UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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LARGE CIVIL AIRCRAFT
SECTION 301 TARIFFS HEARING

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WEDNESDAY
MAY 15, 2019

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

PRESENT

MEGAN GRIMBALL, Chair, U.S. Trade Representative
BILL BUSIS, Chair, U.S. Trade Representative
MICHAEL ROGERS, U.S. Trade Representative
NICOLE BAMBAS, Department of Transportation
CHRIS BLAHA, Department of Commerce
SARAH BONNER, Small Business Administration
WON CHANG, Department of Treasury
REBECCA GUDICELLO, U.S. Trade Representative
JANET HEINZEN, U.S. Trade Representative
JESSICA HUANG, Department of Commerce
ELLE O'FLAHERTY, Department of Agriculture
ARI SULBY, Department of State
KAREN TRAVIS, Department Of Labor
ROGER WENTZEL, U.S. Trade Representative

ALSO PRESENT

BILL BISHOP, International Trade Commission

WITNESSES PRESENT

SUZAN DELBENE, U.S. House of Representatives
DENNY HECK, U.S. House of Representatives
JEFF DUNCAN, U.S. House of Representatives
GREG CANFIELD, Secretary of Commerce
SANDY STIMPSON, Mayor of Mobile, Alabama
FARAH AHMED, Fragrance Creators Association
GENICE ALLEN, Airbus Helicopters, Inc.
THEODORE AUSTELL, The Boeing Company
CHARLES GRAY, Frontier Electronic Systems Corp.
ERIK AUTOR, National Association of Foreign-Trade Zones
AL BAUER, Citrus and Allied
EDWARD BRZYTWA, American Chemistry Council
BRANDON CALVO, Cosentino North America
THOMAS CANFIELD, Spirit Airlines
NICHOLAS CAMODY, North American Specialty Alloys
RICK CHURCH, Ceramic Tile Distributors
ROBERT DEHAAN, National Fisheries Institute
HOY FRAKES, AMG Vanadium
NATE HERMAN, American Apparel & Footwear Association
PHIL KAFARAKIS, Specialty Food Association
ROBERT LAND, JetBlue Airlines
ERICA LERMOND, The Lermond Company
SCOTT MCCLAIN, Delta Airlines, Inc.
KRISTINE MCGUIRE, Victory Solutions
GILES MEREDITH-JONES, Design Quadrant
WILLIAM MONROE, Pompeian
REMY NATHAN, Aerospace Industries Association
ROSEMARY O'BRIEN, CF Industries
JOSEPH PROFACI, North American Olive Oil Association
HUN QUACH, Retail Industry Leaders Association
WILLIAM SISSON, Mobile Area of Commerce
DARYL TAYLOR, Airbus Americas
ROBERT TOBIASSEN, National Association of Beverage Importers
JEFF WATSON, Ferroglobe

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

(9:28 a.m.)

CHAIR GRIMBALL: Good morning and welcome. The Office of the United States Trade Representative, in conjunction with the Interagency Section 301 Committee, is holding this public hearing in connection with the enforcement of U.S. WTO rights arising from the dispute brought by the United States against the European Union and certain E.U. member states addressed to E.U. subsidies on large civil aircraft. Detailed information about this investigation is set out in our notice of April 12th, 2019, which is published at 84 FR 15028.

The purpose of today's hearing is to receive public testimony regarding the proposed determinations to be made by the Unites States Trade Representative in this investigation including the proposed tariff action. The Section 301 Committee will carefully consider the testimony provided at the public hearing. The Committee will also review the written comments including post-hearing rebuttal comments. All written comments including post-hearing comments are due by the date set out in our April notice, which is May 28th, 2019. As also explained in our notice, the selection of a final list of products will take into account the upcoming report of the WTO Arbitrator on the appropriate level of countermeasures.

At this hearing, we are pleased to have on the 301 Committee international trade and economic experts from a range of U.S. government agencies. If you all could introduce yourselves.

MR. ROGERS: Good morning. I'm Michael Rogers. I'm a director for Europe at the Office of the U.S. Trade Representative.

MS. BAMBAS: Good morning, Nicole Bambas from the Office of International Transportation and Trade, U.S. Department of Transportation.

MS. BONNER: Sarah Bonner from the Office of International Trade at the U.S. Small Business Administration.

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

MS. O'FLAHERTY: Good morning. Elle O'Flaherty with the Foreign Agricultural Service, U.S. Department of Agriculture.

MR. CHANG: Won Chang, Department of Treasury, International Trade Office.

MR. SULBY: Ari Sulby, Department of State.

CHAIR GRIMBALL: And I am Megan Grimball from the Office of General Counsel in the Office of the U.S. Trade Representative.

We are honored to have at this hearing three members of Congress and two officials from the State of Alabama. We will begin with testimony from these witnesses. Following these witnesses, we will have a short break. I will then provide procedural and administrative instructions, although at this time, I would note that no cameras, video or audio recording will be allowed during the hearing. Following the procedural instructions, we will proceed with testimony from our remaining panel of witnesses.

Good morning. At this time, I would like to welcome our first witness, Representative Susan DelBene of the First District of Washington State.

MR. BISHOP: Representative DelBene, you have the floor.

REP. DELBENE: Thank you, good morning. And thank you for the opportunity to testify this morning. I'm Susan DelBene. I represent Washington State's first congressional district, which stretches from the Canadian border down to the suburbs of Seattle. Economically it's very diverse with large tracts of farmland in the north to advanced manufacturing jobs and high-tech hubs in the southern part of the District. It is also home to a large and vibrant aerospace industry that employees thousands of people and provides high-wage jobs.

Because of this, my District is one of

the most trade-dependent districts in the country. A report that the Brookings Institution put out last summer on China tariffs found that Snohomish County, part of which is in my district, is especially dependent on free and fair trade. As long as our trading partners are playing by the rules, the workers in my District are in a strong position to compete and succeed in the global economy. But as the WTO has found, the actions of some of our closest allies in Europe have hurt workers in my district and across the country.

Over the years, the WTO has repeatedly determined that the European Union and several member states have provided billions of dollars in WTO inconsistent subsidies to Airbus. These subsidies are used to help Airbus to innovate and develop the next generation of commercial airplanes. While this financial assistance is in the form of low-interest loans, it is particularly troubling that Airbus is only required to pay back the money if the new product is successfully launched. Not having to bear substantial financial risk in the event of failure gives Airbus a huge competitive advantage over their competitors who stand to lose millions in the process of bringing new products to market.

Over the years, this has helped Airbus increase sales and gain market share for key commercial aircraft relative to American manufacturers. Losing this market share and billions of dollars in sales hurts aerospace manufacturers and their suppliers in my district. The removal of the E.U. illegal subsidies will help workers in my district compete on a level playing field and create more opportunities to succeed.

I am a supporter of the WTO system, but the WTO can only function when its members live up to its commitments. This is a clear example of someone failing to live up to their commitments. This case has been in litigation for over a decade. And it is time for the

European Union to end all of their WTO inconsistent subsidies to Airbus immediately.

Instead of continuing this fight, we should be working together, both bilaterally and through the WTO to combat the growing threat from China in the aerospace area and in other sectors. That's why reaching an agreement to remove these subsidies is in everyone's interest, including the E.U.

Thank you again for the opportunity to testify. And I hope we can resolve this issue as soon as possible in a manner that doesn't create more uncertainty in the global trading system.

CHAIR GRIMBALL: Representative DelBene, thank you. Our second witness this morning will be Representative Denny Heck of the Tenth District of Washington state.

MR. BISHOP: Representative Heck, you have the floor.

REP. HECK: Thank you, Madame Chair and members of the Committee. I appreciate very much the opportunity to be here today. I am

Congressman Denny Heck of Olympia, Washington. And I'm here today to offer my support for the U.S. Trade Representative's effort to ensure compliance with the WTO's ruling on illegal aircraft subsidies.

As a general matter, I don't support tariffs. They move us farther away from the goal of free trade. And much of their cost is actually borne by Americans. We should impose them only as a last resort. However, I believe we are at the last resort. And I support using them in this case to speed the resolution of this dispute over subsidies of civil aircraft.

For the seven years -- nearly seven years I have served in Congress, I have received regular briefings on the status of this dispute, and usually received optimistic assessments that a resolution was near. Frankly, I imagine my predecessor likely received similar updates in the seven years before that. I believe in patience and deliberation, but there comes a time when we must simply question whether or not our approach is working.

After 14 years of hearings and negotiations through three administrations with no resolution, I think we've reached that point. And it is appropriate to change tactics. But it is not primarily out of frustration with the slow process that I urge the Committee to consider tariffs and duties. It is out of a sense of urgency to put this matter to rest, so we can turn our focus to a much greater threat.

My single highest priority in Congress is the preservation, modernization and expansion of the Export-Import Bank or export credit authority. EXIM, as you know, scrupulously follows the OECD agreement on export assistance in order to avoid illegal subsidies. And U.S. negotiators regularly meet with their counterparts to update the precise terms of the OECD agreement.

I support this agreement and these negotiations, but I am increasingly frustrated by the fact that China is outside the agreement and provides its export assistance at deeply discounted subsidized rates. And its export credit agencies by the way, provide more assistance than the OECD countries combined. And I see the same pattern in the WTO dispute over launch aid and other aircraft subsidies. While we haggle over the precise definition of illegal subsidy, China simply hands over tens of billions in cash to build a large aircraft manufacturer from scratch.

Free trade on fair terms can only work if we have a system of rules that we all agree to and abide by and are willing to enforce. This dispute is a test for that rules-based system of international trade. After 14 years, will the WTO's ruling be abided by and enforced? And if the countries who came together to originally set up the WTO won't accept and enforce its rules, what chance is there for countries like China that have been far more reluctant?

Airbus is the biggest competitor to Boeing, which is the largest private employer in my state. Boeing employs hundreds of my constituents and its supplier employees thousands more. Airbus' illegal subsidies hurt my constituents and I want that to stop. But I also recognize that the European Union is our friend and our ally, and they are committed to the rules-based system of international trade. I support tariffs against them as a mechanism to force a resolution of this dispute.

It is up to the Trade Representative to find a resolution to this matter that strengthens the WTO and creates a standard for fair competition that we can hold everyone to. I support tariffs as a means to speed that resolution and to show our resolve in enforcing WTO decisions. I commend you for holding this hearing. I'd be happy to answer any questions as time allows. And thank you for the privilege of being here today.

CHAIR GRIMBALL: Thank you, Representative Heck, for your statements. Our third witness this morning will be Representative

Jeff Duncan of the Third District of South Carolina.

MR. BISHOP: Representative Duncan, you have the floor.

REP. DUNCAN: Thank you, Madam Chair. And it's an honor to be here today to testify. I'm here to testify in support of President Trump and the United States Trade Representative's enforcement of the decision by the World Trade Organization to level the playing field in the global aircraft marketplace. This is the largest case in WTO history and has gone on for far too long, over 15 years. And was only brought by the United States because the European Union refused to live up to its free trade obligations under the WTO agreement.

This case has been of particular interest to my home state of South Carolina and to my District. I represent nearly 700,000 constituents and several aerospace suppliers in my District. South Carolina is a state that has prospered as a result of a robust aerospace industry. And it depends on the strength of the United States aerospace economy. There are 20,421 aerospace jobs throughout the state of South Carolina, 6,434 Boeing workers. These are good-paying manufacturing jobs with a large indirect economic footprint. Additionally there are 273 aerospace suppliers statewide which account for almost $254 million in supplier spending.

In my District alone, there are 13 aerospace suppliers, accounting for about $6.5 million in supplier spending there. One of these companies in my district is RBC Aerostructures. They're located in Westminster, South Carolina and they manufacture tie rods that go into airplanes. I feel it's our duty to protect these hardworking American jobs against unfair practices of overseas governments that have blatantly and illegally sought to disadvantage American workers and companies.

It is on behalf of these constituents and other American aerospace employees in South

Carolina that I am here today to support President Trump and the Unites States Trade Representative's enforcement of the WTO decision. I believe the Unites States has been in a trade war for decades. We just have not been fighting back.

This case, the United States versus Europe is the longest running case before the WTO. And is emblematic of the ongoing unfair trade practices taking place around the world that the United States has tried to end. After years of litigation, the WTO has determined that Europe has not been playing by the rules. The rules body that is supposed to protect free trade and fair trade has spoken. And it is time the United States ensures the ruling has tangible meaning.

I'm here today to ask that we hold these other governments accountable to the same WTO rules that the United States has been abiding to. I urge you to continue your support of the $11 billion proposed retaliatory tariffs against

Europe. I want to be clear, I am not an advocate for the use of tariffs as a long-term economic policy. I'm a supporter of free trade and fair trade. And this case exemplifies how that is simply not the case in every market. I believe tariffs are sometimes necessary to support and ensure our trading partners play by the rules.

On the international stage, American companies like Boeing are being taken advantage of for playing by these rules. These retaliatory tariffs are being enacted to ensure rule-based trade governs our global economy and protects U.S. jobs and businesses. The end goal here is not tariffs. The system is designed so that the threat of imminent tariffs will encourage the E.U. to finally live up to its legal obligations.

The E.U. can avoid all tariffs in this case by abandoning its illegal subsidies to Airbus. And by remedying the ongoing harm caused by those subsidies. After years of litigation, the WTO has conclusively reached the determination that the E.U. has violated its obligations under the WTO agreement by providing Airbus billions of dollars of unlawful subsidies that despite having years to remedy, the E.U. has failed to do so.

The WTO is supposed to be the avenue to address trade disputes. And it's up to us to make sure the players like the E.U. live up to their legal obligations so that we can ensure there is truly free and fair trade. The future of the aerospace industry depends on rule-based trade in which all actors abide by the rule of law. Continuing to provide illegal subsidies sends the wrong message to global competitors that if they choose not to play by the rules, they will be held accountable.

I applaud President Trump and his team for standing up for American companies and workers, specifically the almost 6500 Boeing employees in South Carolina and all of the additional jobs from their suppliers. I urge you to continue your strong stance on the proposed tariffs on Europe. And with that, I thank you for your time and yield back.

CHAIR GRIMBALL: Thank you, Representative Duncan. Thank you to you both.

MR. BISHOP: At this time, we would like to invite Mayor Stimpson to please come forward.

CHAIR GRIMBALL: Good morning.

MAYOR STIMPSON: Good morning.

CHAIR GRIMBALL: Our next witness is Sandy Stimpson, Mayor of Mobile, Alabama.

MR. BISHOP: Mr. Mayor, you have the floor.

MAYOR STIMPSON: I am Sandy Stimpson, the mayor of Mobile, Alabama. I want to thank you for the opportunity to testify today on behalf of my citizens. Mobile was founded as a port city by the French in 1702. As a port city, we understand the importance of free and fair trade. We're a city of makers, builders and problem solvers. From our ship yards where we build the most advanced surface vessels in the United States Navy to our airfields where we produce the most sophisticated commercial aircraft in the world, we are experiencing tremendous economic growth.

In 2012, we competed for and won the site selection process which resulted in Airbus calling the city of Mobile home to its only aircraft manufacturing and final assembly line in this hemisphere. In April 2013, the ground-breaking was held in Mobile for the A320 final assembly line. This $600 million project was completed on time and on budget, and today is responsible for more than 1,000 direct jobs in Mobile.

In December of 2018, Airbus reached a significant milestone when the A320 final assembly line delivered its 100th Alabama-built airplane. In January of 2019, the groundbreaking was held in Mobile for a second final assembly line for the newest commercial aircraft in the Airbus family: the A220. This latest expansion represents $250 million in capital investment by Airbus and will result in another 600 direct jobs.

We were selected for this expansion project because of the incredible quality, efficiency and productivity of the Mobile assembly plant. This is a huge source of pride for our community and we believe it is nationally significant. These are American workers building American products, paying American taxes and raising American families. Airbus is the linchpin for our success in building an aircraft manufacturing ecosystem. In Mobile, we are building an airplane which is satisfying a huge market demand by American-owned airlines to fly American-made airplanes.

Mobile is a great American city. And as Mayor, I'm proud to say that Airbus is putting an emphasis on hiring veterans. We are also a diverse community and Airbus is working closely with us to create opportunities for minorities, women and underprivileged youth who now have a brighter future as part of this dynamic industry.

The job training and apprenticeship

programs we have developed in partnership with Airbus are likely to become a model for the industry and others in the United States. And this is just the beginning. Within the next ten years, Mobile is on pace to became the fourth largest center of aircraft production in the world behind Seattle, Washington; Toulouse, France; and Hamburg, Germany. And we will get there in just 15 years from the original ribbon-cutting, which opened the Airbus A320 final assembly line.

Ladies and gentleman, this is an amazing success story. And one we want to continue with your help. I respectfully ask this body to take no action which could result in the reduction of growth of the aerospace manufacturing sector we are developing in Mobile. We are committed to fulfilling our destiny and becoming the world's next great center of aviation manufacturing.

If you know anything about Alabama, you know we're in the SEC and we love championship football. We love to compete and we love to win. All we're asking for is a fair playing field. And with all due respect to our friends in the Pacific Northwest, jobs in Mobile, Alabama are just as important as the jobs in Seattle, Washington. We fully support and applaud the Trump administration's effort to support American jobs. We need to ensure that the thousands of American jobs in Mobile and along the Gulf Coast, which are directly related to Airbus are not put in jeopardy as you resolve the issues before you.

Thank you for the opportunity to testify. And I'll be glad to answer any questions you may have.

CHAIR GRIMBALL: Thank you, Mayor Stimpson.

MAYOR STIMPSON: Thank you.

MR. BISHOP: We will now pause for a five-minute break. So we will reconvene at 9:55. During that time, if we could get our first panel to come forward and be seated. Thank you.

(Whereupon, the above-entitled matter went off the record at 9:50 a.m. and resumed at 9:55 a.m.)

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

Madam Chairman, before we turn to Panel 1 we are joined by Greg Canfield, Secretary of Commerce with the State of Alabama.

Mr. Secretary, you may begin when you are ready.

SECRETARY CANFIELD: Thank you and good morning. Thank you for the opportunity to make comments before you today.

My name is Greg Canfield, Secretary of Commerce for the State of Alabama. I have been serving in this role for almost eight years.

I am here today to express concerns with regard to the potential negative impact on what is growing to become over 1250 Alabama jobs in advanced assembly operations that are associated with production of Airbus single aisle aircraft in Mobile, Alabama, should USTR impose additional duties on the products that are enumerated in Section 1 of the Annex.

We realize that this investigation relates to a requested dispute settlement, and that settlement request dates back to action which originally originated in October of 2004.

Interestingly, at that time Governor George W. Bush was serving as President of the United States and since that time the American people have elected two other presidents.

Also since that time Airbus made three significant investments in the State of Alabama in the City of Mobile.

The first of those investments took place in January of 2007 with the opening of the Airbus Engineering Center which today employs approximately 225 Alabamians.

These jobs are a high wage, engineering, and professional service support positions.

The second investment was a $600 million final assembly operation for what is called the A320 family of Airbus single aisle commercial aircraft which was announced in 2012 and saw the first test flight of an Alabama-made A320 take place in March of 2016.

Since this facility in Mobile, Alabama, went into operation it has provided employment for approximately 650 jobs at or related to its operation and by December of 2018 Alabama hands had built its 100th A320 family of aircraft.

Expecting to increase its rate of aircraft production this facility plans to add another several hundred jobs.

The third and most recent Airbus investment in Alabama is the $264 million final assembly operation for the new A220 family of single aisle aircraft currently under construction in Mobile.

This latest Airbus project will employ another 430 Alabama workers at full operation. Construction of this new facility began earlier this year and it is slated to be operational in mid-2020.

Airbus Alabama Manufacturing Facility is producing more than just planes. It is also producing new opportunities that are enriching the lives of the company's workforce and benefitting their families and the communities in which they live.

For one employee named Jennifer Milligan, who at the time began her employment as a 31 year-old structural mechanic and delegate inspector at the Final Assembly Facility, Airbus was her ticket to return back to her family and her hometown in Mobile, Alabama.

For another employee named Carlos Avanellan (phonetic), a high school graduate who started at the Final Assembly Facility at Age 27, Airbus was his ticket to advance his career when he was hired as a transport and logistics service manager.

Any action taken by USTR that results in punitive tariffs being triggered on large commercial aircraft, parts, and components that are imported from the E.U. will most certainly raise the cost of operation of Airbus at its U.S. location, like those located not only in Alabama, but Mississippi and Texas.

As the commercial aircraft industry is dependent on a global supply chain tariff increases will necessarily raise costs on both OEMs and suppliers which have U.S. operations that employ U.S. workers.

Increasing cost of operation over the long term can imperil the economic viability of these U.S. operations, such as we have with Airbus in Alabama, and can lead ultimately to the slowing of job growth, and that's at best, and at worst it can work ultimately to loss of jobs.

Rather than imposing punitive tariffs the State of Alabama, whom I represent, suggests a process to secure a negotiated settlement in the form of a global sector agreement between the U.S. and the E.U.

Of the 100,000 commercial flights that take place each day not one of the aircraft serving those flights will have been completely manufactured in a single country.

We urge USTR to recognize that aircraft assembly is dependent upon a global supply chain system and that undertaking punitive tariff actions run the risk of disrupting that supply chain and, most importantly, the underlying U.S. jobs that depend on this system.

A negotiated settlement will protect American jobs, passengers, and prevent negative impacts to the U.S. economy. Thank you.

MR. BISHOP: Thank you, Mr. Secretary. We appreciate you coming this morning.

SECRETARY CANFIELD: Thank you.

MR. BISHOP: I would like to invite the members of Panel 1 to please come forward and be seated. We appreciate your patience.

CHAIR GRIMBALL: Again, thank you for your patience. As I noted earlier I am going to first provide some procedural and administrative instructions before we proceed with the remaining panels for the day.

This hearing is scheduled for two days, finishing midday on Thursday. We have eight remaining panels of witnesses with 48 individuals scheduled to testify.

The provisional schedule has been posted to the USTR website. We have five panels of witnesses scheduled to testify today. We will have a five minute break between panels and a 55 minute break for lunch.

Each organization appearing at the hearing is limited to five minutes of oral testimony. After the testimony from each panel of witnesses the Section 301 Committee will have an opportunity to ask questions.

All questions will be from Agency representatives. There will be no questions accepted from the floor. Committee representatives will generally direct their questions to one or more specific witnesses.

Post-hearing comments, including any written responses to questions from the Section 301 Committee are due by Tuesday, May 28, 2019. The rules and procedures for written submissions are set forth in our April 12th Federal Register notice.

Given the number of witnesses in the schedule we request that witnesses when responding to questions be as concise as possible.

We likewise ask witnesses to be understanding when and if the Chair asks a witness to conclude a response.

In this regard witnesses should recall that they have an opportunity to provide more extensive responses in their post-hearing submissions.

Again, no cameras, video, or audio recording will be allowed during the hearing. A written transcript of this hearing will be posted on the USTR website and on the Federal Register docket as soon as possible after the conclusion of these hearings.

If you have any questions about the facilities please feel free to ask the guards at the front desk. We will now proceed with Panel 1.

MR. BISHOP: Our first witness on Panel 1 is Theodore Austell with The Boeing Company. Mr. Austell, you have five minutes.

MR. AUSTELL: Madam Chairman, Members of the Committee, good morning. My name is Ted Austell and I am the Vice President of Executive, Legislative, and Regulatory Affairs for the Boeing Company. It is an honor to appear before you this morning.

I would like to start by thanking Ambassador Lighthizer and the entire USTR team for their efforts in this case. We cannot thank them enough for all that they have done on behalf of the U.S. aerospace industry.

The United States has been fighting these illegal subsidies to Airbus for over 15 years. The first set of WTO rulings found $17 billion of launch aid and other subsidies to Airbus.

Those initial findings, you know,

ended up in the E.U. being given ample time to comply, but they chose not to, and instead they doubled down giving Airbus another $5 billion in launch aid.

Nearly eight years have passed since the E.U.'s compliance deadline. Today $9 billion in subsidized launch aid still requires compliance action and the USTR estimates the ongoing economic harm to the United States to be about $11 billion every year.

This long journey has taught that the E.U. and Airbus will not take their compliance obligation seriously until we are facing strong targeted and imminent U.S. duties.

That is why we are here today. This is not a unilateral action. This is not about punishing the E.U., Airbus, or anyone else. This is about inducing the E.U. and its member states to stop illegal launch aid subsidies that harm the U.S. economy, U.S. workers, and The Boeing Company.

Given that I will focus my remarks

this morning on three particular points. First, retaliation should be concentrated at the source of the problem.

We agreed with the USTR's proposal to impose duties on Airbus products, including major airplane assemblies that Airbus imports from Europe. These assemblies are wings, tails, and fuselages.

Those items matter both to Europe and to Airbus and that's why Airbus has representatives here today asking you not to include them on the list because large tariffs on those items will finally force the E.U. and Airbus to make the choice that they should have made years ago, to come into compliance.

For that reason alone you should focus the duties on Airbus products and assemblies to the greatest extent possible.

Second, the tariffs imposed on Airbus imports should be 100 percent. This would be consistent with prior U.S. retaliation lists for WTO violations which impose 100 percent tariffs in cases involving, for example, beef hormones and bananas.

The 100 percent tariffs were good for those cases, surely the level should be the same or no less for airplanes. More importantly, 100 percent duties will most effectively induce Europeans to come into prompt compliance.

The 15-year history of this case has shown that the E.U. and Airbus will not easily give up launch aid.

The U.S. has had many discussions with the E.U. on this matter and though confronted with WTO instruction to abandon illegal subsidies the E.U. and Airbus have repeatedly refused.

Given that history this is not a time for half-measures, it's not a time for gradual steps. To echo Ambassador Lighthizer the time is now for decisive action so that we can finally force compliance as the United States.

As for the duty level on the non-Airbus products in Section 2 we don't take a specific position. We believe that the USTR should use its discretion to apply whatever duty level it believes will induce prompt compliance.

Third, Boeing thanks the USTR for its efforts to ensure that the tariff list is targeted to avoid further damage to the U.S. aerospace companies that have not benefitted from illegal E.U. subsidies.

And there a few additional ways that we believe that the list can be clarified and refined to achieve this goal. We will address them in our written comments.

However, I would like to highlight one of them today. The final retaliation list should clarify the coverage for the three civil aircraft parts section in Section 1, those categories.

Of those three the categories specifically covering major civil aircraft structural assemblies generally has the right idea.

If duties are imposed on wings, tails, and fuselages imported from France, Germany, Spain, and the United Kingdom that would pressure

Airbus without affecting imported parts used by other U.S. aerospace manufacturers.

However, if duties are imposed on a product category that is not specifically limited to those items, such as undercarriages or the other parts category, then there is a risk of hitting the broader U.S. aerospace supply chain.

We believe that it would be helpful for the final retaliation list to make clear that the only covered civil aircraft articles, short of finished aircraft, are fuselages, wings, and tails, and that those articles are covered even if they enter under more than one tariff category into the United States.

As I indicated we will be happy to provide more detailed information of this in our written comments.

To conclude, I would like to thank the USTR, this Committee, and the Administration's efforts to end illegal subsidies. Your actions are crucial to quickly ending the harm to the U.S. aerospace industry. Thank you.

MR. BISHOP: Thank you, Mr. Austell. Our next witness is Charles Gray with the Frontier Electronic Systems Corporation. Mr. Gray, you have five minutes.

MR. GRAY: Thank you to each of you for the opportunity to testify on behalf of my company, Frontier Electronic Systems Corporation.

Frontier is a Native American, women-owned, small business located in Stillwater, Oklahoma. I serve as the Vice President and Chief Operating Officer.

Frontier employs 136 Oklahomans. We manufacture parts and systems for the aerospace industry, including avionic systems.

We have annual revenue of about $38 million each year and a payroll of $10 million. We are not a massive company but we are able to take care of our customers, our employees, and the communities in which we live.

Aerospace manufacturers and suppliers have called Oklahoma home for more than a century. In fact, one of the first aluminum air frames was produced in Waynoka, Oklahoma, decades before this became the international standard.

Oklahoma grew into a major aerospace manufacturing hub during World Wars I and II and has remained committed to producing and maintaining high quality aerospace products ever since.

That legacy continues today as more than 120,000 Oklahomans work in the aerospace sector. According to the State's Department of Commerce this contributes almost $44 billion in economic activity for Oklahoma each year.

Small business aerospace suppliers like Frontier make up a significant portion of that footprint. I am here today to make three points as you move forward in this matter.

First, the case isn't just about Boeing, it's about the thousands and thousands of small companies across America that supply Boeing.

Frontier is one of them, but there are thousands more just like us. We are the backbone of the U.S. aerospace industry and the American economy and when Boeing prospers our small companies prosper.

When Boeing is harmed by illegally-funded foreign competition, which it has been here, we also suffer, and so do our employees and the communities in which we live and work.

When I was in high school I invested in equipment to start a home landscaping business to build my college fund. Once started I found that I was consistently losing business to a classmate who was able to sell his services below my breakeven sales point.

Although my competitor denied that others had purchased equipment for him, I later discovered that they had done so to subsidize his business.

Although this was not a legal matter, it was one of integrity which taught me that playing by the rules is essential to competitive equality.

We are hardworking Americans who

deserve a chance to compete on a level playing field. You can give us that today by enforcing the rules in this case.

Second, even small companies like mine rely on a global interconnected supply chain to make our parts to meet our obligations to our customers and to grow our business.

But for that supply chain to work the way it should we must have a free and fair international trading system where everybody plays by the same rules.

When other countries or companies cheat at these rules we all suffer and it puts at risk everything we have built. Now do I want tariffs as a businessman? No, nobody does, but as any smart businessperson will tell you it's the long run that matters.

You must make decisions that set you up for success over the long run and vigorously enforcing the rules of free trade is just that, by making sure we all play by the same rules and that when someone cheats there are consequences.

It protects our companies and our communities over the long run.

Finally, I am here today from a part of the country where many feel left behind from the global trading system. They see the system as unfair and rigged against them.

They believe that other countries have taken advantage of America for too long and that we have allowed that to happen and Europe's actions in this case only feed those perceptions.

But recently we started to see a change. We are starting to see an America that stands up for itself, an America that insists that others follow the rules.

We need more of that and this case is an opportunity to show our fellow citizens that the global trading system matters and that it works, not just for others, but for Americans.

For those reasons I am here today to support America's efforts in this case and to ask that you hold others accountable and that you make them follow the rules. Thanks to each of you.

MR. BISHOP: Thank you, Mr. Gray. Our next witness is Kristine McGuire with Victory Solutions. Ms. McGuire, you have five minutes.

CHAIR GRIMBALL: Excuse me, Mr. Bishop. Can we have a quick break?

MR. BISHOP: Sure, of course.

(Whereupon, the above-entitled matter went off the record at 10:16 a.m. and resumed at 10:17 a.m.)

CHAIR GRIMBALL: Thank you.

MR. BISHOP: Our next witness is Kristine McGuire with Victory Solutions. Ms. McGuire, you have five minutes.

MS. MCGUIRE: Thank you for the opportunity to testify this morning. My name is Kris McGuire. I serve as the Chairman and CEO of Victory Solutions, Inc., a service, disabled, veteran owned, woman owned small business that provides a range of proprietary aerospace products and engineering services.

Victory Solutions employs about 140

Alabamians and we are a proud supplier to The Boeing Company. As I am sure you will hear today, Alabama has a rich aerospace history that goes back more than a century when the nation's first civilian flight school opened in 1910 in Montgomery.

Since then we have probably become one of our nation's major centers of aerospace excellence. My hometown, Huntsville, better known as the Rocket Center, hosts 280 major aerospace companies with more than 30,000 aerospace jobs.

Boeing is one of America's largest employers in the aerospace sector with almost 3000 employees in the State. Boeing has been in Alabama for more than 50 years and I am proud to call them a partner.

Small companies like mine rely on a free and fair international trade system in which everyone plays by the same rules. We rely on this trading system for parts and we rely on it for sales connecting us to customers around the globe.

I am a major supporter of free trade. It's good for our business and for our employees and our communities, but for the system to work fair trade must be fair and that means everyone must play by the same rules.

If not, then small businesses like mine cannot prosper. We cannot win new business, we can't source new parts, we can't hire new employees.

All of our success relies on fair and transparent rules that everyone follow and that are enforced. Rules without consequences are nothing but suggestions.

The intent of the rules is as important as the letter of rule. Everyone must be held accountable for his or her actions and all actions must be judged against the same set of rules.

If there is no accountability or consequences for not following the rules then in reality there are no rules. We all know that rules mean nothing if they are not enforced.

If there are no consequences for non-compliance, as a small businesswoman I regard consequences not as a punishment but as a means to produce desired behavior. They are put in place because I want the best for my employees.

The only way to do this is to have a firm predictable set of rules and consequences applied equally and fairly to any that do not comply to quickly convince them that compliance is the best interest for all.

Consequences should make clear that benefits of compliance far outweigh the cost that there is no benefit and certainly no future in not following the rules.

Predictability and consistency reduces stress for all concerned and increases the probability of a successful outcome.

Now that doesn't mean I want prolonged tariffs, no one does. Tariffs aren't good for anyone. As a businesswoman I certainly don't want them.

So the question is what action can you take to best avoid prolonged tariffs. You may hear people in this case say you should do nothing or that you shouldn't take any action that would actually mean anything that your response should be tepid.

It should be half-measure that takes off the table everything that would actually motivate Europe to live up to its obligations. Nothing can be farther from the truth.

A response like that would not solve this dispute, it would prolong it. Instead, you should focus your efforts on what will bring about the swiftest compliance.

What will cause Europe to finally realize that the cost of staying out of compliance are just too great? What will cause Europe to realize that the only thing that makes sense, the only way to avoid prolonged painful tariffs is to quickly live up to its obligations and do what is right? That should be your focus.

In closing I would like to make one

final point. What may be proper business practices in some situations or societies are not necessarily proper practices in all situations or societies.

The examples you set in the case are being watched around the globe. They are being watched by merging competitors who are trying to decide whether they should play by the rules or should instead ignore these rules as they grow and compete with American companies like mine.

These emerging competitors will learn a lesson by the actions you take in this case. They will either learn that there is no real risk to unethical behavior or the consequences are mild and certainly that they are delayed.

Therefore, it makes sense to break the rules to get ahead or they will learn that there are swift and real consequences that the only reliable, responsible way to grow is to do it by following the rules to which we have all committed.

As a small businesswoman who is and

will be competing against those emerging foreign competitors I am here today to ask you to send a signal that following the rules is the only way to go --

(Simultaneous speaking.)

CHAIR GRIMBALL: Ms. McGuire, please conclude. Please conclude.

MS. MCGUIRE: Okay. Thank you.

MR. BISHOP: Thank you, Ms. McGuire. Our next witness is Nicholas Camody with the North Americans Specialties Alloys. Mr. Camody, you have five minutes.

MR. CAMODY: Good morning. My name is Nicholas Camody, I'm the co-owner of North American Specialty Alloys. Based in the heart of steel country, Pittsburgh, Pennsylvania, we operate as importers ---

MR. BISHOP: Pull your mic a little bit closer to you please.

MR. CAMODY: Sure. Based in the heart of steel country, Pittsburgh, Pennsylvania, we operate as importers and suppliers of specialty alloy and raw materials to the North American steel and foundry industries.

We then sell those steel products to the aerospace industries for production of engine parts. More specifically, we sell specialty grade low-carbon ferrochromium made by Afarak's Electrowerk Weisweiler, a German-based producer of the material.

I'm here today to respectfully request that low-carbon ferrochromium products listed under HTS 72024950 be removed from the final list of merchandise subject to Section 301 tariffs in response to E.U. subsidies to Airbus.

While we fully support this administration's efforts to ensure that American manufacturers compete on a level global playing field, we believe that subjecting ferrochromium imports to retaliatory tariffs would ultimately prove detrimental to the very aerospace industry this trade action is seeking to support.

The low-carbon ferrochromium that would be affected by these tariffs is high quality raw material required for the production of specialty steels used in the aerospace industry.

One such example is Alloy 718, a high strength steel used to manufacture parts for jet engines, and high speed airframe parts including wheels, buckets, spacers, and high-temp bolts and fasteners. 718 goes into the jet engines produced by GE and Pratt & Whitney who ultimately supply Boeing.

This grade of steel has applications for both civilian and military grade aircraft. This specialty grade of low carbon ferrochromium can be purchased from only two producers in the world. One is our German source, EWW, and the other is a Japanese source with very limited capacity.

Our direct customers who process the German-based ferrochromium into aerospace grade steels include American manufacturers such as Allegheny Technologies, Carpenter Technologies, and a PCC group, among many others.

Some of these customers have prepared letters of support in favor of our position, and we will be submitting them with our written comments. Each of these companies has multiple manufacturing plants in the U.S. which rely on our services and current prices. In total, we supply about 40 U.S.-based steel mills and foundries, helping employ thousands of Americans.

EWW owns the chrome ore mines in Turkey which supply the production facility in Germany. Since these mines operate under EWW's direct oversight, they can ensure that only high quality raw chroma work required by the demanding specs of the aerospace industry are ever incorporated into their final ferrochromium product.

The Japanese source does not have this vertical integration and is simply not able to offer the same stability and consistency. There's a reason that German-based ferrochromium currently represents about 80 percent of the market share for these critical super alloy applications.

Another policy goal, the present Section 301 proceeding is to implement a retaliatory scheme which promotes U.S. manufacturing. There is no current production of low carbon ferrochromium in the United States. Further, there are not domestic chrome ore deposits which would be suitable for sourcing the raw materials used in the production of low-carbon ferrochromium.

Given environmental concerns and regulatory constraints on industry, there is and would be very little interest in developing production capabilities domestically, even with very high tariffs on ferrochrome imports.

In effect, the only viable alternatives for our customer base of U.S. steel manufacturers will be to single source Japanese product with limited capacity and/or supplement their production process with pure chromium metal which is a product nearly twice as expensive as ferrochromium and is also not produced domestically.

Therefore, the most explicit effect of including ferrochromium on the final tariff list would be to immediately increase manufacturing costs to the steel and aerospace industries.

In addition, the Committee should also consider that these tariffs would erode the relative global competitiveness of the U.S. aerospace Industry as a whole.

The German-based ferrochromium producer would inevitably market their product more aggressively to other countries to displace the lost sales volume. In turn, foreign steel makers and airplane manufacturers would have more availability of this critical raw material and it's downstream super highway products, respectively priced now at a relative discount. This in turn could further threaten U.S. jobs and manufacturing.

For all the above reasons, we urge the Section 301 Committee to consider the importance of German-based low carbon ferrochromium imports to the domestic aerospace industry. We strongly believe the exclusion of these products from final tariff list will be in the best interest of the American aerospace and metals industries, along with their employees.

Ultimately, including these products on the list will likely damage the very industries that this 301 action is intended to benefit. Thank you for your time.

MR. BISHOP: Thank you, Mr. Camody. Our next witness is Remy Nathan with the Aerospace Industries Association. Mr. Nathan, you have five minutes.

MR. NATHAN: Ladies and gentlemen, thank you for allowing me to speak today. My names is Remy Nathan, vice president of International Affairs and Policy Integration at the Aerospace Industries Association.

Founded in 1919, AIA is the aerospace and defense industry's premier trade association representing nearly 340 member companies of all sizes, from the largest primes to the smallest suppliers.

The U.S. aerospace and defense sector is critical to America's national and economic security. We are also a crucial part of the global aerospace and defense supply chain. In fact, the U.S. is the world's largest exporter of A&D products and accounted for 34 percent of global A&D exports in 2017, supporting 2.4 million high wage, high skill American jobs.

Because of the global nature of our industry, we are strong proponents of a free, fair, and sustainable trading system underpinned by the rules and dispute resolution processes of the World Trade Organization.

The U.S. aerospace industry is globally integrated and depends on unimpeded trade flows. Therefore, the implementation of additional tariffs usually has a negative impact on our companies and our ability to compete globally and contribute to the U.S. economy.

However, the WTO has now found that European subsidies to help launch new models of large commercial aircraft have distorted this global market and harmed the U.S. aerospace industry.

As a result, the WTO may soon authorize the U.S. government to impose counter measures in the form of tariffs on E.U. imports. As part of its own pending WTO case, the E.U. has recently taken steps to develop its own list of imports, including U.S. origin aerospace products against which it may levy tariffs.

These actions reinforce our belief that the global industry would be best served by a prompt negotiated end for this dispute rather than delay in reaching a resolution which risks triggering ever-escalating retaliatory tariffs.

This hearing on the proposed list of items to be subject to potential tariffs, in response to the WTO's finding of harm to U.S. industry, is a critical next step in the dispute settlement process and one that we hope will ultimately lead to a negotiated resolution rather than the imposition of tariffs by either side of this dispute.

We would define a credible offer for negotiations that would preclude the need to impose tariffs in the first instance or would warrant a temporary halt to any potential tariffs that are imposed as one that would lead to a verifiable end to the practice of WTO-illegal European launch aid, a verifiable end to the U.S. state level actions also found to be WTO-illegal, removal of the ongoing harm caused by past WTO-illegal subsidies that are maintained by both the E.U. and U.S. sides, and an agreement on the detailed parameters and elements of future aerospace industry measures of support that would be WTO-compliant.

In the absence or lack of success of such negotiations, and the resulting imposition of tariffs by the U.S. on Europe, we urge the U.S. government to tailor these tariffs so they avoid or minimize, to the greatest extent possible, disruptions to the supply chains established by the globally integrated U.S.

aerospace industry, inflict the least amount of damage on the U.S. economy and the U.S. aerospace sector, and continue to leave untouched imports of aerospace parts that support existing fleets in the U.S., i.e. the aftermarket.

In the event that the administration imposes tariffs, we would urge adoption of an exclusion review and approval process, similar to the China 301 tariff process, to ensure U.S. companies generally, and the aerospace industry in particular, are not inadvertently hurt by the tariffs.

To that end, we respectfully request the exclusion of the specific items detailed in Annex A of my written testimony from any final list of imports subject to additional tariffs. We will provide an expanded list after further consultations with our member companies.

Identifying, developing, and qualifying alternative suppliers of these items so that the products meet strict regulatory and customer requirements, would be an unduly expensive, multi-year process.

As noted, the WTO has already found injury to the U.S. industry. Imposing further tariffs on aerospace imports from Europe would aggravate that harm and further undermine the U.S. industries' competitiveness in an already challenging, global economic environment.

The future of the global aerospace industry depends upon rules-based trade. Allowing the cycle of illegal subsidies to continue sends the wrong message to other global competitors, particularly new entrants to the market that may feel they do not need to play by the rules.

AIA urges the parties to this dispute to take the necessary steps to implement the WTO's decisions and chart a clear path that both foregoes the need for trade destructive tariffs and restores fair global competition in our industry. We hope today's hearing and the USTR's process provides additional impetus to do so without delay. Thank you.

MR. BISHOP: Thank you, Mr. Nathan. Our final witness on this panel is Jim Mulhern, National Milk Producers Federation. Mr. Mulhern, you have five minutes.

MR. MULHERN: Thank you, Mr. Bishop, Madame Chairman. Thanks for the opportunity to be here today to discuss enforcing America's WTO rights in the large civil aircraft dispute.

In order to help incentives E.U. compliance with its WTO commitments, America's dairy farmers and farmer-owned dairy cooperatives strongly support USTR's proposed imposition of retaliatory tariffs on European dairy products in response to the $11 billion in damage European Airbus subsidies have caused in the United States.

We have a unique opportunity here to make a big dent in the dairy market access gap we face with Europe. Including E.U. cheeses, yogurt, and butter on this list, as USTR has proposed, is entirely warranted. And we would encourage you to add additional E.U. dairy related tariff lines.

Doing so would send a strong message to Europe about adhering to WTO rules and would bring increased attention to the gross inequities that currently define our dairy trading relationship with the European Union.

To explain the severity of these inequities, let me just provide two important figures from 2018. First is the number seven, that's the number of dairy farms America lost every day last year. Clearly times are tough in dairy country, and we're counting on free and fair trade to revive the U.S. rural economy.

That is why the U.S. dairy industry is fighting to expand trade opportunities abroad and working to combat non-tariff barriers that are increasingly disadvantaging our farmers and businesses, which brings me to the second number.

$1.6 billion, that was the size of America's dairy trade deficit with the European Union last year. U.S. imported $1.8 billion worth of E.U. dairy products in 2018. But

Europe, with a population 50 percent larger than the U.S., only managed to purchase $145 million worth of American dairy products.

Simply put, we are largely being blocked from the E.U. market despite being a trusted and proven dairy supplier to the rest of the world. Europe's dairy trade barriers have harmed our highly efficient dairy industry for far too long.

Now, I could spend an entire day discussing the web of E.U. tariff and non-tariff policies that actively discourage U.S. dairy imports. But for time's sake, let me just discuss one, Europe's blatantly protectionistic and cumbersome Geographical Indication, or GI requirements, that target common named cheese products.

Under these restrictions, a country like Italy can ship large and increasing amounts of parmesan cheese to the U.S. while blocking American parmesan from entering Europe. And Europe's GI agenda doesn't stop at E.U. borders.

As USTR noted in its special 301 Report last month, Europe is currently engaged in an aggressive trade war spanning the globe and is bent on using GI restrictions to block U.S. dairy exports to third country markets as well.

Given Europe's clear pattern of trade distortion and one-sidedness, and the need to select specific E.U. sectors to target retaliation on in order to drive E.U. compliance with its WTO commitments, we believe that retaliatory tariffs on E.U. dairy products as part of the Airbus case are fully justified.

To that end, America's dairy industry recommends three things, that additional ad valorem duties of 100 percent be imposed on particular products imported from E.U. member states under the targeted subheadings.

We also support the inclusion of all the dairy HTS subheadings of HTS U.S. listed in USTR's annex to the notice. And we further recommend the inclusion of additional subheadings which you can find in my written testimony.

In conclusion, it's essential that America delivers a clear and powerful message across the pond. Subsidies and barriers that handicap U.S. businesses in the global marketplace will not be tolerated. And the days of trade deficits induced by unfair trade practices must come to an end.

America's struggling dairy sector and depressed farm economy would benefit from fairer trade with Europe. And we look forward to working closely with USTR to accomplish that goal. Thank you very much.

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

CHAIR GRIMBALL: We'll begin with questions in one moment.

(Pause.)

CHAIR GRIMBALL: Thank you, we'll begin.

MR. ROGERS: So my question is directed to Mr. Austell from the Boeing Company.

Can you elaborate on Boeing's views on the need to impose tariffs on both finished aircraft and major assemblies?

And then, in a supplemental submission, can you explain how you would define finished fuselage, aluminum wings and tails in a manner that would be clear and enforceable?

MR. AUSTELL: Thank you very much. On the last point, we will absolutely give very clear descriptions of what those sub-assemblies entail as they come into the United States as knock-down kits, as well as, you know, finished products that we've described in our testimony today.

I think it's, again, the first part of your question was having to do with ---

MR. ROGERS: Can you elaborate on Boeing's views on the need to impose tariffs on both finished aircraft and on major assemblies?

MR. AUSTELL: Yeah. It's, I think, pretty clear to us that the only way to get the attention of the E.U. and Airbus is to actually focus these tariff, and whatever amount is authorized by the WTO, on that enterprise.

It would be a bit perverse, as a matter of fact, for Airbus not to bear the brunt of this tariff action and to spread that in some way around other European products in other countries, allowing Airbus to frankly extend the time of their compliance.

If in fact we are able, as the United States, able to drive them to the table to pick up the bone and talk with them and Ambassador Lighthizer, tariffs can be avoided altogether.

But I think, again, what the history has shown, this 15-year history has shown, is that they're not easily going to give up these tariffs, which is why the company, Boeing Company, is in fact recommending a concentrated, you know, effort here and at the 100 percent level. Otherwise, we're unlikely to get the attention of the Europeans.

MR. ROGERS: Thank you.

MS. TRAVIS: This is a question for

Charles Gray from Frontier, and also for Ms. McGuire from Victory Solutions.

Would you both mind elaborating on how difficult it is to tailor the products you produce for different clients, for example, for different types or sizes of aircraft?

And additionally, how have your companies been specifically affected by the aircraft subsidies provided by the E.U.?

MR. GRAY: From our perspective, Frontier's perspective, each product we build is tailored to a specific make and model of aircraft. That requires engineering design support, configuration management support, as well as a change in our manufacturing model.

Unfortunately, we have not been given the opportunity to support any of Airbus products due to a lack of outreach on their part to take advantage of our skill, the engineering, and manufacturing services.

MS. MCGUIRE: Okay, so Victory Solutions provides services to Boeing, the Boeing

Company. And we're in effect, Victory Solutions is, because we don't actually produce a product with Boeing, we produce services that the bottom line is always about cost.

And if Boeing is at an unfair advantage to Airbus, then any work that we do at Boeing trickles down to all the small businesses when it comes to the cost. The cost is going to be reflected, and it's going to hurt the small businesses. Because we're at kind of end of the road there for when it comes to the dollar signs. Boeing's going to flow that down to the small business supplier.

MS. BONNER: Sarah Bonner from SBA. This question is for both Mr. Gray and Ms. McGuire. If subsidies were removed, would you anticipate any changes for your business?

And if there's anything further you'd like for the record regarding the subsidies' impact on your U.S. small business, we'd be very interested to know, now or in the post-hearing comments.

MS. MCGUIRE: Well, it comes about cost again, you know. I do business with the government, not just Boeing or Northrop Grumman, or other large OEMs. And it's always the small business that takes the brunt of any rules that change, any laws that change.

It comes down to the small business that does business with those large companies or with the government. When it comes down to it, the small business is the one that's going to carry the brunt of it. Because they're the ones that are going to have to cut their benefits to their employees. They're going to have to cut their 401(k) to make those ends meet.

When you to start cutting your revenue and your profits, that also affects your benefits, it affects your employees, it affects everything, the way you run your business, the total way that you do business is affected.

Because when you don't have as much profit any longer, then that's going to affect your business. And it's not just my business. I hear this all the time from other small businesses, not just in Alabama but around the country. And it's always about cost. That's what makes the country run, is the money, money makes business run.

And if Boeing is hurt, we're hurt. And it's a trickle-down effect. Because then I have to take something away from my employees that I would have otherwise.

MR. GRAY: Let me give you two quick examples from a product-based perspective. We have been forced to invest our own money, for example, in a recent display system we built, we invested $1.6 million. In addition to that, we bid our first job at no profit, ended up losing another $2.5 million, in order to make our American-based customer competitive in that market.

If subsidies were removed, we would be on a level playing field. And as Ms. McGuire said, we'd be able to provide our employees better health care and other benefits to build their careers.

MS. BONNER: Thank you very much.

MR. BLAHA: Thank you. This question is for Mr. Nicholas Camody from the North American Specialty Alloys.

Can you confirm, I guess, that the low carbon ferrochromium imports that you were specifically referring to are only a portion of the HTS line that you were referencing, I guess? Am I correct on that?

MR. CAMODY: No, it's everything within that HTS code is relevant here. Because when you look at the four countries involved, Germany, Spain, UK, and France, the producer that we sell for from Germany is the only producer of low carbon ferrochromium within those countries. And it's a specialty grade product, and the entire category is relevant.

MR. BLAHA: Okay. So, I guess, to make sure I understand, Germany and Japan are the primary producers of everything within that HTS category there.

MR. CAMODY: No, I'm sorry. There are several other producers worldwide, in fact, Russia is the largest producer of ferrochromium. But the German and Japan product is unique in its qualities and that it's usable within vacuum induction melting which what the steel making process is for, aerospace grade steels.

MR. BLAHA: So there are specific grades within that HTS number that only Japan and Germany can provide?

MR. CAMODY: Correct.

MR. BLAHA: Okay, thank you. And, I guess, following up on that, could producers of other types of ferrochromium products switch to improve their grades or something like that?

MR. CAMODY: Well, they're always trying to access the market that we do. But it's relative to their availability of raw material, the chrome ore. And the producer we represent is vertically integrated and owns mines which produce some of the highest quality chrome ore in the world.

And second, it's production technique that the German source has that others may not, and the Japanese have as well, of course. So they're not there from a raw material and technique standpoint.

MR. BLAHA: So it's not a question of just changing the mix or something like that. This isn't something just anybody could do. Is that accurate?

MR. CAMODY: That's accurate.

MR. BLAHA: All right, thank you.

MS. TRAVIS: Hi. I also had a follow-up question for you, Mr. Camody. You note in your testimony that you supply to about 40 U.S.-based steel mills and foundries. And I'm wondering if you have any estimates of how downstream manufacturing costs and, correspondingly, U.S. employment would be affected if the tariffs were imposed on the low carbon ferrochromium?

MR. CAMODY: It's difficult to quantify the exact cost increase and effect on jobs. But our product is used by a wide variety, and it gives our customers a competitive edge, and it's a strategic raw material. So, in fact, putting it on the list would affect their ability to compete and, consequently, have impact on potentially thousands of jobs.

MS. TRAVIS: Thank you.

MR. CHANG: Yes. I have a question for Mr. Remy Nathan. You suggested that any tariff action should not include aftermarket aircraft parts. Are aftermarket parts easily distinguishable from parts used in aircraft assembly, if so, how?

MR. NATHAN: We can provide some greater clarity to that particular question as a follow-on to my verbal testimony.

MR. CHANG: Okay. That would be helpful, if you could provide a comprehensive list of aftermarket parts in your post-hearing comments and details on how imported aftermarket parts should be distinguished from parts for other purposes. Great, thank you.

MS. O'FLAHERTY: Okay, and I have a question for Mr. Mulhern. Can you provide, perhaps in a supplemental submission, any additional information, including statistics as to whether the United States domestic production of dairy products, or dairy products imported from origins other than the E.U., would be able to meet U.S. demand if tariffs were placed on dairy products from the E.U.?

And can you further elaborate on your views and rationale for increasing the number of dairy related HTS subheadings on the list of products subject to increased duties, given that the current list already includes 44 dairy lines?

MR. MULHERN: Sure, I'd be happy to. On the first question, yes, we'll be able to provide information to you. The short answer is that, from domestic production, most of it can be met through domestic production. Imports are available from other countries on the products that would be targeted here.

On the second part, one of the reasons

to expand the list is that a number of the categories that are in Section 2 in the annex, a number of those, they weren't large imports in those categories in 2018. And broadening the category will broaden the basket of products that are covered and would have more impact. If you really want to send a message to Europe, broadening it would be an effective way to do that.

CHAIR GRIMBALL: That concludes the panel's questions. Thanks to everyone for being very concise. And the result of that is now we are running very far ahead of schedule. So let's take a break. Let's do 15 minutes. And if the witnesses for our next panel are here, we will continue at about 11:10 or so.

(Whereupon, the above-entitled matter went off the record at 10:53 a.m. and resumed at 11:08 a.m.)

MR. BISHOP: Madam Chairman, our first witness on this panel is Genice Allen with Airbus Helicopters Incorporated.

Ms. Allen, you have five minutes.

MS. ALLEN: Good morning, all. My name is Genice Allen, and I am a production engineering specialist for Airbus Helicopters Incorporated. I work in Airbus Helicopters' production and manufacturing facility located in Columbus, Mississippi.

Airbus Columbus is a manufacturing and assembly facility that delivers helicopters to the United States military, as well as world-class commercial aircraft that supports hundreds of American law enforcement organizations, aeromedical evacuation operators, firefighting departments, tour operators, and many others.

Airbus Helicopters is now 50 years old in the United States, and for nearly 50 -- I'm sorry, for nearly 15 years, we have manufactured and assembled aircraft in Columbus, Mississippi.

Airbus Helicopters employs 800 people across multiple states, in Texas, Mississippi, and Alabama. I am so proud that 36 percent of our workforce in Columbus, my fellow employees in

Mississippi, are military veterans. And across all U.S. Airbus Helicopters' locations, 27 percent are women, and 31 percent are minorities.

Airbus Helicopters currently has more than 550 customers and operators in the United, States across all market segments, that fly over 1,700 of our aircraft. The vast majority of helicopters that fly today for emergency medical and area evacuation missions are Airbus aircraft, over 650 helicopters. And, if I may add, the same is true for the aircraft supporting state and local enforcement requirements.

From a personal perspective, I want to share a brief comment on the impact of my employment at Airbus and how it has affected my life.

Prior to joining Airbus Helicopters, I worked as a paralegal assistant in a law firm in Columbus, Mississippi, that offered low wages, no benefits, no opportunities for growth. It was pretty much a dead end.

But, since joining Airbus Helicopters,

I have enjoyed a personal, professional, and rewarding experience. I have benefited from an advanced training and incredible opportunities that have been afforded to me. Airbus Helicopters has improved my quality of life as well as increased my family's economic standing.

I came from a single-parent home. I was raised in a small town by my grandparents. With the help and tuition assistance of Airbus Helicopters, I will obtain a master's degree in business administration from Mississippi State University in the upcoming months.

I work in Mississippi. While I understand firsthand the misperceptions of many people that they might have on Mississippi in the United States, because of employers like Airbus Helicopters and many others, Mississippi has transitioned into a hidden gem that is home to countless advanced, industrially productive industries.

And Airbus, it has been a leader -- it has been a leader in the industrial improvement era in Mississippi in the Golden Triangle area.

Aerospace is a global business with a highly integrated supply chain. Airbus integrates and assembles these parts into some of the world's most advanced helicopters from our customers. Those customers use our aircraft to protect our borders, protect American homes from forest fires, and provide accident victims rapid transport to hospitals.

Our customers, my customers, provide search and rescue capabilities. In addition to providing those search and rescue capabilities to many law enforcement agencies, we use all -- we use all across the United States. In short, me and every other American benefit from the services and capabilities that my helicopters provide.

I understand your task today. You are assessing which products should be assessed higher duties because of findings related to a longstanding World Trade Organization dispute between the United States and Europe over aerospace supports.

But the case you are addressing today is only half of the story. There is additional judgment that will be coming from Europe against the United States. In effect, both the United States and Europe have been determined to be complacent in providing support to aerospace.

MS. GRIMBALL: Ms. Allen, please conclude.

MS. ALLEN: And so I would just like to say no one country or company will benefit from added duties in this particular case. Increased duties on aircraft will increase costs, kill jobs, and shackle economic growth.

And thank you for your time.

MR. BISHOP: Thank you, Ms. Allen.

Our next witness is Daryl Taylor with Airbus Americas. Mr. Taylor, you have five minutes.

MR. TAYLOR: Good morning. My name is Daryl Taylor. I'm the vice president and general manager of the Airbus U.S. manufacturing facility in Mobile, Alabama. I appreciate the opportunity to testify before the committee this morning and address the USTR's proposed action to impose additional duties on products imported from the E.U. and certain member states, particularly the potential tariffs on aerospace components and subassemblies.

I am here on behalf of more than 700 highly skilled workers currently employed at, or in support of, the Airbus U.S. manufacturing facility in Mobile. I wish to convey their concerns over the proposed increased duties on parts and components for use in new large civil aircraft and to outline the adverse effect these duties would have on our employees, their families, our U.S.-based suppliers, and the broader Gulf Coast community.

Let me explain how and why. As a result of increased demand for modern aircraft, Airbus aircraft, from our 11 U.S. airline and freight customers, Airbus made the decision, as you already heard, in 2012 to establish a fullscale large commercial aircraft manufacturing facility in the U.S. We located that in Mobile.

What followed was a $600 million investment in a 900,000 state-of-the-art square-foot facility, the largest private sector industrial commitment to the region that it had seen in quite some time.

When we posted the first 260 openings, over 18,000 Americans applied or inquired. Airbus and our local suppliers have now hired more than 700 direct and contract employees, and, again, over 30 percent of those we are proud to say are U.S. military veterans, to produce our A320 family of commercial aircraft for customer airlines across the United States, including American, Delta, JetBlue, Frontier, Spirit, Allegiant, and Hawaiian Airlines.

Over the past five years, Airbus has paid $200 million in salaries and benefits to these exceptional employees and has donated more than half a million to charitable organizations in our community.

In total, we have invested approximately $1 billion in U.S. -- in the Gulf Coast region. Airbus has done this to ensure that we have the capabilities, infrastructure, and support needed to produce the most advanced commercial aircraft in the world right here in America.

We are pleased that 21 other aerospace companies have followed us into the Mobile area, many of them from Europe. Local businesses throughout the area have grown or have sprung up to support what is today a developing aerospace manufacturing center in the Gulf Coast region.

These significant industrial investments support our U.S. manufacturing objectives, but they also form the foundation of economic and social change in the lives of our employees and in the communities we live and work.

Let me provide a couple of examples. Over the years, we have partnered with nine educational institutions to provide courses and other educational opportunities for new and experienced aviation students and trainees.

Last September, we announced plans to create Flight Works Alabama, an interactive aviation experience that is to showcase American innovation and stimulate the aerospace designers, engineers, pilots of tomorrow.

Last month, the U.S. Department of Commerce and the Economic Development Administration announced its financial support for this effort, citing its critical role in developing highly skilled and interested students who will help grow the Mobile area.

And, just last week, we inducted 25 very excited high school students into a new transition to work program called Flight Path 9, reflecting the broad ethnic and gender diversity of Mobile. These students will spend part of their senior year in our training center receiving world-class vocational training in aerospace techniques, and, as importantly, in work readiness. Upon graduation, they will become Airbus employees and launch a fulfilling career.

This program is something that is particularly special and exciting to me because it's how I started my career in aerospace and with Airbus. We are just getting started in Mobile. We are currently increasing production rates on the 320, hiring more employees, building another manufacturing facility to produce the A220 aircraft, which is the newest member of the fleet.

We are making a $350 million investment to build the A220 in the U.S., and it's an investment that will generate 650 additional jobs and will eventually make Mobile the fourth largest aviation hub delivering commercial aircraft in the world.

What does all of this economic growth and job creation, industrial success, and community excitement have to do with tariffs on aerospace components and subassemblies imported from Europe? In a word, everything.

The USTR has proposed, and your committee is considering, the imposition of increased duties and tariffs on the very parts and components that we use to produce aircraft in the U.S., and in turn, have created and will create thousands of high-tech good-paying manufacturing jobs for military veterans, aspiring high school students, men and women in the Gulf Coast and across the U.S.

In the end, who will be harmed by these tariffs? They include, first and foremost, the hardworking Americans who come through the doors of our facility every day.

MS. GRIMBALL: Mr. Taylor, please conclude.

MR. TAYLOR: So, given these potentially severe and detrimental impacts, my colleagues at the Airbus U.S. manufacturing facility and many families, neighbors, and partners in the Gulf Coast region urge the Section 301 Committee not to impose increased duties on imported undercarriage and components, fuselages and sections, and other parts for use in new civil aircraft.

We appreciate your consideration today.

MR. BISHOP: Thank you, Mr. Taylor.

Our next witness is William Sisson with Mobile Area of Commerce. Mr. Sisson, you have five minutes.

MR. SISSON: Good morning. I am Bill Sisson, president and CEO of the Mobile Area Chamber of Commerce, and I really do appreciate the opportunity to speak at this hearing today. So, thank you very much.

I am really here to talk about, briefly, the local economy in Mobile and how it ties to the discussions today. We are building a very diversified economy in Mobile and one which has been built on the logistical assets that we have as a major and fast-growing port city on the Gulf of Mexico.

Trade, as you might imagine, is vitally important to a city like Mobile, and tariffs are something that we watch very closely, since really our economy is tied to it in every way. We have had research done for the Chamber which shows that virtually all of our business sectors tie to our port and trade. So it's something we take very seriously.

Free and fair trade is good for Mobile, and it is good for the State of Alabama. We are a 317-year-old city, and at our core we are a port city, one which has always looked outward to build our economy. And, over history, the city has had periods of prosperity, but it, like many, many areas in the South, continues to struggle with complex issues related to generational poverty.

Our city's workers have traditionally earned lower salaries than the national average, but the good news is that that is quickly changing in our market. It's been improving, and our standard of living in our community is rapidly on the rise.

There has been a very strategic

approach to economic development by the Chamber and our public and private partners to capitalize on our logistical advantages, and certainly our human capital assets in the region.

But a large part of that has been to aggressively recruit foreign direct investment. We follow our local indicators very closely, and so believe me when I tell you that having this international investment that we are seeing in our community, it is making us stronger and it's really changing the lives of our citizens. In fact, eight of our top 10 manufacturers in Mobile are globally based.

So, you see, free and fair trade enable the Port of Mobile to remain competitive and continue to drive the expansion of the local economy.

Airbus and its numerous suppliers are great examples. Airbus is a company which has invested hundreds of millions of dollars into our community and provided high-paying jobs to hundreds of Alabamians. And it's helping to bring those families out of poverty and into gainful employment.

Being the global business that aviation aerospace is, tariffs on components and parts would be crippling to the aerospace cluster in our state, and could ultimately take away the hopes and dreams of the individuals who have worked so hard to train and to compete for the sought-after jobs that these companies have brought to our region.

Beyond the obvious capital investment and job creation, we know that in Mobile the attraction of FDI, foreign direct investment, yields other important benefits that contribute to our overall economy. Not only does FDI directly employ over 10,000 workers in Mobile alone, it also spreads its technologies, facilitates knowledge exchange in our community, and forges new trading relationships.

So that's good for our local entrepreneurs, and that is something that we are working very hard to foster, because, again, that is a mechanism for bringing people out of poverty and providing opportunities for them. Again, ultimately, tariffs put all of that at risk.

One of the biggest value-adds that FDI can lead to are additional projects from the companies, the investing nations, and they are often ambassadors for our region, and the ease of doing business there, and they sing the praises of doing business in our new location.

Airbus and its suppliers are great examples of that, of course. But, remember, this creates opportunity for Americans, for Alabamians, and, in Mobile, these opportunities have never been available before.

So, as I close, I just want to say how very much I appreciate your listening to my plea for careful consideration before authorizing any tariff which will affect the growth of the aviation aerospace sector in Mobile, Alabama, and certainly beyond.

Thank you very much.

MR. BISHOP: Thank you, Mr. Sisson.

Our next witness is Scott McClain with Delta Airlines Incorporated. Mr. McClain, you have five minutes.

MR. McCLAIN: Thank you. My name is Scott McClain, and I am an associate general counsel at Delta Airlines. Thank you for the opportunity to provide this testimony on behalf of Delta.

Delta strongly supports robust enforcement of international trade obligations, and we appreciate this administration's commitment to address unfair subsidies and trade practices. We applaud the administration's comprehensive efforts to ensure that U.S. companies are able to compete on a level playing field.

But Delta urges USTR to adopt an approach in this case that achieves the administration's stated trade policy goals while avoiding material harm that will impact U.S. interests exclusively.

Mr. Austell, on the first panel,

expressed the view that it would be perverse not to ensure that Airbus bear the brunt of any impact of tariffs, but Delta and other U.S. carriers are already committed, pursuant to long-term purchase agreements, to accept delivery of billions of dollars' worth of aircraft that would be subject to these tariffs.

Imposing tariffs on these aircraft will harm Delta, its employees, and its customers, and will not impact Airbus or the E.U. because these sales have already been made. We respectfully request that USTR not impose tariffs on jet aircraft that we have already bought.

Delta was founded almost 100 years ago and is now one of the largest airlines in the world, based in Atlanta, Georgia. Delta employs more than 80,000 people located in almost every U.S. state. More than 180 million passengers traveled on our network last year. And, obviously, our aircraft fleet is essential to our business.

As of April 1st, Delta had 885

aircraft in service in our mainline fleet, including hundreds of both Boeing and Airbus aircraft. These include narrow bodies, single-aisle aircraft that are used to serve the North American network, and wide bodies, dual-aisle aircraft that are used primarily for long haul.

As of April 1st, we had 290 new mainline aircraft on order. Large commercial aircraft are incredibly complex and expensive machines. Narrow bodies typically cost tens of millions of dollars, and wide bodies can cost well over 100 million.

Two producers dominate this market, Boeing and Airbus. Because of the complexity of the equipment and their large backlog of orders, both require orders years in advance of delivery, and that means carriers must engage in long-term fleet planning to ensure we have the aircraft we need when we need them. For that reason, carriers typically buy new aircraft pursuant to long-term purchase agreements.

These contracts can establish binding

commitments to accept delivery of hundreds of aircraft over many years. They can obligate carriers to take deliveries of billions, with a B, billions of dollars' worth of aircraft. And that is the issue. Imposing tariffs on aircraft that U.S. carriers are already contractually committed to buy will not punish the foreign producer who made the sale. We can't avoid these purchases now, and we never had the opportunity to consider the tariffs in our purchase decision when it was made.

So imposing a tariff on those past purchases now will not cause Airbus to lose a sale; it will simply force the U.S. carrier to pay an enormous unexpected tax when it takes delivery.

To be effective as a means of inducing foreign trading partners to honor their WTO commitments, tariffs on jet aircraft need to be applied only to future purchases, so carriers can take the tariffs into account when making their choice. Any tariffs USTR imposes should exempt aircraft delivered pursuant to contracts signed before the tariffs became effective.

And, finally, I want to emphasize the seriousness of this issue for Delta. As of April 1st, Delta had 200 Airbus aircraft on firm order. Many of these will be manufactured at the Airbus assembly plant in Mobile, Alabama, but the contracts commit Delta to accept delivery of several billion dollars' worth of aircraft that could be subject to tariffs.

Even a small tariff on a percentage basis would impose an enormous tax on Delta. Neither Airbus more the E.U. will be punished by tariffs on aircraft we have already bought. It would simply be a tax on Delta. It would cause serious harm to Delta, to our employees, to our customers, and to the communities we serve.

Thank you for the opportunity to testify today, and I look forward to answering any questions you may have.

MR. BISHOP: Thank you, Mr. McClain.

Our final witness on this panel is

Erik Autor with the National Association of Foreign-Trade Zones. Mr. Autor, you have five minutes.

MR. AUTOR: Thank you. My name is Erik Autor, president of the National Association of Foreign-Trade Zones. NAFTZ is the voice of the U.S. foreign-trade zone program and more than 670 members representing the FTZ stakeholder community.

In my testimony, I first want to underscore that the U.S. foreign-trade zone program is a critically important and longstanding economic development tool created by Congress to incentivize companies to locate manufacturing and distribution operations in the United States rather than other countries, help U.S.-based companies compete more effectively against imports, employ American workers, attract investment into American communities, and promote U.S. exports.

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

NAFTZ also strongly disputes the false notion that the FTZ program somehow provides a means to evade duties, including Section 301 and other trade remedies duties. I should not have to emphasize this point, but it has become clear that there exists among some policymakers a lack of understanding and some fundamental misperceptions about the U.S. FTZ program that we must correct.

The U.S. FTZ program includes many manufacturers in the aerospace industry and program participants in other sectors who would be impacted by any duties imposed under Section 301 in this dispute with the European Union over subsidies to its civil aircraft industry.

However, I am not here to request the exclusion of any particular products. Rather, I want to ensure that any duties imposed as part of the enforcement of U.S. rights in this dispute avoid a serious problem manufacturers in U.S. FTZs have encountered in the application of Section 301 duties on imports from China.

Specifically, in the China trade action, customs entry requirements for merchandise withdrawn from a U.S. FTZ have resulted in some FTZ manufacturers being improperly assessed Section 301 duties on all their foreign status components, including articles that are not from the subject country or are not included on the lists of products specifically identified as being subject to the additional Section 301 duties.

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

This unbalanced tariff treatment discourages the use of the FTZ program, is contrary to law, and undermines the integrity of the trade remedy system. To avoid this problem, the Section 301 order should include language similar to that in the third presidential proclamation in the Section 232 actions on steel and aluminum, which stated, "FTZ merchandise shall not be subject upon customs entry to Section 301 duties merely by reason of manufacture in a U.S. foreign-trade zone."

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

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

Finally, I want to emphasize that what we are requesting is not any special exemption from the proposed additional tariffs that would apply to all other U.S. importers. Rather, our proposed language would ensure that U.S. importers inside and outside an FTZ receive the same tariff treatment in the application of these duties.

Thank you for your attention, and I'm prepared to take any questions you may have.

MR. BISHOP: Thank you, Mr. Autor.

Madam Chairman, that concludes direct testimony from this panel.

MS. GRIMBALL: Thank you. We will begin with questions in a few minutes.

(Pause.)

MS. GRIMBALL: Okay. We will begin with questions.

MR. ROGERS: Thank you, Madam Chairman. And I'm Michael Rogers from the Office of the U.S. Trade Representative. My question is for Ms. Allen.

In your testimony, you mentioned Airbus' highly integrated supply chain. Perhaps in a supplemental submission you or your colleagues could answer this question. To what degree does the supply chain for Airbus Helicopters overlap with the supply chain for Airbus' large civil aircraft?

Thank you.

MS. GRIMBALL: And any question that we pose to the witnesses, any of you can feel free to answer that question as well. Just indicate that you intend to.

And for members of the panel, if you could all introduce yourselves before posing your question.

MR. TAYLOR: Yeah. I think, from an Airbus point of view, we can certainly submit further --

MR. BISHOP: We need you a little closer to your microphone, please.

MR. TAYLOR: Okay. We will submit that in further follow-up.

MR. ROGERS: Thank you.

MS. BAMBAS: Nicole Bambas from the Department of Transportation.

Mr. Taylor, you have testified that the United States should not impose tariffs on large civil aircraft and parts. Given that the WTO has agreed with the United States' assertion that the aircraft subsidy program of certain E.U. member countries remain inconsistent with their WTO obligations, how would you propose that the United States respond?

MR. TAYLOR: You know, my position here today is really to talk about the effect on those tariffs on the hardworking employees in Mobile. I think it's very clear from our perspective that the investment that we have made in Mobile and in our final assembly facilities are creating large benefits to the community. And, you know, in terms of the overall position on the world trade, that's not something for me to comment on.

MS. BAMBAS: To expand on that, you

mentioned that Airbus' investments in Mobile have drawn U.S. aerospace suppliers to the region. Can you elaborate on what types of products these partners supply, and does Airbus perform any sub-assembly at its U.S. manufacturing plant?

MR. TAYLOR: Yeah, the majority of the suppliers that have come to Mobile to support the final assembly line -- so in terms of work package supports, technical supports, as well as third party suppliers, you do repairs, for instance, on cabin interiors and that type of activity. There is no specific subassembly that is done by those suppliers as of today. We are actively working to continue to build the ecosystem into Mobile.

I apologize if I missed the question. Is there any sub-assembly done by the Airbus facility? We equip and do further sub-assembly into our components as part of the overall final assembly line process. So we take those components from not only the E.U. but also other U.S. suppliers and bring them together into the final product in Mobile. The aircraft, as you have already heard today, leaves Mobile as a complete, finished, painted product, and it's delivered to our U.S. customers.

MS. BAMBAS: Thank you.

MS. TRAVIS: Karen Travis from the Labor Department. My question is for Mr. Sisson from the Chamber of Commerce. I'm wondering if within the Mobile, Alabama community, if you've received any reports of instances or concerns about foreign competition that receive subsidies for their products.

MR. SISSON: Thank you for that question. We have not, at the Chamber. As I mentioned in my presentation, you know, Mobile is a very international city, and we are very much looking outward to build the economy. It is part of the culture. Most of our members are very vocal about the advantages, and they are supportive of the international companies that are investing in Mobile, because they see the direct effects of it, the job creation, the indirect job -- the ancillary benefits, and so forth.

So, even our small businesses -- and, by the way, 92 percent of our members at our Chamber are small businesses -- hey, too, can see the advantages of our international economy.

MS. TRAVIS: Thank you.

MR. SULBY: Ari Sulby from the Department of State. This question is for Mr. McClain from Delta.

You mentioned that Delta has long-term commitments that obligate Delta to take delivery for aircraft that has been previously ordered. Is Delta contractually obligated to pay for any of the costs associated with tariffs should they be imposed?

MR. McCLAIN: Yes. Yes. The obligation, if Delta -- typically, if Delta takes delivery of the aircraft abroad, then Delta would be the importer and would have the obligation to pay the duties.

MR. SULBY: And if Delta takes

delivery domestically?

MR. McCLAIN: Well, if we take delivery in Mobile, Alabama, which we, you know, want to do as often as we can, but there are -- you know, the capacity of the assembly facility in Mobile is limited, so the entire production can't be satisfied there. If we take delivery in Mobile, Alabama, then we wouldn't be importing the aircraft. So it's the aircraft that we take delivery of in Toulouse and Hamburg that create the issue.

MR. SULBY: In a post-hearing submission, could you provide a breakdown of what percentage of the orders that you are expecting over the next few years that have been contractually obligated will be supplied by the Mobile facility versus the international facilities?

MR. McCLAIN: Yes. We can provide that in a confidential submission.

MR. SULBY: Thank you.

MR. BLAHA: Chris Blaha, Department of

Commerce. I had a question for Mr. Autor from the National Association of Foreign-Trade Zones.

You mentioned that the U.S. FTZ program includes a number of manufacturers in the aerospace industry and other sectors that would be impacted by the Section 301 tariffs. Can you provide any specific examples about the products that are being imported currently into FTZs from the E.U. that would be impacted?

MR. AUTOR: That would be difficult for us to do. We would have to identify quite a few companies. I mean, I can name a few off the top of my head, including Airbus and Honeywell are two companies that come to mind in the aerospace sector that do use the FTZ program. But there are many others. But I think it would be very difficult for us to contact each company to get an answer to your question specifically.

MR. BLAHA: I guess -- and this, perhaps, is a question for our other witnesses as well, but are there any FTZ programs being used in the Alabama or the Alabama cluster?

MR. TAYLOR: Yes. The Mobile facility is a foreign-trade zone.

MR. SISSON: It was actually the first in the state of Alabama, at Brookley Aeroplex, where Airbus is.

MR. BLAHA: Also, again, this is a question for Mr. Autor. Again, also in a supplemental submission, could you provide an example of how your suggested language would impact the imposition of the Section 301 tariffs, and, in your view, ensure parity with the other U.S. importers not operating in the FTZ?

MR. AUTOR: Yes. We can certainly do that. In fact, we have provided fairly lengthy descriptions of the problem, both to the Commerce Department and to the Office of the U.S. Trade Representative in other discussions that we have had specific to the Section 301, but also the 201 actions. So we would be happy to provide that, yes.

MR. BLAHA: Sorry, I had another question for Mr. McClain from Delta. To the extent that you are comfortable answering, I guess, the agreements that you have for delivery of certain aircraft in the near future, are those biased at all towards certain models of aircraft, narrow body, wide body?

MR. McCLAIN: Well, the contracts are specific to the aircraft that are being delivered. In other words, the aircraft types are specified in the contracts.

We have 153 narrow body aircraft, A321 200s and A321neos on order, and a total of 57 wide bodies, most of which are A330s; 35 A330s and 12 A350s; as of April 1st, those numbers.

MR. BLAHA: Okay. Thank you.

MR. McCLAIN: Just to be clear, of the type that are at issue. We have other aircraft on order as well, but of the aircraft types that are at issue in this proceeding.

MR. BLAHA: Okay. Thank you.

MS. GRIMBALL: Thank you for your testimony.

I'm told that all our witnesses for

Panel 3 are here early. Thank you. We appreciate it, in light of the fact that we are moving ahead of schedule. So we will take a five-minute break, and we will reconvene at 11:50 with Panel 3. And after that panel concludes, we will take a 55-minute lunch.

Thank you.

MR. BISHOP: Would the members of Panel 3 please come forward?

(Whereupon, the above-entitled matter went off the record at 11:45 a.m. and resumed at 11:53 a.m.)

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

Madam Chairman, our first witness on this panel is Hoy Frakes with AMG Vanadium.

Mr. Frakes, you have five minutes.

MR. FRAKES: There we go. Sorry about that. Good morning. My name is Hoy Frakes. I'm the president of AMG Vanadium LLC, a producer of ferrovanadium in Cambridge, Ohio.

I appreciate the opportunity to speak

to the committee today on the importance of adding ferrovanadium, HTS Item Number 7202.92.00, to the list of products from the European Union that should be subject to additional tariffs in this matter.

By way of background, 90 percent of all vanadium is used as ferrovanadium, an alloy that is a critical material employed extensively in the steel-making industry. The addition of ferrovanadium to steel and parts increase strength, toughness, and weldability. The resultant high-strength low-alloy steels are used in the aerospace industry, the automotive industry, building infrastructure markets, to make components such as wheel bolts, gears, crankshafts, axles, wide flange beams, and reinforcing bars, as well as surgical instruments, knives, among other important uses.

Use of high-strength low-alloy vanadium-containing steels also reduce the overall weight, thereby increasing energy efficiency and reducing energy consumption.

Accordingly, a strong and vibrant U.S. ferrovanadium industry is important as a direct supplier to the U.S. steelmakers, as well as indirectly to the wide array of U.S. industries that use vanadium alloy steels.

AMG produces a high-quality, high-purity ferrovanadium from hazardous spent oil refinery catalysts and residues from power plant generations using a proprietary state-of-the-art pyrometallurgical process that minimizes the effects on the environment. AMG's recycling process, which utilizes these waste streams, has the lowest carbon footprint in the vanadium industry. The CO2 savings from our process versus mining of vanadium ores is tremendous.

Additional tariffs on imports of ferrovanadium would have two overreaching positive effects. First, additional tariffs would further the United States' interest in encouraging compliance by the E.U. with the WTO obligations and with recommendations and rulings adopted by the WTO dispute settlement body.

Ferrovanadium imported from the E.U. primarily comes from the Czech Republic and Austria. The additional tariffs would assure that economic interests in those countries are affected by the refusal of the E.U. to come to full compliance within its WTO obligations.

Second, additional tariffs would help to preserve domestic production of ferrovanadium. For a number of years, U.S. producers of ferrovanadium have been injured repeatedly by unfair trade imports from multiple sources. The domestic industry has successfully defended itself in a series of trade remedy proceedings beginning in 1995 regarding Russia; in 2003, regarding China and South Africa; and in 2017, regarding Korea.

The duties against Russia were later removed in a 2012 sunset proceeding based on the representations that the Russian industry was no longer exporting or export-oriented. Unfortunately, ferrovanadium imports from the Czech Republic and Austria have increased dramatically in recent years, and the underlying source of vanadium is understood to be primarily from Russia.

Official U.S. statistics reported the value of ferrovanadium from the E.U., not including Russia, at 157 million during 2018. Therefore, despite success in the domestic trade remedy proceedings, unfairly traded imports have inhibited the growth capacity, utilization, and sustainability of the domestic ferrovanadium industry.

Between 2015 and 2018, imports of ferrovanadium from the E.U. have increased 39 percent while the U.S. production has decreased by more than 20 percent. And consumption in the U.S. has increased during this period.

Today there are two ferrovanadium producers in the United States, down from four in 1992, due to numerous bankruptcies and plant closures, despite efforts by companies to maintain or return to operations.

Notwithstanding this history, AMG is committed to producing ferrovanadium in the United States and has announced its plans to move forward with a doubling of its production capacity in Ohio by 2021.

Additional tariffs on imports of ferrovanadium from the E.U. would assist in sustaining the production of this vital input into the United States. They would assist in assuring the economic success of AMG's production capacity and expansion in an uncertain market by minimizing the prospect of dramatic surges from imports from the E.U. or price undercutting.

Additional tariffs would also assure the continued ability of AMG to recycle spent refinery catalysts and power plant generations residues. Such additional tariffs on the E.U. ferrovanadium would not materially impact the U.S. consuming industries, as demand would be met by the combination of U.S. production and imports from countries such as Canada, Japan, and India, as well as the Ukraine, none of which are facing any antidumping or countervailing duties at this time.

In summary, AMG requests that ferrovanadium be added to the list of products from the E.U. that should be subject to additional tariffs in this manner. The increased tariffs on --

MS. GRIMBALL: Mr. Frakes, please conclude.

MR. FRAKES: Yeah, would benefit the U.S. industry and will level the playing field after years of unfair trading practices and would not harm domestic consuming industries and its appropriate and current circumstances.

That concludes my testimony, and I am happy to respond to any questions you may have. Thank you very much.

MR. BISHOP: Thank you, Mr. Frakes.

Our next witness is Rosemary O'Brien with CF Industries. Ms. O'Brien, you have five minutes.

MS. O'BRIEN: Thank you, and good

morning. My name is Rosemary O'Brien. I am vice president of public affairs for CF Industries, one of the world's leading manufacturers and distributors of nitrogen fertilizers. I appreciate the opportunity to appear today in response to USTR's call for comments on its proposed retaliation in the E.U. large civil aircraft dispute.

I would like to tell you about CF Industries, its new production economics, and why we request that you add E.U. nitrogen fertilizer imports to the list of products to be subject to increased duties in this dispute.

CF Industries operates world-class nitrogen manufacturing complex in the central United States and distributes plant nutrients through a system of terminals, warehouses, and associated transportation solutions located primarily in the Midwest United States.

CF employs about 2,000 people in the U.S. We also produce nitrogen fertilizers in Canada, the United Kingdom, and Trinidad as part of a joint venture. CF is the largest producer of urea ammonium nitrate, otherwise known as UAN, solutions in the world. CF is also the largest producer of many other major nitrogen fertilizers, including ammonia urea and ammonium nitrate.

Nitrogen fertilizers are produced from natural gas feedstock. In 2018, natural gas accounted for about 40 percent of the total production cost of our nitrogen fertilizers. So the cost of natural gas, in relation to product prices, is a key driver of the economics for the nitrogen fertilizer business.

In the past, U.S. natural gas prices were higher and more volatile than many other nitrogen-producing countries. This made the export of domestically-produced nitrogen products uncompetitive.

Today, U.S.-produced nitrogen fertilizer exports are considerably more competitive. The moderation of U.S. natural gas prices due to U.S. shale gas production, along with relatively strong nitrogen prices, have dramatically changed U.S. nitrogen producer economics in the past few years.

This has prompted CF Industries to undertake a $5.2 billion expansion project to add nitrogen capacity in Louisiana and Iowa, all of which came online in 2016. While much of this capacity serves American farmers, CF is increasingly seeking to supply UAN and urea to customers in export locations, including the E.U.

CF's products will be competitive in the E.U. if they are permitted to compete on a level playing field. Unfortunately, the E.U. continues to maintain prohibitively high bound tariff rates of 6.5 percent on imports of most fertilizer, including urea and UAN. In contrast, fertilizers from the E.U. have entered the U.S. duty-free since 1922, even in those periods of soaring U.S. natural gas prices.

E.U. producers have directed a substantial volume of fertilizer experts to the U.S., but this trade has historically flowed one way. For example, in 2017, imports of urea from the E.U. into the U.S. totaled over 225,000 metric tons and were valued at $40 million, while U.S. exports of urea to the E.U. totaled less than 11,000 metric tons. Furthering this imbalance, in a flawed decision, the E.U. recently imposed provisional antidumping duties of 22.6 percent on U.S. imports of UAN.

In the TTIP negotiations, the E.U. would not agree to tariff elimination for fertilizers and argued that they are special energy-sensitive products for which tariffs must be maintained even though the E.U. provides duty-free treatment to fertilizer imports from many other major producing countries under separate trade agreements.

So while CF Industries hopes that the U.S. will insist on full elimination of E.U. fertilizer tariffs upon ratification of any future U.S.-E.U. trade agreement, immediate action is urgently needed now to establish reciprocity in fertilizer trade.

MS. GRIMBALL: Ms. O'Brien, please --

MS. O'BRIEN: In conclusion, we respectfully request that USTR add nitrogen fertilizers to the list of E.U. imports to be subject to additional duties as part of the retaliation for the E.U. large civil aircraft dispute.

Thank you very much.

MR. BISHOP: Thank you, Ms. O'Brien.

Our next witness is Jeff Watson with Ferroglobe. Mr. Watson, you have five minutes.

MR. WATSON: Hello, and good afternoon. My name is Jeff Watson. I'm the executive vice president of sales and marketing for Ferroglobe.

I'm appearing before you today to request that USTR remove ferromanganese containing weight more than two percent but not more than four percent carbon, ferromanganese containing weight more than four percent carbon, and ferrosilicon manganese from the list of ITS numbers being considered for additional duties in this investigation.

First, let me tell you a bit about our company and its U.S. operations. Ferroglobe was created by the 2015 merger of European-based Grupo FerroAtlantica and U.S.-based Globe Specialty Metals. Through its operating subsidiaries, Ferroglobe is one of the world's largest producers of ferroalloys and other metallurgical products used in steel-making and one of the largest suppliers of such products to the U.S. steel domestic industry.

Ferroglobe's U.S. division is the largest merchant producer of silicon metal and the largest producer overall of high-purity ferrosilicon and specialty ferroalloys in the U.S. Ferroglobe produces these products at facilities in Alloy, West Virginia, which produces silicon metal and silica fume; Beverly, Ohio, producing silicon, ferrosilicon, ferrosilicon magnesium, and inoculants; and Bridgeport, Alabama, where we produce only ferrosilicon.

These and other Ferroglobe facilities across the United States employ over 500 workers, including approximately 238 members of the United Steelworkers Union at the Bridgeport and Alloy facilities.

Ferroglobe does not produce manganese alloys in the United States, and, therefore, its U.S. division imports ferromanganese above and below four percent carbon, and ferrosilicon manganese, which is manufactured by Ferroglobe affiliates in France and Spain.

U.S. production of these products is generally very limited. Ferromanganese and ferrosilicon manganese are raw material inputs to steel production, and, therefore, a readily available supply of these raw materials is crucial to steel manufacturers.

Importing these products allows Ferroglobe's U.S. division to supplement its own product lines and offer a greater range of products to its U.S. customers, including several of the largest steelmakers in the U.S. This ensures that domestic steel producers have a reliable supply of necessary raw materials, as well as enhancing the competitive position of both the steel manufacturers and Ferroglobe's U.S. division in the marketplace.

Subjecting these products to additional duties will have material negative impacts on Ferroglobe's U.S. division sales and on its U.S. customers in the steel sector. Additional duties may make the importation of these products financially impractical for Ferroglobe, thereby jeopardizing the jobs of U.S. employees who sell, handle, and warehouse these products.

Ferroglobe's production and sales of the silicon metal and other ferroalloys it produces in the United States may also be negatively affected. If Ferroglobe's U.S. division is unable to supplement its domestically produced product line with imports of ferromanganese and ferrosilicon manganese, the sales volumes of its U.S.-produced products would almost certainly decline, leading to lost sales and potential layoffs in the U.S.

But it is not only Ferroglobe that would suffer. Including ferromanganese and ferrosilicon manganese in the list of products subject to additional tariffs will harm the domestic steel industry, whether by increasing their raw material prices or, even worse, by denying access to supply entirely, if, as anticipated, such additional duties render Ferroglobe's importation of these products economically infeasible.

This would be extremely problematic for the U.S. steel industry. And, as I already mentioned, these inputs are required for steel production and domestically-produced supply is limited. Imports of these products are, therefore, crucial.

Limiting the available supply of these raw materials or increasing their cost to U.S. producers would merely serve to undermine the economic gains U.S. steel producers have experienced in the wake of the Trump Administration's recent trade initiatives. U.S. consumers of steel products would also suffer due to constrained supply and higher prices.

In conclusion, for all of these reasons, Ferroglobe respectfully requests that the USTR remove ferromanganese and ferrosilicon manganese from the proposed countermeasures list, as additional duties on these products would clearly harm a broad array of U.S. interest. Doing so would ensure that American workers keep their jobs and also ensure that the U.S. steel industry is not burdened with disproportionate economic harm.

Thanks for your time today, and I'm available for any questions if need be.

MR. BISHOP: Thank you, Mr. Watson.

Our next witness is Rick Church with Ceramic Tile Distributors. Mr. Church, you have five minutes.

MR. CHURCH: Good afternoon. My name is Rick Church. I'm the executive director of the Ceramic Tile Distributors Association, headquartered in Glen Ellyn, Illinois. Founded in 1978, CTDA has more than 300 member companies with more than 1,000 locations throughout North America.

CTDA's regular members are solely independent distributors of ceramic tile and stone products who primarily sell at wholesale. We also have some manufacturer members who have separate allied or supplier member status. There are fewer than 1,000 independent distributors of ceramic tile and stone in the United States. Independent distributors represent approximately 35 to 45 percent of the total market for ceramic tile and stone distribution in the United States. CTDA's members represent at least 90 percent of that segment of the market.

CTDA is opposed to the imposition of massive additional U.S. tariffs of up to 100 percent ad valorem on imported ceramic tile and stone from the E.U. for several key reasons.

First, our members are small

businesses who will be significantly impacted by these proposed tariffs and others on ceramic tile that may follow. Seventy-five percent of our member companies have fewer than 100 employees. Most of these companies operate on small margins and a huge increase in tariffs of this, or even lesser, magnitude would impact their total number of employees, their profitability, and in some cases the ongoing existence of their business.

Second, the products in question are already subject to a 10 percent ad valorem tariff, considerably higher than the average U.S. MFN tariffs applicable to most other imported products. According to the U.S. Trade Representative, the United States currently has a trade-weighted average import tariff rate of 2.0 percent on industrial goods, while fully one-half of all industrial goods entering the United States enter duty-free. There is no logical reason to dramatically increase the already high tariffs on these products.

Third, the imposition of tariffs of

this magnitude would render these products non-competitive against sales of alternative flooring products and could result in the permanent loss of market share for the industry. Since it supplies an estimated 30 percent of U.S. demand, the U.S. ceramic tile industry cannot produce enough tile to meet the demand for tile in the marketplace.

Fourth, the tiles from the E.U., particularly those imported from Italy and Spain, are at the high end of price, design, and quality for our industry, and, as such, are not directly competitive with U.S.-produced tiles. As a result, the industry is heavily reliant on tile imports for this sector of the U.S. tile market, particularly from these two E.U. countries.

Placing a massive additional tariff on these imported products will price them out of the market, will not make U.S. manufacturers more competitive in this underserved sector of the tile market, and will have a serious impact on the market share of higher-end tile and stone in the U.S.

In this regard, we must point out that a tile manufacturer's coalition in April filed an antidumping and countervailing duty case against most ceramic tile imported from China. While CTDA is not taking a position on these cases, we need to emphasize that the Chinese tile is usually imported at a far lower price than Italian or Spanish tile, and generally does not compete with it.

In a recent survey of our member companies, we asked several questions related to this potential new tariff. One of the questions asked was, if you were to have to pay additional tariffs of up to 100 percent on tile you import from E.U. countries, how would it impact your business?

Respondents were adamantly against the proposed tariffs, and included, "It could possibly put us out of business." "It will result in dramatic losses." "It will drive prices up and business down" and "consumers would end up with inferior products."

The CTDA believes the imposition of additional tariffs on subject ceramic tile and stone from E.U. countries would be needlessly injurious to the U.S. ceramic tile distribution industry and would severely harm, and perhaps even kill, many small businesses in the U.S. We urge the Administrator to find against the proposed tariffs.

I would like to add, we recognize that the U.S. aerospace industry may have been damaged by E.U. subsidies for Airbus. However, ceramic tile is not used in these airplanes, and no accusations have been made that the E.U. is subsidizing the import of tile to the U.S. Therefore, punishing small businesses who import tile would be a significant overreaction to an unrelated problem.

Thank you, and I welcome any of your questions.

MR. BISHOP: Thank you, Mr. Church.

Our next witness is Brandon Calvo with

Cosentino North America. Mr. Calvo, you have five minutes.

MR. CALVO: Thank you. Good afternoon. My name is Brandon Calvo. I am the VP of sales and chief operating officer for Cosentino North America.

MR. BISHOP: A little closer to your mic, please.

MR. CALVO: Thank you for the opportunity to testify today. I started working for Cosentino North America over 20 years ago as a general manager for one of its local manufacturing facilities, and I have held many different positions within the company.

Cosentino N.A., organized in 1997 and now based in Coral Gables, Florida, is a subsidiary of Cosentino S.A., a family-owned Spanish company. Cosentino N.A. is a leading distributor of stone products and surfaces for the architectural and design industries, which we import into the United States from Spain.

I am here today because the U.S.

government is considering imposing additional duties on these quartz products classified under subheading 6810.99.00 of the HTS U.S. On behalf of Cosentino, I respectfully request that this subheading be removed from the proposed list of products subject to additional duties.

Cosentino pioneered the quartz surface industry in the United States in 1997. Since then, our company has performed a key role in developing this market under our Silestone brand. Now, more than 20 years later, the quartz surface market has grown exponentially and has opened the door to many different local businesses and added significant value to the U.S. economy. We are a trusted supplier to the U.S. government. In particular, we have existing contracts to supply the U.S. Army at Fort Hood in Texas and U.S. embassies abroad.

Our quartz surfaces are not finished materials. They require further processing to transform them into products for consumers, such as kitchen countertops. Many local manufacturers, installers, home centers, kitchen and bath dealers, and other businesses enjoy the opportunity to participate in the downstream value chain inherent in this market.

Our annual imports of $200 million collectively translate into roughly $1 billion in annual revenue for more than 100,000 U.S. businesses due to downstream operations. Because of our strong investments and our long-term commitment to this country, Silestone still remains a well-recognized brand in offering U.S. consumers the most advanced technology and high performance products with special colors and designs that other competitors simply do not carry.

Additional duties on these products would have a significant negative impact on Cosentino's current prospective investments in the United States and would cause disproportionate economic harm to U.S. interests, including small-sized businesses and consumers.

Cosentino is a strong supporter of

free and fair trade. We have engaged in the types of activities encouraged by the current administration: expanding operations and creating jobs in the United States. In that regard, we have approximately 1,200 employees and 58 locations in the United States. In fact, we employ more people in the U.S. than the largest U.S.-based quartz manufacturer.

Over the past 10 years, we have invested approximately $140 million in inventory, $60 million in facility development, $37 million in local manufacturing shops. We plan to continue investing, creating additional jobs.

Most of these investments have been due to the funding received from Cosentino S.A. in Spain, the only European manufacturer of quartz surfaces that has made the strategic decision to invest in the United States. Indeed, Cosentino's quartz products constitute more than 70 percent of the European imports under subheading 6810.99.00 of the HTS U.S.

Additional duties on quartz products

would force us to raise prices and reconsider our existing U.S. operation and plans for future investment and employment in the United States. Furthermore, retaliatory duties on our products do not make sense after we have spent valuable time, money, and resources to invest in the U.S. market for the benefit of many other businesses in the United States.

U.S. small businesses are the vast majority of our 7,500 active customers. Increased prices for the quartz products to downstream customers will impede their ability to compete with larger national home centers and builders, forcing small local manufacturers and retail businesses out of the market. For the reasons discussed, we urge the committee to remove subheading 6810.99.00 of the HTS U.S. from the proposed Section 301 action.

Thank you again for allowing me to testify today, and I welcome any questions the committee may have.

MR. BISHOP: Thank you, Mr. Calvo.

Our final witness on this panel is Edward Brzytwa with the American Chemistry Council. Mr. Brzytwa, you have five minutes.

MR. BRZYTWA: My name is Ed Brzytwa. I'm the international trade director for the American Chemistry Council. We appreciate the opportunity to testify today on the enforcement of U.S. WTO rights in the ongoing large civil aircraft dispute.

ACC represents a diverse set of companies engaged in the business of chemistry. An innovative $553 billion enterprise, we work to solve some of the biggest challenges facing our nation and our world. Our mission is to deliver value to our members through advocacy, using best-in-class member engagement, political advocacy, communications, and scientific research. We are committed to fostering progress in our economy, environment, and society.

The business of chemistry drives innovations that enable a more sustainable future, provides 529,000 skilled, good-paying jobs, plus over four million related jobs that support families and communities, and enhances safety through our diverse set of products and investments in R&D.

We commend the administration for its efforts to address European Union subsidization of its large civil aircraft industry, which the World Trade Organization found to be inconsistent with the E.U.'s WTO commitments. We urge both sides to reach a negotiated outcome at the WTO as soon as possible to avoid the imposition of countermeasures.

Chemicals should not be included in the E.U. and U.S. countermeasure lists, however, for the following reasons. In short, planes cannot get off the ground, fly safely, or fly efficiently without a number of products that chemistry makes possible. The state-of-the-art planes that Boeing and Airbus manufacture contain components made with chemicals essential to aerodynamics, lightweighting, and structural strength, from lightweight plastics that can withstand high mechanical stress, temperature extremes, and a hostile environment, to polycarbonate windshields that deliver optical clarity and impact resistance.

Chemistry is also essential to seats and seatbelts, wheels and brakes, fuels, coatings, paints, lubricants, and electronics. The list goes on.

The success and export potential of the U.S. chemicals industry is closely tied to that of the civil aircraft industry. U.S. chemical manufacturers sell to companies that contribute to the production of civil aircraft in both the United States and the European Union. Higher tariffs on civil aircraft and components for civil aircraft in both markets would raise prices for those goods. Weakened demand for civil aircraft can ultimately lead to less demand for U.S.-made chemicals.

Our initial analysis of the proposed U.S. and E.U. countermeasure lists indicates that the chemical industry is again in the crosshairs of yet another set of possible tariff actions. The chemical products listed in HTS Chapter 33 are essential oils and resinoids and represent about three percent of the $11 billion total value of the imports listed.

The U.S. imported an estimated $365 million worth of these products from the E.U. in 2018. The proposed E.U. list of products covers a range of traded goods, including $3 billion in traded chemicals and plastics. Chemicals and plastics represent 15 percent of the total value of U.S. exported goods that are covered by the E.U.'s tariff list.

We are working with our member companies to determine the specific impacts of U.S. and E.U. tariffs on these products on their businesses. The U.S. tariffs could result in more limited availability of specific inputs made in the European Union and, therefore, lead to higher prices in the United States.

But the most extreme effects could be dire. If the tariff rates go up to the maximum level allowed, which is 100 percent, this could effectively block U.S. chemical manufacturers from accessing the E.U. market for the products on the E.U. list. U.S. chemical manufacturers seeking to maintain access to the E.U. market may decide to move production and jobs out of the U.S. into the E.U., the Middle East, or Asia.

The E.U. countermeasures would lead to another harmful market closure for U.S. chemical manufacturers. For reference, China's Section 301 retaliation targets $11 billion in exports of U.S.-made chemicals. Canada's Section 232 retaliation targets $2.5 billion in U.S.-made chemical exports. The E.U.'s Section 232 retaliation targets $500 million in U.S.-made chemical exports, and Turkey's Section 232 retaliation targets $170 million in U.S.-made chemical exports.

For the last several years, the U.S. chemistry industry has sought, and continues to seek, greater market access around the world to take advantage of the historic expansion in chemical manufacturing capacity in the United States.

We are most assuredly not seeking new tariffs or closed markets. After all, tariffs are taxes on the American people. As recent studies have confirmed, the consumers are the ones who ultimately pay for the tariffs in the form of higher priced goods.

We respectfully request the United States and the European Union eliminate their chemical tariffs in their ongoing bilateral trade agreement negotiations and remove chemical tariffs from the respective countermeasure lists under the large civil aircraft dispute.

Thank you again for the opportunity to testify today. We look forward to offering a written submission and serving as a resource for the Section 301 Committee.

MR. BISHOP: Thank you, Ed.

Madam Chairman, that concludes direct testimony from this panel.

MS. GRIMBALL: We'll begin with

questions. And if the members of the committee could please introduce themselves prior to your question. Thank you.

MS. GUDICELLO: Rebecca Gudicello with the Office of the United States Trade Representative. My question is for Mr. Frakes.

You mentioned that a decline in imports from the European Union could be made up by expanded U.S. capacity as well as increased imports. Can you expand upon this, particularly to what extent to which U.S. capacity would expand versus increase in imports from countries where there are not antidumping/countervailing duties being imposed?

MR. FRAKES: Yes, we can provide additional detail in the written comments. But just in general, we are looking at basically doubling our size of capacity in Ohio, in the Appalachian area, you know, to double our basic vanadium production facilities, which will make up part of that shortfall, as well as Canadian imports, Indian imports, and from other countries, you know, that can bring material in other than the E.U.

MS. GUDICELLO: And you mentioned a concern about the use by companies in the Czech Republic and Austria of imports from Russia. Can you expand upon this, either today or in your written testimony, on the concerns?

MR. FRAKES: Yeah, we can give you some detailed comments on that in our testimony, our written testimony.

MS. GUDICELLO: Great. Thank you very much.

MR. CHANG: Hi. My name is Won Chang, Department of Treasury. Thank you very much for your testimony. My question is for CF Industries, Rosemary O'Brien.

Could you elaborate further on how inclusion of nitrogen fertilizer products benefits the American industry? If this product were added to the list, does CF Industries have an opinion on the level of tariff that should be applied?

MS. O'BRIEN: Yes, thank you. We do have an opinion on that. And, at a minimum, we believe that a 6.5 percent duty on imports of nitrogen fertilizers under HTS U.S. 3102 and 5.5 percent on imports of ammonia under HTS 2814 from all E.U. members.

We also think, because we have been dealing with this situation for nearly a century, where the E.U. has enjoyed one-sided duty-free access to the U.S. and we have not, and we are now facing prohibitive tariffs due not only to the 6.5 percent customs duty but also the new dumping duty, which added 22.6 percent on top of the 6.5; that in order to deal with this situation we respectfully request that duties are applied up to 100 percent on HTS 3102 and 2814.

MR. CHANG: Okay. Could you also please clarify, ideally in a post-hearing submission, the specific HTS tariff lines related to nitrogen fertilizer CF that you would like to have added to this list? I think that would be helpful. Thank you.

MS. O'BRIEN: We would be happy to do that. Thank you.

MS. HUANG: Hello. I'm Jessica Huang from the U.S. Department of Commerce. Question for Mr. Church of Ceramic Tile Distributors.

Looking at trade data, the E.U. share of U.S. imports for certain ceramic tile tariff lines is low. May you elaborate how there are no other alternative international sources for higher end ceramic tiles?

Also, in terms of percentages of imports from only the E.U., do you have an estimate on how much are high-end or exclusive to E.U. sources versus the types that can be sourced from outside of the E.U.? Thank you.

MR. CHURCH: Sure. And if it's okay with you, we'd like to respond to that in our following comments.

MS. HUANG: Yes. Thank you.

MS. O'FLAHERTY: Hi. Elle O'Flaherty with USDA. My question is for Ed Brzytwa with the American Chemistry Council.

You testified that tariffs could result in more limited availability of specific inputs made by the E.U. For the chemicals and essential oils you referenced in Chapter 33, are there alternative domestic or foreign sources?

MR. BRZYTWA: We would have to get back to you in the written submission on that. I mean, I think our major point here is that we are not seeking tariffs on these products. So I would just like to reiterate that.

MR. SULBY: My question is for Jeff Watson from Ferroglobe. Ari Sulby from the Department of State.

Particularly for ferromanganese with greater than four percent carbon and for ferrosilicon manganese, the E.U. appears to be a relatively small source of U.S. imports. Is there anything distinct about the E.U. source products versus imports from other countries in these tariff lines? And, if not, could Ferroglobe source these imports from other countries?

MR. WATSON: No. There is not significant difference from other imports and other countries. But our facilities are in the European Union that are being addressed here. That's why we would need the permission to ship into the U.S. from there.

MS. BONNER: Sarah Bonner from the U.S. Small Business Administration. This question is for Mr. Calvo.

Mr. Calvo, as you noted, there are other products that fall under the same HTS tariff line as your company's quartz products. Can you explain the differences between your products and the other items that fall within the same tariff line?

MR. CALVO: I'm not familiar with all of those other products that are in our tariff line. I would have to respond to you in writing and do some more research on that.

MS. BONNER: I have an additional question, but please do feel free to make a post-hearing comment. Also, it would be helpful to know now, or in that comment, if other supplies of conglomerate quartz surfaces also import unfinished quartz materials and further process them in the U.S., or if they import the product in a more finished state.

MR. CALVO: Would you like me to answer that now?

MS. BONNER: If you have an answer.

MR. CALVO: Anyone that's importing quartz slabs into the United States are importing them in the same state that we are. But they all have to be finished and fitted for the consumer's use.

MS. BONNER: Okay. And your comment also stated that imposing additional duties would cause significant difficulties on small businesses. Specifically, is there anything for the record that you'd like to expand on?

MR. CALVO: Well, our primary customer base is small businesses, family-owned businesses, that we have been working with for over 22 years, and we're a trusted supplier of theirs.

And in light of all of the different things that have been happening with China -- and, in fact, there was an antidumping suit filed by Cambria recently. It's being finalized. That is going to remove about 55 to 60 percent of the capacity that is being currently shipped into the United States. And there simply is not enough capacity throughout the world to fill that hole.

We happen to be the largest single manufacturer in the world, and I think we are best suited to help fill that hole that will be left by that tariff.

MS. BONNER: Thank you, and please do feel free to make a post-hearing comment.

MS. GRIMBALL: Witnesses, thank you for your testimony. At this time, we will break for lunch. We will begin with the fourth panel at 1:45. Thank you.

(Whereupon, the above-entitled matter went off the record at 12:35 p.m. and resumed at 1:45 p.m.)

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

CHAIR BUSIS: Thank you, Mr. Bishop. As always, we are going to -- for the audience and court reporter, we're going to introduce the committee again. So, Sarah, if you can start.

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

MS. HEINZEN: Janet Heinzen, USTR.

MS. HUANG: Jessica Huang, U.S. Department of Commerce.

MS. O'FLAHERTY: Elle O'Flaherty, Foreign Agricultural Service, U.S. Department of Agriculture.

MR. CHANG: Won Chang, Department of Treasury.

MR. SULBY: Ari Sulby, Department of State.

CHAIR BUSIS: And Bill Busis, Chair of the 301 Committee and Deputy Assistant USTR for Monitoring and Enforcement. Mr. Bishop, you can call the witness please.

MR. BISHOP: Our first witness on this panel is Robert Land with JetBlue Airlines. Mr. Land you have five minutes.

MR. LAND: Good afternoon.

MR. BISHOP: Speak directly into it.

MR. LAND: Directly into it, there we go. Good afternoon.

MR. BISHOP: That's good.

MR. LAND: My name is Rob Land and I'm JetBlue Senior Vice President for Government Affairs and Associate General Counsel. And on behalf of our more than 22,000 crew members, our word for employees, I appreciate the opportunity today to come in and voice our strong opposition to the tariff proposals on aircraft, sub-assemblies, and component parts that will threaten our ability at JetBlue to further disrupt the aviation marketplace, grow our airline, and with that growth, create more new jobs.

JetBlue is New York's hometown airline and the leading low fare airline in Boston and

Ft. Lauderdale where we're both cities the largest, Los Angeles, Orlando, and San Juan. JetBlue carries more than 42 million customers annually to more than 100 cities in the U.S., Caribbean, and Latin American with an average of more than 1,000 daily large jet flights.

Founded back in 2000 with the goal of bringing humanity back to air travel, we've grown to become the sixth largest airline in the United States. Today our fleet has 253 large jet aircraft, which includes 63 Airbus A321s, 130 Airbus A320s, and 60 Embraer E190s. This past year, we announced an order for 60 new Airbus A220s, which will replace our entire Embraer fleet. Airbus will be manufacturing the new Airbus A220s in its new facility in Mobile, Alabama.

Also this year, JetBlue announced that we will be converting 13 of our existing A321neos from an order of 85 of those aircraft to new Airbus A321 long range LRs. This is going to allow JetBlue to expand our network across the

Atlantic to London and potentially other high fare markets.

Since our founding in 2000 and against a history of fierce competition in our industry, JetBlue has been a strong and consistent advocate for unfettered free market competition and access. Our success as a profitable customer service brand has been established consistently by delivering a differentiated product at a better cost than our competitors. Our ability to set ourselves apart from the competitors has been essential in an industry where the four largest U.S. carriers control more than 80 percent of the market.

In 2016, JetBlue was very proud and I was on the tarmac to witness it, to take the first Airbus A321 aircraft manufactured at Airbus' new facility in Mobile, Alabama. And we're proud to continue to take aircraft from that facility and be an integral part of the manufacturing renaissance on the Gulf Coast.

The new facility in Mobile has created

numerous well-paid skilled manufacturing jobs with a subsequent positive economic impact across the region. JetBlue is excited for the pace of the renaissance to reach another level when we begin taking our Airbus A220 aircraft, which I just referred to, also from the Mobile facility once that new line is up and running. As well as continuing our A321 neo aircraft from the existing Airbus Mobile final assembly line.

We look forward to a continued long relationship with that Mobile facility and the surrounding communities. Tariffs however threaten all of these positive developments. Ultimately these tariff proposals and surely those likely to be leveled on U.S. goods by the E.U., will put at risk JetBlue's ability to provide low fares, compete and deliver a differentiated product from our competitors.

Tariffs don't solely impact the manufacturers and air carriers, the fact is that these increased costs will be borne by U.S. consumers and U.S. workers, resulting in higher airfares, less innovative aircraft, and reduced competition. And that will have a negative impact on jobs that would support flying these new aircraft.

Our aircraft order book to JetBlue involves significant purchases requiring long lead times for production, customization, delivery, fleet optimization and schedule planning. Such an aircraft cannot easily be interchanged in our fleet. These punitive tariffs on aircraft, subassemblies, and components will ultimately impact JetBlue's ability to grow our network, buy more aircraft, hire more crew members here in the United States. And continue to bring the JetBlue effect of lower fares to more communities. In our short 19 years, we've proven that when JetBlue enters a market, prices decrease and passenger traffic increases. That's a true win-win situation.

I appreciate you taking the time to hear our concerns. We strongly urge the rejection of these tariff proposals that threaten to slow our growth. And I'm happy to take any questions.

MR. BISHOP: Thank you, Mr. Land. Our next witness is Farah Ahmed with the Fragrance Creators Association. Ms. Ahmed, you have five minutes.

MS. AHMED: Thank you very much. Good afternoon, Chairman Busis and distinguished members of the committee. Thank you for the opportunity to appear. My name is Farah Ahmed. I am the President and CEO of the Fragrance Creators Association. We are the principle trade association representing the fragrance industry. Many of our members supply fragrance ingredients including essential oils that are used in mixtures that are sold to finish consumer and institutional goods manufacturers.

Another layer of membership includes companies that take those input and combine them with intellectual property and technology to create fragrances. And fragrances are then sold to finish good manufacturers and consumer product companies to be incorporated into the finished product that are then purchased by consumers. So we cover the broad value chain if you will.

Our membership represents the vast majority of fragrance manufacturers in the United States. Essentially 69 companies, which generate billions in annual revenue. Out of those 69 companies, 50 are small businesses. In fact, a couple of those small businesses, the Lermond Company and Citrus and Allied Essences will be testifying before this committee later this afternoon.

Our industry employs millions of Americans in producing, developing, and distributing American-made essential oil-containing products throughout the country. Fragrance creators supports the administration's goal of promoting U.S. manufacturing and growth of an exceptionally strong economy. Which is actually why we're opposed to the application of any tariff or other trade restrictions on essential oils and concentrates of essential oils, of fruits and plants classified in HTS Heading 3301.

I now wish to elaborate on why essential oils by definition are specific to specific regions of the world. So if you think of wine for example where a grape is not simply a grape. The same holds true for essential oils; latitude, longitude, microclimate for example cannot be replicated in the United States or anywhere else for that matter.

Thinking more specifically as an example, think of rose. We have Bulgarian Rose, English Rose, Turkish Rose, Moroccan Rose, they all smell differently and that matters in terms of the final scent of that particular essential oil. Yet unlike wine, essential oils and concentrates are not finished specialty or luxury goods, but rather they're inputs used to manufacture thousands of different consumer products.

Essentially, essential oils are vital inputs for millions, if not billions of scented

U.S. manufactured goods that every single American uses and depends on every single day. For example, home cleaning products including window cleaners and laundry detergents, shampoos, deodorants, soaps, toothpaste, that new car smell, sun screens, feminine hygiene products, diapers, candles, air fresheners, kitty litters, puppy pee pads, perfumes, and colognes, as well as hundreds and hundreds of consumer products and other consumer product categories.

There's also industrial uses. For example, odor control for hog farms and scenting natural gas so that it's detectable in the event of a leak. These essential oils are also used to create scents that are used in training our military for example, as well as stress management. And even used to make scented business cards like the one I've brought today. So we brought some samples that we can share with the committee to experience it firsthand. Thank you.

Thus the increased cost and negative

impact to the American businesses and consumers, particularly those already struggling to make ends meet will not be accompanied by any benefit to the U.S. economy. Trade restrictions on essential oils and essential oil concentrates will lead to higher costs and reduced accessed to goods for consumers. As well as higher costs for U.S. producers and retailers, most of which are small businesses without providing any benefit to the U.S. industry.

Hundreds and thousands of American jobs are dependent on scented products. Any increase in cost in essential oils will be devastating to our members. If our members and their U.S. manufacturing customers absorb these costs, it will jeopardize American jobs. If increased costs are passed along to the consumers, it will raise prices for everyday Americans who are consumers of common household cleaning products, personal care, and wellness products that I previously mentioned.

Those cost increase will compromise

the competitiveness of American manufacturers and threaten the downstream retail jobs and businesses that depend on a reliable supply of those products. Manufacturers who use essential oils as inputs will be further incentivized to relocate production to other countries such as Canada and Mexico and countries in low cost regions that can source these products without any additional duty. This will undercut the administration's stated goals by putting U.S. manufacturers at a competitive disadvantage against other global manufacturers.

Lastly, I would be remiss if I did not impress upon the committee that essential oils and concentrates of essential oils also deliver real benefits for millions of Americans in terms of stress management, memory, emotion, and wellness. Tariffs on these products are tantamount to a tax on wellness, personal hygiene, and home care. This is an economic issue, a jobs issue, a consumer issue, a women's issue, and a veteran's issue.

We appreciate your consideration of our industry's concerns. And I'd be happy to answer any questions.

MR. BISHOP: Thank you, Ms. Ahmed. Our next witness is Hun Quach with the Retail Industry Leaders Association. Ms. Quach, you have five minutes.

MS. QUACH: Good afternoon. I'm Hun Quach with the Retail Industry Leaders Association. RILA is the trade association for the world's largest and most innovative retail companies. Our members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than $1.5 trillion in sales and millions of American jobs.

As the trade association representing major U.S. retail companies, we appreciate the opportunity to participate in the public hearing to comment and share our views. RILA supports holding U.S. trading partners accountable and using targeted trade remedies against intellectual property theft, illegal dumping, or subsidies and other proven trade violations consistent with international trade rules. At the same time, we are concerned about the negative impact that the proposed tariffs under Section 301 of the Trade Act could have on Americas working families, while doing nothing to resolve the overall dispute with the European Union and certain member states.

As we've seen over the last past year, placing tariffs on imported goods from countries like China has led to increased prices and business uncertainty. It is American consumers and our heartland that has borne the brunt of Americas global trade war. Whether in the form of retaliatory tariffs on our farmers or higher prices that consumers pay, the stakes are high and the casualties are many. Unilaterally applying up to 100 percent tariff on more than 300 HGS codes covering dozens of consumer products from the E.U. would continue to hit American families hardest.

Tariffs are taxes period. And American pantries are the next targets. Many of the products on this proposed list are household staples. So for example olive oil. It's a cooking essential and it's also on the proposed list. The United States consumes approximately 300,000 metric tons of olive oil, which is about 30 times more than the United States can produce on its own. The E.U. supplies a significant amount of the olive oil used in American homes and restaurants hitting middle class American families and the Main Street businesses that feed them.

Doctors, nutritionists, and dieticians agree with the U.S. Food and Drug Administration that olive oil is a food beneficial for cardiovascular health. The alternatives for sourcing olive oil from other countries are limited in quantity and volume. While the alternative is a substitute that do not provide the same health benefits. Thus any tariff on olive oil imports from the E.U. will impact the price that Americans pay for this kitchen staple. Particularly for the cost-conscious families that we serve every day.

In addition to olive oil, other food products like healthy seafood such as salmon and herring which provide a rich protein and affordable source of food for Americans are also included. Family favorite cookies and biscuits, in addition to a variety of popular jams are also on the administration's list to be assessed a tariff of up to 100 percent. Then there are the plates and mugs that consumers use to serve their healthy family meals every day. These are kitchen staples for nearly every American household.

This is just a snapshot of the products included in the administration's proposed list of goods imported from the E.U. Our member companies continue to analyze the potential impact of the proposed tariffs. And we will update our recommendations for specific HGS lines to be removed in our post-hearing comments.

Because of our strong trading relationship with the E.U., retailers have made many of these products more accessible and affordable to American families. These tariffs could pose a threat to that availability and affordability. We strongly encourage the administration to not put American families in the crosshairs while the United States and the E.U. are working on a negotiated settlement. We implore you to avoid adding other consumer products, whether in this proposed action or any future administration actions. And to avoid taxing middle class American families with the imposition of tariffs.

Thank you for hearing our testimony today. We look forward to continuing to work with you to find a solution that works for American business and families. And I'm happy to answer any questions.

MR. BISHOP: Thank you, Ms. Quach. Our next witness is Nate Herman with the American Apparel & Footwear Association. Mr. Herman, you have five minutes.

MR. HERMAN: Thank you for the opportunity to testify. My name is Nate Herman. I'm the Senior Vice President for Supply Chain at the American Apparel & Footwear Association. The National Association of the Apparel & Footwear Industry. I'm also testifying on behalf of three other organizations; the Accessories Council, The National Association of Fashion Accessories Industry, the Council of Fashion Designers of America, The National Association of Fashion and Accessory Designers, and the Travel Goods Association, The National Association of the Travel Goods Industry.

We did not expect to be testifying today. In fact, our industry has nothing to do with this issue, a dispute over subsidies for commercial aircraft. Yet when the U.S. government published its proposed retaliation list against European products over the dispute, we were dragged into this dispute. It makes no sense, but here we are.

Before I go any further, I want to set the record straight. Other countries do not pay the tariffs being proposed today. Tariffs inciter a huge hidden tax paid by hardworking American families in the form of higher prices and by American workers in the form of fewer jobs and lower wages. The bottom line is that imposing new tariffs on imports is the same as imposing new taxes on American businesses and American consumers.

I want to begin my testimony today by describing why it's such a big deal for industry to be dragged into this dispute. And it all boils down to five numbers. Ninety-eight, 98 percent of all clothes, shoes, fashion accessories, and travel goods sold in the United States today are imported. Six, 6 percent of the value of all U.S. imports are clothes, shoes, fashion accessories and travel goods.

Fifty-one, yet our industry pays 51 percent of the tariffs. That was the number in 2017 and 2018. Because of all the new tariffs imposed over the last year, that number -- the percentage dropped to about 40 percent. But our tariff bill for our industry went up by over a billion dollars in 2018. Four hundred, our industry accounts for over $400 billion in retail sales. And four, yet our industry through the power of global value chains, our members directly employ 4 million American workers in such diverse areas as design, R&D, manufacturing, compliance, logistics, marketing, and retail.

In these global value chains, the very single supply chains that directly employ 4 million Americans are under a sustained attack right now by our own government. First, the China 301 tariffs. Starting last Friday, President Trump increased from 10 to 25 percent the punitive tariffs on U.S. imports from China of all textiles, travel goods, fashion accessories, leather and rubber apparel, and hats. Further, President Trump will likely impose punitive tariffs on all U.S. apparel and footwear imports from China sometime this summer.

Why does this matter? Today 82 percent of all travel goods and fashion accessories, 69 percent of all footwear, and 42 percent of all clothes sold in the United States come from China. Further, most companies making clothes, shoes, and fashion accessories in the United States today rely on textiles and other inputs from China to manufacture their products.

And that's not all, President Trump in the story of giving with one hand and taking with another is proposing new tariffs in many of the alterative suppliers utilized by the industry today. Two years ago, President Trump made the correct decision to allow travel goods and fashion accessories to benefit from the Generalized System of Preferences program or GSP.

As a result, American companies have begun to shift sourcing away from China to other developing countries. Driving China's share of imports down from 88 percent two years ago to 82 percent today. Yet President Trump could re-impose tariffs on U.S. imports of travel goods and fashion accessories from India and Turkey as soon as today. India is the third largest supplier of travel goods and fashion accessories to the United States.

Further, President Trump could re-impose tariffs on U.S. imports of travel goods and fashion accessories from two other major suppliers; Indonesia and Thailand. But wait, there's more. Not surprisingly, our trading partners have retaliated. Today exports to China of U.S. made cotton, U.S. made textiles, U.S. made clothes, shoes, travel goods and fashion accessories all face significant retaliatory tariffs.

Further, Europe has retaliated against imports of U.S. made jeans and other U.S. made clothing. And threatened retaliation against U.S. made shoes over the steel and aluminum dispute. Yet another dispute, we have absolutely nothing to do with.

That brings us to today where the U.S. government has proposed retaliating against U.S.

imports of handbags, textiles, and clothes from Europe. The selection of these items for retaliation frankly baffles us as they have nothing to do with this dispute or even with the manufacturing of aircraft. Because of this lack of connection, they will also do nothing to change the behavior of the European commission in this dispute.

CHAIR BUSIS: Mr. Herman, if you could please wind down.

MR. HERMAN: Sure.

CHAIR BUSIS: Thank you.

MR. HERMAN: Okay. In closing, we urge the government to not impose retaliatory tariffs on our industry. We shouldn't be here. Just as important, our industry and our 4 million American workers can't afford yet another new tax on our businesses and consumers. Thank you for time and consideration. I'd be happy to take any questions.

MR. BISHOP: Thank you, Mr. Herman. Our final witness on this panel is Giles

Meredith-Jones with Design Quadrant. Mr. Jones, you have five minutes.

MR. MEREDITH-JONES: Good afternoon. Thank you for receiving this testimony. My name is Giles Meredith-Jones, sales director in North America for Johnsons Development established in 1797. We're the remaining vertical cashmere mill in Scotland with around 1,000 employees producing accessories and sweaters -- cashmere sweaters in the Johnsons brand, as well as some of the world's most prestigious brands.

I'm reading on behalf of Frank Zambrelli who's sadly stuck in Zurich and unable to attend. I hereby submit a summary for the final testimony to be given by Frank Zambrelli, Chairman of the Accessories Council located at 224 West 30th Street in New York. Tariff provisions to be addressed. Mr. Zambrelli will testify in opposition to the proposed additional duties on the HTSUS items listed in the subheading.

4202.21.90 Handbags with or without

shoulder straps with or without handle without a surface of leather composition or patented leather --

CHAIR BUSIS: Excuse me. I would suggest you move to the testimony. We can read the numbers. Thank you.

MR. MEREDITH-JONES: Sure.

CHAIR BUSIS: Okay.

MR. MEREDITH-JONES: I am Frank Zambrelli, Chairman of the Accessories Council, a non-for-profit international trade organization established in 1994. The council's mission is to promote consumer awareness in demand for the fashion accessory products produced and imported by its member companies, which consists of over 280 U.S. importers and retailers. I'm also a design resource and business expert across the accessories sector. Having worked with many brands, factories, and retailers in the categories that are affected by this proposed action over the course of my 25 year career in the industry.

Perhaps most directly, I'm testifying as a small business owner. The people I employee and their spouses and children rely on the ability of my company and our clients to compete in a sector that is already competitive and subject to excess tariffs. This additional tariff directly hurts small businesses like mine as tariffs are essentially extra taxes on these articles that cannot be avoided by shifting them to the U.S. or other countries.

This tax will not fall on nations, but ultimately on citizens. It will result in price increases on products imported, which further results in higher retail prices, which translates into lost sales which becomes reduced work. And inevitably, quite tragically, lost jobs. In fact, UBS predicts 21,000 stores could be going to the chopping block by 2026. Small companies like mine tend to bear the brunt of this as we're more dependent on certain sources of manufacturing and have less flexibility to cost average or balance tariff increases.

A tariff as holistic as the one threatened, will leave few, if any options or recourse. In categories like handbags or cashmere, there are very few substitutes to specialized manufacturer of the level of certain countries within the European Union. In the already volatile business climate, we face planning for change as being a precarious balancing act. Tariffs at any point are damaging to a business that operates in categories who's manufacturer sales rely on interdependent economies. Unpredictable and dramatic change like the one proposed, could be deadly to my company and thousands of small and medium size businesses affected.

Imposing additional ad valorem duty on handbags and cashmere will result in prohibitively high tariffs. The handbag imported under these harmonized tariff codes are already subject to 9 percent duty rate. Increasing this rate by even 1/4 of the proposed potential tariff would subject handbags to one of the highest rates of any products imported into the United States. In fact, these rates would be on a par with goods from countries that do not have normal trade relations, NTRs such as North Korea.

The U.S. industry and consumer simply cannot absorb an increase. Similar cashmere clothing and accessories included in the proposed retaliatory tariff already carry duty rate of 4 percent. The increase would substantially penalize cashmere from Scotland and the UK. Shifting businesses away from countries with a long heritage and storied history.

Imposing retaliatory duties on goods in these sectors unfairly taxes thousands of U.S. companies across multiple industries in support of aviation. A single sector causing disproportionate economic harm to U.S. interests including thousands of family-owned businesses and millions of consumers.

Accessory Council members will be disproportionately harmed by the imposition of these additional tariffs. The U.S. retail industry for handbags is already under significant financial stress. The retail sales value of the handbag category in 2015 hit a high of 11.3 billion, but then ended 2018, down to 8.5.

Additionally and finally, it is vitally important to note that several of the council's members consist of start-up businesses that have been in operation for less than five years. Many of these small and medium-sized businesses would be mortally wounded by this action, especially the many developing companies with annual sales less than $2 million. Dozens of these companies are women and minority-owned businesses that have only just begun to re-bounce the inequality present for so long. The new brand and retailers have limited financial resources. Neither the budget, nor resources to weather a trade war that has nothing to do with our business.

In closing, I would urge the government not to impose these retaliatory tariffs on our industry. This fight is not ours, but its impact would create -- would be great harm."

Thank you. And I would be happy to take any questions.

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

CHAIR BUSIS: Ari Sulby from the State Department.

MR. SULBY: My question is for Robert Land from JetBlue. To what extent might changes in manufacturing costs effect pricing decisions related to individual ticket prices?

MR. LAND: If the -- Can you hear me okay? If the tariffs go through and JetBlue's costs for example were to go up 100 percent, we would have to pass that on to our consumers and ticket prices would go up.

MR. SULBY: To the extent you can, without revealing any business confidential information, can you give us a sense of what factors go into the pricing decisions of individual tickets?

MR. LAND: Sure. First and foremost, we have to purchase the aircraft. We have to pay our crew. We have to invest in the technology and the aircraft that is above and beyond what comes with the aircraft. So in JetBlue's specific case, leather seats, free live television, free live EXIM radio, free 4G Wi-Fi for everybody on board. You know, cans of soda, instead of poured soda. You know, things that are customer attributes specific to our company going into those cost decisions. But they start with the aircraft, then fuel, crew, costs.

CHAIR BUSIS: And Mr. Land, I wasn't -- I think I heard, but I just want to confirm. You mentioned two possible effects of proposed action. One was on the goods produced in Alabama. And the other was on imported goods. Do you have imported planes from Europe that are scheduled to be delivered the next say year, is that right?

MR. LAND: That's correct. As well as Alabama.

CHAIR BUSIS: Right. So there's really -- probably the least surprising thing in the trade world is the fact that we're here today, at least from the perspective of your customer, which is Airbus. As you know, they lost the case in 2011. And I'm going to ask you a question in second pretty soon. And the end of the reasonable period of time for compliance entity also in 2011. It was only Airbus who had the decision of whether or not to comply. And now we're here in 2019 and then we have a -- you know, there's really been no compliance effort. So is there something in the contract that addresses anything about retaliatory tariffs?

MR. LAND: To my knowledge, there's nothing in the contract that addresses that.

CHAIR BUSIS: And is it -- is it an option what happens under the contract? And again this is might be proprietary, but if you say to Airbus, look the situation has changed.

You didn't comply. There is now duties because you didn't comply. I'm not paying the same price. Is there some tool under the contract or just under general contract law where you can say to your supplier, hey this is on you?

MR. LAND: That precise question or series of questions is something our legal team is exploring currently.

CHAIR BUSIS: Thank you.

MS. BONNER: Hi, Ms. Ahmed. This is Sarah Bonner from SBA. I had some follow-up questions specifically given your small businesses that you mentioned. Could you please be specific about the percentage related to essential oils imported from Europe that you discussed? Do you have any, you know, approximate idea of how much of that would be impacted?

MS. AHMED: Impacting our small business members or --

MS. BONNER: Well all members generally.

MS. AHMED: I'd like to give you a meaningful answer. And I think the best way is in post-hearing comments.

MS. BONNER: That would be fantastic. I have a follow-up that may also need to be addressed that way. But any of those that would be impacted, it would be helpful if you could help us to understand if those oils could be obtained from sources outside of the EEO.

MS. AHMED: In large part, no. They cannot. The challenge that we have is that those specific oils come from plants that can only be grown in those specific microclimates. So although for example you can find a rose blanketly speaking in other parts of the world outside of Europe as we all know and many of us have gardens with roses, so we know that. However the scent is different.

And so our perfumers make fragrances for brands that are very sensitive -- or whose consumers are very sensitive to changes in a scent. And that's not just a fine fragrance, but that goes across the board. And many of us -- in fact, one of the primary drivers for purchasing specific products that we do is the scent. So in other words, if we were to say instead of sourcing rose essential oil from Bulgaria -- from a Bulgarian rose that has a specific, that essential oil will have a specific scent. If we went and sourced that from roses in another part of the world, that scent would be very different.

In many cases, the scent differential would be detectable by say the average person, not just a sensitive nose, if you will, or perfumer.

MS. BONNER: If you did want to follow up with the post-hearing comments on the percentages related to import -- being imported from Europe, that would be helpful.

MS. AHMED: Absolutely, thank you.

MR. CHANG: Hi, Won Chang, Department of Treasury. My question is for Hun Quach, Retail Industry Leaders Association. Can you be more specific and highlight products which based on information you have received from your members, could have the greatest price impact on U.S. retailers and consumers?

MS. QUACH: Sure. I think it's easy to start with first that retailers operate on razor thin margins. And so with the onslaught of tariffs that we've faced over the past year, we've been trying to mitigate this as much as possible. For some of these products like food products, the margins are even slimmer. Because of the volume that we sell for example of olive oil, we want to make sure that our customers are getting the best price possible and get the best quality product possible.

And I think that as consumer tastes evolve, they are getting more and more sophisticated based on what it is that they're consuming. And so for things like food products, I think that is one of the more price sensitive areas for the American pocketbook. And so there's no question that a number of the -- the dozens and dozens of food products that we plan on submitting in our post-hearing comments will reflect that.

MR. CHANG: in addition for these items, are there alternative suppliers from domestic sources or from third country trading partners?

MS. QUACH: Great question. I think that when it comes to some of these products like biscuits and cookies, these are sort of the nostalgic cookies that only come from this region. I remember growing up, we had a tin -- a metal tin of cookies that my grandmother used to have. And those were sort of the sweet biscuits that came from Europe. And so that nostalgia, those types of cookies are only produced in Europe.

For some of these jams, certainly we can source them from the United States. And in fact for some of our companies, we source over 50 percent of product here in the United States. The problem is that when our customers are demanding a variety of things like jams and butters and cookies and biscuits from abroad, we want to delight them and bring those -- make those products available in our store shelves.

So when you're talking about some of these products, certainly we can substitute them. But for myself and my family, I can tell you we have family favorites. And we want to be able to deliver upon the demands for our customers.

MR. CHANG: Okay, thank you.

MS. HEINZEN: Janet Heinzen with USTR. And my question's for Mr. Herman from the AFA. What percent of handbags, textiles, and apparel goods on the proposed list of items come from the E.U.?

MR. HERMAN: Total, it depends on the individual products. But it's about 10 percent of total imports come from the European Union.

MS. HEINZEN: Okay. Is there a possibility for your members to source some of these from domestic suppliers?

MR. HERMAN: When you're talking about particularly textiles, yarns, and fabrics, we get about $1.5 billion worth of yarns and fabrics from Europe. They're usually very specialized fabrics and yarns or very technical fabrics and yarns. Those textiles coming out of Europe are typically more expensive. So if there were options to source domestically or from other countries, companies would definitely be taking advantage of that. But they're usually very specialized and a very technical product and so not easily replaced.

MS. HEINZEN: Thank you.

MR. MEREDITH-JONES: Could I also speak from the luxury point of view in the handbag and cashmere point of view? The main thing is that when it comes to the manufacturer of certain goods -- luxury goods like handbags or cashmere sweaters, the specialized manufacturing is so specific, there's no alternative in the U.S. here. And certainly there's no demand for Made in China in the luxury sector. It has to be transparent. It has to be from a heritage source or there's no demand.

MS. HEINZEN: Thank you.

MS. HUANG: Hello, Jessica Huang from U.S. Department of Commerce. Thank you for testifying on behalf of Mr. Zambrelli. And you can provide the answer to this post-hearing comment. In terms of the HS lines where Mr. Zambrelli has testified that he would like to remove these products, do you know the import share from the E.U. versus other sources?

MR. MEREDITH-JONES: I would have to look into that and then reply to you at a later stage.

MS. HUANG: And then of those imports in the E.U., I understand that you just said that a lot of them come from a heritage or a specific part about the E.U. brand that the consumer really wants, but of the imports from the E.U., what could be substituted internationally or domestically?

MR. MEREDITH-JONES: I'll speak specifically about cashmere sweaters and Merino sweaters, which are produced in our factory. We produce about 70 percent private label for some of the most sort of highest heritage brands in the world. Or some of the most proprietary brands. And they have already like in the past looked into other sources. They cannot find any other source apart from either Made in Italy or Made in Scotland.

MR. HERMAN: And just to add on, on handbags, there's about -- almost a billion dollars' worth of handbags in that one tariff line coming out of Europe. So it's a significant percentage of total handbags by value. It's debatable if that can be easily replaced or not. The reason people are buying those particular handbags from Italy and France and elsewhere are very particular reasons. And so they would not be willing to buy similar bags made elsewhere.

MS. HUANG: Thank you.

CHAIR BUSIS: With a special thanks to Mr. Meredith-Jones for filling in at the last moment. I know it was tough for you. And to Ms. Ahmed for the cards -- the scented cards. Thank you.

Mr. Bishop, I think we can call the next panel.

MR. BISHOP: We release this panel with our many thanks. And we invite the members of our final panel today to come forward and be seated.

CHAIR GRIMBALL: Before we start, we're now joined by Roger Wentzel to my right, the Deputy Assistant USTR for Agriculture. There's a lot of food on this panel. So Mr. Bishop, you can call the witnesses. Thanks.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Joseph Profaci with the North American Olive Oil Association. Mr. Profaci, you have five minutes.

MR. PROFACI: Okay, we got it. Thank you. Thank you, Ladies and Gentleman for allowing us to testify. My name is Joseph R. Profaci. I'm Executive Director of the North American Olive Oil Association. My members include companies selling olive oil that is produced in the European Union, as well as from other countries.

We respectfully request that the Interagency Section 301 Committee remove olive oil from the proposed list of products to be subject to additional duties to enforce U.S. rights in the World Trade Organization dispute against the European Union and certain E.U. member states concerning the E.U. subsidies on large civil aircraft.

Tariffs on olive oil will have adverse consequential effects on small businesses and consumers as is the case with most products on the list as we've been hearing. But the case for removing olive oil from the list is particularly compelling. Olive oil is effectively a health food that experts have for years urged Americans to consume more of more often as part of a healthy diet.

U.S. olive oil producers however can only supply around 3 to 4 percent of current U.S. demands for olive oil. The vast majority of olive oil consumed in the United States comes from Europe, primarily Spain, Italy, Greece, and Portugal. Higher tariffs on olive oil imported from Europe will therefore only serve to hurt American consumers who without many viable -- without many viable non-E.U. alternative sources may forego consuming olive oil all together and use less healthy options instead.

This will most dramatically impact lower income Americans who are most in need of dietary improvements as the incidents of chronic diseases is inversely proportional to socioeconomic status. We therefore ask the committee to remove olive oil from the proposed list to empower all American consumers to follow healthy eating patterns consistent with the advice of their doctors, nutritionists, and dieticians.

Olive oil is one of the healthiest foods we can eat. The FDA has recognized olive oil as a food beneficial for cardiovascular health, but its benefits go well beyond that.

The USDA's dietary guidelines for Americans recommended the Mediterranean diet for which olive oil is a principle component as one of three healthy dietary eating patterns.

Well regarded scientific consulting firm Exponent has estimated that getting Americans to increase adherence to the Mediterranean diet by as little as 20 percent will result in a $20 billion savings and treatment for many ailments beyond heart disease including cancer, diabetes, and dementia. In fact, popular diet doctor, Steven Gundry, MD has gone so far as to say, quote, the whole purpose of food is to get olive oil into your mouth, end quote.

Americans have no realistic alternative supply in place for European olive oil, which typically accounts to close to 70 percent of the world's annual production. The United States consumes approximately 300,000 metric tons of olive oil, but in 2018 to '19, U.S. producers accounted for only about 10,000 metric tons of that consumption.

A 2018 Attitude and Usage study commissioned by the NAOOA, my association, along with the American Olive Oil Producers Association confirmed that health is a principle factor that leads Americans to purchase olive oil. A tariff on European olive oil will therefore primarily punish American consumers who will either have to pay increased prices for olive oils or switch to less healthy or even unhealthy but less expensive cooking fats.

Olive oil is the only product on the proposed list that is recommended by American doctors, nutritionists, and dieticians to their patients for the prevention or treatment of chronic diseases. USTR estimates that the total import value of products for which is proposing retaliatory tariffs amounts to $21 billion.

Conspicuously missing from the USTRs proposed list however are pharmaceutical and medical devices and equipment. The value of European pharmaceutical products exported to the

United States alone amounts to nearly $50 billion. This is more than double the entire proposed list and more than 50 times the total value of olive oil imports.

USTR rightly concluded as justified in leaving pharmaceutical and medical devices and equipment off the proposed list because to include them would negatively impact the health of U.S. citizens. Especially to the extent there is no realistic alternative supply of such products. The same consideration should be given to olive oils.

The committee should recognize the importance of olive oil consumption to Americans health. And the fact that there is no realistic alternative source of supply. As a result, a tariff on olive oils would primary punish American consumers and the American health system. Accordingly, the committee should remove olive oils from the proposed list of products, just as it excluded pharmaceuticals and medical devices and equipment from the list.

Thank you for allowing me to testify. I'm happy to answer any questions.

MR. BISHOP: Thank you, Mr. Profaci. Our next witness is William Monroe with Pompeian Incorporated. Mr. Monroe, you have five minutes.

MR. MONROE: Good afternoon, members of the committee. I am William Monroe -- you can call me Bill -- board advisor of Pompeian Incorporated, which is headquarters in Baltimore, Maryland. Pompeian is highly appreciative of the opportunity to present our views at this hearing.

Pompeian was founded in 1906 in Baltimore. It is an iconic American household brand offering a range of olive oil, cooking oil, and specialty vinegar products. Given that Pompeian imports much of its oil from the E.U., Pompeian has a deep interest in the expeditious resolution of the E.U. large civil aircraft dispute. If resolution proves difficult and the United States proceeds to impose retaliatory duties on E.U. origin olive oil imported by Pompeian, the harm to our business and our

American workers and to the millions of U.S. consumers would be severe and would be far reaching.

By dramatically increasing investments here at home, Pompeian has leveraged the growing popularity of olive oil to create jobs in America. Pompeian has invested between $3 to $5 million per year since 2010 into facilities and infrastructure in Baltimore and in California including 2,000 acres of production in California for one of the greatest farms in the last four years. The art of olive oil storage from tank farms in Baltimore, we have more than 2 million gallons in the port of Baltimore that stores fresh oil from all over the world -- oil from the European Union.

After careful review of the HDS subheadings described in the annex of the USTRs, April 12 Federal Register notice, Pompeian urges the USTR to not impose tariffs on bulk virgin oil olive and bulk olive oil. We further support all efforts of the North American Olive Oil

Association, of which we are a member, and oppose any tariffs on any size or any type of healthy olive oil.

Having worked in the olive oil business for almost 40 years, including a stint as CEO of Pompeian from 2005 to 2013, I can speak from deep experience concerning negative effects that tariffs would have on Pompeian in a bulk olive oil imports generally. First, Pompeian imports olive oil only in bulk. We bottle here in the United States to distribute throughout this country. We also produce olive oil in our central valley farms.

All of this creates American jobs, including in factories, warehouses, transportation, agriculture. Tariffs on bulk olive oil would cause substantial financial harm to Pompeian brand businesses. And would complicate and alter our ability to invest in new production facilities to hire more people.

Second, unlike many products listed in the USTRs April 12th, Federal Register Notice, domestic supply of olive oil is very low. As domestic producers mostly based in California can only produce about 5 percent of the total demand. Crop was short last year. It was 2.5 percent. Our domestic producers have also recently been importing in larger volumes, so even the Californians had to bring in from different countries.

Relative to domestic production, just to keep up with the consumer demand for these products, the domestic olive oil supply is far from small to be a substitute for the amount of imported olive oil. So any tariffs on bulk olive oil will not affect import volumes as much as for the products such as cheese, wine, and citrus in which domestic substitutes are readily available. In addition, Pompeian cannot source sufficient supply from non-European Union countries, so in the end, it would have to import from Europe. And would have to pass on these costs to the American consumer.

Third, given that olive oil is the

healthiest cooking oil in the world, but also the most expensive food oil by volume sold widely in the United States, Pompeian is concerned that if it's forced to raise prices due to tariffs, many consumers with cost-conscious grocery budgets, along with food manufacturers facing intense pressure to keep their products affordable would have no choice -- have no choice, but to substitute olive oil for less expensive, less healthy oils.

A drop in consumer demand would put pressure on retailers to reduce shelf space for olive oil. For manufacturers of olive oil that is founded in sauces, prepared foods, spreads, and salad dressings and many others, higher prices would push many manufacturers to reformulate their products to reduce and exclude olive oil. Reduced consumption of olive oil will have harmed the health of the American consumer at a time when the U.S. is facing obesity and heart disease epidemics.

Fourth, finally increasing the price

of olive oil will increase the incentives for unscrupulous actors to fraudulently market low quality olive oil as higher quality olive oil. This would increase the small, but persistent percentages of olive oil sold in the retail stores that are not in compliance with the voluntary USDA standards. The only two companies that are participating in the USDA Voluntary Olive Oil Quality Monitoring Program is Pompeian in Baltimore and California.

On behalf of Pompeian, again I would like to thank the Section 301 Committee for this great opportunity to share my testimony. And we're pleased to address any questions you may have. I thank you.

MR. BISHOP: Thank you, Mr. Monroe. Our next witness is Robert Tobiassen with the National Association of Beverage Importers. Mr. Tobiassen, you have five minutes.

MR. TOBIASSEN: Good morning and thank you for the opportunity to speak with you this afternoon about the proposed retaliatory tariffs insofar as the apply to distilled spirts, wine, beer, malt beverages that are imported into the United States.

My name is Robert Tobiassen. I am the current President of the National Association of Beverage Importers. Since 1935, shortly after the repeal of prohibition, we have represented the import industry for distilled spirts, wine, beer, as well as some lower non-alcoholic beverage products.

Prior to joining NABI, I had a 34 year career with the Treasury Department in the area of Alcohol Tobacco Tax, Regulation, and Global Trade. And for that reason, I'm very sympathetic with the difficult challenging task you all have before you.

Our points are really few to make in this proceeding, but definitely ones we believe are very, very important for consumers, employers, employees, as well as the United States economy. We are guided by the simple principle that if a retaliatory tariff is going to be imposed, then they should aim for two things. One, mitigating the unjustified competitive harm that has arisen. And two, doing the least damage to the interest of American consumers industry and the federal government policies in general.

Essentially the federal executive branch should speak with one voice. What I mean by that is when I was chief counsel of the smaller of the two tax agencies in the Treasury Department, there were areas where IRS and ATF/TTB would overlap on interpretations of the tax laws. I always made sure that the Secretary of the Treasury spoke with one voice. And that IRS and ATF/TTB were consistent in the interpretations. Because the federal government again should speak with one voice.

Moving to the first point, mitigating on the unjustifiable competitive harm here, the items on Section 1 with the comments made this morning by those more expert in the area of aeronautical parts than I am, make sense. Eye for an eye, that's what you should go for. There's sufficient commodities on that list to cover the damages that we are looking for as the United States Government.

But more importantly as well, and this is where I say the government should speak with one voice, you should do the least damage to the interest of American consumers, the industry, and other federal government policies. For example, alcoholic beverages unlike many items on the list, also generates significant tax revenue to the Treasury Department. There's no fiscal policy reason that that tax revenue should be jeopardized as part of a retaliatory tariff. There's another federal policy out there to generate tax revenue, excise taxes from these products, and that policy should be respected.

Similarly, the federal government through the Department of Health and Human Services, the National Institute on Alcoholism and Alcohol Abuse, the National Institutes of Health, there are a number of policies in the federal government to encourage responsible consumption of alcoholic beverages; inclusion of non-alcoholic beers runs contrary to that policy.

If you, just as a consumer, walk through a large retail store for off-premise consumption and look at the brands of non-alcoholic beer, you will probably only find two or three produced in the United States. The vast, vast majority are imported non-alcoholic beers and generally from the European Union.

In order to advance that policy of moderate consumption, don't put those products on this list. Additionally it allows people who prefer not to consume alcohol to still feel that they're out in a social setting and enjoy. It encourages designated drivers to feel like they're drinking a beer, but not consume a product that's going to adversely affect them.

Finally, the American consumer really enjoys the diversity of products out there. A lot of questions and I cannot answer this, but a number of the questions of the panel is how fungible, how interchangeable? What is the elasticity of a product? And those of you on the panel who've worked with the alcohol industry know that consumers are brand-specific in their loyalty because this has a taste and a unique characteristic they want. And they will argue with you that there is no domestic product -- alcoholic beverage that has that same characteristic. So in their minds, there is not a domestic substitute for a number of these alcoholic beverages.

Again, the tariffs are designed not to hurt consumers. Only impose them where there are similar products to be imposed, available in the U.S. that can meet that demand. For all these reasons, NABI respectfully requests that the distilled spirts, wine, and non-alcoholic beer products on the list be removed from the list.

And finally personally as a consumer and knowing my friends professionally, our products make you happy in good times, they comfort you in bad times. We all know that now are times we need those products. Thank you very much.

MR. BISHOP: Thank you, Mr. Tobiassen. Our next witness is Phil Kafarakis with the Specialty Food Association. Mr. Kafarakis, you have five minutes.

MR. KAFARAKIS: Good afternoon. My name is Phil Kafarakis and I'm the president of the Specialty Food Association. I would like to thank the U.S. Trade Representative for the opportunity to present the view points of the specialty food industry at today's public hearing.

The Specialty Food Association is the trade association for all segments of the specialty food industry. The more than 3,800 members of the SFA, mostly small and very small food manufacturers, importers, distributers, and retailers are located throughout the U.S. They make and handle food products that are often referred to as value added or specialty.

Specialty food sales in the U.S. are

more than $140 billion annually according to research from Mintel International. Specialty food represents 15 percent of the food sales at retail and are growing at more than 7 times the rate of mass produced food brands.

SFA sponsors the Summer and Winter Fancy Food Shows, education programs in San Francisco and New York. We publish a specialty food magazine and the industry report for members and co-publish, with Mintel, the annual state of the specialty food industry annually.

Specialty food manufacturers and retailers value their positive relationship with their consumers, many of whom are strong proponents of consumer choice in food. International foods, along with local products are the backbone of the products that are being offered across retailers throughout the country. This innovative mix of food sourced both locally and globally is why specialty foods are growing in sales and are shaping the future of our food.

Small food companies will certainly be

harmed. The added 100 percent imported duties on specialty foods from Europe, especially cheese, olive oil, jams, and other processed food products will directly impact small food retailers across the country. These SMEs, small and mid-size enterprises are the engine that drive the specialty food growth.

Given their effect on small food businesses, the proposed tariffs would not be appropriate and feasible in this industrial trade dispute between aviation companies. Specialty Food Association estimates that there are approximately 14,000 specialty food retail stores across the U.S. which would be harmfully impacted by these tariffs.

Many of the processed foods listed by the USTR are specialty foods such as cheese, olives, olive oil, processed fruits, nuts, and juices. In fact, cheese is the highest volume product in specialty foods with annual sales in excess of $4.2 billion. These foods are sold by small retailers who distinguish themselves in part by their selection and mix of high quality and trending foods, often combined domestic and imported foods.

The proposed increased duties on specialty food products will have an adverse effect on U.S. small food businesses, decreasing sales, and adversely affecting employment. A store with fewer specialty food imports or with only domestic specialty foods will be less attractive to consumers resulting in fewer sales and less income for the retailer and their supply chains.

The harm will be seen in the reduced product selection and variety assortment at retail, as well as higher prices for consumers. The small retail business format and the possible negative effect of the proposed tariffs on the successful small business strategy will be explained in much more detail in the FSA's May 28th written post-hearing statement.

Increased tariffs on the specialty food imports would not be appropriate and feasible, particularly in the effect of processed foods that have been excluded on the list -- that have been excluded on the list attached in the Federal Register Notice. Especially given the industrial nature of this longstanding dispute, the many valuable industrial imports that could be substituted and the likelihood that the E.U. might respond by placing E.U. tariffs on the very processed food products that U.S. food specialty manufacturers are exporting. Also small and mid-sized businesses.

The Specialty Food Association has been working with the Foreign Agricultural Service for the past 18 years to promote the export of value-added foods. And has been very successful in building sales in Europe, especially in Germany, France, and the Netherlands. European consumers can now buy salsa from Texas, avocado oil from California, and cheese from Wisconsin in many retail outlets. It has taken many years for these small businesses to expand their export sales. And retaliatory tariffs being placed would be devastating to their business success.

These businesses should not be sacrificed in a dispute about in-between competing global aviation companies. Putting small food companies and the specialty foods they manufacture and retail at risk is not an appropriate and feasible solution.

In conclusion, the Specialty Food Association thanks the U.S. Trade Representative for this opportunity to testify. And will present a written post-hearing statement by May 28th. It will state further why the proposed tariffs are not appropriate and feasible in general. And would be especially harmful to the nationwide network of small and mid-size food businesses that sell domestic and imported specialty foods to a growing consumer base. Thank you.

MR. BISHOP: Thank you, Mr. Kafarakis. Our next witness is Al Bauer with Citrus and Allied. Mr. Bauer, you have five minutes.

MR. BAUER: Good afternoon distinguished members of the committee. And thank you for the opportunity to appear. My name is Al Bauer. And I am the Vice President of Citrus and Allied Essences Limited. In my role of Vice President of Citrus and Allied, I'm here to share my expertise as it relates to the commercial ramifications of proposed E.U. tariffs.

I fully support the comments made by Farah Ahmed and the earlier panel. I wish to share with you more -- a better understanding of how individual fragrance companies would be affected by these tariffs and the general public.

This morning, you all used a number of my industry's products before you came to work. You will find essential oil in a wide variety of products including bar soap, shampoos, conditioners, body wash, deodorants, household cleaners, hospital products, candles, industrial cleaners, pet foods, cosmetics, and the list continues. All have essential oils as part of the products that we use every day. No matter what your economic status is, people use these products to be healthy, clean, and in some cases joyful.

My company, Citrus and Allied is an 86-year-old family-owned company that does flavored fragrance ingredients manufacturing in Belcamp, Maryland. We run a three shift operation with 150 people. Our products include natural essential oils derived from citrus fruits, mints, spices. We also manufacture aroma chemicals that are used in flavor and fragrances.

Our customers use these very strong products to provide characterizing flavors and fragrances to their products. And it's those products that are sold to food, beverages and personal care companies. Our customers include family owned manufacturing companies located across the United States, as well as publically traded corporations with manufacturing plants in the United States and throughout the world.

Our customers employ many hundreds of

thousands of workers throughout the supply chain. Because the vast majority of our products are derived from agricultural sources, our business is very close to the beginning of the supply chain for foods, beverages, soaps, and personal care items. Any action that harms companies in our position in the supply chain is ultimately going to be felt by the consumer.

While my company supports the administration's goal of ensuring U.S. manufacturers equal footing with E.U. manufacturers, we are opposed to the application of any tariff or other trade restrictions on essential oils and concentrates of essential oils classified in the HTS heading 3301. These products are vital imports for the U.S. manufactured goods. Most are derived from regional specific crops that cannot be harvested or sourced elsewhere. It will take years, if not decades for other countries to develop the capacity to grow these crops necessary to product these products.

Because of the sheer volume of the crop needed to produce a relatively small amount of essential oils -- in some cases, yields are less than 2 percent -- and because production must commence very shortly after harvesting, within hours in some cases like rose oil, the production of essential oil must be made in close proximity to harvesting locations. For instance, the essential oil of lavender, one of the most widely used inputs of scented products, production commences days after harvesting lavender plants. There is too short of a window to transport to the United States for further production.

Furthermore, it is not economically viable to transport tons of bushels of this crop over thousands of miles to produce at a different location. I've brought some pictures along to give you some ideas of what that would look like.

Finally, harvesting season may begin at the same time these tariffs are enacted, which will allow for producers to accommodate enough stock to cover the large amounts of time required to search for alternative sources. Potential trade restrictions on these products therefore will lead to higher cost for U.S. producers, many of which are small businesses.

Retailers and consumers are without any accompanying benefit to the United States industry. Hundreds of thousands of American jobs are dependent on scented products which require these essential inputs. Any increase in cost in essential oils would lead to increased costs and would jeopardize American jobs. These cost increases in turn will compromise the competitiveness of American manufactures and threaten downstream retail jobs and businesses that depend on a reliable supply of these products.

In short, trade restrictions on these products will undercut the administration's stated goal by putting U.S. manufacturers at a competitive disadvantage against other global manufacturers including those in low cost regions who will be able to source these products duty-free. And import downstream products into the U.S. that are not subject to further duties.

I appreciate the opportunity to speak with you today. And I would happily answer any questions. And in conclusion, I have a small bottle of lavender oil if you'd care to take a smell just to appreciate what we're talking about in terms of quality of lavender. Is that okay? Just be careful. Don't spill it. Thank you.

CHAIR BUSIS: We can call the next witness.

MR. BISHOP: Thank you, Mr. Bauer. Our next witness is Erica Lermond with the Lermond Company. Ms. Lermond, you have five minutes.

MS. LERMOND: Good afternoon distinguished members of the committee. Thank you for the opportunity to appear. My name is Erica Lermond and I am the CEO of the Lermond Company. I fully support the comments made earlier by Farah Ahmed, President and CEO of

Fragrance Creators Association. I wish to elaborate so you can better understand how individual companies within our industry would be affected by tariffs on essential oils from Europe.

By way of background, the Lermond Company is a WBENC-certified woman business enterprise employing nine individuals in Oakland, New Jersey. In my role as CEO of the Lermond Company, I am intimately involved in all commercial aspects of our business. Including the purchasing and importing of essential oils, the negotiation of strategic relationships with our suppliers, and the development of long-term customer relationships.

As a third generation family owned small business, we distribute essential oils to the flavor, fragrance, aroma therapy, cosmetic, odor control, and pet care industries. Our customers are U.S. based manufacturers of consumer products, all of whom are small businesses themselves.

While I support the administration's goal of ensuring the economic viability of U.S. manufacturing, I'm opposed to the application of any tariff or other trade restriction on essential oils including concretes, absolutes, resinoids, and concentrates of essential oils classified in HTS heading 3301.

Tariffs on essential oils precisely contradict the goal of sustaining U.S. manufacturing. Essential oils produced in Europe are vital inputs and irreplaceable building blocks in the fragrances and consumer products that our customers manufacture. Essential oils are agriculturally derived from regionally specific crops and alternative sourcing options do not exist. You simply cannot mimic the growing conditions found in Europe, the land, the microclimates, the weather, in any geographic region elsewhere in the world.

These crops do not exist in the United States. And it is not possible to grow them here. You might say replace them. I say not so easy. Reformulation of fragrances can take 12 to 18 months or longer. The nuances found in essential oils are not easily mimicked with synthetics and reformulation is a hard task. That's if you even have the manpower to do it. Most small businesses do not.

Add to that the fact that many of these same small businesses already faced increased costs due to the tariffs on Chinese-origin raw materials and you truly face a losing uphill battle. A battle which will put many of our customers out of business. Thus our viability and the viability of our customers depends integrally on the essential oils produced in Europe. Our customers bring a strong manufacturing presence to many far reaching towns in the United States of America including Whiting, Vermont, Urbana, Iowa, Twin Fall, Idaho, Madison, Tennessee, Spartanburg, South Carolina, and Fredericktown, Ohio, to name a few.

To give you an idea of how our customers affect their local economies, Fredericktown, Ohio has a population of 2,498 people. And Whiting, Vermont has a population of 419 -- 419 people. Our customer in Whiting, Vermont is a woman-owned small business that manufacturers all natural cleansers, lotions, and cosmetics in the U.S. and employees approximately 100 people. All of their products contain essential oils. Think about the economic impact essential oils have on that one small town where a quarter of the town is employed by one company producing goods with essential oils.

Most of the small businesses mentioned only have one manufacturing plant, and all of them manufacture their products exclusively on U.S. soil. They're not large multinational corporations who have the option of moving manufacturing to already established production sites in Mexico or Southeast Asia in order to circumvent the tariff. They don't have options which will allow them to survive. Tariffs on these essential oils will have a direct impact on their local economies, their viability, and their competitive advantage against global manufacturers.

The Lermond Company will be forced to raise our prices if these tariffs are put in place. We work on thin margins and cannot afford to absorb the increased expense. Similarly our manufacturing customers will be forced to do the same in order to survive. They and we will have to implement layoffs when business slows. The effects will be far reaching and in an inflationary environment for consumer goods manufacturers, will affect everyone in the United States.

We all use the products manufactured by our customers; laundry detergent, shampoo, deodorant on a daily basis no matter our income level. We will all be affected and this will essentially be a tax on every consumer and every household. Inevitably as prices rise, access to critically important household items such as feminine hygiene products, soaps, and household cleansers will be disproportionately diminished for low income consumers, drastically impacting their health, their wellness, and their quality of life.

I am very concerned about the far reaching impact of this tax on consumers and its ramifications for small businesses like my own. Thus I urge you to remove essential oils from the tariff list. I would be happy to answer any questions. Thank you.

MR. BISHOP: Thank you, Ms. Lermond. Our final witness on this panel is Robert DeHaan with the National Fisheries Institute. Mr. DeHaan, you have five minutes.

MR. DEHAAN: Thank you very much. I'm with the National Fisheries Institute, Bob DeHaan. We appreciate the opportunity to provide NFIs views in connection with the administration's plan to place unspecified tariffs on dozens of seafood products sourced from the European Union and its member states in connection with the large civil aircraft dispute brought by the United States in the WTO.

NFI represents the entire commercial seafood value chain from harvesters, processors, and distributors to food service providers, retailers, and restaurants. And includes firms that range from small businesses with several employees to the nation's largest companies. Engaged as they are in an industry focused on one of the most widely traded food items on the planet, these companies are intimately familiar with the nation's Transatlantic trade relationships, and the likely impacts on those relationships of proposals such as the one at issue here.

On behalf of those companies, NFI opposes the USTR proposal to place tariffs on these seafood items sourced from the E.U. 28. NFI urges the administration to remove all seafood products from its final list of retaliatory targets utilized in any remedy arising out of the underlying dispute before the WTO.

Keeping seafood out of this wholly

unrelated litigation will benefit U.S. seafood processors and distributors, U.S. seafood exporters, and, let us not forget, the American consumer, and will provide a respite to an industry that is reeling from the tariff disputes already underway.

Section 2 of the USTR annex from the April 12 notice lists 33 specific tariff lines from Chapters 3 and 16, now targeted with tariffs and retaliation for the subsidy by four member states of Airbus aircraft as we know in violation of the GATT and the SCM agreement. The administration does not specify the rate of these tariffs, but does cap them at 100 percent.

Section 1 of the April 12 notice is confined to reciprocal goods of the affected industry, all drawn from Chapter 8. In contrast to Section 1 goods, which are targeted only if they come from France, Germany, Spain, or the United Kingdom. Section 2 goods qualify for U.S. retaliation regardless of which member state manufactured them. Astonishingly the administration casts a wider net with respect to products not relevant to the dispute than it does for reciprocal goods themselves.

NFI opposes the inclusion of any of these seafood products in this process for multiple reasons. First, seafood products sourced from the E.U. 28 obviously have nothing to do with the underlying dispute. Imposition of 100 percent tariff on Europe's salmon, herring, trout, clam, scallops, octopus, muscles, oysters, and others is unlikely to bring the commission to heal in a dispute involving hundreds of billions of dollars of aircraft and implicating the interest of the European economic and financial elite. But it will be sufficient to close off the U.S. market to these products costing jobs among U.S. processors, distributors, and their retail and restaurant customers that rely on a diversified supply of finfish and shellfish to meet customer demand and raising consumer prices for food.

Second, the administration's proposal

if carried out will trigger European Union retaliation against a far larger amount of U.S. seafood exports to Europe. The commission on April 17 announced its list of tariff lines that it will target in the event that USTR implements its remedy. That list includes lobsters, Alaskan pollock, pike, salmon, scallops, cod, squid, and others.

Though the annual value of E.U. seafood products targeted by USTR is about 170 million, the commission's list of U.S. seafood exports exceeds 711 million annually. Thus the United States has managed to trigger retaliation against U.S. seafood harvesters and exporters that is well over four times larger than the proposal aimed at their E.U. counterparts in a proceeding concerned solely with fixed wing aircraft.

With due respect, the timing of this Transatlantic punch and counter punch seems intentionally calculated to do maximum harm to the seafood industry. U.S. seafood companies and the families they help feed will soon begin paying 25 percent tariffs on a long list of seafood items sourced from China including, still, a significant amount of product that is harvested in the United States by U.S. fisherman, processed in China, and then shipped back to the U.S. customer.

U.S. harvesters continue to face 25+ percent retaliatory tariffs that China levied against U.S. exports last year. An action that has badly eroded American competitiveness in what had been the largest single export market for American fish. These harvesters lost all access to Russia in 2014. Lost the opportunity to compete on a level playing field against their Pacific Rim competitors in Japan in 2017. And have waited in vain for the 2018 accord between President's Juncker and Trump to mature into an actual bilateral agreement.

Now rather than capitalize on the opportunities to roll back E.U. tariffs and to address longstanding E.U. non-tariff barriers that such an agreement could be expected to yield, U.S. exporters face the prospect of debilitating tariffs in an E.U. market boasting more than 500 million customers.

NFI asks why at this precarious time for the seafood trade, it is necessary to drag these companies and their American employees into a completely unrelated dispute the administration is waging on behalf of a far larger well capitalized heavy manufacturing sector. Unless there is a compelling answer to that question -- and we do not believe that there is one -- the nation's commercial seafood companies should simply be left out of this dispute.

We urge the administration to remove all Chapter 3 and Chapter 16 tariff lines from the final list of targets arising out of the large civil aircraft case. Thank you.

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

MR. WENTZEL: Mr. Profaci, thank you

very much for your testimony. I wondered both you and Mr. Monroe testified that E.U. production of olive oil is not sufficient to meet U.S. demand. I was wondering if you could elaborate on the sufficiency of non-E.U. sources to replace E.U. imports of olive oil. Thank you.

MR. PROFACI: Yes, currently non-E.U. sources of olive oil is coming into the United States and it was approximately 20 to 25 percent. It varies each year depending on the production levels around the world. The supply coming from these other countries, which would include Tunisia, Morocco, and South America, I think, combined, barely reach the amount that U.S. consumes. The U.S. consumes about 315,000 tons, I think in this year it's estimated. In different years, the total non-E.U. production may be up to a million tons at very most. But they also consume their own oils. And so there's not a lot that comes in. So as I said, coming into the United States from these other countries, their surplus is about 20 percent of our supply.

MR. MONROE: May I further comment?

CHAIR BUSIS: Yes, exactly.

MR. MONROE: Thank you. It's not statistically relevant to this category of where it comes from, which we'll get to in a moment. So 70 percent comes from the European community, another 25 percent can come from Argentina, Tunisia, and 5 to 2 percent comes from California. But we are an olive oil marketing company that develops the best olive oil sold in America. So what we need, we need the taste of the Spanish oil, mixed together with some of the Italian oil, mixed together with -- So the olive oil that you buy that's the greatest product you could use is a combination.

We have specialists in our operations that actually take it like a perfume and they mix it all together. So if we only had to rely upon non-European, our product would not taste as good. It would not have the flavor that the American consumer wants. And that's really what the issue is. We need this pallet to look at different things.

And that's why the olive oil category has grown. It's not just putting oil into a bottle. It's creating a great formula, something that's delicious and the American consumer wants. And if we decided to say okay, we're only going to go to Argentina, they would have to have farms. It takes four or five years to grow a producing olive tree. So you couldn't automatically snap your fingers. It just can't be done. So that's my thing. It's an art. It's something that's beautiful.

MR. WENTZEL: Thank you. If I could follow up on a question regarding tariffs. U.S. tariffs on olive oil are 3.4 cents per kilogram or 5 cents per kilogram, depending on the tariff line. On an ad valorem basis, that's about 2 percent. European Union's tariffs on olive oil are much higher; 1.25 euros per kilogram, which is about 40 times the U.S. rate. I was just wondering, Mr. Profaci, if your organization, you know, has any views on that tariff disparity.

MR. PROFACI: Our members and our association is in favor of free trade and minimal duties. We currently have only two companies that are producing in the United States as our members. There is a counterpart organization, trade association, American Olive Oil Producers Association, which I mentioned we worked together with to do a marketing study last year. The issue with the exporting of olive oils from the United States is twofold.

So number one, there's not enough -- there's very little that is exported to begin with. And secondly, these duties that we're talking about today are being imposed in retaliation for the aircraft industry subsidies that are received by Airbus. It has nothing to do with retaliation on any duties that Europe may have on olive oils. It's a totally separate issue and should really belong with the E.U.-U.S. trade negotiations.

MR. WENTZEL: Just to clarify, that's

the regular E.U. rate. That's not a retaliatory rate. That's their standard tariff rate.

MR. PROFACI: I don't know that rate. Like I said, it's not really relevant to my members, so I really can't speak to what it is.

CHAIR BUSIS: Mr. Chang.

MR. CHANG: Following up on another question on olive oil, my question is for William Monroe. Could you please elaborate and provide any data if possible on your assertion that these tariffs would lead to fraudulent marketing of low quality olive oil as higher quality olive oil?

MR. MONROE: I will have to put that in the final comments. I don't have all that information available. But certainly in the past -- When I first started in the olive oil business and became the President of the Bertolli Olive Oil Company so long ago that people were not buying olive oil in this country. If you go back 50 years ago, olive oil was not really sold other than in specialty stores.

Then what happened, a lot of companies

start mislabeling olive oil and putting seed oil in. Then we formed the North American Olive Oil Association, which we test and we work with the European community and make sure that olive oil is best quality.

So naturally if you could take olive oil, which let's say for a liter is around $5 and seed oil is $1, it's open to fraud and it's been done before. But we've been managing it. We've beat it back. We fought it. We stopped all the fake olive oil in this country. And now if it opens up from a monetary point of view and I can't measure it, it could lead to fraud, mislabeling and selling a unhealthy product.

MR. PROFACI: May I comment as well on the question --

MR. CHANG: Sure.

MR. PROFACI: -- because it is an important question. And it was something brought up before with regard to specialty foods and cheeses in general. There is a desire among American consumers for particular flavor profiles, but also particular origins of oils. Rightly or wrongly, Italy has always had the sort of premier image in the consumer's minds for the best olive oil. I won't take a position on which country makes the best olive oil at all. But that's what Americans perceive to be the case.

So that's where, if this oil is coming from the United States -- if it comes into the United States in bulk, you may end up with some unscrupulous people who are going to label it as Italian olive oil when it's not.

MR. CHANG: Okay, thank you.

CHAIR BUSIS: Mr. Sulby.

MR. SULBY: My question is for Mr. Tobiassen of the National Association of Beverage Importers. You made the case that alcoholic beverages from the E.U. if there are tariffs will limit the unique products available to U.S. consumers. Can you please elaborate on your argument that U.S. produced alcoholic and other beverages are not substitutes for E.U. imports? And could you also provide some analysis as to the price sensitivity of those E.U. imports?

MR. TOBIASSEN: Thank you. On the last point on data, I would have to supplement the record. I do not have pricing data available at the moment. I think maybe the best answer to your question is to have me take you out to a couple bars in town afterwards and talk to consumers. And I can just assure you that there are consumers who believe that this wine from France of this cognac or this brandy, there is no substitute in the world that's going to make their taste -- That is the difficulty with subjectivity in taste patterns.

And I think it goes -- I've decided that olive oil, wine, and essential oils have a lot in common. They have unique characteristics that are consumer specific, consumer attractive and consumers are fickle. But at the end of the day, it's a subjective desire to have a particular brand or type of beverage alcohol.

I will say with respect to the non-alcoholic beverages, I do -- And we may be able to find -- I can get you some data on that -- where they are sourced from. But I believe just from my own business trips to some large retailers in this community that a very, very high percentage of the non-alcoholic beers do originate in several of the E.U. countries. And that's where again I think the federal government needs to speak with one voice.

The data shows that the demand for that product is rising, both in the E.U., as well as in the United States. And there are sound public policy reasons about reduced alcohol consumption, reduced opportunities for drunk driving, use of designated drivers where people in a social environment want to feel like they're having a beverage of the category being consumed but want a lower, non-alcoholic version of that for any number of reasons.

CHAIR BUSIS: Ms. Bonner.

MS. BONNER: Sarah Bonner, SBA. Mr. Kafaraskis, I was wondering, in your testimony you list lots of products that your members import from the E.U. To what extent could these products be sourced domestically or from non-E.U. sources?

MR. KAFARAKIS: To a very small extent, but I'll be able to provide you some data in our post-hearing statement with respect to percentages.

MS. BONNER: Thank you. Also you mentioned that many of your members are small businesses. Do you know what percentage of your members are small businesses?

MR. KAFARAKIS: I will get you the specific breakdown by the categories --

MS. BONNER: Thank you.

MR. KAFARAKIS: -- but I would say more than 75 percent.

MS. BONNER: Thank you.

MS. O'FLAHERTY: Hi. Elle O'Flaherty from USDA. This question is for Mr. Bauer and Ms. Lermond. What is the shelf life of an essential oil once it's produced? It sounds like there's quite a bit of seasonality. So do you have to import all of your supply for a year at one time or do you import smaller quantities as needed? And if you import everything at once, what time of year does that normally occur?

MR. BAUER: So essential oils are harvested at different times throughout the year. Typically an essential oil has a shelf life of about one year. The biggest problem for essential oils is oxidation or oxygen entrenchment and it starts to go sour. So if you do not convert it to a finished good quickly, it's ruined. So the fact of the matter is that you can't -- you can get material sometimes 12 months out of the year, but the qualities change quite dramatically from early season to late season.

MS. LERMOND: I agree.

MS. O'FLAHERTY: Okay. And a follow-up question. For which specific oils are you most reliant on the European Union? And if it's possible to give us some data.

MS. LERMOND: Yes, we can definitely

give you a list and flush that out a little bit. But one of the reasons why we brought lavender, lavender is a very important crop from France, from Spain, from Italy, from Bulgaria. Other crops would be things like rose, chamomile, clary sage. Their profiles in the essential oil world that, A, the quality can't be sourced elsewhere in the world. You might have other countries making it. But similar to olive oil, it's not the same quality. You don't even know if it's actually natural from countries like China, from India where there's not the same quality standards.

So we can definitely flush that list out, but there are some very key products. And often times, products that 100 percent of production is from the E.U.

CHAIR BUSIS: A follow-up question for Mr. Bauer and Ms. Lermond. You testified that essential oils are used in a lot of consumer products like -- they're obviously very strong as we learned. What would you guess would be the value of the essential oil in like say a standard $5 bottle of shampoo? A dollar or a penny or what would it be?

MS. LERMOND: It can be -- Really it can be anything depending on the product. For me, my customers, it could range from 5 to 10 percent of their product formulation to 95 percent of their product formulation. Especially in the growing smaller business area where you have a lot of natural perfumery, a lot of natural formulation, essential oils are a huge component of those products. Not just for smell, but also for efficacy.

CHAIR BUSIS: And that's by value or cost -- not by volume, right?

MS. LERMOND: Both. Both.

CHAIR BUSIS: Both, okay.

MS. LERMOND: Yes. I mean it could be -- I have a company that I just visited in Vermont -- not the one that I mentioned in my testimony -- who has a product that their coming out to be an air care product similar to a Glade, but it's all natural. And their two ingredients are essential oils and water.

CHAIR BUSIS: Mr. Bauer, do you want to add anything?

MR. BAUER: No, I agree with Ms. Lermond. The artistry of perfumery is similar to the artistry of olive oil. We take a number of inputs from around the world and put them together in different percentages and we get a different product each time. So consumers are very fickle when it comes to those kinds of things.

MS. HUANG: Jessica Huang, U.S. Department of Commerce. My question is for Mr. DeHaan of the National Fisheries Institute. You noted that you oppose inclusion of any Chapter 3 or 16 seafood products in Section 2 of the annex. Can you identify specific seafood products that are of greatest concern to your membership? It would be really helpful if you could give a possible ranking of the most -- the products of greatest concern down to the least concern.

MR. DEHAAN: Well we're concerned about all of these products. And obviously if your job is to produce a seafood product and sell it into the European market or export it outside of the U.S. anywhere and you're looking at a debilitating tariff that closes off that market to you, you know your job could be gone. And indeed our industry is facing some significant headwinds arising out of the China situation that will generate into layoffs and have already started in that way.

In terms of priority numbers -- just on the numbers -- the list that the administration has proposed is a bit misleading because in all off the molluscan shellfish such as an oyster, a clam, et cetera, those numbers are not as large as they should be because the two countries; the United States and the European Union are engaged in this ban of most molluscan shellfish products back and forth.

We hope and the administration has made some progress in reversing that, so what we hope will happen is that there will be a bilateral agreement to open up the trade in both ways. And when that happens, the numbers in some of these tariff lines that might be a little bit on the smaller side, we would hope would go up significantly as U.S. seafood importers and U.S. seafood molluscan shellfish producers can tap the markets in you know, the other export market.

MS. HUANG: Okay, thank you. I have one more question. Are there other U.S. -- I'm sorry. Are there other U.S. or third country suppliers that can be substitutes for those E.U. seafood products?

MR. DEHAAN: Thank you. So the substitute question is an interesting one. And I'd say essentially three things in the context of this proposal. The first is that some of the seafood that is involved here, picking up on a point that's already been discussed, is specific to the waters where it's raised. And there's going to be a consumer demand for that product that's specific to that specific variant of whatever it is.

So for instance if you were in a white tablecloth restaurant industry and you're chef so and so, you want a particular type of E.U. product, that product is going to come from particular water -- set of waters, in a fishery in the E.U. And you're not going to be able to replicate that outside of the farm context overnight from another country. These connections exist for a reason because they are trying to find the best product to meet that sliver of the diners demand in the United States.

The second point is that -- again similar to a point that was already raised in another context -- the label and the country of origin matters in certain cases in our industry. So for instance, herring from Europe -- pickled herring is going to be very specific to a couple different countries. And consumers of that product are going to want to see on the label that that herring is from one of those several countries. So that matters and moving it to a third country is not going to be possible on the same kind of revenue picture. You won't have the same demand. And you won't have the same success.

Third point is because the ban is in place that I mentioned, we're not sure what the demand -- what possibilities are out there. And it may be that if we can remove this problem from the bilateral relationship, we will have an opportunity to move product both ways more successfully.

MS. HUANG: Thank you.

CHAIR BUSIS: Members of the panel, any further questions for this -- okay. Mr. Bishop, I believe we are done with this panel. We are in recess until tomorrow morning. Thank you.

MR. BISHOP: We release this panel with our many thanks. And we stand in recess until tomorrow at 9:30 a.m.

(Whereupon, the above-entitled matter went off the record at 3:27 p.m.)