

Fabian Garza. VP of Operations. Black Diamond Testimony. Reforming the Generalized System of Preferences to Safeguard U.S. Supply Chains and Combat China.

Good afternoon, Chairman Smith, ranking member Blumenauer and members of the committee, and members of the subcommittee, thank you for allowing me to testify today. My name is Fabian Garza, I am the Vice President of Operations at Black Diamond Equipment. I am responsible for steering the company's global supply chains and determining our strategic sourcing direction.

Our headquarters is based in Salt Lake City, Utah. We specialize in designing and manufacturing outdoor equipment and apparel, specifically for the activities of climbing, skiing, trail running, and hiking. Our legacy intertwines with that of Patagonia with both companies emerging from Chouinard Equipment, Black Diamond was founded in 1989 and prides itself on exceptional quality, its commitment to environmental sustainability and diversifying the mountain community. As a testament to our roots and growth, we currently employ 321 U.S. workers across six states, 49 of whom are in manufacturing roles.

Our representation here is not solely on behalf of Black Diamond, but also as members of the Outdoor Industry Association. The concerns we raise today resonate with the broader outdoor industry sector.

Beginning in 2006, Black Diamond Equipment established a significant manufacturing presence in Zhuhai, China, with a dedicated production facility and warehouse. By 2015, we opted to shift our focus from China, diversifying our manufacturing across various nations while also amplifying our U.S. manufacturing operations - a vision that came to fruition. One of the pivotal tools employed to facilitate the shift from China was GSP.

Today, we import vital outdoor industry goods from over 20 nations, with a significant portion of GSP-eligible products originating from Cambodia, the Philippines, and Pakistan. For our colleagues in the outdoor industry, Indonesia is also a key supplier. Duties on select products, such as backpacks, duffle bags, and chalk bags, can soar to 20%, making the duty-free advantages of GSP immensely beneficial for enterprises of our scale.

It is important to recognize other advantages of GSP, which include fostering industrial advancement in our beneficiary nations, which translates into job opportunities and improved living conditions. Such progress makes these countries attractive for investments. GSP also promotes trade with nations that are committed to reinforcing labor rights, protecting intellectual property, and other eligibility criteria. This approach not only bolsters our diplomatic relationships but also emphasizes our nation's commitment to principled and sustainable trade.

The expiration of GSP at the close of 2020 has imposed significant financial burdens on the outdoor industry, amounting to an estimated \$1.65 billion in tariffs. Of that amount, Black Diamond itself accounted for over one million dollars in additional duties. All of this while the broader outdoor sector is grappling with the adverse impacts of an unstable market. Mounting inflation and the current economic landscape have eroded the disposable income of American families, which in turn has detrimentally impacted leisure activities and our subsequent revenues. Given the uncertainty surrounding the renewal of the GSP, many of our industry peers are contemplating a return to manufacturing in China. Black Diamond has implemented a hiring hold this year, suspended select product development projects, and delayed other pivotal initiatives. The considerable impact of a potential retroactive reinstatement of GSP, along with the recovery of the previously mentioned \$1.65 billion in duties, is of paramount importance and immense urgency.

In addition to advocating for the retroactive renewal of the Generalized System of Preferences (GSP), there is an imperative need to revise the competitive needs limitations (CNLs). This revision would better support businesses like ours in diversifying supply chains away from China. The current model, wherein the CNLs' dollar threshold grows by a consistent \$5 million annually, fails to align with the escalating value of imports, especially in the realm of travel goods. For context, in 1996, this increment reflected a 6.7% rise, but by 2023, it has diminished to just 2.53%. Such a configuration deviates from the original intent of the legislation and inadvertently stunts the expansion potential of domestic sectors by imposing growth constraints at unduly low thresholds.

For our industry, challenges arise concerning the 8-digit HTS classification for backpacks. Since the inclusion of travel goods in the GSP program by Congress in 2016—a monumental step for the outdoor industry—we have witnessed a significant shift of production away from China. This transition gained momentum in 2017, when Ambassador Lighthizer extended duty-free benefits for travel goods to all GSP beneficiary nations, including the likes of the Philippines and Indonesia. Nonetheless, establishing a robust domestic industry is a long-term endeavor. Even with the rapid production surge in GSP beneficiary countries such as Cambodia, Indonesia, and the Philippines, China remains a predominant player in this segment. Notably, Indonesia has already exceeded the CNL benchmarks for backpacks.

In 2022, the CNL threshold was set at \$205 million. Surprisingly, this only constituted 8% of the total U.S. imports of items including backpacks and sports bags for that particular year. Despite China's dominant position as the leading supplier for these products, there exists a significant potential to further diversify and grow within this product sector. However, the constrained rate ensures nations like our partners in Indonesia, the Philippines, and others are unable to fully cultivate competitive industries due to these low-level cutoffs. Indonesia has already surpassed the CNL for this category, and the Philippines is swiftly nearing the limit. If the objective is genuinely to diversify our supply chains from China for these pivotal products, it would be prudent to leverage existing resources, such as GSP, to facilitate this transition.

Lastly, Black Diamond remains firmly devoted to strengthening our domestic manufacturing in the U.S. and fostering quality American employment. Amid complex supply chains, we, like many businesses, rely on imported materials for our U.S. production. These imports are further complicated by increased tariffs, such as the imprecisely applied Section 301 tariffs intended for China, which inadvertently burden American companies and consumers. Particularly concerning are tariffs on raw materials while many finished products go untaxed, as seen with our Salt Lake City products. Such policies intensify challenges for companies like ours that strive to redirect operations from China yet encounter difficulties due to unique components that are only available there. The tariffs, reaching up to 25% on some essential components, severely strain our operations. As we discuss the future of supply chains and their alignment away from China, we emphasize the immediate need for initiatives like GSP to aid domestic businesses, rather than generalized tariffs that negatively affect a vast range of U.S. industries.

While retroactive GSP renewal is our priority, I would be remiss not to mention that a new Section 301 exclusion process, a rebalancing of tariffs to mitigate harm to U.S. manufacturers in non-critical industries, or any action to bring tariff relief would be welcomed by our industry as Congress considers what to put in the trade package.

I hope this testimony gave a sense of the profound impacts GSP has on real American businesses like Black Diamond. Thank you for allowing me to share our story and our experience.

Sincerely,

Fabian Garza

VP of Operations

Black Diamond Equipment Limited