UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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MONDAY
JUNE 17, 2019

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

PRESENT

ARTHUR TSAO, Chair, U.S. Trade Representative
WILLIAM BUSIS, Chair, U.S. Trade Representative
MEGAN GRIMBALL, U.S. Trade Representative
RUSSELL ADISE, Department of Commerce
CHRISTOPHER BLAHA, Department of Commerce
ANDREW DEVINE, U.S. Department of Agriculture
DREW HART, Department of Treasury
JESSICA HUANG, Department of Commerce
BILL JACKSON, U.S. Trade Representative
TERRENCE McCARTIN, U.S. Trade Representative
MEGAN NAYLOR, Department of State
ROBIN ROARK, Department of Commerce
PETER SECOR, Department of State
TANYA SMITH, Small Business Administration
ANDREW STEPHENS, U.S. Department of Agriculture
RICH STETSON, Department of Commerce
MATT SULLIVAN, Department of the Treasury
CRISTINA VON SPIEGELFELD, Small Business Administration
AUDREY WINTER, U.S. Trade Representative
ANNE ZOLLNER, Department of Labor

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

WITNESSES PRESENT
COLIN ANGLE, iRobot Corporation
DAVID BAER, Element Electronics
THOMAS BECKETT, Portable Lights American Trade Organization
TROY BENAVIDEZ, American Standard
STEVEN BLUST, Institute of International Container Lessors
JASON BONFIG, Best Buy Co.
MIKE BRANSON, Rheem Manufacturing Company
JENNIFER CLEARY, Association of Home Appliance Manufacturers
BRENT CLEAVELAND, Fashion Jewelry & Accessories Trade Association
MARK CORRADO, Leading Lady Inc.
JOHN CROWLEY, National Association of Waterfront Employees
JORDAN DAVIS, O. Mustad and Son Americas
ED DENIKE, SSA Terminals
MARK DEPASQUALE, National Portable Storage Association
JENNIFER DOLIN, Ledvance LLC
JEFF FISCHER, Planet Gold Clothing Company Inc.
MARK FLANNERY, Regalo International LLC
PATRICK FOX, VF Corporation
CHARLES GAENSLEN, Loftex Home
TIMOTHY GALLOGLY, Dorel Juvenile Group
KAREN GIBERSON, Accessories Council and Patricia Nash Designs
PATRICK GILL, TackleDirect
MONICA GORMAN, New Balance Athletics
RICK HELFENBEIN, American Apparel & Footwear Association
GLENN HUGHES, American Sportfishing Association
MICHAEL JEPPESEN, Wolverine Worldwide
JEFFREY KAUFMAN, Home Fashion Products Association
HARLAN KENT, Pure Fishing Inc.
JONATHAN KING, TCL North America

STEPHEN KNERLY, Association of Art Museum Directors
JEAN KOLLOFF, Quinn Apparel Inc. + Qi Cashmere
TIM MACGUIDWIN, The Catch Company
ERIN MANNEN, University of Arkansas for Medical Sciences
BRADLEY MATTAROCCI, Baby Trend Inc.
JEFFREY MOORE, W.C. Bradley/Zebco Holdings
KAREN GIBERSON, Patricia Nash Designs
DANIEL NATION, Parkdale Mills
MUSTAFA OZGEN, Roku
STANLEY PIERRE-LOUIS, Entertainment Software Association
PHIL POEL, Ember Technologies
JOHN REINHART, Virginia Port Authority
MARC SCHNEIDER, Kenneth Cole Productions Inc.
RAY SHARRAH, Streamlight Inc.
CLIFTON SIFFORD, Shoe Carnival Inc.
KERRY STACKPOLE, Plumbing Manufacturers International
TIM TARPLEY, Petroleum Equipment & Services
RUSSELL TORRES, Graco Children's Products
LISA TROFE, Juvenile Products Manufacturers Association
GLENN WILTSHIRE, Broward Country Port Everglades Department

PANEL 1

PANEL 2

PANEL 3

PANEL 4

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

9:25 a.m.

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

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

The United States Trade Representative initiated the investigation on August 18, 2017. In April 2018, the Trade Representative published his determination that the acts, policies, and practices of China covered in the investigation are unreasonable or discriminatory and burden or restrict U.S. commerce and are thus actionable under Section 301(b) of the Trade Act of 1974.

Since that time, the Trade Representative at the direction of the President has made determinations that in the aggregate have imposed additional 25 percent duties on products from China with an annual trade value of approximately $250 billion with the goal of obtaining the elimination of the unfair acts of China covered by the investigation.

On December 1, 2018, the leaders of the United States and China met and agreed to hold negotiations on a range of issues, including those covered in the Section 301 investigation. U.S. and Chinese officials subsequently engaged in multiple rounds of negotiations on these issues, including meetings in March, April, and May of 2019.

Shortly in advance of the last scheduled round, China had retreated from specific commitments made in previous rounds and attempted to cause further harm to the U.S. economy.

In light of these circumstances and at the direction of the President, the Trade Representative published a notice on May 17, 2019 seeking public comment on a modification of the action being taken in this investigation in the form of additional duties of up to 25 percent on a list of products from China with an annual trade value of approximately $300 billion.

The purpose of this hearing is to receive public testimony regarding this proposed action. The Section 301 Committee will carefully consider the testimony and the written comments, including post-hearing rebuttal comments.

The Section 301 Committee will then make a recommendation to the Trade Representative on a possible modification of the action being taken in this investigation.

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

The hearing is scheduled for seven business days, concluding Tuesday, June 25th. We have scheduled 55 panels of witnesses with over

300 individuals scheduled to testify. The provisional schedule has been posted on the USTR website.

We have eight panels of witnesses scheduled to testify today. We will have a brief break between panels and a 50-minute break for lunch.

Each witness appearing at the hearing is limited to five minutes of oral testimony. The light before you will be green when you start your testimony. Yellow means you have one minute left. And red means your time has expired.

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.

As stated in the May 17th notice, post-hearing comments, including any written responses to questions from the Section 301

Committee, are due seven days after the last day of the hearing. As noted, the hearing is scheduled to conclude on June 25th, which means that all post-hearing comments are due by no later than July 2, 2019.

The rules and procedures for written submissions are set out in the May 17th Federal Register notice.

Given the number of witnesses and the schedule, we'll request that witnesses when responding to questions be as concise as possible. We, likewise, ask witnesses to be understanding if and when the Chair asks that a witness conclude a response. In this regard, witnesses should recall that they have a full opportunity to provide more extensive responses in their post-hearing submission.

No cameras or video or audio recording will be allowed during this hearing. Written transcripts of this hearing will be posted on the USTR website and on the Federal Register docket.

We are pleased to have international

trade and economic experts from a range of U.S. government agencies. And I will ask them to, I guess I'll ask the Committee to introduce themselves.

My name is Arthur Tsao. I'm an Associate General Counsel at the U.S. Trade Representative's office, Office of General Counsel.

MS. VON SPIEGELFELD: Good morning. I'm Cristina von Spiegelfeld. I'm in the Small Business Administration's Office of International Trade.

MS. NAYLOR: Hi, I'm Megan Naylor. I'm with the State Department's Office of Multilateral Trade.

MR. BLAHA: Good morning. Christopher Blaha from the International Trade Administration at the U.S. Department of Commerce.

MR. McCARTIN: Good morning. I'm with USTR. I'm Terry McCartin. I'm the Acting Assistant U.S. Trade Representative for China Affairs.

MR. JACKSON: Good morning. I'm Bill Jackson. I'm the Assistant U.S. Trade Representative for Textiles.

MR. DEVINE: Good morning. I'm Andrew Devine in the U.S. Department of Agriculture's Foreign Agricultural Service.

MR. SULLIVAN: Good morning. I'm Matthew Sullivan from the U.S. Department of the Treasury's Office of International Trade and Investment.

CHAIR TSAO: And, Mr. Bishop, we're ready to begin. Thank you.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Brent Cleaveland of the Fashion Jewelry and Accessories Trade Association. Mr. Cleaveland, you have five minutes.

MR. CLEAVELAND: Thank you. First speaker, well, I'm either the warm-up speaker or I'm the sacrificial lamb. We'll see which way this goes.

But at any rate, let's see. Thank you

for the opportunity to address this critical issue of tariff implementation.

Today I appear before this panel on behalf of our parent organization, Gemini Shippers Group, which is comprised of three associations, Gemini Shippers Association, the Fashion Accessories Shippers Association, and the Fashion Jewelry and Accessories Trade Association. Now, there will be a test later.

Our group is a national trade association representing a wide swath of consumer goods, including fashion accessories, jewelry, apparel, footwear, travel goods, handbags, personal care, and home goods.

Gemini Shippers Association represents over 300 member companies and is a non-profit shippers association providing greater supply chain efficiency through volume rates with shipping lines.

As trade associations, FJATA and FASA serve as the voice of the industry to regulatory agencies. Most members import from Asia and rely on us to help them navigate through the sea of regulatory compliance.

Our association's 300 member companies ship approximately 150,000 ocean containers per year into the United States with an approximate value of $3.5 billion.

Our members are generally U.S. small to medium-sized companies that generate most of their revenue importing consumer products that due to the realities of the global marketplace are manufactured outside of the U.S. but are completed, refined, packaged, distributed, and sold by U.S. employees here.

We have been an active participant of this investigation, including the initial request for comments of the referenced Section 301 investigation.

Now, imposing tariffs on these everyday consumer products will have a significantly negative impact on consumers, our member companies and their U.S. employees. We estimate that our members employ tens of thousands of workers who would be hurt by the increased tariffs that will result in higher prices for U.S. consumers and will cause significant harm to U.S. companies.

Many of the products our members import are not designer or luxury goods. They are, for the most case, necessities of American working class families. Many of these imports are not available from any other country. And even if production moved, the component parts would still be manufactured in China.

Importing these everyday households and consumer products does not threaten American security. But these increased tariffs threaten U.S. small business owners, their employees, and the American consumer through increased cost to importers, which will ultimately be borne by American consumers, causing decreased margins and potential job loss.

The imposition of a 25 percent tariff would make the importation of many of these goods financially impractical. Our members will be forced to make one of three hard choices, absorb the increased costs, reducing margins, risking financial insolvency; two, cancel orders with their retail customers risking future opportunities; three, raise prices to consumers risking loss of future retail sales.

In the short term, most small and medium importers would not have the ability to replace Chinese production quickly enough to react to these tariff circumstances.

Many importers face limitations to moving sourcing out of China, including finding suitable compliant factories and vendors with available production capacity, finding existing talent pool with production expertise, tool makers, and inspectors, and three, availability of transportation capacity and infrastructure. These are just some of the limitations that make swift sourcing changes impossible to enact.

Now, I've heard the President say that it's not the Americans who are paying the tariffs but the Chinese. In my industry, a retailer places a purchase order with an importer four to six months in advance. The purchase order is a contract to deliver a certain merchandise at a certain price at a certain date.

If any of these conditions fail, the contract fails. A surprise 25 percent increase in cost would terminate these contracts.

When a shipment arrives, the broker clears the shipment and issues an invoice to the importer for the freight cost plus an 11 percent duty. If this proposed tariff happens, an additional 25 percent, or 36 percent total, would be added to this invoice that the importer will have to pay in order to get the shipment released. This will be paid by the importer and will often wipe out his profit.

In an industry with billions of dollars at stake, I suppose it may be possible to have the entire supply chain share this increased cost. But that will not happen in jewelry, accessories, and consumer goods. Our fear is that the purchase orders will simply cancel, and the importer will be stuck with unsaleable, expensive merchandise.

Now, it's also been said the tariffs on Chinese goods will move production from China to another country, even the U.S.A.

It's important to note that it took 20 years for the production of the jewelry industry to be moved to China. And even if orders were to be placed with other countries, the component parts will still be made from China under Chinese control of prices and delivery. Chinese retaliation for losing the original order is imminent.

As production moves from China to other countries, compliance with existing regulation and standards is a serious concern. In some cases, American employees work in their partially-owned Chinese factories performing quality control supervision to ensure compliance. This effort did not happen overnight.

We urge the administration to seek other negotiating tools like sanctions. And we ask the administration not to impose this fourth group of tariffs.

Finally, we will state our strong support for the administration's effort to improve the production of, the protection of intellectual property rights in China and our firm conviction that the administration continues work on policies with China to best achieve that goal.

Thank you for your time today. Any questions?

MR. BISHOP: Thank you, Mr. Cleaveland. Our next witness is Jean Kolloff with Quinn Apparel, Incorporated and Qi Cashmere. Ms. Kolloff, you have five minutes.

MS. KOLLOFF: Thank you. Good morning, ladies and gentlemen -- put my microphone on. Good morning, ladies and gentlemen. Thank you for inviting me to present my comments regarding the latest proposed tariffs.

As the founder and owner of a small

cashmere importing company, I wish to communicate my concerns and objections to the proposed 25 percent tariff on apparel categories, namely the HTS code category 6110.12 and all suffixes specifically 10.20 and 10.10, covering women's and men's cashmere sweaters.

We request that these categories are exempted from additional tariffs. The amount and timing of these proposed tariffs place an undue and egregious and even existential burden to our company.

Our company was established in 2003 as an exclusive manufacturer of quality cashmere garments and accessories. Due to the special nature of cashmere yarn and its origins, our sourcing requirements dictated China importation. Cashmere is farmed exclusively in Inner Mongolia from the Alasan breed of goat. They only thrive in this region and are considered the gold of China.

We've searched for similar species of goat in an attempt to copy the hair from this animal in other countries or even domestically, but to no avail.

Throughout our 15-year history, we've researched importing the raw material to the United States to spin the yarn and to make garments here in the United States. However, the sweater industry in the U.S. has long ago departed to Asia. Both the machinery and the workforce are no longer available in our country.

If possible, it would still be prohibitively expensive and would take years to restart production in the U.S. Chinese firms are still the most adept and cost-effective suppliers of cashmere apparel.

The additional tariff would precipitate major loss of revenue and profit for our company and other retailers. The lifecycle of our business dictates that we cannot contract production, we contract production as early as eight months prior to shipping. This means that we have locked prices in from our customers and our vendors.

We are unable to pass this along to the consumer. Most retailers are experiencing a downturn in traffic and are not in a position to absorb price increases.

As we enter the third and fourth quarter, the period all retailers achieve profitability, they will see a lack of customer enthusiasm for higher prices. Many retailers are already closing stores and price increases will surely hasten their demise.

As a seasoned apparel merchant and executive who has built businesses, I believe a trade war will erode global confidence and lead to a recession. Tariff-driven trade wars damage businesses and investor confidence.

Our economy has thrived through small to mid-sized companies who employ as few as 10 people or as many 100. If the cost of goods is impacted by another tax, they will not employ as many people, eliminate benefits, and unwillingly create a recession. Ultimately, this will cause businesses to close.

It is my hope reason will prevail and the proposed tariffs will not go into effect. In the event the additional round of tariffs go into effect, we kindly request that HTS code category 6110.12 and all suffixes, specifically 6110.12, 10.20, and 6110 -- 10.10 covering women's and men's cashmere sweaters, are excluded from higher tariffs for the time being or ideally into perpetuity.

Thank you for your time and have a good day.

MR. BISHOP: Thank you, Ms. Kolloff. Our next witness is Karen Giberson with the Accessories Council. Ms. Giberson, you have five minutes.

MS. GIBERSON: Good morning. I'm the President and CEO of the Accessories Council, a not-for-profit trade association. The Council's mission is to help foster business and assist our members in selling fashion accessory products. Our membership consists of over 320 companies.

I'm also a sourcing expert in

accessories having worked with many factories in the categories that are affected by this action over the course of my 30-year career.

Imposing increased duties on fashion accessory goods as gloves, hats, prescription intended optical frames, sunglasses, scarves, fashion jewelry, and many of the components we use to make our products will not be effective in obtaining the elimination of China's acts, policies, and practices.

Our products are low-tech, dumb products which do not involve the sharing of U.S. research and development or intellectual property rights. These products are not produced in any of the ten sectors identified in China's Made in China 2025 initiative. Further, they are already amongst the highest tariffed items.

We know that imposing additional duties on these goods will cause disproportionate economic harm to our industry, including small and medium-sized businesses and our consumers.

The accessories industry is already

under financial stress as sales have been down over the past several years and many of our retailers have consolidated or closed.

We were already dramatically impacted by the List 3 increase, which included luggage, handbags, backpacks, wallets, and similar items. We are being impacted by the GSP elimination of India and Turkey. And we face more uncertainty as the proposed EU tariff increase would impact our members.

Any additional tariff on these goods will result in further contraction. We make largely price sensitive, impulse purchase items. So further cost increases cause great harms.

This concerns us greatly as a significant number of our members consist of start-up businesses and companies that have been in operation for less than five years. Many of the Council's companies have annual sales of $2 million or less and are women and minority-owned businesses. These businesses have limited financial resources and do not have the budget to find alternative manufacturing sources.

If the additional tariff takes place, it will impact our holiday delivery products where most of our business is done in the third and fourth quarter of this year.

Many of our members sell to U.S. value retailers and off-price stores. Increased tariff will dramatically impact the already slim margins on these goods. An additional 25 percent tariff could raise the effective duty rate to over 30 percent of the value of these goods.

Unfortunately, there are limited alternative manufacturing locations outside of China. And shifting production would be cost prohibitive and highly disruptive.

China possesses an experienced manufacturing, inspection, and shipping industry for these products with the capacity to meet the demands of the U.S. market. There are currently limited alternative manufacturing locations that can compete with China.

We anticipate other countries, such as

India, will emerge to eventually become an alternative to China production. However, they do not yet possess the resources, trained workforce, infrastructure, or capability to absorb the volume of product produced in China at the same quality and competitive prices.

Finally, there are no U.S.-based manufacturing alternatives for these goods at the volumes, prices, or quality our companies require.

Even if other manufacturing sources were available, it would take an estimated 9 to 18 months to certify and approve new suppliers. Our members have longstanding partnerships with their China factories who have developed specific skills to manufacture these products.

Sourcing outside of China would make the items cost-prohibitive for the majority of the U.S. retail customers.

You will hear from many large companies over the next few days. And I'm here for all of them, but mostly importantly, our medium and small-sized companies that cannot be here and will be amongst the hardest hit. Thank you.

MR. BISHOP: Thank you. Our next witness is Jeff Fischer with Planet Gold Clothing Company, Incorporated. Mr. Fischer, you have five minutes.

MR. FISCHER: Members of the Section 301 Committee, thank you for the opportunity to testify today. I am Jeff Fischer, one of the owners of Golden Touch Holdings, LLC, a manufacturer and marketer of wearing apparel for women, juniors and children. We've been in business since 1975 and are headquartered in New York City.

While we do manufacture the vast majority of our goods outside the U.S., we have over 300 permanent employees and approximately 85 hourly workers headquartered here who will Basically adversely affected by the proposed tariffs. Even without the implementation of tariffs, the apparel industry is already facing dire times. According to a Bloomberg article dated February 5, 2018, Americans are spending less and less on clothing.

The article goes on to say that there's been general deflation in the clothing industry, which I can attest to. Each year, we are pushed to offer the same garment for less money than the year before. Even with inflationary prices, retailers are closing stores and in some cases going out of business.

Business Insider in their April 17, 2019 article stated, the retail apocalypse is raging on with almost 6,000 store closings announced so far in 2019, more than the entirety of last year.

While that is not exclusively apparel retailers, the article further stated, UBS predicted that clothing stores would take the biggest hit.

Our customer base consists of U.S. based retailers that target price-conscious and economically-challenged consumers. The typical customer of these retailers cannot absorb a 25 percent price increase, and would likely do without, thereby reducing retail sales volume which in turn hurts the U.S. economy.

The financial impact is magnified when we look at the longshoreman at the piers, truckers and workers in the warehouses that get the goods out to our retail customers' stores. The majority of our current on-order in China is scheduled to ship for delivery during the back-to-school and holiday markets. It is not possible to move this production without completely disrupting our production time line.

The back-to-school and holiday selling seasons are key to apparel retailers' economic health and profitability. The rapid pace at which these tariffs may be imposed will leave no possible outcome other than that the cost will be borne by U.S. companies, their employees, retail customers and ultimately, the U.S. consumer.

The establishment of new capacity outside of China cannot happen overnight. In many cases, equitable alternatives simply do not exist. We're a volume-based fashion business. The factories that can produce over a million pieces of a single item either do not exist in other countries or cannot meet the prices required to sell to our customers, and in turn their consumers.

Another factor to consider is that even if we could find manufacturing options, there are several fabrications that are only made in China. The time and expense of purchasing fabric in China and moving it to another country for production may not be feasible.

All of this is further complicated by the requirement of several of our retail customers that we can only produce their goods in factories that they have already approved. In the short term, we have to operate under the premise that any increase in tariffs for orders already taken will be borne by our company. Some of our retail customers may share some of this cost, but they are not obligated to.

This scenario would be catastrophic for our company. We operate on slim margins, and fixed overhead is not easily manipulated. If we were to pay 25 percent more duty than we paid last year, it would cost nearly five times the profit we earned, obviously an unsustainable business model.

In the long term, while we seek new sources for our products it is likely that a large portion of our production will remain in China and the additional tariffs will be passed on to the U.S. consumer. We know that if we find alternative sources they will be more costly and that will be passed to the consumer as well.

As we plan for a future that includes tariffs, we must realistically expect a decrease in our sales volume projections. A significant drop in sales will impact our employees and the employees of our service providers, and the employees of our customers.

We are requesting that the committee omit the apparel chapters as a whole. However, if the committee's end decision is narrow in scope, we ask that the list below be given priority for exclusion. I'm not going to read the list, but it is provided for your review. Thank you again for your time.

MR. BISHOP: Thank you, Mr. Fischer. Our next witness in Mark Corrado with Leading Lady, Incorporated. Mr. Corrado, you have five minutes.

MR. CORRADO: Thank you for the opportunity to testify on this issue, which is critical to the future of my business and my workers.

My name is Mark Corrado. I'm president of Leading Lady, a manufacturer of bras, tank tops, leggings and other intimate apparel. I'm a third-generation owner, as my grandfather started the company in 1939. We sell to major retailers such as Walmart, Hanes Brands, Amazon, as well as many shops and e-commerce sites.

We employ 16 people in our Beachwood,

Ohio, headquarters, and have 20 full-time people in our distribution center in central Illinois. I will testify today about the harm that may come to our company if the proposed Tranche 4 tariffs are added to the garments that we currently make in China, mainly bras and panties, as specified under the following HDS numbers: 6212.10.5020; 6212.10.9020; 6212.22.9020.

We are in a challenging environment now in the retail world, and to have to raise prices will risk our consumers not purchasing our garments and choosing a less expensive one. We cannot absorb this rise in tariffs, as on many of our garments we are already only making a very small profit. This may cause us to lose business with major customers, as they can find someone to make a similar product at a less price.

We hope to be finding a way to reduce our prices, not to be increasing them. Our products are difficult to make, as many have 25 to 30 operations involved. I brought a sample just to show you what is involved in this. From the shoulder strap, to the lace, to the sewing in the cups, to the bottom elastic, the top elastic, it's a very difficult garment to make. It takes a lot of precision to make it as well as they make it in China. Very time-consuming and very labor intensive.

One of the reasons that we've been forced to move offshore is that people don't sew in the U.S. anymore. We had five domestic factories years ago, and most women in the rural areas grew up sewing, so we had no issue finding employees. That situation has totally changed.

We are already challenged by a changing retail and dot com market. We are just not trying to recreate our own brand and are selling it directly online to consumers. There are many other suppliers making products in countries other than China that won't be forced to raise their prices, and we fear losing our share of the market.

A competitive price is very important to our market, as we've seen when we had prices too high. If we are forced to move production from China, it will take a long time to make sure that the new factories will make the garments correctly and can get the proper materials.

Any change to another country may not be possible, as it's very difficult to make our products the right way. The sewers must be very skilled and they must be very precise in their work, or the garment will not fit correctly and will not look worth the price.

The cost of producing elsewhere in the world may be too costly too, as we are barely profitable now. That means that we either continue sourcing in China, and increase our prices, which will likely mean decreased sales, or we may try to move out which will take more than a year. That means in the interim we must increase prices, and then we might be able to replace that garment with possibly inferior product that could still be more expensive, which means we lose more sales.

The net result of this is that we

lose, with the very real prospect of going out of business, and that means our 36 workers and their families lose. Thanks again for the opportunity to testify, and I'll be happy to take any questions.

MR. BISHOP: Thank you, Mr. Corrado. Our final witness on this panel is Mark Schneider with Kenneth Cole Productions, Incorporated. Mr. Schneider, you have five minutes.

MR. SCHNEIDER: Thank you, Mr. Bishop. Good morning. My name is Mark Schneider. I'm the CEO of Kenneth Cole Productions. I've been in this role for four years, and in the industry for 39 years.

Kenneth Cole Productions was founded 37 years ago in 1982. We make men's and women's footwear, dress casual and sport, a balance of leather and polyurethane. We also license our brand to dozens of other companies who produce a broad range of other products under the Kenneth Cole brand, including apparel, handbags, luggage, eyewear, watches, fragrance and others.

We are headquartered in New York City with a distribution center in California. We employ over 200 folks in the U.S., with hundreds of additional people working on Kenneth Cole products indirectly through our licensees.

I will begin by acknowledging the important work done by the USDR, the ITC and the other trade agencies of our government. In addition, I would like to thank you for allowing me to testify before you on behalf of the Kenneth Cole Productions team.

The Section 301 tariffs has as their stated purpose, remediating improper trade practices related to technology transfer, intellectual property, and innovation. I testify before you today to demonstrate how the footwear section of the 301 action threatens to hurt our retailer customers, our KCP organization and employees, and ultimately our American consumers.

Before I outline the above hardships, first I must state the proposed tariffs on footwear will not cure any discriminatory practices or policies of the Chinese government. The manufacturers process had existed for a lengthy period of time. There are few, if any, trade secrets, technology or intellectual property that are forcibly shared in this industry.

Second, tariffs on the existing footwear market have already been carefully established by the United States International Trade Commission, and the U.S. Department of Commerce. The proposed 301 tariffs will put additional and unnecessary burdens, and on the very Americans and consumers that the administration is actually trying to help, which will have dramatic and unintended consequences for the American economy.

The current average duty paid for all goods the U.S. imports is 1.4 percent, while the average tariff on travel and footwear is about 11 percent and can be high as 67 percent, according to the American Apparel and Footwear Trade Association, the AAFA.

Clothing, shoes, textiles, and travel only make up 6 percent of everything the U.S. imports, but the group collectively generated more than half of the 34 billion dollars of tariffs collected in 2017. An additional 25 percent tariff would be a devastating blow to the industry.

Since these tariffs have been part of the industry and landscape since 1930 with the Smoot-Hawley Tariff Act, the industry has worked diligently to manage accordingly through sourcing and development strategies. Approximately 69 percent of all footwear is currently produced in China, and our supply chains cannot easily be shifted to other countries.

We have worked for many years to build a highly functioning and stable supply chain, and I am concerned with the potential impact on quality, delivery capabilities and value that our American consumer has grown to expect.

Moreover, it is not feasible that our production could be brought back to the U.S., since the infrastructure no longer exists and the costs to produce our footwear domestically would be exponentially higher, resulting in shoes that would be unaffordable to our consumers.

The Footwear Distributors and Retailers of America, the FDRA, has estimated that the proposed tariffs will increase the retail price of footwear by approximately 25 to 50 percent.

Because footwear is consumer-stable, and because China dominates the production of these items, every American will feel the adverse effects of these tariffs, which will simply be an additional tax on American consumers.

Even if footwear companies were able to bear a portion of the burden of additional costs, profitability and jobs will be affected. This would impact KCP significantly by reducing total earnings by close to 20 percent. The bottom line is that higher costs for consumers means that they will purchase fewer shoes which could put footwear companies out of business and will certainly threaten jobs and capital investment in our industry.

In conclusion, these tariffs will clearly increase costs to American footwear companies, which will ultimately lead to higher retail prices, lower quality product, lower sales, and loss of jobs and investments. I respectfully urge you not to support or approve these additional tariffs that the administration is proposing on this industry. Thank you.

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

MR. SULLIVAN: It's Matt Sullivan from the Treasury Department. My question is for Mr. Cleaveland. In your testimony, you indicated that there are regulatory or compliance protocols that your members would find difficult to meet if production were moved outside of China. Could you elaborate on some possible strategies for overcoming these obstacles if the products were sourced from outside China?

MR. CLEAVELAND: Thank you for that question. Of course the industry has been heavily invested for a decade to come up with compliance with regulatory agencies. Everything from the Consumer Products Safety Improvement Act for children's merchandise, as well as state regulations, California Prop 65 and all this. It's been an enormous task to have the compliance people conform.

Building this in another country would take years, and of course put the current merchandise at risk, about it being non-compliant.

MS. NAYLOR: Megan Naylor, State Department. My question's for Ms. Kolloff. You indicate in your testimony that Chinese cashmere is unique and cannot be sourced elsewhere. I understand that Mongolia is also a leading source of cashmere wool and cashmere wool products, and by some accounts the cashmere and cashmere products produced there are superior to those in China. Has your firm explored sourcing from

Mongolia or from other countries that knit sweaters from Chinese and Mongolian yarn?

MS. KOLLOFF: Thank you for the question. Actually, Mongolian cashmere is subpar to Inner Mongolia cashmere. I can get into the specifics about the breeding of the goat, but the Alasan goat, which is a specific breed of cashmere goat, only thrives in Inner Mongolia and is not bred in Mongolia.

Also, the goats in Mongolia are primarily brown and black, and the finest cashmere that you buy today, if you buy a sweater or a scarf or a hat, that's in a brighter color. Perhaps red or orange or whatever, you must use white and white is really specifically from the Alasan goat and is bred in Inner Mongolia. That's why we don't source in Mongolia. Thank you for the question.

MR. BLAHA: Chris Blaha, Department of Commerce. My question is for Ms. Giberson. You note that the Accessory Council's members have already been subject to some additional 301-

related duties on luggage, handbags, and purses. I guess I was wondering if you could elaborate on what the experience has been in regards to those tariffs and how you have been affected by those prices.

MS. GIBERSON: Initially, our wholesalers took the hit. It was ten percent and then we had the surprise Tweet over the weekend and got the extra 15 percent, and those orders were already in process. So while they may have factored in a ten percent increase, they didn't factor in at 25 percent increase.

So short term, our wholesalers are impacted. Long term, the customer will be impacted because there's just no room in the margin, so the prices either need to increase or the wholesaler gets to a point where they can't afford to be in business anymore.

CHAIR TSAO: Actually, ma'am, I have a follow up question. What are some of the strategies that your members are adapting with respect to the ten percent duties and also the increased duties?

MS. GIBERSON: There's been a whole lot of curiosity in exploring manufacturing in other countries and looking to move production. Some of their challenges have to do with quality. It has to do with having the factory inspected by the retailer. A lot of the larger retailers want to inspect and make sure that environmental rights, worker rights, conditions are appropriate, so it's a very long process.

It takes nine to 18 months before you can really establish a good source, and even longer after that before you can determine whether it's a reliable supplier. So you can't just jump and move everything overnight. It takes a long time.

And then the other processes, the inspection process, a lot of those countries don't have on-site inspection to be compliant, and they don't have the shipping, the consolidators, or the ability to get it here in a cost-effective manner.

So it's been a very difficult year for our, for many of our companies. These additional proposed tariffs hit the same companies again, and what I'm worried about is it's like a tree getting hit with an axe. One hit, it hurts a little bit, but we're just getting it from all over the place. So some of the other places we would go to, like Turkey or India, now we have issues there too.

So it's just, it's going to be the straw that breaks the camel's back for a lot of our companies, and unfortunately the really small ones who just can't afford to explore global alternatives for their sourcing.

MR. DEVINE: Andrew Devine, from the Department of Agriculture. My question's for Mr. Fischer. In your testimony you mentioned a list of priority products to be removed from the list of products proposed for 301 duties. Why, and I see that list here, why have you selected those particular products as priorities?

MR. FISCHER: In, sort of bottom line

is that they're the most expensive duty rates for us already. In listening to some of the other members of the panel and hearing other duty rates that they talk about as being high, for many of our products, specifically man-made fiber tops, we're already paying a 32 percent duty.

So with the 25 percent on top of 32, we're nearing 60 percent, two-thirds for all intents and purposes on top of what we're already paying for the products. It's that cost-prohibitive.

MS. VON SPIEGELFELD: This is Christina von Spiegelfeld from the SBA. This question is for Mr. Corrado. In your testimony you had mentioned that in the short term a tariff, you would increase your prices. Would you have any, would there be any immediate effect on your company's overhead? And a second quick question is, have you already explored alternative sources or pressed your suppliers for reductions?

MR. CORRADO: Thank you for the

question. For the immediate time when we have to increase the prices, we're just not sure what the effect's going to be. When we have pricing too high, especially with our new business directly online to consumers, the consumers don't buy it. There's a price point that they'll pay, and over a certain point they won't pay.

As far as selling to a Walmart or a big store, we don't know what the situation's going to be. Will they permit us to pass it on? We don't know, and that's obviously very, very important to us whether they will allow it or not.

The second question is, yes, we are exploring other countries. We are making some products in Mexico, Bangladesh and Malaysia right now, but China has a very precise, good sewing operation that we can't find anywhere else in the world for these specific bras, the more expensive, better garment. We can't find it at that price anywhere else in the world but China.

MS. VON SPIEGELFELD: Thank you.

CHAIR TSAO: Mr. Corrado, I have a quick follow up. With respect to the passing on of the proposed, any additional duties, are the manufacturers, the producers, going to assume part of the duties? Do you see that in your business?

MR. CORRADO: We don't know. We really don't know. We have two main suppliers out of China. It hasn't been discussed with them yet how we're going to be, how we're going to deal with this. There's a possibility they may do that.

When the scare came with the Mexican duties on things, our Mexican supplier offered to help us with that. The Chinese, we don't know. We just don't have any clue how this is going to be dealt with, and we're very fearful of what's going to happen on many fronts.

MR. BLAHA: Sorry, I was wondering if I could ask him a question, maybe the panel will more broadly -- I understand that there are certain contracts and time frames that are already locked in, but what is the flexibility to negotiate or leverage lower prices from the Chinese producers more broadly?

MR. CORRADO: Is this for me again?

MR. BLAHA: I think for the panel, more broadly, I guess. Anyone who wants to answer.

MR. SCHNEIDER: Do you mind if I jump? Just a couple things that were questions about trying to find alternative sourcing. I just want to comment that it's been 30 years of actually producing and manufacturing, and the skill set in footwear where 70 percent is being made in other countries. I just want to comfortably state to the commission that as I was just in China, as we discussed moving with owners who own factories in different countries, they will move goods there but they are limited in the amount of production and amount of lines that can make goods.

Since it's a global economy, they are smart enough to start raising prices in Viet Nam, Cambodia and other places. Supply and demand really comes into play here, while we think we're going to move our goods to Cambodia or to Viet Nam, so is everyone else and they are smart enough to recognize, they'll take the largest leading brands and capabilities and start to lock into future agreements so that they can certainly satisfy their objectives. Prices are going up elsewhere because of this. They're not just waiting.

The second thing we're seeing is, where people who have a balanced portfolio of business, so the certain brands, I won't name brands, which have goods in Europe, 50 percent of their business in Europe and other places and the footwear industry are moving their goods to China and the other goods that are being sold to the U.S. to Viet Nam.

The quality of skill set in China is better, so we're going to lower the quality of our footwear to the U.S. consumer, potentially raise prices and raise tariffs and accomplish nothing by moving goods from my standpoint, with all this moving around. In footwear where it's an engineered product, where it has to work, not just look good, and the lathes and all the other elements, there's real potential for quality issues coming to the American consumer which I really fear, which will lower the quality, raise the prices, and basically the tax will go to the American consumer.

So from that standpoint there's lots of dimension in this discussion other than just finding other solutions, other manufacturing solutions, from that standpoint.

MR. JACKSON: Thank you, Mr. Schneider. This is Bill Jackson, from USDR. Actually, I had a question for you. The first part of the question is do you currently source any of your footwear from outside of China?

MR. SCHNEIDER: Yes, we do. We started manufacturing in India, Viet Nam, and we've started working directly over the four years that I've been there, directly with factories that have capability outside of China, but they're the same owners that just have moved factories to Viet Nam, to Cambodia, and other places.

I also sit on a board with opening price point product that is trying to find, which did find a home in Cambodia, but now they're being fenced out of Cambodia because other people with larger orders and higher price points.

The second thing I fear, I've been dealing in China for 35 years, in the early '80s. The best thing you can do is have consistency with your partners because if we go there and try and force the issue of bearing the responsibility of the increased tariffs, they'll work with you but we will find it somehow, someway, in the product that is not the same as what we've negotiated.

I have spent 35 years trying to build relationships, and so has everybody else on this panel and I'm sure everybody behind me, building real, responsible relationships with wherever we manufacture goods around the world, and doing so as a fair wage and a fair price, and for our consumers. I'm fearful that they will find a way to absorb some of it, but it will be in the cost of the goods or in the quality of the goods. We may not see it short term but we will see it, absolutely, unequivocally, over time. I hope that answers your question.

MR. JACKSON: It does. May I ask a follow up, which is what trends do you see in the footwear industry in terms of sourcing over the last five years or so? Are you sourcing more from China, less from China, and what do you see the long term profile of your sourcing to be?

MR. SCHNEIDER: Over the last 20 years in the total industry, China has absolutely not been growing as far as the sourcing of footwear. It's gone down to about 69 percent, so there is capability elsewhere. But the amount of people and the labor intensive and the capabilities of the Chinese worker is absolutely substantial.

When 18 billion pairs of footwear, 20 billion pairs of footwear are made a year and 12 and a half or 13 of them are made in China, the next largest, I believe, is India, two billion pair. The smallest or the one percent is in Turkey at a 175,000,000.

We in the U.S. are below that. When I worked in a previous position at Timberland, we made shoes, it was minor. We were making some goods in Maine. I'd say we had a factory in Newmarket, New Hampshire, and that is now a condominium. We were not able to compete. We moved it to the Dominican, and then we had the majority in China from the amount of workers and the capabilities.

So again, we are working with India, we are working in Viet Nam with our owners, and we actually have a big business in Mexico. We started looking at Mexico recently but I got scared off just by the quick five percent out of nowhere, which threw me for another loop. So some sort of stability with this type of discussion would be really helpful to try and plan.

As I said the Smoot Act was 1930, People have worked to figure it out. We can always work as a group to figure out things, but this quick, whimsical, you know --- We're looking at moving goods because we're fearful in July for back-to-school, it's going to have an impact that's dramatic. So dramatic. There's no preparation for anything.

CHAIR TSAO: I have a follow-up question with Ms. Kolloff. Ma'am, I understand that a lot of the products discussed by the witnesses are value products. But cashmere is probably more on the luxury end. So my question to you is are there any differentiation with respect to the impact, the effect of the tariffs to luxury products versus consumer everyday products?

MS. KOLLOFF: Well, yes. Our product FOB is probably higher than some of the other products the people on my panel were speaking about this morning. However, there is a limitation on price. Even in the luxury market, there is a barrier to entry, and people want to pay a certain price for a quality cashmere sweater.

In the event that our, we are forced to raise our prices, you know, some of it perhaps will be absorbed by the factories that we work with, we have a great relationships with. But clearly we would have to pass it along to the consumer.

And even though that consumer is going to buy a garment that would probably be over $100, the fact is they would still feel it, and perhaps we'd just sell less. And I think that would certainly be an impact to the retailers we sell and to the customers we serve.

MR. JACKSON: I can't remember which one of you, but I think it may have been Mr. Fischer. You had mentioned that the effect of the tariffs according to estimates of one of the trade associations would be an increase of prices of 25-50%. And I apologize if I didn't get the person who said that correct, but was it you, Mr. Schneider?

So what's the math involved there? If the tariffs go up 25%, how does the total cost of the item go up by as much as 50%?

MR. SCHNEIDER: You know, there's typically markups from the manufacturer through the retailer to the consumer. We're all gearing, you know, trying to make certain margin percentage. But if something goes up by two to three dollars on a ten-dollar item, which we're paying a 15% tariff on it today or tax on it today, it usually goes up six to seven times before it gets to the consumer.

So there's been lots written about where the price points, that that could go anywhere from 25-33% depending upon the item and based on the markup.

So certain retailers, typically as a wholesale, will take anywhere from 45-50%, depending upon the item. From there, the retailer will take, typically go out at a 65% markup. And so if you just do the math on that, you will end up with above the 25%, which ultimately goes with the retail.

So I just did a quick calculation on a ten-dollar item. We could go out at $65 with everybody making their margin that they need or perceive to need to run a business. That item will be at the $82-85 range. So $20 on a $65 item will be a 28-30% increase. So it can vary from there.

There's been estimates in the AAFA on certain goods that would go higher. And there are certain, I'm only doing it on a 15% duty or tariff product. In footwear, there are some that go up as high as 50%. So it varies on the item, varies on the materials used.

I think I read from the -- the AAFA that it says 465 different ways components to make shoes that will impact the tariffs that are brought in, with uppers, materials, and so forth. So it is lots of variations.

CHAIR TSAO: Thank you. I did have a follow-up question for Mr. Fischer. I think you had mentioned in your testimony that, as I understood it, in addition to the other concerns that you expressed, there were some fabrications that are made only in China. Is that kind of a, just competitiveness issue, or is there some exclusive technical issue related to that?

MR. FISCHER: It's not really a technical issue so much as the, in many cases the fibers are in China. And for example, we do manufacturing in other countries. I was just in India recently. We met with a huge factory that we're already doing business with. Completely vertical, spin their own yarn. But they spin cotton yarn, and when we spoke about anything with polyester in it, they said we're not interested.

You know, I mentioned in the testimony that we sometimes get orders in excess of a million pieces. We're doing a faux Sherpa jacket that's 1.7 million pieces. It's polyester, it's brushed twice, it goes through many other processes to get it to look like it does.

So not only is it made in China, but to something that's as bulky as that, to then transport that to another country would, just the transportation alone would be cost-prohibitive.

So not only, you know, to add on to what some of the other people are saying, not only do we do already manufacture in some other countries, we actually have an office in Delhi with a small satellite office in southern India. We have an office in Dhaka in Bangladesh.

But and you know, there's been talk long before the tariffs in China of the growing middle class. So even the Chinese know that there is a period, a point in time when it will become cost-prohibitive to even manufacture in China. So we've been looking for other sources for years, but they just don't exist on the scale that's necessary for the type of business that we do. Thank you.

MR. CLEAVELAND: Important to note,

too, that most major US retailers require corporate social responsibility audits on the factories that they do business with to insure that they're adhering to child labor laws and overtime and fair treatment of employees and that they're not locking doors and forcing work.

You know, it's a huge effort, and it's also, you know, it's not the kind of things you can turn over in a day. And it has taken years to have factories inspected and approved by these major national retailers.

So of course to just find another source, that's the beginning of the process, but you need to then make sure that the workforce evolves with the technical ability to service that need, but it also has to be in an approved factory.

MR. BISHOP: We release this panel with our many thanks, and we invite the members of Panel 2 to come forward and be seated.

PANEL 2

MR. BISHOP: Will the room please come

to order. Mr. Chairman, our first witness on this panel is Dr. Erin Mannen with the University of Arkansas for medical services. Dr. Mannen, you have five minutes.

MS. MANNEN: Hello, thank you for the opportunity to talk with you today. Most importantly, I am mom to four-year-old Jay and two-year-old Lucy. However, I am here today also representing my other role as a professor in the Orthopedic Surgery Department at the University of Arkansas for Medical Sciences in Little Rock.

I have a PhD in mechanical engineering and have over ten years of experience in biomechanics. My research areas include the biomechanics of babies, with special interests in the benefits of babywearing on musculoskeletal development.

I am testifying in this matter because I have concerns about how the imposition of 25% tariffs on baby carriers, subheading 63079098, could adversely impact American families and public health.

I became interested in the biomechanics of babies when my son was a newborn. At the time, my husband was a police officer working the night shift, and I was a brand new mom without family nearby. My son was colicky and had double hernias, so he cried most of the time for the first few weeks of his life. It was physically and mentally exhausting, and nothing would calm him.

I was gifted a used baby carrier and decided as a last resort to try it. And that experience has truly changed my life. My son was instantly calmed from the physical closeness to me that the baby carrier provided, and my family became believers in the magic of babywearing.

But being a scientist, I sought to learn more about why this particular infant device, a baby carrier, was so different than all the other baby gear we had tried. What I found was a community of academic researchers beginning to explore the medical benefits of physical closeness and infant-holding, which babywearing promotes.

In particular, researchers have found that physical closeness of the mother-infant duo increases breastfeeding success and decreases infant distress. While other baby devices separate the mother and the baby, a baby carrier promotes physical contact.

A researcher at Arizona State University recently found that low income adolescent single mothers who use baby carriers had a stronger attachment to their babies and had increased breastfeeding success.

Not only is it well-established that breastfeeding has numerous benefits for the baby, mothers who breastfeed also have reduced risks for some types of cancers. Baby carriers have a significant positive impact on the mother and infant bond, something that we know predicts child success in many different ways.

While it was exciting for me to learn about these evidence-based benefits of baby carriers, I began asking questions that I, as a biomechancial engineer, could answer. How do baby devices impact musculoskeletal development for my child?

In my most recent study, my team used high tech motion analysis and muscle activity monitoring technology to explore how different baby gear impacts an infant's ability to move and use their muscles.

In orthopedic biomechanics, it is well known that motion and muscle activity promote proper joint development. So my research sought to understand how various baby gear might impact the musculoskeletal and motor development of babies.

What we have found is that Boba baby carriers promote neck and lower limb muscle activity, which has positive implications for head control and proper spine and hip health. We have also found that back-lying baby gear has the opposite effect on babies, resulting in less movement and muscle activity.

In our work, supported by the

International Hip Dysplasia Institute, we found that Boba baby carriers promote a hip position and muscle activity profile that is known to encourage proper hip development in infants. We are now exploring how baby carriers may become a medical device or treatment option for babies who are born with hip problems.

In summary, baby carriers are not the same as other infant gear on the market. They not only provide parents with the convenience of remaining hands-free and the freedom to explore where strollers cannot, but the evidence-based medical benefits of baby carriers on the baby's health is becoming well understood.

I believe that as the body of evidence supporting the medical benefits of babywearing grows, there will be a time in the future when baby carriers may be prescribed to new mothers in the same way that breast pumps are. Baby carrying has clear public health benefits, and I am happy to play a part in understanding and disseminating that information to the public.

While tariffs are certainly not within the realm of my expertise, a 25% increase would undoubtedly make baby carriers more expensive to the consumer, who may then decide to purchase a less expensive infant product without known health benefits, losing out on that positive impacts of baby carriers.

I appreciate the opportunity to talk with you today as a mother and a mechanical engineering researcher on my own personal benefits and the academic community's evidence-based medical benefits of baby carriers. I respectfully urge you to remove subheading 63079098 from the final list in this action, or alternatively include exemptions for child carriers, child carrying wraps, and other child-related products classified under this subheading. Thank you.

MR. BISHOP: Thank you, Dr. Mannen. Our next witness is Timothy Gallogly with Dorel Juvenile Group. Mr. Gallogly, you have five minutes.

MR. GALLOGLY: Thank you. I'm Tim Gallogly, I'm Director of Legal Affairs for Dorel Juvenile Group. Dorel is a leader in the juvenile products industry in the United States. We are headquartered in Foxborough, Massachusetts, we have a manufacturing facility in Columbus, Indiana, and a distribution center in Fontana, California.

I'm here to talk about two products, child safety seats, 9401.80.6021 and 6023. Now, as a preliminary matter, Dorel agrees with the US that China had engaged in unfair trade practices. We also agree that something needs to be done about that. We're not sure tariffs are the right way to go, we'll leave that to the discretion of the Administration.

But we do have an opinion on the issue of whether a tariff on child safety seats will cause disproportionate harm to US consumers. And our opinion is that it will not.

Now, earlier I mentioned we have a factory in Columbus, Indiana, incidentally the hometown of Vice-President Pence. That factory is 1.2 million square feet in size, it employs 700 people, of whom 450 are union members. It produces some three million child safety seats per year. We have the capacity to expand that number by 30% overnight.

Now, that facility produces a range of child safety seats, but it focuses on seats designed for the budget-conscious consumer. We actually dominate that end of the market with approximately two-thirds market share. So a 25% tariff on child safety seats will not impact the budget-conscious consumer. They will still be able to go and buy a safe, affordable child safety seat that's made in the United States.

Now, there's one other point I'd like to make with respect to tariffs on child safety seats. Whatever is determined by this committee, it should be uniform. Right now on List 3, there is a tariff on seat pads and covers, so-called soft goods. So we import some of that, some of those soft goods, from China, and we pay a tariff.

Our competitors import the finished child safety seat, the entire safety seat, from China and pay no tariff. Now, what we've done in response to that is we've moved a lot of our soft goods suppliers out of China and moved primarily to Mexico and Vietnam.

But we're concerned that other component parts that we import from China will be slapped with a tariff, and the finished seat will not. So the system we have today actually works to the detriment of the one child seat manufacturing company in the US.

So our position, we urge this committee, that if tariffs are imposed, they be imposed on all component parts of the child safety seat, as well as the seat, or that there be no tariffs at all with respect to any of the components or the seat itself.

I thank you for your time and consideration, and that concludes my testimony.

MR. BISHOP: Thank you, Mr. Gallogly.

Our next witness is Mark Flannery with Regalo International LLC. Mr. Flannery, you have five minutes.

MR. FLANNERY: Okay, that's Regalo. Good morning, my name is Mark Flannery, I am the President of Regalo. Our company is a mid-sized privately owned company in the baby products industry with corporate offices in Minnesota. We are a leading supplier in North America of several necessary safety products for young children, such as baby gates, bed safety rails, and portable play yards.

In addition to these three product categories, we also design and produce several other products that are important to the parents of infants in the areas of sleeping, bathing, napping, feeding, and potty training. All our products are designed and engineered in the US by our own staff and are proprietary to us.

Our company, which my wife and I started from scratch 24 years ago, now employees approximately 100 full-time individuals working in departments such as administration, engineering, marketing, finance, sales, logistics, warehouse operations, human resource, supply chain management, IT, quality control, legal, and general office staff.

The primary materials used in the manufacture of our products are steel, plastic, and to a lesser extent textile. We have produced our products in China for the past 21 years. Our products have been specifically designed to provide a high level of value and affordability to a broad base of consumers and are sold in every major retailer in North America.

We know what parents -- we know that parents today are very informed regarding the proper care of their infants. However, as young families, they often struggle to afford all that is required in the care of their children. As a company, we have always been extremely sensitive to these prices these families have to pay for our products and have worked very hard to maintain their affordability.

Periodically over the past 20 years, we have investigated what opportunities might exist for us to produce our products within the US. Fifteen-plus years ago, low tech metal fabrications such as the process used in the manufactures of our products did in fact have some presence here in the US, but not now.

Low tech, low cost metal fabrication no longer exists in the United States. US metal fabrication companies we communicated with no longer make the specification of tubing we use, and quite frankly they have no interest in doing that. I have documentation with me today and you have attached to your files that give clear evidence of this.

Instead, metal fabrication in the US today broadly primarily involves high cost, high tech industries such as biomed and aerospace and other high tech products that use exotic metals.

As the threat of tariffs came on the horizon approximately 20 months ago, we immediately acted to investigate and seek out alternative production sources outside China. Our attention was directed to Mexico and Vietnam as best possible alternative sources.

After multiple trips and many face-to-face meetings, the results are that both alternative production options had significantly higher costs than China, even with the 25% tariffs built in.

While wages in Mexico and both Vietnam are slightly lower than that of China's, the main hurdle is raw material availability and cost. Vietnam is very developed in wood products as well as textiles, however it has a very weak infrastructure in metal fabrication, which constitutes 80% of our products.

The factories we met with could not meet our cost requirements nor our high volume production demand. It was not even close. I do have documentation confirming that as well, and you have it in your packet. All the factories that we met with or inquired into in these countries stated the exact same point, that it is very difficult to compete with China when it comes to low tech, high volume metal fabrication.

The costs we received from Vietnam were a minimum of 50% higher, and Mexico was even more higher than that. In the case of US production, we made 13 in-depth sourcing inquiries. Nine stated that they no longer produce or work with the type of steel tubing we require, and quote unquote, This is not a good fit for our company.

Three never responded. The one company that did provide a quote gave us a cost in which the raw material alone was over $45 higher than what the entire finished product sells for in Walmart today.

At this point, we have no other viable option other than China to produce our products. As a result, it is my firm opinion that by imposing new or higher tariffs on the HTS codes I have listed on your sheets, this would in no way have an impact on eliminating or changing China's actions or their current policies.

However, I can say without hesitation that by raising or imposing these new tariffs, 25% tariffs, there will be disproportionate harm to our company, as well as to the consumers who have need of purchasing them. We'll have no choice but one of two options.

Option one, freeze hiring or possibly make cuts in our staffing, as well as decrease benefits, which currently includes fully paid healthcare, 401(k) match, profit sharing, and maternity leave. We would also have to suspend capital spending.

Option 2, pass on the sizable price increase to our retail accounts, which would then significantly raise the retail prices of our products, making them much less affordable, and/or out of range to the lower stratus of our customer base.

The following are the HTS codes related to child safety that I'm urgently requesting exemptions for, and you can see those below. There are four HTS codes, I won't read them. Thank you for giving me this opportunity to speak.

MR. BISHOP: Thank you, Mr. Flannery. Our next witness is Bradley Mattarocci with Baby Trend, Incorporated. Mr. Mattarocci, you have five minutes.

MR. MATTAROCCI: Good morning, and thank you for the opportunity to testify today. My name is Bradley Mattarocci, Vice President of Baby Trend.

Baby Trend is a California-based company producing products such as car seats, play yards, strollers. We have distinguished our brand as a leading manufacturer of these types of products. Throughout our 31-year history, our American employees have been designing new, innovative, life-saving products that meet the ever-increasing demands of parents and caregivers.

We accomplish this by providing the safest, more reliable products at affordable prices. Baby car seats, play yards, and strollers are far outside the scope of the Administration's focus on the technologies and industries included in the Made in China 2025 initiative.

Products specifically listed in the Federal Register Notice will be subject to the 25% tariff, some of which were previously and correctly excepted from List 3, Part 2, in recognition of having such lifesaving products available to American caregivers at the lowest cost. Appendix I of our comments lists the HTS codes that we are requesting exemption, including car seats, travel systems, and play yards.

An additional 25% tariff specifically on safety-related baby products is unlikely to advance the Administration's objectives, including the criteria set forth in the USTR's notice. This increased cost will have to be passed onto consumers, due to traditionally low profit margins and their price sensitivity, making these lifesaving products unaffordable to much of the country's population.

We are confident that implementing the proposed tariffs on critical, and in some cases legally required safety products, will endanger the health and safety of our children. Specifically, this pertains to child car seats and play yards that ensure safe transportation and sleep.

The latest census data has the median household income in the US at 50,500. Fifty percent of all baby gear consumers have a annual household income under 50,000, and 20% of baby gear consumers have a household income less than 25,000.

As an example with child car seats, which must meet federal motor vehicle safety performance standards, parents may choose to use secondhand or expired seats and have, that have outdated safety features. Some may have missing parts, been damaged, or involved in a prior accident, or they may use no car seat at all.

In lieu of play yards, strollers, basinets and cribs, which must meet stringent safety requirements to assure safe sleep, parents may have children sleep with them in their beds or use improvised sleeping arrangements that put babies and small children at risk.

These types of tradeoffs are real. We hear about them every day. We fear that the increased costs of parents and caregivers for these products will be putting children's lives at even great risk.

For us and many in our industry, adjusting the supply chain to offset the impact of an additional 25% tariff from our well-established, mature suppliers would require significant changes. Those changes would be very costly, disruptive, take years in some cases, and create untenable new safety and quality risks.

Our products are uniquely required under US law to be free market tested and certified as meeting the extensive array of US mandatory safety requirements, as required by the US Consumer Product Safety Commission and the National Highway Traffic Safety Administration, NHTSA.

Additionally, according to NHTSA, child car seats and boosters provide the best protection for infants and children in automobile crashes, which are the leading cause of death for children ages 1-13. Tariffs do not adequately account for required testing or certified materials, components in global supply chains in our products' production and assembly.

These complex supply chains can take years to establish. They cannot be easily moved to different countries or facilities without compromising contracts, legal and regulatory compliance, quality, and affordability for parents and caregivers. A single car seat alone takes years to design and millions of dollars to develop, test, and certify for use and sale in the United States.

Based upon the foregoing, we strongly oppose adding additional tariffs on those and other baby products that parents and caregivers depend on for the safety of their infants. We reasonably estimate that the net effect of enacting the tariffs without exclusion would increase wholesale prices of our products by at least 20%, if not 25.

The product that, a product that costs 70% of its retail price with a 25% duty would mean that to maintain the same margin on sale, retail prices would have to increase by 15%. Baby Trend submits that any tariff that increases the cost of products that provide for the safety of our most vulnerable population must be avoided.

Raising children is a complex and costly endeavor. Reducing the costs and increasing the affordability of safe baby products must remain a priority for everyone.

For these reason, Baby Trend respectfully requests that child car seats, travel systems, play yards, et cetera, are all protective child safety products imported under the HTS codes in Appendix I of our submitted comments not be subjected to the proposed additional tariffs and excluded, as most were previously, from List 3.

Thank you again for your time and consideration, I welcome any comments or questions.

MR. BISHOP: Thank you, Mr. Mattarocci. Our next witness is Russell Torres with Graco Children's Products. Mr. Torres, you have five minutes.

MR. TORRES: Thank you. My name is Russ Torres, I'm a group president with Newell Brands, the parent company of Graco.

I'm here today on behalf of my company, our suppliers, our retail partners, and most importantly the parents of millions of families that purchase baby gear every year. I'm very grateful for the opportunity to appear before you today.

We're also very grateful that the Administration granted our previous request for the removal of infant and toddler car seats, high chairs, and infant swings from Lists 1 and 3.

This decision helped our industry continue to provide consumers with affordable safety products.

My message today is simple. We're very concerned that implementing the proposed tariffs on critical, and in some cases legally mandated, child safety products will have negative consequences for the safety of American children.

For background, Graco is the largest provider of juvenile products and gear in the United States. For the last 60 years, our primary mission has been to ensure the highest quality products that protect the safety and wellbeing of America's children.

Our US-based engineering and design team has a track record of consistently enhancing safety features for consumers and families of all income levels. This mission drives our 650 employees every day in Atlanta, Georgia; Exton, Pennsylvania; Reedsburg, Wisconsin; and Victorville, California.

Our industry and parents now face the potential of a 25% tariff on car seats, car seat bases, high chairs, and baby swings. The relevant details of the proposed products are provided in the appendix.

All the proposed products, as I testified the last time I was here, are consumer goods used by parents of infants and young children every day in all phases of their lives, like those displayed here by these images.

Many of these product categories are required by law and subject to rigorous national safety standards regulated by the Consumer Product Safety Commission and the National Highway Traffic Safety Administration.

It is incredibly important to keep in mind, as my colleague noted, that our consumers are young parents balancing tight budgets. Fifty percent of our consumers have household incomes less than $50,000 a year, and about 20% have household incomes less than $25,000 a year.

We're deeply concerned that imposing

the tariffs will add stress to many families as they agonize over choices to balance tight budgets while ensuring the safety of their children. For example, parents may be tempted to turn to secondhand car seats that have expired safety features, or prematurely put young children into booster seats, or graduating children too soon entirely out of car seats.

We're concerned that parents may exhibit other behaviors like this. These tradeoffs are real for many young families and lead to wrong choices that negatively impact child safety. There is a limited prospect of adjusting the industry's supply chain or Graco's supply chain to offset the impact of these tariffs in the foreseeable future.

About 90% of all products in this category are imported from China directly currently. Significant adjustments would take years and be very disruptive, introduce new risks, and in many cases would be impractical to execute in the short term. The bottom line is the majority of the supply will still be subject to 25% tariffs for the foreseeable future, and consumers will feel the impact.

While we appreciate the Administration's overall policy interest, placing tariffs on imported children's safety products will have unintended consequences on child safety that we believe will be harmful.

Once again, thank you for your consideration of our comments. We respectfully request that you remove these products from the annex so that parents do not need to choose between safety and affordability. We believe this is a very important issue for the American families and consistent with your prior decisions related to the basis of car seats, high chairs, car seats, and infant swings. Thank you.

MR. BISHOP: Thank you, Mr. Torres. Our final witness on this panel is Lisa Trofe with the Juvenile Products Manufacturers Association. Ms. Trofe, you have five minutes.

MS. TROFE: Good morning, Committee

and thank you for the opportunity to testify today. JPMA is a national, not-for-profit trade association representing 95% of the preschool to prenatal industry, including the producers, importers, and distributors of a broad range of childcare articles that provide protection to infants and assistance to their caregivers.

Ninety percent of our members are small businesses. Promoting baby safety is a key mission of the Association.

We agree with the importance of addressing issues raised in the USTR report. But tariffs on finished goods or component parts of baby safety and care products is not the appropriate approach to address these issues. We appreciate the Committee's careful consideration of the harmful economic impact tariffs will have on babies and their caregivers.

Juvenile products like car seats, cribs, play yards, baby gates, high chairs, and strollers are far outside the scope of the Administration's focus in the Section 301 investigation. Nevertheless, it is proposed that these products be subjected to 25% tariffs, which will be the responsibility of the US-based businesses importing these components and products.

These increased costs will be passed onto the consumer, given the low profit margins on baby goods, making lifesaving childcare products unaffordable to much of our country's population. As you've heard, 50% of US baby gear consumers have a household income less than $50,000 a year.

Products necessary for the protection and care of infants and small children should be available to America's families at the lowest possible cost. Prior to the finalization of List 3, the USTR acknowledged, given the importance of products used for the care and safety of babies, that certain juvenile products should not be subject to tariffs and provided exception codes in Part 2.

Now, in List 4, these same previously

excepted childcare articles are again being targeted. Yet since the September hearing, the vital role of these products in saving lives has not changed.

Therefore, JPMA requests that the List 3, Part 2 exceptions for certain juvenile products be maintained and expanded so all products and components imported under the HTS codes in Appendix 1 of our submitted public comments are qualified to exclude childcare articles and protective safety products and components.

Tariffs on imports from China will not meet the Administration's goal of inflicting maximum pain on China. Tariffs are hidden, regressive taxes that will be paid by US businesses and consumers in the form of higher prices.

While some companies produce a limited range of baby products domestically, that is the exception. Overseas manufacturing has been the norm in our industry for decades, so for most, shifting the supply chain would be a lengthy process. We estimate 90% of the core products that keep babies safe are made in Asia. And of that, the vast majority in regions in China.

So a comparable US or other foreign manufacturing base does not exist. Firms with domestic manufacturing produce only a small fraction of the volume necessary to support full US consumer demand for safety products for infants and toddlers, and then only in limited quantities.

Juvenile products are highly regulated and quality is paramount, so securing new suppliers is an expensive and complex process. If manufacturers are forced into this process, the safety of products may be compromised. And prices for consumers will surely rise, resulting in many families relying on secondhand or older products that may not meet today's current safety standards.

Our message to American families should be clear. The importance of this trade war does not surpass the importance of baby safety. We reasonably estimate the net effect of imposing these tariffs without exclusions would be the withdrawal of a considerable amount of product from the marketplace, as the proposed tariffs and the timing of their imposition is far too aggressive for market adjustments.

Most juvenile product manufacturers simply cannot afford to add 25% to the relatively high cost of goods sold. The majority of this industry is made up of small US businesses that are not able to bear the brunt of a global trade war. It should be a matter of public policy to ensure that juvenile products are available at price points readily attainable for the vast majority of American families.

JPMA submits that any tariff that increases the costs of products that provide for the care and safety of our most vulnerable populations must be avoided. Higher costs place an unfair burden on families that will undoubtedly result in fewer babies and toddlers having access to products critical to their safety.

We are gravely concerned that without affordable access to a safe car seat and safe sleep products, parents may be forced into makeshift alternatives or go without protective products at all. And even one death of a child due to unavailability of affordable lifesaving baby products is one too many. Thank you for your time.

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

MR. McCARTIN: Thank you. I have a question for Dr. Mannen. I find your research to be fascinating and it makes intuitive sense. And I can understand how from a scientific perspective to figure out exactly what the structure of a baby carrier should be could be a complicated process and take some time.

But once the science is there and you've figured out how a baby carrier should be structured, how complicated would it be to actually manufacture that baby carrier, and why would it be necessary to manufacture it in China versus anywhere else? I mean, is there something unique about China that would allow you to, or is this not such a complicated product once you've got the science?

MS. MANNEN: Thank you for the question. I have to say that I am not an expert in the business relations side of things. I'm, however, it's my understanding that some of these companies have developed relationships with China that are based on quality and safety. And that shifting that to a different country would result in increased costs and time that would be passed onto the consumer.

So regarding specific designs of carriers related directly to China, I can't answer that question directly.

MR. McCARTIN: So is your research ongoing, or have you settled on what the ideal baby carrier is? Or will it vary depending on what condition you are trying to address?

MS. MANNEN: Yeah, so it's actually fairly new, within the last two years is when we started. Nobody else is really doing any research like that. So there's a lot of questions to still answer. I'm specifically interested in hip and what's the most hip-healthy baby carrier design. What can we do to ensure that we're not hurting babies' hips.

But also interest in premature babies and different babies -- babies with different pathologies. So it's brand new, ongoing, we're learning more every day.

MR. McCARTIN: Thank you.

MS. MANNEN: Thank you.

MS. von SPIEGELFELD: Good morning, this is Cristina from the Small Business Administration. This question is for Mr. Gallogly. You had testified that your competitors are importing child safety seats manufactured in China that are excluded from tariffs, while your importation of child safety seat fabric pads from China are subject to a 25% tariff in an otherwise-US manufactured seat.

Generally, what is the percentage of the cost of fabric pads in the total cost of the child safety seat? And a second part question to that is has that affected the price currently?

MR. GALLOGLY: Well, it's, the percentage of the total car seat that's covered by soft goods, if you will, is not particularly high. It's, I think it's in the single digit percentage of the total cost.

Now, what we did in response to the soft goods being put on the List 3 tariffs is we moved supply, we went to suppliers outside China. And so they're in Mexico and Vietnam primarily now, although we still have some Chinese suppliers, so we're still paying a tariff on that.

But it's not a particularly high percentage. It really depends on the price point of the car seat. The lower price point, the percentage is lower. And the higher price, that's really much of what you're paying for is the soft goods, the thicker padding and the plusher cover. But on the lower end, the added cost is not particularly high.

MS. von SPIEGELFELD: Thank you.

MR. GALLOGLY: Thank you.

MR. DEVINE: Good morning, this is Andrew Devine from the Department of Agriculture. My question is for Mr. Flannery. You mentioned that you made inquiries in the US, Mexico, and Vietnam to produce your products. Do those or other countries outside of China already produce the child safety products you described? And what are those countries' share of the market?

MR. FLANNERY: There, a large portion of our business is baby gates, baby safety gates. And also metal fabrication and play yards and that sort of thing. Currently there's no country manufacturing baby safety gates outside of China, to our knowledge. Plastic may be the exception to that, but metal is not the case. Does that answer your question?

MR. DEVINE: Well, then I have a follow-up. Have you explored the feasibility of producing your products outside of China and sourcing only those components that are unavailable outside of China from China?

MR. FLANNERY: We have, we have. As a matter of fact, you have a cost in your packet there, if you see the Vietnam cost. That's with China's steel imported into Vietnam. So for us, it really comes down to the dilemma we have is steel. And you have to have a country that has a developed steel industry.

And so China has that, the US has that. India maybe to a lesser degree has that, but there's all sorts of complications with India. Vietnam does not, even though they have a steel, we met with their, I don't know what you would call him. But basically he was the head of the association for steel production.

He openly admitted 80% of our steel is from China. So that's the problem with, for us, is really is the low cost carbon cold rolled steel. It's just, it's limited in where we can go to have that produced.

MR. McCARTIN: Just to follow up in this area. I think it was Mr. Torres who had, in his testimony, said that 90% of these juvenile products are made in China. Is it possible to get a breakdown? You've got cribs, play gates, high chairs, car seats. What percentage of each of those categories is produced in China versus elsewhere?

MR. TORRES: Sure. I'd don't have that available right now, but we could get it to you and submit it in the form of our follow-up.

MR. BLAHA: Chris Blaha, Department of Commerce. I have a question for Mr. Mattarocci. You testify that there is price sensitivity of consumers related to child safety products.

And I guess try to understand that, do you have an idea of what the overall US consumption share is made up by imports from China versus domestically produced? And kind of analogous to my colleague's question, is that different across the various child safety products? Different for child safety seats versus cribs versus other things like that?

MR. MATTAROCCI: Well, I would, as Mr. Torres said, I would say that the market share of baby safety products is roughly 90%. The exact breakdown, we can submit that in our follow-up comments. But as it relates to the market share for child safety seats, as one of my colleagues had testified that they have some domestic production. That's a very small portion of the overall market share of the US.

And to put that in perspective, there's four million, approximately four million live births a year in the US. Child safety seats are used up to the age of 13, legally required in most states.

So if you just do the math, that's about 52 million child safety seats that the market share would be potential. Let's say it's just half of that and it's 25 million. So three million seats, it's the drop in the bucket compared to the overall market share.

CHAIR TSAO: Mr. Gallogly, I think you would like to respond.

MR. GALLOGLY: Yeah, I'd like to respond to that. The math is a little off there. There are approximately ten million child safety seats sold per year in the United States. We make three million in Columbus, IN. That's 30%. And we could increase that by 30%. We could go to four million in the short term.

So I wouldn't say that's a minuscule percentage of the child safety seat market, which is what I came to testify to. Play yards and gates, I don't know what the percentage is made in China. We make some other products in Columbus, but not those. But as far as child safety seats, I think a third or more of the market is not a small percentage. Thank you.

MS. NAYLOR: Megan Naylor, State Department. My question is for Mr. Torres. You mentioned that increased tariffs might create economic incentives that result in parents resorting to older, used equipment or alternative unsafe products that endanger children. Can you please share any data supporting this statement with the Committee as a follow-up to this hearing?

MR. TORRES: Absolutely, we can share that as a follow-up. I can conceptually kind of give you a sense for that in saying just look at the price elasticity of products in our category, which means the responsiveness to demand on price. And that tells you they're very elastic.

And so if prices come down, you'll see, you know, significant upticks in volume. If prices go up, you'll see significant drops in volume. And that's, you know, some cases that's second car seats, hopefully, for an extra vehicle or a grandparent who decides to purchase a product.

But in a lot of cases, we're concerned that it's also people digging in to find the old one as opposed to going to purchase a new one or doing something different. And so that's what's got us concerned.

I'd also like to make a quick comment on just the prior discussion. You know, our belief is the principle of the tariffs is not to competitively advantage or disadvantage any one company. So we're all for a level playing field. Newell as company participates in a lot of different categories, and we're experiencing tariffs across those categories.

I'm here to testify about one, which is child safety products, because we're concerned that, and we experienced the inverse tariffs that my colleague from Dorel has stated as well, where the input costs are actually putting you at a disadvantage to people that are sourcing the entire finished goods across a number of our categories.

So while that's difficult, you know, our concern is will the tariffs increase prices to consumers. And we feel that even with the stats, my colleague, we'll share the breakdowns, those are units, not dollars. And so when you look at the middle part of the market, we have 40% market share. And there are additional safety features that some consumers may want to choose in the mid-tier, you know, level.

So we believe that because the tariffs will ultimately increase prices to consumers, it will cause people to begin making those choices. And we don't see that any kind of competitive advantage one way or another between companies within the industry is the issue. The issue is, is that question.

MR. SULLIVAN: Matt Sullivan from the Treasury Department. My question is for Ms. Trofe. You argue that alternative domestic sourcing is not generally available in the supply chain for many juvenile products, and there would be expected cost increase.

I'm just wondering, do you have any more kind of detailed data on the price sensitivity of consumers? I know you pointed at the statistics about 50% of the consumers have incomes below 50,000. But is there anything more detailed you can share on the sensitivity of consumers to price increases, either here in this testimony or at following as a written submission?

MS. TROFE: Absolutely, I'd be happy to provide some additional data points in our follow-up comments.

But anecdotally I would say that we believe all American families should have a choice and should have access to the products that they need at the lowest cost possible so that they can safely and effectively provide those lifesaving and safety devices for their children.

CHAIR TSAO: Thank you. Follow-up question, a number I think of testimonies today have referenced concern about older, or I guess out of standard or out of date child healthcare equipment, and that essentially the reuse of it being a broader health concern and like if tariffs would be imposed.

Is there any information, I think Mr.

Mattarocci, you mentioned, Mr. Torres, Ms. Trofe, about how often the standards change? How often do these things need to be updated, and how much really of a concern is an older childcare seat say, that isn't out and out broken or damaged?

MS. TROFE: Absolutely. One of my roles with the Association is to serve as the co-chair of more than 30 ASTM product category subcommittees. ASTM is a voluntary standard-setting body on which the federal regulations for these individual products are based. And that is overseen by the Consumer Product Safety Commission.

One of the ways in which we identify how safety standards should be updated is by reviewing incident data. And that's information that's compiled both directly by the CPSC, as well as hospital records, coroner records, medical examinations. And all of that data is compiled into a central location, which can be reviewed and analyzed for trends.

What we find is that the vast majority

of incidents and fatalities occur with products that do not meet current safety standards, with products that are, have been sitting in someone's attic for some time, or that have been used past their recommended use dates. And in some cases where parents or caregivers have tried to modify or fix a product so that they are deemed safe.

And our goal in advocating against these tariffs is to ensure that families don't have to do that, that all families have access to affordable products that will ensure the safety of their children.

Those standards, to answer your question directly, are updated in many cases on an annual basis, if not more frequently. And again, that's based on a group of technical experts reviewing that incident data to ensure that the standards are keeping up with the trends that are found in the incident data, as well as the innovation and technology that we're seeing from the manufacturing community.

MR. BLAHA: Another question, I

believe for Mr. Flannery. I think in response to my colleagues you mentioned that the price quote that you had from Vietnam, I think, included the Chinese steel. But that was still, I think, I forget the percentage how much higher.

And I apologize, I haven't had a chance to review your material there, but what was the, what's the margin then? Why was Vietnam so much higher if the steel was the same and steel was a large portion cost out of your products, I think?

MR. FLANNERY: You know, it's, there's a couple of components to that question. Raw material is one. The other thing is, as a matter of fact, I got an email this morning from our general manager of China operations. And they have, they were communicating with a factory, a Taiwan-owned factory in Vietnam.

And the owner of that factory wanted to point out specifically that even though the Vietnam wages are lower, the prices are higher. And so I think someone mentioned earlier that the

Vietnamese are, number one, taking advantage, you know, of the surge, you know, that's coming into their country. But our experience has been, number one, has been the steel. Number two, has been capacity.

They just, for our type of product, baby safety gates in particular, a high volume, low tech metal fabrication. They have good factories. I mean, they're sophisticated, they're very updated, but they're small. And they just don't have, they just don't even come close to being able to fill our capacity. Not even close.

And to be able to and to have to move that and shift that, it's just not a raw material issue. It's a, it's just a huge, huge undertaking. Because like these, my colleagues are saying with car seats, you know, there's safety standards. Well, there's safety standards for baby gates as well.

And so all that you've heard as far as inspecting and being audited by, your factory's audited, all these sorts of things are all components that come into it that just make transitioning, even if we could find a place that had the same costs or even a little higher than China, it would just a massive undertaking because of our volume. And because of the nature of our tooling, our dyes, our equipment, getting things set up.

So Vietnam, to speak to your point, not to belabor it, but to speak to your point, it's their ability in our categories, it's raw material in our categories. It's the size and their ability logistically to even do what we can do, what we need to be done.

You know, as I said, wood, maybe a different story, and it is a little bit of a different story in wood in Vietnam. But metal fabrication is not there, it's just not there. And it's the same in Mexico.

CHAIR TSAO: Mr. Flannery, are the metal gates substitutable or I guess interchangeable with the, in terms of use, with the plastic ones and wood ones? And do you see sort of a shift to, you know, of consumers moving to the other materials?

MR. FLANNERY: Well, that's a really good question. I mean, that's a really good question. And because for example plastic in the gate market, wood and plastic represent the bottom end of the market. Okay, you have a plastic, we make a plastic expandable gate, retails in Target for 19.99.

Wood is even lower. I believe Dorel and some of our other colleagues can attest to that. There's no profit in the wood, low end wood gate. Half of you guys probably have one. But the metal is, and the metal gates are a walk-through style gate.

And they, because of the safety requirements and push-out and pull-out pressure requirements that are based on the standards, plastic, it can't be done, we tried. And wood certainly can't be done, to withstand those pressures that are required.

CHAIR TSAO: Actually, I do have another follow-up question with Mr. Gallogly. And this is actually for the other car seat representatives here too. I think in your written testimony you said that their estimation is that any price increase would be limited to anywhere from three to five percent.

My question is, is that particular to your firm or to your sort of segment of the market? Or is that the sort of anticipated effect of tariffs with respect to the entire child safety seat industry?

MR. GALLOGLY: That would be if the proposed tariffs on the restraint system goes into force. The restraint system is the buckles and the harness. We source that component part primarily from China.

So for example, if these tariffs were going forwards, both on the child safety seat and the harness, our price would have to go up about three to five percent, which would take our opening price point child safety seat, which is less than $50 right now at Walmart, and would probably raise the price by, you know, less than a dollar.

But again, we would end up paying a tariff on an imported component part, and if tariffs are not imposed on the finished child safety seat, they would pay no tariff at all. So we just, that's the uniformity that I was alluding to earlier. I hope that answers the question.

CHAIR TSAO: Yes, thank you. And Mr. Torres and Mr. Mattarocci.

MR. MATTAROCCI: Yeah, in my statement I had kind of given an analogy that if the costs were 70% of the retail price with a duty of 25%, that the net effect at retail would be approximately 15% on a traditional importation of a vertically integrated company.

And you know, I would just like to say, I agree with Mr., the gentleman from Dorel that even if we were able to move our complex supply chain and tooling and everything, all of the component parts, the webbing, all of those things that are already certified would still need to be imported from China. They're not available in quantities anywhere else.

MR. TORRES: I would agree with that, with the 15%.

MR. BISHOP: We release this panel with our many thanks and invite the members of Panel 3 to come forward and be seated.

(Pause.)

MR. BISHOP: Mr. Chairman, our first witness on this panel is Mike Branson with Rheem Manufacturing Company. Mr. Branson, you have five minutes.

MR. BRANSON: Good morning. My name is Mike Branson. And I'm the President for Global Air Operations at Rheem Manufacturing Company.

I want to begin by thanking the Section 301 Committee and USTR for arranging this important hearing, and for giving me the opportunity to speak with you once again today.

Rheem is a market leader in heating and cooling products. We are headquartered in Atlanta, Georgia.

And we have U.S. manufacturing facilities in Alabama, Arkansas, California, Connecticut, and North Carolina. Rheem currently employs approximately 32 hundred people in the United States, including over 17 hundred production workers.

I'm here today to express our support for the Administration's actions and propose application of tariffs to the additional products on List Four.

We specifically request that two tariff subheadings related to parts of air conditioners remain on the list of products to which Section 301 tariffs will be applied. The tariff subheadings in question are HTS Numbers 8415.90.40 and 8415.90.80.

It is especially important that USTR retain HTS Number 8415.19.80 on List Four in order to reduce avoidance of tariffs on finished air conditioners in List Three tariffs.

As I have previously testified before this subcommittee over the past few years, Chinese manufacturers have been highly disruptive in the North American air conditioning market. In particular, Chinese exporters have successfully avoided Section 301 tariffs imposed on air conditioning units by shipping them separately.

Air conditioning systems are typically comprised of an indoor unit and an outdoor unit. These are called split systems, thus comprises two or more air conditioning units.

U.S. Customs has taken the position that when the indoor unit and the outdoor unit are shipped together, they're called a system. They enter under HTS 8415.10.90, which is currently subject to List Three tariffs.

But if the same indoor and outdoor unit ship separately, U.S. Customs then ruled that they are now parts under HTS 8415.90.80. To ensure that tariffs are applied to all finished air conditioner units as intended, HTS Number 8415.90.80 therefore should be retained on List Four.

Failure to include these parts on the prior Section 301 list has simply encouraged Chinese exporters to instead ship those units separately to avoid tariffs. Thereby undermining the goals of the Administration.

This is consistent with what we have seen in the market. It is also confirmed by 2019 import data which shows that imports from China under HTS Number 8415.90.80 increased to 432 million dollars during the first four months of 2019, up more than 35 percent from the same period last year.

To ensure the intended effectiveness of the Section 301 action, we therefore request that HTS Number 8415.90.80 and 8415.90.40 remain on List Four. Inclusion of these additional HTS codes on List Four would not cause disproportionate economic harm to U.S. interests.

As our -- as a result of our recent

capital investments in our North American manufacturing facilities, we have sufficient capacity to react to an increase in domestic demand.

Other domestic and non-Chinese foreign suppliers of air conditioners also have capacity to meet demand. As a result, we do not believe there will be a problem of short supply in the market.

To summarize, Rheem supports a 25 percent ad valorem duty on Chinese air conditioner imports. And we ask that air conditioner parts under these HTS Numbers be retained on the list of products subject to 301 tariffs.

These proposed actions would assist in eliminating China's unfair acts, policies, and practices. And they would not cause disproportion economic harm to U.S. interests, including small or medium sized businesses and consumers.

I thank you for your time and for your

continued efforts on behalf of the interests of U.S. manufacturers and their workers.

MR. BISHOP: Thank you Mr. Branson. Our next witness is Jennifer Dolin with Ledvance, LLC. Ms. Dolin, you have five minutes.

MS. DOLIN: Thank you Mr. Bishop. And thank you Mr. Chairman and members of the Committee.

My name is Jennifer Dolin. And I am the Head of Government Affairs at Ledvance, LLC. You may know us as our brand name for general lighting, Sylvania.

The Sylvania brand of light bulbs or lamps as they're called in the lighting industry, has been a household name in the United States since 1901. Our U.S. headquarters is still in Massachusetts. And we have several hundred employees nationwide.

On August 23, 2018, I testified at the last hearing that tariffs under List Three for certain codes added costs to the component parts we were using to manufacture energy efficient light bulbs in the U.S.

Specifically LED and halogen, putting our U.S. manufacturing at a significant disadvantage over finished light bulbs imported straight from China.

We are grateful that the Administration understood this contradiction and removed the code for ballast, for discharge lamps or tubes from the list. And I brought show and tell. That's basically the electronics that go in the end of whatever light bulb we're producing.

However, in the most recent announcement, which we're here to discuss today, that code has been once again added. So, I'm back once again.

This code now impacts Buy American Act compliant, or BAA compliant LED tubes that are being assembled at our Kentucky facility to meet city and state contract requirements throughout the country.

In assembling in the United States, we

are striving to achieve the Administration's goal of shifting production out of China. However a tariff on this component will significantly restrict our ability to do so efficiently and economically.

On the second point, a tariff on finished LED lamps or light bulbs contradicts other existing federal laws and goals that focus on encouraging energy savings for all Americans. Under the Energy Independence and Security Act of 2017, or EISA, the U.S. Department of Energy set standards for general service light bulbs to help Americans save energy and money.

The achievements are undeniable with a remarkable and growing shift to LED technology over the past five years. With tariffs being added to a growing number of imported goods, consumers are seeing prices rise on thousands of products they buy. And they are looking to save money where they can.

A 25 percent tariff added to LED light bulbs would make the purchase price of more inefficient lighting more attractive to consumers. These include halogen light bulbs that are still currently available while the U.S. Department of Energy continues to deliberate about amending those light bulb standards.

The energy savings of LED light bulbs would far outweigh the initial cost increase. But consumers may not be considering that when faced with higher prices on the retail shelf.

Ledvance recommends that the tariff codes of the two items I discussed, be excluded from my list, from the list. And I have specified them in my written testimony.

We request that this be considered. Thank you again for your time.

MR. BISHOP: Thank you Ms. Dolin. Our next witness is Ray Sharrah with Streamlight Incorporated. Mr. Sharrah, you have five minutes.

MR. SHARRAH: Mr. Chair, members of the Committee, I'm Ray Sharrah, President and CEO of Streamlight Incorporated. Thanks for having me this morning.

I'm here today to urge the USTR to remove flashlights, portable electric lamps, electric LED lamps, and lithium ion batteries from the list of proposed products subject to the fourth tranche of duties in this Section 301 investigation.

Streamlight was founded in Pennsylvania more than 45 years ago. We're one of the few remaining domestic manufacturers, and a major supplier of portable LED lighting products serving a wide range of professional users. Nationwide an estimated 70 percent of police and firefighters use our products.

We employ 325 people in our Eagleville, Pennsylvania facility. Where everyone enjoys great benefits and a share of the profits.

We design, manufacture and market the industry's broadest line of high performance lighting, weapons lights, laser sighting devices, and other mission critical lighting tools. Our professional users include police, firefighters, first responders, many industrial users, all 16 federal intelligence agencies, and the military.

They rely on our products in the same way they rely on their vest or their helmet, or other essential personal protection equipment.

Like many companies, we have and we will continue to suffer economic harm through escalating tariffs. But an overriding concern for us is the safety of our consumers.

Streamlight's mission is to provide high quality, high performance, value driven products that save lives. In many cases we manufacture the final product in Eagleville, Pennsylvania in a recently expanded facility from components sourced both domestically and abroad.

In other cases we rely on trusted Chinese suppliers for finished goods. We are able to leverage our supply chain, which we've developed over decades of effort, to service all of our customers in a way that ultimately enables us to offer these high end products at a price accessible.

To this end, we've become involved in the manufacture of some of our products in China. Primarily to be more competitive with Chinese imports of the same.

Streamline has lost market share to cheaper knock-off, or in some cases, counterfeit Chinese lighting products. We primarily responded by continuously designing and innovating and efficiently producing new products.

We design all of these products, and produce many of these in Eagleville, while our subcontractors produce the most price sensitive models in China.

Those products that we produce in China are still higher priced then most Chinese imports, because we invest considerable time and money in the engineering and the oversight of these manufacturing processes.

Additionally, Streamlight is required to comply with numerous government regulations and performs extensive testing and quality control of all our products in Eagleville.

Nevertheless, this method of innovative manufacturing through our subcontractors in China, while retaining many of the key steps in the United States, has provided a viable business model that allows us to compete against some of these cheaper imports, while still delivering superior products that we back by a lifetime of service.

Unfortunately for most of the portable lighting equipment at issue here, there's no other source then China.

U.S. government data shows that 97 percent of the flashlights and portable electric lamps come from China. These products contain many parts and are made with specialized equipment located only there.

As a result, imposition of this 25 percent tariff on top of the ordinary duties already in effect, will not result in these professional users switching to well-priced products made in the United States or third countries, because that option doesn't exist in many cases.

Instead this will force professional portable lighting equipment users to switch to less expensive and perhaps those searching for our brand in some cases, counterfeit goods.

Of great concern is the impact on professional users' ability to protect the public and the potential to put these professionals in harm's way. We have included customer testimonials to this effect in our comments that document our products roles in saving lives.

Imposition of these duties will make the problem of intellectual property theft by China worse, not better. These knock-offs and counterfeits expend considerable -- we spend considerable resources to fight them.

These illicit goods are sold often to individual customers on e-commerce websites. They take advantage of a tariff loophole of eight hundred dollars minimum on incoming imports.

Finally, it will hurt our export market. Our portable lighting products are imported extensively throughout Europe, South America, and they compete with products directly from China in Europe.

These foreign competitors will not have to pay a 25 percent tariff. And we will. And as a result, we'll be at a significant competitive disadvantage.

For all of these reasons, we ask the USTR to remove flashlights, portable electric lamps, and LED lamps and lithium ion batteries from the proposed List Four.

I appreciate the opportunity to testify. I'm glad to answer questions later.

MR. BISHOP: Thank you Mr. Sharrah. Our next witness is Kerry Stackpole with Plumbing Manufacturers International. Mr. Stackpole, you have five minutes.

MR. STACKPOLE: Than you Mr. Bishop. Good morning everyone. On behalf of the Plumbing Manufacturers International, thank you for the opportunity to share our views concerning proposed modification of action for Section 301 tariffs on Chinese goods.

I'm Kerry Stackpole, CEO and Executive Director of Plumbing Manufacturers International. PMI is the U.S. trade association serving the manufacturers of plumbing fixtures and fittings.

Our members produce 90 percent of all plumbing fixtures sold in America, representing more than 150 brands of showerheads, bathtubs, sinks, toilets, faucets, urinals, drinking fountains, and perhaps most importantly, emergency eye wash and shower stations. As well as hundreds of types of components key to safe plumbing systems.

Our manufacturers invest millions of dollars annually in R&D in the United States. And we are continually making improvements to manufacturing facilities.

Working alongside our 24 thousand retail, wholesale, showroom, and supplier partners, Plumbing Manufacturers have created, helped create more than 300 thousand good paying jobs with more than 17 and a half billion dollars in annual wages.

PMI shares the Administration's concerns about China's policies and practices that harm U.S. businesses.

We support 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 rules.

We also strongly believe that the newly proposed List Four tariffs will only harm U.S. economic interests, And in particular, our workers, suppliers, distributors, retailers, and ultimately the American consumer.

PMI opposes the inclusion of plumbing products and components on the proposed List Four.

The plumbing products manufacturing industry is at the beginning and the end of the day about the health and safety of all Americans. All of us in this room rely on clean, fresh water, proper sanitation, and safe responsible plumbing.

Plumbing manufacturers set the global standards for healthy living. Toilets and faucets are simply not optional. They are critical components for your home and for your family's health and safety.

With nearly a million and a half people in the United States lacking complete plumbing, we think it's wrongheaded to placed tariffs on products such as toilets, urinals, and faucets used to maintain proper sanitation in America's homes and buildings.

It should be noted that Section 301 tariffs are already hurting commercial development, home construction, and remodeling by driving up the costs of building materials and plumbing products.

It's estimated that for every one thousand dollar increase in the selling price of a home, more than 127 thousand families are priced out of the market.

Plumbing products are not your average widget. They're required to meet rigorous manufacturing standards to ensure health and safety.

In fact, plumbing products and parts are subject to multiple layers of certification and approval requirements determined by federal statute, standards bodies, state and local plumbing and building codes.

PMI members work diligently with their suppliers to meet these requirements and follow up on these stringent codes regardless of where the products are produced.

Our members estimate that for plumbing products on the Section 301 List Four, it will take two to three years to qualify and replace existing suppliers, regardless of where those new suppliers are located.

U.S. plumbing manufacturers sending goods to China are facing increased tariffs at the same time their competitors are enjoying lower ones.

The plumbing related products and parts on List Three and List Four are not strategically important to Made in China 2025, or any other Chinese industrial program.

The plumbing products covered on List Four are not sophisticated, high-tech products that are subject to USTR's concerns over China's practices related to technology transfer, intellectual property, and innovation.

The tariffs proposed on the items listed in Exhibit A will not place any significant pressure on China to change the policies identified and criticized in the Section 301 report. Instead, that pressure will fall squarely on U.S. consumers, businesses and workers as they wrangle with higher costs imposed by these tariffs.

In conclusion, targeting the plumbing products listed in -- covered in List Four for potential new tariffs will simply create higher prices for plumbing products and components, decrease global competitiveness for American exports, curtailment of investment and capital spending, and most likely fewer jobs and less income for American workers.

PMI urges the USTR not to impose any duties on plumbing manufactured related products and components as outlined in our Appendix A. We look forward to working with the Administration on this important issue. And to supporting efforts to reach a fair and free trade agreement with China.

Thank you for your time.

MR. BISHOP: Thank you Mr. Stackpole. Our next witness is Thomas Beckett with the Portable Lights American Trade Organization. Mr. Beckett, you have five minutes.

MR. BECKETT: Good morning. My name is Thomas Beckett. Sorry. My name is Thomas Beckett. I'm the President and CEO of Dorcy International located in Columbus, Ohio.

We are a manufacturer and importer of

various portable lighting products, including flashlights, lanterns, headlamps, and a variety of personal safety lighting products.

I'm here today representing PLATO, a 501(c)(3) trade organization. PLATO, or the Portable Lights American Trade Organization is the largest internationally recognized group of global manufacturers in the portable lighting industry.

Our members are some of the most well-known and respected manufacturers operating in the United States today. PLATO is also the American National Standards Institute approved standards development body responsible for the continued development and oversight of the ANSI PLATO FL1 Standard.

Dorcy is a founding member of PLATO. And I serve on the Board of Directors and the Executive Committee as the Vice President of Finance.

Duties on portable lights currently range from 3 percent to 12 and a half percent, with most items under the flashlight code at 12 and a half percent.

The current proposal calling for an additional 25 percent tariff on these goods would be damaging to an important American industry. And would have significant negative impacts on nearly all U.S. companies engaged in this industry, as well as virtually every American citizen and worker.

Flashlights, lanterns, and other portable lighting products are ubiquitous and found in nearly all U.S. homes and workplaces. Portable lights are essential tools for many professionals, and provide a critical and often lifesaving function for not only average Americans, but also first responders, law enforcement, firefighters, military and others.

Over 90 percent of all such products are sourced overseas with the vast majority of these coming from China.

There is very little production capacity in the U.S. And there is very -- and there is virtually no independent industry infrastructure to turn to for reshoring in an expeditious manner.

The industry nevertheless employs thousands of Americans engaged in the design, engineering, sales, marketing, testing, packaging, and distribution of these products. And I think it's important to note that simply because a product is imported, it does not mean that there is no American industry involved.

The imposition of such a punitive tariff on products that all Americans rely on for their safety and well-being would do great harm to the industry, those employed in the trade, and to consumers.

The tariffs would deprive many people access to these critical products. This is particularly true as we approach the hurricane season where portable lights are routinely called upon in lifesaving situations.

Since the majority of these products are sold for relatively low retail prices, a duty increase of this magnitude would surely price many consumers out of the market entirely. This would certainly increase the risk to the health and safety in times of emergencies, potentially costing lives.

It is the strong belief of PLATO and its members that the imposition of these tariffs on these products will have no impact on the overall behavior of China as a trading partner. It is neither a critical industry in the view of China, nor large enough to carry any weight with the leadership.

On the other hand, PLATO believes strongly that the impact of these particular tariffs would cause harm to American companies, American workers, and American consumers.

Flashlights, lanterns, headlamps, and related portable lighting products are not luxury items, toys, novelties, or decorative products. Portable lights are a necessity for the health and safety of all Americans.

For these reasons, PLATO and its

member companies, strongly urge that the HTS codes noted in my written submission be excluded from further or additional tariffs.

Thank you.

MR. BISHOP: Thank you Mr. Beckett. Our final witness on this panel is Tim Tarpley with the Petroleum Equipment and Services Association. Mr. Tarpley, you have five minutes.

MR. TARPLEY: Distinguished members of the Committee, thank you for permitting me to appear today.

My name is Tim Tarpley. And I serve as Vice President of Government Affairs for the Petroleum Equipment and Services Association. I appear today on behalf of PESA.

PESA is the national trade organization representing over two hundred companies that provide the services, technology, equipment, and expertise necessary to safely and efficiently explore and produce oil and natural gas.

PESA serves as the unified voice for

the oilfield service and equipment sector, advocating for and supporting the sectors' achievements in job creation, technological innovation, and economic stability.

The oil and gas supply services and manufacturing sector supports over 592 thousand jobs in the United States. To meet rising global demand, increased production will necessitate infra structural modernizations and supply chair expansions, making this sector even more critical then it is now.

These factors, along with increased demand for oil and gas worldwide paint an optimistic picture for employment opportunities in the coming years. This opportunity is good news for the American economy and good news for the American worker.

The service and equipment sector is on the front lines of supporting the American energy renaissance that has occurred in recent years. For the first time according to the Energy Department figures dating back to 1973, the

United States exported more crude oil and fuel then it imported this year, or excuse me, last year.

The United States is now exporting over 2.8 million barrels per day thanks to the 2015 end of the ban on crude oil exports as well as the tremendous growth in U.S. production in the Permian Basin and other areas of the U.S.

Some of the top destinations of U.S. crude oil exports are countries like Brazil, Japan, and China. Crude oil exports can help reverse the U.S. trade deficit with these countries and provide an option for their reliance on middle eastern or Russian oil.

The U.S. oil and gas industry hit another important milestone recently. According to the U.S. Energy Information Association, it anticipates that by the end of 2019, LNG export capacity will reach 8.9 billion cubic feet per day, making the U.S. the third largest in the world behind Australia and Qatar.

This dominance will allow the U.S. to

provide an alternative supply to Asia and Europe to counter Russian dominance in their gas markets.

In order to keep this renaissance going, U.S. equipment and service providers need an uninterrupted access to products that are critical for their operations.

While PESA applauds the Administration's efforts to aggressively target China to curb unfair trade practices, and to equalize the 32 billion a month trade gap between our two countries, forced technology transfers and commercial espionage are common in China. And many of our own member companies have faced negative consequences by these actions by China.

However, PESA believes that some of the proposed tariffs will not be successful in the USTR's states goal of combating China's unfair trade practices. And instead could unintentionally harm the energy manufacturing and service sectors, areas where the U.S. currently enjoys worldwide dominance.

PESA is especially concerned about the specific HTS codes contained in List Four, which target minerals used in the drilling process that are critical to operations.

Natural barium sulfite, also known as barite, is a mineral commonly used as a weighing agent for all types of drilling fluids. And is used to facilitate operations of the drill bit, remove cuttings, and to maintain control of the well during drilling operations. This material is targeted by HTS codes 2511.10.10 and 2511.10.50.

PESA believes that barite fits the definition of an irreplaceable product because 75 percent of global barite usage is used as a weighing agent in drilling fluids for oil and gas exploration.

Barite is ideal for this application because it is nontoxic, chemically and physically unreactive, nonmetallic and has very low abrasiveness. So far, all alternative options are typically metallic in nature, and less productive then barite.

PESA does not believe that the imposition of a 25 percent duty on barite will have the desired effect on China. At the proposed rate, it will become economically infeasible to import barite from China to the U.S.

However, China will still be able to sell barite to other markets at a higher price. Likely the party that will be hurt most by this action is the U.S. energy service companies who have to pay the tariff.

Barite mines in the U.S. have been substantially depleted and are inadequate in quality and production to support the booming U.S. oil and gas renaissance our country currently enjoys.

Supply chain disruptions could slow production, costing jobs and give our global competitors like Russia and OPEC a leg up in the competitive worldwide oil market.

PESA urges USTR to carefully consider

the impacts of these imposed tariffs on the energy industry. And to reconsider the scope of the proposal so that U.S. energy manufacturing and service companies can remain competitive.

Thank you for having me today.

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

CHAIR TSAO: Before we proceed, I would like to note that we have a new colleague joining us from the Department of Commerce. I would ask him to introduce himself.

MR. BHABHRAWALA: Thank you very much Mr. Chairman. My name is Salim Bhabhrawala. I am from the U.S. Department of Commerce's Office of Materials Industry. Pleasure to be here today.

MR. SULLIVAN: Thanks. And Matt Sullivan from the U.S. Treasury Department. My question is for Mr. Branson.

You've stated that there is ample domestic and non-Chinese availability of air conditioner parts listed in the proposed action.

How many non-Chinese major suppliers are there? And what is their market share relative to Chinese competitors? Thank you.

MR. BRANSON: Certainly. What's interesting is the type of air conditioners used in North American are different than the types used in most of the other parts of the world.

Probably if you live in a single family home, or have at some time in your life, you'd know the air conditioner unit that's outside, then inside you have an air handler or a gas furnace that's blowing it around. Those are those two separate parts that I mentioned.

There's seven manufacturers traditionally that have been in this market. And it's almost completely all of that market share.

But as I testified before, and then there's other types of -- of products that are used around the world. Ductless products as an example, which is a small segment of the market in the United States.

As I testified before, manufacturers in China over the past several years have tried to get into this ducted market like we manufacture here in North America for the North American market.

And they've come to us and perhaps other companies and said, we'd like to manufacture for you. When we met with them, they actually gave us a cost that was less then our material cost.

So, it was very hard to turn that down. But we did, because we saw that's not the right thing to do.

But even since the implication of these previous lists, we've seen an increase in the brands, and we've seen an increase in the manufacturers from China coming in with this open looped HTS code.

So there's ample, you know, there's a fair amount of business. It's a, really a new entrant into the market.

MS. NAYLOR: Megan Naylor, State

Department. My question is for Ms. Dolin.

You spoke to your experience last year with the List Three process. And I wondered, has Ledvance taken any efforts to diversify its supply chain for LED parts since then?

Such as looking at ballasts for -- for discharged lamps or tubes?

MS. DOLIN: Thank you for the question. Since this tariff process began, we've been looking at everything. Mexico was a -- for certain parts.

And then of course that became a little bit of a concern. So, we are looking at everything.

As you heard in the past two panels, and I'm sure you'll hear over the next week and a half, shifting is a little bit difficult to do in the very short term.

So, there are more long term processes to move out of China. Most of the components and specifically the drivers, are made in China.

It's difficult to find the ability and

the quality elsewhere.

CHAIR TSAO: And I have a follow up question. The List Three tariffs have been in place since, I think, September of last year.

Have you observed in your industry any shifts in -- any shifts in the industry with respect to looking for alternative manufacturing sites or moving out of China?

MS. DOLIN: In the entire industry, are you asking?

CHAIR TSAO: Among your suppliers. Not just your suppliers, but suppliers in your industry.

MS. DOLIN: Yeah. I think as I just said, that my comments apply to everything. We're looking at spreading, trying to spread the supply chain a little bit wider, just because there is such uncertainty.

And that's scared a lot of people. You know, the certainty and the costs are all -- are all tied together.

MR. BHABHRAWALA: Thank you. This is

Salim Bhabhrawala from the Department of Commerce. And my first question is for Mr. Sharrah of Streamlight.

Mr. Sharrah, do the higher quality Streamlight flashlights compete in the same market segment with the cheaper Chinese knock offs that you referred to in your testimony? These knock off flashlights?

And how does the difference in the quality of the flashlight relate to the effects on of the additional duties?

MR. SHARRAH: Thank you. Yes, in many cases they do. Everyone is looking for a better price when they go shopping.

And in many cases what we find, is competition skirting our intellectual property. Incorporating it, and having it made entirely in China and brought in.

We test these here. That's one of our responsibilities is to do that for our trade association.

We find them falling well short of

their claimed specification. And more importantly, things that not everyone measures, whether it's radio frequency interference with important, you know, public service networks.

Or whether it's static proofing them. Or in the case of a gun light, whether it holds up to a thousand rounds on a range.

So, the average consumer isn't necessarily completely aware of the differences. Particularly if they're just motivated by price.

MR. McCARTIN: I have a follow up question. Just you had mentioned that some flashlights you make here in the United States, and some are -- you import from China.

What's the breakdown for your company?

MR. SHARRAH: It's balanced. And I can answer that more specifically perhaps confidentially in a follow up question or a document.

MR. McCARTIN: That would be fine. And you also in your submission mentioned lithium ion batteries. But you don't really get into that in your testimony.

Where do you -- how much of that is sourced from China? Are there other countries that produce these batteries besides the United States? Where might they be available?

MR. SHARRAH: Yeah. There are other countries that manufacture lithium ion batteries. There's South Korea. There is Japan.

In many cases these batteries are finished in China and experience transformation that essentially the country of origin then is China.

This chemistry is increasingly in everything we buy that's rechargeable. And that's one of our specialties, is rechargeable lights.

So, every cell phone you own, every consumer electronics device virtually uses a lithium ion battery. And although we use other chemistries, still that is becoming the dominant chemistry.

And it's very hard to find it

economically anywhere but China.

MR. BHABHRAWALA: And if I may follow up as well. Has Streamlight explored the option of sourcing lithium ion batteries here in the United States where it sells?

MR. SHARRAH: There are currently no manufacturers of lithium ion batteries that I'm aware of, in this country. Not in volume.

There is lithium manganese dioxide. They're disposable cells. They're made in Georgia.

And in fact we ship those to China. And China has threatened a 25 percent retaliatory tariff on those.

MR. BHABHRAWALA: So, are you using a particular proprietary chemistry in your batteries for your flashlights that is not produced in the U.S.?

MR. SHARRAH: No, but the specific electronic design is proprietary. So we design our own safety circuits, and our charge circuits that could be onboard these products.

And that -- they're not -- simply not available for any supplier that I know of here in the United States.

MR. DEVINE: Andrew Devine, U.S. Department of Agriculture. My question is for Mr. Stackpole. This is sort of a two-part question.

You estimated that it takes your members two to three years to shift suppliers. Can you elaborate on why it takes so long to do that? Especially given that these are unsophisticated products.

And then second, can you talk about whether or not any of your members have already taken actions to shift their suppliers since the imposition of additional duties. So, in other words, has this two to three year process already begun?

MR. STACKPOLE: Sure. I'd be happy to. Thanks for that question. You're quite right. The product itself is unsophisticated. It's pretty common to most of us.

But the content of the product is not unsophisticated. The requirement of a faucet in the United States is that it be lead free. So every component of that faucet that touches water has to meet a very specific and stringent specification.

And so the idea of being able to move quickly to another supplier who their -- has to have their quality control process checked, has to have the actual physical content of the material checked.

And just to make it more interesting, we're required to have all of our products third-party certified by an independent body to assure the American public that those products are in fact safe and properly constructed. So, we have that first challenge.

The second part is that we predominantly produce -- our members are buying components by in large, not finished product from China and from other countries.

And we produce -- we work in

predominantly probably five to six countries, China being, I think, probably our largest market.

But Vietnam certainly, India, Mexico, and Canada. But we've been sourcing in all those places along the way.

Will we move? Will folks think about moving? Yeah. I think they will. But, it's not a -- it's not a fast process. It's just not.

MR. DEVINE: If I could just simply ask a follow up question from my colleague at USDA. Can you elaborate either statistically or anecdotally, how many or how much Chinese downstream parts are integrated into plumbing products that are manufactured in the U.S. and then re-exported?

Would these tariffs also impact the competitiveness of the U.S. plumbing products' market abroad? And how complicated is it really to get integrated parts from other suppliers other then China?

MR. STACKPOLE: That's a lot of

questions. But let me see if I can't get to the bottom of it for you.

I think that fundamentally in the plumbing products marketplace, the components are, as somebody mentioned, are you know, relatively basic. But I think again, it goes back to the quality of that product.

And it goes back to the quality of those components. And whether in fact they can meet the quality standards that are essential not only to standards bodies in the U.S., but in other markets.

As you may be aware, over the last five years, I guess through right about 2015 or so, when the most recent statistics, you know, plumbing manufacturers are exporting to China at a double digit growth level.

We were able to sell them a far number, a far greater percentage of plumbing products then they were in fact buying from other countries. That's now declined as a result our tariffs.

But if you look at com -- I mean, there's five countries that we're filling, you know, filling that market if you will. Or moving that market, including Korea, Germany, China, China itself, and Japan of course.

In terms of how that affects our exports, it simply adds to the cost. I mean, the tariffs will add to the cost of the product.

And because you can't take risks with safety, it's not like you can put in cheaper parts. It's not like you can put in weak parts or cheaper parts or less well manufactured parts.

You just simply don't have that option. There's nobody in this room who would tolerate opening a faucet and finding that in fact it was polluted water coming out.

Did I get to the bottom of your question?

MR. DEVINE: I think you did. Thank you, sir.

MR. McCARTIN: I have a question for Mr. Beckett. In your testimony you state that 90 percent of portable light products are sourced overseas.

So my question for you is, what percentage is sourced from China? What percentage is sourced from other countries and which ones are they?

And do those other countries have the capacity to increase production?

MR. BECKETT: Right. Thank you. Of the 90 percent of portable lighting products sold in the U.S. today, the vast majority come from China.

There used to be a more extensive network of portable lighting manufacturers in other Asian countries. When I started in this business, we were manufacturing in South Korea, in Japan, Indonesia and Thailand.

All of those manufacturing locations have collapsed into China. There is a small, well, our company still does some manufacturing in Taiwan.

But I would say to you that of the

imported goods, 90 percent of those are coming from China, if not more.

There just is not -- there are some domestic manufacturers in India and other countries that provide portable lighting goods just for their markets. But, not really for export.

CHAIR TSAO: This question is for Mr. Tarpley. You testified that the energy industry uses barite as a weighing agent in drilling fluids for oil and gas exploration. On average, what is the cost of barite as a percentage of the total cost of the drilling fluids?

And is it possible for your members to shift any additional duties on barite because of the favorable business climate in the American oil and gas industry?

MR. TARPLEY: Thank you for the question. As far as the percentage of drilling costs, I don't have those numbers. I will get those back to you as far as the percentage of the total cost.

The second part of your question is an excellent question. And while the -- we are producing more oil and gas in the United States, the service sector is actually very competitive.

There's a lot of consolidation going on. The cost to produce a barrel of oil, a barrel of oil is a worldwide product. We compete against not just ourselves in the United States, but against our competitors worldwide.

So even a relatively small percentage increase on the cost of a barrel of oil does have significant effects in a competitive market like that.

So, I get where you're going with the question. But, I will say that even small incremental rises do matter. And do matter a lot.

CHAIR TSAO: What's the percentage of barite produced in China in terms of the global market share?

MR. TARPLEY: Right now the estimate is that China controls 75 percent of the barite market worldwide.

MR. DEVINE: Andrew Divine, U.S. Department of Agriculture. This is a follow up for Mr. Tarpley.

You mentioned that 75 percent of the production is in China, of barite. And you mentioned that U.S. mines were depleted.

I'm wondering if you're aware of any new planned production of barite, whether in the U.S. or elsewhere? Or if there known reserves in the U.S.?

MR. TARPLEY: That's a good question. Certainly not contending that there isn't a supply of barite in the United States, because there is.

Our contention is, is that the supply is not sufficient to completely serve the demand for drilling in the United States. And also around the world.

We contend that the quality and the amount is not sufficient to entirely satisfy the necessities of our industry here in the United

States.

MR. BURCH: We release this panel with our thanks.

CHAIR TSAO: We are in recess for lunch. Please return at 1:15 for Panel Four. We're in recess.

(Whereupon, the above-entitled matter went off the record at 12:18 p.m. and resumed at 1:15 p.m.)

CHAIR BUSIS: Good afternoon. This is our afternoon session of our hearing announced in our May 17 notice. Before we start with our fourth panel, I'll give the administrative instructions again and ask the Committee to introduce itself.

Our hearing is scheduled for seven days, concluding Tuesday, June 25. We have 55 panels of witnesses scheduled to testify. The provisional schedule has been posted on the USTR website.

We have eight panels of witnesses scheduled to testify today. This is the afternoon, and we will have five panels this afternoon. We will have a brief break between panels.

Each witness appearing at the hearing is limited to five minutes of oral testimony. The light before you will be green when you start your testimony. Yellow means you have one minute left and red means your time has expired.

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 from the floor.

Committee representatives will generally direct their questions to one or more specific witnesses. As stated in the May 17 notice, post-hearing comments, including any written responses to questions from the Section 301 Committee, are due seven days after the last day of the hearing.

Since the hearing is scheduled to conclude on June 25, all post-hearing comments are due by no later than July 2nd, 2019.

Given the number of witnesses and the schedule, we request that witnesses, when responding to questions, be as concise as possible. Witnesses should recall that they have a full opportunity to provide extensive responses in their post-hearing submissions.

No cameras or video or audio recording will be allowed during the hearing. Written transcripts of this hearing will be posted on the USTR website and on the Federal Register docket.

I will now ask the members of the 301 Committee to introduce themselves this afternoon.

MR. HART: Drew Hart, Treasury.

MS. ZOLLNER: Hi, good afternoon. Anne Zollner, Department of Labor.

MR. STEPHENS: Andrew Stephens, U.S. Department of Agriculture.

MS. WINTER: Audrey Winter, USTR's Office of China Affairs.

MR. ROARK: I'm Robin Roark with the Department of Commerce International Trade

Administration.

MR. SECOR: Peter Secor from the Department of State Bilateral Trade Affairs Office.

MS. VON SPIEGELFELD: Cristina Von Spiegelfeld, SBA's Office of International Trade.

CHAIR BUSIS: And I'm Bill Busis, Deputy Assistant USTR for Monitoring and Enforcement and Chair of the Section 301 Committee. Mr. Bishop, you may call this panel.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Stanley Pierre-Louis with the Entertainment Software Association. Mr. Pierre-Louis, you have five minutes.

MR. PIERRE-LOUIS: Good afternoon, members of the Committee. Thank you for providing me with the opportunity to talk about the essential nature of video game consoles, controllers, and other hardware accessories to the video game ecosystem here in the United States and how the proposed tariff of up to 25 percent on these items would have a negative impact on American consumers and American jobs.

My name is Stanley Pierre-Louis, and I am the President and CEO of the Entertainment Software Association. ESA is the trade association that represents companies that publish interactive entertainment software for video game consoles, handheld devices, personal computers, and the internet.

Let me first share a few statistics to provide a fuller picture of our industry's economic contribution to the U.S. economy and also demonstrate the integral role of video games and the ways Americans work, live and play. Sixty-five percent of adults in the United States play video games. That's approximately 164 million American adults. Nearly half of the video game players in the U.S. use video game consoles.

In 2018, our industry generated $43.4 billion in total revenue with consumer spending approximately $35.8 billion on software, $5.1 billion on video game consoles and other hardware, and $2.4 billion on accessories. Video game companies added more than $11.7 billion in value to our GDP in 2017 and directly employed more than 65,000 people nationwide who earned an average compensation of $97,000 per year. Indirectly, our industry employs more than 220,000 Americans. In 2017, there were more than 2700 video game companies across the country in all 50 states and the District of Columbia and 99 percent of U.S. video game companies qualify as small businesses.

Tariffs are likely to cause significant harm to the U.S. video game industry in at least three major ways: increased costs for consumers, reduced investments in innovation, and job losses. As advanced technology products, video game consoles, controllers, and accessories require an investment by consumers. The majority of consumers are sensitive to fluctuations in price for video game products. In fact, two-thirds of consumers consider price when deciding to purchase a game.

Tariffs at any amount could weaken demand for these products, let alone up to 25 percent. This is because video game consoles are sold under tight margins in order to reduce the barrier to entry for consumers. In other words, consoles are sold at Best Buy and at other fine retailers at or slightly above cost to enable more consumers to purchase them.

Consoles, controllers, and other hardware accessories are essential to game play and other interactive entertainment experiences. The ubiquity and affordability of legitimate video game consoles and accessories drive the uptake of new technology by consumers, which then funds research and development into new technologies. Tariffs could disrupt the cycle of continuous innovation by reducing the incentive for investment in next-generation technologies.

Imposing tariffs on video game consoles and accessories could slow the uptake on new technology. Sixty-three percent of Americans surveyed indicate that the quality of graphics is important when deciding whether to purchase a game. Games that are lifelike and immersive are underpinned by complex, sophisticated, and advanced software that result from significant R&D investment and these games often require the latest consoles for play back. The imposition of tariffs could hamper continued R&D on these latest technologies, thereby threatening the leading position of the U.S. video game industry.

A broad cross section of video game companies would be injured by tariffs. These include companies, particularly those small and medium-sized, that publish games to be played on consoles. This decrease in game development would make it more difficult for publishers to break into or stay in the business. This combination of higher prices and reduced investment in innovation and game development would result in a loss of jobs.

In conclusion, we respectfully urge USTR to remove video game consoles, controllers, and accessories from the proposed list of products potentially subject to tariffs. Given the importance of these products to the industry and to consumers, the impact of tariffs of up to 25 percent would have a negative impact on consumers, game developers, investment and innovation, and jobs.

Thank you for allowing me to share our industry's perspective on the impact of the proposed tariffs on video game consolers, controllers, and accessories.

MR. BISHOP: Thank you, Mr. Pierre-Louis. Our next witness is David Baer with Element Electronics. Mr. Baer, you have five minutes.

MR. BAER: Thank you, Mr. Chair and the Committee. My name is David Baer, and I'm the general counsel of Element Electronics. I previously testified before the 301 Committee on the proposed scope of List 3.

As you may recall from that testimony, Element is the only American company mass producing TVs here in the U.S. If the administration imposes tariffs on LCD panels and mainboards, Element will be forced to shut down its U.S. factory and move its U.S. production to Mexico or other countries.

Element Electronics produces televisions in Winnsboro, South Carolina. In stark contrast to one year ago when Element's factory faced List 3 tariffs and imminent closure, today we are operating at near capacity and have plans to expand employment and operations further to meet demand. This is a direct result of the administration's decision to remove LCD panels and mainboards from List 3. We currently have over 250 employees in South Carolina and plan to increase to over 300 in the next few months, assuming no new 301 tariffs are imposed.

Over the continued operation of Element's U.S. factory and the jobs and livelihoods of hundreds of American employees, it's critically dependent on trade policy decisions made by the administration.

By way of background, Element faces significant competitive disadvantages under tariff policy adopted by prior administrations. The normal tariff on LCD panels is 4.5 percent. The LCD panel is the primary component of a television and is only available to Element from China.

A finished television imported from China faces a duty of 3.9 percent but faces zero duty if imported from Mexico. Both TVs contain the same Chinese-produced components. All TV parts start in China. Thus, Element faces a classic tariff inversion that creates an incentive to import TVs rather than produce them here in America.

However, two recent decisions by this administration have allowed American TV production to flourish. First, the administration considered but affirmatively chose not to include LCD panels and mainboards on List 3. Second, the President signed into law the Miscellaneous Tariff Bill Act of 2018. While only temporary, this legislation suspends the normal duty rates on LCD panels and mainboards, thus fixing the tariff inversion.

As a result of these two actions, in less than one year Element has gone from issuing a warning notice to lay off virtually its entire South Carolina workforce and shutter its factory to adding over a hundred new jobs, reaching capacity, and planning further growth. Given all this progress, if the administration now includes LCD panels and mainboards within the scope of List 4 tariffs, it will completely eviscerate the benefits of these two actions and force the closure of the only remaining TV factory in America.

The economics are simple. Element is unable to absorb the tariff cost it would face if LCD panels and mainboards were included in the final List 4. Element would lose significant money on every TV it produced. In fact, as a direct result of the protective actions we were forced to implement with List 3, we lost significant revenue and profit last year. We can't face the same situation again.

As we were forced to do with List 3, we're making plans to redirect our supply chain outside of the U.S. We don't plan to import a single LCD panel or mainboard after mid July. Yet again, our South Carolina factory will operate only off existing inventory. If the 301 tariffs are in place on our parts when that inventory runs out, we'll be forced to shut down the South Carolina factory and move all of our production off-shore.

Facing this threat of tariffs a second time in less than one year is forcing us to take new protective action, as well. Specifically, we now have plans to start up our supply chain and secure production in Mexico and other places unaffected by the 301.

Element is the only remaining American TV factory. We're doing exactly what the administration is asking of American companies. We alone are fighting to re-shore and grow an industry that left America decades ago. Yet, if the administration proceeds to implement a List 4 tariff on LCD panels and mainboards, Element will be forced to permanently shut down its U.S. factory and move production offshore. Let me say that again: because of the actions of the government, Element may be forced to close our U.S. factory in favor of a foreign factory. You have to fix this unintended consequence.

Element is simply asking for a level playing field. No U.S. trade policy should ever disadvantage a U.S. company in favor of foreign competition, much less close a U.S. factory in favor of a foreign factory. Chinese suppliers are working swiftly to use Mexico, Vietnam, Thailand, and other countries to avoid 301 duties. Don't close a U.S. factory and reward this behavior.

When I testified before the 301 panel on List 3, I told you that everyone assumed this negative impact on List 3 was an unintended consequence that must be fixed. The administration agreed and fixed it for List 3. As a result, American TV production has flourished. Today, I'm asking you again to fix this unattended consequence, or you'll put the last nail in the coffin of U.S.-produced TVs.

Please remove LCD panels and mainboards from the proposed List 4. Thank you for your time.

MR. BURCH: Thank you, Mr. Baer. Next panel witness is Jason Bonfig of Best Buy Company. Jason, Mr. Bonfig, you have five minutes.

MR. BONFIG: Mr. Chairman and members of the 301 Committee, good afternoon. I am Jason Bonfig, the Chief Merchandising Officer at Best Buy, a U.S. retailer of consumer electronics and related services and manufacturer of private label electronics headquartered in Richfield, Minnesota. On behalf of Best Buy and its 110,000 employees across the country, I thank you for the opportunity to appear before you today.

Best Buy respectfully requests that

USTR remove consumer electronics, including smartphones, laptop computers and tablets, computer monitors, smart watches, gaming consoles, and televisions, from the proposed List 4 of products facing an up to 25-percent tariff. Importantly, I want to emphasize that Best Buy is in complete support of the goals of the USTR as set forth in Section 301 report regarding forced technology transfer and other unfair trade practices. However, today I would like to outline the reasons why we are seeking exemption of these consumer electronics from additional tariffs.

First, the proposed tariffs will negatively impact the U.S. consumer. It is important to note that in the tariffs that have been applied last year, U.S. consumers have largely been shielded. This was possible because inventory was able to be acquired before the effective date of those tariffs, this was the highest margin segment of the consumer electronics products, and because manufacturers and retailers largely made the decision to absorb the cost on the basis of the tariff being relatively limited at 10 percent.

Moreover, there was also a belief that the tariffs themselves would be short-lived. However, these circumstances would not be true should the consumer electronic products I referenced today be subject to an up to 25-percent tariff. In our confidential written comments, we provide more detail as to why this would be the case and why costs could be immediately passed on to the U.S. consumer.

As a reminder, in announcing its first proposed tariff list of products Section 301 tariffs would apply last year, the USTR stated that it sought to select products from which alternative country sources of supply existed and it removes specific products likely to cause disruption to the U.S. economy. And in selecting the final products, USTR appeared to have adhered to this principle. Indeed, television and other consumer electronic products were removed from

List 1 through 3 to minimize the impact to the U.S. consumer.

As detailed in our written comments, Best Buy respectfully requests that USTR again only focus on those products for which viable alternative sources of supply exist or a manufacturing basis can be easily moved, and where the impact of tariff would be relatively low to the U.S. consumer. Again, our written comments outline why these criterias do not apply to these products.

Secondly, implementation of new tariffs on these consumer electronic products would have minimal additional short-term impact on China. China accounts for the majority share of consumer electronics sold in the U.S. last year and is a large source of manufacturing for all six of the consumer electronics categories we have concerns about today. The next largest sources, Mexico and Vietnam, account for only a very small percentage of production. Manufacturing of these products is relatively complex to move, requires significant time and expense, as well, as a component infrastructure that is located in China and will be for the foreseeable future.

Consumer electronics are also not commodities. And in many leading products, there is no practical substitute made outside of China in the near term.

The choice of alternatives is further constrained by the lack of key resources, constrained port capacity, and other infrastructure of alternative countries. All these issues may take years, not months, to fully satisfy the U.S. market.

As important is the fact that, for several items, American manufacturers may lose share almost immediately to foreign competitors whose products are not made in China and, therefore, not subject to price increases in the form of tariffs. This would include products such as smartphones, computers, and tablets.

Third, the application of new tariffs

on these consumer electronics would not enhance the effectiveness off 301 action. USTR's decision last year to selectively apply tariffs has been effective while limiting the impact on the U.S. consumer and businesses. In fact, over the last year, it has been publicly reported that even some consumer electronics manufacturing has moved outside of China with more moves being planned and executed in coming quarters. However, I want to emphasize, this is a multi-year effort and cannot be done faster than the pace at which it's already going, even in the face of additional onerous tariffs.

In conclusion, we respectfully request the six product categories be removed from the proposed tariff list in line with the decision made last year. It will not result in any additional benefit for the U.S. in the context of the Section 301 trade action and will only serve to maximize the pain on the U.S. consumer, workers, businesses, and the economy at large with minimal impact to China.

Thank you for your consideration, and I'm happy to answer any questions you might have.

MR. BISHOP: Thank you, Mr. Bonfig. Our next witness is Mustafa Ozgen with Roku. Mr. Ozgen, you have five minutes.

MR. OZGEN: Good afternoon, Chairman Busis and members of the Section 301 Subcommittee. My name is Mustafa Ozgen. I'm the Senior Vice President and General Manager of Account Acquisition at Roku, Inc. Thank you for the opportunity to appear before you today on behalf of Roku and our 1,100-plus employees who have revolutionized the way we watch TV.

For those of you who haven't yet cut the cord, let me give you a brief introduction to my company. Roku is a U.S.-based innovator/holder of over 60 U.S. utility patents and pioneer of streaming television. Using our products, 29.1 million consumers globally with the vast majority in the United States choose from over 5,000 channels that provide users with access to millions of hours of on-demand programming from providers like PBS Kids, as well as access to live news and sports.

Roku users can choose a variety of specialized channels that would otherwise be unavailable due to the way cable TV is packaged. For example, we offer a selection of hundreds of religious channels not generally available on cable.

We are an American company. The vast majority of our employees are in the United States and the vast majority of those employees work in the high value-added parts of our business. This includes engineering and product development, as well as the maintenance of state-of-the-art servers and databases that are built specifically to support our business.

Not only was our operating system developed in the United States, but the Roku's cloud-based service infrastructure that continually powers our operating platform and services is run by American employees and primarily on American-based computers and infrastructure. Roku has grown exponentially in recent years from 500 employees at the end of 2016 to over 1,100, the vast majority of which are in the United States.

I'm here today to talk about our streaming players, smart TVs, what we call Roku TVs, and corresponding TV accessories. The Section 301 tariffs could cover these products. These tariffs could have a detrimental impact on Roku and its U.S.-based workforce.

Roku TVs are marketed and sold under the Roku TV brand. In the first quarter this year, approximately 1 in 3 of the smart TVs sold in the United States were Roku TVs. And for the remaining 2 in 3 smart TVs and the millions of non-connected TVs already in the marketplace, we manufacture and sell streaming players through retail distribution and our own website to make these TVs smart and make streaming easy to use. In a nutshell, these streaming players allow TVs to access all the content available on the Roku platform.

Roku TVs are a vital part of our business and, by extension, a vital part of keeping Roku the innovative leader in streaming technology. Sales of Roku TVs generate revenue for Roku and also create a new pool of customers for Roku products.

The number of active users is extremely important to Roku. The channels that are accessed through the Roku operating system share revenue with Roku that increases with the number of users, and we generate significant advertising, content distribution, and promotions revenue from our monthly users. These active users also form the viewer base of Roku's own channel, the Roku channel.

I'd also like to note that there is no valid reason to include our products on the list of items subject to the Section 301. We have agreements with our manufacturers that protect our intellectual property, and I can happily report that those business arrangements are working well. Also, our closed proprietary operating system doesn't allow just anyone to access our source code.

More generally, I understand that streaming TVs, accessories, and players are not a focus of the Made in China 2025 program or otherwise mentioned in the Section 301 report. Finally, I would note that targeting Roku is not going to help U.S. manufacturing but only serve to hurt U.S. innovation. Top-selling TVs in the United States that are not Roku TVs, Samsung, LG, and Vizio, none of which are manufactured in the United States or in China, and will not be greatly impacted by the tariffs.

I ask that Roku TVs, accessories, and streaming players be excluded from the list of products subject to the Section 301 tariffs. Thank you for your time. I'm happy to answer any of your questions.

MR. BISHOP: Thank you, Mr. Ozgen. Our next witness is Colin Angle with iRobot Corporation. Mr. Angle, you have five minutes.

MR. ANGLE: My name is Colin Angle,

and I'm the Chairman, CEO, and founder of iRobot Corporation. On behalf of iRobot, our shareholders, and over 700 American employees, I want to thank you for the opportunity to speak today and advocate for the exclusion of robotic mops, lawnmowers, and other products from the round four tariffs.

iRobot is an American success story. I founded the company in my living room in 1990 with two colleagues from MIT. Since that day, we have been at the forefront of bringing practical robots out of laboratories and into the hands of consumers where they are most helpful.

iRobot developed the PackBot Robot with support from DARPA and other life-saving robots under the U.S. Army Future Combat Systems program. The PackBot was the first ground robot deployed by U.S. forces in conflict and performed critical tasks, such as the removal of improvised explosive devices, threat identification, and forward reconnaissance. iRobot provided more than 6,000 of these robots, the majority of which went on to perform missions side-by-side with our war fighters in Afghanistan and Iraq.

Over the past 29 years, iRobot's engineers and scientists have been on the forefront of robotic science. We inspired the first micro-rovers used by NASA, changing space exploration forever. We provided robots for hospitals, helping doctors diagnose patients remotely. We deployed robots and employees to Ground Zero on September 11th, 2001 to help keep first responders safe during initial rescue and recovery issues. These are among my proudest moments at iRobot.

As an American innovator and employer, iRobot is here today to express opposition to the imposition of additional Section 301 tariffs on a fourth round of goods manufactured in China. These tariffs will only harm iRobot and help our overseas competitors, which are mainly Chinese companies that primarily market their products in China and, therefore, are not impacted by Section 301 tariffs.

iRobot is the only successful American-owned consumer robotics company and employs over 700 people in the United States. The United States is also iRobot's largest market. Imposing these tariffs will bring disproportionate harm to iRobot as a company, threatening our U.S. hiring efforts, immediately raising prices for U.S. customers, and undercutting our future competitiveness.

We are the global leader in consumer robotics, helping people with domestic tasks by developing Roomba robotic vacuums, then Braava robotic mops, and now Terra robotic lawnmowers. These innovative products have resulted in more than 500 U.S. patents.

Maintaining our global leadership in consumer robotics means continued innovation, so iRobot has invested more than $750 million in research and development over the past ten years.

iRobot supports the key trade goals outlined by Ambassador Lighthizer and the administration. But while we have seen firsthand how Chinese theft of intellectual property threatens American innovators and harms the American economy, iRobot has taken legal action to protect its intellectual property rights and takes the position that these are more appropriate tools than tariffs. And although iRobot uses contract manufacturers in China, the company has not had to enter joint ventures, nor been forced to transfer its technology to China.

Moreover, even though Made in China 2025 includes robotics, the Chinese government is focused on industrial robots, not consumer robotics, as part of its advanced manufacturing plan and, therefore, additional tariffs on consumer robotics will not further the goals of the Section 301 investigation.

If Section 301 tariffs are imposed on our Braava robotic mops and soon-to-be-launched Terra robotic lawnmowers, it will only exacerbate the harm being done to iRobot from the imposition of the round three tariffs on our Roomba vacuum cleaners. iRobot absorbed some of the costs of the round three tariffs but was forced to raise prices at the beginning of the year. Additional tariffs will raise Braava and Terra prices, slowing their adoption to consumers.

The imposition and increasing of tariffs both in round three and now in round four has created significant business uncertainty for iRobot as a small cap publicly-traded company. As a result, iRobot will not be able to increase its research and development spending, preventing it from hiring more well-paid, highly-skilled American workers.

Just as important, it will undermine iRobot's ability to maintain a competitive edge over its Chinese competitors. In particular, where these competitors are subsidized, operating on thin margins, and are second movers who take advantage of the market development done by true innovators, like iRobot. These companies will also have government support to get through the tariffs.

Even though we have sold over 25

million consumer robotic products globally, consumer robotics is still a nascent industry. iRobot is developing a range of practical robots, products that provide people with a smarter way to clean, and accomplish more in their daily lives.

This is a critical moment in time for the consumer robotics industry. Long-term winners and losers will be determined in the next three years. iRobot is expanding its product offerings in the promising consumer robotics market with the innovative Braava and Terra products.

CHAIR BUSIS: Mr. Angle, if you could please conclude.

MR. ANGLE: Tariffs will undermine iRobot's ability to maintain American leadership in practical robotics. These tariffs, if imposed, will aid our foreign competitors. Thank you.

MR. BISHOP: Thank you, Mr. Angle. Our next witness is Jonathan King with TCL North

America. Mr. King, you have five minutes.

MR. KING: Good afternoon. My name is Jonathan King, Vice President of Corporate and Legal Affairs for TCL North America, the independently-operating U.S. television subsidiary of TCL Corporation.

I'm here today to respectfully request that televisions be excluded from the proposed 25-percent tariffs on products imported into the U.S. from China, specifically HTS Category Number 8528.72.64. The TV is the cornerstone of the American home. Our families have marked the passage of time gathered around its brightly-lit screen, bearing witness to our greatest feats unfolding before our eyes, where icons named Armstrong took small steps to show us what's possible and when, during one winter in Lake Placid, we were asked if we believed in miracles and America responded with a resounding yes. TV is powerful. It is a rich tradition of shared experience that should be available and affordable to all American families.

TCL designs, markets, and sells TV in the United States and continues to be America's fastest-growing TV brand. TCL is fully licensed for all essential intellectual property, creates high-paying jobs and opportunities, is a U.S. environmental sustainability leader, and has earned a tremendous reputation among its U.S. technology partners, retailers, and consumers. More than 18 million TVs imported from China made their way into American homes in 2017. Increasingly comprised of smart TVs, they are made smart by innovative technologies and operating systems developed by American companies, such as market leader Roku. Consumers have come to count on the availability of high-quality TVs at accessible prices.

The application of these tariffs will result in a combined 28.9 percent when added to existing duties, effectively increasing consumer prices on these commodity products while reducing consumer demand. With the additional tariffs, TVs for all Americans will quickly become out of reach, decreasing consumer choice.

There is currently no TV component manufacturing in the United States. There is some final TV assemblies strategically placed throughout the world to take advantage of various conditions involving LCD screens that comprise the bulk of the TV's value that are originally built in China. Please note that assembly is not manufacturing. Although the logistics of the various levels of assembly fluctuate, the products themselves are manufactured in China.

The manufacturing process is complex, involving multi-billion dollar panel factories, quality and ethical raw material suppliers, environmental sustainability concerns, vertical integration, and complex logistics. It takes a long time to establish. But I want to stress it does not involve integral or sensitive technologies, core competency strategic to any nation's interest or plan, or the sharing or transfer of IP.

Although we build TVs in China, we

design them here. We support them here, and we sell them here. Our jobs, American jobs, are here. Our technology partners are here. Our patent and technology licensors are here. The benefits are truly felt right here in America.

One year ago, I sat before you to make a similar case on behalf of American consumers. This honorable committee weighed our evidence and testimony and removed the TV tariff code from the initial list. Since then, we've added a substantial number of jobs in our headquarters outside L.A. The economic benefits of that decision continue to echo through our halls and with the people and organizations that our growth in sales and nationwide marketing has touched.

We support fair trade and applaud the efforts of the Committee. However, the tariffs will have significant economic costs for consumers and numerous unattended consequences. That's why we're respectfully requesting that this honorable committee take a closer look at the TV market and the size of these imports weighed against the number of homes, families, and lives that will be touched.

We also hope you'll take a closer look at our company to see what creative, enthusiastic people can achieve when they dedicate themselves to caring not just about quality products but also about our communities. We've built a close-knit family bolstered each day by the pride in our products and energized by our shared experiences. When you see for yourself the consequences that tariffs will have on American consumers, we firmly believe that you will see the wisdom of leaving these products off the tariffs list.

When the most impactful world events change the course of our lives, we first learned of them in front of a TV. I remember not just the emotion from each of these days and where I was but who I was with and the bonds formed in those shared moments as I absorbed the information and the images on the screen forever formed the foundation of my experience. When this honorable committee weighs the information from this hearing, I can only hope that it will make a similar impact.

We urge you to keep TVs off the tariffs list. Thank you for your time, and I welcome any questions you may have.

MR. BISHOP: Thank you, Mr. King. Our final witness on this panel is Jason Gerdon of TCT Mobile. Mr. Gerdon, you have five minutes.

MR. GERDON: Good afternoon, Mr. Chairman and members of the Committee and thank you for the opportunity to speak here today. My name is Jason Gerdon, I'm head of Global Communications and Strategy at TCT Mobile.

I'm here today to discuss an issue of critical importance to U.S. consumers, our American supply chain partners, and our domestic employees. That issue is the ability to import affordable mobile phones and other mobile technology devices from China that will allow our company to continue providing connectivity to our nation's senior citizens and low-income consumers. Specifically, the products that TCT Mobile imports are mobile phones, PC tablets, and data cards, all of which are being targeted for tariffs under List 4 of Section 301.

Founded in the U.S. in 2007, TCT Mobile has quickly grown to become a leader in the U.S. mobile phone market. And with our primary offices located at Irvine, California and Bellevue, Washington, this has provided more than 100 high-paying jobs to our staff located across the country and, in addition, our distribution supply chain includes robust assembly and packaging operations in California and Texas. As part of our extensive supply chain of U.S. businesses, our company supports small and minority-owned companies in addition to many other community cause efforts.

Our primary products are mobile phones under the brand names Alcatel and Blackberry. We also manufacture a number of other consumer electronic products such as PC tablets. Our company takes pride in producing these quality mobile devices at a deep value to our U.S. consumers. And with the exception of Blackberry-branded smart phones, the general retail price for our devices fall under 100 U.S. dollars.

At present, the company imports approximately 90 percent of the mobile devices we sell in the U.S. from China. Our devices can be found on the shelves of all mobile network operators, in addition to most major retailers such as Best Buy, which allows for a greater choice and cost flexibility to a wider variety of U.S. consumers.

For example, two of our more popular devices include the Jitterbug Smart2 and Jitterbug Flip. Both are designed as easy-to-use mobile devices for senior citizens. There are currently no other mobile phones similar to these in the marketplace, and these products provide both basic and smartphone functionality tailored for seniors who are more likely to be on a fixed income but, at the same time, need to maintain their connection to friends and loved ones.

Data cards are our next product line that is subject to the proposed increased tariffs. These cards are used with prepaid phones and allow cost-sensitive consumers to have wireless connectivity and access. We also manufacture affordable PC tablets that are frequently purchased for educational purposes and often for school-aged children as a starter tablet.

The imposition of an additional 25-percent tariff on these products would drastically inhibit our company's ability to offer value-centric mobile technology, devices to the U.S. marketplace, including many underserved Americans. Moreover, this represents only those costs we know of at this moment without considering unknown variables that could drastically impact domestic and global economies in the future.

It is important for the Committee to take note that currently none of the top five mobile device companies in the U.S. manufactures their mobile phones, PC tablets, or data cards in the United States. Also, based on our understanding of the marketplace, the imposition of these additional tariffs will not change this fact. This is because manufacturing these particular products in the United States is cost prohibitive and necessary resources are limited or unavailable here as evidenced by the fact that currently none of the top mobile device manufacturers in the U.S. produces their products here.

The only result that will occur upon the imposition of these additional tariffs is that the supply chains of TCT and other companies will likely be forced to migrate to Vietnam, Mexico, or India. Such migration or relocation risks sacrificing U.S. jobs, including those small and minority-owned businesses currently in our company's supply chain. This would not advance the administration's goals and could ultimately prevent TCT from servicing the demands of American consumers in our target market to which we are the largest provider.

To be clear, there's a significant risk the imposition of these tariffs would restrict many everyday Americans' ability to remain connected via the mobile technologies that we all now depend upon, such as our mobile phone or tablet. American citizens will be significantly harmed as a result. Affordable access to these kinds of mobile technologies are particularly important to seniors, rural residents, and lower-income families who have a common need but significant cost constraints.

Moreover, with respect to the administration's policy goals and objective, TCT Mobile understands the concerns about unfair and unbalanced global trade. We acknowledge the administration's efforts to protect U.S. intellectual property, prevent forced technology transfers, and bring into greater balance the U.S. trade deficit with the People's Republic of China.

We also acknowledge the concerns the

U.S. has about China's industrial policy commonly referred to as Made in China 2025. However, TCT Mobile's devices do not meet the requirements that China has outlined and its focus for Made in China 2025 will focus primarily on advanced manufacturing, robotics, semiconductors, sophisticated IT, and other internet of things devices. For these and other reasons, we firmly believe that tariffs placed on these products will not have the desired effect on China's trade policies and practices that the administration intends.

To conclude, we ask the Committee to remove mobile phones, PC tablets, and data cards from the proposed 300 billion tariff action. Thank you for your time today and consideration of these matters.

MR. BURCH: Thank you, Mr. Gerdon. And, Mr. Chairman, this is the last panel witness for this panel.

CHAIR BUSIS: Mr. Stephens, do you want to start us off?

MR. STEPHENS: Thank you. My name is Andrew Stephens from the U.S. Department of Agriculture, and I have a question for Stanley Pierre-Louis. In your testimony, you said increasing the cost of consoles and controllers could hamper many consumers from playing the newest games or their favorites and from utilizing the latest services and technology or trying out the newest interactive experiences.

So do you have any specific information on consumer price sensitivity to gaming hardware purchases?

MR. PIERRE-LOUIS: Thank you for the question and the opportunity to testify before you. We've done surveying on price sensitivity and the numbers we provided reflect that. They were done through a third-party, an independent source, Ipsos, well known for its surveying. And that found a lot of information. First, that there were 164 million Americans, 65 percent like to play together, and also talked about that price sensitivity.

Importantly, consoles make up a really significant part of our industry and game development, so there are a lot of after-on effects. So you're not only talking about the consoles, you're talking about the games, game development around it. And, in fact, when you talk about 18 to 34-year-olds, 69 percent of them use consoles, so it's become ubiquitous and it's become an important tool for social connections. And if we get into a little bit further, we can talk about the health and education benefits that video game and video game technology have sprung about.

MR. STEPHENS: So as a parent of a teenage son, I can talk about the social element because I ask my child if he'd like to go see his friends. No, they're online with him. But one more question. If, in your view, there is substantial price sensitivity, do you believe the supplier would have an incentive to reduce its export price?

MR. PIERRE-LOUIS: Well, we have three

things to think about in that. There's sourcing, training, and expense. Right now, video game consoles are so complex and sophisticated that they require significant sourcing from lots of different countries which have been vetted for product quality assurance and for consumer safety. So moving that creates a lot of issues. Just one change impacts that entire chain.

When you talk about training, we do as much as we can in the U.S. to train up our workers to ensure that they can produce, you know, value adds to the video game ecosystem. But, clearly, we have found a lot of efficiencies in China, and so exporting that becomes very complicated. And so the expense isn't just moving things over but it's how do you replace that ecosystem, that sourcing, that supply chain, and that product safety?

MR. STEPHENS: So if the tariffs are implemented, do you think that the console and other equipment suppliers would shift from China or not?

MR. PIERRE-LOUIS: Well, right now, the margins are very thin, so moving them becomes very complicated. Certainly, in the short term, there would be a significant increase in the cost because 25 percent, if that's the number, indeed, that's imposed would significantly impact the industry, particularly with the holiday season coming. And so we're talking about the significant time for sales and having this shift, so certainly, in the short term, it would be a significant impact, a negative impact on not only the console manufacturers, game development, ultimately consumers and jobs.

MR. STEPHENS: Thank you.

MR. PIERRE-LOUIS: Thank you.

MR. ROARK: Hi, I'm Robin Roark, International Trade Administration at the Commerce Department. Mr. Baer, thank you for your testimony this afternoon. I have a question for you. You mentioned competitors in Mexico. And to the best of your knowledge, are those competitors also sourcing their LCD panels from

China?

MR. BAER: Yes.

MR. ROARK: Are there any other sources for this type of LCD panels than Chinese companies?

MR. BAER: For Element, no. Whether there are for other companies, I'm not aware. We can supplement that answer. But I think, essentially, all of the LCD panel production, getting into the full -- the panel is done in China.

MR. ROARK: Does that relate to the size of the panel? Is that an important factor here?

MR. BAER: The size is not so important as it relates to the manufacture, but I think the size, one of the things that we've testified in previous rounds is what does go through Mexico and those tend to be the larger screen sizes because of the higher cost in freight and touch versus the lower cost and duty of a smaller size. So the larger screen sizes, if you look at the import data, shows that a significant majority of that goes through Mexico versus direct from China.

MR. ROARK: Through Mexico. And I think you mentioned that if these round four tariffs go in place, your company would be forced to consider off-shoring to potentially Mexico, among other locations.

MR. BAER: Yes, not consider. We will be forced to do that, unfortunately.

MR. ROARK: And there you'd be going directly head-to-head with those other manufactures that are manufacturing in Mexico; is that right?

MR. BAER: Correct.

MR. ROARK: Yes. Let me ask you one more question about the other components. You mentioned mainboards.

MR. BAER: Yes.

MR. ROARK: Are those also primarily sourced in China?

MR. BAER: Yes.

MR. ROARK: Are there no other sources of those mainboards for TV sets, for LCD TVs?

MR. BAER: We have not been able to secure another source other than from China, no.

MR. ROARK: Okay. And you mentioned this is not part of the Made in China 2025 universe that China is looking at. It's not a critical technology of any sort, really.

MR. BAER: Correct.

MR. ROARK: What would keep companies from manufacturing such mainboards outside of China? Any comment on that?

MR. BAER: Infrastructure, I think, primarily. I think it's just a matter of when the industry left America it all got centered into China and has resided there ever since. And there's just been no impetus to build factories and all of the infrastructure necessary. Certainly, it could be done. Others have testified to that on the panel. But it's a multi-year process.

MR. ROARK: Yes. And, again, as sort

of a related question to the previous one about the consumer price sensitivity for your products, do you care to comment on that?

MR. BAER: The margins in the television business are near non-existent, so the idea that a 25-percent or a 10-percent or a 5-percent could be absorbed by people throughout the supply chain, I think my colleagues on this panel and others would agree it's just not feasible. So it would most certainly be passed on to the consumer.

MR. ROARK: Thank you.

MR. BAER: Thank you.

MR. SECOR: Peter Secor from the State Department. My question is for Mr. Bonfig from Best Buy. Best Buy is one of the largest electronic retailers in the country and your company sells a broad range of consumer electronic products. Does Best Buy have the ability to shift the cost of any additional duties to its suppliers?

MR. BONFIG: Thank you for the

question. As laid out in the testimony, the highest margin area of consumer electronics was impacted on earlier lists 1 through 3. What we're talking about in List 4 in the product categories that we laid out are the hardware section, which is the lowest margin component of the consumer electronics industry, which is why there's a belief that a large percentage of it could be passed on directly to the U.S. consumer.

MR. SECOR: And a follow-up question. I wonder if you could mention some of the major competitors you have and comment on whether additional duties would have a similar impact on them.

MR. BONFIG: I wouldn't want to make any determinations or provide any specifics on competitors. I wouldn't actually know their business as well as I would know Best Buy's, so the testimony today was specific to Best Buy and our customers that we serve everyday. I wouldn't want to make any statements about our competitors.

MR. SECOR: Thank you very much.

MR. HART: Drew Hart from Treasury. My question is for Mustafa Ozgen of Roku. Thank you for your brief outline you provided in your testimony about the effect of tariffs or what they would have on your company. Do you have any capability to move production outside of China?

MR. OZGEN: Thank you for your question. So we have two, sort of two ways that we provide our technology to the consumers in the U.S. One is to license our operating system of TV makers, as has been discussed in the rest of the panels. I think the TV side has been well answered.

We also put our operating system through these players, and we sell those players directly to the retail channel and on our website. And those products, just similar to TVs, it will take a long time to move the ecosystem of supply chain to another country. I think bringing it to the U.S. is definitely very, very difficult because of the complete lack of supply chain in the U.S., but moving to another country is possible but it will take a long time, plus it will impact our costs and then we have to pass some of those cost increases to consumers.

MR. HART: Have you begun thinking about that possibility?

MR. OZGEN: We are definitely thinking about the possibility, but it's too early for us to make a comment on that.

MR. HART: Thank you.

CHAIR BUSIS: Mr. Ozgen, do you know, do the players, which I presume are the little famous Roku black boxes, are those the same tariff subheading as the complete TVs?

MR. OZGEN: Yes.

MS. WINTER: Thank you. This is a question for Mr. Angle from iRobot. Thank you for your testimony. You mentioned that you've not been forced to transfer technology or enter into joint ventures. Can you describe if there are any Chinese trade practices that are unfair that you have been subjected to that you would like to bring to light? And also, do you have any plans for the consumer robotic equipment that you mentioned, lawnmowers and such, mops, do you have any plans to resume or to do production of those particular products in the United States?

MR. ANGLE: Sure. Thank you for the question. So iRobot has successfully defended itself in a USTR IP action, ITC action, concluding in October of last year, so our patents were being infringed by several factories in China. And we successfully resolved that issue. We've also been the victim of intellectual property theft via cyber attacks and participated and cooperated, affecting the indictment of two Chinese citizens that were responsible for that activity. So we definitely appreciate the fact that we are in an intensely competitive situation.

Regarding your second question, moving production of our product from China to the U.S. would increase our cost of goods sold by nearly 60 percent. So that is simply not economic. We are committed to moving and diversifying our supply chain, and, by the end of the year, we'll have about 10 percent of our manufacturing in Malaysia. But these will be for some of our most rudimentary products, and, for the medium term, we will be dependent on the Chinese infrastructure to make our products.

Our challenge -- this is a moment in time when the winners and losers are being defined. Our Chinese competitors have their home turf, which fuels their R&D and is tariff-free. And our research and development is fueled by sales in the United States, and the growth and ability to invest in those industries is being severely curtailed by the current tariffs.

MS. WINTER: I think in your testimony you mentioned that your Chinese competitors have large market shares in China. Who are your competitors in the United States? Are they those companies and others or others --

MR. ANGLE: So those companies are coming to the U.S. We also have, our other chief competitors in the U.S. are a company which is owned by a China parent, this is Shark Ninja, and they have the second share in the U.S. So all of our competition in the U.S., while consisting of less than 20 percent of the market, is Chinese-based and Chinese-owned.

MS. ZOLLNER: Hi. My question is directed to Mr. King. Does TCL have any production facilities outside of China or source any television parts from outside of China?

MR. KING: TCL North America sources its parts and screens and other items directly from China. So there is no other alternative for LCD panels, and I think that's been underscored by some of the other people on this panel.

CHAIR BUSIS: Before we leave televisions, Mr. Baer does your company take any position on possible duties on complete televisions?

MR. BAER: No. I tend to agree with all of my colleagues on the panel, but we haven't taken a position on that.

MS. VON SPIEGELFELD: Cristina Von Spiegelfeld from the SBA. This question is for Mr. Gerdon. There are media reports about Samsung and other major mobile phone suppliers moving their production out of China. In your opinion, is it possible for your suppliers to move production out of China, as well?

MR. GERDON: Well, first, I think it's important to note that for TCT Mobile we do have suppliers, technology suppliers, that are based in the U.S., companies such as Google and Qualcomm, that provide essential technologies. And then we have many downstream suppliers that support us in terms of packaging, distribution, and so forth.

In terms of China specifically, you know, I can't comment on what our competitors are doing. For us, in order, I think as others have said here on the panel, you know, margins are very thin, so, in order to maintain our quality standards while being able to deliver a product that we are almost exclusive in the U.S.

marketplace in terms of affordability, unfortunately, there aren't many alternatives for us.

CHAIR BUSIS: Any more questions from the Committee for this panel? We may call the next panel.

MR. BURCH: We release this panel with our thanks.

(Pause.)

MR. BURCH: Will the room please come to order? Mr. Chairman, I'd like to note all witnesses for this Panel 5 have been seated, and our first witness for this panel is John Crowley of National Association of Waterfront Employees. Mr. Crowley, you have five minutes.

MR. CROWLEY: Thank you, Chair, members of the Commission here and the Panel. Thank you for the opportunity to speak on this very important subject to my membership as president of the National Association of Waterfront Employers. Our members are bringing terminal operators and stevedores who buy the capital equipment including these cargo equipment handling systems, paid labor and move the cargo on and off the ships into commerce.

I'd ask my prepared statement be admitted into record. I'm going to give you a summarized version for the oral statement.

I want to start out by taking a look at global trade, and from our standpoint global trade starts in East Asia. The bulk and the volume that is driven out of there drives in turn the size and the development of shipping today, which as most of us recognize has increased day -- year over year, and that starts first of all in East Asia. And of course that's where the cranes, as you get larger ships, are first needed to handle not only the size and dimension of the ships, but the volume of the cargo that's being transported across a container yard.

Because of this the -- China becomes the global source, and that's true throughout the globe. It's not a U.S. issue that not only -- it would be from a production standpoint, but from a transport standpoint, particularly with the larger cranes of China, and their production is uniquely qualified and positioned to move cargo, being in this case the cranes themselves.

The equipment when needed in the United States is ordered by individual facilities. The facilities make their own determination as to when, according to their strategic plans and their finances that the need for the new equipment, cargo handling equipment is required and how and when to upgrade. But this -- but the innovation that's really required to move cargo faster, better, quicker occurs here in the United States with the technical add-ons that are used in terminal operating systems to in fact move cargo faster and responsive both to imports and in the United States to exports, very importantly.

Therefore, the U.S. facility is more complex often in fact than the Chinese and the Asian facility which moves typically cargo in a transit mode whereas we're moving to various inward, whether that be water-based, land-based or rail-based onward transportation systems.

Therefore, the China trade policy does not really apply in this case. Submit that modifications would not have an impact in any event on the Chinese production because of the global nature of the commodity, that improvements would be delayed upon the imposition of these modifications. And in the cases where they would go ahead -- and some cases were the long-term orders, long lead orders have been placed over time that the cost would unpredictably have increased upon receipt of the cargo; in this case cranes.

The impact of cost is often passed on to the consumer. It's in addition to the terminal operator themselves, but I think most interesting in this case it's passed also on to the exporter and their ability directly, including all of these many companies that are represented before you. It's passed on in the handling of their cargo also, which has the prospects of increasing their cost and decreasing their competitiveness across the globe.

I'd like to particularly point out that I've listed some numbers in terms of totals of anticipated orders over the immediate foreseeable future. While our organization represents the majority of private sector terminal operators, there are a number of public sector operators that you'll hear from in fact that are not included in those numbers. So those are not all-inclusive for the industry sector. Thank you very much.

MR. BURCH: Thank you, Mr. Crowley.

Our next panel witness is Steven Blust with the --

CHAIR BUSIS: Just one note before we start.

Mr. Crowley, you mentioned that you had a longer statement you want to enter in the record, which is fine, but we would ask you that you use the fedreg.gov web site to help us out and submit that way.

MR. CROWLEY: Very well.

CHAIR BUSIS: Yes.

MR. BURCH: Our next panel witness is Steven Blust with the Institute of International Container Lessors.

Mr. Blust, you have five minutes.

MR. BLUST: Thank you. Members of the Section 301 Committee, hello and thank you for the opportunity to be here today.

My name is Steven Blust and I am president of the Institute of International Containers, or IICL, the lead trading association of container lessors in the United States. Our members lease marine cargo containers, also called marine containers, to vessel operators and other customers around the world.

I appeared before this committee last July in connection with a proposed action pursuant to Section 301 that targeted imports from China valued at approximately $16 billion. I urged you to remove marine containers from the list of products then known as Trance 2, potentially subject to tariffs. When the final version of Tranche 2 was published in the Federal Register on August 16th, 2018, you can imagine my joy when I could not find containers on the list.

Unfortunately, USTR has proposed new tariffs of up to 25 percent on more products from China with an annual value of approximately $300 billion, and shipping containers are back in consideration for assessment of tariffs.

For the following reasons the IICL and its members respectfully request that marine containers classified under HTS 8609 be removed from the final versions of this latest list commonly known as Tranche 4.

Marine containers are used to move imports and exports in international commerce as instruments of international traffic. When marine containers reach an average age of between 12 and 16 years, they are removed from active service and placed in the resale market where containers are sold and often repurposed by small and medium-sized businesses for a range of functions as you'll hear today on Wednesday and again on next Tuesday.

Imposing duties on marine containers would do little, if anything, to address China's unfair acts, policies and practices, nor would these duties have any noticeable impact on China's IP practices. Indeed, while some companies import and modify containers, there is no company in the United States that produces marine containers from scratch today for -- used in international commerce, nor has there been any for the last 40 years, thus increasing duties on marine containers would do nothing to promote the U.S. container manufacturing sector.

Furthermore, both container manufacturing process and containers themselves are decidedly low-tech, essentially steel boxes which have remained constant in design and construction for the last 60 years. Marine containers are not relevant to the U.S. leadership and high-tech manufacturing and are not a focus of the Made in China 2025 Program.

The materials and processes used to make them are well-established and there's zero risk of IP infringement, forced technology transfer or theft of trade secrets. In other words, imposing duties on marine containers would do nothing to achieve any objectives of this proceeding.

On the contrary, imposing duties on marine containers would have substantial negative effects on U.S. consumers and the general public. If imposed, these duties would apply to containers that have been retired from active international service and are available for various purposes within the United States including temporary storage for retail outlets, modular housing and storage of personal belongings. Repurposed marine containers are also used by the U.S. Military and many are the life blood of disaster recovery efforts.

But containers are only repaired or repurposed once they have reached their final destinations and cargo is unpacked, which are often far from coastal ports. These containers are accepted for off-hire and resale in particular locations because their members know that containers can be sold and repurposed there.

Imposing up to a 25 percent tariff on these containers would make it significantly less likely that containers would be repaired and made available to the U.S. export cargo market or sold and repurposed in the heartland of America. Without an assurance that a container could be sold our members will be less likely to accept containers for off-hire and repair for export use or resale in U.S. locations.

As a result, it will be more difficult for small businesses that repurpose containers to secure equipment and the cost will rise. Of course if costs for these small businesses rise, their options will either be to suffer the consequences themselves, pass the additional costs along to the American consumer, or cease operations.

Finally, companies in the U.S. that have purchased used marine containers often modify and repair them. These are good paying jobs that include welding, metal fabrication and painting. Tariffs on marine containers that enter the U.S. under HTS 8609 would put these at risk.

For these reasons we ask that marine cargo containers entering the U.S. under HTS 8609 be removed from the USTR's most recent list of Chinese products potentially subject to tariffs for Section 301. Thank you and I'll be happy to answer any questions.

MR. BURCH: Thank you, Mr. Blust.

Our next panel witness is Mark DePasquale with the National Portable Storage Association.

Mr. DePasquale, you have five minutes.

MR. DEPASQUALE: Hello and thank you for the opportunity to testify today. My name is Mark DePasquale and I am the CEO of the National Portable Storage Association, or NPSA.

The NPSA is the country's leading trade association for companies that repurpose shipping containers for use within the United States' domestic market. Our members marine containers that are no longer used for international shipping and modify them for many purposes and uses.

The proposed tariff of up to 25 percent on containers classified under HTSUS 8609 would be devastating to my members and our industry. Our members have literally created an industry in the United States that previously didn't exist by utilizing hundreds of thousands of older marine containers that might otherwise be sent to the scrap yard or landfill.

When marine cargo containers reach the end of their useful life in international trade, the members of the NPSA purchase them and subject them in many cases to extensive repairs and modifications. As a result of the hands-on blue collar work performed by NPSA members, these containers essentially get a new lease on life as portable storage units, offices on construction sites, charitable donation sites and for use during disaster relief recovery.

NPSA members also supply repurposed containers to FEMA, the American Red Cross, DoD, FAA, GSA and other public agencies. In the case of the U.S. Military, repurposed containers are used to transport munitions, as hospitals on the battle field, as air traffic control towers, as mobile communication units and in countless other ways.

The companies that do this work are overwhelmingly mom and pop small businesses that were created to meet a need in local communities all over the country. These companies employ thousands of welders, painters, metal fabricators and truck drivers in communities such as Lakewood, Ohio, Ellwood City, Pennsylvania and Elk Mound, Wisconsin. The proposed tariffs on containers take direct aim at these small businesses and at the blue collar workers they employ.

NPSA members rely heavily on direct delivery of marine containers being taken out of international service which they then repurpose. Often the only reason a container is directed to a particular location is because a container owner knows that it can be sold and repurposed there. Imposing duties on containers would make these sales significantly less likely due to higher costs and limited supply. The end result is that either blue collar jobs will be lost or costs for ordinary consumers will rise, or both.

Although these additional costs will be imposed on middle class small businesses, little if anything will be gained in return. While containers are imported and modified in the U.S., there are not -- there's not been an industry that manufactures marine containers in the United States for more than 30 years and such an industry will not suddenly spring up out of nowhere if tariffs are imposed. Thus, the supply of used shipping containers is the backbone of our industry. Indeed, we have no other sources to supply.

Finally, shipping containers

classified under 8609 were the subject last year of a prior determination in the Section 301 investigation. That determination was based on evidence, including testimony collected by the Section 301 Committee, from members and customers of the U.S. and global container industries.

The record assembled by the Committee established that, one, marine containers are low-tech products and the manufacturing process used to make containers does not involve high risks of IP infringement including theft of trade secrets or forced technology transfer; two, marine containers produced in China are not subsidized or otherwise supported by the Made in China 2025 Program; three, no company located in the United States produces marine cargo containers from scratch for the use in international commerce; four, the imposition of a tariff on shipping containers produced in China will not spur investment in container manufacturing in the United States; and five, container manufacturing in third countries is relatively non-existent.

At no time during this prior segment of the Section 301 preceding did anyone appear before the Committee to support the imposition of tariffs on shipping containers of any kind including marine cargo containers. In the period since the Section 301 Committee last considered these issues nothing has changed.

A tariff on containers would not address China's acts, policies and practices related to technology transfer, intellectual property and innovation. Instead, it would cause disproportionate economic harm to U.S. interests including small and medium-sized businesses and consumers.

Therefore, on behalf of the NPSA and its members I respectfully request that shipping containers classified under HTSUS 8609 be removed from the annex to the notice published by USTR on May 17th, 2019.

This concludes my testimony. I'd be happy to answer any questions you may have. Thank you.

MR. BURCH: Thank you, Mr. DePasquale.

Our next panel witness is John Reinhart with the Virginia Port Authority.

Mr. Reinhart, you have five minutes.

MR. REINHART: Thank you. Thank you, Mr. Chair, members of the Committee. It's a pleasure to be with you today and I appreciate the opportunity to present at today's hearing.

My name is John Reinhart. I'm the CEO and Executive Director of the Port of Virginia and it's the third largest port on the East Coast of the United States.

I'm here again today to explain why it's of critical importance to American ports and the Port of Virginia for this Committee to remove the tariff provisions for ship-to-shore gantry cranes from the items on the list to be subject to the duty or tariff of 25 percent.

First I want to thank you for the consideration this Committee gave last year when we presented the same arguments about removing the gantry cranes from the list of tariff items.

As the Committee recognized then, rather than addressing China's egregious violations of intellectual property and forced technology transfers, imposing these tariffs on high-cost, low-tech pieces of equipment would in fact damage important strategic objectives of modernizing important U.S. infrastructure and put the economic health of our communities, the Commonwealth of Virginia and our country in jeopardy.

The Port of Virginia is one of the few ports with a balanced trade, equal imports and exports. It is no small part because Virginia serves as a gateway for the global market for much of the American Heartland. Thirty-five percent of our freight comes from the Midwest and moves across our port. While the cranes we are discussing are located in Virginia, they are loading and unloading equipment and containers from Columbus, Ohio, Chicago, St. Louis, Detroit, Louisville, all parts of the Midwest.

Ocean carriers are now sending larger

and larger vessels every day and fewer and fewer ports have the critical infrastructure to handle these ultra-large container ships. In fact, container vessels have increased in size by 80 percent since 2014. Just last month we received a vessel with 15,320 foot equivalent units, TEUs, largest vessel to call on an East Coast port, ever. So we're continuing to have those types of vessels, 14,000 vessels every week, multiple times a week.

We're expecting to move to 16 to 18,000 TEU range in the near future, and the immediate challenge we face with the larger ships is we have to have the infrastructure to handle them, the larger ship-to-shore cranes. The Port of Virginia has invested -- will have invested nearly $1.5 billion in infrastructure and terminal expansions and dredging by 2024.

In February of 2017 we broke ground on two projects valued at $700 million to improve our two primary container facilities and increase capacity by 40 percent. With the expansion of

Virginia International Gateway now being completed, that's the four cranes that you removed from the tariff list last year. They were delivered in January. They were put in service in May and they're operating today.

We had an option in that contract for two additional cranes. Just in May we decided to order two more ultra-large container cranes from China and we -- and deliver to the NIT project which will be completed in fall of 2020. This capacity that we're adding to your facilities creates opportunities for American jobs. Two hundred and eighty-six thousand additional jobs could be created because of the increased size of our vessels and our throughput at our terminals.

It is critical that these cranes be removed from the tariff list. There are no U.S. manufacturers of these cranes. There are no viable options to buy these ultra cranes from an alternative source. Rather, the imposition of a 25 percent duty on such high-cost capital items would just delay projects like this that we're doing in the Port of Virginia across this country to make us more competitive on the global stage.

Restricting the port's capacity will limit job creation across Virginia and the Mid-Atlantic and all parts of the Midwest.

It would also limit exports contrary to the administration's goal to create new markets for American companies, workers and products. We saw a drop in agricultural products last year because of the tariffs moving across our port.

Through an open RFP process we asked for crane purchase -- crane prices to a certain spec from all over the world. We received a couple of bids. All of the superstructures were manufactured in China. We had no price limitations on our RFP. We just wanted to move forward and have the cranes built. ZPMC from Shanghai won the award. We demanded that they use U.S. technology and that equipment and all of the drives and accessories to the computer systems are U.S.-based and they're as a matter of fact a Virginia company.

These cranes are really just large metal structures. They're not the type of product that China aspires to produce under its Made in China 2025. Furthermore, in order to provide quality control and prevent intellectual property leaks, we had on-site inspections in China throughout the construction period.

So putting these kind of tariffs on cranes will just diminish the competitiveness of U.S. ports. We all on the East Coast, West Coast and Gulf Coast need to add these types of equipment. They're only manufactured in China. We can protect the intellectual property by demanding the IT component be coming from the U.S.

For those reasons we renew our request again to the Committee to remove ship-to-shore gantry cranes from the list of products covered under the additional tariffs. Thank you and I'll be happy to answer any of your questions.

MR. BURCH: Thank you, Mr. Reinhart.

Our next panel witness is Ed DeNike of SSA Terminals.

Mr. DeNike, you have five minutes.

MR. DENIKE: Okay. Thank you for the opportunity to be here. My name is Ed DeNike. I am president of SSA Containers, which is a division of SSA Marine, which is the largest American terminal operator in the country and worldwide.

I also am here to talk about the cranes. I want to make sure that we understand what those cranes are. We have the STS cranes which are those big cranes that you see when you go by the waterfront that take the -- that handle the containers on and off the ships. We also are here with the -- what we call RTGs, which are the cranes that are in the terminal yard that deliver and receive the trucks when they come into the terminal to get ready to go and off the ship. They are indispensable in our operation. We couldn't operate without them.

About 35 years ago we decided to try

to formalize the way we bought cranes and to standardize up and down all of our operations. Our people went pretty much all over the world, spent months in China and in other areas and decided that this company which was started then was ZPMC, which was mentioned earlier. When we talk China, we're talking ZPMC, the crane manufacturer who today manufactures 80 percent of all cranes worldwide.

We have, for the last 35 years, have ordered nothing but ZPMC cranes, and I can say I can't remember any other company other than possibly a Japanese company, who are required to buy Japanese cranes, buy any other cranes other than ZPMC. As mentioned earlier, there's only a couple manufacturers in the world that make these cranes and by far ZPMC is heads above the other one or two. And also what's mentioned earlier, there are no American manufacturers that produce these cranes.

These cranes cost -- the STS cranes cost between 10 and $12 million apiece. The small RTGs are close to $2 million apiece. This is equipment that we use to operate that -- quite frankly it's going to be very difficult for us if there is an additional cost to recover that cost from our international carriers because our business is so competitive that pricing is very difficult to get when our costs increase.

We have, as I said, over 100 of these cranes now in the U.S. and we have 20 that we're going to be buying in the next year or two. When you add 25 percent to that cost, it's just staggering what it's going to cost us. And when I say us, I'm pretty sure I may be talking for my company, but I'm talking for pretty much every company that's in our business.

That means that we're going to be looking at maybe delaying purchasing cranes, delaying being able to service the exporters and the importers and possibly not even being able to buy these. The other crane manufacturers, as far as we're concerned, as I said, are not even in the same world as ZPMC. I think everybody in our industry would agree. I think it would serve no purpose to put any kind of tariff on this equipment. All it would do would be hurt our industry, and quite frankly my company. Thank you for listening.

MR. BURCH: Thank you, Mr. DeNike.

Our next panel witness is Glenn Wiltshire of Broward County Port Everglades Department.

Mr. Wiltshire, you have five minutes.

MR. WILTSHIRE: Thank you. Good afternoon, Mr. Chairman and members of the Committee. Thank you for the opportunity to testify today. My name is Glenn Wiltshire, the Acting Chief Executive Port Director of Port Everglades, a department of Broward County, Florida government.

Port Everglades and our port users are very concerned about the overall impact of additional tariffs related to cranes and cargo handling equipment from China.

A little background. Broward County's

Port Everglades Department is one of South Florida's economic centers and is a gateway for international trade and cruise vacations. More than 1.1 million 20 foot equivalent units of containerized cargo moved through our port last year, and we actually had a trade surplus of almost $1 billion over $24.5 billion of trade on both the import and export side.

Port Everglades supports over 13,000 direct jobs in South Florida and over 218,000 indirect, induced and related user jobs in the State of Florida resulting in a total economic impact of almost $34 billion annually.

It's of critical importance to the port for the Committee to once again remove gantry cranes classified in subheading 8426.19.00 from the list of items that would be subject to tariffs up to 25 percent as the Committee concluded after the List 3 process was completed. A 25 percent duty would immediately increase port costs by over $10.35 million for a current gantry crane order.

As was stated by two of the previous speakers, ZPMC located in Shanghai, China is currently the only company in the world that manufactures low-profile, super post-panamax rail-mounted container gantry cranes. At our port, the use of these customized low-profile cranes is a critical Federal Aviation Administration requirement because of our close proximity to Fort Lauderdale-Hollywood International Airport.

After a competitive process ZPMC was selected to construct our cranes. The only other bidder was -- indicated the intent to construct the cranes in Italy at a price premium of almost $3 million. So on December 29th, 2017 Port Everglades ordered three of the low-profile, post-panamax cranes for the initial amount of $41.4 million, or $13.8 million per crane. As the previous speaker indicated, that's about, depending on where you look at it, a 1 to $3 million premium because of the low-profile cranes.

Port Everglades also has an option over the next five years to purchase up to three additional cranes at a potential cost of up to $18.3 million per crane, but we haven't exercised that option to date.

The first three cranes are under construction and scheduled for delivery in March of 2020 and will be -- have the ability to handle containers stacked 8 units high and reach across 22 containers compared to our current cranes which are limited to 5 containers high and 16 containers wide. This will allow port container terminal operators to transfer containers from the neo-panamax ships that are -- that I referred to that currently must arrive at the port light-loaded or specially loaded due to our existing smaller cranes.

Additionally, these cranes will increase the maximum lift capacity from 46.5 to 65 long tons. More cranes allow more ships to be serviced simultaneously, increasing container handling efficiencies and reducing the time in port for container ships, increasing ship berth and crane availability for use by other customers. More ships equals more U.S. jobs.

Separately, the port is investing $471 million to add additional berths to handle more ships and the U.S. Army Corps of Engineers is nearing the start of construction of a $438 million deepening and widening project to dredge our channels to accept these larger ships. We consider ourselves partners with the federal and state government as we seek to service these ships that are coming today. Without the removal of gantry cranes the resulting budget increase will require reallocation of funds from other critical infrastructure projects we have at the port directly affecting the U.S. workers who would otherwise be employed on those projects.

The application of the tariffs is effectively a tax on infrastructure that will negatively affect not just our port, but multiple U.S. ports, damaging an important strategic objective of the U.S. of modernizing seaports and improving U.S. infrastructure and will cause disproportional economic harm to U.S. interests by putting the economic health of our nation's ports in jeopardy.

Thank you once again for the opportunity to testify before the Committee and I'd be happy to answer any questions you may have.

MR. BURCH: Thank you, Mr. Wiltshire.

Our last panel witness for Panel 5 is Jennifer Cleary with the Association of Home Appliance Manufacturers.

Ms. Cleary, you have five minutes.

CHAIR BUSIS: Just one comment. For those following the provisional witness list, Ms. Cleary has been moved up from Panel 7 to this panel.

MS. CLEARY: Good afternoon. My name is Jennifer Cleary and I'm the Vice President of Regulatory Affairs at the Association of Home Appliance Manufacturers. Thank you for the opportunity to testify today and for accommodating me on this panel.

While we agree that the administration should address Chinese trade policies and practices, we oppose the proposed additional tariffs for many home appliances, parts and components as specified in detail in our written testimony. They will cause harm to consumers and our members and will not have the impact that is desired.

If not already this morning, it is quite likely that sometime today every member of the Committee, every panelist at these tables, and virtually everyone in this room has or will benefit from the use of one or more home appliances. From preserving food, cooking to personal grooming, to cooling and improving indoor air quality and to cleaning floors and carpets appliances are not only life-enhancing, they are a necessity in many cases.

Our members include companies that manufacture products in the United States, employing tens of thousands of people. They include companies that manufacture in other countries and companies that do both. In virtually every case, home appliance manufacturers rely on a global supply chain.

Our industry is also extremely competitive and as such the consumer cost for purchasing home appliances has consistently trailed the CPI for decades. The proposed tariff increases specified in our testimony, if approved, will change this consumer success story to a formula for failure.

This comes at a critical time when our industry through innovation, technology and investment is delivering more energy-efficient products than ever and is on the cusp of expanding the value of our products through connectivity in the smart home environment. Many of these products and parts are included on the proposed tariff list, including microwave ovens, dehumidifiers, coffee and tea makers, toasters and toaster ovens, food processors, electric hair clippers, irons, electric fans, parts for room air conditioners and parts for refrigerator/freezers, as well as many other products. These proposed tariff insert an international trade dispute into American families' kitchens and living rooms and will impact their daily lives.

For products like the microwave oven, which have become part of the fabric of the American kitchen as consumers look to prepare fast convenient meals, increased costs due to tariffs could mean that these essential products are no longer affordable for some people. And other products such as portable appliances where price is relatively low, consumers will feel even small increases in price.

The impact has and will continue to be significant on home appliance manufacturers as well. As a result of the current and proposed tariffs, some companies have or plan to delay or cancel significant investments in research and development or upgrades to existing U.S. manufacturing sites. This is because substantial company resources are being diverted from these activities and reallocated to revamp existing global supply chains.

We have seen that these tariffs are adversely impacting American jobs. One of our members canceled the planned addition of 100 U.S. jobs and some of our members have been forced to shift manufacturing out of the United States, which is contrary to the administration's goals. We expect our members will provide you with more detail on their individual circumstances. For example, iRobot testified on the last panel.

Building new supply chains is not an easy task. For many of the products in our scope it could take over five years to select new suppliers, if it is even possible to do so. This is due to various compliance and safety considerations among other factors.

Accordingly, the tariffs could result in product shortages, price increases or decreases in product choice. Microwave ovens, toasters and toaster ovens, coffee and tea makers, pressure cookers, food processors, parts for refrigerator/freezers and room air conditioners among others are primarily only available in China and no alternative supplier outside of China exists according to our current data.

Notably for these products the technology is such that manufacturing is not likely to be moved back to the United States, nor are they that type of high-tech products that are the focus of the Made in China 2025 Initiative, thus the tariffs will not increase American jobs or have a positive impact here.

My written testimony and AHAM's comments include a full list of the home appliances that are made in China and for which no U.S. or alternative supplier exists. We respectfully request that no new additional tariffs be imposed on the finished goods or parts I've mentioned today and which are detailed in my written comments.

Thank you for the opportunity to

provide our views and I'm glad to answer any questions you may have.

MR. BURCH: Mr. Chairman, this concludes this panel of witnesses.

CHAIR BUSIS: Ms. Zollner, could you start our questioning today -- this morning -- afternoon?

MS. ZOLLNER: Great. Thank you. While my question is directed to Mr. Wiltshire, I think anyone could probably respond if you had a view.

It's been stated that ZPMC is currently the only company in the world that manufactures -- this is not going to come off my tongue easily -- low-profile super post-panamax rail-mounted container gantry cranes. Is there some reason that these cranes are only made in China? The cranes appear to be mostly fabricated of steel, which is widely available. In the view of the panel, does the competitiveness of the Chinese crane industry relate the massive over-capacity of the Chinese steel industry and result in artificially low prices for Chinese steel?

MR. WILTSHIRE: I can't comment on the part related to the pricing of steel. I do know as we went through a competitive process the other bidder -- and we put it out through an RFP and we only had two bidders come forward, ZPMC and Bedeschi, which is manufacturers as we understand it in Italy and in China.

But I think there's not many ports in the world that require low-profile cranes. Massachusetts -- Boston Mass Port currently also requires that type of crane. I think they have some on order as well. And it's because a typical A-frame crane that you would see at a seaport gets raised up when the ship is not there. In our case being so close to the airport we went through a multi-year process with the FAA to actually get the flight service increased 25 feet from what it previously was to be able to use those cranes.

The crane that we're actually having constructed is the largest crane in the world ever constructed of that low-profile type, and it has been a number of engineering challenges. And ZPMC has been the one that's been in the market. Our last low-profiles cranes were actually done in the late '90s, and that was done by Samsung in Korea. So that's who came to the table.

MR. HART: My question is for Mr. Crowley. You state that the addition of tariffs to the cost of your members' equipment will have a deleterious impact on maintaining competitive port operations within available financial margins. Could you provide additional details and any evidence you have to support this?

MR. CROWLEY: I'm happy to provide any additional evidence that I have for the record.

The basis answer is that the cost is -- can be seen in a variety of ways. The lack of acquiring a new crane serves to slow down the process which makes that port less competitive. The slowing down of the process and not becoming more modern also means it's less competitive in terms of buying for other infrastructure projects. And so you have a snowball effect as you step out of -- by virtue of becoming priced out of the commodity. But I'll provide more data as available for the record.

MR. HART: Much appreciated.

MR. SECOR: My question is for Mr. Blust. Just to clarify, are you concerned about the imposition of tariffs on used containers or new containers, or both?

MR. BLUST: Both. Our leasing association primarily deals with containers at the end of their service life and the disposition of the containers at that point. And so, that's our -- and that's primarily what's moving in the world today are containers in service that remain in service throughout their life time frame. And then at the end of that, or if there's a casualty -- unanticipated casualty before, they're removed from service.

And when they're removed from service, which normally is from 12 to 16 years, then they're sold or scrapped. And if they can be added -- have added value by our members' customers who are members of the National Portable Storage and other locations around the world, then that's a good thing for the global economy.

MR. SECOR: And --

MR. BLUST: New containers, there's just -- if they're being imported as containers and not as a vehicle for holding cargo, that's a different category, and those are normally treated as just another imported commodity. So if a new container was going to be used in another purpose in the United States and domesticated in the United States, it would enter Customs, enter through Customs as a normal product like ballpoint pens or something of that nature.

International containers that are moving as part of the transportation system to move let's say the ballpoint pens in, then continue through the commerce in the United States on bond as instruments of international traffic. So they really don't enter the commerce of the U.S. while they're actively employed.

MR. SECOR: Okay. And are there any U.S. or non-Chinese intermodal container providers that could provide similar equipment in sufficient volume to meet your members' needs?

MR. BLUST: Not to my knowledge.

MR. SECOR: Thank you.

MR. BLUST: All -- to the best of my knowledge all container -- maritime containers are manufactured in China today.

MR. ADISE: Thanks. Sorry I wasn't introduced at the early part of the panel. Sorry. Russell Adise, U.S. Department of Commerce. I have two questions, both for the port operators and the stevedores and the container lessors on the panel.

The first question, Mr. DePasquale, you state that imposing increased duties on containers would not be practicable or effective in eliminating Chinese unfair acts, policies and practices. Can you explain why this is so, sir?

MR. DEPASQUALE: Well, I mean, generally speaking I -- we can elaborate in our post-rebuttal comments, but generally speaking containers are a very simple product. It's a wood floor with four walls. It's a construction that's been in existence for 40-plus years. It's not -- it's nothing in terms of any kind of intelligence. Containers have been manufactured in many countries in the past. And so quite frankly, there's nothing to it that would speak to those issues, I don't believe.

MR. ADISE: Okay. Thanks very much. And I note Mr. Reinhart's comment about the IT being purchased from the United States was a very interesting comment.

I do have a question, and this -- I recognize that you may not be able to answer this today, so I'd ask that the port and container lessors and stevedores on the panel provide for the written record if possible.

I'd like to zero in a little bit on the potential cost increases for U.S. exporters and importers that I think each one of you has mentioned. I note; I guess it was Mr. Crowley or was it Mr. Reinhart or Mr. DeNike, I think it was, the difficulty of recouping the tariffs should they be imposed.

And my question for the group: what percentage of these tariffs do you anticipate that you would pass on -- you will pass on to your U.S. exporter and importer clients? Recognizing that these are indirect in some cases, but direct in some cases, what percentage of these tariffs do you anticipate you will pass on to your U.S. exporters and importer clients in the form of increased port and container fees? That's the first question.

The second question will be what will be the anticipated cost increase per shipment?

And the third is please provide the cost basis of your estimate. We'd be very interested in that. Thank you.

MR. REINHART: Should I take that --

(Simultaneous speaking.)

MR. ADISE: If you'd like to answer that, yes.

MR. REINHART: Okay. I'll take a stab at it. How's that?

MR. ADISE: Thank you.

MR. REINHART: Firstly, most of the contracts we pay to move the freight. Our contracts are with the ocean carriers, so they pay us. And most of those contracts have long-term, five, ten years. So those contracts are already in place. We anticipated -- when we ordered our new ship-to-shore cranes we did not anticipate a tariff, so right now the two we ordered, we don't have a way to recover that money. So I would have probably not ordered one of those cranes had I known we were going to go back into the tariff arena. So we'll have to eat it.

Now we're a state entity so we're going to have -- it will have an impact on our bonding because if we go to losing money, we will have to find ways to cover our debt burden or have a downgrade on our bonding authority. So it really is a complex issue.

Our contracts are with the carriers. The carriers are contracting with the BCOs, those that import and export the freight. So they're -- they would set their contracts, and they usually set those annually. Did that touch your question, sir?

MR. ADISE: It does. I also understand that there are handling fees that are passed on by the terminals, and I understand that there will be additional costs there. Plus of course you are -- what -- as Mr. Blust has pointed out, there will be some additional tariffs on new containers which will be passed on to lessors through the BCO level as well. So I'd be interested in hearing more.

MR. REINHART: Just as an add, if I may, by doing the increase on tariffs to the cranes to the U.S. ports; I'm talking East Coast, West Coast and Gulf --

MR. ADISE: Yes.

MR. REINHART: -- all we're doing is making it more competitive for the freight to find its way to Canada or to Mexico because they won't have to pay the tariffs on their equipment and they'll be able to put forward a product at a lower price. So we're kind of pushing freight away from our own borders by adding this cost to the equipment that we need to handle the freight.

MR. ADISE: I do appreciate that. And if you could provide whatever cost impact that you can share on U.S. exporters and importers, recognizing what you just said, Mr. Reinhart, I'd very grateful.

Yes, Mr. Blust? I'm sorry.

MR. BLUST: Yes, just a point. The container lessors do not deal directly with beneficial cargo interests on a large scale. Most of their business is leasing containers to the ocean carriers, to whom the BCOs are their customers. So indirectly if the cost of operations went up and that was passed onto the ocean carriers, it would then ripple down to what the ocean carriers would do with their beneficial cargo interests. So I don't know that we could really estimate that and come up with something, but it's not a direct relationship.

MR. ADISE: And I do understand that. And I think the concern is as we take a look at the impacts on the supply chain, it's important to try to figure out what those impacts will be.

MR. DEPASQUALE: May I comment also? I think what's important to note here is that all marine containers are owned primarily by two types of organizations, it's either transportation companies or leasing companies. And unfortunately our members don't typically have to say or have the say on when and where they buy the equipment. It's primarily at the mercy -- since we're using mostly used containers, it's at the mercy of the international companies who own this equipment.

And quite frankly, I think the Committee needs to consider the unintended consequences of the ability for liner companies and leasing companies to divert equipment outside of the United States to other countries where they can avoid this tariff completely or where they can sell the equipment at -- with more demand.

MR. ADISE: Thank you, sir.

MR. DEPASQUALE: Does that make sense?

MR. ADISE: I appreciate it. Thank you very much.

MS. WINTER: This is a question for Mr. DeNike. I hope I'm pronouncing your name correctly.

MR. DENIKE: Yes.

MS. WINTER: You said in your statement here today that the company ZPMC, the Chinese supplier, has like 80 percent market share. And I guess this increase -- or this market share has risen over time where they've been able to gain so much market share. Have you seen your prices go up on these two types of cranes with the fact that they now have a very strong -- almost -- very strong market position?

MR. DENIKE: Thank you. That's a good question. Believe it or not, the prices have not went up. In fact, they've been reduced over the last several years. ZPMC, again, if you saw the company in Shanghai, you could see why they do 80 percent. If we don't buy them here in the U.S., they're just going to -- they have an 18-month waiting list. So they sell to everybody.

And as a result they're also -- they've been a decent company to work with. They look at their cost. And our cranes that we're buying today are even a little less costly than they were five or six years ago and they're bigger and more powerful.

MR. STEPHENS: This is Andrew Stephens from USDA and I have a question for Mr. Reinhart.

You mentioned was it two or three companies that responded to your recent request for proposal. Where they all Chinese companies?

MR. REINHART: One was a European company that built the super structure. The steel came out of China anyway. ZPMC was another. And then a third was really not a very qualified company. So we really had two.

MR. STEPHENS: Okay. And can you explain in your opinion why do you think that crane structures themselves cannot be fabricated in the U.S. or other countries other than China?

MR. REINHART: They haven't been manufactured here for over 30 years, so the market just never found a reason to build them here. They left. For a while they were built in Europe. Then they left Europe and ended up in China. So it's just that we don't have the skill sets here and we don't have the people interested in that business.

MR. STEPHENS: Okay. Thank you.

MS. VON SPIEGELFELD: Good afternoon. This question is for Ms. Cleary.

I just have a number of questions trying to get more detail. You mentioned that some of your members manufacture home appliances in the United States. Do all of the products you reference have some U.S. production?

MS. CLEARY: No, several of our members do not produce in the U.S. as I mentioned at the beginning.

MS. VON SPIEGELFELD: Okay. Can you provide more detail as to the international market for each type of product? Or -- I mean, I guess that's a lot of information.

(Laughter.)

MS. VON SPIEGELFELD: So if you want to send also a follow -- if we have --

(Simultaneous speaking.)

MS. CLEARY: If we have any further detail, I'd be glad to provide it.

MS. VON SPIEGELFELD: And what are the other major competitors and what are the price points of competition? Again, if that's a lot -- if that's too much information for now, you can send us a follow-up comment on that.

MS. CLEARY: Okay. Sure. So we represent the breadth of appliance manufacturers in the United States, so I think those price points will vary. In my written testimony and in our written comments we do provide some detail on what the average price points are for the various products that are impacted, so hopefully that's enough. If not, I'd be glad to see if there's other detail that we can provide, although of course as a trade association that's also sometimes information we're not looking at.

MR. BURCH: Mr. Chairman, we release this panel with our thanks.

And would the members in Panel 6 make their way to the front?

(Pause.)

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

Mr. Chairman, I would like to note all the witnesses for panel 6 have been seated. And our first panel witness for this panel will be Patrick Fox of VF Corporation.

Mr. Fox, you have five minutes.

MR. FOX: Thank you. My name is Patrick Fox. I'm Senior Director of Customs and Trade Strategy at VF Corporation. I would like to thank the Section 301 Committee for the opportunity to testify today.

VF is a global leader in branded lifestyle apparel, footwear, and accessories for the diverse portfolio of 20 brands, including Vans, The North Face, Timberland, Jansport, and Dickies.

I'm here today to testify against the inclusion of many footwear and apparel categories in a proposed List 4 under Section 301. Simply put, tariffs cause economic harm to the U.S.

Footwear and apparel goods are already subject to the highest U.S. tariffs, behind only tobacco and peanut products. Children's basic canvas sneakers can have a duty rate as high as 67.5 percent. Certain knit garments can have duty rates as high as 32 percent.

Duties are borne by the U.S. importer and passed along the sales chain, resulting in the erosion of purchasing power of U.S. consumers. Incremental duties crowd out U.S. investment that companies could make in high-paying U.S. jobs, IT, and other business-expanding investments. Duties reduce the competitiveness of U.S. companies that have evolved their supply chains to deliver high-quality products to U.S. customers at competitive prices.

The apparel industry has had exceptionally-high tariffs for generations, and we have lost lower-paying manufacturing jobs steadily during that time. Some of those jobs have gone overseas and some have gone into other sectors in the economy. However, global supply chains have allowed us to maximize better-paying jobs to our competitive advantage, jobs in design, IT, logistics, and compliance. Higher tariffs will not bring those jobs back.

We, as a country, don't have the capacity or, frankly, the desire to create the low-paying manufacturing jobs you would need to replicate China's capacity. What we do have as a country is the desire, capability, and capacity to build more higher-paying jobs and value chains that emphasize the skills I mentioned above and which deliver real value to the final product.

Supply chains are global value chains. Today's supply chains are integrated around the world, and the "made in" label on any shoe or garment fails to consider the value of U.S. designers, engineerings, artists, logisticians, accountants, and many other professionals who endeavor every day to bring products to market profitably. The result is that supply chains are highly complex and incredibly important to supporting jobs in the U.S.

Imposing tariffs to punish the originating country also damages U.S. supply chains and puts these American jobs at risk. While we recognize the issues with China's IP forged technology transfer practices, we ask ourselves if the cost of tariffs to U.S. companies and consumers causes more harm than the problem they are trying to solve.

VF products are produced at six VF-operated factory locations in three countries, employing over 12,000 associates, and approximately 700 independent contractor manufacturing facilities in approximately 50 countries throughout the world. We also operate 40 distribution centers and more than 1500 retail stores.

Our ability to manage the supply chain helps support the jobs of approximately 31,000 VF associates in the United States. Tariffs on HTS Chapter 61, 62, and 64 will have negative impacts on the flexibility of VF's sourcing operations and inhibit our ability to manage costs, while none of these products are referenced in the Made in China 2025 industrial policy.

VF builds supply chains that uphold important worker safety, labor, and environmental standards. To diversify/mitigate rising costs and take advantage of GSP for travel goods over the past several years, VF has reduced its production in China to other countries and regions, while ensuring compliant supply chains are established.

VF is committed to safety and sustainability in its supply chain, and we audit the activities of each contractor producing VF product everywhere across the globe. This investment into capacity-building in other countries cannot be rushed and cannot be accomplished overnight. We simply cannot shift all production from China to facilities in other regions and countries that do not have the capacity/capability to manufacture quality products.

VF welcomes the pursuit of constructive policies. Rather than putting in place tariffs that are harmful to U.S. companies, we believe the Administration should embrace trade policies that further encourage the trend of apparel and footwear sectors shifting sourcing out of China. For example, the Administration could work with Congress to expand the U.S. GSP Program to include apparel and footwear.

In addition to the potential disruptions to our global supply chain, VF is concerned about the rising trade tensions that could impede our sales of VF brands in China by attracting Chinese retaliation in the form of non-tariff barriers or decreased perceptions by Chinese consumers.

Asian has been the fastest-growing market for VF in the last decade. Expanding opportunities in the region continues to be a key priority for VF. In fiscal 2019, our revenue increased about 20 percent there, and it represented about 6 percent of our total revenue globally.

In summary, tariffs impact VF's operations and have the potential to limit access to one of our most important markets. We strongly support the Administration's goals to improve intellectual property protection. It's our belief that tariffs on companies, U.S. companies, are not the way to achieve that goal.

Thank you very much.

MR. BURCH: Thank you, Mr. Fox.

Our next panel witness will be Karen

Giberson of Patricia Nash Designs.

Ms. Giberson, you have five minutes.

MS. GIBERSON: Good afternoon.

I'm Karen Giberson. I'm the President and the CEO of the Accessories Council, which is a not-for-profit trade association based in New York. We represent over 320 companies in the fashion accessories industry. I'm here this afternoon to read testify on behalf of Patricia Nash, one of our vibrant, woman-owned brands.

Patricia Nash is one of the fastest-growing brands in our portfolio. They have a loyal fan base, and their customer loves their vintage-inspired products. They're based in Nashville -- or, rather, in Knoxville, Tennessee, and were founded in 2010. They're in the wholesale and retail business, making products from fashion accessories, handbags, jewelry, and footwear. They purchase leather and materials from all over the world and transport those materials to their factory partners in China, who produce the finished goods for them. They, then, import them to the U.S. and distribute to their retail partners and direct customers.

The majority of the business is wholesale sales to Dillard's, Macy's, HSN, QVC, Von Maur, Belk, Marmax, and Zappos. They employ approximately 40 full-time employees and have 110 subcontractors who are located across the United States. Their full-time staff includes positions in sales, merchandising, customer service, design, ecommerce, production, photography, marketing, administration, and logistics.

They source from China not only for the lower cost, but also because they have longstanding partnerships with their factories, who have developed specific skills in working with leather and have exquisite handcraftsmanship to make their very specific designs. The factories have invested in infrastructure to be compliant to serve their larger retailers and meet their volume needs.

Even before starting the Patricia Nash brand, they worked with these same factories for years to create products for other brands. It would take years for them to fully shift operations and train another partner with their workmanship standards. And even if they could find alternative and affordable suppliers outside of China, it would be difficult to switch. Unfortunately, they have found that other nearby countries with similar expertise do not have the capacity to handle their business.

Sourcing in the United States or other countries would make their goods cost-prohibitive for the majority of U.S. women. There are very few brands in the United States for leather bags and other products that offer the value and craftsmanship of Patricia Nash.

These additional duties and costs will result in higher price points in the long term and reduce demand and lower sales of their leather products. In the short term, their company has been forced to absorb price increases, which financially impact the company and its employees. Advertising on social platform and editorial will decrease, as many women cannot afford to purchase their items, causing overall reduction in sales, both at retail and in wholesale companies.

The majority of the goods they sell are already dutiable at a very high rate. Many of them were impacted on List 3, including luggage and handbags, which are, indeed, some of the highest tariff rates of any products imported into the United States.

They are being disproportionately harmed by these tariffs and unable to grow and expand their classifications that their competitors currently sell because they have less profit to reinvest in the company. Lower expected profits will result in lower pay for their staff, potential layoffs, and/or stunted growth of the company.

They would greatly appreciate a reconsideration of these increased tariffs or any other proposed against Chinese imported fashion items.

Thank you.

MR. BURCH: Thank you, Ms. Giberson.

Our next panel witness will be Michael Jeppesen, Wolverine Worldwide.

Mr. Jeppesen, you have five minutes.

MR. JEPPESEN: Thank you. Thank you, Mr. Chair and Members of the Council here.

MR. BURCH: Will you please pull your microphone up?

MR. JEPPESEN: Thank you, Mr. Chair and Members of the Council.

My name is Mike Jeppesen. I'm the President of Global Operations for Wolverine Worldwide. We're based out in central Michigan. We have been in business for more than 130 years. Started out as a bootmaker in Rockford, Michigan, in 1883.

We have grown into one of the largest performance and lifestyle companies in the world. We are selling approximately 100 million pairs of footwear around the world across our 12 brands that we own: Bates, Cat Footwear, Chaco, Harley-

Davidson Footwear, Hush Puppies, HYTEST, Keds, Merrell, Saucony, Sperry, Stride Rite, and the Wolverine brands. Each year, we reach somewhere around 200 countries in the world where we are servicing customers.

This proposed tariffs action under consideration today would negatively impact our company, U.S. retail partners, and consumers. Footwear already faces an incredible high tariff burden. The tariffs we pay in average is about 11.3 percent. Our industry a year pays about $3 billion in tariffs to the U.S. Government's import of footwear around the world.

Tariffs are not new to our industry. For Wolverine, our athletic shoes are currently taxed at a rate of around 20 percent. Our hiking boots are 17.5 percent, and our children's shoes, ironically enough, carry the highest rates, ranging from 48 percent to 67.5 percent of the landed cost price.

Adding a new 25 percent tariff on top of these already very high tariffs would be substantially increasing the U.S. footwear companies. It would mean higher costs for our consumers and potentially job loss across the industry.

It's extremely difficult for companies like us to shift production out of China to avoid harm from the tariffs. It takes years of planning to establish new facilities and do the capital investments. Our company has shifted production out of China over the last six years, but we still source a large proportion of our product from China today. Further transition out of China would be made even more challenging by the fact that most of U.S. footwear companies are now trying to move into a limited number of footwear sourcing countries at the same, as a result of this tariff.

We are concerned that this action will raise footwear tariffs, and therefore, have an immediate and lasting effect on Wolverine. There are very few companies in the U.S. that service directly a market segment as Wolverine does.

Whether it is the family buying our children's brands for back-to-school activities, the factory workers that rely on our work boots or safety footwear, or the individuals that enjoy running or hiking, the proposed tariffs touch each of these areas, covering every type of footwear and activity in the U.S. Increasing duties on the submitted Harmonized Tariff Schedule that represents Wolverine's top 10 HTS lines would have a direct impact on our company and our consumers.

In closing, I just want to make the observation that the threat of a tariff is the same as implementing of a tariff, due to the long lead time it takes for our supply chain to adjust.

Thank you again for the opportunity to testify on this important issue, and I welcome the opportunity to answer any question you may have.

MR. BURCH: Thank you, Mr. Jeppesen.

Our next panel witness will be Rick

Helfenbein with American Apparel and Footwear Association.

Mr. Helfenbein, you have five minutes.

MR. HELFENBEIN: Thank you.

I represent the American Apparel and Footwear Association, the national trade association for the apparel and footwear industry, its suppliers, and our consumer partners.

Thank you for the opportunity to testify.

Our team represents more than 300 companies and a thousand world-famous brands. Our industry employs nearly 4 million U.S. workers and contributes more than $400 billion in annual U.S. retail sales.

And we want to be clear. We support your efforts to seek resolutions to our numerous underlying disputes with China. However, we want to be sure that the focus is on the real problems and that we aren't involved as international pawns in a chess game that endangers our underlying trading partnerships and our nation's economy. Plus, tariffs work against significant progress that we have made in IPR by potentially adding to the counterfeit problem and slowing any IPR progress that we've achieved within the Chinese court system.

So, for today, let's focus on two key points for our industry. No. 1, we are deeply disturbed that the Administration proposes to include apparel, footwear, and home textiles as items to be additionally tariffed. We are already heavily tariffed, and we are asking, as clear as we can ask, that these items be removed immediately.

No. 2, we actively promote Made in USA. And we are dumbfounded that the new tariff list includes several categories of imported textile shoe materials equipment and machinery that our members need to make product in the USA. We are also asking that these items be removed immediately.

Now, in terms of point No. 1, please,

please don't tax the U.S. consumer. As I mentioned, we are deeply concerned that the Administration proposes to include apparel and home textiles. That's in Chapter 61 and 64. You will see in my notes Attachment No. A.

Our products already carry a heavy tariff. Prior to the 301, our industry represented 6 percent of all imports. Yet -- yet -- we already paid 51 percent of all duties collected. Our products do not intersect with the underlying issues that the Administration is trying to address with regards to forged technology transfer and IP theft. Any tariff on these consumer goods that are used by every American will end up hurting U.S. consumers in addition to the companies and workers who support them. Prices will go up; sales will go down; jobs will be lost.

So, consider the following, if you will:

The United States already imposes a significant border tax on our products. The average duty rate for all U.S. imports is 1.4 percent. However, our average rates for our products range from 10.8 to 14.2 percent. Some tariffs are really, really high. They go to 28 percent, 32 percent, 67 percent. And we ask you, as a group, aren't we burdened enough? Please do not add to that burden.

And China is the top supplier of these clothing items to the United States by far. In 2018, China was 42 percent of all apparel; 69 percent of all footwear imported into the United States. All other countries combined -- all other countries combined -- are ill-equipped to handle the sheer volume that we would be required to move out of China.

This will result in significant cost increase to the American consumer and, what's worse, a decrease in the product integrity, which causes concern especially -- especially -- with product safety issues.

Imposing tariffs will raise prices for every American. The average consumer buys eight pairs of shoes and 68 garments. Disrupting the supply chain will affect it. People will have to pay more or just simply buy less. At a 25 percent duty rate, we estimate a family of four will pay at least $500 more.

And the other thing of key importance, don't tax the U.S. manufacturer. We actively promote Made in USA. And yet, you've included circular knitting machines for hosiery, looming machines, embroidery machines, knitting machines. All these things are used to make textile apparel and footwear in the United States. And a 25 percent tariff on that would be unconscionable. And we get these machines from China, and if they're not the No. 1 supplier, they're in the top five.

So, in summary, you've heard us grouse about several issues that affect our members and our industry. We are pleased that the Administration is talking to China, but, you know, you've got to accelerate these issues because, as another panelist just said, even the mere threat of them is a disruption to this supply chain. So, more tariffs, quite frankly, and as clearly as I can say it, are not a cure for what ails us. Please, please don't hurt us. Don't hurt the American consumer. Don't hurt our economy.

And thank you for taking the time to listen.

MR. BURCH: Thank you, Mr. Helfenbein.

Our next panel witness will be Monica Gorman with New Balance Athletics, Inc.

Ms. Gorman, you have five minutes.

MS. GORMAN: Thank you, and good afternoon. We appreciate the opportunity to participate today and to present the views of New Balance Athletics.

My name is Dr. Monica Gorman, and I'm the Vice President of New Balance's Responsible Leadership and Global Compliance Divisions.

New Balance is globally headquartered in Boston, Massachusetts. Together with our affiliates, we employ approximately 8,000 global associates, with U.S. offices in Boston and Lawrence, Massachusetts; Warren, Michigan, and St. Louis, Missouri.

New Balance is the only major athletic footwear company to maintain manufacturing in the United States for more than 75 years. We own five footwear manufacturing facilities in New England, with more 1600 manufacturing associates. We recently purchased a sixth facility in Methuen, Massachusetts, and we will open an advanced manufacturing operation there in 2020. Our affiliate, Warrior Sports, owns an equipment manufacturing facility in Sterling Heights, Michigan. We are especially proud of our Made premium footwear collection, which contains domestic value of 70 percent or greater.

New Balance supports the Administration's efforts to achieve fair and balanced trade with China and improve the protection of intellectual property. Indeed, New Balance is actively engaged in IP protection in China. In August 2017, we secured a landmark legal victory in the Chinese courts against a major Chinese counterfeiter named New Boom. New Balance received the highest intellectual property damages ever awarded to a Western company inside China.

New Balance respectfully urges USTR to remove from its tariff target list the specific components that are used in footwear manufacturing in the United States. As I discuss here, tariffs on these products will cause disproportionate harm to domestic manufacturing interests and will not be effective to obtain the elimination of Chinese acts, policies, and practices found to be in violation of Section 301.

New Balance's five U.S. manufacturing facilities in New England are supported by a global supply chain that has been planned and built over decades. Today, in order to maintain the levels of production needed to keep our U.S. factories full and competitive, we must use some imported components from China.

For example, American-supplied leather is stitched together with imported soles and inserts to produce millions of pairs of American-made shoes annually. We also import raw materials to make some outsoles in Boston.

We have undertaken significant effort to redirect sourcing to non-Chinese suppliers wherever possible, but these supply chains take a minimum of 18 months to redirect and in some cases cannot be fully recreated outside of China.

China's own focus on advanced manufacturing has shifted footwear production outside of China, as our industry is not relevant to the goals of Made in China 2025. At the same time, uncertainty surrounding trade with alternative sourcing countries, such as Mexico, has had a chilling effect on investment opportunities to develop capable and competitive non-Chinese sources.

We choose to make shoes in the United States because it is the right thing to do, even though it is less profitable. The existing duty rates on imported components are low, ranging from zero to 5.3 percent. Based on our preliminary analysis of a 25 percent punitive tariff, we project millions in additional costs for our five New England factories. These increased costs would upend the fragile financial model for domestic manufacturing that, against the mainstream of our industry, we have been committed to sustaining.

I want to stress that we use imported components from China to sustain the scale of our U.S. footwear manufacturing that keeps 1600 people fully employed. We work with U.S. suppliers wherever possible, but the reality is that the U.S. supply chain is simply too small and too limited in scale to support the current depth and breadth of our U.S. manufacturing.

It took us years to nurture a domestic supply chain strong enough to create our successful, very compliant, military athletic shoe, a supply chain that includes 15 American companies, but it can only support a small subset of the finished shoes that we produce domestically.

Our domestic manufacturing business has already been hit by retaliatory tariffs that China has placed on American footwear exports. China is one of our top five global export markets for U.S.-made footwear.

We support the Administration's goal of leveling the playing field for American trade with China. However, our unique business model and increasing product demand require us to work with manufacturing partners around the world, including China. The proposed Tranche 4 tariffs on footwear components will risk the viability of our Made in USA footwear business, our company's overall financial health, and thus, our ability to maintain and reinvest in the American factories that we have worked so hard to sustain for the past 75 years.

Thank you again for this opportunity to present our views on this matter of serious concern to our company. I look forward to your questions.

MR. BURCH: Thank you, Ms. Gorman.

Our last and final panel witness will be Sean Georges with Shoe Carnival.

Mr. Georges, you have five minutes.

MR. GEORGES: Thank you. Thank you. We're honored and humbled to be here.

I am Sean Georges, Senior Vice President of Human Resources and Corporate Counsel for Show Carnival. You may not be aware of that retailer. We're a 40-year-old company based in Evansville, Indiana. Last year, over $1 billion in annual sales, with nearly 400 stores in 35 states, and we've got a few in Puerto Rico as well.

We employ now over 5,000 human beings in our stores across the range of these 400 stores in 35 states. We are headquartered, and our central distribution center is, in Evansville, Indiana.

We focus, our laser focus is on families in America. We are working towards being the No. 1 retailer to fill that niche, but we have a strong focus on all family members in kind of the heartland of America, if you will.

We have a completely unique, a value-based retail concept, and we would invite you to experience it at some point, both in stores and online.

Our customers are loyal. We build relationships with our customers in the communities in which we operate, and we have built that strength of those relationships.

Right now, we are in the middle of a 10-year strategic development of this company, a growth path to double the size of Shoe Carnival, so that we can reach West Coast to East Coast throughout the United States. That strategy is being developed and includes -- there were comments earlier with another panel -- includes significant infrastructure investments, a great deal of IT investments in systems and in our traffic management systems, and all of the supporting and infrastructure systems that help you to build a company in our modern world.

We would like to respectfully object to, and we would like to enter our opposition to, the current proposal. We've talk numbers here. Up to 25 percent in additional tariffs in the footwear marketplace, and it's already been stated, the range of the headwinds that exist right now. Footwear is, because of an historical anomaly meant to protect an industry in which we built and developed shoes -- we're pleased to have New Balance with us -- but that has resulted in this situation where we are now considering adding 25 percent on top of what ranges between 12 percent at an average up to 67 percent for a pair of shoes. Just remarkable.

We know that this will happen, just like gravity. There will be decisions made all the way along the whole spectrum of this from manufacturers to the end impact with the customer when they come in the store or when they purchase something online. There will be a decision as to the sharing of costs, and we know that there will be an adverse impact on our customer.

And our customers are moderate, hard-working Americans that live on a budget. We think this is going to hurt the very people that the President, we think, has committed to when he stated, "We want to make America great again." We think that is something that needs to be thought through.

We've talked here today, and others with much more understanding than I have talked, about how capital-intensive this industry is. We know that these decisions will not be able to be made quickly, as far as how we respond and react.

We would just like to remind you of how price-sensitive our customers are and most Americans are. When we see a delay in tax refunds, we see an impact on our sales. When we see job losses in local communities, we see an impact. Anytime you impact the take-home pay of our consumer, we have an impact on their sales. Please consider the people who are really not represented here in this room, not the retailers, not the manufacturers, but our consumers.

We thank you very much. I'd be honored to answer any questions. Thank you.

MR. BURCH: Thank you, Mr. Georges.

Mr. Chairman, this concludes this panel of witnesses.

MR. DEVINE: This is Andrew Devine with the U.S. Department of Agriculture. I have a few questions for Mr. Fox.

First, you mentioned that you have six VF-operated factories in three countries. So, presumably, at least two of those factories are outside of China, is that correct?

MR. FOX: All three are outside of China. In fact, they're in the Western Hemisphere.

MR. BURCH: Can you please pull your mic a little closer?

MR. FOX: Sure.

MR. BURCH: And repeat what you just said.

MR. FOX: All three of those factories

are in the Western Hemisphere, two in Mexico and one in Honduras.

MR. DEVINE: Got it. So, what's the capacity to shift production outside of China to those existing factories in the Western Hemisphere?

MR. FOX: We like to operate our factories at full capacity. So, the availability of capacity is virtually nil to shift into those facilities.

MR. DEVINE: Okay. Thank you.

You also noted in your testimony that you're working to establish supply chains outside of China that are compliant with worker safety and environmental standards. Could you elaborate a little more on the processes and costs associated with that kind of a shift, and how have you minimized those costs in China?

MR. FOX: Sure, sure. So, as our sourcing departments go and seek out new manufacturers who have capacity and capability to manufacture our products, before we can ever sign a purchase order, issue a purchase order to those suppliers, they have to go through rigorous factory audits to ensure there's worker safety in the facilities; there is product safety requirements that are involved related to things like CPSC regulations, to ensure that those factories can source intermediary raw materials that go into the products. The lead time for setting all of that up and getting authorization can take many months.

MR. STETSON: My name is Rich Stetson. I'm with the Office of Textiles and Apparel at the U.S. Department of Commerce.

And I have a question for Ms. Giberson. In your summary testimony, it's noted that Patricia Nash Designs company has already made some adjustments to operate under the increased 301 tariffs. Can you describe what those adjustments are and how you might adjust to tariff increases for the products now being proposed for additional tariffs?

MS. GIBERSON: Thank you.

Handbags and luggage were impacted in List 3. And what they have done with their existing reorderable styles is they've had to absorb the extra costs. So, they're not making as much profit on those items. But any new styles that they're introducing into the market, they have to pass the costs along. So, they're ultimately charging more for the products to balance it out.

MR. SECOR: My question is for Mr. Jeppesen from Wolverine.

You indicated that Wolverine has already shifted some production out of China. I wonder if you could elaborate on the reasons why you have done that.

MR. JEPPESEN: Yes. I wish I could take credit for foresight seven years ago when we started this process that we would be in the situation we are today, but that's not the case. We started moving out of China back in 2012, simply because of shortage of labor and increased cost in China. Over the last six-seven years, we moved about half of our production out of China, mainly into countries like Vietnam, Cambodia, Bangladesh, India, and Indonesia. But, by far, the majority of the production is moving to Vietnam.

MR. SECOR: And can you explain whether you could move more of your production out of China and what sort of lead time would be involved in that?

MR. JEPPESEN: Yes, sure. There's a natural limitation to how much we can move out of China, simply because of the size of these countries we are moving into. Vietnam has about 7 or 8 percent of the total population that China has. There are 1.4 billion people in China and about 100 million in Vietnam. And we are getting to the point as an industry right now that we are maximizing the available capacity and labor that is involved in the shoemaking process in Vietnam today.

Footwear is still a very, very labor-intensive production. There's about 120 people involved in making one pair of shoes. It takes a lot of people to run a factory. These facilities are often 3-, 4-, 5-, 10-, or 15-thousand-people facilities. So, when we moved into Vietnam initially, we would start out in Ho Chi Minh, move up to Hanoi, down to Mai Phuong. Now we are kind of crossing over the border to Cambodia, just in order to find labor that can make the shoes for us.

I think that there is a limitation to how much we, as an industry, can move into Vietnam from China today, and I think we are getting very close to maxing that out.

MR. SECOR: Thank you very much.

MR. HART: My question is for Mr. Helfenbein. As I understand it, AAFA has long had concerns about IPR infringement and counterfeiting of goods by Chinese producers. What measures do you recommend the U.S. Government take to address these longstanding concerns, if not through the current 301 mechanism?

MR. HELFENBEIN: Well, actually, the 301 makes it worse, not better, because you'll see a proliferation of counterfeiting in America, people trying to beat the price increase illegally, and we're not real happy about that.

You know, we've had some luck in China on the ground in the courts. We know for a fact locally, because we've been there and we've asked, that the courts are being stricter in China because they actually don't want the counterfeiting, either.

But, you know, it's a slug fest and it's going to take years, and the U.S. Government can get involved in a lot of ways, including one of our bigger problems today is what comes in by U.S. mail. And if we had certificates of authenticity for products that came into the U.S., it would solve a lot of our problems.

In the apparel industry, if you see someone wearing a red shirt, you go out and buy a red shirt. That's kind of the way it works. We don't really have this transfer-of-technology problem. So, we don't want to confuse a 301, which a real transfer of technology, versus a counterfeit, which is a knockoff of an existing brand.

MR. HART: Okay. Beyond counterfeiting, are there any obstacles or key costs that you're concerned with in terms of moving production outside of China?

MR. HELFENBEIN: Well, as I mentioned earlier, China has a 42 percent market share. And you could say, you know, as a group, how could you be so stupid to have so much in China? And the truth of the matter is we've been trying to get out of China for years, but they just seem to do it better than anybody else. And there are limited places to where we can go. The second largest is Vietnam, and you guys all know these numbers very well because these are textile numbers, which is around a 13-14 percent share of market. So, that's 55 percent between two countries. Then, you add the next three, which is India, Indonesia, Bangladesh, that's 70 percent of the U.S. market.

So, the question which we blow back is, where are we going to go? We don't have a place to go. We're stuck. And therefore, if we get hit with these tariffs, it's going to hurt really bad.

MR. HART: One more follow-up. In your testimony, you also note concern about tariffs on equipment on HTS Chapter 84.

MR. HELFENBEIN: Yes.

MR. HART: Would you mind expanding on the types of equipment and the members that you have that would be affected by this?

MR. HELFENBEIN: Yes, absolutely. For example, we make socks in America. It's not terribly labor-intensive. You buy the equipment. And your options of buying the equipment, you can buy from China or you can buy from Italy. And a lot of people buy from China because they are lower-cost. So they make socks in America.

And then, some of the textile that we make in America and the footwear that we make in

America, you heard from Monica earlier, you're taxing the equipment that we use to make products in America. And you had actually removed this. They were in the First Tranche and you guys pulled them off. And now, in this Tranche, you put them back again. So, we're asking you to please remove them.

Thank you.

MR. HART: Thank you as well.

MR. JACKSON: Hi. I'm Bill Jackson from the Office of Textiles at the Office of the U.S. Trade Representative.

I have a follow-up question for Mr. Helfenbein. I think that you've been quoted publicly as saying that the industry has been moving out of China over recent years. Could you comment, both apparel and footwear, could you comment on the reasons behind that and where you see that going, even independent of the 301 process that we're discussing today?

MR. HELFENBEIN: Yes. Long about six years ago, prices in China started accelerating very rapidly, prices of labor. And everybody was trying to leave. And as they would try to leave, China would raise their productivity. That's units per operator per day. And they managed to remain competitive.

We just couldn't find enough places to go to get out. And now, if we get hit with a 25 percent, and if we're clearly shown the exit door, quite frankly, like I said earlier, we don't have a place to go. So, that 25 percent is just going to whack us right on the head.

And I wish we could say we were so brilliant for those of us who did make every effort to move out six, seven, eight years ago. But it's tough and it's really hard to find good places to work. And one of the things that Americans like today is high quality in their products. They like high quality. They like low price. And if you can't compete in those arenas, this stuff just doesn't sell.

So, we're real cautious about how we do it. We watch the product. We watch the environment. We watch the sustainability. And our choices are really, really limited. So, if we could move more product out of China, we would, but we haven't been able to. And we have tried.

MR. JACKSON: Thank you.

I also have a question for Ms. Gorman. You noted in your testimony that New Balance has developed a very compliant shoe, very compliant footwear, which I think, presumably, means that all or almost all of the components are made in the United States. Could you elaborate a little bit on the process by which you identified and contracted with, or even developed, the manufacturers in the United States in order to provide those inputs to your U.S.-made footwear?

MS. GORMAN: Sure. I think as I said in my testimony, this was a multiyear process for us. So, it's something that we began a good five, six, seven years ago, and in many cases worked hand-in-hand with -- we knew the components that we needed, the materials that we needed -- we worked hand-in-hand with companies that would be able to provide those.

But the reality is that, when the rest of our industry left and went offshore, a lot of that supply chain went with it. So, in many cases, we were starting from scratch, and we've been able to build it for that very shoe, but it's still relatively limited supply and it's taken us a long time because the equipment, the capabilities, the speed to market has been gone for a while. And so, we're having to build it from scratch.

MR. JACKSON: And just to follow up on that, and for those who aren't aware of the Berry Amendment compliance concerns, sales to the Department of Defense for the U.S. military. So, for those Berry-compliant shoes, are any of those available for public sale or are those strictly for purchase by the Department of Defense?

MS. GORMAN: You know, I will have to get back to you on that. I'm entirely sure today. I'll get back to you on that.

MS. WINTER: This is a question for Mr. Georges from Shoe Carnival. Thank you for your testimony.

MR. GEORGES: Yes, ma'am.

MS. WINTER: You said that you're in the process of making very significant investments to grow your business. Can you say what percentage of your supply currently comes from China?

MR. GEORGES: Yes. We discussed this the other day. It looks as though it's on the order of 75 percent is China-based. Probably the biggest portion of that has to do in the brown shoe area, what we call rather it, than athletic, sort of breaking the world down. So, women's footwear and brown shoe, men's footwear, comes from China, yes, ma'am.

MS. WINTER: And I think -- I mean, I haven't looked at these numbers right before this meeting, but I'm part of the team that looks at Chinese counterfeiting and piracy and things like that -- I believe that China accounts for around, roughly, that number percentagewise of U.S. counterfeits, not necessarily in the footwear and apparel industries. But can you comment on what your program is to, since a large portion of your supply is from China, what is your program to address possible counterfeits from China that come into the United States? And what is your company's policy around ensuring that you're not selling counterfeits to the United States?

MR. GEORGES: Yes, ma'am. We work closely -- so, we are a retailer. We've got a combination of first cost and, then, landed footwear. We work closely with the manufacturers, with the vendors who have, in our view -- certainly, we would support them in identifying and fighting and scrapping with respect to ensuring we've got a clean supply chain and we don't have these kinds of products coming forward. But, generally, that's left in the hands of the manufacturer. So, we don't get involved tremendously beyond identifying and helping to lay out the supply chain, as far as those kinds of situations. So, I'd probably have to leave it to maybe Mike Jeppesen to help answer that question in greater detail.

I just threw you a ball, Mike. I don't know if that's all right.

MR. JEPPESEN: Yes, I really don't know. I mean, we don't have many retail stores ourselves. I'm not sure exactly how much import there is of counterfeiting to the U.S. today. I know it's an issue for the industry, but I don't have any statistics to support it.

MS. WINTER: The last I looked, the percentage is much higher like from China than from some of the other countries that Mr. Helfenbein mentioned. In other words, a large percentage of the counterfeits come from China. So, it's interesting to me to note that other countries are making that their objective as much as China still is. And this is, you know, I've been looking at this for 15 years and not seeing the counterfeit numbers go down significantly.

MR. JEPPESEN: Yes, I mean, 70 percent

of the footwear comes from China. So, that's probably where the counterfeit comes from as well.

MS. WINTER: But the other countries that could possibly make or are already making these footwear materials or footwear, their counterfeit numbers are, quote/unquote, "better". And that's actually something that I think is important to recognize in this 301 context.

MR. JEPPESEN: Absolutely.

MS. WINTER: Thank you.

CHAIR BUSIS: I think we may release this panel. Thank you.

MR. BURCH: We release this panel with our thanks.

And would the Panel 7 witnesses make their way forward?

Madam Chair, I'd like to note that all witnesses for Panel 7 have been seated.

And our first panel witness for this panel will be Charles Gaenslen of Loftex Home.

Mr. Gaenslen, you have five minutes.

CHAIR GRIMBALL: Before you begin, Mr. Gaenslen, I should introduce myself since I am the new addition to this panel. For the record, Megan Grimball from the Office of General Counsel at USTR.

Please proceed.

MR. GAENSLEN: Great. Thank you for inviting me.

I'm Charles Gaenslen, CEO of Loftex Home. Loftex Home is the wholly-owned subsidiary of Loftex Industries, based on China. We're based in the Shandong Province of China. We're one of the four largest vertically-integrated towel manufacturers in the world, primarily making bath towels and beach towels, worldwide, but the U.S. is our largest market. And we supply most of the major mass-market retailers in the U.S. So, our largest customers would be Walmart, Target, Kohl's, Costco, and others.

We were established in 1980, and of the four largest vertically-integrated towel manufacturers in the world, we're unique in that we're privately-held. The rest of our competition are public companies.

We entered the U.S. market in 2004 and have made substantial investments in our U.S. presence. We formed a U.S. team, which is now composed of about 40 people, of which 13 are in our New York office and handle all phases of design, distribution, account executive, and sales, and another 25-26 people in our warehouse in New Jersey.

We formed our warehouse in New Jersey. We bought the land. We built the building. And total investments, total foreign, total direct investment in the U.S. market in terms of New York office team and New Jersey warehouse total about $28 million. We employ a total of about 40 people, a total payroll of about $2.9 million.

One of the key questions that you're certainly asking us and we're prepared to answer is, as an alternative to Loftex in China, and China production as a whole in the towel world, Loftex has about 12 percent of the U.S. market in bath towels. China as a whole has about 40 percent, a little bit more than 40 percent.

The majority of our competition doesn't lie in the U.S. U.S. towel manufacturing left the country in the 1990s and early 2000s. That manufacturing went to, besides China, went to India, Pakistan, Turkey, and a few other countries. But our primary competition lies in India and Pakistan and Turkey at present. There has been some reinvestment in the U.S. manufacturing capacity for towels, but it represents probably not more than 4 percent of the total U.S. market needs at present.

The cost for Loftex to replace our fixed investment, because it is a capital-intensive business, would be about $400 million, and I've included this in our confidential calculations as to how we arrive at this. But if we were to make that kind of a move to more our entire production, vertically-integrated production, from China to any other country, whether it be U.S. or otherwise, would be about

$400 million. To replace the entire China capacity, it would be an investment of about $1.5 billion.

But it's not just the money. You know, the money is important because that would have a cost impact to the consumer of about 13 percent. And the calculations are included in our confidential submission. But it's more than that. And that 13 percent is a direct hit on the consumer, of course. But it would take the time. It's really not an option for us to do something like that. It is the money, but it's also the time. It would take us two, three, four years to do that.

And even when it's all said and done, the processes and the quality controls we've built up over the years are not something that are created overnight anywhere. And we pride ourselves in having the highest level of quality. Our sustainability practices are top in the industry. We were the first home textiles manufacturer in the world to achieve a Made in

Green certification.

And we've made significant investments in our sustainability practices. We won the Walmart Sustainable Supplier of the Year Award in 2018, as an example of what we've achieved. But this takes time.

And so, the two to three years to build the capacity doesn't include what it takes to have control of your processes, so that your quality is top-notch.

Now the cost to relocate our capacity might add 13 percent to the consumer's price tag, but it's not just that. So, what's the capacity outside of China? China represents about 40 percent of the U.S. towel market. There is excess capacity sitting in India and Pakistan, and to a lesser extent, Turkey, but that excess capacity today would not be more than 12 percent of that 40 percent.

So, as the retailers start shifting -- if the 25 percent tariff goes in place, and the retailers start shifting their supply from China to other markets, you inevitably will have price increases, will start to come into play. As capacities fill up in other countries, the prices go up. Our estimate is that an equilibrium point, even putting aside the fact that the rest of the world can't handle our capacities, the equilibrium point would be an increase of somewhere between 10 and 15 percent. So, all roads lead to a 10 to 15 percent increase to the consumer.

The bath towel, putting aside beach towels, the bath towel market is about $2.2 billion at retail in the U.S. A 10 to 15 percent increase, you're looking at a consumer tax of about $300 million.

CHAIR GRIMBALL: Please conclude.

MR. GAENSLEN: Pardon?

CHAIR GRIMBALL: Please conclude your time.

MR. GAENSLEN: Okay. So, outcomes: lost jobs; direct investment by Chinese companies, Loftex and others. In our case, lost jobs estimate, 25 percent, maybe $600,000 in local jobs. Depending on the timeframe, it could be longer; it could be more. If the tariffs last longer, the impact on jobs goes up. A 13-15 percent increase in price is $300 million and an outflow of foreign direct investment.

MR. BURCH: Thank you, Mr. Gaenslen.

Our next panel witness will be Troy Benavidez with American Standard.

Mr. Benavidez, you have five minutes.

MR. BENAVIDEZ: Thank you.

Madam Chairman, Members of the Committee, on behalf of American Standard, part of LIXIL Americas, I'm honored to provide testimony on the proposed List 4 tariffs for our respective products.

For nearly 150 years, the iconic American Standard brand has protected the health of the nation, as one of the world's largest manufacturers of plumbing products, including toilets, facets, showers, sinks, and bath fixtures. We provide high-quality, EPA

WaterSense water-saving products for the American consumer at accessible prices.

We stand behind our products, and the tradesmen and tradeswomen who helped craft, install, and service them nationwide, at the core of the American housing market's strength and growth.

At American Standard, we employ over 1200 workers in the U.S. and have operations in Illinois, Kentucky, Michigan, New Jersey, New York, Ohio, and Texas. Our products are distributed nationwide through a network of more than 11,000 outlets, half of which are locally-owned kitchen and bath plumbing wholesalers and showrooms, in addition to do-it-yourself home centers, hardware stores, and online retailers.

The employees and their families of these retail and wholesale distributors rely on our plumbing products to meet their customers' home renovation and remodeling demands in their local communities.

As you heard this morning from

Plumbing Manufacturers International, the plumbing industry plays a vital role in local economies. Overall, the industry contributes over $85 billion to the American economy, about half of 1 percent of America's GDP.

As you consider the next round of action in the trade dispute with China, we want to express our concern about how changes in the global trading practices, including with China, may harm U.S. businesses. We support policies to protect innovation, ensure fair competition between countries, and enforce intellectual property laws here in the United States and around the world, including China. However, it's important to pursue these initiatives in a way that recognizes the complexity of global supply chains and results in least harm for American consumers.

Our bathroom fixtures are sourced through a global, diverse supply chain, approximately 80 percent of which is from outside China. Our products are not part of China's Made in China 2025 strategy and are sourced globally for one reason: to provide the greatest value to American consumers.

Also, these proposed tariffs may create a risk to maintaining the public health, hygiene, and sanitation. At a time when we are underinvesting in water and plumbing infrastructure, and have over 1.7 million U.S. citizens lacking access to acceptable plumbing, it is crucial that the cost of the basic toilet, shower, or faucet remains accessible.

Manufacturing in the United States would increase the average price of our toilets, putting our products outside the reach of the American consumers we serve today. It is our view that our plumbing products should not be subject to increased tariffs. Imposing these additional tariffs on our toilets, faucets, showers, sinks, and bath fixtures would cause disproportionate economic harm, affecting the hundreds of thousands of jobs that rely on our products.

These industries, their workers, and our products drive the American economy. Significant price increases could directly impact the ability of this industry to remain profitable and to continue to be an engine of growth for the U.S. economy.

The number of people entering the plumbing and building trades is declining significantly. We are committed to partnering with vocational schools, public officials, trades people, and more, to help reverse this decline. But if plumbing products become more expensive and consumers reduce their purchases, then good-paying jobs in the plumbing trade will also decline. In short, imposing tariffs on these plumbing goods may cause economic and potential public health harm.

Over 1.7 million Americans whose homes still lack acceptable plumbing would find it harder to obtain products they need. Our distributors, their employees, and the health of the building industry would be adversely affected. Demand for plumbing products would decrease, and there would be a direct impact on housing starts, including delays and slowdowns. Over the longer term, these tariffs would delay or reduce demand for plumbing and construction jobs, affecting the income of American workers.

We will continue to plumb the everyday cycle of life, so U.S. consumers' lives are improved. We appreciate your consideration of our point of view and greatly value our role in helping to fuel the American economy.

Thank you.

MR. BURCH: Thank you, Mr. Benavidez.

Our next panel witness will be Daniel Nation with Parkdale Mills, Incorporated.

Mr. Nation, you have five minutes.

MR. NATION: Good afternoon, and thank you.

My name is Dan Nation. I'm Director of --

MR. BURCH: Will you please turn on your microphone?

MR. NATION: Sorry.

Good afternoon, and thank you.

My name is Dan Nation. I'm Director of Government Relations at Parkdale, which is a 103-year-old textile company headquartered in Gastonia, North Carolina.

When I define what Parkdale is, I like to start with American-made and globally-traded. We operate 28 yarn-spinning and consumer product-producing facilities in eight states, employing 5200 people. Our annual payroll exceeds $170 million, and our benefit package ranks within the top 20 of all industrials. Additionally, we have operations in Mexico, South America, and throughout Central America, all as a result of the passage of regional free trade agreements.

We're the largest single consumer of U.S.-grown cotton, representing almost 50 percent of domestic consumption. We export over 400 containers per week of yarns for the weaving and knitting industries, which represents 80 percent of our production in our U.S. plants. To give you some perspective, our annual production produces enough yarn to manufacture 2.14 billion T-shirts.

As an upstream producer of textile inputs going to finished apparel and home furnishings, our success is directly tied to the stability of those downstream manufacturers. Parkdale is keenly interested in the ongoing Section 301 case against China. Due to China's massive and disruptive impact on the U.S. market and the key overseas textile and apparel markets.

As such, we have strongly supported President Trump's initiatives to recalibrate what has clearly been a lopsided and often severely unfair trading relationship between the U.S. and China, a broken relationship that has routinely come at the expense of U.S. manufacturing investment, output, and most importantly, U.S. manufacturing jobs.

As evidence of the lopsided nature of this relationship, I note that, in 2018, the U.S. ran a trade deficit in textile and apparel products with China of $46.6 billion. In fact, at 46 percent, China represented nearly half of the total U.S. trade deficit in textiles and apparel last year. Statistics also indicate that China dominates global markets, as they own nearly 40 percent of total world textile and apparel exports.

There's little doubt that China's extreme position in the global textile and apparel marketplace has been advanced by an elaborate system of illegal practices, which include state-sponsored subsidies, unethical labor and environmental practices, and theft of intellectual property.

Consequently, Parkdale supports the existing Section 301 case against China. With that stated, we believe the effectiveness of this case has been greatly diminished through the omission of fully-finished textile and apparel products of the various 301 Tranches currently in effect. A decision to include apparel and finished textile home furnishings would be supported by the following:

First, according to reports, the textile and apparel sector is the largest single provider of industrial employment in China, with approximately 24,000 enterprises responsible for over 10 million direct jobs. This does not include the tens of millions of workers in China employed in support sectors, such as chemicals, machinery, and shipping. If the United States wants to resolve China's rampant IPR abuse, sectors that are critical to their economy will need to be finally included in the 301 retaliation list.

Threatening China's illegal stranglehold on hundreds of billions of dollars of exports in the textile sector will greatly enhance U.S. leverage in these negotiations. In our estimation, leaving high-employment sectors off of the list that are critical to China's economy has played a major role in the failure to reach an IPR settlement with China.

Secondly, the impact on U.S. consumers

of including finished textiles and apparel on the retaliation list is being greatly exaggerated by importers and retailers. The application of a penalty tariff would only impair U.S. consumers if there were no viable alternatives to China. The textile and apparel industry is unique among industrial sectors in that virtually every region and country produces and exports textile and apparel products.

In terms of the U.S. market, finished apparel and home furnishings are sourced from nearly 100 different countries, according to the U.S. Department of Commerce. In fact, the United States imported over $77 billion in textile and apparel goods from sources other than China in 2018. To argue that the American consumer will be deprived of choice or forced to pay significantly more for their textile and apparel goods ignores the reality of the numerous and varied global suppliers in this sector.

Finally, a significant source of U.S. textile and apparel imports is the Western

Hemisphere. The U.S. enjoys a $35 billion two-way textile trade relationship with the nations of the Western Hemisphere. The overwhelming majority of Western Hemisphere textile exports comes to the U.S. duty-free from our free trade partners who produce finished apparel and home furnishings that compete directly in the U.S. market with Chinese-made product.

By finally addressing China's massive illegal trade activity in the textile sector, the Trump Administration could help direct new investment, production, and employment through the U.S.-Western Hemisphere textile and apparel production chain.

In summary, the U.S. textile industry has been the victim of an aggressive set of predatory trade practices on the part of China for decades. China's illegal actions have contributed to loss of millions of U.S. jobs in the textile sector and throughout the various support industries that service domestic textile manufacturing.

The Trump Administration has a generational opportunity to finally address this blatantly-unfair and illegal situation. Including finished textile and apparel products on the 301 retaliation list would greatly enhance the Administration's leverage in the ongoing negotiations and help redirect trade in this sector to the Western Hemisphere. Doing so would not disadvantage U.S. consumers due to the numerous and vibrant sourcing alternatives that exist in terms of global textile and apparel production.

As a result, we strongly urge the U.S. Government to move forward with enacting penalty tariffs on the finished textile and apparel items as part of a $300 billion list in the pending China 301 IPR case.

Thank you for the opportunity to provide this testimony.

MR. BURCH: Thank you, Mr. Nation.

Our next panel witness will be Phil Poel with Ember Technologies.

Mr. Poel, you have five minutes.

MR. POEL: Good afternoon, Members of the Panel, and thank you for allowing me to testify today on behalf of Ember Technologies.

My name is Phil Poel, and I'm the Chief Operating Officer. And I am here to request that the HTS tariff that is 8516.79.00 for electrothermic appliances or elsewhere specified under this be removed from the list that is subject to the 25 percent tariff in China right now. More specifically, we're requesting that our temperature-adjustable mugs, like the one here I brought that's sitting right here, be removed from this list.

Ember Technologies was founded in 2010 by an inventor and entrepreneur, Clayton Alexander, who holds more than 100 patents worldwide and is the inventor of the General Electric LED light bulb Infusion.

Alexander's uses of thermoscience while working on the LED light bulb led him to create Ember Technologies. The company makes drinkware and dishware that can be thermally controlled. The company's first product, the Ember Travel Mug, was launched in 2016. These products and accouterments constitute our entire business. Although our new products are coming and will be online soon, that is provided Ember survives these potential additional tariffs.

Ember is located in Westlake Village, California, and employs only 58 people, most of them who are dedicated to product design, engineering, development, logistics, customer service, and sales.

The company's creation and rise to its very definition of the 21st century American dream has been by taking simple ideas and transforming them into technology that has the potential to transform basic household items into devices that work for you.

Because of the uniqueness of our company and our products, shifting sourcing to another country at this point would not be feasible. Furthermore, in addition to the likely cost increases related to shifting production, we believe that our suppliers would not be able to match the demands of our product.

The imposition of tariff on these products would eventually shift sourcing from China to another country or vendor in Asia, maybe Mexico, but not to the United States, in a timely manner that would allow Ember to meet its customer demands. Instead of creating jobs in America, the move would hold back the growth of innovation, and companies like ours would certainly risk job loss to our employees.

To reemphasize the point, a critical cost for our company is innovation. We are able to provide high-paying jobs to Americans because our employees dream of products never created before. Transforming those dreams into reality requires raising large amounts of capital that are repaid to our investors. This increased tariff cost would inhibit our company's ability to continue innovating and attracting these additional investments.

We ask you to consider that we are a very small company with relatively low sales at this time. The Chinese are not getting access to the value of our products because the U.S. value-add is truly in our innovation. It is what enables us to provide high-paying jobs for the product development team. The imposition of tariffs does nothing to hurt China, but it does a lot to hurt our company.

We have some extremely innovative products getting ready to be online. I can't discuss them in this open setting, but I have provided details in my business proprietary written submission. If we are subject to additional tariffs on our mugs, it will be devastating and impact our ability to our innovation and our new products.

We do not presume to advise on the appropriate level of trade to be covered by the additional duties, given our company's comparatively small nature and lack of overall size of perspective.

We further submit that imposing additional tariffs on our goods is punitive to the American consumer, as our profit margins, as you have heard before from other testimony in this testimony, are single digits per product. And in some instances, the impact of additional tariff of even 10 percent would be absolutely passed onto our customers and not taken.

Our products are already at the high end for drinking mugs because of this added technology. Retailers have indicated to us that higher pricing will preclude our product from being carried by their stores. Further duties on these products would not impact whatsoever on China's acts, policies, and practices regarding technology transfer, intellectual property, and innovation. The industry is neither cutting-edge nor a proprietary sector for China in its 2025 development objectives.

In closing, you have heard from a lot of large, very large, billion-dollar organizations. Ember is a small company, growing, full of innovation and opportunity, and it's one of the reasons I left big business to go there.

I urge the Committee to consider removing this HTS 8516.79.00 from the list of products subject to the 25 percent tariff if imported from China and preserve our new and innovative American company.

I look forward to answering any of your questions. Thank you.

MR. BURCH: Thank you, Mr. Poel.

Our next panel witness will be Jeffrey Kaufman with Home Fashion Products Association.

Mr. Kaufman, you have five minutes.

MR. KAUFMAN: Thank you.

Good afternoon, Madam Chair and Members of the Committee, and thank you for giving us the opportunity to address you today.

My name is Jeff Kaufman. I'm here representing the home textile industry, as the President of the HFPA, the Home Fashion Products Association. I'm also the President/Chief

Operating Officer of Avanti Linens, a family-owned, home furnishings business in Moonachie, New Jersey, with 150 employees. Avanti was founded in 1969 and we're celebrating our 50th year in business.

The HFPA is a trade group with 47 members, representing an industry of over 500 companies with $27.6 billion in retail sales annually. Our members are mostly small and mid-sized companies, many of which are privately-held family businesses. While most of our products our companies sell are made abroad, our members all have significant domestic operations, including warehousing, design, marketing, sales, and accounting. They each employ anywhere from a few dozen to several hundred people in good-paying, career-building jobs in the U.S.

Regardless of the reason, imposing additional tariffs on the home fashion products that we design, market, and sell would significantly hurt our members, their tens of thousands of employees, and the business of other small and mid-sized companies that work with and for our member companies. Increasing tariffs, whether on products from China or any other country, will lead to significantly higher prices and, inevitably, lower sales and fewer jobs in our industry. These proposed tariffs, if implemented, have the potential to put many of our companies out of business.

As changes in the retail landscape continue to bifurcate retailers into a small group of winners and a growing list of the weak and dead, we have lost our ability to pass cost increases along to our retail customers. The choices we face with imposition of these tariffs are: No. 1 is to take business at little or no profit or decline the sales opportunity. Neither option is a good one, and both will lead to a less profitable business with fewer employees and less ability to invest in the future.

And regardless of the outcome of the trade dispute, the textile manufacturing business will not be coming back to this country. There is a small, vocal, alleged domestic industry that has supported higher tariffs, thinking it would revitalize U.S. manufacturing. Unfortunately, the infrastructure of a textile industry no longer exists. It would take years and billions of dollars of investment to rebuild the yarn factories, weaving mills, and dye houses we need to support domestic manufacturing in this low-margin business.

It's difficult to envision investors in such facilities, knowing that if a future administration or Congress reduced or eliminated the tariffs, their investments would become worthless. Additionally, if the industry could be rebuilt, the cost of producing goods in the U.S., even with additional duties, would be uncompetitive and result in a hidden tax to the consumer by raising the cost of family essentials by up to 25 percent. The HFPA members believe additional tariffs are effectively a regressive tax, negatively affecting lower and middle-class families the most.

There's been a lot of talk about moving production to other countries as a solution to the tariff problem. Textiles are currently produced in other countries, but these countries don't have the capacity to absorb the production from China. Even if the existing facilities in countries like Pakistan, India, or Turkey could absorb the increase in production, the demand for those sources would undoubtedly drive prices up to match an increased cost of the same articles from China with the tariffs. And these countries wouldn't invest in new manufacturing capacity based on the China tariffs, knowing that it could be reversed at anytime. And they also know that they could be next on the tariff hit list.

The HFPA polled its members and was informed that existing alternative sources are not cost-competitive for most categories of product that are produced in China. In some cases, the production capabilities don't exist or the raw materials aren't available. Where there is production, the capacity is nowhere near enough to absorb what is currently sourced from China. So, prices would rise with the increase in demand. So, whether the tariffs are paid or we move production to another country, the end result will be the same--higher prices, lower sales, lower profitability, less investment, and less jobs. It bears repeating that it will be the U.S. consumers and U.S. businesses who will pay for the tariffs, not China.

The move to Asia over 20 years ago transformed our industry. It was not easy for our members to switch from manufacturing to importing, and many were unable to do so and went out of business. While most of our companies no longer manufacture in the U.S., some do have substantial fill and finishing operations in the U.S., employing thousands of employees. If they could not import their materials, primarily shells for filling, they would have to lay off much of their workforce.

Our companies are still substantial,

vibrant businesses that hire Americans, buy a wide range of goods and services in this country, and support their local communities. We do not see how higher tariffs on top of what we already pay in higher-than-average tariffs, that will terminate thousands of jobs, drive up prices for all Americans, and still have no chance of bringing back domestic manufacturing in our industry, will help our country.

On behalf of our member companies and others in the home textile industry, we urge you do not support additional tariffs on imported home fashion goods, regardless of originating country, and remove the applicable tariff subheadings indicated in our filed comments from the proposed List 4.

Thank you.

MR. BURCH: Thank you, Mr. Kaufman.

Our last and final panel witness will be Stephen Knerly with the Association of Art Museum Directors.

Mr. Knerly, you have five minutes.

MR. KNERLY: Madam Chair and Members of the Committee, my name is Stephen Knerly. I am a partner in the Law Firm of Hahn Loeser & Parks. Thank you for the opportunity to speak to you today on behalf of the Association of Art Museum Directors, an organization whose members include 220 of the directors of major art museums in the United States.

Before beginning, I would like to take a moment to thank the staff of the Committee. I've had a number of occasions last week to call them, and they have been unfailingly helpful, responsive, and patient.

The AAMD opposed the proposed imposition of a 25 percent tariff on works of art of Chinese origin, including paintings, drawings, collections, and antiques. The AAMD was surprised to see Chinese-origin artworks listed in the proposed tariff, as they were excluded from the prior 10 percent tariff. And in the notice for this hearing, the statement was made that product exclusions granted by the Trade

Representative on prior tranches would not be affected.

The AAMD hopes that the inclusion of the art categories is simply a mistake, a mistake that will be rectified before tariffs are imposed. There are many reasons not to include artworks in the proposed tariff categories that are spelled out in the letter from the AAMD provided to this Committee, but allow me to summarize just a few.

Works of art of Chinese origin have been traded and used in countries around the world for hundreds of years. As early as the 15th century, Chinese porcelain was exported to Europe. Because China has been an exporter of works of art for centuries, works of art made in China, but long out of China, are bought and sold on the world's markets every year, and then, can be freely brought into the United States. These works are unlikely to be recent exports from China because China prohibits the export of much of its artwork and antiquities.

As a result, the proposed tariff on the importation of Chinese-origin artworks is unlikely to accomplish the announced purpose of the proposed tariff--to deter China from activities that burden or restrict U.S. commerce. There are those in China who may actually be happy to see Americans pay more for Chinese artworks because the Chinese are avid collectors of Chinese art around the world, and they will now enjoy a competitive advantage over Americans in those marketplaces.

Yet another reason not to impose tariffs will be the effect on the U.S. art market, the largest in the world. Auction houses, dealers, and galleries are unlikely to want to import Chinese-origin works to sell in the United States because of the tariff and the increased cost. That business may well shift to other art markets of the world, including the No. 2 auction art market, China.

Therefore, the likely result of the tariff on Chinese-origin works of art will be a reduction in the U.S. art market, a significant penalty to American art museums and collectors, a competitive advantage for buyers from other countries, including the Chinese, and a potential increase for art markets, including the Chinese art market.

But, for American art museums, this is not just about commerce, but, rather, the effect that a tariff can have on the ability of American museums to educate the American public about the great cultures of the world. They do this through great works of art that can educate and inspire us. They are able to do this through acquiring, exhibiting, and studying works of art from around the world, including China. And they acquire works, essentially, in two ways. They buy them or they receive them as gifts or bequests.

If the tariff is imposed, as buyers on the international market, American museums will pay a higher price to acquire and bring home to America works of art of Chinese origin. The vast majority of works that come to American museums come as gifts or bequests from private collectors, and those individuals will now be at a competitive disadvantage in trying to buy Chinese-origin works of art outside the United States for importation into the United States. The end result, American museums will lose donations and the American public loses the opportunity to see, study, and be educated and inspired by great art from China.

For all of these reasons, the AAMD requests that this Committee remove the art categories from the proposed tariff and follow decades of precedent in not imposing tariffs on art, art and the free exchange of ideas that art represents.

Thank you for your time this afternoon, and I am happy to answer questions.

MR. BURCH: Madam Chairman, this concludes these panels of witnesses.

MR. HART: My question is for Mr. Gaenslen. Can you confirm that -- do you have any source of, do you source any of your imports from the U.S.

MR. GAENSLEN: We source cotton from the U.S. In fact, a large portion of our cotton purchases are from U.S. sources.

MR. HART: Thank you.

MR. SECOR: My question is for Mr. Benavidez. You mentioned that 80 percent of your supply chain is outside China. Do you source product in the United States?

MR. BENAVIDEZ: Yes, we do all of our bathing manufacturing and shower manufacturing in the United States. What we source from China is mainly our toilet manufacturing.

MR. SECOR: And would it be possible to do any of that toilet manufacturing in the United States?

MR. BENAVIDEZ: There are no suppliers or manufacturing capability in the U.S. as it exists now. So, we would have to build a manufacturing site in order to be able to do that.

MR. SECOR: And are there any manufacturing facilities outside the United States and outside China you could use instead?

MR. BENAVIDEZ: Demand, global demand for these type of products is significant, and we're pretty much at capacity. So, we are exploring other sources, but we have not been able to identify other suppliers.

MR. SECOR: Thank you.

MR. STETSON: I have a question for Mr. Nation of Parkdale Mills. And that is, several of the apparel companies have submitted testimony in this hearing that has indicated that they have begun to shift some of their production out of China. And given Parkdale's supply relationships in the United States and elsewhere in the Western Hemisphere, have you seen any evidence to date of that production that may have shifted from China to the Western Hemisphere producers?

MR. NATION: We have seen some indication of shifts, sourcing shifts, not major, but, yes, we have seen some change. And when I say that, you have to look at the whole Western Hemisphere. You look at what's going on in the Indian region, NAFTA, CAFTA, Canada. But we have seen some sales, a little bit of uptick that I think could be associated with that, yes.

MR. STETSON: Thank you.

In addition to that, is there sufficient capacity, in your opinion, in the Western Hemisphere to accommodate a meaningful and greater shift in production from China to the Western Hemisphere?

MR. NATION: We could certainly take in a meaningful amount of shift. Again, when you talk about all the countries, all the FTAs that we operate within, between that and other regions in the world, I believe there is significant capacity, yes. There is a lot of overcapacity of textiles on this planet.

MR. STETSON: Thank you.

MS. WINTER: This question is for Mr. Poel from Ember. Thank you very much for your testimony. You mentioned other products that you might be bringing online. Are you planning to source these products from China? Or where will they be made?

MR. POEL: They are currently set to be manufactured in China because they are similar technology, and we have not been able to find a producer in the United States, a complete producer, to manufacture them. So, yes, at this point they are, yes.

MS. WINTER: And the electrothermic qualities of things of the devices, mugs and things that you're making --

MR. POEL: Yes?

MS. WINTER: -- you talk about the innovation and the U.S. value-added. Are these innovative properties protected by patents or is it trade secrets that you're -- you know, what type of intellectual property makes up this innovation that is the U.S. value-add that you have mentioned?

MR. POEL: So, we currently hold

almost 100 patents all around this product, which has been built up over the last 11 years. And in my written statement, you will see the original patent actually started back almost 50 years ago in the seventies for heating a unit like this. What we have done is taken that idea, innovated upon it, made it better, and now have transferred this type of technology into medical products, into other homecare products and health products that the United States does not currently have right now and does not have the capability to manufacture. We're excited about bringing that to market.

MS. WINTER: The facilities that you use in China to make them, do you wholly own the ones that are making the mugs now that you have a sample of here?

MR. POEL: It's all contract, 100 percent, yes.

MS. WINTER: And will that be the case for your new products that you can't discuss yet?

MR. POEL: That is true, yes. That

is, right now -- everybody has mentioned the supply chain for it and the reason for keeping it there, as well as all of the components we're sourcing comes from that region. And thus, to build them there, it's the viable option for us in the world.

MS. WINTER: And how do you protect the intellectual property in your contract manufacturing? What do you do to ensure that the intellectual property, the various patents you mention, stay secret?

MR. POEL: Yes --

MS. WINTER: Well, the patents are public, but, you know, the trade secrets and the knowhow that go with them, how do you protect this? Or do you --

MR. POEL: In two ways. You're exactly right with regard to the content. The design and the development which is done in the United States which is under lock and key, the manufacturing of that is also done, if you want to say, under lock and key. And if you've been through or had the chance to visit a factory that we manufacture at, when you come into those factories, no keys, no phones. No, it's very much a lockdown situation, similar to other, I would say, very sensitive products that are built for the medical industry as well. So, they're protected through our vendor.

MS. WINTER: And are you subject to, I would say, visits or things by Chinese authorities that maybe want to ask questions about customs and exportation or price? I mean, we've heard these kinds of situations --

MR. POEL: Yes.

MS. WINTER: -- before where it's unclear why you're really being visited, but you're being visited and computer data information that may be sensitive is being requested. Have you been subject to these kinds of, quote/unquote, "visits"?

MR. POEL: It's a great question. I would answer it two ways. One, I don't think they really care about my little coffee cup and the technology that's in it. Second, the technology that we have is old technology and I don't think of any interest to them. How we are utilizing it is what's different, and we have not been subject to any of that.

MS. WINTER: Okay. Thanks a lot.

MR. POEL: Thank you.

MR. JACKSON: Thank you. First of all, I would just like to ask a follow-up question to Mr. Gaenslen. You indicated that your company does purchase raw cotton from the U.S. Do you purchase any cotton yarn from the United States?

MR. GAENSLEN: No. We purchase a substantial amount of raw cotton. We don't purchase any yarn from the U.S. We're a fully vertically-integrated operation. So, important in our quality control is that we control every aspect of our production. So, once the raw cotton comes into our complex, we control every aspect of spinning, weaving, finishing, distribution. Nothing -- nothing -- gets exported for further finishing anywhere else outside of our factory.

The amount of cotton we're importing from the U.S. farmers is substantial and, in fact, growing. Because as the U.S. retailers are looking to have more sustainable practices and factory practices and more sustainable product, we're seeing a shift towards sustainable cotton, which tends to favor U.S. farmers.

So, for example, we're switching, a lot of our major retailers are switching to BCI cotton, which stands for Better Cotton Initiative. In order to source BCI cotton supply to retailers' needs, more of our cotton is getting shifted to the U.S. because, simply put, that's where the majority of the BCI cotton is coming from.

MR. JACKSON: What percentage of your total cotton purchases would you say are from the U.S.?

MR. GAENSLEN: I'd like to --

MR. JACKSON: Ballpark?

MR. GAENSLEN: I'd like to come back with an exact number, but, ballpark, I think we're looking at about 25-30 percent.

MR. JACKSON: Okay. Thank you.

And I have a question for Mr. Kaufman. What has been the trend in recent years with respect to your members sourcing from China? Is it more or less than it was 5 or 10 years ago? And what do you believe, if there have been changes, what do you believe are the reasons for any shift? And do you see any trends, again, independent of the 301 process, moving forward into the future?

MR. KAUFMAN: I think on a percentage basis, it's less. There's been a number of countries that have come on strong. India is a major producer, particularly on the towel side and also on the sheet side in cotton. Bangladesh has also come on in the last five years or so as a more important producer. Pakistan continues to grow, and as Mr. Gaenslen mentioned, Turkey. Portugal is a relatively minor player.

And I think we've all tried to move as much as we can to try to diverse our base. So, I think that trend has continued. There's "X" amount of capacity, and whether or not the other countries are going to continue to invest in infrastructure is up to debate at this point. I think, certainly, with what's going on now, everybody is talking about it and looking at it. But, clearly, there's been a move out of China to the degree we can.

There are categories that aren't made anywhere else. Printing, for example, on towels, and particularly shower curtains and polyester, primarily is done in China. There's very little -- we've been pushing India to do it. It's a major investment, and there's been a couple of false starts.

So, there's some kind of finite categories that just haven't found a home anywhere else in the world. But, for the big categories, there are other players out there, and that has grown.

MR. STETSON: I have a question for Mr. Knerly, representing the Association of Art Museum Directors. And that is, can you expand on the competitive disadvantage that U.S. museums would face, should tariffs on the art be imposed?

MR. BURCH: Can you turn on your mic?

MR. KNERLY: Yes. American museums are purchasers of works of art abroad, including works of Chinese art. And they will now have a competitive disadvantage, because in order to bring those works into the United States, they would now be subject to the tariff that is not applicable to other buyers.

So, if you think about a great Chinese work of art that comes onto the auction market in London, and an American museum bids on that particular work, they're going to have to include another 25 percent in order to win that bid from an economic standpoint.

But, as I think I indicated, the vast majority of works that come into an American art museum come in through donations and bequests.

And for collectors who will be on those marketplaces, they will have the same disadvantage.

Many times, collectors actually buy works at the request of museums, and working with collectors, that will be immediately donated. Other times they come along the way in terms of donations and bequests. But every time that American person shows up at that auction in London, he starts out 25 percent in the hole in terms of attempting to acquire the same work which is being bid on by collectors from around the world.

And the Chinese themselves are significant collectors of Chinese art. So, as I think I indicated, this sort of turns topsy on its head, whereby the Chinese will actually be advantaged in terms of their ability to buy great works of art and take them back to China.

MR. STETSON: Thank you. And will you know, roughly, how much of a museum's art is of Chinese origin of the market?

MR. KNERLY: Oh, it depends. There are museums that have significant Asian collections, the Asia Society, the Cleveland Museum of Art, the Metropolitan. There are other museums where the Asian collections and the Chinese collections are less significant. But American museums hold amongst the greatest collections of Chinese art in the world. I'm pretty confident I can say that.

MR. STETSON: And finally, how price-sensitive is the demand for art?

MR. KNERLY: Well, certainly with respect to museums that operate on not the greatest budgets in the world, it's very price-sensitive, and 25 percent is hugely significant in order to be priced out of the marketplace. Obviously, with collectors, depending upon their own resources and their own desire to buy, it may be slightly less, but I don't think it's a lot. Nobody wants to spend 25 percent more for the same object, especially when they're bidding at auction.

MR. STETSON: Thank you.

CHAIR GRIMBALL: Mr. Knerly, I do have an additional question. Could you give us an idea perhaps of the amount of new -- well, not new, but new to the United States market -- the amount of new Chinese art that is coming into the United States versus the amount of art that is already in the United States that may be interchanged between museums or on loan?

MR. KNERLY: I actually can't. I can refer you to the submission that was made by Sotheby's and Christie's that does give you the figure for Chinese works of art coming into the United States. I've forgotten exactly what it is, but I know it's in their submission.

The works that go between museums in the United States are works that are for exhibitions and exhibition loan. They're not works that change hands on a permanent basis. And so, the ability of any particular museum to be able to educate its public with its collection rests with its collection, notwithstanding the ability to be able to do exhibitions.

So, the amount of art that comes in versus the value of the amount of art that's already here I think is an incalculable figure, simply because American art museums don't value their collections. If you look at the balance sheet of almost every American art museum, you will not find the art on that balance sheet. So, the other piece of your question, which is the value of Chinese art already in the United States, I suspect nobody knows the answer to that question.

CHAIR GRIMBALL: I think I was more focused on sort of the percentage, not necessarily the dollar value that's added. So, should I take from your comment that exhibitions where art is exchanged between the museums is uncommon and really the focus of museums has been acquiring art to add to their collections?

MR. KNERLY: No, you shouldn't take that conclusion because it's both. So, exhibitions are, yes, a significant portion of what American art museums do. And they do enhance the ability of each museum to be able to present great works of Chinese art. But building the permanent collection is also a significant way. Because when a work of art comes through an exhibition, it's going to be onsite for, let's say, six months. Whereas, when a work of art is acquired, it now can be studied, conserved, written about. The public of that particular museum can come back as many times as they want in order to see and be educated and learn with respect to that object.

So, both exhibitions and enhancement of the permanent collection are ways that the American public is able to see great Chinese art. That permanent collection-building, however, will now, if this tariff is imposed, be significantly impacted, we believe.

MR. BURCH: Madam Chairman, we release this panel with our thanks.

And will Panel 8 make their way forward?

Would the room please come to order?

Madam Chairman, I would like to note this is our last panel for the day, Panel 8.

And our first panel witness will be Glenn Hughes with the American Sportfishing Association.

Mr. Hughes, you have five minutes.

MR. HUGHES: Thank you.

Good afternoon, and thank you for sticking it out for eight panels today. Six speakers to go.

My name is Glenn Hughes, and I'm the President of the American Sportfishing Association. ASA is a national, nonprofit trade organization made up of more than 800 members, including these fine gentlemen that are with us today. Since 1933, we have represented the companies that make the fishing equipment that anglers use to catch fish. That includes the rods, reels, lines, and lures, tackle boxes, fishing nets, waders, and even bobbers.

The sportfishing industry requests

that the sportfishing equipment, including all products under heading 9507 of the HTS of the United States, be excluded from the Section 301 tariff list. The tariffs would cause disproportionate economic harm to the majority of our industry that is already paying a unique 10 percent excise tax.

We understand the position of the President regarding the current trade relations with China, and we support realigning the trade agreements to correct the unfair trade practices. However, we are deeply concerned about the impacts of these tariffs on all the manufacturers who attempt to provide the equipment for what the American public calls its favorite pastime, fishing.

Fishing isn't just something that you do on the weekends. It's big business. Recreational fishing supports 800,000 jobs, and it contributes $125 billion to the U.S. economy each year. More than 49 million Americans went fishing this past year, made up of kids, families, and friends. That's more than played golf and tennis combined. This sport gets the kids outdoors and participating in something as American as mom and apple pie.

More than 90 percent of the sportfishing industry is made up of small businesses. A 25 percent tariff on fishing-related equipment won't be paid by the Chinese companies. It will be paid by these small businesses here in the U.S., and some, if not all, the cost will be passed on to the American families.

What's more, our fishing tackle manufacturers are already paying the tax I mentioned before, and that supports conservation. Since the passage of the Dingell-Johnson Act of 1950, manufacturers of fishing equipment have paid up to a 10 percent federal excise tax every year to support the Sport Fish Restoration and Boating Trust Fund. Additional import duties of 3.7 to 9.2 percent are also collected on every fishing rod, reel, line, lure, hook, and tackle box and put into that fund. That adds up to more than $150 million each year.

These tax revenues pay for a significant portion of each state fish and wildlife agency and fisheries conservation projects, as well as the development and maintenance of boating access and support for aquatic education. Most state fish and wildlife agencies are funded solely through the excise tax and fishing license fees. Over the last 10 years alone, these fishing tackle manufacturers have provided more than $1.35 billion to state fish and wildlife agencies. These funds have contributed to more than 4460 fishing access areas being constructed and/or maintained, another 1640 fish hatcheries also constructed or maintained, and more than 2.2 billion hatchery-raised fish.

These tariffs, added to the cost of fishing equipment, are expected to result in a substantial reduction in consumer spending. Fewer fishing equipment purchases means less revenue to the Trust Fund, which ultimately means less funding for programs important to the Trump Administration's priorities to improve public access to the outdoors.

Now regarding production, approximately 60 percent of the fishing equipment in the U.S. is imported, and two-thirds of these imports come from China. For some product categories, China produces 100 percent of the equipment sold in the U.S.

Today, there is literally not enough existing infrastructure, including the facilities, technology, and employees, outside of China to make the necessary fishing tackle to meet the demand of our anglers each year. Our industry supply chains have developed in China over decades, and in most cases the ability to affordably produce these products in other countries just does not exist. Moving the entire supply chain would take considerable time and cost much more than continuing production in China.

To reiterate, these additional tariffs on fishing equipment would place an unfair burden on the sportfishing industry. These tariffs will lead to a decrease in fishing tackle purchases and fishing participation and conservation funding.

We request that the sportfishing equipment, including all products under the heading 9507 of the HTS of the U.S., be excluded from the Section 301 tariff list.

Thank you very much.

MR. BURCH: Thank you, Mr. Hughes.

Our next panel witness will be Harlan Kent with Pure Fishing.

Mr. Kent, you have five minutes.

CHAIR GRIMBALL: Mr. Kent, before you begin, I neglected to have new members of our panel introduce themselves. So, please, if you can give us one moment?

MS. HUANG: Jessica Huang, Department of Commerce.

MS. SMITH: Tanya Smith, the Small

Business Administration.

MR. KENT: Great. Glad you could join us.

And good evening.

My name is Harlan Kent, and I am the CEO of Pure Fishing, Inc. We sell fishing tackle under the iconic brands Berkley, Shakespear, Ugly Stik, Abu Garcia, and Penn. We proudly manufacture fishing baits and fishing lines in the U.S. today.

I am here today representing the 2,700 people who work at Pure Fishing, Inc., headquartered in Columbia, South Carolina, and the close to 50 million people in the United States who are actively engaged in the sport of fishing, as Glenn has talked about.

We support the Administration's goals of fair trade policies to ensure a healthy U.S. economy. With that said, I am requesting that recreational fishing equipment categories that fall into the HTS U.S. Codes 95007.30.2, which is fishing reels; 9507.10, which is fishing rods, and 9507.90, which is fishing kits that are really combos with tackle boxes and baits, and are part of the Section 301 List 4, be excluded from the proposed 25 percent tariff rate.

These duties are excessive for fishing tackle manufacturers, already paying high duty and tax rates, and would, if enacted, result in double taxation. There are compelling reasons why these fishing tackle categories should be exempted from additional duties.

No. 1, fishing tackle manufacturers already pay significant duties and excise taxes. Manufacturers of these product classes of recreational fishing tackle already pay the equivalent of a 16 percent excise tax on the cost of goods for sales in the U.S. as part of the Sport Fish Restoration and Trust Fund, which funds state and wildlife agencies for fishery conservation and management projects, boating access, and aquatic education.

Pure Fishing alone is already paying over $25 million a year in these excise taxes.

In addition, manufacturers pay just under 4 percent duties on these classes imported from China already.

No. 2, the majority of fishing rods, reels, and combo kits are manufactured in China. Ninety-eight percent of all fishing reels with a cost of less than $8.45, i.e., the less expensive reels sold to youths, new anglers, and anglers with modest incomes, that are sold in the U.S. are manufactured in China. Just under 70 percent of all fishing reels sold in the U.S. are manufactured in China. Eighty-nine percent of fishing rods, or poles, as some people refer to them, sold in the U.S. are manufactured in China. Almost 80 percent of fishing combo kits are manufactured in China.

No manufacturing infrastructure exists in the U.S. currently to replace production of fishing rods, reels, and combos, nor in any other country. We literally have no place for which we could transfer production in the short term. We have started to look at insourcing and onshoring our options, but, realistically, it will take us two to three years.

No. 3, anglers are price-sensitive shoppers. You've heard that about a number of products today. And price increases would be required to offset the increases of cost. This will, we believe, because of the elasticity, drop the sales of these products by up to 20 to 30 percent, lead to less fishing, and thereby less licenses sold, and less funding for conservation purposes, less funding of catch-and-release benefits to protect our resources, and result in a reduction of Pure Fishing's number of U.S. employees, which will have to be cut to offset the increase in our costs, not to mention other U.S. manufacturers forced to make the same decisions.

No. 4, the majority of our retailer customers, well over a thousand, are small businesses, local fishing dealers, moms and pops, who will lose sales and possibly have to close because of higher prices.

No. 5, the two largest non-U.S.-based manufacturers of fishing reels, Shimano and Daiwa, which are our biggest competitors, are both based in Japan, along with the majority of their manufacturing, which they will not be paying the same tariffs, and therefore, will have an unfair advantage over U.S. manufacturers like Pure Fishing.

In closing, fishing is a passion for many hard-working Americans, and a key part of their family traditions. Please don't make it cost-prohibitive for them to enjoy this important outdoor pastime.

If you remember nothing else I have said, U.S. workers and U.S. consumers will be hurt and foreign companies will be helped.

Thank you for the opportunity to speak with you today.

MR. BURCH: Thank you, Mr. Kent.

Our next panel witness will be Tim MacGuidwin with The Catch Company. Mr. MacGuidwin, you have five minutes.

MR. MacGUIDWIN: Good afternoon.

My name is Tim MacGuidwin and I am the COO of Catch Co., a small, Chicago-based fishing goods retailer and manufacturer. Catch Co. began in 2012 as a company called Mystery Tackle Box. The company's vision was to help anglers across the country discover the best new fishing products.

Our two founders invested over $100,000 of their personal savings, spent their nights and weekends packing boxes in their garage. Today, Catch Co. has over 100,000 monthly members receiving mystery tackle boxes. And we have shipped over 3.5 million boxes over the life of the company.

We directly and indirectly employ over 70 people in the U.S., especially in Illinois, Tennessee, and Colorado.

We also manufacture over two million artificial baits per year, almost all of which are designed here in the U.S. An example product we make in this category you can see on the back of my testimony.

These are plastic assembled products made to look like bait fish, used for catching bass and other game fish. The overwhelming majority of these products are manufactured in China and retail from $3.00 to $15.00 per pack.

Catch Co. supports the goals of the 301 tariff to level the playing field for American companies. However, we believe the tariffs in our category will have a disproportionate negative impact on small businesses, consumers, and the environment. The tariffs will have no effect on its primary goals, and it puts our company at risk of going out of business.

Therefore, we respectfully request an exclusion for all products under 9507, but especially artificial baits and flies.

The first reason this category should be exempt is that these products have very little intellectual property. And the IP in this category is not any kind of strategic advanced technology. No Chinese companies are trying to force tech transfer via acquisitions, and no Chinese players are trying to infiltrate our networks to steal IP.

The goals of the tariff simply do not, do not impact this category.

Second, as others have mentioned, our industry is unique in that we already pay both an import duty of 9 percent and then a 10 percent sales tax in the form of a federal excise tax. Nationally, this excise tax currently generates $150 million per year, which goes to fund the Sport Fish Restoration and Boating Trust Fund, which provides funds to the states' Fish and Wildlife Agencies for fishery conservation and management projects. Reducing demand for fishing reduces the funds to ensure clean, sustainable access to America's waterways.

Third, the tariff will have a disproportionate impact on our industry, which is overwhelmingly small businesses. 80 percent of the companies earn less than $1 million in revenue per year, and roughly 40 percent of all goods in the U.S. in this category are sourced from China.

In our category, adding these new tariffs to the existing duties and excise tax will increase our effective import tax to more than 50 percent above the manufacturing costs.

Fourth, our consumer represents a wide swath of the American consumer, with almost 50 million anglers in the U.S. and very -- a very large portion of them are in below the median income. It's a very approachable sport. These increased costs will cause disproportionate harm to this group.

Finally, these tariffs will have a disproportionate impact on my company, including potentially driving us out of business. Catch Co. is still a start-up company. And even though we are growing at over 35 percent a year, like most players in our industry, our profit margins are very tight.

The number one product we manufacture

and sell is artificial baits. Our engineers and designers develop most of these products in the U.S. but we manufacture most of these goods with our factory partners in China. We've invested a significant amount of our limited capital and resources to finding quality suppliers, visiting their factories, and setting up our supply chain.

We have spent time trying to find other locations in the U.S. and in other near-shore locations, but no one can match China for quality and capacity. This is why 47 percent of the imported goods in this category come from China.

We will not be able to transfer our products to other locations without a significant and costly effort, and the product quality and cost will be much worse. Anglers are very price sensitive, so we don't believe we'll be able to pass on these costs to consumers without a corresponding reduction in demand.

Our estimates show that the tariffs will reduce our profits by up to 30 percent, via reduced gross margins or from reduced demand after raising prices. As a result of these tariffs, we will reduce capital investments in the U.S., reduce new product development, reduce hiring, and potentially go out of business.

The risk from these tariffs to our business is existential, and that is why we have put in the effort to travel here today.

To summarize, adding the tariffs will hurt small businesses, hurt low income consumers, hurt the environment, and will not be effective to change China's practices. Accordingly, we believe the USTR should exclude 9507.90.7, artificial baits and flies, from the proposed tariff list.

Thank you for your attention.

MR. BURCH: Thank you, Mr. MacGuidwin.

Our next panel witness will be Patrick Gill with TackleDirect. Mr. Gill, you have five minutes.

MR. GILL: Good evening and thank you for having me provide testimony this evening.

My name is Patrick Gill. I'm the CEO of TackleDirect. TackleDirect is part of the eCommerce Outdoors Network of specialty stores, and is headquartered in Egg Harbor Township, New Jersey.

eCommerce Outdoors is a direct marketing company and multi-channel specialty retailer, as well as an importer/exporter of fishing tackle primarily. We operate two physical retail store locations in southern New Jersey, and two online stores that sell outdoor products, primarily fishing tackle, to consumers throughout the U.S. and around the globe.

Our first ecommerce store, TackleDirect.com, the world's premier fishing outfitter, began in 1997 as a dorm room project, and is a growing leader in the online sporting goods category.

As an ecommerce, as well as brick and mortar retailer of fishing equipment, employing close to 100 people in the U.S., we are deeply concerned with the impacts proposed in Section

301 tariffs of up to 25 percent will have on domestic jobs, fishing participation, and conservation funding.

Recreational fishing equipment is already subject to a unique 10 percent excise tax, as well as other import taxes, as you know. Adding additional tariffs of up to 25 percent would be difficult for the industry to withstand. Of the approximate 90,000 SKUs sold by TackleDirect, we estimate there will be at least 34,000 potentially subjected to the Section 301 tariffs, including but not limited to fishing rods, fishing hooks, fishing reels, fishing line, fishing leader, fishing landing nets and similar nets, and artificial bait and flies.

While the recreational fishing industry shares the same concerns as other industries impacted by these tariffs, namely higher costs that will be passed on to the U.S. consumer, the sport fishing industry would be uniquely burdened by these proposed tariffs, given the existing excise tax and other import duties paid by the industry.

Unlike most other industries, the recreational fishing industry is already subject to this 10 percent federal excise tax for most fishing equipment, which is collected at the first point of sale in the U.S. As mentioned by other speakers, these funds go to support Sport Fish Restoration and Boating Trust Fund, the SFRBTF, which provides funds to state and wildlife agencies for fishery conservation and management projects, including boating access and aquatic education.

The inevitable reduction in consumer spending resulting from the new proposed tariffs would more than offset proportional increases in excise tax contributions that may come from resulting higher product costs.

Recreational fisherman are historically a price-sensitive group. When prices go up, many anglers simply look for other lower-cost ways to enjoy their day with their families and friends.

Consequential losses resulting from tariffs on the fishing industry, which has a broader reach than many other industries, collaterally will detrimentally affect fishing-related sales of boats, trucks, fuel, travel, food, bait, et cetera. Approximately $7 billion in U.S. fishing equipment retail sales is a critical component of driving an overall economic impact of over $125 billion in the U.S. annually.

In addition to harming the large number of U.S. small businesses who import and sell fishing equipment from China, reduced consumer spending would put conservation funding at risk as well. Fewer fishing equipment purchased means less revenue into the SFRBTF fund, which ultimately means less funding for programs important to the Trump administration's priorities to improve public access to the outdoors.

I respectfully implore the committee to take into consideration the negative impacts that these proposed additional tariffs on fishing equipment would have on fishing participation, conservation funding, U.S. jobs, and businesses directly and collaterally, and make the decision to exempt sport fishing equipment from the new proposed Section 301 tariffs.

Thank you for your time and consideration. And I look forward to your questions.

MR. BURCH: Thank you, Mr. Gill.

Our next panel witness will be Jordan Davis with O. Mustad & Son Americas. Mr. Davis, you have five minutes.

MR. DAVIS: Thank you.

My name is Jordan Davis, and I am the President and Chief Sales Officer for O. Mustad & Son Americas. We are a manufacturer of hooks, line, lures, tools, and other accessories. Our office is located in Miami, Florida. And we are the outright owner of our main manufacturing facility in Wuxi, China.

I want to begin by asserting our support of the position of the administration regarding current Chinese trade practices and support the correction and realignment of said practices specifically in regard to intellectual property in high tech fields. However, the disproportionate effects the proposed tariffs will have on our collective businesses within the recreational fishing industry, as I will outline further, should be considered.

Based on the grounds of these disproportionate impacts, I would like to request on behalf of Mustad and family, that the products under heading 9507 of the Harmonized Tariff Schedule be excluded from Section 301.

Further, I would like to request that any products subject to a federal excise tax as part of the Federal Aid in Sport Fish Recreation Act of 1950, commonly known as the Dingell-Johnson Act, be excluded as well.

These excise taxes associated with the Dingell-Johnson Act, in conjunction with current duties placed on sport fishing equipment, provide substantial funding for state fish and wildlife agencies. Over the past 10 years, more than $1.3 billion has been allocated towards the state agencies, helping to offset growing budget shortfalls at the state level.

However, these federal excise taxes place the sport fishing industry in a unique situation. Specifically, the proposed tariffs create a compound effect when taken in conjunction with the current excise taxes of 10 percent which are levied on the sale of all sport fishing products.

This is important to consider because state-level budget shortfalls will only be compounded by additional tariffs, as associated increase in the cost of sport fishing products will likely be passed on to customers. These price increases will negatively affect consumer spending within the categories. Historically, recreational anglers have proven to be a very price-sensitive group.

A decrease in consumer spending will have a dual effect.

First, federal excise tax revenue will likely decline in proportion to consumer spending, and; second, a downturn in angler participation is likely to take place as participating in recreational fishing would be a more expensive pastime as a result of these increases.

It should be noted that any downturn in angler participation will have a direct impact on state-level fish and game funding as license revenues would decline as a result. According to studies conducted by Southwick Association -- Associates, excuse me, and cited by the American Sport Fishing Association, a 15 percent increase in Tennessee's one-day fishing license price would result in 28 percent decrease in the number of people buying that license annually. That's more than 24,000 people not fishing in the State of Tennessee.

For context, the current one-day resident license costs $6.50. An increase of less than $1.00 amounts to more than $150,000 in lost license revenue. You should consider the impact a 25 percent increase on the cost of hooks, lures, lines, rods, reels, nets, and other sport fishing items would have on the sales and, in turn, the tax revenues associated.

Further, substantial price increases as a result of the additionally proposed tariffs will have a negative effect on the sales revenues of the hundreds of small to medium sized businesses within the sport fishing industry. The ASA reports 80 percent of fishing tackle companies record sales of less than $1 million a year. A decline in their revenues will inevitably have a negative impact on the wages and jobs of the 800,000 Americans who make a living within the sport fishing industry.

Further, companies of this size are generally not capitalized well enough to immediately invest and deploy U.S. manufacturing operations to avoid the coming tariffs, leaving them little choice other than to pass on the cost. This obviously risks a decline in their income.

The alternative, which is even less palatable, is for those companies to absorb all or some of the tariff impact into their margins, which is equally if not more likely to cause financial harm.

In closing, the proposed tariffs create a number of initially unforeseen or possibly unknown circumstances which impact not only the revenues of companies within our industry but the state and local Fish and Game Agencies, the Federal Fish and Wildlife Service, and the millions of Americans that are employed by or involved with the sport fishing industry. As such, we kindly ask that the products under heading 9507 of the Harmonized Tariff Schedule be excluded from Section 301.

Thank you for your time.

MR. BURCH: Thank you, Mr. Davis.

Our last panel witness will be Jeffrey Moore with W.C. Bradley and Zebco Holdings. Mr. Moore, you have five minutes.

MR. MOORE: Thank you. And thank you for your attention through a long day.

My name is Jeffrey Moore. I am the Vice President of Operations for Zebco, a U.S. company headquartered in Tulsa, Oklahoma, which has been producing recreational fishing equipment for more than 70 years.

I am here today to respectfully request the United States not impose Section 301 tariffs on recreational fishing equipment. These tariffs represent a unique and potentially existential threat, both to Zebco and to the recreational fishing industry as a whole, as experience has repeatedly shown that consumers are very price sensitive and will choose alternative, less expensive recreational options.

In my testimony today I would like to make four points:

Why Zebco began importing merchandise from China around 2001;

Why we are still importing merchandise from China today;

The special circumstances of the 10 percent excise tax the sport fishing industry currently pays;

And what is at stake for Zebco and the recreational fishing industry if the U.S. imposes these List 4 of Section 301 tariffs.

Zebco began producing fishing reels in Tulsa, Oklahoma, in the late 1940s, and continued production until 2001, shortly after U.S. trade policy shifted favorably towards China. The U.S. supported China joining the WTO, and Chinese goods were granted permanent Most Favored Nation duty treatment.

Zebco, like every one of our competitors and most other U.S. consumer goods manufacturers, were compelled by the economic realities to either outsource production of goods or close our business entirely. Zebco's entire U.S.-based component supply chain closed as well.

The suppliers Zebco once relied on to build fishing tackle in the U.S. no longer exist in the United States.

A lot of people have misconceptions about companies that moved production to China, as if for some unexplained reasons hundreds of companies with long histories of producing goods in the U.S. suddenly lost their sense of patriotic identity. Zebco never lost our American pride, but like every other rational economic actor, manufacturing goods in China became an unavoidable choice.

We weren't the first company to shift production to China, not by a long shot. In fact, we were the last major fishing reel manufacturer to leave U.S. production. We held on in the U.S. as long as we could.

The point is, U.S. trade policy drove the change; we followed your lead.

We understand that policies change. And we can adapt like we did before. That said, we cannot move our supply chain overnight. Over the last 10 years we have spent significant time and money researching the central sources of supply for fishing tackle outside of China.

Despite these ongoing efforts, Zebco has not successfully found any non-Chinese sources capable of producing the quantities and the quality we require.

This is especially true since Zebco's product portfolio spans a wide range of goods from less expensive entry level equipment to high-end equipment.

It is also very important to note that the recreational fishing equipment is already subject to a 10 percent excise tax. Unlike most other industries, upon the first sale of fishing equipment in the United States a 10 percent excise tax is paid. Zebco and the sport fishing industry would be uniquely overburdened by additional duties on top of the current 10 percent excise tax.

Please don't mistake my reference to this excise tax as a complaint. The excise taxes paid by Zebco and the fishing industry go into the Sport Fish Restoration and Boating Trust Fund, which provides funds to state Wildlife

Agencies for fishery conservation and management products, boating access, and aquatic education. Zebco willingly pays these taxes as we believe it allows affordable access for U.S. families to enjoy America's abundant natural resources.

In many years, Zebco's import duties and excise tax payments exceed the amount earned in profit. We estimate that Zebco's direct and indirect contributions to excise taxes exceed $350 million since the law went into place.

We believe the imposition of these proposed tariffs puts recreational fishing at risk of being taxed into a sport for only the wealthy. Recreational fishing is an especially family-friendly activity that children and adults enjoy. Zebco takes pride in providing affordable access to quality fishing equipment. This is the model we've built our company on.

We distributed millions of rods, reels, and combos every year that have a retail price point below $20. Because these purchases of fishing equipment are contingent on disposable income, they are extremely price sensitive. Simply put, supplemental tariffs of up to 25 percent will have the effect of pricing many of the 49 million recreational anglers out of the sport.

Increased cost, especially at lower price points, will surely result in many American families being unable to afford this pastime. As a result, any Section 301 duties will cause severe economic harm to Zebco. They will also harm, cause harm to conservation programs due to reduced funding via the excise tax, resulting in significantly reduced sales of fishing equipment.

For this reason we respectfully request that you remove the subheadings affecting recreational fishing gear from the scope of 301 duties. If the subheadings are not removed, we respectfully request that a product exclusion process be adopted concurrently with the implementation of any such duties.

Thank you for your attention.

MR. BURCH: Thank you, Mr. Moore.

And, Madam Chairman, this concludes panels of witnesses.

MR. HART: I have a question for Mr. Hughes. I think we've gone over this a little bit, but just to confirm.

Are there substitutes to imports from China, either domestically or in third countries?

MR. HUGHES: So, and if you don't mind I'd also like to be able to defer to Mr. Kent --

MR. HART: Yes.

MR. HUGHES: -- who runs the largest company in the world, and Mr. Moore who's close, in the top five certainly.

That right now China is the number one exporter of fishing rods and reels. As a matter of fact, they have two-thirds of the world's market. And the next closest is Japan at about less than 20 percent.

And so, right now the manufacturing infrastructure does not exist in the rest of the world outside of China, and just in pieces, mostly less than 5 percent in smaller countries around Asia and other parts of the country -- other parts of the world.

MR. KENT: To build on what Mr. Hughes just said, that manufacturing that is, that does exist in Japan is controlled by two Japanese competitors of us as U.S. manufacturers.

In the rod manufacturing, if you add up all of the rods produced in China and then all the rods produced in other countries outside of the China, the other countries represent about 5 percent of what China manufactures. So it is a huge percentage of the total global capacity that they control.

MR. HART: And in terms of the price and quality of sports fishing equipment across the ranges, does that vary depending on the source or the exporter?

MR. KENT: It's pretty broad in terms of all, all different price points across it. So, yes, the business has essentially been shifted there regardless of what the price points are.

MR. HART: Okay. And then one final question.

If tariffs were to be put on, what degree of U.S. production do you think might be able to increase or meet demand?

MR. KENT: The issue is -- and I will also ask my colleague to, to make his assessment -- the issue is, is that it is a highly, there are two issues, on reels it is a very capital intensive business, so the ability to get production up and running it's really driven by time. So, it would be a 2- to 3-year process for that.

The issue with rod manufacturing is it is very labor intensive. You literally are threading guides on a rod. And that would be complicated in terms of training a workforce to get them up to that level and that quality level required.

MR. MOORE: And if I may add, please, that as I mentioned in my testimony, when we moved manufacturing from Tulsa, Oklahoma, all of our sub-supplied network, processes that are not available today in the U.S., preclude us from bringing that production back. Many of those things probably would not be able to be permitted in our -- in the U.S. today.

MR. HART: Thank you.

CHAIR GRIMBALL: Mr. Kent, I had an additional question concerning the fishing reels produced by the Japanese manufacturers Shimano and Daiwa.

MR. KENT: Yes.

CHAIR GRIMBALL: Could you give us an idea of the current price difference between the products that are sourced in China versus products that are sourced in Japan? Currently situated, are those prices the same? Is one cheaper than the other?

Or anyone.

MR. KENT: No. In a good, better, best world, the reels coming out of Japan would be better and best. I would say would be predominantly better and best. But there is some good coming out of there.

The reels coming out of China cover all of those price points.

MR. MOORE: If I may add, the two tariffs up to $8.45 price represent about 98 percent of all fishing reels coming into the U.S. That is we estimate 80 to 90 percent of the U.S. market. A very price-sensitive group. Those would be retail prices somewhere in the neighborhood of almost $100 for reels in those price ranges.

MR. GILL: I would add the two Japanese companies you mentioned, a large amount of their fishing reel manufacturing is actually in China. Very little is manufactured in Japan.

But as stated earlier, they're not subject to these, these tariffs in Japan, so oftentimes the product is manufactured in China, brought to other parts of the world before its actually comes to the U.S. in some cases with some of the competitors that are not U.S. headquartered. If that makes sense.

MR. SECOR: One follow-up for Mr. Kent.

Are there other aspects of the manufacturing done in the U.S., the design work for example?

MR. KENT: Yes. We do, we do all of our design work here in South Carolina as well as our facility in Iowa.

MR. SECOR: Thank you.

MS. HUANG: My question is for Tim MacGuidwin.

You said in your testimony that no other countries are practical substitutes for sourcing from China, citing price and quality. Can you expand on why in your view it is infeasible to source from other countries or domestically in the United States?

And, to your knowledge are the products in question produced outside of China at all?

MR. MacGUIDWIN: To answer the last question first, yes, a significant portion of the products are made outside of China. As I mentioned, 47 percent of the imports are from China. And there's kind of a laundry list of some other countries that are manufacturing the artificial baits and lures.

One thing to note about that is some of the biggest countries are actually owned facilities by some of our competitors. For example, the second biggest country that manufacturers artificial baits is Estonia. And that's actually from an owned facility by a European company Rapala VMC.

So, there are other places in the world that can do the manufacturing for these products. What we have found as a small company is it's very difficult to get access to somebody else's owned facility in one of these other countries. And for those that we have found, we have tried some other countries like the Dominican Republic and Costa Rica. We have not been able to both see the level of quality or the capacity that we need to meet the demands of our consumer.

MS. HUANG: Thank you.

MR. DEVINE: I'm Andrew Devine from the U.S. Department of Agriculture. I have a few questions for Mr. Gill.

First of all, with regard to your online business do you import and warehouse the products that you import from China in the U.S. before distributing to customers or do they go directly to customers?

MR. GILL: Yeah, everything is imported either direct or through distributors here in the U.S. and warehoused and shipped from the U.S.

MR. DEVINE: Okay.

MR. GILL: 100 percent.

MR. DEVINE: A number of witnesses on the panel have mentioned that price sensitivity of anglers, but you've said specifically that they may choose to find other activities instead of fishing. So I'm going to ask you this question but it really applies to the whole panel.

Do you have evidence to support that, that anglers are price sensitive?

MR. GILL: I don't have specific evidence. But I believe the industry has done some studies over the years. I don't know if Mr. Glenn Hughes can talk to that as the industry as a whole.

But I can, I mean, obviously listening to other testimony in other industries, the price sensitivity is an issue in many industries. One thing I'll say about recreational, multi-generational pastime sport like fishing, it's really about share of wallet. Right?

So, you're a young or kind of up-and-coming young family. You have to choose between the money that you spend, whether it's the movies, or going out on a boat or, you know, going out and spending time at the beach, or taking a trip in a park. Fishing equipment is just one component of a much larger economic impact in the U.S.

If the core equipment that you need to take that outing is considerably more money to the consumer, you may actually opt out of that trip altogether, which would impact fuel, boats, fishing licenses, apparel, and food, and all the other ancillary purchases that happen as part of planning a trip. And the fishing equipment is actually a very small portion of that total cost.

So, while we could certainly follow up with the committee on data in the industry, it's more about, I think the better way to look at it is the American, young American family and how they spend their money, and where they spend it in terms of cost.

And it's, it's very difficult already on the industry due to challenges with access, participation, fisheries management, all sorts of things that are making fishing more difficult in the U.S., and has happened for many years. Adding cost of the core equipment to take that outing, it only reduces the participation further.

MR. HUGHES: Mr. Devine, if I may add to that?

MR. DEVINE: Sure.

MR. HUGHES: So, as has been stated by Mr. Moore, just if you reference, for example, the pricing of fishing licenses. So, one of these things, something that's somewhat unique to fishing and hunting, of course, is that to participate you need licenses, and at least between the ages of 16 and 65.

And, so, studies have been done by Southwick Associates. And just to reiterate and add to what Jeff said, you know, Tennessee we have done a survey with Southwick Associates regarding the pricing of fishing licenses, again that average generally between $15.00 and $20.00 per state. To add just a 10 percent increase to the license in Tennessee would be a reduction of 40,000 anglers. In Oklahoma a 10 percent reduction would be 19,000 anglers. In Kentucky a 10 percent license hike would be 12,500 anglers. So, they would chose to not replace their fishing license.

And, again, a fishing license makes up, you know, a similar consistent revenue for the U.S. Fish and Wildlife Agencies and for the state Fish and Wildlife Agencies.

MR. DEVINE: Thank you. And just one last question.

You mentioned you sell 90,000 SKUs and that approximately 34,000 of those would be subject to 301 tariffs. Is the remaining 56,000 other substitutes or can consumers -- yeah, that's the question.

MR. GILL: I understand the question.

So, as stated by some of the other speakers giving testimony, there are certain categories in fishing where 95 to 100 percent of the product is actually manufactured in China. For example, fishing rods has a very high percentage.

And of, of that percentage in our assortment that is not manufactured in China, a lot of that is in other categories outside of fishing tackle. So, we sell marine supplies, marine electronics, apparel, other boating accessories, and other categories outside of fishing that make up that SKU count.

But in the core components of fishing equipment, I would actually estimate that the 34,000 SKUs is probably on the low side. In the core categories in our assortment, the percentages that are manufactured in China are actually much higher.

You can just walk around our retail store and take a look in a warehouse and just look at the country of origin, and the majority of what we sell is manufactured in China in the core categories that we sell.

MS. SMITH: Good afternoon.

Mr. Gill just answered the question that I had. And my question actually is directed to Mr. Davis. One moment.

Thank you for your answer, Mr. Gill.

MR. GILL: You're welcome.

MS. SMITH: We have heard quite a bit

of how the industry on different levels would be affected. And in your testimony you state that these tariffs will have such a negative impact on wages, jobs, over 100 -- over 800,000 Americans who are making a living in the sport fishing industry will be impacted.

Can you tell me how your company will be directly impacted by this? And one other, are you considered a small business?

MR. DAVIS: Yeah, a very small business. I'll withhold our revenue as a proprietary piece of information. But we employ 15 people in the U.S.

We're a, we're a global company. Our ownership is based in Norway and we operate in 160 countries via distribution. And so we have similar operations throughout the world.

Specifically towards here, the 15 people that we employ we cover 100 percent of their medical costs. We have one of the best paid time off packages. I think you could compare it to the rest of the industry. We do a lot to support them in philanthropy and volunteerism by giving them extra paid time off for those things.

If we had to pass on a 25 percent price increase to consumers, and I, I can emphatically state that we would not be able to afford to absorb even half of that, our bottom line is not that healthy, as I'm sure my colleagues here would attest to their businesses as well, we have to find that savings somewhere.

Hypothetically speaking, let's say the revenues weren't impacted as far as the volume of purchases from consumers, we're still making 25 percent less, you know. And that's going to impact the 100 percent healthcare coverage we offer, the extra days off. We pay, I would imagine, a higher wage than most other companies in our industry. Again proprietary, but I'd be happy to share that privately. Those things would all be impacted.

We just don't have the variable cost structure because of the way our company is built to find those costs in other areas because so much administration happens within our, within our offices here.

MS. SMITH: Thank you very much. That's very helpful.

MS. WINTER: This question is for Mr. Moore from Zebco. Thank you for your testimony.

From what I'm picking up from all of you, it sounds like about half of the equipment is made in China and half is made elsewhere, with spikes being in China for some, you know, up to 90 or 100 percent for certain types of equipment. If roughly half is made outside China, and you say you've been working for 10 years to, you know, try to find other sources, is it possible that those efforts could be redoubled so that you would for at least certain product lines, product types, be able to, to find other sources given that there is some sourcing from outside China, whether it's in the United States or just outside China?

Or is that, you know, how do you see

the future there given that that's the future that is upon us?

MR. MOORE: Thank you. Thank you for the question.

I'll answer in two ways. As I mentioned in my testimony, we were an American manufacturer since even before the '40s. We made, we were the Zero Hour Bond Company before we made fishing reels.

When we made the hard decision to outsource beginning in the late '90s, it was a long-term project. We spent a couple years studying, about three or four years to fully outsource that production from the time we made that hard decision until we fully closed our production facilities in Tulsa and laid off 400 workers.

In direct response to your answer, I think I have two comments. One is, is the approximation of half, respectfully, is low. It's probably more 70 or 80 percent of rods and reels specifically are in China. And that's the business that Zebco is in.

So, although baits, and lines, and other things may be made in other countries, our company, for the categories that we sell, at a bare minimum 80 percent of that production capacity in the world is within China.

And as I've mentioned again in my testimony, we've spent almost 10 years looking. We looked very hard at Vietnam. We looked very hard at India. Costs were almost three times what they are in China from those countries.

So, so even if tariffs are a burden, that cost is still going to be lower than what we believe we can buy products of equal quality in those other countries. So, in short, we, as my colleagues have stated, we will have no option but to pass that additional cost increase along to the consumer.

Thank you. I hope I answered your question.

MS. WINTER: Thank you. You did.

So, since you, many of you have gone

from producing things here to producing things in China, is the, is part of the attractivity of China government policies that support that production, like, you know, just, I don't know, land, being able to produce somewhere?

Do you -- I guess you own your own facilities there or is it contract?

To the extent you own them, what is the -- or even for your contractors -- how is China making it so that they are able to produce so much more cheaply than, let's say, Vietnam or another country that you've tried to look at?

In other words, do you sense or do you know that Chinese government policies at the local, provincial, or even central level are causing this, you know, causing the ability of your suppliers to supply at such low prices?

MR. MOORE: Thank you. To my knowledge there's no special government incentives on the fishing industry. Fishing is unique in that the complexity of the product for the retail price is pretty unique.

If you think about a fishing reel that's imported into the U.S. below that 2.70, which is a very -- $2.70 U.S., which is a very large number of reels, you have gears, you have bearings, you have many different manufacturing processes such as plastic injection molding, metal die casting, zinc die casting, you know, there's a lot that goes into that platform.

So, in direct, again in direct answer to your question, I believe that it was, it was the source of labor at the beginning, but today they now have the supplier network, bearings, bushings, gears, all the things that we do not have in the U.S. today, are only able to find there.

MS. WINTER: Thank you, sir.

MR. MOORE: Thank you.

MR. BURCH: We now release this panel of witnesses with our thanks.

We will recess this hearing until tomorrow.

CHAIR GRIMBALL: We will begin

tomorrow at 9:30 a.m.

Thank you for your participation, thank you to members of the panel for your participation as well.

(Whereupon, the above-entitled matter went off the record at 5:49 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 06-17-19

Place: Washington, DC

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Court Reporter