



June 13, 2019

The Honorable Robert E. Lighthizer
U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

RE: Hallmark Cards, Inc. Comments on Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (Docket Number: USTR-2019-0004)

Dear Ambassador Lighthizer:

Headquartered in Kansas City, Missouri, Hallmark Cards, Inc. appreciates this opportunity to comment on the fourth list of products (List 4), totaling \$300 billion in U.S. imports from China, proposed by the Office of the U.S. Trade Representative (USTR) for additional duties in connection with the subject Section 301 investigation, as announced in USTR's *Federal Register* notice of May 17, 2019 (84 FR 22564). Founded in 1910 by J.C. Hall, and still led by members of the founding family as a private company, Hallmark has over 26,000 employees in the U.S. and 30,000 worldwide. The company's global greetings business sells greeting cards, giftwrap and related products in more than 30 languages with distribution in more than 100 countries.

While over 200 Hallmark products have been included on List 4, we urge in particular that the following priority HTS subheadings be removed from the final list:

<u>HTS</u>	<u>Brief Description</u>
4909.00.40	Greeting cards
9505.10.25	Christmas ornaments not of glass or wood

Greeting cards and Christmas ornaments are Hallmark's two largest selling products, together accounting for a major portion of our total sales. They represent key elements of Hallmark's overall product line, which can be found in 38,000 retail establishments and online at Hallmark.com. These products are particularly critical to the success of 2,000 Hallmark corporate-owned and independently-owned Gold Crown stores nationwide, with many shoppers coming to these stores specifically in search of these two products.

As detailed below, Hallmark believes that applying higher duties to imports of the above products will adversely affect U.S. consumers as well as Hallmark and other U.S. companies engaged in the related product lines. We note that the adverse impact on Hallmark would include, *inter alia*, related U.S. manufacturing operations, such as Hallmark's major greeting card production facility in Lawrence, Kansas, as well as the Kansas City, Missouri jobs associated with these products, such as those held by our artists, sculptors, engineers, graphic designers, product planners and distribution center employees.

Details regarding these and numerous other adverse impacts are provided below.

Greeting cards (HTS 4909.00.40)

In 1909, Hallmark's 18-year-old founder, J.C. Hall, began by selling postcards out of his room at the Kansas City YMCA. Recognizing the public's desire for more privacy in communication, he started offering cards mailed in envelopes, which have been the cornerstone of the company's existence ever since. Today, Hallmark accounts for roughly half of the \$7.5 billion U.S. market for greeting cards.

A significant majority of Hallmark's greeting cards are produced at our manufacturing facility in Lawrence, Kansas by more than 900 employees. Hallmark has seen increased production needs and capacity at this plant, with a dramatic acceleration in the last three years, in addition to printing and other processing supplied by other U.S. printing companies.

While Hallmark has increased production capacity significantly at its Lawrence plant, U.S. manufacturing cannot meet Hallmark's needs for the entirety of its greeting card line. Many cards require hand assembly and packaging that is cost-prohibitive in the U.S., and some cards utilize processes and equipment that are proprietary to foreign manufacturers. Nearly all of Hallmark's foreign greeting card production is sourced from China (this is typical of other greeting card companies as well, with China accounting for 93 percent of total U.S. imports of greeting cards in 2018).

While the cost of printing and secondary finishes is comparable for cards produced either in the U.S. or China, cards requiring hand assembly are cost-prohibitive for U.S. manufacturing. In some cases these are packaged greeting card assortments that must be hand assembled into boxes or bags. In other cases they are individual cards, some with embellishments such as bows, gems, beads, designed paper and wood, some such as our Signature brand that are hand-packaged in re-sealable bags with the envelope, some with unique format mechanics requiring complex folding such as our Paper Wonder line, and some utilizing printing techniques that leverage suppliers' proprietary expertise and equipment.

The success of Hallmark's overall greeting card line, including our Kansas-produced cards, relies in substantial part on the competitiveness of these China-origin cards that diversify the assortment and constitute such an important segment of that line. The imposition of tariffs on these products would deal a major blow to this flagship business.

Given the threatened imposition of tariffs on products from China, Hallmark has been exploring the possibility of sourcing these greeting cards from third countries. To understand the challenges of this task, it is important to note that Hallmark has been working closely with Chinese factories on our greeting card production requirements since 2006. Hallmark's world-famous slogan, "When you care enough to send the very best," is an affirmation of the company's unwavering commitment to quality. Greeting card production is a complex and exacting art, requiring extremely sophisticated printing and finishing techniques to make a finished card that embodies the emotion our Kansas City-based artists intended. A complex

greeting card may have up to ten secondary processes applied by printing and finishing techniques, each requiring exacting precision and technical skills. Over time, our strategic suppliers in China have developed the technical expertise necessary to print, and even improve, complex products that meet our demanding quality standards, while also maintaining strict codes of ethical conduct and cost-efficient production lines. While some manufacturers could undoubtedly switch to new printers overnight for simple printing jobs, that is not the case for our uniquely complex product.

To date, we have been unable to transfer greeting card sourcing to countries other than China (a small portion of our new quilled product line has been sourced from Vietnam). While some of Hallmark's existing Chinese suppliers are currently in the process of establishing greeting card production facilities outside of China, it will take significant time for these facilities to meet the high standards and secure talent for Hallmark's exacting designs. These prospective shifts in sourcing cannot occur in any significant volume before 2020 at the earliest, and shifting the full range of hand-assembled cards currently sourced from China would take several years longer.

In the meantime, the impact of a tariff increase on greeting cards will be severe for the following reasons:

- If Hallmark is unable to mitigate the tariff through supply chain modifications and cost cutting, the tariff will impair the competitiveness of the entire Hallmark greeting card line – our company's lifeblood – and undermine the stability of key U.S. operations such as our greeting card manufacturing in Kansas and the creative functions performed by our artists, sculptors, engineers, graphic designers and product planners in Missouri.
- Given the U.S. greeting card industry practice of printing the price on the cards themselves, often seasons in advance, the tariff will present a pricing fiasco unique to our industry. To pass on the tariff cost through increased pricing will require changing tens of thousands of card design files and could compromise longstanding agreements with retail customers and orders placed in advance of the tariff. We would also be required to throw out existing products already in stores to replace the old cards with the newly priced cards, as we could not sell the same cards with different pricing in the same slots. The costs associated with managing the tariff will significantly impact Hallmark's financial performance and its investment in its employees who service the 35,000 retail outlets nationwide and employees in the Kansas City region.
- Our greeting card offerings could have fewer embellishments and format innovations as costs are reduced to minimize tariff exposure for cards made in China, and as some production eventually is moved to other countries where costs may be higher, product refinements will be scaled down there as well to offset the higher costs, thereby reducing consumer choice in the marketplace.
- We fear price increases will cause many consumers to reduce or even eliminate greeting card purchases, eliminating their important role in helping consumers celebrate life events, holidays, communicate with family and friends, and strengthen relationships.

- Greeting cards, together with Christmas ornaments, are critical to the success of the 2,000 independent and corporate-owned Gold Crown stores nationwide, with many shoppers coming to the stores specifically in search of these products. A reduction in greeting card purchases will reduce Gold Crown store traffic, revenue and adversely impact their overall operations. This is particularly concerning with the tariffs coming in advance of the critical Christmas selling season, which is the primary sales period for Hallmark stores.
- Reduced greeting card purchases will have a substantially adverse impact on the U.S. Postal Service. More than 50 percent of all greeting cards are mailed, thus driving revenue for the Postal Service, often during the peak holiday season, and helping support a mailing industry that employs 7.5 million U.S. workers and generates \$1.4 trillion in U.S. economic activity.

Christmas ornaments (HTS 9505.10.25)

Christmas ornaments are a critical component in Hallmark's product line, second in importance only to greeting cards. Hallmark is believed to be the only brand that has a notable market share of the \$700 million U.S. retail market for Christmas ornaments.

Hallmark Keepsake Ornaments account the majority of the Christmas ornaments sold by Hallmark. Driven by artistry, technology, quality materials, and often containing light, sound and motion, Hallmark Keepsake Ornaments command a premium price. Having begun in 1973, the Hallmark Keepsake Ornament line now includes more than 8,500 ornaments, past and present, designed to help capture memories and enrich families' Christmas tree and holiday experiences. Hallmark Keepsake Ornaments are sold exclusively through Hallmark Gold Crown stores, where they are introduced at three events each year and through Hallmark.com.

Hallmark's Keepsake Ornaments are valued by consumers because of their creative and highly detailed designs and masterful execution. They are manufactured using molding and casting processes, and in most cases, followed by intricate assembly and painting. The vast majority of Hallmark's Keepsake Ornaments traditionally have been sourced from China, which excels in these precision-manufacturing techniques. Given the threatened imposition of tariffs on products from China, Hallmark has been working to ramp up production at factories in Sri Lanka and Thailand that can meet these standards, although both have severe capacity restraints. In addition, Hallmark is currently exploring possible alternate sourcing in new factories in Indonesia and Vietnam. However, because of the exacting manufacturing requirements and Hallmark's high quality standards, movement of all production from China will take significant time. There is no production base for this type of product in the U.S.

In the meantime, the increased tariffs and the impact of moving manufacturing will affect retail sales in the near term. Production costs are a significant concern since these ornaments already are premium priced at an average of \$20, in contrast to the industry average of \$10 for Christmas ornaments. Passing on tariff costs would price Hallmark Keepsake Ornaments out of the market, and any widening of that price disparity or deterioration of the product likely will cause many

consumers to forego purchases of the Hallmark Keepsake Ornaments. This break in traditional purchases of these collectible items places the long-term health of the brand at significant risk.

Aside from Hallmark Keepsake Ornaments, Hallmark also imports a range of other Christmas ornaments that are offered through broader distribution. Hallmark sources over 99 percent of these ornaments from China. This reflects the broader market, as evidenced by the fact that China accounted for 95 percent of total U.S. imports of Christmas ornaments under HTS 9505.10.25 in 2018. U.S. production of Christmas ornaments is believed to be negligible and limited to small-batch craft items.

Specifically, a tariff increase on Christmas ornaments will have the following adverse impacts:

- Since Hallmark Keepsake Ornament prices are printed on the packaging, Hallmark may be required to fully absorb the tariff on Hallmark Keepsake Ornaments for 2019 if we are not able to offset cost increases related to the tariff.
- Product modifications to Hallmark Keepsake Ornaments could diminish the desirability for this special item for many consumers. Changes to this line may break a Christmas purchasing tradition.
- For Christmas ornaments other than Hallmark Keepsake Ornaments, whether sold by Hallmark or other companies, the tariff will generate pricing pressure for producers, Hallmark, and possibly retailers and consumers. Virtually all of these ornaments are sourced from China.
- The resulting decline in Hallmark's sales of Christmas ornaments, second in importance only to greeting cards, will have a significant adverse impact on the company's operations, including administrative functions and those performed by our artists, sculptors, engineers, graphic designers, product planners and distribution center employees in Missouri. This adverse impact could be long-term since a hiatus in consumer purchases of the collectible Hallmark Keepsake Ornaments could sever a longstanding purchasing pattern.
- Christmas ornaments, together with greeting cards, are vital to the success of the 2,000 independent and corporate-owned Gold Crown stores nationwide, with many shoppers coming to the stores specifically in search of these products. A reduction in Hallmark Keepsake Ornament purchases will reduce Gold Crown store traffic, profitability and adversely impact their overall operations.

Tariffs on these products will not advance Administration goals

The imposition of tariffs on greeting cards and/or Christmas ornaments is unlikely to advance the criteria set forth by USTR in its *Federal Register* notice, namely the action's effectiveness in obtaining the elimination of China's offending practices and its ability to avoid disproportionate harm to U.S. economic interests. The reasons for this include, *inter alia*, the following:

- These products are not relevant to the Administration’s stated goal of targeting products relevant to China’s “Made in China 2025” plan. We do not believe their inclusion in the final list of products to be subject to additional tariffs would be practicable or effective in obtaining the elimination of the offending Chinese acts, policies and practices.
- Tariffs on these products could cause disproportionate harm to U.S. retailers in the form of diminished profits or declining sales given the lack of alternative sourcing.
- Tariffs on these products would cause disproportionate harm to U.S. manufacturing in that they would have spillover effects on our broader enterprise and product lines, including our greeting card manufacturing in Lawrence, Kansas, as well as the creative jobs associated with these products, such as those held by our artists, sculptors, engineers, graphic designers, product planners and distribution center employees in Missouri.

Conclusion

Hallmark respects the goals of the Administration, but urges the Administration to consider removing greeting cards and Christmas ornaments from the final tariff list. As detailed above, the imposition of tariffs on the subject products from China would have a significant adverse impact on Hallmark, U.S. consumers, retailers and the related U.S. industries, and it will not significantly advance the objectives set forth by the Administration.

Thank you for considering our views.

Sincerely,



Sarah Moe
Federal Affairs Director
Public Affairs & Communications