Testimony of

Bill Sells, Senior Vice President of

Government Relations and Public Affairs

for

The Sports & Fitness Industry Association

Before the United States Trade Representative

on

Proposed Tariffs on Chinese-made Products

June 25, 2019

Thank you for the opportunity to appear. My name is Bill Sells. I am the Senior Vice President of Government Relations and Public Affairs for the Sports & Fitness Industry Association (SFIA). SFIA members include more than 300 companies and 750 brands that manufacture and sell sports and fitness products. SFIA members have a global economic impact estimated at $75 billion annually.

SFIA enthusiastically supports President Trump's efforts to bring China into compliance with international intellectual property laws and shares the President's commitment to providing high-quality jobs for America's workers. However, we strongly oppose the proposed tariffs because they will disrupt our members' business models, cause lasting economic harm to American sports companies, and result in higher prices paid by millions of American consumers who rely on our members' products to keep them safe, healthy, and happily engaged in their sporting endeavors. In short, while we applaud the goals of the United States Government acting to pressure China to more adequately protect intellectual property rights, we believe this proposed use of indiscriminate tariffs are the wrong instrument; and will not result in the outcome we all desire.

I am testifying today to draw your attention to three dynamics created by the recent tariffs. The first issue is the inequity between tariff rates on raw material inputs and tariff rates on finished products containing those inputs. The second issue pertains to domestic sourcing inadequacies and the complex supply chains that our members use to make as much of their products in the United States as is practicable. The third and final issue that I will discuss is the way in which these tariffs burden our members' efforts to supply a full product line to their consumers, which is necessary to retain the brand loyalty and stay competitive with foreign competition.

On behalf of our member companies, SFIA has submitted 46 petitions covering 36 HTS codes targeted for increased tariffs. SFIA requests relief from the proposed tariffs on helmets, baseballs, tennis racquets, sports accessories, input materials such as golf club parts used to manufacture sports equipment in the U.S., and other sports products that have accompanied American athletes as they suited up for everything from high-stakes Olympic gold medal games, to friendly competitions at company picnics, and backyard touch football games at family reunions. We oppose the application of these tariffs to our members because they will make participating in sports and fitness more expensive for average Americans at a time when family budgets are stretched to capacity and healthcare costs are skyrocketing. Cost is a barrier that keeps many people from participating in sports. To improve health, and increase participation in sports we need to lower barriers rather than raise them. SFIA and its members are concerned that these tariffs will harm consumers particularly in low income communities, who may be forced to abandon the sporting activities and active lifestyles that are important to both their health and community. In addition to hurting consumers, these tariffs put American firms at a competitive disadvantage to their foreign adversaries by creating loopholes and workarounds that aren't available to American companies who play by the rules and make every effort to employ American workers.

Raw Material Inputs

One way these tariffs benefit foreign companies at the expense of small to medium sized business is by imposing tariffs on raw materials that are imported from China. To maintain U.S. production, our members have spent decades developing creative solutions, such as sourcing parts abroad, in an effort to minimize offshoring. Many of our members fear that these new tariffs may force them to comprehensively reevaluate their global supply chains, including possibly moving more operations off shore. While a company in Korea could import raw materials from China and manufacture them into a final product without paying a 25% tariff, no such work around is available to American producers. In addition to the costs of redesigning their supply chains, members looking to source outside of China would likely be required to breach long term supply contracts at considerable expense. Choosing between these competing evils is not easy; especially when companies see the President threaten to institute round after round of unpredictable tariffs. Under these uncertain conditions, many of our members are enticed by the prospect of manufacturing abroad because in those countries they can ensure that at least some fixed costs like raw materials and labor will be lower than they are in the United States. Maintaining the status quo by exempting our members' products from List 4 tariffs would allow them to avoid these difficult decisions and continue using supply chains that include American manufacturing.

In addition, our members have already taken many steps to diversify sourcing outside of China. But it can take years to find alternative production options, train a workforce, develop the necessary infrastructure and build a manufacturing facility. China remains a vital and not easily replaceable link in our industry's supply chain. Shifting manufacturing to other countries is simply not feasible in real time or at scale. The primary effect of these tariffs on domestic manufactures is the creation of a competitive advantage for their foreign competitors who will not have to pay tariffs on raw material inputs.

Domestic Production Capacity

While the application of these tariffs to many economic sectors may create meaningful leverage against the Chinese, leather goods and apparel manufacturing are not a viable fulcrum because there is not enough domestic production capacity for our members to quickly onshore their operations. According to the nonpartisan Pew Research Center, between 1987 and 2017, American capacity for manufacturing apparel and leather goods fell 85%.[1] That decline in capacity is markedly different from other sectors that have seen capacity increase considerably over the same time period. For example, manufacturing capacity for fabricated metal products increased 27%, machinery capacity increased 44%, and motor vehicle capacity increased 124%. The simple fact is there is extremely little domestic capacity currently available to produce sports equipment and athletic footwear. These industries, however, represent thousands of well-paying American jobs in engineering, product development, research, finance, advertising, marketing, sales, supply chain management and sports promotion. We implore you to preserve those sectors of the economy that provide both high quality jobs for American workers and meaningful opportunities for American companies to best their foreign competitors.

[1] https://www.pewresearch.org/fact-tank/2017/07/25/most-americans-unaware-that-as-u-s-manufacturing-jobs-have-disappeared-output-has-grown/

Complete Product Line

Most Americans know the names of SFIA members before they know how to drive a car. Our members make timeless products like Rawlings baseball bats & gloves, Everlast punching bags, Bauer Hockey Sticks and Titleist Golf Balls. They also make instant classics like Spikeball's Roundnet game, which despite being founded a little more than a decade ago in a garage in Chicago, has found its way into the hearts of 4 million players who attend more than 150 official tournaments annually. While our customers are loyal to our members' brands, sports and fitness companies cannot frequently survive on one product alone. Importing some parts of a complete product line from China is a necessary means for leveraging brand loyalty to remain durably profitable. While folks may only purchase one punching bag in a lifetime, consumers routinely purchase several pairs of boxing gloves. Every company strikes a delicate balance between quality and cost by assessing both their operations and the price sensitivities of their customers. Some price points can only be offered by manufacturing a product or part of a product abroad.

As one example, consider the bespoke golf club market. Increasingly, our members are working with golfers to build clubs uniquely suited to their size and swing. Companies are able to offer these products at an affordable price because they can import component parts of golf clubs, modify them to match their customers' specifications, and assemble them in the United States. Adding a 25% tariff to these component parts not only reduces the population of people able to afford these clubs, it threatens the jobs of people in the United States who work with customers to take component parts and make them into one-of-a-kind products. These tariffs undermine both the profitability of the listed products and the entirety of our members' operations thereby threatening many of the high quality jobs that will serve as the basis of America's economy in the 21st Century.

Conclusion

Finally, SFIA wishes to point out that the USTR's expansion of tariffs to certain List 4 products appears arbitrary and counter to past administrative determinations. For example, the USTR properly saw fit to remove safety helmets from List 3, and the International Trade Commission, Congress and the President granted tariff relief to certain input materials such as golf club parts through the MTB process to promote U.S. manufacturing. Imposing tariffs on these products is contrary to these prior administration trade policy decisions Should the administration choose to impose these tariffs, we hope that it will also create an exclusion process for products, including many made by SFIA members, that are not a viable means for creating leverage against China.

In conclusion, we believe China should be pressured to uphold intellectual property rights, but tariffs on our products may have the unintended and perverse effect of harming U.S. companies, while incentivizing counterfeiters and other criminal enterprises who do not play by the rules. American companies have invested significant time, money, and personal capital to establish viable business relationships with reputable Chinese manufacturers. They've worked together to ensure IP protections, labor rights, and other business practices are built into their agreements and supply chain operations. Counterfeiters and criminal syndicates by definition avoid legitimate business relationships, and do everything they can to smuggle product outside official channels. They don't and won't pay any tariffs. The impact of these tariffs, then, will be to harm those who follow the law and work cooperatively with American companies and the consumers.

I appreciate your consideration of my industry's concerns and perspective on the proposed tariffs. I would be happy to answer any questions.