UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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TUESDAY
JUNE 25, 2019

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

PRESENT

ARTHUR TSAO, Chair, U.S. Trade Representative
JULIE ADAMS, Department of State
SALIM BHABHRAWALA, Department of Commerce
CHRISTOPHER BLAHA, Department of Commerce
SARAH BONNER, Small Business Administration
ERIN COVERT, Department of Agriculture
BON FLEMING, Department of State
MATTHEW FRATERMAN, Department of Labor
JEAN JANICKE, Department of Commerce
BILL JACKSON, U.S. Trade Representative
LINDA MARTINICH, Department of Commerce
NICOLE PODESTA, Department of Agriculture
CHARLIE RAST, Department of Commerce
BONNIE RESNICK, Department of the Treasury
TRACY ROY, Customs and Border Protection
MATTHEW SULLIVAN, Department of the Treasury

ROBERT TUEBNER, Department of Agriculture

CRISTINA VON SPIEGELFELD, Small Business Administration
TIM WINELAND, U.S. Trade Representative
SHELLY ZHAO, U.S. Trade Representative

ALSO PRESENT

TYRELL BURCH, International Trade Commission

WITNESSES PRESENT

DAVID ALPERN, Ralsey Group Limited
SCOTT DARSOW, Life Fitness
MICHAEL ESCH, Church and Dwight Co. Inc.
RYAN EZELL, Halliburton Company
STEVEN FLUDDER, NEC Energy Solutions
DAVID FRANCO, Franco Manufacturing Co.
MICHELLE GANON, Port of New Orleans
BLAKE HANSON, Industrial Oil Products
DAVID HENRICK, Newpark Drilling Fluids LLC
NATE HERMAN, Travel Goods Association
JERRY HUANG, VIZIO Inc.
ALLEN IBARA, Soulbrain MI Inc.
REILLY KIMMERLING, Carrier
JOSEE LAROCQUE, Burton Corporation
JOHN LEGGATT, Life Jacket Association
JENNIFER LIU, Sony Interactive Entertainment
ROHAN MEHRA, Skydio
KEVIN MICHAEL, Water Sports Industry Association
WADE MIQUELON, Jo-Ann Stores
ANDY MISSAN, Fitbit Inc.
JOHN NEWCASTER, AES Drilling Fluids LLC
BRYAN O'ROURKE, Core Health & Fitness
AARON PADILLA, American Petroleum Institute
JEFF PINKOW, Centric Brands
BRETT PORTARO, Powercharge
BURT PRINS, Water Pik Inc.
LANA RASCIONATO, Ideavillage Product Corporation

PAUL ROTSTEIN, Gold Medal International

WYLIE ROYCE, Royce Associates, ALP

BILL SELLS, Sports and Fitness Industry Association

MIKE SHAFFER, PVH Corp.

CHRISTOPHER STEINKAMP, Snowsports Industries America

RUSTY THARP, Goodman Manufacturing Company

GARY WAKLEY, FILA U.S.A.

JEFF WILLIAMS, Tennis Industry Association

WANG YU, China Chamber of Commerce for Import and Export of Textiles

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

(9:28 a.m.)

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

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

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

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

The Section 301 Committee will carefully consider the testimony and the written comments, including post-hearing rebuttals, and will then make a recommendation to the U.S. Trade Representative.

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

The hearing is scheduled for seven business days, concluding today, Tuesday, June 25th. Today is Day 7 of the hearing. We have scheduled 55 panels of witnesses with over 300 individuals scheduled to testify.

The provisional schedule has been posted on the USTR Web site. We have seven panels of witnesses testifying today. We will have a brief break between each panel and a 50-minute break for lunch.

Each witness appearing at the hearing

is limited to five minutes of prepared testimony. The light before you will be green when you -- the light here, will be green when you start your testimony, yellow means you have one minute left, and red means that your time has expired.

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

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

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

Given the number of witnesses and the

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

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

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

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

MR. FRATERMAN: Matthew Fraterman, Department of Labor.

MR. BLAHA: Chris Blaha, International Trade Administration at the U.S. Department of Commerce.

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

MS. ADAMS: Julie Adams from the State Department's Bilateral Trade Office.

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

MS. ZHAO: Shelly Zhao, USTR China Office.

MS. COVERT: Erin Covert, Department of Agriculture, Foreign Agricultural Service.

MR. BURCH: Mr. Chairman, I'd like to make a note, to all the witnesses on the panel, can you please speak clearly into the microphone, and if you have to, pull the microphone up to you for the benefit of the court reporter and the members in the audience.

Our first panel witness for this panel will be Blake Hanson with Industrial Oil Products. Mr. Hanson, you have five minutes. Will you please turn on your microphone?

MR. HANSON: Good morning. My

company, Industrial Oil Products, is an internationally recognized specialist in tung oil, a non-edible vegetable oil used in a variety of inks, resins, varnishes, coatings, and other industrial products.

While there are other nut oils imported under HTS 1515.90.21, Chinese tung oil represents some 98 to 100 percent of the nut oils imported from China under HTS 1515.90.21.

Thus, the proposed tariff on HTS 1515.90.21 affects, perhaps exclusively, Chinese tung oil. Chinese tung oil has been imported from China into the U.S. for over 140 years.

And I'll read from -- in 1921, the United States Tariff Commission, published a tariff information survey on tung oil. Under the heading tariff history and considerations, the USTC wrote, "The Tariff Acts of 1890 to 1909, inclusive, contained on the free list, a provision for nut oil, or oil of nuts. In the Act of 1913, this provision was changed to read, 'Chinese nut oil, nut oil, or oil of nuts', but it was still left free of duty."

"Chinese tung oil is not produced commercially in the United States", this is back in 1921, "and the imported oil is not competitive with the oils produced in this country. It is used in the manufacture of particular kinds of varnishes, because of superior properties which it possesses, over linseed oil for the same purpose."

"There is, therefore, no special tariff problem connected with Chinese tung oil." And they go on to say that, "The United States has consistently been the best customer of China for Chinese nut oil and has taken between 50 percent and 78 percent of the total export of this commodity from China."

So there's a long history of tung oil coming to the United States, a long, friendly history, and it's been a duty-free history of Chinese tung oil in the United States.

Chinese tung oil, the consumption of tung oil has declined over the years in the world, but it remains a critical ingredient in the production of many U.S.-manufactured specialty products. And I'm back to my text here.

I focus on Chinese tung oil at my request that USTR remove HTSUS subheading 1515.90.21 from the list of products to which the additional Section 301 tariff would apply.

In addition to being President of Industrial Oil Products, I'm also President of American Tung Oil Corporation and the past President of the American Tung Growers Association from 1990 to 2005, ATOC produced tung oil in the United States. We had our own domestic production.

ATOC was the only U.S. commercial producer of tung oil in the United States between 1973 and the present date.

There is no current commercial production of tung oil in the United States. China produces over 90 percent of the world's tung oil. Paraguay is the only other exporter of tung oil to the United States, but Paraguay has a very small declining production, which is not sufficient to meet the demand of American manufacturers and consumers.

In addition, Chinese tung oil has slightly different chemical characteristics, the desirability of which mean many manufacturers specifically specify Chinese tung oil in their formulas.

Chinese tung oil cannot be replaced. Due to declining production of tung oil in both China and Paraguay, the price of tung oil has doubled in the last two years and has increased five-fold in the last 20 years.

A 25 percent duty will cause much damage to American importers and manufacturers as tung oil and tung oil containing products would cease to be competitive.

This would put a number of small and medium-sized businesses that specialize in tung oil products in financial danger.

On behalf of my company, IOP, other

American importers, my competitors, of Chinese tung oil, and our American customers who purchase and manufacture products with Chinese tung oil, I testify that placing a 25 percent duty on a century's old vegetable oil pressed from seeds, harvested by hand in the mountains of Southwest China, will have little to no impact on China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

And, B, placing a 25 percent duty on Chinese tung oil will absolutely hurt importers and manufacturers, small, medium-sized, and multinational alike, as well as the American consumers who buy tung oil and tung oil containing products.

Chinese tung oil is duty-free worldwide. Other countries impose no duty on tung oil, so the competitiveness of American companies would be severely hurt in international markets by a tariff on Chinese tung oil imports to the United States.

Tung oil has an important value to manufacturers because it has a unique fatty acid chemistry which makes it an exceptional raw material for the formulation of high-performance resins, inks, and coatings.

Since being discovered by American manufacturers in the late-1800s, Chinese tung oil has been imported into the United States duty free. Tung oil had its own tariff code for many years --

CHAIR TSAO: Can you wrap it up?

MR. HANSON: Yes.

CHAIR TSAO: Thank you.

MR. HANSON: So in closing, tung oil cannot be sourced from the U.S. and is not available in necessary quantities from the limited number of non-China sources. The imposition of additional tariffs will cause economic harm to Americans.

Chinese tung oil is not related to the Made in China 2025 or other Chinese industrial programs. For these and other reasons, my company respectfully requests that USTR remove 1515.90.21 from the list of products to which the additional Section 301 tariff would apply. Thank you.

MR. BURCH: Thank you, Mr. Hanson. Our next panel witness will be David Henrick with Excalibar and Newpark Drilling Fluids, LLC. Mr. Henrick, you have five minutes.

MR. HENRICK: Good morning, ladies and gentlemen. Am I on? My name is David Henrick and I'm here to speak in my capacity as President of Excalibar Minerals and Excalibar's affiliate, Newpark Drilling Fluids, LLC.

I respectfully urge you to remove the mineral barite in its grounded and unground forms, HTS subheadings 2511.10.10 and 2511.10.50, from the proposed tariff list of products subject to Tranche 4 tariffs against China.

First and foremost, barite, also spelled baryte with a Y instead of an I, has been designated as a critical mineral by the DOI. USTR's May 17, 2019 notice, which set today's hearing, expressly states that, "The proposed product list excludes pharmaceuticals, certain pharmaceutical inputs, selected medical goods, rare earth materials, and critical minerals."

As a result, barite should be excluded from the list of Tranche 4 tariffs because, A, USTR intended to exclude critical minerals, and B, DOI designated barite as a critical mineral.

In addition to the same market conditions that exist that warranted USTR's removal of barite form the list of Tranche 3 tariffs, that is, one, barite is indispensable for safe energy production, and two, there's no alternative supply to Chinese barite sufficient to meet American demand.

Under these conditions, a tariff will not affect domestic demand and will not deter unfair trade practices. Instead, a tariff on barite could slow America's record-breaking oil boom and increase the cost for U.S. producers and consumers.

American oil and gas producers must

have barite-enriched drilling fluids to produce oil. The tariff on this vital safety component to oil and gas exploration and production will not be effective to obtain the elimination of China's acts, policies, and practices, and imposing duties on barite would cause a disproportionate economic harm to the U.S. oil and gas industry, ultimately hurting the U.S. consumer.

This is primarily because American energy producers will have no choice but continue to purchase the Chinese barite, even with increased cost from tariffs due to the lack of domestic production and adequate alternate foreign sources.

Barite is a naturally-occurring mineral, more than four times heavier than water. Along with other drilling fluids companies, Newpark sources high-quality barite ore and processes it at grinding facilities in four locations in the U.S. for use in oil and gas drilling fluid production and applications.

Drilling fluids provide a number of vital safety functions for the process of oil and gas exploration and production, including lubricating and cooling the drill bit, maintaining well bore integrity, and carrying solid particulates to the surface.

In addition, and importantly in this context, the drilling fluid must have sufficient weight to prevent the loss of control of a well during drilling, an event that can lead to a blowout.

Barite is the first line of defense. The blowout preventer, or BOP, is the last. All drilling fluids contain barite because of its unique combination of qualities that make it the perfect weighting agent.

One, it has a high specific gravity, or weight, two, it is chemically inactive, blending readily with other products, and three, helps dissipate high temperatures, which is vitally important in drilling a well.

Energy producers throughout the world

use barite for this purpose and the U.S. Department of Interior has classified it as a critical mineral.

There's simply no suitable alternative or substitute for barite in the drilling process. China is the largest source of barite that meets the American Petroleum Institute's required specifications for barite use in domestic drilling fluids.

Even with the higher prices that would come with the proposed tariffs, it will not be effective in reducing the volume of barite purchased from China because there's not a sufficient supply of quality ore available from other countries to meet the demand of U.S. oil and gas operators.

The two countries outside of China that have the best, the most known barite reserves, are Morocco and India. Everyone else, including the U.S. and Mexico, has far fewer reserves.

In fact, all non-Chinese sources

combined are not comparable to either the quality of quantity of China's reserves. In 2018, China accounted for 32 percent of the global mine production, compared to India's 24 percent, Morocco's 11 percent, U.S. 4.6 percent, and Mexico's 4 percent.

Ore from India is committed to other parts of the world, such as the Middle East, and thus, unavailable to American energy producers. Ore from Morocco can have quality issues and limited on-time -- onsite testing available to confirm quality before shipment.

Mexico has similar quality issues in addition to added logistical cost of unreliable rail transportation to get the ore to the grinding facilities in the U.S.

Even if we could add the available barite from countries outside of China that meets the U.S. safety standards, it would not be enough to meet the needs of the U.S. energy producers.

For reasons my colleague John Newcaster will address next, domestic mining of barite is infeasible at this time due to limited reserves and prohibitive environmental regulations.

MR. BURCH: Thank you, Mr. Henrick. Our next panel witness will be John Newcaster with AES Drilling Fluids, LLC. Mr. Newcaster, you have five minutes.

MR. NEWCASTER: Thank you and good morning, ladies and gentlemen. It's a pleasure to be here. My name's John Newcaster and I am representing AES Drilling Fluids to respectfully, like David, urge you to remove the mineral barite in its ground and unground forms from the Section 301 tariff list.

Between 1995 and 2016, I was sequentially the oilfield services supply chain executive in charge of two of the U.S.'s three remaining barite operations, which gives me a little bit of a unique perspective on what we have in this country.

I'm here to discuss exactly why domestic U.S. barite production is insufficient to meet the needs of American energy producers and underscore that there is no sufficient international sources to replace the imports of Chinese barite in sufficient volumes to meet American demand.

U.S. barite reached its peak production in 1980, but reserves have been mostly depleted over the last 40 years of drilling activity. The remaining deposits are all in Nevada and they are the last of the viable sources.

Even at the current domestic production levels, which are much lower than historical highs, the depletion of Nevada barite is accelerating. Some details on that.

If you go back to 1980, approximately 24 companies participated in the barite mining industry and they were operating at least 23 separate mines and achieving a very high volume of 2-1/2 million metric tons a year in 1980.

Now, there are only three active barite mining operations in the U.S., they're all in Nevada, and they're strained to produce anything greater than 500,000 metric tons a year.

Most of the mines in Nevada, all of the ones in Georgia, Arkansas, and Missouri have closed due to, one, exhaustion of reserves, two, reduction in ore quality, three, the high operating costs of environmental compliance, which is important, and difficulty of mining.

It's much harder to get the remaining deposits out than it used to be to get the easy ones. These challenges really make it impossible for the U.S. industry to bring remaining proven and probable reserves on stream quickly enough to answer a shortage.

So how much is left? My personal, but educated, estimate of all the proven and probable reserves in Nevada, even at higher prices, is 20 years maximum at very low production levels, and under 5 years if they were pushed to the maximum to replace a serious import disruption.

Bear in mind, Nevada producers, had they not made a total shift to lower-grade land barite grade quality, in 2007, the viable reserves would, by now, be completely exhausted.

And a footnote to reinforce David, Nevada can no longer produce the offshore grade, the heavier density, making us, again, dependent on the Chinese, mostly the Chinese imports.

Although the U.S. cannot produce adequate barite, it's still the largest consumer of barite; still. Example, American energy consumes 1/3 of the world's total barite production every typical year going back a decade or more, which is about 2-1/2 to 3 million tons annually.

But the U.S. has only produced an average of 523,000 tons per year in the last six years, forcing American energy producers to import 2-1/2 million tons of barite per year from somewhere, and most of it's from China; the majority from China.

According to the U.S. Geological Survey, U.S. reliance on imported barite has averaged 82 percent over the last six years, with

China being the major source every single year.

As you know, energy independence is a vital goal of this administration and this country. In 2017, the president expressly ordered regulatory bodies to review all laws and regulations which burden the development of domestically provided energy.

This barite tariff fits squarely within that executive order. The application of a 25 percent tariff on Chinese barite imports at a time of rising rig count will accelerate the already fragile and risky barite supply for which the U.S. oil and gas industry has no near-term or long-term answer.

So in conclusion, due to the unavailability of domestic and international sources, U.S. energy companies have no alternative but to source a large portion of their barite from China, and as a result, the tariff will cause higher costs for U.S. energy companies and consumers, and potentially slow America's current record-breaking oil boom, and these effects are contrary to our national goals.

I want to thank you for listening to me today and I'm eager to answer any questions that the panel might have. Thank you.

MR. BURCH: Thank you, Mr. Newcaster. Our next panel witness will be Aaron Padilla with API. Mr. Padilla, you have five minutes.

MR. PADILLA: Thank you. Members of the Section 301 Committee, thank you for the opportunity to speak with you today. I am Dr. Aaron Padilla, Senior Advisory for International Policy at the American Petroleum Institute.

API is the only trade association representing all facets of the oil and natural gas industry. Section 301 tariffs already levied on more than 100 products are hurting the natural gas and oil industry, and U.S. energy interests are harmed by Section 301 tariffs because of retaliation from China against U.S. energy exports.

In the nine months from October 2017 to June 2018, before the U.S. first imposed

Section 301 tariffs on imports from China in July 2018, China received 22 percent of total U.S. crude oil exports and 4 percent of total U.S. refined products exports.

In the nine subsequent months, from July 2018 to March 2019, China received 3 percent, down from 22 percent, of total U.S. crude oil exports, and 2 percent, down from 4 percent, of total U.S. refined products exports.

Expanding Section 301 tariffs would increase the harm to the U.S. natural gas and oil industry and consequently, the U.S. economy, energy security and energy consumers, as it would not be possible to relocate quickly, the sourcing of the following products and still meet the industry's exacting product reliability specifications and standards.

First, natural barium sulfate, or barytes, or barite, a dense mineral commonly used in our industry as a weighting agent for all types of drilling fluids.

My fellow witnesses from API member

companies are sharing more details on barite with you, which are also in the API supplemental submission, which is attached to my testimony.

And secondly, in addition to barite, we request that parts of hand-operated and check appliances for pipes, boiler shells, tanks, vats, or the like, of iron or steel, HTS Code 8481.90.30, also be excluded.

These industrial components are used in the U.S. manufacturing of oilfield surface and subsea production equipment. Trade in barite and in hand-operated and check appliances are not examples of the Chinese Government's technology transfer and intellectual property policies found to be problematic by USTR.

I'd like to return to the bigger picture of U.S.-China energy trade. Since lower 48 exports began in February 2016, China is currently the fourth largest imported of U.S. liquefied natural gas, or LNG, dropping from 3rd, since mid-2018, at the outset of the U.S.-China trade dispute.

China has levied 25 percent retaliatory tariffs on U.S. LNG and has alternative supply options to meet its rising LNG demand, including Russia, Australia, Qatar, Malaysia, and others.

China's expected retaliation against U.S. crude oil, refined products, and LNG would disadvantage U.S. exports and could cascade into U.S. domestic production.

U.S. market share in China for LNG and other petroleum products may be difficult to restore with China turning to alternative suppliers.

The U.S. has departed from a path of free trade, tied to the rules of the multilateral system, to one of increasing protectionism and managed trade where every aspect of the U.S. trade and investment relationship is up for negotiation on a bilateral basis.

As an alternative, we strongly believe ongoing U.S. efforts to address China's discriminatory and market-distorting practices should include the following.

One, resolve quickly, the current U.S.-China trade dispute, achieving what is possible within these negotiations to address China's unfair practices, and lifting all Section 301 tariffs so that we can return to the marketplace match where abundant U.S. supply of natural gas and oil flows as exports to meets China's rising demand.

Number two, work with U.S. trade partners that are allied with U.S. interests, vis-a-vis, China, to achieve additional solutions through multilateral negotiations and within the WTO and rules-based global system.

And number three, reach an agreement as soon as possible to end all Section 232 import restrictions, both tariffs and quotas, on steel and aluminum, based on other countries' willingness to work with the U.S. in concert with us to address China's discriminatory practices, such as the U.S. has now agreed with Canada and Mexico.

I'd like to thank you again for this opportunity to provide this testimony today on behalf of API members companies and I look forward to answering any questions you may have. Thank you.

MR. BURCH: Thank you, Mr. Padilla. Our last panel witness will be Ryan Ezell with the Halliburton Company. Mr. Ezell, you have five minutes.

MR. EZELL: Good morning. My name is Dr. Ryan Ezell and I'm the Baroid Global Vice President at Halliburton, one of the world's largest oil and gas service companies, headquartered in Eastern Texas.

We appreciate the opportunity to testify today. Haliburton supports the administration's efforts to address the serious issues raised in Section 301 determination and to ensure the continuing competitiveness of U.S. companies.

We request, however, that these efforts take into account, national security considerations. One of the pillars of the current U.S. national security strategy, as reflected in the paper the White House published in December of 2017, is to promote American prosperity by embracing energy dominance.

The priority actions for accomplishing this objective include limiting burdens that encumber energy production and constrain economic growth, while encouraging maximum technological efficiency of fossil fuel exploitation to promote exports of our energy resources.

Simply put, the products imported by Halliburton directly serve this pillar of U.S. national security strategy.

The U.S. oil and gas energy relies on imported natural barium sulfate, also known as barite, in its drilling and exploration activities. Barite is classified in subheadings 2511.10.10 and 2511.10.50, which are listed on the proposed list of subheadings that may be subject to an additional duty of up to 25 percent.

We respectfully request that these subheadings be excluded from the final List 4. As described below, imposing additional duties on natural barium sulfate will actually strengthen China's barite industry and will compromise U.S. national security by undermining domestic oil and natural gas production.

Barite's chemical properties make it uniquely suited for use as a weighting agent in drilling fluids for oil and gas exploration. The American Petroleum Institute has established specifications for the use of barite in drilling.

Barite is ideal for this application because it is non-toxic, chemically and physically unreactive, non-metallic, and has low abrasiveness. Alternative materials for weighting agent applications are cost-prohibitive, and typically metallic in nature, which decreases drilling productivity.

As a result, barite is by far the best option for U.S. oil and gas industry from a technical and cost standpoints. 75 percent of global barite is used for oil and gas exploration.

Findings issued by the U.S. Government agencies underscore the importance of barite. For example, the Department of Interior has determined that barite is a critical mineral. Critical minerals are those which, one, are not produced domestically in sufficient quantities to meet domestic consumption requirements, and two, are indispensable to a modern society for the purposes of national security, technology, infrastructure, and energy production.

In a recent report, the Department of Commerce indicated that maintaining access to imports of critical minerals is vital for U.S. economy security and national defense. Assuming an additional duty on barite stands to reduce access to a critical mineral that the U.S. Government has deemed vital for U.S. national security and run contrary to the administration's goals.

China will not suffer the consequences

as a result of the proposed duties on barite because China has the largest amount of barite reserves in the world, a majority of which is exported.

At the proposed 25 percent duty rate, it will be economically infeasible to import barite from China. Because U.S. barite mines are substantially depleted, U.S. oil and gas industry will be driven to import barite from other countries.

The influx in demand of barite from countries which have limited supply would drive the price of barite higher globally. As a result, barite miners in China will benefit by selling to alternative markets at a significantly higher price, which will increase their profitability.

The cost associated with securing new sources of supply and the increased price of product will inhibit oil and gas exploration and production in the United States.

Additionally, Halliburton has owned

and operated barite mines in the United States for several decades. Based on our projections, it would take a duty increase of over 150 percent on all imported barite, regardless of country origin, to render American barite deposits competitive for a majority of drilling and exploration activity in the United States.

In short, imposing an additional 25 percent duty on barite will harm the U.S. oil and gas industry, inhibit our ability to achieve energy independence, and benefit the Chinese mining industry.

For reasons stated above, we urge to align the Section 301 remedy with U.S. national security interests by not imposing an additional duty on articles that facilitate U.S. energy independence, specifically, we respectfully request that subheadings 2511.10.10 and 2511.10.50 covering natural barium sulfate, be removed from List 4.

We appreciate your consideration and I'm available to answer any questions.

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

MS. ZHAO: This question is for Mr. Hanson. You testified that tung oil is of critical importance to the U.S. market. Are there any substitutes for tung oil in the various industries you mentioned?

MR. HANSON: Tung oil goes into a variety of products, so it's really -- it depends on the specific product. Every manufacturer has a formula, a product out there with a formula that has tung oil in it, so it depends on the particular product.

So tung oil is embedded in many different products, so --

MS. ZHAO: Perhaps if you could help us -- give an example of a few products and what the closest substitute might be?

MR. HANSON: Tung oil is used in brake pads for oil and gas drilling rigs, for example, so specialized brake pads, and it's used in currency inks. There's tung oil in the dollar bill, so the properties of tung oil make it important for the performance of a currency ink.

And so the substitution with another product involves a reformulation, which is a complicated process.

MS. ZHAO: Thank you.

MR. HANSON: Thank you.

MS. COVERT: Good morning. This question is for David Henrick. You mentioned that sources in Morocco and Mexico lack the level of testing that you would need to confirm quality. Could you enter into a relationship with these sources that provides for a higher quality and is there a possibility that increased sales would lead sources in the areas outside of China to meet your quality needs?

MR. HENRICK: It would be difficult. The reserves in Mexico are of lower quality barite. And when I talk about quality, I'm talking specific gravity. Where the Chinese barite is 4.2, very heavy, a lot of the Mexican ore, or from Mexico, maybe 3.6, 3.8, 3.9, much lower, and can routinely cause safety issues.

So again, that's why it is so important to do the onsite testing and know what you're getting. Most of what's coming over, being imported into the U.S., is a finished ground product, which, there's limited testing available by the time it goes into the rig.

What we do, we source the crude ore, we have time to check it, we blend it, we have time to check the finished product before it's taken to the rig.

And so we certify it under API that it does meet the criteria that we need.

MS. COVERT: How long might it take for sources to build up better testing capacity?

MR. HENRICK: I have no idea. We've been working on it for years, but Morocco is coming online. It's increasing. There are some supplies there, I was recently in Morocco looking at some mining operations, but -- and Morocco has increased, but again, there's limitations there as well.

There's heavy metals, things like that that can happen, mercury, cadmium, lead, arsenic, things that you don't want in your barium sulfate, are there in a lot of these mines.

So it's the other things, other than barium sulfate, that you have to watch for that can be environmental issues.

MS. COVERT: Thank you.

MR. HENRICK: Okay.

MR. FRATERMAN: Thank you, Mr. Henrick, for your testimony, I just wanted to follow-up real quickly with you. You were talking about the four locations in the U.S. for the grinding facilities. All four of those locations are located in Nevada, correct?

MR. HENRICK: No, no, no, our -- I think the locations are referring to Nevada are the mines.

MR. FRATERMAN: Okay. So --

MR. HENRICK: So there's mines and grinding facilities in Nevada.

MR. FRATERMAN: Okay.

MR. HENRICK: That's the only domestic mining there is, is Nevada, for the ore.

MR. FRATERMAN: Okay.

MR. HENRICK: There's processing facilities throughout the Gulf Coast and the U.S. Most of it use imported ore.

MR. FRATERMAN: Okay.

MR. HENRICK: Okay?

MR. FRATERMAN: Just to kind of have a rough estimate, how many jobs are there in the mining facilities and also the grinding facilities, would you estimate?

MR. HENRICK: Well, there's, I think, the accurate count currently is about 450 in all the mining operations in the U.S. It doesn't take a lot of people to mine.

MR. FRATERMAN: Yes.

MR. HENRICK: It's not that labor-intensive, a lot of heavy equipment, a lot of moving of earth materials. Most of the jobs are in the production end, the drilling, the trucking, the processing, so there's tens of thousands of jobs produced there.

MR. FRATERMAN: Okay. Now, in regards to these tariffs, how would those jobs be affected? Because I know you had mentioned that with U.S. capacity, it maybe has five years.

MR. HENRICK: Well, what happens if you increase the tariffs is, naturally, the cost is going to go up considerably, and it's going to make us less competitive with foreign markets, which is going to lower the drilling activity in the U.S. and stop the growth that we've seen.

MR. FRATERMAN: Okay.

MR. HENRICK: Okay?

MR. FRATERMAN: Thank you very much.

MR. HENRICK: All right. Thank you.

MR. BLAHA: Thank you. I'd also, I think, like to, I guess, follow-up, make sure I'm clear, Mr. Henrick, and also, Mr. Newcaster, if you have an answer as well, do I understand correctly that the Chinese ore is simply more pure versus, say, the Moroccan ore, which has the additional heavy metals, and therefore, is cheaper --

MR. HENRICK: Yes, it is more pure. China has the purest ore reserves in the world. The specific gravity goes up as high as 4.5. A lot of the barite that comes in is also used in automotive, paints, plastic, rubber industry, automotive brakes, things of that nature.

So typically what's sourced from China is from 4.5 to 4.2 ore, and keep in mind, all offshore drilling, typically, uses the heavier grade, for safety concerns, right?

So we have to have it. Right now, we do import some 4.2 and we'll blend it with lesser ores to, maybe, 4.1. That still meets the specifications of API for land grade, but we still need that as a base source.

So like I said, it's 32 percent of the global production.

MR. BLAHA: Okay. Thank you. And then I guess, Mr. Newcaster, I think you had referenced that the United States was the largest consumer of barite, I think you mentioned, like 1/3.

MR. NEWCASTER: Correct.

MR. BLAHA: And so I guess, given the U.S.'s significant position in terms of global demand, what's the flexibility of major U.S. importers or purchasers to actually, say, negotiate, pass the tariffs back to the Chinese producers and negotiate lower prices should the tariffs come into effect?

MR. NEWCASTER: Yes, let me think about that. The tradition, I think we have a pretty good grip on the cost of the Chinese producers, there's nothing like 25 percent in their profit margin. I just don't think there is very much room to absorb anything.

I'd have to say that's impossible.

MR. HENRICK: And I would agree with that as well.

MR. BLAHA: And I guess, again, I think for you both, just to be clear, we're talking about some short versus long-term thing, but in your testimonies, is there any long-term alternative to barite or is it essentially just --

MR. NEWCASTER: That's a great question. That's been explored many times. There are heavy-weighting materials like hematite, and ilmenite, and some other that I think API and Halliburton alleged -- or alluded to that as well, but they are metallic. They're abrasive, they have health and safety side effects, and they've really been discontinued.

There used to be some significant hematite used, but it's not used at all anymore. Barite is the only viable, large quantity, environmentally-friendly material there is for weighting drilling.

MR. BLAHA: Okay. Thank you.

MS. ROY: Good morning. This question is for Mr. Padilla. Okay. Mr. Padilla, how long will it take for domestic suppliers to build up enough resources to satisfy almost all of domestic need?

MR. PADILLA: Ma'am, which product are you referring to?

MS. ROY: I'm referring to the, yes, sorry, the one that we -- the barite.

MR. PADILLA: I can answer generally and then my colleagues to my left may be able to answer it more specifically. I think I heard them mention that there's not an amount of time that would make that possible, given the differences in the quality of the barite that's available domestically and then the sheer volumes that are available geologically.

It's not a matter of time, it's just not possible to source, domestically, the volumes of barite at the quality specifications that our industry requires.

MS. ROY: Okay. You said that --

MR. NEWCASTER: Thanks, let me follow-up on that. I concur on that. The reserves in the ground, the deposits in the ground, which are pretty well mapped and known, have been severely depleted over the last 40 years of use.

So time won't create it again. It's been mined out in almost all its forms. There are small pockets and deposits left in Nevada. Some of them are just unmineable actually.

MS. ROY: I have another question for Mr. Padilla. When you say U.S. barite is of lower quality, what will it require for U.S. barite to meet the necessary quality, what reserves we have left?

MR. PADILLA: Again, ma'am, it's not possible. In the supplemental submission in the second paragraph, we mention a few reasons why the quality of barite from China is one that is uniquely sufficient globally to meet the safety and production specification standards that are industry requires.

My colleagues have mentioned several of those, but I'll just point you to a few that we mention in that second paragraph of our supplemental submission.

It's a density that makes it unique for the safety standards that our industry has to ensure safety of the drill bore when we're undertaking drilling for production of natural gas and oil.

And then the softness of the mineral also allows it to minimize the wear and tear on the drill bit, so that's another safety specification that make the quality of barite from China uniquely sufficient.

And then it's also chemically inert as compared to other potential alternatives, and that means that there is no risk of an unanticipated or harmful chemical reaction while the drilling takes place.

So again, these are all qualities of barite from China that are simply not found in the United States, either of similar product specifications or of the sufficient volumes that our industry requires to meet all of the advantages that we're able to get from sourcing it from Chinese sources.

MS. ROY: Thank you.

MS. ADAMS: Good morning. Thank you

for all your testimony. This question, I think, is for Mr. Ezell at Halliburton. You did answer the question regarding other countries sourcing barite, if it wasn't you, I believe it was another one of the witnesses, Morocco, I believe someone mentioned India as well, if I'm not mistaken, but that was mainly for other markets?

I'm not sure if there have been any effort to price out or to determine whether or not getting supplies from India was a possibility for you?

MR. EZELL: Yes, so from our aspect and as my colleagues have mentioned prior, is that, you know, we have a pretty good hold on the majority of global mine, ore quality, et cetera, in a multitude of countries globally right now.

And even if you take the ore that's available in Morocco, even Turkey, we looked into India, Mexico, none of those, even combined, can matchup to what either one, the amount or the quality that we get from China.

And even if we were to try to shift

and bring every other ore into support what it would take to support just the U.S. alone, it would cause a significant, you know, price increase globally, which would drastically impact the oil and gas business, not only in the United States, but also globally.

So, you know, we do have a hold and have negotiated around the viability, not only the mining price, but also, the availability from the other ore, and, you know, again, what we see in China is just something we don't find anywhere else in the world; that quality and that amount.

MS. ADAMS: Even without the tariffs, how long would you estimate the global -- the current global supply of barite would last, given a huge increase in U.S. production? I mean, do you see an endpoint?

MR. EZELL: So from our aspect, I could comment on where we see it from the Halliburton, but U.S. standpoint, you know, even if -- it would take us -- even on our mining alone, would take us up to three years to get our facilities running, and we couldn't support more than four to five years in the U.S.

From the global aspect, I -- Mr. Newcaster may know, I don't have an exact number on that to be honest with you.

MR. NEWCASTER: I'll take a shot at it. One thing that actually is -- there is -- you alluded to India, which is kind of our second-biggest import partner already, a lot of -- but there's a million tons a year demand in Saudi Arabia, that that's the first choice.

You understand, this is very logistics intensive and they're that close together and we're this far, so that goes there first, and we kind of get what's left over from India, but it's a great question and it's a big concern about global supply in the long term.

If you look at 10 or 15 years, China is consuming a lot more internally. India is -- they are, actually, and there's competition for that. India has a huge source, but it's diverting -- you know, trying to divert that to the U.S. from India would -- everything's possible, but it's going to cause a huge price increase; or cost increase.

So it is a concern to the industry that global supply of barite is depleting. It's all depleting. And even more reason to not put a final run on what's left in the U.S., hence the critical -- we're addressing this, I think, as an industry in the critical and strategic in helping the departments in Washington, supporting them in the critical and strategic, it's the heart of the critical and strategic mineral argument.

What we have left in the U.S., which isn't much, we're going to try to preserve that as long as we can. I hope that answers.

MS. ADAMS: Yes. Thank you.

CHAIR TSAO: I do have a follow-up question for barite; witnesses testifying about barite. What's the percentage of the cost of barite to the total percentage of the cost of a drilling fluid? Ballpark figure.

MR. NEWCASTER: 20 percent?

CHAIR TSAO: And I guess for those of us who are not in the oil and gas industry, Mr. Henrick or Mr. Newcaster, do you mind explaining, how does it actually work with respect to barite? I mean, do you ship the grounded form to the site, you insert it into a fluid, how does that process work?

MR. HENRICK: Yes, the barite is shipped via bags or bulk material to the rig site, and from there, it's blend with other chemicals to make a fluid, and then it's pumped down the hole as it's drilling, and it carries the cuttings back up to the surface.

And it has to have a certain density to move the cuttings back out of the well and to maintain the pressure in the well so there's not a blowout, so it's very heavy, and it stabilizes the well and the well bore as they're drilling.

MR. BLAHA: Just one, if I may, Mr. Padilla, I think you mentioned various criteria that made barite the high quality stuff uniquely suitable, and I wrote down at least three in terms of the weight, non-metallicness, and the inertness.

Am I correct that the weight and the inertness are more of a safety issue and the non-metallicness is the, essentially, allows the drill bits to work longer?

And I'm kind of evaluating, I guess, the various criteria that makes the high-quality stuff so valuable, and it seemed like there were different motivations for -- or different causes for why that was, and if some of them are safety-related and some of them are, essentially, it's a more efficient product to use and lowers cost.

I don't know if there's any comment that you could offer on that.

MR. PADILLA: Only generally, I would affirm the way that you're characterizing it. It's the mechanics and the advantages of the mechanics that work hand-in-hand with providing safety advantages as well. So they're not separate, they work together, and the higher density, higher quality barite that's available from Chinese sources allows for the more effective drilling that also makes it safer to do because it's more effective.

MR. BLAHA: So I guess, and I apologize, Mr. Newcaster, if you went through this in some of the examples of the hematite and whatnot that you had referenced, is the issue that some of them are heavy and are not inert, but they're metallic, and so essentially, it's a cost increase to use that, but not so much a safety issues?

MR. NEWCASTER: The safety issues, to use the example that I brought up and you repeated, ilmenite and hematite are iron compounds. They are somewhat, actually, equal or higher density of baryte in terms of weight, so the safety aspect is great, but they are very costly compared to baryte, so one is cost.

And the other one that's always been a problem with those materials and why they fell out of favor, was abrasiveness. They caused extensive damage to not only drill strains, drill bits, mud pumps, and they were very costly to run. Not only costly to acquire, but costly to run.

And the other thing was dust and just general HS&E issues on rigs. So they really fell out of favor and they -- go ahead.

MR. HENRICK: Well, and I think they are a lot more chemical reactive than baryte would be, right?

MR. EZELL: And then I think to add to that comment, along with that is, if you look at some of these more exotic, even from the iron-based compounds, went to, like, manganese tetroxide, some of the different ones, due to the reactivity down hole, they could potentially cause formation damage.

So we actually, incorporating them into drilling fluid, when coming into contact with the reservoir, actually inhibit the production and could cause a lot of other mechanical and formation problems.

The well that we drill isn't as

effective in terms of production, which is a significant impact, only besides HSE and the mechanical aspects that we do from the drilling components.

MR. BLAHA: Okay. Thank you.

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

CHAIR TSAO: We have some new members joining the committee. At this time, I would ask the new members to introduce themselves.

MS. MARTINICH: Linda Martinich, Department of Commerce.

MR. JACKSON: Bill Jackson, the Office of the Trade Representative.

MS. BONNER: Sarah Bonner, U.S. Small Business Administration.

MR. BURCH: Mr. Chairman, all witnesses for this panel are seated and I would like to make a note to the witness panel. Can you speak clearly into the microphone and if you're not able to hear yourself, pull the mic a little closer for the benefit of the court reporter and the members of the audience.

Our first panel witness on this panel will be Gary Wakley with Fila USA. Mr. Wakley, you have five minutes.

MR. WAKLEY: Good morning. My name's Gary Wakley. I'm the Senior Vice President for footwear sourcing for Fila USA. Thank you for the opportunity to address the panel.

Fila USA is a U.S. footwear company with a proud and resurgent legacy. Although its roots are in Italy, it was an American entrepreneur at Fila USA who pioneered footwear for the brand globally in 1983.

Last year our Disruptor 2 model was named the shoe of the year by Footwear News, our industry publication. This marked a tremendous turnaround after being near bankruptcy a decade ago.

Today we employ more than 340 people in the U.S., including designers, marketers, corporate staff in our offices in New York and Maryland, and at our East and West Coast distribution centers.

While these jobs are the jewel of the Fila crown, our manufacturing is primarily in China. These two are interdependent and inseparable.

The proposed tariffs directly threaten our U.S. employees and the value-driven American consumers that we serve. Let me be clear, moving our production operations in the near term is not an option.

I've managed footwear sourcing around the world for more than 40 years. Although making shoes is labor-intensive low-paying work by American standards, it's much more complicated than apparel.

The investments in molds and manufacturing equipment, and the range of components and materials is much greater. The assembly processes are much more complicated, and it takes years to get it right.

When our chairman bought Fila in 2007, the U.S. company was losing more than $1 million a week. The company had been downsizing for years.

We were priced out of the Guangdong Province north of China -- north of Hong Kong. With our survival on the line, we decided to move our manufacturing 500 miles north to the Fujian Province.

This is an area that made shoes primarily for domestic consumption. Fila was the first global brand to make shoes in this area. We considered some 30 factories before finding three with the potential make the right quality and pricing.

It then took two to three more years to get these factories to operate consistently up to our standards. In making this move, we saved upwards of 20 to 25 percent in our buying prices. It saved our business.

Today, we work with more than ten factories in China, most of which make only Fila.

This is the underpinning for much higher jobs that Fila has continued to add here in America.

It would take years, if ever, to reproduce China's skills, resource base, specialized footwear management in another country. The infrastructure for all companies to exit China, which these tariffs would cause, does not exist today.

So the proposed 25 percent increase could not lead us to move elsewhere. However, it would more than erase the hard-won cost savings that rescued our company 11 years ago, and that could destroy our business.

With little margin to absorb, then these new taxes will fall directly on our customers. Fila may be a hot brand again, but we are not for the elite. The majority of our customers are budget consumers who buy our shoes through value-oriented retailers.

Our average retail price is less than $50. Our shoes are already subjected to duties from -- ranging from 5.1 percent to 37.5 percent.

An extra 25 percent would triple the average tax burden on our shoes.

This would immediately result in our product being priced out of reach for many value consumers who have recently turned to the brand. For companies already charging $100 or more for a pair of shoes, perhaps their consumers would pay $125, but for the parent who's paying $40, which is a stretch, $50 is simply not an option.

In addition, the proposed action would arbitrarily create winners and losers. It would punish those who source production within China and reward those who produce in more expensive countries in Asia. The burden will be felt by consumers who can least afford it.

I recognize that some industry's tariffs might be considered a way to protect American businesses, but for our industry, these taxes put American businesses and the jobs they create here at risk.

If you implement this new tax on our customers across the country, our employees in

New York and Maryland, and the employees of our retail partners across the country will be the ones to get the pink slips.

I urge the panel to find an alternative to this approach, which imperil the businesses that we have struggled to rebuild since the financial crisis, and I urge you to remove footwear from Section 301 List 4, especially the range of tariff lines listed in my previously submitted written testimony. Thank you.

MR. BURCH: Thank you, Mr. Wakley. Our next panel witness will be Nate Herman, with the Travel Goods Association. Mr. Herman, you have five minutes.

MR. HERMAN: Thank you. I regret that you have only provided me five minutes today to describe how the administration's decisions are destroying a vibrant American industry and thousands of American jobs.

We urge the administration to remove the items related to travel in the proposed

Tranche 4 list; water and spray bottles, clothes, shoes, luggage locks, and travel clocks.

The imposition of punitive tariffs on these items will damage the U.S. travel goods industry and over 100,000 American workers. How do we know that? Because the administration has already imposed 25 percent punitive tariffs on the core of our industry; travel goods, luggage, backpacks, handbags, and we are hurting.

This 25 percent tariffs is on top of the already incredibly high 17.6 to 20 percent tariffs we already pay on all U.S. travel goods imports. And as we have all learned over the last week, China doesn't pay the tariffs, we do, in the form of a huge new hidden tax on our member companies, and in turn, their customers, hardworking American families.

This is all the more true for a small industry where over 99 percent of all travel goods sold in the United States are imported, of which 82 percent come from China.

So what has this tax increase been on

U.S. travel goods to industry to date? The first punitive tariffs of 10 percent were imposed on September 24, 2018. According to the most recent data available from the U.S. Government, in just seven months, the U.S. travel goods industry has had to pay a whopping $288 million in new taxes.

And that was before the administration increased the tariffs to 25 percent on May 10th. That is a lot of money for an industry that is only a $30 billion industry annually at retail.

I have given you all the reasons many times on why this tax increase should be withdrawn. Instead, with my limited time, I want to give a couple of examples of how these new taxes have hurt our industry in the industry's own words.

First, a small travel goods brand. We are, were, a small five-person travel goods brand. I had to lay off my marketing manager and warehouse worker in October. I've had to reduce my marketing budget.

My customer service person is now

doing most of the pick and pack. The luggage company that I was going to merge with to expand and grow my business went out of business itself at the end of December because he could not absorb the 10 percent tariff, much less the 25 percent.

His customers told him they could not accept a price increase and were reducing their luggage category. My budgeted profits are way down and my bank is limiting my line of credit.

I'm moving as fast as I can to switch factories out of China, but the productivity is quite low, and now I'm unable to keep up with the demand from my largest customer.

From a small travel goods retailer. I get emails on an almost daily basis reminding us of price increases that are taking effect on most of the goods in my store. Some of our manufacturers were able to absorb some of the tariffs at the 10 percent level, but no one can absorb the 25 percent increase.

So almost all product is now seeing

price increases, and some product, for the second or third time. Since last October, our sales have been down from the previous year every single month.

We are doing our best to cut expenses as much as possible. We cannot hire additional help during the holidays like we normally do. For the current year, we hope to keep all of our current staff and are trying to make our employees the last ones to be impacted by our cost cuts.

It's disappointing that the message seems to be lost as the consumer is ultimately paying the tariff, not China. I continue to be supportive of the overall goal to hold China accountable for their trade practices, I'm just having a very hard time seeing that tariffs are the best way to achieve that goal.

As a third-generation owner of my family's retail store, I know that there are constant challenges facing independent retailers like myself across our great country.

I just feel the need to remind our administration that these trade decisions impact real businesses and real families across our country. Tariffs truly do hurt.

So in conclusion, this huge new tax increase on travel goods will do nothing to hurt China. Instead, as these examples demonstrate, it will be catastrophic to an industry that directly employs 100,000 American workers.

And the proposed imposition of up to 25 percent tariffs on all the remaining items our industry makes and sells, water and spray bottles, clothes, shoes, luggage locks, and travel clocks would also not further that goal, but only serve to put the remaining nails in the coffin of our industry.

Thanks to you for your time and consideration in this matter. I'd be happy to take any questions.

MR. BURCH: Thank you, Mr. Herman. Our next panel witness will be Wiley Royce with Royce Associates, ALP. Mr. Royce, you have five minutes.

MR. ROYCE: Good morning. It's good to see you. Thank you for having me here to talk to you this morning. I'm Wiley Royce. I'm Executive Vice President of Royce Associates and Chairman of the Plastics Industry Association.

Royce Associates is a fourth-generation family-owned business started by my grandfather, which has been manufacturing products for 90 years.

Royce is a small business supplying the textile, paper, and plastic industries with about 65 people spread across the United States. We do not have any manufacturing outside of the United States, and our three factories are located in New Jersey and South Carolina.

At the outset, I want to emphasize that we actually do support the U.S. Government's goals to ensure a level playing field for U.S. businesses. In fact, in the late '70s, I personally testified to support maintaining tariffs where Asian chemical subsidies were making competition unfair to the U.S.

As I'm going to explain today, in the case of vat dyes, there is, and never will be, U.S. production of vat dyes, crudes, in the United States. Thus, a tariff on these chemicals will only harm our U.S. interests.

Today, I feel I'm not actually testifying for Royce, but more for the thousands of U.S. textile workers, our own U.S. military, and the blue-collar manufacturing professionals who the administration has all pledged to support.

We believe that the proposed tariffs on vat dyes will have the unintended consequence of causing harm to these groups. For that reason, Royce appreciates that the USTR remove 3204.15.80 from the third list of products and are now quite dismayed that -- to see them put back on.

To give you a little operational background about us. Royce imports crude vat dyes from China and then converts them into finished vat dye liquids at our Gaffney, South Carolina plant.

China is the one and only global source for vat dye crudes left today that are used in the products our customers require and there are no alternative products that we can use.

India is the only other producer of vat dyes left in the world today, but India does not have anywhere near the capacity, and in some cases, they lack the technology to supply the quantity of products our customers require.

Crude vat dye production ceased in the United States more than 30 years ago, and that was due to the hazardous wastes that are created during their manufacturing process.

It's inconceivable that any company would make the considerable investment to build a new facility to serve this relatively small and marginally profitable market, so China truly is the only global source of crude vat dyes that Royce and our customers need today.

While the market is mentioned is rather small, less than $6 million per year are imported from China, these vat dyes are critical to a much larger supply chain.

Our vat dye liquids are used by the largest U.S. textile manufacturing companies to manufacture dye to dye fabric for the U.S. military and industrial uniforms.

Only vat dyes can be used for these products because they can be subjected to repeated washings and bleaching without any fading characteristics.

A few examples of vat dye fabrics that are used today are for U.S. armed forces, including both regular uniforms and camo, the UPS brown uniforms, and green medical scrubs, and also very importantly, the flame-resistant factory clothing that our factory workers use every day.

With regards to the U.S. military, we feel it's very important to know that vat dyes are used both in the dyeing and printing of these uniforms, and they are the only dye class that has a unique infrared anti-reflectance property, helping to keep our soldiers less visible to enemy forces and out of harm's way.

So in short, vat dyes are helping to keep our soldiers safe. Raising tariffs on vat dyes will directly increase the costs to our customers, not only putting in jeopardy the few remaining U.S. textile manufacturers, but also raising costs to all major manufacturers that provide uniforms to their employees.

In some cases, workers share the cost of their uniforms and this would be like adding a new tax to their pay. Additionally, the factory uniform sector can source offshore, and if it did that, the flame retardancy characteristics of these uniforms could be brought into question, possibly putting at risk our manufacturing workforce.

In closing, I'd like to point out that this class of product, while relatively small, plays a large part in keeping our fighting men and women safe, and to the continued growth and safety of a re-energized U.S. blue-collar workforce.

For these reasons, Royce respectfully requests that the USTR exclude from its proposed list, 3204.15.80, and I thank you for your time and I'll be happy to answer any questions you have later.

MR. BURCH: Thank you, Mr. Royce. Our next panel witness will be Andy Missan with Fitbit, Incorporated. Mr. Missan, you have five minutes.

MR. MISSAN: Good morning. I'm Andy Missan, Fitbit's general counsel. We believe the concerns that led to the removal of wearables from List 3 remain true today. Specifically, we fear tariffs on Fitbit products will harm U.S. workers and consumers, undermine U.S. national security interests, stifle innovation and digital health, and fail to advance the administration's policy objectives.

Therefore, we request that USTR remove

wearables from the proposed List 4. Fitbit is one of the world's leading wearable brands with more than 93 million devices sold. Our mission is to give millions of American the data inspiration and guidance they need to improve their health, while transforming the healthcare system and reducing healthcare costs.

Fitbit's devices incorporate components sourced from around the world, with final assembly in China. The heart of our operations, however, is here in the United States.

We employ more than 1,100 people in the U.S., the vast majority of our workforce. In recent years, our U.S. operations have accounted for over 90 percent of our total operating expense.

In 2018 alone, Fitbit invested $303 million in R&D. Today we partner with more than 1,500 U.S. companies to promote and improve employee health and wellness, work with more than 100 healthcare plans across the country to improve outcomes and lower costs, and facilitate more than 800 clinical trials, including with NIH.

Imposing tariffs will harm U.S. retailers, consumers, and downstream industries in the U.S. wearables market. The proposed tariffs could make these products costlier, and in many cases, inaccessible to consumers, making offerings from Chinese competitors more attractive and allowing them to gain U.S. market share.

In addition, the resulting lower revenues for the companies that build these devices and the U.S. retailers that sell them, could affect a large number of American workers.

Lost sales or lower profits would likely force Fitbit to cut its investments in U.S.-based R&D, including cutting highway jobs in the United States and limiting our innovation in healthcare.

The proposed tariff on wearable devices undermines U.S. national security interests. The wearables market is highly competitive and rapidly evolving.

In the last year, Huawei and Xiaomi, both Chinese companies, secured two of the top three positions in global wearables market share. In the first quarter of 2019, Huawei's share of global wearables shipments increased by nearly 300 percent, while Xiaomi's increased by nearly 70 percent year over year.

These companies have a very different business model from Fitbit. They operate on razor-thin hardware margins to build a massive user base whose data, in turn, is aggressively monetized.

The Chinese Government also intends to use revenue from its countermeasures to support Chinese companies affected by U.S. tariffs. Given their business model and government support, we believe our Chinese competitors would absorb this tariff with ease and use it to gain a competitive advantage against Fitbit in the U.S. market, putting sensitive health and financial information at risk.

Wearable devices collect sensitive health and biometric data, and many have advanced features and functionality that include geolocation, e-payment, and always-on microphones.

Big data is at the heart of the Chinese Government's industrial policy objectives and is collected and deployed in support of Chinese Government programs. As the Defense Department learned last year with Strava, this data, if not protected properly, can be exploited to gain sensitive movement and location information of members of U.S. law enforcement, the military, and other clinical personnel.

While Fitbit stores sensitive user data solely on servers in the United States, subject to strict privacy protection rules and security safeguards, Chinese companies like Xiaomi explicitly state in their privacy policies that data may be transferred to servers in China, putting U.S. consumer data at risk of ending up in the hands of the Chinese Government raises serious privacy and national security concerns.

Do we really want the sensitive health, location, and financial data of Americans to be stored on Chinese servers?

U.S. policymakers have already raised alarm bells about the Chinese tech industry's opaque connections to the Chinese Government and military, including by adding Huawei to the BIS entities list and issuing an executive order that could effectively ban the use of Chinese technology in U.S. networks, including 5G.

U.S. law enforcement also suspect China is the source of cyber-attacks on the U.S. Government and businesses. Importantly, Fitbit is not subject to any of the Chinese industrial policy concerns highlighted in USTR's Section 301 report, such as forced technology transfers, industrial espionage, and state-backed acquisitions of strategic foreign technologies.

Fitbit is already taking steps to adjust its supply chain in response to the administration's concerns and we continue to explore additional possibilities, but this is a costly and time-consuming process, so it will not be possible to avoid the detrimental impact of the tariffs.

Under such circumstances, including smart watches and fitness trackers disadvantages a company that was born in the U.S., invests heavily in the U.S. through R&D, and works to help millions of Americans become healthier, and it does little if anything to further U.S. policy objectives. Thank you for your time.

MR. BURCH: Thank you, Mr. Missan. Our next panel witness will be Lana Rascionato with Ideavillage Product Corporation. Ms. Rascionato, you have five minutes.

MS. RASCIONATO: Good morning, Committee Members, and thank you for your time today. My name is Lana Rascionato and I'm before the Committee to testify on behalf of Ideavillage Products Corps, where I serve as Senior Vice President of Product Development and Sourcing.

I've been with Ideavillage for 19 years and have been in the consumer products industry for 30 years. Specifically, I come to testify regarding the Trade Representative's proposal to impose a 25 percent tariff on products imported from China that would include Ideavillage's Finishing Touch Flawless electric shavers under 8510.10.

While Ideavillage supports the administration's stated goal to counter and ultimately eliminate China's discriminatory practices regarding American intellectual property, we contend that this tariff, if implemented, will be ineffective in eliminating those practices, while at the same time, be harmful to Ideavillage, our employees, our customers, and other U.S. interests.

Ideavillage was founded 20 years ago with the mission of bringing innovative consumer products to market under the As Seen on T.V. banner.

This aggressive national marketing

strategy has catapulted Products to the height of their industries. Among the products Ideavillage has launched are the grooming product lines, Finishing Touch and Micro Touch, Copper Fit compression garments, and HD Vision eyewear.

Today, Ideavillage's products are available in more than 77,000 various food, drug, and mass retail outlets nationwide.

Headquartered in Wayne, New Jersey, Ideavillage employs 45 people and is active in the community supporting many local charitable organizations.

One of Ideavillage's best known products is the Finishing Touch Flawless line of electric shavers. Flawless is the leading hair removal product for women ages 13 and up, covering 70 percent of market share in that industry.

Competitors include established brands such as Conair, Remington, Schick, Clio, Philips, and Panasonic.

The Finishing Touch Flawless line has

been so successful that as of May 1, 2019, it has been sold to Church & Dwight Company, a leader in household and personal care products based on Ewing, New Jersey.

However, Ideavillage remains responsible to import the product during a transition period and will continue managing all aspects of the brand. 100 percent of our Flawless products are manufactured in China for Ideavillage's exclusive use by a non-affiliated third party.

Once imported into the United States, they are sold to consumers at physical and online retailers, including Wal-Mart, Walgreens, CVS, and many more, as well as direct-to-customer through our famous television commercials.

The proposed tariff on Chinese electric shavers, including the Flawless products, would decimate the Flawless product line and severely injure Ideavillage and downstream businesses, our workers, and our customers.

At 25 percent, this would result in an estimated increase to the retail price of up to 20 percent, which would then result either in a higher cost to the consumer or reduce sales, as lower income consumers would seek out lower priced, inferior products in a price-sensitive market.

With reduced sales, Ideavillage would be forced to lay off American workers, but also decrease volume through the supply chain and significantly reduce and/or cancel advertising, marketing, and retail promotions, which itself would impact downstream American businesses that provide those services.

Research and development investment would also be halted, affecting the company's growth beyond this product line alone.

This impact cannot be avoided. Even with the tariff, Ideavillage will have no choice but to continue to import Flawless products from China. The company has evaluated alternative sourcing, but has, to date, found no location outside of China that meets quality standards and has mature supply chain capabilities to meet our product needs.

In fact, the blade stamping and manufacturing process utilized to manufacture Flawless is virtually non-existent outside of China. There is currently no technical capability for this process in other countries and it would be a multi-year, multi-million dollar project to setup.

Domestic capacity for this product does not exist. Nor would the tariffs mitigate any unfair trade practices, as they are intended to do. Electric shavers are consumer goods with no connection to the Made in China 2025 program.

Ideavillage has been importing Finishing Touch products from China for 16 years and has many safeguard in place to prevent intellectual property theft, including patents and non-disclosure agreements with its manufacturers.

Ideavillage is more than a typical

consumer products business. We are also an incubator of American innovation. We regularly receive product and invention submissions from small businesses and work to turn those ideas into reality.

Harm to Ideavillage that would potential drive us out of business would stifle the development of those small businesses and their products, hampering economic growth.

For these reasons, Ideavillage request that electric shavers, such as its Flawless product line, under 8510.10, be removed from List 4. I'm pleased to take any questions from the Committee. Thank you for your consideration.

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

MS. COVERT: Good morning and thank you for your testimony. I'd like to start off the questions with a question for Mr. Wakley from Fila.

In your testimony, you argue that

China is the ultimate source of components for shoe manufacturing in other countries. China will still benefit if duties push companies to sourcing outside of China.

Can you elaborate on the components that go into shoe production and why these components are mainly available from China?

MR. WAKLEY: Well, it's not so much that it's only available in China, it's just the mass of it, right? So footwear manufacturing involves lots of heavy equipment, big manufacturing facilities, not easy to move from one place to another, mold making is all -- or most of that is in China.

Out soles, all the kind of heavy stuff is primarily there. Also, upper materials and material manufacturers are primarily in China. So while some of these things have been setup in Vietnam, and certainly, we import some shoes from Vietnam, primarily for other parts of the world, not so much the U.S.

The costs for our product in Vietnam

is roughly 10 percent higher than where we make in China. We're able to ship to other parts of the world because there's favorable duty from Vietnam into places like Korea -- zero duty into Korea, lower duties into the U.K. and Europe.

So we've been using that manufacturing, which represents about 30 percent of our worldwide total, for other countries. We import very little from Vietnam.

I realize other people do, but for our business, we import very little into the U.S. The parts of our business that would be hurt the worst by trying to move someplace else, first, it won't happen quickly, it can't happen quickly, because if it happens to us, it'll happen for everybody.

Anybody who's producing in China will want to go someplace else, and there's simply not enough capacity in other parts of the world for it, but the part that will be hurt the worst are the lower cost shoes that we make.

So the area of China where we produce

shoes, Fujian Provence, was primarily a domestic manufacturing area. Chinese-owned factories. Not Taiwanese, not Korean, Chinese-owned factories.

And so when we've tried to source those products in Vietnam, it runs, roughly, $2 higher on the FOB cost. That kind of shoe in this area of China where we make shoes is $8 to $10, so anywhere from 25 to 20 percent higher in Vietnam than in China.

And that's for the lowest priced shoes. The ones that are sold to people like Ross Stores, or Burlington, or Marshalls, or any of the family footwear kind of retailers.

So that hits the lowest consumer who's buying branded shoes, and that hits him the worst. That's our big -- so the big issues are, there's not enough capacity outside of China to take everybody's business, and you'll have to leave if you've got 25 percent duties additional, we already pay a much higher duty than the average importer of products into the U.S., it's just not possible to move everything in a short term.

I'm not even sure if you had three or four years, that you could move the entire athletic shoe business out of China.

MR. HERMAN: I just want to add to that question from the travel goods perspective. We face the same thing. When you have 82 percent of all production being in China, it's very difficult to find the capacity to move, but also, as per the question, all the materials that go into make the luggage, the backpacks, the handbags, are in China, down to the zippers and the buttons, the letter, the textiles, they're all made in China.

So even if you're able to find, on the off chance, with all the obstacles you have to overcome, as Mr. Wakley described, you're still going to have to bring the materials to make the travel goods from China to the new country.

And so that not only adds even more costs to the whole process, but extends your supply chain and stretches it out, and creates a lot more complexity, especially for the small firms that make up the bulk of our industry.

MS. ADAMS: Thank you very much for your testimony, and this question really was for you, Mr. Herman, but your intervention actually pretty much answered the question. It was a specific question regarding the water and spray bottles, luggage locks, travel clocks, are any of these products sourced, right now, from any other country besides China, including the United States, and might there be more goods that could be sourced from alternate suppliers?

MR. HERMAN: Virtually none of those products are made in the United States in any sort of commercial quantities whatsoever, and again, the situation that we're -- 82 percent of traditional travel goods are coming from China, the numbers for those products are in the 90 to 95 percent range from China, so it's even more difficult to move those products.

It's just, they're not high-value

products, the production's been there a long time, we have established relationships, it's just not easy to move.

MS. MARTINICH: My question is for Mr. Royce. In your written summary, you had stated that 15 percent of your dye production is used for military uniforms, and then today, you had testified that you also supply the UPS brown uniforms and the green medical scrubs, and other things as well.

I was wondering, are there other suppliers to the U.S. supply chain of these vat dyes besides your company?

MR. ROYCE: Right now, there's really two, maybe three, large textile manufacturers that are supplying to these markets. In the world today as it exists, I refer to us, you know, we're kind of a whale in a pond, or a puddle, in that market.

We probably are supplying roughly 75, maybe 80 percent, of the vat -- finished vat dye products to the U.S. textile manufacturing sector today.

MS. MARTINICH: Okay.

MR. ROYCE: It's a very tiny sliver in a big pie, but that's where we are.

MS. MARTINICH: It's good to be a big fish in a small pond.

MR. ROYCE: Something like that.

MS. MARTINICH: Yes, or a big fish in a big pond.

MR. ROYCE: Whale in a puddle, yes.

MS. MARTINICH: Exactly. A follow-up question, you testified that China is the only source for your customers' requirements --

MR. ROYCE: Yes.

MS. MARTINICH: -- but then you said India also produces vat dyes. And then you said something about the lack of capacity, so are the dyes from India different than from China?

MR. ROYCE: No, they're usable. And what we do is, because we bring the crudes in, and then we shade them, and adjust them, and grind them to a finished spec, we're able to use them, but I can tell you that the total capacity of the country of India, because we've been working on this for several years.

I mean, we've always considered being single sourced out of China as a material weakness in our business that we've been trying to work on. That's one of the reasons we've been around for 90 years, I guess.

But the total capacity of all of the manufacturing in India is less than 20 percent of just our single company's requirements to service our customers.

MS. MARTINICH: Thank you very much.

CHAIR TSAO: Mr. Royce, I have a follow-up, do you use the same type of vat dye for both your military customers and your non-military customers?

MR. ROYCE: Many of the crudes are the same. They come in and then we shift them to different colors, such as, I think it's -- I forgot his name, but with the dark-blue shirt here, you know, that's, you know, typical, kind of, factory type of shade, obviously.

But some of the dark blue, for instance, would actually be a component of the camo green, because you make green with blue and yellow, so that would be a component of it, so we do use several things.

You know, we come up with probably, I want to say, we probably supply 150 to 200 different shades today, but they all come from, probably, a total of eight or ten different vat dyes, maybe 15.

CHAIR TSAO: Thank you.

MS. ROY: Good morning. This question is for Mr. Missan. Mr. Missan, you state that Fitbit devices are assembled in China from parts and components sourced from around the world. You also state that you are adjusting your supply chain in response to the administration's concerns.

What are the most difficult obstacles that you are facing in shifting assembly of the Fitbit devices to other countries?

MR. MISSAN: Thanks for the question. Yes, so we have looked at -- studied this issue carefully and we've been able to source some of the major components for our devices, such as the Bluetooth radios and the CPU chips from countries outside of China, including Taiwan, Singapore, et cetera.

However, the final assembly has been a very big challenge for us. We've looked at a number of other countries. The capacity does not exist in the U.S. at all.

And let me just say, backup for a second, the devices are characterized by some unique qualities, such as small form factor, very high precision assembly, and high volume, and so we have not been able to find those characteristics in other locations.

We've looked in Southeast Asia. The capacity just doesn't exist there. And, you know, based on our assessment, it would take many years and many millions of dollars to replicate what we found in China, which has developed over

40 years, this very high precision, small form factor processes that frankly, you know, coupled with the labor costs just don't exist elsewhere in the world.

MS. ROY: Thank you.

MR. JACKSON: Good morning. My question is for Ms. Rascionato. You mentioned that you, of course, source your electric shavers from China. Have you always sourced them from China, and if not have you previously sourced them from elsewhere?

When did you shift the production and why?

MS. RASCIONATO: No, we're 100 percent out of China at this time, mainly due to the blade stamping and manufacturing process is really non-existent outside of China. You know, we have looked at production in Vietnam for the past couple of years.

They just really have not been able to get the quality right. The labor there is not trained as China has been. You know, China took them 30 years to hone their capabilities in manufacturing.

So Vietnam, we have not seen, you know, the quality, the intricacy, even from domestically sourcing China parts, shipping to Vietnam. They still cannot manufacture the product up to our quality standards.

MR. JACKSON: Do your competitors also source their products from China?

MS. RASCIONATO: Yes, they do. Even one of our competitors, who is based on Japan, sources the majority of theirs from China.

MR. JACKSON: You mentioned that this is not necessarily a high-tech industry or high-tech product. If that's the case, why is it that these products, do you think, can only be made in China? They're not made anywhere else in the world?

MS. RASCIONATO: It's just, I think, because China has honed their capability, we're able to produce them, you know, at a lower cost, yet maintain the quality so we can offer, you know, the U.S. consumers our devices at a very reasonable retail price.

Our prices start $9.99, you know, for our Finishing Touch shavers, and up. You know, the 25 percent would really decimate that. It would probably go up to $12.99 to $14.99.

MR. JACKSON: Thank you.

CHAIR TSAO: I do have a follow-up question. This is for all the witnesses who would like to respond. I mean, it sounds like, based on your testimony, China is, for all intents and purposes, your only source of supply in your respective industry.

I mean, my question is, you know, from a business perspective, is that a concern in your -- for your particular company or for your industry, that China is the only basically source for your products? And this is open to any witnesses.

MS. RASCIONATO: Sure. I'll answer that first, if you don't mind. I mean, it is really a major concern of ours. Even just finding the capable factory in China is a process in itself.

You know, we've gone to many other factories, even to dual-source our products, and it's been very difficult. Our one main supplier, we've used for the past 16 years in the Dongguan area, they've been very reliable, their quality standards are up to par, and because we are producing in high volume, they offer us great FOB costing on the product, which they will not be able to absorb if this tariff comes into effect.

They just simply cannot absorb it, especially because the increase of the tariff will cause reduced volumes for us and really hurt their business as well, as the ultimate consumer in the U.S., and all downstream businesses from, you know, our R&D development, research, you know, manufacturing, and logistics partners here in the U.S.

It just really has a downstream negative effect on U.S. businesses overall.

MR. WAKLEY: I think in our case, we

have diversified, to some extent, 30 percent of our global business is done outside of China. It has been a concern, but as I said before, the biggest issue that we've had is looking at lower priced products in Vietnam just are not competitive.

And that would be the biggest jeopardy for our business in the long term. And as I said, would hurt the lowest -- the consumer who's used to paying the lowest possible price.

MR. ROYCE: And I'd like to add, I think as I mentioned before, that we do consider it somewhat of a material weakness that we're dealing with, so much so that between my nephew and I, we are in China and India, probably between the two of us, at least six times per year, working with our current vendors, working with potential vendors, and at the end of the day, the unfortunate part is that it's a very high investment need to create additional capacity.

So India just said, you know, our

Indian suppliers just say, this is what we have. We would have to invest, say, $30 million, $40 million to get $2 million worth a year of business with a very minimal return.

It's just not a reality. The companies, our main concern there, is that the current suppliers who are, you know, producing product for us, plus other various ranges of dyes, they've made -- they recently made a $100 million investment strictly in their environmental treatment of their waste water in China in order to meet the Chinese environmental need, so we've been watching that.

So that gives us a level of comfort, obviously, with the strength of the businesses and our suppliers, but yet, yes, it's a concern, but it's a concern that we just have to live with and I guess I'm kind of reaching the point in my career that I'm kind of happy to be my age rather than younger.

MR. MISSAN: And I would just add that it is a concern for Fitbit. We would like to diversity the location of our final assembly, but we need time and so the irony is that being under the weight of the tariffs would actually limit our ability to move because it would be very difficult to absorb the costs at the same time that we'd have to absorb the, you know, potentially, 25 percent tariff on the goods being imported.

And I guess one other point is that with the tariffs, proposed tariffs, and the previous tariffs that were implemented, there are numerous companies that are fighting and searching all around the world, so there is this effect of the supply and demand, so that the demand for the capacity has outstripped the supply now in those alternative locations.

So I think the industry just needs time for all of this to shake out and to be able to transition in an orderly way without the weight of the tariffs creating such a devastating financial impact.

MR. HERMAN: The same for the travel

goods industry. We realized about ten years ago that we -- this was untenable to have all our eggs in one basket, and so we -- one of the things we did, and the major initiative we pushed was to get Congress to remove the statutory bar on travel goods under the generalized system of preferences program.

Because these were developing countries had the potential, if you invested the time and space, and given the duty benefits, since we're paying 17.6 to 20 percent duties, that we might be able to develop over time.

And so after a long battle, we were -- travel goods were partially added to the GSP back in 2016, and then the Trump Administration fully added travel goods to GSP in 2017.

Over that three-year period, we were able to reduce the amount that we were sourcing from China from 88 percent to 82 percent, and increase the value that we were getting from GSP from about 4 percent to 9 percent.

So again, if we were given the time,

and it does take a long time to move those, we could do it. We can't do it overnight.

And also, we're now faced with GSP and the Trump Administration has decided to attack a lot of the countries in the program. India was just kicked out of the program. They're the number three supplier of travel goods to the U.S. market.

There's two other countries, Indonesia and Thailand, major suppliers to travel goods. They're under threat to be kicked out of the program.

And so all of our alternatives to China are being taken away from us at the same time we're told to get out of China.

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

(Pause.)

MR. BISHOP: Would the room please come to order? Mr. Chairman, I'd like to note all panel -- all witnesses for this panel are seated.

And I would like to make a note to the witnesses on this panel. Would you please speak clearly into the microphone, and if you're not able to hear yourself, pull the microphone closer for the benefit of the court reporter and also the audience members.

Our first panel witness will be Wang Yu, with the China Chamber of Commerce for the Import and Export of Textiles. Mr. Yu, you have five minutes.

MR. YU: Thank you for the opportunity to attend today's hearing. I am Wang Yu, Vice Chairman of the China Chamber of Commerce for Import and Export of Textiles.

CCCT has more than 10,000 member companies, many engaging in the import and export of products of the whole industrial chain including fibers, yarns, Fibrex and finished products.

On the 23rd of August of 2018 we attended the public hearing held by the USTR on

200 billion U.S. dollars tariffs. Today I would like to express the following comments on behalf of our member companies affected by 300 billion U.S. dollars proposed tariffs.

Firstly, according to the data released by Census Bureau of U.S. Department of Commerce, the United States imported 44.2 billion U.S. dollars of textile and apparel products from China in 2018, accounting for 36 percent of the total imports -- well, 10 percent from Vietnam, 6.6 percent from India and 4.7 percent from Mexico, successively.

In view of such a huge gap, it is difficult for the United States to find alternative import countries in the short term.

Moreover, the products proposed involved finished products such as apparel and home textiles which account for 87.4 percent of the U.S. textile and apparel imports from China.

Tariffs on these consumer goods would directly affect the interest of retailers, distributors, and consumers.

Secondly, China has complete industrial chains, skilled workers, mature enterprise management and operation system comparative with any other countries.

It is almost impossible to transfer urgent and complicated orders out of China in the short term. Due to the lack of alternative manufacturers, additional tariffs will inevitably lead to the shortage of domestic supply and the soaring of the commodity prices.

As a result, consumers in the United States have to undertake a higher cost of living. On the basis of the import data of 2018, released by Census Bureau of DOC, CCCT selected 24 categories of products with a much higher proportion of import amount from China than any other countries; for example, HS Code 6110 and 6204 and others.

The complete statistics have been submitted with our written comments. Since these Made in China products are irreplaceable, both in quantity and scale, we hope USTR could remove them from the additional tariffs list.

Thirdly, the United States is the largest source country for cotton for China as well as eighth largest importing source of Chinese textile, clothing and the raw materials.

China imported 528,000 tons of cotton from the United States in 2018, worth 1.06 billion U.S. dollars. With the proposed additional tariffs, China's exports of textile and apparel to the United States will decline.

Chinese demand for American cotton will decrease accordingly, and the export of cotton from the United States will face a drop as a result, which will further impact the cotton production in the United States.

Last, but not least, compared with the proposed with the proposed list, 297 tax codes have been removed from List 3 when it took effect. Twenty-six of them come from textile and apparel industry.

However, certain products appeared again in List 4 since USTR has removed them, according to the opinions of public comments last time. We hope these irreplaceable products can be removed again. Thank you.

MR. BISHOP: Thank you, Mr. Yu. Our next panel witness will be Wade Miquelon with the Jo-Ann Stores. Mr. Miquelon, you have five minutes.

MR. MIQUELON: My name is Wade Miquelon, and I'm the Chief Executive Officer and President of Jo-Ann Stores.

Our company appreciates the opportunity to testify before this U.S. Trade Representative Section 301 proceeding.

Jo-Ann, based in northeast Ohio, is the nation's largest fabric and crafts retailer with 867 stores and 23,000 employees in 49 states. Millions of American consumers depend on Jo-Ann for affordable components for their Made in America sewing and crafting products and home decorating needs.

We are a strong, growing and profitable company which has consistently added new stores and created jobs. We are deeply concerned, however, that even if we are granted the seven tariff line exclusions requested in our previously submitted comments, the remaining costs resulting from tariffs imposed on products that we import from China, covered by both Lists 3 and 4, will far exceed our current level of annual profitability.

As a result, our company will face tough decisions that could include job eliminations and store closings. Our sustained profitability and continuous growth have taken us over 75 years to achieve and could now be in peril solely because of the Section 301 tariffs.

The seven tariff lines which are subject to our request for removal from List 4 deal with fleece and artificial floral products that we import from China.

Since the administration's initial imposition of Section 301 tariffs last year, we have had some success at finding factories in countries other than China which can produce some goods that we have been historically sourcing in China.

But in spite of our extensive efforts, we have not found sources for our fleece assortment and our artificial floral products in the United States or other places outside of China in quantities or of the quality that we need.

If even possible, it would take an investment of 18 to 24 months by an interested vendor to create infrastructure outside of China which adequately supports our sourcing requirements.

This time frame would not allow us to meet the needs of our customers who depend on us for their sewing and crafting needs. Therefore, we must continue to source our fleece and artificial floral products from China, even with the additional costs of tariffs.

Over 90 percent of the products sold by Jo-Ann are component parts used by our customers to create clothing, blankets and other home products.

To the extent that tariffs apply to these component parts, the tariffs unintentionally amount to a Made in America tax on sewing and crafting products that are completed in the United States.

Also, many Jo-Ann customers are small businesses, often sellers of finished products on platforms such as the Etsy website, and they depend on Jo-Ann for consistent pricing which enables them to make a profit.

With the addition of tariff costs, they will not be able to continue creating and selling affordably and could need to shut down their small business operations.

Not only will tariffs on raw materials like fleece impact crafters and many small businesses, they will directly hurt Americans in need. Charities and individuals across the United States use fleece from Jo-Ann to give comfort and warmth to those who need it most -- our homeless, our hospitalized, our veterans and our disadvantaged children.

Project Linus and other charitable organizations donate millions of fleece blankets to traumatized and ill children each year, with materials sourced from Jo-Ann.

For example, Christine Strutt of Salina, Kansas, is one of our best customers, and she has given me permission to share her story. In August 2016, Christine lived with the horror of losing her middle child, Connor, to non-Hodgkin's T-cell lymphoma.

After her son's death, Christine decided to bring comfort to other sick children and began her nonprofit organization known as Connor's Cuddles. With her own money, donations and help from volunteers, she has made and delivered more than 600 fleece blankets to sick children since March of 2017.

All of these blankets were made with fleece purchased at Jo-Ann. If the tariffs are enacted, Christine says it would have a huge impact on her organization's ability to continue making blankets and bringing comfort to children in need.

I sincerely hope fleece is removed from List 4, as it was removed from List 3 in September, so that Connor's Cuddles, Project Linus and all the other organizations who use our fleece to provide comfort across the country will not be forced to limit their outstanding activities.

The products imported by Jo-Ann and other United States businesses which are covered by the seven tariff lines that we recommend for removal from List 4 represent a very small portion of the 525 billion of total annual imports from China purchased by United States businesses.

Inclusion of these specific tariff lines will not result in any meaningful punitive impact on the Chinese economy relating to unfair trade practices, which is the intent of the tariffs.

As far as we know, none of the

categories I'm discussing today are purported to be of unfair trade concerns. Further, the fleece fabric and artificial flower products covered by List 4 are already subject to duties imposed at an average rate of 17 percent and 9 percent, respectively, and the additional tariff costs will create unsurmountable challenges for our current business model.

In summary, while we support the President's efforts to negotiate a fair trade deal with China, we believe that targeting fleece fabric and artificial floral products is not the appropriate means of working toward an agreement which is acceptable to both parties.

Therefore, we respectfully request that tariff lines relating to these products, as listed in Appendix A of our comments previously submitted, are removed from List 4 of the Section 301 tariffs.

Thank you very much for the opportunity to testify as part of this proceeding, and I'm very happy to answer questions as you see fit. Thank you.

MR. BISHOP: Thank you, Mr. Miquelon. Our next panel witness will be Josee Larocque with Burton Corporation. Ms. Larocque, you have five minutes.

MS. LAROCQUE: Thank you. My name is Josee Larocque. I'm the Senior Vice President of Operations at Burton. We are headquartered in Burlington, Vermont.

Founded in 1977, Burton has become the global leader within the sport of snowboarding. Today, Burton leads the industry with the most extensive, highest quality selection of snowboard equipment and apparel.

Burton is headquartered in Burlington, Vermont and operates 13 stores in the U.S. and directly employs 600 U.S. workers. Last year, we opened three stores in the U.S. and plan to open two additional stores per year moving forward.

We additionally support the employment of another 300 U.S. workers through our distribution center in Ohio and 12 partner doors across the country. 200 of those workers are in the distribution center and another 100 through those partner doors.

These proposed duties put any new jobs and potentially existing jobs at risk by decreasing growth in our distribution capacity. We are part of an outdoor industry that generated more than $887 billion in consumer spending and accounts for 7.6 million American jobs.

Despite the fact that it has been found there is no commercially significant domestic production of many of our outdoor products, they already face high import tariffs -- footwear and sports bags as high as 20 percent and outdoor apparel as high as 32 percent.

Speaking on behalf of Burton as a medium-sized business, I can unequivocally state that additional duties would cause disproportionate economic harm to U.S. companies and consumers.

We believe that additional tariffs imposed will almost certainly be passed on to

U.S. companies, like our wholesale partners, and U.S. consumers as companies like us struggle to find ways to absorb them.

The proposed duties impact the cost of around 42 percent of the products we sell by increasing import duties to over $5.3 million in this fiscal year alone, which was unplanned and is devastating to a company of our size.

It is hard to imagine U.S. companies not being forced to make significant changes to their business. These changes will likely include more retail price increases, passing a portion of the incurred costs along to U.S. consumers.

For companies where future growth is based on profitability, the best outcome would be a decrease in hiring. As previously stated, many of the products we sell and that U.S. consumers depend on us for are simply not commercially available from the U.S. or from countries other than China.

And if they were, sourcing changes

take significant time and investment to implement, with product developers working on product up to two years before going to market.

While Burton continues to diversify its supply chain, we continue to find that Chinese manufacturing capabilities are necessary for certain products of which China dominates the market, with infrastructure and skilled workforce most of our products require.

Several of our products require manufacturing capabilities that are not available in the U.S., such as certain types of injection plastic molding and dying techniques. Also, sufficient production capacity does not currently exist in the U.S.

It's difficult to list all of the harmonized tariff schedule codes that are impacted at Burton. I'll just mention the product categories that will impact us: snowboards and bindings, snowboard boots, gloves and mittens, safety headgear and goggles, recreation performance outerwear, camping equipment and other apparel.

Burton products that provide protection to consumers, such as snowboard helmets and goggles, require manufacturing sources that meet compliance standards with U.S. federal and state safety regulations, and our Chinese manufacturers have been trained to handle the considerable testing and quality inspections that are required to import these products into the U.S. market.

There are no U.S. manufacturers that can produce a like product with the same quality and safety standards and output in the volume that Burton needs.

A shift to a manufacturing country other than China would take a minimum of two years due to existing custom EPS injection molding and the approval and certification associated with the safety standards.

Even raw material sourcing for the liner fabric and ear pads is limited within the U.S. A deep concern of abruptly increasing import duties an additional 25 percent on protective helmets and goggles, when there have been ongoing studies on the effects of head injuries, in particular, could have serious consequences for consumers.

Imports of substandard safety helmets and goggles are not a risk we should be willing to take. We recognize the need to protect U.S. intellectual property rights and technology transfers and the ongoing concerns about China's industrial policies.

We also appreciate this administration's efforts to negotiate an agreement with China that will address these issues. However, additional tariffs do not seem an effective way to create leverage in the administration's efforts to resolve these issues.

Rather, these tariffs will harm U.S. companies and raise prices for U.S. consumers. We instead urge that the administration continue to engage with Chinese officials on these matters and develop a better solution -- a solution under which U.S. companies and U.S. consumers are not bearing the financial responsibility.

Thank you for this opportunity to hear our stand on this matter, and we look forward to questions.

MR. BISHOP: Thank you, Ms. Larocque. Our next panel witness will be Mike Shaffer, with PVH Corporation. Mr. Shaffer, you have five minutes.

MR. SHAFFER: Members of the Panel, thank you for the opportunity to appear before you today on behalf of PVH Corp. My name is Mike Shaffer. I'm the EVP Chief Operating and Financial Officer for PVH.

I'm here to request that the HTS tariff designations on swim products and neck wear or ties are removed from the final list of products subject to an additional 25 percent tariff if imported from China.

Attached to my written testimony is a listing of the specific HTS U.S. designations for which we are seeking removal.

PVH Corp is one of the largest apparel companies in the world, headquartered in New York City with nearly 10 billion in revenues. You may be more familiar with our brands which include Calvin Klein, Tommy Hilfiger, Van Heusen and Speedo.

PVH employs approximately 16,000 associates in the U.S. and another 14,000 associates globally. Because PVH is a global company, we have experience in sourcing products around the world. Thus, we know that some products just are not, and in many cases cannot, be sourced outside of China.

With respect to swim goggles, masks and parts and swim aids, the goggles are produced for the Speedo brand with administrative offices located in California in a leased space of 69,000 square feet.

The products are specifically designed and produced using injection molding. These hard goods represent more than one-half of Speedo sales, and the vast majority of them are sourced from China.

The imposition of these tariffs would cause severe and undue hardship on our brand. Further, about 60 percent of our goods under this tariff designation are designed for children, putting a burden on parents and children.

The cost to move the equipment designed, developed and installed for more than a decade in China would exceed the cost of production. It would take three years to shift production outside of China.

To change sourcing, Speedo and its suppliers would have to develop competitive vendor and raw material sourcing, tooling and machinery, cost analysis, and they'd have to train a workforce.

Further, a vast majority of our swim goggles provide sunblocking capabilities. The FDA regulates goggles that make similar claims as sunglasses. Thus, they must meet the same regulations as sunglasses, including impact resistance testing.

Any change in our sourcing requirements would require requisite changes to our FDA approvals, adding significant time to delays in production and sales.

As mentioned previously, 60 percent of our goods are for children, which also means we'd have to meet CPSIA, Consumer Product Safety Improvement Act, requirements.

The CPSIA imposed new testing and documentation requirements. As a manufacturer, we have to meet all of these requirements, testing and approvals if we shift sourcing, adding more time.

With respect to neckwear, including ties, bow-ties and cravats, whether silk, manmade fiber or another material, we submit they should be removed from the list. Over 90 percent of the world's imports of ties come from China.

In fact, there is basically one city that exclusively supplies and manufactures ties, not only for PVH, but a vast majority of neckwear providers. Although a seemingly simple sewing process, the use of silk and new soft handmade material fibers requires significant skill.

We note, importantly, that no silk apparel item has ever been subject to any U.S. restraints. When the U.S. had a quota system on imported apparel items from 1964 through 2005, silk and silk blend products were not subject to quotas.

Further, silk apparel items are eligible for duty free treatment under the generalized system of preferences. There is no U.S. silkworm industry or U.S. silk yarn spinning industry or U.S. silk fabric industry, and there is no neckwear industry in the United States.

The shift over the past five years to more casual dress and working remote has caused a decline in our production from 30 million ties in 2014 to 13 million ties today. This tariff will put significant pressure on this tie business.

We do not presume to advise on the appropriate level of trade to be covered by the additional duties because we do not believe there is any reason to impose any level of tariff on the swim products or ties.

Furthermore, we believe these tariffs will make us less agile in these categories at a time when speed is critical to remain competitive. Any intent to shift production back to the USA will force us to postpone these efforts to focus on developing short-term alternative solutions outside of Southeast Asia.

We further submit that imposing additional tariffs on soft goods is punitive to the American consumer as the profit margins are in single digits per product in some instances.

Tariffs are already high in most of the sector, and the impact would absolutely be passed on to the consumers. Further duties on these products would not have any impact whatsoever on China's acts, policies and practices regarding technology transfer, intellectual property and innovation.

This industry is neither cutting edge nor a priority for China in 2025 development objectives. Thank you.

MR. BISHOP: Thank you, Mr. Shaffer. Our next panel witness will be David Franco with Franco Manufacturing Company. Mr. Franco, you have five minutes.

MR. FRANCO: Members of the Interagency Committee, thank you for the opportunity to discuss why Franco Manufacturing Company seeks a removal from the imposition of any additional tariffs for several of our many home furnishings products.

My name is David L. Franco, and I am Vice President of Franco Manufacturing Company. The company was founded in 1952 by my grandfather, David E. Franco, and is now in its third generation.

We create innovative, fun and fashionable products for the multiple home textile markets. We primarily produce children's character license home textiles merchandise for bedding, bath and beach.

With licenses such as Frozen, Paw

Patrol, Batman and many more, Franco products can be found at major mass market retailers, specialty stores and online outlets.

We employ 106 people combined in our New Jersey headquarters, New York City showroom and Arkansas sales office. In addition, our manufacturing facility in South Carolina has 183 employees.

We produce over 20,000 comforters a week or over 1 million comforters a year in our Dillon, South Carolina facility.

Our company indirectly supports over 1,000 employees at 12 other companies around the United States that provide manufacturing, packaging, polyester fill, warehousing and logistical service to us.

We seek removal from any additional tariffs for 11 of our products. They are blankets, pillow cases, sheets, curtains, drapes, shower curtains, shams, microfiber comforters and pillow shells, sleeping bags, pillows, comforters and cuddle pillows.

These products represent 20 percent of the items we import, but account for more than 65 percent of our imports. The specific HTS numbers are in our written comments.

We seek the removal of these items for three main reasons. First, the United States does not have any actual or potential manufacturing capabilities to supply our needs.

U.S. manufacturing of textiles we use in those products as well as the necessary infrastructure and equipment, moved offshore over the past three decades, forcing Franco to follow suit.

For example, many of our bedding products must be woven or knit on looms that are not located in the United States. Additionally, our products are fashion-oriented and printed designs. The printing machines necessary to accommodate the size and dimension of our products do not exist in the United States.

Second, there is a lack of affordable and comparable supply from countries other than

China. For example, we used to make our products in Pakistan and India using blended polycotton sheets.

Manufacturers in China have since perfected the production of higher quality and more affordable microfiber sheets. Today, China represents 95 percent of U.S. microfiber imports, Pakistan 4 percent, and India 1 percent.

In terms of Franco imports of the 11 products at issue, Franco products also almost entirely come from China -- 94 to 97 percent -- and six products largely come from China -- 73 to 84 percent.

Relocating production from China to the United States or other country is not feasible. We import under 55 different HTS tariff codes, so where we can source alternatively, we will.

Third, an additional 25 percent tariff on our imports from China will cause disproportionate economic harm to U.S. interests, including Franco, which is a small size business, its employees, its customers and its U.S. consumers.

Higher tariffs will force us to raise prices for our U.S. retail customers who, in turn, would raise prices for their U.S. consumers. These consumers are very sensitive to price, which is why we have not increased our prices for more than five years.

As a result, if we were able to pass cost of additional tariffs on to our retail customers, Franco will sell less -- far fewer units. Less units will affect our overall sales and profitability, preventing us from hiring new employees.

On the other hand, if we are not able to pass the 25 percent additional tariffs on to our retail customers, this would be a hardship for our company.

We further submit that additional tariffs on these products would not have any impact whatsoever on China's acts, policies, practices regarding technology transfer, intellectual property and innovation.

Our industry is neither cutting edge nor a priority sector for China in its 2025 development objectives. In contrast, additional 25 percent tariffs on our products will greatly harm Franco for the key reasons I've laid out above.

Thank you for this opportunity to testify. I would be pleased to answer any questions.

MR. BISHOP: Thank you, Mr. Franco. And Mr. Chairman, this concludes all direct testimony for this panel.

MS. COVERT: Thank you all for your testimony. I'd like to start out with Mr. Yu. You state that the Chamber of Commerce for import and exported textiles is engaged in the production, export and import of textile fibers, yarns, fabrics, clothing, home and industrial textiles and accessories.

Do you import any textile products from the United States?

MR. YU: Yes, some of our companies import the American apparel and textile products. For example, for 2018, we imported 760 million U.S. dollars products concerning textile and apparel industry, which fiber products accounts for the most important parts.

MS. COVERT: Okay, could you give, just briefly, a little bit more clarification on the cotton, on the U.S. cotton, that you purchase?

MR. YU: For 2018, China imported cotton products from the United States, about 1.066 billion U.S. dollars.

In 2018, the United States actually is the largest sourcing country and cotton products accounts for 33 percent.

But from January to April this year, these numbers, the number of cotton products imported from the United States to China has decreased and only accounts for 14.5 percent.

And it's ranking of fourth sourcing country. And the first of three sourcing countries become Brazil, India and Australia. So that means that many Chinese manufacturers, because of the trade frictions, their demand for the American cotton products has decreased.

MS. COVERT: Going back to the textiles, how important is the U.S. market to your industry, and what trends have you seen in your exports to the United States? And if there are particular products that are a priority for export to the United States, what would those be?

MR. YU: The United States accounts for 16 percent of Chinese exports to the whole world, and actually ranking the first place.

Chinese enterprise attach great importance of United States market. There have been many of our member companies have becoming the priority suppliers for many United States brands and importers.

Actually, our member companies, some of us actually have discussed with your brands and importers in the United States about they are seeking for the removal of some of the HS code and we can see that now many brands here. So maybe the -- actually, they are actually our -- the clients of our member companies.

MS. COVERT: And just one last follow-up question. How many workers in China are engaged in producing textile products for the U.S. market?

MR. YU: 20 million people directly influenced by the United States trade with China concerning textile industry.

But, of course, we can't just count this number by this way, by the, like Mr. Wang had mentioned, that in the 16 percent of the export has been influenced and the 20 million people have been influenced. But we can see, from the -- overall, that's more than 10,000 our member companies engaging in the export to the United States.

For our member companies, they spend more than decades to cultivate their partnership with the United States importers and brands. And they are really willing to continue this kind of partnership.

MS. COVERT: Thank you.

CHAIR TSAO: Sir, I have a follow-up question. Has your organization or any of your members engaged with the Chinese government to address the act, policy and practices, concerns, addressing USTR's Section 301 investigation?

INTERPRETER: Sorry, can you -- pardon?

CHAIR TSAO: Yes, has your organization or any of your member engaged the Chinese government or asked the Chinese government to address the U.S. trade concerns, as identified in the Section 301 investigation?

MR. YU: For both List 3 and List 4, we hosted some training sessions and also some meetings with our member companies, certainly. And we tell them how to participate in this public hearing, public comments procedure.

Of course, during these procedures sometimes we have some of the buyers or some suggestions for our government or also our

Chamber. We are conveying this message to our government. And mostly they are hoping that the two, the two sides government can have a cooperate, can have the cooperation there.

After all, this kind of additional proposed additional tariffs had a huge influence for enterprise. And for themself, they cannot deal with it just by themselves.

MS. ROY: Good morning. This question is for Mr. Miquelon. Mr. Miquelon, in your arguing not to apply the proposed tariff on fleece and artificial flowers, you state that these products cannot be sourced in the United States or other countries without compromising quality and quality requirements.

Can you elaborate on what you mean by quantity and quality and why China is the only source?

MR. MIQUELON: Yes. It's not even an issue of even quality. It's really also an issue of quantity. I believe that fleece, China has the fleece, about 75 percent of the world's capacity. And for the type of fleece that we buy, as far as we can tell, it's probably, you know, mid to high 90s, if not all of it.

I think floral is roughly 98 percent of the capacity. So there just isn't capacity outside of China for those two items. And it's not just an issue of tariffs. It's an issue of, to some extent, survival.

I mean, if you look at -- retail is a difficult business. Our profit margins are about 2 percent. On Lists 3 and 4 right now, more than 50 percent of everything we buy and sell is on that list.

And if you take 25 percent of that, you can do the math, it's very difficult to survive and sustain.

Now, outside of fleece and floral, we have been moving product, and we have found some alternatives. It does take time. But at least there is a path to get there. And it's a matter of being able to hold on.

But again, for fleece and floral, we

don't see any viable alternative right now and, especially on the fleece side -- very capital intensive, very specialized. And I think it's going to be at least a couple years to get there, at best.

And I guess the last thing I would just say is, you know, of List 3 and 4, we have 700 tariffs that are being proposed that would impact us. We're asking for seven exceptions -- again, fleece and floral -- so 1 percent of the total.

And I think if you look at the data, they are truly ones that there just is not the capacity anywhere, nor will it be easy to do that.

MS. ROY: Thank you, sir.

MS. MARTINICH: Linda Martinich, Department of Commerce. My question is for Ms. Larocque. You state that several of your products require manufacturing processes that are not available in the U.S. and that sufficient production capacity does not exist here.

Do you source any products from U.S. manufacturers currently?

MS. LAROCQUE: We actually make snowboards in Vermont, a very limited amount. We invested heavily about five years ago in a prototype facility which allows us to do 3D printing, some garment manufacturing. And we are continually testing and trying new manufacturing modes in Vermont.

Other than that, I cannot think of anything that we manufacture in the U.S.

MS. MARTINICH: So the 3D printing is prototype currently?

MS. LAROCQUE: Yes, that's correct.

MS. MARTINICH: Okay. And then, follow-up question, do you believe it is possible for U.S. manufacturing to develop the capacity and capability to manufacture any of your products to the U.S. quality and safety standards necessary?

MS. LAROCQUE: I'm not sure if I can answer that question. But I can tell you that over the 20 plus years I've been at Burton, I've witnessed our supply chain move from predominantly Europe -- we were making snowboard boots, bindings, helmets, in Northern Italy. We were making our snowboards in Austria and many of our textiles across Europe and North America.

We're not the largest company. We're not the company that is making these macro-economic trends for sourcing and supply chain changes. We're following it. But what I do think we are abundantly aware of is that there is limited manufacturing workforce in America.

Whether it's our distribution center where we see that or in the early 2000s, mid-2000s, when we did have a major production facility in Vermont to make snowboards, it was very difficult to get labor to support these.

So I'm not sure if it's capable, if it's going to happen in the U.S., but I do know that a workforce will be tough to train and have enough of.

MS. MARTINICH: Thank you very much.

MR. FRATERMAN: Thank you, panel, for your testimony. My question is for Mr. Shaffer. You described the significant skill needed to sew ties of silk and new soft handmade fibers.

I was wondering if you could elaborate on the skills needed to sew these ties and why China is the only source for this specific manufacturing.

MR. SHAFFER: I guess I'd start with they are machine-made to a great extent. And much of the machinery to make those ties exists only in China. There are some in other parts of the world, but it's minimal. China is where the bulk of the production is done, and that's where the machinery is.

The other piece of it is the silk. The silk is based out of China. It's only grown and developed in China. So anything you do outside of China prolongs that supply chain, which is just never healthy and much more complicated.

Our intent has always been to look to

move product out of China, but our -- as we looked at neckwear, neckwear was one of the more difficult to impossible categories to get done outside of China.

We were thinking in the next four to five years, we'd only get a very small amount of that neckwear out of the country. And the silk, we just don't have an alternative on.

MR. FRATERMAN: Okay, great. Thank you.

MS. BONNER: Sarah Bonner for SBA. This question is for Mr. Franco. Mr. Franco, you state that you're manufacturing in the U.S. and then also importing from China.

And you referenced several pieces of equipment in your testimony that weren't here and stated that the products are capital and energy-intensive.

Can you elaborate on any of difficulties of moving some of the production back to the U.S.?

MR. FRANCO: So if you look at our

product that we manufacture in the United States, it's actually comforters. And we're buying the component fabrics that are printed in China.

So the weaving of the fabric is a very unique process. And the yarn is predominantly a yarn, a polyester filament yarn that is produced in China. They are very proficient in the PTA as well as polyester filament yarns.

They produce probably 80 percent of the global production of filament yarns. So our fabric has to be made in China. The economies of scale for mass production and the infrastructure of manufacturing is all built up around these efficiencies in China.

When it comes to the equipment, it's done on water-jet looms that are not readily available. It's a type of loom that produces the microfiber sheeting that we bring in our product.

As well, the product is printed with heat transfer printing process, and the capability of the large printing that we need for our bed sheets and our comforters is not available anywhere else, other than China.

MR. JACKSON: Mr. Franco, you mentioned a number of products that you would like to see removed from the list. And am I correct, that's a mixture of finished products that you import for resale in the U.S. as well as, as you've just mentioned, the inputs into the products that you make in South Carolina?

MR. FRANCO: That is -- that is correct. So we're asking for 11 of the 55 HTS numbers that we import. And of the 11 that we are asking, there are component parts that we import in which are our comforter shells as well as our bed and body pillow shells that we fill here in the United States.

The other products that we're asking for are finished products from China that are all mostly of the polyester filament base, and most of it is microfiber.

MR. JACKSON: Do you import any of the products from China that are the same that you manufacture in South Carolina?

MR. FRANCO: We do a little, of comforters when we need additional capacity. There isn't even other sources that we've been able to find to produce comforters here competitively.

So to augment our production when we need to, I would say, maybe 15 percent of our production as a finished comforter is brought in from China.

MR. JACKSON: If the duties were, the additional 301 duties were applied to finished products from China that compete with your manufacturing in South Carolina, would you support the application of those tariffs to those products?

MR. FRANCO: I do not.

MR. JACKSON: Could you elaborate on that since these are products that would compete against those that you make here?

MR. FRANCO: As we sell our products, twin sheets are the driver of our business. And if we have to raise our prices on twin sheets, we will, in turn, sell less of all the other components -- the comforters, the throws, the blankets. So it will have a major impact on the overall business.

The twin sheet is our driver, and that's not something we produce in the United States. And as those sales would fall, everything else would fall with it, including our finished product that we make in the U.S. -- our comforters, our body pillows, our bed pillows.

MR. JACKSON: Thank you. I also have another, a follow-up question for Mr. Yu.

Mr. Yu, we've seen the -- China's share of total U.S. apparel imports steadily decline over the last few years. And I was wondering if you could provide any reasons for that.

Why, what do you think is the market dynamic that is leading to a modest decrease in China's share of U.S. apparel imports?

MR. YU: We still think that the cotton imports from the United States decrease is the most obvious. Actually China, as an export country, concerning textile and apparel industry, so we don't -- the imports from United States may be -- we don't import too much textile and apparel products from the whole world.

So mostly, we are concerning about the cotton -- the import of cotton decrease from the United States.

MR. JACKSON: Maybe my question was misunderstood or maybe I didn't state it very clearly. What I was interested in is your explanation or any reasons that you could proffer for the reduction in Chinese apparel exports to the United States as a share of the total U.S. market.

MR. YU: We think that confidence is a huge issue here. So talking about the trade frictions here for our, for the importers or brands maybe they want to evade the risks as well as possible. So that's why sometimes they try -- they try other supply chains.

MR. BISHOP: Mr. Chairman, we release

this panel with our thanks.

CHAIR TSAO: And we are in recess for lunch. We will reconvene at 1:05 or 1305. Thank you.

(Whereupon, the above-entitled matter went off the record at 12:06 p.m. and resumed at 1:05 p.m.)

CHAIR TSAO: All right. Good afternoon. I hope everyone had a good lunch. We have some new members to the Committee. At this time, I would like the new members to introduce themselves.

MR. RAST: I'm Charlie Rast with the Office of Consumer Goods at Department of Commerce ITA.

MS. PODESTA: I'm Nicole Podesta. I'm with the U.S. Department of Agriculture, Foreign Agricultural Service.

MR. WINELAND: Tim Wineland from the U.S. Trade Representative.

MR. FLEMING: And Bon Fleming from the U.S. Department of State.

MR. BURCH: Mr. Chairman, I'd like to note that all of the witnesses are seated. And for the members on the witness panel, can you speak clearly into the microphone, and if you're not able to hear yourself, pull the microphone closer for the benefit of the court reporter and the audience members in the back?

Our first panel witness is Jeff Williams with the Tennis Industry Association. Mr. Williams, you have five minutes.

MR. WILLIAMS: Thank you. Thank you for your time and consideration in allowing me to appear before you today. My name is Jeff Williams. I am the president of the Tennis Industry Association, the not for profit trade association for the tennis industry.

The TIA was founded in 1974 as the American Tennis Federation, and today, is comprised of nearly 600 member companies, organizations, associations, tennis businesses, and key industry stakeholders. Its key efforts are focusing on providing the industry with market research, growing frequent play, enhancing communications and positioning of the sport and industry, and unifying the industry under one brand, T-E-N-N-I-S.

Currently, the Tennis Industry contributes approximately 6 billion to the US economy, and represents nearly 18 million Americans who play tennis, 100-year-old manufacturing companies, hardworking, brick and mortar tennis retailers teaching pros and coaches who count on industry jobs, and a 100,000 plus person tennis network whose livelihood is dependent on trade.

The TIA is concerned about tariffs on imports of tennis-related sporting goods from China, specifically tennis rackets and tennis balls, because ultimately, these tariffs will impact recreational tennis play, which is at the forefront of healthy lifestyles and wellness programs.

The imposition of tariffs on tennis products will raise prices across the board for the entire community, and force an already weakened tennis industry to further contract. The industry still hasn't recovered from the 2008 recession, and manufacturer shipments into the US marketplace have decreased by more than 50 percent in that time.

There is no viable US domestic production of these products, and switching foreign suppliers, which would involve qualifying new suppliers, identifying new country locations, and encouraging suppliers to build new factories would be prohibitively costly and time consuming. The added cost of the tariffs would have several immediate, as well as long-term effects.

One, increased tariffs would slow investment in all areas of future development for the industry. This would have an impact on tennis facility and retail operations, including hiring, staffing, and future capital improvements to stay relevant and attract new players.

Two, increased tariffs would mean higher prices for consumers, which might dissuade consumers from engaging in our sport.

And three, increased tariffs would exacerbate an already challenging sales climate for companies in the US, potentially forcing businesses to lay off workers and even shut their doors, impeding efforts to engage more Americans in an active, healthy lifestyle, due to the increased cost of the equipment to play.

In closing, I would note that raising duties on these products would not have any impact whatsoever on China's acts, policies, and practices regarding technology transfer, intellectual property, and innovation.

This industry is not cutting edge, nor a priority sector for China's 2025 development objectives. For these reasons, we would urge the USTR not to include tennis rackets and tennis balls on the list of products subject to Section 301 duties.

Thank you so much for your time, and I look forward to answering any questions at the right time.

MR. BURCH: Thank you, Mr. Williams. Our next panel witness will be Bryan O'Rourke with Core Health & Fitness. Mr. O'Rourke, you have you five minutes.

MR. O'ROURKE: Good afternoon, and thank you for the opportunity to testify today. My name is Bryan O'Rourke. I'm a managing director and member of Core Health & Fitness. I appear today on behalf of Core to testify in support of excluding exercise equipment, classifiable under subheading 9506.91.00, HTSUS, from the final list of goods subject to additional Section 301 tariffs.

Core Health & Fitness is the world's fifth largest manufacturer and distributor of consumer and commercial fitness products used in gyms, health clubs, community rec centers, and similar facilities. Marketing its products under Star Trac, StairMaster, Schwinn, and Nautilus brands, Core provides intelligently-designed, reliable fitness equipment and services in the cardio, head group, cycling, and strength categories.

Our headquarters are located in Vancouver, Washington. In the United States, Core employs approximately 336 individuals, and engages the services of about 200 distributors, whose approximate 4,000 employees would also be directly affected by the imposition of the proposed tariffs.

We import a wide variety of exercise equipment, including parts and accessories from China, which Core sells to consumers, US distributors, gyms, clubs, educational institutions, community rec centers, and facilities in the commercial fitness space.

On a daily basis, our exercise equipment is used throughout the United States by average Americans seeking to improve their health and fitness, and to this end, Core's products help to ensure the well-being of US families.

Congress, as you know, has recognized the critical importance of health and fitness in the US, as physical inactivity and obesity are two of the leading causes of death in the country today. We work diligently to offer our individuals and commercial customers quality and durable products at reasonable prices.

Our business is very price sensitive. There is simply no way to avoid raising prices if any additional Section 301 duties are imposed, and as a result, Core estimates that the imposition of additional tariffs at a rate of 25 percent ad valorem would cause the company to incur significant additional costs per year.

The company estimates those additional costs would put it into a net loss position, which would require us to downsize our workforce, which would result in the loss US employment and jobs. Lost jobs occasioned by the imposition of additional Section 301 duties would erode our ability to maintain existing service levels, and stifle innovation, which would likely result in additional lost business.

Core has devoted significant resources to ensure the quality and reliability of the exercise equipment it imports from China. The manufacturer of such equipment requires specialized machinery and substantial manufacturing experience that cannot be readily duplicated by producers in other countries, including the United States, without a significant period of transition.

As a result, there is no practical alternative source for supply in the United States or elsewhere, for these particular products, or comparable ones. To reduce cost incurred by the additional Section 301 duties, Core will have to raise its prices. This will have a downstream effect.

Gyms, health clubs, and community rec centers, and facilities that purchase exercise equipment from Core will also have to raise their prices, and thus, the additional Section 301 duties would create disproportionate harm to small business health clubs and community centers, as well as the consumers that utilize these business' services.

As a general principle, public health inures to the benefit of the country, and the US wellness and fitness are at the top of the political and social agenda, as good public health and fitness helps reduce the levels of depression, obesity, which is identified by the AMA and CDC as a major health concern, and diabetes, where fitness is one of the long-term solutions.

If, as a result of the proposed additional duties, the public has to pay more to maintain their health and fitness regimes, this benefit could be undermined. Consumer spending on health and fitness is completely discretionary.

Small changes in overall costs drive memberships at such facilities in a negative direction, and as a result, higher prices at gyms, clubs, or community centers, would likely cause reductions in spending on health and fitness, which would be contrary to the interests of our country.

Higher prices could also cause gym, health clubs, and community centers to put off needed repairs, or the replacement of older machines. Such delays could result in a reduction of machines available for use.

In addition, if required replacement or repairs were ignored by Core's customers, there is a possibility that persons utilizing the equipment could be injured. Imposing any additional Section 301 duties on the exercise equipment is not strategically important, or related to Made in China 2025, or other Chinese industrial programs.

Improving the additional, or imposing the additional Section 301 duties on these goods will be neither practicable nor effective in obtaining the elimination of what the USTR has found to be China's harmful acts, policies, practices related to technology transfer, IP, and innovation.

Finally, imposing any additional Section 301 duties on the exercise equipment will not be practicable or effective in obtaining the elimination of the acts, policies, and practices of China identified by the USTR.

CHAIR TSAO: Sir, can you wrap it up, please?

MR. O'ROURKE: Yes.

CHAIR TSAO: Thank you.

MR. O'ROURKE: Specifically, we've not been subject to any foreign ownership, administrative review. Number two, we have not been subject to any discretionary or discriminatory licensing requirements by China.

China has not unfairly sought to acquire a company of their assets, and Core is unaware of any instances or IP property theft with respect to its production of exercise equipment. Thanks.

MR. BURCH: All right. Thank you, Mr. O'Rourke. Our next panel witness will be Bill Sells with the Sports and Fitness Industry Association. Mr. Sells, you have five minutes.

MR. SELLS: Thank you for the

opportunity to appear. My name is Bill Sells. I am senior vice president of the, of government relations and public affairs to the Sports and Fitness Industry Association. SFIA members include more than 300 companies, and 750 brands that manufacture and sell sports and fitness products.

Our members have a global impact estimated at 75 billion annually. SFIA applauds the United States government's pressure on China to protect intellectual property rights. However, we believe the proposed use of indiscriminate tariffs are the wrong instrument, and will not result in the outcome we all desire.

On behalf of 15 member companies, SFIA has submitted 35 comments requesting relief from the proposed tariffs on helmets, baseballs, tennis rackets, sports accessories, input materials, such as golf club parts, used to manufacture sports equipment in the US, and other sports products that have accompanied American athletes in their suit-up for everything from high stakes Olympic gold medal games to friendly competitions at company picnics, backyard touch football games at family reunions, and the neighborhood little league games.

We oppose the application of these tariffs, because our, to our -- oh, I'm sorry -- to our members, because they will make participating in sports and fitness more expensive for average Americans, at a time when family budgets are stretched to capacity, and healthcare costs are skyrocketing.

Cost is a barrier that keeps many people from participating in sports. To improve health and increase participating in sports, we need to lower barriers rather than raise them. SFIA and its members are concerned that these tariffs will harm consumers, particularly in low income communities, who may be forced to abandon the sporting activities and active lifestyles that are important to both their health and community.

According to the CDC, the average per

capita healthcare spending for inactive Americans is $1,437 more per year than for active Americans. It makes no sense to jab up the price of the products that otherwise contribute to lowering national expenditure on healthcare.

One way these tariffs benefit foreign companies at the expense of small to medium-sized US businesses is by imposing tariffs on raw materials that are imported from China. To maintain US production, our members have spent decades developing creative solutions, such as sourcing parts abroad, in an effort to minimize offshoring.

Many of our members fear that these new tariffs may force them to comprehensively reevaluate their global supply chains, including possibly moving more operations offshore. While a company in Korea could import raw materials from China, and manufacture them into a final product without a paying a 25 percent tariff, no such workaround is available for American producers.

In addition to the cost of redesigning the supply chains, members looking to source outside of China will likely be required to reach long-term supply contracts at considerable expense. Choosing between these competing evils is not easy, especially when companies see the President threaten us to round after round of unpredictable tariffs.

Under these uncertain conditions, many of our members are enticed by the prospect of manufacturing abroad to ensure that at least some fixed costs will be lower than they are in the United States.

Maintaining the status quo by exempting our members' products from List 4 tariffs would allow them to avoid these difficult decisions, and continue to use US manufacturing in their supply chains.

In addition, our members have already taken many steps to diversify sourcing outside of China, but it can take years to find alternative production options, train a workforce, develop the necessary infrastructure, and build a manufacturing facility.

China remains a vital and not easily replaceable link in our industry's supply chain. The primary effect of these tariffs on, the, on domestic manufacturers is the creation of a competitive advantage for their foreign competitors who will not have to pay tariffs on raw materials.

Most Americans know the names of SFIA members before they know how to drive a car. Our members make timeless products, like Rawlings baseball bats and gloves, Everlast punching bags, Bauer hockey sticks, and Titleist golf clubs.

They also make instant classics like Spikeball Roundnet game, which despite being founded a little more than a decade ago in a garage in Chicago, has found its way into the hearts of 4 million players who attend more than 150 official tournaments, annually.

Sports and fitness companies cannot frequently survive on one product alone.

Importing some parts of a complete product line from China is a necessary means for leveraging brand loyalty to remain durably profitable. While folks mainly purchase one punching bag in a lifetime, consumers will duly purchase several pairs of boxing gloves.

Some price points can only be offered by manufacturing a product, or part of a product, abroad. Finally, SFIA wishes to point out that the USTR's expansion of tariffs to certain List 4 products appears arbitrary and counter to past administrative determinations.

For example, the USTR properly saw fit to remove helmets from List 3, and the International Trade Commission, Congress, and the President granted tariff relief to certain input materials, such as golf club components, through the MTB process to promote US manufacturing.

Imposing tariffs on these products is contrary to these prior administration trade policy decisions. Should the administration choose to impose these tariffs, we hope that it'll work in an exclusion process for products including many made by SFIA members that are not a viable means for creating leverage against China.

In conclusion, we believe China should be pressured to uphold intellectual property rights, but tariffs on our products may have the unintended and perverse effect of harming US companies.

American companies have invested significant time, money, and personal capital to establish viable business relationships with reputable Chinese manufacturers. They have worked together to ensure IP protections, labor rights, and other business practices are built into their agreements and supply chain operations.

The impact of these tariffs then will be to harm those who follow the law and work cooperatively with American companies and consumers. We, I appreciate your consideration of my industry's concerns, and perspective on the proposed tariffs, and would be happy to answer any questions. Thank you.

MR. BURCH: Thank you, Mr. Sells. Our next panel witness will be Scott Darsow with Life Fitness. Mr. Darsow, you have five minutes.

MR. DARSOW: Thank you. Mr. Chairman, and members of the Committee, I am Scott Darsow, Senior Vice President of Global Operations for Life Fitness. Life Fitness is a global producer of exercise and fitness equipment, and I'm here to request the removal of Chinese origin parts and components that Life Fitness uses in the United States to manufacture a wide range of exercise and fitness equipment.

The imported parts and components are classified under tariff provision 9506.91.0300. Life Fitness already pays a tariff rate of 4.6 percent on these imported goods. If additional tariffs of up to 25 percent are added, reaching, potentially, a total tariff of 30 percent, Life Fitness's cost of goods would significantly increase, and harm the company's competitiveness, impact the livelihood of US workers, and ultimately be passed through to our customers, which include the US government, and the US armed forces, specifically.

The vast majority of our company's manufacturing takes place in the United States, and almost two thirds of our global sales consist of US origin products. The company's US manufacturing facilities are located in America's heartland, including small Midwest communities of Ramsey and Owatonna, Minnesota, and Delavan, Wisconsin.

The company employs approximately 1,900 US workers, many of them whom are trained specialists in welding, fabrication, powder coating, and assembly. These jobs earn higher than average blue collar wages.

Life Fitness's manufacturing operations requires a robust supply chain. While China is not the company's top supplier location, it is a critical one. The good we source from that country are not readily available, or easily interchangeable with other goods from other suppliers.

Rather, over the years, China has proven to be a reliable and high quality supplier. In fact, the company previously moved production of over 200 different types of equipment pads used for seats, benches, treadmills, and other equipment, to China, due to serious production quality issues involving a manufacturer in another Asian country.

For the company to phase out China entirely from its supply chain would take years, would likely result in quality issues, it would inflict havoc on the company's revenue and margins.

For the following six reasons, Life Fitness strongly asserts the, that additional increased tariffs are not in the best interest for a US manufacturer, its employees, its customers, and the United States.

Number one, Life Fitness holds a significant position in the US fitness market.

If tariffs were to increase dramatically, and it became necessary to raise US pricing, the company would no longer be competitive in the US market, and would lose market share to European and Asian competitors, neither of which are burdened by these increased tariffs.

Two, Life Fitness distinguishes itself from competitors by having the widest range of fitness products. Our current level of investment in US R&D, industrial design, and modernization of our US facilities, is dependent on maintaining revenues and profit margins.

If increased tariffs are assessed on Chinese origin imports, the company may be forced to halt additional investments, and reduce product innovation.

Three, Life Fitness is a large employer of a well-trained, well-compensated workers located in the Midwest communities. If the imposition of additional tariffs lead to, leads to decreased sales and diminishing profits, the company may be forced to reduce its US workforce. Our employees in these, in these small Midwestern towns, as well as their local economies, will decidedly suffer from this grim eventuality.

Four, a price increase prompted by the threatened tariffs, in effect, targets Life Fitness's customers, who are primarily health clubs, hotels, and hospitality facilities, schools and universities, multi-unit housing, and US military bases.

Many of our customers serve individuals of low socioeconomic status, the elderly, and injured men and women of the US armed forces. If product that maintain or improve overall health are targeted by these tariffs, then the US consumer is the ultimate loser in the trade war between United States and China.

Five, due to ongoing periodic threats of increasing tariffs, there is considerable doubt regarding whether Life Fitness can remain profitable while adhering to existing pricing commitments set forth in its customer contracts.

For example, the company's most favorable customer pricing is provided to the US government, and remains locked in until 2021. If these tariffs remain in place for an extended period, it may no longer be feasible for the company to continue to do business with the US government.

Six, Life Fitness sells its products directly and indirectly to more than 160 different countries. One of the administration's economic goals is to lower the overall unfavorable US trade deficit. Increasing the cost of US exports due to higher tariffs will have a contrary effect, and ultimately lead to reduced sales throughout the global marketplace.

In concluding, for the reasons I shared today with the Committee, along with written comments submitted on June 17, 2019, Life Fitness respectfully requests USTR to remove tariff provision 9506.91.0030 from the list of products to which additional tariffs of up to 25 percent would apply. Thank you for your attention, and I welcome any questions you may have.

MR. BURCH: Thank you, Mr. Darsow. Our next panel witness will be Kevin Michael with Water Sports Industry Association. Mr. Michael, you have five minutes.

MR. MICHAEL: Thank you. Today, we're here to talk about water sports. It's wake boarding, water skiing, tubing, even parasailing, everything that happens behind a boat. I grew up in this industry as a participant, became a professional athlete, and now I serve as executive director of our nonprofit industry association.

Wake surfing is another category that's become extremely popular. Our segment accounts for the most growth in the boating industry, currently. I just saw at the airport today, wake surfing is on the cover of Outside Magazine, so we're experiencing tremendous growth, and we're very proud of that.

Our industry association is the leading advocate preserving the vitality, and ensuring the safety of our activities, long into the future. I've had several conversations with our members over the last couple weeks, as you can imagine, is the hot topic for us.

And our members, they're mostly small to medium-sized businesses, who will be severely and negatively impacted by the implementation of additional duties for List 4 items currently under consideration.

The tariffs will have an estimated cost of $60 million on our industry, which will result in companies going out of business, and lost jobs. Today, we're focusing on the removal of life jackets and water sports equipment, wake boards, water skis, and the like, from the proposed list subject to the potential Section 301 liability.

The specific Harmonized Tariff numbers under consideration today are 6307.20.00 and 9506.29. We look forward to providing the U.S.

Trade Representative more detailed information in written comments provided by our association, and our individual members.

As a group, we develop best practices, maintain waterway access rights. We educate our participants, we promote safety, and facilitate sustainable industry growth. We also have a nonprofit foundation who receives a significant grant from the U.S. Coast Guard of $940,000.

That provides them the ability to focus on safety programs for boaters and paddlers. There's somewhere around 600 boating deaths per year, and most of them could be prevented by life jacket wear rates, and Jason's going to speak more to that later.

Also, any increase in cost of these life jackets, it directly undermines the U.S. Coast Guard's safety mission, and minimizes safe use and enjoyment of US waterways by the public. The application of the proposed tariffs on life jackets will not assist the US in altering or changing the Chinese government's policies, practices, and actions on intellectual property violations, and trade secrets theft.

Life jackets are critical to the safekeeping of the American public on our nation's waterways. I'm one of them myself. 80 percent of life jackets sold in the United States are purchased through China, and the increased duty and pricing will be a detriment for the U.S. Coast Guard's stated goals to increase life jacket wear rates in order to prevent boating-related deaths.

Life jackets are a discretionary product for consumers. As a wake boarder, you don't need a life jacket to be a better wake boarder. So if the price goes up, you might opt not to wear one, because you don't need it for performance.

Increased costs will deter US consumers from purchasing these, and in turn, it'll endanger US citizens who enjoy the US waterways. These tariffs will not assist the US to achieve its goals. That's what our members believe.

Water sports equipment itself is in a very competitive space, so these are discretionary products, again. Our members have created a global supply chain that has been meticulously built over generations.

There's currently no US-based manufacturer to produce these products, and our supply chains will be devastated by these proposed tariffs. The cost and time necessary to relocate the supply chain will simply put members out of business, and for those that survive, the reduced profitability will curtail their further capital spending, and will put them at a global disadvantage.

The proposed additional tariffs will not only affect our members and their employees, but also 500 US retailers, who are all members of our association. These retailers are small family-owned sporting goods and marine dealers, and these products are discretionary in nature, and will have a profound impact on their sales.

Profit margins are extremely small, and neither these suppliers nor retailers are able to absorb these costs. Customers, on the other hand, are also not willing to pay higher prices from these largely seasonal products.

I grew up in Wisconsin, and when summer rolled around, we did what we could to buy new products, and if you're water skiing on old gear, the bindings can break, putting you at risk for injury, and it's just not something that's in reach for most consumers out there.

So any tariff will cause severe financial harm and loss of jobs throughout these retail channels. Today, we are respectfully requesting that the U.S. Trade Representative exclude life jackets and general water sports equipment from the proposed list, pursuant to the Section 301 investigation. Thank you very much for your time today. I really appreciate it.

MR. BURCH: Thank you, Mr. Michael. Our last panel witness will be Jason Leggatt of Life Jacket Association. Mr. Leggatt, you have five minutes.

MR. LEGGATT: All right, thank you. I feel like I need a life jacket in this room. But thank you for the opportunity to testify before you today. My name is Jason Leggatt, and I'm the president of the Life Jacket Association, and really I want to expound on sort of two points relative to the life jacket industry.

Really, the impact on our manufacturers through the retail to consumer, and then impact on safety. Our organization is a nonprofit, and the mission is to increase life jacket wear, and Kevin just talked about some of the examples of why that's critically important.

Our industry is also a relatively small industry. It's a small organization. There's only about 12 million life jackets sold each year in the United States. Typical average cost of life jacket might be, an expensive one, $150, but really down in the $50, if you're looking at the mass market.

So it's maybe 500, no more than $1

billion industry. But we participate in a much bigger industry in terms of boating and outdoor recreation fishing, in particular, which is a $38 billion industry, so one of the biggest outdoor industries in the United States.

So we represent a small industry, represent, you know, small to medium-sized companies. Companies like Kent Water Sports, Coleman-Stearns, Mustang Survival, and then really small companies like MTI Life Jackets, and ThrowRaft.

Our organization also involves like-minded groups, such as National Safe Boating Council, and Watersports Industry Association. So very focused on increasing life jacket wear. The Section 301 tariffs targeting life jackets, personal floatation devices, and other marine lifesaving appliances, these things are critical for the safekeeping of American public on nation's, on the nation's waterways.

If the tariffs are imposed, it's going to cause considerable harm to the life jacket industry, and consumers alike. You know, again, just an example, a very expensive, highly wearable life jacket, and highly wearable products are the ones that save lives.

If you choose to wear, you know, a lower performing device, or defer to a cost-based purchase decision, your product might not be appropriate for the activity. And so, you know, a very expensive $150 retail jacket's going to have maybe a $50 China invoice.

So the tariffs up to 25 percent are going to add 12.50. That turns right back to 40 or $50 at retail, so that $150 product's become 190 to $200, and that starts to make those very wearable products really unattainable for the consumer.

So you know, highly wearable devices are the ones that save lives, and the tariffs would harm those products even more than lower cost type of items. Kevin already mentioned, you know, that the tariffs would also then, therefore, contradict sort of both the U.S. Coast

Guard's own mandate, and also the resolution of the National Boating Safety Advisory Council, which was formed by or commissioned by the Coast Guard, which charges the Coast Guard to investigate ways to reduce the overall cost of highly comfortable life jackets.

And again, that's because we know, without a doubt, that 80 percent of people that drown or perish in a boating accident were not, were not wearing a life jacket. So it's absolutely critical that people have the option and affordable options to purchase wearable, affordable life jackets.

Finally, we believe that the proposed action is punitive to the life jacket industry, and really would have no impact on US origin intellectual property and innovation, and would in no way incentivize the Chinese government to change its marketplace practices.

Our Chinese manufacturers that partner with our industry members have been very cooperative. There are third party certifications, but also U.S. Coast Guard approvals in place for all personal lifesaving systems that must be carried on boats, whether it's for recreating, or for industrial use, in the United States.

And those things sort of act as a prohibitor in terms of China counterfeiting products, and selling those into the US market, and that's afforded some protection, and enabled our industry members to create close collaboration with their Chinese manufacturing counterparts.

It would take years of significant investment to move production to avoid tariffs in China for that same reason, and in particular, the switch in cost associated with the third party certifications and U.S. Coast Guard approval is very timely and cost prohibitive, but in addition, these are critical lifesaving items.

The Chinese industrial base has been producing them for decades now, and it's a highly technical sewing capability to make a lifesaving item, and you increase the risk when you go to a region with labor that is unfamiliar with making lifesaving products, and that could reduce quality and increase the risk to the American consumers that are using those products.

So we ask that the U.S. Trade Representative exclude those items that we listed, particularly 6307.20, which is life jackets, but also other items.

In our supplemental response period in the next week, we'll also add some ingredient technologies that are impacted by the tariffs that I did not, did not list in this testimony. Thank you for your time, and I am happy to answer any questions you might have.

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

MS. PODESTA: I want to start off, I'm starting off with Mr. Williams with the Tennis Industry. Mr. Williams, what percentage of the overall Tennis Industry sources its products from

China, and are there any alternative sources of these products?

MR. WILLIAMS: Well, the key products that we were talking about today, both balls and rackets, of the tennis balls sold in the United States, two thirds of those are manufactured in China.

The other third come out of several other countries, but the challenge we have in moving that away from China, just say, okay, fine, we'll just, if you've got a factory in Japan, move it over to Japan, but the problem is, to the best of my knowledge, those factories are proprietary.

So they're not open to just somebody saying, okay, well, you know, we can just contract with them to make the tennis balls for us. So the challenge there, especially on the ball side, is finding new sources, developing new sources, developing the labor, and also building new factories.

On the racket side, it's even bigger,

because 90 percent of all the rackets made come out of China. Now, there are a couple of other factories in Japan, one in France that makes some, but those, again, are proprietary for certain companies.

So to move out of China, you'd face the same problem again, which is, you know, to develop the, find a new supplier, build the new factories, develop the labor force. So it would not only be costly, but time consuming.

Yes, it can be done, but the effect that it would have, the negative effect it would have on the sport, and the time it takes to develop those, could be catastrophic.

MS. PODESTA: Thank you.

MR. FLEMING: A question for Mr. O'Rourke. In your testimony, you said that finding suppliers outside of China would require a significant period of transition.

MR. O'ROURKE: Yes, sir.

MR. FLEMING: How long would this transition period be, and why that length?

MR. O'ROURKE: Yes, so it's a very big question, because there are many components to the answer. One is, let's look at replacement parts, for example, alone. You're talking about tens of thousands of pieces of equipment that have gone through a life cycle.

You're talking about thousands and thousands of pieces of replacement parts. You have to build, have tooling, and expertise to create those. You're talking about years of trying to figure out how to do that, and then the economics of doing that, because then, you have to start with retooling for those pieces, you have to, you have to inventory for those piece. It's many years.

I, you know, we, you know, right now, internally, we're trying to evaluate how we would possibly deal with that, but you're talking about many years. I couldn't give you a definitive answer, but it's significant investment.

On the, on the product itself, on the finished goods product, similar problems that you have with that. You have to, you know, the sources we have, not only are the source itself, it's the whole supply chain behind those sources.

So you're not just talking about a singular piece of equipment. You're talking about all the components relating to that, and you have to do a similar practice. You have to go through and deal with all the tooling, all the expertise, all, you know, again, the safety aspects of it.

These people have to have certain certifications. So many years to figure out how to replace that.

MR. FLEMING: Thanks.

MR. RAST: This question is for Mr. Sells of the Sports and Fitness Industry Association. Your testimony cites concerns about a number of tariff lines.

Your testimony cites concerns about a number of tariff lines, and products in those tariff lines. Could you highlight products that are of most concern to your members?

MR. SELLS: I'll start with right here. Baseball, America's past time. List 3, you put tariffs on gloves.

MR. BURCH: Can you, can you, can you speak into the microphone?

MR. SELLS: Oh, I'm sorry. On List 3, the previous time, the tariffs were placed on gloves as a generic category, but you captured baseball gloves, both batting and fielding gloves in that, in the, in List 3 tariffs.

List 4, bats and balls are, and helmets, are all covered in List 4. The balls, for example, there's no tanneries in the US. So the leather that's used in these balls, we don't even have in the US.

We, so we do it in, so we make the balls in China. The bats and the golf club here have titanium in them, and there's no titanium foundries, the capacity for titanium foundries in the US isn't there.

So there's really nowhere for us to get the raw materials to develop these products.

So these are like major concerns for us, because we don't really have another place to turn, because the raw materials are not available here in the US.

I can go through other products if you want. This helmet, for example, our main concern here is similar to a lot of other peoples'. This is a protective piece of equipment. We have worked years to make this as safe and as protective, for kids and all players, as possible.

Picking up and moving that to another country to make that product is going to take time to make sure that we have everything in place to ensure this product is made to the standards that is going to provide maximum protection.

And this picking up and moving to another country, and training the workforce, and developing the manufacturing facilities, and getting everything in there to do that, is not going to be simple.

So for us, it's a matter of not having other options, and for some things, and other things, it's making sure that it serves its purpose of protecting children.

MR. RAST: Then I have a follow-up question. How large is the US market to Chinese suppliers of sports and fitness products?

MR. SELLS: US sending to China? Is that what you're asking? Okay. I would have to get you that information. I don't have that off the top of my head.

I do know companies like New Balance, who make footwear in the US, one of their popular shoes that's made in the US is one of the most popular shoes that they send over to China. China is their either second or third biggest importer of the shoe, and they're feeling pain coming back at the other direction.

MR. RAST: Do you know how large the market is to Chinese suppliers coming into the US?

MR. SELLS: I know for certain

products. I don't know the overall size. I can, I can get you that information and put it in our final, in our written comments.

CHAIR TSAO: Mr. Sells, just a follow-up to that.

MR. SELLS: Yes.

CHAIR TSAO: I guess what we're trying to understand is what are the potential effects of the additional duties on your Chinese suppliers?

MR. SELLS: Oh, on our Chinese suppliers, you know, they, you know, they're going to, we're going to end up absorbing the cost. We do not believe our Chinese suppliers, we're working with them to keep costs down.

We're constantly working to keep our costs down, finding any way we can to reduce costs and maintain the quality of our products. We have not seen with List 3 the Chinese, you know, paying up any of these tariffs.

It's been, our companies have been the ones absorbing them so far, so we have not seen any impact on the, from the Chinese side to date.

MS. RESNICK: Hi, I'm, hi, my name is Bonnie Resnick for the Treasury Department, and my apologies for being late. I have a question for Mr. Darsow. You know that there are a number of competitors in your field, and could you tell us how many of these competitors are US companies?

MR. DARSOW: Well, the fitness industry is fragmented, but there are some top players. There's, I don't want to get into listing the competitors, obviously, but what I, what I will tell you is that ultimate winner after, if these tariffs were to be implemented, are our foreign competitors.

We have significant reason to believe that our foreign competitors, specifically one out of Europe and one out of Asia, have manufacturing facilities in Eastern Europe, and in Taiwan, that also source similar components from China that we do in the US.

So at the end of the day, we will be

impacted by those tariffs, and our foreign competitors will not be impacted, the way we understand it.

MS. RESNICK: And if I may ask a follow-up, do you have an idea how quickly those competitors would be able to ramp up, if they chose to?

MR. DARSOW: I guess I'm not understanding your question.

MS. RESNICK: Oh, I'm sorry. I mean, I'm sorry, ramp up production.

MR. DARSOW: Our foreign competitors have plenty of capacity, both in Eastern Europe and in Taiwan, that they're sitting on today.

MS. RESNICK: Thank you.

MS. ROY: Good afternoon. This question is for Mr. Kevin Michael. How are you? You have stated that your members have spent a lot of time and resources building up their supplier base in China. What percentage of your members' supply base is located in China?

MR. MICHAEL: Well, there's kind of

two segments. There's life jackets, and then general water sports equipment that we're speaking about today. From what I understand, out of general water sports equipment, 95 percent manufacture their products in China, and with life jackets, it's around 80 percent.

MS. ROY: Thank you.

MR. FRATERMAN: I'd like to thank the panel for their testimony today. My question's for Mr. Leggatt. Mr. Leggatt, in your experience, how price conscious are consumers when purchasing life jackets?

MR. LEGGATT: Yes, in our experience, they're very price conscious. I mean, at the, at the lowest end of the market, you have four packs of life jackets, which, you know, meet the bare minimum Coast Guard requirement.

About $10 each, you literally buy them in a baggie of four, and they look like a brick, you know, if you want to, if you get on hashtag Jiffy (phonetic) on your phone and look, you'll find pictures of those.

And those products, the problem with those product is, while, if you wear them, they can provide some lifesaving benefit, is that they aren't put in a wear-type situation. They're stored below the boat in the, in a locker, or under the seats in the boat, and they're really not accessible, and they're not worn by users because they're not comfortable.

They're not, they're not something you're going to wear out in Texas when you're boating in the summer. So, but people default to, what do I need to do to meet the bare minimum of the law?

And what we're trying to do is advocate for wearable products that do cost more, and we're trying to find ways to minimize sort the price gap between those low cost items and that, so that people will use some of their discretionary money to spend up to a wearable product.

MR. FRATERMAN: Okay. And are there alternative supplies that can meet the needs of the US market?

MR. LEGGATT: Again, Kevin talked about that, about 80 percent of the production's currently in China. I think the difficulty with switching, and the, and the difficulty with, you know, looking at the Chinese manufacturers, and thinking, well, will they absorb these costs, is that the products, and then the production itself is certified by third parties, like Underwriters Laboratories, and/or approved by the Coast Guard.

And so the Chinese manufacturers know that it's extremely difficult for the brands to move that production to a different country like Vietnam, and that kind of stuff. And the other challenge we've found in my company's own experience is we helped one of our Chinese manufacturers shift some of our production to their Taiwanese manufacturer, and we had to move it -- or sorry, Vietnamese manufacturer -- we had to move it back to China because of quality concerns.

We were making inflatable life

jackets, have a ton of labor, highly technical, and they can't go wrong. It uses a CO2 mechanism to inflate, and so, you know, we had safety concerns due to the quality that was coming out of Vietnam, and we actually moved production back to China for that reason.

So these are some of the reasons why it's quite difficult to source it from some other region.

MR. FRATERMAN: Okay. And just one last question as well. You mentioned this in your testimony, counterfeit products, that are coming into the market. Can you just kind of describe to me the effects on the industry that the counterfeit products are having?

MR. LEGGATT: No, I talked about that, there's actually little to no counterfeit product, other than product that may come through, you know, Amazon or Alibaba type pathways, because you're required to have a U.S. Coast Guard certification on the label of your product, it's very difficult to counterfeit those products.

The production's actually tracked by the lot, the number on the label, so you can tell quite easily whether or not a product is counterfeit. It's also a very small industry, like it's not attractive for Chinese manufacturers to knock off life jackets and try to sell them into North America since it's such a tiny market in the grand scheme of things.

MR. FRATERMAN: Great. Thank you for that clarification.

MS. ROY: I just have a question for anyone with regard to the equipment and your order of the life jackets and such. Do you have any concerns with any of those things being imported through e-commerce? Because some of them are not very high priced items, do you, do you have any experience with that?

MR. SELLS: We have a, our biggest concern with the e-commerce is fake products. It's very easy to ship out one single item through the mail that might not be real, and with the problem you have, if you go out and you say, okay, I don't want to spend for the real helmet, I'm going to get the fake helmet for my kid, first of all, you're being an irresponsible parent, but beyond that, the child gets hit with a ball and gets a concussion because he did not have the right helmet, as you say, bought a single item online.

That is a big problem for the sports industry. We have a lot of counterfeits that are one-item shipments. It's not like a big shipment coming in, it's a single shipment coming in, it's a single item coming in, and that's a problem for us.

MS. ROY: Thank you.

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

(Pause.)

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

CHAIR TSAO: We have a few new members to the Committee. At this time, I would like to ask them to introduce themselves.

MS. JANICKE: Sorry, once the microphone cooperates, it's Jean Janicke, U.S. Department of Commerce, International Trade Administration.

MR. TUEBNER: Good afternoon, my name is Robert Tuebner with the U.S. Department of Agriculture, Foreign Agricultural Service.

MR. BURCH: I would like to note before we begin, all witnesses on this panel, please speak clearly into the microphone, and if you're not able to hear yourself, please pull the microphone closer for the benefit of the court reporter and the audience in the back.

Our first panel witness will be Jennifer Liu with Sony Interactive Entertainment. Ms. Liu, you have five minutes.

MS. LIU: Thank you very much. Good afternoon. Thank you to the interagency Committee for this opportunity to speak to you about the video game console business, and the impact these tariffs would have on the millions of Americans who work in this industry, and who buy its products.

My name is Jennifer Liu. I am general counsel and senior vice president of legal business affairs at Sony Interactive Entertainment. We are a leading innovator of interactive digital entertainment, and the company responsible for the PlayStation business globally, including the PlayStation video game console.

Headquartered in San Mateo, California, we support thousands of high value jobs throughout the United States. I'm grateful for this opportunity to testify today regarding the serious harm that the proposed tariffs on video game consoles would cause, not just to our industry, but also to consumers, retailers, and thousands of small and medium-sized game developers.

We detailed these concerns in a joint

submission with Microsoft and Nintendo of America, who make the Xbox and Nintendo Switch line of video game consoles, respectively. In support of that joint submission, and on behalf of Sony, Microsoft, and Nintendo, I want to explain why removing video game consoles from this final tariff -- from the final tariff list is critical to maintaining US technological leadership, and hundreds of thousands of US jobs.

Game consoles are the critical foundation for our businesses. This is because our consoles drive the purchase of services and games. We therefore sell our consoles under tight margins to make them as affordable as possible to consumers. In light of this business model, the effective tariffs as high as 25 percent on console makers would be severe.

We have very little or no latitude to absorb tariff costs, given our already tight margins, neither would the brick and mortar retailers that sell the consoles, nor would we be able to pass the tariff costs upstream, giving our suppliers' tight margins.

In 2018, over 96 percent of video game consoles imported into the US were made in China, and the video game console supply chain has developed in China over decades of investment by our companies and our partners.

Consoles are highly specialized products. They're unique to each console maker. They have custom components, and there are specialized manufacturing processes that are needed to put those consoles together. Consumers, especially lower income consumers, would be impacted enormously by a tariff on consoles.

A price increase of 25 percent, for example, will likely put a new console out of reach for many American families who we would expect to be in the market for a console this holiday season.

The software and services that run on the consoles are made primarily outside of China, so those hardest hit by these tariffs would be the nearly 3,000 independent small and medium-sized businesses that develop video games in the United States.

A significant number of the games played on Sony, Microsoft, and Nintendo consoles are created by independent developers, and purchased separately by consumers. Console game development is already a highly competitive space. When game sales are depressed or games are cancelled, major layoffs result.

The proposed tariffs on consoles are also likely to severely curtail innovation in our industry and beyond. Collectively, we invest billions of dollars in research and development in the United States to develop and deliver inventive consoles, and next generation technologies to our customers.

Critically, many innovations originating in the video game industry have been deployed to the benefit of other industries and sectors of society. For example, Sony's PlayStation 3 console employed an innovative processor architecture known as the Cell Broadband Engine, a chip that approached supercomputer levels of processing power.

The cell was used for Stanford University's Folding@home project, which is the most powerful supercomputer cluster in the world. It was used for disease research by simulating protein folding. Hundreds of scientific research papers came out of the Folding@home project.

Microsoft originally developed its award-winning motion sensing input device known as Kinect, as a gaming accessory device for Xbox consoles. Microsoft's investments in motion and depth sensing technology can now be experienced in its hollow lens mixed reality head-mounted device, and its recently announced Azure Kinect device.

These devices are being deployed globally in a variety of industries. Healthcare, retail, industrial, manufacturing, education, and research scenarios by commercial enterprises, academic institutions, and government agencies.

Nintendo, creator of the Wii console, has helped expanded audiences play video games with its motion controls that keep people active and social, enhancing their quality of life through fitness and fun.

Nintendo is often credited with making the front-facing camera ubiquitous feature on today's smart devices, through its Game Boy camera accessory.

For these reasons, the proposed tariff would cause outsized harm to the industry, consumers, and other US economic interests without advancing the goals of this administration to preserve US technology leadership.

Sony Interactive Entertainment, together with Microsoft and Nintendo of America, respectfully request that the administration remove from the final tariff list subheading 9504.50.00, covering video game consoles.

Thank you very much for your consideration of our request, and we'd be pleased to take questions.

MR. BURCH: Thank you, Ms. Liu. Our next panel witness will be Jerry Huang with VIZIO, Incorporated. Mr. Huang, you have five minutes.

MR. HUANG: Good afternoon, members of the Committee. I am Jerry Huang, Senior Vice President and General Counsel at VIZIO, headquartered in Irvine, California. In addition to my legal responsibilities, I also oversee the human resources function.

VIZIO appreciates the opportunity to present our views at this hearing. VIZIO is an American company founded in 2002 in Orange County, California. As a consumer electronics company with a focus on delivering, developing, and selling industry leading televisions and other consumer electronics using cutting edge technology, today, we are the only -- we are one of the leading and most recognizable television brands in the United States.

We are the only major independent

American television brand in this hyper-competitive television market, and I should also add that the founding of VIZIO is a true American success story, that our founder, back in 2002, helped to bring the first flat panel plasma TV for Gateway Computers at a rock bottom price of 2,999.

You may scoff at that, but putting in context, 19 -- 17 years ago, that was less than half of the comparable product. So when Gateway decided not to continue with the television business, our founders saw the commitment to bring the best technology to consumers, mortgaged his own house, and started the business in Southern California, and the rest is history.

So since that day one, VIZIO's founding mission has been where vision meets value. Day in and day out, all of us strive to achieve that goal of delivering high performance, smarter products, with the latest innovation, at a significant savings that we can pass along to everyday American consumers.

All the cost improvements and efforts innovations have benefitted the consumers. To illustrate that point, VIZIO's profit margin, if any, have maintained at a modest, low, single digit percentage point since its founding, because of our firm commitment to the American consumers.

In addition to our Irvine, California headquarters, we have a significant operation footprint in South Dakota, and other offices throughout the United States, including Bentonville, Minneapolis, Seattle, San Francisco, and Dallas.

We have sold over 65 million products since our founding, including over 35 million smart televisions. We are also the leading sound bar brand in the United States, delivering the same value promised to the American consumers.

And this past week, we actually had the opportunity to meet personally with Senator Rounds and Senator Thune, as well as other office staffs for senators from California, South --

Iowa, Texas, and Washington, to share our VIZIO story.

After careful review of the HTS subheading described in the annex of the USTR's May 17th Federal Register notice, VIZIO urges USTR not to impose tariffs on its three flagship products, flat panel televisions, classified under HTSUS subheadings, subheading 8528.72.64, as well as speakers and sound bars, classified under HTSUS subheading 8519.81.4050.

As the Committee may also recall, televisions and speakers and sound bars were also removed from List 1 from last year's proceedings under those headings. First, flat panel televisions, speakers, and sound bars are inherently consumer products, so these tariffs will have a significant impact on the US consumers.

Approximately 119.9 million US households own a television. A significant portion of the households also own sound bars and similar audio products.

In addition, while VIZIO offers plat panel television and sound bars at a wide price range, VIZIO is known for consistently offering the more feature-rich affordable flat televisions and sound bars at the -- on the market, at a significant value to the consumers.

A sizeable portion of its customer base are the everyday hardworking middle class backgrounds. Those customers are the types of consumers that can least afford the increased price and are the ones most likely to be priced out of the market if these tariffs are imposed.

Second, tariffs on these subheadings would punish VIZIO, the only major independent American television company, by forcing it to raise its price, while allowing foreign-owned brands with manufacturing outside of China, to undercut VIZIO.

This will reduce VIZIO's ability to compete in the already crowded ultra low margin market space. It would be extremely difficult for VIZIO to transfer production to the United

States or other non-China-based manufacturing without significant cost increase that will far exceed VIZIO's modest profit margin, resulting in a significant price increase to the American consumers.

Third, imposing tariffs on these products would not be practical or effective to obtain the elimination of China's acts, policy, and practices, as these products are not key to China's Made in 2025 strategy.

In fact, tariffs would significantly benefit all the other foreign brands in the United States, US television market. Finally, in the event that USTR proceeds with the tariffs, VIZIO also requests that USTR implement a product exclusion process so that US companies who lead the way in US technology and innovation are not harmed by the tariffs.

On behalf of VIZIO, I again would like to thank the Section 301 Committee for the opportunity to share my testimony, and would be pleased to address any questions the Committee may have.

MR. BURCH: Thank you, Mr. Huang. Our next panel witness will be Michelle Ganon with the Port of New Orleans. Ms. Ganon, you have five minutes.

MS. GANON: Thank you. Good afternoon, Ambassador Lighthizer, and distinguished members of the Section 301 Committee. My name is Michelle Ganon, and I serve as the Port of New Orleans chief of staff and vice president of public affairs.

The Port of New Orleans is Louisiana's only international container port, and an export-driven deep order port with connections to six Class 1 railroads. As you may know, increasing exports is a national priority.

We contribute to this effort by making sure that the significant investments in Louisiana petrochemical plants generate returns, and that food and agricultural products from Louisiana and the Midwest, including rural areas, effectively and efficiently reach ports on six continents.

I'm here to echo the voices of the American Association of Port Authorities, and many others, in respectively requesting that HTSUS subheading 8426.19.00, covering transporter cranes, gantry cranes, and bridge cranes, be removed from the final list of products under consideration for increased tariffs under docket number USTR20190004.

A tariff on cranes was proposed and wisely dropped in October 2018. Nothing has changed that would warrant reconsideration of these tariffs. They are not manufactured in the United States, and none have been built here in more than 20 years.

Here is how a tariff of up to 25 percent would affect one port, the Port of New Orleans. We recently ordered two new 100-foot gantry cranes, and we planned to order two more in the next month.

This tariff would increase the cost of that necessary equipment by up to $13 million, reducing our ability to fund other vitally needed infrastructure and investment, investments in infrastructure.

We absolutely need to secure those cranes at the best possible price. Our container business has doubled in the past 10 years, with volume reaching an all-time high in 2018. Our volume growth continues to accelerate, and we expect that for the foreseeable future.

To accommodate the demand, we are upgrading and expanding our current container capacity, and are in the process of selecting a site for an additional container terminal. We plan to order many more cranes in the years to come.

If we cannot provide the infrastructure we need, we will be unable to serve the ships that want to call in our port. Lack of adequate crane capacity will reverse the momentum we are enjoying now, and it will result in fewer calls and lost volume.

This will directly affect American

jobs. The Port of New Orleans and our tenants support nearly 125,000 -- nearly 120,000 jobs nationally, and nearly 30 billion of economic output.

A study showed that each pair of new cranes will result in the creation of more than 1,100 jobs, and nearly 70 million in personal income. The Port of New Orleans, like other commercial enterprises, depends upon a strong United States economy.

This particular tariff would cause disproportionate harm to our interests, and the ability to grow exports. We support your efforts to ensure we are able to compete fairly and effectively in a global marketplace, though we do urge you to oppose tariffs on this critical piece of equipment, which ports throughout the company depend upon to grow exports and expand the economy. Thank you, and I'll be glad to answer any questions you might have.

MR. BURCH: Thank you, Ms. Ganon. Our next panel witness will be Paul Rotstein with

Gold Medal International. Mr. Rotstein, you have five minutes.

MR. ROTSTEIN: Thank you. Thank you to the Panel, and the Committee. Although I regret having to be here, I should be back running my business and my company rather than dealing with a threat to its very existence, which is what we're dealing with.

Today, I've heard everybody talk about the tariffs, and they've talked about it in a universal manner. I really want to talk about it in two aspects, the immediate, and the long-term. The idea of imposing tariffs on product that has been sold and priced to consumer, to retailers for consumers, with about 7 to 10 weeks' notice, depending on how the Committee decides, and how things work, it's just impossible to react to.

The exposure to my company and the economic threat to my company on an imposition of tariffs in such a short manner is really to its very existence. Surviving that, if we survive that, the long-term effect on tariffs, which is what I've heard more talked about here today, again, has a significant impact on inflation in the apparel industry.

I deal in socks and cold weather accessories, small products, very low cost goods. We source well outside of China. China's a portion of our sourcing structure, not solely dependent thereon, but you cannot replace the quantity and the capacity that China has in a short manner.

These relationships, as you've heard many times today, take out -- take years to develop the relationships. Again, we don't deal in a technical product, but still, the trust, and the ability.

When I go to a retailer, and I can, and I, the retailer gives me the commitment, and I give them the commitment to deliver a product on time at the right price and the right quality, even though it's a sock, pretty boring, I still have to deliver that product, the right product, at the right time, and at the right quality, and

I can't do that with a supply chain that's untested.

Apparel, in general, is a one-season product. If you're dealing bathing suits and so forth, you have a spring season, but by and large, the apparel industry is a fourth, third and fourth quarter business. That's where we make all of our profit.

I get one shot a year to try a new, to try a new resource, okay? If they want to ship me in January, February, it's quiet, it's easy, it's good. But if they're going to ship me in June, July, when things are tight, when production is tight, when everything that I need, and I need to make the deliveries to the retailers in the US that depend on it, I can't go to somebody new, so I get one chance at it.

We have 15 new factories coming onboard for 2019. I don't know how they're going to do. Guarantee you, 15 of them won't make the cut. I'll be lucky if two or three of them really make the cut, and really deliver on time, a right product, at the right time, and the right quality, at the right price.

So we've got a real existential threat to the industry. You're talking about increased prices, you're talking about inflation, and the consumer, the American consumer has a limited amount of spending money.

You've heard it said before that this will have an impact. If they have to spend more money on something else, my industry is pretty much an add-on. I always say, nobody gets off the couch to go buy a pair of socks.

They buy them because they're in the store and they're there. It's an add-on. If they don't have the extra money in the pocket when they're in the store buying the jeans or something else, which are also going to be 20, 25 percent more expensive, they're not going to buy the socks.

It's going to have a direct impact on our business, and on the consumers, and on retail in general. So it's a threat that we can't sustain. Sorry. It's emotional.

It's a, our company just turned 65 years old. We celebrated last Thursday with a company outing. I employ 50 people in the United States. I'm not a big company. As I said, I shouldn't be here.

I should be back, running my business, but I'm here because it's that important to what, to the essential threat, and to what it's doing. Personally, tariffs are a blunt instrument. They're not a good way to run trade policy.

Any time government, whether it's US or any other government gets involved and imposes something on an industry, and it distorts the industry, and prices go up overall.

Again, anywhere, you've heard it mentioned before, companies that have duty-free to Canada, or to Europe, do not price goods to the US at the same price, because they know they can be 10 percent more expensive to Europe or Canada, and still get the business.

They can't to the US because we pay as

an industry. I pay about 15 percent duty on everything that comes in. I know, for our industry, in general, in apparel, we're 6 percent of imports in the country, total.

We're 40 percent of the tariff, or the duty dollars collected by the Treasury, so it's a huge impact. Again, I appreciate your time. I'm here on behalf of my company. It's -- we want to survive.

My son is here with me today. He got married three years ago. He's worked with me for five years. He's the future of the company. Bought a house last year, has his first child coming in December, and this is a real threat to our total existence, and appreciate your time.

MR. BURCH: Thank you, Mr. Rotstein. Our last panel witness will be Jeff Pinkow with Centric Brands. Mr. Pinkow, you have five minutes.

MR. PINKOW: Members of the interagency Committee, thank you for the opportunity, thank you for the opportunity to discuss why Centric Brands submits that all Harmonized Tariff classification designation for babies, infants, and children's clothing be removed from the proposed list of items subject to up to 25 percent tariff if imported from China.

My name is Jeff Pinkow, and I am the senior vice president of sourcing and production for children's wear at Centric Brands. We are a publicly traded company, based in New York, employing approximately 4,000 people in the United States and Canada, with approximately $2.4 billion in revenue.

I have been in the apparel industry for 45 years, with the last 32 years specializing in children's apparel, and traveling to and from China since 1978. I'm that old.

The children's wear business at Centric Brands began as Kid's Headquarters in 1987. From there, through a series of transactions and acquisitions, we have created Centric Brands, an entity that designs, produces, merchandises, manages, markets, and distributes kid's wear, accessories, and apparel through licensed own brand and private label.

Our products can be found in all channels of distribution, from mass market, big-box retailers, major department specialty stores, in addition to e-commerce, and our own stores.

I'm here to speak to you about the importance of why imposing additional tariffs on infant and children's apparel produced in China will impact the American family.

The US children's wear market is over $21 billion. The number of units imported is in the billions. Due to the fact that kids outgrow clothes two or three times in a year, and a baby can go through four or more outfits a day, the volume of products necessary to be produced cannot be shifted readily out of China for multiple reasons.

One, there are limited factories in the US and/or outside of China. 98 percent of all US children's apparel sold is imported, with

China as the largest country of origin. Raw materials, the majority of children's wear products are made from China fabrics.

The majority of the flame retardant fabric is produced in China. Approximately 80 percent of children's sleepwear is required by law to be flame retardant.

Children's safety standards, infant and children's clothing is heavily regulated. Our fabrics are required to be tested for flammability, the chemicals, the dyes, the inks have to be tested to ensure they don't cause rashes or other reactions.

The buttons, zippers, and other trim have to withstand pulling and tugging to prevent choking hazards, and the components must not contain any traces of chemicals or poisons, such as lead or phthalates.

Fourth reason is capacity. China capacity cannot be absorbed by other countries in a compliant, orderly transition. Factory onboarding, we would need to move cautiously from our existing factory base, or else we would face significant risk to product safety.

We need to protect our children's safety, as well as the parents' pocketbooks. Apparel is one of the highest tariffed items in the United States, the average tariff, about 13 percent.

The differential means that margins in apparel are very narrow. An increase in tariffs of up to 25 percent will render many apparel items out of the reach for the average consumer. Children's wear is the most price sensitive product in the apparel market.

Any increase in tariff will have a direct and palpable impact on the consumer. Clothing is not optional. It is a requirement in children's clothing, is a repeat purchase for every parent.

Placing up to a 25 percent tariff on our product will cause significant harm to our growing company, and more importantly, we will be forced to pass the increased cost onto our retailers, and ultimately, the consumers.

Further, the imposition of tariffs on our items will not influence nor change China's practices, policies, or acts, with respect to intellectual property and trade secrets. China has already signaled that it is no longer focusing on the textile and apparel industry.

Infant, baby, and children's clothing made in China will not contribute to China achieving its goal for 2025, as the world's leader in cutting edge technology.

I know you have heard a lot of people providing testimony today. I just want to leave you with final considerations. The tariffs will impact child safety, and be a financial burden for families. Thank you for your time, and I look forward to answering any questions.

MR. BURCH: Thank you, Mr. Pinkow. Mr. Chairman, this concludes all direct testimony for this panel.

MR. FLEMING: Question for Ms. Liu. You state that additional tariffs on video game consoles would harm business, consumers, and innovation.

Can you also share any data supporting this statement, particularly on innovation? And we ask, if you submit that in writing, if you could also please mark business confidential information, mark that as such.

MS. LIU: We'll do our best to provide that.

MR. FLEMING: Thank you. And I had another question. So Sony is a very well known brand for video games. Have you done any studies on price sensitivity? If prices to up for 25 percent, for instance, how would that impact sales?

MS. LIU: Yes, we have. Sony has. We have done that. I'm not at liberty to disclose that information publicly. It's obviously sensitive business information. Are you requesting that we submit that as well?

MR. FLEMING: Yes, please. Thank you.

CHAIR TSAO: Just to be clear, I mean,

we're, what information, what type of information that interested parties submit to the government, it's all voluntary. I mean, there's no, you can choose not to submit anything that you --

MS. LIU: Understood.

CHAIR TSAO: -- choose not to submit.

MS. LIU: Thank you.

CHAIR TSAO: I do have a follow-up question for Ms. Liu. You mentioned that much of the R&D and innovation are done in the United States.

Does your company, or any other, or Nintendo or Microsoft, have R&D facilities in China? And are there any plans to transfer more R&D work from United States to China?

MS. LIU: We absolutely have no plans to put R&D in China, and we don't have R&D in China now. We, the issue of putting high technology, or sensitive technology in China is not something that our companies have considered. We don't do that now.

The chips that are the guts of the

machine, and the intelligence of the machine, are not made in China. They're made in other locales, and we do not, we don't have that information available.

Source code, for example, for the chips, is not given to anybody in China. So you don't see, you don't see counterfeit consoles, for example, out on the marketplace.

You might go to some markets and see the shell of a box, and then something put inside it that looks like it might be a console, but it's not a counterfeit PlayStation 4. It's not a counterfeit Xbox. It's not a counterfeit Nintendo Switch.

Those consoles are not available. They're expensive to make. That's the first thing, and the other thing is, we protect our intellectual property very, very highly, and hold that information very closely.

MR. FRATERMAN: I'd like to thank the Panel for their testimony. My question's for Mr. Huang. Mr. Huang, since the time of the original

Section 301 action against China, has your company made any efforts to shift their supply outside of China?

MR. HUANG: Yes, we've been studying and looking at the feasibility of shifting outside of, supply chain outside of China. The issue has to do with efficiency where we've, as I testified earlier, the most efficient way of bringing the product into the, to the states, for the, for the benefit of the consumers, is to cut out all the middle handling, and all the fat in the supply chain.

And in the television industry, the most cost, the most expensive component is the glass, the glass, the panel themselves. And most of the panel makers, and the panels are produced in China.

So to be closer to the locale, and that brings the efficiency into the, into the whole equation, and reflected in the final pricing. And so we did study that, but the move is very difficult, and there isn't necessarily a readily available and non-proprietary operational chain outside of China that's really readily available to us.

MR. FRATERMAN: Okay. Can you give the Committee a sense of the number of workers in China engaged in making TVs for the US market?

MR. HUANG: That information, specifically, I don't have. I, we don't own factories. We don't, we don't own any suppliers, or have interests in the suppliers themselves. So we do contract with strategically partners that, they actually have the factory. We do not have the factories.

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

MR. HUANG: You're welcome.

MR. TUEBNER: Good afternoon. I have a question for Michelle Ganon. In your testimony, you mentioned that you've ordered two new 100-foot gantry cranes, and that you plan on ordering two more by the next month.

MS. GANON: Correct.

MR. TUEBNER: Has this order already been purchased, and if so, when would they be delivered?

MS. GANON: Two have been ordered already, and we're going to purchase the next two, the supplementary two under the same contract. We, the Board is going to be considering amending the contract this month.

It's going to take, once we have signed the order for the additional two, it's going to be 550 days from that time, so about two years, and we'll be, we'll be making all sorts of other investments in the, on the wharf to be able to accommodate those 4 cranes when they arrive.

MR. TUEBNER: Okay. And a follow-up question is, are you aware of any other countries that produce gantry cranes and bridge cranes?

MS. GANON: China really, it does, makes the best cranes right now. When we went to this, we secured these, this contract with a public bid process, and in addition to publicly advertising the, our need for cranes, we also made direct submissions to five companies.

Two were located in Finland, one in Italy, one in Ireland, and one in China. Of those five targeted bids, targeted solicitations, we did receive two responses, one from Liebherr in Ireland, and the other, ZPMC in China, and China was the cranes that we, the company that we chose because of the, mostly the technical specifications were more aligned with what we needed.

MR. TUEBNER: Thank you very much.

MR. WINELAND: Mr. Rotstein, thank you for your testimony. Could, you spoke about the 15 factories that you're testing out this year. Can you, can you give us some sense of what percentage of your, of this year's production is coming from those new factories outside of China, and maybe a little bit about the evolution of your search for suppliers outside of China in the past few years?

MR. ROTSTEIN: Sure. So as a percentage, again, because they're untested, the only product coming in is for our own house brands, which is a smaller segment of our business.

We've probably bought about $1 million at first cost overseas, so it split out, split amongst the 15 factories. We can't go to a, again, anybody, large retailers in this country, they have to do inspections in the factories.

We have to, they have to verify that the factories are compliant with social compliance, and so forth. We've already had two of the factories, one in -- I'm sorry. One in Malaysia, and one in, I forget. I'm drawing a blank on the other. Both failed the tests.

So it's very difficult to move forward that way, but we have that coming in. We have sourced outside of China; again, my first trip was in '84. We've sourced outside of China for all these years.

China wasn't the first place we do. We are in about a dozen countries now, before we put on five additional countries. I spent one month in Southeast Asia in January this year, going through, touring and visiting factories.

One of the things I do also want to mention is that, if these are imposed, and factories have to move outside of China, I think other people have said it, all of the raw materials, a lot of the raw materials are going to come from China.

China's still going to make the money. China's still going to profit from selling to the US. They're just going to divert it through -- not divert it, because that's not legal. What I'm saying is, if you set up a factory like when, I did business in Cambodia for many years.

All the Cambodian factory, which was all knit in Cambodia, all the yarns, all the packaging materials, all of the boxes, the crates, everything got sent from China in a kit.

They knit and finished, and finished all the product in Cambodia, and shipped it to the United States. All that's legal. It's product of Cambodia, but the Chinese factory and the Chinese suppliers of all the raw inputs are the ones making the profit on that.

So you're really, you're moving production, end production out of China, but you're really not cutting China out of the supply chain.

MS. JANICKE: Okay, thank you. The next question is for Mr. Pinkow, and kind of along the same lines, you mentioned in your testimony that China is a major supplier of the infant, and baby, and children's clothing, but US import data does show that there might be a slight move towards shifting to other sources, so I was wondering if you could comment on what you see as some of the key challenges... see as some of that shift?

And I guess a related question, you mentioned that there are some security, or need to proceed cautiously for safety reasons, and I'm wondering if you can comment, or elaborate more, on what you see as some of the key challenges to making that sourcing shift.

MR. PINKOW: First of all, regarding

other countries, we, as a company, we source in about 30 different countries, everywhere from Central America to Southeast Asia, Egypt, Jordan, Cambodia, Vietnam, and what we find in a lot of instances, our licenses, like we do work for Disney, Under Armour, Timberland, all the other entertainment movie companies, and the social compliance is very strict.

Countries like Bangladesh, and emerging countries like Myanmar, Pakistan, are off the grid. They're, it's not open for discussion. We do do a fair amount of business in Cambodia, and when you mentioned the number dropped a bit, some of that, I think, is the categories that you chose.

It doesn't reflect all of children's wear, and it's a question of scale. And I think this whole conversation really depends on scale. Can I move something? Sure. I've already moved about 5 percent out of China in the last few months to reliable factories.

The onboarding process, I think Paul

related to, is quite complicated. You have to work through some international agencies. You have to get your licensing partners to sign off on it. That process could take three to four months, if everything goes smoothly.

There's always some issues found, and have to do capital improvement plans, and that could take another three or six months. At the same time, you have to have approval to ship to major retailers.

Our biggest customer is the largest employer of people in the United States, so I won't mention any names, and very demanding in the compliance area. So the factories, I get a color rating, and have to be up to code. Again, more time.

Then, the biggest issue, the thing that, as a new grandfather of three girls, that concerns me, is the safety issue. Our products are very compliant. One of our biggest businesses is children's sleepwear.

It can either be tight-fitting cotton,

or 80 percent of it is, in the marketplace, is flame resistant cotton -- polyester, excuse me. And that is a China-centric fabric that has to be bought there.

Because of the nature of what I talked about with our products, the fact that it's entertainment-driven in most cases, very heavily graphic, and again, the kind of equipment to execute those designs is China-centric.

It doesn't exist in Cambodia. It doesn't exist in Vietnam. Also, as a children's wear manufacturer, keep in mind, again, any part of it can be moved, but the scope of it is billions of units a year.

In my company's case, children's wear is over a quarter of a billion units. So the capacity for that doesn't really exist outside of China.

The way, and then the inflationary impact on that is that factories with limited capacity, and everybody rushing to the other countries, would rather make adult goods or blouses where there might be a $7, $8, $9 cost for a single item, where my products would average $2.35.

It's a very price sensitive business, and we're appealing to the consumer through our retail partners, that have probably the least disposable income, and the most necessity to spend it. So that's, I think, answers, hopefully answers your question.

MS. JANICKE: Yes, thank you.

CHAIR TSAO: I have a follow up, and I guess this is for all of the witnesses. As you know, the R&D depreciated against the dollar over the last several quarters. How has the currency fluctuation affected your business, if any?

MR. PINKOW: Okay. Jeff Pinkow, I'll answer that. A few years ago, when the dollar started soaring, we were able to reduce prices with China. We negotiated even existing orders to the tune of about 5 percent.

Then, what happened, especially in China, is they developed an ecological social conscious on the fabric side, and started cutting back on pollution. So at the same turn -- so now I have the 5 percent decrease, and I had bid increases in the dying, finishing, and printing of fabric because mills are closing left and right.

I believe the number last year, China closed over 5,000 dying and printing mills. There's been tons of consolidation within the country, forcing prices up, so it leveled out again.

Now, with the dollar, I think it's somewhere about two percent down last I looked, as we start to buy for the next season, spring '20, I would expect that the prices to offset.

What often happens in a competitive business, because we all have major competitors, an apple to apple doesn't exist from year to year. We're constantly challenged to add more embellishment to the, to the product, or add, you know, different types of weights to the fabric, things that drive up the price, so it's not an apple to an apple in your quest for newness.

So I would think that barring the tariffs, prices will be stable, and that's because it'll be helped by the increase of the dollar.

MR. ROTSTEIN: The only, the only thing I'll add is that being a seasonal business, most of our payments are done late summer, early fall, so depending on where the dollar is there, it's hard to say today what the exact impact is.

MR. PINKOW: And a lot of the major, I might just add, sorry Paul, is they cover the dollar fluctuation. They're not in the arbitrage game, so they buy futures on it too. They hedge.

MR. ROTSTEIN: Right.

MR. BURCH: Mr. Chairman, we release this panel with our thanks, and would the next witness panel make their way forward?

(Pause.)

MR. BURCH: Will the room come to order?

CHAIR TSAO: Good afternoon. We have

a few new members to the committee. At this time, I would like to ask new members to introduce him or herself.

MR. BHABHRAWALA: Mr. Chairman, my name is Salim Bhabhrawala, and I am representing the Office of Materials Industries at the U.S. Department of Commerce. Pleasure to be here today.

MS. VON SPIEGELFELD: Hi. I'm Cristina von Spiegelfeld, and I'm from the Small Business Administration.

MR. BURCH: I would like to make a note to this witness panel. Can you speak clearly into the microphone, and if you're not able to hear yourself, pull the microphone closer for the benefit of the court reporter and the members of the audience.

Our first panel witness will be Rusty Tharp, with Goodman Manufacturing Company.

Mr. Tharp, you have five minutes.

MR. THARP: Thank you very much. Mr. Chairman and members of the committee, I am Rusty Tharp, senior director of Regulatory Affairs of

Goodman Manufacturing. I'm here today to discuss the reasons USTR should remove components used in heating, ventilation and air conditioning, known as HVAC equipment, from the list of products for which duties could be imposed pursuant to this Section 301 investigation.

At this point, you've heard Goodman's story three times, once for List 1, once for List 2 and List 3. Nevertheless, for those new on the panel, we'll run through this.

Goodman is owned by Daikin Industries, Limited, which is one of the world's leading air conditioning, heating and air filtration manufacturers. We are committed to U.S. manufacturing.

In May of 2017, Daikin opened a $500 million factory near Houston, Texas. It's not an ordinary plant. It's the third largest manufacturing plant in the United States, and we anticipate having 7,000 skilled workers at that facility by the year 2020.

To put its size in perspective, the

roof covers the area of 74 football fields, actually U.S. North American football fields.

Further, noting our dedication to U.S. manufacturing, we're already expanding this new facility. We manufacture many HVAC products at this new plant in Texas, and we sell them throughout the United States under several brand names, including Daikin, Goodman and Amana.

In addition to using these in the residential and light commercial market, these products are also installed in military bases throughout the U.S. and across the globe.

USTR has proposed a 25 percent tariff on many HVAC components that we utilize in these products. The list of HTS-US codes is provided in our request to testify letter, and it's also in the written comments that we filed.

We're concerned, in part, because other manufacturers of HVAC products in the United States have moved production of the finished HVAC products outside of the U.S., and the finished HVAC goods that they import into the

U.S. from third countries will not bear the same costs that our products do.

Daikin and Goodman, on the other hand, have committed to U.S. assembly operations through its new $500 million factory in Texas, which we anticipate again will be staffed by 7,000 workers by the year 2020.

A 25 percent tariff of the parts imported by Goodman, which are then used to assemble the finished goods in the U.S., would threaten our growth and the significant investment that's made by Daikin in the U.S. manufacturing facilities.

As we indicated in our testimony, on prior List 1, 2 and 3, it's not an easy task for our products to find sources outside of China. We must comply with regulations such as the Department of Energy 10 C.F.R. 429, 10 C.F.R. 430, 431, et cetera, energy regulations, as well as we must comply with safety standards such as UL 1995, and many other regulations that affect our products.

So these, the production of these components cannot be moved from China because they are mature technologies. Therefore, for many of the components in question, Goodman does not know of any U.S. or third country suppliers capable of supplying us.

Goodman is confident that we know the supply chain fairly well, and both domestically and globally, and well enough for the components we use in our products to state that there is not a domestic source capable for producing most of the components on List 4.

Goodman uses millions of most of these pieces, and if a domestic source were to invest in the technologies or a location outside of the U.S., outside of China, we think it would typically take two to five years to come onboard with the adequate capacity to serve our needs.

Many of the components classified under these HTS-US codes are finished indoor units of HVAC systems that are later assembled in the field as a complete system. Many of those finished indoor units are also used globally in other locations.

So, we have made plans, or are in the process of making plans to move most of these components, where possible, to locations outside of China. However, because of the testing and qualification requirements, that process can easily take from 6 to 18 months, or even longer on some instances.

Goodman has been unable to identify suppliers outside of China for many of the other components. We understand the administration's philosophy is to achieve long-term success, even if it causes some short-term pain. But we do want to emphasize that some of our competitors are producing in countries outside of the U.S. who don't have the same structure.

As a result, they will not receive the same short-term pain as Goodman does. So for all of the above reasons, Goodman urges the USTR not to impose a 25 percent tariff on the HVAC parts.

MR. BURCH: Thank you, Mr. Tharp.

Our next panel witness will be Reilly Kimmerling, with Carrier.

Ms. Kimmerling, you have five minutes.

MS. KIMMERLING: I'm Reilly Kimmerling, senior director of International Trade Compliance at Carrier, and I'm here today on behalf of our residential and commercial HVAC business.

Carrier imports products that are designed to meet the needs of the HVAC industry, namely parts for air conditioning machines covered by HTS Subheading 8415.90.80.

These products provide high quality, competitively priced cooling systems for residential and commercial buildings, allowing Americans to live and work safely and comfortably without high energy costs.

For the following reasons, I respectfully request that the committee recommend the removal of Subheading 8415.90.80 from the final list of products subject to an additional 25 percent tariff.

The products contained under the subheading are essential components of cooling systems in U.S. commercial and residential buildings. Many American households, businesses large and small rely on these products to keep their environments cool, comfortable and productive.

This is especially true for those living and working in hot and humid climates, and those vulnerable populations, such as the sick or elderly, that are especially susceptible to heatstroke and illness.

Having access to affordable, high-quality air conditioning contributes significantly to the quality of life for Americans, and the absence of air conditioning can create health concerns for vulnerable populations during summer months and heat waves.

The cost of HVAC parts covered by Subheading 8415.90.80 is critical to the cost of the systems that are installed. If an additional 25 percent tariff is levied on the parts that make up the modern HVAC systems, a substantial amount of this additional cost will be shouldered by our customers.

The proposed 25 percent tariffs on these parts would be on top of the additional tariffs already levied pursuant to Section 301 on motors and compressors for HVAC systems, as well as the additional costs HVAC manufacturers have faced since the imposition of the Section 232 tariffs on imports of steel and aluminum.

Faced with these substantially higher costs, U.S. consumers will likely forego purchasing and installing new HVAC equipment to update older, less efficient systems.

On a larger scale, failing to update and service HVAC systems will result in considerably more energy spending across the country, and a higher burden on the aging U.S. electrical grid. Invariably, this decreased demand for HVAC equipment will lead to U.S. factories lowering output and potentially trigger reduced hours in those U.S. factories.

Decreased demand results in less U.S. R&D investment. Carrier's total R&D spent in the United States for its HVAC business was 58 million in 2018. This money supports engineering activity performed in Indiana, New York, and Georgia.

The significant negative impact of the additional tariffs on U.S. demand for HVAC products is not limited to Carrier. It also extends to the thousands of small businesses, and hundreds of thousands of skilled U.S. workers whose livelihoods depend on the HVAC industry.

HVAC equipment, unlike other household appliances, requires technically trained, skilled U.S. workers, who determine the appropriate unit for a home, and the licensed U.S. contractors who install and maintain the unit in a residence or commercial building.

Indeed, our Carrier, Bryant and ICP brands have a vast network of independent distributors, dealers and installers, that represent approximately 7,000 businesses across all 50 states, which we estimate to employ hundreds of thousands of employees.

The proposed tariffs, therefore, jeopardize not only U.S. manufacturing and R&D investment, but also the livelihoods of American skilled workers and small businesses.

Finally, it is important to emphasize that China has not targeted the parts for air conditioning systems in its Made for China 2025 program, because they are not strategically important to the country's broader industrial goals. Nor has Carrier faced any of the unfair trade practices that the Section 301 tariffs are intended to address.

Placing Carrier's components on the final list of proposed tariffs, therefore, will only raise costs on U.S. businesses and consumers, and threaten American jobs without producing the policy changes sought by USTR.

For all of these reasons, I respectfully request that the committee remove HTS-US Subheading 8415.90.80 from the final list of products that will be subject to an additional Section 301 tariff.

Thank you for the opportunity to testify and I'm happy to answer any of your questions.

MR. BURCH: Thank you, Ms. Kimmerling.

Our next panel witness will be Michael Esch with Church and Dwight Company, Incorporated.

Mr. Esch, you have five minutes.

MR. ESCH: Good afternoon committee members, and thank you for your time today. My name is Michael Esch, and I'm before the committee to testify on behalf of Church and Dwight Co., Inc., where I serve as the vice president of Global Manufacturing.

I've been with the company for 14 years, and in this industry for 38. Specifically, I come testify regarding the Trade Representatives' proposal to impose a 25 percent tariff on products imported from China that would include Church and Dwight's Arm & Hammer

Spinbrush, battery-powered toothbrushes and replacement brush heads.

While Church and Dwight supports the administration's stated goal to eliminate China's discriminatory practices regarding American intellectual property, this tariff, if implemented, will be ineffective in eliminating those practices, while at the same time be harmful to Church and Dwight, our employees, our customers and our U.S. interests.

Church and Dwight was founded in 1846 as a producer and distributor of the iconic Arm & Hammer backing soda, and has grown into a $4.1 billion company listed on the S&P 500. We are headquartered in Ewing, New Jersey, and operate and R&D center in Princeton, New Jersey, plus we have 11 manufacturing facilities and five distribution centers throughout the United States.

Altogether, the company is responsible for 3,300 well-paying American jobs. The company's U.S. businesses include not just Arm &

Hammer baking soda, but also Arm & Hammer laundry detergent and cat litter, Trojan condoms, Oxyclean stain fighters, Batiste hair products, among many other well know American home and personal care products.

Spinbrush is part of our oral care portfolio, which also includes Arm & Hammer toothpaste, Close-up, Aim and Pepsodent toothpaste. Among battery-powered toothbrushes, Spinbrush is the number one brand for children and number two for adults.

One hundred percent of our Spinbrush toothbrush components are manufactured in China, for Church and Dwight's exclusive use by a non-affiliated third party. Once imported into the United States, the Spinbrush -- the toothbrush components are assembled and packaged in Morristown, Tennessee, by an American contractor called Team Technologies, which employs 50 workers specifically for Spinbrush.

It is sold to consumers at physical and online retailers including Walmart, Target, CVS, Walgreens, Kroger and Amazon. The proposed tariff on Spinbrush products, including the toothbrush and replacement brush heads would decimate the Spinbrush product line, and severely injure Church and Dwight and downstream businesses, our workers and our customers.

At 25 percent, Church and Dwight would immediately be exposed to an additional 5.7 million in annual duties. This would result in a similar increase to the retail price, which would then result either in a higher cost to the consumer or reduced sales, as consumers seek inferior products in a price-sensitive market.

With reduced sales, Church and Dwight would be forced to lay off American workers, but also to cancel high-volume advertising, marketing and retail promotional programs, which itself would impact downstream American businesses that provide those services.

Additionally, Church and Dwight would still be required to pay minimum royalties on brand licenses for children's products. This impact cannot be avoided. Even with the tariff, Church and Dwight will have no choice but to continue to import Spinbrush products from China.

The company has evaluated alternative sourcing, including from within the United States, but being that as Spinbrush products are FDA Class I medical devices, the rigorous testing and qualifications to move a manually assembled production operation is cost prohibitive and would take approximately two years.

When Church and Dwight acquired the Spinbrush brand in 2005, manufacturing operations were already Chinese-based. Domestic capacity for this product does not exist, and today we have not found any location out of China that meets our cost requirements or quality standards and has mature supply chain capabilities that meet our product needs.

Nor would the tariffs mitigate any unfair trade practices. Battery-operated toothbrushes are consumer goods with no connection to the Made in China 2025 program.

Church and Dwight has in place safeguards to prevent international property theft, including patent protection and nondisclosure agreements with its manufacturers.

Our company has not experienced intellectual property theft over the 14 years we've been importing our product from China. The tariffs will, however, have other unintended consequences.

Battery-powered toothbrushes have been proven to significantly increase brushing compliance among children, and plays a key role in the reduction of future plaque-related issues such as cavities and gingivitis, and remove 75 to 100 percent more plaque than manual brushing alone.

By harming the battery-powered toothbrush industry, consumers will tend to purchase manual brushes, and thus suffer adverse dental health side effects. For these reasons, Church and Dwight requests that battery-operated toothbrushes and replacement brush heads classify

-- be removed from the proposed List 4.

Thank you for your consideration.

MR. BURCH: Thank you, Mr. Esch.

Our next panel witness will be Bart Prins with Waterpik, Incorporated.

Mr. Prins, you have five minutes.

MR. PRINS: Good afternoon. My name is Bart Prins and I'm the general manager of Waterpik, Inc.

Waterpik, Inc. has been a leader in personal and oral healthcare products since 1962. The business was the brain child of a hydraulic engineer and a dentist, who created an oral irrigator for use in dentistry.

For 58 years, the business has been headquartered in Fort Collins, Colorado. Today our business consists of two main product lines, oral health product, mostly the Waterpik water flosser, and replacement shower heads.

In replacement shower heads, we believe we are a market leader, and have a market share in the United States of more than 25 percent. Shower heads represent about 30 percent of our annual sales, and are sold at retailers like Costco, Walmart, Target, Bed, Bath & Beyond, Home Depot and Amazon.

The company has many patents for its innovative designs and technology, and our products are proudly engineered and designed in the United States. The company employs 188 people, providing high-paying jobs in Colorado, including 35 in R&D.

Our replacement shower heads are currently subject to a proposed 25 percent duty by the Trade Representative. As with our competitors, Waterpik has been manufacturing and importing replacement shower heads from China since 2002.

These shower heads are custom designed for Waterpik for its exclusive use. The shower heads are manufactured in China because chrome plating, a step in the manufacturing of shower heads is not available in the United States. There are no currently developed manufacturers outside of China to transfer its manufacture.

Waterpik supports the administration's overall effort to ensure free and fair trade with China, however the imposition of a 25 percent tariff on shower heads will not have any effect on the Chinese intellectual property violation the tariffs seek to eliminate.

According to USTR Section 301 report, tariffs should specifically target products that benefit China's acts, policies and practices. In this case, the shower heads are not related to the acquiring of sensitive technology and/or intellectual property, or involve China's discriminatory commercial practices.

These items are consumer appliances, and are not strategically targeted by China's Made in China 2025 plan. They do not involve the types of very high technology targeted by Chinese industrial programs.

As stated, there is no domestic production. In fact, the shower heads featured chrome plating that is nonexistent in the United

States.

Waterpik's intellectual property rights are also protected and have not been transferred. The Chinese manufacturers have neither required nor asked Waterpik to transfer its intellectual property rights. There are safeguards in place to prevent IP theft, including design patents and utility patents.

In fact, the contract manufacturers fully cooperate, and have taken affirmative steps to protect Waterpik's intellectual property rights. We have noncompete clauses in our agreements with the contract manufacturers which provide an additional layer of protection to Waterpik's intellectual property.

Second, the additional 25 percent duty on shower heads is prohibitively high and will cause severe, disproportionate and undue economic harm to U.S. interests, including American workers.

As noted, 30 percent of Waterpik's annual sales are derived from these shower heads.

The proposed tariffs rate will expose Waterpik to additional 8.5 million in annual duties. In order to offset this product impact, Waterpik would need to make a double-digit price increase to this product. This would result in a reduction in sales volume due to price sensitivity, as lower income consumers would be proportionately affected by a price increase.

Currently, 100 percent of Waterpik's consumer water flossers is negatively impacted by 25 percent tariffs already affecting the company's profitability by over 22 million for 2019. Further tariffs will have severe detrimental impact to the Waterpik business.

If the tariffs are implemented, Waterpik will be forced to lay off its U.S. workers and reduce its 7.5 million investment in research and development projects in Colorado, of which 2.4 million is in showers.

Waterpik would invest less in new products, which could also lead to indirect job losses. If Waterpik ceases to develop new product, other Chinese competitors may, in fact, overtake a portion of our sales, thereby decrease our market share.

In sum, the economic harm resulting from the imposition of the additional 25 percent far outweighs any benefits to be gained from such measures.

For these reasons, we respectfully request that USTR exclude HTS Code 3924.90.50.60, which includes Waterpik shower heads imports, from the proposed list of products that will be subject to the 25 percent proposed tariffs.

MR. BURCH: Thank you, Mr. Prins.

Our next panel witness will be Steven Fludder, with NEC Energy Solutions.

Mr. Fludder, you have five minutes.

MR. FLUDDER: Thank you, and good afternoon. My name is Steve Fludder. I'm the chief executive officer of NEC Energy Solutions.

We are a leader in the electric power energy storage market. We provide critical infrastructure to secure the reliability and resiliency of the nation's electric power grid. NEC has worked on projects all across the United States, including our facilities in Arizona, Maine, Nevada, New Mexico and Texas.

We have also participated in projects at various military installations, and partnered with public utilities. NEC imports lithium ion batteries and containers under HTS-US Subheadings 8507.60 and 8609.00 for use in energy storage systems.

For the following reasons, we respectfully request that the committee recommend the removal of these subheadings from the final list of products subject to an additional 25 percent tariff.

As an initial matter, additional duties on lithium ion batteries and containers would run counter to U.S. Government policies that identify energy storage as vital to the nation's energy and national security.

For example, the U.S. Department of Defense has concluded that energy storage promotes energy resilience and independence, qualities that allow the U.S. Military to deploy forces quickly in response to worldwide missions using self-sustaining power systems.

The U.S. Department of Energy likewise has identified energy storage as critical to improving grid reliability and safeguarding the public from long-term energy disruptions. And Congress has proposed legislation to incentivize the increased use of energy storage systems for all of these same reasons.

Yet additional tariffs on inputs like lithium ion batteries and containers would undermine these energy and national security interests by making energy storage systems more expensive and therefore cost prohibitive for customers like the U.S. Military and public utilities.

Put simply, higher sales prices would result in the slower adoption of energy storage, or more likely, the cancellation of projects altogether.

Apart from conflicting with these security interests, additional tariffs would not curb China's unfair intellectual property practices. NEC does not have agreements with entities in China that involve the transfer of US intellectual property.

For me and I'm sure for the administration as well, the most sobering consequence of the additional tariffs would fall on my hundreds of employees. The additional duties will result in economic harm in the form of lost sales, cancelled projects and lost opportunity, but that's not all.

Every time we import batteries for an individual project, we also employ numerous engineers, project managers and other specialized workers throughout the United States. This includes subcontracting a significant portion of our services to multiple U.S. companies, and we rely exclusively on local U.S. labor for our engineering, procurement and construction projects.

To highlight just one example of our current ongoing projects, we spend nearly $50 million in the -- we will spend nearly $50 in the next six months on manufacturing, engineering and construction jobs in Arizona, California, Missouri and Tennessee.

Increased battery cost due to tariffs could place these associated U.S. jobs in serious jeopardy. And this is only one of 33 ongoing projects that we have underway at this time. So one project, $50 million worth of U.S. jobs, and that's one of 33 projects.

Regrettably, additional duties on batteries and containers would have a very real negative impact on hundreds of people employed by my business.

Finally, the burden imposed by these additional duties would not be NEC's to bear alone. Additional duties on batteries and containers would spread beyond NEC to the energy industry as a whole.

The administration itself has recently

extolled the virtues of energy storage systems whose benefits have also received significant media coverage. These virtues include cost savings, job growth, reduction of pollution, and energy security and resiliency from storms and other threats.

Communities in California, Oklahoma, Texas, Florida, Massachusetts and elsewhere all stand to gain if growth in energy storage continues at current projections. However, if additional duties on batteries and containers render energy storage less economical, the gains currently being realized may slow, if not grind to a halt.

For all these reasons, we respectfully request that the committee remove the aforementioned HTS-US subheadings from the final list of products subject to an additional 25 percent.

Thank you very much for the opportunity to testify, and I will be delighted to answer any of the committee's questions.

Thank you.

MR. BURCH: Thank you, Mr. Fludder.

Our last panel witness will be Allen Ibara, of Soulbrain MI, Incorporated.

Mr. Ibara, you have five minutes.

MR. IBARA: Good afternoon, and thank you for the opportunity to speak at this public hearing. My name is Allen Ibara and I'm testifying today on behalf of Soulbrain MI, Incorporated, a Michigan-based small business that manufactures and develops electrolyte solutions for advanced secondary lithium ion batteries.

I'm an advisor to the company, and until 2018, I was its founder and CEO. With me today at the hearing are Dawn Horner, purchasing manager for Soulbrain, and Nathan Dupes, legal counsel to the company.

Soulbrain previously submitted written comment to the proposed action, and it was assigned Document ID Number USTR 2019-0004-2084.

Soulbrain requests the Trade

Representative remove from the proposed action the following trade codes: 2826.90.90, 2920.90.51, 2931.90.50.51. These codes cover the main raw materials in Soulbrain's electrolyte, which are the chemical solvents, salts and additives.

It is not feasible for the company to source those raw materials from non-Chinese suppliers because they're not available elsewhere in sufficient quantities. And even if they were, the raw materials we use must be qualified for automotive use, and that qualification process is rigorous, time-consuming and expensive.

Without a viable alternative supply, including the subject tariff codes would have a devastating economic impact on Soulbrain's small Michigan-based business. The proposed tariffs would likely cause the company to shut down. And even if the company survived, the proposed tariffs would cause it to lay off most or all of its employees.

Such a result would be contrary to the

intent of the tariffs because Soulbrain is exactly the kind of American manufacturer that the administration wants to see thrive and grow in the United States. Its electrolyte is used to power the next generation of electric vehicles, a rapidly growing sector that will be crucial to the domestic automobile market's continued success.

When Soulbrain began its operations nearly ten years ago when I was at the helm, it was one of only two North American companies that could provide electrolyte in suitable quantities for the automotive industry. Even today, Soulbrain is one of only a handful of domestic electrolyte suppliers in a market that is dominated by Asian manufacturers.

Not only does Soulbrain's electrolyte power vehicles for consumer and commercial uses, it is incorporated into the American military vehicles, and used in storage applications across the U.S. power grid. Forcing the likelihood of the closure of the company therefore will not only destroy an important domestic manufacturer, it will negatively impact national security.

Soulbrain has invested heavily in the community and its people. It's built a state-of-the-art facility the cost of approximately 35 million on a Brownfield site that had been vacant for more than ten years.

The company recruits engineering talent from local Michigan universities and currently employs 28 people, most of whom are highly skilled engineers, many of whom are lifelong residents of Michigan.

The company currently is in the process of investing another 7 million to expand its facility, hire additional employees, and increase the number of shifts to meet the rapidly expanding demand for its electrolyte. If the proposed tariffs go into effect as planned, however, all those investments and hiring activities are in jeopardy.

On a personal note, I have to mention that I'm extremely -- it would be extremely disheartening for me to see the proposed actions go into effect as planned. I believe in the company's mission, and in the electrolyte that it produces.

I hired and worked extensively with many of those Soulbrain employees who still work at the company, and whose jobs are threatened by the tariffs. Those people are like family to me. For many of those employees, their first job out of college was at Soulbrain, and they started families in reliance on their continued employment with the company.

You can read about some of their stories in our written comment letter. I've also brought a picture of those employees and their families, who depend on the company.

In summary, while curbing China's unfair trade practices is a worthy goal, shuttering a thriving American manufacturer of electrolyte that has few domestic suppliers does not serve that goal.

Soulbrain requests that the Trade

Representative remove the subject codes from the final actions. Thank you.

MR. BURCH: Thank you, Mr. Ibara.

And Mr. Chairman, this concludes all direct testimony for this panel.

MR. WINELAND: Thank you. I'd like to direct a question to Mr. Tharp.

You described the dynamic in your testimony about your final manufacturing being in the United States versus your competitors. Can you just elaborate a little bit more on the impact that you believe the tariffs would have on the competitiveness of your company, given the dynamic that you described?

MR. THARP: Yes, sir. Thank you for the question. Because of our, the components that we utilize, having the tariff, that will increase our costs, because the costs of the competitors who produce outside of the United States would not have those same increase in costs. They would not increase their pricing to their customers, therefore we would not be able to extract the difference from the, our customers.

So we'd either have to increase price and lose sales, or lose margins to remain competitive in the market.

MR. WINELAND: And are there other economic dynamics? I mean, your final assembly being here at home, you know, transportation costs, other things that give you an advantage as a general matter?

MR. THARP: I think the relative cost of transportation -- the simple answer is yes, there's a small advantage in transportation. However, the transportation portion of the total cost of the product is relatively small, quite small actually.

MR. WINELAND: Thank you.

MS. RESNICK: I have a question for Ms. Kimmerling.

You stated in your testimony that entry level and multi-family units would not be able to absorb the price increase of 25 percent additional tariffs. Do you know if there are any alternative manufacturers that might meet demand in these markets, and if not, why?

MS. KIMMERLING: Well, it's -- one of the reasons there are so few suppliers in that area is because of the low margins. I'm not aware of any other sources for those types of units, and so I think the result would be, it would -- in some cases, it would force contractors and architects to design around it, and increase the cost of the structures.

But for right now, those solutions, other solutions just don't exist.

MR. BHABHRAWALA: A follow-up question if I could.

Ms. Kimmerling, I had the distinguished honor of sitting on Panel 3, which seems like an eternity ago but was last week. And in that panel, we had witness testimony from Mr. Mike Branson of Rheem Manufacturing Company, who referred to the exact same HTS number that you're referring to in your testimony, 8415.90.80, and I'm going to quote from their testimony.

There is ample availability of these air conditioning products from domestic and non-Chinese foreign supplies. Imposing increased duties on these tariffs, tariff items would not cause disproportionate economic harm to U.S. interests, including small and medium size businesses and consumers.

So my question today for you is very simple. Who is right, and why?

MS. KIMMERLING: So having reviewed some of the testimony that you're referring to, I do recall that Rheem called out the importation of indoor and outdoor units, in particular. And I -- that's simply not the case. It's not the parts that we are talking about.

So, air conditioning parts, as imported, we're asking -- they affect most particularly our fan coil imports, which we pair with outdoor units that are manufactured here, and in third countries. It also affects our, the importation of our ductless units. And that capacity does not exist in the United States.

Overall, we do manufacture quite a bit here in the United States, and we have spent a lot of time looking at our supply chain. It's our opinion that the domestic capacity does not exist, and to the extent there is manufacturing capacity, it would only be with our competitors, and obviously sourcing from a direct competitor is not feasible.

CHAIR TSAO: Ms. Kimmerling, I'd ask another follow-up. We understood a little bit from Mr. Tharp about the manufacturing model done by Goodman. Does your company, Carrier share the same manufacturing model? And would the effect of any proposed tariffs be different on Carrier than it would be on, let's say Goodman?

MS. KIMMERLING: I think the effects would be very similar.

MR. FLEMING: This is a question for Mr. Esch.

When -- you talked a little bit about

your high-volume marketing strategy and other advertising strategies. And I just -- could you go into a little bit more detail on how these tariffs would affect the strategies and what impacts that it would have?

MR. ESCH: So the vast majority of Spinbrush sales are actually occur during the Christmas period. They've evolved into a stocking stuffer for the most people.

And so, most all of our advertising throughout the year is pretty level, but it's all driven toward the holidays. And so, at the end of the day, people get a decision on what they put in the stocking, right?

And so to the degree the price of the product goes up, then those people will be less inclined to put in a Spinbrush or any battery-powered toothbrush for that matter, even if they know for the fact that it helps their kids' teeth be better performance.

So we -- it's -- unfortunately, when you do marketing at the end of the year, and you're on a fiscal year, it's always those last decisions of whether or not you can afford to spend that marketing, because you don't quite know how you're going to end the year. So a lot of it's driven by price and the promotions that we get at Walmart and Target.

MR. FLEMING: Thanks. And one, another question. You talked a little bit about trying to diversify outside of China, but could you explain why you're having difficulties in that area?

MR. ESCH: So most of our supply agreements run three to five years, and before every contract comes up, a year in advance, we start doing another global search, because our obligation to our marketing commercial groups is to find the best production and site that we can.

And so, the current one that we're up in, we're in year two of a five-year deal. And our point is -- and I remember the last time we moved some of our, part of our production into the U.S. was about six, seven years ago when we had the big oil spike. And we looked, and we were able to save some freight by the way we loaded up shipping containers.

But what we find is, every year we do this, we've done it now six time -- five times since I've been at the company, is that you start off, you find five, maybe 15 companies around the world. We looked into Vietnam. We've looked into Malaysia. We looked into some of the Middle East countries. We've looked into Australia. We've looked out in Singapore.

We've looked in the U.S., and what we find is, a lot of cases, what you've heard today, what I heard at the prior session, which was, it's one thing to bring a manual operated assembly. It's not that hard to move. The issue is the regulatory guidance. You're bringing in a medical device. A lot of oversight by the FDA.

And 98 percent of all the materials anyway are being sourced out of China. So you really don't do much, at the end of the day.

So, we do those 15. We normally

narrow it down to probably the top five by the time we get done doing a financial analysis of their financial stability, as well as their social compliance on audits. We get down to the last two or three and then it just becomes about quality, visits and price negotiation.

And what we find is when you look at the totality of a major brand like Spinbrush that's been around a long, long time, and people, you know, parents are really particular about what they put in their kids' mouths, and that upholding that brand identity is so critical that the quality items normally bypass even some of the quality inputs.

And what we have found is, other than maybe the United States, there is no other place that has the quality level. The issue you get as the quality in the U.S. is the price goes up quite a bit, especially when you're bringing in all those other components.

MR. FLEMING: Thank you.

MR. BHABHRAWALA: This question is for

Mr. Prins.

First and foremost, this panel thanks you for being here today, and thank you for your expert testimony.

I'm wondering, what is the market share in the United States of Waterpik shower heads that are imported from China, or used materials sourced from China? Do you think levying a tariff on shower heads will compel Chinese suppliers to pressure the government to address the concerns underlying the initial impositions of the tariffs?

MR. PRINS: So, I would say close to 100 percent of all shower heads in the United States are coming from China. So the one exception might be really, really high-end, what we call showroom stuff, so it's really the high-end products, not really replaceable shower heads. So we're referring to replaceable shower heads here.

Sorry. Could you repeat the question?

MR. BHABHRAWALA: So, I guess the

second part of that question is, do you think that levying a tariff on shower heads will compel the Chinese suppliers to pressure the government to address the concerns underlying the initial imposition of the tariffs?

MR. PRINS: I don't think so. I think that, you know, they manufacture showers for all over the world. And so, they will continue to sell showers in other geographies. And I think that the U.S. volumes in the grand scheme of things is just perhaps 20 percent of the global volumes.

MR. BHABHRAWALA: Is 20 percent just an estimate or?

MR. PRINS: Just an estimate.

MR. BHABHRAWALA: Okay. We'd love to see some figures, if you could maybe perhaps provide that panel, this panel with that, under business confidential.

MR. FRATERMAN: I'd like to thank everyone on the panel for their testimony. My question is for Mr. Fludder.

You stated that the additional 25 percent tariffs on lithium ion batteries and containers would be counter to various U.S. Government policies. But what would the economic impact of the 25 additional tariffs on lithium ion batteries and containers be?

MR. FLUDDER: Sure. Basically, there currently is only one major U.S. domestic manufacturer of lithium ion batteries for this scale of application in the electric power grid, and that's Tesla.

I think everybody also knows that Tesla's priority is to channel those batteries into their automotive production. And they really don't have the capacity to provide them into the electric power grid applications on a consistent basis.

So, in effect what would happen is, everyone that is providing these types of systems, like NEC, would all be faced with this 25 percent increase.

I can tell you that the way that these

projects, the project financing works, a 3 or 4 percent increase in the capital cost of the equipment -- these are multi-hundred-million-dollar systems, basically are the go/no-go criteria for whether the project is bankable, or whether a utility can pass that on to their rate payers.

So a 25 percent increase in the single largest component, as an input component, representing about 40 percent of the system, basically would grind this industry to a halt, unquestionably.

And related to that, the penetration of wind and solar renewable energy has now gotten to a point that it cannot continue unless there is companion storage to go along with it. And this is the reason why utility scale energy storage as an industry is really going through an inflection point and exponential growth at the moment.

And so what you would have is a situation where not only would the energy storage stop, instantaneously, but the progression of wind and solar and other clean forms of electricity in the transformation of the electric power grid would also stop.

And at the moment, the main source of supply is Korea and China, for these types of batteries. And for the grid scale batteries, the source is China.

The reason for that is, in the beginning of this industry, this technology is manufactured in factories that are designed very much like semiconductor manufacturing. They're very, very, ultra-high volume production of advanced materials.

That's what a battery cell manufacturing operation is. And there's very little people involved in these factories, but it's just this enormous volume. The reason that they're located in China is because of access to the Chinese market, which is expected to be the second largest market for this application.

What will happen in the near future,

in the coming years, is eventually this manufacture of this product will move to the United States, it will move to Europe, and it will move to markets as renewable energy penetrations increase, driving the need for more energy storage.

You can see in the automotive sector, LG Chem, for example, who is one of our suppliers, who has a big factory in China for grid scale batteries, they already built a factory in Michigan to supply batteries for electric vehicles.

And so that same trend will happen for the batteries for the grid systems. They're different types of batteries, and that's the reason why first the automotive production moved here to the United States and eventually the utility systems will, as well.

However, it'll take one to two years to build that manufacturing capacity. It's a multi-billion dollar investment. It takes time to build these types of plants, to build them properly, environmentally, et cetera.

So, a 25 percent imposition today will literally grind to a halt progress in the transformation of the grid. And by the time production got started, it would be one to two years before production could start here.

And what we would advocate for, instead of using tariffs as the tool in the toolkit, is more incentives by this country itself to really incentivize innovation and investment in this grid transformation, and to basically get ourselves on a par with China, from a production standpoint, so that we can compete head-to-head.

China's going to do what they're going to do, and we can do exactly the same thing if we have the will.

MR. FRATERMAN: Great. Thank you very much.

MS. PODESTA: Thank you all for your testimonies today. My question's for Mr. Ibara.

In your statement you said that

tariffs will be economically harmful to Soulbrain MI. Could you please explain whether you have any contingency plans if your trade with China was disrupted for your supply chain and you have -- due to additional tariffs or any other risks? Thank you.

MR. IBARA: I think the short-term answer is, there is no contingency. We're under contract. We're actually, all of our products, all of our material is qualified through two tiers. So our customers won't allow a change, for openers.

Number two, long-term, as Mr. Fludder here just pointed out, we're here for two reasons. We're here short-term because there's a transformation going on in the hybrid industry, the vehicle industry. But if you take vehicles, consumer products, everybody in this room is carrying a lithium battery.

And -- but the batteries, those are basically single-cell applications. For a vehicle, for anything that moves, a Tesla, it's a multi-cell application. One Tesla would equal a couple of hundred, or ten thousand cell phones. So it's a huge scale problem for us.

So we're here to help build the future of battery production in North America, so Mr. Fludder won't have to come here anymore. So that's one of our long-term goals is to make sure they're produced here, and that we're not buying these systems that are going to be critical to everything we can think about, transportation, military, medical.

Those batteries need to come from North America. And the electrolyte is one of the key things because it doesn't ship well and it ages very quickly. So we saw that ten years ago, and we thought it would accelerate faster. It has not.

But it's just starting to take off. And we would love to see the grid business take off as well as our automobile business has taken off.

MS. PODESTA: Thank you. And a

follow-up question. Do you have an idea for an approximate time frame to build up capacity, either domestically or with alternative suppliers, if that was to be possible?

MR. IBARA: I'm sorry. I didn't hear.

MS. PODESTA: Do you have an idea of an approximate time frame to build up for capacity for alternate suppliers, either domestically or others?

MR. IBARA: We surveyed some domestic potential suppliers, and it's probably a three to five-year plan, to build essentially a cracking, another petroleum cracking factory, if you will.

And it's not just as simple as petroleum, because it, the cleanliness, the battery grade material is probably a couple of hundred orders of magnitude cleaner than what's available commercially. So it's a different factory, or different refinery altogether.

MS. PODESTA: Thank you.

CHAIR TSAO: Mr. Fludder, I have a follow-up. You alluded to sort of what the

Chinese government's doing with respect to the lithium ion battery space. Are you aware whether the Chinese lithium ion battery, whether it's in the R&D space or the production space, is the target of any of China's industrial policies?

MR. FLUDDER: Well, certainly China has prioritized, they call it new energy vehicles, or basically electric vehicles. So what's an electric vehicle? It's basically a bunch of batteries on four wheels and some seats, right?

So in that respect, yes, it is part of that priority sector in China. But I would submit that the world is going to benefit, you know, indirectly from that anyways. You know, Chinese battery suppliers are also looking to build factories here in the United States to serve these types of applications as well.

So, you know, as I mentioned, I think that if we impose the tariffs, we'll shut this down in the United States in terms of the grid applications. It will shut down renewable deployments. And then it will take time to build capacity.

What we would like to see is a smoother transition to U.S.-based production capacity that can be brought about through incentivizing this industry and supporting it. And in so doing, we'll be globally competitive with all of the Chinese entities that are playing in this space.

And so, we'd rather see that as an outcome, as opposed to a tariff that would actually disrupt progress here in this clean energy. You know, right now, this new energy or clean energy as a global industry is a $1-1/2 trillion industry. And that's just a small part of the electric power system that's going clean, or renewable.

And that's going to get larger and larger as we go forward. So, it's a major global market opportunity that this country needs to be totally competitive and in a leadership position.

MR. FLEMING: Just a follow-up. Some

industries, when you look at Chinese industrial policies, you see that there are worries about over -- that Chinese subsidies producing over capacity in China.

But I notice that you've talked a lot about Chinese companies actually sourcing in the U.S. in this particular industry. I'm just curious. What is different, or how do you see that over-capacity playing out in your industry?

MR. FLUDDER: Sure. So just for maybe some initial context, the electric power grid business of energy storage is huge, and it's getting, it's going to become ten orders of magnitude larger.

It still is a relatively small percentage of the demand for lithium ion batteries. So the demand for lithium ion batteries is today dominated by consumer electronics. And very quickly, that's being displaced as the number one demand market sector by electric vehicles.

And then, let's say five or so years

out, the batteries for electric grid applications will probably represent 20 or 25 percent of the global demand.

So what I was trying to describe earlier was not that the Chinese are sourcing from here, but they will move their factories here, just like the Koreans are moving their factories here, and also to Germany and Poland and other places, to get closer to the electric vehicle centers of production, because the logistics of shipping this stuff around the world is significant.

And so, when you get to a certain scale, at some point you want to move the production closer to where the demand is, which is the vehicle assembly location.

And then the electric grid scale applications and that product design, if you will, as this U.S. market gets maybe just one or two years down the road on current projections, there'll be enough scale to justify these billion dollar investments to build the production lines for the batteries for the grid.

They're not exactly the same. They're similar types of batteries that are used in consumer electronics, electric vehicles and the grid, but there is a significant difference in those, and you have to set up a separate production line for them.

MR. FLEMING: Thank you.

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

And would the next witness panel make their way forward?

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

Mr. Chairman, this is the last panel for the day. And our first panel witness will be Christopher Steinkamp, of Snowsports Industries America.

Mr. Steinkamp, you have five minutes.

MR. STEINKAMP: Thank you very much. My name is Christopher Steinkamp from Snowsports Industries America. We're based in Park City, Utah.

Founded in 1954, Snowsports Industries America is a trade association representing the U.S. winter sports industry, manufacturers, suppliers and retailers of winter sports gear.

Our industry generates over $72 billion in economic revenue annually, and supports 700,000 jobs across the United States. And many of these products on the proposed List 4 are produced by our members.

While there are too many HTS codes to call out here, 296 to be exact, these product categories include performance outerwear, gloves, mittens, sweaters, safety headgear, footwear, scarves, skis and bindings, ski boots, snowshoes, ice skates, toboggans and sleds.

The USTR has specifically asked for comments on whether imposing additional duties on a particular product would cause disproportionate harm to U.S. economic interests, including smaller and medium size businesses and consumers.

I can say with absolute certainty that this will be the case.

Since the announcement of these tariffs on June 10th, we've spoken to many of our members, and in every single case, from large manufacturers to the small and medium size retailers, I heard a great deal of concern. These products represent their livelihoods, and I'm here on their behalf to communicate this concern to you.

The economic viability of our industry depends on robust sales and consistent winter seasons. Essentially, we have a six-month selling season. And when either one is out of balance, our industry suffers.

A tariff of 25 percent on these products would ripple throughout our industry, with reflective higher prices being passed on from manufacturers to retailers, to ultimately to consumers. There is no doubt that these tariffs will instead be taxes in the form of increased prices passed along to our retailers and consumers, resulting in decreased sales, lost jobs and closed businesses.

In fact, according to the trade partnership worldwide, 25 percent tariffs on an additional $300 billion in imports would result in the loss of more than two million U.S. jobs, and add more than $2,000 in the cost for, of the average family of four.

We know that this will happen if these tariffs become a reality, because over the past few weeks I've spoken to many of our members who can't be here to tell their own story, but are truly concerned about the future of their businesses.

For example, one of our members is a small women's fashion business based in Boulder, Colorado. Every single product they produce is on the most recent tariff list. Like many in our industry, profit margins are very tight. At this point, pricing has been agreed upon, which does not reflect the cost of the tariffs, and orders will be shipped soon.

So the difference in price between the current wholesale price and the added cost of the tariffs will needed to be funded by this small company. So in anticipation, they've already begun to cut budgets, lay off workers and plan for the worst. So instead of growing their businesses, they're shrinking it.

A small retailer of ours, a ski shop that has been in business for 40 years has also communicated the fact that they too may have to shut down their business, because a 25 percent tariff will eliminate any profit of theirs. They just won't be able to afford buying or selling these products now.

But in addition, their customers won't pay $315 for a $215 ski jacket either. Small businesses just can't weather this kind of storm, and they too are considering layoffs as the fall approaches.

This is not a unique story in our industry. I could go on and on about this. There are too many businesses where 25 percent means bankruptcy and layoffs, from large and smaller manufacturers to small family-owned retailers in our winter tourist-based mountain communities.

Our industry literally cannot afford to do business like this. Furthermore, there is no U.S. production of the products of interest. Thus, removing these products from the USTR list would not boost U.S. productivity and jobs and effectively reach your intended outcome.

Manufacturers in our industry are constantly assessing their supply chains, trimming costs to price these goods for retailers and consumers across the country. If there was an alternative to China, they would be using it.

Secondly, in the case of safety helmets, 6506.10.30 and .60, it was our understanding that these products were removed from the List 3 tariffs because of the safety benefits that they provide, especially to young children.

Of more than 600,000 injuries that

occur in our sport each year, 20 percent are head injuries. So according to the National Ski Areas Association, 75 percent of the participants in our sports wear safety helmets now, and head injuries have been significantly reduced.

But increasing the prices of these helmets will reduce adoption and undoubtedly reverse this positive trend. We encourage you to keep safety helmets on the exempted list.

Finally, it is my understanding that the proposed additional duties are intended to pressure the Chinese government to eliminate certain acts, policies and practices that the United States has determined to be harmful to its economic interests.

Examples are, industrial policies in support of China's efforts to rely exclusively on high-tech goods manufactured in China, theft of intellectual property from U.S. companies and related acts and policies.

The products of interest to SIA are not the type of products that are the targets of

Chinese acts, policies and practices. So the imposition of additional duties on these products wouldn't aid in the goal of eliminating such acts.

Snowsports Industries America and our members strongly oppose the tariffs being proposed on performance outerwear, gloves, mittens, sweaters, safety headgear, footwear, scarves, skis, bindings, ski boots, snowshoes, ice skates, toboggans and sleds. I would be happy to provide you with the full document listing all of our specific HTS codes.

So as the representative of the U.S. winter sports industry, I urge you to remove these products from the USTR list. Doing so will protect U.S. businesses and jobs.

Thank you for your time this afternoon.

MR. BURCH: Thank you, Mr. Steinkamp.

Our next panel witness will be Rohan Mehra, with Skydio.

Mr. Mehra, you have five minutes.

MR. MEHRA: Dear Chairman and distinguished members of Section 301 Committee, thank you for having me here today. My name is Rohan Mehra, and I am the head of Business Operations and Program Management at Skydio, Inc.

Founded in 2014, Skydio is an autonomous drone company based in Redwood City, California. Our first product, the Skydio R1 has been widely recognized as the most advanced drone in the world, with its ability to avoid obstacles, track objects and fly itself, with minimal user input.

We are fortunate to count many of the top institutions in Silicon Valley as investors, such as Andreessen Horowitz, Accel, IVP and Playground.

As we prepared to launch R1, we evaluated manufacturing options around the world, including China, but chose instead to do the final assembly manufacturing at our headquarters in California. This decision was driven by our vision of leveraging skilled labor available in the United States, and to reap the benefits of tightly integrated manufacturing and engineering development.

Additionally, doing the final assembly manufacturing in-house ensured we can protect key intellectual property by maintaining full control of software loaded onto the products. To date, our in-house manufacturing operations have enabled us to create dozens of jobs in California, with more to come as we continue to grow our product portfolio and volume.

More recently, we have been focusing on our next major product line, which will allow us to both grow our customer base in the consumer market, while also expanding into government and commercial sectors.

For instance, in the first quarter of 2019, we were selected for the Army's Short-Range Reconnaissance Program, through the Defense Innovation Unit, DIU, on a project that will use our product as a powerful new tool to give small military teams unparalleled situational awareness on the battlefield, minimizing the distraction of operating a drone.

Per the February 2019 White House article on "Accelerating America's Leadership in Artificial Intelligence," and the June 2019 "Memorandum on Presidential Determination Pursuant to Section 303 of the Defense Production Act of 1950, as Amended, Regarding Small Unmanned Aerial Systems," the president and his administration have recognized that the technology we are pioneering is vital to national security.

Skydio is proud to be pushing the forefront of artificial intelligence and robotics as a U.S.-based company.

The administration's current trade policies put our company and companies like ours, which manufacture our products in the United States at a competitive disadvantage when compared to companies that manufacture drones in China, including companies that are headquartered in China.

The vast majority of our building materials fall under the previous or current 25 percent tariff list. To be clear, many components we procure from China cannot be sourced elsewhere, but we are continuously searching for ways to move our supply chain closer to home.

Compounding the negative impact of these tariffs is the fact that until the new tariff lists go into effect, importing a fully-assembled drone from China currently incurs no tariff at all, essentially penalizing companies that choose to manufacture in the United States twice.

Skydio recommends two actions in order to secure the competitive advantage for United States drone companies and domestic drone manufacturing. One, keep the newly proposed tariff on fully assembled drones imported from China, HTS 8525.80.40.00, per Ruling N269396, and two, remove the tariff on imported drone components, as many of these materials cannot currently be sourced elsewhere.

We believe that the best path to moving manufacturing back to America is by taxing finished goods first, such as drones that are manufactured abroad. These actions will heavily incentivize companies to move manufacturing back to America rather than penalizing American drone manufacturers as the current policy does today.

We are happy to provide the USTR and Section 301 Committee with more granular details on the exact tariff codes used across our product building materials.

Thank you for your time and consideration of our request.

MR. BURCH: Thank you, Mr. Mehra.

Our next panel witness will be David Alpern with Ralsey Group, Limited.

Mr. Alpern, you have five minutes.

MR. ALPERN: Good afternoon and thank you. I'm David Alpern, senior vice president, division head at Ralsey Group, Limited. Ralsey appreciates the opportunity to appear before the

Section 301 Committee to articulate our position that additional tariffs of up to 25 percent should not be imposed on knit to shape sweaters from China.

Ralsey has submitted detailed public comments identifying specific product categories of concern, and the reason why such sweaters should not be subject to any penalty tariffs.

Our company's based in New York City. We design and contract manufacture and deliver knit to shape sweaters to U.S. retailers and brands, mainly Target, Walmart and the discounted value chains. We also sell knit to shape sweaters under our own brands.

Our relatively complex garments are mass market and value conscious families. We've been in operation for 40 years, and have 20 employees in the United States and a total of 50 worldwide.

We request removal of four full HTS eight-digit categories of knit to shape sweaters on List 4. We also request the administration to consider the partial removal for two HDS eight-digit categories similar to partial removals done on List 3.

These partial removals would cover eight-digit ten -- I'll have to think about that.

If the administration does decide to retain any of these categories on the proposed list for tariffs, which you can see in our list, Ralsey then urges that all the products be subject to tariffs at the lowest possible rate, with a phase-in period of at least 24 months.

What's a knit to shape sweater? It's a unique manufacturing process. Like mostly it's 90 degrees today, so we don't have a lot of sweaters up on the panel, maybe we got one.

And it's a little hot, but knit to shape is a little bit different, where, if you'd look at the garment that I'm going to show you, the panels are knit by the machine. And then they are linked and loop.

It's a relatively complex process, as opposed to just a large piece of fabric with paper panels that's cut and sewn. The machinery is very capital intensive, and there's a lot of them, and all of them are basically located in China.

Knit to shape refers to those sweaters that are knit on flatbed knitting machines, with individual sweater components, front panels, back panels, sleeves et cetera knit separately. The components are then assembled together via linking and looping process. The components must have self-start bottoms and self-finished sides, which means a finished edge to prevent unraveling and holding the component's shape. Each component must be knit to shape for the sweater to be considered knit to shape.

There's a precedent for the U.S. Government to treat, for trade purposes, knit to shape sweaters as different from other apparel. When the U.S. Government established annual apparel quotas for China in 2005, it excluded knit to shape sweaters from those quotas and created separate HTS ten-digit codes to administer the quota exclusion.

This decision was made in recognition of the limited capacity to produce such sweaters outside China, and that no policy purpose would be served by imposing restraints on knit to shape sweaters from China, a situation that we would urge the administration to recognize continues today.

Only China has the integrated manufacturing infrastructure technical capacity and availability of raw materials that can meet the knit to shape sweater needs of U.S. mass market value-price retailers. Knit to shape manufacturing is a precise and time-consuming process, requiring high-skilled and trained labor. This workforce does not currently exist in the United States or third countries.

China is also the only country with the necessary infrastructure and flat knitting machines to produce the volumes and meet the delivery times to serve the sweater needs of U.S. families. In fact, we estimate that it has 60 percent of all knit to shape machinery in the world.

Yarn, an essential raw material is also largely available only in China. A lot of these third-party -- third world countries that would be non-China production only have straight cotton or straight acrylic, and the quality is not necessarily as good, so they'd be novelty blends. It's an impossibility.

It all has to be delivered there, adding on to lead time. Consequently there is a very limited capacity in other countries, and no other country can meet the requirements of the U.S. market.

Knit to shape garments are subject to a unique rule of origin also, in the United States, based on where the panels are knit and not where the panels are looped and linked, which is the equivalent of the sewing.

For cut and sew garments, Chinese-made fabrics can go to countries such as Vietnam for cutting and sewing there, which would make the garment a product of Vietnam. However, for knit to shape garments, we have no ability to have the panels assembled in a third country to change the country of origin. This substantially reduces the ability to move production outside of China.

Given the current lack of alternatives, if imposed, the Section 301 tariffs would result in manufacturers and retailers raising prices to offset at least some of the increased cost due to the tariffs, which would disproportionately impact low and middle-income families, and result in reduced sales, again increasing unit costs.

In addition, no doubt that retailers and Ralsey will have to absorb some of those costs ourselves, resulting in margin erosion. The overall effect of lost sales and profits will have a large impact on our company, and may result in job losses. It will also be damaging for our industry and the wider U.S. economy.

Ralsey therefore requests the removal of knit to shape sweaters from being subject to

301 tariffs, and would also support the removal of all apparel items from the scope of such tariffs.

If the administration nevertheless does decide to include knit to shape sweaters, identified by Ralsey on the final list, the administration should only impose the lowest level duties on such items, as they are not currently available from U.S. or third country suppliers, and tariff increases will negatively impact mass market value price retailers and the families that rely on them. Thank you.

MR. BURCH: Thank you, Mr. Alpern.

And our last panel witness will be Brett Portaro with PowerCharge.

Mr. Portaro, you have five minutes.

MR. PORTARO: No pressure at all. Secretly, I was rooting on Steven and Allen. I'm the other lithium ion guy here, so, in the last hearing.

Thank you, everybody. My name's Brett Portaro. I'm the COO and founder of PowerCharge

Corporation, and I appreciate the opportunity to present today why we feel that lithium ion batteries, HTS-US Subheading 8507.60 should be excluded from the Section 301 tariff list.

We're a lithium ion cell phone accessory company, so we are the consumer side of the lithium ion that we were talking about in the previous hearing, and we're based out of Cornelius, North Carolina, which is just north of Charlotte, a smaller town. And most of our products include lithium ion batteries as is the nature of most cell phone battery accessories.

Included in your packets are three of our main products, two different capacity power banks -- that's a power bank, and a charging case. You'll see a picture of all three.

I'm sure most of you today have your cell phones or tablets or laptops with you and are often concerned about what do you do when you get low on battery power, like the rest of us. Over the last five years, we've worked with a factory out of Shenzhen, China, creating lithium ion cell phone accessories that are safer, more powerful, smarter and faster.

We also made those products attractive, and God forbid, we price them reasonably. Well, why did we choose China? Because most of the lithium ion batteries in the entire world are made in China.

While several companies mine for raw lithium, here in the U.S., companies like Albemarle, which is not too far from us in Charlotte, they're still strictly in the mining business.

They don't actually manufacture a completed lithium ion battery or a completed lithium ion cell phone accessory here in our wonderful country. This pushed us to work with China, taking the raw lithium, and they're shipping it overseas.

So, we looked into other lithium ion battery manufacturers in India, Taiwan, South Korea. They also make cell phone accessories with lithium ion batteries, but the percentage of the marketplace is very limited, and their technology tends to be 12 months behind in this category.

Their lithium ion battery focus is centered around electric vehicle batteries, which was touched on previously by Steven, which are very different. Once again, this pushed us to work with China.

At PowerCharge, part of value proposition is that we try to be 12 months ahead of the brick-and-mortar retail marketplace in regards to technology. What type of tariff effect will it have on PowerCharge? Well, a 25 percent tariff on lithium ion batteries, the Code 8507.60 will put us out of business.

The cell phone accessory business is extremely price sensitive. Some of our competition is larger and can absorb a 25 percent tariff due to the diversification of their business into other cell phone accessories that are not currently tariffed.

Most of our products include lithium

ion batteries, which means the majority of our business will be tariffed at a rate of 25 percent. This will prevent us from getting an order from a major retailer. If we ever chose to sell on Amazon, where the margins are either slimmer, we would actually lose money due to the tariff.

What's the urgency? Well, my business partner, David Hynes and I have funded this company with our own money for five years. And as of last week, we finally got a verbal commitment for our first large order from a major brick-and-mortar retailer, with over 1,350 locations in the U.S. Finally, our hard work paid off.

Additionally, we're gaining traction on selling our lithium ion cell phone accessories to other major retailers here in the United States, but now are no longer able to bid because of the tariff on lithium ion batteries.

Since the tariff was announced, the retailer announced they would work with Alibaba, which means they may now go direct to China for their purchases. The net effect of the tariff would only hurt us, the American company, like PowerCharge, not hurt China.

China would still get to do the manufacturing. Our quickly growing small company would be out of business. The 25 percent tariff on lithium ion batteries put us in this position. This is why I'm here today.

Please consider exempting lithium ion batteries, because we don't have another realistic option on the table. We are projected to start hiring up to 25 people, which would have a large effect on our small community in Cornelius, North Carolina.

Finally, the aftermath. At PowerCharge, we planned on using the proceeds from our consumer products to fund the industrial side of our business, in which we do industrial lithium ion battery products, which provide an 80 percent lighter battery solution to the U.S. military.

Today, battery issues are amongst some of the most prevalent concerns in our military today. It's personal to me, because I grew up with a Marine Corps gunnery sergeant.

Please help PowerCharge -- please help us. PowerCharge has the potential to be one of the next great American companies but we need your help. I spent five years building this company. Please don't put me out of business.

Please consider exempting lithium ion batteries from your tariff list. And we genuinely thank you for your time.

MR. BURCH: Thank you, Mr. Portaro.

And Mr. Chairman, this concludes all direct testimony for this panel.

MS. JANICKE: All right. Thank you very much to the panel for your impassioned testimony this afternoon. You're last but not least. My question is for Christopher Steinkamp.

And I have two questions for you related to your testimony. The first is about alternate sourcing. You mentioned in your testimony that many of the products are not available within the United States.

But can you speak a little bit to your, the extent to which your members have explored sourcing outside China? Our not very scientific survey of our closet suggests there might be sourcing from Bangladesh for performance outerwear or other possible sources. So I was wondering to what extent your members have taken a look at that.

MR. STEINKAMP: Sure. You know, a lot of members are starting to look at Vietnam, Bangladesh. There are skis made in Europe. But in terms of production here in the U.S., it's very, very limited just because of the technical specs and the performance of the gear that is on the list. So yeah, there is some production outside of China for sure, but not in the U.S.

MS. JANICKE: And my second question is about timing. In your testimony, you also talked about the six month season and also pricing being agreed, and then shipping on the way. Can you just give us a little bit more detail about the timing for contracts for these seasonal products?

MR. STEINKAMP: Yeah, absolutely. There's a trade show that takes place every January, where pricing is agreed upon and sales are made for the next following fall. So that trade show took place five months ago, and orders were placed, prices were agreed upon.

So production is taking place now. Shipments will probably take place in late this month or August. So there's a little bit of a problem here because the prices have been agreed upon, yet the retailers could be asked to pay more for those prices now. So that's the problem, the timing.

MS. JANICKE: Thank you.

MS. VON SPIEGELFELD: Hi. This question is for Mr. Mehra.

I have two questions for you. Can you first elaborate on whether the primary customers for your drones are, whether it's for the military or commercial market, or was this for recreational purposes?

MR. MEHRA: The first product that we sold, the Skydio R1 was almost exclusively consumer. The next generation product that we are developing and will be launching very shortly.

We'll begin by selling it to the consumer market, but with a couple of larger contracts that we have landed or are close to landing, we will be expanding rapidly into the commercial and military side as well.

MS. VON SPIEGELFELD: And just one more question. What would be the effect on your company if additional tariffs applied to both the completed drone and on the drone components?

MR. MEHRA: So at least if it applies to the completed zone and components it, I mean, it'll help level things out a little bit for us. Right now, any drone manufactured in China comes in with no tariff and then we have that 25 percent on all the components that we import for final assembly.

So that would definitely be one step towards leveling out the playing field against, you know, manufacturing in China, but it still doesn't promote, you know, manufacturing domestically.

MS. VON SPIEGELFELD: Thank you.

CHAIR TSAO: Mr. Mehra, I have a question. With respect to the military application of your drones, are there any sourcing restrictions, with respect to dealing, doing business with Department of Defense?

MR. MEHRA: So yeah, very recently we've been actively looking at, you know, backup plans for a couple of different critical components, mostly on the electrical side, and moving those outside of China.

As of now, there are no direct restrictions yet, but there have definitely been strong hints that they may come, so we've been looking to -- at, yeah, other manufacturing locations to take care of primarily electrical assemblies. Yeah.

MS. ROY: Good afternoon. This question is for Mr. Alpern.

You testified that China is the only country with infrastructure and flat knitting machines to produce knit to shape garments. How long would it take for a supplier to set up production in a third country to produce knit to shape garments? And are there any specific obstacles in starting production?

MR. ALPERN: Sure. We estimate that it'll take us about two to three years to get our supply chain up and running to equal capacity. Right now there's limited capacity in third countries that we could go to, and we were looking potentially to move maybe as much as 10 percent of our production year over year, but that is actually small.

And then it's going to be at a higher cost rate, where we would not be competitive on that. And then our 90 percent remaining would also be less competitive, which would see a massive reduction in our business.

So, it's a very capital intensive thing, because knit to shape machinery is expensive. You know, it's -- there's three manufacturers, and the prices range from let's say $10,000 per machine to $100,000 per machine, as opposed to a sewing machine, which is much cheaper.

So you'll see, it's much easier to move production that is either cut and sew or woven to third countries, and that's why most of that, if you look in your closet, you'll see where those are at. But this is a specialized experience. Plus, the knitting, the linking and the looping is extremely technical.

And those machines don't exist on -- they exist in some third countries, but they do not exist in the United States at all.

MS. ROY: Thank you.

MR. ALPERN: Thank you.

MS. COVERT: Mr. Portaro, you've said that most lithium batteries are produced in

China, and I was hoping you could give us a low elaboration on the reasons for China's dominance in that field, and let us know, based on your knowledge in the sector, is the production or development of lithium ion batteries targeted by any of China's industrial policies?

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

MR. PORTARO: Yeah. I don't know if I have a specific answer as to the reason. I can tell you it's always been that way. I do think, that as Steven had said in the last hearing, I think that the manufacturing of lithium ion batteries, if we don't tariff it and grind this thing to a halt, could start to take root here. And proof of that is what Tesla is doing.

But remember, that's for electric vehicle batteries, right. That's not for consumer. But we provide the innovation. China provides the batteries. If we can get them to invest or even us as Americans to invest here, but it's going to take several years.

So I don't know if I have a specific answer as to the reason. It's always been the case. And I think it's the economies of scale and inexpensive labor.

I can also tell you that the machinery to produce an advanced lithium ion battery, we also have industrial applications, where we do high-powered lithium ion, it's very precise. And it requires a large investment to produce that type of a factory for advanced lithium ion.

And the only two that you find, when you get to advanced lithium ion are China and Korea, and Korea is solely focused on the electric vehicle battery market whereas China does a little bit of everything.

So we literally, we don't have a solution here in the U.S. So I'd be, I'm all for promoting American, but we just, we don't have an answer. We don't make our own lithium ion batteries here. And the ones that we do are for Tesla, and that's for their vehicles. That's it.

CHAIR TSAO: Mr. Portaro, you just

referenced, right, it seems like we're doing the innovations here, and China does the manufacturing for these, at least in the lithium ion battery space. Do you have any concerns that your Chinese competitors will want to do innovation as well, in addition to manufacturing?

MR. PORTARO: Yeah. You know, in our particular case it's interesting, because we've actually partnered with that Chinese factory. And in our first go around, we produced a lithium ion jump box that they took and duplicated across the board, and stole the technology. And we found a better manufacturer that we're now working with on our consumer products.

But what we learned is, you know, is that a concern? Of course it is. But I can tell you that by tariffing this business, you're -- as Steven said in the last round, you're going to grind it to a halt, and China's still going to be the last man standing.

I mean, that's the unfortunate reality. So my point is, is if it was done over a series of time, over several years, I think you'd have tremendous investment here, right here in the United States. It's just, it's going to take time. It can't be a knee-jerk, let's shut down the industry.

We would take probably ten years to get back to the point where we're at today. Let's do this over time.

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

CHAIR TSAO: Okay. We thank everybody for being here. It's been a long hearing. With, if there's nothing else to address, this hearing is adjourned.

(Whereupon, the above-entitled matter went off the record at 4:14 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-25-19

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Neal R Gross

Court Reporter