

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

2 (9:30 a.m.)

3 CHAIR TSAO: Good morning and welcome.

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

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

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

22 The Section 301 Committee will

1 carefully consider the testimony and the written  
2 comments, including post-hearing rebuttal  
3 comments, and will then make a recommendation to  
4 the U.S. Trade Representative.

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

10 The hearing is scheduled for seven  
11 business days, concluding Tuesday, June 25th.  
12 Today is Day 6 of the hearing. We have scheduled  
13 55 panels of witnesses with over 300 individuals  
14 scheduled to testify.

15 The provisional schedule has been  
16 posted on USTR's Web site. We have eight panels  
17 of witnesses scheduled to testify today. We will  
18 have a brief break between panels and a 50-minute  
19 break for lunch.

20 Each witness appearing at this hearing  
21 is limited to five minutes of oral testimony.  
22 The light before you will be green when you start

1 your testimony, yellow means you have one minute  
2 left, and red means that your time has run out.

3 After the testimony from each panel of  
4 witnesses, the Section 301 Committee will have an  
5 opportunity to ask questions. Committee  
6 representatives will generally direct their  
7 questions to one or more specific witnesses.

8 As stated in the May 17th notice,  
9 post-hearing comments, including any written  
10 responses to questions from the Section 301  
11 Committee are due seven days after the last day  
12 of the hearing.

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

19 Given the number of witnesses and the  
20 schedule, we request that witnesses, when  
21 responding to questions, be as concise as  
22 possible. Witnesses should recall that they have



1 a full opportunity to provide more extensive  
2 responses in their post-hearing submissions.

3 No cameras, or video, or audio  
4 recording will be allowed during the hearing.  
5 Written transcripts of this hearing will be  
6 posted on the USTR Web site and on the Federal  
7 Register notice.

8 We're pleased to have international  
9 trade and economic experts from a range of U.S.  
10 Government agencies, and at this time, I would  
11 like to ask the Committee to introduce themselves  
12 starting with myself.

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

15 MR. FRATERMAN: Matthew Fraterman,  
16 Department of Labor.

17 MS. GERSTLE: Tracy Gerstle,  
18 Department of Commerce.

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

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

1 MR. SCHNELLER: Keith Schneller, USTR.

2 MR. STEPHENS: Andrew Stephens, USDA.

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

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

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

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

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

22 ZMC is a global leader in the

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

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

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

17 The tariff that we oppose and that are  
18 discussed in our written submission, can be  
19 roughly divided into three categories, one,  
20 product that goes into vitamins and other  
21 supplements, such as vitamin E and beta carotene,  
22 two, essential oil that goes into aromatics, such

1 as cosmetics, and three, mint essential oil that  
2 goes into a wide-variety of U.S.-made vitamins,  
3 cosmetics, and prepared foods.

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

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

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

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

1       domestically.

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

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

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

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

20                  Many world-leading producers of fat-  
21       soluble vitamin has located their facilities to  
22       China.   These producers include BASF of Germany,

1 which invested over \$10 billion in Guangzhou,  
2 China. DSM, the largest vitamins and food-  
3 additive company out of the Netherlands, has also  
4 invested heavily in China in recent years.

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

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

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

18 I know the mandate of this Committee  
19 is not easy. It has to review thousands of  
20 tariffs and determine how the tariff will affect  
21 our lives, the lives of Americans. I also know  
22 that the United States Government is extremely

1 interested in creating jobs.

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

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

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

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

21 According to the Trade Census in 2017,  
22 the aggregate imports of this HTS were only \$143

1 million. There are no other sources of this  
2 commodity directly from manufacturers in any  
3 other country, including the United States.

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

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

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



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

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

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

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

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

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

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

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

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

21           Additional tariffs on the four HTS  
22 subheadings will have the potential to remove

1 much needed raw material streams from our  
2 domestic landscape and remove needed competition  
3 from the U.S. market, eventually driving up the  
4 cost even more to these products for our  
5 customers and the eventual consumer.

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

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

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

19 As an example, let me highlight one of  
20 the HTS subheadings that the proposed list  
21 contains, 2933.69.60. China is the only viable  
22 source for this chemical which impacts many of

1 our chemical products and ingredients.

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

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

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

19 Second, Maroon Group has been in  
20 business for over 40 years, and we know the  
21 global landscape, and competition, and there is  
22 nothing we can do to change the supply chain. We

1       rely on China, not because of costs, but because  
2       of quality and availability.

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

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

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

20               We're a U.S. company that employs  
21       hundreds of workers and we are getting caught in  
22       the crosshairs of this trade war. Small and mid-

1 sized U.S. companies, such as Maroon Group, and  
2 our U.S. customers, have become the pawns in this  
3 much larger trade dispute.

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

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

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

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

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

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

9 CJ BIO is a member of CJ America, a  
10 subsidiary of CJ Group. CJ Group employs more  
11 12,000 people in 47 states. Our businesses here  
12 include packaged foods, transportation and  
13 logistics, and of course, CJ BIO.

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

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

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

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

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

22 We recently began production of feed-



1 grade threonine in this same facility, an  
2 incremental investment of \$50 million. U.S.  
3 production of other important amino acids is part  
4 of our long-term plan for this market.

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

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

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

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

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

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

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

21                  One final point I believe should be  
22                  considered by USTR, several other important feed

1 additives can only be sourced from China today.  
2 It would be truly unfortunate if we allowed a  
3 similar trend to start for these important feed-  
4 grade amino acid products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11           Each geography is critical for  
12 particular scents and particular products.  
13 Unique and unreplicable factors, like  
14 microclimate, are what produce such diversity of  
15 scent.

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

22           In my discussions with them, they're

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

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

10                Finally, these effects will be felt  
11       throughout the economy. This is not just an  
12       issue effecting those of us who appreciate fine  
13       fragrance or fancy cologne, fragrance is a  
14       defining element of many of the products that you  
15       and I, and everyone here today, use every day,  
16       including home cleaning products, window  
17       cleaners, laundry detergent, personal care  
18       products, like shampoo, deodorant, moisturizer,  
19       that new car smell, feminine hygiene products,  
20       candles and air fresheners, kitty litter and  
21       puppy pee pads, industrial uses including odor  
22       control for hog farms, scenting natural gas so



1 it's detectable in the event of a leak, and even  
2 products used for training our military to  
3 simulate combat conditions use scent.

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

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

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

19 MS. AHMED: Yes, sure. As a result,  
20 we respectfully request that the Committee's  
21 exclusion of these products from the proposed  
22 List 4. Thank you for the opportunity to address

1 you today, and I appreciate your consideration of  
2 our comments. Happy to answer questions.

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

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

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

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

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

20 We appreciate the administration's  
21 desire to counteract practices that unfairly  
22 burden U.S. commerce and the administration's

1 goal of further opening China's market to U.S.  
2 goods.

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

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

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

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

20           If further tariffs are imposed, the  
21 impact will be felt not only by our members, but  
22 by American farmers, nurseries, turf protection

1 companies, and ultimately American consumers.

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

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

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

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

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

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

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

17 We believe that this decision  
18 reflected the unique harms that would result from  
19 the tariffs on these products. We are,  
20 therefore, very concerned to see that the new  
21 proposal includes the same provisions, as well as  
22 additional provisions covering other key

1 pesticides and ingredients.

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

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

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

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

21 MR. BURCH: Thank you, Mr. Novak.  
22 And, Mr. Chairman, this concludes all the

1 witnesses' testimonies.

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

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

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

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

22 As I've stated in my testimony, even

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

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

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

15 MR. GILMARTIN: Thank you.

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

19 MR. TEO: Yes.

20 CHAIR TSAO: Are you aware of, not  
21 just necessarily your company, but your industry,  
22 what effort has your industry made in China to



1 request the Chinese Government to address the  
2 concerns that the Section 301 Committee  
3 investigation has raised with respect to Chinese  
4 trade practices?

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

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

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

20 So in your testimony, you stated that  
21 there are no sources of this commodity directly  
22 from manufacturers in any other countries. How

1 many manufacturers are there in other countries  
2 and what is their capacity?

3 MR. MASSEY: How many manufacturers  
4 work?

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

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

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

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

22 MR. STEPHENS: Okay. And you

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

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

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

15 MR. MASSEY: Absolutely.

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

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

21 MR. STEPHENS: Thank you.

22 MS. GERSTLE: Mr. Massey, in your

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

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

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

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

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

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

21                MR. MASSEY: Well, one of the issues  
22        is that crop protection tools that are available

1 for soybeans center around GMO technologies that,  
2 for example, soybeans that are glyphosate  
3 tolerant, you must use glyphosate to take  
4 advantage of that tolerance, right?

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

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

17 MS. GERSTLE: So my name is Tracy  
18 Gerstle and I'm here representing Commerce today,  
19 and I have questions for Mr. Maroon. Mr. Maroon,  
20 in your comments, you basically stressed that for  
21 all of the substances listed in your testimony,  
22 that they can only be imported from China, but

1 you do note that there are other sources, the EU,  
2 Japan, and others.

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

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

20 But having said that, the -- I'll  
21 reference, as an example, the one I referenced in  
22 my oral testimony, where there is production in a

1 couple other countries.

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

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

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

21           So upstream raw materials is of  
22 critical importance -- local availability of

1 those raw materials.

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

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

9 MR. MAROON: The intermediates --

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

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

19 Which is typically, today, I don't  
20 know, 50 cents a kg on average, right? So why  
21 add those incremental costs on something that is  
22 already competitive in its nature, and you want



1 to keep the cost down to the end user.

2 MS. GERSTLE: Thank you.

3 MR. MAROON: You're welcome.

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

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

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

19 I know that the construction of our  
20 Fort Dodge facility, for instance, was a multi-  
21 year project, and every time we go through an  
22 expansion, it's a substantial investment of not

1 only construction costs, but time, to apply the  
2 incremental capacity.

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

7 MR. FRATERMAN: Great. Thank you very  
8 much.

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

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

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

3                   MS. GERSTLE: Thank you.

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

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

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

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

22                   CHAIR TSAO: And a quick follow-up.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3                   MR. SCHNELLER: Thank you very much.

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

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

12                   MR. NOVAK: Certainly, glyphosate is  
13 used in corn, cotton extensively as well, and  
14 drawing on one point, someone had asked about  
15 innovation within the industry, our member  
16 companies, it will take about 12 years to move  
17 from proof of concept, through the regulatory  
18 process, the testing that's done, it's about a  
19 \$350 million investment that our companies make  
20 to bring a new technology forward.

21                   To the extent that the bread and  
22 butter of our industry, then, is the generic

1 chemistries. That's a significant hurdle and Mr.  
2 Massey talked about the capital required, not  
3 only to license a new product and do all the  
4 testing, that \$350 doesn't include the cost if  
5 you had to build new manufacturing.

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

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

19 MR. STEPHENS: Thank you.

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



1 way forward?

2 Will the room please come to order.

3 I would like to note before the panel starts with  
4 their testimonies, to the panel and the panel  
5 witnesses, and also, the panel up front, can  
6 everyone please speak clearly into the microphone  
7 so everyone in the room can hear you?

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

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

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

21 In the United States, the Epson Group  
22 employs over 1500 workers in 29 states from coast

1 to coast. We are a subsidiary of Seiko-Epson  
2 Corporation in Japan.

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

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

18 Today I would like to address four  
19 categories of products for which Epson requests  
20 to be removed from the list of products subject  
21 to the tariffs: projectors, large-format  
22 printers, receipt printers and scanners, all

1 categories in which Epson is a U.S. market  
2 leader.

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

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

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

19 Additional tariffs would impose  
20 significant cost burdens on school districts that  
21 have already constrained and fixed budgets and  
22 impede our education systems from obtaining the

1 projection equipment that it needs to operate an  
2 effective and engaging learning environment.

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

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

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

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

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

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

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

20           Imposing additional duties on these  
21 technologies would, therefore, affect the bottom-  
22 line of a wide range of businesses that use these

1 technologies ranging from hotels and restaurants  
2 to dry cleaners and grocery stores.

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

11 Three of the four major producers of  
12 scanners, including Epson, that account for over  
13 85 percent of the scanner volume in the U.S.,  
14 would be affected by the tariffs, leaving minimal  
15 viable alternatives for U.S. consumers.

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

20 If USTR does decide to include  
21 projectors, large-format printers, receipt  
22 printers, and scanners in the final list of

1 products subject to additional duties, we request  
2 that USTR implement a production exclusion  
3 process, as it did with previous lists of  
4 products subject to the Section 301 tariffs.

5 Thank you very much for your time and  
6 consideration.

7 MR. BURCH: Thank you, Ms. Jones.

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

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

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

21 The FTZ program is a critically  
22 important and longstanding economic development

1 tool created by Congress to incentivize companies  
2 to locate manufacturing and distribution  
3 operations in the United States rather than other  
4 countries.

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

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

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

20 However, I am not here today to  
21 request the exclusion of any particular products  
22 from these duties; rather, I urge that any duties



1 imposed as part of this action, avoid and correct  
2 a problem that has emerged in the application of  
3 Section 301 and 201 duties, thus far, on products  
4 manufactured in a USFTZ.

5 Specifically, in those actions,  
6 Customs entry requirements for merchandise  
7 withdrawn from an FTZ have resulted in some USFTZ  
8 manufacturers being improperly assessed Section  
9 301 and 201 duties on all their foreign status  
10 components, including articles that are not from  
11 the subject country or are not included on the  
12 lists of products specifically identified as  
13 being subject to the additional duties under  
14 those trade actions.

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

20 We have already provided evidence to  
21 this Committee in our comments on the Section 301  
22 action against the European Union, using the

1 example of a water pump, to show the unique  
2 impact of this unbalanced tariff treatment on  
3 USFTZ manufacturers.

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

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

16 We also seek clarification that any  
17 merchandise admitted in a USFTZ in privileged  
18 foreign status, as the result of a Section 301  
19 order, shall retain that zone status until such  
20 time as the Section 301 duties are terminated, or  
21 reduced, or a product exclusion is granted to  
22 such merchandise, in which case, the Section 301

1 duty rate and P.F. status on said merchandise  
2 will no longer be in effect.

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

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

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

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

22 MS. HUFF: Thank you for the

1 opportunity to appear before you today. My name  
2 is Liz Huff and I'm here today as Director of  
3 Operations for Anatomical Worldwide, a small  
4 Illinois-based business which was founded in  
5 2005.

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

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

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

22 Our customers are the students

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

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

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

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

1 medical education.

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

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

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

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

21 In fact, we view our products as  
22 critical components to education writ large, not

1 just within healthcare, as learning how the  
2 shoulder joint works can inspire students to  
3 imagine new types of robotics and machines far  
4 outside the direct application of our products.

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

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

19 This limited domestic capacity is not  
20 due to an influx of Chinese goods or stolen  
21 intellectual property, but rather, the  
22 longstanding European manufacturers who have

1 dominated our industry since the 20th century.

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

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

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

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

22           This is not the level of education we



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

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

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

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

19 It's worth noting there are no U.S.  
20 companies with trade secrets, proprietary  
21 practices, intellectual property, or the like  
22 that are being or have been harmed by the

1 importation of the products we sell.

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

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

11 Once again, I ask that you thoroughly  
12 consider the impact to consumers, taxpayers, and  
13 businesses, and conclude to remove HTS code  
14 9023.00.00 from the proposed list of tariffs.

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

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

22 MR. OSGOOD: Good morning. My name is

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

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

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

21 Had this tariff been imposed during  
22 that same time, the cost increases could have

1 caused significant losses in each of those years.  
2 A 25 percent tariff on our future costs would  
3 cause similar untenable losses.

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

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

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

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

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

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

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

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

21           Beyond our own audits, we use a third-  
22 party agency to conduct independent compliance

1 audits of our suppliers every two years. These  
2 high standards define our premium brand and are  
3 expected by our customers, but there are only a  
4 handful of manufacturers in the world that are  
5 both willing and able to comply with these  
6 standards, and they're all located in China.

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

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

19 But to build and implement such a  
20 domestic capability would likely require advanced  
21 manufacturing technologies and five to seven  
22 years. Pursuing this goal is only conceivable

1 with an exemption from the proposed tariff.

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

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

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

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

22 The goals of Section 301 tariffs are,

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

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

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

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

19 The certified B Corp standards I  
20 described are rigorously enforced and clearly  
21 marked on all of our packaging. Our products are  
22 easily identifiable and distinguishable from



1 other products classifiable under the same HTS  
2 subheading.

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

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

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

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

22 The concerns of Zurn center narrowly

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

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

9 The vitreous China commercial products  
10 enter into Zurn under the HTS subheading of  
11 6910.10.00. Examples of these products are  
12 sinks, toilets, lavatories, and commercial  
13 applications.

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

18 Imposing a tariff on these components  
19 will reduce our inventory and introduce delays in  
20 the supply chain that would ripple through the  
21 construction sector. The negative effects of  
22 these not only impact Zurn, but also the overall

1 time table for the projects, and thus, countless  
2 downstream American workers.

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

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

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

21 Regarding the second category, parts  
22 of water control and safety valves, this category

1 primarily includes the parts of backflow valves,  
2 control valves, fire valves, and other specialty  
3 valves.

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

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

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

22 Additionally, this HTS subheading was

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

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

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

18           As a result, it's critical to identify  
19 and qualify foundries and suppliers that can  
20 supply products compliant with the federal and  
21 state laws. It is very time-consuming and  
22 difficult to qualify new suppliers for the large

1 numbers of different parts involved, even after  
2 additional potential capacity is identified.

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

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

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

22 To the extent that cost are pushed

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

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

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

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

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

22 MR. BISHOP: Thank you, Mr. Cline, our final

1 witness on this panel is Brandon Ingersoll with  
2 LiceGuard, LLC. Mr. Ingersoll, you have five  
3 minutes.

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

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

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

13 MR. BISHOP: Yes.

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



1 which I will refer to going forward as the lice  
2 comb HTSUS subheadings.

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

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

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

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

20 LiceGuard initially sought to develop  
21 the electronic comb that could be used to detect,  
22 and demobilize, and kill lice. Experiencing no

1 luck finding a U.S. entity that could assist us,  
2 LiceGuard discovered a Chinese entity that  
3 possessed the necessary skills, and after working  
4 with this Chinese entity for some time, over a  
5 number of decades, LiceGuard was able to develop  
6 the Robi Comb that can zap lice on contact with a  
7 safe electrical pulse that kills lice, but  
8 doesn't hurt humans at the same time.

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

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

20 In addition. LiceGuard's products can  
21 be purchased online through Amazon. LiceGuard  
22 estimates that over 500 households around the

1 world have used our products, and in the last  
2 seven years, LiceGuard's sales have grown  
3 significantly, with our lice comb products being  
4 approximately 60 percent of our overall business.

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

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

18           Such a cost increase could quite likely  
19 result in the need for us to lay off employees  
20 and would threaten the future of our company.  
21 Imposition of Section 301 duties on the lice comb  
22 HTSUS subheadings also would be very detrimental

1 to our consumers, both financially and in terms  
2 of public health and safety.

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

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

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

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

21 In recent years, sales of the Robi  
22 Comb and other lice comb products that we sell

1 have increased significantly. This clearly  
2 demonstrates that many people prefer our non-  
3 toxic products instead of the more traditional  
4 toxic shampoos that have been offered over the  
5 last few decades.

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

15 As such, we believe it would be far  
16 better for consumers and the USTR to exclude the  
17 lice comb HTSUS subheadings from any final list  
18 that may be issued. In addition, as discussed in  
19 the detail of the written testimony we have  
20 submitted, it seems extremely unlikely that  
21 placing the Section 301 duties on the lice comb  
22 subheadings would help the U.S. achieve its goals

1 that have been established in connection with  
2 Section 301 in this matter.

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

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

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

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

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

1       there.

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

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

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

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

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

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

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

11 MR. WALLACE: Thank you very much.

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

15 MS. JONES: It varies considerable by  
16 product category and we are covering a lot of  
17 product categories, but for projectors, for  
18 example, based on the information I have,  
19 projectors from China account for approximately  
20 60 percent of the U.S. market.

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



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

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

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

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

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

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

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

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

16 On the other hand, the Department of  
17 Commerce, which administered the Section 232  
18 tariffs, did listen to our logical argument, and  
19 in the third iteration of the presidential  
20 proclamation, as I said in my testimony, did  
21 insert language that clarified that situation,  
22 and removed the application of the trade remedy

1 tariffs from inputs to which they should not be  
2 subject.

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

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

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

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

1 systems.

2 That's simply the argument.

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

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

12 MR. FRATERMAN: Okay.

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

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

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

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

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

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

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

19                  MR. FRATER: Okay. Thank you.

20                  MS. HUFF: We're growing, though.

21                  MR. GILMARTIN: My name is Kevin  
22                  Gilmartin with the Treasury Department. Thank

1 you all for your testimony today. My question is  
2 for Mr. Osgood. Can you elaborate on why it  
3 would take over 18 months, as you note in your  
4 testimony, to move production or the sourcing of  
5 products outside China and which countries are  
6 potentially viable alternatives?

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

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

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

22 MR. GILMARTIN: And a quick follow-up

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

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

8 MR. GILMARTIN: The B Corporation.  
9 Thank you.

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

13 MR. OSGOOD: That's correct.

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

20 MR. OSGOOD: That is correct.

21 CHAIR TSAO: So what's the share of  
22 canteen with respect to total import we have to

1 the United States for this line?

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

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

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

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

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

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



1 insensitive?

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

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

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

18 MR. CLINE: Certainly, we operate  
19 through distribution channels and as well as our  
20 own internal supply channels. With the increased  
21 costs that that brings to our business, we would  
22 likely lower our stocking levels and the

1 associated activity with it, thus extending the  
2 supply chain plan.

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

8 MR. INGERSOLL: The technology is not  
9 patented.

10 MR. FRATERMAN: It's not patented.

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

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

20 MR. INGERSOLL: We would have to  
21 redevelop that technology, and we've tried. To  
22 be clear, we tried about five years ago. We put

1 a push on and talked to manufacturers in the  
2 United States and Mexico, specifically, and had  
3 them mock-up some example for us that failed.

4 MR. FRATERMAN: Okay. Thank you.

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

8 (Pause.)

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

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

18 Mr. Smith, you have five minutes.

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

21 MR. SMITH: My name is Peter Smith, I  
22 am the executive vice president for Carter's for

1 our supply chain. We are the largest-branded  
2 marketer of children's apparel in the United  
3 States.

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

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

15 The Carter's and OshKosh brands, our  
16 two marquee brands, have been in business since  
17 1865 and 1895, respectively. Started as family-  
18 operated business, and have grown into a \$3-1/2  
19 billion publicly traded corporation. Our purpose  
20 is simply to serve all families with young  
21 children, with the safest, the most durable,  
22 adorable, and affordable clothing for their kids.

1                   We employ 21,000 people worldwide.  
2                   18,000 of them are here in the United States.  
3                   They work in our stores, our distribution  
4                   centers, and our corporate headquarters in  
5                   Atlanta, Georgia.

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

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

20                  Last year, the U.S. reported its  
21                  lowest birth rate on record, 3.8 million  
22                  beautiful babies were born in this country. Our

1 customers, young families, especially those at  
2 the lower end of the financial spectrum just  
3 don't have the money to pay the kind of price  
4 increases that would be necessary if these  
5 tariffs go into effect.

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

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

22 The speed at which these tariffs seem

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

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

21           Additionally, if the tariffs go into  
22 place, foreign competitors will use the de

1        minimis 321 Rule to bring product into the United  
2        States. As our prices go high, they will cut us  
3        under, and they'll start shipping in e-com orders  
4        directly from China. They won't go through our  
5        safety protocols, they won't be subject to the  
6        same rigorous inspections that our products do.  
7        That is an unintended consequence we encourage  
8        you to help us avoid.

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

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

20                    MR. BURCH: Thank you, Mr. Smith.

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



1 Ms. Gold, you have five minutes.

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

5 We are a small company, but we are a  
6 major supplier of infant accessory products.  
7 Located in Denver, Colorado, Goldbug was founded  
8 51 years ago in 1968. We became a woman-owned  
9 company since 2012 when I took over the  
10 leadership of the company from my father, Bill  
11 Gold. Today, Goldbug has approximately 100 U.S.  
12 employees.

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

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

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

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

1 Goldbug and to our customers.

2 I would like to emphasize, a tariff of  
3 25 percent on baby shoes will eliminate our  
4 product from the marketplace. It will simply  
5 make this product extinct -- like this guy. As a  
6 company, Goldbug will be irreparably harmed, as  
7 we will need to eliminate a significant number of  
8 jobs in our home state of Colorado.

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

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

22 The Statistical Note 2 has been added

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

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

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

19 Our American families deserve high  
20 quality and safe shoes for the children who are  
21 learning to walk. We respectfully and urgently  
22 request that the baby shoes be removed from the

1 list of products to be tariffed at this time.

2 Thank you.

3 MR. BURCH: Thank you, Ms. Gold.

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

6 Ms. Chapman, you have five minutes.

7 Ms. Chapman, can you turn on the microphone,  
8 please?

9 MS. CHAPMAN: Members of the Section  
10 301 Committee, thank you for the opportunity to  
11 testify today. I'm Sonya Chapman, I'm a licensed  
12 U.S. Customs broker, and I provide advisory  
13 services to Topsville, LLC. They are a privately  
14 owned manufacturer and marketer of children's  
15 wear.

16 Topsville imports infants' and  
17 children's wear garments for mass market  
18 retailers. Our product consists predominantly of  
19 goods offered for retail sale in sets. And sets  
20 require that we must find factories with the  
21 ability to produce -- to produce knits, wovens,  
22 sweaters, tops, bottoms, and jackets, and they

1 have to do it concurrently and in high volumes.

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

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

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

22 Tariffs will create additional cost

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

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

17 We understand and support the  
18 administration's concerns with respect to China's  
19 unfair trade practices. Unfortunately, we do not  
20 believe that additional tariffs in the apparel  
21 sector will effectively change this behavior. We  
22 do not foresee the ability to actually make

1 significant changes in our sourcing practices,  
2 even after tariffs are in place.

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

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

19 Additionally, we've provided numbers  
20 in the larger sizes categories for you to look  
21 at. And, you know, just to exemplify this, I  
22 just wanted to show you some samples. When we



1 are looking at a sweater set with a top and a  
2 bottom, we've got to find a factory that can make  
3 all these parts, and then we're restricted by  
4 capacity.

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

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

18 MR. BURCH: Thank you, Ms. Chapman.

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

21 Mr. Stack, you have five minutes.

22 MR. STACK: Good morning to everyone

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

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

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

17 The impact of higher tariffs on  
18 Americans trying to provide for their children  
19 will be direct and immediate. Import statistics,  
20 which have already been pointed out, show that  
21 China provides 40 percent or more of infants'  
22 apparel, and 80 percent of certain categories of

1 apparel such as sweaters. And footwear is even  
2 higher, at 80 to 85 -- 80 to 95 percent of  
3 certain tariff numbers, would be produced in  
4 China.

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

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

22 And about \$600 of that is clothing,

1 \$600 instant diapers, and the other various  
2 costs, medical costs, scholar costs, all sorts of  
3 things that people have testified about.

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

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

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

1 with.

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

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

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

22 I see my time is almost up. Finally,

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

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

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

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

16 Ms. Mond, you have five minutes.

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

22 The Toy Association represents more

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

5 With an annual U.S. economic impact of  
6 \$109.2 billion, the U.S. toy industry supports  
7 683,933 American jobs. Approximately three  
8 billion toys are sold in the United States  
9 annually, totaling \$27 billion at retail.  
10 Importantly, over 95 percent of toy companies in  
11 the United States are small businesses.

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

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

1        comments.

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

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

19                   Parents work hard to be able to  
20       provide toys for their children. With 85 percent  
21       of all toys sold in the United States imported  
22       from China, imposing these tariffs would have a



1 major and immediate impact on consumers,  
2 increasing toy prices by an estimated 15 percent,  
3 and resulting in a reduced selection of toys.

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

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

19 Long lasting relationships with  
20 Chinese manufacturers have resulted in a higher  
21 safety assurance, as these partners are well  
22 versed in toy safety requirements. Disrupting

1 these relationships would not only be a cost to  
2 toy companies and consumers, but it would be a  
3 cost to toy safety as well.

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

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

20 We note that imposing tariffs would be  
21 an advantage for Chinese toy companies that do  
22 not have a U.S. presence and import under the de

1        minimis exemption. The de minimis exemption  
2        enables foreign companies that sell direct to  
3        U.S. consumers to price their tariff-free  
4        products more affordably than U.S.-based toy  
5        companies. And often, these foreign toy  
6        companies are selling inferior knock-offs that do  
7        not go through the same safety testing that  
8        established brands undergo, putting our nation's  
9        children at risk.

10                Finally, toys are not relevant to the  
11        administration's goal of targeting Made in China  
12        2025 industries. Imposing tariffs on toys, like  
13        my stuffed Tariff Grinch over here, would produce  
14        little leverage in helping eliminate China's  
15        offending IP practices, as China does not regard  
16        toys as a high priority or strategic industry,  
17        and has placed little emphasis in developing its  
18        domestic toy industry.

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

1 MR. BURCH: Thank you, Ms. Mond.

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

4 Mr. Shamie, you have five minutes.

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

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

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

18 The reason for this request is  
19 straightforward and important. Raising the  
20 prices on these products through tariff increases  
21 is likely to lead to an increase in infant and  
22 child deaths and injuries, in addition to

1 increasing the already declining birth rate.

2           Founded in, as a juvenile furniture  
3 retailer by my parents in Brooklyn, in New York,  
4 1968, Delta is truly an American success story,  
5 growing exponentially from over the past half a  
6 century to become one of the United States'  
7 largest manufacturers and marketers of safe and  
8 affordable infant and children's furniture.

9           In addition to importing, we  
10 manufacture other juvenile products here in the  
11 United States, those that we are able to  
12 manufacture, directly importing -- employing over  
13 300 people around the United States of America,  
14 from Wisconsin to California, New York, New  
15 Jersey and Arkansas, and other places in the U.S.

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

1 groups.

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

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

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

21 You can Google Delta, and you'll see  
22 all the outreach that we do to help families in

1 need, especially our military families. I am on  
2 the board of directors of First Candle, a non-  
3 profit organization dedicated to promoting infant  
4 safety, preventing deaths from SIDS, sudden  
5 infant death syndrome, and seeing that every  
6 child reaches their first birthday.

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

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

20 Obviously, federal policy should be to  
21 encourage parents to purchase new products, safer  
22 high chairs, however if the price of such chairs

1 has increased by tariffs, fewer parents are  
2 likely to be able to purchase them, just as this  
3 mandatory standard goes into effect, which  
4 actually increased cost to begin with.

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

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

21 Worse, their parents may put these  
22 children in an unsafe environment such as a chair



1 designed for adults. This represents an enhanced  
2 risk of danger for death and serious injury.

3 Delta strives to avoid such outcomes. Imposing  
4 tariffs on Chinese products, Chinese juvenile  
5 furniture products will make this task even more  
6 difficult.

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

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

1 manufacturers up to standards.

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

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

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

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

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

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

18                   MR. BURCH: Thank you, Mr. Shamie.

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

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

1 testimony.

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

7 MR. FRATERMAN: Matthew Fraterman,  
8 Department of Labor.

9 MS. MARTINICH: Linda Martinich,  
10 Department of Commerce.

11 MR. FRATER: Eric Frater, Department  
12 of State.

13 MR. GILMARTIN: Kevin Gilmartin, the  
14 Treasury Department.

15 MS. HEINZEN: Janet Heizen, USTR.

16 MS. CACKOSKI: Caitlyn Cackoski, USDA.

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

20 In your testimony, you state that  
21 China is a major source of baby clothes, and you  
22 have worked with vendors there for decades to

1 assure high safety and quality standards.  
2 According to import data, imports of babies'  
3 garments from China are declining while imports  
4 from other countries in Asia and the Western  
5 Hemisphere are growing.

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

9 MR. SMITH: Only time. As I've said,  
10 we've reduced our imports from China by 50  
11 percent over the last ten years. But as you've  
12 heard from several people here, it's a long lead  
13 time industry. We've already placed our spring  
14 '20 orders. With years, our -- that number will  
15 go down.

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

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

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

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

20 So we've already seen it. And we  
21 suspect that this will be just fuel and incentive  
22 for those offshore operators, frankly, some of

1 which are bad actors. And we just, as I  
2 understand it, there are not mechanisms across  
3 all of your agencies to necessarily get after  
4 that.

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

11 MS. HEINZEN: Thank you.

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

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

21 MS. GOLD: Sure. This market,  
22 although large to me, is not that large of a

1 market outside China, or frankly in the world.  
2 We produce what's called stitch-and-turn shoes.  
3 It's different than a vulcanized rubber shoe.

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

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

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

21 MS. GOLD: Not that I'm aware of.  
22 Like I had said, 93 percent of this, these goods



1       come in from China. I don't know of one  
2       manufacturer in the United States producing this  
3       product.

4                   MR. GILMARTIN: Thank you.

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

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

14                   (Off microphone comments.)

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

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

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

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

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

18                   And even when it's only something like  
19 40 percent in terms of China's share -- let's see  
20 the other one -- the gap -- okay. The gap in the  
21 production, between the next competitive market,  
22 is in the millions of dozens.

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

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

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

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

21           MR. STACK: That was basically, if the  
22 prices in China, which has 40 percent or more of

1 the product, go up, they're going to be borne by  
2 the U.S. consumers here, that the other countries  
3 are in a position to raise their prices. So it  
4 won't be a savings.

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

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

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

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

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

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

21                   MS. MARTINICH: Thank you very much.

22                   MS. CACKOSKI: Hi. I have a few

1 questions for Rebecca Mond of The Toy  
2 Association.

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

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

13 For the vast majority of the over  
14 1,000 U.S.-based toy companies, these are not  
15 options for them. The capacity doesn't exist  
16 outside of China to accommodate their production.  
17 And we enumerated on a few of those reasons in  
18 the testimony.

19 MS. CACKOSKI: Thank you. In your  
20 written testimony, you also mentioned shifting of  
21 less complex toy production to other markets.  
22 What portion of the industry do you think

1 comprises less complex toys or other toys that  
2 could be more easily shifted?

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

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

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

22 So that complexity, the high turnover,

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

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

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

11 MS. CACKOSKI: Thank you.

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

16 In your testimony, you did talk about  
17 a lot of the high-paying jobs that fuel the  
18 consumer-driven U.S. economy being with U.S.  
19 domestic operations, specifically with R&D.  
20 However, your economic analysis determined that a  
21 25 percent tariff applied to the toys and games  
22 would result in the loss of 68,000 jobs.



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

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

10                  MR. FRATERMAN: Thank you very much.

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

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

1 States.

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

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

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

20 MR. SHAMIE: Okay, sure. For the U.S.  
21 manufacturer or for other? First of all, no one  
22 wants to manufacture a crib, which involves wood,

1 steel, plastic, painting, et cetera in the United  
2 States.

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

8 So no one wants to manufacture it.  
9 It's very cost prohibitive. China has the system  
10 down pat. We've worked with them for decades.  
11 My first trip overseas with my father back in the  
12 70s, working with those same manufacturers, not  
13 bouncing around to other manufacturers, because  
14 we know their standard.

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

22 Even though they are, we do a great

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

5 MR. FRATERMAN: Great. Thank you very  
6 much.

7 MR. SHAMIE: Thank you.

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

11 (Whereupon, the above-entitled matter  
12 went off the record at 12:07 p.m. and resumed at  
13 1:03 p.m.)

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

22 So our first witness for Panel 45

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

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

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

22 LBC has imported rack ovens and

1 proofers from the same factory in China since  
2 2005. This factory began producing rack ovens  
3 and proofers for other customers in 1998. Both  
4 this factory and LBC are majority-owned by a  
5 Taiwanese company, which itself began producing  
6 bakery equipment in 1988.

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

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

1 third largest.

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

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

15 Chinese regulations did not force non-  
16 market terms on LBC's licenses, or any  
17 technology-related contracts. People have been  
18 proofing dough and baking bread for thousands of  
19 years. The rack oven itself was invented in the  
20 1950s, and much of the product innovation, which  
21 has taken place in recent years, is related to  
22 energy efficiency.

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

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

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

20                   As anticipated, that increase in cost  
21 has been passed along to our customers throughout  
22 the United States, who, in turn, have likely



1 passed it along to their customers, the U.S. food  
2 consumer.

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

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

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

1 minutes.

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

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

15 When I testified previously for List  
16 3, I explained that the entire mass market grill  
17 industries localized in China after the U.S.  
18 allowed China to join the WTO 20 years ago. In  
19 those 20 years, the grill manufacturing industry  
20 in China has evolved into a highly efficient,  
21 regionally-centralized, vertically integrated  
22 industry.

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

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

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

20                  The technology in our products is not  
21 the type covered by the Made in China 2025  
22 program. While we have not seen our technology

1 stolen by Chinese competitors, they have begun  
2 stealing something else. Our market share.

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

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

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

1                   This two-tier supply chain can more  
2 easily absorb the tariffs without raising  
3 consumer prices. With the May tariff increase to  
4 25 percent, this squeeze on U.S. brands is only  
5 getting tighter. Surely, the demise of well-  
6 known companies and brands cannot have been the  
7 administration's objective.

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

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

22                   We opposed the imposition of

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

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

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

18           Instead, we are requesting that the  
19 grilling products covered by the proposed List 4  
20 be removed from the final list. If these  
21 articles are not removed, we respectfully request  
22 that the product exclusion process be adopted

1 concurrently with the implementation of tariffs.

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

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

19 MR. SOUHRADA: Thank you very much.  
20 Members of the Section 301 Committee, thank you  
21 for the opportunity to testify today. I am  
22 Charlie Souhrada, Vice President of Regulatory

1 and Technical Affairs for the North American  
2 Association of Food Equipment Manufacturers, or  
3 NAAFEM.

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

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

17 In other words, between the Section  
18 232 and 301 tariffs, our members, even ones using  
19 only domestic products, are taking a real hit,  
20 and each incremental increase places an  
21 additional tax on the very same companies these  
22 policies are supposed to help.



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

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

18           In fact, more than 60 percent have  
19 annual sales of 5 to \$10 million, and qualify as  
20 small businesses, according to the Small Business  
21 Administration. This is significant, because as  
22 the Wall Street Journal reported late last year,

1 this class of company, like others, feels good  
2 about the economy, but compared with larger  
3 operations, they have less ability to deflect  
4 higher material prices, or pass along new costs  
5 to customers.

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

10 This provides much needed relief at a  
11 time when these same companies are struggling to  
12 deal with steel and aluminum tariffs, which have  
13 caused material costs to fluctuate substantially,  
14 at one point, increasing by approximately 30 to  
15 40 percent, only to fall again more recently.

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

21 In particular, we applaud the Panel's  
22 focus on the challenges of changing supply

1 sources, as this would be particularly true for  
2 the targeted items that concern our members. We  
3 are appearing here today to reiterate many of the  
4 same issues we raised during the prior three  
5 rounds.

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

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

18 For instance, List 4 includes parts  
19 for items like trash compactors and bakery  
20 machinery, which you heard about just a few  
21 minutes ago, as well as important inputs, such as  
22 a variety of flat rolled iron and steel,

1 stainless steel, and aluminum products.

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

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

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

1 U.S. jobs.

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

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

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

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

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

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

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

11 However, none of these goals are  
12 furthered by imposing an additional 25 percent  
13 tariff on single serve nutrient extractors and  
14 food mixers, classified in HTS subheading  
15 8509.40.0025.

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

22 First, an additional 25 percent tariff

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

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

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

18 The additional tariff would impact 100  
19 percent of our domestic sales. Therefore, if we  
20 are unable to pass the full 25 percent tariff to  
21 our customers, we would face a scenario in which  
22 our lost profits would severely impact the

1 company's current operating income.

2 If that happens, we'd be forced to  
3 significantly reduce our workforce, and we'd have  
4 to rethink further Capital investments.

5 Additionally, the incremental tariff would have  
6 trickle down effects on our US suppliers, with  
7 whom we've had a longstanding relationship, and  
8 they've to rely on our business.

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

14 The bestselling Magic Bullet, for  
15 example, is an affordable, entry-level, single  
16 serve countertop appliance that chops, mixes, and  
17 blends with ease, and retails for approximately  
18 \$30.

19 The Baby Bullet, which is one of the  
20 first fully-integrated healthy baby food systems  
21 for use at home by parents who desire an  
22 alternative to processed store-bought baby food,



1       retails for approximately \$60.

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

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

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

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

22                   For the reasons I have enumerated,

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

8 MR. BURCH: Thank you, Mr. Krause.

9 Our next panel witness will be Eric Jacobson with  
10 American Lighting Association. Mr. Jacobson, you  
11 have five minutes.

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

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

1 American consumer.

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

8 I'm here to urge the Section 301  
9 Committee to exempt HTS codes for LEDs and  
10 ceiling fans, as identified in the proposed List  
11 4, when making a final determination. As a  
12 country, America has always been on the leading  
13 edge of technological creation.

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

20 Allowing tariffs would not only stifle  
21 innovation, it would disrupt the continuing  
22 adoption of LED products, and diminish sales of

1 ceiling fans, whose sole purpose is to save  
2 energy and reduce cooling costs.

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

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

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

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

1 consumer reaction.

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

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

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

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

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

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

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

1 thrive.

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

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

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

21           As prices go up, consumers are forced  
22 to make tough financial decisions. The average

1 budget-minded consumer wants the best product for  
2 the best price, but the higher prices caused by  
3 the proposed tariffs in List 4 will further limit  
4 the average consumer's ability to improve sales,  
5 improve lighting, and lighting is diminished.

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

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

16 That is why ALA requests USTR to  
17 reconsider the proposed tariffs on LED and  
18 ceiling fans, especially HTS codes 8414.51.30 and  
19 8539.50.00. Again, thank you for the opportunity  
20 to address the Committee.

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



1 Software and Information Industry Association.

2 Ms. Spector, you have fine minutes.

3 MS. SPECTOR: All right. Thank you.

4 Members of the Committee, on behalf of the  
5 Software and Information Industry Association and  
6 our members, I want to thank you for the  
7 opportunity to testify today regarding the  
8 proposed action pursuant to Section 301 tariffs  
9 applied to China, the so-called List 4.

10 My name's Jesse Spector. I'm the  
11 director for technology policy at SIIA, the  
12 principle trade association for the software and  
13 digital information industries. The more than  
14 800 software companies, data and analytics firms,  
15 information service providers, and digital  
16 publishers that make up our membership, serve  
17 nearly every segment of society, from education  
18 and government to healthcare and everyday  
19 consumers.

20 There is no doubt that China fails to  
21 provide a level playing field for the companies  
22 that SIIA represents, and so it is clear to us

1 that Chinese trade and commercial practices  
2 require sustained attention.

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

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

20 We, therefore, request that these  
21 items be removed from List 4, and if removal is  
22 not possible, at a minimum, we ask that the

1 implementation timeline be appropriately adjusted  
2 to allow reasonable time to undertake mitigation  
3 measures necessary to safely shift production.

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

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

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

21 The reality is that many smaller firms  
22 would be forced out of business, while larger

1 ones would become less competitive globally.  
2 Removing these tariff lines from List 4 would  
3 have a meaningful impact on preserving American  
4 competitiveness on this critical sector.

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

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

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

21 For connected devices, that timeline  
22 can be three to six months, depending on the

1 complexity. Allowing adequate lead time would  
2 save US companies billions of dollars, and ensure  
3 that they stay ahead of foreign competitors.

4 While we remain firm in our position that these  
5 items should be wholly removed from List 4, if  
6 such removal is not possible, at a minimum, we  
7 ask that the implementation timeline be  
8 appropriately adjusted.

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

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

20           In theory, printing capability and  
21 capacity could be brought back to the US,  
22 however, due to a lack of equivalent domestic

1 facilities, companies would have to open new  
2 plants and acquire new equipment, which would  
3 require significant capital investment.

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

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

20 However, we oppose the use of tariffs  
21 as a means to do so. As my testimony has  
22 explained, the proposed tariffs on mobile phones,

1 connected devices, laptop and tablet computers,  
2 and printed materials would cause egregious harm  
3 to American consumers, and damage American  
4 competitiveness in the global market, and we ask  
5 that they be removed. Once again, SIIA  
6 appreciates this opportunity to testify.

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

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

16 MR. FRATERMAN: Matthew Fraterman,  
17 Department of Labor.

18 MS. HUANG: Jessica Huang, Department  
19 of Commerce.

20 MR. SECOR: Peter Secor, Department of  
21 State.

22 MR. CHANG: Won Chang, Department of

1 Treasury.

2 MR. WINELAND: Tim Wineland, USTR.

3 MR. KLEIN: Adam Klein, U.S.

4 Department of Agriculture.

5 MR. WINELAND: All right. Thank you.

6 The first question, I'd like to direct to Mr.  
7 Smith. In your testimony, you referenced the  
8 fact that your sector of ovens and proofers is  
9 dominated by about three companies, and you  
10 referenced that LBC is either the second or the  
11 third largest.

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

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



1 these days.

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

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

15 MR. CHANG: My name is Won Chang,  
16 Department of Treasury. This question is for  
17 Christine Robins of Char-Broil. In your  
18 testimony, you state that it will take two to  
19 three years, and millions of dollars of, for U.S.  
20 companies to shift sourcing outside of China.  
21 Could you please elaborate on what options your  
22 company has explored to date, and why those

1 options may or may not be feasible?

2 MS. ROBINS: Thank you for the  
3 question. So this is a process that we've been  
4 going through annually for over a decade. Just  
5 for a little bit of context and background, Char-  
6 Broil did produce in the United States until  
7 2005, and as a result of the actions of the WTO  
8 in the early 2000s, we were basically forced to  
9 move outside of the US to stay afloat as a  
10 company.

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

19 But it's not just about Char-Broil.  
20 It's about all of the sub-suppliers that have,  
21 you know, read the same rules and regulations,  
22 and the industry is basically consolidated. For

1 the most part, in the grill industry, in southern  
2 China, even.

3 Gas valve regulators have, suppliers  
4 have built plants within a 60-mile radius of the  
5 factories, packaging suppliers, et cetera.

6 There's a lot of specialized components that go  
7 inside of our grills, and they tend to be, you  
8 know, centralized.

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

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

21 And so to go establish one, given the  
22 fact that, you know, as I testified, 90 percent

1 of the grills purchased in the U.S. come from  
2 outside the U.S., and 96 percent of them come  
3 from China, there isn't anything to start with.

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

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

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

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

1 cost.

2 MR. CHANG: Okay, thank you.

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

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

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

20 Our members make approximately 900  
21 different product categories, either here in the  
22 U.S., or internationally. And so all of these

1 products together makes it very difficult for us  
2 to assess exactly where the product is coming  
3 from, or if they have gone ahead and done the  
4 research to determine where else they could find  
5 it.

6 MR. SECOR: My next question is about  
7 that research. In your comments, in your post-  
8 rebuttal comments, can you provide a breakdown by  
9 10-digit HTS code of those products that, in your  
10 view, are not available in sufficient supply  
11 outside of China?

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

15 MR. SECOR: Thank you.

16 MR. SOUHRADA: Yes.

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

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

8                   MR. SECOR: Thank you.

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

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

18                   MR. KRAUSE: Yeah, so there's an  
19 entire supply chain and infrastructure in China  
20 that supports the factories. For instance,  
21 motors, molded parts, stamped parts, et cetera,  
22 all are over there. And there's a couple things

1 that we really have to pay attention to.

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

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

17 So we think it could be, you know,  
18 anywhere from 24 to 36 months by the time we were  
19 able to get something set up, get all the supply  
20 chain around it, including electric motors,  
21 molded parts, stamped parts, et cetera, get our  
22 engineers in place to get the products into



1 alignment for UL quality and overall safety, it's  
2 a pretty arduous process. And again, we've  
3 started looking at, but it's going to take us  
4 some time to get it in the proper methodology.

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

8 MR. KRAUSE: I don't know that.

9 MS. HUANG: Thank you.

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

17 MR. JACOBSON: Well, I mean, I think  
18 there's, you know, negotiating enforcement  
19 strategies are very important, but just using  
20 tariffs as your only, you know, only way to get  
21 the Chinese to the table, or other governments  
22 for that, for that matter, it seems that, you

1 know, the President is using tariffs to, you  
2 know, for a range of issues such as this, or  
3 immigration, or other issues.

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

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

22 MR. FRATERMAN: Great. Thank you very

1 much.

2 MR. JACOBSON: Thank you.

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

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

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

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

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

4                   CHAIR TSAO: And Arthur Tsao, USTR.

5                   MR. MASON: Enrique Mason with USDA.

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

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

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

21                   I'm here today to express our serious  
22 concerns regarding the proposal to impose duties

1 on video game consoles and controllers from  
2 China. I appreciate this opportunity to explain  
3 how such tariffs will harm consumers, and  
4 threaten the ability of video game publishers and  
5 developers like ours to continue to innovate and  
6 support good U.S. jobs.

7 ZeniMax and its subsidiaries create  
8 and publish original, interactive, entertainment  
9 content for consoles and other gaming devices.

10 ZeniMax has grown to employ over 1,500 world  
11 class game developers, graphic artists, and  
12 designers, sound engineers, producers,  
13 programmers, and support staff in the US alone.

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

21 For instance, our Bethesda Game  
22 Studios in Maryland pioneered physics-based

1 sports games with Gridiron. Our id Software  
2 Studios in Texas developed the first three-  
3 dimensional video game engine known as id Tech,  
4 which spawned the immensely popular first person  
5 genre.

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

12 As a developer and publisher of  
13 interactive entertainment software products, we  
14 rely on the widespread adoption and availability of  
15 the consoles and controllers necessary to play  
16 our games.

17 We estimate that console players  
18 account for approximately 60 percent of our total  
19 player base, worldwide. As a consumer technology  
20 association study has shown 96 percent of video  
21 game consoles sold in the U.S. come from China,  
22 and the proposed tariff of up to 25 percent would

1 make these foundational gaming products  
2 significantly more expensive.

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

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

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

21 Lifelike and immersive games are  
22 underpinned by complex, sophisticated, and

1 advanced software, and are often capable of only  
2 being played on the latest consoles.

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

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

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



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

7           Given the grave harm to the United  
8 States consumers, developers, and publishers like  
9 us that would be caused by the proposed tariffs,  
10 we respectfully request that your office remove  
11 from the final tariff list HTS headings  
12 9045.0.4.5.00, 8526.92.10, 8543.70.87. Thank you  
13 again for the opportunity to present our  
14 concerns.

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

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

1 decades to build, upside down.

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

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

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

18 As is typical in a family business,  
19 Jasco has always been part of my life. When I  
20 was a cute toddler -- at least in the opinion of  
21 my parents -- I participated pro bono in photo  
22 shoots on our retail packaging. I was eight

1 years old when I had my first unofficial job  
2 making 50 cents an hour in our distribution  
3 center.

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

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

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

18 Ours is not the only family with more  
19 than one member of the household working at it,  
20 and completely dependent upon Jasco. Husbands  
21 and wives, fathers and sons, mothers and  
22 daughters, brothers and sisters, American

1 citizens our government swore to protect and  
2 serve.

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

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

13 Some examples are connecting children  
14 with loving homes through adoption services,  
15 supporting mentors, after-school training  
16 programs, and summer camps for underprivileged  
17 and at-risk youth, providing housing and  
18 education to young women at risk of human  
19 trafficking, helping children and adults with  
20 challenging physical and mental difficulties,  
21 developing a cure for noise-induced hearing loss  
22 that impacts 450 million people worldwide,

1 including military veterans exposed to sudden  
2 loud noises, meeting the physical, mental, and  
3 spiritual needs of our homeless population,  
4 helping people claim their lives from  
5 debilitating cycles of addiction, mentoring  
6 prison inmates to facilitate reintegration as  
7 productive members of society, providing food  
8 assistance to those in need in the US and around  
9 the world, providing safe drinking water to over  
10 250,000 additional people every year to prevent  
11 3.4 million needless deaths annually due to the  
12 global water crisis, providing disaster relief to  
13 restore communities impacted by tornados,  
14 hurricanes, earthquakes, wildfires, and more. US  
15 tariffs on products assembled in China  
16 jeopardizes all of this by eliminating Jasco's  
17 profits.

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

1 of every year.

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

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

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

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

1 they provide.

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

8           There are not factories anywhere in  
9 the world with both the technical capabilities  
10 and the available capacity. We must redevelop  
11 3,700 existing products, which will take years,  
12 and tens of millions of dollars, funds we don't  
13 have because tariffs are consuming all of our  
14 available capital.

15           The time and the energy required  
16 trades off the investments in innovative new  
17 products required to grow our business. Jasco  
18 always manufactured its products abroad, knowing  
19 that its reliance on China carried risk.

20           Jasco assumed those risks were  
21 potential actions of the communist Chinese  
22 government, and the Taiwan Straits of the South

1 China Sea.

2           However, China has never done anything  
3 that disrupted Jasco's business. Jasco,  
4 unfortunately, can no longer say the same about  
5 its own government that purports to be the  
6 world's leading free market democracy.

7           The Trump administration's imposition  
8 of protectionist tariffs to manipulate the market  
9 away from China is the largest disruption Jasco  
10 has ever faced. He seems too willing to leverage  
11 and potentially sacrifice small and medium  
12 American businesses to achieve unrelated  
13 political goals.

14           We must protect American intellectual  
15 property, but superior alternatives exist to the  
16 current approach. I included an article from Lee  
17 Branstetter, a professor and senior fellow with  
18 the Peterson Institute for International  
19 Economics, that makes a compelling case that  
20 targeted multi-lateral sanctions are more  
21 effective and credible than broad-based tariffs,  
22 in Exhibit B, and I encourage you to read it in



1 its full.

2 Jasco stands united with over 600  
3 American businesses and trade associations,  
4 urging the Trump administration to quickly  
5 resolve the damaging trade war with China,  
6 including full repeal of all Section 301 tariffs.  
7 Thank you for your time and consideration.

8 MR. BURCH: Thank you, Mr. Trice. Our  
9 next panel witness will be Win Cramer with JLab  
10 Audio. Mr. Cramer, you have five minutes.

11 MR. CRAMER: Thank you. Good  
12 afternoon. Thank you for allowing me the  
13 opportunity to, again, add to the conversation  
14 surrounding increased taxes on our products. I  
15 was here in August speaking to you, and I didn't  
16 think, honestly, that I'd be back again.

17 You gave us the answer that we were  
18 looking for when we came here in August. I was  
19 really nervous then, and frankly, the stakes are  
20 even higher today. With the confidence you gave  
21 us last August/September, we've invested in our  
22 team even more.

1                   We've hired 20 percent additional  
2                   staff in the US, in both our California and  
3                   Dallas, Texas offices. You helped us keep  
4                   American -- America great by ensuring the 40  
5                   high-paying jobs that we've created over the past  
6                   4 years would remain.

7                   You gave us the confidence that we  
8                   could move past this chapter in our company  
9                   history and turn the page to focus on innovation,  
10                  growth, and doing what we do best, designing,  
11                  marketing, selling, and supporting awesome audio  
12                  products that any American can afford.

13                  I'm here today because our products  
14                  came back on the list -- what is called List 4 --  
15                  and I'm here to ask for them to be removed again.  
16                  With this, I'd like to provide my specific  
17                  testimony on Item 8517.62.00.90. This code  
18                  represents 80 percent of our business.

19                  To refresh your memory on who we are,  
20                  JLab Audio is the very definition of a true  
21                  American success story. We're a personal audio  
22                  company that designs things like Bluetooth

1 earbuds, headphones, and speakers.

2 I'm sure you're all very familiar with  
3 those little white Apple AirPods sticking out of  
4 everyone's ears, and we make very similar  
5 products with awesome quality at value price  
6 points, usually \$50 and below.

7 We want to ensure that every American  
8 can afford the best technology without having to  
9 break the bank, and we've done it. We've  
10 unseated traditional non-American heritage brands  
11 like JVC, Samsung, Pioneer, and Panasonic.

12 We're the fastest growing audio brand  
13 in America, and we're an American company. We're  
14 proud of what we've accomplished. We've brought  
15 affordable technology to the masses. In addition  
16 to the traditional earbuds and headphones I  
17 mentioned, we also have a range of kid's  
18 headphones, which are the top four selling  
19 products in this category.

20 They limit volume to 85 decibels  
21 through the ear cups to protect a child's growing  
22 ears. We were one of the first to bring this

1 technology to market, and it is this headphone  
2 that is recommended on back to school lists  
3 nationwide.

4 I designed these headphones around my  
5 daughter's head when she was eight years old to  
6 ensure the fit was perfect for kids. If you have  
7 kids or grandkids, they're likely using our  
8 headphones today.

9 We generally sell our products through  
10 the US retail market. Retailers like Walmart,  
11 Best Buy, Target, Office Depot, Home Depot,  
12 Amazon, Kohl's, among others. Ninety-five  
13 percent of what we sell is to the US market.

14 As such, the decision you make today  
15 impacts us fully. I'm here today because I'm  
16 scared what will happen if tariffs are enacted.  
17 I have an obligation to share our story with you  
18 and fight for the 40 jobs we've created.

19 My team stayed with me when we could  
20 barely make payroll. If I have to lay any of  
21 them off, I want to be able to look them in the  
22 eye and say, I tried my hardest to keep your job.

1 I've watched our young workers find their life  
2 partners, I've watched them buy their first  
3 homes, I've watched them bring kids into this  
4 world.

5 We're not just living the American  
6 dream at JLab. We're helping to create it.  
7 Oftentimes, we spend more time with our coworkers  
8 than we do our real families at home. These are  
9 my brothers and sisters, and I'm here on their  
10 behalf today. I want to ensure their dream  
11 continues.

12 At JLab, we're building the foundation  
13 for the next generation of entrepreneurs that  
14 will keep America great for years to come.  
15 Today, a 25 percent tax is being considered on  
16 products we import under tariff code  
17 8517.62.00.90.

18 Not to mince words, but this would be  
19 considered catastrophic to our growing business.  
20 It would force us to engage in significant cost  
21 cutting by laying off US employees, put our small  
22 business at a significant disadvantage, as

1 compared to larger brands that have established  
2 product lines on a global scale, and ultimately,  
3 increase the cost of technology to hardworking  
4 class families, whom are our bedrock customer.

5 As it relates to intellectual  
6 property, we too share the USTR's concerns about  
7 IP theft in China. This said, this is basic  
8 common Bluetooth technology that has been  
9 available for the past 20 years.

10 Moreover, this technology was invented  
11 by a Dutch scientist in a Swedish laboratory.  
12 There is not American IP to protect in this  
13 instance.

14 We design all of our products in  
15 America. We take those blueprints to China, and  
16 in my 20 years of doing consumer product  
17 business, I have not identified another geography  
18 that has the sophistication of the Chinese supply  
19 chain.

20 In our particular line of work, we  
21 never moved American jobs overseas. The factory  
22 jobs to build our products never existed in

1 America. To recreate this supply chain would  
2 take years, and significant investment, that our  
3 small business doesn't have.

4 In conclusion, the proposed imposition  
5 of tariffs on our products that make up 80  
6 percent of our business would be catastrophic.  
7 We would be forced to lay off employees, raise  
8 prices to consumers.

9 We respectfully request that tariff  
10 code 8517.62.00.90 be excluded from List 4. This  
11 Committee agreed with us before that these  
12 products were not viewed as sensitive, and did  
13 not specifically take away American jobs. We ask  
14 that you view it that way again. Thank you for  
15 your time and consideration.

16 MR. BURCH: Thank you, Mr. Cramer.  
17 Our next panel witness will be Sage Chandler with  
18 Consumer Technology Association. Ms. Chandler,  
19 you have five minutes.

20 MS. CHANDLER: Thank you. Thank you  
21 for the opportunity to appear here again. I've  
22 been here all three times in the past, and I hope

1 that I don't see you guys again for a while. I'm  
2 Sage Chandler, the Vice President for  
3 International Trade at the Consumer Technology  
4 Association.

5 We represent innovators and the  
6 promise of technology. We have over 2,200 member  
7 companies in the \$377 billion US tech industry.  
8 We support more than 18 million US jobs. Our  
9 member companies are manufacturers, distributors,  
10 developers, retailers, and integrators.

11 80 percent of our members are small or  
12 startup businesses, and medium-sized companies.  
13 With me here are two of our member companies, and  
14 several of our other member companies testified  
15 last week and will be here later this week, all  
16 to talk about damage that tariffs would pose to  
17 their business models.

18 The administration's continued use of  
19 tariffs to address the imbalance in the US-China  
20 trade relation is a tax on American innovators  
21 and a tax on American businesses. We remain  
22 categorically opposed to the use of tariffs to



1 address China imbalances.

2           The use of tariffs as a trade weapon  
3 has already -- and will continue -- to inflict  
4 irreversible damage on American businesses and  
5 consumers, as well as on American leadership in  
6 the tech industry.

7           Included in the appendix of my  
8 testimony is a list of 141 products identified by  
9 CTA member companies on List 4 that impact their  
10 business. Together, those items account for over  
11 one half of the value of List 4.

12           List 4 targets consumer products that  
13 range from fitness trackers that we use to stay  
14 healthy, to projectors used in classrooms,  
15 laptops, tablets, and consumers -- computers that  
16 businesses rely on for productivity.

17           They include children's toys and video  
18 game consoles and controllers, and the phones  
19 that we use to stay connected. USTR previously  
20 selected tariff lines which avoided  
21 disproportionate impact on the consumer.

22           However, as evidenced by the products

1 I just listed, the addition of List 4 remains --  
2 means that virtually every American household  
3 that accesses the internet or uses consumer  
4 technology will be hit.

5 Tariffs on List 4 products will  
6 increase prices for consumers on both mainstream  
7 and cutting edge electronics, raising the cost of  
8 living for most Americans, especially in times  
9 like back-to-school.

10 For example, studies commissioned by  
11 CTA indicate that American consumers -- not  
12 Chinese companies -- will pay an extra \$56 on  
13 video game consoles, 96 percent of which are  
14 manufactured in China, an extra \$70 on cell  
15 phones, and an extra \$120 on laptops.

16 Since October of 2018, tariffs paid by  
17 American companies -- not Chinese companies -- to  
18 import 5G-related products and components alone,  
19 is a staggering 745 million. This is money that  
20 is not going to investments, not going to  
21 innovation, and not going to employee salaries or  
22 bonuses.

1           Moreover, the proposed tariffs will  
2           create and extend a ripple effect that will  
3           spread through the economy as a whole. Because  
4           technology is now the backbone of so many other  
5           industries -- such as agriculture, manufacturing,  
6           software development -- taxes on technology hit  
7           far beyond just the technology industry.

8           When the United States is otherwise  
9           attempting to achieve technological leadership,  
10          greater digital integration, advancements in  
11          telecommunications technology, and increased  
12          rural broadband access, tariffs on technology are  
13          counterproductive.

14          CTA shares the administration's  
15          concerns with China's unfair trade practices, but  
16          continued escalation of the tariff standoff is  
17          not the answer. As evidenced by the line items  
18          that previously fell off tariff lists -- like  
19          audio, Bluetooth, TVs -- the administration  
20          itself acknowledged the impact on consumers.

21          We instead urge the administration to  
22          negotiate an agreement with China -- and to work

1 with our partner nations around the world and  
2 places like the WTO -- to expand market opening  
3 agreements like the information technology  
4 agreement, which will promote the trade and  
5 technology and products, bolster economic growth,  
6 innovation, productivity, and investment. Thank  
7 you.

8 MR. BURCH: Thank you, Ms. Chandler.  
9 Our next panel witness will be Robert Ranucci  
10 with Christie Digital Systems USA. Mr. Ranucci,  
11 you have five minutes.

12 MR. RANUCCI: Good afternoon. I'm  
13 Robert Ranucci. Since 2014, I've been the Vice  
14 President General Counsel of Christie Digital  
15 Systems USA, Inc., and I have 19-plus years'  
16 experience in the display industry.

17 Founded in 1929, and based in Southern  
18 California, Christie manufactures and sells  
19 highly advanced visual display products, and is  
20 best known for its movie theater projectors. We  
21 employ 1,366 people worldwide, 987 are in North  
22 America, and 488 are in the US.

1           It is because of American innovation  
2           and ingenuity that Christie has grown from a  
3           manufacturer of battery chargers to a provider of  
4           power supplies to the US government during World  
5           War II, to one of the world's leading  
6           manufacturers of industrial projectors and other  
7           display technologies, all developed here in the  
8           US and in Canada.

9           Christie serves two main segments,  
10          cinema and enterprise and entertainment, which we  
11          call E&E, where Christie's display products are  
12          used in theme parks, museums, control rooms, US  
13          military simulators, and universities.

14          These highly specialized, high-  
15          performance, high-value display products are not  
16          strategically important or related to Made in  
17          China 2025, or other Chinese industrial programs.

18          It is this -- Christie's core business  
19          -- which is potentially subject to the List 4  
20          tariffs under subheadings 8504.10.0000,  
21          8528.52.0000, and 8528.69.4500. An additional 25  
22          percent tariff on Christie's products will be

1 devastating.

2 For our US customers, our China-made  
3 products represent almost three quarters of our  
4 cinema portfolio, and one half of our E&E product  
5 line. The markets Christie serves are thin, each  
6 with relatively few price-sensitive customers,  
7 yet despite this, competition is surprisingly  
8 intense, and there is little ability to pass  
9 along modest increases in price, let alone 25  
10 percent.

11 Should Christie increase prices to  
12 offset the additional tariffs, our customers will  
13 be driven towards our non-US-based competitors,  
14 who will not be affected by the proposed tariffs.  
15 And the timing could not be worse.

16 The tariffs appear likely to commence  
17 at precisely the beginning of a once per decade  
18 technology refresh cycle for both cinema and E&E.  
19 Lost sales to our competitors during the refresh  
20 cycle will be exacerbated by years of lost  
21 revenue from the services, parts, and warranties  
22 that attach to our product sales.

1                   And once a customer selects a  
2 manufacturer's product during the technology  
3 refresh, customers tend to procure the same  
4 manufacturer's products for the remainder of the  
5 cycle, so as to standardize on spare parts,  
6 training, et cetera.

7                   These tariffs would, therefore, cause  
8 a decade's worth of lost revenue and market share  
9 that we cannot recapture in the near future, if  
10 ever. Our industry's supply chain has long lead  
11 times, little excess capacity, and is almost  
12 fully allocated for this entire year.

13                   It would take tens of millions of  
14 dollars, and at least 18 months, to move raw  
15 materials, move or buy highly specialized  
16 manufacturing equipment, train new employees,  
17 reconfigure a supply chain, and tune equipment  
18 and production lines to produce the products to  
19 the exacting specifications necessary to create  
20 the products our customers demand.

21                   For our US market in cinema, we are  
22 the only US-based corporation, and in the E&E

1 space, we are the only US-based corporation in  
2 the top 10. To the best of our knowledge, our  
3 competitors do not have significant production  
4 facilities in China, and thus, would not face the  
5 same price increases imposed by these tariffs.

6 As applied to Christie's products, the  
7 tariffs will not advance the US trade policy  
8 objective of strengthening American industry, but  
9 rather, will cause severe, disproportionate and  
10 irreparable harm to a US corporation, and its US  
11 workforce.

12 Christie's conundrum is that, one,  
13 should we pass along the tariff on top of our  
14 current prices, we will lose market share,  
15 revenue, and profits we have worked honestly and  
16 fairly for decades to achieve, or two, should we  
17 absorb the 25 percent tariffs ourselves, our  
18 resulting profit margins will be too slim to  
19 support Christie's existing infrastructure and  
20 workforce.

21 Either way, it's a lose-lose situation  
22 that will force Christie to cost down, which



1 would include reductions in its US workforce,  
2 which might be permanent. Of equal importance,  
3 imposing tariffs on Christie products will not  
4 thwart Chinese unfair trade practices.

5           Though Christie manufactures products  
6 in its wholly-owned affiliate factory in China,  
7 all of the IP and technology is owned by Christie  
8 USA. Further, no forced JV partner or contract  
9 manufacturer is involved.

10           As such, no IP transfers have or will  
11 occur. We therefore respectfully request that  
12 the aforementioned subheadings be excluded from  
13 the proposed List 4 tariffs. Thank you for your  
14 time and consideration.

15           MR. BURCH: Thank you, Mr. Ranucci.  
16 Our last panel witness will be Reilly Kimmerling  
17 with Kidde. Ms. Kimmerling, you have five  
18 minutes.

19           MS. KIMMERLING: My name is Reilly  
20 Kimmerling --

21           MR. BURCH: Can you --

22           MS. KIMMERLING: -- Senior Director of

1 International Trade Compliance at Carrier. I'm  
2 here today on behalf of Walter Kidde at Portable  
3 Equipment, Inc., a Carrier business, and a  
4 leading manufacturer of fire safety and building  
5 security equipment.

6 Kidde imports products that are  
7 designed to meet the critical needs of the life  
8 safety industry, including single loudspeakers  
9 mounted in their enclosures, classified in HTSUS  
10 subheading 8518.21.00, and electric sound or  
11 visual signaling apparatus, classified in HTSUS  
12 subheading 8531.80.90.

13 These products provide high audio  
14 output with clear audibility for emergency voice  
15 communications, tone signaling, and visible  
16 signaling to alert the public -- particularly the  
17 hearing impaired -- in the event of an emergency.

18 For the following reasons, I  
19 respectfully request that the Committee recommend  
20 the removal of subheadings 8518.21.00 and  
21 8531.80.90 from the final list of products  
22 subject to an additional 25 percent tariff.

1                   The products contained under these  
2 subheadings are essential components of US  
3 commercial and residential fire and security  
4 systems, sold under the Edwards Brand.

5                   Many American households and  
6 businesses, large and small, rely on Kidde  
7 products to keep their families, employees, and  
8 property safe. Edward systems are in college  
9 universities, hospitals and hotels, airports,  
10 apartment buildings, and factories.

11                   In short, our products -- and  
12 particularly the speakers and signaling apparatus  
13 at issue in this action -- are critical to  
14 protecting US citizens and US businesses from the  
15 dangers of fire.

16                   At this time, Kidde is unable to  
17 switch to new suppliers in the short to medium  
18 term for the speakers and signaling apparatus  
19 that it imports from China. Kidde is unaware of  
20 any US manufacturer that could supply these  
21 products, and even if such a manufacturer  
22 existed, securing long-term contracts with

1 another supplier can take a minimum of two years,  
2 because of the significant time needed to  
3 negotiate with the identified supplier, and to  
4 qualify the products to rigorous company  
5 specifications and government technical  
6 standards.

7 Fire safety products must go through  
8 certifications for every country in which they  
9 are sold. For example, in the United States  
10 alone, to certify these products, must -- they  
11 must go through 80 separate tests, which is  
12 extraordinarily time-consuming.

13 Other jurisdictions require similar  
14 tests before a product can be qualified. A  
15 change in suppliers would require all of these  
16 tests and certifications to be -- to be performed  
17 anew, a process that can easily take up to two  
18 years.

19 If this Committee chooses to impose a  
20 25 percent tariff on these products, Kidde will  
21 be forced to pass along a substantial amount --  
22 or all -- of the additional cost to its

1 customers.

2 Confronted with this added expense,  
3 many of Kidde's customers will likely forego  
4 installing new equipment or updating older  
5 systems, decisions that will potentially risk  
6 their safety.

7 If, as expected, demand for the  
8 products were to drop as a result of these  
9 increased costs, Kidde will be forced to scale  
10 back on production, distribution, and planned  
11 research and development, which occurs at our  
12 Bradenton, Florida facility.

13 Edwards Brand will spend 19 million  
14 this year in R&D. The business risk presented by  
15 the additional tariffs extends to many of the  
16 small businesses that distribute, install, and  
17 service Kidde products.

18 These 800 independently-owned  
19 businesses are crucial to the success of Kidde's  
20 products in the US market. These businesses  
21 often operate on very slim margins, and the  
22 additional challenges posed by the imposition of

1 the 25 percent tariffs could threaten their  
2 profitability and operations.

3           Subjecting Kidde's safety products to  
4 additional tariffs is unlikely to encourage  
5 changes to the trade and industrial acts,  
6 policies, and practices USTR is targeting in this  
7 301 investigation.

8           Kidde has not experienced any foreign  
9 ownership restrictions in China, nor has it been  
10 pressured to transfer or license technology to  
11 Chinese companies, or been subject to  
12 unauthorized theft of its commercial information  
13 or trade secrets.

14           Finally, Kidde notes that in the past,  
15 USTR has demonstrated a repeated willingness to  
16 refrain from levying additional tariffs on  
17 imports that contribute to the American public's  
18 health and safety.

19           This was the apparent rationale for  
20 excluding imports from China of car seats, high  
21 chairs, bike helmets, and playpens from previous  
22 Section 301 tariffs. These earlier exclusions

1 reflected sound public policy.

2           The case for excluding imports of  
3 Kidde's fire safety equipment on public safety  
4 grounds is at least as compelling as the case  
5 made for previously excluded products. For all  
6 of the foregoing reasons, I respectfully request  
7 that the Committee remove HTSUS subheadings  
8 8518.21.00 and 8531.80.90 from the final list of  
9 products subject to an additional 25 percent  
10 tariff.

11           Thank you for the opportunity to  
12 testify, and I am happy to answer any of the  
13 Committee's questions.

14           MR. BURCH: Thank you, Ms. Kimmerling.  
15 And Mr. Chairman, this concludes direct testimony  
16 from this panel.

17           MR. WINELAND: Thank you. I'd like to  
18 direct the first question to Mr. Leshner. You  
19 mentioned that console gamers account for about  
20 60 percent of your global customer base. Do you  
21 have an idea what share of that is US console  
22 gamers?

1           MR. LESHER: Well, it would be at  
2           least that, and possibly more. So that's a  
3           number, I think, that would apply to the -- to  
4           the US as well.

5           MR. WINELAND: And do you have a -- if  
6           it's -- if you can say, do you have an estimate  
7           of what share of your revenue is derived from  
8           console gamers versus PC gamers, or online?

9           MR. LESHER: Well, that's confidential  
10          information. We'd have to -- I could submit  
11          that, you know, under that --

12          MR. WINELAND: Yes --

13          MR. LESHER: But I -- the revenues run  
14          approximately, I think, according to what the  
15          percentages are of the player base.

16          MR. WINELAND: Okay, that's --

17          MR. LESHER: Generally, yes.

18          MR. WINELAND: -- helpful. Thank you.

19          MR. LESHER: It's substantial.

20          MR. WINELAND: Thank you. The -- you  
21          referenced in your testimony that R&D and product  
22          development would be negatively impacted by



1 tariffs. I think, in your testimony -- as I  
2 understand it -- you're asserting that that comes  
3 from lower consumer demand for products. Can you  
4 elaborate on that, or --

5 MR. LESHER: Sure.

6 MR. WINELAND: -- other factors that  
7 would impact your R&D?

8 MR. LESHER: Sure. The situation is,  
9 if you have tariffs on the consoles, that market  
10 is going to --- it's going to shrink in terms of  
11 the numbers of people who are going to be buying  
12 consoles, even the next generation consoles.  
13 What we do in our business is sit down, and we  
14 decide, okay, there's an install base that we  
15 anticipate, and we build to that install base.

16 This is -- when we greenlight a  
17 project, this a multi-year, multimillion dollar  
18 investment by us, and if that market -- potential  
19 market for consoles in the US shrinks, for one  
20 thing, the projects we currently have underway  
21 are going to -- are going to be disrupted, and  
22 we're also going to have to figure out what do we

1 do in the future, and one of the consequences may  
2 very well be, I suspect, will be moving that  
3 innovative activity outside of the US.

4 We have some operations in Europe. We  
5 have some operations in Asia, and the concern we  
6 have is that --- as a result of these tariffs --  
7 market shrinks, we then have to make a business  
8 decision to move the innovation offshore.

9 MR. WINELAND: And the moving of that  
10 innovation, is that because it's lower cost? Can  
11 you --

12 MR. LESHER: No, it's -- it would be  
13 because you want the innovation to be, in a  
14 nutshell, close to the market that you're  
15 serving. So you're going to want your  
16 programmers, your designers, et cetera, basically  
17 closer to the market that they're developing the  
18 games for. So --

19 MR. WINELAND: And this is -- you've  
20 touched on this a little bit -- but the -- given  
21 the importance to consumers of the latest quality  
22 increases, graphics, and so forth, embedded in

1 next generation machines, how price sensitive are  
2 these -- are consumers to --

3 MR. LESHER: Well --

4 MR. WINELAND: -- you know --

5 MR. LESHER: -- very price sensitive.

6 In the sense that, initially, when the new  
7 consoles come out, they tend to be full price.  
8 The people who really love games are going to go  
9 and buy those consoles to be able to play them,  
10 the games that they love. Towards the latter part  
11 of the console cycle, there is very much price  
12 sensitivity that accompanies that.

13 So there's price sensitivity  
14 throughout. It tends to intensify a little bit  
15 towards the end of the console cycle, and there's  
16 going to be a -- more console cycles coming down  
17 the road, that I think have been announced by the  
18 console manufacturers.

19 But very considerable price  
20 sensitivity, and I think the evidence will bear  
21 that out, that is being provided by others.

22 MR. WINELAND: Okay. Thank you.

1                   MR. CHANG: My name is Won Chang,  
2 Department of Treasury. This question's for Mr.  
3 Jason Trice. You argued that obtaining price  
4 reductions from Chinese producers could threaten  
5 product quality. Can you elaborate why that is  
6 the case?

7                   MR. TRICE: Sure. There's huge  
8 challenges with getting reductions from Chinese  
9 manufacturers. They operate on very small profit  
10 margins as well. There's tons of pressure in our  
11 industry.

12                   Lots of pressure from the major  
13 retailers like Walmart, that put downward  
14 pressure on us, that we, in turn, put on them.  
15 We have negotiated the best possible cost over  
16 many, many years on these products.

17                   They don't have a lot, or we wouldn't  
18 be able to be competitive, and be successful, as  
19 we have done. We have gone through one round.  
20 Jasco has already had 92 percent of our  
21 categories impacted by List 1, List 2, and List  
22 3, and obviously the List 3 going from 10 to 25

1 percent in the last month is devastating, because  
2 that affects 80 percent of our categories. List  
3 4 is on top of that.

4 We were moderately successful at  
5 getting some concessions in the first round, but  
6 that was primarily attributable to the  
7 fluctuations in exchange rates that happened  
8 since the beginning of the year last year.

9 Most of those suppliers came back and  
10 pushed back as it turned in the other direction  
11 in the ensuing six months, but it sort of  
12 rebounded. But if you look at where exchange  
13 rates are, they're very much at the same, you  
14 know, level as where we re-negotiated everything  
15 based on List 1, List 2, and List 3.

16 So these manufacturers simply don't  
17 have the available margin. They'll be upside  
18 down, and they've got to survive and make a  
19 profit and pay their workers a living wage, and  
20 we constantly challenge them to raise the bar,  
21 and to treat their workers better, and to treat  
22 the environment better. And so they just don't

1 have the ability to do what you're asking.

2 MR. CHANG: Okay. You also mentioned  
3 constraints involved in qualifying factories,  
4 both in terms of your existing supply chain in  
5 China, and with respect to moving production  
6 outside China. Can you explain the process and  
7 the difficulties in qualifying a factory outside  
8 China to produce your products?

9 MR. TRICE: Yes, so we use the same  
10 process inside China, outside China. It's a very  
11 detailed audit process that is multi-staged,  
12 before we do business with a factory.

13 There's lots of factories that don't  
14 meet our qualifications, and that's why it's  
15 taken decades to cultivate the 40 plus suppliers  
16 that we've got in China. And so making sure that  
17 they're paying a working -- a living wage,  
18 meeting all of the minimum wage laws, making sure  
19 that they're not forcing the workers to work,  
20 making sure that they're not working excessive  
21 overtime, making sure that the dorm and the  
22 living standards are acceptable for the workers,

1 make sure that they're not, you know, dumping and  
2 doing bad things to the environment, making sure  
3 that they've got good quality control systems,  
4 and they're not just giving, you know, an initial  
5 sample to pass all of the testing and UL  
6 requirements, and then, you know, cutting corners  
7 and stripping copper out of our products that  
8 creates heat, and creates the potential for  
9 fires.

10 We're proud of our safety record, 44  
11 years, we've never had a CPSC recall because of  
12 all of that due diligence. Jasco is sort of at a  
13 unique nexus, because we're the licensee for all  
14 of those brands that I mentioned -- GE,  
15 Honeywell, Disney -- that all have stringent  
16 standards, and then we're also the supplier to  
17 all of those major retailers that have similar  
18 but different standards.

19 All of them are unique, and so Jasco's  
20 standards are really the highest common  
21 denominator of all of those major brands and  
22 major retailers. So it's very difficult to pass

1 our audit process.

2 It usually takes a factory more than  
3 a year just to go through the qualification  
4 process, because they usually have to update  
5 their doors or their fire sprinkler systems, and  
6 make capital investments in their factories to  
7 qualify.

8 And then, and only then, after they've  
9 met all of those standards, is it worth our time  
10 and resources to develop products with them. And  
11 so yes, it takes time, and it's a challenge, and  
12 you know, one of the things that's unique about  
13 Jasco, with 3,700 SKUs and 40 factories, it's  
14 actually more challenging for us than it is for  
15 some much larger companies, not only because  
16 they've got more capital, but because they do  
17 huge volumes on very few products, we have to  
18 redevelop all of these products that, relatively  
19 speaking, are lesser volume. So it's an  
20 incredible challenge.

21 MR. CHANG: Thank you.

22 MR. SECOR: My questions are for Mr.



1 Cramer. You mentioned in your testimony that  
2 some of your competitors manufacture in Taiwan  
3 and Mexico.

4 MR. CRAMER: Yes.

5 MR. SECOR: You argue that shifting  
6 production to Mexico would come with significant  
7 expense, due to existing relationships with  
8 contract manufacturers. Can you elaborate a bit  
9 on what you mean?

10 MR. CRAMER: Yes, sure, and it's not  
11 just with the existing contract manufacturers,  
12 but also the sub-assemblies required. So an  
13 example would be a battery or a semi-conductor  
14 that goes into 90 percent of the products that we  
15 manufacture today, and if I shifted contract  
16 manufacturing to Mexico, or to Taiwan, or to  
17 Vietnam, or to America, the sub-assemblies  
18 required within that are Chinese-made, and we  
19 don't have access to other geographies that make  
20 those types of products.

21 I'm not aware of anyone that does have  
22 access to another geography that makes the type

1 of products that I just mentioned. So we would  
2 still be subject to the 25 percent duty, plus  
3 contract manufacturing someplace else.

4 MR. SECOR: And then, if you can, can  
5 you tell us whether you have long-term contracts  
6 with your Chinese producers, or whether it's a  
7 series of short-term ones?

8 MR. CRAMER: Yes, not necessarily  
9 contracts, per se, but agreements that we have  
10 for a life span of a product, and a life span of  
11 a JLab product is usually 18 to 36 months, and  
12 that's what we partner with the factory to build  
13 over that time.

14 MR. SECOR: Thank you.

15 MR. JOHNSON: Hello, I'm Kyle Johnson  
16 with the Department of Commerce. I have some  
17 questions for Ms. Chandler. Just to get started.  
18 Your submission listed a number of products  
19 covering a wide range of technology products or  
20 components that your member companies import from  
21 China.

22 Can you speak a little bit more about

1 variance that may exist within these products, in  
2 terms of expected impacts of an additional  
3 tariff?

4 MS. CHANDLER: Sure. Thank you. We  
5 have -- we have 2,200 member companies, so we've  
6 got a huge quantity of small businesses, startup,  
7 medium-sized businesses, as well as the large  
8 companies.

9 So we're really experiencing the gamut  
10 in terms of impacts. We see it hitting the  
11 smaller companies first. They're the ones --  
12 especially the startups, the companies that are  
13 just getting off the ground, or have very tight  
14 margins, and don't have the huge supply chain  
15 ability that Jason and Win were just talking  
16 about. They see this quickly.

17 We've seen a lot of sort of anti-  
18 normal market behavior, things like hoarding.  
19 Companies know that something's coming, so they  
20 spend all of their available capital on stocking  
21 warehouse, but that skews -- that skews the  
22 market for them in terms of being able to employ

1 or hire additional consultants.

2 They've had to spend money on figuring  
3 out what these tariffs mean to them, so they're  
4 hiring -- they're hiring consultants, and tariff  
5 experts, and customs people.

6 The larger companies, they have  
7 invested millions and millions -- sometimes  
8 billions -- in bricks and mortar, in actual  
9 locations, where they have trained workers, where  
10 they have invested significant capital, in terms  
11 of getting their products to be safe, secure.

12 A lot of the times, the investments  
13 that they make there enable them to have some of  
14 the most IP-heavy jobs stay in the United States.  
15 For instance, you know, like the video game  
16 console industry.

17 There's 96 percent being developed --  
18 or manufactured in China, but the great majority  
19 -- a lot of the software, R&D, engineering, is  
20 happening here in the United States, so you have  
21 an impact on those jobs as well.

22 So we're really seeing impact across

1 the board in a number of different ways and  
2 forms, and that comes from not being able to  
3 expand or having to hire too many people that  
4 cost too much money, or not being able to keep  
5 their employees, having to possibly let go of  
6 entire product lines, which then affects their  
7 retail businesses and relationship, and consumers  
8 having to pay more. And so it's sort of -- it's  
9 broad-based.

10 MR. JOHNSON: Thank you. You  
11 mentioned in your testimony that implementing  
12 additional tariffs on these products would,  
13 quote, inflict irreversible damage to American  
14 technology sector of leadership. Can you say  
15 more about how specifically implementing tariffs  
16 would cause that damage?

17 MS. CHANDLER: Sure. So the tech  
18 industry specifically moves at lightning speed.  
19 You know, there have been times that we've been  
20 negotiating agreements in the past, and that  
21 negotiation will run for a couple of years, and  
22 by the time we're all patting ourselves on the

1 back, talking about, good job, we got, you know,  
2 this basket of products to 0 percent duty around  
3 the world, five new products have come out that  
4 were not even conceivable at the time we started  
5 those negotiations.

6 For product life cycles, it moves so  
7 quickly. That -- those companies, when they're  
8 focusing on having to spend their capital, and  
9 look at ways of shifting, or trying to deal with  
10 this, they're not spending the time to get to  
11 that next generation of product.

12 I mean, that's just -- that's just one  
13 way. Other things, when they're, you know,  
14 moving resources, and they're having to lay off  
15 experts, or the foreign competition, for  
16 instance, in the audio space.

17 Some of the top competitors are  
18 European brands. Margins are very thin in our  
19 industry, and the US companies are put at a  
20 disadvantage vis-a-vis their foreign competitors.

21 MR. JOHNSON: Thank you very much.

22 MR. MASON: Next question is for Mr.

1       Ranucci.  Could you elaborate on what the  
2       timeline is for the technology refresh cycle to  
3       which you referred to, and when do you expect it  
4       to be complete?

5                   MR. RANUCCI:  Certainly.  So the  
6       technology refresh cycle typically runs about a  
7       decade.  These are very long lived products.  The  
8       last one was the transition from incandescent  
9       xenon lamp-based light digital cinema projectors  
10      to now solid state cinema projectors, solid state  
11      being several types of laser illumination or LED  
12      illumination, but the current one is from laser  
13      phosphor to RGB laser.

14                   So it's a single light laser to now  
15      three separate beams, and very high dynamic  
16      range, which means very, very high contrast, and  
17      super high definition, and just sort of beyond  
18      anything you've ever seen before.  And so that's  
19      the technology refresh cycle.

20                   It's taken years to develop, it will  
21      take years to deploy, and the customers that we  
22      have -- customers being those who pay us money,

1     like the exhibitors -- they are expecting these  
2     products to last at least a decade. They don't  
3     expect to have to refresh these anytime soon.

4             So the models that come out, there are  
5     going to be very, very incremental differences  
6     for the next decade. And so that's why they go  
7     with the huge amount of warranty support,  
8     technical support.

9             There's a heavy amount of training  
10    that goes along with the first install of these  
11    products. Our customers don't want to see a lot  
12    of change for the life span of these products,  
13    and they're, quite frankly, going to want -- to  
14    use the expression -- sweat the assets.

15            They are going to want to keep these  
16    for as long as they possibly can, as long as  
17    they're -- as long as they're still viable. Our  
18    products will typically -- the best ones -- will  
19    move from the premier cinema, where, say, Star  
20    Wars or Avengers is showing, and then over the  
21    life span of the product as, occasionally, as  
22    newer cinema projectors come out, that projector



1 is not going to get thrown away or anything.

2 It'll just be moved into the smaller  
3 theater, where you'd expect to see a movie that's  
4 been running for three months, and is on the tail  
5 end of its run.

6 MR. MASON: Thank you. As a follow-  
7 up, when sales of the main systems themselves are  
8 made, would you expect to supply parts and  
9 components from China as part of the service and  
10 maintenance contracts?

11 MR. RANUCCI: We would expect the  
12 supply to come from both of our factories. One  
13 is in China, one is in Canada. But they're  
14 expected, again, for the entire life span, plus  
15 some.

16 Typically, you would expect to see a  
17 product warranty saying that you'll have parts  
18 available during the warranty period. Our  
19 contracts with our customers, they're expecting  
20 it well beyond the warranty period, because  
21 they're expecting these products to last at least  
22 a decade, and that's been the experience of the

1 prior two generations.

2 MR. MASON: Thank you.

3 MR. FRATERMAN: Thank you all for your  
4 testimony. My question is for Mr. Kimmerling.  
5 Or Ms. Kimmerling. I'm sorry. Insofar as you're  
6 able to say, do you have an estimate of Kidde's  
7 shares of the US market in safety equipment  
8 that's the subject of your testimony?

9 MS. KIMMERLING: No, but we can  
10 provide more detail in our post-hearing  
11 submission, confidentially.

12 MR. FRATERMAN: Okay, great. Thank  
13 you. Just a quick follow-up question as well,  
14 the HTS lines to which you refer appear much  
15 broader than the products specifically produced  
16 by Kidde.

17 Are there any physical characteristics  
18 to those products that differentiate safety  
19 equipment from other goods within those  
20 subcategories, like decibel levels, or anything  
21 like that?

22 MS. KIMMERLING: So taking the example

1 of decibel levels, we would import several  
2 different types of -- or several different SKUs  
3 under those HTSUS subheadings, at different  
4 decibel levels, because a building -- you know,  
5 depending on the type of building, or the  
6 building code involved, it might require a  
7 different decibel level, so we provide those  
8 specifications.

9           So there will be several -- I mean,  
10 there are several of our products under each of  
11 these categories, sizes, you know,  
12 specifications, which would be decibel level, you  
13 know, on the strobe, or visual signaling  
14 apparatus.

15           It can be, you know, size, or  
16 projection of the light. So there are a lot of  
17 products that we import under both of these.  
18 Certainly, if there is an exclusion process, we  
19 will endeavor to differentiate our products from  
20 anything else under these HTS headings.

21           MR. FRATERMAN: Great. Thank you very  
22 much.

1                   CHAIR TSAO: I have a follow-up  
2 question for Ms. Chandler. Ms. Chandler, do you  
3 have a sense of how many workers in China are  
4 engaged in producing the goods addressed in your  
5 testimony?

6                   MS. CHANDLER: I do not, but I can  
7 look into that. You mean Chinese workers or  
8 American workers in China?

9                   CHAIR TSAO: Chinese workers.

10                  MS. CHANDLER: No, I don't. I will  
11 see if we can find such a number, but I'm not  
12 sure.

13                  CHAIR TSAO: And do you have an idea  
14 of how large the US market is for these Chinese  
15 suppliers that make the products that you have  
16 discussed?

17                  MS. CHANDLER: Well, our --- the  
18 consumer tech industry is massive, and I used  
19 some of those numbers. \$167 billion is what's  
20 being impacted from List 4, and you know, those  
21 workers -- I mean, it's hard to say how spread  
22 out the effect is from that, because those

1 products are used in more than just our industry.

2 So you know, you use -- you see  
3 farmers using our equipment, and driving  
4 technology, and drone technology, and all these  
5 different technologies -- sensor technologies to  
6 be productive, and be competitive in crops, and  
7 in businesses, and schools.

8 So the impact is wider than we can  
9 really estimate on just the industry alone,  
10 because tech is used in --

11 CHAIR TSAO: What about the impact on  
12 your Chinese suppliers?

13 MS. CHANDLER: On our Chinese  
14 suppliers? Our companies that have a presence in  
15 China?

16 CHAIR TSAO: No, the Chinese suppliers  
17 who are supplying to the US market. What would  
18 any additional tariffs --- what would be the  
19 effect on any additional tariffs on them?

20 MS. CHANDLER: Most -- the companies  
21 that we're talking about in this testimony were  
22 our US-based companies, but I can look into that.

1 CHAIR TSAO: Okay. Thank you.

2 MR. BURCH: Mr. Chairman, we release  
3 this panel with our thanks, and would all the  
4 panel witnesses for Panel 46 make their way  
5 forward?

6 (Pause.)

7 MR. BURCH: Would the room please come  
8 to order? Mr. Chairman, I'd like to note that  
9 all witnesses for Panel 46 are seated, and a note  
10 to all of the witness panel: if you can, speak  
11 clearly into the microphone, and if you have to,  
12 pull it up close to you for the members that's in  
13 the back and the audience and also the court  
14 reporter.

15 The first witness on Panel 46 will be  
16 Stan Jewell with Renfro Corporation. Mr. Jewell,  
17 you have five minutes.

18 MR. JEWELL: Thank you. Renfro  
19 Corporation is the largest manufacturer of socks  
20 in the United States and one of the largest sock  
21 companies in the world. We sell roughly 2  
22 million pair of socks per day, and our owned and

1 licensed brands include Fruit of the Loom, Polo  
2 Ralph Lauren, Carhartt, Dr. Scholl's, New  
3 Balance, Sperry, HotSox, K.Bell and many more.

4 One out of every five socks sold in  
5 the United States is supplied by Renfro. Our  
6 company is 98 years old, and our U.S. presence  
7 includes facilities in North Carolina, Alabama,  
8 Tennessee, South Carolina, California and New  
9 York.

10 We employ 1,900 people in this  
11 country, and our distribution and manufacturing  
12 facilities are located in rural communities where  
13 we are typically the largest employer.

14 You might think as the largest  
15 domestic manufacturer of socks in the United  
16 States that I would be here in support of tariff  
17 structure. However, I'm not, and I'll explain  
18 why. Fifteen years ago there was a much larger  
19 sock manufacturing presence in the United States.  
20 Our industry permanently changed in 2008 with the  
21 removal of quotas from China.

22 Chinese socks were knitted on

1 different machines with patterns and colors and  
2 materials that were not available in the U.S.  
3 And exposure to these types of products  
4 permanently altered consumer preferences.  
5 Consumers began viewing socks as fashion  
6 accessories and demand for basic socks that were  
7 being domestically produced started to decline.

8 U.S. sock producers responded by  
9 moving their production offshore to better  
10 compete with lower cost, Chinese products.  
11 Renfro initially followed this trend, but in  
12 2010, we reversed course by implementing a new  
13 balanced sourcing model.

14 This model and its consequent business  
15 strategy provided a two pronged approach to  
16 product sourcing. We were able to domestically  
17 produce products like this sock I'm wearing on my  
18 right foot. It's more basic in design, high  
19 volume and stable programs that require quick  
20 response.

21 We can also produce highly technical  
22 socks that meet specific performance demands. We



1 source primarily from China products like this  
2 sock on my left foot. They're more intricate in  
3 design and labor intensive for the fashion  
4 segment. This segment is more volatile in nature  
5 with smaller run sizes, but higher margin product  
6 lines.

7 Since 2010, Renfro has invested \$27  
8 million in our American manufacturing facilities,  
9 and we've increased our employment by more than  
10 30 percent. We continue to invest as we continue  
11 to grow by adding jobs in manufacturing and  
12 distribution but also sales, design, marketing,  
13 finance and other skilled positions.

14 Our business model works because we've  
15 achieved a sustainable and profitable sourcing  
16 balance. 40 percent of the value of what we sell  
17 in the U.S. is manufactured in our American  
18 factories. 40 percent is sourced from China, and  
19 20 percent is sourced from a variety of other  
20 countries. Metaphorically speaking, we must have  
21 both legs and their socks to stand on.

22 Sock manufacturing is not a high tech

1 pursuit for China. It's inevitable that  
2 production will transition to lower cost  
3 countries over time. In fact, that's already  
4 begun. Almost all of our Chinese partners have  
5 already started setting up alternate supply lines  
6 in Asia and other African countries.

7 But this will take time. China owns  
8 a huge portion of the global capacity. In fact,  
9 China's imports into the U.S. for socks is more  
10 than 10 times the next largest country, and the  
11 infrastructure and raw materials, the necessary  
12 supply chain components are all based in China as  
13 well. Moving all of this outside of China to  
14 other countries will take years.

15 We already pay substantial tariffs.  
16 Imposing additional tariffs on socks will not  
17 accelerate a transition of the industry away from  
18 China. It will not be materially punitive to  
19 China's economic interests, and it will not  
20 precipitate a return of manufacturing capacity to  
21 the United States.

22 It will necessitate a pass through of

1 incremental cost and raised prices to American  
2 consumers. The proposed tariffs will subject  
3 Renfro to more than \$25 million in incremental  
4 costs annually. Socks are a relative low margin  
5 business, and we cannot absorb this kind of blow.  
6 Our balanced model will be compromised. American  
7 workers in our factories and offices will be at  
8 risk.

9 The winners in this scenario with  
10 additional tariffs are companies with limited or  
11 no U.S. presence. The losers will be American  
12 consumers, American workers and the communities  
13 where they live, and longstanding American  
14 companies like Renfro, that have diligently  
15 planned for long-term success. Thank you.

16 MR. BURCH: Thank you, Mr. Jewell.  
17 Our next panel witness would be Julia Hughes with  
18 the U.S. Fashion Industry Association. Ms.  
19 Hughes, you have five minutes.

20 MS. HUGHES: Thank you. Thanks very  
21 much for the opportunity to appear today. I'm  
22 Julia Hughes, President of the U.S. Fashion

1 Industry Association, USFIA, represents apparel  
2 brands, retailers, importers and wholesalers  
3 based in the United States and doing business  
4 globally, including many of the iconic fashion  
5 brands worn and loved by everyone in this room.

6 Global trade allows them to produce  
7 quality, affordable products for you, your  
8 families and for families across America. Since  
9 this hearing began last week, you've heard from  
10 many companies and organizations sharing their  
11 concerns about the cost of these tariffs.

12 Tranche 4 contains all apparel, footwear and home  
13 textiles as well as many other consumer products.

14 These products are purchased by  
15 American families every day, families that are  
16 working hard to make ends meet. The path forward  
17 to change the policies in China that are the  
18 subject of the 301 investigation is not to tax  
19 consumer products.

20 We continue to believe that the best  
21 action is to work with our trading partners and  
22 the Chinese government to negotiate global and

1 long-term solutions. That's why we ask for all  
2 apparel footwear and home textiles to be exempt  
3 from any tariffs.

4 I'd like to highlight just three  
5 points from our longer statement. First, tariffs  
6 on fashion products are a huge tax increase. I  
7 think you've heard this a lot over the last week.  
8 Tariffs on clothing, footwear and other fashion  
9 products already are among the highest in the  
10 tariff schedule, as high as 32 percent for  
11 manmade fiber apparel and 67 percent for  
12 footwear.

13 During 2018, American fashion brands  
14 and retailers paid more than \$12 billion in  
15 tariffs on apparel and home textiles and another  
16 \$3 billion on imported footwear. So let's make  
17 no mistake about it, tariffs on clothing and  
18 footwear -- additional tariffs on clothing and  
19 footwear would amount to a huge regressive tax on  
20 American families.

21 It would do harm to American retailers  
22 and brands and wholesalers who can't afford to

1     shoulder the tremendous cost increases, and as  
2     our industry is preparing for the all-important  
3     back to school sales and looking ahead to our  
4     deliveries for the holiday season, it could be  
5     catastrophic to tax this clothing, shoes, home  
6     textiles and other consumer products.

7             And this action could threaten other  
8     jobs based here in the U.S., from entry level  
9     retail positions to higher paid design and  
10    ecommerce jobs across the country.

11            Second, for many of these products,  
12    China remains the number one supplier in the  
13    world with still no realistic options for it to  
14    move sourcing to destinations that could replace  
15    China.

16            There are many types of products, and  
17    I know others have been speaking about them,  
18    where China is essentially the main source or  
19    almost the only source. Companies have already  
20    invested thousands of hours to prepare  
21    contingency plans and assess alternative sourcing  
22    options to diversify from China.

1           In the testimony prepared for these  
2           hearings, you've heard from many of those  
3           companies with their own personal stories, and  
4           they've talked about it very eloquently. We want  
5           to just amplify their message that additional  
6           tariffs and even the threat of those tariffs is  
7           having a tremendous negative impact on American  
8           companies.

9           Finally, while the 301 tariffs might  
10          result in trade diversion from China, it still  
11          will not lead to more sourcing in the United  
12          States. We often hear that argument that  
13          uncertainty and disruption to global supply  
14          chains will lead to more jobs here in the U.S.,  
15          as manufacturers return from overseas.

16          That's not the case for the fashion  
17          industry. The manufacturing capacity and the  
18          workers are not in the United States, and that's  
19          not just my personal opinion. This year in our  
20          benchmarking survey, which will come out next  
21          month, we specifically asked outsourcing  
22          executives where they're moving production when

1 they leave China.

2 When asked about the impact of the  
3 Section 301 action on companies' sourcing  
4 strategy and businesses, they overwhelming  
5 responded that quote, because of the tariff's  
6 action, we intentionally moved some sourcing  
7 orders from China to other Asian suppliers.

8 The import data clearly shows that  
9 shift in sourcing around the world. The ability  
10 of fashion brands and retailers to respond to the  
11 tariffs is complicated further by the fact that  
12 apparel and textile supply chains are complex and  
13 already involve inputs from multiple countries.

14 Talking with sourcing executives, they  
15 say that it takes anywhere from two to five years  
16 to identify and approve a new vendor because it's  
17 a long way from the days when apparel could be  
18 made anyplace where there were workers and a  
19 sewing machine.

20 No respondents, and I just want to  
21 repeat that, no respondents said that they would  
22 be bringing jobs back to the United States



1 because of the lack of capacity. And some raised  
2 their concerns that what they are currently  
3 making in the USA might actually be hurt by the  
4 tariffs on inputs.

5 So we hope our message will be heard  
6 and that the administration will not approve  
7 tariffs on fashion products. We hope we can move  
8 forward and deal with the very real issues of IPR  
9 enforced technology transfers, trade support --  
10 trade providers American consumers with  
11 affordable and varied choices.

12 And most importantly, trade supports  
13 thousands of jobs right here in the United  
14 States. So please support fashion made possible  
15 by trade, and thanks for the opportunity to  
16 appear today.

17 MR. BURCH: Thank you, Ms. Hughes.  
18 Our next panel witness will be Nicole Bivens  
19 Collinson with Everlane, Incorporated. Ms.  
20 Collinson, you have five minutes.

21 MS. COLLINSON: Thank you. Members of  
22 the Review Committee, on behalf of Everlane, our

1 client, Everlane, Incorporated, I want to thank  
2 you for allowing me to appear before you today to  
3 discuss removing specific HTS tariff designations  
4 for cashmere sweaters, dresses and women's pants  
5 as well as silk blouses, dresses, pajamas and  
6 other silk garments from the list of goods  
7 subject up to a 25 percent additional tariff.

8 A full listing of the specific HTS  
9 tariff designations is attached to the written  
10 version of this testimony.

11 I'm Nicole Bivens Collinson, President  
12 of International Trade and Government Relations  
13 at Sandler, Travis and Rosenberg, and our firm  
14 serves as trade counsel to Everlane on trade-  
15 related matters.

16 I'm appearing before you today because  
17 they were unable to come and also as a very cost-  
18 conscious, small company, they wanted to reserve  
19 some of their funds because they are looking at  
20 some very high tariffs very soon.

21 Everlane was founded in the United  
22 States in 2011, initially as a menswear provider.

1 Their product line has grown to include men's and  
2 women's apparel, footwear and accessories,  
3 primarily sold online. And its business model is  
4 focused on ethical sourcing, providing the  
5 highest quality and especially transparency in  
6 costing.

7 The transparency in costing is a key  
8 feature of their business, and thus they have  
9 much more narrow than normal profit margins.  
10 Everlane launched its first business with a Made  
11 in the USA t-shirt. Then they launched the  
12 cashmere and silk line.

13 Everlane's commitment to ethical  
14 sourcing is also a key tenet of the business.  
15 Their production facilities are selected after  
16 careful assessment of their social compliance and  
17 are subject to audit for fair wages, reasonable  
18 hours and environmental responsibility among  
19 several other factors.

20 These painstakingly selective  
21 factories are on their website along with  
22 information about each factory's productions and

1 the employees. In 2018, the company pledged to  
2 stop using virgin plastic by 2021, including in  
3 packaging and in clothing made of synthetic  
4 fibers.

5 On October 24, 2018, Everlane launched  
6 Renew, a line of outerwear crafted from materials  
7 that were created out of 3 million recycled  
8 plastic bottles.

9 The company plans to accomplish their  
10 goal by redeveloping the fabrics, the yarns and  
11 all raw materials that contain synthetic fibers  
12 into recycled components instead. In May 2019,  
13 Everlane released the Day Glove Reknit, a shoe  
14 made entirely of recycled plastic bottles.

15 Everlane directly employs 350 people  
16 in the United States and indirectly employs about  
17 120 in its contracted U.S. warehouse facility.  
18 It's headquartered in San Francisco where it has  
19 one store, and they have another store in New  
20 York City.

21 Cashmere and silk apparel production  
22 have never been in the United States. These are

1 fibers that are harvested outside the U.S., and  
2 the vertical industries for spinning, knitting,  
3 weaving and apparel finishing have all developed  
4 around the location of the fiber and access to  
5 reliable power.

6 Specialized expertise and equipment is  
7 required for production of these materials and  
8 finished apparel out of these unique, valuable  
9 and fragile fibers. There is no production in  
10 the United States, and not only -- and only very  
11 limited production outside of China. These are  
12 not industries that can be shifted to other  
13 countries.

14 Everlane has already purchased  
15 inventory for the year, so any additional duties  
16 will drastically impact the performance of this  
17 very small business, which cannot absorb the  
18 increase in cost.

19 Everlane will have to pass along this  
20 increase to consumers, which it anticipates will  
21 significantly impact sales during the critical  
22 back to school and holiday seasons.

1           As a small business attempting to  
2 grow, Everlane is depending upon cash flow and  
3 fast turn inventory. Additional tariffs would  
4 have a serious impact on cash flow in the form of  
5 cost to the business and on inventory in the  
6 terms of reduced sales and carrying costs.

7           Everlane supports diversified  
8 sourcing, including investing in United States  
9 manufacturing. Only 35 percent of Everlane's  
10 product is imported from China, but Everlane  
11 seeks an exclusion for less than half of those  
12 imports, its strong selling cashmere and silk  
13 apparel.

14           Everlane asserts that no additional  
15 tariffs should be imposed on the cashmere and  
16 silk apparel from China because neither the U.S.  
17 nor the other countries have the manufacturing  
18 capabilities or potential capabilities to meet  
19 demand with respect to the cashmere and silk  
20 fiber, yarn spinning, knitting or weaving and  
21 finishing of these two fibers.

22           Everlane does not presume to advise

1 the committee on the appropriate level of trade  
2 to be covered by additional duties given the  
3 company's comparative small nature and lack of  
4 overall perspective.

5 Everlane further submits that imposing  
6 additional tariffs on these products would not  
7 have any impact whatsoever on China's vast  
8 policies or practices regarding technology  
9 transfer, intellectual property and innovation.

10 This industry is not cutting edge, nor  
11 a priority for China in its 2025 developing.  
12 It's been there for over 8,000 years. Thank you  
13 for your attention. I look forward to answering  
14 any questions you may have.

15 MR. BURCH: Thank you, Ms. Collinson.  
16 Our next panel witness will be Brendan Hoffman  
17 with Vince Holding Corporation. Mr. Hoffman, you  
18 have five minutes.

19 MR. HOFFMAN: Members of the Review  
20 Committee, thank you for this opportunity to  
21 appear before you on behalf of my company, Vince  
22 Holding Corps. I am Brendan Hoffman, Chief

1 Executive Officer of Vince.

2 We submit that apparel made from silk  
3 and cashmere should be removed from the list of  
4 items subject to the potential additional tariffs  
5 of 25 percent being proposed on goods imported  
6 from China.

7 Vince is a leading global luxury  
8 apparel and accessories brand established in  
9 2002. Vince offers women's and men's luxury  
10 ready to wear, shoes, handbags and home products.  
11 Our company operates 59 retail stores and an  
12 ecommerce site, vince.com.

13 We are headquartered in New York and  
14 operate a design studio in Los Angeles. Vince  
15 employs approximately 600 citizens in the United  
16 States directly, which includes corporate, retail  
17 and some skilled laborers.

18 Vince is also responsible for numerous  
19 other indirect U.S. jobs at our distribution  
20 center located in California and various  
21 junctures of our logistic process contributing  
22 significantly to the United States economy.



1           As you know, apparel manufacturing  
2 shifted away from the United States nearly 20  
3 years ago due to an increasing shortage of  
4 available skilled labor and relocation of  
5 American labor to other, more highly compensated  
6 industries and professions.

7           Jobs in apparel factories are not  
8 those which Americans will work and seek to build  
9 a career today. More importantly, certain types  
10 of apparel cannot be made in the United States  
11 because we do not have the raw material inputs  
12 necessary to make them.

13           Cashmere is one of those products for  
14 which we do not have the raw materials to make.  
15 It's a type of fine animal hair fiber obtained  
16 from the neck hair of cashmere goats or pashmina  
17 goats. The fiber is finer, stronger, lighter,  
18 softer and approximately three times more  
19 insulating than sheep wool.

20           Other than China, the world's major  
21 cashmere producing countries are Mongolia, Iran,  
22 Afghanistan, Kazakhstan, Pakistan and Turkey, all

1 of which are not viable alternatives. China is  
2 the world's largest producer of cashmere,  
3 accounting for more than 70 percent of the world  
4 output. Mongolia accounts for about 20 percent.

5 There is no commercial cashmere goat  
6 production in the United States. There is no  
7 cashmere yarn spinning. There is no cashmere  
8 knitting or weaving, and therefore, there is no  
9 cashmere apparel making in the United States or  
10 many other countries.

11 Silk is another product for which we  
12 do not have the raw materials outside of China to  
13 make. Silk is a natural protein fiber, some  
14 forms of which can be woven into textiles.

15 Silk was first developed in ancient  
16 China and dates back 8,500 years. China is the  
17 largest silk producing country in the world. Its  
18 supply in seven times greater than the second  
19 largest source of silk, India.

20 The primary source of silk is Mulberry  
21 silk, so called because the moth larva feeds  
22 exclusively on white mulberry leaves, producing

1 pure white individual long fibers and is more  
2 refined than other types of silk.

3 Only red mulberry trees are native to  
4 the United States. Thus, we don't even have the  
5 food that silkworms will consume in the U.S.  
6 Further, it should be noted that silk has never  
7 been a threat to any U.S. domestic industry.

8 There are no silkworms in the U.S.  
9 There is no silk fiber production, no silk yarn  
10 spinning, no silk fabric making and no silk  
11 apparel making. These products were never  
12 included in quotas during the implementation of  
13 the now expired multifiber agreement, which put  
14 quantitative limits on the amounts of specific  
15 imports into the United States.

16 This further demonstrates that there  
17 is no need to prevent silk apparel from being  
18 made available at reasonable prices for American  
19 consumers. In addition, silk products are  
20 eligible for duty free treatment under GSP.

21 China is not a GSP-eligible country.  
22 Despite the fact that today we could get our silk

1 products duty free into the United States if they  
2 were not made in China, production has still not  
3 moved out of China because the supply chain is in  
4 China.

5 These fiber sources are only available  
6 in China in the quality and quantity needed by  
7 the apparel industry for these types of products.  
8 While most apparel can be produced in many  
9 countries, cashmere and silk cannot.

10 For all the reasons stated herein,  
11 Vince submits that apparel made from silk or  
12 cashmere be removed from the list of products  
13 potentially subject to additional tariffs of up  
14 to 25 percent from China. I look forward to  
15 answering any questions you may have. Thank you.

16 MR. BURCH: Thank you, Mr. Hoffman.  
17 Our next panel witness would be David Tanner with  
18 Boardriders. Mr. Tanner, you have five minutes.

19 MR. TANNER: Thank you. My name is  
20 David Tanner. I'm Chief Executive Officer of  
21 Boardriders. Boardriders is a California-based  
22 company and is one of the world's leading outdoor

1 sports and lifestyle companies. Boardriders  
2 brands include Quiksilver, Billabong, DC Shoes,  
3 Roxy, RVCA, Element, Von Zipper and XCEL, which  
4 are sold in over 110 countries around the world.  
5 Here in the United States, we employ around 2,000  
6 people.

7 Boardriders designs and distributes  
8 apparel, footwear and accessory products that are  
9 currently included in the list of products  
10 subject to additional duties under Chapter 60,  
11 66, 90 and 91 of the HTSUS.

12 Imposing additional duties on these  
13 products would be particularly harmful to  
14 Boardriders. In the past three years, our  
15 company has emerged from bankruptcy,  
16 significantly structured by reducing costs and  
17 streamlining the company and has consolidated our  
18 industry through an acquisition.

19 Through these painstaking efforts,  
20 Boardriders has just recently begun to regain  
21 full financial stability and is now working to  
22 develop additional growth and employment

1 opportunities domestically.

2 Additional duties on Boardriders'  
3 products at this delicate time would cause a  
4 drastic reduction in earnings that could cause  
5 the company to breach its loan covenants and  
6 threat its ability to make debt repayments.

7 This would undermine the significant  
8 efforts we have put into our financial turnaround  
9 and put our employees' livelihoods at risk, just  
10 as they were during our bankruptcy in 2016. As  
11 detailed in our written comments, Boardriders has  
12 already had to increase prices due to the 25  
13 percent tariffs on List 3 products as well as in  
14 anticipation of additional tariffs on List 4  
15 products.

16 If the administration imposes tariffs  
17 on List 4 products, we'll have no choice but to  
18 pass on these additional tariffs through our  
19 direct retail and e-comm channels and to our U.S.  
20 wholesale customers and ultimately to U.S.  
21 consumers.

22 In fact, 50 percent of Boardriders'

1 U.S. wholesale business is made up of specialty  
2 stores, many of which are individually owned  
3 small businesses, such as surf and ski shops.  
4 The additional tariffs and subsequent price  
5 increases will threaten the long-term  
6 profitability and viability of these American  
7 businesses and directly impact U.S. consumers  
8 that frequent them.

9 It would not be feasible for  
10 Boardriders to avoid additional duties by  
11 immediately moving its supply chain out of China.  
12 China remains the predominant supplier of  
13 apparel, footwear and accessory products in the  
14 United States.

15 Boardriders has developed its highly  
16 specialized supply chain over many years, and  
17 shifting its supply chain would require  
18 disrupting its design and product cycle and  
19 incurring significant additional costs while  
20 doing so.

21 It would also take a significant  
22 amount of time for Boardriders to develop a new

1 supply chain that meets its rigorous standards of  
2 quality and labor compliance. In addition, for  
3 certain performance fabrics that are used to  
4 manufacture specialty products such as wetsuits,  
5 viable alternatives simply do not exist outside  
6 of China at acceptable quality and cost levels.

7 Finally, even if Boardriders could  
8 withstand such disruptions, larger players in the  
9 apparel industry have already taken up available  
10 factory capacity and production lines in  
11 countries not subject to these punitive tariffs,  
12 making it difficult to find production capacity  
13 and allowing factories in those other countries  
14 to also increase their prices.

15 The additional tariffs are all the  
16 more problematic because it would not advance the  
17 USTR's objectives identified in its Section 301  
18 report. The apparel industry, including  
19 Boardriders, predominantly relies on the labor  
20 intensive manufacturing capacity of China and not  
21 the strategic and advanced technologies that form  
22 the basis of the actions and policies raised in



1 the Section 301 report.

2 If the administration moves forward  
3 with the additional duties, Boardriders urges  
4 USTR to delay imposition of these duties to avoid  
5 immediate price increases on apparel and footwear  
6 that would severely impact businesses and  
7 consumers during the back to school shopping  
8 season.

9 A delay would also allow companies  
10 time to further develop alternative sourcing  
11 strategies. Moreover, USTR should put in place a  
12 product exclusion process that provides for  
13 company-specific exclusions to take into account  
14 companies in unique situations, such as recent  
15 emergence from bankruptcy, and to accept  
16 exclusion applications on a rolling basis.

17 All this would help protect U.S.  
18 consumers and businesses from price hikes and  
19 retail slowdowns as well as protect the gains the  
20 retail industry has made over the last few years  
21 while actually supporting the growth of American  
22 jobs and opportunities. Thank you.

1                   MR. BURCH: Thank you, Mr. Turner.  
2                   Our last panel witness would be Matthew LeBretton  
3                   with Rubber and Plastic Footwear Manufacturers  
4                   Association. Mr. LeBretton, you have five  
5                   minutes.

6                   MR. LEBRETTON: Thank you. My name is  
7                   Matthew LeBretton, and I'm trade counsel for the  
8                   Rubber and Plastic Footwear Manufacturers  
9                   Association. I appreciate the opportunity to  
10                  share our thoughts with you here today.

11                  The RPFMA is an organization solely  
12                  focused on ensuring the health and growth of the  
13                  domestic footwear industry. Our membership  
14                  roster includes companies such as Dunlop,  
15                  Honeywell, Kamik, New Balance and other  
16                  manufacturers as well as an expanding supply  
17                  chain of companies across this country.

18                  The companies that comprise our  
19                  membership represent more than 4,000 jobs in the  
20                  domestic footwear industry. RPFMA was formed in  
21                  1986, though prior to that we were organized as  
22                  the Footwear Division of the Rubber Manufacturers

1 Association.

2 Domestic footwear manufacturing once  
3 thrived in this country. In fact, as late as the  
4 1970s, more than 75,000 people manufactured shoes  
5 in this country, and a majority of footwear worn  
6 in the United States was manufactured in the  
7 United States.

8 Today, the footwear made in this  
9 country represents almost 2 percent of global  
10 production, which is actually growth over the  
11 last five years. That 2 percent is vital to the  
12 communities in which our member companies are  
13 located.

14 Every manufacturing job in this  
15 country is vital. That's why we as an industry  
16 have worked with government officials to make  
17 sure any free trade agreements that go into  
18 effect recognize the importance of our industry  
19 and maintain tariff protection for footwear made  
20 in this country.

21 We have consistently opposed the  
22 reduction of duties that the footwear import

1 community worked to implement through Congress.  
2 Now with that said, today we stand in opposition  
3 to the additional duties proposed by the  
4 President.

5 Many necessary inputs that are  
6 critical for the production of footwear  
7 manufacturing in the United States are not  
8 available in the United States.

9 When members of our association look  
10 to find certain components and inputs in this  
11 country, there are no sourcing options. For us,  
12 this is not a simple matter of looking for  
13 cheaper Asian alternatives. They simple don't  
14 exist in this country.

15 Domestic footwear manufacturers and  
16 their suppliers are often completely stymied due  
17 to this lack of production. We do not believe  
18 that the administration is trying to make it more  
19 expensive and difficult for domestic footwear  
20 producers to make shoes in this country.

21 We believe this is an unintended  
22 consequence. However, this unintended

1 consequence may actually threaten manufacturing  
2 jobs in the U.S. in our sector.

3 Many of our member companies are small  
4 businesses. They are not globally recognized  
5 brands, nor do they have hundreds of millions of  
6 dollars in sales. And this increase in costs  
7 will ultimately force some of them to close their  
8 doors. This is not conjecture. Member companies  
9 have come to me and said that very statement.  
10 This is fact.

11 Our industry competes daily with those  
12 that have chosen to shutter their manufacturing  
13 in the United States to make more profit. We are  
14 consistently at a competitive disadvantage and  
15 even the slightest, unplanned for ripple in our  
16 supply chain makes it even harder for us to  
17 compete.

18 With our economy strong, our members  
19 have invested more resources to expand  
20 manufacturing here rather than abroad. This  
21 policy, if enacted, will set that back.

22 That is why we strongly urge the

1 administration to reconsider any increased duty  
2 on the components and items that are used in the  
3 production of domestic footwear. Thank you very  
4 much for the opportunity to discuss our concerns  
5 with you here today.

6 MR. BURCH: Thank you, Mr. LeBretton.  
7 And Mr. Chairman, this concludes all direct  
8 testimony from this panel.

9 MS. HEINZEN: Good afternoon. Thank  
10 you all for appearing here. I have a question  
11 for Mr. Jewell. In your written testimony you  
12 state that sock manufacturing is not high tech  
13 and will inevitably transition away from China,  
14 but it will take time to shift your supply base  
15 to socially compliant infrastructures.

16 Can you provide more details on what  
17 is involved to establish socially compliant  
18 infrastructures?

19 MR. JEWELL: Sure. So China, as I  
20 mentioned, owns a huge amount of the global  
21 capacity in socks. But it has begun to  
22 transition away to other areas, notably places

1 like Cambodia, Myanmar, Vietnam and Bangladesh,  
2 as well as India and Pakistan.

3 But China owns also a huge amount of  
4 the raw materials necessary to produce socks. So  
5 about 80 percent plus of the polyester in the  
6 world, it is made in China. And they also are  
7 the largest producer of cotton.

8 So this transition takes time, and it  
9 is -- certainly, there's a labor component that's  
10 important to making socks. But more importantly,  
11 it's capital intensive. And so this transition  
12 has happened very slowly.

13 And to address your comments about  
14 social compliance, obviously this is a key factor  
15 for the textile industry, has been for a long  
16 time. As we move to low cost, low production --  
17 low cost production countries, we're really  
18 cognizant of the fact of being socially  
19 compliant.

20 And every responsible company takes  
21 great measures to go through a compliance  
22 certification process. We're no exception to it.

1 Most other responsible companies are doing these  
2 things. These kinds of compliance measures  
3 deservedly take months and even years to certify  
4 suppliers.

5 MS. HEINZEN: Thank you. Is it  
6 possible for your current U.S. manufacturing to  
7 eventually supply more product?

8 MR. JEWELL: So our U.S. manufacturing  
9 we have today, as I mentioned, makes about 40  
10 percent of our products, products like these  
11 basic products I was displaying here. But there  
12 has been production of this type of product in  
13 the U.S.

14 The type of machinery used to make  
15 this and the type of raw materials and yarns used  
16 to produce these type of products has never been  
17 present in the U.S. at any scale, so it would  
18 take an enormous capital investment to bring in  
19 the equipment, not to mention the raw materials  
20 to do so.

21 And certainly, just within our  
22 facilities in the U.S., we have quite a difficult



1 time supplying these factories with labor and to  
2 try and scale up to the amount that we would need  
3 to source all the fashion goods, it would be a  
4 monumental task to supply those factories with  
5 the necessary labor.

6 MS. HEINZEN: Thank you.

7 MR. FRATERMAN: Hello. Sure. Hi.  
8 Thank you. Mr. Jewell, I have one quick follow  
9 up on -- regarding the socially compliant  
10 infrastructures. Can you maybe go a little bit  
11 more into the labor aspects of the social  
12 compliance and what your company is doing with  
13 that?

14 MR. JEWELL: Sure. We tend to use  
15 suppliers that not only we go through all of the  
16 social compliance certification process with, but  
17 we try and maintain relationships with suppliers  
18 for an extended period of time just so we can  
19 maintain the confidence.

20 We have a team of people in China, in  
21 Shanghai. We have about 42 people there who just  
22 go and monitor and audit our suppliers, so having

1 a long relationship with your suppliers and  
2 having this kind of established presence in their  
3 factories allows you to operate with a confidence  
4 that these factories and these companies are  
5 operating in a compliant and socially responsible  
6 way with regard to workers' working conditions  
7 and products.

8 MR. FRATERMAN: Great. Thank you.

9 MR. JEWELL: Thanks.

10 MR. CHANG: Hi. My name is Won Chang,  
11 Department of Treasury, and this question is for  
12 Julia Hughes of the U.S. Fashion Industry  
13 Association. You state that China is the main or  
14 only source for many fashion items.

15 The United States imports apparel and  
16 other fashion products from dozens of other  
17 countries. What are the obstacles to shifting  
18 more of your sourcing outside of China, including  
19 increasing U.S. manufacturing of such products?

20 MS. HUGHES: Thanks a lot for that  
21 question, and there's kind of two ways to  
22 approach that question. So first is for some

1 products, it's very difficult to find sourcing  
2 outside of China.

3           So if we're talking about sweaters --  
4 I think you've heard this from some of the other  
5 panels. We're talking about sweaters or  
6 outerwear or children's wear. There's definitely  
7 that China is the dominant supplier and much more  
8 difficult to find other locations for other  
9 sourcing destinations that are certainly  
10 relatively quickly ready to supply the U.S.  
11 market.

12           There also are certain products, like  
13 -- and you heard about cashmere and silk. You'll  
14 be hearing more about that and down products,  
15 which also there's a concentration in China for  
16 the supply of those products.

17           So part of the answer is, for some  
18 products there aren't a lot of other places to  
19 look at. And if you were here this morning you  
20 saw Sonja Chapman had the charts with the graphs  
21 kind of showing the world trade and the China  
22 trade and how close it was to the total.

1           So that's for some products. For  
2 other products, China is not as dominant as a  
3 supplier, but what we have been finding, and  
4 really it's more than a year now that brands and  
5 retailers and wholesalers have been looking at  
6 how to restructure and what is the risk  
7 management, what's their sourcing matrix, how are  
8 we going to deal with these issues that frankly,  
9 a lot of the industry, they're looking at the  
10 very same factories in the very same countries to  
11 try to shift to.

12           And there's not enough capacity to do  
13 that. So we're also kind of seeing those issues  
14 as well, that where are we going to go in the  
15 world. Vietnam is the second largest supplier,  
16 so obviously a lot of production has gone there.

17           Prices have gone up, but there's not  
18 capacity. Bangladesh, also a major supplier of  
19 apparel, not a lot of capacity to expand. We've  
20 also encouraged members to look at free trade  
21 agreements because -- especially Western  
22 Hemisphere because that should be another good

1 opportunity.

2 I just want to say that kind of folks  
3 reacted really strongly to the threat of tariffs  
4 on Mexico, and I realize that was a brief blip.  
5 It feels like it was longer ago than a few weeks,  
6 but even so, any threat to the FTA sourcing, I  
7 think that has had a negative impact.

8 And then we look at Made in USA. And  
9 I think consistently, not just since this issue  
10 started in the 301 investigation, but even before  
11 that we've been hearing from members who would  
12 like to expand their USA production, but it's  
13 difficult because there isn't the capacity.

14 And you hear from those who actually  
15 own factories here. There are issues with  
16 finding the workers, so we're very supportive of  
17 that. I was surprised frankly that we didn't  
18 have companies say they were able to move back to  
19 the U.S.

20 But I think just the sheer scale of  
21 the amount of production that's done in China,  
22 it's hard to find a home for all of that

1 production when everyone is looking for those  
2 sourcing options.

3 MR. CHANG: Thank you. I have a  
4 follow up question. IP violations in fashion  
5 products have long been an issue, as you  
6 acknowledge. Since you argue that tariffs are  
7 not a method to address these concerns, what  
8 methods do you suggest we employ? Can you  
9 explain on what you mean by action at the  
10 multilateral level?

11 MS. HUGHES: Sure. Thank you. I feel  
12 like it's very old school these days to kind of  
13 talk about it, but I do think that for the long-  
14 term solutions, whether we're using the World  
15 Trade Organization or whether we're working  
16 together with the EU and Japan, as I know there  
17 are discussions to go on, that that is a better  
18 way to have basically the rest of the world  
19 asking China to make the same moves, to change  
20 the same issues, to change the same internal  
21 regulations, to eliminate forced technology  
22 transfer and to enhance their enforcement of IPR

1 violations.

2 And I think that consistently talking  
3 with our colleagues in other countries -- like I  
4 do feel that certainly for our sector where we  
5 have a lot of counterfeits, and we have a lot of  
6 trademark violations, that seems like a better  
7 way to solve the problem more permanently.

8 I mean it's never going to go away 100  
9 percent. We still have counterfeits here in the  
10 U.S., but I think we could do a much better job  
11 if we're working together in a joint,  
12 multilateral effort.

13 MR. CHANG: Thank you very much.

14 MR. SECOR: My question is for Ms.  
15 Bivens Collinson. You argue that there is  
16 limited manufacturing of cashmere and silk  
17 apparel outside of China and none, no production  
18 in the United States.

19 However, trade data shows that the  
20 U.S. imports a variety of cashmere and silk  
21 apparel from several countries other than China.  
22 And we're aware there's also some production of

1 cashmere yarn, fabric and apparel in the U.S.

2 Can you elaborate on the types of  
3 cashmere and silk apparel you believe can only be  
4 sourced from China and whether these goods could  
5 be sourced from the other current suppliers in  
6 the United States?

7 MS. COLLINSON: If you take a look at  
8 the statistics, import statistics, for example of  
9 sweaters wholly of cashmere, China accounts for  
10 84 percent of those imports. The next largest  
11 supplier is Italy at 11 percent.

12 So when you're talking about the  
13 volume that this represents, there's no place for  
14 that to go. And the reason, again as was  
15 expressed by Mr. Hoffman here, is silk and some  
16 of these other products and the silk products we  
17 have the same issue, China being the largest  
18 supplier, the next closest supplier being Italy.

19 And many times, where China may supply  
20 70 percent, Italy supplies 18 percent. So that's  
21 the number one and number two. So you're looking  
22 at these different countries. When you talk



1 about the volumes and you talk about where  
2 they're going to be, being able to produce it,  
3 they're not going to be able to do it in these  
4 other countries.

5 The other thing is if there were  
6 alternatives -- I mean one of the big things in  
7 the fashion industry is you've got high volume,  
8 lots of turnover. It's fashion, right? So you  
9 want to try to get them in. You want to make  
10 them affordable for the consumer.

11 So you're trying to find the best  
12 location to make them at the most reasonable,  
13 cost-effective method. When you've got other  
14 alternatives today where you could bring these  
15 things in duty free, but you aren't going there,  
16 what's the reason? Why haven't you already  
17 moved?

18 I mean when you look at apparel  
19 manufacturing in particular, it always has seemed  
20 to chase that low dollar, wherever the cheapest  
21 labor is, wherever it's, you know, they can make  
22 the biggest bang on their buck.

1           But they haven't done that in silk  
2 even though they could get it duty free from  
3 other countries. And again, the reason is  
4 because these yarns and these fibers, they're  
5 fragile. They're unique.

6           They don't transport well, and the  
7 volume that's actually made in the United States  
8 is extremely small. Additionally, the silk  
9 apparel that's made in the United States, most of  
10 it is made from imported silk fabric. The fabric  
11 comes in from Italy.

12           The fabric from Italy actually  
13 undergoes a substantial transformation from silk  
14 that was made in China. But when you bring in a  
15 fabric, if you subject it to two or more printing  
16 operations and some folding and some other  
17 operations, under our rules of origin, it  
18 transforms from a product of China to a product  
19 of Italy.

20           Then that fabric comes in, and then a  
21 high fashion item might be made here. So what  
22 we're saying is even if you were able to move

1 some of the apparel production out of China,  
2 because the entire -- the system of what -- from  
3 the trees that the worms feed on to the silkworms  
4 themselves to the spinning of the yarn itself to  
5 the making of the fabric itself.

6 That is all in one place because  
7 that's where the source is. That's where the  
8 cashmere, when you've got 80, 70 percent of the  
9 cashmere located in China, you're going to  
10 circulate around where the source materials are.

11 So that which is made here in the  
12 United States, even if we were to move everything  
13 over here, it's not going to be able to meet  
14 capacity, number one, and the raw inputs are not  
15 going to be able to make it.

16 So you're adding on time. You're  
17 adding on costs, not only because of the  
18 additional costs for manufacturing in the United  
19 States but because of transportation costs,  
20 logistics, and if we're thinking about carbon  
21 footprints it adds a lot more as well.

22 MR. SECOR: Thank you.

1 MS. LOESER: Thank you all so much for  
2 your testimonies today. My name is Elisa Loeser.  
3 I'm here with the Department of Agriculture. I  
4 have a question for Mr. Hoffman. It's actually  
5 quite similar to Ms. Collinson's questions, so  
6 perhaps you can just expand on her answer.

7 In your testimony, you suggest that  
8 silk and cashmere apparel manufacturing needs to  
9 be located in proximity to the raw inputs, namely  
10 China. However, a significant amount of cashmere  
11 fiber is exported to European countries, as  
12 mentioned, where it is finished into apparel and  
13 then exported to the United States.

14 Similarly, the United States imports  
15 silk apparel from several countries. We do note  
16 very clearly that China is your dominant  
17 supplier. However, can you please expand on the  
18 specific obstacles you foresee in shifting your  
19 sourcing of silk and cashmere apparel away from  
20 China?

21 MR. HOFFMAN: I mean for a company  
22 like Vince, it's the quality. It's the quality

1 that you get out of China. I mean, you know,  
2 what David spoke about his company and what they  
3 went through a couple years ago, Vince was next  
4 in line.

5 We were a public company. We had  
6 going concern on us. Everybody thought we were  
7 going to go bankrupt. It was all in the press,  
8 and I spent countless nights up worrying about  
9 the 600 people I employed and the other people  
10 impacted. And when we looked back on where it  
11 all started, it was the quality.

12 We had shifted within China to  
13 different factories than we had historically  
14 used, and the quality went downhill and the  
15 customer responded accordingly.

16 So a couple years ago when we were able  
17 to get -- three years ago when we were able to go  
18 back to our old factories and the quality came  
19 back, that started our road to good health, and  
20 as David said, financial stability.

21 And that, to me, is the biggest risk  
22 of making any of these changes because even

1 within China we saw the risk for a brand like  
2 Vince, so we just can't sacrifice quality. And  
3 that's the concern. And how quickly it would  
4 need to be done would just put our business at  
5 risk.

6 MS. LOESER: Thank you very much.

7 MS. MARTINICH: Hello. I'm Linda  
8 Martinich from Department of Commerce, and my  
9 question is for Mr. Tanner. In your testimony,  
10 you had stated that the available factory  
11 capacity in other countries has been taken up by  
12 other enterprises, making it difficult to shift.  
13 So I was wondering, is the concern for just a  
14 certain portion of your products, or is it all of  
15 your products?

16 MR. TANNER: I would say it's broad-  
17 based. The specific examples I'm talking about  
18 came from the List 3 tariffs already, so for  
19 example, head wear, baseball hats. Our factories  
20 -- we had factories in China.

21 We moved them out of China, and we've  
22 had a number of alternative suppliers we tried to

1 go to who A, wouldn't even take us because we  
2 can't commit the volumes like some of the bigger  
3 guys can. B, when they do take us, they know  
4 what they've got here in a supply, demand  
5 constraint.

6 And they're increasing their prices  
7 even higher on us. And we're in the process of,  
8 with every one of our Chinese suppliers, going  
9 back and asking for lower prices out of them to  
10 compensate for the tariffs, and looking at  
11 options to negotiate out of every one of them  
12 where we can.

13 But as I've described and others have  
14 described, it's a long, laborious, costly process  
15 in order to navigate a supply chain out of there,  
16 and fortunately -- unfortunately, as a mid-sized  
17 company of our size, we're kind of caught in the  
18 middle here.

19 We're, like I said, just starting to  
20 get back to financial stability. At the same  
21 time, we're caught below the big guys who can  
22 really go where the factories are coming up in

1 Vietnam and Bangladesh, in Myanmar.

2 And there's a lot actually being built  
3 in those countries right now, but we're the last  
4 in line to get it. So we've got this lag period  
5 here of probably several years of, you know,  
6 where we're caught in the middle.

7 And finally, you know, we would be the  
8 first ones on board if there was a coordinated  
9 strategy to bring domestic manufacturing back to  
10 the U.S. We'd sign up for a multi-year strategy.  
11 We'd migrate stuff over time, but we don't have  
12 that option here, and the capacity isn't here  
13 today.

14 And as someone who used to be an  
15 investor, I find it really hard to believe that  
16 private capital is going to actually fund textile  
17 factories or apparel manufacturing in the U.S.  
18 given the nature of the business and the exposure  
19 to overseas markets. And then if an  
20 administration changes, they're unprotected from  
21 a tariff aspect, so it's a long road.

22 MS. MARTINICH: And then as a follow



1 up, you also argued for delay imposition of  
2 proposed additional duties to allow companies  
3 time to further develop alternative sourcing  
4 strategies. Could you elaborate on what you  
5 think would be delayed?

6 MR. TANNER: I think something that's  
7 in the nature of 18 to 24 months really buys  
8 breathing room for people. Every day you delay  
9 from here right now gives us breathing room to  
10 try to work on getting out of China more, to try  
11 to mitigate the effects that we're talking about.

12 And so there's no magic number to it,  
13 but someone else described, we've already  
14 purchased the products that are just sitting in  
15 our Chinese factories right now ready to get on  
16 ships coming over here. And our lead times in  
17 some places are 70 weeks.

18 And so when we've already purchased  
19 products, it's sitting there. If you put a  
20 tariff in a month from now, we're eating that.  
21 It's not the Chinese companies paying for it,  
22 it's us that are paying for it.

1                   And we're forced because of our  
2 capital structure, because of the financial  
3 position we're in, to pass those prices on to  
4 customers and consumers. I can't tell you how  
5 the market is going to react to that.

6                   The consumer elasticity to things like  
7 board shorts and t-shirts, you know, it's a  
8 highly discretionary good that not only is going  
9 to affect us but the retailers we sell into, so  
10 the mom and pop ski and surf shops that we serve  
11 across the country.

12                   MS. MARTINICH: Thank you very much.

13                   MR. TANNER: Thank you.

14                   MR. FRATERMAN: Thank you panel for  
15 your testimony. My question is for Mr.  
16 LeBretton. You state that you're opposed to  
17 increased duties on components on items that are  
18 used in the production of domestic footwear. Can  
19 you provide more information on what these  
20 components are and what the items are?

21                   MR. LEBRETTON: All right. I can give  
22 a more comprehensive list to you, but just some

1 examples would -- I'm sorry?

2 MR. FRATERMAN: Oh, no, that's fine.

3 If you want to provide in your additional  
4 testimony those items and components, you can do  
5 that as well. It's completely up to you, yeah.

6 MR. LEBRETTON: I will provide a more  
7 -- but things like collars, felt liners, steel  
8 toes, different inputs that go into the midsoles,  
9 different types of midsoles in different  
10 footwear. Those things are just commercially  
11 unavailable here, but I will have a more  
12 comprehensive list for you in my additional  
13 written testimony.

14 MR. FRATERMAN: Okay. Great. Thank  
15 you. And just one additional follow up. Would  
16 the inclusion of finished footwear products from  
17 China increase the competitiveness of domestic  
18 footwear manufacturers?

19 MR. LEBRETTON: So as an organization  
20 we are at this point not really taking a hard  
21 look at that. We're letting the companies who  
22 have come before you already make those

1 determinations.

2 I will tell you as it relates to  
3 component pieces though, the only ones that it's  
4 going to hurt are those people making shoes here.  
5 I mean that's very simple. Our competitors who  
6 make shoes abroad won't be buying inputs from  
7 China to bring them here to make shoes. So on  
8 that particular interest, that's a real harm that  
9 would happen immediately.

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

12 MR. LEBRETTON: Thank you.

13 MR. BURCH: Mr. Chairman, we release  
14 this panel with our thanks, and would the next  
15 panel of witnesses make their way forward?

16 (Pause.)

17 MR. BURCH: Will the room please come  
18 to order? Mr. Chairman, I'd like to know, are  
19 all the witness -- we're missing one witness on  
20 Panel 47, but the rest of the witnesses are  
21 seated. And our first panel witness on Panel 47  
22 will be Donald Levy, with The Levy Group.

1                   Mr. Levy, you have five minutes.

2                   MR. LEVY: Push -- that's better.

3                   Members of the Section 301 Committee, thank you  
4                   for the opportunity to testify today.

5                   My name is Donald Levy. I'm president  
6                   and CEO of a company called The Levy Group, a  
7                   family-owned company that's one of the largest  
8                   privately held apparel manufacturers in the  
9                   United States.

10                  For almost 75 years, and over the  
11                  course of four generations, our company has grown  
12                  and thrived in an extremely competitive industry.  
13                  We care about innovation, traditional hard work  
14                  and customer service, and those values have  
15                  enabled us to build a network of over 300 retail  
16                  partners, five international offices, a portfolio  
17                  of iconic brands, partners, and two proprietary  
18                  brands.

19                  We work with many of the world's  
20                  leading brands and retailers across multiple  
21                  apparel categories with a particular focus on  
22                  outerwear, swimwear, dresses, activewear and

1 sportswear. Our partners include stores such as  
2 Macy's and J.C. Penney, Marshall's, Burlington  
3 and Ross stores, and specialty retailers such as  
4 Anthropologie and Urban Outfitters.

5 The Levy Group supports the  
6 administration's efforts to open markets and  
7 crack down on unfair trade behavior. We however  
8 respectfully request removal of a limited number  
9 of apparel products that are tailored and highly  
10 engineered, and are often made from specialty  
11 fabrics.

12 Indeed, while the proposed Section 301  
13 tariffs would impact multiple categories of our  
14 product lines, we in our written comments have  
15 chosen to focus only on the products that would  
16 be most difficult, if not impossible to source  
17 outside of China.

18 We placed orders for these outerwear  
19 products six to eight months in advance, when  
20 there was no talk of apparel tariffs. If tariffs  
21 are imposed on these products, we need at least  
22 till the end of this year so that we can have an

1 opportunity to negotiate new prices with those  
2 tariffs included.

3 The inclusion of these products on the  
4 final tariff list would be devastating to The  
5 Levy Group and its 200 hard-working U.S.  
6 employees. These products are all outerwear,  
7 jackets, coats, blazers and vests.

8 The Levy Group has firsthand knowledge  
9 of the difficulty in sourcing these goods from  
10 countries other than China. Believe me, I've  
11 been in this business full-time for 44 years,  
12 almost longer than anyone else in the industry.  
13 I'm confident it is not feasible to find  
14 alternative sources in any major way for these  
15 goods.

16 Indeed, we used to own factories in  
17 the Southeast United States, and we had to close  
18 them. People in the United States didn't want to  
19 enter this field. We couldn't replace retiring  
20 workers. For all of the outerwear items listed  
21 in our written comments, China is the predominant  
22 supplier, with no realistic option for other

1 sourcing destination that could come close to  
2 replacing China as the predominant supplier.

3           Indeed, the items are listed in our  
4 written comments because, primarily due to  
5 capacity constraints, and a lack of specialized  
6 expertise in other countries, it's not possible  
7 to shift production outside of China in a  
8 meaningful way.

9           Doing so would require in excess of a  
10 year of lead time for each product, assuming  
11 another realistic source even exists, which I can  
12 tell you from experience, doesn't. We cannot  
13 simply place an order tomorrow for a highly  
14 engineered article of say, performance outerwear  
15 at a random factory in another country.

16           It takes a considerable amount of time  
17 to identify and onboard new suppliers, and to  
18 ensure that suppliers can adhere to The Levy  
19 Group's quality standards and ethical sourcing  
20 standards. Tariffs tomorrow on these products,  
21 therefore, would have an immediate and severe  
22 impact on our company and on the U.S. consumers



1 that buy the product.

2 You've probably heard from other  
3 witnesses last week about how tariffs on apparel  
4 are among the highest of manufactured goods. The  
5 United States' average tariff on clothing is  
6 almost 14 percent. Tariffs on the outerwear in  
7 our written comments are even higher.

8 The most favored nation tariff rate  
9 for men's man-made fiber coats is 28.2 percent.  
10 The tariff rate for men's man-made raincoats is  
11 27.7 percent. These aren't cherry picked  
12 examples. They're typical of both men's and  
13 ladies' outerwear.

14 Imposition of a 25 percent Section 301  
15 tariff on outerwear would often yield a  
16 cumulative tariff in excess of 50 percent.  
17 Consumers simply cannot afford import taxes in  
18 excess of 50 percent on coats, jackets and  
19 tailored clothing.

20 And make no mistake about it, an  
21 additional 25 percent tariff on these outerwear  
22 products would be felt by our customers. The

1 imposition of tariffs on these goods would  
2 constitute a regressive tax increase on hard-  
3 working American families.

4 Let's not burden a mom juggling her  
5 job and a family with an extra tax as she has to  
6 buy her coats and jackets for the winter to keep  
7 her family warm.

8 I understand what the administration  
9 is trying to effectuate here. As a businessman,  
10 I understand that we must open markets and crack  
11 down on unfair trade behavior. But tariffs on  
12 these outerwear items, and I cannot stress enough  
13 that we have made an attempt to narrow our  
14 requests on only those products, will do nothing  
15 other than cause severe harm to our family  
16 company in New York, and to the employees who  
17 rely on us, and would be --

18 CHAIR TSAO: Wrap it up, Mr. Levy.

19 MR. LEVY: Sure. It would be  
20 devastating to our more than 75-year-old  
21 business, and would cost The Levy Group this year  
22 alone over \$4 million.

1                   Thank you for the opportunity to  
2 testify in front of this committee today.

3                   MR. BURCH: Thank you, Mr. Levy.

4                   Our next panel witness will be Richard  
5 M. Wortman of Forever 21.

6                   Mr. Wortman, you have five minutes.

7                   MR. WORTMAN: Thank you for the opportunity to  
8                                           present testimony today.

9                   My name is Richard Wortman, and I am  
10 Customs and International Trade counsel to  
11 Forever 21. Linda Chang could not be present  
12 today.

13                   Forever 21 was founded by Do Won  
14 Chang, who immigrated to America in 1981 with not  
15 much more than a high school education, in  
16 pursuit of the American dream. As an immigrant,  
17 he felt it was unfair that his two daughters  
18 couldn't afford to wear the latest trends in  
19 fashions. So based on the business model of  
20 providing latest fashions at the best prices, he  
21 founded Forever 21.

22                   Today, Forever 21 remains a family-

1 owned and operated business, and is the fifth  
2 largest specialty retailer in the United States.  
3 What started as one store in Los Angeles has  
4 grown to 546 stores in 48 states and territories,  
5 with an e-commerce site and distribution center  
6 operated out of its headquarters in Los Angeles.

7 Forever 21 employs over 35,500  
8 Americans in their stores, distribution center  
9 and headquarters. Forever 21 was built on the  
10 principles of offering its customers great  
11 quality cutting edge fashion at affordable  
12 prices. Forever 21's primary target market is  
13 the young adults who are fashion conscious on a  
14 limited budget.

15 A very large number of the products  
16 sold by Forever 21 may be found on the annex to  
17 the notice and are the subject of today's  
18 proceedings. These products are either imported  
19 by Forever 21 directly, or through a significant  
20 number of U.S.-based businesses, which themselves  
21 import from China.

22 We have not enumerated the specific

1 provisions in this testimony, as over 900 of the  
2 3,800 eight-digit subheadings of the HTS included  
3 in the annex to the notice are potentially  
4 impacted, including such staple items as wearing  
5 apparel and footwear.

6 These items, when imported from China,  
7 will be subject to an additional ad valorem duty  
8 of up to 25 percent. Plain and simple, these  
9 proposed tariffs will translate into increased  
10 prices for Forever 21's customers. There's  
11 simply no way to avoid raising prices if this  
12 tranche of 301 duties take place.

13 Forever 21's customers cannot afford  
14 a 25 percent increase in price, and they will be  
15 forced to cut back on purchases. And when these  
16 cutbacks occur, Forever 21 will inevitably be  
17 impacted negatively. These tariff increases will  
18 have the following consequences.

19 One, it will negatively impact  
20 profitability through lost sales, layoffs in  
21 multiple states in which Forever 21 operates, the  
22 closing of stores across the country in many

1 malls, in those malls in which Forever 21 is,  
2 incidentally the anchor tenant, which would be a  
3 further detriment to other retail businesses, and  
4 drastically reduce or eliminate seasonal hiring  
5 this year.

6           While Forever 21 has a diverse  
7 sourcing base, China remains an indispensable  
8 producer for a number of reasons, including  
9 product availability, infrastructure, both  
10 manufacturing and logistics, quality control,  
11 costing and longstanding relationship with  
12 vendors.

13           It would be difficult, and in many  
14 cases impossible to move production of the  
15 impacted goods outside of China in a short  
16 window.

17           Finally, I would be remiss if I didn't  
18 note that the potential timing of the proposed  
19 duties would mean a sharp rise in prices right  
20 before the holiday season, which is a critical  
21 time for Forever 21 and the retail industry.  
22 Many of our orders to meet holiday season demand

1 have been placed, and holiday merchandise has  
2 begun shipping, and will enter the United States  
3 any day now.

4 This additional tax on important and  
5 necessary consumer goods will be a devastating  
6 blow to our customers, the retail industry as a  
7 whole, and to Forever 21, marking what may be the  
8 Christmas from which we may never recover.

9 On behalf of Forever 21, I thank you  
10 for the opportunity to present these comments  
11 requesting that apparel, footwear and related  
12 accessories be removed from the annex.

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

14 Our next panel witness will be Katie  
15 Tangman, with Columbia Sportswear Company.

16 Ms. Tangman, you have five minutes.

17 MS. TANGMAN: Thank you. My name is  
18 Katie Tangman. I'm the director of Global  
19 Customs and Trade for Columbia Sportswear  
20 Company. Thank you for allowing us to speak here  
21 today.

22 Columbia Sportswear Company is a

1 global leader in the development and distribution  
2 of active lifestyle apparel, footwear,  
3 accessories and equipment. We have created more  
4 than 7,800 highly skilled jobs worldwide,  
5 including 4,300 pre and post production jobs here  
6 in the U.S.

7 These jobs are in the areas of  
8 innovation, design, development, supply chain,  
9 retail and more. We also support indirect job  
10 creation of jobs in transportation, distribution  
11 and outsourced business services vital to our  
12 operations.

13 In the U.S., we sell our products  
14 through approximately 5,700 wholesale customers  
15 and through our own direct to consumer business.  
16 Columbia Sportswear also distributes to 90  
17 countries worldwide.

18 First, I would like to state Columbia  
19 Sportswear's support for the administration's  
20 efforts to improve the protection of intellectual  
21 property rights in China. However, the use of  
22 tariffs on apparel and footwear to address these



1 concerns punishes U.S. consumers, U.S. workers  
2 and U.S. companies rather than china.

3 Apparel and footwear importers have  
4 historically paid a disproportionate amount of  
5 tariffs in the U.S. In 2018, apparel and  
6 footwear imports accounted for 4 percent of all  
7 imports, but 30 percent of all duties paid. On  
8 average, apparel and footwear importers pay  
9 double-digit import taxes for apparel and  
10 footwear products.

11 Some of Columbia products are subject  
12 to import taxes as high as 37.5 percent. Adding  
13 a tariff of 25 percent on goods from China means  
14 that our import taxes would be as high as 62-1/2  
15 percent. This is an untenable amount. Thus we  
16 fully support the wider industry efforts to  
17 remove all goods from Chapter 61, 62 and 64 from  
18 additional tariffs.

19 More specifically, I would like to  
20 request that the USTR consider removing  
21 Subheading 6403.91.90, 6403.99.90 and 6404.11.90  
22 from the list of goods subject to additional

1 tariffs. These are products that we cannot move  
2 out of China a short to medium term.

3 Columbia Sportswear is an innovation  
4 company. Our design, development and innovation  
5 processes take place in the U.S., however, we  
6 partner with manufacturers to produce our goods.  
7 We have worked tirelessly to develop a  
8 diversified supply chain. As we have increased  
9 the use of manufacturing capabilities in other  
10 parts of the world, our manufacturing presence in  
11 China has decreased more than 60 percent over the  
12 last five years.

13 However, the products that we continue  
14 to manufacture in China are highly specialized,  
15 and tied to significant investments that we have  
16 made in tooling, machinery and personnel  
17 training.

18 We also own and operate a wholly owned  
19 subsidiary in China, one of our largest foreign  
20 markets, with 700 retail locations. Having local  
21 production helps us remain competitive in the  
22 China market, which in turn supports U.S.-based

1 innovation jobs.

2 To address the challenges we face in  
3 moving our remaining products out of China, I  
4 would like to go in some detail on a popular  
5 wedge shoe from our Sorel brand.

6 Some of our most popular Sorel styles  
7 include a hidden wedge heel we co-developed with  
8 a Chinese manufacturing partner. The wedge  
9 requires proprietary tooling and machinery, and a  
10 highly specialized construction process that  
11 we've cultivated with our manufacturing partners.

12 Another category includes footwear  
13 with our proprietary OutDry waterproof  
14 technology. The process to apply this laminate  
15 to footwear requires proprietary machinery and  
16 manufacturing processes that represent  
17 significant capital investments that cannot be  
18 moved in the short to medium term.

19 The cost to remove our remaining  
20 production operations out of China, purchase new  
21 machinery, and train a new workforce will cost  
22 millions, and take at least a year to achieve.

1 During this transition, we would continue to pay  
2 the additional China tariffs, because we cannot  
3 slow down production and delay deliveries to our  
4 consumers while we wait for new factories to come  
5 online.

6 The threat of these additional tariffs  
7 leaves us with two unfortunate choices: Pass the  
8 cost on to consumers, or be forced to curtail  
9 investment. 2019 is planned to be a record year  
10 of investment for Columbia Sportswear Company,  
11 over a \$130 million, primarily in the U.S.

12 Investments include expansion and  
13 upgrades to our campus, new retail stores,  
14 expanding U.S. distribution and supply chain  
15 capabilities, and extensive technology  
16 implementations vital to fuel future growth.

17 Reducing investment to pay millions of  
18 dollars in extra tariff, and to move production  
19 will seriously hinder our ability to continue to  
20 grow and create U.S. jobs. At a time of rapid  
21 retail change, we simply cannot afford to slow  
22 our investments due to these punitive tariffs.

1           In closing, I would again like to  
2 restate my request to remove all apparel and  
3 footwear from HTS Chapters 61, 62 and 64, and  
4 given the hardships involved, specifically the  
5 subheadings mentioned earlier, from the list of  
6 goods subject to additional tariffs.

7           As I have explained, these tariffs  
8 will either be borne directly by consumers, or  
9 more likely will result in lower margins for  
10 Columbia, reduced capital investments and the  
11 loss of U.S. jobs over the period these tariffs  
12 are in place. Thank you.

13           MR. BURCH: Thank you, Ms. Tangman.

14           Our next panel witness will be Cynthia  
15 Rowley, with Cynthia Rowley.

16           Ms. Rowley, you have five minutes.

17           MS. ROWLEY: Thank you. Thank you for  
18 the opportunity. I am here representing my  
19 eponymous brand. Cynthia Rowley is a leading  
20 global lifestyle brand that currently features an  
21 assortment of ready-to-wear, surf and swim,  
22 fitness, accessories and home decor.

1                   China currently accounts for  
2                   approximately 42 percent of the apparel sold in  
3                   the United States today. An additional 25  
4                   percent tariff on products imported from China is  
5                   bound to cause real damage to the industry, along  
6                   with our four million American workers.

7                   The proposed tariffs fail to grasp the  
8                   cataclysmic impact it will have on American  
9                   workers. The world economy has grown  
10                  increasingly interdependent. Whatever larger  
11                  issues need to be addressed, it is clear to me  
12                  that a severe lack of forethought went into this  
13                  decision.

14                  As an independent business owner for  
15                  almost 30 years, I directly employ 100 Americans  
16                  and financially support thousands more in the  
17                  course of doing business. I can attest to the  
18                  fact that these tariffs will be catastrophic to  
19                  my company and the American fashion industry at  
20                  large.

21                  While we fully support Made in USA, in  
22                  order to manufacture our product here, we are

1 bound by the lack of raw materials and machinery.  
2 It is a fantasy to think that these raw materials  
3 exist in America. They simply do not.

4 The sudden implementation of extreme  
5 tariffs leaves the industry with no time to plan  
6 or prepare. Our companies don't have the option  
7 to adjust our business strategies, production  
8 cycles or supply chains to ship manufacturing  
9 exclusively to the U.S. or elsewhere.

10 The tariffs would put the American  
11 fashion industry at a significant disadvantage to  
12 our competitors overseas, at a time when the  
13 industry is already reeling from the impact of  
14 the fast fashion phenomenon.

15 While we are mostly concerned with the  
16 impact on the industry as a whole, these tariffs  
17 impact the business of Cynthia Rowley to an  
18 extreme degree. In my almost 30 years in  
19 business, I have navigated multiple economic  
20 cycles, including the Great Recession. I have  
21 weathered many storms in the fashion industry.

22 I came to New York from a small town

1 in Illinois, in a U-Haul, with \$3,000 from my  
2 grandmother. I've gone from being my only  
3 employee to being able to employ many people in  
4 my headquarters and multiple retail stores.

5 I've worked and continue to work 10 to  
6 12-hour days to build my business. I can perform  
7 every single job in my company, from design, to  
8 pattern-making, to cutting and sewing samples,  
9 but none of this can keep a design company afloat  
10 without speed-to-market technology and machinery  
11 that simply does not exist in the U.S. or  
12 elsewhere.

13 We've worked for years to build loyal  
14 relationships with our Chinese factories that are  
15 experts in our fit and design. Their  
16 capabilities and details, like embroidery, prints  
17 and specialty woven fabrics are unable to be  
18 duplicated anywhere else.

19 As an independently owned and financed  
20 business, we do not have a large cash reserve for  
21 which to help us survive this sudden and  
22 unpredictable increase in cost. Our high quality



1 mandates that we begin design and production work  
2 six or more months in advance, so shifting  
3 production before the June deadline is simply not  
4 an option.

5 Further, since we sell to many third-  
6 party retailers, we have to determine and set our  
7 retail pricing well in advance, and do not have  
8 the option of offsetting these higher costs with  
9 higher prices to our consumers.

10 Finally, while I appreciate the need  
11 to make changes to our trade and tariff policies  
12 for the good of the country and the economy as a  
13 whole, the fashion industry, in addition to other  
14 countless industries, simply cannot endure such  
15 extreme changes on the current timeline.

16 Given the nature of the production  
17 cycle and lack of ability to raise prices, we  
18 would need a minimum of 18 to 24 months for such  
19 changes to be incrementally implemented to  
20 continue to operate our business.

21 Further, with these swift changes, I  
22 would strongly suggest that the government

1 contemporaneously enact policies to help American  
2 manufacturing advance production capabilities  
3 quickly, and provide brands with tax and other  
4 relief, utilizing American production.

5 Thank you for your consideration, and  
6 for the opportunity to tell my personal story.

7 MR. BURCH: Thank you, Ms. Rowley.

8 Our next panel witness will be  
9 Jennifer Newton, with Plush Apparel, LLC.

10 Ms. Newton, you have five minutes.

11 MS. NEWTON: Thank you. Thank you for  
12 the opportunity to appear before you today. My  
13 name is Jennifer Newton. I am the sole owner of  
14 Plush Apparel, LLC, a small apparel business  
15 based in New York City that I founded in 2009.

16 Plush Apparel primarily sells cold  
17 weather accessories, such as scarves, leggings,  
18 hosiery and pajamas. We sell to a variety of  
19 retailers, that include boutiques, schools,  
20 hotels, subscription boxes, online retailers and  
21 direct to consumers.

22 Approximately 95 percent of our goods

1 are presold to wholesale retailers and  
2 subscription boxes. We presell our productions  
3 eight to ten months prior to our customers'  
4 requested delivery dates, and take that time to  
5 produce the goods accordingly and ship them to  
6 our distribution center.

7 That being said, all of our wholesale  
8 sales have been completed for the remainder of  
9 2019 and have already been priced and contracted  
10 for based on the current tariff rates. More  
11 specifically, we have already presold over  
12 600,000 garments based on the current tariff rate  
13 for this year.

14 We presold these goods with minimal  
15 margins in order to meet our customers'  
16 requirements. Because the quantity of units  
17 presold this year has been unprecedented, an  
18 increase of 25 percent in tariffs would simply  
19 cause such an unexpected loss in profit that I am  
20 unsure that we would be able to keep our business  
21 open.

22 While I would love to source our

1 products domestically, I have previously not been  
2 able to find domestic producers that have the  
3 machinery to weave our types of fabrics.

4 I am requesting that the HTS codes  
5 that I have listed be exempt to any increases in  
6 tariffs for at least one year, in order to find  
7 other suitable manufacturers. And if we were  
8 unable to find those suitable manufacturers,  
9 ultimately we would have to increase our  
10 customers' costs accordingly so that we can stay  
11 in business.

12 Thank you for this opportunity to  
13 speak before you. Thank you.

14 MR. BURCH: Thank you, Ms. Newton.

15 Our last panel witness would be Kelly  
16 Speakes-Backman, with Energy Storage Association.

17 Ms. Backman, would you -- you have  
18 five minutes.

19 MS. BACKMAN: Thank you. And thank  
20 you for the opportunity to speak today.

21 So now for something completely  
22 different. I am the chief executive officer of

1 the U.S. Energy Storage Association, or ESA. I'd  
2 like to focus my comments here today on the  
3 severe economic impacts that would result to our  
4 members, our ESA members in the United States  
5 from the imposition of duties on imports of  
6 lithium-ion batteries, and the containers that  
7 are used to house grid energy storage systems.

8 I also want, would like to explain how  
9 the imposition of duties would undermine the  
10 ability of this administration to accomplish its  
11 previously stated goals of energy independence  
12 and security of the electricity grid.

13 ESA is the national trade association  
14 dedicated to energy storage, and our member  
15 companies play integral roles in moving the  
16 United States toward a more resilient, efficient,  
17 sustainable and affordable grid.

18 Our roughly 170 members include  
19 independent power producers, electric utilities,  
20 manufacturers, energy service companies,  
21 component suppliers, installers and integrators.

22 The core energy storage technologies

1 designed, built, installed and serviced by these  
2 companies are deployed throughout the United  
3 States on the electric grid, in homes and in  
4 businesses, integrated into critical  
5 infrastructure and in military installations.

6           These systems contain many U.S.-  
7 designed and U.S.-made components, but also rely  
8 substantially on imports from Chinese-made  
9 lithium-ion batteries, which are not available  
10 from U.S. manufacturers to a meaningful degree.  
11 In the case of specialized containers used to  
12 house energy storage systems, China is the only  
13 meaningful supplier country.

14           ESA membership is part of the success  
15 story of American economic growth. Our industry  
16 is fast growing -- has a fast-growing source of  
17 jobs and business formation in the United States,  
18 and is transforming the way Americans generate,  
19 distribute and consume electricity.

20           In 2017, the entire U.S. energy  
21 storage industry, for example for grid service  
22 for electric vehicles and for consumer devices

1 employed over 70,000 Americans, with the  
2 preponderance of such jobs in project planning,  
3 construction and operations, and represented the  
4 single fastest growing segment of the U.S. energy  
5 sector, that's overall energy sector, with an 18  
6 percent growth from 2017 to 2018.

7 We estimate that in 2019,  
8 installations of energy storage systems in the  
9 U.S. electric -- in the U.S. grid will account  
10 for \$950 million in economic activity. Based on  
11 the number of projects in the pipeline today, we  
12 expect this activity to accelerate into 2020, to  
13 reach \$2.5 billion that year.

14 The imposition of duties would badly  
15 disrupt the trend of strong growth, with ripple  
16 effects that could infect -- include cancelled  
17 projects, job losses, and disputes over  
18 responsibility for the cost increases triggered  
19 by import duties.

20 I want to emphasize that our industry  
21 is characterized by long-term contracts and  
22 supply and service arrangements which cannot be

1 changed overnight with the sudden imposition of  
2 major cost increases such as new import duties  
3 being put in place in a matter of weeks.

4 Many large scale projects are  
5 contracted years in advance to meet regulatory  
6 requirements for utility procurements, and their  
7 performance depends on commercial and policy  
8 certainty. The proposed duties would severely  
9 strain the intricate arrangements that have  
10 already been agreed upon and allow our industry  
11 to thrive.

12 I also want to be sure that this  
13 committee is aware that, of the emphasis that  
14 this administration, Congress and states are  
15 placing on energy storage as a means of enhancing  
16 the energy independence and grid security of our  
17 country.

18 To cite just a few examples, the White  
19 House has identified energy storage as a priority  
20 for public investment in its fiscal year 2020  
21 budget request. The Department of Energy is  
22 holding up grid resilience as a priority. Only



1 since 2017, more than 20 states have taken  
2 legislative action and made regulatory reforms to  
3 enable storage to modernize and improve grid  
4 resilience.

5 The National Governors Association  
6 touted the role of energy storage systems in  
7 achieving economic and grid security gains.  
8 These positions are also held by many members of  
9 Congress as well as Chairman Chatterjee and the  
10 commissioners of the Federal Energy Regulatory  
11 Commission.

12 Details of the U.S. policy framework  
13 supporting our industry and grid security are  
14 provided in our written submission filed today.  
15 But my point is, that the imposition of these  
16 duties on key components required for our  
17 industry to thrive, would constitute a major and  
18 a completely unnecessary step backwards in  
19 achieving the U.S. energy policy goal of a more  
20 secure grid for all Americans.

21 And so I respectfully urge the Section  
22 301 Committee to recommend against the imposition

1 of duties on imports of lithium-ion batteries and  
2 containers which play such a critical role in  
3 advancing U.S. energy security. Thank you.

4 MR. BURCH: Thank you, Ms. Backman.

5 Mr. Chairman, this concludes the panel  
6 testimonies.

7 MS. HEINZEN: Thank you all for being  
8 here today. I'm Janet Heinzen with USTR, and I  
9 have a question for Mr. Levy.

10 Regarding the description about the  
11 complex construction and specialty fabrics used  
12 in outwear, can you elaborate on why producing  
13 such garments is complex, and why you believe  
14 China is the only source for such goods?

15 MR. LEVY: Sure. So if you take a  
16 look at all apparel products and how many minutes  
17 it takes to produce one, it's easy to understand  
18 that producing a T-shirt is a lot less  
19 complicated than producing a coat.

20 To produce a coat, it takes many, many  
21 more operations than to produce almost any other  
22 apparel product. So the complexity of

1 manufacturing is greatly enhanced when it comes  
2 to producing outerwear, outerwear specific.

3           And as a result of that, there are  
4 many fewer factories in the world that are  
5 capable of producing it, so much so that we have  
6 to produce and commit to factories eight months  
7 in advance in order to build up enough inventory  
8 to supply the demand that we have for our  
9 products, because there's not enough factories in  
10 the world for us to do it.

11           So for -- we exhaust every  
12 opportunity. China's the major supplier, but  
13 we're in Bangladesh, we're in Myanmar, we're in  
14 Vietnam. We're in all the other countries that  
15 are capable of doing it. And we exhaust all of  
16 the best factories in the world to manufacture  
17 our product, based on our longstanding  
18 relationships that we've developed over many  
19 years.

20           So, in terms of fabrics, none of these  
21 fabrics that we use in outerwear really exist  
22 outside of China. All the other countries that

1 are making our products, that I mentioned, get  
2 the fabrics from China. That's where the  
3 production of textiles is centered.

4 So, there's very little outerwear  
5 fabric production outside of China. So, going to  
6 these other countries also increases, to a large  
7 extent, the lead time required to manufacture,  
8 because you have to take the fabric from China  
9 and ship it to these other countries to  
10 manufacture.

11 I hope I answered your question.

12 MS. HEINZEN: Yes, thank you.

13 MR. LEVY: Thank you.

14 MR. CHANG: Hi. My name is Won Chang,  
15 Department of Treasury. Question is for Richard  
16 Wortman, Forever 21.

17 In your testimony, you state that it  
18 would be difficult to move production of the  
19 impacted goods outside of China in a short window  
20 of time. Have you made efforts before now to  
21 source your goods from other countries or the  
22 United States?

1           MR. WORTMAN: Forever 21 has a very  
2 large sourcing base. They work with a lot of  
3 vendors, and some vendors they purchase from, and  
4 they can follow -- they have the ability to  
5 attempt to move the garments to factories in  
6 multiple countries. But 80 percent of the goods  
7 that are currently imported from China are coming  
8 from other businesses that they buy in U.S.  
9 domestic transactions.

10           So, it is the vendor who is presenting  
11 them with potential, a potential line of goods.  
12 They're selecting what they want out of the line.  
13 And then, it is actually the, one step up in the  
14 production that's choosing the factory in China.  
15 But we have, you know, we have attempted to move  
16 anything that we can move.

17           The problem really is, is that we have  
18 not found sufficient factory space anywhere where  
19 the goods are able to be made, making sure that  
20 we meet the price point, the quality point and  
21 the logistics of the manufacturer and the  
22 delivery. And it's just a serious hard lift to

1 do it for that many stores in a very short period  
2 of time.

3 MR. CHANG: How long do you estimate  
4 it would take to shift your source away from  
5 China to other areas?

6 MR. WORTMAN: I don't want to  
7 speculate as to the shift. What I can say is  
8 that we certainly can't do it for this Christmas  
9 season, as those goods are actually already on  
10 the water. And I think that we will be, you  
11 know, we will be attempting to move as much as  
12 possible if this is going to become a long-term  
13 proposition.

14 But I believe that China is going to  
15 be still a long-term source of goods because of,  
16 as mentioned by Mr. Levy and others, that one,  
17 the fabrics are available pretty much exclusively  
18 in China, number two, the lead times are very --  
19 for retail today are very, very short, and we,  
20 everything has a quick, for Forever 21, has a  
21 very fast turnaround cycle.

22 MR. CHANG: Okay, thank you.

1 MR. SECOR: My questions are for Ms.  
2 Tangman.

3 You state support for the  
4 administration's effort to improve protection of  
5 intellectual property rights, but argue that  
6 tariffs are not the answer. What measures would  
7 you recommend the U.S. government take to address  
8 those longstanding concerns if not through the  
9 current 301 mechanism?

10 MS. TANGMAN: Not intending to sound  
11 glib, negotiate a free trade agreement with China  
12 with very strong IP protections. Another avenue  
13 is to support and participate in the WTO as  
14 intended. The other possibility would be perhaps  
15 we could use reduced tariffs to incentivize good  
16 behavior, perhaps with some kind of a  
17 certification process or something like that.

18 We have been successful so far working  
19 with Chinese agencies in terms of stemming the  
20 flow of counterfeit goods, of our goods, so we've  
21 worked with China Customs. They've been very  
22 effective in stopping export shipments before

1 they leave the country.

2 There's other Chinese agencies that  
3 have been working on our behalf, because we have  
4 been registering our trademarks and our IP with  
5 them. That kind of cooperation has been  
6 effective, and we'd like to see more of that.

7 MR. SECOR: Have you seen improvements  
8 recently in the cooperation that Chinese  
9 authorities give when you do have IP problems?

10 MS. TANGMAN: So, I would say, what we  
11 have seen is a reduction in the number of cases  
12 in China, but as I stated earlier, we've moved 60  
13 percent of our production out of China. So it's  
14 really a little bit difficult to say where that  
15 is from.

16 China is a steady source of  
17 counterfeit goods. We know that it's one of the  
18 five, our top five countries that we have to keep  
19 our eyes on, but we do have these issues with  
20 other countries around the world as well,  
21 including in the U.S.

22 MR. SECOR: Thank you.



1 MR. FRATERMAN: Thank you, panel, for  
2 your testimony. My question is going to be for  
3 Ms. Rowley.

4 Ms. Rowley, do you currently purchase  
5 any products from U.S. manufacturers for your  
6 stores?

7 MS. ROWLEY: From U.S.?

8 MR. FRATERMAN: Yes.

9 MS. ROWLEY: Yes. We manufacture in  
10 the U.S., but as we've -- you know, I think  
11 everybody's been saying, there's only so much you  
12 can do here without the raw materials and skilled  
13 labor. So we do as much as we can, which  
14 unfortunately is not a very substantial part of  
15 our business.

16 MR. FRATERMAN: Okay. And can you  
17 elaborate on your statement that it would take a  
18 minimum of five years to achieve the same level  
19 of quality product if you were to move your  
20 machinery domestically?

21 MS. ROWLEY: Well I just think there  
22 isn't the skilled labor here. I think -- I don't

1 even know how we would get the raw materials  
2 here, and in order to manufacture anything close  
3 to what we're making in China. I know that it's  
4 taken me ten years in China, working with the  
5 same factories, to develop the fit and quality,  
6 and a vocabulary of proprietary design, that I  
7 just think it -- five years is a very generous  
8 estimate.

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

11 MR. FRATER: The next question is for  
12 Ms. Newton.

13 Similar to I think what has been said,  
14 it sounds like there's a lot of difficulty in the  
15 machinery, and you haven't been able to find a  
16 domestic producer with it, the machinery to weave  
17 your specific fabrics and products. So I guess  
18 if there were machinery available to a domestic  
19 producer, could you make the products here in the  
20 U.S.?

21 MS. NEWTON: Yeah. I actually, when  
22 I first started my business about ten years ago,

1 I did work with a manufacturer in North Carolina  
2 to make our hosiery. However, they -- I  
3 primarily sell fleeced-lined hosiery, and they  
4 did not have the machinery to do it.

5 And so I just, you know, I was able to  
6 produce a small amount of just regular hosiery,  
7 and after about a year, they actually were not  
8 handling smaller businesses like me. They were  
9 working with bigger consumers like Nordstrom and  
10 Hue to do their private label, and they wouldn't  
11 take my business.

12 So if the opportunity was there and  
13 they could handle it, I would definitely be open  
14 to it. I've looked since then in California.  
15 I've looked outside of China in Korea and maybe  
16 five or six other countries, and I've not been  
17 able to find manufacturers that can produce the  
18 specific fleece-lined fabrics that I need.

19 MR. FRATER: And as a follow-up, are  
20 there any other obstacles specific to your  
21 company in sourcing your products domestically?

22 MS. NEWTON: Yeah. The business has

1 changed quite a bit from when I first started. I  
2 used to sell to about 600 smaller boutiques, mom  
3 and pop shops. Since then, a lot of them have  
4 unfortunately closed, and the business has  
5 changed for the retail industry, I think, as a  
6 whole.

7 So my business has changed a lot more  
8 to subscription boxes, which rely on much smaller  
9 margins and higher volume. And in order to meet  
10 those demands, I'm not sure -- the factory that  
11 I've been working with can produce 50,000 units,  
12 for example, of scarves a week. I'm not, I have  
13 not been able to find any factories here that can  
14 produce that quantity at the quality that I need.

15 MR. FRATER: Thank you.

16 MS. MARTINICH: Hello. Linda  
17 Martinich -- I'm sorry. Linda Martinich,  
18 Department of Commerce. And my question is for  
19 Ms. Speakes-Backman.

20 And I was wondering, what do you mean  
21 by your statement that China is the only  
22 meaningful source for specialized containers used

1 to house the energy storage systems?

2 MS. BACKMAN: Meaning more than 90  
3 percent, north of -- I think it's more closer to  
4 95 percent of those containers are provided from  
5 China. I guess that's --

6 MS. MARTINICH: And are there domestic  
7 or other country -- sources for the lithium-ion  
8 batteries?

9 MS. BACKMAN: Yes. So, lithium-ion  
10 batteries are, come about 40 percent from China.  
11 And the next largest manufacturers are Korea and  
12 Japan, at about 45 percent combined. The rest  
13 kind of are small pittances, Germany, Taiwan,  
14 other countries. I can provide that list to you  
15 in a supplemental filing.

16 MS. MARTINICH: Okay. And then,  
17 lastly, what would it entail to build other  
18 sources' capacity in other countries,  
19 domestically or outside of China?

20 MS. BACKMAN: It would take a long  
21 time, that's for sure. To build the capacity,  
22 there is, first of all there have to be long-term

1 contracts for the minerals that are required,  
2 especially for lithium-ion batteries, which as  
3 you know are, I'm sure you've read are of issue  
4 today.

5 And then, to find the siting and to  
6 work through import-export issues, it would take  
7 a number of years. I wouldn't -- I don't want to  
8 estimate how many years, but I would say it would  
9 take at least five years to get, you know,  
10 meaningful, meaning at least half of what's  
11 supplied from China moved elsewhere.

12 Especially, I just want to add, given  
13 the expansive growth that's expected of the  
14 energy storage industry, most of which is planned  
15 to be in the lithium-ion battery space. Our  
16 market doubled last year. It's on track to  
17 double again this year, and to triple in 2020.

18 So looking at that sort of exponential  
19 growth and trying to resource those batteries for  
20 our market is, it will be quite a burden on our  
21 members.

22 MS. MARTINICH: Thank you very much.

1 MS. BACKMAN: Thank you.

2 CHAIR TSAO: Ms. Backman, I have a  
3 follow-up question. Are you aware, are these  
4 lithium-ion batteries subject to any of China's  
5 industrial policies, either on the innovation  
6 side or on the production side?

7 MS. BACKMAN: I'd have to get back to  
8 you on that. I'm sorry. I don't know the  
9 response to that.

10 MR. SECOR: Is there any way to  
11 distinguish, under the HTS codes, the lithium-ion  
12 batteries used for energy storage from lithium-  
13 ion batteries, more generally?

14 MS. BACKMAN: Yes. We have a list of  
15 those. And there's the separation also between,  
16 there's electric vehicle batteries with lithium-  
17 ion technologies, consumer, and then the grid  
18 storage side. So we do have a listing of the  
19 separation. I'd be happy to provide with you, to  
20 you as well.

21 MR. BURCH: Mr. Chairman, we release  
22 this panel with our thanks. And would the

1 witnesses for Panel 28 make their way forward.

2 (Pause.)

3 MR. BURCH: Would the room please come  
4 to order? Mr. Chairman, I'd like to note this is  
5 the last and final panel for today. And our  
6 first panel witness would be Neil Gilstrap with  
7 Happy Gorilla Game Studio. Mr. Gilstrap, you  
8 have five minutes.

9 MR. GILSTRAP: Hello. My name is Neil  
10 Gilstrap, and I am with my colleague who is also  
11 here with me today, Chip Boyd, are co-owners of  
12 Happy Gorilla Game Studio. We're a very small  
13 startup company creating board games, using  
14 crowdfunding as a primary vehicle for investment.  
15 And we're here representing ourselves -- not just  
16 ourselves today, but also any other small  
17 business owners who also use crowdfunding to  
18 source their products.

19 Happy Gorilla Game Studios -- excuse  
20 me -- we're seeking language be added to the new  
21 proposal which would provide a grace period for  
22 already-in-progress imports to China, similar to



1 language which was found in the March proposal.  
2 Our first game, our very first product that we  
3 have ever created, is literally sitting on a boat  
4 in the Pacific Ocean headed here, and is expected  
5 to be in Florida in a few weeks. And this  
6 surprise 25-percent cost overrun is going to  
7 directly affect us, and it will do so merely  
8 because I could not get the factory to ship two  
9 weeks earlier than they did, despite my best  
10 effort, so.

11 Being a crowd-funded business, about  
12 seven months ago, we launched a campaign on a  
13 Kickstarter website to showcase the idea for our  
14 new game in the hopes that we could entice  
15 potential micro investors to pledge money for the  
16 creation of our game, and these people do so in  
17 return of a copy of the game themselves. So,  
18 they give us the money, we manufacture the  
19 product, we give them the game.

20 Crowdfunding works by allowing  
21 consumers to front money in advance for product  
22 being manufactured in order to fund its

1 development and the creation in return for the  
2 product. Product creators and their businesses  
3 benefit by over-budgeting to produce some extra  
4 product for retail as well as small profit to  
5 fund future product, with the idea being that we  
6 would continue more crowdfunding campaigns to  
7 grow our small business into a larger business  
8 over time.

9 A funding goal is set as a part of  
10 these campaigns, which promises that if the  
11 funding goal is reached, the product will be  
12 produced and delivered to backers at the cost  
13 promised. For us, this occurred back in October  
14 of 2018 and the money was already collected at  
15 that point based off good faith estimates that we  
16 had put in place with no way to know that we  
17 would be hit with a 25-percent cost overrun as  
18 our product was being shipped.

19 As it stands, our company will be  
20 subject to new tariffs, which we could not have  
21 anticipated these seven months ago. To ask now  
22 that my backers must deliver more money or simply

1 fail to deliver my product to them will ruin my  
2 company's reputation and subsequently preclude it  
3 from ever using crowdfunding again.

4 In addition, crowdfunding by its very  
5 nature is designed to allow anyone with a great  
6 idea and a lot of willingness to work to start a  
7 business around a product without themselves  
8 having a large bank account or personal finances,  
9 which includes myself. It is truly a gateway to  
10 the American Dream for many small business  
11 owners. With just a little bit of good ideas and  
12 a lot of effort and hard work, you can start your  
13 own business.

14 Lastly, since the money we raised has  
15 already been spent on manufacturing with no way  
16 to refund or cancel, our business is firmly stuck  
17 in an impossible situation. We have to assume a  
18 large debt to pay the duties, which will  
19 subsequently consume any profit or additional  
20 funding we were going to receive for our  
21 completed project, which have then led to the  
22 ability to for us to fund development of new

1 projects. This will mean that any profit we  
2 would've used for development will now go to pay  
3 debt, which effectively will close the doors of  
4 my company.

5 I wanted to emphasize, too, that we  
6 are not objecting to these tariffs in principle  
7 on board games or for future projects. Indeed,  
8 if we had known that the tariffs were coming, we  
9 could have set our funding goals appropriately as  
10 part of crowdfunding and asked our backers to  
11 produce that money so that we would not be  
12 surprised. It is quite literally the surprise of  
13 this which is the issue with money that I have no  
14 way to refund or cancel.

15 We're not alone in this situation.  
16 Many campaigns which are in fulfillment on  
17 crowdfunding sites, such as Kickstarter, are also  
18 facing the same situation that we are. This is  
19 due to the long production timelines after a  
20 campaign successfully funds in which you are not  
21 expected to ask for more money from your backers  
22 due to that perceived contractual obligation from

1 the close of a campaign. Sorry.

2 So, we're simply asking that we have  
3 some language added to the new proposal as part  
4 of its implementation, which provides us an  
5 adequate grace period for the chance to complete  
6 the import process. Thank you for your time.

7 MR. BURCH: Thank you, Mr. Gilstrap.  
8 Our next panel witness would be Cristen Kogl with  
9 Zebra Technologies Corporation. Ms. Kogl, you  
10 have five minutes.

11 MS. KOGL: Good afternoon. My name is  
12 Cristen Kogl and I'm the general counsel of Zebra  
13 Technologies, a United States, publicly-traded  
14 company headquartered in Lincolnshire, Illinois.  
15 Zebra is the world leader in intelligent edge  
16 technology, and we're proudly celebrating our  
17 50th anniversary this year. We employ more than  
18 4,100 U.S. employees and, for the last four  
19 years, have ranked on Forbes' list of best  
20 American employers.

21 Throughout Zebra's 50 years, it's  
22 grown through investment and innovation. Earlier

1 this month, I have the privilege of attending our  
2 annual innovator's dinner; one of my favorite  
3 events at Zebra. And this is the event where  
4 Zebra employees who successfully develop new  
5 technologies for which a U.S. patent is issued  
6 are recognized by their colleagues and by senior  
7 management, including receiving grants for Zebra  
8 stocks.

9 Now, I'm here today to discuss two of  
10 Zebra's primary product lines: our enterprise  
11 mobile computers as well as our specialized  
12 printers. Unfortunately, the application of the  
13 301 tariffs within current Customs rules creates  
14 an unintended windfall for foreign-suffered  
15 developers at the expenses of American companies,  
16 the situation unique to U.S. companies that  
17 develop software with American engineers  
18 unwittingly harms U.S. intellectual property and  
19 U.S. jobs instead of protecting them. The impact  
20 of these rules is not about moving manufacturing  
21 out of China. It is about moving engineering out  
22 of the United States. Ironically, if we off-

1 shored our software development, we could avoid  
2 these tariffs altogether.

3           If you'll indulge me, I will attempt  
4 to explain this very technical rule and its  
5 impact on Zebra. Current Customs interpretation  
6 of the Substantial Transformation Rule as it  
7 applies to electronic devices essentially states  
8 that nonfunctional hardware without software is  
9 substantially transformed in a second country if  
10 the software's developed and downloaded in that  
11 second country.

12           When the software imparts the  
13 functionality to the finished good, the finished  
14 product is now classified as a good of that  
15 second country. The rule is well-established and  
16 has been upheld as recently as January 2019 of  
17 this past year.

18           At Zebra, we can't take advantage of  
19 this rule precisely because we develop our  
20 software in the United States. As an American  
21 company headquartered in the United States who  
22 proudly employs engineers in the United States to

1 develop our software in the United States, these  
2 rules create an absurd outcome. Our foreign  
3 competitors' products built in China are not  
4 impacted by these tariffs because their  
5 software's not developed here and the U.S. rules  
6 allow them to change their country of origin from  
7 China to the country wherever their software's  
8 developed. These rules effectively encourage  
9 Zebra to off-shore its U.S. software development  
10 rather than continuing its investment in American  
11 engineers and innovation.

12 I hope the Committee would agree that  
13 software development should stay in the U.S. and  
14 that American technology companies should not be  
15 penalized for developing their software here.  
16 These tariffs have the ironic effect of making  
17 U.S. IP less competitive and less secure by  
18 incentivising tech companies to move software  
19 development out of the U.S. This is clearly an  
20 unintended consequence of the tariffs and,  
21 therefore, I respectfully request the Committee  
22 protect the development of software in the U.S.



1 by removing these electronic devices from List 4.

2 Now, we import these products under  
3 three, eight-digit subheadings, one of which the  
4 administration previously removed from List 3 at  
5 the 10-digit level. I implore the Committee to  
6 continue to uphold its previous decision not to  
7 include subheading 8517.62.0090 as there have  
8 been no changes since the USTR specifically  
9 created this carve-out. We see no reason why  
10 these products should now be subject to  
11 Section 301 tariffs.

12 We also request that USTR remove  
13 subheading 8517.12.00, which products are often  
14 virtually identical to those under the prior  
15 subheading with the only difference being network  
16 capabilities through a cellular connection.  
17 Finally, we ask that USTR remove Zebra specialty  
18 printers under the eight-digit 84433210 or, more  
19 narrowly, we proposed that the administration  
20 remove the relevant 10-digit subheading. Thank  
21 you for your attention and the opportunity to  
22 testify.

1 MS. KOGL: Thank you, Ms. Kogl.

2 Our next panel witness is John  
3 Frascotti with Hasbro, Incorporated. Mr.  
4 Frascotti, you have five minutes.

5 MR. FRASCOTTI: Thank you. Good  
6 morning. My name is John Frascotti, president,  
7 chief operating officer of Hasbro. I wanted to  
8 thank the Committee for the opportunity to appear  
9 before you today to discuss the significant and  
10 disproportionate harm tariffs on toys and games  
11 would cause Hasbro, the broader U.S. toy  
12 industry, and consumers of toys; American  
13 families and their children.

14 Hasbro's a 93-year-old global play and  
15 entertainment company proudly based in Pawtucket,  
16 Rhode Island. We employ 5,800 people worldwide,  
17 2,600 employees in the United States. As a major  
18 intellectual property rights holder, Hasbro  
19 appreciates the administration's effort to combat  
20 trade practices -- unfair trade practices.

21 However, the U.S. toy and game  
22 industry is uniquely and disproportionately

1 exposed to the proposed tariffs on toys and games  
2 because, industry-wide, 85 percent of all toys  
3 sold in the U.S. are imported from China, and  
4 there is no readily-available alternate supply  
5 chain outside of China.

6 Hasbro submitted a detailed set of  
7 written comments that explains the many reasons  
8 why imposition of tariffs would be so damaging  
9 for Hasbro and the broader industry. For the  
10 purposes of today's hearing, I want to focus on  
11 just a few points.

12 First, Hasbro is very proud of its  
13 strong and unwavering commitment to U.S.  
14 manufacturing. We're the only major toy company  
15 that sources products made in the U.S. in  
16 significant numbers. We have been an industry  
17 leader in seeking to diversify our supply chains,  
18 both to increase the percentage of our products  
19 that are made in the United States and to reduce  
20 sourcing from China.

21 For example, in addition to sourcing  
22 our iconic board games, like Monopoly, in the

1 U.S., we returned production of Play-Doh to the  
2 U.S. last year. Now, when we first embarked on  
3 this strategy in 2012, we were sourcing over  
4 80 percent of U.S.-sold product from China. And  
5 by 2018, we had already reduced this figure to 67  
6 percent and we're continuing to steadily decrease  
7 this percentage year-over-year.

8 Second, notwithstanding these efforts,  
9 it's not possible for Hasbro or the U.S. toy  
10 industry as a whole to eliminate Chinese  
11 production because the required production  
12 capacity for toys and games does not currently  
13 exit outside of China, and it would take several  
14 years to develop this capacity.

15 Now, another major reason is because  
16 our suppliers in China are qualified and trained  
17 to meet the strict U.S. product safety standards  
18 for products used by children. And with children  
19 and families as our consumers, high safety and  
20 quality standards are not optional, they're  
21 essential. Thus, for Hasbro, a prerequisite to  
22 shifting supply chains is finding suppliers and

1 developing workforce capable of upholding our  
2 rigorous safety and quality standards. These  
3 suppliers and workforces do not currently exist  
4 outside of China.

5 Third, imposition of tariffs on toys  
6 and games would be devastating for Hasbro and the  
7 broader U.S. toy industry, and it also would  
8 undermine our supply chain diversification  
9 efforts. The financial impact on Hasbro alone  
10 would be enormous and would drain resources that  
11 we would otherwise reinvest in our U.S. business  
12 and in our supply chain diversification efforts.  
13 Now, timing could not be worse for our industry,  
14 which is already facing serious headwinds from  
15 the recent bankruptcies of two toy retailers,  
16 Kmart and Toys "R" Us, already putting about  
17 30,000 U.S. jobs at risk.

18 Fourth, if proposed tariffs are put in  
19 place, Hasbro will have no choice but to pass  
20 along increased cost to U.S. customers by pricing  
21 our products to address tariffs. That's been our  
22 experience in Brazil, for example, where we face

1 a significant import tariff. We need to increase  
2 prices by more than just the increased duty  
3 charge in order to protect gross margin and  
4 operating profits, which will likely result in  
5 higher prices to consumers. Tariffs  
6 would hurt the vast majority of our U.S.  
7 customers, many of whom which distributors,  
8 wholesalers, and retailers are SMEs. The impact  
9 of tariff on SMEs will be devastating.

10 Finally, tariffs on toys will  
11 negatively impact U.S. consumers. Because toys  
12 and games are low-margin items, we anticipate  
13 that our retailers will pass along additional  
14 cost to U.S. consumers and U.S. consumers of toys  
15 and games are extremely price-sensitive. If the  
16 price of a \$19.99 toy increases by 25 percent,  
17 consumers will buy fewer of them. The category  
18 of U.S. consumers that the proposed tariffs would  
19 most directly impact are low-income households  
20 with children.

21 We are also concerned that the  
22 imposition of tariffs would create safety risks

1 as the tariffs could incentivize U.S. consumers  
2 to purchase cheaper counterfeit toys that don't  
3 meet stringent safety standards, potentially  
4 causing additional harm to U.S. consumers. For  
5 all these reasons, we request the USTR exclude  
6 toys and games from the final list of products  
7 subject to tariffs.

8 We've included a list of impacted  
9 tariff lines in our written comments. Thank you  
10 very much.

11 MR. BURCH: Thank you, Mr. Frascotti.  
12 Our last panel witness for the day will be David  
13 Aquino with SharkNinja Operating LLC. Mr.  
14 Aquino, you have five minutes.

15 MR. AQUINO: Thanks very much. My  
16 name is Dave Aquino and I'm the executive vice  
17 president of global operations for SharkNinja  
18 Operating LLC, and I appreciate being able to get  
19 to testify today.

20 SharkNinja is headquartered in  
21 Needham, Massachusetts and has operations  
22 throughout the United States. We design and

1 manufacture a variety of cleaning products and  
2 systems such as mops and hand and cordless  
3 vacuums; and kitchen appliances such as blenders,  
4 food processers, coffee makers, and slow cookers;  
5 and we're at the forefront of robotic science.

6 We have grown our sales volume by more  
7 than five times over the past ten years. During  
8 that time, our U.S. employment has grown from  
9 less than 100 to approximately 650 employees.  
10 Our growth has been fueled by research and  
11 development activities undertaken here in the  
12 U.S., and many of our employees are American  
13 engineers that work in high paying product  
14 development roles. The majority of our products  
15 are produced in China and are imported under a  
16 number of subheadings of the Harmonized Tariff  
17 Schedule of the U.S.

18 While we will comment on more tariff  
19 codes in a written submission, my testimony today  
20 focuses on cleaning supplies such as mops and  
21 sweepers, and kitchen appliances such as  
22 blenders, coffee makers, coffee systems, deep



1 fryers, and pressure cookers. These products,  
2 which are essential to American's everyday  
3 domestic tasks, are classified under various  
4 subheadings in Chapter 85 of the HTSUS.

5 Imposing additional duties on the  
6 SharkNinja products classified under these  
7 subheadings would not support the objectives of  
8 the proposed Section 301 action because  
9 additional duties, one, would not be practicable  
10 or effective in eliminating China's unfair acts,  
11 policies, practices; and two, would significantly  
12 harm the individual American consumer and small  
13 and medium size businesses in the U.S.

14 First, as common household consumer  
15 products, these products are neither related to  
16 the Chinese government's efforts to  
17 misappropriate U.S. technologies and intellectual  
18 property, nor strategically important to the Made  
19 in China 2025 program or other Chinese industrial  
20 programs.

21 Moreover, the majority of SharkNinja's  
22 intellectual property is developed and designed

1 in the U.S. We protect our intellectual property  
2 in the U.S. and elsewhere through patents and  
3 we're not aware of any material misappropriation  
4 of intellectual property relating to patents on  
5 these products.

6 Second, SharkNinja is not in a  
7 position to internalize a 25 percent increase in  
8 cost of these products such that American  
9 individuals and families, small and medium size  
10 businesses will be forced to bear the brunt of  
11 these duties. The resulting price increases will  
12 be passed on to end consumers by physical and  
13 online retailers, as well as by SharkNinja in its  
14 direct sales.

15 Not only will this result in higher  
16 prices for American individuals and families, but  
17 such price increases will have a  
18 disproportionately negative impact on smaller  
19 retailers that often work with tighter margins as  
20 individual consumers may go to national retailers  
21 and distributors with market power and the  
22 ability to internalize additional duties in the

1 short-term.

2 In addition to failing to advance the  
3 objectives of this proposed Section 301 action,  
4 additional duties on these products would  
5 adversely impact SharkNinja's position as an  
6 innovative and expanding market participant in  
7 the household cleaning supply and appliance  
8 markets in the U.S.

9 SharkNinja estimates that moving its  
10 manufacturing operations outside of China would  
11 cost tens of millions of dollars and take  
12 approximately five years before the manufacturing  
13 know-how. Supply chain infrastructure and  
14 specialized skills for our products are not  
15 readily available in other countries at the  
16 capacity we require.

17 Moreover, moving SharkNinja's  
18 manufacturing operations outside of China would  
19 risk diminished quality of our products for U.S.  
20 consumers.

21 Finally, the inevitable price increase  
22 of these products likely would result in a

1 significant reduction of our sales volume in the  
2 U.S. which could curtail our future investments  
3 in research and development and intellectual  
4 property in the United States and reduce the  
5 number of American jobs we were able to create.

6 In fact, the additional tariffs would  
7 help rather than hurt SharkNinja's Chinese  
8 competitors who are not impacted by the  
9 additional duties because their sales are  
10 primarily overseas as they will be able to  
11 capitalize on SharkNinja's reduced sales and  
12 decline in innovative capabilities.

13 In summary, imposing the additional 25  
14 percent duties on SharkNinja's products will not  
15 advance the objectives of the proposed Section  
16 301 action, but it would have a  
17 disproportionately negative impact on American  
18 individuals and families and small and medium  
19 size businesses. In addition, it would likely  
20 inhibit SharkNinja's continued investments in the  
21 U.S.

22 For these reasons, we respectfully

1 request the subheadings of the HTS under which  
2 SharkNinja's products are classified be removed  
3 from the list of products subject to additional  
4 25 percent duties. Those subheadings are listed  
5 in SharkNinja's written comments. Thank you so  
6 much.

7 MR. BURCH: Thank you, Mr. Aquino.  
8 And, Mr. Chairman, this concludes all direct  
9 testimony for this panel.

10 MR. CHANG: Hi, my name is Won Chang,  
11 Department of Treasury. My -- I have a few  
12 questions for Mr. Neil Gilstrap of Happy Gorilla  
13 Game Studio. Would you know how many other crowd  
14 funding ventures are in a similar situation to  
15 your company?

16 MR. GILSTRAP: I don't offhand. That  
17 would be more of a question for crowd funding  
18 companies, like I could ask Kickstarter or  
19 Indiegogo. I can tell you that -- I wouldn't  
20 even hazard to guess. I would have no idea what  
21 their current -- I'm currently following 16.  
22 That probably doesn't help you at all, so.

1           MR. CHANG: Second question, how long  
2 of a grace period do you think you and other  
3 similarly affected ventures need?

4           MR. GILSTRAP: So, if I was to walk  
5 away today with a pass that said I get a freebie,  
6 July 20th, at least that's what I've been told.

7           The real problem, though, if we're  
8 talking about it from an angle of a Kickstarter  
9 or crowd funding, is that the time period for  
10 which a crowd funding operation can raise money  
11 is established as a campaign, the manufacturing  
12 and development cycle, and considering that the  
13 product that people are backing isn't developed  
14 yet, they are paying for something pre-  
15 development.

16           So, you have to go through an entire  
17 development cycle and very often -- just like  
18 myself, I am a tiny small business owner. This  
19 is not even my full day job. I don't know  
20 anything about manufacturing. I have to discover  
21 all that myself.

22           So, you're looking at a process that's

1 anywhere between six months to a year is the  
2 expected turnaround from the time at which you  
3 would be accruing money through a campaign to the  
4 time at which you would actually receive your  
5 product and then have it shipped to the people  
6 whom you owe that product to.

7 Like I said, for us, our campaign was  
8 in October of 2018, we expect it to be here by  
9 July 20th. So, in particular for Kickstarters, I  
10 mean, months, many months. So, that's --

11 MR. CHANG: Finally, you maintain that  
12 you are not opposed to tariffs for future  
13 projects.

14 MR. GILSTRAP: Right.

15 MR. CHANG: In that scenario, would  
16 you fold in the cost of tariffs in your crowd  
17 funding efforts or do you already have other non-  
18 Chinese suppliers that you have considered or  
19 renegotiated with Chinese counterpart suppliers?

20 MR. GILSTRAP: So, I have a couple  
21 answers then and a little funny story. So, will  
22 I be passing the cost on? Absolutely, it just

1 becomes an estimated cost. I have to deal with  
2 this now with VAT for EU costumers, right, if  
3 they are paying extra for their shipping because  
4 we have to pay VAT upon entry into their -- into  
5 the EU.

6 And I would be passing that on to  
7 American consumers and either the cost of the  
8 shipping or the entire estimate for the campaign  
9 would go up. I do this -- we have to do this for  
10 taxes now.

11 So, as far as a kickstarter is  
12 concerned, what that means is that the amount of  
13 money that I need to raise in order to be  
14 successful when a product goes up and, of course,  
15 I have work even harder to find people who would  
16 be willing to pay that amount in order to fund  
17 the product.

18 As far as our perspective, though, you  
19 know, putting in extra work, I'm the grassroots  
20 entrepreneur here so extra work doesn't scare me.  
21 What scares me is unestimated cost overruns when  
22 I don't have a bank account to pay for them.



1           The funny story about, would I be able  
2           to find other manufacturers for board games? The  
3           answer to that is, yes, there are other  
4           manufacturers, of course pricing is probably not  
5           as good as China.

6           But the funny story is, I mean -- so,  
7           when I first heard about that we were going to be  
8           subject to tariffs, I mean, it was maybe three  
9           days later I'm getting an email from a contact  
10          that I had in Taiwan who I had met at a trade  
11          show who specialized in plastic transparent cards  
12          for types of games. And the email almost  
13          literally reads, I know you know us for plastic  
14          cards but, guess what, we're making board games  
15          now.

16          And, you know, I'm sitting here saying  
17          to myself, will I be able to find another company  
18          that manufacturers board games? Sure, they  
19          exist. Are they actually just going to be from  
20          China? Probably. So, I'm not really sure, you  
21          know, if that is accomplishing the goal or not.

22                 MR. CHANG: Okay. Thank you.

1 MR. GILSTRAP: Mm-hmm.

2 MR. WINELAND: And thank you, Ms.  
3 Kogl. Just a couple of questions. You reference  
4 in your testimony your foreign competitors that  
5 are producing in China. What countries are your  
6 competitors from?

7 MS. KOGL: So our competitors are  
8 global. We are a global company. We sell  
9 throughout the world, so we've competitors that  
10 are in Japan, in Italy, in Korea, in China, as  
11 well as in the United States.

12 MR. WINELAND: And with regard to --  
13 have you considered the possibility of being able  
14 to source from outside of China and what sort of  
15 impediments might you see in doing that?

16 MS. KOGL; Sure. So thank you. You  
17 know, we are considering moving production,  
18 however the infrastructure and overall supply  
19 chain for component parts for our products are  
20 primarily in China.

21 That being said, as stated in my  
22 testimony, you know, the tariffs are creating an

1 uneven playing field. Because of our software  
2 development in the U.S., we can't change that  
3 country of origin to the U.S., because of the way  
4 the Custom's rule is written. And so therefore,  
5 if there was an even playing field, that would be  
6 one thing, but this creates an uneven playing  
7 field.

8           You know, that being said, we  
9 certainly are considering -- and we do  
10 manufacture in other countries as well. And, you  
11 know, we are considering the moving. But again,  
12 if we move and others still can, you know, make  
13 that change, there's a cost differential, you  
14 know, based on Chinese manufacture wherein they  
15 can change their country of origin with a  
16 software outside of China, whereas we can't.

17           And so, you know, the impediments, you  
18 know, really go to the competitive, you know,  
19 playing field across the globe, not so much about  
20 whether or not I can move my manufacturing. You  
21 know, that being said, we're looking, and it's  
22 something we can certainly consider doing. Like

1 others have testified earlier today, that does  
2 take some time.

3 I'm not looking like the, you know,  
4 some of the textile manufacturers talking about  
5 five years. I mean, this is something where you  
6 can substantially address, you know, in more of  
7 the 12-month kind of time range.

8 But if you move, and tariffs change,  
9 and you've taken on additional expense to  
10 manufacture in a different country that has a  
11 higher landed cost, you are now disadvantaged to  
12 those competitors didn't have the cost to move,  
13 the disruption to the supply chain, the impact to  
14 quality, the required regulatory certifications  
15 that have to happen as part of the product, and  
16 then still end up with a China manufacturing cost  
17 and a country of origin outside of China.

18 MR. WINELAND: A brief follow-up. You  
19 reference you are manufacturing in other  
20 countries. Is it -- are they the same products  
21 that you're manufacturing in China, or are they  
22 just particular, other products? In other words,

1 if you were to look at changing out of China,  
2 then would that be a matter of expanding  
3 capacity, or actually developing new production  
4 for new, for those products?

5 MS. KOGL: So for our List 4 products,  
6 they are all manufactured in China right now. We  
7 have some List 3 products that are manufactured  
8 in Mexico as well as China. We also are doing  
9 some manufacturing in Vietnam. So the List 4  
10 products right now, we would have to fully move.  
11 The other ones, you know, we are looking at  
12 expanding that capacity as well as moving full  
13 lines. Thank you.

14 MS. LOESER: Thank you all so much for  
15 your testimonies today. I'm Elisa Loeser with  
16 the Department of Agriculture and I have a few  
17 questions for Mr. Frascotti.

18 Mr. Frascotti, thank you so much for  
19 mentioning your commitment to U.S. manufacturing.  
20 You mentioned that Hasbro is a major intellectual  
21 property holder, and also that you appreciate the  
22 administration's effort to combat unfair trade

1 practices.

2 Has your company faced IP issues in  
3 China, and how have you addressed them?

4 MR. FRASCOTTI: Yeah. We, as a major  
5 intellectual property holder, we take measures to  
6 protect our intellectual property all around the  
7 world, because with brands like Transformers and  
8 Monopoly and even My Little Pony, there are  
9 people that seek to appropriate our intellectual  
10 property in many different ways, all around the  
11 world.

12 We've had longstanding relationships  
13 with our suppliers in China, and have very  
14 stringent security requirements with them, as we  
15 do in other markets that we manufacture, the  
16 U.S., Mexico, India, Vietnam.

17 And by having these longstanding  
18 relationships, and having good programs in place,  
19 we find that we do face, from time to time,  
20 intellectual property issues, but they're not  
21 necessarily concentrated in any one market. And  
22 by working in partnership with our suppliers in

1 all those markets, we're able to do a good job in  
2 protecting our intellectual property.

3 MS. LOESER: Thank you. Also, if not  
4 by tariffs, how do you think such unfair  
5 practices should be addressed? You also raise a  
6 concern that tariffs would incentivize U.S.  
7 consumers to purchase cheaper, unsafe,  
8 potentially counterfeit toys.

9 Could you please tell us what  
10 suggestions you have for addressing this concern  
11 regarding counterfeit toys?

12 MR. FRASCOTTI: Sure. So, there are  
13 mechanisms in place, and partnerships in place  
14 that we use today to address counterfeit toys.  
15 My comment about, if tariffs were imposed, that  
16 that would have an impact because consumers may  
17 choose to purchase, predominantly online, from  
18 suppliers who aren't governed by Customs, and  
19 frankly CPSC regulations.

20 So, our primary concern is safety of  
21 our products, and the safety of our consumers who  
22 purchase our products. And when it comes to our

1 products, we obviously abide by all regulations.  
2 And in fact, in many cases, we go above and  
3 beyond that.

4 By having the opportunity to purchase  
5 directly from suppliers online, outside the U.S.,  
6 there's an opportunity for consumers to  
7 circumvent that.

8 And our concern is that if tariffs  
9 drive up the price of our products, which they  
10 undoubtedly will, because we'll pass that on to  
11 our customers, and our customers will pass it on  
12 to consumers, then the result will be, there'll  
13 be an incentive, actually, for consumers to  
14 purchase less safe, cheaper, you can call them  
15 knock-off products, or imitation products.

16 I believe there are systems in place  
17 to address counterfeit products. When it comes  
18 to unfair trade practices, I think there are a  
19 lot of other vehicles available to us, other than  
20 passing on cost to our families and kids, in  
21 terms there. And I actually think, respectfully,  
22 that there's a lot of people who are more



1 knowledgeable about those strategies than me to  
2 comment on that. Thank you.

3 MS. LOESER: Thank you so much. I  
4 just, also I was very curious if you could expand  
5 upon what those systems are, are in place for  
6 identifying those counterfeit toys, potentially,  
7 and specifically, how can the consumer identify a  
8 counterfeit toy?

9 MR. FRASCOTTI: In terms of the  
10 processes that are in place today, it really  
11 comes down to controlling the chain of custody,  
12 from the time that intellectual property is  
13 developed, in many cases developed in the U.S.,  
14 because our designers and development teams are  
15 in the U.S.

16 And so as they create the intellectual  
17 property, whether the intellectual property might  
18 be a toy design, might be a television show, a  
19 comic book or really anything that brings our  
20 intellectual property to life, it's all about  
21 controlling the chain of custody, and ensuring  
22 that only appropriate individuals handle that

1 product during the chain of custody, and that  
2 those individuals are well-informed and well-  
3 educated on the appropriate security measures to  
4 take place while that intellectual property is  
5 within their control.

6 I think really, from time immemorial,  
7 there have been people who try to counterfeit  
8 products, and I think it's very difficult for the  
9 consumer to discern, other than identifying the  
10 source. And it's the reason that we put our  
11 brand name on our products, because when you see  
12 the Hasbro brand name on a product, you can rest  
13 assured that it's not a counterfeit product.

14 MS. LOESER: Thank you very much.

15 MR. FRASCOTTI: Thank you.

16 MR. FRATERMAN: Thank you, Mr.

17 Frascotti, I just have one quick follow-up as  
18 well. In your testimony, you also talked about  
19 the commitment you have to U.S. manufacturing,  
20 and that you were able to return production of  
21 certain products, like Play-Doh, back to the U.S.

22 I was wondering if you can, if

1 possible, talk about how you were able to do  
2 that. How were you able to bring production back  
3 to the U.S. and kind of what were the steps  
4 involved with that?

5 MR. FRASCOTTI: Sure. So, you know,  
6 the two main product lines that we're able to  
7 manufacture in the U.S. today are some of our  
8 board games and Play-Doh. And the reason we're  
9 able to do that has to do with really a lot of  
10 automation.

11 And they don't -- in those two cases,  
12 they don't require a lot of skilled labor in the  
13 manufacturing process. Contrary to that, when  
14 you look at things like action figures or  
15 animatronic packs that we do that require a lot  
16 of labor and require a skilled labor force, one  
17 that's well trained and where there's very high  
18 capacity, that's where it's much more difficult  
19 for us to return to the United States, those type  
20 of manufacturing.

21 So in the case of Play-Doh, and in the  
22 case of Monopoly, we've been able to do it for a

1 couple of reasons. One is it goes to a factory  
2 we've used for many, many, many years, and so in  
3 some cases that factory that makes the board  
4 games actually has been doing that for many  
5 years, and it's highly automated.

6 And it's the same factory actually  
7 we're using to do Play-Doh because of the  
8 automation process. And over time, we are  
9 committed to returning more manufacturing to the  
10 United States. It just takes time to make the  
11 economics work and to find those product lines  
12 that have high automation that allow us to do  
13 that.

14 MR. FRATERMAN: Excellent. And can  
15 you give me one more idea about -- obviously,  
16 there's automation in the factories. We  
17 understand that, but can you give us a rough  
18 estimate of how many workers you actually do have  
19 in these factories?

20 MR. FRASCOTTI: In the factories in  
21 the U.S. or in China?

22 MR. FRATERMAN: Yes, in the U.S.,

1 factories in the U.S. And if you do have the  
2 numbers for the factory in China, I'd be  
3 interested in that as well.

4 MR. FRASCOTTI: I'd say -- so we don't  
5 own any of our own factories. These are all  
6 third-party factories.

7 MR. FRATERMAN: Okay.

8 MR. FRASCOTTI: And the suppliers that  
9 we use in China, a rough estimate would be  
10 probably around 100,000 employees. But that  
11 varies tremendously because it involves a lot of  
12 seasonal fluctuations.

13 MR. FRATERMAN: Okay.

14 MR. FRASCOTTI: I don't have the  
15 number readily available to me in terms of what  
16 we're using in the U.S. because we've recently  
17 increased that. But it's certainly in the  
18 thousands.

19 MR. FRATERMAN: Okay. Thank you.

20 MR. FRASCOTTI: Thank you.

21 MS. HUANG: Thank you for your  
22 testimonies. My question is for David Aquino

1 with Shark Ninja. You estimate that moving  
2 operations outside of China will cost tens of  
3 millions of dollars and approximately five years.  
4 What are those estimates based on?

5 MR. AQUINO: Well, the manufacturers  
6 that we work with have been 15, 18 years in  
7 China. So there's an ecosystem for both PCBAs,  
8 for electronics, for plastic extrusion, for  
9 manufacturing knowhow. It's almost a cottage  
10 industry unto itself. It's not easily replaced.

11 So I think in some ways, you know,  
12 certainly the partners that we work are truly  
13 partners. They're folks that have grown with us  
14 and developed with us, and they are people that  
15 we'd want to work with going beyond, you know,  
16 China.

17 But it's not something that you can  
18 just easily, you know, turn over. The product  
19 life cycle management, the development, getting  
20 infrastructure in place, automation. It's not  
21 something that's easily done. You can do pieces.

22 You can potentially move bits, but the

1 idea of wholesale change when you have an  
2 infrastructure that's, you know, decades in the  
3 making in terms of logistics, employee knowhow,  
4 competency, compliance, it's just not something  
5 that's easily replaced. And to be honest, it's  
6 something obviously we're looking at. And, you  
7 know, if we could do it quickly, we would.

8 MS. HUANG: Have you already explored  
9 options in other countries? What is it about  
10 your products that make it hard to source from  
11 outside of China? And to the best of your  
12 knowledge, do you know if your competitors have  
13 part of their supply chain outside of China?

14 MR. AQUINO: Yeah. The -- we are  
15 looking at other countries of origin mostly  
16 though, with folks that we're working with today.  
17 So those partners are -- their infrastructure,  
18 their financing, their investment, their employee  
19 base is in China.

20 We also have our own employees and  
21 infrastructure north and south of China, so  
22 that's an important distinction. Other

1 competitors work in Malaysia. They work in the  
2 Philippines. They work in other countries, you  
3 know, but, you know, Vietnam is an alternative.  
4 But again, you know, moving heavy equipment, you  
5 know, moving lines, moving employees, moving real  
6 estate is not something that's just done, you  
7 know, easily or without any -- it's not a quick  
8 response.

9 MS. HUANG: Thank you.

10 MR. AQUINO: Sure. Thank you.

11 MR. BURCH: Mr. Chairman, we release  
12 this panel with our thanks, and we are recessed  
13 until tomorrow, 9:30 a.m.

14 (Whereupon, the above-entitled matter  
15 went off the record at 5:12 p.m.)

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## A

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In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-24-19

Place: Washington, DC

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Court Reporter

**NEAL R. GROSS**

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