vital, and those are examples of some newer technologies combined with biotechnology that have become a part of the farmer's tools to help fight weed resistance.

MR. STEPHENS: Thank you.

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

Will the room please come to order. I would like to note before the panel starts with their testimonies, to the panel and the panel witnesses, and also, the panel up front, can everyone please speak clearly into the microphone so everyone in the room can hear you?

If you have to, pull the microphone up to you before you start your testimony. And our first panel witness on this panel will be Kendra Jones with Epson America. Ms. Jones, you have five minutes.

MS. JONES: Good morning. Thank you for the opportunity to speak today. My name is Kendra Jones and I am Vice President of Legal Affairs and General Counsel for Epson America.

Epson is based in Long Beach, California and since 1975 has specialized in printing solutions, visual communications, and wearable, and industrial products.

In the United States, the Epson Group employs over 1500 workers in 29 states from coast to coast. We are a subsidiary of Seiko-Epson Corporation in Japan.

We are committed to working to develop ways to strengthen enforcement of intellectual property rights; however, imposing tariffs on products that are essential to the profitability of American businesses and to the effectiveness of schools will not help to advance these objectives.

Epson is constantly reviewing its global manufacturing base with the aim of optimizing its operations. Epson is predominantly vertically integrated, owning its production facilities abroad, including in China, and therefore, shifting production for all products affected would not be possible in the near term.

Today I would like to address four categories of products for which Epson requests to be removed from the list of products subject to the tariffs: projectors, large-format printers, receipt printers and scanners, all categories in which Epson is a U.S. market leader.

Including these products in the final list will have a detrimental impact on the pillars of the American communities, such as schools, places of worship, and small and medium-sized businesses.

American schoolchildren will be directly affected by the imposition of the proposed tariff on projectors. School districts rely on Epson's projectors as an effective and cost-efficient way to project large-size images and text that keep students engaged in the classroom, leading to better learning outcomes.

Approximately 83 percent of all available K-12 classrooms have projectors installed and Epson supplies this technology to a significant portion of schools across the nation.

Additional tariffs would impose significant cost burdens on school districts that have already constrained and fixed budgets and impede our education systems from obtaining the projection equipment that it needs to operate an effective and engaging learning environment.

Our Section 301 comment letter submitted on June 17 includes many letters from school districts supporting Epson's request to have projectors from the list of products subject to the tariffs, due to the potential detrimental impact these tariffs would have on schools and students.

Furthermore, small and medium-sized companies rely on the high quality, speed, and cost efficiency of Epson's products to grow their revenue and reach a wider audience.

For instance, our large-format printers are used by a range of businesses to produce goods for sale, including signs, apparel, and labels, products which are revenue generators for many small and medium-sized businesses.

The ultimate consumers of products that are made using Epson's large-format printers are also often small businesses, schools, youth athletic teams, political parties, and churches.

Epson has also gained significant market share in the mobile receipt printer category, based on its breadth of product offerings, use of sturdy materials in the application of the latest technology that allows businesses to have efficient point of sale solutions.

These features of Epson's receipt printer solutions correlate to revenue growth for independent retailers and other small businesses, as they allow for faster transactions, less downtime, and enhanced customer experience.

Small businesses that are not able to absorb the price increases on receipt printers would likely have no choice but to look to equipment alternatives that are less ideal and use lower quality materials, resulting in higher maintenance, replacement costs, and negatively impacting the customer retail experience.

Imposing additional duties on these technologies would, therefore, affect the bottom-line of a wide range of businesses that use these technologies ranging from hotels and restaurants to dry cleaners and grocery stores.

Finally, scanners have become a vital part of the American workplace, especially in light of laws and regulations requiring digitization of various records. Additional tariffs on scanners will impose a burden on small and medium-sized businesses, as they generally have limited IT budgets and a scanner can represent a significant expenditure.

Three of the four major producers of scanners, including Epson, that account for over 85 percent of the scanner volume in the U.S., would be affected by the tariffs, leaving minimal viable alternatives for U.S. consumers.

The remaining producers unaffected by the tariffs likely would not have the capacity to replace the volumes that would be pushed out as a result of the additional tariffs.

If USTR does decide to include projectors, large-format printers, receipt printers, and scanners in the final list of products subject to additional duties, we request that USTR implement a production exclusion process, as it did with previous lists of products subject to the Section 301 tariffs.

Thank you very much for your time and consideration.

MR. BURCH: Thank you, Ms. Jones.

Our next panel witness will be Brian Hannigan with the National Association of Foreign Trade Zones. Mr. Hannigan, you have five minutes.

MR. HANNIGAN: Morning, Mr. Chairman and Members of the Panel. My name is Brian Hannigan. I'm the public affairs advisor to the National Association of Foreign Trade Zones. I'm here representing NAFTZ President, Eric Autor, who is on international travel this week.

NAFTZ is the voice of the U.S. Foreign Trade Zone Program and the more than 650 members representing the FTZ stakeholder community.

The FTZ program is a critically important and longstanding economic development tool created by Congress to incentivize companies to locate manufacturing and distribution operations in the United States rather than other countries.

It helps U.S.-based companies compete more effectively against imports, employs American workers, attracts American investment into American communities, and promoted U.S. exports.

Without the FTZ program, a significant portion of manufacturing and distribution operations currently in FTZs in the United States would likely be based in other countries, with the loss of tens of thousands of American jobs.

The USFTZ program includes many program participants who would be impacted by any additional duties imposed in this action against products from China included in the Section 301 List 4.

However, I am not here today to request the exclusion of any particular products from these duties; rather, I urge that any duties imposed as part of this action, avoid and correct a problem that has emerged in the application of Section 301 and 201 duties, thus far, on products manufactured in a USFTZ.

Specifically, in those actions, Customs entry requirements for merchandise withdrawn from an FTZ have resulted in some USFTZ manufacturers being improperly assessed Section 301 and 201 duties on all their foreign status components, including articles that are not from the subject country or are not included on the lists of products specifically identified as being subject to the additional duties under those trade actions.

Meanwhile, companies manufacturing in the United States outside an FTZ are assessed Section 301 and 201 duties only on components that are on the list of countries and products identified as being subject to those duties.

We have already provided evidence to this Committee in our comments on the Section 301 action against the European Union, using the example of a water pump, to show the unique impact of this unbalanced tariff treatment on USFTZ manufacturers.

This situation discourages use of the FTZ program, is contrary to law, and undermines the integrity of our trade remedies system. To avoid this problem, we have repeatedly requested that Section 301 orders should include language similar to that in the third presidential proclamation in the Section 232 actions on steel and aluminum.

That, quote, FTZ merchandise shall not be subject, upon Customs entry, to Section 301 duties merely be reason of manufacture in a U.S. foreign trade zone, close quote.

We also seek clarification that any merchandise admitted in a USFTZ in privileged foreign status, as the result of a Section 301 order, shall retain that zone status until such time as the Section 301 duties are terminated, or reduced, or a product exclusion is granted to such merchandise, in which case, the Section 301 duty rate and P.F. status on said merchandise will no longer be in effect.

Finally, I want to emphasize that what we are requesting is not any special exemption from the proposed additional tariffs that would apply to all other U.S. importers.

It would also not impact the assessment of Section 301 duties on any imported inputs from a subject country that are identified as merchandise specifically subject to the additional duties.

Rather, our proposed language would ensure that U.S. importers inside and outside an FTZ receive the same tariff treatment in the application of these duties. Thank you for your attention and I am prepared to take any questions.

MR. BURCH: Thank you, Mr. Hannigan. Our next panel witness will be Liz Huff with Anatomical Worldwide. Ms. Huff, you have five minutes.

MS. HUFF: Thank you for the

opportunity to appear before you today. My name is Liz Huff and I'm here today as Director of Operations for Anatomical Worldwide, a small Illinois-based business which was founded in 2005.

I appeared before you in August 2018 to oppose additional tariffs on our products and am incredibly grateful for the exemption we were granted from a third tranche of tariffs imposed under the Section 301 investigation.

To recap who Anatomical Worldwide is, we serve the current and future healthcare professionals who save lives, bring new babies into the world, and keep us healthy.

Our products are anatomical models and healthcare simulation models, ranging from educational replicas of the skeleton, heart, and body systems, to simulation mannequins that teach students and professionals how to perform CPR, administer I.V.s, and treat trauma victims in just about every scenario possible.

Our customers are the students

training to be tomorrow's nurses, surgeons, EMTs, military medics, and nursing home professionals. Our customers are the experienced professionals training for tomorrow's techniques and pushing innovation in healthcare.

Our customers are the first responders on the scene, the nurse who oversees your care, and the physical therapists who get you back on your feet. Our customers are the people we rely on at every stage of our lives to keep us and everyone we know healthy.

In the ten months that have passed since I appeared before you, our business has thrived and the exemption from the third tranche of tariffs has played a role in our ability to serve even more of the customers I just described.

We have nearly doubled our employee headcount and we are planning to hire even more employees this summer. We have been working hard to continue our mission of providing the specialized products necessary for a high-quality medical education.

In just the first half of 2019, we have helped schools and universities across the country expand or even start new anatomy and simulation labs that will support the growing demand for trained healthcare professionals.

Our business, employees, and the customers we serve are at tremendous risk of diminished progress if the proposed tariffs are enacted.

Even before a student chooses a medical education path, they have likely been exposed to STEM-focused education, which our products directly support.

The continued investment in STEM education is critical for the youngest generations to build solid foundations upon and anatomical models that teach and inspire students to pursue careers in healthcare is something we take great pride in being part of.

In fact, we view our products as critical components to education writ large, not just within healthcare, as learning how the shoulder joint works can inspire students to imagine new types of robotics and machines far outside the direct application of our products.

Reiterating portions of my 2018 testimony, our anatomical model offering is comprised of over 2000 models which we strategically source and competitively price to offer students, teachers, and schools the kind of comprehensive tools they need to support a wide range of medical disciplines.

The vast majority of our anatomical models are produced overseas and while we would love to source our products domestically, there are only two producers of anatomy models in the U.S. who collectively produce 5 percent of the products needed to comprehensively teach and learn about the human body.

This limited domestic capacity is not due to an influx of Chinese goods or stolen intellectual property, but rather, the longstanding European manufacturers who have dominated our industry since the 20th century.

Outside of China, there are no other Asian manufacturers with the requisite skill, capacity, and facilities to develop and produce the products we sell.

While we do import products that are produced in Germany, these products are at a completely different class, at costs that are often four to five times greater.

Humbly put, if the only models available to our customers were at these prices, instructors and students would be forced to drastically limit the accessibility of anatomy models, diminishing the incredibly important hands-on interaction needed for a comprehensive educational experience.

Instead of an anatomy lab with enough skeletons for small groups of students to work with, a group of 20 to 30 students would need to crowd around one model or take turns interacting with it.

This is not the level of education we

want to see in our country, nor will it allow universities and colleges to produce the high numbers of trained professionals the healthcare industry critically needs.

The simple fact is, what our customers need is not supported by a manufacturing base in the United States. It is, therefore, logically necessary to import products from China.

These are very specialized products which take years to develop, hone, and perfect. When it comes to medical education, accuracy is critical and we cannot move production to Vietnam, Taiwan, or another Asian country, as a supply chain simply does not exist outside of China.

Anatomical models have been made in China for decades and it is plainly not feasible to produce what is needed elsewhere.

It's worth noting there are no U.S. companies with trade secrets, proprietary practices, intellectual property, or the like that are being or have been harmed by the importation of the products we sell.

If the proposed tariffs are enacted, the increased cost burden will be passed to the students and taxpayer-funded educational institutions who rely on these products.

This will have a significant downstream result every American will feel, as increased costs in our products will be one more contributing factor to increasing healthcare costs for the entire country.

Once again, I ask that you thoroughly consider the impact to consumers, taxpayers, and businesses, and conclude to remove HTS code 9023.00.00 from the proposed list of tariffs.

I appreciate the opportunity to share these insights with you today and I look forward to any questions you might have.

MR. BURCH: Thank you, Ms. Huff. Our next panel witness will be James Osgood with Klean Kanteen Incorporated. Mr. Osgood, you have five minutes.

MR. OSGOOD: Good morning. My name is

Jim Osgood. I'm the CEO and President of Klean Kanteen. We're a small family-owned company based in Chico, California. With 78 employees, we are one of Northern California's largest non-agricultural employers.

We design and manufacture a broad line of stainless steel water bottles and other related products. These are manufactured in China in strict compliance with our requirements and classified under HTS subheading 7323.93.80, as stainless steel table, kitchen, or other household articles, other than cooking and kitchenware, and currently subject to a normal trade relations duty of 2 percent.

Quite simply, imposing a 25 percent tariff on our products will most likely put us out of business. Over the last three years, we have been modestly profitable, as we have elected to reinvest all profits back into our company to fuel job growth and business expansion.

Had this tariff been imposed during that same time, the cost increases could have caused significant losses in each of those years. A 25 percent tariff on our future costs would cause similar untenable losses.

It would take us over 18 months to establish alternative sources of supply to China. As such, we could not survive while trying to establish the new supply.

Stainless steel water bottles are discretionary purchases and Klean Kanteen is already established as an industry leader and a premium priced product. Raising our prices to offset the tariff will result in both lost distribution with key retailers and lower consumer demand.

We cannot pass along a 25 percent tariff without suffering significant losses in sales.

Klean Kanteen is different from other companies that import and sell similar products, from the quality of our products to our unique corporate structure, to the standards with which we operate our business.

We are a certified B Corp, which means we have been audited and verified to have met the highest standards of social and environmental performance, public transparency, and legal accountability.

This certification is required by our corporate bylaws. It defines a set of standards for considering the impacts of our decisions on all aspects of our business, including suppliers.

Importantly, maintaining these standards is subject to third-party verification, audits, and scoring, all of which is published on the B Corporation website.

Being certified, we are authorized to use the certified B mark, a registered trademark, on our packaging. Enjoined by our B Corp certification, we maintain a strict supplier code of conduct that mandates standards which are more rigorous for business ethics, environment, fair labor, and management transparency.

Beyond our own audits, we use a third-party agency to conduct independent compliance audits of our suppliers every two years. These high standards define our premium brand and are expected by our customers, but there are only a handful of manufacturers in the world that are both willing and able to comply with these standards, and they're all located in China.

Other potential sources currently lack production capability, viable raw materials, and skilled labor. These new sources would require over 18 months to be established. We simply have no alternative to China at this time.

To be clear, a viable U.S.-based production capability does not currently exist. Because of this, a tariff exemption would also provide Klean Kanteen with breathing room to explore the potential for establishing U.S.-based manufacturing that could also create hundreds of new jobs.

But to build and implement such a domestic capability would likely require advanced manufacturing technologies and five to seven years. Pursuing this goal is only conceivable with an exemption from the proposed tariff.

If we are forced to close, there would be significant negative impact on the broader Chico community and economy. We estimate the 78 jobs that would otherwise be lost account for over $6 million in local spending.

Last year we spent nearly $2 million in goods and services with local suppliers and another $1 million in other company-paid employee benefits. These dollars have a huge impact in a small rural community such as ours.

We are deeply committed to serving our employees and our community. Last November, 14 of our 78 employees lost their homes to the campfire in nearby Paradise, California, a declared presidential disaster zone.

In addition to raising over $300,000 for disaster relief, we provided stability, comfort, and above all, hope for these victims. Without a tariff exemption, these employees will have lost their homes and their jobs.

The goals of Section 301 tariffs are,

one, induce China to change its IP practices, and two, inhibit China's goal of becoming the world epicenter of advanced manufacturing, and its quote, Made in China 2025 Initiative.

Our products are low tech and made with 60-year-old manufacturing methods that are not proprietary. Imposing a tariff on our products will not advance either of these goals.

The average value of our annual imports from China for the past three years was $11 million. Our imports are far too small to compel any change in China's IP practices, yet, the catastrophic impact to our company would far exceed any possible trade negotiation benefit.

To summarize, the 25 percent -- proposed 25 percent tariff will create untenable losses for Klean Kanteen, resulting in the likely closure of our business.

The certified B Corp standards I described are rigorously enforced and clearly marked on all of our packaging. Our products are easily identifiable and distinguishable from other products classifiable under the same HTS subheading.

If Klean Kanteen's products were granted a tariff exemption, U.S. Customs and Border Protection could rely on this existing certifying mark to easily administer that exemption.

Thank you for the opportunity to testify today and for your consideration of my comments.

MR. BISHOP: Thank you, Mr. Osgood. Our next witness is Wesley Cline with Zurn Industries. Mr. Cline, you have five minutes.

MR. CLINE: Good morning and thank you. My name is Wesley Cline, I'm the Vice President of Global Supply Chain for Zurn Industries. Zurn is headquartered in Milwaukee, Wisconsin, where it employs roughly 800 workers and is a recognized leader in engineered water solutions, including a wide variety of sustainable plumbing products.

The concerns of Zurn center narrowly

on the impact of the proposed tariffs on two commercial product categories: vitreous China product and parts of water control and safety valves.

As I will explain, I believe that these product categories should be removed from the Section 301 List 4, and I'll address them in turn.

The vitreous China commercial products enter into Zurn under the HTS subheading of 6910.10.00. Examples of these products are sinks, toilets, lavatories, and commercial applications.

While they represent a relatively minor cost in the overall project, lavatory fixtures must be installed at a specific time so the project can continue or be completed.

Imposing a tariff on these components will reduce our inventory and introduce delays in the supply chain that would ripple through the construction sector. The negative effects of these not only impact Zurn, but also the overall time table for the projects, and thus, countless downstream American workers.

Zurn sources these products from China because there is no adequate domestic supply and no additional domestic capacity for future production. Moreover, Zurn has conducted multi-year sourcing investigations in the United States and several other countries outside of China without successfully identifying a supply base that can meet our quality or capacity needs.

An immediate impact of the tariffs would be to negatively impact our business's profitability, with the consequences for our investment and employment.

Over time, the effect of additional tariffs would be to raise prices and introduce delays in the commercial construction projects, such as schools, hospitals, and office buildings, and as noted, there will be no offsetting benefit to U.S. suppliers.

Regarding the second category, parts of water control and safety valves, this category primarily includes the parts of backflow valves, control valves, fire valves, and other specialty valves.

This product category promotes national safe drinking water, health, and safety. And this product group is essential to maintain the water purity in commercial and residential buildings.

For example, local municipalities throughout the United States require backflow devices to be installed within the residential and commercial building water systems to protect public drinking water from cross-contamination with hazardous building water.

The category of products enters the U.S. under the HTS subheading of 8481.90. As in the case of vitreous China product, Zurn knows of virtually no U.S. manufacturing of these products, rather, the vast majority of these products must be sourced from China for the foreseeable future.

Additionally, this HTS subheading was

previously reviewed by the USTR during List 3 hearing and was excluded from the list at that time. The points made to exclude these products from List 3 apply with equal force in List 4.

These water safety and fire prevention products, and their installation, are subject to multiple layers of certification and approval requirements. Some of these requirements are imposed by standard setting bodies, such as Underwriters Laboratory, and others are set by state and local building codes, operating in accordance with the Federal Safe Water Drinking Act.

For example, if certified products are not used in a building project, the water will not be turned on and the building will not be available for occupancy or use.

As a result, it's critical to identify and qualify foundries and suppliers that can supply products compliant with the federal and state laws. It is very time-consuming and difficult to qualify new suppliers for the large numbers of different parts involved, even after additional potential capacity is identified.

Zurn estimates in the case of these products, two to three years would be required to replace the existing suppliers, regardless of whether these new suppliers were within the U.S. or in alternate countries.

During that multi-year period, a tariff would be extremely damaging to Zurn specifically, and to the building industry generally. To the extent that Zurn is forced to absorb the cost of these increased costs, profitability and capital investment would suffer, and the potential for job losses would increase.

In particular, in many cases, Zurn purchases components from China that are assembled and tested in the United States, and without these components, Zurn could lose U.S. jobs due to unavailability or lost sales due to higher costs.

To the extent that cost are pushed

downstream to distributors, contractors, and ultimately, building owners, there would be some amount of projects that would be put on hold or not started at all.

Finally, imposing these tariffs in the above products would not advance the goals of Section 301 action, discourage Chinese technology or transfer policies.

Zurn imports are not regarded as high technology and Zurn has never been required to transfer any technology or other intellectual property to China as part of our investment or sourcing strategy.

No Chinese industrial policies prioritize these high-volume products and there is no risk of important U.S. technology moving offshore.

The actual impact, though, would be significant hardship to Zurn, its employees, and downstream customers, with no offsetting benefit. Thank you and I'm pleased to answer questions.

MR. BISHOP: Thank you, Mr. Cline, our final witness on this panel is Brandon Ingersoll with LiceGuard, LLC. Mr. Ingersoll, you have five minutes.

MR. INGERSOLL: Hello. My name's Brandon Ingersoll. I'm the Chief Executive Officer of LiceGuard, LLC. With me here today is Jeff Goodall, our outside counsel for international trade.

MR. BISHOP: Can you pull your microphone down a little bit, please?

MR. INGERSOLL: Better? We are grateful to the --

MR. BISHOP: Yes.

MR. INGERSOLL: -- USTR and the Section 301 Committee for the opportunity to provide testimony at this hearing. Briefly put, LiceGuard imports from China certain specialized products for the treatment of lice, which we will refer to as lice comb products, that are classified under the following three HTSUS subheadings that have been identified in proposed List 4: 8509.80.50, 9615.11.30, and 9615.19.40, which I will refer to going forward as the lice comb HTSUS subheadings.

And I will discuss, given the significantly adverse events -- adverse effects that the Section 303 duties will have on the lice comb on these subheadings which would affect us negatively and U.S. consumers and public health.

We urge the USTR to exclude them from any final list upon which the Section 301 duties may be imposed.

Let me being by telling you a little bit about our company, LiceGuard, and its products. We're a small business just outside of Boston. We've been in business there for over 20 years.

Throughout our existence, we've been dedicated to producing safe, effective products that are non-toxic and that help families deal with their frustrating lice problems.

LiceGuard initially sought to develop the electronic comb that could be used to detect, and demobilize, and kill lice. Experiencing no luck finding a U.S. entity that could assist us, LiceGuard discovered a Chinese entity that possessed the necessary skills, and after working with this Chinese entity for some time, over a number of decades, LiceGuard was able to develop the Robi Comb that can zap lice on contact with a safe electrical pulse that kills lice, but doesn't hurt humans at the same time.

Subsequently, LiceGuard worked with various Chinese entities to develop other specialized combs that could be used to remove lice from a person's scalp after the lice have been detected, demobilized, and killed using the Robi Comb, or by other means.

These lice comb products that are imported under the lice comb HTSUS subheadings. In recent years, several major retailers have started offering our products, including Wal-Mart, CVS, Shoppers Drug Mart.

In addition. LiceGuard's products can be purchased online through Amazon. LiceGuard estimates that over 500 households around the world have used our products, and in the last seven years, LiceGuard's sales have grown significantly, with our lice comb products being approximately 60 percent of our overall business.

There are numerous reasons why the lice comb HTSUS subheadings should be excluded from any final list that may be issued by the USTR. To begin with, if the Section 301 duty rate of 25 percent were imposed on the lice comb HTSUS subheadings, LiceGuard would suffer a huge financial hit.

Our costs would increase significantly on our largest lice comb products, and because we are a small business, unfortunately, we are unable to pass much, if any, of these costs through our major retailers, which are a big source of our revenue.

Such a cost increase could quite likely result in the need for us to lay off employees and would threaten the future of our company. Imposition of Section 301 duties on the lice comb HTSUS subheadings also would be very detrimental to our consumers, both financially and in terms of public health and safety.

The leading and most common lice treatment in the United States for the last several decades have been -- contain toxic pesticides. These are the shampoos that contain permethrin.

Recent studies by Harvard School of Public Health show that these toxic pesticides have negative side effects, including neurological disorders and they're also carcinogenic.

Overuse of these toxic shampoos have increased and become problematic in recent years as new strains of lice have emerged that are resistant to them called super lice.

As previously discussed, our mission is to develop safe, non-toxic alternatives to these shampoos that are clinically proven and help families eliminate and prevent lice.

In recent years, sales of the Robi Comb and other lice comb products that we sell have increased significantly. This clearly demonstrates that many people prefer our non-toxic products instead of the more traditional toxic shampoos that have been offered over the last few decades.

If, however, Section 301 duties of 25 percent were imposed on the lice comb subheadings, and some of these costs had to be passed on to consumers, they would be faced with a difficult choice, either pay significantly more for our products, or they would have to return and use cheaper, more traditional shampoos which contain the toxins that we mentioned, that would be harmful to them and their family's health.

As such, we believe it would be far better for consumers and the USTR to exclude the lice comb HTSUS subheadings from any final list that may be issued. In addition, as discussed in the detail of the written testimony we have submitted, it seems extremely unlikely that placing the Section 301 duties on the lice comb subheadings would help the U.S. achieve its goals that have been established in connection with Section 301 in this matter.

In summary, for all these reasons as discussed, we urge the USTR to exclude the lice comb subheadings in any final list that may be issued.

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

MR. WALLACE: Thank you all of you today for your testimony this morning. My question is directed to Ms. Jones. In your written comments, you noted that Epson has been able to quickly move production for some products affected by Section 301 tariffs outside China.

Do certain factors prevent moving additional production outside China in the short term?

MS. JONES: That information has actually been updated by our parent company and it is actually very difficult to move production outside of China because we own our factories there.

We're a vertically-integrated company. Shifting production to third countries would be more costly than if we were simply finding a new third-party manufacturer.

Epson has production sites all over Asia, including China, Japan, Indonesia, Singapore, Malaysia, the Philippines, as well as in the United States.

Going forward, we will plan for various situations as we seek to minimize the impact of the tariffs on our customers, but shifting products -- shifting production for all products affected by the proposed list simply would not be possible in the near term.

MR. HANNIGAN: Can I ask the representative of the Department of Commerce to identify himself since he's new to the panel?

MR. WALLACE: I apologize. My name is Ian Wallace, representing Department of Commerce today. Ian Wallace. My second question is also for Ms. Jones, and you alluded to this, does

Epson produce these products in China itself, and if not, and if Epson is unable to source these products outside China, to what extent can you negotiate lower prices with its Chinese producer?

MS. JONES: We are the manufacturer in China. We own our production facilities. And we do believe that the tariffs will have -- we're still evaluating what the impact of the tariffs will be, but we do anticipate there will be price increases for our end customers.

MR. WALLACE: Thank you very much.

CHAIR TSAO: I have a follow-up; what about your competitors, are they all manufacturing in China as well?

MS. JONES: It varies considerable by product category and we are covering a lot of product categories, but for projectors, for example, based on the information I have, projectors from China account for approximately 60 percent of the U.S. market.

We manufacture projectors in China as well as some production in the Philippines.

CHAIR TSAO: Mr. Hannigan, this question's for you, can you provide us with a real-world example of the concerns you raised about the interaction between the FTZ rules and the Section 301 tariffs?

Because I think as you understand, FTZ regulations are abstract. It would be helpful if you can explain the issue with a concrete example.

MR. HANNIGAN: Well, we did previously provide the earlier Section 301 Committee with an example that I referenced in my testimony, the so-called water pump example.

What this involves is a mis-classification by U.S. Customs concerning foreign inputs used in the manufacture of final product in a foreign trade zone.

And what happens is, that if the aggregate value of all foreign inputs into a product manufactured in a foreign trade zone is from a subject country, in this case, China, then other inputs that are either, A, not products of

China, or B, products of China that were not in the first several lists, are painted with the same broad brush, and identified as products of China.

And Customs, consequently, takes that as a directive to apply those tariffs, the trade remedy tariffs, on all foreign inputs, not just the ones for which they were intended.

We have pointed this out repeatedly in a meeting with the former general counsel of USTR. I hope the absence of the USTR representative here is not an indication of his follow-up attitude, but nonetheless, for some reason, this just -- we're unable to get through to the proper authorities.

On the other hand, the Department of Commerce, which administered the Section 232 tariffs, did listen to our logical argument, and in the third iteration of the presidential proclamation, as I said in my testimony, did insert language that clarified that situation, and removed the application of the trade remedy tariffs from inputs to which they should not be subject.

I'll be happy to follow-up with more detailed examples.

MR. FRATERMAN: Mr. Hannigan, thank you for your testimony. Matthew Fraterman, Department of Labor. You mentioned in it, though, that there could be loss of tens of thousands of American jobs specifically.

Can you go into a little bit more detail on that? Is this just in the manufacturing industry? Is this more widespread than that?

MR. HANNIGAN: Well, what I'm referring to is that if it becomes -- if it becomes disadvantageous for companies to operate in a U.S. foreign trade zone, then they can relocate offshore, which is the whole purpose of the foreign trade zone program to begin with is, to encourage companies to locate manufacturing and distribution operations in the United States, and not be penalized by our varied tariff systems.

That's simply the argument.

MR. FRATERMAN: Okay. And I just want to make sure I'm, like, understanding it correctly, the loss of the tens of thousands of jobs, this would be with the foreign -- you're specifically talking about the foreign trade zones, correct?

MR. HANNIGAN: I'm talking about companies, United States' companies, located in foreign trade zones --

MR. FRATERMAN: Okay.

MR. HANNIGAN: -- who would find it more advantageous to locate elsewhere. Contrary to everyone's intentions.

MR. FRATERMAN: Okay. Great. Thank you very much.

MR. FRATER: Good morning. Eric Frater from Department of State. My question is for Ms. Huff. Can you elaborate, please, on the high and low-priced segments of the markets for your products?

For instance, is the U.S. market share in the low-priced market mainly sourced from China, with high-priced market dominated by European producers?

MS. HUFF: Sure, and I'd be happy to expound on this in my follow-up testimony, but effectively, the market share of lower-priced Chinese goods is on the order of 70 percent, whereas, high-priced, high-end German materials are the remaining balance of about 30 percent.

MR. FRATER: And in what share of the U.S. market does Anatomical Worldwide occupy and does this differ by product?

MS. HUFF: It does differ by product and I would like to, sort of, keep that at the chest a little bit, so if you wouldn't mind, I'd like to follow-up with my response in a written format if that's okay.

MR. FRATER: Okay. Thank you.

MS. HUFF: We're growing, though.

MR. GILMARTIN: My name is Kevin Gilmartin with the Treasury Department. Thank you all for your testimony today. My question is for Mr. Osgood. Can you elaborate on why it would take over 18 months, as you note in your testimony, to move production or the sourcing of products outside China and which countries are potentially viable alternatives?

MR. OSGOOD: Certainly. Thank you for the question. That represents -- 18 months represents the bare minimum in order to qualify raw material inputs, the certification of those inputs, that, as I mentioned in my testimony, are critical to our brand and to our customers.

The creation, and qualification, and implementation of production tools, the validation of processes to ensure quality in our product, the training of personnel, and that's a bare minimum.

To establish that with a factory who is not already familiar with those practices would extend that time frame by months, if not years.

MR. GILMARTIN: And a quick follow-up

as well, do you the competitors in the stainless steel water bottle market also primarily source their products from China?

MR. OSGOOD: Yes, they do, but they accept and operate at a very different set of standards that I tried to illuminate in my testimony.

MR. GILMARTIN: The B Corporation. Thank you.

CHAIR TSAO: Mr. Osgood, I have a follow-up question. You import the, I guess, stainless steel canteen, right?

MR. OSGOOD: That's correct.

CHAIR TSAO: But that falls under a larger, I guess, HTS category that includes other products, other than canteens, is that right? For example, the HTS line you cited, 7323.93.80, that includes other products -- products other than canteen, is that right?

MR. OSGOOD: That is correct.

CHAIR TSAO: So what's the share of canteen with respect to total import we have to the United States for this line?

MR. OSGOOD: My understanding is that -- our portion or the category portion of the broader category?

CHAIR TSAO: I guess, for canteens, right? How large is canteen with respect to this line?

MR. OSGOOD: So Klean Kanteen is a very, very small portion, very small portion, of the category imported and the broader classification category as well.

CHAIR TSAO: Do you have a breakdown; an estimate?

MR. OSGOOD: I don't have that with me, but I'm happy to provide that in subsequent testimony.

MS. CACKOSKI: Good morning. I'm Caitlyn Cackoski from USDA. I have a question for Mr. Cline of Zurn Industries. Concerning the commercial ceramic products and your testimony as to their small share of project costs, are consumers of these products relatively price insensitive?

MR. CLINE: Interesting question. Not my area of specialty on the front end side, obviously, but we could follow-up with that. My opinion is that a commercial building has a wide variety of systems in it. Zurn is primarily focused in the plumbing and water distribution components of that.

So while we go to market with systems of plumbing products, those lavatory ceramic fixtures are relatively a small percentage of our own activity as well, but certainly, in a total commercial building rather small also.

MS. CACKOSKI: Thank you. And a follow-up, could you elaborate on how Zurn's inventory would need to be reduced if the tariffs were imposed?

MR. CLINE: Certainly, we operate through distribution channels and as well as our own internal supply channels. With the increased costs that that brings to our business, we would likely lower our stocking levels and the associated activity with it, thus extending the supply chain plan.

MR. FRATERMAN: Thank you for your testimony, panel. My question is for Mr. Ingersoll. My first question is, is your technology patented, and if so, who holds the patent for that technology?

MR. INGERSOLL: The technology is not patented.

MR. FRATERMAN: It's not patented.

MR. INGERSOLL: No, but it is proprietary in the development of the charge that gets used to zap and immobilize the lice with something that we developed with our Chinese manufacturer a number of decades ago and they've perfected it.

MR. FRATERMAN: Okay. And just a follow-up question, what would it entail for LiceGuard to shift production outside of China?

MR. INGERSOLL: We would have to redevelop that technology, and we've tried. To be clear, we tried about five years ago. We put a push on and talked to manufacturers in the United States and Mexico, specifically, and had them mock-up some example for us that failed.

MR. FRATERMAN: Okay. Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks and would all the witnesses for Panel 43 make their way forward?

(Pause.)

MR. BURCH: Will the room come to order? I would like to note before we begin with this panel, would all the panel witnesses please speak clearly into the microphone? And if you cannot hear yourself, pull the microphone closer for the benefit of everyone in the room, and the panel members, so they can hear you.

Our first panel witness on Panel 43 will be Peter Smith, with Carter's Incorporated.

Mr. Smith, you have five minutes.

May you please turn on the microphone and pull it close to you?

MR. SMITH: My name is Peter Smith, I am the executive vice president for Carter's for our supply chain. We are the largest-branded marketer of children's apparel in the United States.

Thank you for the opportunity to share our thoughts, and outline why we believe that babies' product clothing for newborn to 24 months should not be subject to any additional tariffs, and should be removed from List 4.

I understand that multiple parties have testified here and brought your attention to the impact on young families, and that is our point. We serve young families. This is a product of necessity that they buy with newborns; not an optional purchase, a necessity.

The Carter's and OshKosh brands, our two marquee brands, have been in business since 1865 and 1895, respectively. Started as family-operated business, and have grown into a $3-1/2 billion publicly traded corporation. Our purpose is simply to serve all families with young children, with the safest, the most durable, adorable, and affordable clothing for their kids.

We employ 21,000 people worldwide. 18,000 of them are here in the United States. They work in our stores, our distribution centers, and our corporate headquarters in Atlanta, Georgia.

Again, our commitment is to provide high quality, safe, and affordable clothing, at very, very reasonable prices to young families. Our brands are sold in over 17,000 stores, including 840 of our own company stores. Our success has been driven by that commitment to safe, durable, and affordable product.

Currently, duties for our products range between 16 and 30 percent. I quite frankly can't imaging adding a 25 percent duty on top of those 30 percent duty products, having the consumer pay a 55 percent duty and tariff rate on clothing that is a necessity for their young newborn.

Last year, the U.S. reported its lowest birth rate on record, 3.8 million beautiful babies were born in this country. Our customers, young families, especially those at the lower end of the financial spectrum just don't have the money to pay the kind of price increases that would be necessary if these tariffs go into effect.

I have heard it said that the 2017 Tax and Job Act took particular note of families and trying to provide support for families. These tariffs would go in exactly the opposite direction. In our estimation, U.S. trade policy should not undo the benefits, and burden families with even greater expense in these product categories.

China is a major source of babies' clothes for the United States and has been for decades. Clothing has a long lead time. Today, this week, we are placing our production orders for the spring 2020 orders. Those are production orders, legally binding documents with our factory base, and we're out that far into the future.

The speed at which these tariffs seem

to be on track to go into activity just doesn't provide us an opportunity in the very short term. Over the last ten years, we have reduced our production in China by 50 percent. Given years, we can continue that pattern, but the speed at which this is all occurring just leaves us no option.

If the tariffs go into effect, apparel manufacturing will be driven out of China, and our product, those little body suits that you have in front of you, are the least desirable thing for a cut-and-sew manufacturing facility elsewhere in the world to take on. They're a buck or two. It's very inexpensive. If they have a choice to make a top for an adult, where they might get $9, $10, $11, $12, they'll put their sewing lines to that long before they ever embrace our product. And that's even looking beyond the rigorous safety protocols that we demand they have in place for safe production.

Additionally, if the tariffs go into place, foreign competitors will use the de minimis 321 Rule to bring product into the United States. As our prices go high, they will cut us under, and they'll start shipping in e-com orders directly from China. They won't go through our safety protocols, they won't be subject to the same rigorous inspections that our products do. That is an unintended consequence we encourage you to help us avoid.

Tariffs on children's apparel will not persuade the Chinese to change their policies, and frankly, discouraging -- they are discouraging this industry already. The apparel industry is not part of the Made in China 2025 program, and no one would characterize it as advanced manufacturing.

We ask you to please consider removing baby apparel from List 4, and support American families with young children. Thank you very much.

MR. BURCH: Thank you, Mr. Smith.

Our next panel witness will be Katherine Gold, with Goldbug.

Ms. Gold, you have five minutes.

MS. GOLD: Good morning. My name is Katherine Gold. I am president, CEO, and chair of the board of Gold Inc., known also as Goldbug.

We are a small company, but we are a major supplier of infant accessory products. Located in Denver, Colorado, Goldbug was founded 51 years ago in 1968. We became a woman-owned company since 2012 when I took over the leadership of the company from my father, Bill Gold. Today, Goldbug has approximately 100 U.S. employees.

I would like to focus my testimony today on a particular product because it exemplifies the problem that confronts our company in the clearest, most dramatic way. That product is baby shoes. The shoes Goldbug produces are made to a very specific safety standard, even though they look so cute. They're -- include a closed-toe design and other necessarily safety features for toddlers in their early years.

As a woman-owned business, we will not risk the safety of the toddlers who use our products by downgrading the safety and quality of our shoes. We put ourselves and our customers at risk if we are forced to move production quickly to another country.

There is no other market today that can produce this product for the prices at retail that will appeal to a broad customer base. Here are some statistics that are important to understand as you consider this problem. For the first four months, the following statistics have been reported.

There were a total of 9.4 million pairs of baby shoes brought into the United States at a declared customs value of $33.1 million, for an average declared value of $3.53 per pair. China represented the biggest country of origin, over 93 percent, for an average declared value of $3.31 per pair. For all other countries of origin, the average declared value is $6.50 per pair. This is two times the cost to

Goldbug and to our customers.

I would like to emphasize, a tariff of 25 percent on baby shoes will eliminate our product from the marketplace. It will simply make this product extinct -- like this guy. As a company, Goldbug will be irreparably harmed, as we will need to eliminate a significant number of jobs in our home state of Colorado.

We are not happy with tariffs on any of our products, but a tariff on our baby shoes will put these products out of reach for the average American consumer. We have invested an enormous amount of time and money in this line of business, and these tariffs will force us to lay off employees in Colorado.

In the fall of 2018, we petitioned the ITC and received a statistical breakout for footwear for infants covering infant sizes up to and including size 3. As a result, the removal of infant footwear is readily administratable by U.S. Customs.

The Statistical Note 2 has been added

to Chapter 64 that lists five new HTS codes for baby shoes. As you can see, the importance of baby shoes was already addressed by the ITC, giving us a separate HTS code and separating it from other shoe products.

These tariffs will place -- price baby shoes out of the consumer market place, a result that is inconsistent with giving these items a separate HTS code. The tariffs will be an act of finality for these products. They will no longer be in the marketplace.

My company, Goldbug, that began with one infant shoe product has grown into one of the largest distributors of baby accessories and shoes in the United States. I am grateful to my father and the State of Colorado for the business successes we have enjoyed as an important Colorado-grown and based company.

Our American families deserve high quality and safe shoes for the children who are learning to walk. We respectfully and urgently request that the baby shoes be removed from the list of products to be tariffed at this time. Thank you.

MR. BURCH: Thank you, Ms. Gold.

Our next panel witness will be Sonja Chapman, with Topsville LLC.

Ms. Chapman, you have five minutes. Ms. Chapman, can you turn on the microphone, please?

MS. CHAPMAN: Members of the Section 301 Committee, thank you for the opportunity to testify today. I'm Sonya Chapman, I'm a licensed U.S. Customs broker, and I provide advisory services to Topsville, LLC. They are a privately owned manufacturer and marketer of children's wear.

Topsville imports infants' and children's wear garments for mass market retailers. Our product consists predominantly of goods offered for retail sail in sets. And sets require that we must find factories with the ability to prove -- to produce knits, wovens, sweaters, tops, bottoms, and jackets, and they have to do it concurrently and in high volumes.

This restricts the company's sourcing options when sets contain categories of apparel that are difficult to source in volume outside of China. For example, almost 80 percent of all sweaters, whether they be cotton or of man-made fiber, are imported from China.

The next largest supplier, Bangladesh, accounts to 6 to 7 percent of U.S. imports in this category. And there are many apparel categories where China provides 40 percent or more of U.S. imports in those categories.

In the discount and mid-tier markets, children's wear is even more price-sensitive than adult apparel. The products have a shorter life, and they have to bear the additional expense of mandatory safety testing. Under the Consumer Product Safety Improvement Act of 2008, children's goods are held to a specific safety standard that by law must be confirmed by independent certified testing labs.

Tariffs will create additional cost

that must be paid ultimately for by the consumer. When prices rise, the adult consumer may purchase less or wear older garments for a longer period of time. Last year's clothes are not an option for growing children.

As is the case with most apparel, our production is placed well ahead of the date it is expected to be shipped to the retail customer. We have already committed to purchases and sales prices that do not account for additional tariffs. As a smaller company, we have fewer resources to counter a dramatic shift in costs, and the effects on the company would be similar to those of a sudden major economic downturn, and unfortunately, that would be borne primarily by its employees.

We understand and support the administration's concerns with respect to China's unfair trade practices. Unfortunately, we do not believe that additional tariffs in the apparel sector will effectively change this behavior. We do not foresee the ability to actually make significant changes in our sourcing practices, even after tariffs are in place.

Production capacity is not created overnight. Factories take time to build. Workers take time to develop skills. A look at long-term import apparel data shows that even in categories that China does not dominate, shifts in production are generally not dramatic increases, but rather slow and incremental ones. Moreover, sourcing patterns have moved quite slowly over the last several years.

We ask that the Committee consider that infants' apparel, which was removed from quota in 2002, which is effectively six years before other categories came off of quota, well ahead of them, be excluded. And I've given you some numbers -- I'm not going to read through them.

Additionally, we've provided numbers in the larger sizes categories for you to look at. And, you know, just to exemplify this, I just wanted to show you some samples. When we are looking at a sweater set with a top and a bottom, we've got to find a factory that can make all these parts, and then we're restricted by capacity.

We have to look at factories that can provide multiple fabric ways. We need to know that they can do wovens as well as knits and put in linings. And then we have to test all these goods, so that, you know, even a dress that's simple, the screen print has to be tested and, you know, we have to be sure that these are safe products.

So, the ability to do that in volume is -- there are limited markets for that. And children's wear, it is important that it's safe and well-constructed. And I thank you for the time to present this.

MR. BURCH: Thank you, Ms. Chapman.

Our next panel witness will be Robert Stack, with Robert Stack Customs Law.

Mr. Stack, you have five minutes.

MR. STACK: Good morning to everyone

-- I think it's still morning. My name is Robert Stack. I thank you for the opportunity to request that infants' and children's apparel and footwear be removed from consideration for Section 301 tariffs.

I, frankly, did not -- was under the impression that the Committee would never actually propose tariffs on clothing, in general, but specifically I found it necessary to actually go through the process of taking part in this whole process.

My summary, at Points 1 and 2 and 3, I state the basic case that tariffs will impose disproportionate harm on American consumers and families, without affecting China's objectionable activities and areas of concern.

The impact of higher tariffs on Americans trying to provide for their children will be direct and immediate. Import statistics, which have already been pointed out, show that China provides 40 percent or more of infants' apparel, and 80 percent of certain categories of apparel such as sweaters. And footwear is even higher, at 80 to 85 -- 80 to 95 percent of certain tariff numbers, would be produced in China.

That means that China basically has the capacity for the making the machinery and building factories elsewhere. And I believe that China will benefit if you put tariffs in on Chinese products. They are the ones most likely to invest in other countries and create more infrastructure, which I think is similar to what was the concern for industrial products by the Committee.

I was prompted to come down here, and I see it's not really necessary after this wonderful testimony. My article in my local paper indicated there was a new charity there, set up in Westchester County, that was going to take care of babies' products. And they said the cost for a family in the first year for a newborn baby was over $12,000.

And about $600 of that is clothing,

$600 instant diapers, and the other various costs, medical costs, scholar costs, all sorts of things that people have testified about.

So there's -- with that family, I recall the Tax Cut Act that doubled the child tax credit, from 1,000 to 2,000. I ran a couple of numbers for a family -- $50,000 income for a family, without the additional $1,000 child tax credit, they would be paying $400 or $500 more in taxes, from what I could see.

So already, there's only a partial benefit from that, for most lower income families. They may enjoy other benefits, such as earned income credits and the like.

However, I think people, if taxes are -- if these taxes are imposed on children's products, will really adopt the attitude that they put money in my front pocket, through this Tax Act, and they're just going around and taking it back out of my back pocket. And I think there will be a very upset group of individuals in this country, that the government will have to contend with.

Now American consumers face real costs from 25 percent tariff increases on their children's products. How might China benefit? Recently I read an article back in October of last year. It said that there were basically three regional areas for the textile industry.

In the Asian industry, 80 percent of the textile imports, not the finished products, came from within that area. And I would suspect very strongly that those imports are largely from China. I've worked on various Canadian audits, because they have the General Preference Tariff Program for other countries such as Bangladesh, who import into Canada. You can still use China apparel and get special benefits much easier than eligibility for duty-free treatment.

And that's a similar to what's the case in England in Europe because of the -- China had a -- when WTO was put in, China was still considered a quite developing company.

I see my time is almost up. Finally,

I would just like to point out that a good part of America is, you know, helping families with children. There's a lot of charities, I get loads of requests from charities.

I happen to favor pro-life charities, where they help the mother in the first year of her life with the babies' products. But that's only a small subset of what goes on in this country. And I think that apparel and footwear for infants is certainly a product line where the Committee should see that tariffs are not warranted. Thank you very much.

MR. BURCH: Thank you, Mr. Stack.

Our next panel witness will be Rebecca Mond with The Toy Association.

Ms. Mond, you have five minutes.

MS. MOND: All right. Thank you very much for allowing me the opportunity to testify today. I'm Rebecca Mond, vice president of Federal Government Affairs at The Toy Association.

The Toy Association represents more

than 1,100 businesses, manufacturers, importers, retailers, studios, and licensors, all involved in bringing safe, fun, and educational toys and games to children to market.

With an annual U.S. economic impact of $109.2 billion, the U.S. toy industry supports 683,933 American jobs. Approximately three billion toys are sold in the United States annually, totaling $27 billion at retail. Importantly, over 95 percent of toy companies in the United States are small businesses.

The proposed tariffs on toys imported from China will devastate the toy industry, and assuredly lead to higher prices. We greatly appreciate your office's consideration of the harmful economic impact tariffs would have on the U.S. toy and children's product companies.

We request that USTR not impose tariffs on HTS-US Subheading 9503, the HTS classification under which all toys are imported. Other toy-related products have also been submitted for your consideration in our written comments.

This looming tariff threat is coming at a historically inopportune time for our industry, given the recent bankruptcy of Toys R Us. The liquidation of all 800 Toys R Us stores and elimination of over 30,000 American jobs had a seriously disruptive impact on the U.S. toy industry. Levying what is essentially a 25 percent additional tax on U.S. toy companies just as peak holiday shipping season begins would be crippling.

Toys are the tools of play, and the building blocks for a healthy childhood. Through play, kids learn valuable skills they'll use in their lifetime. Whether it's a stuffed animal, action toy, puzzle, doll, or race car set, toys ignite kids' imaginations, curiosity, critical thinking and more.

Parents work hard to be able to provide toys for their children. With 85 percent of all toys sold in the United States imported from China, imposing these tariffs would have a major and immediate impact on consumers, increasing toy prices by an estimated 15 percent, and resulting in a reduced selection of toys.

Over 80 percent of toy retail dollars remain in the country because of U.S. domestic operations. The most important aspects of creating a toy, like research, development, and design occur domestically. These are high-paying jobs that fuel the consumer-driven U.S. economy, exactly the jobs you want to keep here.

However, economic analysis has determined that a 25 percent tariff applied to toys and games would result in the loss of 68,000 U.S. jobs. Production by U.S. toy companies is well entrenched to China, enabling U.S. toy companies to be among the most competitive in the world, providing consumers a broad array of toys at highly competitive prices.

Long lasting relationships with Chinese manufacturers have resulted in a higher safety assurance, as these partners are well versed in toy safety requirements. Disrupting these relationships would not only be a cost to toy companies and consumers, but it would be a cost to toy safety as well.

That said, these tariffs will not result in a mass shift in toy manufacturing out of China. Our industry has unique manufacturing needs. We're a high volume industry, toys are seasonal, must be affordable at an average price point of about $10, and there must be a wide variety of toys to account for children's range of ever changing interests.

While a handful of companies do produce less complex toys in the United States, or are considering options outside of China, these are exceptions and not the rule. The technical capability, cost efficiency, infrastructure, labor, and overall capacity to accommodate the toy industry's manufacturing needs only exists in China.

We note that imposing tariffs would be an advantage for Chinese toy companies that do not have a U.S. presence and import under the de minimis exemption. The de minimis exemption enables foreign companies that sell direct to U.S. consumers to price their tariff-free products more affordably than U.S.-based toy companies. And often, these foreign toy companies are selling inferior knock-offs that do not go through the same safety testing that established brands undergo, putting our nation's children at risk.

Finally, toys are not relevant to the administration's goal of targeting Made in China 2025 industries. Imposing tariffs on toys, like my stuffed Tariff Grinch over here, would produce little leverage in helping eliminate China's offending IP practices, as China does not regard toys as a high priority or strategic industry, and has placed little emphasis in developing its domestic toy industry.

For these reasons, toys should not be subjected to tariffs. We greatly appreciate the opportunity to submit these views, and will welcome any questions that you may have.

MR. BURCH: Thank you, Ms. Mond.

Our last panel witness will be Joseph Shamie, with Delta Enterprise Corporation.

Mr. Shamie, you have five minutes.

MR. SHAMIE: The green? Okay. Mr. Chairman and members of the committee, thank you for providing me this opportunity to testify.

My name is Joe Shamie, and I am president of Delta Enterprises, also known as Delta Children, located in New York City.

I appear before the committee today to urge that the administration not impose retaliatory tariffs on infant and children's products from the People's Republic of China, including cribs, bassinets, high chairs, infant safety seats, bouncers, play yards and parts of these products.

The reason for this request is straightforward and important. Raising the prices on these products through tariff increases is likely to lead to an increase in infant and child deaths and injuries, in addition to increasing the already declining birth rate.

Founded in, as a juvenile furniture retailer by my parents in Brooklyn, in New York, 1968, Delta is truly an American success story, growing exponentially from over the past half a century to become one of the United States' largest manufacturers and marketers of safe and affordable infant and children's furniture.

In addition to importing, we manufacture other juvenile products here in the United States, those that we are able to manufacture, directly importing -- employing over 300 people around the United States of America, from Wisconsin to California, New York, New Jersey and Arkansas, and other places in the U.S.

Our products are sold by major retailers such as Target, Walmart and Costco, primarily to working class Americans. Delta's actively involved in standard setting activities with the ASTM, the American Society for Testing and Materials, as well as the CPSC, Consumer Product Safety Commission and other industry groups.

We're setting -- sending bodies to develop, create and implement safety standards for JP, for juvenile products. In fact, we hold four chairperson positions across these safety committees. Unheard of that we are so involved. And we are investing our financial money in developing standards for the industry.

Our company also engages in community outreach, to educate new parents to the importance of keeping these infants in a safe home, and safe sleeping environment. We have donated over $5 million of safe products to help military families and families in need.

I have personally been multiple times to Fort Dix, Fort Bragg, Scott Air Force Base and others, to meet with and help families and our troops. The additional tariffs will hurt these families. They simply cannot afford to pay more for safe products.

You can Google Delta, and you'll see all the outreach that we do to help families in need, especially our military families. I am on the board of directors of First Candle, a non-profit organization dedicated to promoting infant safety, preventing deaths from SIDS, sudden infant death syndrome, and seeing that every child reaches their first birthday.

I am also on the board of Kids in Distressed Situations, K.I.D.S, a charity which provides children with clothing and safe products. Last year we gave out over $225 million worth of product to help keep children safe in their products, as well as to have warm clothing for them.

Safety standards for baby products have evolved and improved over the years. Recently the CPSC implemented new mandatory standards for high chairs, after reporting some 18,000 high chair related emergency room visits in just one year.

Obviously, federal policy should be to encourage parents to purchase new products, safer high chairs, however if the price of such chairs has increased by tariffs, fewer parents are likely to be able to purchase them, just as this mandatory standard goes into effect, which actually increased cost to begin with.

Delta has worked extensively with its vendors, including those in China, to ensure that they could manufacture infant and children's furniture to meet the exacting standards we impose and enforce here in the United States.

When the price of children's products increases, parents turn to unsafe hand-me-downs and thrift shops. This increases deaths and injury hazards to infants and toddlers. Used furniture simply does not meet current standards, and is not safe. Its components may have been deteriorated with age, from use, or while in storage. Assembly instructions and the original assembly hardware may be missing or misplaced, so the furniture is reassembled in a jury-rigged and unsafe manner.

Worse, their parents may put these children in an unsafe environment such as a chair designed for adults. This represents an enhanced risk of danger for death and serious injury. Delta strives to avoid such outcomes. Imposing tariffs on Chinese products, Chinese juvenile furniture products will make this task even more difficult.

China has, for decades, been an important supplier of safe and affordable baby furniture to the United States market as the leading supplier of these goods by volume, and its output simply cannot quickly or easily be replaced. A 25 percent tariff will price these goods out of reach for many consumers. In the process, it will endanger children's lives.

Responsible and safety-minded companies like Delta simply cannot switch suppliers quickly. After the administration imposed 301 tariffs on infant cribs, Delta sought out manufacturers in other countries who might be able to produce cribs to our new and tougher CPSC standards. We were met with very limited success. It takes time to bring new manufacturers up to standards.

In some cases, we were unable to obtain the quality of the wood needed to make a safe crib. The recent imposition of an additional 15 percent has caused us to raise prices on our cribs and basinets. Retailers have increased their prices, and will increase again.

We have already seen a drop in crib sales, and we expect further drops. More infants will be sleeping in hand-me-down products and co-sleeping with their parents, or with other children, creating a very unsafe sleeping environment. This is unacceptable.

The same is true of other baby furniture products. The birth rate in the United States is ranked the 73rd lowest, and has continued to decrease while the cost of raising a child is increasing. It costs a quarter of a million dollars to raise a child from birth to age 17. Do you want to bring down the birth rate even further? What does it say about the United States' family values?

And we all say it, a declining birth rate is going to have a devastating effect on the economy. Surely we can resolve our trade and intellectual property disputes with China in a way that does not place the lives and well beings of America's youngest and most vulnerable citizens at risk.

I urge your committee to recommend against the inclusion of affordable juvenile and baby products, and the parts thereof, in any and future tariff retaliations.

I thank you for your attention and I'm happy to answer any questions. There's all backup information on the cost of a child from age to 17, as well as the declining birth rates and the effects that it has on the economy. Thank you very much. I appreciate your time.

MR. BURCH: Thank you, Mr. Shamie.

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

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

My name is Philip Butler. I am with the Office of General Counsel, United States Trade Representative. We have some questions for you. And if the agency reps would introduce themselves, I'd appreciate it.

MR. FRATERMAN: Matthew Fraterman, Department of Labor.

MS. MARTINICH: Linda Martinich, Department of Commerce.

MR. FRATER: Eric Frater, Department of State.

MR. GILMARTIN: Kevin Gilmartin, the Treasury Department.

MS. HEINZEN: Janet Heinzen, USTR.

MS. CACKOSKI: Caitlyn Cackoski, USDA.

MS. HEINZEN: Good morning and thank you all for being here and for your testimony. I have a question for Mr. Smith.

In your testimony, you state that China is a major source of baby clothes, and you have worked with vendors there for decades to assure high safety and quality standards. According to import data, imports of babies' garments from China are declining while imports from other countries in Asia and the Western Hemisphere are growing.

What are the obstacles from shifting your sourcing from China to these other countries?

MR. SMITH: Only time. As I've said, we've reduced our imports from China by 50 percent over the last ten years. But as you've heard from several people here, it's a long lead time industry. We've already placed our spring '20 orders. With years, our -- that number will go down.

Our current pull from China will continue to decrease. It's already our -- in second place. Cambodia has overtaken it. So the impediments are only time, and our resolve to find the right factories that produce the right safety and adhere to our processes. It's completely achievable, but it will require years.

MS. HEINZEN: Thank you. I'd also like to ask you about the comments you made regarding de minimis and 321 entry shipments. Could you elaborate on the challenges posed by this provision? And is this currently affecting your business now?

MR. SMITH: Well, we certainly see it from a intellectual property infringement standpoint. With some regularity, we are contacted about product that might carry our name that came into the United States through the de minimis 321 entry.

If our prices have to increase, and they will if these tariffs go into effect, that will further incentivize the offshore providers, who won't pay the duty and won't pay the tariff, and won't go through the safety protocols that we have in place now, and are part of the reason it's slow for us to move.

So we've already seen it. And we suspect that this will be just fuel and incentive for those offshore operators, frankly, some of which are bad actors. And we just, as I understand it, there are not mechanisms across all of your agencies to necessarily get after that.

We're absolutely committed to safe products. And if that has to curtail the 321, so be it, but safety is paramount. As the law sits right now, if the tariffs were to go into place, the day the tariffs go into place, there's a huge incentive for that route, and it will floodgate.

MS. HEINZEN: Thank you.

MR. GILMARTIN: Thank you, everyone for your comments today. My question is for Ms. Gold.

In your testimony, you mentioned the specialized production lines and know-how needed to produce infant shoes. Can you explain in more detail what these are, specifically, and why they're not available from suppliers outside China?

MS. GOLD: Sure. This market, although large to me, is not that large of a market outside China, or frankly in the world. We produce what's called stitch-and-turn shoes. It's different than a vulcanized rubber shoe.

And basically, these shoes can be turned inside out. They don't have the kind of sole that companies that would be wanting to get in to the production of shoes, would want to spend the money to -- the capital to create the equipment to get into because there's a larger market for it and because there's not a safety requirement for it. And the actual average price point for the product to get out of that, to get out of country would be higher.

So there's just not enough investment. The market's simply not big enough for baby shoes to -- for others to invest in at this point.

MR. GILMARTIN: And just a quick follow-up related to this. Is there any manufacturing source in the United States that does supply these products, or is it country --

MS. GOLD: Not that I'm aware of. Like I had said, 93 percent of this, these goods come in from China. I don't know of one manufacturer in the United States producing this product.

MR. GILMARTIN: Thank you.

MR. FRATER: Good morning. My question is for Ms. Chapman.

In your testimony, you noted that production capacity isn't created overnight. As already noted, though, according to import data, production has been shifting from China. If you would, please elaborate on your concerns with moving your production of baby garments outside of China. What are the key obstacles?

(Off microphone comments.)

MR. BURCH: Can you speak into the microphone, please? So the court reporter could pick it up.

MS. CHAPMAN: Okay. The top line is world imports. Just below that is China's share of it. And then the three lines down here represent the closest nearest competitors to making that product.

And quite frankly, one of them is Mexico, which is duty free. And this is a 32 percent item. So there is severe cost impediments to moving out of China. And when it does move along, it does tend to go to other low-cost labor places, but they simply don't have the capacity or investment at this time.

Other big shifts that we see are to Vietnam, where it's Chinese fabric. So they're still garnering the share of the highest cost input of the item.

But again, I would concur with others that it's time. I think, if you look at -- I took a look at 32 categories across cotton and synthetic apparel that we make children's wear in, and 24 of them, 75 percent are dominated by China.

And even when it's only something like 40 percent in terms of China's share -- let's see the other one -- the gap -- okay. The gap in the production, between the next competitive market, is in the millions of dozens.

So for example, in woven synthetic jackets, there's a 72 million unit gap between China and the next available market. So that's, it's really, we're trying to -- it's a matter of time, and I don't think that it can be done by everyone all at once. So invariably, the cost will be borne here.

MS. MARTINICH: My question is for Mr. Stack.

And I wanted to say that I appreciate your knowledge and your experience in the Customs issues related to children's apparel and footwear, and the written information that you had provided.

And I noted that in your written summary, that when you were discussing other countries as potential suppliers, you referred to a cost umbrella that's created by Section 301 tariffs on infant and children's footwear and apparel.

MR. STACK: That was basically, if the prices in China, which has 40 percent or more of the product, go up, they're going to be borne by the U.S. consumers here, that the other countries are in a position to raise their prices. So it won't be a savings.

And also, most of those other countries are going to be using Chinese fabric, in my experience. And Chinese fabric is widely used in free trade programs, where we have these developed benefits and the like around the world. And with a short supply of products, they often come from China.

Some come from Taiwan, some come for Korea. But China was a large source of those. So you're not really cutting China out. China is losing somewhat, but they are expanding their influence and their availability of product in those other countries. And down the future, they will still be the suppliers there.

MS. MARTINICH: And so you're saying with the cost umbrella then that, you're saying that the other countries will take advantage of the increased cost and --

MR. STACK: There's no reason for other countries to maintain the same prices, if they have a 25 percent differential in the tariffs going back to United States. So that my summary was, basically it's going to cost American families money anyway.

So keeping the situation as is, with all the other concerns that have been expressed, I think is far preferable than to add the 25 percent for China, and hit people with 25 percent on 40 or 80 percent of whatever the product line is, and then have other countries also -- if they can expand production at all, there's a good chance they're going to be using Chinese materials.

As I said, the article indicated that in the Asian area, 80 percent is internal to the area, and China is by far the producer of fabrics, from anything I've seen in other countries.

MS. MARTINICH: Thank you very much.

MS. CACKOSKI: Hi. I have a few

questions for Rebecca Mond of The Toy Association.

You stated that the tariffs will not result in a large shift in toy manufacturing out of China. What other sourcing options exist for toys, and how long do you estimate it would take to shift to another source?

MS. MOND: So, we do hear that a handful of toy companies have been considering other options, Vietnam being one, India another. Some have also considered the United States, but these are few and far between.

For the vast majority of the over 1,000 U.S.-based toy companies, these are not options for them. The capacity doesn't exist outside of China to accommodate their production. And we enumerated on a few of those reasons in the testimony.

MS. CACKOSKI: Thank you. In your written testimony, you also mentioned shifting of less complex toy production to other markets. What portion of the industry do you think comprises less complex toys or other toys that could be more easily shifted?

MS. MOND: Right. So a good example of that is, if you look at, you know, a plastic shovel, for example, the only manufacturing process required is plastic injection molding. Another example is, KNEX is a U.S.-based manufacturer.

Putty, silicone rubber-based putty, which actually was on, silicone rubber was on List 2, but that is a U.S.-based manufacturer as well. So these are very simple processes. But then as soon as you start to add in complexity, where you're including electronic components for example.

There is a U.S.-based company that they do the plastic injection molding here in the United States, but in order to get the electronic components in a play kitchen, for example, they have to be sourcing those from outside of the United States.

So that complexity, the high turnover,

those are things that contribute to the inability to manufacture here in the United States.

MS. CACKOSKI: Thank you. Also, could you tell us, do you have a sense of how many workers in China are engaged in producing toys for the U.S. market?

MS. MOND: I don't have a sense of the number of workers, personally. I'll have to get back to you. But I did see recently that there are over 10,000 toy manufacturers in China.

MS. CACKOSKI: Thank you.

MR. FRATERMAN: Thank you, panel, for your testimony. I do have a question for Mr. Shamie, but I also have one quick question for Ms. Mond as well.

In your testimony, you did talk about a lot of the high-paying jobs that fuel the consumer-driven U.S. economy being with U.S. domestic operations, specifically with R&D. However, your economic analysis determined that a 25 percent tariff applied to the toys and games would result in the loss of 68,000 jobs.

Are those 68,000 jobs just in R&D, or are they across the board?

MS. MOND: So, the U.S. jobs that I described, as an example, research and development being one, marketing, retail being another couple, I mean your local toy store and toy shop. That would be impacted as well. So it's that, 68,000 is across the board, not just in toy research and development.

MR. FRATERMAN: Thank you very much.

And Mr. Shamie, in your testimony you state that you manufacture juvenile furniture in the United States. Would you be able to increase sourcing of such products from your U.S. suppliers?

MR. SHAMIE: Okay, so the -- am I on? The domestic manufacturing of products such as mattresses for those cribs, and the huge car beds that people, that sometime, you know, for a toddler to sleep in, those big plastic injection molding bed that looks like a car, those we also invest in, we manufacture here in the United

States.

But cribs, chairs, a host of other products, strollers and so forth, those are not possible to manufacture here, only those two things, which those products are large, for shipping, so the cost of shipping is, brings down, makes it more economically feasible to bring it here in the U.S.

I would like to point out that we're trying to bring in machinery from China to be able to manufacture those mattresses better, but there's a 25 percent duty on that machinery also, so it's making it a little cost prohibitive for us to do so. But, we have to do it.

MR. FRATERMAN: Thank you. That actually answers part of my question, but can you just provide more details on any other obstacles to sourcing goods outside of China that you may face, outside of the costing?

MR. SHAMIE: Okay, sure. For the U.S. manufacturer or for other? First of all, no one wants to manufacture a crib, which involves wood, steel, plastic, painting, et cetera in the United States.

Our low-cost cribs are about 50 bucks, that meet the highest standards you can imagine, that you can -- that the two of us could be jumping up in down inside of, and they won't break, for 50 bucks.

So no one wants to manufacture it. It's very cost prohibitive. China has the system down pat. We've worked with them for decades. My first trip overseas with my father back in the 70s, working with those same manufacturers, not bouncing around to other manufacturers, because we know their standard.

We have testing. We have nine test labs across China, testing the product. And it just, you just can't easily move it. And no one wants to produce that low cost of product. And who wants to work in a wood factory, or a steel factory here in America, painting and sawing and dust and so forth?

Even though they are, we do a great

job in China about making factories that are compliant. But no one here in America wants to do that. And even in Vietnam, they don't want to do it.

MR. FRATERMAN: Great. Thank you very much.

MR. SHAMIE: Thank you.

MR. BURCH: Mr. Chairman, I release this panel with our thanks. And we will recess until 1:05.

(Whereupon, the above-entitled matter went off the record at 12:07 p.m. and resumed at 1:03 p.m.)

MR. BURCH: Would the room please come to order? Mr. Chairman, I'd like to note that all witness for Panel 45 are seated, and just to note for all of the witnesses, because there are few mics, can you speak clearly into the microphone, and if you don't hear yourself, pull it up for the benefit of the people in the back, and also the court reporter?

So our first witness for Panel 45

would be Grif Lesher with ZeniMax Media, Incorporated. Mr. Lesher, Mr. Lesher, you have five minutes. Oh, my fault, Mr. Smith. It's Brian Smith with LBC Bakery Equipment. Mr. Smith, you have five minutes.

MR. BRIAN SMITH: Thank you. Good afternoon. My name is Brian Smith, and I am the general manager and CFO of LBC Bakery Equipment, Inc., located in Marysville, Washington. I am here today to ask you to not include certain bakery equipment on any retaliation list, as including these products will only hurt U.S. businesses like mine, the customers who use our products, and the U.S. food consumer.

LBC designs, engineers, imports, sells, and supports several lines of bakery ovens, primarily rack ovens, and bakery proofers. This equipment is imported from China under HTS subheading 8419.81.50, which is on the list of HTS subheadings to be assessed the additional 25 percent tariff.

LBC has imported rack ovens and

proofers from the same factory in China since 2005. This factory began producing rack ovens and proofers for other customers in 1998. Both this factory and LBC and majority-owned by a Taiwanese company, which itself began producing bakery equipment in 1988.

Bakery ovens and proofers are sold to a wide variety of customers in the U.S. Small and medium-sized customers include independently-owned bakeries, school cafeterias, and school district commissaries, colleges and universities, hospitals, rehabilitation facilities, state and local correctional systems, single location grocery stores or restaurants, and similar entities.

Approximately 75 percent of LBC's customer base in 2018 consisted of small to medium-sized end users. While hard statistics are difficult to come by in our industry, it is widely believed that the U.S. market for rack ovens and proofers is dominated by three suppliers, with LBC being either the second or third largest.

We understand the concerns our government has with the policies outlined in the Trade Representative's notice, and we are, and we fully support our government's initiative to ensure that everyone competes fairly. However, the acts identified by the Trade Representative do not apply to LBC or its products.

To manufacture rack ovens and proofers in China, the Chinese government did not invest in LBC, did not require LBC to enter into a joint venture, and did not require LBC to transfer intellectual property to China or a Chinese company.

Chinese regulations did not force non-market terms on LBC's licenses, or any technology-related contracts. People have been proofing dough and baking bread for thousands of years. The rack oven itself was invented in the 1950s, and much of the product innovation, which has taken place in recent years, is related to energy efficiency.

With LBC's double rack gas oven, the most common rack oven sold in the U.S., being the clear leader in energy efficiency among the three main competitors per independently published test results.

I appeared before this Committee in May 2018 to request a removal from the retaliation list of HTS subheadings 8419.81.50, the subheading under which we import our bakery equipment, and 8419.90.95, the subheading under which we import our service parts.

At that time, I warned that inclusion of these subheadings in the retaliation list would lead to increased costs to users of bakery equipment, and ultimately, to food consumers, are those costs are passed along. The USTR kindly removed 8419.81.50 from the retaliation list, but did not remove 8419.90.95, and as such, the cost of our service parts increased by 25 percent.

As anticipated, that increase in cost has been passed along to our customers throughout the United States, who, in turn, have likely passed it along to their customers, the U.S. food consumer.

If bakery ovens and proofers are not removed from the list, the same result will follow. The increased cost will further punish the U.S. consumers of baked goods. So we ask you to refrain from dragging us and our customers, the majority of whom are small to medium-sized, into this fight, with which we have little to do.

Respectfully, I believe that including our products on the retaliation list would be ineffective, would result in little pressure being placed on China, would greatly handicap a much needed competitor in this industry, would harm small business and local governments, would result in fewer bakeries being opened, and would cause the replacement of old energy inefficient ovens to be greatly delayed. Thank you for your time.

MR. BURCH: Thank you, Mr. Smith. Our next panel witness will be Christine Robins with Char-Broil, LLC. Ms. Robins, you have five minutes.

MS. ROBINS: Good afternoon. My name is Christine Robins. I'm the president and CEO of Char-Broil, LLC, a 71-year-old American barbeque grill company founded and still headquartered in Columbus, Georgia. Char-Broil is one of the world's leading producers of outdoor barbeque grills.

I am here today to respectfully oppose the imposition of Section 301 tariffs on the portion of the outdoor barbeque grill category that has not already been covered by List 3. This proposed List 4 captures the 40 percent of grills that were not covered under List 3.

When I testified previously for List 3, I explained that the entire mass market grill industries localized in China after the U.S. allowed China to join the WTO 20 years ago. In those 20 years, the grill manufacturing industry in China has evolved into a highly efficient, regionally-centralized, vertically integrated industry.

Today, more than 90 percent of all grills sold in the United States are imported, and of those, over 96 percent are manufactured in China. Simply put, there is no alternative source of supply at present, and it would take a minimum of 30 to 36 months, at a cost of tens of millions of dollars to create one.

While we recognize that the administration has applied tariffs in an effort in an effort to achieve its negotiating objectives, we submit that there is little, if any, logic to justify imposing these tariffs on the grill industry.

Speaking for Char-Broil, I can still testify that we have not benefitted from, or for that matter, been harmed by China's acts, policies, and practices. The Chinese government has never demanded that we turn over our grilling innovations as a cost of doing business in China.

The technology in our products is not the type covered by the Made in China 2025 program. While we have not seen our technology stolen by Chinese competitors, they have begun stealing something else. Our market share.

Frankly, Chinese manufacturers are better positioned to benefit from this administration's current trade policies than iconic U.S. companies like Char-Broil. Char-Broil competes with relatively few American grill brands.

Most of our key competitors are Chinese factories or trading companies that produce private label or licensed grills directly for U.S. retailers. The imposition of tariffs is the only -- is only encouraging those relationships.

We sell through a three-tier supply chain. Chinese factory makes a product according to Char-Broil's design and specification, and we sell that product to our retail customers. When tariffs are imposed, the rational consequences for Chinese manufacturers to leverage their cost advantage and expertise to displace U.S. companies and brands.

This two-tier supply chain can more easily absorb the tariffs without raising consumer prices. With the May tariff increase to 25 percent, this squeeze on U.S. brands is only getting tighter. Surely, the demise of well-known companies and brands cannot have been the administration's objective.

We recognize that trade with the United States needs to be on fair terms, which is why we appreciate the stated objective of the Section 301 proceeding. We accept the administration's determination that China is not trading fairly, and agree that the United States should respond, but taxing grills and accessories, however, is not the solution.

These tariffs will not help convince China to change its behavior with regard to mandatory technology transfer and IP protection issues. Doing so will, however, incentivize retailers to purchase private label and licensed products directly from Chinese manufacturers.

We opposed the imposition of

additional tariffs on gas grills on List 3. This does not only cause economic harm to Char-Broil, but it has distorted the U.S. market by taxing only a portion of the grill category.

Conversely, it has not yet imposed additional tariffs on the balance of the industry, which puts Char-Broil in a strange position. We market one of the most comprehensive grill portfolios, but are suffering the harms inflicted by List 3 when others are not.

We assume that the government is not trying to pick winners and losers within the grill category, but its actions to date amount to that. While we could ask the government to level the playing field by imposing comparable tariffs on the grilling products by List 4, we are not.

Instead, we are requesting that the grilling products covered by the proposed List 4 be removed from the final list. If these articles are not removed, we respectfully request that the product exclusion process be adopted concurrently with the implementation of tariffs.

In summary, the gas grill industry is suffering under the current tariffs on Chinese imports. The implementation of List 3 tariffs has created an unfair market by burdening some in the category, but not others, and in the meantime, this tax on the industry is actually benefitting, not harming, Chinese manufacturers who are squeezing U.S. brands out of the supply chain and selling private label grills directly to U.S. retailers. U.S. jobs will likely be lost, and U.S. companies are in jeopardy. Thank you for your time.

MR. BURCH: Thank you, Ms. Robins. Our next panel witness will be Charlie Souhrada with North American Association of Food Equipment Manufacturers. Mr. Souhrada, you have five minutes.

MR. SOUHRADA: Thank you very much. Members of the Section 301 Committee, thank you for the opportunity to testify today. I am Charlie Souhrada, Vice President of Regulatory and Technical Affairs for the North American Association of Food Equipment Manufacturers, or NAAFEM.

I would like to begin by emphasizing the negative impact that each new round of tariffs is having on NAAFEM members. Of the tariff lines presently under consideration for additional tariffs, nearly 500 cover materials, parts, and components used by our members to manufacture commercial food service equipment and supplies.

While it is of course true that the tariffs are not a black and white issue for all of our members, even some members that rely less on imports of Chinese inputs reported as much as a 19 percent increase in costs of materials.

In other words, between the Section 232 and 301 tariffs, our members, even ones using only domestic products, are taking a real hit, and each incremental increase places an additional tax on the very same companies these policies are supposed to help.

NAAFEM is a trade association of more than 550 manufacturers, providing products for the food away from home market. Since 1948 NAAFEM has represented North American companies that manufacture the highest quality food service equipment and supplies on the planet, such as stoves and ovens, refrigerators, freezers, ice machines, heated cabinets, racks, tables, cookware, flatware, beverage dispensers, and more.

These business, their workers, and the products they manufacture support the food service industry, which includes over 1 million locations in the U.S., and countless more around the world. NAAFEM's members include a range of small, medium, and large business throughout the country.

In fact, more than 60 percent have annual sales of 5 to $10 million, and qualify as small businesses, according to the Small Business Administration. This is significant, because as the Wall Street Journal reported late last year, this class of company, like others, feels good about the economy, but compared with larger operations, they have less ability to deflect higher material prices, or pass along new costs to customers.

We're happy to report that USTR's removal of certain products from the three finalized lists of products has had, and will have, a positive impact for many of our members.

This provides much needed relief at a time when these same companies are struggling to deal with steel and aluminum tariffs, which have caused material costs to fluctuate substantially, at one point, increasing by approximately 30 to 40 percent, only to fall again more recently.

These rapid fluctuations in material costs have made effective business planning very difficult. We also appreciate the Panel's questions during the previous Section 301 hearings.

In particular, we applaud the Panel's focus on the challenges of changing supply sources, as this would be particularly true for the targeted items that concern our members. We are appearing here today to reiterate many of the same issues we raised during the prior three rounds.

List 4 contains many items of concern to our members, and just like the first three rounds, we supplied a detailed list of the tariff numbers of concern with our request to appear, and have provided further details in our formal comments.

Like the previous lists, imposing tariffs on products included in List 4 has the potential to harm NAAFEM members, either by targeting material inputs, tools, or equipment used on the shop floor during the manufacturing process.

For instance, List 4 includes parts for items like trash compactors and bakery machinery, which you heard about just a few minutes ago, as well as important inputs, such as a variety of flat rolled iron and steel, stainless steel, and aluminum products.

These items are used by NAAFEM members to manufacture some of the products cited earlier. While these List 4 products may be available from other countries, our members rely upon complex manufacturing supply chains, and rebuilding these supply chains will consume vital resources, and will take years to reconfigure.

This adds a regulatory burden the administration promised to eliminate a few years ago. It's important to point out that the items on our list are not high-tech. They are not the sort of items that benefit from China's intellectual property practices, nor do they contribute to China's high-tech ambitions.

Instead, we believe these tariffs are directly contrary to the administration's priority of increasing good-paying US manufacturing jobs. Instead, smart economically competitive sourcing from global suppliers, including those in China, allows manufacturers to control costs, which protects, and even expands, U.S. jobs.

While we appreciate the President's intent to address China's unfair trade practices, we encourage the administration to do so in a way that does not include tariffs that ultimately hurt and tax American workers, U.S. manufacturers, and consumers.

On behalf of NAAFEM members, thank you for the opportunity to testify today, and I look forward to any questions.

MR. BURCH: Thank you, Mr. Souhrada. Our next panel witness will be Richard Krause with Capital Brands Distribution, LLC. Mr. Krause, you have five minutes.

MR. KRAUSE: Good afternoon. My name is Richard Krause, and I'm the chief executive officer of Capital Brands Distribution, LLC, a company with employees in California, Connecticut, Illinois, Massachusetts, Minnesota, and Tennessee.

We produce single serve nutrient extractors and food mixers, including the

NutriBullet, Baby Bullet, and Magic Bullet. From the beginning, our vision has been to promote health and wellness by making it convenient, easy, and enjoyable to consume fresh fruits and vegetables in the form of smoothies.

Capital Brands fully supports USTR in its efforts to obtain the elimination of China's unfair acts, policies, and practices related to technology transfer, intellectual property, and innovation.

However, none of these goals are furthered by imposing an additional 25 percent tariff on single serve nutrient extractors and food mixers, classified in HTS subheading 8509.40.0025.

As such, I'm here to respectfully request that the USTR remove that 10-digit HTS subheading from the list of products that are subject to the proposed tariffs. We believe removing HTS subheading 8509.40.0025 from the list is warranted for several reasons.

First, an additional 25 percent tariff

on single serve nutrient extractors and food mixers would have a devastating impact on Capital Brands, a small US company. We manufacture, market, and sell single serve countertop nutrient extractors and food mixers.

For over a decade, we've engaged in a cooperative, co-development process with contract manufacturers that make our products in China. As part of that process, we've invested millions of dollars in R&D activities, tooling, and other items.

Given our substantial investment in time and money today, to the best of our knowledge, there are no suitable alternatives to manufacture our products outside of China, and relocating our supply chain is not feasible in either the short or medium term.

The additional tariff would impact 100 percent of our domestic sales. Therefore, if we are unable to pass the full 25 percent tariff to our customers, we would face a scenario in which our lost profits would severely impact the company's current operating income.

If that happens, we'd be forced to significantly reduce our workforce, and we'd have to rethink further Capital investments. Additionally, the incremental tariff would have trickle down effects on our US suppliers, with whom we've had a longstanding relationship, and they've to rely on our business.

Second, if we and others are forced to increase the price of single serve nutrient extractors and food mixers, products with clear health and wellness benefits may become unaffordable to some Americans.

The bestselling Magic Bullet, for example, is an affordable, entry-level, single serve countertop appliance that chops, mixes, and blends with ease, and retails for approximately $30.

The Baby Bullet, which is one of the first fully-integrated healthy baby food systems for use at home by parents who desire an alternative to processed store-bought baby food, retails for approximately $60.

If our products become more expensive, we believe US consumers are less likely to engage in the healthy practice of consuming fruits and vegetables in the form of smoothies.

Third, single serve nutrient extractors, and other food mixers classified in HTS subheading 8509.40.0025, do not employ the type of cutting edge technology targeted by Made in China 2025, or other unfair Chinese initiatives.

As such, imposing an additional tariff on those products would not be effective to obtain the elimination of China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

As you know, USTR has proposed an additional tariff on HTS subheading 8509.40.00, an 8-digit tariff code that covers food grinders, processors, mixers, and fruit or vegetable juice extractors.

For the reasons I have enumerated,

Capital Brands respectfully requests that USTR create a carve-out not subject to the additional tariff for HTS subheading 8509.40.0052, a 10-digit tariff code limited to food mixers, that include single serve nutrient extractors. Thank you for the opportunity to testify on this important issue.

MR. BURCH: Thank you, Mr. Krause. Our next panel witness will be Eric Jacobson with American Lighting Association. Mr. Jacobson, you have five minutes.

MR. JACOBSON: Good afternoon. My name is Eric Jacobson. I'm president of the American Lighting Association. ALA is a Dallas-based trade association, representing over 3,000 members in the residential lighting, ceiling fan, and control industry in the US.

The American-owned family businesses that comprise ALA's membership design, manufacture, and sell quality lighting products. Our membership oversees the entire supply chain for residential lighting all the way to the

American consumer.

The lighting industry is proud to contribute over $5 billion towards the US economy, but imposing a 25 percent tariff on the products in the lighting industry would likely cause great harm to the American-owned companies, their workers, and especially their customers.

I'm here to urge the Section 301 Committee to exempt HTS codes for LEDs and ceiling fans, as identified in the proposed List 4, when making a final determination. As a country, America has always been on the leading edge of technological creation.

The LED is a great example of a relatively recent achievement, and ALA's manufacturers are deriving technological advancements in LED innovation. As a result, their businesses are growing, and sales are increasing.

Allowing tariffs would not only stifle innovation, it would disrupt the continuing adoption of LED products, and diminish sales of ceiling fans, whose sole purpose is to save energy and reduce cooling costs.

It is true the theft of American IP from China is real, and the residential lighting industry believes that it's vital to protect a company's, or a country's, collective IP.

However, the theft of IP does not extend to the lighting industry, which is why are against USTR's efforts to install tariffs on LEDs and ceiling fans. Furthermore, tariffs already impact LEDs and ceiling fans.

For LEDs, there is already a 2 percent in tariff in place, and for ceiling fans, there's a 4 percent, 7, 4.7 percent tariff. ALA argues that even these tariffs are too high, and adding the additional 25 percent tariff would only add insult to injury.

Ceiling fans are not new to the consumers, and LED adoption is on a strong upward trajectory. The additional 25 percent would increase tariffs on these products to nearly 30 percent, which is likely to cause a negative consumer reaction.

Allowing the proposed tariffs on lighting products to take effect would stifle the industry's bright future, hurt job growth, throttle the economy, and raise prices on consumers, unless a deal is reached. To prevent damaging the robust US economy, ALA strongly supports the efforts to re-engage the Chinese government, get both sides back to the negotiating table.

ALA is hopeful that President Trump and President Xi have fruitful conversations this week at the G20 Summit in Osaka. Ultimately, ALA is in the opinion that striking an enforceable agreement and removing the tariffs is the best pass forward for manufacturers, retailers, and consumers.

Today, the lighting industry is experiencing a significant growth curve. In fact, lighting manufacturers are desperate for workers, and are seeking highly skilled labor to bolster their ranks, and support their customers.

If the proposed tariffs move forward, manufacturers have indicated they will be forced to raise prices, reduce the workforce, curve domestic R&D, and scale back on future infrastructure investments.

The reach of US lighting manufacturers spreads throughout the world, but their strongest operational presence is in China. 97 percent of all LEDs, and ceiling fans, and other lighting products are manufactured in China by US companies, imported to the US.

In China, manufacturers have long-term contracts with suppliers, factories, transportation and logistic handlers, and marketing and sales personnel. Not to mention, the major testing laboratories are located in China.

Many lighting manufacturers have spent over 30 years cultivating their relationships with their Chinese partners. They have established a proven source of raw materials and components needed for the lighting industry to thrive.

When it comes to lighting manufacturers, there's simply no alternative to China. As previously stated, ALA supports the goal of protecting American IP and jobs, but again, ALA strongly opposes tariffs as a means to accomplish that goal.

From ALA's point of view, using tariffs as a tool to influence the trade relationship with China has already proven costly to the American consumers. Furthermore, lighting retailers are facing new challenges.

They surviving competition from multiple channels of distribution, and are navigating a web of challenging sales tax policies. Price increases have already occurred on lighting fixtures as a result of the List 3 tariffs, and the same can be expected for LEDs and ceiling fans if proposed List 4 tariffs moves forward.

As prices go up, consumers are forced to make tough financial decisions. The average budget-minded consumer wants the best product for the best price, but the higher prices caused by the proposed tariffs in List 4 will further limit the average consumer's ability to improve sales, improve lighting, and lighting is diminished.

ALA believes that the price increase on the lighting products, whether realized or proposed, is equivalent to a tax increase on the American consumer.

In conclusion, ALA members want the Committee to recognize that the lighting products, while discretionary, also provide a utility to consumers. Lighting is unique in that it touches everyone's life, every day, and very few industries can make that bold claim.

That is why ALA requests USTR to reconsider the proposed tariffs on LED and ceiling fans, especially HTS codes 8414.51.30 and 8539.50.00. Again, thank you for the opportunity to address the Committee.

MR. BURCH: Thank you, Mr. Jacobson. Our last panel witness will be Jesse Spector with

Software and Information Industry Association. Ms. Spector, you have fine minutes.

MS. SPECTOR: All right. Thank you. Members of the Committee, on behalf of the Software and Information Industry Association and our members, I want to thank you for the opportunity to testify today regarding the proposed action pursuant to Section 301 tariffs applied to China, the so-called List 4.

My name's Jesse Spector. I'm the director for technology policy at SIIA, the principle trade association for the software and digital information industries. The more than 800 software companies, data and analytics firms, information service providers, and digital publishers that make up our membership, serve nearly every segment of society, from education and government to healthcare and everyday consumers.

There is no doubt that China fails to provide a level playing field for the companies that SIIA represents, and so it is clear to us that Chinese trade and commercial practices require sustained attention.

We, therefore, support the Trump administration's emphasis on changing the paradigm for U.S.-Chinese economic relations. However, we oppose the use of tariffs as a means of doing so, because they are ineffective at achieving that aim, impose heavy costs on US businesses, and ultimately hurt American consumers.

With regards to List 4, my testimony will focus on those tariff lines that concern mobile phones, connected devices, and laptop and tablet computers. I will also address the proposed tariffs on printed materials. Together, these would have a direct, significant, and negative impact on the businesses of our members, forcing them to reduce product lines, raise prices, and cut American jobs.

We, therefore, request that these items be removed from List 4, and if removal is not possible, at a minimum, we ask that the implementation timeline be appropriately adjusted to allow reasonable time to undertake mitigation measures necessary to safely shift production.

Mobile phones have become a daily necessity for most Americans, and laptop and tablet computers and connected devices have proven their worth as critical productivity tools. US producers of these high demand devices are in fierce competition with global rivals to drive down prices.

Applying a 25 percent tariff on US producers would force them to raise their prices, and effectively give a competitive advantage to producers elsewhere who would not face these additional costs.

In the low margin and high risk consumer hardware business, few, if any, US firms would be able to absorb a 25 percent surcharge on products without losing market share to foreign competitors.

The reality is that many smaller firms would be forced out of business, while larger ones would become less competitive globally. Removing these tariff lines from List 4 would have a meaningful impact on preserving American competitiveness on this critical sector.

The lack of lead time to prepare for these new tariffs further compounds the negative impact on US companies, who are already heavily invested in production cycles for the critical fall sales season.

Shifting production to a new location for this cycle is simply no longer feasible, and since consumer demand would remain unchanged, the application of these tariffs would effectively drive US consumer business to foreign competitors.

Companies manufacturing mobile phones indicate that 8 to 10 months is necessary to establish new contract manufacturers and facilities without disrupting ongoing production cycles.

For connected devices, that timeline can be three to six months, depending on the complexity. Allowing adequate lead time would save US companies billions of dollars, and ensure that they stay ahead of foreign competitors. While we remain firm in our position that these items should be wholly removed from List 4, if such removal is not possible, at a minimum, we ask that the implementation timeline be appropriately adjusted.

SIIA also has a number of members who produce printed materials, including children's books, trade books, student textbooks, and marketing materials. As much as 15 percent of these companies print and manufacturing is carried out in China.

Some of this is for items such as tactile titles and specialized print marketing materials that can only be produced in China. Others, like board books, have a very limited alternative source of supply.

In theory, printing capability and capacity could be brought back to the US, however, due to a lack of equivalent domestic facilities, companies would have to open new plants and acquire new equipment, which would require significant capital investment.

And even if these upfront costs could be overcome, it's highly questionable whether such new plants could be properly staffed and resourced. Since many of their customers are educational institutions with long-term contracts and restricted budgets, our members are further constrained in their ability to pass on price increases.

That means that were the tariffs to take effect, reductions would need to happen elsewhere in the business, such as sacrifices to product lines, and reductions in head count. In closing, I want to reiterate that SIIA supports the Trump administration's emphasis on changing the paradigm for US and Chinese economic relations.

However, we oppose the use of tariffs as a means to do so. As my testimony has explained, the proposed tariffs on mobile phones, connected devices, laptop and tablet computers, and printed materials would cause egregious harm to American consumers, and damage American competitiveness in the global market, and we ask that they be removed. Once again, SIIA appreciates this opportunity to testify.

MR. BURCH: Thank you, Ms. Spector. And Mr. Chairman, this concludes all direct testimony from this panel.

CHAIR BUTLER: Thank you all for coming today, and thank you for your testimony. My name is Philip Butler. I am from United States Trade Representative's Office, Office of General Counsel. Before we start, can we get the representatives here to introduce themselves?

MR. FRATERMAN: Matthew Fraterman, Department of Labor.

MS. HUANG: Jessica Huang, Department of Commerce.

MR. SECOR: Peter Secor, Department of State.

MR. CHANG: Won Chang, Department of

Treasury.

MR. WINELAND: Tim Wineland, USTR.

MR. KLEIN: Adam Klein, U.S. Department of Agriculture.

MR. WINELAND: All right. Thank you. The first question, I'd like to direct to Mr. Smith. In your testimony, you referenced the fact that your sector of ovens and proofers is dominated by about three companies, and you referenced that LBC is either the second or the third largest.

Two questions. Have you considered alternative sources of supply outside of China? And as you look at your chief competitors, do you have any knowledge of where their, where their equipment is sourced?

MR. BRIAN SMITH: Sure. As I mentioned, LBC is owned by a Taiwanese company, and the first place where we looked for alternate supply is Taiwan. But Taiwan is a mountainous island, very small, very wonderful to visit. There's not much room there to do much anything these days.

So in New Taipei City, it's just not going to happen there. And the costs would be excessive in order to scale up a plant to the size that we need to supply the equipment that we supply to the US market.

Where our competitors manufacture, one is a European competitor. The other manufactures in the United States. It is a very small part of the food service group of a massive US multinational company with tens of millions of executive compensation, who do not need the protection of the United States government, in my opinion.

MR. CHANG: My name is Won Chang, Department of Treasury. This question is for Christine Robins of Char-Broil. In your testimony, you state that it will take two to three years, and millions of dollars of, for U.S. companies to shift sourcing outside of China. Could you please elaborate on what options your company has explored to date, and why those options may or may not be feasible?

MS. ROBINS: Thank you for the question. So this is a process that we've been going through annually for over a decade. Just for a little bit of context and background, Char-Broil did produce in the United States until 2005, and as a result of the actions of the WTO in the early 2000s, we were basically forced to move outside of the US to stay afloat as a company.

We were losing tens of millions of dollars a year, and the only option was to move offshore, or to close the business. And so since then, it's been an annual process to monitor, you know, the conditions, whether it's supply chain cost of labor, cost of materials, duties and tariff regulation in any given country, but China has been quite stable, obviously.

But it's not just about Char-Broil. It's about all of the sub-suppliers that have, you know, read the same rules and regulations, and the industry is basically consolidated. For the most part, in the grill industry, in southern China, even.

Gas valve regulators have, suppliers have built plants within a 60-mile radius of the factories, packaging suppliers, et cetera. There's a lot of specialized components that go inside of our grills, and they tend to be, you know, centralized.

So it's been an industry that's followed the economic guidance of the United States, for the most part. The time required is really with respect to the technologies, you know, needed. You know, we're dealing with fire and gas in this industry, or fire indoor gas.

And so we need a supply chain and partners that will produce safe, reliable products for the American consumers, at an affordable price, and through our annual process, we've not been able to find such a country, including the United States, honestly.

And so to go establish one, given the fact that, you know, as I testified, 90 percent of the grills purchased in the U.S. come from outside the U.S., and 96 percent of them come from China, there isn't anything to start with.

And so huge investment in technology, capabilities, in the, in the manufacturing process would be required. There is no place else to place a purchase order for the type of volume that Char-Broil, or many of our competitors require.

MR. CHANG: Do you have an estimate of the number of workers in China that are engaged in producing the products that you import?

MS. ROBINS: I don't know the number exactly. I mean, we use a number of factories, so it depends. I will tell you that it's come down significantly over the years. A lot of technology, automation, has been brought to the manufacturing process to reduce the labor cost.

That's actually not even the biggest portion of our bill of materials cost, if you will. It's really the raw materials and components. Labor is a very small portion of our cost.

MR. CHANG: Okay, thank you.

MR. SECOR: My questions are for Mr. Souhrada. In a summary of your testimony, Attachment A includes a variety of List 4 products of concern to NAAFEM.

Products range from plastic trays and tableware to table linens to glassware. Have your member companies explored the feasibility of sourcing these products from other countries besides China?

MR. SOUHRADA: In answer to that question, some of them have. I have not taken a census from all of the member companies. As I mentioned, we have 500 different, 550 different member companies, and so we have not asked them, have you resourced linens, for example, or have you resourced plastic trays, because it's nearly impossible to do that.

Our members make approximately 900 different product categories, either here in the U.S., or internationally. And so all of these products together makes it very difficult for us to assess exactly where the product is coming from, or if they have gone ahead and done the research to determine where else they could find it.

MR. SECOR: My next question is about that research. In your comments, in your post-rebuttal comments, can you provide a breakdown by 10-digit HTS code of those products that, in your view, are not available in sufficient supply outside of China?

MR. SOUHRADA: Again, it would be difficult for us to do that, but we could look into it and provide in our, in our rebuttal.

MR. SECOR: Thank you.

MR. SOUHRADA: Yes.

MR. SECOR: You also state that those members who use only domestic products, I'm assuming domestic inputs, you're referring to, are facing rising costs. Are those inputs originally sourced from the U.S., or are they also from China?

MR. SOUHRADA: They are sourced from the US. The few that I talk with report that they are sourcing from the US, and are very adamant that they want to remain sourcing from the US. So that's their business strategy, and we, of course, respect that, and hope to continue to support it.

MR. SECOR: Thank you.

MS. HUANG: My question is for Richard Krause. In your testimony, you state that there are no suitable alternatives to manufacturing your products outside of China due to your current investment of time and money in China.

Could you please elaborate on why relocating your supply chain is not feasible in the short and medium term, and also, if it is feasible in the long run?

MR. KRAUSE: Yeah, so there's an entire supply chain and infrastructure in China that supports the factories. For instance, motors, molded parts, stamped parts, et cetera, all are over there. And there's a couple things that we really have to pay attention to.

And by the way, we've started looking very aggressively through our supply chain people domestically to say, where else can we take it? We haven't been able to find anything. Capacity is key. We sell millions of these a year. We have to have the kind of facility that can produce it.

The other thing we're very concerned about is quality and safety. Our products are subject to UL approval. We want to make sure we're putting safe products into peoples' homes in the United States, and to get that kind of infrastructure set up somewhere else, after it's been being done in China so long, is going to take us a good amount of time.

So we think it could be, you know, anywhere from 24 to 36 months by the time we were able to get something set up, get all the supply chain around it, including electric motors, molded parts, stamped parts, et cetera, get our engineers in place to get the products into alignment for UL quality and overall safety, it's a pretty arduous process. And again, we've started looking at, but it's going to take us some time to get it in the proper methodology.

MS. HUANG: To the best of your knowledge, do you know if your competitors have parts of their supply chain outside of China?

MR. KRAUSE: I don't know that.

MS. HUANG: Thank you.

MR. FRATERMAN: I'd like to thank the Panel for their testimony today. My question is for Mr. Jacobson. Mr. Jacobson, ALA acknowledges that Chinese theft of American IP is a real concern, but when negotiations prove unsuccessful time and time again, what steps does ALA recommend if not tariffs?

MR. JACOBSON: Well, I mean, I think there's, you know, negotiating enforcement strategies are very important, but just using tariffs as your only, you know, only way to get the Chinese to the table, or other governments for that, for that matter, it seems that, you know, the President is using tariffs to, you know, for a range of issues such as this, or immigration, or other issues.

And I just don't think that's the proper method, particularly when, you know, if this might've been done 30 or so years ago, that might've made, might, it could've made some sense, but this is 30 years that our manufacturers have invested, not only, you know, in factories.

They've got employees there, they've got innovation there. It's just millions and millions of dollars. So there's really not, you know, you know, it might, you know, I hope the President has great meetings with the Chinese on Wednesday at the G20 Summit, and they can really, you know, because I know the agreement was basically signed, as the President said, and hopefully they can come back to the table, and I hope when that happens, that you will remove tariffs as your only negotiating strategy.

MR. FRATERMAN: Great. Thank you very

much.

MR. JACOBSON: Thank you.

MR. KLEIN: This question is for Jesse Spector. You stated that the tariffs would have a direct and significant impact on the business of your members. As a follow-up to this hearing, can you please share any data supporting this statement with the Committee? If submitting business confidential information, please ensure to mark it as such.

MS. SPECTOR: Happy to do that. Yes, absolutely. Thank you for the caveat about the anonymity. But yes, very happy to gather that information in some aggregate form for you after this.

MR. BURCH: Mr. Chairman, we release this panel with our thanks, and we ask all of the members for Panel 45 to make their way forward.

CHAIR TSAO: Okay. Good afternoon. We have some new members to the Committee. I'd like to, at this time, ask them to introduce themselves.

MR. JOHNSON: Good afternoon. My name is Kyle Johnson. I'm with the U.S. Department of Commerce.

CHAIR TSAO: And Arthur Tsao, USTR.

MR. MASON: Enrique Mason with USDA.

MR. BURCH: All right. Mr. Chairman, all of the witnesses for Panel 45 are seated, and I would like to make a note to the witnesses. Can you please pull the mic up and speak clearly into the mic for the audience behind you, and also for the court reporter?

Our first panel witness for Panel 45 is Grif Lesher with ZeniMax Media, Incorporated. Mr. Lesher, you have five minutes.

MR. LESHER: There we go. How's that? Much better. Okay. Good afternoon. My name is J. Griffin Lesher. I am the executive vice president of legal at ZeniMax Media, Inc., a publisher and developer of video games, based in Rockville, Maryland.

I'm here today to express our serious concerns regarding the proposal to impose duties on video game consoles and controllers from China. I appreciate this opportunity to explain how such tariffs will harm consumers, and threaten the ability of video game publishers and developers like ours to continue to innovate and support good U.S. jobs.

ZeniMax and its subsidiaries create and publish original, interactive, entertainment content for consoles and other gaming devices. ZeniMax has grown to employ over 1,500 world class game developers, graphic artists, and designers, sound engineers, producers, programmers, and support staff in the US alone.

These are high skilled and well-paying jobs focused on creating premium video game titles for a growing worldwide market. Since our inception, we have grown by investing heavily in research and development to innovate new game engines and features for the video games industry.

For instance, our Bethesda Game Studios in Maryland pioneered physics-based sports games with Gridiron. Our id Software Studios in Texas developed the first three-dimensional video game engine known as id Tech, which spawned the immensely popular first person genre.

In our breakthrough research and development in virtual reality showed the world that commercial VR was possible, and catalyzed the explosion of interest in VR platforms. Today, we continue to devote resources to the development of new technologies.

As a developer and publisher of interactive entertainment software products, we rely on the widespread adoption and available of the consoles and controllers necessary to play our games.

We estimate that console players account for approximately 60 percent of our total player base, worldwide. As a consumer technology association study has shown 96 percent of video game consoles sold in the U.S. come from China, and the proposed tariff of up to 25 percent would make these foundational gaming products significantly more expensive.

Consoles are often sold at a loss to retailers, or at razor thin retail margins, to encourage customers to adopt the latest platforms. We expect retailers will be unable to absorb any portion of a significant tariff, and would need to pass tariff costs down to the consumer.

The impact on consumers, and the broader video game ecosystem of a 25 percent tariff on consoles and controllers is likely to be very substantial. The video game development pipeline is heavily influenced by consumer preferences.

According to the Entertainment Software Association, ESA, 63 percent of Americans surveyed considered the quality of the graphics to be important when deciding whether to purchase a game.

Lifelike and immersive games are underpinned by complex, sophisticated, and advanced software, and are often capable of only being played on the latest consoles.

Thus, fewer next generation consoles in the hands of consumers will lead to a decline in the number of new game consumers purchase, causing serious harm to the thousands of game developers and publishers in the United States who depend on console sales to support game sales.

For ZeniMax, this would be especially harmful, given that a majority of our global sales comes from our console game sales here in the U.S. Any reduction in consumer demand for new games in the United States would force us to reduce the number of new projects that we adopt, and therefore, the number of employees here that we need to support these new projects.

Among the jobs that could be impacted by the proposed tariffs are members of our game development studios and R&D teams in the U.S. that ensure ZeniMax products remain on the cutting edge of innovation.

If demand in the United States falls, we would have to consider shifting game development and publishing efforts outside of United States. As a result, the tariffs would have the perverse consequence of harming rather than advancing U.S. high-tech innovation.

Given the grave harm to the United States consumers, developers, and publishers like us that would be caused by the proposed tariffs, we respectfully request that your office remove from the final tariff list HTS headings 9045.0.4.5.00, 8526.92.10, 8543.70.87. Thank you again for the opportunity to present our concerns.

MR. BURCH: Thank you, Mr. Lesher. Our next panel witness will be Jason Trice with Jasco Products Company, LLC. Mr. Trice, you have five minutes.

MR. TRICE: My name is Jason Trice, and I'm the President and CEO of Jasco Products. You've give me five minutes to explain why you shouldn't turn a business, that took over four decades to build, upside down.

I cannot possibly say everything I need to convey, so I have provided a written testimony as requested, and trust and appreciate your willingness to read it.

Jasco is a third generation family business that has grown into a leading supplier of lighting and consumer electronics, serving all major US retailers, including Walmart, Target, Home Depot, Lowe's, Staples, Office Depot, Amazon, and others.

Jasco designs, develops, patents, markets, and distributes hundreds of millions of high quality, affordable products to consumers under American's most recognizable brand names, such as GE, Energizer, Honeywell, Philips, Disney, and more.

As is typical in a family business, Jasco has always been part of my life. When I was a cute toddler -- at least in the opinion of my parents -- I participated pro bono in photo shoots on our retail packaging. I was eight years old when I had my first unofficial job making 50 cents an hour in our distribution center.

I tell you this now only because the statute of limitations expired long ago, a fact that I learned the hard way when I tried, unsuccessfully, to claim back wages when I realized there was a minimum wage law.

My point is, like my dad and brother, I was raised to do what I am doing today at Jasco. My prayer is that someday my children and grandchildren will have similar opportunities at Jasco, if they so choose.

But I'm not here today for me and my family. I'm here representing nearly 400 team members whose families depend on Jasco for their livelihood.

Ours is not the only family with more than one member of the household working at it, and completely dependent upon Jasco. Husbands and wives, fathers and sons, mothers and daughters, brothers and sisters, American citizens our government swore to protect and serve.

I'm here representing nearly 100 million American families that purchase Jasco's products every year, and enjoy access to high quality products at affordable prices. I'm here representing over 100 charities Jasco supports by giving away 50 percent of its annual profits.

We give God all of the glory for all He is doing through Jasco and these nonprofit organizations that put their faith in action, and provide tremendous social good.

Some examples are connecting children with loving homes through adoption services, supporting mentors, after-school training programs, and summer camps for underprivileged and at-risk youth, providing housing and education to young women at risk of human trafficking, helping children and adults with challenging physical and mental difficulties, developing a cure for noise-induced hearing loss that impacts 450 million people worldwide, including military veterans exposed to sudden loud noises, meeting the physical, mental, and spiritual needs of our homeless population, helping people claim their lives from debilitating cycles of addiction, mentoring prison inmates to facilitate reintegration as productive members of society, providing food assistance to those in need in the US and around the world, providing safe drinking water to over 250,000 additional people every year to prevent 3.4 million needless deaths annually due to the global water crisis, providing disaster relief to restore communities impacted by tornados, hurricanes, earthquakes, wildfires, and more. US tariffs on products assembled in China jeopardizes all of this by eliminating Jasco's profits.

Jasco offers profit sharing incentives from all -- to all team members, top to bottom, that average 20 percent of their compensation, pre-tariffs. The impact is like not paying them two and a half times -- two and a half months out of every year.

Jasco already shelved expansion plans that would provide more American jobs and overtime, and they struggle to support our current team member base, increasing unemployment.

In order to survive, Jasco must pass along price increases to our retail partners, ultimately raising retail prices for American consumers. The National Retail Federation estimates the average family will spend an additional $2,300 annually, due to tariffs.

This is a double whammy for Jasco team members and others in impacted industries that are less able to afford higher retail prices. This forces consumers to buy less, which hurts businesses, and the negative spiral just continues.

Tariffs are taxes, but charitable donations are not tariff deductible. Tariffs will eliminate tens of millions of dollars of funding for nonprofits, and the social benefits they provide.

Some nonprofits that are dependent upon Jasco's support may cease to exist. Move manufacturing out of China, it's easy to say, but difficult to do. Jasco spent decades cultivating over 40 high-quality manufacturing partners in China.

There are not factories anywhere in the world with both the technical capabilities and the available capacity. We must redevelop 3,700 existing products, which will take years, and tens of millions of dollars, funds we don't have because tariffs are consuming all of our available capital.

The time and the energy required trades off the investments in innovative new products required to grow our business. Jasco always manufactured its products abroad, knowing that its reliance on China carried risk.

Jasco assumed those risks were potential actions of the communist Chinese government, and the Taiwan Straits of the South

China Sea.

However, China has never done anything that disrupted Jasco's business. Jasco, unfortunately, can no longer say the same about its own government that purports to be the world's leading free market democracy.

The Trump administration's imposition of protectionist tariffs to manipulate the market away from China is the largest disruption Jasco has ever faced. He seems too willing to leverage and potentially sacrifice small and medium American businesses to achieve unrelated political goals.

We must protect American intellectual property, but superior alternatives exist to the current approach. I included an article from Lee Branstetter, a professor and senior fellow with the Peterson Institute for International Economics, that makes a compelling case that targeted multi-lateral sanctions are more effective and credible than broad-based tariffs, in Exhibit B, and I encourage you to read it in its full.

Jasco stands united with over 600 American businesses and trade associations, urging the Trump administration to quickly resolve the damaging trade war with China, including full repeal of all Section 301 tariffs. Thank you for your time and consideration.

MR. BURCH: Thank you, Mr. Trice. Our next panel witness will be Win Cramer with JLab Audio. Mr. Cramer, you have five minutes.

MR. CRAMER: Thank you. Good afternoon. Thank you for allowing me the opportunity to, again, add to the conversation surrounding increased taxes on our products. I was here in August speaking to you, and I didn't think, honestly, that I'd be back again.

You gave us the answer that we were looking for when we came here in August. I was really nervous then, and frankly, the stakes are even higher today. With the confidence you gave us last August/September, we've invested in our team even more.

We've hired 20 percent additional staff in the US, in both our California and Dallas, Texas offices. You helped us keep American -- America great by ensuring the 40 high-paying jobs that we've created over the past 4 years would remain.

You gave us the confidence that we could move past this chapter in our company history and turn the page to focus on innovation, growth, and doing what we do best, designing, marketing, selling, and supporting awesome audio products that any American can afford.

I'm here today because our products came back on the list -- what is called List 4 -- and I'm here to ask for them to be removed again. With this, I'd like to provide my specific testimony on Item 8517.62.00.90. This code represents 80 percent of our business.

To refresh your memory on who we are, JLab Audio is the very definition of a true American success story. We're a personal audio company that designs things like Bluetooth earbuds, headphones, and speakers.

I'm sure you're all very familiar with those little white Apple AirPods sticking out of everyone's ears, and we make very similar products with awesome quality at value price points, usually $50 and below.

We want to ensure that every American can afford the best technology without having to break the bank, and we've done it. We've unseated traditional non-American heritage brands like JVC, Samsung, Pioneer, and Panasonic.

We're the fastest growing audio brand in America, and we're an American company. We're proud of what we've accomplished. We've brought affordable technology to the masses. In addition to the traditional earbuds and headphones I mentioned, we also have a range of kid's headphones, which are the top four selling products in this category.

They limit volume to 85 decibels through the ear cups to protect a child's growing ears. We were one of the first to bring this technology to market, and it is this headphone that is recommended on back to school lists nationwide.

I designed these headphones around my daughter's head when she was eight years old to ensure the fit was perfect for kids. If you have kids or grandkids, they're likely using our headphones today.

We generally sell our products through the US retail market. Retailers like Walmart, Best Buy, Target, Office Depot, Home Depot, Amazon, Kohl's, among others. Ninety-five percent of what we sell is to the US market.

As such, the decision you make today impacts us fully. I'm here today because I'm scared what will happen if tariffs are enacted. I have an obligation to share our story with you and fight for the 40 jobs we've created.

My team stayed with me when we could barely make payroll. If I have to lay any of them off, I want to be able to look them in the eye and say, I tried my hardest to keep your job.

I've watched our young workers find their life partners, I've watched them buy their first homes, I've watched them bring kids into this world.

We're not just living the American dream at JLab. We're helping to create it. Oftentimes, we spend more time with our coworkers than we do our real families at home. These are my brothers and sisters, and I'm here on their behalf today. I want to ensure their dream continues.

At JLab, we're building the foundation for the next generation of entrepreneurs that will keep America great for years to come. Today, a 25 percent tax is being considered on products we import under tariff code 8517.62.00.90.

Not to mince words, but this would be considered catastrophic to our growing business. It would force us to engage in significant cost cutting by laying off US employees, put our small business at a significant disadvantage, as compared to larger brands that have established product lines on a global scale, and ultimately, increase the cost of technology to hardworking class families, whom are our bedrock customer.

As it relates to intellectual property, we too share the USTR's concerns about IP theft in China. This said, this is basic common Bluetooth technology that has been available for the past 20 years.

Moreover, this technology was invented by a Dutch scientist in a Swedish laboratory. There is not American IP to protect in this instance.

We design all of our products in America. We take those blueprints to China, and in my 20 years of doing consumer product business, I have not identified another geography that has the sophistication of the Chinese supply chain.

In our particular line of work, we never moved American jobs overseas. The factory jobs to build our products never existed in

America. To recreate this supply chain would take years, and significant investment, that our small business doesn't have.

In conclusion, the proposed imposition of tariffs on our products that make up 80 percent of our business would be catastrophic. We would be forced to lay off employees, raise prices to consumers.

We respectfully request that tariff code 8517.62.00.90 be excluded from List 4. This Committee agreed with us before that these products were not viewed as sensitive, and did not specifically take away American jobs. We ask that you view it that way again. Thank you for your time and consideration.

MR. BURCH: Thank you, Mr. Cramer. Our next panel witness will be Sage Chandler with Consumer Technology Association. Ms. Chandler, you have five minutes.

MS. CHANDLER: Thank you. Thank you for the opportunity to appear here again. I've been here all three times in the past, and I hope that I don't see you guys again for a while. I'm Sage Chandler, the Vice President for International Trade at the Consumer Technology Association.

We represent innovators and the promise of technology. We have over 2,200 member companies in the $377 billion US tech industry. We support more than 18 million US jobs. Our member companies are manufacturers, distributors, developers, retailers, and integrators.

80 percent of our members are small or startup businesses, and medium-sized companies. With me here are two of our member companies, and several of our other member companies testified last week and will be here later this week, all to talk about damage that tariffs would pose to their business models.

The administration's continued use of tariffs to address the imbalance in the US-China trade relation is a tax on American innovators and a tax on American businesses. We remain categorically opposed to the use of tariffs to address China imbalances.

The use of tariffs as a trade weapon has already -- and will continue -- to inflict irreversible damage on American businesses and consumers, as well as on American leadership in the tech industry.

Included in the appendix of my testimony is a list of 141 products identified by CTA member companies on List 4 that impact their business. Together, those items account for over one half of the value of List 4.

List 4 targets consumer products that range from fitness trackers that we use to stay healthy, to projectors used in classrooms, laptops, tablets, and consumers -- computers that businesses rely on for productivity.

They include children's toys and video game consoles and controllers, and the phones that we use to stay connected. USTR previously selected tariff lines which avoided disproportionate impact on the consumer.

However, as evidenced by the products

I just listed, the addition of List 4 remains -- means that virtually every American household that accesses the internet or uses consumer technology will be hit.

Tariffs on List 4 products will increase prices for consumers on both mainstream and cutting edge electronics, raising the cost of living for most Americans, especially in times like back-to-school.

For example, studies commissioned by CTA indicate that American consumers -- not Chinese companies -- will pay an extra $56 on video game consoles, 96 percent of which are manufactured in China, an extra $70 on cell phones, and an extra $120 on laptops.

Since October of 2018, tariffs paid by American companies -- not Chinese companies -- to import 5G-related products and components alone, is a staggering 745 million. This is money that is not going to investments, not going to innovation, and not going to employee salaries or bonuses.

Moreover, the proposed tariffs will create and extend a ripple effect that will spread through the economy as a whole. Because technology is now the backbone of so many other industries -- such as agriculture, manufacturing, software development -- taxes on technology hit far beyond just the technology industry.

When the United States is otherwise attempting to achieve technological leadership, greater digital integration, advancements in telecommunications technology, and increased rural broadband access, tariffs on technology are counterproductive.

CTA shares the administration's concerns with China's unfair trade practices, but continued escalation of the tariff standoff is not the answer. As evidenced by the line items that previously fell off tariff lists -- like audio, Bluetooth, TVs -- the administration itself acknowledged the impact on consumers.

We instead urge the administration to negotiate an agreement with China -- and to work with our partner nations around the world and places like the WTO -- to expand market opening agreements like the information technology agreement, which will promote the trade and technology and products, bolster economic growth, innovation, productivity, and investment. Thank you.

MR. BURCH: Thank you, Ms. Chandler. Our next panel witness will be Robert Ranucci with Christie Digital Systems USA. Mr. Ranucci, you have five minutes.

MR. RANUCCI: Good afternoon. I'm Robert Ranucci. Since 2014, I've been the Vice President General Counsel of Christie Digital Systems USA, Inc., and I have 19-plus years' experience in the display industry.

Founded in 1929, and based in Southern California, Christie manufactures and sells highly advanced visual display products, and is best known for its movie theater projectors. We employ 1,366 people worldwide, 987 are in North America, and 488 are in the US.

It is because of American innovation and ingenuity that Christie has grown from a manufacturer of battery chargers to a provider of power supplies to the US government during World War II, to one of the world's leading manufacturers of industrial projectors and other display technologies, all developed here in the US and in Canada.

Christie serves two main segments, cinema and enterprise and entertainment, which we call E&E, where Christie's display products are used in theme parks, museums, control rooms, US military simulators, and universities.

These highly specialized, high-performance, high-value display products are not strategically important or related to Made in China 2025, or other Chinese industrial programs.

It is this -- Christie's core business -- which is potentially subject to the List 4 tariffs under subheadings 8504.10.0000, 8528.52.0000, and 8528.69.4500. An additional 25 percent tariff on Christie's products will be devastating.

For our US customers, our China-made products represent almost three quarters of our cinema portfolio, and one half of our E&E product line. The markets Christie serves are thin, each with relatively few price-sensitive customers, yet despite this, competition is surprisingly intense, and there is little ability to pass along modest increases in price, let alone 25 percent.

Should Christie increase prices to offset the additional tariffs, our customers will be driven towards our non-US-based competitors, who will not be affected by the proposed tariffs. And the timing could not be worse.

The tariffs appear likely to commence at precisely the beginning of a once per decade technology refresh cycle for both cinema and E&E. Lost sales to our competitors during the refresh cycle will be exacerbated by years of lost revenue from the services, parts, and warranties that attach to our product sales.

And once a customer selects a manufacturer's product during the technology refresh, customers tend to procure the same manufacturer's products for the remainder of the cycle, so as to standardize on spare parts, training, et cetera.

These tariffs would, therefore, cause a decade's worth of lost revenue and market share that we cannot recapture in the near future, if ever. Our industry's supply chain has long lead times, little excess capacity, and is almost fully allocated for this entire year.

It would take tens of millions of dollars, and at least 18 months, to move raw materials, move or buy highly specialized manufacturing equipment, train new employees, reconfigure a supply chain, and tune equipment and production lines to produce the products to the exacting specifications necessary to create the products our customers demand.

For our US market in cinema, we are the only US-based corporation, and in the E&E

space, we are the only US-based corporation in the top 10. To the best of our knowledge, our competitors do not have significant production facilities in China, and thus, would not face the same price increases imposed by these tariffs.

As applied to Christie's products, the tariffs will not advance the US trade policy objective of strengthening American industry, but rather, will cause severe, disproportionate and irreparable harm to a US corporation, and its US workforce.

Christie's conundrum is that, one, should we pass along the tariff on top of our current prices, we will lose market share, revenue, and profits we have worked honestly and fairly for decades to achieve, or two, should we absorb the 25 percent tariffs ourselves, our resulting profit margins will be too slim to support Christie's existing infrastructure and workforce.

Either way, it's a lose-lose situation that will force Christie to cost down, which would include reductions in its US workforce, which might be permanent. Of equal importance, imposing tariffs on Christie products will not thwart Chinese unfair trade practices.

Though Christie manufactures products in its wholly-owned affiliate factory in China, all of the IP and technology is owned by Christie USA. Further, no forced JV partner or contract manufacturer is involved.

As such, no IP transfers have or will occur. We therefore respectfully request that the aforementioned subheadings be excluded from the proposed List 4 tariffs. Thank you for your time and consideration.

MR. BURCH: Thank you, Mr. Ranucci. Our last panel witness will be Reilly Kimmerling with Kidde. Ms. Kimmerling, you have five minutes.

MS. KIMMERLING: My name is Reilly Kimmerling --

MR. BURCH: Can you --

MS. KIMMERLING: -- Senior Director of

International Trade Compliance at Carrier. I'm here today on behalf of Walter Kidde at Portable Equipment, Inc., a Carrier business, and a leading manufacturer of fire safety and building security equipment.

Kidde imports products that are designed to meet the critical needs of the life safety industry, including single loudspeakers mounted in their enclosures, classified in HTSUS subheading 8518.21.00, and electric sound or visual signaling apparatus, classified in HTSUS subheading 8531.80.90.

These products provide high audio output with clear audibility for emergency voice communications, tone signaling, and visible signaling to alert the public -- particularly the hearing impaired -- in the event of an emergency.

For the following reasons, I respectfully request that the Committee recommend the removal of subheadings 8518.21.00 and 8531.80.90 from the final list of products subject to an additional 25 percent tariff.

The products contained under these subheadings are essential components of US commercial and residential fire and security systems, sold under the Edwards Brand.

Many American households and businesses, large and small, rely on Kidde products to keep their families, employees, and property safe. Edward systems are in college universities, hospitals and hotels, airports, apartment buildings, and factories.

In short, our products -- and particularly the speakers and signaling apparatus at issue in this action -- are critical to protecting US citizens and US businesses from the dangers of fire.

At this time, Kidde is unable to switch to new suppliers in the short to medium term for the speakers and signaling apparatus that it imports from China. Kidde is unaware of any US manufacturer that could supply these products, and even if such a manufacturer existed, securing long-term contracts with another supplier can take a minimum of two years, because of the significant time needed to negotiate with the identified supplier, and to qualify the products to rigorous company specifications and government technical standards.

Fire safety products must go through certifications for every country in which they are sold. For example, in the United States alone, to certify these products, must -- they must go through 80 separate tests, which is extraordinarily time-consuming.

Other jurisdictions require similar tests before a product can be qualified. A change in suppliers would require all of these tests and certifications to be -- to be performed anew, a process that can easily take up to two years.

If this Committee chooses to impose a 25 percent tariff on these products, Kidde will be forced to pass along a substantial amount -- or all -- of the additional cost to its customers.

Confronted with this added expense, many of Kidde's customers will likely forego installing new equipment or updating older systems, decisions that will potentially risk their safety.

If, as expected, demand for the products were to drop as a result of these increased costs, Kidde will be forced to scale back on production, distribution, and planned research and development, which occurs at our Bradenton, Florida facility.

Edwards Brand will spend 19 million this year in R&D. The business risk presented by the additional tariffs extends to many of the small businesses that distribute, install, and service Kidde products.

These 800 independently-owned businesses are crucial to the success of Kidde's products in the US market. These businesses often operate on very slim margins, and the additional challenges posed by the imposition of the 25 percent tariffs could threaten their profitability and operations.

Subjecting Kidde's safety products to additional tariffs is unlikely to encourage changes to the trade and industrial acts, policies, and practices USTR is targeting in this 301 investigation.

Kidde has not experienced any foreign ownership restrictions in China, nor has it been pressured to transfer or license technology to Chinese companies, or been subject to unauthorized theft of its commercial information or trade secrets.

Finally, Kidde notes that in the past, USTR has demonstrated a repeated willingness to refrain from levying additional tariffs on imports that contribute to the American public's health and safety.

This was the apparent rationale for excluding imports from China of car seats, high chairs, bike helmets, and playpens from previous Section 301 tariffs. These earlier exclusions reflected sound public policy.

The case for excluding imports of Kidde's fire safety equipment on public safety grounds is at least as compelling as the case made for previously excluded products. For all of the foregoing reasons, I respectfully request that the Committee remove HTSUS subheadings 8518.21.00 and 8531.80.90 from the final list of products subject to an additional 25 percent tariff.

Thank you for the opportunity to testify, and I am happy to answer any of the Committee's questions.

MR. BURCH: Thank you, Ms. Kimmerling. And Mr. Chairman, this concludes direct testimony from this panel.

MR. WINELAND: Thank you. I'd like to direct the first question to Mr. Lesher. You mentioned that console gamers account for about 60 percent of your global customer base. Do you have an idea what share of that is US console gamers?

MR. LESHER: Well, it would be at least that, and possibly more. So that's a number, I think, that would apply to the -- to the US as well.

MR. WINELAND: And do you have a -- if it's -- if you can say, do you have an estimate of what share of your revenue is derived from console gamers versus PC gamers, or online?

MR. LESHER: Well, that's confidential information. We'd have to -- I could submit that, you know, under that --

MR. WINELAND: Yes --

MR. LESHER: But I -- the revenues run approximately, I think, according to what the percentages are of the player base.

MR. WINELAND: Okay, that's --

MR. LESHER: Generally, yes.

MR. WINELAND: -- helpful. Thank you.

MR. LESHER: It's substantial.

MR. WINELAND: Thank you. The -- you referenced in your testimony that R&D and product development would be negatively impacted by tariffs. I think, in your testimony -- as I understand it -- you're asserting that that comes from lower consumer demand for products. Can you elaborate on that, or --

MR. LESHER: Sure.

MR. WINELAND: -- other factors that would impact your R&D?

MR. LESHER: Sure. The situation is, if you have tariffs on the consoles, that market is going to --- it's going to shrink in terms of the numbers of people who are going to be buying consoles, even the next generation consoles. What we do in our business is sit down, and we decide, okay, there's an install base that we anticipate, and we build to that install base.

This is -- when we greenlight a project, this a multi-year, multimillion dollar investment by us, and if that market -- potential market for consoles in the US shrinks, for one thing, the projects we currently have underway are going to -- are going to be disrupted, and we're also going to have to figure out what do we do in the future, and one of the consequences may very well be, I suspect, will be moving that innovative activity outside of the US.

We have some operations in Europe. We have some operations in Asia, and the concern we have is that --- as a result of these tariffs -- market shrinks, we then have to make a business decision to move the innovation offshore.

MR. WINELAND: And the moving of that innovation, is that because it's lower cost? Can you --

MR. LESHER: No, it's -- it would be because you want the innovation to be, in a nutshell, close to the market that you're serving. So you're going to want your programmers, your designers, et cetera, basically closer to the market that they're developing the games for. So --

MR. WINELAND: And this is -- you've touched on this a little bit -- but the -- given the importance to consumers of the latest quality increases, graphics, and so forth, embedded in next generation machines, how price sensitive are these -- are consumers to --

MR. LESHER: Well --

MR. WINELAND: -- you know --

MR. LESHER: -- very price sensitive. In the sense that, initially, when the new consoles come out, they tend to be full price. The people who really love games are going to go and buy those consoles to be able to play them, the games that they love. Towards the latter part of the console cycle, there is very much price sensitivity that accompanies that.

So there's price sensitivity throughout. It tends to intensify a little bit towards the end of the console cycle, and there's going to be a -- more console cycles coming down the road, that I think have been announced by the console manufacturers.

But very considerable price sensitivity, and I think the evidence will bear that out, that is being provided by others.

MR. WINELAND: Okay. Thank you.

MR. CHANG: My name is Won Chang, Department of Treasury. This question's for Mr. Jason Trice. You argued that obtaining price reductions from Chinese producers could threaten product quality. Can you elaborate why that is the case?

MR. TRICE: Sure. There's huge challenges with getting reductions from Chinese manufacturers. They operate on very small profit margins as well. There's tons of pressure in our industry.

Lots of pressure from the major retailers like Walmart, that put downward pressure on us, that we, in turn, put on them. We have negotiated the best possible cost over many, many years on these products.

They don't have a lot, or we wouldn't be able to be competitive, and be successful, as we have done. We have gone through one round. Jasco has already had 92 percent of our categories impacted by List 1, List 2, and List 3, and obviously the List 3 going from 10 to 25 percent in the last month is devastating, because that affects 80 percent of our categories. List 4 is on top of that.

We were moderately successful at getting some concessions in the first round, but that was primarily attributable to the fluctuations in exchange rates that happened since the beginning of the year last year.

Most of those suppliers came back and pushed back as it turned in the other direction in the ensuing six months, but it sort of rebounded. But if you look at where exchange rates are, they're very much at the same, you know, level as where we re-negotiated everything based on List 1, List 2, and List 3.

So these manufacturers simply don't have the available margin. They'll be upside down, and they've got to survive and make a profit and pay their workers a living wage, and we constantly challenge them to raise the bar, and to treat their workers better, and to treat the environment better. And so they just don't have the ability to do what you're asking.

MR. CHANG: Okay. You also mentioned constraints involved in qualifying factories, both in terms of your existing supply chain in China, and with respect to moving production outside China. Can you explain the process and the difficulties in qualifying a factory outside China to produce your products?

MR. TRICE: Yes, so we use the same process inside China, outside China. It's a very detailed audit process that is multi-staged, before we do business with a factory.

There's lots of factories that don't meet our qualifications, and that's why it's taken decades to cultivate the 40 plus suppliers that we've got in China. And so making sure that they're paying a working -- a living wage, meeting all of the minimum wage laws, making sure that they're not forcing the workers to work, making sure that they're not working excessive overtime, making sure that the dorm and the living standards are acceptable for the workers, make sure that they're not, you know, dumping and doing bad things to the environment, making sure that they've got good quality control systems, and they're not just giving, you know, an initial sample to pass all of the testing and UL requirements, and then, you know, cutting corners and stripping copper out of our products that creates heat, and creates the potential for fires.

We're proud of our safety record, 44 years, we've never had a CPSC recall because of all of that due diligence. Jasco is sort of at a unique nexus, because we're the licensee for all of those brands that I mentioned -- GE, Honeywell, Disney -- that all have stringent standards, and then we're also the supplier to all of those major retailers that have similar but different standards.

All of them are unique, and so Jasco's standards are really the highest common denominator of all of those major brands and major retailers. So it's very difficult to pass our audit process.

It usually takes a factory more than a year just to go through the qualification process, because they usually have to update their doors or their fire sprinkler systems, and make capital investments in their factories to qualify.

And then, and only then, after they've met all of those standards, is it worth our time and resources to develop products with them. And so yes, it takes time, and it's a challenge, and you know, one of the things that's unique about Jasco, with 3,700 SKUs and 40 factories, it's actually more challenging for us than it is for some much larger companies, not only because they've got more capital, but because they do huge volumes on very few products, we have to redevelop all of these products that, relatively speaking, are lesser volume. So it's an incredible challenge.

MR. CHANG: Thank you.

MR. SECOR: My questions are for Mr.

Cramer. You mentioned in your testimony that some of your competitors manufacture in Taiwan and Mexico.

MR. CRAMER: Yes.

MR. SECOR: You argue that shifting production to Mexico would come with significant expense, due to existing relationships with contract manufacturers. Can you elaborate a bit on what you mean?

MR. CRAMER: Yes, sure, and it's not just with the existing contract manufacturers, but also the sub-assemblies required. So an example would be a battery or a semi-conductor that goes into 90 percent of the products that we manufacture today, and if I shifted contract manufacturing to Mexico, or to Taiwan, or to Vietnam, or to America, the sub-assemblies required within that are Chinese-made, and we don't have access to other geographies that make those types of products.

I'm not aware of anyone that does have access to another geography that makes the type of products that I just mentioned. So we would still be subject to the 25 percent duty, plus contract manufacturing someplace else.

MR. SECOR: And then, if you can, can you tell us whether you have long-term contracts with your Chinese producers, or whether it's a series of short-term ones?

MR. CRAMER: Yes, not necessarily contracts, per se, but agreements that we have for a life span of a product, and a life span of a JLab product is usually 18 to 36 months, and that's what we partner with the factory to build over that time.

MR. SECOR: Thank you.

MR. JOHNSON: Hello, I'm Kyle Johnson with the Department of Commerce. I have some questions for Ms. Chandler. Just to get started. Your submission listed a number of products covering a wide range of technology products or components that your member companies import from China.

Can you speak a little bit more about

variance that may exist within these products, in terms of expected impacts of an additional tariff?

MS. CHANDLER: Sure. Thank you. We have -- we have 2,200 member companies, so we've got a huge quantity of small businesses, startup, medium-sized businesses, as well as the large companies.

So we're really experiencing the gamut in terms of impacts. We see it hitting the smaller companies first. They're the ones -- especially the startups, the companies that are just getting off the ground, or have very tight margins, and don't have the huge supply chain ability that Jason and Win were just talking about. They see this quickly.

We've seen a lot of sort of anti-normal market behavior, things like hoarding. Companies know that something's coming, so they spend all of their available capital on stocking warehouse, but that skews -- that skews the market for them in terms of being able to employ or hire additional consultants.

They've had to spend money on figuring out what these tariffs mean to them, so they're hiring -- they're hiring consultants, and tariff experts, and customs people.

The larger companies, they have invested millions and millions -- sometimes billions -- in bricks and mortar, in actual locations, where they have trained workers, where they have invested significant capital, in terms of getting their products to be safe, secure.

A lot of the times, the investments that they make there enable them to have some of the most IP-heavy jobs stay in the United States. For instance, you know, like the video game console industry.

There's 96 percent being developed -- or manufactured in China, but the great majority -- a lot of the software, R&D, engineering, is happening here in the United States, so you have an impact on those jobs as well.

So we're really seeing impact across

the board in a number of different ways and forms, and that comes from not being able to expand or having to hire too many people that cost too much money, or not being able to keep their employees, having to possibly let go of entire product lines, which then affects their retail businesses and relationship, and consumers having to pay more. And so it's sort of -- it's broad-based.

MR. JOHNSON: Thank you. You mentioned in your testimony that implementing additional tariffs on these products would, quote, inflict irreversible damage to American technology sector of leadership. Can you say more about how specifically implementing tariffs would cause that damage?

MS. CHANDLER: Sure. So the tech industry specifically moves at lightning speed. You know, there have been times that we've been negotiating agreements in the past, and that negotiation will run for a couple of years, and by the time we're all patting ourselves on the back, talking about, good job, we got, you know, this basket of products to 0 percent duty around the world, five new products have come out that were not even conceivable at the time we started those negotiations.

For product life cycles, it moves so quickly. That -- those companies, when they're focusing on having to spend their capital, and look at ways of shifting, or trying to deal with this, they're not spending the time to get to that next generation of product.

I mean, that's just -- that's just one way. Other things, when they're, you know, moving resources, and they're having to lay off experts, or the foreign competition, for instance, in the audio space.

Some of the top competitors are European brands. Margins are very thin in our industry, and the US companies are put at a disadvantage vis-a-vis their foreign competitors.

MR. JOHNSON: Thank you very much.

MR. MASON: Next question is for Mr.

Ranucci. Could you elaborate on what the timeline is for the technology refresh cycle to which you referred to, and when do you expect it to be complete?

MR. RANUCCI: Certainly. So the technology refresh cycle typically runs about a decade. These are very long lived products. The last one was the transition from incandescent xenon lamp-based light digital cinema projectors to now solid state cinema projectors, solid state being several types of laser illumination or LED illumination, but the current one is from laser phosphor to RGB laser.

So it's a single light laser to now three separate beams, and very high dynamic range, which means very, very high contrast, and super high definition, and just sort of beyond anything you've ever seen before. And so that's the technology refresh cycle.

It's taken years to develop, it will take years to deploy, and the customers that we have -- customers being those who pay us money, like the exhibitors -- they are expecting these products to last at least a decade. They don't expect to have to refresh these anytime soon.

So the models that come out, there are going to be very, very incremental differences for the next decade. And so that's why they go with the huge amount of warranty support, technical support.

There's a heavy amount of training that goes along with the first install of these products. Our customers don't want to see a lot of change for the life span of these products, and they're, quite frankly, going to want -- to use the expression -- sweat the assets.

They are going to want to keep these for as long as they possibly can, as long as they're -- as long as they're still viable. Our products will typically -- the best ones -- will move from the premier cinema, where, say, Star Wars or Avengers is showing, and then over the life span of the product as, occasionally, as newer cinema projectors come out, that projector is not going to get thrown away or anything.

It'll just be moved into the smaller theater, where you'd expect to see a movie that's been running for three months, and is on the tail end of its run.

MR. MASON: Thank you. As a follow-up, when sales of the main systems themselves are made, would you expect to supply parts and components from China as part of the service and maintenance contracts?

MR. RANUCCI: We would expect the supply to come from both of our factories. One is in China, one is in Canada. But they're expected, again, for the entire life span, plus some.

Typically, you would expect to see a product warranty saying that you'll have parts available during the warranty period. Our contracts with our customers, they're expecting it well beyond the warranty period, because they're expecting these products to last at least a decade, and that's been the experience of the prior two generations.

MR. MASON: Thank you.

MR. FRATERMAN: Thank you all for your testimony. My question is for Mr. Kimmerling. Or Ms. Kimmerling. I'm sorry. Insofar as you're able to say, do you have an estimate of Kidde's shares of the US market in safety equipment that's the subject of your testimony?

MS. KIMMERLING: No, but we can provide more detail in our post-hearing submission, confidentially.

MR. FRATERMAN: Okay, great. Thank you. Just a quick follow-up question as well, the HTS lines to which you refer appear much broader than the products specifically produced by Kidde.

Are there any physical characteristics to those products that differentiate safety equipment from other goods within those subcategories, like decibel levels, or anything like that?

MS. KIMMERLING: So taking the example

of decibel levels, we would import several different types of -- or several different SKUs under those HTSUS subheadings, at different decibel levels, because a building -- you know, depending on the type of building, or the building code involved, it might require a different decibel level, so we provide those specifications.

So there will be several -- I mean, there are several of our products under each of these categories, sizes, you know, specifications, which would be decibel level, you know, on the strobe, or visual signaling apparatus.

It can be, you know, size, or projection of the light. So there are a lot of products that we import under both of these. Certainly, if there is an exclusion process, we will endeavor to differentiate our products from anything else under these HTS headings.

MR. FRATERMAN: Great. Thank you very much.

CHAIR TSAO: I have a follow-up question for Ms. Chandler. Ms. Chandler, do you have a sense of how many workers in China are engaged in producing the goods addressed in your testimony?

MS. CHANDLER: I do not, but I can look into that. You mean Chinese workers or American workers in China?

CHAIR TSAO: Chinese workers.

MS. CHANDLER: No, I don't. I will see if we can find such a number, but I'm not sure.

CHAIR TSAO: And do you have an idea of how large the US market is for these Chinese suppliers that make the products that you have discussed?

MS. CHANDLER: Well, our --- the consumer tech industry is massive, and I used some of those numbers. $167 billion is what's being impacted from List 4, and you know, those workers -- I mean, it's hard to say how spread out the effect is from that, because those products are used in more than just our industry.

So you know, you use -- you see farmers using our equipment, and driving technology, and drone technology, and all these different technologies -- sensor technologies to be productive, and be competitive in crops, and in businesses, and schools.

So the impact is wider than we can really estimate on just the industry alone, because tech is used in --

CHAIR TSAO: What about the impact on your Chinese suppliers?

MS. CHANDLER: On our Chinese suppliers? Our companies that have a presence in China?

CHAIR TSAO: No, the Chinese suppliers who are supplying to the US market. What would any additional tariffs --- what would be the effect on any additional tariffs on them?

MS. CHANDLER: Most -- the companies that we're talking about in this testimony were our US-based companies, but I can look into that.

CHAIR TSAO: Okay. Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks, and would all the panel witnesses for Panel 46 make their way forward?

(Pause.)

MR. BURCH: Would the room please come to order? Mr. Chairman, I'd like to note that all witnesses for Panel 46 are seated, and a note to all of the witness panel: if you can, speak clearly into the microphone, and if you have to, pull it up close to you for the members that's in the back and the audience and also the court reporter.

The first witness on Panel 46 will be Stan Jewell with Renfro Corporation. Mr. Jewell, you have five minutes.

MR. JEWELL: Thank you. Renfro Corporation is the largest manufacturer of socks in the United States and one of the largest sock companies in the world. We sell roughly 2 million pair of socks per day, and our owned and licensed brands include Fruit of the Loom, Polo Ralph Lauren, Carhartt, Dr. Scholl's, New Balance, Sperry, HotSox, K.Bell and many more.

One out of every five socks sold in the United States is supplied by Renfro. Our company is 98 years old, and our U.S. presence includes facilities in North Carolina, Alabama, Tennessee, South Carolina, California and New York.

We employ 1,900 people in this country, and our distribution and manufacturing facilities are located in rural communities where we are typically the largest employer.

You might thing as the largest domestic manufacturer of socks in the United States that I would be here in support of tariff structure. However, I'm not, and I'll explain why. Fifteen years ago there was a much larger sock manufacturing presence in the United States. Our industry permanently changed in 2008 with the removal of quotas from China.

Chinese socks were knitted on

different machines with patterns and colors and materials that were not available in the U.S. And exposure to these types of products permanently altered consumer preferences. Consumers began viewing socks as fashion accessories and demand for basic socks that were being domestically produced started to decline.

U.S. sock producers responded by moving their production offshore to better compete with lower cost, Chinese products. Renfro initially followed this trend, but in 2010, we reversed course by implementing a new balanced sourcing model.

This model and its consequent business strategy provided a two pronged approach to product sourcing. We were able to domestically produce products like this sock I'm wearing on my right foot. It's more basic in design, high volume and stable programs that require quick response.

We can also produce highly technical socks that meet specific performance demands. We source primarily from China products like this sock on my left foot. They're more intricate in design and labor intensive for the fashion segment. This segment is more volatile in nature with smaller run sizes, but higher margin product lines.

Since 2010, Renfro has invested $27 million in our American manufacturing facilities, and we've increased our employment by more than 30 percent. We continue to invest as we continue to grow by adding jobs in manufacturing and distribution but also sales, design, marketing, finance and other skilled positions.

Our business model works because we've achieved a sustainable and profitable sourcing balance. 40 percent of the value of what we sell in the U.S. is manufactured in our American factories. 40 percent is sourced from China, and 20 percent is sourced from a variety of other countries. Metaphorically speaking, we must have both legs and their socks to stand on.

Sock manufacturing is not a high tech

pursuit for China. It's inevitable that production will transition to lower cost countries over time. In fact, that's already begun. Almost all of our Chinese partners have already started setting up alternate supply lines in Asia and other African countries.

But this will take time. China owns a huge portion of the global capacity. In fact, China's imports into the U.S. for socks is more than 10 times the next largest country, and the infrastructure and raw materials, the necessary supply chain components are all based in China as well. Moving all of this outside of China to other countries will take years.

We already pay substantial tariffs. Imposing additional tariffs on socks will not accelerate a transition of the industry away from China. It will not be materially punitive to China's economic interests, and it will not precipitate a return of manufacturing capacity to the United States.

It will necessitate a pass through of

incremental cost and raised prices to American consumers. The proposed tariffs will subject Renfro to more than $25 million in incremental costs annually. Socks are a relative low margin business, and we cannot absorb this kind of blow. Our balanced model will be compromised. American workers in our factories and offices will be at risk.

The winners in this scenario with additional tariffs are companies with limited or no U.S. presence. The losers will be American consumers, American workers and the communities where they live, and longstanding American companies like Renfro, that have diligently planned for long-term success. Thank you.

MR. BURCH: Thank you, Mr. Jewell. Our next panel witness would be Julia Hughes with the U.S. Fashion Industry Association. Ms. Hughes, you have five minutes.

MS. HUGHES: Thank you. Thanks very much for the opportunity to appear today. I'm Julia Hughes, President of the U.S. Fashion

Industry Association, USFIA, represents apparel brands, retailers, importers and wholesalers based in the United States and doing business globally, including many of the iconic fashion brands worn and loved by everyone in this room.

Global trade allows them to produce quality, affordable products for you, your families and for families across America. Since this hearing began last week, you've heard from many companies and organizations sharing their concerns about the cost of these tariffs. Tranche 4 contains all apparel, footwear and home textiles as well as many other consumer products.

These products are purchased by American families every day, families that are working hard to make ends meet. The path forward to change the policies in China that are the subject of the 301 investigation is not to tax consumer products.

We continue to believe that the best action is to work with our trading partners and the Chinese government to negotiate global and long-term solutions. That's why we ask for all apparel footwear and home textiles to be exempt from any tariffs.

I'd like to highlight just three points from our longer statement. First, tariffs on fashion products are a huge tax increase. I think you've heard this a lot over the last week. Tariffs on clothing, footwear and other fashion products already are among the highest in the tariff schedule, as high as 32 percent for manmade fiber apparel and 67 percent for footwear.

During 2018, American fashion brands and retailers paid more than $12 billion in tariffs on apparel and home textiles and another $3 billion on imported footwear. So let's make no mistake about it, tariffs on clothing and footwear -- additional tariffs on clothing and footwear would amount to a huge regressive tax on American families.

It would do harm to American retailers and brands and wholesalers who can't afford to shoulder the tremendous cost increases, and as our industry is preparing for the all-important back to school sales and looking ahead to our deliveries for the holiday season, it could be catastrophic to tax this clothing, shoes, home textiles and other consumer products.

And this action could threaten other jobs based here in the U.S., from entry level retail positions to higher paid design and ecommerce jobs across the country.

Second, for many of these products, China remains the number one supplier in the world with still no realistic options for it to move sourcing to destinations that could replace China.

There are many types of products, and I know others have been speaking about them, where China is essentially the main source or almost the only source. Companies have already invested thousands of hours to prepare contingency plans and assess alternative sourcing options to diversify from China.

In the testimony prepared for these hearings, you've heard from many of those companies with their own personal stories, and they've talked about it very eloquently. We want to just amplify their message that additional tariffs and even the threat of those tariffs is having a tremendous negative impact on American companies.

Finally, while the 301 tariffs might result in trade diversion from China, it still will not lead to more sourcing in the United States. We often hear that argument that uncertainty and disruption to global supply chains will lead to more jobs here in the U.S., as manufacturers return from overseas.

That's not the case for the fashion industry. The manufacturing capacity and the workers are not in the United States, and that's not just my personal opinion. This year in our benchmarking survey, which will come out next month, we specifically asked outsourcing executives where they're moving production when they leave China.

When asked about the impact of the Section 301 action on companies' sourcing strategy and businesses, they overwhelming responded that quote, because of the tariff's action, we intentionally moved some sourcing orders from China to other Asian suppliers.

The import data clearly shows that shift in sourcing around the world. The ability of fashion brands and retailers to respond to the tariffs is complicated further by the fact that apparel and textile supply chains are complex and already involve inputs from multiple countries.

Talking with sourcing executives, they say that it takes anywhere from two to five years to identify and approve a new vendor because it's a long way from the days when apparel could be made anyplace where there were workers and a sewing machine.

No respondents, and I just want to repeat that, no respondents said that they would be bringing jobs back to the United States because of the lack of capacity. And some raised their concerns that what they are currently making in the USA might actually be hurt by the tariffs on inputs.

So we hope our message will be heard and that the administration will not approve tariffs on fashion products. We hope we can move forward and deal with the very real issues of IPR enforced technology transfers, trade support -- trade providers American consumers with affordable and varied choices.

And most importantly, trade supports thousands of jobs right here in the United States. So please support fashion made possible by trade, and thanks for the opportunity to appear today.

MR. BURCH: Thank you, Ms. Hughes. Our next panel witness will be Nicole Bivens Collinson with Everlane, Incorporated. Ms. Collinson, you have five minutes.

MS. COLLINSON: Thank you. Members of the Review Committee, on behalf of Everlane, our client, Everlane, Incorporated, I want to thank you for allowing me to appear before you today to discuss removing specific HTS tariff designations for cashmere sweaters, dresses and women's pants as well as silk blouses, dresses, pajamas and other silk garments from the list of goods subject up to a 25 percent additional tariff.

A full listing of the specific HTS tariff designations is attached to the written version of this testimony.

I'm Nicole Bivens Collinson, President of International Trade and Government Relations at Sandler, Travis and Rosenburg, and our firm serves as trade counsel to Everlane on trade-related matters.

I'm appearing before you today because they were unable to come and also as a very cost-conscious, small company, they wanted to reserve some of their funds because they are looking at some very high tariffs very soon.

Everlane was founded in the United States in 2011, initially as a menswear provider.

Their product line has grown to include men's and women's apparel, footwear and accessories, primarily sold online. And its business model is focused on ethical sourcing, providing the highest quality and especially transparency in costing.

The transparency in costing is a key feature of their business, and thus they have much more narrow than normal profit margins. Everlane launched its first business with a Made in the USA t-shirt. Then they launched the cashmere and silk line.

Everlane's commitment to ethical sourcing is also a key tenet of the business. Their production facilities are selected after careful assessment of their social compliance and are subject to audit for fair wages, reasonable hours and environmental responsibility among several other factors.

These painstakingly selective factories are on their website along with information about each factory's productions and the employees. In 2018, the company pledged to stop using virgin plastic by 2021, including in packaging and in clothing made of synthetic fibers.

On October 24, 2018, Everlane launched Renew, a line of outerwear crafted from materials that were created out of 3 million recycled plastic bottles.

The company plans to accomplish their goal by redeveloping the fabrics, the yarns and all raw materials that contain synthetic fibers into recycled components instead. In May 2019, Everlane released the Day Glove Reknit, a shoe made entirely of recycled plastic bottles.

Everlane directly employs 350 people in the United States and indirectly employs about 120 in its contracted U.S. warehouse facility. It's headquartered in San Francisco where it has one store, and they have another store in New York City.

Cashmere and silk apparel production have never been in the United States. These are fibers that are harvested outside the U.S., and the vertical industries for spinning, knitting, weaving and apparel finishing have all developed around the location of the fiber and access to reliable power.

Specialized expertise and equipment is required for production of these materials and finished apparel out of these unique, valuable and fragile fibers. There is no production in the United States, and not only -- and only very limited production outside of China. These are not industries that can be shifted to other countries.

Everlane has already purchased inventory for the year, so any additional duties will drastically impact the performance of this very small business, which cannot absorb the increase in cost.

Everlane will have to pass along this increase to consumers, which it anticipates will significantly impact sales during the critical back to school and holiday seasons.

As a small business attempting to grow, Everlane is depending upon cash flow and fast turn inventory. Additional tariffs would have a serious impact on cash flow in the form of cost to the business and on inventory in the terms of reduced sales and carrying costs.

Everlane supports diversified sourcing, including investing in United States manufacturing. Only 35 percent of Everlane's product is imported from China, but Everlane seeks an exclusion for less than half of those imports, its strong selling cashmere and silk apparel.

Everlane asserts that no additional tariffs should be imposed on the cashmere and silk apparel from China because neither the U.S. nor the other countries have the manufacturing capabilities or potential capabilities to meet demand with respect to the cashmere and silk fiber, yarn spinning, knitting or weaving and finishing of these two fibers.

Everlane does not presume to advise

the committee on the appropriate level of trade to be covered by additional duties given the company's comparative small nature and lack of overall perspective.

Everlane further submits that imposing additional tariffs on these products would not have any impact whatsoever on China's vast policies or practices regarding technology transfer, intellectual property and innovation.

This industry is not cutting edge, nor a priority for China in its 2025 developing. It's been there for over 8,000 years. Thank you for your attention. I look forward to answering any questions you may have.

MR. BURCH: Thank you, Ms. Collinson. Our next panel witness will be Brendan Hoffman with Vince Holding Corporation. Mr. Hoffman, you have five minutes.

MR. HOFFMAN: Members of the Review Committee, thank you for this opportunity to appear before you on behalf of my company, Vince Holding Corps. I am Brendan Hoffman, Chief

Executive Officer of Vince.

We submit that apparel made from silk and cashmere should be removed from the list of items subject to the potential additional tariffs of 25 percent being proposed on goods imported from China.

Vince is a leading global luxury apparel and accessories brand established in 2002. Vince offers women's and men's luxury ready to wear, shoes, handbags and home products. Our company operates 59 retail stores and an ecommerce site, vince.com.

We are headquartered in New York and operate a design studio in Los Angeles. Vince employs approximately 600 citizens in the United States directly, which includes corporate, retail and some skilled laborers.

Vince is also responsible for numerous other indirect U.S. jobs at our distribution center located in California and various junctures of our logistic process contributing significantly to the United States economy.

As you know, apparel manufacturing shifted away from the United States nearly 20 years ago due to an increasing shortage of available skilled labor and relocation of American labor to other, more highly compensated industries and professions.

Jobs in apparel factories are not those which Americans will work and seek to build a career today. More importantly, certain types of apparel cannot be made in the United States because we do not have the raw material inputs necessary to make them.

Cashmere is one of those products for which we do not have the raw materials to make. It's a type of fine animal hair fiber obtained from the neck hair of cashmere goats or pashmina goats. The fiber is finer, stronger, lighter, softer and approximately three times more insulating than sheep wool.

Other than China, the world's major cashmere producing countries are Mongolia, Iran, Afghanistan, Kazakhstan, Pakistan and Turkey, all of which are not viable alternatives. China is the world's largest producer of cashmere, accounting for more than 70 percent of the world output. Mongolia accounts for about 20 percent.

There is no commercial cashmere goat production in the United States. There is no cashmere yarn spinning. There is no cashmere knitting or weaving, and therefore, there is no cashmere apparel making in the United States or many other countries.

Silk is another product for which we do not have the raw materials outside of China to make. Silk is a natural protein fiber, some forms of which can be woven into textiles.

Silk was first developed in ancient China and dates back 8,500 years. China is the largest silk producing country in the world. Its supply in seven times greater than the second largest source of silk, India.

The primary source of silk is Mulberry silk, so called because the moth larva feeds exclusively on white mulberry leaves, producing pure white individual long fibers and is more refined than other types of silk.

Only red mulberry trees are native to the United States. Thus, we don't even have the food that silkworms will consume in the U.S. Further, it should be noted that silk has never been a threat to any U.S. domestic industry.

There are no silkworms in the U.S. There is no silk fiber production, no silk yarn spinning, no silk fabric making and no silk apparel making. These products were never included in quotas during the implementation of the now expired multifiber agreement, which put quantitative limits on the amounts of specific imports into the United States.

This further demonstrates that there is no need to prevent silk apparel from being made available at reasonable prices for American consumers. In addition, silk products are eligible for duty free treatment under GSP.

China is not a GSP-eligible country. Despite the fact that today we could get our silk products duty free into the United States if they were not made in China, production has still not moved out of China because the supply chain is in China.

These fiber sources are only available in China in the quality and quantity needed by the apparel industry for these types of products. While most apparel can be produced in many countries, cashmere and silk cannot.

For all the reasons stated herein, Vince submits that apparel made from silk or cashmere be removed from the list of products potentially subject to additional tariffs of up to 25 percent from China. I look forward to answering any questions you may have. Thank you.

MR. BURCH: Thank you, Mr. Hoffman. Our next panel witness would be David Tanner with Boardriders. Mr. Tanner, you have five minutes.

MR. TANNER: Thank you. My name is David Tanner. I'm Chief Executive Officer of Boardriders. Boardriders is a California-based company and is one of the world's leading outdoor sports and lifestyle companies. Boardriders brands include Quicksilver, Billabong, DC Shoes, Roxy, RVCA, Element, Von Zipper and XCEL, which are sold in over 110 countries around the world. Here in the United States, we employ around 2,000 people.

Boardriders designs and distributes apparel, footwear and accessory products that are currently included in the list of products subject to additional duties under Chapter 60, 66, 90 and 91 of the HTSUS.

Imposing additional duties on these products would be particularly harmful to Boardriders. In the past three years, our company has emerged from bankruptcy, significantly structured by reducing costs and streamlining the company and has consolidated our industry through an acquisition.

Through these painstaking efforts, Boardriders has just recently begun to regain full financial stability and is now working to develop additional growth and employment opportunities domestically.

Additional duties on Boardriders' products at this delicate time would cause a drastic reduction in earnings that could cause the company to breach its loan covenants and threat its ability to make debt repayments.

This would undermine the significant efforts we have put into our financial turnaround and put our employees' livelihoods at risk, just as they were during our bankruptcy in 2016. As detailed in our written comments, Boardriders has already had to increase prices due to the 25 percent tariffs on List 3 products as well as in anticipation of additional tariffs on List 4 products.

If the administration imposes tariffs on List 4 products, we'll have no choice but to pass on these additional tariffs through our direct retail and e-comm channels and to our U.S. wholesale customers and ultimately to U.S. consumers.

In fact, 50 percent of Boardriders'

U.S. wholesale business is made up of specialty stores, many of which are individually owned small businesses, such as surf and ski shops. The additional tariffs and subsequent price increases will threaten the long-term profitability and viability of these American businesses and directly impact U.S. consumers that frequent them.

It would not be feasible for Boardriders to avoid additional duties by immediately moving its supply chain out of China. China remains the predominant supplier of apparel, footwear and accessory products in the United States.

Boardriders has developed its highly specialized supply chain over many years, and shifting its supply chain would require disrupting its design and product cycle and incurring significant additional costs while doing so.

It would also take a significant amount of time for Boardriders to develop a new supply chain that meets its rigorous standards of quality and labor compliance. In addition, for certain performance fabrics that are used to manufacture specialty products such as wetsuits, viable alternatives simply do not exist outside of China at acceptable quality and cost levels.

Finally, even if Boardriders could withstand such disruptions, larger players in the apparel industry have already taken up available factory capacity and production lines in countries not subject to these punitive tariffs, making it difficult to find production capacity and allowing factories in those other countries to also increase their prices.

The additional tariffs are all the more problematic because it would not advance the USTR's objectives identified in its Section 301 report. The apparel industry, including Boardriders, predominantly relies on the labor intensive manufacturing capacity of China and not the strategic and advanced technologies that form the basis of the actions and policies raised in the Section 301 report.

If the administration moves forward with the additional duties, Boardriders urges USTR to delay imposition of these duties to avoid immediate price increases on apparel and footwear that would severely impact businesses and consumers during the back to school shopping season.

A delay would also allow companies time to further develop alternative sourcing strategies. Moreover, USTR should put in place a product exclusion process that provides for company-specific exclusions to take into account companies in unique situations, such as recent emergence from bankruptcy, and to accept exclusion applications on a rolling basis.

All this would help protect U.S. consumers and businesses from price hikes and retail slowdowns as well as protect the gains the retail industry has made over the last few years while actually supporting the growth of American jobs and opportunities. Thank you.

MR. BURCH: Thank you, Mr. Turner. Our last panel witness would be Matthew LeBretton with Rubber and Plastic Footwear Manufacturers Association. Mr. LeBretton, you have five minutes.

MR. LEBRETTON: Thank you. My name is Matthew LeBretton, and I'm trade counsel for the Rubber and Plastic Footwear Manufacturers Association. I appreciate the opportunity to share our thoughts with you here today.

The RPFMA is an organization solely focused on ensuring the health and growth of the domestic footwear industry. Our membership roster includes companies such as Dunlop, Honeywell, Kamik, New Balance and other manufacturers as well as an expanding supply chain of companies across this country.

The companies that comprise our membership represent more than 4,000 jobs in the domestic footwear industry. RPFMA was formed in 1986, though prior to that we were organized as the Footwear Division of the Rubber Manufacturers

Association.

Domestic footwear manufacturing once thrived in this country. In fact, as late as the 1970s, more than 75,000 people manufactured shoes in this country, and a majority of footwear worn in the United States was manufactured in the United States.

Today, the footwear made in this country represents almost 2 percent of global production, which is actually growth over the last five years. That 2 percent is vital to the communities in which our member companies are located.

Every manufacturing job in this country is vital. That's why we as an industry have worked with government officials to make sure any free trade agreements that go into effect recognize the importance of our industry and maintain tariff protection for footwear made in this country.

We have consistently opposed the reduction of duties that the footwear import community worked to implement through Congress. Now with that said, today we stand in opposition to the additional duties proposed by the President.

Many necessary inputs that are critical for the production of footwear manufacturing in the United States are not available in the United States.

When members of our association look to find certain components and inputs in this country, there are no sourcing options. For us, this is not a simple matter of looking for cheaper Asian alternatives. They simple don't exist in this country.

Domestic footwear manufacturers and their suppliers are often completely stymied due to this lack of production. We do not believe that the administration is trying to make it more expensive and difficult for domestic footwear producers to make shoes in this country.

We believe this is an unintended consequence. However, this unintended consequence may actually threaten manufacturing jobs in the U.S. in our sector.

Many of our member companies are small businesses. They are not globally recognized brands, nor do they have hundreds of millions of dollars in sales. And this increase in costs will ultimately force some of them to close their doors. This is not conjecture. Member companies have come to me and said that very statement. This is fact.

Our industry competes daily with those that have chosen to shutter their manufacturing in the United States to make more profit. We are consistently at a competitive disadvantage and even the slightest, unplanned for ripple in our supply chain makes it even harder for us to compete.

With our economy strong, our members have invested more resources to expand manufacturing here rather than abroad. This policy, if enacted, will set that back.

That is why we strongly urge the

administration to reconsider any increased duty on the components and items that are used in the production of domestic footwear. Thank you very much for the opportunity to discuss our concerns with you here today.

MR. BURCH: Thank you, Mr. LeBretton. And Mr. Chairman, this concludes all direct testimony from this panel.

MS. HEINZEN: Good afternoon. Thank you all for appearing here. I have a question for Mr. Jewell. In your written testimony you state that sock manufacturing is not high tech and will inevitably transition away from China, but it will take time to shift your supply base to socially compliant infrastructures.

Can you provide more details on what is involved to establish socially compliant infrastructures?

MR. JEWELL: Sure. So China, as I mentioned, owns a huge amount of the global capacity in socks. But it has begun to transition away to other areas, notably places like Cambodia, Myanmar, Vietnam and Bangladesh, as well as India and Pakistan.

But China owns also a huge amount of the raw materials necessary to produce socks. So about 80 percent plus of the polyester in the world, it is made in China. And they also are the largest producer of cotton.

So this transition takes time, and it is -- certainly, there's a labor component that's important to making socks. But more importantly, it's capital intensive. And so this transition has happened very slowly.

And to address your comments about social compliance, obviously this is a key factor for the textile industry, has been for a long time. As we move to low cost, low production -- low cost production countries, we're really cognizant of the fact of being socially compliant.

And every responsible company takes great measures to go through a compliance certification process. We're no exception to it.

Most other responsible companies are doing these things. These kinds of compliance measures deservedly take months and even years to certify suppliers.

MS. HEINZEN: Thank you. Is it possible for your current U.S. manufacturing to eventually supply more product?

MR. JEWELL: So our U.S. manufacturing we have today, as I mentioned, makes about 40 percent of our products, products like these basic products I was displaying here. But there has been production of this type of product in the U.S.

The type of machinery used to make this and the type of raw materials and yarns used to produce these type of products has never been present in the U.S. at any scale, so it would take an enormous capital investment to bring in the equipment, not to mention the raw materials to do so.

And certainly, just within our facilities in the U.S., we have quite a difficult time supplying these factories with labor and to try and scale up to the amount that we would need to source all the fashion goods, it would be a monumental task to supply those factories with the necessary labor.

MS. HEINZEN: Thank you.

MR. FRATERMAN: Hello. Sure. Hi. Thank you. Mr. Jewell, I have one quick follow up on -- regarding the socially compliant infrastructures. Can you maybe go a little bit more into the labor aspects of the social compliance and what your company is doing with that?

MR. JEWELL: Sure. We tend to use suppliers that not only we go through all of the social compliance certification process with, but we try and maintain relationships with suppliers for an extended period of time just so we can maintain the confidence.

We have a team of people in China, in Shanghai. We have about 42 people there who just go and monitor and audit our suppliers, so having a long relationship with your suppliers and having this kind of established presence in their factories allows you to operate with a confidence that these factories and these companies are operating in a compliant and socially responsible way with regard to workers' working conditions and products.

MR. FRATERMAN: Great. Thank you.

MR. JEWELL: Thanks.

MR. CHANG: Hi. My name is Won Chang, Department of Treasury, and this question is for Julia Hughes of the U.S. Fashion Industry Association. You state that China is the main or only source for many fashion items.

The United States imports apparel and other fashion products from dozens of other countries. What are the obstacles to shifting more of your sourcing outside of China, including increasing U.S. manufacturing of such products?

MS. HUGHES: Thanks a lot for that question, and there's kind of two ways to approach that question. So first is for some products, it's very difficult to find sourcing outside of China.

So if we're talking about sweaters -- I think you've heard this from some of the other panels. We're talking about sweaters or outerwear or children's wear. There's definitely that China is the dominant supplier and much more difficult to find other locations for other sourcing destinations that are certainly relatively quickly ready to supply the U.S. market.

There also are certain products, like -- and you heard about cashmere and silk. You'll be hearing more about that and down products, which also there's a concentration in China for the supply of those products.

So part of the answer is, for some products there aren't a lot of other places to look at. And if you were here this morning you saw Sonja Chapman had the charts with the graphs kind of showing the world trade and the China trade and how close it was to the total.

So that's for some products. For other products, China is not as dominant as a supplier, but what we have been finding, and really it's more than a year now that brands and retailers and wholesalers have been looking at how to restructure and what is the risk management, what's their sourcing matrix, how are we going to deal with these issues that frankly, a lot of the industry, they're looking at the very same factories in the very same countries to try to shift to.

And there's not enough capacity to do that. So we're also kind of seeing those issues as well, that where are we going to go in the world. Vietnam is the second largest supplier, so obviously a lot of production has gone there.

Prices have gone up, but there's not capacity. Bangladesh, also a major supplier of apparel, not a lot of capacity to expand. We've also encouraged members to look at free trade agreements because -- especially Western Hemisphere because that should be another good opportunity.

I just want to say that kind of folks reacted really strongly to the threat of tariffs on Mexico, and I realize that was a brief blip. It feels like it was longer ago than a few weeks, but even so, any threat to the FTA sourcing, I think that has had a negative impact.

And then we look at Made in USA. And I think consistently, not just since this issue started in the 301 investigation, but even before that we've been hearing from members who would like to expand their USA production, but it's difficult because there isn't the capacity.

And you hear from those who actually own factories here. There are issues with finding the workers, so we're very supportive of that. I was surprised frankly that we didn't have companies say they were able to move back to the U.S.

But I think just the sheer scale of the amount of production that's done in China, it's hard to find a home for all of that production when everyone is looking for those sourcing options.

MR. CHANG: Thank you. I have a follow up question. IP violations in fashion products have long been an issue, as you acknowledge. Since you argue that tariffs are not a method to address these concerns, what methods do you suggest we employ? Can you explain on what you mean by action at the multilateral level?

MS. HUGHES: Sure. Thank you. I feel like it's very old school these days to kind of talk about it, but I do think that for the long-term solutions, whether we're using the World Trade Organization or whether we're working together with the EU and Japan, as I know there are discussions to go on, that that is a better way to have basically the rest of the world asking China to make the same moves, to change the same issues, to change the same internal regulations, to eliminate forced technology transfer and to enhance their enforcement of IPR violations.

And I think that consistently talking with our colleagues in other countries -- like I do feel that certainly for our sector where we have a lot of counterfeits, and we have a lot of trademark violations, that seems like a better way to solve the problem more permanently.

I mean it's never going to go away 100 percent. We still have counterfeits here in the U.S., but I think we could do a much better job if we're working together in a joint, multilateral effort.

MR. CHANG: Thank you very much.

MR. SECOR: My question is for Ms. Bivens Collinson. You argue that there is limited manufacturing of cashmere and silk apparel outside of China and none, no production in the United States.

However, trade data shows that the U.S. imports a variety of cashmere and silk apparel from several countries other than China. And we're aware there's also some production of cashmere yarn, fabric and apparel in the U.S.

Can you elaborate on the types of cashmere and silk apparel you believe can only be sourced from China and whether these goods could be sourced from the other current suppliers in the United States?

MS. COLLINSON: If you take a look at the statistics, import statistics, for example of sweaters wholly of cashmere, China accounts for 84 percent of those imports. The next largest supplier is Italy at 11 percent.

So when you're talking about the volume that this represents, there's no place for that to go. And the reason, again as was expressed by Mr. Hoffman here, is silk and some of these other products and the silk products we have the same issue, China being the largest supplier, the next closest supplier being Italy.

And many times, where China may supply 70 percent, Italy supplies 18 percent. So that's the number one and number two. So you're looking at these different countries. When you talk about the volumes and you talk about where they're going to be, being able to produce it, they're not going to be able to do it in these other countries.

The other thing is if there were alternatives -- I mean one of the big things in the fashion industry is you've got high volume, lots of turnover. It's fashion, right? So you want to try to get them in. You want to make them affordable for the consumer.

So you're trying to find the best location to make them at the most reasonable, cost-effective method. When you've got other alternatives today where you could bring these things in duty free, but you aren't going there, what's the reason? Why haven't you already moved?

I mean when you look at apparel manufacturing in particular, it always has seemed to chase that low dollar, wherever the cheapest labor is, wherever it's, you know, they can make the biggest bang on their buck.

But they haven't done that in silk even though they could get it duty free from other countries. And again, the reason is because these yarns and these fibers, they're fragile. They're unique.

They don't transport well, and the volume that's actually made in the United States is extremely small. Additionally, the silk apparel that's made in the United States, most of it is made from imported silk fabric. The fabric comes in from Italy.

The fabric from Italy actually undergoes a substantial transformation from silk that was made in China. But when you bring in a fabric, if you subject it to two or more printing operations and some folding and some other operations, under our rules of origin, it transforms from a product of China to a product of Italy.

Then that fabric comes in, and then a high fashion item might be made here. So what we're saying is even if you were able to move some of the apparel production out of China, because the entire -- the system of what -- from the trees that the worms feed on to the silkworms themselves to the spinning of the yarn itself to the making of the fabric itself.

That is all in one place because that's where the source is. That's where the cashmere, when you've got 80, 70 percent of the cashmere located in China, you're going to circulate around where the source materials are.

So that which is made here in the United States, even if we were to move everything over here, it's not going to be able to meet capacity, number one, and the raw inputs are not going to be able to make it.

So you're adding on time. You're adding on costs, not only because of the additional costs for manufacturing in the United States but because of transportation costs, logistics, and if we're thinking about carbon footprints it adds a lot more as well.

MR. SECOR: Thank you.

MS. LOESER: Thank you all so much for your testimonies today. My name is Elisa Loeser. I'm here with the Department of Agriculture. I have a question for Mr. Hoffman. It's actually quite similar to Ms. Collinson's questions, so perhaps you can just expand on her answer.

In your testimony, you suggest that silk and cashmere apparel manufacturing needs to be located in proximity to the raw inputs, namely China. However, a significant amount of cashmere fiber is exported to European countries, as mentioned, where it is finished into apparel and then exported to the United States.

Similarly, the United States imports silk apparel from several countries. We do note very clearly that China is your dominant supplier. However, can you please expand on the specific obstacles you foresee in shifting your sourcing of silk and cashmere apparel away from China?

MR. HOFFMAN: I mean for a company like Vince, it's the quality. It's the quality that you get out of China. I mean, you know, what David spoke about his company and what they went through a couple years ago, Vince was next in line.

We were a public company. We had going concern on us. Everybody thought we were going to go bankrupt. It was all in the press, and I spent countless nights up worrying about the 600 people I employed and the other people impacted. And when we looked back on where it all started, it was the quality.

We had shifted within China to different factories than we had historically used, and the quality went downhill and the customer responded accordingly.

So a couple years ago when were able to get -- three years ago when we were able to go back to our old factories and the quality came back, that started our road to good health, and as David said, financial stability.

And that, to me, is the biggest risk of making any of these changes because even within China we saw the risk for a brand like Vince, so we just can't sacrifice quality. And that's the concern. And how quickly it would need to be done would just put our business at risk.

MS. LOESER: Thank you very much.

MS. MARTINICH: Hello. I'm Linda Martinich from Department of Commerce, and my question is for Mr. Tanner. In your testimony, you had stated that the available factory capacity in other countries has been taken up by other enterprises, making it difficult to shift. So I was wondering, is the concern for just a certain portion of your products, or is it all of your products?

MR. TANNER: I would say it's broad-based. The specific examples I'm talking about came from the List 3 tariffs already, so for example, head wear, baseball hats. Our factories -- we had factories in China.

We moved them out of China, and we've had a number of alternative suppliers we tried to go to who A, wouldn't even take us because we can't commit the volumes like some of the bigger guys can. B, when they do take us, they know what they've got here in a supply, demand constraint.

And they're increasing their prices even higher on us. And we're in the process of, with every one of our Chinese suppliers, going back and asking for lower prices out of them to compensate for the tariffs, and looking at options to negotiate out of every one of them where we can.

But as I've described and others have described, it's a long, laborious, costly process in order to navigate a supply chain out of there, and fortunately -- unfortunately, as a mid-sized company of our size, we're kind of caught in the middle here.

We're, like I said, just starting to get back to financial stability. At the same time, we're caught below the big guys who can really go where the factories are coming up in

Vietnam and Bangladesh, in Myanmar.

And there's a lot actually being built in those countries right now, but we're the last in line to get it. So we've got this lag period here of probably several years of, you know, where we're caught in the middle.

And finally, you know, we would be the first ones on board if there was a coordinated strategy to bring domestic manufacturing back to the U.S. We'd sign up for a multi-year strategy. We'd migrate stuff over time, but we don't have that option here, and the capacity isn't here today.

And as someone who used to be an investor, I find it really hard to believe that private capital is going to actually fund textile factories or apparel manufacturing in the U.S. given the nature of the business and the exposure to overseas markets. And then if an administration changes, they're unprotected from a tariff aspect, so it's a long road.

MS. MARTINICH: And then as a follow

up, you also argued for delay imposition of proposed additional duties to allow companies time to further develop alternative sourcing strategies. Could you elaborate on what you think would be delayed?

MR. TANNER: I think something that's in the nature of 18 to 24 months really buys breathing room for people. Every day you delay from here right now gives us breathing room to try to work on getting out of China more, to try to mitigate the effects that we're talking about.

And so there's no magic number to it, but someone else described, we've already purchased the products that are just sitting in our Chinese factories right now ready to get on ships coming over here. And our lead times in some places are 70 weeks.

And so when we've already purchased products, it's sitting there. If you put a tariff in a month from now, we're eating that. It's not the Chinese companies paying for it, it's us that are paying for it.

And we're forced because of our capital structure, because of the financial position we're in, to pass those prices on to customers and consumers. I can't tell you how the market is going to react to that.

The consumer elasticity to things like board shorts and t-shirts, you know, it's a highly discretionary good that not only is going to affect us but the retailers we sell into, so the mom and pop ski and surf shops that we serve across the country.

MS. MARTINICH: Thank you very much.

MR. TANNER: Thank you.

MR. FRATERMAN: Thank you panel for your testimony. My question is for Mr. LeBretton. You state that you're opposed to increased duties on components on items that are used in the production of domestic footwear. Can you provide more information on what these components are and what the items are?

MR. LEBRETTON: All right. I can give a more comprehensive list to you, but just some examples would -- I'm sorry?

MR. FRATERMAN: Oh, no, that's fine. If you want to provide in your additional testimony those items and components, you can do that as well. It's completely up to you, yeah.

MR. LEBRETTON: I will provide a more -- but things like collars, felt liners, steel toes, different inputs that go into the midsoles, different types of midsoles in different footwear. Those things are just commercially unavailable here, but I will have a more comprehensive list for you in my additional written testimony.

MR. FRATERMAN: Okay. Great. Thank you. And just one additional follow up. Would the inclusion of finished footwear products from China increase the competitiveness of domestic footwear manufacturers?

MR. LEBRETTON: So as an organization we are at this point not really taking a hard look at that. We're letting the companies who have come before you already make those determinations.

I will tell you as it relates to component pieces though, the only ones that it's going to hurt are those people making shoes here. I mean that's very simple. Our competitors who make shoes abroad won't be buying inputs from China to bring them here to make shoes. So on that particular interest, that's a real harm that would happen immediately.

MR. FRATERMAN: Okay. Great. Thank you very much.

MR. LEBRETTON: Thank you.

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

(Pause.)

MR. BURCH: Will the room please come to order? Mr. Chairman, I'd like to know, are all the witness -- we're missing one witness on Panel 47, but the rest of the witnesses are seated. And our first panel witness on Panel 47 will be Donald Levy, with The Levy Group.

Mr. Levy, you have five minutes.

MR. LEVY: Push -- that's better. Members of the Section 301 Committee, thank you for the opportunity to testify today.

My name is Donald Levy. I'm president and CEO of a company called The Levy Group, a family-owned company that's one of the largest privately held apparel manufacturers in the United States.

For almost 75 years, and over the course of four generations, our company has grown and thrived in an extremely competitive industry. We care about innovation, traditional hard work and customer service, and those values have enabled us to build a network of over 300 retail partners, five international offices, a portfolio of iconic brands, partners, and two proprietary brands.

We work with many of the world's leading brands and retailers across multiple apparel categories with a particular focus on outerwear, swimwear, dresses, activewear and sportswear. Our partners include stores such as Macy's and J.C. Penney, Marshall's, Burlington and Ross stores, and specialty retailers such as Anthropologie and Urban Outfitters.

The Levy Group supports the administration's efforts to open markets and crack down on unfair trade behavior. We however respectfully request removal of a limited number of apparel products that are tailored and highly engineered, and are often made from specialty fabrics.

Indeed, while the proposed Section 301 tariffs would impact multiple categories of our product lines, we in our written comments have chosen to focus only on the products that would be most difficult, if not impossible to source outside of China.

We placed orders for these outerwear products six to eight months in advance, when there was no talk of apparel tariffs. If tariffs are imposed on these products, we need at least till the end of this year so that we can have an opportunity to negotiate new prices with those tariffs included.

The inclusion of these products on the final tariff list would be devastating to The Levy Group and its 200 hard-working U.S. employees. These products are all outerwear, jackets, coats, blazers and vests.

The Levy Group has firsthand knowledge of the difficulty in sourcing these goods from countries other than China. Believe me, I've been in this business full-time for 44 years, almost longer than anyone else in the industry. I'm confident it is not feasible to find alternative sources in any major way for these goods.

Indeed, we used to own factories in the Southeast United States, and we had to close them. People in the United States didn't want to enter this field. We couldn't replace retiring workers. For all of the outerwear items listed in our written comments, China is the predominant supplier, with no realistic option for other sourcing destination that could come close to replacing China as the predominant supplier.

Indeed, the items are listed in our written comments because, primarily due to capacity constraints, and a lack of specialized expertise in other countries, it's not possible to shift production outside of China in a meaningful way.

Doing so would require in excess of a year of lead time for each product, assuming another realistic source even exists, which I can tell you from experience, doesn't. We cannot simply place an order tomorrow for a highly engineered article of say, performance outerwear at a random factory in another country.

It takes a considerable amount of time to identify and onboard new suppliers, and to ensure that suppliers can adhere to The Levy Group's quality standards and ethical sourcing standards. Tariffs tomorrow on these products, therefore, would have an immediate and severe impact on our company and on the U.S. consumers that buy the product.

You've probably heard from other witnesses last week about how tariffs on apparel are among the highest of manufactured goods. The United States' average tariff on clothing is almost 14 percent. Tariffs on the outerwear in our written comments are even higher.

The most favored nation tariff rate for men's man-made fiber coats is 28.2 percent. The tariff rate for men's man-made raincoats is 27.7 percent. These aren't cherry picked examples. They're typical of both men's and ladies' outerwear.

Imposition of a 25 percent Section 301 tariff on outerwear would often yield a cumulative tariff in excess of 50 percent. Consumers simply cannot afford import taxes in excess of 50 percent on coats, jackets and tailored clothing.

And make no mistake about it, an additional 25 percent tariff on these outerwear products would be felt by our customers. The imposition of tariffs on these goods would constitute a regressive tax increase on hard-working American families.

Let's not burden a mom juggling her job and a family with an extra tax as she has to buy her coats and jackets for the winter to keep her family warm.

I understand what the administration is trying to effectuate here. As a businessman, I understand that we must open markets and crack down on unfair trade behavior. But tariffs on these outerwear items, and I cannot stress enough that we have made an attempt to narrow our requests on only those products, will do nothing other than cause severe harm to our family company in New York, and to the employees who rely on us, and would be --

CHAIR TSAO: Wrap it up, Mr. Levy.

MR. LEVY: Sure. It would be devastating to our more than 75-year-old business, and would cost The Levy Group this year alone over $4 million.

Thank you for the opportunity to testify in front of this committee today.

MR. BURCH: Thank you, Mr. Levy.

Our next panel witness will be Richard M. Wortman of Forever 21.

Mr. Wortman, you have five minutes.

MR. WORTMAN: Thank you for the opportunity to present testimony today.

My name is Richard Wortman, and I am Customs and International Trade counsel to Forever 21. Linda Chang could not be present today.

Forever 21 was founded by Do Won Chang, who immigrated to America in 1981 with not much more than a high school education, in pursuit of the American dream. As an immigrant, he felt it was unfair that his two daughters couldn't afford to wear the latest trends in fashions. So based on the business model of providing latest fashions at the best prices, he founded Forever 21.

Today, Forever 21 remains a family-owned and operated business, and is the fifth largest specialty retailer in the United States. What started as one store in Los Angeles has grown to 546 stores in 48 states and territories, with an e-commerce site and distribution center operated out of its headquarters in Los Angeles.

Forever 21 employs over 35,500 Americans in their stores, distribution center and headquarters. Forever 21 was built on the principles of offering its customers great quality cutting edge fashion at affordable prices. Forever 21's primary target market is the young adults who are fashion conscious on a limited budget.

A very large number of the products sold by Forever 21 may be found on the annex to the notice and are the subject of today's proceedings. These products are either imported by Forever 21 directly, or through a significant number of U.S.-based businesses, which themselves import from China.

We have not enumerated the specific

provisions in this testimony, as over 900 of the 3,800 eight-digit subheadings of the HTS included in the annex to the notice are potentially impacted, including such staple items as wearing apparel and footwear.

These items, when imported from China, will be subject to an additional ad valorem duty of up to 25 percent. Plain and simple, these proposed tariffs will translate into increased prices for Forever 21's customers. There's simply no way to avoid raising prices if this tranche of 301 duties take place.

Forever 21's customers cannot afford a 25 percent increase in price, and they will be forced to cut back on purchases. And when these cutbacks occur, Forever 21 will inevitably be impacted negatively. These tariff increases will have the following consequences.

One, it will negatively impact profitability through lost sales, layoffs in multiple states in which Forever 21 operates, the closing of stores across the country in many malls, in those malls in which Forever 21 is, incidentally the anchor tenant, which would be a further detriment to other retail businesses, and drastically reduce or eliminate seasonal hiring this year.

While Forever 21 has a diverse sourcing base, China remains an indispensable producer for a number of reasons, including product availability, infrastructure, both manufacturing and logistics, quality control, costing and longstanding relationship with vendors.

It would be difficult, and in many cases impossible to move production of the impacted goods outside of China in a short window.

Finally, I would be remiss if I didn't note that the potential timing of the proposed duties would mean a sharp rise in prices right before the holiday season, which is a critical time for Forever 21 and the retail industry. Many of our orders to meet holiday season demand have been placed, and holiday merchandise has begun shipping, and will enter the United States any day now.

This additional tax on important and necessary consumer goods will be a devastating blow to our customers, the retail industry as a whole, and to Forever 21, marking what may be the Christmas from which we may never recover.

On behalf of Forever 21, I thank you for the opportunity to present these comments requesting that apparel, footwear and related accessories be removed from the annex.

MR. BURCH: Thank you, Mr. Wortman.

Our next panel witness will be Katie Tangman, with Columbia Sportswear Company.

Ms. Tangman, you have five minutes.

MS. TANGMAN: Thank you. My name is Katie Tangman. I'm the director of Global Customs and Trade for Columbia Sportswear Company. Thank you for allowing us to speak here today.

Columbia Sportswear Company is a

global leader in the development and distribution of active lifestyle apparel, footwear, accessories and equipment. We have created more than 7,800 highly skilled jobs worldwide, including 4,300 pre and post production jobs here in the U.S.

These jobs are in the areas of innovation, design, development, supply chain, retail and more. We also support indirect job creation of jobs in transportation, distribution and outsourced business services vital to our operations.

In the U.S., we sell our products through approximately 5,700 wholesale customers and through our own direct to consumer business. Columbia Sportswear also distributes to 90 countries worldwide.

First, I would like to state Columbia Sportswear's support for the administration's efforts to improve the protection of intellectual property rights in China. However, the use of tariffs on apparel and footwear to address these concerns punishes U.S. consumers, U.S. workers and U.S. companies rather than china.

Apparel and footwear importers have historically paid a disproportionate amount of tariffs in the U.S. In 2018, apparel and footwear imports accounted for 4 percent of all imports, but 30 percent of all duties paid. On average, apparel and footwear importers pay double-digit import taxes for apparel and footwear products.

Some of Columbia products are subject to import taxes as high as 37.5 percent. Adding a tariff of 25 percent on goods from China means that our import taxes would be as high as 62-1/2 percent. This is an untenable amount. Thus we fully support the wider industry efforts to remove all goods from Chapter 61, 62 and 64 from additional tariffs.

More specifically, I would like to request that the USTR consider removing Subheading 6403.91.90, 6403.99.90 and 6404.11.90 from the list of goods subject to additional tariffs. These are products that we cannot move out of China a short to medium term.

Columbia Sportswear is an innovation company. Our design, development and innovation processes take place in the U.S., however, we partner with manufacturers to produce our goods. We have worked tirelessly to develop a diversified supply chain. As we have increased the use of manufacturing capabilities in other parts of the world, our manufacturing presence in China has decreased more than 60 percent over the last five years.

However, the products that we continue to manufacture in China are highly specialized, and tied to significant investments that we have made in tooling, machinery and personnel training.

We also own and operate a wholly owned subsidiary in China, one of our largest foreign markets, with 700 retail locations. Having local production helps us remain competitive in the China market, which in turn supports U.S.-based innovation jobs.

To address the challenges we face in moving our remaining products out of China, I would like to go in some detail on a popular wedge shoe from our Sorel brand.

Some of our most popular Sorel styles include a hidden wedge heel we co-developed with a Chinese manufacturing partner. The wedge requires proprietary tooling and machinery, and a highly specialized construction process that we've cultivated with our manufacturing partners.

Another category includes footwear with our proprietary OutDry waterproof technology. The process to apply this laminate to footwear requires proprietary machinery and manufacturing processes that represent significant capital investments that cannot be moved in the short to medium term.

The cost to remove our remaining production operations out of China, purchase new machinery, and train a new workforce will cost millions, and take at least a year to achieve.

During this transition, we would continue to pay the additional China tariffs, because we cannot slow down production and delay deliveries to our consumers while we wait for new factories to come online.

The threat of these additional tariffs leaves us with two unfortunate choices: Pass the cost on to consumers, or be forced to curtail investment. 2019 is planned to be a record year of investment for Columbia Sportswear Company, over a $130 million, primarily in the U.S.

Investments include expansion and upgrades to our campus, new retail stores, expanding U.S. distribution and supply chain capabilities, and extensive technology implementations vital to fuel future growth.

Reducing investment to pay millions of dollars in extra tariff, and to move production will seriously hinder our ability to continue to grow and create U.S. jobs. At a time of rapid retail change, we simply cannot afford to slow our investments due to these punitive tariffs.

In closing, I would again like to restate my request to remove all apparel and footwear from HTS Chapters 61, 62 and 64, and given the hardships involved, specifically the subheadings mentioned earlier, from the list of goods subject to additional tariffs.

As I have explained, these tariffs will either be borne directly by consumers, or more likely will result in lower margins for Columbia, reduced capital investments and the loss of U.S. jobs over the period these tariffs are in place. Thank you.

MR. BURCH: Thank you, Ms. Tangman.

Our next panel witness will be Cynthia Rowley, with Cynthia Rowley.

Ms. Rowley, you have five minutes.

MS. ROWLEY: Thank you. Thank you for the opportunity. I am here representing my eponymous brand. Cynthia Rowley is a leading global lifestyle brand that currently features an assortment of ready-to-wear, surf and swim, fitness, accessories and home decor.

China currently accounts for approximately 42 percent of the apparel sold in the United States today. An additional 25 percent tariff on products imported from China is bound to cause real damage to the industry, along with our four million American workers.

The proposed tariffs fail to grasp the cataclysmic impact it will have on American workers. The world economy has grown increasingly interdependent. Whatever larger issues need to be addressed, it is clear to me that a severe lack of forethought went into this decision.

As an independent business owner for almost 30 years, I directly employ 100 Americans and financially support thousands more in the course of doing business. I can attest to the fact that these tariffs will be catastrophic to my company and the American fashion industry at large.

While we fully support Made in USA, in order to manufacture our product here, we are bound by the lack of raw materials and machinery. It is a fantasy to think that these raw materials exist in America. They simply do not.

The sudden implementation of extreme tariffs leaves the industry with no time to plan or prepare. Our companies don't have the option to adjust our business strategies, production cycles or supply chains to ship manufacturing exclusively to the U.S. or elsewhere.

The tariffs would put the American fashion industry at a significant disadvantage to our competitors overseas, at a time when the industry is already reeling from the impact of the fast fashion phenomenon.

While we are mostly concerned with the impact on the industry as a whole, these tariffs impact the business of Cynthia Rowley to an extreme degree. In my almost 30 years in business, I have navigated multiple economic cycles, including the Great Recession. I have weathered many storms in the fashion industry.

I came to New York from a small town

in Illinois, in a U-Haul, with $3,000 from my grandmother. I've gone from being my only employee to being able to employ many people in my headquarters and multiple retail stores.

I've worked and continue to work 10 to 12-hour days to build my business. I can perform every single job in my company, from design, to pattern-making, to cutting and sewing samples, but none of this can keep a design company afloat without speed-to-market technology and machinery that simply does not exist in the U.S. or elsewhere.

We've worked for years to build loyal relationships with our Chinese factories that are experts in our fit and design. Their capabilities and details, like embroidery, prints and specialty woven fabrics are unable to be duplicated anywhere else.

As an independently owned and financed business, we do not have a large cash reserve for which to help us survive this sudden and unpredictable increase in cost. Our high quality mandates that we begin design and production work six or more months in advance, so shifting production before the June deadline is simply not an option.

Further, since we sell to many third-party retailers, we have to determine and set our retail pricing well in advance, and do not have the option of offsetting these higher costs with higher prices to our consumers.

Finally, while I appreciate the need to make changes to our trade and tariff policies for the good of the country and the economy as a whole, the fashion industry, in addition to other countless industries, simply cannot endure such extreme changes on the current timeline.

Given the nature of the production cycle and lack of ability to raise prices, we would need a minimum of 18 to 24 months for such changes to be incrementally implemented to continue to operate our business.

Further, with these swift changes, I would strongly suggest that the government contemporaneously enact policies to help American manufacturing advance production capabilities quickly, and provide brands with tax and other relief, utilizing American production.

Thank you for your consideration, and for the opportunity to tell my personal story.

MR. BURCH: Thank you, Ms. Rowley.

Our next panel witness will be Jennifer Newton, with Plush Apparel, LLC.

Ms. Newton, you have five minutes.

MS. NEWTON: Thank you. Thank you for the opportunity to appear before you today. My name is Jennifer Newton. I am the sole owner of Plush Apparel, LLC, a small apparel business based in New York City that I founded in 2009.

Plush Apparel primarily sells cold weather accessories, such as scarves, leggings, hosiery and pajamas. We sell to a variety of retailers, that include boutiques, schools, hotels, subscription boxes, online retailers and direct to consumers.

Approximately 95 percent of our goods

are presold to wholesale retailers and subscription boxes. We presell our productions eight to ten months prior to our customers' requested delivery dates, and take that time to produce the goods accordingly and ship them to our distribution center.

That being said, all of our wholesale sales have been completed for the remainder of 2019 and have already been priced and contracted for based on the current tariff rates. More specifically, we have already presold over 600,000 garments based on the current tariff rate for this year.

We presold these goods with minimal margins in order to meet our customers' requirements. Because the quantity of units presold this year has been unprecedented, an increase of 25 percent in tariffs would simply cause such an unexpected loss in profit that I am unsure that we would be able to keep our business open.

While I would love to source our

products domestically, I have previously not been able to find domestic producers that have the machinery to weave our types of fabrics.

I am requesting that the HTS codes that I have listed be exempt to any increases in tariffs for at least one year, in order to find other suitable manufacturers. And if we were unable to find those suitable manufacturers, ultimately we would have to increase our customers' costs accordingly so that we can stay in business.

Thank you for this opportunity to speak before you. Thank you.

MR. BURCH: Thank you, Ms. Newton.

Our last panel witness would be Kelly Speakes-Backman, with Energy Storage Association.

Ms. Backman, would you -- you have five minutes.

MS. BACKMAN: Thank you. And thank you for the opportunity to speak today.

So now for something completely different. I am the chief executive officer of the U.S. Energy Storage Association, or ESA. I'd like to focus my comments here today on the severe economic impacts that would result to our members, our ESA members in the United States from the imposition of duties on imports of lithium-ion batteries, and the containers that are used to house grid energy storage systems.

I also want, would like to explain how the imposition of duties would undermine the ability of this administration to accomplish its previously stated goals of energy independence and security of the electricity grid.

ESA is the national trade association dedicated to energy storage, and our member companies play integral roles in moving the United States toward a more resilient, efficient, sustainable and affordable grid.

Our roughly 170 members include independent power producers, electric utilities, manufacturers, energy service companies, component suppliers, installers and integrators.

The core energy storage technologies

designed, built, installed and serviced by these companies are deployed throughout the United States on the electric grid, in homes and in businesses, integrated into critical infrastructure and in military installations.

These systems contain many U.S.-designed and U.S.-made components, but also rely substantially on imports from Chinese-made lithium-ion batteries, which are not available from U.S. manufacturers to a meaningful degree. In the case of specialized containers used to house energy storage systems, China is the only meaningful supplier country.

ESA membership is part of the success story of American economic growth. Our industry is fast growing -- has a fast-growing source of jobs and business formation in the United States, and is transforming the way Americans generate, distribute and consume electricity.

In 2017, the entire U.S. energy storage industry, for example for grid service for electric vehicles and for consumer devices employed over 70,000 Americans, with the preponderance of such jobs in project planning, construction and operations, and represented the single fastest growing segment of the U.S. energy sector, that's overall energy sector, with an 18 percent growth from 2017 to 2018.

We estimate that in 2019, installations of energy storage systems in the U.S. electric -- in the U.S. grid will account for $950 million in economic activity. Based on the number of projects in the pipeline today, we expect this activity to accelerate into 2020, to reach $2.5 billion that year.

The imposition of duties would badly disrupt the trend of strong growth, with ripple effects that could infect -- include cancelled projects, job losses, and disputes over responsibility for the cost increases triggered by import duties.

I want to emphasize that our industry is characterized by long-term contracts and supply and service arrangements which cannot be changed overnight with the sudden imposition of major cost increases such as new import duties being put in place in a matter of weeks.

Many large scale projects are contracted years in advance to meet regulatory requirements for utility procurements, and their performance depends on commercial and policy certainty. The proposed duties would severely strain the intricate arrangements that have already been agreed upon and allow our industry to thrive.

I also want to be sure that this committee is aware that, of the emphasis that this administration, Congress and states are placing on energy storage as a means of enhancing the energy independence and grid security of our country.

To cite just a few examples, the White House has identified energy storage as a priority for public investment in its fiscal year 2020 budget request. The Department of Energy is holding up grid resilience as a priority. Only since 2017, more than 20 states have taken legislative action and made regulatory reforms to enable storage to modernize and improve grid resilience.

The National Governors Association touted the role of energy storage systems in achieving economic and grid security gains. These positions are also held by many members of Congress as well as Chairman Chatterjee and the commissioners of the Federal Energy Regulatory Commission.

Details of the U.S. policy framework supporting our industry and grid security are provided in our written submission filed today. But my point is, that the imposition of these duties on key components required for our industry to thrive, would constitute a major and a completely unnecessary step backwards in achieving the U.S. energy policy goal of a more secure grid for all Americans.

And so I respectfully urge the Section 301 Committee to recommend against the imposition of duties on imports of lithium-ion batteries and containers which play such a critical role in advancing U.S. energy security. Thank you.

MR. BURCH: Thank you, Ms. Backman.

Mr. Chairman, this concludes the panel testimonies.

MS. HEINZEN: Thank you all for being here today. I'm Janet Heinzen with USTR, and I have a question for Mr. Levy.

Regarding the description about the complex construction and specialty fabrics used in outwear, can you elaborate on why producing such garments is complex, and why you believe China is the only source for such goods?

MR. LEVY: Sure. So if you take a look at all apparel products and how many minutes it takes to produce one, it's easy to understand that producing a T-shirt is a lot less complicated than producing a coat.

To produce a coat, it takes many, many more operations than to produce almost any other apparel product. So the complexity of manufacturing is greatly enhanced when it comes to producing outerwear, outerwear specific.

And as a result of that, there are many fewer factories in the world that are capable of producing it, so much so that we have to produce and commit to factories eight months in advance in order to build up enough inventory to supply the demand that we have for our products, because there's not enough factories in the world for us to do it.

So for -- we exhaust every opportunity. China's the major supplier, but we're in Bangladesh, we're in Myanmar, we're in Vietnam. We're in all the other countries that are capable of doing it. And we exhaust all of the best factories in the world to manufacture our product, based on our longstanding relationships that we've developed over many years.

So, in terms of fabrics, none of these fabrics that we use in outerwear really exist outside of China. All the other countries that are making our products, that I mentioned, get the fabrics from China. That's where the production of textiles is centered.

So, there's very little outerwear fabric production outside of China. So, going to these other countries also increases, to a large extent, the lead time required to manufacture, because you have to take the fabric from China and ship it to these other countries to manufacture.

I hope I answered your question.

MS. HEINZEN: Yes, thank you.

MR. LEVY: Thank you.

MR. CHANG: Hi. My name is Won Chang, Department of Treasury. Question is for Richard Wortman, Forever 21.

In your testimony, you state that it would be difficult to move production of the impacted goods outside of China in a short window of time. Have you made efforts before now to source your goods from other countries or the United States?

MR. WORTMAN: Forever 21 has a very large sourcing base. They work with a lot of vendors, and some vendors they purchase from, and they can follow -- they have the ability to attempt to move the garments to factories in multiple countries. But 80 percent of the goods that are currently imported from China are coming from other businesses that they buy in U.S. domestic transactions.

So, it is the vendor who is presenting them with potential, a potential line of goods. They're selecting what they want out of the line. And then, it is actually the, one step up in the production that's choosing the factory in China. But we have, you know, we have attempted to move anything that we can move.

The problem really is, is that we have not found sufficient factory space anywhere where the goods are able to be made, making sure that we meet the price point, the quality point and the logistics of the manufacturer and the delivery. And it's just a serious hard lift to do it for that many stores in a very short period of time.

MR. CHANG: How long do you estimate it would take to shift your source away from China to other areas?

MR. WORTMAN: I don't want to speculate as to the shift. What I can say is that we certainly can't do it for this Christmas season, as those goods are actually already on the water. And I think that we will be, you know, we will be attempting to move as much as possible if this is going to become a long-term proposition.

But I believe that China is going to be still a long-term source of goods because of, as mentioned by Mr. Levy and others, that one, the fabrics are available pretty much exclusively in China, number two, the lead times are very -- for retail today are very, very short, and we, everything has a quick, for Forever 21, has a very fast turnaround cycle.

MR. CHANG: Okay, thank you.

MR. SECOR: My questions are for Ms. Tangman.

You state support for the administration's effort to improve protection of intellectual property rights, but argue that tariffs are not the answer. What measures would you recommend the U.S. government take to address those longstanding concerns if not through the current 301 mechanism?

MS. TANGMAN: Not intending to sound glib, negotiate a free trade agreement with China with very strong IP protections. Another avenue is to support and participate in the WTO as intended. The other possibility would be perhaps we could use reduced tariffs to incentivize good behavior, perhaps with some kind of a certification process or something like that.

We have been successful so far working with Chinese agencies in terms of stemming the flow of counterfeit goods, of our goods, so we've worked with China Customs. They've been very effective in stopping export shipments before they leave the country.

There's other Chinese agencies that have been working on our behalf, because we have been registering our trademarks and our IP with them. That kind of cooperation has been effective, and we'd like to see more of that.

MR. SECOR: Have you seen improvements recently in the cooperation that Chinese authorities give when you do have IP problems?

MS. TANGMAN: So, I would say, what we have seen is a reduction in the number of cases in China, but as I stated earlier, we've moved 60 percent of our production out of China. So it's really a little bit difficult to say where that is from.

China is a steady source of counterfeit goods. We know that it's one of the five, our top five countries that we have to keep our eyes on, but we do have these issues with other countries around the world as well, including in the U.S.

MR. SECOR: Thank you.

MR. FRATERMAN: Thank you, panel, for your testimony. My question is going to be for Ms. Rowley.

Ms. Rowley, do you currently purchase any products from U.S. manufacturers for your stores?

MS. ROWLEY: From U.S.?

MR. FRATERMAN: Yes.

MS. ROWLEY: Yes. We manufacture in the U.S., but as we've -- you know, I think everybody's been saying, there's only so much you can do here without the raw materials and skilled labor. So we do as much as we can, which unfortunately is not a very substantial part of our business.

MR. FRATERMAN: Okay. And can you elaborate on your statement that it would take a minimum of five years to achieve the same level of quality product if you were to move your machinery domestically?

MS. ROWLEY: Well I just think there isn't the skilled labor here. I think -- I don't even know how we would get the raw materials here, and in order to manufacture anything close to what we're making in China. I know that it's taken me ten years in China, working with the same factories, to develop the fit and quality, and a vocabulary of proprietary design, that I just think it -- five years is a very generous estimate.

MR. FRATERMAN: Okay. Great. Thank you very much.

MR. FRATER: The next question is for Ms. Newton.

Similar to I think what has been said, it sounds like there's a lot of difficulty in the machinery, and you haven't been able to find a domestic producer with it, the machinery to weave your specific fabrics and products. So I guess if there were machinery available to a domestic producer, could you make the products here in the U.S.?

MS. NEWTON: Yeah. I actually, when I first started my business about ten years ago, I did work with a manufacturer in North Carolina to make our hosiery. However, they -- I primarily sell fleeced-lined hosiery, and they did not have the machinery to do it.

And so I just, you know, I was able to produce a small amount of just regular hosiery, and after about a year, they actually were not handling smaller businesses like me. They were working with bigger consumers like Nordstrom and Hue to do their private label, and they wouldn't take my business.

So if the opportunity was there and they could handle it, I would definitely be open to it. I've looked since then in California. I've looked outside of China in Korea and maybe five or six other countries, and I've not been able to find manufacturers that can produce the specific fleece-lined fabrics that I need.

MR. FRATER: And as a follow-up, are there any other obstacles specific to your company in sourcing your products domestically?

MS. NEWTON: Yeah. The business has

changed quite a bit from when I first started. I used to sell to about 600 smaller boutiques, mom and pop shops. Since then, a lot of them have unfortunately closed, and the business has changed for the retail industry, I think, as a whole.

So my business has changed a lot more to subscription boxes, which rely on much smaller margins and higher volume. And in order to meet those demands, I'm not sure -- the factory that I've been working with can produce 50,000 units, for example, of scarves a week. I'm not, I have not been able to find any factories here that can produce that quantity at the quality that I need.

MR. FRATER: Thank you.

MS. MARTINICH: Hello. Linda Martinich -- I'm sorry. Linda Martinich, Department of Commerce. And my question is for Ms. Speakes-Backman.

And I was wondering, what do you mean by your statement that China is the only meaningful source for specialized containers used to house the energy storage systems?

MS. BACKMAN: Meaning more than 90 percent, north of -- I think it's more closer to 95 percent of those containers are provided from China. I guess that's --

MS. MARTINICH: And are there domestic or other country -- sources for the lithium-ion batteries?

MS. BACKMAN: Yes. So, lithium-ion batteries are, come about 40 percent from China. And the next largest manufacturers are Korea and Japan, at about 45 percent combined. The rest kind of are small pittances, Germany, Taiwan, other countries. I can provide that list to you in a supplemental filing.

MS. MARTINICH: Okay. And then, lastly, what would it entail to build other sources' capacity in other countries, domestically or outside of China?

MS. BACKMAN: It would take a long time, that's for sure. To build the capacity, there is, first of all there have to be long-term contracts for the minerals that are required, especially for lithium-ion batteries, which as you know are, I'm sure you've read are of issue today.

And then, to find the siting and to work through import-export issues, it would take a number of years. I wouldn't -- I don't want to estimate how many years, but I would say it would take at least five years to get, you know, meaningful, meaning at least half of what's supplied from China moved elsewhere.

Especially, I just want to add, given the expansive growth that's expected of the energy storage industry, most of which is planned to be in the lithium-ion battery space. Our market doubled last year. It's on track to double again this year, and to triple in 2020.

So looking at that sort of exponential growth and trying to resource those batteries for our market is, it will be quite a burden on our members.

MS. MARTINICH: Thank you very much.

MS. BACKMAN: Thank you.

CHAIR TSAO: Ms. Backman, I have a follow-up question. Are you aware, are these lithium-ion batteries subject to any of China's industrial policies, either on the innovation side or on the production side?

MS. BACKMAN: I'd have to get back to you on that. I'm sorry. I don't know the response to that.

MR. SECOR: Is there any way to distinguish, under the HTS codes, the lithium-ion batteries used for energy storage from lithium-ion batteries, more generally?

MS. BACKMAN: Yes. We have a list of those. And there's the separation also between, there's electric vehicle batteries with lithium-ion technologies, consumer, and then the grid storage side. So we do have a listing of the separation. I'd be happy to provide with you, to you as well.

MR. BURCH: Mr. Chairman, we release this panel with our thanks. And would the witnesses for Panel 28 make their way forward.

(Pause.)

MR. BURCH: Would the room please come to order? Mr. Chairman, I'd like to note this is the last and final panel for today. And our first panel witness would be Neil Gilstrap with Happy Gorilla Game Studio. Mr. Gilstrap, you have five minutes.

MR. GILSTRAP: Hello. My name is Neil Gilstrap, and I am with my colleague who is also here with me today, Chip Boyd, are co-owners of Happy Gorilla Game Studio. We're a very small startup company creating board games, using crowdfunding as a primary vehicle for investment. And we're here representing ourselves -- not just ourselves today, but also any other small business owners who also use crowdfunding to source their products.

Happy Gorilla Game Studios -- excuse me -- we're seeking language be added to the new proposal which would provide a grace period for already-in-progress imports to China, similar to language which was found in the March proposal. Our first game, our very first product that we have ever created, is literally sitting on a boat in the Pacific Ocean headed here, and is expected to be in Florida in a few weeks. And this surprise 25-percent cost overrun is going to directly affect us, and it will do so merely because I could not get the factory to ship two weeks earlier than they did, despite my best effort, so.

Being a crowd-funded business, about seven months ago, we launched a campaign on a Kickstarter website to showcase the idea for our new game in the hopes that we could entice potential micro investors to pledge money for the creation of our game, and these people do so in return of a copy of the game themselves. So, they give us the money, we manufacture the product, we give them the game.

Crowdfunding works by allowing consumers to front money in advance for product being manufactured in order to fund its development and the creation in return for the product. Product creators and their businesses benefit by over-budgeting to produce some extra product for retail as well as small profit to fund future product, with the idea being that we would continue more crowdfunding campaigns to grow our small business into a larger business over time.

A funding goal is set as a part of these campaigns, which promises that if the funding goal is reached, the product will be produced and delivered to backers at the cost promised. For us, this occurred back in October of 2018 and the money was already collected at that point based off good faith estimates that we had put in place with no way to know that we would be hit with a 25-percent cost overrun as our product was being shipped.

As it stands, our company will be subject to new tariffs, which we could not have anticipated these seven months ago. To ask now that my backers must deliver more money or simply fail to deliver my product to them will ruin my company's reputation and subsequently preclude it from ever using crowdfunding again.

In addition, crowdfunding by its very nature is designed to allow anyone with a great idea and a lot of willingness to work to start a business around a product without themselves having a large bank account or personal finances, which includes myself. It is truly a gateway to the American Dream for many small business owners. With just a little bit of good ideas and a lot of effort and hard work, you can start your own business.

Lastly, since the money we raised has already been spent on manufacturing with no way to refund or cancel, our business is firmly stuck in an impossible situation. We have to assume a large debt to pay the duties, which will subsequently consume any profit or additional funding we were going to receive for our completed project, which have then led to the ability to for us to fund development of new projects. This will mean that any profit we would've used for development will now go to pay debt, which effectively will close the doors of my company.

I wanted to emphasize, too, that we are not objecting to these tariffs in principle on board games or for future projects. Indeed, if we had known that the tariffs were coming, we could have set our funding goals appropriately as part of crowdfunding and asked our backers to produce that money so that we would not be surprised. It is quite literally the surprise of this which is the issue with money that I have no way to refund or cancel.

We're not alone in this situation. Many campaigns which are in fulfillment on crowdfunding sites, such as Kickstarter, are also facing the same situation that we are. This is due to the long production timelines after a campaign successfully funds in which you are not expected to ask for more money from your backers due to that perceived contractual obligation from the close of a campaign. Sorry.

So, we're simply asking that we have some language added to the new proposal as part of its implementation, which provides us an adequate grace period for the chance to complete the import process. Thank you for your time.

MR. BURCH: Thank you, Mr. Gilstrap. Our next panel witness would be Cristen Kogl with Zebra Technologies Corporation. Ms. Kogl, you have five minutes.

MS. KOGL: Good afternoon. My name is Cristen Kogl and I'm the general counsel of Zebra Technologies, a United States, publicly-traded company headquartered in Lincolnshire, Illinois. Zebra is the world leader in intelligent edge technology, and we're proudly celebrating our 50th anniversary this year. We employ more than 4,100 U.S. employees and, for the last four years, have ranked on Forbes' list of best American employers.

Throughout Zebra's 50 years, it's grown through investment and innovation. Earlier this month, I have the privilege of attending our annual innovator's dinner; one of my favorite events at Zebra. And this is the event where Zebra employees who successfully develop new technologies for which a U.S. patent is issued are recognized by their colleagues and by senior management, including receiving grants for Zebra stocks.

Now, I'm here today to discuss two of Zebra's primary product lines: our enterprise mobile computers as well as our specialized printers. Unfortunately, the application of the 301 tariffs within current Customs rules creates an unintended windfall for foreign-suffered developers at the expenses of American companies, the situation unique to U.S. companies that develop software with American engineers unwittingly harms U.S. intellectual property and U.S. jobs instead of protecting them. The impact of these rules is not about moving manufacturing out of China. It is about moving engineering out of the United States. Ironically, if we offshored our software development, we could avoid these tariffs altogether.

If you'll indulge me, I will attempt to explain this very technical rule and its impact on Zebra. Current Customs interpretation of the Substantial Transformation Rule as it applies to electronic devices essentially states that nonfunctional hardware without software is substantially transformed in a second country if the software's developed and downloaded in that second country.

When the software imparts the functionality to the finished good, the finished product is now classified as a good of that second country. The rule is well-established and has been upheld as recently as January 2019 of this past year.

At Zebra, we can't take advantage of this rule precisely because we develop our software in the United States. As an American company headquartered in the United States who proudly employs engineers in the United States to develop our software in the United States, these rules create an absurd outcome. Our foreign competitors' products built in China are not impacted by these tariffs because their software's not developed here and the U.S. rules allow them to change their country of origin from China to the country wherever their software's developed. These rules effectively encourage Zebra to off-shore its U.S. software development rather than continuing its investment in American engineers and innovation.

I hope the Committee would agree that software development should stay in the U.S. and that American technology companies should not be penalized for developing their software here. These tariffs have the ironic effect of making U.S. IP less competitive and less secure by incentivising tech companies to move software development out of the U.S. This is clearly an unintended consequence of the tariffs and, therefore, I respectfully request the Committee protect the development of software in the U.S.

by removing these electronic devices from List 4.

Now, we import these products under three, eight-digit subheadings, one of which the administration previously removed from List 3 at the 10-digit level. I implore the Committee to continue to uphold its previous decision not to include subheading 8517.62.0090 as there have been no changes since the USTR specifically created this carve-out. We see no reason why these products should now be subject to Section 301 tariffs.

We also request that USTR remove subheading 8517.12.00, which products are often virtually identical to those under the prior subheading with the only difference being network capabilities through a cellular connection. Finally, we ask that USTR remove Zebra specialty printers under the eight-digit 84433210 or, more narrowly, we proposed that the administration remove the relevant 10-digit subheading. Thank you for your attention and the opportunity to testify.

MS. KOGL: Thank you, Ms. Kogl.

Our next panel witness is John Frascotti with Hasbro, Incorporated. Mr. Frascotti, you have five minutes.

MR. FRASCOTTI: Thank you. Good morning. My name is John Frascotti, president, chief operating officer of Hasbro. I wanted to thank the Committee for the opportunity to appear before you today to discuss the significant and disproportionate harm tariffs on toys and games would cause Hasbro, the broader U.S. toy industry, and consumers of toys; American families and their children.

Hasbro's a 93-year-old global play and entertainment company proudly based in Pawtucket, Rhode Island. We employ 5,800 people worldwide, 2,600 employees in the United States. As a major intellectual property rights holder, Hasbro appreciates the administration's effort to combat trade practices -- unfair trade practices.

However, the U.S. toy and game industry is uniquely and disproportionately exposed to the proposed tariffs on toys and games because, industry-wide, 85 percent of all toys sold in the U.S. are imported from China, and there is no readily-available alternate supply chain outside of China.

Hasbro submitted a detailed set of written comments that explains the many reasons why imposition of tariffs would be so damaging for Hasbro and the broader industry. For the purposes of today's hearing, I want to focus on just a few points.

First, Hasbro is very proud of its strong and unwavering commitment to U.S. manufacturing. We're the only major toy company that sources products made in the U.S. in significant numbers. We have been an industry leader in seeking to diversify our supply chains, both to increase the percentage of our products that are made in the United States and to reduce sourcing from China.

For example, in addition to sourcing our iconic board games, like Monopoly, in the

U.S., we returned production of Play-Doh to the U.S. last year. Now, when we first embarked on this strategy in 2012, we were sourcing over 80 percent of U.S.-sold product from China. And by 2018, we had already reduced this figure to 67 percent and we're continuing to steadily decrease this percentage year-over-year.

Second, notwithstanding these efforts, it's not possible for Hasbro or the U.S. toy industry as a whole to eliminate Chinese production because the required production capacity for toys and games does not currently exit outside of China, and it would take several years to develop this capacity.

Now, another major reason is because our suppliers in China are qualified and trained to meet the strict U.S. product safety standards for products used by children. And with children and families as our consumers, high safety and quality standards are not optional, they're essential. Thus, for Hasbro, a prerequisite to shifting supply chains is finding suppliers and developing workforce capable of upholding our rigorous safety and quality standards. These suppliers and workforces do not currently exist outside of China.

Third, imposition of tariffs on toys and games would be devastating for Hasbro and the broader U.S. toy industry, and it also would undermine our supply chain diversification efforts. The financial impact on Hasbro alone would be enormous and would drain resources that we would otherwise reinvest in our U.S. business and in our supply chain diversification efforts. Now, timing could not be worse for our industry, which is already facing serious headwinds from the recent bankruptcies of two toy retailers, Kmart and Toys "R" Us, already putting about 30,000 U.S. jobs at risk.

Fourth, if proposed tariffs are put in place, Hasbro will have no choice but to pass along increased cost to U.S. customers by pricing our products to address tariffs. That's been our experience in Brazil, for example, where we face a significant import tariff. We need to increase prices by more than just the increased duty charge in order to protect gross margin and operating profits, which will likely result in higher prices to consumers. Tariffs would hurt the vast majority of our U.S. customers, many of whom which distributors, wholesalers, and retailers are SMEs. The impact of tariff on SMEs will be devastating.

Finally, tariffs on toys will negatively impact U.S. consumers. Because toys and games are low-margin items, we anticipate that our retailers will pass along additional cost to U.S. consumers and U.S. consumers of toys and games are extremely price-sensitive. If the price of a $19.99 toy increases by 25 percent, consumers will buy fewer of them. The category of U.S. consumers that the proposed tariffs would most directly impact are low-income households with children.

We are also concerned that the imposition of tariffs would create safety risks as the tariffs could incentivize U.S. consumers to purchase cheaper counterfeit toys that don't meet stringent safety standards, potentially causing additional harm to U.S. consumers. For all these reasons, we request the USTR exclude toys and games from the final list of products subject to tariffs.

We've included a list of impacted tariff lines in our written comments. Thank you very much.

MR. BURCH: Thank you, Mr. Frascotti. Our last panel witness for the day will be David Aquino with SharkNinja Operating LLC. Mr. Aquino, you have five minutes.

MR. AQUINO: Thanks very much. My name is Dave Aquino and I'm the executive vice president of global operations for SharkNinja Operating LLC, and I appreciate being able to get to testify today.

SharkNinja is headquartered in Needham, Massachusetts and has operations throughout the United States. We design and manufacture a variety of cleaning products and systems such as mops and hand and cordless vacuums; and kitchen appliances such as blenders, food processers, coffee makers, and slow cookers; and we're at the forefront of robotic science.

We have grown our sales volume by more than five times over the past ten years. During that time, our U.S. employment has grown from less than 100 to approximately 650 employees. Our growth has been fueled by research and development activities undertaken here in the U.S., and many of our employees are American engineers that work in high paying product development roles. The majority of our products are produced in China and are imported under a number of subheadings of the Harmonized Tariff Schedule of the U.S.

While we will comment on more tariff codes in a written submission, my testimony today focuses on cleaning supplies such as mops and sweepers, and kitchen appliances such as blenders, coffee makers, coffee systems, deep fryers, and pressure cookers. These products, which are essential to American's everyday domestic tasks, are classified under various subheadings in Chapter 85 of the HTSUS.

Imposing additional duties on the SharkNinja products classified under these subheadings would not support the objectives of the proposed Section 301 action because additional duties, one, would not be practicable or effective in eliminating China's unfair acts, policies, practices; and two, would significantly harm the individual American consumer and small and medium size businesses in the U.S.

First, as common household consumer products, these products are neither related to the Chinese government's efforts to misappropriate U.S. technologies and intellectual property, nor strategically important to the Made in China 2025 program or other Chinese industrial programs.

Moreover, the majority of SharkNinja's intellectual property is developed and designed in the U.S. We protect our intellectual property in the U.S. and elsewhere through patents and we're not aware of any material misappropriation of intellectual property relating to patents on these products.

Second, SharkNinja is not in a position to internalize a 25 percent increase in cost of these products such that American individuals and families, small and medium size businesses will be forced to bear the brunt of these duties. The resulting price increases will be passed on to end consumers by physical and online retailers, as well as by SharkNinja in its direct sales.

Not only will this result in higher prices for American individuals and families, but such price increases will have a disproportionately negative impact on smaller retailers that often work with tighter margins as individual consumers may go to national retailers and distributors with market power and the ability to internalize additional duties in the short-term.

In addition to failing to advance the objectives of this proposed Section 301 action, additional duties on these products would adversely impact SharkNinja's position as an innovative and expanding market participant in the household cleaning supply and appliance markets in the U.S.

SharkNinja estimates that moving its manufacturing operations outside of China would cost tens of millions of dollars and take approximately five years before the manufacturing know-how. Supply chain infrastructure and specialized skills for our products are not readily available in other countries at the capacity we require.

Moreover, moving SharkNinja's manufacturing operations outside of China would risk diminished quality of our products for U.S. consumers.

Finally, the inevitable price increase of these products likely would result in a significant reduction of our sales volume in the U.S. which could curtail our future investments in research and development and intellectual property in the United States and reduce the number of American jobs we were able to create.

In fact, the additional tariffs would help rather than hurt SharkNinja's Chinese competitors who are not impacted by the additional duties because their sales are primarily overseas as they will be able to capitalize on SharkNinja's reduced sales and decline in innovative capabilities.

In summary, imposing the additional 25 percent duties on SharkNinja's products will not advance the objectives of the proposed Section 301 action, but it would have a disproportionately negative impact on American individuals and families and small and medium size businesses. In addition, it would likely inhibit SharkNinja's continued investments in the U.S.

For these reasons, we respectfully

request the subheadings of the HTS under which SharkNinja's products are classified be removed from the list of products subject to additional 25 percent duties. Those subheadings are listed in SharkNinja's written comments. Thank you so much.

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

MR. CHANG: Hi, my name is Won Chang, Department of Treasury. My -- I have a few questions for Mr. Neil Gilstrap of Happy Gorilla Game Studio. Would you know how many other crowd funding ventures are in a similar situation to your company?

MR. GILSTRAP: I don't offhand. That would be more of a question for crowd funding companies, like I could ask Kickstarter or Indiegogo. I can tell you that -- I wouldn't even hazard to guess. I would have no idea what their current -- I'm currently following 16. That probably doesn't help you at all, so.

MR. CHANG: Second question, how long of a grace period do you think you and other similarly affected ventures need?

MR. GILSTRAP: So, if I was to walk away today with a pass that said I get a freebie, July 20th, at least that's what I've been told.

The real problem, though, if we're talking about it from an angle of a Kickstarter or crowd funding, is that the time period for which a crowd funding operation can raise money is established as a campaign, the manufacturing and development cycle, and considering that the product that people are backing isn't developed yet, they are paying for something pre-development.

So, you have to go through an entire development cycle and very often -- just like myself, I am a tiny small business owner. This is not even my full day job. I don't know anything about manufacturing. I have to discover all that myself.

So, you're looking at a process that's

anywhere between six months to a year is the expected turnaround from the time at which you would be accruing money through a campaign to the time at which you would actually receive your product and then have it shipped to the people whom you owe that product to.

Like I said, for us, our campaign was in October of 2018, we expect it to be here by July 20th. So, in particular for Kickstarters, I mean, months, many months. So, that's --

MR. CHANG: Finally, you maintain that you are not opposed to tariffs for future projects.

MR. GILSTRAP: Right.

MR. CHANG: In that scenario, would you fold in the cost of tariffs in your crowd funding efforts or do you already have other non-Chinese suppliers that you have considered or renegotiated with Chinese counterpart suppliers?

MR. GILSTRAP: So, I have a couple answers then and a little funny story. So, will I be passing the cost on? Absolutely, it just becomes an estimated cost. I have to deal with this now with VAT for EU costumers, right, if they are paying extra for their shipping because we have to pay VAT upon entry into their -- into the EU.

And I would be passing that on to American consumers and either the cost of the shipping or the entire estimate for the campaign would go up. I do this -- we have to do this for taxes now.

So, as far as a kickstarter is concerned, what that means is that the amount of money that I need to raise in order to be successful when a product goes up and, of course, I have work even harder to find people who would be willing to pay that amount in order to fund the product.

As far as our perspective, though, you know, putting in extra work, I'm the grassroots entrepreneur here so extra work doesn't scare me. What scares me is unestimated cost overruns when I don't have a bank account to pay for them.

The funny story about, would I be able to find other manufacturers for board games? The answer to that is, yes, there are other manufacturers, of course pricing is probably not as good as China.

But the funny story is, I mean -- so, when I first heard about that we were going to be subject to tariffs, I mean, it was maybe three days later I'm getting an email from a contact that I had in Taiwan who I had met at a trade show who specialized in plastic transparent cards for types of games. And the email almost literally reads, I know you know us for plastic cards but, guess what, we're making board games now.

And, you know, I'm sitting here saying to myself, will I be able to find another company that manufacturers board games? Sure, they exist. Are they actually just going to be from China? Probably. So, I'm not really sure, you know, if that is accomplishing the goal or not.

MR. CHANG: Okay. Thank you.

MR. GILSTRAP: Mm-hmm.

MR. WINELAND: And thank you, Ms. Kogl. Just a couple of questions. You reference in your testimony your foreign competitors that are producing in China. What countries are your competitors from?

MS. KOGL: So our competitors are global. We are a global company. We sell throughout the world, so we've competitors that are in Japan, in Italy, in Korea, in China, as well as in the United States.

MR. WINELAND: And with regard to -- have you considered the possibility of being able to source from outside of China and what sort of impediments might you see in doing that?

MS. KOGL; Sure. So thank you. You know, we are considering moving production, however the infrastructure and overall supply chain for component parts for our products are primarily in China.

That being said, as stated in my testimony, you know, the tariffs are creating an uneven playing field. Because of our software development in the U.S., we can't change that country of origin to the U.S., because of the way the Custom's rule is written. And so therefore, if there was an even playing field, that would be one thing, but this creates an uneven playing field.

You know, that being said, we certainly are considering -- and we do manufacture in other countries as well. And, you know, we are considering the moving. But again, if we move and others still can, you know, make that change, there's a cost differential, you know, based on Chinese manufacture wherein they can change their country of origin with a software outside of China, whereas we can't.

And so, you know, the impediments, you know, really go to the competitive, you know, playing field across the globe, not so much about whether or not I can move my manufacturing. You know, that being said, we're looking, and it's something we can certainly consider doing. Like others have testified earlier today, that does take some time.

I'm not looking like the, you know, some of the textile manufacturers talking about five years. I mean, this is something where you can substantially address, you know, in more of the 12-month kind of time range.

But if you move, and tariffs change, and you've taken on additional expense to manufacture in a different country that has a higher landed cost, you are now disadvantaged to those competitors didn't have the cost to move, the disruption to the supply chain, the impact to quality, the required regulatory certifications that have to happen as part of the product, and then still end up with a China manufacturing cost and a country of origin outside of China.

MR. WINELAND: A brief follow-up. You reference you are manufacturing in other countries. Is it -- are they the same products that you're manufacturing in China, or are they just particular, other products? In other words, if you were to look at changing out of China, then would that be a matter of expanding capacity, or actually developing new production for new, for those products?

MS. KOGL: So for our List 4 products, they are all manufactured in China right now. We have some List 3 products that are manufactured in Mexico as well as China. We also are doing some manufacturing in Vietnam. So the List 4 products right now, we would have to fully move. The other ones, you know, we are looking at expanding that capacity as well as moving full lines. Thank you.

MS. LOESER: Thank you all so much for your testimonies today. I'm Elisa Loeser with the Department of Agriculture and I have a few questions for Mr. Frascotti.

Mr. Frascotti, thank you so much for mentioning your commitment to U.S. manufacturing. You mentioned that Hasbro is a major intellectual property holder, and also that you appreciate the administration's effort to combat unfair trade practices.

Has your company faced IP issues in China, and how have you addressed them?

MR. FRASCOTTI: Yeah. We, as a major intellectual property holder, we take measures to protect our intellectual property all around the world, because with brands like Transformers and Monopoly and even My Little Pony, there are people that seek to appropriate our intellectual property in many different ways, all around the world.

We've had longstanding relationships with our suppliers in China, and have very stringent security requirements with them, as we do in other markets that we manufacture, the U.S., Mexico, India, Vietnam.

And by having these longstanding relationships, and having good programs in place, we find that we do face, from time to time, intellectual property issues, but they're not necessarily concentrated in any one market. And by working in partnership with our suppliers in all those markets, we're able to do a good job in protecting our intellectual property.

MS. LOESER: Thank you. Also, if not by tariffs, how do you think such unfair practices should be addressed? You also raise a concern that tariffs would incentivize U.S. consumers to purchase cheaper, unsafe, potentially counterfeit toys.

Could you please tell us what suggestions you have for addressing this concern regarding counterfeit toys?

MR. FRASCOTTI: Sure. So, there are mechanisms in place, and partnerships in place that we use today to address counterfeit toys. My comment about, if tariffs were imposed, that that would have an impact because consumers may choose to purchase, predominantly online, from suppliers who aren't governed by Customs, and frankly CPSC regulations.

So, our primary concern is safety of our products, and the safety of our consumers who purchase our products. And when it comes to our products, we obviously abide by all regulations. And in fact, in many cases, we go above and beyond that.

By having the opportunity to purchase directly from suppliers online, outside the U.S., there's an opportunity for consumers to circumvent that.

And our concern is that if tariffs drive up the price of our products, which they undoubtedly will, because we'll pass that on to our customers, and our customers will pass it on to consumers, then the result will be, there'll be an incentive, actually, for consumers to purchase less safe, cheaper, you can call them knock-off products, or imitation products.

I believe there are systems in place to address counterfeit products. When it comes to unfair trade practices, I think there are a lot of other vehicles available to us, other than passing on cost to our families and kids, in terms there. And I actually think, respectfully, that there's a lot of people who are more knowledgeable about those strategies than me to comment on that. Thank you.

MS. LOESER: Thank you so much. I just, also I was very curious if you could expand upon what those systems are, are in place for identifying those counterfeit toys, potentially, and specifically, how can the consumer identify a counterfeit toy?

MR. FRASCOTTI: In terms of the processes that are in place today, it really comes down to controlling the chain of custody, from the time that intellectual property is developed, in many cases developed in the U.S., because our designers and development teams are in the U.S.

And so as they create the intellectual property, whether the intellectual property might be a toy design, might be a television show, a comic book or really anything that brings our intellectual property to life, it's all about controlling the chain of custody, and ensuring that only appropriate individuals handle that product during the chain of custody, and that those individuals are well-informed and well-educated on the appropriate security measures to take place while that intellectual property is within their control.

I think really, from time immemorial, there have been people who try to counterfeit products, and I think it's very difficult for the consumer to discern, other than identifying the source. And it's the reason that we put our brand name on our products, because when you see the Hasbro brand name on a product, you can rest assured that it's not a counterfeit product.

MS. LOESER: Thank you very much.

MR. FRASCOTTI: Thank you.

MR. FRATERMAN: Thank you, Mr. Frascotti, I just have one quick follow-up as well. In your testimony, you also talked about the commitment you have to U.S. manufacturing, and that you were able to return production of certain products, like Play-Doh, back to the U.S.

I was wondering if you can, if

possible, talk about how you were able to do that. How were you able to bring production back to the U.S. and kind of what were the steps involved with that?

MR. FRASCOTTI: Sure. So, you know, the two main product lines that we're able to manufacture in the U.S. today are some of our board games and Play-Doh. And the reason we're able to do that has to do with really a lot of automation.

And they don't -- in those two cases, they don't require a lot of skilled labor in the manufacturing process. Contrary to that, when you look at things like action figures or animatronic packs that we do that require a lot of labor and require a skilled labor force, one that's well trained and where there's very high capacity, that's where it's much more difficult for us to return to the United States, those type of manufacturing.

So in the case of Play-Doh, and in the case of Monopoly, we've been able to do it for a couple of reasons. One is it goes to a factory we've used for many, many, many years, and so in some cases that factory that makes the board games actually has been doing that for many years, and it's highly automated.

And it's the same factory actually we're using to do Play-Doh because of the automation process. And over time, we are committed to returning more manufacturing to the United States. It just takes time to make the economics work and to find those product lines that have high automation that allow us to do that.

MR. FRATERMAN: Excellent. And can you give me one more idea about -- obviously, there's automation in the factories. We understand that, but can you give us a rough estimate of how many workers you actually do have in these factories?

MR. FRASCOTTI: In the factories in the U.S. or in China?

MR. FRATERMAN: Yes, in the U.S.,

factories in the U.S. And if you do have the numbers for the factory in China, I'd be interested in that as well.

MR. FRASCOTTI: I'd say -- so we don't own any of our own factories. These are all third-party factories.

MR. FRATERMAN: Okay.

MR. FRASCOTTI: And the suppliers that we use in China, a rough estimate would be probably around 100,000 employees. But that varies tremendously because it involves a lot of seasonal fluctuations.

MR. FRATERMAN: Okay.

MR. FRASCOTTI: I don't have the number readily available to me in terms of what we're using in the U.S. because we've recently increased that. But it's certainly in the thousands.

MR. FRATERMAN: Okay. Thank you.

MR. FRASCOTTI: Thank you.

MS. HUANG: Thank you for your testimonies. My question is for David Aquino with Shark Ninja. You estimate that moving operations outside of China will cost tens of millions of dollars and approximately five years. What are those estimates based on?

MR. AQUINO: Well, the manufacturers that we work with have been 15, 18 years in China. So there's an ecosystem for both PCBAs, for electronics, for plastic extrusion, for manufacturing knowhow. It's almost a cottage industry unto itself. It's not easily replaced.

So I think in some ways, you know, certainly the partners that we work are truly partners. They're folks that have grown with us and developed with us, and they are people that we'd want to work with going beyond, you know, China.

But it's not something that you can just easily, you know, turn over. The product life cycle management, the development, getting infrastructure in place, automation. It's not something that's easily done. You can do pieces.

You can potentially move bits, but the

idea of wholesale change when you have an infrastructure that's, you know, decades in the making in terms of logistics, employee knowhow, competency, compliance, it's just not something that's easily replaced. And to be honest, it's something obviously we're looking at. And, you know, if we could do it quickly, we would.

MS. HUANG: Have you already explored options in other countries? What is it about your products that make it hard to source from outside of China? And to the best of your knowledge, do you know if your competitors have part of their supply chain outside of China?

MR. AQUINO: Yeah. The -- we are looking at other countries of origin mostly though, with folks that we're working with today. So those partners are -- their infrastructure, their financing, their investment, their employee base is in China.

We also have our own employees and infrastructure north and south of China, so that's an important distinction. Other competitors work in Malaysia. They work in the Philippines. They work in other countries, you know, but, you know, Vietnam is an alternative. But again, you know, moving heavy equipment, you know, moving lines, moving employees, moving real estate is not something that's just done, you know, easily or without any -- it's not a quick response.

MS. HUANG: Thank you.

MR. AQUINO: Sure. Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks, and we are recessed until tomorrow, 9:30 a.m.

(Whereupon, the above-entitled matter went off the record at 5:12 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-24-19

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