

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

2 (9:28 a.m.)

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

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

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

21 The purpose of this hearing is to  
22 receive public testimony regarding the proposed

1 tariff action.

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

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

12 The hearing is scheduled for seven  
13 business days, concluding today, Tuesday, June  
14 25th. Today is Day 7 of the hearing. We have  
15 scheduled 55 panels of witnesses with over 300  
16 individuals scheduled to testify.

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

22 Each witness appearing at the hearing

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

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

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

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

22 Given the number of witnesses and the



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

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

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

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

18 MR. FRATERMAN: Matthew Fraterman,  
19 Department of Labor.

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

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

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

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

8 MS. ZHAO: Shelly Zhao, USTR China  
9 Office.

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

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

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

22 MR. HANSON: Good morning. My

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

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

10 Thus, the proposed tariff on HTS  
11 1515.90.21 affects, perhaps exclusively, Chinese  
12 tung oil. Chinese tung oil has been imported  
13 from China into the U.S. for over 140 years.

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

1 it was still left free of duty."

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

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

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

21 Chinese tung oil, the consumption of  
22 tung oil has declined over the years in the

1 world, but it remains a critical ingredient in  
2 the production of many U.S.-manufactured  
3 specialty products. And I'm back to my text  
4 here.

5 I focus on Chinese tung oil at my  
6 request that USTR remove HTSUS subheading  
7 1515.90.21 from the list of products to which the  
8 additional Section 301 tariff would apply.

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

16 ATOC was the only U.S. commercial  
17 producer of tung oil in the United States between  
18 1973 and the present date.

19 There is no current commercial  
20 production of tung oil in the United States.  
21 China produces over 90 percent of the world's  
22 tung oil. Paraguay is the only other exporter of

1 tung oil to the United States, but Paraguay has a  
2 very small declining production, which is not  
3 sufficient to meet the demand of American  
4 manufacturers and consumers.

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

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

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

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

22 On behalf of my company, IOP, other

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

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

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

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

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

11                   CHAIR TSAO: Can you wrap it up?

12                   MR. HANSON: Yes.

13                   CHAIR TSAO: Thank you.

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

20                   Chinese tung oil is not related to the  
21 Made in China 2025 or other Chinese industrial  
22 programs. For these and other reasons, my



1 company respectfully requests that USTR remove  
2 1515.90.21 from the list of products to which the  
3 additional Section 301 tariff would apply. Thank  
4 you.

5 MR. BURCH: Thank you, Mr. Hanson.

6 Our next panel witness will be David Henrick with  
7 Excalibar and Newpark Drilling Fluids, LLC. Mr.  
8 Henrick, you have five minutes.

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

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

19 First and foremost, barite, also  
20 spelled baryte with a Y instead of an I, has been  
21 designated as a critical mineral by the DOI.  
22 USTR's May 17, 2019 notice, which set today's

1 hearing, expressly states that, "The proposed  
2 product list excludes pharmaceuticals, certain  
3 pharmaceutical inputs, selected medical goods,  
4 rare earth materials, and critical minerals."

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

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

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

22 American oil and gas producers must

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

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

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

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

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

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

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

22                  Energy producers throughout the world

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

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

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

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

22 In fact, all non-Chinese sources

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

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

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

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

21 For reasons my colleague John  
22 Newcaster will address next, domestic mining of

1 barite is infeasible at this time due to limited  
2 reserves and prohibitive environmental  
3 regulations.

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

8 MR. NEWCASTER: Thank you and good  
9 morning, ladies and gentlemen. It's a pleasure  
10 to be here. My name's John Newcaster and I am  
11 representing AES Drilling Fluids to respectfully,  
12 like David, urge you to remove the mineral barite  
13 in its ground and unground forms from the Section  
14 301 tariff list.

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

21 I'm here to discuss exactly why  
22 domestic U.S. barite production is insufficient

1 to meet the needs of American energy producers  
2 and underscore that there is no sufficient  
3 international sources to replace the imports of  
4 Chinese barite in sufficient volumes to meet  
5 American demand.

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

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

16 If you go back to 1980, approximately  
17 24 companies participated in the barite mining  
18 industry and they were operating at least 23  
19 separate mines and achieving a very high volume  
20 of 2-1/2 million metric tons a year in 1980.

21 Now, there are only three active  
22 barite mining operations in the U.S., they're all



1 in Nevada, and they're strained to produce  
2 anything greater than 500,000 metric tons a year.

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

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

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

21 Bear in mind, Nevada producers, had  
22 they not made a total shift to lower-grade land

1 barite grade quality, in 2007, the viable  
2 reserves would, by now, be completely exhausted.

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

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

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

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

1 China being the major source every single year.

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

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

15 So in conclusion, due to the  
16 unavailability of domestic and international  
17 sources, U.S. energy companies have no  
18 alternative but to source a large portion of  
19 their barite from China, and as a result, the  
20 tariff will cause higher costs for U.S. energy  
21 companies and consumers, and potentially slow  
22 America's current record-breaking oil boom, and

1 these effects are contrary to our national goals.

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

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

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

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

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

1 Section 301 tariffs on imports from China in July  
2 2018, China received 22 percent of total U.S.  
3 crude oil exports and 4 percent of total U.S.  
4 refined products exports.

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

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

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

22 My fellow witnesses from API member

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

4 And secondly, in addition to barite,  
5 we request that parts of hand-operated and check  
6 appliances for pipes, boiler shells, tanks, vats,  
7 or the like, of iron or steel, HTS Code  
8 8481.90.30, also be excluded.

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

16 I'd like to return to the bigger  
17 picture of U.S.-China energy trade. Since lower  
18 48 exports began in February 2016, China is  
19 currently the fourth largest imported of U.S.  
20 liquefied natural gas, or LNG, dropping from 3rd,  
21 since mid-2018, at the outset of the U.S.-China  
22 trade dispute.

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

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

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

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

20                  As an alternative, we strongly believe  
21                  ongoing U.S. efforts to address China's  
22                  discriminatory and market-distorting practices

1 should include the following.

2 One, resolve quickly, the current  
3 U.S.-China trade dispute, achieving what is  
4 possible within these negotiations to address  
5 China's unfair practices, and lifting all Section  
6 301 tariffs so that we can return to the  
7 marketplace match where abundant U.S. supply of  
8 natural gas and oil flows as exports to meets  
9 China's rising demand.

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

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



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

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

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

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

21 We request, however, that these  
22 efforts take into account, national security

1 considerations. One of the pillars of the  
2 current U.S. national security strategy, as  
3 reflected in the paper the White House published  
4 in December of 2017, is to promote American  
5 prosperity by embracing energy dominance.

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

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

15 The U.S. oil and gas energy relies on  
16 imported natural barium sulfate, also known as  
17 barite, in its drilling and exploration  
18 activities. Barite is classified in subheadings  
19 2511.10.10 and 2511.10.50, which are listed on  
20 the proposed list of subheadings that may be  
21 subject to an additional duty of up to 25  
22 percent.

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

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

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

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

1 global barite is used for oil and gas  
2 exploration.

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

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

22 China will not suffer the consequences

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

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

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

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

22 Additionally, Halliburton has owned

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

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

13 For reasons stated above, we urge to  
14 align the Section 301 remedy with U.S. national  
15 security interests by not imposing an additional  
16 duty on articles that facilitate U.S. energy  
17 independence, specifically, we respectfully  
18 request that subheadings 2511.10.10 and  
19 2511.10.50 covering natural barium sulfate, be  
20 removed from List 4.

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

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

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

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

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

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

20                   MR. HANSON: Tung oil is used in brake  
21 pads for oil and gas drilling rigs, for example,  
22 so specialized brake pads, and it's used in

1 currency inks. There's tung oil in the dollar  
2 bill, so the properties of tung oil make it  
3 important for the performance of a currency ink.

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

7 MS. ZHAO: Thank you.

8 MR. HANSON: Thank you.

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

18 MR. HENRICK: It would be difficult.  
19 The reserves in Mexico are of lower quality  
20 barite. And when I talk about quality, I'm  
21 talking specific gravity. Where the Chinese  
22 barite is 4.2, very heavy, a lot of the Mexican



1 ore, or from Mexico, maybe 3.6, 3.8, 3.9, much  
2 lower, and can routinely cause safety issues.

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

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

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

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

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

1 as well.

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

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

9 MS. COVERT: Thank you.

10 MR. HENRICK: Okay.

11 MR. FRATERMAN: Thank you, Mr.

12 Henrick, for your testimony, I just wanted to  
13 follow-up real quickly with you. You were  
14 talking about the four locations in the U.S. for  
15 the grinding facilities. All four of those  
16 locations are located in Nevada, correct?

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

20 MR. FRATERMAN: Okay. So --

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

1 MR. FRATERMAN: Okay.

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

4 MR. FRATERMAN: Okay.

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

8 MR. FRATERMAN: Okay.

9 MR. HENRICK: Okay?

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

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

18 MR. FRATERMAN: Yes.

19 MR. HENRICK: It's not that labor-  
20 intensive, a lot of heavy equipment, a lot of  
21 moving of earth materials. Most of the jobs are  
22 in the production end, the drilling, the

1 trucking, the processing, so there's tens of  
2 thousands of jobs produced there.

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

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

13 MR. FRATERMAN: Okay.

14 MR. HENRICK: Okay?

15 MR. FRATERMAN: Thank you very much.

16 MR. HENRICK: All right. Thank you.

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

1 additional heavy metals, and therefore, is  
2 cheaper --

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

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

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

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

20 MR. BLAHA: Okay. Thank you. And  
21 then I guess, Mr. Newcaster, I think you had  
22 referenced that the United States was the largest

1 consumer of barite, I think you mentioned, like  
2 1/3.

3 MR. NEWCASTER: Correct.

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

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

17 I'd have to say that's impossible.

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

20 MR. BLAHA: And I guess, again, I  
21 think for you both, just to be clear, we're  
22 talking about some short versus long-term thing,

1 but in your testimonies, is there any long-term  
2 alternative to barite or is it essentially just -  
3 -

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

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

17 MR. BLAHA: Okay. Thank you.

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

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

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

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

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

17                   MS. ROY: Okay. You said that --

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



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

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

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

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

21          It's a density that makes it unique  
22          for the safety standards that our industry has to

1 ensure safety of the drill bore when we're  
2 undertaking drilling for production of natural  
3 gas and oil.

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

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

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

21 MS. ROY: Thank you.

22 MS. ADAMS: Good morning. Thank you

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

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

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

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

22 And even if we were to try to shift

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

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

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

18 MR. EZELL: So from our aspect, I  
19 could comment on where we see it from the  
20 Halliburton, but U.S. standpoint, you know, even  
21 if -- it would take us -- even on our mining  
22 alone, would take us up to three years to get our

1 facilities running, and we couldn't support more  
2 than four to five years in the U.S.

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

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

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

18 If you look at 10 or 15 years, China  
19 is consuming a lot more internally. India is --  
20 they are, actually, and there's competition for  
21 that. India has a huge source, but it's  
22 diverting -- you know, trying to divert that to

1 the U.S. from India would -- everything's  
2 possible, but it's going to cause a huge price  
3 increase; or cost increase.

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

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

16 MS. ADAMS: Yes. Thank you.

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

22 MR. NEWCASTER: 20 percent?

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

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

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

19                  MR. BLAHA: Just one, if I may, Mr.  
20                  Padilla, I think you mentioned various criteria  
21                  that made barite the high quality stuff uniquely  
22                  suitable, and I wrote down at least three in

1 terms of the weight, non-metallicness, and the  
2 inertness.

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

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

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

16 MR. PADILLA: Only generally, I would  
17 affirm the way that you're characterizing it.  
18 It's the mechanics and the advantages of the  
19 mechanics that work hand-in-hand with providing  
20 safety advantages as well. So they're not  
21 separate, they work together, and the higher  
22 density, higher quality barite that's available



1 from Chinese sources allows for the more  
2 effective drilling that also makes it safer to do  
3 because it's more effective.

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

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

19 And the other one that's always been  
20 a problem with those materials and why they fell  
21 out of favor, was abrasiveness. They caused  
22 extensive damage to not only drill strains, drill

1 bits, mud pumps, and they were very costly to  
2 run. Not only costly to acquire, but costly to  
3 run.

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

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

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

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

22 The well that we drill isn't as

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

5 MR. BLAHA: Okay. Thank you.

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

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

13 MS. MARTINICH: Linda Martinich,  
14 Department of Commerce.

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

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

19 MR. BURCH: Mr. Chairman, all  
20 witnesses for this panel are seated and I would  
21 like to make a note to the witness panel. Can  
22 you speak clearly into the microphone and if

1 you're not able to hear yourself, pull the mic a  
2 little closer for the benefit of the court  
3 reporter and the members of the audience.

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

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

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

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

21 Today we employ more than 340 people  
22 in the U.S., including designers, marketers,

1 corporate staff in our offices in New York and  
2 Maryland, and at our East and West Coast  
3 distribution centers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 This would immediately result in our  
4 product being priced out of reach for many value  
5 consumers who have recently turned to the brand.  
6 For companies already charging \$100 or more for a  
7 pair of shoes, perhaps their consumers would pay  
8 \$125, but for the parent who's paying \$40, which  
9 is a stretch, \$50 is simply not an option.

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

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

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



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

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

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

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

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

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

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

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

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

22 So what has this tax increase been on

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

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

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

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

22 My customer service person is now

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

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

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

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

22 So almost all product is now seeing

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

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

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

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

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

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

10 And the proposed imposition of up to  
11 25 percent tariffs on all the remaining items our  
12 industry makes and sells, water and spray  
13 bottles, clothes, shoes, luggage locks, and  
14 travel clocks would also not further that goal,  
15 but only serve to put the remaining nails in the  
16 coffin of our industry.

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

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

1 minutes.

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

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

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

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

1 making competition unfair to the U.S.

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

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

13 We believe that the proposed tariffs  
14 on vat dyes will have the unintended consequence  
15 of causing harm to these groups. For that  
16 reason, Royce appreciates that the USTR remove  
17 3204.15.80 from the third list of products and  
18 are now quite dismayed that -- to see them put  
19 back on.

20 To give you a little operational  
21 background about us. Royce imports crude vat  
22 dyes from China and then converts them into



1 finished vat dye liquids at our Gaffney, South  
2 Carolina plant.

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

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

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

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

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

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

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

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

20                   With regards to the U.S. military, we  
21 feel it's very important to know that vat dyes  
22 are used both in the dyeing and printing of these

1 uniforms, and they are the only dye class that  
2 has a unique infrared anti-reflectance property,  
3 helping to keep our soldiers less visible to  
4 enemy forces and out of harm's way.

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

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

20 In closing, I'd like to point out that  
21 this class of product, while relatively small,  
22 plays a large part in keeping our fighting men

1 and women safe, and to the continued growth and  
2 safety of a re-energized U.S. blue-collar  
3 workforce.

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

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

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

22 Therefore, we request that USTR remove

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

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

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

18 In 2018 alone, Fitbit invested \$303  
19 million in R&D. Today we partner with more than  
20 1,500 U.S. companies to promote and improve  
21 employee health and wellness, work with more than  
22 100 healthcare plans across the country to

1 improve outcomes and lower costs, and facilitate  
2 more than 800 clinical trials, including with  
3 NIH.

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

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

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

21 The proposed tariff on wearable  
22 devices undermines U.S. national security

1 interests. The wearables market is highly  
2 competitive and rapidly evolving.

3 In the last year, Huawei and Xiaomi,  
4 both Chinese companies, secured two of the top  
5 three positions in global wearables market share.  
6 In the first quarter of 2019, Huawei's share of  
7 global wearables shipments increased by nearly  
8 300 percent, while Xiaomi's increased by nearly  
9 70 percent year over year.

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

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

1 information at risk.

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

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

16           While Fitbit stores sensitive user data  
17 solely on servers in the United States, subject  
18 to strict privacy protection rules and security  
19 safeguards, Chinese companies like Xiaomi  
20 explicitly state in their privacy policies that  
21 data may be transferred to servers in China,  
22 putting U.S. consumer data at risk of ending up



1 in the hands of the Chinese Government raises  
2 serious privacy and national security concerns.

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

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

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

21 Fitbit is already taking steps to  
22 adjust its supply chain in response to the

1 administration's concerns and we continue to  
2 explore additional possibilities, but this is a  
3 costly and time-consuming process, so it will not  
4 be possible to avoid the detrimental impact of  
5 the tariffs.

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

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

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

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

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

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

22 This aggressive national marketing

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

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

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

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

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

22 The Finishing Touch Flawless line has

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

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

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

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

1                   At 25 percent, this would result in an  
2                   estimated increase to the retail price of up to  
3                   20 percent, which would then result either in a  
4                   higher cost to the consumer or reduce sales, as  
5                   lower income consumers would seek out lower  
6                   priced, inferior products in a price-sensitive  
7                   market.

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

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

18                  This impact cannot be avoided. Even  
19                  with the tariff, Ideavillage will have no choice  
20                  but to continue to import Flawless products from  
21                  China. The company has evaluated alternative  
22                  sourcing, but has, to date, found no location

1 outside of China that meets quality standards and  
2 has mature supply chain capabilities to meet our  
3 product needs.

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

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

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

22 Ideavillage is more than a typical

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

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

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

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

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

22 In your testimony, you argue that



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

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

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

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

22 The costs for our product in Vietnam

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

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

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

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

22 So the area of China where we produce

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

5 And so when we've tried to source  
6 those products in Vietnam, it runs, roughly, \$2  
7 higher on the FOB cost. That kind of shoe in  
8 this area of China where we make shoes is \$8 to  
9 \$10, so anywhere from 25 to 20 percent higher in  
10 Vietnam than in China.

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

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

1 just not possible to move everything in a short  
2 term.

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

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

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

21 And so that not only adds even more  
22 costs to the whole process, but extends your

1 supply chain and stretches it out, and creates a  
2 lot more complexity, especially for the small  
3 firms that make up the bulk of our industry.

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

14 MR. HERMAN: Virtually none of those  
15 products are made in the United States in any  
16 sort of commercial quantities whatsoever, and  
17 again, the situation that we're -- 82 percent of  
18 traditional travel goods are coming from China,  
19 the numbers for those products are in the 90 to  
20 95 percent range from China, so it's even more  
21 difficult to move those products.

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

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

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

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

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

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

1 today.

2 MS. MARTINICH: Okay.

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

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

7 MR. ROYCE: Something like that.

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

10 MR. ROYCE: Whale in a puddle, yes.

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

14 MR. ROYCE: Yes.

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

19 MR. ROYCE: No, they're usable. And  
20 what we do is, because we bring the crudes in,  
21 and then we shade them, and adjust them, and  
22 grind them to a finished spec, we're able to use

1       them, but I can tell you that the total capacity  
2       of the country of India, because we've been  
3       working on this for several years.

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

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

13               MS. MARTINICH: Thank you very much.

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

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



1 of, factory type of shade, obviously.

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

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

12 CHAIR TSAO: Thank you.

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

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

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

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

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

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

1 40 years, this very high precision, small form  
2 factor processes that frankly, you know, coupled  
3 with the labor costs just don't exist elsewhere  
4 in the world.

5 MS. ROY: Thank you.

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

12 When did you shift the production and  
13 why?

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

20 They just really have not been able to  
21 get the quality right. The labor there is not  
22 trained as China has been. You know, China took

1       them 30 years to hone their capabilities in  
2       manufacturing.

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

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

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

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

19                      MS. RASCIONATO: It's just, I think,  
20       because China has honed their capability, we're  
21       able to produce them, you know, at a lower cost,  
22       yet maintain the quality so we can offer, you

1 know, the U.S. consumers our devices at a very  
2 reasonable retail price.

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

7 MR. JACKSON: Thank you.

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

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

20 MS. RASCIONATO: Sure. I'll answer  
21 that first, if you don't mind. I mean, it is  
22 really a major concern of ours. Even just

1 finding the capable factory in China is a process  
2 in itself.

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

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

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

22 MR. WAKLEY: I think in our case, we

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

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

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

22 So India just said, you know, our

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

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

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

21 MR. MISSAN: And I would just add that  
22 it is a concern for Fitbit. We would like to



1 diversity the location of our final assembly, but  
2 we need time and so the irony is that being under  
3 the weight of the tariffs would actually limit  
4 our ability to move because it would be very  
5 difficult to absorb the costs at the same time  
6 that we'd have to absorb the, you know,  
7 potentially, 25 percent tariff on the goods being  
8 imported.

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

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

22           MR. HERMAN: The same for the travel

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

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

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

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

22           So again, if we were given the time,

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

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

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

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

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

19 (Pause.)

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

1 seated.

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

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

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

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

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

1 200 billion U.S. dollars tariffs. Today I would  
2 like to express the following comments on behalf  
3 of our member companies affected by 300 billion  
4 U.S. dollars proposed tariffs.

5           Firstly, according to the data  
6 released by Census Bureau of U.S. Department of  
7 Commerce, the United States imported 44.2 billion  
8 U.S. dollars of textile and apparel products from  
9 China in 2018, accounting for 36 percent of the  
10 total imports -- well, 10 percent from Vietnam,  
11 6.6 percent from India and 4.7 percent from  
12 Mexico, successively.

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

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

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

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

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

11                    As a result, consumers in the United  
12 States have to undertake a higher cost of living.  
13 On the basis of the import data of 2018, released  
14 by Census Bureau of DOC, CCCT selected 24  
15 categories of products with a much higher  
16 proportion of import amount from China than any  
17 other countries; for example, HS Code 6110 and  
18 6204 and others.

19                    The complete statistics have been  
20 submitted with our written comments. Since these  
21 Made in China products are irreplaceable, both in  
22 quantity and scale, we hope USTR could remove

1 them from the additional tariffs list.

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

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

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

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

21 However, certain products appeared  
22 again in List 4 since USTR has removed them,

1 according to the opinions of public comments last  
2 time. We hope these irreplaceable products can  
3 be removed again. Thank you.

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

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

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

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

21 We are a strong, growing and  
22 profitable company which has consistently added



1 new stores and created jobs. We are deeply  
2 concerned, however, that even if we are granted  
3 the seven tariff line exclusions requested in our  
4 previously submitted comments, the remaining  
5 costs resulting from tariffs imposed on products  
6 that we import from China, covered by both Lists  
7 3 and 4, will far exceed our current level of  
8 annual profitability.

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

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

19 Since the administration's initial  
20 imposition of Section 301 tariffs last year, we  
21 have had some success at finding factories in  
22 countries other than China which can produce some

1 goods that we have been historically sourcing in  
2 China.

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

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

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

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

1 home products.

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

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

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

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

1 our disadvantaged children.

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

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

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

19 All of these blankets were made with  
20 fleece purchased at Jo-Ann. If the tariffs are  
21 enacted, Christine says it would have a huge  
22 impact on her organization's ability to continue

1 making blankets and bringing comfort to children  
2 in need.

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

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

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

22 As far as we know, none of the

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

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

15 Therefore, we respectfully request  
16 that tariff lines relating to these products, as  
17 listed in Appendix A of our comments previously  
18 submitted, are removed from List 4 of the Section  
19 301 tariffs.

20 Thank you very much for the  
21 opportunity to testify as part of this  
22 proceeding, and I'm very happy to answer

1 questions as you see fit. Thank you.

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

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

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

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

20 We additionally support the employment  
21 of another 300 U.S. workers through our  
22 distribution center in Ohio and 12 partner doors

1 across the country. 200 of those workers are in  
2 the distribution center and another 100 through  
3 those partner doors.

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

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

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

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



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

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

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

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

22 And if they were, sourcing changes

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

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

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

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

1 equipment and other apparel.

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

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

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

20           Even raw material sourcing for the  
21 liner fabric and ear pads is limited within the  
22 U.S. A deep concern of abruptly increasing

1 import duties an additional 25 percent on  
2 protective helmets and goggles, when there have  
3 been ongoing studies on the effects of head  
4 injuries, in particular, could have serious  
5 consequences for consumers.

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

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

18 Rather, these tariffs will harm U.S.  
19 companies and raise prices for U.S. consumers.  
20 We instead urge that the administration continue  
21 to engage with Chinese officials on these matters  
22 and develop a better solution -- a solution under

1       which U.S. companies and U.S. consumers are not  
2       bearing the financial responsibility.

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

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

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

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

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

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

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

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

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

1 from China.

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

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

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

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

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

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

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

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

19                   In fact, there is basically one city  
20 that exclusively supplies and manufactures ties,  
21 not only for PVH, but a vast majority of neckwear  
22 providers. Although a seemingly simple sewing



1 process, the use of silk and new soft handmade  
2 material fibers requires significant skill.

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

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

15 The shift over the past five years to  
16 more casual dress and working remote has caused a  
17 decline in our production from 30 million ties in  
18 2014 to 13 million ties today. This tariff will  
19 put significant pressure on this tie business.

20 We do not presume to advise on the  
21 appropriate level of trade to be covered by the  
22 additional duties because we do not believe there

1 is any reason to impose any level of tariff on  
2 the swim products or ties.

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

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

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

21 This industry is neither cutting edge  
22 nor a priority for China in 2025 development

1 objectives. Thank you.

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

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

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

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

22 With licenses such as Frozen, Paw

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

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

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

12 Our company indirectly supports over  
13 1,000 employees at 12 other companies around the  
14 United States that provide manufacturing,  
15 packaging, polyester fill, warehousing and  
16 logistical service to us.

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

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

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

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

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

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

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

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

9 In terms of Franco imports of the 11  
10 products at issue, Franco products also almost  
11 entirely come from China -- 94 to 97 percent --  
12 and six products largely come from China -- 73 to  
13 84 percent.

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

19 Third, an additional 25 percent tariff  
20 on our imports from China will cause  
21 disproportionate economic harm to U.S. interests,  
22 including Franco, which is a small size business,

1 its employees, its customers and its U.S.  
2 consumers.

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

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

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

19 We further submit that additional  
20 tariffs on these products would not have any  
21 impact whatsoever on China's acts, policies,  
22 practices regarding technology transfer,

1 intellectual property and innovation.

2 Our industry is neither cutting edge  
3 nor a priority sector for China in its 2025  
4 development objectives. In contrast, additional  
5 25 percent tariffs on our products will greatly  
6 harm Franco for the key reasons I've laid out  
7 above.

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

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

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

21 Do you import any textile products  
22 from the United States?



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

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

11 MR. YU: For 2018, China imported  
12 cotton products from the United States, about  
13 1.066 billion U.S. dollars.

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

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

21 And it's ranking of fourth sourcing  
22 country. And the first of three sourcing

1 countries become Brazil, India and Australia. So  
2 that means that many Chinese manufacturers,  
3 because of the trade frictions, their demand for  
4 the American cotton products has decreased.

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

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

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

19 Actually, our member companies, some  
20 of us actually have discussed with your brands  
21 and importers in the United States about they are  
22 seeking for the removal of some of the HS code

1 and we can see that now many brands here. So  
2 maybe the -- actually, they are actually our --  
3 the clients of our member companies.

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

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

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

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

1 partnership.

2 MS. COVERT: Thank you.

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

8 INTERPRETER: Sorry, can you --  
9 pardon?

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

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

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

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

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

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

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

19 MR. MIQUELON: Yes. It's not even an  
20 issue of even quality. It's really also an issue  
21 of quantity. I believe that fleece, China has  
22 the fleece, about 75 percent of the world's

1 capacity. And for the type of fleece that we  
2 buy, as far as we can tell, it's probably, you  
3 know, mid to high 90s, if not all of it.

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

9 I mean, if you look at -- retail is a  
10 difficult business. Our profit margins are about  
11 2 percent. On Lists 3 and 4 right now, more than  
12 50 percent of everything we buy and sell is on  
13 that list.

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

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

22 But again, for fleece and floral, we

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

6 And I guess the last thing I would  
7 just say is, you know, of List 3 and 4, we have  
8 700 tariffs that are being proposed that would  
9 impact us. We're asking for seven exceptions --  
10 again, fleece and floral -- so 1 percent of the  
11 total.

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

16 MS. ROY: Thank you, sir.

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

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

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

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

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

14                  MS. LAROCQUE: Yes, that's correct.

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

21                  MS. LAROCQUE: I'm not sure if I can  
22 answer that question. But I can tell you that



1 over the 20 plus years I've been at Burton, I've  
2 witnessed our supply chain move from  
3 predominantly Europe -- we were making snowboard  
4 boots, bindings, helmets, in Northern Italy. We  
5 were making our snowboards in Austria and many of  
6 our textiles across Europe and North America.

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

13 Whether it's our distribution center  
14 where we see that or in the early 2000s, mid-  
15 2000s, when we did have a major production  
16 facility in Vermont to make snowboards, it was  
17 very difficult to get labor to support these.

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

22 MS. MARTINICH: Thank you very much.

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

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

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

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

22                   Our intent has always been to look to

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

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

9 MR. FRATERMAN: Okay, great. Thank  
10 you.

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

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

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

22 MR. FRANCO: So if you look at our

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

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

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

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

19 As well, the product is printed with  
20 heat transfer printing process, and the  
21 capability of the large printing that we need for  
22 our bed sheets and our comforters is not

1 available anywhere else, other than China.

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

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

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

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

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

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

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

16 MR. FRANCO: I do not.

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

20 MR. FRANCO: As we sell our products,  
21 twin sheets are the driver of our business. And  
22 if we have to raise our prices on twin sheets, we

1 will, in turn, sell less of all the other  
2 components -- the comforters, the throws, the  
3 blankets. So it will have a major impact on the  
4 overall business.

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

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

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

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

21 MR. YU: We still think that the  
22 cotton imports from the United States decrease is

1 the most obvious. Actually China, as an export  
2 country, concerning textile and apparel industry,  
3 so we don't -- the imports from United States may  
4 be -- we don't import too much textile and  
5 apparel products from the whole world.

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

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

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

22 MR. BISHOP: Mr. Chairman, we release



1 this panel with our thanks.

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

5 (Whereupon, the above-entitled matter  
6 went off the record at 12:06 p.m. and resumed at  
7 1:05 p.m.)

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

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

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

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

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

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

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

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

17                   The TIA was founded in 1974 as the  
18 American Tennis Federation, and today, is  
19 comprised of nearly 600 member companies,  
20 organizations, associations, tennis businesses,  
21 and key industry stakeholders. Its key efforts  
22 are focusing on providing the industry with

1 market research, growing frequent play, enhancing  
2 communications and positioning of the sport and  
3 industry, and unifying the industry under one  
4 brand, T-E-N-N-I-S.

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

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

21           The imposition of tariffs on tennis  
22 products will raise prices across the board for

1 the entire community, and force an already  
2 weakened tennis industry to further contract.  
3 The industry still hasn't recovered from the 2008  
4 recession, and manufacturer shipments into the US  
5 marketplace have decreased by more than 50  
6 percent in that time.

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

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

21           Two, increased tariffs would mean  
22 higher prices for consumers, which might dissuade

1 consumers from engaging in our sport.

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

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

14           This industry is not cutting edge, nor  
15 a priority sector for China's 2025 development  
16 objectives. For these reasons, we would urge the  
17 USTR not to include tennis rackets and tennis  
18 balls on the list of products subject to Section  
19 301 duties.

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

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

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

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

1 categories.

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

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

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

20 Congress, as you know, has recognized  
21 the critical importance of health and fitness in  
22 the US, as physical inactivity and obesity are

1 two of the leading causes of death in the country  
2 today. We work diligently to offer our  
3 individuals and commercial customers quality and  
4 durable products at reasonable prices.

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

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

21 Core has devoted significant resources  
22 to ensure the quality and reliability of the



1 exercise equipment it imports from China. The  
2 manufacturer of such equipment requires  
3 specialized machinery and substantial  
4 manufacturing experience that cannot be readily  
5 duplicated by producers in other countries,  
6 including the United States, without a  
7 significant period of transition.

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

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

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

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

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

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

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

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

21 Finally, imposing any additional  
22 Section 301 duties on the exercise equipment will

1 not be practicable or effective in obtaining the  
2 elimination of the acts, policies, and practices  
3 of China identified by the USTR.

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

6 MR. O'ROURKE: Yes.

7 CHAIR TSAO: Thank you.

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

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

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

22 MR. SELLS: Thank you for the

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

8 Our members have a global impact  
9 estimated at 75 billion annually. SFIA applauds  
10 the United States government's pressure on China  
11 to protect intellectual property rights.

12 However, we believe the proposed use of  
13 indiscriminate tariffs are the wrong instrument,  
14 and will not result in the outcome we all desire.

15 On behalf of 15 member companies, SFIA  
16 has submitted 35 comments requesting relief from  
17 the proposed tariffs on helmets, baseballs,  
18 tennis rackets, sports accessories, input  
19 materials, such as golf club parts, used to  
20 manufacture sports equipment in the US, and other  
21 sports products that have accompanied American  
22 athletes in their suit-up for everything from

1 high stakes Olympic gold medal games to friendly  
2 competitions at company picnics, backyard touch  
3 football games at family reunions, and the  
4 neighborhood little league games.

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

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

22 According to the CDC, the average per

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

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

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

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

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

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

19           In addition, our members have already  
20 taken many steps to diversify sourcing outside of  
21 China, but it can take years to find alternative  
22 production options, train a workforce, develop



1 the necessary infrastructure, and build a  
2 manufacturing facility.

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

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

15 They also make instant classics like  
16 Spikeball Roundnet game, which despite being  
17 founded a little more than a decade ago in a  
18 garage in Chicago, has found its way into the  
19 hearts of 4 million players who attend more than  
20 150 official tournaments, annually.

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

1 Importing some parts of a complete product line  
2 from China is a necessary means for leveraging  
3 brand loyalty to remain durably profitable.

4 While folks mainly purchase one punching bag in a  
5 lifetime, consumers will duly purchase several  
6 pairs of boxing gloves.

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

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

19 Imposing tariffs on these products is  
20 contrary to these prior administration trade  
21 policy decisions. Should the administration  
22 choose to impose these tariffs, we hope that

1 it'll work in an exclusion process for products  
2 including many made by SFIA members that are not  
3 a viable means for creating leverage against  
4 China.

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

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

18 The impact of these tariffs then will  
19 be to harm those who follow the law and work  
20 cooperatively with American companies and  
21 consumers. We, I appreciate your consideration  
22 of my industry's concerns, and perspective on the

1 proposed tariffs, and would be happy to answer  
2 any questions. Thank you.

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

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

15 The imported parts and components are  
16 classified under tariff provision 9506.91.0300.  
17 Life Fitness already pays a tariff rate of 4.6  
18 percent on these imported goods. If additional  
19 tariffs of up to 25 percent are added, reaching,  
20 potentially, a total tariff of 30 percent, Life  
21 Fitness's cost of goods would significantly  
22 increase, and harm the company's competitiveness,

1 impact the livelihood of US workers, and  
2 ultimately be passed through to our customers,  
3 which include the US government, and the US armed  
4 forces, specifically.

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

13 The company employs approximately  
14 1,900 US workers, many of them whom are trained  
15 specialists in welding, fabrication, powder  
16 coating, and assembly. These jobs earn higher  
17 than average blue collar wages.

18 Life Fitness's manufacturing  
19 operations requires a robust supply chain. While  
20 China is not the company's top supplier location,  
21 it is a critical one. The goods we source from  
22 that country are not readily available, or easily

1 interchangeable with other goods from other  
2 suppliers.

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

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

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

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

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

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

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

17 Three, Life Fitness is a large  
18 employer of a well-trained, well-compensated  
19 workers located in the Midwest communities. If  
20 the imposition of additional tariffs lead to,  
21 leads to decreased sales and diminishing profits,  
22 the company may be forced to reduce its US

1 workforce. Our employees in these, in these  
2 small Midwestern towns, as well as their local  
3 economies, will decidedly suffer from this grim  
4 eventuality.

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

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

19 Five, due to ongoing periodic threats  
20 of increasing tariffs, there is considerable  
21 doubt regarding whether Life Fitness can remain  
22 profitable while adhering to existing pricing



1 commitments set forth in its customer contracts.

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

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

17 In concluding, for the reasons I  
18 shared today with the Committee, along with  
19 written comments submitted on June 17, 2019, Life  
20 Fitness respectfully requests USTR to remove  
21 tariff provision 9506.91.0030 from the list of  
22 products to which additional tariffs of up to 25

1 percent would apply. Thank you for your  
2 attention, and I welcome any questions you may  
3 have.

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

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

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

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

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

12                   The tariffs will have an estimated  
13 cost of \$60 million on our industry, which will  
14 result in companies going out of business, and  
15 lost jobs. Today, we're focusing on the removal  
16 of life jackets and water sports equipment, wake  
17 boards, water skis, and the like, from the  
18 proposed list subject to the potential Section  
19 301 liability.

20                   The specific Harmonized Tariff numbers  
21 under consideration today are 6307.20.00 and  
22 9506.29. We look forward to providing the U.S.

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

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

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

16 Also, any increase in cost of these  
17 life jackets, it directly undermines the U.S.  
18 Coast Guard's safety mission, and minimizes safe  
19 use and enjoyment of US waterways by the public.  
20 The application of the proposed tariffs on life  
21 jackets will not assist the US in altering or  
22 changing the Chinese government's policies,

1 practices, and actions on intellectual property  
2 violations, and trade secrets theft.

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

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

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

1 believe.

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

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

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

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

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

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

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

1 five minutes.

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

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

15 Our industry is also a relatively  
16 small industry. It's a small organization.  
17 There's only about 12 million life jackets sold  
18 each year in the United States. Typical average  
19 cost of life jacket might be, an expensive one,  
20 \$150, but really down in the \$50, if you're  
21 looking at the mass market.

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



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

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

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

21 If the tariffs are imposed, it's going  
22 to cause considerable harm to the life jacket

1 industry, and consumers alike. You know, again,  
2 just an example, a very expensive, highly  
3 wearable life jacket, and highly wearable  
4 products are the ones that save lives.

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

11 So the tariffs up to 25 percent are  
12 going to add 12.50. That turns right back to 40  
13 or \$50 at retail, so that \$150 product's become  
14 190 to \$200, and that starts to make those very  
15 wearable products really unattainable for the  
16 consumer.

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

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

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

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

20 Our Chinese manufacturers that partner  
21 with our industry members have been very  
22 cooperative. There are third party

1 certifications, but also U.S. Coast Guard  
2 approvals in place for all personal lifesaving  
3 systems that must be carried on boats, whether  
4 it's for recreating, or for industrial use, in  
5 the United States.

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

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

20 The Chinese industrial base has been  
21 producing them for decades now, and it's a highly  
22 technical sewing capability to make a lifesaving

1 item, and you increase the risk when you go to a  
2 region with labor that is unfamiliar with making  
3 lifesaving products, and that could reduce  
4 quality and increase the risk to the American  
5 consumers that are using those products.

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

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

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

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

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

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

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

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

22 On the racket side, it's even bigger,

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

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

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

15 MS. PODESTA: Thank you.

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

20 MR. O'ROURKE: Yes, sir.

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

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

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

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

21           On the, on the product itself, on the  
22 finished goods product, similar problems that you



1 have with that. You have to, you know, the  
2 sources we have, not only are the source itself,  
3 it's the whole supply chain behind those sources.

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

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

14 MR. FLEMING: Thanks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22           MR. SELLS: I know for certain

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

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

6 MR. SELLS: Yes.

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

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

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

21 It's been, our companies have been the  
22 ones absorbing them so far, so we have not seen

1 any impact on the, from the Chinese side to date.

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

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

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

22 So at the end of the day, we will be

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

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

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

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

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

15 MS. RESNICK: Thank you.

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

22 MR. MICHAEL: Well, there's kind of

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

7 MS. ROY: Thank you.

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

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

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



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

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

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

21                   MR. FRATERMAN: Okay. And are there  
22 alternative supplies that can meet the needs of

1 the US market?

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

11 And so the Chinese manufacturers know  
12 that it's extremely difficult for the brands to  
13 move that production to a different country like  
14 Vietnam, and that kind of stuff. And the other  
15 challenge we've found in my company's own  
16 experience is we helped one of our Chinese  
17 manufacturers shift some of our production to  
18 their Taiwanese manufacturer, and we had to move  
19 it -- or sorry, Vietnamese manufacturer -- we had  
20 to move it back to China because of quality  
21 concerns.

22 We were making inflatable life

1 jackets, have a ton of labor, highly technical,  
2 and they can't go wrong. It uses a CO2 mechanism  
3 to inflate, and so, you know, we had safety  
4 concerns due to the quality that was coming out  
5 of Vietnam, and we actually moved production back  
6 to China for that reason.

7 So these are some of the reasons why  
8 it's quite difficult to source it from some other  
9 region.

10 MR. FRATERMAN: Okay. And just one  
11 last question as well. You mentioned this in  
12 your testimony, counterfeit products, that are  
13 coming into the market. Can you just kind of  
14 describe to me the effects on the industry that  
15 the counterfeit products are having?

16 MR. LEGGATT: No, I talked about that,  
17 there's actually little to no counterfeit  
18 product, other than product that may come  
19 through, you know, Amazon or Alibaba type  
20 pathways, because you're required to have a U.S.  
21 Coast Guard certification on the label of your  
22 product, it's very difficult to counterfeit those

1 products.

2 The production's actually tracked by  
3 the lot, the number on the label, so you can tell  
4 quite easily whether or not a product is  
5 counterfeit. It's also a very small industry,  
6 like it's not attractive for Chinese  
7 manufacturers to knock off life jackets and try  
8 to sell them into North America since it's such a  
9 tiny market in the grand scheme of things.

10 MR. FRATERMAN: Great. Thank you for  
11 that clarification.

12 MS. ROY: I just have a question for  
13 anyone with regard to the equipment and your  
14 order of the life jackets and such. Do you have  
15 any concerns with any of those things being  
16 imported through e-commerce? Because some of  
17 them are not very high priced items, do you, do  
18 you have any experience with that?

19 MR. SELLS: We have a, our biggest  
20 concern with the e-commerce is fake products.  
21 It's very easy to ship out one single item  
22 through the mail that might not be real, and with

1 the problem you have, if you go out and you say,  
2 okay, I don't want to spend for the real helmet,  
3 I'm going to get the fake helmet for my kid,  
4 first of all, you're being an irresponsible  
5 parent, but beyond that, the child gets hit with  
6 a ball and gets a concussion because he did not  
7 have the right helmet, as you say, bought a  
8 single item online.

9 That is a big problem for the sports  
10 industry. We have a lot of counterfeits that are  
11 one-item shipments. It's not like a big shipment  
12 coming in, it's a single shipment coming in, it's  
13 a single item coming in, and that's a problem for  
14 us.

15 MS. ROY: Thank you.

16 MR. BURCH: Mr. Chairman, we release  
17 this panel with our thanks, and would the  
18 witnesses for the next panel make their way  
19 forward?

20 (Pause.)

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

1 CHAIR TSAO: We have a few new members  
2 to the Committee. At this time, I would like to  
3 ask them to introduce themselves.

4 MS. JANICKE: Sorry, once the  
5 microphone cooperates, it's Jean Janicke, U.S.  
6 Department of Commerce, International Trade  
7 Administration.

8 MR. TUEBNER: Good afternoon, my name  
9 is Robert Tuebner with the U.S. Department of  
10 Agriculture, Foreign Agricultural Service.

11 MR. BURCH: I would like to note  
12 before we begin, all witnesses on this panel,  
13 please speak clearly into the microphone, and if  
14 you're not able to hear yourself, please pull the  
15 microphone closer for the benefit of the court  
16 reporter and the audience in the back.

17 Our first panel witness will be  
18 Jennifer Liu with Sony Interactive Entertainment.  
19 Ms. Liu, you have five minutes.

20 MS. LIU: Thank you very much. Good  
21 afternoon. Thank you to the interagency  
22 Committee for this opportunity to speak to you

1 about the video game console business, and the  
2 impact these tariffs would have on the millions  
3 of Americans who work in this industry, and who  
4 buy its products.

5 My name is Jennifer Liu. I am general  
6 counsel and senior vice president of legal  
7 business affairs at Sony Interactive  
8 Entertainment. We are a leading innovator of  
9 interactive digital entertainment, and the  
10 company responsible for the PlayStation business  
11 globally, including the PlayStation video game  
12 console.

13 Headquartered in San Mateo,  
14 California, we support thousands of high value  
15 jobs throughout the United States. I'm grateful  
16 for this opportunity to testify today regarding  
17 the serious harm that the proposed tariffs on  
18 video game consoles would cause, not just to our  
19 industry, but also to consumers, retailers, and  
20 thousands of small and medium-sized game  
21 developers.

22 We detailed these concerns in a joint

1 submission with Microsoft and Nintendo of  
2 America, who make the Xbox and Nintendo Switch  
3 line of video game consoles, respectively. In  
4 support of that joint submission, and on behalf  
5 of Sony, Microsoft, and Nintendo, I want to  
6 explain why removing video game consoles from  
7 this final tariff -- from the final tariff list  
8 is critical to maintaining US technological  
9 leadership, and hundreds of thousands of US jobs.

10 Game consoles are the critical  
11 foundation for our businesses. This is because  
12 our consoles drive the purchase of services and  
13 games. We therefore sell our consoles under  
14 tight margins to make them as affordable as  
15 possible to consumers. In light of this business  
16 model, the effective tariffs as high as 25  
17 percent on console makers would be severe.

18 We have very little or no latitude to  
19 absorb tariff costs, given our already tight  
20 margins, neither would the brick and mortar  
21 retailers that sell the consoles, nor would we be  
22 able to pass the tariff costs upstream, giving



1 our suppliers' tight margins.

2 In 2018, over 96 percent of video game  
3 consoles imported into the US were made in China,  
4 and the video game console supply chain has  
5 developed in China over decades of investment by  
6 our companies and our partners.

7 Consoles are highly specialized  
8 products. They're unique to each console maker.  
9 They have custom components, and there are  
10 specialized manufacturing processes that are  
11 needed to put those consoles together.

12 Consumers, especially lower income consumers,  
13 would be impacted enormously by a tariff on  
14 consoles.

15 A price increase of 25 percent, for  
16 example, will likely put a new console out of  
17 reach for many American families who we would  
18 expect to be in the market for a console this  
19 holiday season.

20 The software and services that run on  
21 the consoles are made primarily outside of China,  
22 so those hardest hit by these tariffs would be

1 the nearly 3,000 independent small and medium-  
2 sized businesses that develop video games in the  
3 United States.

4 A significant number of the games  
5 played on Sony, Microsoft, and Nintendo consoles  
6 are created by independent developers, and  
7 purchased separately by consumers. Console game  
8 development is already a highly competitive  
9 space. When game sales are depressed or games  
10 are cancelled, major layoffs result.

11 The proposed tariffs on consoles are  
12 also likely to severely curtail innovation in our  
13 industry and beyond. Collectively, we invest  
14 billions of dollars in research and development  
15 in the United States to develop and deliver  
16 inventive consoles, and next generation  
17 technologies to our customers.

18 Critically, many innovations  
19 originating in the video game industry have been  
20 deployed to the benefit of other industries and  
21 sectors of society. For example, Sony's  
22 PlayStation 3 console employed an innovative

1 processor architecture known as the Cell  
2 Broadband Engine, a chip that approached  
3 supercomputer levels of processing power.

4 The cell was used for Stanford  
5 University's Folding@home project, which is the  
6 most powerful supercomputer cluster in the world.  
7 It was used for disease research by simulating  
8 protein folding. Hundreds of scientific research  
9 papers came out of the Folding@home project.

10 Microsoft originally developed its  
11 award-winning motion sensing input device known  
12 as Kinect, as a gaming accessory device for Xbox  
13 consoles. Microsoft's investments in motion and  
14 depth sensing technology can now be experienced  
15 in its hollow lens mixed reality head-mounted  
16 device, and its recently announced Azure Kinect  
17 device.

18 These devices are being deployed  
19 globally in a variety of industries. Healthcare,  
20 retail, industrial, manufacturing, education, and  
21 research scenarios by commercial enterprises,  
22 academic institutions, and government agencies.

1 Nintendo, creator of the Wii console,  
2 has helped expanded audiences play video games  
3 with its motion controls that keep people active  
4 and social, enhancing their quality of life  
5 through fitness and fun.

6 Nintendo is often credited with making  
7 the front-facing camera ubiquitous feature on  
8 today's smart devices, through its Game Boy  
9 camera accessory.

10 For these reasons, the proposed tariff  
11 would cause outsized harm to the industry,  
12 consumers, and other US economic interests  
13 without advancing the goals of this  
14 administration to preserve US technology  
15 leadership.

16 Sony Interactive Entertainment,  
17 together with Microsoft and Nintendo of America,  
18 respectfully request that the administration  
19 remove from the final tariff list subheading  
20 9504.50.00, covering video game consoles.

21 Thank you very much for your  
22 consideration of our request, and we'd be pleased

1 to take questions.

2 MR. BURCH: Thank you, Ms. Liu. Our  
3 next panel witness will be Jerry Huang with  
4 VIZIO, Incorporated. Mr. Huang, you have five  
5 minutes.

6 MR. HUANG: Good afternoon, members of  
7 the Committee. I am Jerry Huang, Senior Vice  
8 President and General Counsel at VIZIO,  
9 headquartered in Irvine, California. In addition  
10 to my legal responsibilities, I also oversee the  
11 human resources function.

12 VIZIO appreciates the opportunity to  
13 present our views at this hearing. VIZIO is an  
14 American company founded in 2002 in Orange  
15 County, California. As a consumer electronics  
16 company with a focus on delivering, developing,  
17 and selling industry leading televisions and  
18 other consumer electronics using cutting edge  
19 technology, today, we are the only -- we are one  
20 of the leading and most recognizable television  
21 brands in the United States.

22 We are the only major independent

1 American television brand in this hyper-  
2 competitive television market, and I should also  
3 add that the founding of VIZIO is a true American  
4 success story, that our founder, back in 2002,  
5 helped to bring the first flat panel plasma TV  
6 for Gateway Computers at a rock bottom price of  
7 2,999.

8           You may scoff at that, but putting in  
9 context, 19 -- 17 years ago, that was less than  
10 half of the comparable product. So when Gateway  
11 decided not to continue with the television  
12 business, our founders saw the commitment to  
13 bring the best technology to consumers, mortgaged  
14 his own house, and started the business in  
15 Southern California, and the rest is history.

16           So since that day one, VIZIO's  
17 founding mission has been where vision meets  
18 value. Day in and day out, all of us strive to  
19 achieve that goal of delivering high performance,  
20 smarter products, with the latest innovation, at  
21 a significant savings that we can pass along to  
22 everyday American consumers.

1 All the cost improvements and efforts  
2 innovations have benefitted the consumers. To  
3 illustrate that point, VIZIO's profit margin, if  
4 any, have maintained at a modest, low, single  
5 digit percentage point since its founding,  
6 because of our firm commitment to the American  
7 consumers.

8 In addition to our Irvine, California  
9 headquarters, we have a significant operation  
10 footprint in South Dakota, and other offices  
11 throughout the United States, including  
12 Bentonville, Minneapolis, Seattle, San Francisco,  
13 and Dallas.

14 We have sold over 65 million products  
15 since our founding, including over 35 million  
16 smart televisions. We are also the leading sound  
17 bar brand in the United States, delivering the  
18 same value promised to the American consumers.

19 And this past week, we actually had  
20 the opportunity to meet personally with Senator  
21 Rounds and Senator Thune, as well as other office  
22 staffs for senators from California, South --

1 Iowa, Texas, and Washington, to share our VIZIO  
2 story.

3 After careful review of the HTS  
4 subheading described in the annex of the USTR's  
5 May 17th Federal Register notice, VIZIO urges  
6 USTR not to impose tariffs on its three flagship  
7 products, flat panel televisions, classified  
8 under HTSUS subheadings, subheading 8528.72.64,  
9 as well as speakers and sound bars, classified  
10 under HTSUS subheading 8519.81.4050.

11 As the Committee may also recall,  
12 televisions and speakers and sound bars were also  
13 removed from List 1 from last year's proceedings  
14 under those headings. First, flat panel  
15 televisions, speakers, and sound bars are  
16 inherently consumer products, so these tariffs  
17 will have a significant impact on the US  
18 consumers.

19 Approximately 119.9 million US  
20 households own a television. A significant  
21 portion of the households also own sound bars and  
22 similar audio products.



1           In addition, while VIZIO offers plat  
2 panel television and sound bars at a wide price  
3 range, VIZIO is known for consistently offering  
4 the more feature-rich affordable flat televisions  
5 and sound bars at the -- on the market, at a  
6 significant value to the consumers.

7           A sizeable portion of its customer  
8 base are the everyday hardworking middle class  
9 backgrounds. Those customers are the types of  
10 consumers that can least afford the increased  
11 price and are the ones most likely to be priced  
12 out of the market if these tariffs are imposed.

13           Second, tariffs on these subheadings  
14 would punish VIZIO, the only major independent  
15 American television company, by forcing it to  
16 raise its price, while allowing foreign-owned  
17 brands with manufacturing outside of China, to  
18 undercut VIZIO.

19           This will reduce VIZIO's ability to  
20 compete in the already crowded ultra low margin  
21 market space. It would be extremely difficult  
22 for VIZIO to transfer production to the United

1 States or other non-China-based manufacturing  
2 without significant cost increase that will far  
3 exceed VIZIO's modest profit margin, resulting in  
4 a significant price increase to the American  
5 consumers.

6 Third, imposing tariffs on these  
7 products would not be practical or effective to  
8 obtain the elimination of China's acts, policy,  
9 and practices, as these products are not key to  
10 China's Made in 2025 strategy.

11 In fact, tariffs would significantly  
12 benefit all the other foreign brands in the  
13 United States, US television market. Finally, in  
14 the event that USTR proceeds with the tariffs,  
15 VIZIO also requests that USTR implement a product  
16 exclusion process so that US companies who lead  
17 the way in US technology and innovation are not  
18 harmed by the tariffs.

19 On behalf of VIZIO, I again would like  
20 to thank the Section 301 Committee for the  
21 opportunity to share my testimony, and would be  
22 pleased to address any questions the Committee

1 may have.

2 MR. BURCH: Thank you, Mr. Huang. Our  
3 next panel witness will be Michelle Ganon with  
4 the Port of New Orleans. Ms. Ganon, you have  
5 five minutes.

6 MS. GANON: Thank you. Good  
7 afternoon, Ambassador Lighthizer, and  
8 distinguished members of the Section 301  
9 Committee. My name is Michelle Ganon, and I  
10 serve as the Port of New Orleans chief of staff  
11 and vice president of public affairs.

12 The Port of New Orleans is Louisiana's  
13 only international container port, and an export-  
14 driven deep order port with connections to six  
15 Class 1 railroads. As you may know, increasing  
16 exports is a national priority.

17 We contribute to this effort by making  
18 sure that the significant investments in  
19 Louisiana petrochemical plants generate returns,  
20 and that food and agricultural products from  
21 Louisiana and the Midwest, including rural areas,  
22 effectively and efficiently reach ports on six

1 continents.

2 I'm here to echo the voices of the  
3 American Association of Port Authorities, and  
4 many others, in respectively requesting that  
5 HTSUS subheading 8426.19.00, covering transporter  
6 cranes, gantry cranes, and bridge cranes, be  
7 removed from the final list of products under  
8 consideration for increased tariffs under docket  
9 number USTR20190004.

10 A tariff on cranes was proposed and  
11 wisely dropped in October 2018. Nothing has  
12 changed that would warrant reconsideration of  
13 these tariffs. They are not manufactured in the  
14 United States, and none have been built here in  
15 more than 20 years.

16 Here is how a tariff of up to 25  
17 percent would affect one port, the Port of New  
18 Orleans. We recently ordered two new 100-foot  
19 gantry cranes, and we planned to order two more  
20 in the next month.

21 This tariff would increase the cost of  
22 that necessary equipment by up to \$13 million,

1 reducing our ability to fund other vitally needed  
2 infrastructure and investment, investments in  
3 infrastructure.

4 We absolutely need to secure those  
5 cranes at the best possible price. Our container  
6 business has doubled in the past 10 years, with  
7 volume reaching an all-time high in 2018. Our  
8 volume growth continues to accelerate, and we  
9 expect that for the foreseeable future.

10 To accommodate the demand, we are  
11 upgrading and expanding our current container  
12 capacity, and are in the process of selecting a  
13 site for an additional container terminal. We  
14 plan to order many more cranes in the years to  
15 come.

16 If we cannot provide the  
17 infrastructure we need, we will be unable to  
18 serve the ships that want to call in our port.  
19 Lack of adequate crane capacity will reverse the  
20 momentum we are enjoying now, and it will result  
21 in fewer calls and lost volume.

22 This will directly affect American

1 jobs. The Port of New Orleans and our tenants  
2 support nearly 125,000 -- nearly 120,000 jobs  
3 nationally, and nearly 30 billion of economic  
4 output.

5 A study showed that each pair of new  
6 cranes will result in the creation of more than  
7 1,100 jobs, and nearly 70 million in personal  
8 income. The Port of New Orleans, like other  
9 commercial enterprises, depends upon a strong  
10 United States economy.

11 This particular tariff would cause  
12 disproportionate harm to our interests, and the  
13 ability to grow exports. We support your efforts  
14 to ensure we are able to compete fairly and  
15 effectively in a global marketplace, though we do  
16 urge you to oppose tariffs on this critical piece  
17 of equipment, which ports throughout the company  
18 depend upon to grow exports and expand the  
19 economy. Thank you, and I'll be glad to answer  
20 any questions you might have.

21 MR. BURCH: Thank you, Ms. Ganon. Our  
22 next panel witness will be Paul Rotstein with

1 Gold Medal International. Mr. Rotstein, you have  
2 five minutes.

3 MR. ROTSTEIN: Thank you. Thank you  
4 to the Panel, and the Committee. Although I  
5 regret having to be here, I should be back  
6 running my business and my company rather than  
7 dealing with a threat to its very existence,  
8 which is what we're dealing with.

9 Today, I've heard everybody talk about  
10 the tariffs, and they've talked about it in a  
11 universal manner. I really want to talk about it  
12 in two aspects, the immediate, and the long-term.  
13 The idea of imposing tariffs on product that has  
14 been sold and priced to consumer, to retailers  
15 for consumers, with about 7 to 10 weeks' notice,  
16 depending on how the Committee decides, and how  
17 things work, it's just impossible to react to.

18 The exposure to my company and the  
19 economic threat to my company on an imposition of  
20 tariffs in such a short manner is really to its  
21 very existence. Surviving that, if we survive  
22 that, the long-term effect on tariffs, which is

1 what I've heard more talked about here today,  
2 again, has a significant impact on inflation in  
3 the apparel industry.

4 I deal in socks and cold weather  
5 accessories, small products, very low cost goods.  
6 We source well outside of China. China's a  
7 portion of our sourcing structure, not solely  
8 dependent thereon, but you cannot replace the  
9 quantity and the capacity that China has in a  
10 short manner.

11 These relationships, as you've heard  
12 many times today, take out -- take years to  
13 develop the relationships. Again, we don't deal  
14 in a technical product, but still, the trust, and  
15 the ability.

16 When I go to a retailer, and I can,  
17 and I, the retailer gives me the commitment, and  
18 I give them the commitment to deliver a product  
19 on time at the right price and the right quality,  
20 even though it's a sock, pretty boring, I still  
21 have to deliver that product, the right product,  
22 at the right time, and at the right quality, and



1 I can't do that with a supply chain that's  
2 untested.

3 Apparel, in general, is a one-season  
4 product. If you're dealing bathing suits and so  
5 forth, you have a spring season, but by and  
6 large, the apparel industry is a fourth, third  
7 and fourth quarter business. That's where we  
8 make all of our profit.

9 I get one shot a year to try a new, to  
10 try a new resource, okay? If they want to ship  
11 me in January, February, it's quiet, it's easy,  
12 it's good. But if they're going to ship me in  
13 June, July, when things are tight, when  
14 production is tight, when everything that I need,  
15 and I need to make the deliveries to the  
16 retailers in the US that depend on it, I can't go  
17 to somebody new, so I get one chance at it.

18 We have 15 new factories coming  
19 onboard for 2019. I don't know how they're going  
20 to do. Guarantee you, 15 of them won't make the  
21 cut. I'll be lucky if two or three of them  
22 really make the cut, and really deliver on time,

1 a right product, at the right time, and the right  
2 quality, at the right price.

3 So we've got a real existential threat  
4 to the industry. You're talking about increased  
5 prices, you're talking about inflation, and the  
6 consumer, the American consumer has a limited  
7 amount of spending money.

8 You've heard it said before that this  
9 will have an impact. If they have to spend more  
10 money on something else, my industry is pretty  
11 much an add-on. I always say, nobody gets off  
12 the couch to go buy a pair of socks.

13 They buy them because they're in the  
14 store and they're there. It's an add-on. If  
15 they don't have the extra money in the pocket  
16 when they're in the store buying the jeans or  
17 something else, which are also going to be 20, 25  
18 percent more expensive, they're not going to buy  
19 the socks.

20 It's going to have a direct impact on  
21 our business, and on the consumers, and on retail  
22 in general. So it's a threat that we can't

1 sustain. Sorry. It's emotional.

2 It's a, our company just turned 65  
3 years old. We celebrated last Thursday with a  
4 company outing. I employ 50 people in the United  
5 States. I'm not a big company. As I said, I  
6 shouldn't be here.

7 I should be back, running my business,  
8 but I'm here because it's that important to what,  
9 to the essential threat, and to what it's doing.  
10 Personally, tariffs are a blunt instrument.  
11 They're not a good way to run trade policy.

12 Any time government, whether it's US  
13 or any other government gets involved and imposes  
14 something on an industry, and it distorts the  
15 industry, and prices go up overall.

16 Again, anywhere, you've heard it  
17 mentioned before, companies that have duty-free  
18 to Canada, or to Europe, do not price goods to  
19 the US at the same price, because they know they  
20 can be 10 percent more expensive to Europe or  
21 Canada, and still get the business.

22 They can't to the US because we pay as

1 an industry. I pay about 15 percent duty on  
2 everything that comes in. I know, for our  
3 industry, in general, in apparel, we're 6 percent  
4 of imports in the country, total.

5 We're 40 percent of the tariff, or the  
6 duty dollars collected by the Treasury, so it's a  
7 huge impact. Again, I appreciate your time. I'm  
8 here on behalf of my company. It's -- we want to  
9 survive.

10 My son is here with me today. He got  
11 married three years ago. He's worked with me for  
12 five years. He's the future of the company.  
13 Bought a house last year, has his first child  
14 coming in December, and this is a real threat to  
15 our total existence, and appreciate your time.

16 MR. BURCH: Thank you, Mr. Rotstein.  
17 Our last panel witness will be Jeff Pinkow with  
18 Centric Brands. Mr. Pinkow, you have five  
19 minutes.

20 MR. PINKOW: Members of the  
21 interagency Committee, thank you for the  
22 opportunity, thank you for the opportunity to

1 discuss why Centric Brands submits that all  
2 Harmonized Tariff classification designation for  
3 babies, infants, and children's clothing be  
4 removed from the proposed list of items subject  
5 to up to 25 percent tariff if imported from  
6 China.

7 My name is Jeff Pinkow, and I am the  
8 senior vice president of sourcing and production  
9 for children's wear at Centric Brands. We are a  
10 publicly traded company, based in New York,  
11 employing approximately 4,000 people in the  
12 United States and Canada, with approximately \$2.4  
13 billion in revenue.

14 I have been in the apparel industry  
15 for 45 years, with the last 32 years specializing  
16 in children's apparel, and traveling to and from  
17 China since 1978. I'm that old.

18 The children's wear business at  
19 Centric Brands began as Kid's Headquarters in  
20 1987. From there, through a series of  
21 transactions and acquisitions, we have created  
22 Centric Brands, an entity that designs, produces,

1 merchandises, manages, markets, and distributes  
2 kid's wear, accessories, and apparel through  
3 licensed own brand and private label.

4 Our products can be found in all  
5 channels of distribution, from mass market, big-  
6 box retailers, major department specialty stores,  
7 in addition to e-commerce, and our own stores.

8 I'm here to speak to you about the  
9 importance of why imposing additional tariffs on  
10 infant and children's apparel produced in China  
11 will impact the American family.

12 The US children's wear market is over  
13 \$21 billion. The number of units imported is in  
14 the billions. Due to the fact that kids outgrow  
15 clothes two or three times in a year, and a baby  
16 can go through four or more outfits a day, the  
17 volume of products necessary to be produced  
18 cannot be shifted readily out of China for  
19 multiple reasons.

20 One, there are limited factories in  
21 the US and/or outside of China. 98 percent of  
22 all US children's apparel sold is imported, with

1 China as the largest country of origin. Raw  
2 materials, the majority of children's wear  
3 products are made from China fabrics.

4 The majority of the flame retardant  
5 fabric is produced in China. Approximately 80  
6 percent of children's sleepwear is required by  
7 law to be flame retardant.

8 Children's safety standards, infant  
9 and children's clothing is heavily regulated.  
10 Our fabrics are required to be tested for  
11 flammability, the chemicals, the dyes, the inks  
12 have to be tested to ensure they don't cause  
13 rashes or other reactions.

14 The buttons, zippers, and other trim  
15 have to withstand pulling and tugging to prevent  
16 choking hazards, and the components must not  
17 contain any traces of chemicals or poisons, such  
18 as lead or phthalates.

19 Fourth reason is capacity. China  
20 capacity cannot be absorbed by other countries in  
21 a compliant, orderly transition. Factory  
22 onboarding, we would need to move cautiously from

1 our existing factory base, or else we would face  
2 significant risk to product safety.

3 We need to protect our children's  
4 safety, as well as the parents' pocketbooks.  
5 Apparel is one of the highest tariffed items in  
6 the United States, the average tariff, about 13  
7 percent.

8 The differential means that margins in  
9 apparel are very narrow. An increase in tariffs  
10 of up to 25 percent will render many apparel  
11 items out of the reach for the average consumer.  
12 Children's wear is the most price sensitive  
13 product in the apparel market.

14 Any increase in tariff will have a  
15 direct and palpable impact on the consumer.  
16 Clothing is not optional. It is a requirement in  
17 children's clothing, is a repeat purchase for  
18 every parent.

19 Placing up to a 25 percent tariff on  
20 our product will cause significant harm to our  
21 growing company, and more importantly, we will be  
22 forced to pass the increased cost onto our



1       retailers, and ultimately, the consumers.

2                   Further, the imposition of tariffs on  
3       our items will not influence nor change China's  
4       practices, policies, or acts, with respect to  
5       intellectual property and trade secrets. China  
6       has already signaled that it is no longer  
7       focusing on the textile and apparel industry.

8                   Infant, baby, and children's clothing  
9       made in China will not contribute to China  
10      achieving its goal for 2025, as the world's  
11      leader in cutting edge technology.

12                   I know you have heard a lot of people  
13      providing testimony today. I just want to leave  
14      you with final considerations. The tariffs will  
15      impact child safety, and be a financial burden  
16      for families. Thank you for your time, and I  
17      look forward to answering any questions.

18                   MR. BURCH: Thank you, Mr. Pinkow.  
19      Mr. Chairman, this concludes all direct testimony  
20      for this panel.

21                   MR. FLEMING: Question for Ms. Liu.  
22      You state that additional tariffs on video game

1 consoles would harm business, consumers, and  
2 innovation.

3 Can you also share any data supporting  
4 this statement, particularly on innovation? And  
5 we ask, if you submit that in writing, if you  
6 could also please mark business confidential  
7 information, mark that as such.

8 MS. LIU: We'll do our best to provide  
9 that.

10 MR. FLEMING: Thank you. And I had  
11 another question. So Sony is a very well known  
12 brand for video games. Have you done any studies  
13 on price sensitivity? If prices to up for 25  
14 percent, for instance, how would that impact  
15 sales?

16 MS. LIU: Yes, we have. Sony has. We  
17 have done that. I'm not at liberty to disclose  
18 that information publicly. It's obviously  
19 sensitive business information. Are you  
20 requesting that we submit that as well?

21 MR. FLEMING: Yes, please. Thank you.

22 CHAIR TSAO: Just to be clear, I mean,

1 we're, what information, what type of information  
2 that interested parties submit to the government,  
3 it's all voluntary. I mean, there's no, you can  
4 choose not to submit anything that you --

5 MS. LIU: Understood.

6 CHAIR TSAO: -- choose not to submit.

7 MS. LIU: Thank you.

8 CHAIR TSAO: I do have a follow-up  
9 question for Ms. Liu. You mentioned that much of  
10 the R&D and innovation are done in the United  
11 States.

12 Does your company, or any other, or  
13 Nintendo or Microsoft, have R&D facilities in  
14 China? And are there any plans to transfer more  
15 R&D work from United States to China?

16 MS. LIU: We absolutely have no plans  
17 to put R&D in China, and we don't have R&D in  
18 China now. We, the issue of putting high  
19 technology, or sensitive technology in China is  
20 not something that our companies have considered.  
21 We don't do that now.

22 The chips that are the guts of the

1 machine, and the intelligence of the machine, are  
2 not made in China. They're made in other  
3 locales, and we do not, we don't have that  
4 information available.

5 Source code, for example, for the  
6 chips, is not given to anybody in China. So you  
7 don't see, you don't see counterfeit consoles,  
8 for example, out on the marketplace.

9 You might go to some markets and see  
10 the shell of a box, and then something put inside  
11 it that looks like it might be a console, but  
12 it's not a counterfeit PlayStation 4. It's not a  
13 counterfeit Xbox. It's not a counterfeit  
14 Nintendo Switch.

15 Those consoles are not available.  
16 They're expensive to make. That's the first  
17 thing, and the other thing is, we protect our  
18 intellectual property very, very highly, and hold  
19 that information very closely.

20 MR. FRATERMAN: I'd like to thank the  
21 Panel for their testimony. My question's for Mr.  
22 Huang. Mr. Huang, since the time of the original

1 Section 301 action against China, has your  
2 company made any efforts to shift their supply  
3 outside of China?

4 MR. HUANG: Yes, we've been studying  
5 and looking at the feasibility of shifting  
6 outside of, supply chain outside of China. The  
7 issue has to do with efficiency where we've, as I  
8 testified earlier, the most efficient way of  
9 bringing the product into the, to the states, for  
10 the, for the benefit of the consumers, is to cut  
11 out all the middle handling, and all the fat in  
12 the supply chain.

13 And in the television industry, the  
14 most cost, the most expensive component is the  
15 glass, the glass, the panel themselves. And most  
16 of the panel makers, and the panels are produced  
17 in China.

18 So to be closer to the locale, and  
19 that brings the efficiency into the, into the  
20 whole equation, and reflected in the final  
21 pricing. And so we did study that, but the move  
22 is very difficult, and there isn't necessarily a

1 readily available and non-proprietary operational  
2 chain outside of China that's really readily  
3 available to us.

4 MR. FRATERMAN: Okay. Can you give  
5 the Committee a sense of the number of workers in  
6 China engaged in making TVs for the US market?

7 MR. HUANG: That information,  
8 specifically, I don't have. I, we don't own  
9 factories. We don't, we don't own any suppliers,  
10 or have interests in the suppliers themselves.  
11 So we do contract with strategically partners  
12 that, they actually have the factory. We do not  
13 have the factories.

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

16 MR. HUANG: You're welcome.

17 MR. TUEBNER: Good afternoon. I have  
18 a question for Michelle Ganon. In your  
19 testimony, you mentioned that you've ordered two  
20 new 100-foot gantry cranes, and that you plan on  
21 ordering two more by the next month.

22 MS. GANON: Correct.

1           MR. TUEBNER: Has this order already  
2           been purchased, and if so, when would they be  
3           delivered?

4           MS. GANON: Two have been ordered  
5           already, and we're going to purchase the next  
6           two, the supplementary two under the same  
7           contract. We, the Board is going to be  
8           considering amending the contract this month.

9           It's going to take, once we have  
10          signed the order for the additional two, it's  
11          going to be 550 days from that time, so about two  
12          years, and we'll be, we'll be making all sorts of  
13          other investments in the, on the wharf to be able  
14          to accommodate those 4 cranes when they arrive.

15          MR. TUEBNER: Okay. And a follow-up  
16          question is, are you aware of any other countries  
17          that produce gantry cranes and bridge cranes?

18          MS. GANON: China really, it does,  
19          makes the best cranes right now. When we went to  
20          this, we secured these, this contract with a  
21          public bid process, and in addition to publicly  
22          advertising the, our need for cranes, we also

1 made direct submissions to five companies.

2 Two were located in Finland, one in  
3 Italy, one in Ireland, and one in China. Of  
4 those five targeted bids, targeted solicitations,  
5 we did receive two responses, one from Liebherr  
6 in Ireland, and the other, ZPMC in China, and  
7 China was the cranes that we, the company that we  
8 chose because of the, mostly the technical  
9 specifications were more aligned with what we  
10 needed.

11 MR. TUEBNER: Thank you very much.

12 MR. WINELAND: Mr. Rotstein, thank you  
13 for your testimony. Could, you spoke about the  
14 15 factories that you're testing out this year.  
15 Can you, can you give us some sense of what  
16 percentage of your, of this year's production is  
17 coming from those new factories outside of China,  
18 and maybe a little bit about the evolution of  
19 your search for suppliers outside of China in the  
20 past few years?

21 MR. ROTSTEIN: Sure. So as a  
22 percentage, again, because they're untested, the



1 only product coming in is for our own house  
2 brands, which is a smaller segment of our  
3 business.

4 We've probably bought about \$1 million  
5 at first cost overseas, so it split out, split  
6 amongst the 15 factories. We can't go to a,  
7 again, anybody, large retailers in this country,  
8 they have to do inspections in the factories.

9 We have to, they have to verify that  
10 the factories are compliant with social  
11 compliance, and so forth. We've already had two  
12 of the factories, one in -- I'm sorry. One in  
13 Malaysia, and one in, I forget. I'm drawing a  
14 blank on the other. Both failed the tests.

15 So it's very difficult to move forward  
16 that way, but we have that coming in. We have  
17 sourced outside of China; again, my first trip  
18 was in '84. We've sourced outside of China for  
19 all these years.

20 China wasn't the first place we do.  
21 We are in about a dozen countries now, before we  
22 put on five additional countries. I spent one

1 month in Southeast Asia in January this year,  
2 going through, touring and visiting factories.

3 One of the things I do also want to  
4 mention is that, if these are imposed, and  
5 factories have to move outside of China, I think  
6 other people have said it, all of the raw  
7 materials, a lot of the raw materials are going  
8 to come from China.

9 China's still going to make the money.  
10 China's still going to profit from selling to the  
11 US. They're just going to divert it through --  
12 not divert it, because that's not legal. What  
13 I'm saying is, if you set up a factory like when,  
14 I did business in Cambodia for many years.

15 All the Cambodian factory, which was  
16 all knit in Cambodia, all the yarns, all the  
17 packaging materials, all of the boxes, the  
18 crates, everything got sent from China in a kit.

19 They knit and finished, and finished  
20 all the product in Cambodia, and shipped it to  
21 the United States. All that's legal. It's  
22 product of Cambodia, but the Chinese factory and

1 the Chinese suppliers of all the raw inputs are  
2 the ones making the profit on that.

3 So you're really, you're moving  
4 production, end production out of China, but  
5 you're really not cutting China out of the supply  
6 chain.

7 MS. JANICKE: Okay, thank you. The  
8 next question is for Mr. Pinkow, and kind of  
9 along the same lines, you mentioned in your  
10 testimony that China is a major supplier of the  
11 infant, and baby, and children's clothing, but US  
12 import data does show that there might be a  
13 slight move towards shifting to other sources, so  
14 I was wondering if you could comment on what you  
15 see as some of that shift?

16 And I guess a related question, you  
17 mentioned that there are some security, or need  
18 to proceed cautiously for safety reasons, and I'm  
19 wondering if you can comment, or elaborate more,  
20 on what you see as some of the key challenges to  
21 making that sourcing shift.

22 MR. PINKOW: First of all, regarding

1 other countries, we, as a company, we source in  
2 about 30 different countries, everywhere from  
3 Central America to Southeast Asia, Egypt, Jordan,  
4 Cambodia, Vietnam, and what we find in a lot of  
5 instances, our licenses, like we do work for  
6 Disney, Under Armour, Timberland, all the other  
7 entertainment movie companies, and the social  
8 compliance is very strict.

9 Countries like Bangladesh, and  
10 emerging countries like Myanmar, Pakistan, are  
11 off the grid. They're, it's not open for  
12 discussion. We do do a fair amount of business  
13 in Cambodia, and when you mentioned the number  
14 dropped a bit, some of that, I think, is the  
15 categories that you chose.

16 It doesn't reflect all of children's  
17 wear, and it's a question of scale. And I think  
18 this whole conversation really depends on scale.  
19 Can I move something? Sure. I've already moved  
20 about 5 percent out of China in the last few  
21 months to reliable factories.

22 The onboarding process, I think Paul

1 related to, is quite complicated. You have to  
2 work through some international agencies. You  
3 have to get your licensing partners to sign off  
4 on it. That process could take three to four  
5 months, if everything goes smoothly.

6 There's always some issues found, and  
7 have to do capital improvement plans, and that  
8 could take another three or six months. At the  
9 same time, you have to have approval to ship to  
10 major retailers.

11 Our biggest customer is the largest  
12 employer of people in the United States, so I  
13 won't mention any names, and very demanding in  
14 the compliance area. So the factories, I get a  
15 color rating, and have to be up to code. Again,  
16 more time.

17 Then, the biggest issue, the thing  
18 that, as a new grandfather of three girls, that  
19 concerns me, is the safety issue. Our products  
20 are very compliant. One of our biggest  
21 businesses is children's sleepwear.

22 It can either be tight-fitting cotton,

1 or 80 percent of it is, in the marketplace, is  
2 flame resistant cotton -- polyester, excuse me.  
3 And that is a China-centric fabric that has to be  
4 bought there.

5 Because of the nature of what I talked  
6 about with our products, the fact that it's  
7 entertainment-driven in most cases, very heavily  
8 graphic, and again, the kind of equipment to  
9 execute those designs is China-centric.

10 It doesn't exist in Cambodia. It  
11 doesn't exist in Vietnam. Also, as a children's  
12 wear manufacturer, keep in mind, again, any part  
13 of it can be moved, but the scope of it is  
14 billions of units a year.

15 In my company's case, children's wear  
16 is over a quarter of a billion units. So the  
17 capacity for that doesn't really exist outside of  
18 China.

19 The way, and then the inflationary  
20 impact on that is that factories with limited  
21 capacity, and everybody rushing to the other  
22 countries, would rather make adult goods or

1 blouses where there might be a \$7, \$8, \$9 cost  
2 for a single item, where my products would  
3 average \$2.35.

4 It's a very price sensitive business,  
5 and we're appealing to the consumer through our  
6 retail partners, that have probably the least  
7 disposable income, and the most necessity to  
8 spend it. So that's, I think, answers, hopefully  
9 answers your question.

10 MS. JANICKE: Yes, thank you.

11 CHAIR TSAO: I have a follow up, and  
12 I guess this is for all of the witnesses. As you  
13 know, the R&D depreciated against the dollar over  
14 the last several quarters. How has the currency  
15 fluctuation affected your business, if any?

16 MR. PINKOW: Okay. Jeff Pinkow, I'll  
17 answer that. A few years ago, when the dollar  
18 started soaring, we were able to reduce prices  
19 with China. We negotiated even existing orders  
20 to the tune of about 5 percent.

21 Then, what happened, especially in  
22 China, is they developed an ecological social

1 conscious on the fabric side, and started cutting  
2 back on pollution. So at the same turn -- so now  
3 I have the 5 percent decrease, and I had bid  
4 increases in the dying, finishing, and printing  
5 of fabric because mills are closing left and  
6 right.

7 I believe the number last year, China  
8 closed over 5,000 dying and printing mills.  
9 There's been tons of consolidation within the  
10 country, forcing prices up, so it leveled out  
11 again.

12 Now, with the dollar, I think it's  
13 somewhere about two percent down last I looked,  
14 as we start to buy for the next season, spring  
15 '20, I would expect that the prices to offset.

16 What often happens in a competitive  
17 business, because we all have major competitors,  
18 an apple to apple doesn't exist from year to  
19 year. We're constantly challenged to add more  
20 embellishment to the, to the product, or add, you  
21 know, different types of weights to the fabric,  
22 things that drive up the price, so it's not an



1 apple to an apple in your quest for newness.

2 So I would think that barring the  
3 tariffs, prices will be stable, and that's  
4 because it'll be helped by the increase of the  
5 dollar.

6 MR. ROTSTEIN: The only, the only  
7 thing I'll add is that being a seasonal business,  
8 most of our payments are done late summer, early  
9 fall, so depending on where the dollar is there,  
10 it's hard to say today what the exact impact is.

11 MR. PINKOW: And a lot of the major,  
12 I might just add, sorry Paul, is they cover the  
13 dollar fluctuation. They're not in the arbitrage  
14 game, so they buy futures on it too. They hedge.

15 MR. ROTSTEIN: Right.

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

19 (Pause.)

20 MR. BURCH: Will the room come to  
21 order?

22 CHAIR TSAO: Good afternoon. We have

1 a few new members to the committee. At this  
2 time, I would like to ask new members to  
3 introduce him or herself.

4 MR. BHABHRAWALA: Mr. Chairman, my name is  
5 Salim Bhabhrawala, and I am representing the Office  
6 of Materials Industries at the U.S. Department of  
7 Commerce. Pleasure to be here today.

8 MS. VON SPIEGELFELD: Hi. I'm  
9 Cristina von Spiegel, and I'm from the Small  
10 Business Administration.

11 MR. BURCH: I would like to make a  
12 note to this witness panel. Can you speak  
13 clearly into the microphone, and if you're not  
14 able to hear yourself, pull the microphone closer  
15 for the benefit of the court reporter and the  
16 members of the audience.

17 Our first panel witness will be Rusty  
18 Tharp, with Goodman Manufacturing Company.

19 Mr. Tharp, you have five minutes.

20 MR. THARP: Thank you very much. Mr.  
21 Chairman and members of the committee, I am Rusty  
22 Tharp, senior director of Regulatory Affairs of

1 Goodman Manufacturing. I'm here today to discuss  
2 the reasons USTR should remove components used in  
3 heating, ventilation and air conditioning, known  
4 as HVAC equipment, from the list of products for  
5 which duties could be imposed pursuant to this  
6 Section 301 investigation.

7 At this point, you've heard Goodman's  
8 story three times, once for List 1, once for List  
9 2 and List 3. Nevertheless, for those new on the  
10 panel, we'll run through this.

11 Goodman is owned by Daikin Industries,  
12 Limited, which is one of the world's leading air  
13 conditioning, heating and air filtration  
14 manufacturers. We are committed to U.S.  
15 manufacturing.

16 In May of 2017, Daikin opened a \$500  
17 million factory near Houston, Texas. It's not an  
18 ordinary plant. It's the third largest  
19 manufacturing plant in the United States, and we  
20 anticipate having 7,000 skilled workers at that  
21 facility by the year 2020.

22 To put its size in perspective, the

1 roof covers the area of 74 football fields,  
2 actually U.S. North American football fields.

3 Further, noting our dedication to U.S.  
4 manufacturing, we're already expanding this new  
5 facility. We manufacture many HVAC products at  
6 this new plant in Texas, and we sell them  
7 throughout the United States under several brand  
8 names, including Daikin, Goodman and Amana.

9 In addition to using these in the  
10 residential and light commercial market, these  
11 products are also installed in military bases  
12 throughout the U.S. and across the globe.

13 USTR has proposed a 25 percent tariff  
14 on many HVAC components that we utilize in these  
15 products. The list of HTS-US codes is provided  
16 in our request to testify letter, and it's also  
17 in the written comments that we filed.

18 We're concerned, in part, because  
19 other manufacturers of HVAC products in the  
20 United States have moved production of the  
21 finished HVAC products outside of the U.S., and  
22 the finished HVAC goods that they import into the

1 U.S. from third countries will not bear the same  
2 costs that our products do.

3 Daikin and Goodman, on the other hand,  
4 have committed to U.S. assembly operations  
5 through its new \$500 million factory in Texas,  
6 which we anticipate again will be staffed by  
7 7,000 workers by the year 2020.

8 A 25 percent tariff of the parts  
9 imported by Goodman, which are then used to  
10 assemble the finished goods in the U.S., would  
11 threaten our growth and the significant  
12 investment that's made by Daikin in the U.S.  
13 manufacturing facilities.

14 As we indicated in our testimony, on  
15 prior List 1, 2 and 3, it's not an easy task for  
16 our products to find sources outside of China.  
17 We must comply with regulations such as the  
18 Department of Energy 10 C.F.R. 429, 10 C.F.R.  
19 430, 431, et cetera, energy regulations, as well  
20 as we must comply with safety standards such as  
21 UL 1995, and many other regulations that affect  
22 our products.

1           So these, the production of these  
2 components cannot be moved from China because  
3 they are mature technologies. Therefore, for  
4 many of the components in question, Goodman does  
5 not know of any U.S. or third country suppliers  
6 capable of supplying us.

7           Goodman is confident that we know the  
8 supply chain fairly well, and both domestically  
9 and globally, and well enough for the components  
10 we use in our products to state that there is not  
11 a domestic source capable for producing most of  
12 the components on List 4.

13           Goodman uses millions of most of these  
14 pieces, and if a domestic source were to invest  
15 in the technologies or a location outside of the  
16 U.S., outside of China, we think it would  
17 typically take two to five years to come onboard  
18 with the adequate capacity to serve our needs.

19           Many of the components classified  
20 under these HTS-US codes are finished indoor  
21 units of HVAC systems that are later assembled in  
22 the field as a complete system. Many of those

1 finished indoor units are also used globally in  
2 other locations.

3 So, we have made plans, or are in the  
4 process of making plans to move most of these  
5 components, where possible, to locations outside  
6 of China. However, because of the testing and  
7 qualification requirements, that process can  
8 easily take from 6 to 18 months, or even longer  
9 on some instances.

10 Goodman has been unable to identify  
11 suppliers outside of China for many of the other  
12 components. We understand the administration's  
13 philosophy is to achieve long-term success, even  
14 if it causes some short-term pain. But we do  
15 want to emphasize that some of our competitors  
16 are producing in countries outside of the U.S.  
17 who don't have the same structure.

18 As a result, they will not receive the  
19 same short-term pain as Goodman does. So for all  
20 of the above reasons, Goodman urges the USTR not  
21 to impose a 25 percent tariff on the HVAC parts.

22 MR. BURCH: Thank you, Mr. Tharp.

1                   Our next panel witness will be Reilly  
2                   Kimmerling, with Carrier.

3                   Ms. Kimmerling, you have five minutes.

4                   MS. KIMMERLING: I'm Reilly  
5                   Kimmerling, senior director of International  
6                   Trade Compliance at Carrier, and I'm here today  
7                   on behalf of our residential and commercial HVAC  
8                   business.

9                   Carrier imports products that are  
10                  designed to meet the needs of the HVAC industry,  
11                  namely parts for air conditioning machines  
12                  covered by HTS Subheading 8415.90.80.

13                  These products provide high quality,  
14                  competitively priced cooling systems for  
15                  residential and commercial buildings, allowing  
16                  Americans to live and work safely and comfortably  
17                  without high energy costs.

18                  For the following reasons, I  
19                  respectfully request that the committee recommend  
20                  the removal of Subheading 8415.90.80 from the  
21                  final list of products subject to an additional  
22                  25 percent tariff.



1                   The products contained under the  
2 subheading are essential components of cooling  
3 systems in U.S. commercial and residential  
4 buildings. Many American households, businesses  
5 large and small rely on these products to keep  
6 their environments cool, comfortable and  
7 productive.

8                   This is especially true for those  
9 living and working in hot and humid climates, and  
10 those vulnerable populations, such as the sick or  
11 elderly, that are especially susceptible to  
12 heatstroke and illness.

13                   Having access to affordable, high-  
14 quality air conditioning contributes  
15 significantly to the quality of life for  
16 Americans, and the absence of air conditioning  
17 can create health concerns for vulnerable  
18 populations during summer months and heat waves.

19                   The cost of HVAC parts covered by  
20 Subheading 8415.90.80 is critical to the cost of  
21 the systems that are installed. If an additional  
22 25 percent tariff is levied on the parts that

1 make up the modern HVAC systems, a substantial  
2 amount of this additional cost will be shouldered  
3 by our customers.

4 The proposed 25 percent tariffs on  
5 these parts would be on top of the additional  
6 tariffs already levied pursuant to Section 301 on  
7 motors and compressors for HVAC systems, as well  
8 as the additional costs HVAC manufacturers have  
9 faced since the imposition of the Section 232  
10 tariffs on imports of steel and aluminum.

11 Faced with these substantially higher  
12 costs, U.S. consumers will likely forego  
13 purchasing and installing new HVAC equipment to  
14 update older, less efficient systems.

15 On a larger scale, failing to update  
16 and service HVAC systems will result in  
17 considerably more energy spending across the  
18 country, and a higher burden on the aging U.S.  
19 electrical grid. Invariably, this decreased  
20 demand for HVAC equipment will lead to U.S.  
21 factories lowering output and potentially trigger  
22 reduced hours in those U.S. factories.

1           Decreased demand results in less U.S.  
2 R&D investment. Carrier's total R&D spent in the  
3 United States for its HVAC business was 58  
4 million in 2018. This money supports engineering  
5 activity performed in Indiana, New York, and  
6 Georgia.

7           The significant negative impact of the  
8 additional tariffs on U.S. demand for HVAC  
9 products is not limited to Carrier. It also  
10 extends to the thousands of small businesses, and  
11 hundreds of thousands of skilled U.S. workers  
12 whose livelihoods depend on the HVAC industry.

13           HVAC equipment, unlike other household  
14 appliances, requires technically trained, skilled  
15 U.S. workers, who determine the appropriate unit  
16 for a home, and the licensed U.S. contractors who  
17 install and maintain the unit in a residence or  
18 commercial building.

19           Indeed, our Carrier, Bryant and ICP  
20 brands have a vast network of independent  
21 distributors, dealers and installers, that  
22 represent approximately 7,000 businesses across

1 all 50 states, which we estimate to employ  
2 hundreds of thousands of employees.

3 The proposed tariffs, therefore,  
4 jeopardize not only U.S. manufacturing and R&D  
5 investment, but also the livelihoods of American  
6 skilled workers and small businesses.

7 Finally, it is important to emphasize  
8 that China has not targeted the parts for air  
9 conditioning systems in its Made for China 2025  
10 program, because they are not strategically  
11 important to the country's broader industrial  
12 goals. Nor has Carrier faced any of the unfair  
13 trade practices that the Section 301 tariffs are  
14 intended to address.

15 Placing Carrier's components on the  
16 final list of proposed tariffs, therefore, will  
17 only raise costs on U.S. businesses and  
18 consumers, and threaten American jobs without  
19 producing the policy changes sought by USTR.

20 For all of these reasons, I  
21 respectfully request that the committee remove  
22 HTS-US Subheading 8415.90.80 from the final list

1 of products that will be subject to an additional  
2 Section 301 tariff.

3 Thank you for the opportunity to  
4 testify and I'm happy to answer any of your  
5 questions.

6 MR. BURCH: Thank you, Ms. Kimmerling.

7 Our next panel witness will be Michael  
8 Esch with Church and Dwight Company,  
9 Incorporated.

10 Mr. Esch, you have five minutes.

11 MR. ESCH: Good afternoon committee  
12 members, and thank you for your time today. My  
13 name is Michael Esch, and I'm before the  
14 committee to testify on behalf of Church and  
15 Dwight Co., Inc., where I serve as the vice  
16 president of Global Manufacturing.

17 I've been with the company for 14  
18 years, and in this industry for 38.

19 Specifically, I come testify regarding the Trade  
20 Representatives' proposal to impose a 25 percent  
21 tariff on products imported from China that would  
22 include Church and Dwight's Arm & Hammer

1 Spinbrush, battery-powered toothbrushes and  
2 replacement brush heads.

3 While Church and Dwight supports the  
4 administration's stated goal to eliminate China's  
5 discriminatory practices regarding American  
6 intellectual property, this tariff, if  
7 implemented, will be ineffective in eliminating  
8 those practices, while at the same time be  
9 harmful to Church and Dwight, our employees, our  
10 customers and our U.S. interests.

11 Church and Dwight was founded in 1846  
12 as a producer and distributor of the iconic Arm &  
13 Hammer backing soda, and has grown into a \$4.1  
14 billion company listed on the S&P 500. We are  
15 headquartered in Ewing, New Jersey, and operate  
16 and R&D center in Princeton, New Jersey, plus we  
17 have 11 manufacturing facilities and five  
18 distribution centers throughout the United  
19 States.

20 Altogether, the company is responsible  
21 for 3,300 well-paying American jobs. The  
22 company's U.S. businesses include not just Arm &

1 Hammer baking soda, but also Arm & Hammer laundry  
2 detergent and cat litter, Trojan condoms,  
3 Oxyclean stain fighters, Batiste hair products,  
4 among many other well know American home and  
5 personal care products.

6 Spinbrush is part of our oral care  
7 portfolio, which also includes Arm & Hammer  
8 toothpaste, Close-up, Aim and Pepsodent  
9 toothpaste. Among battery-powered toothbrushes,  
10 Spinbrush is the number one brand for children  
11 and number two for adults.

12 One hundred percent of our Spinbrush  
13 toothbrush components are manufactured in China,  
14 for Church and Dwight's exclusive use by a non-  
15 affiliated third party. Once imported into the  
16 United States, the Spinbrush -- the toothbrush  
17 components are assembled and packaged in  
18 Morristown, Tennessee, by an American contractor  
19 called Team Technologies, which employs 50  
20 workers specifically for Spinbrush.

21 It is sold to consumers at physical  
22 and online retailers including Walmart, Target,

1 CVS, Walgreens, Kroger and Amazon. The proposed  
2 tariff on Spinbrush products, including the  
3 toothbrush and replacement brush heads would  
4 decimate the Spinbrush product line, and severely  
5 injure Church and Dwight and downstream  
6 businesses, our workers and our customers.

7 At 25 percent, Church and Dwight would  
8 immediately be exposed to an additional 5.7  
9 million in annual duties. This would result in a  
10 similar increase to the retail price, which would  
11 then result either in a higher cost to the  
12 consumer or reduced sales, as consumers seek  
13 inferior products in a price-sensitive market.

14 With reduced sales, Church and Dwight  
15 would be forced to lay off American workers, but  
16 also to cancel high-volume advertising, marketing  
17 and retail promotional programs, which itself  
18 would impact downstream American businesses that  
19 provide those services.

20 Additionally, Church and Dwight would  
21 still be required to pay minimum royalties on  
22 brand licenses for children's products. This



1 impact cannot be avoided. Even with the tariff,  
2 Church and Dwight will have no choice but to  
3 continue to import Spinbrush products from China.

4 The company has evaluated alternative  
5 sourcing, including from within the United  
6 States, but being that as Spinbrush products are  
7 FDA Class I medical devices, the rigorous testing  
8 and qualifications to move a manually assembled  
9 production operation is cost prohibitive and  
10 would take approximately two years.

11 When Church and Dwight acquired the  
12 Spinbrush brand in 2005, manufacturing operations  
13 were already Chinese-based. Domestic capacity  
14 for this product does not exist, and today we  
15 have not found any location out of China that  
16 meets our cost requirements or quality standards  
17 and has mature supply chain capabilities that  
18 meet our product needs.

19 Nor would the tariffs mitigate any  
20 unfair trade practices. Battery-operated  
21 toothbrushes are consumer goods with no  
22 connection to the Made in China 2025 program.

1 Church and Dwight has in place safeguards to  
2 prevent international property theft, including  
3 patent protection and nondisclosure agreements  
4 with its manufacturers.

5 Our company has not experienced  
6 intellectual property theft over the 14 years  
7 we've been importing our product from China. The  
8 tariffs will, however, have other unintended  
9 consequences.

10 Battery-powered toothbrushes have been  
11 proven to significantly increase brushing  
12 compliance among children, and plays a key role  
13 in the reduction of future plaque-related issues  
14 such as cavities and gingivitis, and remove 75 to  
15 100 percent more plaque than manual brushing  
16 alone.

17 By harming the battery-powered  
18 toothbrush industry, consumers will tend to  
19 purchase manual brushes, and thus suffer adverse  
20 dental health side effects. For these reasons,  
21 Church and Dwight requests that battery-operated  
22 toothbrushes and replacement brush heads classify

1 -- be removed from the proposed List 4.

2 Thank you for your consideration.

3 MR. BURCH: Thank you, Mr. Esch.

4 Our next panel witness will be Bart  
5 Prins with Waterpik, Incorporated.

6 Mr. Prins, you have five minutes.

7 MR. PRINS: Good afternoon. My name  
8 is Bart Prins and I'm the general manager of  
9 Waterpik, Inc.

10 Waterpik, Inc. has been a leader in  
11 personal and oral healthcare products since 1962.  
12 The business was the brain child of a hydraulic  
13 engineer and a dentist, who created an oral  
14 irrigator for use in dentistry.

15 For 58 years, the business has been  
16 headquartered in Fort Collins, Colorado. Today  
17 our business consists of two main product lines,  
18 oral health product, mostly the Waterpik water  
19 flosser, and replacement shower heads.

20 In replacement shower heads, we  
21 believe we are a market leader, and have a market  
22 share in the United States of more than 25

1 percent. Shower heads represent about 30 percent  
2 of our annual sales, and are sold at retailers  
3 like Costco, Walmart, Target, Bed, Bath & Beyond,  
4 Home Depot and Amazon.

5 The company has many patents for its  
6 innovative designs and technology, and our  
7 products are proudly engineered and designed in  
8 the United States. The company employs 188  
9 people, providing high-paying jobs in Colorado,  
10 including 35 in R&D.

11 Our replacement shower heads are  
12 currently subject to a proposed 25 percent duty  
13 by the Trade Representative. As with our  
14 competitors, Waterpik has been manufacturing and  
15 importing replacement shower heads from China  
16 since 2002.

17 These shower heads are custom designed  
18 for Waterpik for its exclusive use. The shower  
19 heads are manufactured in China because chrome  
20 plating, a step in the manufacturing of shower  
21 heads is not available in the United States.  
22 There are no currently developed manufacturers

1 outside of China to transfer its manufacture.

2 Waterpik supports the administration's  
3 overall effort to ensure free and fair trade with  
4 China, however the imposition of a 25 percent  
5 tariff on shower heads will not have any effect  
6 on the Chinese intellectual property violation  
7 the tariffs seek to eliminate.

8 According to USTR Section 301 report,  
9 tariffs should specifically target products that  
10 benefit China's acts, policies and practices. In  
11 this case, the shower heads are not related to  
12 the acquiring of sensitive technology and/or  
13 intellectual property, or involve China's  
14 discriminatory commercial practices.

15 These items are consumer appliances,  
16 and are not strategically targeted by China's  
17 Made in China 2025 plan. They do not involve the  
18 types of very high technology targeted by Chinese  
19 industrial programs.

20 As stated, there is no domestic  
21 production. In fact, the shower heads featured  
22 chrome plating that is nonexistent in the United

1 States.

2 Waterpik's intellectual property  
3 rights are also protected and have not been  
4 transferred. The Chinese manufacturers have  
5 neither required nor asked Waterpik to transfer  
6 its intellectual property rights. There are  
7 safeguards in place to prevent IP theft,  
8 including design patents and utility patents.

9 In fact, the contract manufacturers  
10 fully cooperate, and have taken affirmative steps  
11 to protect Waterpik's intellectual property  
12 rights. We have noncompete clauses in our  
13 agreements with the contract manufacturers which  
14 provide an additional layer of protection to  
15 Waterpik's intellectual property.

16 Second, the additional 25 percent duty  
17 on shower heads is prohibitively high and will  
18 cause severe, disproportionate and undue economic  
19 harm to U.S. interests, including American  
20 workers.

21 As noted, 30 percent of Waterpik's  
22 annual sales are derived from these shower heads.

1 The proposed tariffs rate will expose Waterpik to  
2 additional 8.5 million in annual duties. In  
3 order to offset this product impact, Waterpik  
4 would need to make a double-digit price increase  
5 to this product. This would result in a  
6 reduction in sales volume due to price  
7 sensitivity, as lower income consumers would be  
8 proportionately affected by a price increase.

9           Currently, 100 percent of Waterpik's  
10 consumer water flossers is negatively impacted by  
11 25 percent tariffs already affecting the  
12 company's profitability by over 22 million for  
13 2019. Further tariffs will have severe  
14 detrimental impact to the Waterpik business.

15           If the tariffs are implemented,  
16 Waterpik will be forced to lay off its U.S.  
17 workers and reduce its 7.5 million investment in  
18 research and development projects in Colorado, of  
19 which 2.4 million is in showers.

20           Waterpik would invest less in new  
21 products, which could also lead to indirect job  
22 losses. If Waterpik ceases to develop new

1 product, other Chinese competitors may, in fact,  
2 overtake a portion of our sales, thereby decrease  
3 our market share.

4 In sum, the economic harm resulting  
5 from the imposition of the additional 25 percent  
6 far outweighs any benefits to be gained from such  
7 measures.

8 For these reasons, we respectfully  
9 request that USTR exclude HTS Code 3924.90.50.60,  
10 which includes Waterpik shower heads imports,  
11 from the proposed list of products that will be  
12 subject to the 25 percent proposed tariffs.

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

14 Our next panel witness will be Steven  
15 Fludder, with NEC Energy Solutions.

16 Mr. Fludder, you have five minutes.

17 MR. FLUDDER: Thank you, and good  
18 afternoon. My name is Steve Fludder. I'm the  
19 chief executive officer of NEC Energy Solutions.

20 We are a leader in the electric power  
21 energy storage market. We provide critical  
22 infrastructure to secure the reliability and



1 resiliency of the nation's electric power grid.  
2 NEC has worked on projects all across the United  
3 States, including our facilities in Arizona,  
4 Maine, Nevada, New Mexico and Texas.

5 We have also participated in projects  
6 at various military installations, and partnered  
7 with public utilities. NEC imports lithium ion  
8 batteries and containers under HTS-US Subheadings  
9 8507.60 and 8609.00 for use in energy storage  
10 systems.

11 For the following reasons, we  
12 respectfully request that the committee recommend  
13 the removal of these subheadings from the final  
14 list of products subject to an additional 25  
15 percent tariff.

16 As an initial matter, additional  
17 duties on lithium ion batteries and containers  
18 would run counter to U.S. Government policies  
19 that identify energy storage as vital to the  
20 nation's energy and national security.

21 For example, the U.S. Department of  
22 Defense has concluded that energy storage

1 promotes energy resilience and independence,  
2 qualities that allow the U.S. Military to deploy  
3 forces quickly in response to worldwide missions  
4 using self-sustaining power systems.

5 The U.S. Department of Energy likewise  
6 has identified energy storage as critical to  
7 improving grid reliability and safeguarding the  
8 public from long-term energy disruptions. And  
9 Congress has proposed legislation to incentivize  
10 the increased use of energy storage systems for  
11 all of these same reasons.

12 Yet additional tariffs on inputs like  
13 lithium ion batteries and containers would  
14 undermine these energy and national security  
15 interests by making energy storage systems more  
16 expensive and therefore cost prohibitive for  
17 customers like the U.S. Military and public  
18 utilities.

19 Put simply, higher sales prices would  
20 result in the slower adoption of energy storage,  
21 or more likely, the cancellation of projects  
22 altogether.

1           Apart from conflicting with these  
2 security interests, additional tariffs would not  
3 curb China's unfair intellectual property  
4 practices. NEC does not have agreements with  
5 entities in China that involve the transfer of US  
6 intellectual property.

7           For me and I'm sure for the  
8 administration as well, the most sobering  
9 consequence of the additional tariffs would fall  
10 on my hundreds of employees. The additional  
11 duties will result in economic harm in the form  
12 of lost sales, cancelled projects and lost  
13 opportunity, but that's not all.

14           Every time we import batteries for an  
15 individual project, we also employ numerous  
16 engineers, project managers and other specialized  
17 workers throughout the United States. This  
18 includes subcontracting a significant portion of  
19 our services to multiple U.S. companies, and we  
20 rely exclusively on local U.S. labor for our  
21 engineering, procurement and construction  
22 projects.

1           To highlight just one example of our  
2           current ongoing projects, we spend nearly \$50  
3           million in the -- we will spend nearly \$50 in the  
4           next six months on manufacturing, engineering and  
5           construction jobs in Arizona, California,  
6           Missouri and Tennessee.

7           Increased battery cost due to tariffs  
8           could place these associated U.S. jobs in serious  
9           jeopardy. And this is only one of 33 ongoing  
10          projects that we have underway at this time. So  
11          one project, \$50 million worth of U.S. jobs, and  
12          that's one of 33 projects.

13          Regrettably, additional duties on  
14          batteries and containers would have a very real  
15          negative impact on hundreds of people employed by  
16          my business.

17          Finally, the burden imposed by these  
18          additional duties would not be NEC's to bear  
19          alone. Additional duties on batteries and  
20          containers would spread beyond NEC to the energy  
21          industry as a whole.

22          The administration itself has recently

1 extolled the virtues of energy storage systems  
2 whose benefits have also received significant  
3 media coverage. These virtues include cost  
4 savings, job growth, reduction of pollution, and  
5 energy security and resiliency from storms and  
6 other threats.

7 Communities in California, Oklahoma,  
8 Texas, Florida, Massachusetts and elsewhere all  
9 stand to gain if growth in energy storage  
10 continues at current projections. However, if  
11 additional duties on batteries and containers  
12 render energy storage less economical, the gains  
13 currently being realized may slow, if not grind  
14 to a halt.

15 For all these reasons, we respectfully  
16 request that the committee remove the  
17 aforementioned HTS-US subheadings from the final  
18 list of products subject to an additional 25  
19 percent.

20 Thank you very much for the  
21 opportunity to testify, and I will be delighted  
22 to answer any of the committee's questions.

1 Thank you.

2 MR. BURCH: Thank you, Mr. Fludder.

3 Our last panel witness will be Allen  
4 Ibara, of Soulbrain MI, Incorporated.

5 Mr. Ibara, you have five minutes.

6 MR. IBARA: Good afternoon, and thank  
7 you for the opportunity to speak at this public  
8 hearing. My name is Allen Ibara and I'm  
9 testifying today on behalf of Soulbrain MI,  
10 Incorporated, a Michigan-based small business  
11 that manufactures and develops electrolyte  
12 solutions for advanced secondary lithium ion  
13 batteries.

14 I'm an advisor to the company, and  
15 until 2018, I was its founder and CEO. With me  
16 today at the hearing are Dawn Horner, purchasing  
17 manager for Soulbrain, and Nathan Dupes, legal  
18 counsel to the company.

19 Soulbrain previously submitted written  
20 comment to the proposed action, and it was  
21 assigned Document ID Number USTR 2019-0004-2084.

22 Soulbrain requests the Trade

1 Representative remove from the proposed action  
2 the following trade codes: 2826.90.90,  
3 2920.90.51, 2931.90.50.51. These codes cover the  
4 main raw materials in Soulbrain's electrolyte,  
5 which are the chemical solvents, salts and  
6 additives.

7 It is not feasible for the company to  
8 source those raw materials from non-Chinese  
9 suppliers because they're not available elsewhere  
10 in sufficient quantities. And even if they were,  
11 the raw materials we use must be qualified for  
12 automotive use, and that qualification process is  
13 rigorous, time-consuming and expensive.

14 Without a viable alternative supply,  
15 including the subject tariff codes would have a  
16 devastating economic impact on Soulbrain's small  
17 Michigan-based business. The proposed tariffs  
18 would likely cause the company to shut down. And  
19 even if the company survived, the proposed  
20 tariffs would cause it to lay off most or all of  
21 its employees.

22 Such a result would be contrary to the

1 intent of the tariffs because Soulbrain is  
2 exactly the kind of American manufacturer that  
3 the administration wants to see thrive and grow  
4 in the United States. Its electrolyte is used to  
5 power the next generation of electric vehicles, a  
6 rapidly growing sector that will be crucial to  
7 the domestic automobile market's continued  
8 success.

9 When Soulbrain began its operations  
10 nearly ten years ago when I was at the helm, it  
11 was one of only two North American companies that  
12 could provide electrolyte in suitable quantities  
13 for the automotive industry. Even today,  
14 Soulbrain is one of only a handful of domestic  
15 electrolyte suppliers in a market that is  
16 dominated by Asian manufacturers.

17 Not only does Soulbrain's electrolyte  
18 power vehicles for consumer and commercial uses,  
19 it is incorporated into the American military  
20 vehicles, and used in storage applications across  
21 the U.S. power grid. Forcing the likelihood of  
22 the closure of the company therefore will not



1       only destroy an important domestic manufacturer,  
2       it will negatively impact national security.

3                 Soulbrain has invested heavily in the  
4       community and its people. It's built a state-of-  
5       the-art facility the cost of approximately 35  
6       million on a Brownfield site that had been vacant  
7       for more than ten years.

8                 The company recruits engineering  
9       talent from local Michigan universities and  
10       currently employs 28 people, most of whom are  
11       highly skilled engineers, many of whom are  
12       lifelong residents of Michigan.

13                The company currently is in the  
14       process of investing another 7 million to expand  
15       its facility, hire additional employees, and  
16       increase the number of shifts to meet the rapidly  
17       expanding demand for its electrolyte. If the  
18       proposed tariffs go into effect as planned,  
19       however, all those investments and hiring  
20       activities are in jeopardy.

21                On a personal note, I have to mention  
22       that I'm extremely -- it would be extremely

1 disheartening for me to see the proposed actions  
2 go into effect as planned. I believe in the  
3 company's mission, and in the electrolyte that it  
4 produces.

5 I hired and worked extensively with  
6 many of those Soulbrain employees who still work  
7 at the company, and whose jobs are threatened by  
8 the tariffs. Those people are like family to me.  
9 For many of those employees, their first job out  
10 of college was at Soulbrain, and they started  
11 families in reliance on their continued  
12 employment with the company.

13 You can read about some of their  
14 stories in our written comment letter. I've also  
15 brought a picture of those employees and their  
16 families, who depend on the company.

17 In summary, while curbing China's  
18 unfair trade practices is a worthy goal,  
19 shuttering a thriving American manufacturer of  
20 electrolyte that has few domestic suppliers does  
21 not serve that goal.

22 Soulbrain requests that the Trade

1 Representative remove the subject codes from the  
2 final actions. Thank you.

3 MR. BURCH: Thank you, Mr. Ibara.

4 And Mr. Chairman, this concludes all  
5 direct testimony for this panel.

6 MR. WINELAND: Thank you. I'd like to  
7 direct a question to Mr. Tharp.

8 You described the dynamic in your  
9 testimony about your final manufacturing being in  
10 the United States versus your competitors. Can  
11 you just elaborate a little bit more on the  
12 impact that you believe the tariffs would have on  
13 the competitiveness of your company, given the  
14 dynamic that you described?

15 MR. THARP: Yes, sir. Thank you for  
16 the question. Because of our, the components  
17 that we utilize, having the tariff, that will  
18 increase our costs, because the costs of the  
19 competitors who produce outside of the United  
20 States would not have those same increase in  
21 costs. They would not increase their pricing to  
22 their customers, therefore we would not be able

1 to extract the difference from the, our  
2 customers.

3 So we'd either have to increase price  
4 and lose sales, or lose margins to remain  
5 competitive in the market.

6 MR. WINELAND: And are there other  
7 economic dynamics? I mean, your final assembly  
8 being here at home, you know, transportation  
9 costs, other things that give you an advantage as  
10 a general matter?

11 MR. THARP: I think the relative cost  
12 of transportation -- the simple answer is yes,  
13 there's a small advantage in transportation.  
14 However, the transportation portion of the total  
15 cost of the product is relatively small, quite  
16 small actually.

17 MR. WINELAND: Thank you.

18 MS. RESNICK: I have a question for  
19 Ms. Kimmerling.

20 You stated in your testimony that  
21 entry level and multi-family units would not be  
22 able to absorb the price increase of 25 percent

1 additional tariffs. Do you know if there are any  
2 alternative manufacturers that might meet demand  
3 in these markets, and if not, why?

4 MS. KIMMERLING: Well, it's -- one of  
5 the reasons there are so few suppliers in that  
6 area is because of the low margins. I'm not  
7 aware of any other sources for those types of  
8 units, and so I think the result would be, it  
9 would -- in some cases, it would force  
10 contractors and architects to design around it,  
11 and increase the cost of the structures.

12 But for right now, those solutions,  
13 other solutions just don't exist.

14 MR. BHABHRAWALA: A follow-up question  
15 if I could.

16 Ms. Kimmerling, I had the  
17 distinguished honor of sitting on Panel 3, which  
18 seems like an eternity ago but was last week.  
19 And in that panel, we had witness testimony from  
20 Mr. Mike Branson of Rheem Manufacturing Company,  
21 who referred to the exact same HTS number that  
22 you're referring to in your testimony,

1 8415.90.80, and I'm going to quote from their  
2 testimony.

3 There is ample availability of these  
4 air conditioning products from domestic and non-  
5 Chinese foreign supplies. Imposing increased  
6 duties on these tariffs, tariff items would not  
7 cause disproportionate economic harm to U.S.  
8 interests, including small and medium size  
9 businesses and consumers.

10 So my question today for you is very  
11 simple. Who is right, and why?

12 MS. KIMMERLING: So having reviewed  
13 some of the testimony that you're referring to, I  
14 do recall that Rheem called out the importation  
15 of indoor and outdoor units, in particular. And  
16 I -- that's simply not the case. It's not the  
17 parts that we are talking about.

18 So, air conditioning parts, as  
19 imported, we're asking -- they affect most  
20 particularly our fan coil imports, which we pair  
21 with outdoor units that are manufactured here,  
22 and in third countries. It also affects our, the

1 importation of our ductless units. And that  
2 capacity does not exist in the United States.

3 Overall, we do manufacture quite a bit  
4 here in the United States, and we have spent a  
5 lot of time looking at our supply chain. It's  
6 our opinion that the domestic capacity does not  
7 exist, and to the extent there is manufacturing  
8 capacity, it would only be with our competitors,  
9 and obviously sourcing from a direct competitor  
10 is not feasible.

11 CHAIR TSAO: Ms. Kimmerling, I'd ask  
12 another follow-up. We understood a little bit  
13 from Mr. Tharp about the manufacturing model done  
14 by Goodman. Does your company, Carrier share the  
15 same manufacturing model? And would the effect  
16 of any proposed tariffs be different on Carrier  
17 than it would be on, let's say Goodman?

18 MS. KIMMERLING: I think the effects  
19 would be very similar.

20 MR. FLEMING: This is a question for  
21 Mr. Esch.

22 When -- you talked a little bit about

1 your high-volume marketing strategy and other  
2 advertising strategies. And I just -- could you  
3 go into a little bit more detail on how these  
4 tariffs would affect the strategies and what  
5 impacts that it would have?

6 MR. ESCH: So the vast majority of  
7 Spinbrush sales are actually occur during the  
8 Christmas period. They've evolved into a  
9 stocking stuffer for the most people.

10 And so, most all of our advertising  
11 throughout the year is pretty level, but it's all  
12 driven toward the holidays. And so, at the end  
13 of the day, people get a decision on what they  
14 put in the stocking, right?

15 And so to the degree the price of the  
16 product goes up, then those people will be less  
17 inclined to put in a Spinbrush or any battery-  
18 powered toothbrush for that matter, even if they  
19 know for the fact that it helps their kids' teeth  
20 be better performance.

21 So we -- it's -- unfortunately, when  
22 you do marketing at the end of the year, and



1 you're on a fiscal year, it's always those last  
2 decisions of whether or not you can afford to  
3 spend that marketing, because you don't quite  
4 know how you're going to end the year. So a lot  
5 of it's driven by price and the promotions that  
6 we get at Walmart and Target.

7 MR. FLEMING: Thanks. And one,  
8 another question. You talked a little bit about  
9 trying to diversify outside of China, but could  
10 you explain why you're having difficulties in  
11 that area?

12 MR. ESCH: So most of our supply  
13 agreements run three to five years, and before  
14 every contract comes up, a year in advance, we  
15 start doing another global search, because our  
16 obligation to our marketing commercial groups is  
17 to find the best production and site that we can.

18 And so, the current one that we're up  
19 in, we're in year two of a five-year deal. And  
20 our point is -- and I remember the last time we  
21 moved some of our, part of our production into  
22 the U.S. was about six, seven years ago when we

1 had the big oil spike. And we looked, and we  
2 were able to save some freight by the way we  
3 loaded up shipping containers.

4 But what we find is, every year we do  
5 this, we've done it now six time -- five times  
6 since I've been at the company, is that you start  
7 off, you find five, maybe 15 companies around the  
8 world. We looked into Vietnam. We've looked  
9 into Malaysia. We looked into some of the Middle  
10 East countries. We've looked into Australia.  
11 We've looked out in Singapore.

12 We've looked in the U.S., and what we  
13 find is, a lot of cases, what you've heard today,  
14 what I heard at the prior session, which was,  
15 it's one thing to bring a manual operated  
16 assembly. It's not that hard to move. The issue  
17 is the regulatory guidance. You're bringing in a  
18 medical device. A lot of oversight by the FDA.

19 And 98 percent of all the materials  
20 anyway are being sourced out of China. So you  
21 really don't do much, at the end of the day.

22 So, we do those 15. We normally

1 narrow it down to probably the top five by the  
2 time we get done doing a financial analysis of  
3 their financial stability, as well as their  
4 social compliance on audits. We get down to the  
5 last two or three and then it just becomes about  
6 quality, visits and price negotiation.

7           And what we find is when you look at  
8 the totality of a major brand like Spinbrush  
9 that's been around a long, long time, and people,  
10 you know, parents are really particular about  
11 what they put in their kids' mouths, and that  
12 upholding that brand identity is so critical that  
13 the quality items normally bypass even some of  
14 the quality inputs.

15           And what we have found is, other than  
16 maybe the United States, there is no other place  
17 that has the quality level. The issue you get as  
18 the quality in the U.S. is the price goes up  
19 quite a bit, especially when you're bringing in  
20 all those other components.

21           MR. FLEMING: Thank you.

22           MR. BHABHRAWALA: This question is for

1 Mr. Prins.

2 First and foremost, this panel thanks  
3 you for being here today, and thank you for your  
4 expert testimony.

5 I'm wondering, what is the market  
6 share in the United States of Waterpik shower  
7 heads that are imported from China, or used  
8 materials sourced from China? Do you think  
9 levying a tariff on shower heads will compel  
10 Chinese suppliers to pressure the government to  
11 address the concerns underlying the initial  
12 impositions of the tariffs?

13 MR. PRINS: So, I would say close to  
14 100 percent of all shower heads in the United  
15 States are coming from China. So the one  
16 exception might be really, really high-end, what  
17 we call showroom stuff, so it's really the high-  
18 end products, not really replaceable shower  
19 heads. So we're referring to replaceable shower  
20 heads here.

21 Sorry. Could you repeat the question?

22 MR. BHABRAWALA: So, I guess the

1 second part of that question is, do you think  
2 that levying a tariff on shower heads will compel  
3 the Chinese suppliers to pressure the government  
4 to address the concerns underlying the initial  
5 imposition of the tariffs?

6 MR. PRINS: I don't think so. I think  
7 that, you know, they manufacture showers for all  
8 over the world. And so, they will continue to  
9 sell showers in other geographies. And I think  
10 that the U.S. volumes in the grand scheme of  
11 things is just perhaps 20 percent of the global  
12 volumes.

13 MR. BHABHRAWALA: Is 20 percent just  
14 an estimate or?

15 MR. PRINS: Just an estimate.

16 MR. BHABHRAWALA: Okay. We'd love to  
17 see some figures, if you could maybe perhaps  
18 provide that panel, this panel with that, under  
19 business confidential.

20 MR. FRATERMAN: I'd like to thank  
21 everyone on the panel for their testimony. My  
22 question is for Mr. Fludder.

1                   You stated that the additional 25  
2 percent tariffs on lithium ion batteries and  
3 containers would be counter to various U.S.  
4 Government policies. But what would the economic  
5 impact of the 25 additional tariffs on lithium  
6 ion batteries and containers be?

7                   MR. FLUDDER: Sure. Basically, there  
8 currently is only one major U.S. domestic  
9 manufacturer of lithium ion batteries for this  
10 scale of application in the electric power grid,  
11 and that's Tesla.

12                   I think everybody also knows that  
13 Tesla's priority is to channel those batteries  
14 into their automotive production. And they  
15 really don't have the capacity to provide them  
16 into the electric power grid applications on a  
17 consistent basis.

18                   So, in effect what would happen is,  
19 everyone that is providing these types of  
20 systems, like NEC, would all be faced with this  
21 25 percent increase.

22                   I can tell you that the way that these

1 projects, the project financing works, a 3 or 4  
2 percent increase in the capital cost of the  
3 equipment -- these are multi-hundred-million-  
4 dollar systems, basically are the go/no-go  
5 criteria for whether the project is bankable, or  
6 whether a utility can pass that on to their rate  
7 payers.

8 So a 25 percent increase in the single  
9 largest component, as an input component,  
10 representing about 40 percent of the system,  
11 basically would grind this industry to a halt,  
12 unquestionably.

13 And related to that, the penetration  
14 of wind and solar renewable energy has now gotten  
15 to a point that it cannot continue unless there  
16 is companion storage to go along with it. And  
17 this is the reason why utility scale energy  
18 storage as an industry is really going through an  
19 inflection point and exponential growth at the  
20 moment.

21 And so what you would have is a  
22 situation where not only would the energy storage

1 stop, instantaneously, but the progression of  
2 wind and solar and other clean forms of  
3 electricity in the transformation of the electric  
4 power grid would also stop.

5 And at the moment, the main source of  
6 supply is Korea and China, for these types of  
7 batteries. And for the grid scale batteries, the  
8 source is China.

9 The reason for that is, in the  
10 beginning of this industry, this technology is  
11 manufactured in factories that are designed very  
12 much like semiconductor manufacturing. They're  
13 very, very, ultra-high volume production of  
14 advanced materials.

15 That's what a battery cell  
16 manufacturing operation is. And there's very  
17 little people involved in these factories, but  
18 it's just this enormous volume. The reason that  
19 they're located in China is because of access to  
20 the Chinese market, which is expected to be the  
21 second largest market for this application.

22 What will happen in the near future,



1 in the coming years, is eventually this  
2 manufacture of this product will move to the  
3 United States, it will move to Europe, and it  
4 will move to markets as renewable energy  
5 penetrations increase, driving the need for more  
6 energy storage.

7 You can see in the automotive sector,  
8 LG Chem, for example, who is one of our  
9 suppliers, who has a big factory in China for  
10 grid scale batteries, they already built a  
11 factory in Michigan to supply batteries for  
12 electric vehicles.

13 And so that same trend will happen for  
14 the batteries for the grid systems. They're  
15 different types of batteries, and that's the  
16 reason why first the automotive production moved  
17 here to the United States and eventually the  
18 utility systems will, as well.

19 However, it'll take one to two years  
20 to build that manufacturing capacity. It's a  
21 multi-billion dollar investment. It takes time  
22 to build these types of plants, to build them

1 properly, environmentally, et cetera.

2 So, a 25 percent imposition today will  
3 literally grind to a halt progress in the  
4 transformation of the grid. And by the time  
5 production got started, it would be one to two  
6 years before production could start here.

7 And what we would advocate for,  
8 instead of using tariffs as the tool in the  
9 toolkit, is more incentives by this country  
10 itself to really incentivize innovation and  
11 investment in this grid transformation, and to  
12 basically get ourselves on a par with China, from  
13 a production standpoint, so that we can compete  
14 head-to-head.

15 China's going to do what they're going  
16 to do, and we can do exactly the same thing if we  
17 have the will.

18 MR. FRATERMAN: Great. Thank you very  
19 much.

20 MS. PODESTA: Thank you all for your  
21 testimonies today. My question's for Mr. Ibara.

22 In your statement you said that

1 tariffs will be economically harmful to Soulbrain  
2 MI. Could you please explain whether you have  
3 any contingency plans if your trade with China  
4 was disrupted for your supply chain and you have  
5 -- due to additional tariffs or any other risks?  
6 Thank you.

7 MR. IBARA: I think the short-term  
8 answer is, there is no contingency. We're under  
9 contract. We're actually, all of our products,  
10 all of our material is qualified through two  
11 tiers. So our customers won't allow a change,  
12 for openers.

13 Number two, long-term, as Mr. Fludder  
14 here just pointed out, we're here for two  
15 reasons. We're here short-term because there's a  
16 transformation going on in the hybrid industry,  
17 the vehicle industry. But if you take vehicles,  
18 consumer products, everybody in this room is  
19 carrying a lithium battery.

20 And -- but the batteries, those are  
21 basically single-cell applications. For a  
22 vehicle, for anything that moves, a Tesla, it's a

1 multi-cell application. One Tesla would equal a  
2 couple of hundred, or ten thousand cell phones.  
3 So it's a huge scale problem for us.

4 So we're here to help build the future  
5 of battery production in North America, so Mr.  
6 Fludder won't have to come here anymore. So  
7 that's one of our long-term goals is to make sure  
8 they're produced here, and that we're not buying  
9 these systems that are going to be critical to  
10 everything we can think about, transportation,  
11 military, medical.

12 Those batteries need to come from  
13 North America. And the electrolyte is one of the  
14 key things because it doesn't ship well and it  
15 ages very quickly. So we saw that ten years ago,  
16 and we thought it would accelerate faster. It  
17 has not.

18 But it's just starting to take off.  
19 And we would love to see the grid business take  
20 off as well as our automobile business has taken  
21 off.

22 MS. PODESTA: Thank you. And a

1 follow-up question. Do you have an idea for an  
2 approximate time frame to build up capacity,  
3 either domestically or with alternative  
4 suppliers, if that was to be possible?

5 MR. IBARA: I'm sorry. I didn't hear.

6 MS. PODESTA: Do you have an idea of  
7 an approximate time frame to build up for  
8 capacity for alternate suppliers, either  
9 domestically or others?

10 MR. IBARA: We surveyed some domestic  
11 potential suppliers, and it's probably a three to  
12 five-year plan, to build essentially a cracking,  
13 another petroleum cracking factory, if you will.

14 And it's not just as simple as  
15 petroleum, because it, the cleanliness, the  
16 battery grade material is probably a couple of  
17 hundred orders of magnitude cleaner than what's  
18 available commercially. So it's a different  
19 factory, or different refinery altogether.

20 MS. PODESTA: Thank you.

21 CHAIR TSAO: Mr. Fludder, I have a  
22 follow-up. You alluded to sort of what the

1 Chinese government's doing with respect to the  
2 lithium ion battery space. Are you aware whether  
3 the Chinese lithium ion battery, whether it's in  
4 the R&D space or the production space, is the  
5 target of any of China's industrial policies?

6 MR. FLUDDER: Well, certainly China  
7 has prioritized, they call it new energy  
8 vehicles, or basically electric vehicles. So  
9 what's an electric vehicle? It's basically a  
10 bunch of batteries on four wheels and some seats,  
11 right?

12 So in that respect, yes, it is part of  
13 that priority sector in China. But I would  
14 submit that the world is going to benefit, you  
15 know, indirectly from that anyways. You know,  
16 Chinese battery suppliers are also looking to  
17 build factories here in the United States to  
18 serve these types of applications as well.

19 So, you know, as I mentioned, I think  
20 that if we impose the tariffs, we'll shut this  
21 down in the United States in terms of the grid  
22 applications. It will shut down renewable

1 deployments. And then it will take time to build  
2 capacity.

3           What we would like to see is a  
4 smoother transition to U.S.-based production  
5 capacity that can be brought about through  
6 incentivizing this industry and supporting it.  
7 And in so doing, we'll be globally competitive  
8 with all of the Chinese entities that are playing  
9 in this space.

10           And so, we'd rather see that as an  
11 outcome, as opposed to a tariff that would  
12 actually disrupt progress here in this clean  
13 energy. You know, right now, this new energy or  
14 clean energy as a global industry is a \$1-1/2  
15 trillion industry. And that's just a small part  
16 of the electric power system that's going clean,  
17 or renewable.

18           And that's going to get larger and  
19 larger as we go forward. So, it's a major global  
20 market opportunity that this country needs to be  
21 totally competitive and in a leadership position.

22           MR. FLEMING: Just a follow-up. Some

1 industries, when you look at Chinese industrial  
2 policies, you see that there are worries about  
3 over -- that Chinese subsidies producing over  
4 capacity in China.

5 But I notice that you've talked a lot  
6 about Chinese companies actually sourcing in the  
7 U.S. in this particular industry. I'm just  
8 curious. What is different, or how do you see  
9 that over-capacity playing out in your industry?

10 MR. FLUDDER: Sure. So just for maybe  
11 some initial context, the electric power grid  
12 business of energy storage is huge, and it's  
13 getting, it's going to become ten orders of  
14 magnitude larger.

15 It still is a relatively small  
16 percentage of the demand for lithium ion  
17 batteries. So the demand for lithium ion  
18 batteries is today dominated by consumer  
19 electronics. And very quickly, that's being  
20 displaced as the number one demand market sector  
21 by electric vehicles.

22 And then, let's say five or so years



1 out, the batteries for electric grid applications  
2 will probably represent 20 or 25 percent of the  
3 global demand.

4 So what I was trying to describe  
5 earlier was not that the Chinese are sourcing  
6 from here, but they will move their factories  
7 here, just like the Koreans are moving their  
8 factories here, and also to Germany and Poland  
9 and other places, to get closer to the electric  
10 vehicle centers of production, because the  
11 logistics of shipping this stuff around the world  
12 is significant.

13 And so, when you get to a certain  
14 scale, at some point you want to move the  
15 production closer to where the demand is, which  
16 is the vehicle assembly location.

17 And then the electric grid scale  
18 applications and that product design, if you  
19 will, as this U.S. market gets maybe just one or  
20 two years down the road on current projections,  
21 there'll be enough scale to justify these billion  
22 dollar investments to build the production lines

1 for the batteries for the grid.

2           They're not exactly the same. They're  
3 similar types of batteries that are used in  
4 consumer electronics, electric vehicles and the  
5 grid, but there is a significant difference in  
6 those, and you have to set up a separate  
7 production line for them.

8           MR. FLEMING: Thank you.

9           MR. BURCH: Mr. Chairman, we release  
10 this panel with our thanks.

11           And would the next witness panel make  
12 their way forward?

13           MR. BURCH: Will the room please come  
14 to order?

15           Mr. Chairman, this is the last panel  
16 for the day. And our first panel witness will be  
17 Christopher Steinkamp, of Snowsports Industries  
18 America.

19           Mr. Steinkamp, you have five minutes.

20           MR. STEINKAMP: Thank you very much.  
21 My name is Christopher Steinkamp from Snowsports  
22 Industries America. We're based in Park City,

1 Utah.

2                   Founded in 1954, Snowsports  
3 Industries America is a trade association  
4 representing the U.S. winter sports industry,  
5 manufacturers, suppliers and retailers of winter  
6 sports gear.

7                   Our industry generates over \$72  
8 billion in economic revenue annually, and  
9 supports 700,000 jobs across the United States.  
10 And many of these products on the proposed List 4  
11 are produced by our members.

12                   While there are too many HTS codes to  
13 call out here, 296 to be exact, these product  
14 categories include performance outerwear, gloves,  
15 mittens, sweaters, safety headgear, footwear,  
16 scarves, skis and bindings, ski boots, snowshoes,  
17 ice skates, toboggans and sleds.

18                   The USTR has specifically asked for  
19 comments on whether imposing additional duties on  
20 a particular product would cause disproportionate  
21 harm to U.S. economic interests, including  
22 smaller and medium size businesses and consumers.

1 I can say with absolute certainty that this will  
2 be the case.

3 Since the announcement of these  
4 tariffs on June 10th, we've spoken to many of our  
5 members, and in every single case, from large  
6 manufacturers to the small and medium size  
7 retailers, I heard a great deal of concern.  
8 These products represent their livelihoods, and  
9 I'm here on their behalf to communicate this  
10 concern to you.

11 The economic viability of our industry  
12 depends on robust sales and consistent winter  
13 seasons. Essentially, we have a six-month  
14 selling season. And when either one is out of  
15 balance, our industry suffers.

16 A tariff of 25 percent on these  
17 products would ripple throughout our industry,  
18 with reflective higher prices being passed on  
19 from manufacturers to retailers, to ultimately to  
20 consumers. There is no doubt that these tariffs  
21 will instead be taxes in the form of increased  
22 prices passed along to our retailers and

1 consumers, resulting in decreased sales, lost  
2 jobs and closed businesses.

3 In fact, according to the trade  
4 partnership worldwide, 25 percent tariffs on an  
5 additional \$300 billion in imports would result  
6 in the loss of more than two million U.S. jobs,  
7 and add more than \$2,000 in the cost for, of the  
8 average family of four.

9 We know that this will happen if these  
10 tariffs become a reality, because over the past  
11 few weeks I've spoken to many of our members who  
12 can't be here to tell their own story, but are  
13 truly concerned about the future of their  
14 businesses.

15 For example, one of our members is a  
16 small women's fashion business based in Boulder,  
17 Colorado. Every single product they produce is  
18 on the most recent tariff list. Like many in our  
19 industry, profit margins are very tight. At this  
20 point, pricing has been agreed upon, which does  
21 not reflect the cost of the tariffs, and orders  
22 will be shipped soon.

1           So the difference in price between the  
2           current wholesale price and the added cost of the  
3           tariffs will needed to be funded by this small  
4           company. So in anticipation, they've already  
5           begun to cut budgets, lay off workers and plan  
6           for the worst. So instead of growing their  
7           businesses, they're shrinking it.

8           A small retailer of ours, a ski shop  
9           that has been in business for 40 years has also  
10          communicated the fact that they too may have to  
11          shut down their business, because a 25 percent  
12          tariff will eliminate any profit of theirs. They  
13          just won't be able to afford buying or selling  
14          these products now.

15          But in addition, their customers won't  
16          pay \$315 for a \$215 ski jacket either. Small  
17          businesses just can't weather this kind of storm,  
18          and they too are considering layoffs as the fall  
19          approaches.

20          This is not a unique story in our  
21          industry. I could go on and on about this.  
22          There are too many businesses where 25 percent

1 means bankruptcy and layoffs, from large and  
2 smaller manufacturers to small family-owned  
3 retailers in our winter tourist-based mountain  
4 communities.

5 Our industry literally cannot afford  
6 to do business like this. Furthermore, there is  
7 no U.S. production of the products of interest.  
8 Thus, removing these products from the USTR list  
9 would not boost U.S. productivity and jobs and  
10 effectively reach your intended outcome.

11 Manufacturers in our industry are  
12 constantly assessing their supply chains,  
13 trimming costs to price these goods for retailers  
14 and consumers across the country. If there was  
15 an alternative to China, they would be using it.

16 Secondly, in the case of safety  
17 helmets, 6506.10.30 and .60, it was our  
18 understanding that these products were removed  
19 from the List 3 tariffs because of the safety  
20 benefits that they provide, especially to young  
21 children.

22 Of more than 600,000 injuries that

1 occur in our sport each year, 20 percent are head  
2 injuries. So according to the National Ski Areas  
3 Association, 75 percent of the participants in  
4 our sports wear safety helmets now, and head  
5 injuries have been significantly reduced.

6 But increasing the prices of these  
7 helmets will reduce adoption and undoubtedly  
8 reverse this positive trend. We encourage you to  
9 keep safety helmets on the exempted list.

10 Finally, it is my understanding that  
11 the proposed additional duties are intended to  
12 pressure the Chinese government to eliminate  
13 certain acts, policies and practices that the  
14 United States has determined to be harmful to its  
15 economic interests.

16 Examples are, industrial policies in  
17 support of China's efforts to rely exclusively on  
18 high-tech goods manufactured in China, theft of  
19 intellectual property from U.S. companies and  
20 related acts and policies.

21 The products of interest to SIA are  
22 not the type of products that are the targets of



1 Chinese acts, policies and practices. So the  
2 imposition of additional duties on these products  
3 wouldn't aid in the goal of eliminating such  
4 acts.

5 Snowsports Industries America and our  
6 members strongly oppose the tariffs being  
7 proposed on performance outerwear, gloves,  
8 mittens, sweaters, safety headgear, footwear,  
9 scarves, skis, bindings, ski boots, snowshoes,  
10 ice skates, toboggans and sleds. I would be  
11 happy to provide you with the full document  
12 listing all of our specific HTS codes.

13 So as the representative of the U.S.  
14 winter sports industry, I urge you to remove  
15 these products from the USTR list. Doing so will  
16 protect U.S. businesses and jobs.

17 Thank you for your time this  
18 afternoon.

19 MR. BURCH: Thank you, Mr. Steinkamp.

20 Our next panel witness will be Rohan  
21 Mehra, with Skydio.

22 Mr. Mehra, you have five minutes.

1 MR. MEHRA: Dear Chairman and  
2 distinguished members of Section 301 Committee,  
3 thank you for having me here today. My name is  
4 Rohan Mehra, and I am the head of Business  
5 Operations and Program Management at Skydio, Inc.

6 Founded in 2014, Skydio is an  
7 autonomous drone company based in Redwood City,  
8 California. Our first product, the Skydio R1 has  
9 been widely recognized as the most advanced drone  
10 in the world, with its ability to avoid  
11 obstacles, track objects and fly itself, with  
12 minimal user input.

13 We are fortunate to count many of the  
14 top institutions in Silicon Valley as investors,  
15 such as Andreessen Horowitz, Accel, IVP and  
16 Playground.

17 As we prepared to launch R1, we  
18 evaluated manufacturing options around the world,  
19 including China, but chose instead to do the  
20 final assembly manufacturing at our headquarters  
21 in California. This decision was driven by our  
22 vision of leveraging skilled labor available in

1 the United States, and to reap the benefits of  
2 tightly integrated manufacturing and engineering  
3 development.

4           Additionally, doing the final assembly  
5 manufacturing in-house ensured we can protect key  
6 intellectual property by maintaining full control  
7 of software loaded onto the products. To date,  
8 our in-house manufacturing operations have  
9 enabled us to create dozens of jobs in  
10 California, with more to come as we continue to  
11 grow our product portfolio and volume.

12           More recently, we have been focusing  
13 on our next major product line, which will allow  
14 us to both grow our customer base in the consumer  
15 market, while also expanding into government and  
16 commercial sectors.

17           For instance, in the first quarter of  
18 2019, we were selected for the Army's Short-Range  
19 Reconnaissance Program, through the Defense  
20 Innovation Unit, DIU, on a project that will use  
21 our product as a powerful new tool to give small  
22 military teams unparalleled situational awareness

1 on the battlefield, minimizing the distraction of  
2 operating a drone.

3 Per the February 2019 White House  
4 article on "Accelerating America's Leadership in  
5 Artificial Intelligence," and the June 2019  
6 "Memorandum on Presidential Determination  
7 Pursuant to Section 303 of the Defense Production  
8 Act of 1950, as Amended, Regarding Small Unmanned  
9 Aerial Systems," the president and his  
10 administration have recognized that the  
11 technology we are pioneering is vital to national  
12 security.

13 Skydio is proud to be pushing the  
14 forefront of artificial intelligence and robotics  
15 as a U.S.-based company.

16 The administration's current trade  
17 policies put our company and companies like ours,  
18 which manufacture our products in the United  
19 States at a competitive disadvantage when  
20 compared to companies that manufacture drones in  
21 China, including companies that are headquartered  
22 in China.

1                   The vast majority of our building  
2 materials fall under the previous or current 25  
3 percent tariff list. To be clear, many  
4 components we procure from China cannot be  
5 sourced elsewhere, but we are continuously  
6 searching for ways to move our supply chain  
7 closer to home.

8                   Compounding the negative impact of  
9 these tariffs is the fact that until the new  
10 tariff lists go into effect, importing a fully-  
11 assembled drone from China currently incurs no  
12 tariff at all, essentially penalizing companies  
13 that choose to manufacture in the United States  
14 twice.

15                  Skydio recommends two actions in order  
16 to secure the competitive advantage for United  
17 States drone companies and domestic drone  
18 manufacturing. One, keep the newly proposed  
19 tariff on fully assembled drones imported from  
20 China, HTS 8525.80.40.00, per Ruling N269396, and  
21 two, remove the tariff on imported drone  
22 components, as many of these materials cannot

1 currently be sourced elsewhere.

2 We believe that the best path to  
3 moving manufacturing back to America is by taxing  
4 finished goods first, such as drones that are  
5 manufactured abroad. These actions will heavily  
6 incentivize companies to move manufacturing back  
7 to America rather than penalizing American drone  
8 manufacturers as the current policy does today.

9 We are happy to provide the USTR and  
10 Section 301 Committee with more granular details  
11 on the exact tariff codes used across our product  
12 building materials.

13 Thank you for your time and  
14 consideration of our request.

15 MR. BURCH: Thank you, Mr. Mehra.

16 Our next panel witness will be David  
17 Alpern with Ralsey Group, Limited.

18 Mr. Alpern, you have five minutes.

19 MR. ALPERN: Good afternoon and thank  
20 you. I'm David Alpern, senior vice president,  
21 division head at Ralsey Group, Limited. Ralsey  
22 appreciates the opportunity to appear before the

1 Section 301 Committee to articulate our position  
2 that additional tariffs of up to 25 percent  
3 should not be imposed on knit to shape sweaters  
4 from China.

5 Ralsey has submitted detailed public  
6 comments identifying specific product categories  
7 of concern, and the reason why such sweaters  
8 should not be subject to any penalty tariffs.

9 Our company's based in New York City.  
10 We design and contract manufacture and deliver  
11 knit to shape sweaters to U.S. retailers and  
12 brands, mainly Target, Walmart and the discounted  
13 value chains. We also sell knit to shape  
14 sweaters under our own brands.

15 Our relatively complex garments are  
16 mass market and value conscious families. We've  
17 been in operation for 40 years, and have 20  
18 employees in the United States and a total of 50  
19 worldwide.

20 We request removal of four full HTS  
21 eight-digit categories of knit to shape sweaters  
22 on List 4. We also request the administration to

1 consider the partial removal for two HDS eight-  
2 digit categories similar to partial removals done  
3 on List 3.

4 These partial removals would cover  
5 eight-digit ten -- I'll have to think about that.

6 If the administration does decide to  
7 retain any of these categories on the proposed  
8 list for tariffs, which you can see in our list,  
9 Ralsey then urges that all the products be  
10 subject to tariffs at the lowest possible rate,  
11 with a phase-in period of at least 24 months.

12 What's a knit to shape sweater? It's  
13 a unique manufacturing process. Like mostly it's  
14 90 degrees today, so we don't have a lot of  
15 sweaters up on the panel, maybe we got one.

16 And it's a little hot, but knit to  
17 shape is a little bit different, where, if you'd  
18 look at the garment that I'm going to show you,  
19 the panels are knit by the machine. And then  
20 they are linked and loop.

21 It's a relatively complex process, as  
22 opposed to just a large piece of fabric with



1 paper panels that's cut and sewn. The machinery  
2 is very capital intensive, and there's a lot of  
3 them, and all of them are basically located in  
4 China.

5 Knit to shape refers to those sweaters  
6 that are knit on flatbed knitting machines, with  
7 individual sweater components, front panels, back  
8 panels, sleeves et cetera knit separately. The  
9 components are then assembled together via  
10 linking and looping process. The components must  
11 have self-start bottoms and self-finished sides,  
12 which means a finished edge to prevent unraveling  
13 and holding the component's shape. Each  
14 component must be knit to shape for the sweater  
15 to be considered knit to shape.

16 There's a precedent for the U.S.  
17 Government to treat, for trade purposes, knit to  
18 shape sweaters as different from other apparel.  
19 When the U.S. Government established annual  
20 apparel quotas for China in 2005, it excluded  
21 knit to shape sweaters from those quotas and  
22 created separate HTS ten-digit codes to

1 administer the quota exclusion.

2 This decision was made in recognition  
3 of the limited capacity to produce such sweaters  
4 outside China, and that no policy purpose would  
5 be served by imposing restraints on knit to shape  
6 sweaters from China, a situation that we would  
7 urge the administration to recognize continues  
8 today.

9 Only China has the integrated  
10 manufacturing infrastructure technical capacity  
11 and availability of raw materials that can meet  
12 the knit to shape sweater needs of U.S. mass  
13 market value-price retailers. Knit to shape  
14 manufacturing is a precise and time-consuming  
15 process, requiring high-skilled and trained  
16 labor. This workforce does not currently exist  
17 in the United States or third countries.

18 China is also the only country with  
19 the necessary infrastructure and flat knitting  
20 machines to produce the volumes and meet the  
21 delivery times to serve the sweater needs of U.S.  
22 families. In fact, we estimate that it has 60

1 percent of all knit to shape machinery in the  
2 world.

3 Yarn, an essential raw material is  
4 also largely available only in China. A lot of  
5 these third-party -- third world countries that  
6 would be non-China production only have straight  
7 cotton or straight acrylic, and the quality is  
8 not necessarily as good, so they'd be novelty  
9 blends. It's an impossibility.

10 It all has to be delivered there,  
11 adding on to lead time. Consequently there is a  
12 very limited capacity in other countries, and no  
13 other country can meet the requirements of the  
14 U.S. market.

15 Knit to shape garments are subject to  
16 a unique rule of origin also, in the United  
17 States, based on where the panels are knit and  
18 not where the panels are looped and linked, which  
19 is the equivalent of the sewing.

20 For cut and sew garments, Chinese-made  
21 fabrics can go to countries such as Vietnam for  
22 cutting and sewing there, which would make the

1 garment a product of Vietnam. However, for knit  
2 to shape garments, we have no ability to have the  
3 panels assembled in a third country to change the  
4 country of origin. This substantially reduces  
5 the ability to move production outside of China.

6 Given the current lack of  
7 alternatives, if imposed, the Section 301 tariffs  
8 would result in manufacturers and retailers  
9 raising prices to offset at least some of the  
10 increased cost due to the tariffs, which would  
11 disproportionately impact low and middle-income  
12 families, and result in reduced sales, again  
13 increasing unit costs.

14 In addition, no doubt that retailers  
15 and Ralsey will have to absorb some of those  
16 costs ourselves, resulting in margin erosion.  
17 The overall effect of lost sales and profits will  
18 have a large impact on our company, and may  
19 result in job losses. It will also be damaging  
20 for our industry and the wider U.S. economy.

21 Ralsey therefore requests the removal  
22 of knit to shape sweaters from being subject to

1 301 tariffs, and would also support the removal  
2 of all apparel items from the scope of such  
3 tariffs.

4 If the administration nevertheless  
5 does decide to include knit to shape sweaters,  
6 identified by Ralsey on the final list, the  
7 administration should only impose the lowest  
8 level duties on such items, as they are not  
9 currently available from U.S. or third country  
10 suppliers, and tariff increases will negatively  
11 impact mass market value price retailers and the  
12 families that rely on them. Thank you.

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

14 And our last panel witness will be  
15 Brett Portaro with PowerCharge.

16 Mr. Portaro, you have five minutes.

17 MR. PORTARO: No pressure at all.  
18 Secretly, I was rooting on Steven and Allen. I'm  
19 the other lithium ion guy here, so, in the last  
20 hearing.

21 Thank you, everybody. My name's Brett  
22 Portaro. I'm the COO and founder of PowerCharge

1 Corporation, and I appreciate the opportunity to  
2 present today why we feel that lithium ion  
3 batteries, HTS-US Subheading 8507.60 should be  
4 excluded from the Section 301 tariff list.

5 We're a lithium ion cell phone  
6 accessory company, so we are the consumer side of  
7 the lithium ion that we were talking about in the  
8 previous hearing, and we're based out of  
9 Cornelius, North Carolina, which is just north of  
10 Charlotte, a smaller town. And most of our  
11 products include lithium ion batteries as is the  
12 nature of most cell phone battery accessories.

13 Included in your packets are three of  
14 our main products, two different capacity power  
15 banks -- that's a power bank, and a charging  
16 case. You'll see a picture of all three.

17 I'm sure most of you today have your  
18 cell phones or tablets or laptops with you and  
19 are often concerned about what do you do when you  
20 get low on battery power, like the rest of us.  
21 Over the last five years, we've worked with a  
22 factory out of Shenzhen, China, creating lithium

1 ion cell phone accessories that are safer, more  
2 powerful, smarter and faster.

3 We also made those products  
4 attractive, and God forbid, we price them  
5 reasonably. Well, why did we choose China?  
6 Because most of the lithium ion batteries in the  
7 entire world are made in China.

8 While several companies mine for raw  
9 lithium, here in the U.S., companies like  
10 Albemarle, which is not too far from us in  
11 Charlotte, they're still strictly in the mining  
12 business.

13 They don't actually manufacture a  
14 completed lithium ion battery or a completed  
15 lithium ion cell phone accessory here in our  
16 wonderful country. This pushed us to work with  
17 China, taking the raw lithium, and they're  
18 shipping it overseas.

19 So, we looked into other lithium ion  
20 battery manufacturers in India, Taiwan, South  
21 Korea. They also make cell phone accessories  
22 with lithium ion batteries, but the percentage of

1 the marketplace is very limited, and their  
2 technology tends to be 12 months behind in this  
3 category.

4 Their lithium ion battery focus is  
5 centered around electric vehicle batteries, which  
6 was touched on previously by Steven, which are  
7 very different. Once again, this pushed us to  
8 work with China.

9 At PowerCharge, part of value  
10 proposition is that we try to be 12 months ahead  
11 of the brick-and-mortar retail marketplace in  
12 regards to technology. What type of tariff  
13 effect will it have on PowerCharge? Well, a 25  
14 percent tariff on lithium ion batteries, the Code  
15 8507.60 will put us out of business.

16 The cell phone accessory business is  
17 extremely price sensitive. Some of our  
18 competition is larger and can absorb a 25 percent  
19 tariff due to the diversification of their  
20 business into other cell phone accessories that  
21 are not currently tariffed.

22 Most of our products include lithium



1 ion batteries, which means the majority of our  
2 business will be tarified at a rate of 25  
3 percent. This will prevent us from getting an  
4 order from a major retailer. If we ever chose to  
5 sell on Amazon, where the margins are either  
6 slimmer, we would actually lose money due to the  
7 tariff.

8 What's the urgency? Well, my business  
9 partner, David Hynes and I have funded this  
10 company with our own money for five years. And  
11 as of last week, we finally got a verbal  
12 commitment for our first large order from a major  
13 brick-and-mortar retailer, with over 1,350  
14 locations in the U.S. Finally, our hard work  
15 paid off.

16 Additionally, we're gaining traction  
17 on selling our lithium ion cell phone accessories  
18 to other major retailers here in the United  
19 States, but now are no longer able to bid because  
20 of the tariff on lithium ion batteries.

21 Since the tariff was announced, the  
22 retailer announced they would work with Alibaba,

1 which means they may now go direct to China for  
2 their purchases. The net effect of the tariff  
3 would only hurt us, the American company, like  
4 PowerCharge, not hurt China.

5 China would still get to do the  
6 manufacturing. Our quickly growing small company  
7 would be out of business. The 25 percent tariff  
8 on lithium ion batteries put us in this position.  
9 This is why I'm here today.

10 Please consider exempting lithium ion  
11 batteries, because we don't have another  
12 realistic option on the table. We are projected  
13 to start hiring up to 25 people, which would have  
14 a large effect on our small community in  
15 Cornelius, North Carolina.

16 Finally, the aftermath. At  
17 PowerCharge, we planned on using the proceeds  
18 from our consumer products to fund the industrial  
19 side of our business, in which we do industrial  
20 lithium ion battery products, which provide an 80  
21 percent lighter battery solution to the U.S.  
22 military.

1           Today, battery issues are amongst some  
2 of the most prevalent concerns in our military  
3 today. It's personal to me, because I grew up  
4 with a Marine Corps gunnery sergeant.

5           Please help PowerCharge -- please help  
6 us. PowerCharge has the potential to be one of  
7 the next great American companies but we need  
8 your help. I spent five years building this  
9 company. Please don't put me out of business.

10           Please consider exempting lithium ion  
11 batteries from your tariff list. And we  
12 genuinely thank you for your time.

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

14           And Mr. Chairman, this concludes all  
15 direct testimony for this panel.

16           MS. JANICKE: All right. Thank you  
17 very much to the panel for your impassioned  
18 testimony this afternoon. You're last but not  
19 least. My question is for Christopher Steinkamp.

20           And I have two questions for you  
21 related to your testimony. The first is about  
22 alternate sourcing. You mentioned in your

1 testimony that many of the products are not  
2 available within the United States.

3 But can you speak a little bit to  
4 your, the extent to which your members have  
5 explored sourcing outside China? Our not very  
6 scientific survey of our closet suggests there  
7 might be sourcing from Bangladesh for performance  
8 outerwear or other possible sources. So I was  
9 wondering to what extent your members have taken  
10 a look at that.

11 MR. STEINKAMP: Sure. You know, a lot  
12 of members are starting to look at Vietnam,  
13 Bangladesh. There are skis made in Europe. But  
14 in terms of production here in the U.S., it's  
15 very, very limited just because of the technical  
16 specs and the performance of the gear that is on  
17 the list. So yeah, there is some production  
18 outside of China for sure, but not in the U.S.

19 MS. JANICKE: And my second question  
20 is about timing. In your testimony, you also  
21 talked about the six month season and also  
22 pricing being agreed, and then shipping on the

1 way. Can you just give us a little bit more  
2 detail about the timing for contracts for these  
3 seasonal products?

4 MR. STEINKAMP: Yeah, absolutely.  
5 There's a trade show that takes place every  
6 January, where pricing is agreed upon and sales  
7 are made for the next following fall. So that  
8 trade show took place five months ago, and orders  
9 were placed, prices were agreed upon.

10 So production is taking place now.  
11 Shipments will probably take place in late this  
12 month or August. So there's a little bit of a  
13 problem here because the prices have been agreed  
14 upon, yet the retailers could be asked to pay  
15 more for those prices now. So that's the  
16 problem, the timing.

17 MS. JANICKE: Thank you.

18 MS. VON SPIEGELFELD: Hi. This  
19 question is for Mr. Mehra.

20 I have two questions for you. Can you  
21 first elaborate on whether the primary customers  
22 for your drones are, whether it's for the

1 military or commercial market, or was this for  
2 recreational purposes?

3 MR. MEHRA: The first product that we  
4 sold, the Skydio R1 was almost exclusively  
5 consumer. The next generation product that we  
6 are developing and will be launching very  
7 shortly.

8 We'll begin by selling it to the  
9 consumer market, but with a couple of larger  
10 contracts that we have landed or are close to  
11 landing, we will be expanding rapidly into the  
12 commercial and military side as well.

13 MS. VON SPIEGELFELD: And just one  
14 more question. What would be the effect on your  
15 company if additional tariffs applied to both the  
16 completed drone and on the drone components?

17 MR. MEHRA: So at least if it applies  
18 to the completed zone and components it, I mean,  
19 it'll help level things out a little bit for us.  
20 Right now, any drone manufactured in China comes  
21 in with no tariff and then we have that 25  
22 percent on all the components that we import for

1 final assembly.

2 So that would definitely be one step  
3 towards leveling out the playing field against,  
4 you know, manufacturing in China, but it still  
5 doesn't promote, you know, manufacturing  
6 domestically.

7 MS. VON SPIEGELFELD: Thank you.

8 CHAIR TSAO: Mr. Mehra, I have a  
9 question. With respect to the military  
10 application of your drones, are there any  
11 sourcing restrictions, with respect to dealing,  
12 doing business with Department of Defense?

13 MR. MEHRA: So yeah, very recently  
14 we've been actively looking at, you know, backup  
15 plans for a couple of different critical  
16 components, mostly on the electrical side, and  
17 moving those outside of China.

18 As of now, there are no direct  
19 restrictions yet, but there have definitely been  
20 strong hints that they may come, so we've been  
21 looking to -- at, yeah, other manufacturing  
22 locations to take care of primarily electrical

1 assemblies. Yeah.

2 MS. ROY: Good afternoon. This  
3 question is for Mr. Alpern.

4 You testified that China is the only  
5 country with infrastructure and flat knitting  
6 machines to produce knit to shape garments. How  
7 long would it take for a supplier to set up  
8 production in a third country to produce knit to  
9 shape garments? And are there any specific  
10 obstacles in starting production?

11 MR. ALPERN: Sure. We estimate that  
12 it'll take us about two to three years to get our  
13 supply chain up and running to equal capacity.  
14 Right now there's limited capacity in third  
15 countries that we could go to, and we were  
16 looking potentially to move maybe as much as 10  
17 percent of our production year over year, but  
18 that is actually small.

19 And then it's going to be at a higher  
20 cost rate, where we would not be competitive on  
21 that. And then our 90 percent remaining would  
22 also be less competitive, which would see a



1 massive reduction in our business.

2           So, it's a very capital intensive  
3 thing, because knit to shape machinery is  
4 expensive. You know, it's -- there's three  
5 manufacturers, and the prices range from let's  
6 say \$10,000 per machine to \$100,000 per machine,  
7 as opposed to a sewing machine, which is much  
8 cheaper.

9           So you'll see, it's much easier to  
10 move production that is either cut and sew or  
11 woven to third countries, and that's why most of  
12 that, if you look in your closet, you'll see  
13 where those are at. But this is a specialized  
14 experience. Plus, the knitting, the linking and  
15 the looping is extremely technical.

16           And those machines don't exist on --  
17 they exist in some third countries, but they do  
18 not exist in the United States at all.

19           MS. ROY: Thank you.

20           MR. ALPERN: Thank you.

21           MS. COVERT: Mr. Portaro, you've said  
22 that most lithium batteries are produced in

1 China, and I was hoping you could give us a low  
2 elaboration on the reasons for China's dominance  
3 in that field, and let us know, based on your  
4 knowledge in the sector, is the production or  
5 development of lithium ion batteries targeted by  
6 any of China's industrial policies?

7 MR. BURCH: Can you please turn on  
8 your microphone?

9 MR. PORTARO: Yeah. I don't know if  
10 I have a specific answer as to the reason. I can  
11 tell you it's always been that way. I do think,  
12 that as Steven had said in the last hearing, I  
13 think that the manufacturing of lithium ion  
14 batteries, if we don't tariff it and grind this  
15 thing to a halt, could start to take root here.  
16 And proof of that is what Tesla is doing.

17 But remember, that's for electric  
18 vehicle batteries, right. That's not for  
19 consumer. But we provide the innovation. China  
20 provides the batteries. If we can get them to  
21 invest or even us as Americans to invest here,  
22 but it's going to take several years.

1           So I don't know if I have a specific  
2 answer as to the reason. It's always been the  
3 case. And I think it's the economies of scale  
4 and inexpensive labor.

5           I can also tell you that the machinery  
6 to produce an advanced lithium ion battery, we  
7 also have industrial applications, where we do  
8 high-powered lithium ion, it's very precise. And  
9 it requires a large investment to produce that  
10 type of a factory for advanced lithium ion.

11           And the only two that you find, when  
12 you get to advanced lithium ion are China and  
13 Korea, and Korea is solely focused on the  
14 electric vehicle battery market whereas China  
15 does a little bit of everything.

16           So we literally, we don't have a  
17 solution here in the U.S. So I'd be, I'm all for  
18 promoting American, but we just, we don't have an  
19 answer. We don't make our own lithium ion  
20 batteries here. And the ones that we do are for  
21 Tesla, and that's for their vehicles. That's it.

22           CHAIR TSAO: Mr. Portaro, you just

1 referenced, right, it seems like we're doing the  
2 innovations here, and China does the  
3 manufacturing for these, at least in the lithium  
4 ion battery space. Do you have any concerns that  
5 your Chinese competitors will want to do  
6 innovation as well, in addition to manufacturing?

7 MR. PORTARO: Yeah. You know, in our  
8 particular case it's interesting, because we've  
9 actually partnered with that Chinese factory.  
10 And in our first go around, we produced a lithium  
11 ion jump box that they took and duplicated across  
12 the board, and stole the technology. And we  
13 found a better manufacturer that we're now  
14 working with on our consumer products.

15 But what we learned is, you know, is  
16 that a concern? Of course it is. But I can tell  
17 you that by tariffing this business, you're -- as  
18 Steven said in the last round, you're going to  
19 grind it to a halt, and China's still going to be  
20 the last man standing.

21 I mean, that's the unfortunate  
22 reality. So my point is, is if it was done over

1 a series of time, over several years, I think  
2 you'd have tremendous investment here, right here  
3 in the United States. It's just, it's going to  
4 take time. It can't be a knee-jerk, let's shut  
5 down the industry.

6 We would take probably ten years to  
7 get back to the point where we're at today.  
8 Let's do this over time.

9 MR. BURCH: Mr. Chairman, we release  
10 this panel with our thanks.

11 CHAIR TSAO: Okay. We thank everybody  
12 for being here. It's been a long hearing. With,  
13 if there's nothing else to address, this hearing  
14 is adjourned.

15 (Whereupon, the above-entitled matter  
16 went off the record at 4:14 p.m.)

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In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-25-19

Place: Washington, DC

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**NEAL R. GROSS**

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