

**THE CORONAVIRUS AND AMERICA'S SMALL
BUSINESS SUPPLY CHAIN**

HEARING

BEFORE THE

**COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP
UNITED STATES SENATE**

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

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MARCH 12, 2020
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THE CORONAVIRUS AND AMERICA'S SMALL BUSINESS SUPPLY CHAIN

THURSDAY, MARCH 12, 2020

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 10:35 a.m., in Room 428A, Russell Senate Office Building, Hon. Marco Rubio, Chairman of the Committee, presiding

Present: Senators Rubio, Ernst, Young, Romney, Hawley, Cardin, Shaheen, Booker, Hirono, and Rosen.

OPENING STATEMENT OF HON. MARCO RUBIO, A U.S. SENATOR FROM FLORIDA

Chairman RUBIO. Thank you all for coming today, and I appreciate the witnesses being here on this hearing. The hearing will come to order. I am going to go out of order quickly because Senator Young has another related topic event that he has to be at and I wanted to recognize him just quickly. He wanted to say a few words on this topic and I wanted to make sure he was able to get on the record before we begin.

OPENING STATEMENT OF HON. TODD YOUNG, A U.S. SENATOR FROM INDIANA

Senator YOUNG. Well thank you, Mr. Chairman, for holding this important hearing, and I first want to get on the record and thank all our subject matter experts. I think if there is anything we legislative leaders ought to be doing, and more broadly our government leaders, is listening to the public health experts. So thank you so much to the experts in some of these discrete areas that will be impacted by the coronavirus.

I do regret that in minutes I have another meeting that also pertains to this important topic. I just want to publicly express my intention to submit to the record some important questions I have for you related to the increasingly integrated supply chains that we now have between various enterprises. And I guess this situation has exposed that that creates certain vulnerabilities during times of what is now a pandemic. I have some questions related to supply chain mapping that I am hoping someone will be prepared to answer.

And lastly, our reliance on foreign-made medical supplies is something that I think we are going to have to rethink over the

course of the coming weeks, months, and really years. But it has certainly caused us to heighten awareness of this important issue.

So your attention to those issues would be much appreciated. Thank you again, Mr. Chairman, for this opportunity to say a few words and for holding this important hearing.

Chairman RUBIO. Thank you. So we are going to begin and I am going to give the Ranking Member the opportunity for opening comments and then I will go to mine.

Senator CARDIN. I do not mind if you go first.

Chairman RUBIO. Well, he wants me to go first. Very nice people here. We work on a lot of stuff together.

**OPENING STATEMENT OF HON. MARCO RUBIO, CHAIRMAN, A
U.S. SENATOR FROM FLORIDA**

Chairman RUBIO. Anyway, as I said, today's hearing really is timely, unfortunately, because of the challenges that we are now seeing, and I want to sort of bifurcate it into two steps. The first is what we can do, obviously, to help small business weather the coming storm that is going to be created by the fact that people are not going to be able to be together with one another in places, and that is obviously going to impact cash flows and the impact that has on employees, and in some cases the threat it poses to a business' ability to continue to function. And I think that is of immediate concern. That is the one thing we have got to deal with if we are triaging this problem right away.

But I think we are beginning to see the outlines of a second problem, and that is what it means when your supply chain is disrupted. And we all just left a meeting of the entire Senate with leaders in our country and health care, and what is becoming evident and apparent is that one of the impediments to the widespread availability of testing is a supply chain unpredictability. It is not just the tests. If you do not have cotton swabs, if you do not have protective gear for the lab technicians or the basic ingredients needed for the test you are going to have a problem in conducting those tests.

And from our perspective is the role that small business can play, structurally, now and for years to come, in ensuring that these sources of supply chain disruptions do not become a national threat to the country. A lot of it will be focused on China, because that is where a lot of this activity has gone, but it is not just China. If you are India, if you are South Korea, if you are a country that also makes these things, and you are facing this threat, you are going to hoard it. You are going to act in the best interest of your nation, and that is understandable. We need to start acting in the best interest of our Nation in these regards, and so that is important.

Later today, if we can bring it here—because I believe we can—we have been engaged before last night in conversations with the White House, with Ranking Member Cardin and his team, with individual members of this Committee, with our counterparts in the House Small Business Committee, on what relief to small businesses should look like and how we can help them. And so hopefully later today we are going to have an opportunity to present it, and the crux of it, as I have already outlined to some, is taking the

commitments the President made last night and funneling it through our 7(a) program and our community banks, because they are in the community, they have, through Community Advantage and other related programs as well, have the ability to process the paper on this.

We are going to have to give a little flexibility. We are going to have to allow small businesses to use the funds they have borrowed to make payroll, to provide paid sick leave for employees that are hurt or employees that are sick or employees that, frankly, cannot come to work. We are going to have to give them the flexibility to do that. We want to make sure that the money is being lent is real and going to be paid back, but by the same token—and that is where the community bank process can help—but we also have to make it quick. These guys cannot wait 90 days to get these funds, and workers cannot wait 90 days for the paid sick leave that these will give the small businesses an opportunity.

I am not claiming this solves all the problems. It does help. If we are going to make that kind of commitment to small business I believe that it should be in a way that is most effective and responsible with the taxpayer money, but also most helpful to those small businesses.

On the supply chain issue, I think the backdrop to our general economy, even before—and this Committee issued a report a year ago that warned about it—even before all of this is that we are dangerously reliant, in particular, on China for the production of critical goods, and that includes goods, as I have already outlined, that are needed to fight the coronavirus.

And I think we rely on far more goods than we know, and part of the economic pain that is going to be inflicted on the country as a result of these disruptions will be directly related to disruptions in the supply chain, because of an outbreak that shut down factories that end up impacting the availability of important consumer goods.

Just a brief review that our staff put together for this hearing, last year—and this is according to the Census Bureau—China accounted for 88 percent of electric hand drill and saw imports, 87 percent of air conditioning machinery imports, 83 percent of hydraulic jacks and hoists, 72 percent for cell phones and its parts, 58 percent of forklifts, 51 percent of lithium ion batteries. The list goes on and on. Disruptions in these supply chains tell you that even after the virus is contained and starts coming under control we could have shortages, and you know the industries that are reliant upon this. This is where the spread of this becomes much more serious.

So the focus is on three things that we really want to talk about. First is the immediate consequence of not having the capacity to produce these essentials to your home. And small businesses are going to experience a great deal of economic pain as a result of supply chain disruptions.

But there is also going to be increased demand, increased demand for medical supplies and surgical masks and pharmaceutical drugs, and our small businesses can be a part of the answer to that, to filling in those gaps in the supply chain for critical sectors

that have been exposed, as weakened because of offshoring of our productive capacity to China and elsewhere.

The absence of having these domestic businesses that can ramp up production to meet demand for these critical goods limits our ability to mitigate the worst effects of this virus beyond its broader economic impact, and the result is that the virus could end up being more damaging than it needed to be, and the economic impact, as a result, greater than it needed to be.

As I pointed out earlier, we are already seeing this. One of the reasons why we have struggled to produce the testing kits is because we rely on foreign producers for the chemicals that are needed to make them. And there is a growing shortage because more people are testing, and as I said earlier, the countries that have it are going to be less willing to provide it.

So I truly believe that one of the things we should look at after we provide the initial set is what can we do, through the SBA, through the work of this Committee, and it has to be bipartisan—there is no other way to do it—to help small business be a growth sector in our economy to meet some of this increased demand.

Second, obviously, that we will discuss, and I am sure you will point to, is the long-term consequences of the vulnerability, particularly when it comes to China. This was not the accidental byproduct of globalization. It is an outcome of a deliberate strategy on their part which made biomedicine and high-end medical equipment a priority. In their Made in China 2025 plan they put it in writing. It has long been practiced. It encourages domestic companies and their predatory practices, and provides a short-term bargain for foreign companies, but big-time costs for our Nation and the world.

For years, China has been able to entice American multinational corporations with access to its markets in exchange for offshoring and sharing intellectual property, and we have watched as Beijing captured critical portions of the global supply chain. Today, 80 percent of the active pharmaceutical ingredients in the United States, in the drugs that are here, are sourced somewhere else, and a lot of that is China. And now, in the face of the pandemic, as I said, the absence of this capacity in the medical sector is endangering our health care system, and that is something we have to figure out, in the short term and forever.

So it is hopefully something that we are able to act on to find out what role can small business play in growth and in taking back the ability to make these critical goods in the United States right now and in the future.

So I hope that we can come up with a second wave of proposals that will empower small businesses to bring the production of critical goods all in-house and getting American multinationals to buy domestically from them, not as a matter of economic protectionism but as a matter of national security and national economic stability. This is good for our public health, it is good for our economy, it is good for, as I said, our national security, and it is good for our people.

So I look forward to hearing from our witnesses who are experts on these topics about what we can do to help small business be a

part of solving this challenge, and now I turn it to the Ranking Member.

**OPENING STATEMENT OF HON. BENJAMIN L. CARDIN,
RANKING MEMBER, A U.S. SENATOR FROM MARYLAND**

Senator CARDIN. Well, Mr. Chairman, thank you very much for convening this hearing. As you pointed out, we came from an all-Senate members briefing on the COVID-19 virus and its consequences. We learned from that briefing, we heard last night that it has struck our family. Senator Cantwell's staff person has the virus, Senator Cantwell, former Chair and Ranking Member of this Committee, and a senior member of this Committee, and that there are members of her staff that are now in quarantine as a result, and, of course, one needing treatment. So we know this impacts all of us.

I want to just underscore the last point that you made. Our first priority is to triage, to deal with the circumstances that we are confronting today, whether they are the medical circumstances or the economic circumstances. But I hope that we will follow your advice and recognize this will not be the last crisis that we are going to have, and in regards to the supply chain we need to take a look at making sure that we are better prepared for the next crisis that comes down than we were for this one. So I agree and I look forward to working with you in regards to those issues.

Clearly our first priority is to deal with the medical challenges. That is our first priority. We still are not where we should have been or need to be in regards to testing. We are developing the vaccines and drugs that will hopefully be available. The drugs, the therapeutic drugs, may be available to help us in this crisis; it is possible. The vaccines will not. But I am proud of our leadership in regards to those developments at institutions located in the state of Maryland, including the National Institutes of Health and Johns Hopkins University and University of Maryland Medical Center.

We need to deal with local responses, make sure they have the capacity, the hospital capacity, mitigate the spread. And the emergency supplemental dealt with many of those needs, and as the Chairman pointed out that is the first installment. It is not going to be the last installment.

And we also have to deal with the economic impact, including the disruption of the supply chain to American small businesses. I was pleased to see that it was recognized in the supplemental. There was a recognition of the problems small businesses are confronting. We recognize that small businesses are very much impacted by the facts that Americans are self-quarantining and not using the business community as much as they would, the avoidance of gatherings, the cancellation of events, the school closures, the trip cancellations. All of that has an impact on American small businesses.

I can give you specific examples in Maryland. Johns Hopkins has just announced that they are closing their campus from the point of view of students and faculty. I can tell you Charles Village in Baltimore City, a lot of small businesses are located in Charles Village. They depend upon the students and faculty. They are not going to be there, and it is going to impact those small businesses.

We can give you many, many more examples. Chanell Wallace, who owns a hair salon in Bowie, Maryland, shared that order for her hair extensions placed in January has yet to be filled with her vendor in China because of the coronavirus. Jerry Chan, who owns a noodle restaurant in Gaithersburg, reported in the middle of February that his restaurant has already experienced a 30 percent decline in sales, and the spread of the coronavirus is only going to make that situation worse. Sterling Forever, a jewelry company based in Towson, reported that not only were some of the factories in their supply chain closed, their distributors were requesting advanced payment to help with the crisis. And the list goes on and on and on.

So we know that we are just starting to see this. It is getting worse by the—I would say by the day, but it seems like it is getting worse by the hour. So we know we have an immediate crisis.

Capital is the lifeblood of small businesses. We need to deal with that issue. The emergency supplemental allowed small businesses to qualify for economic injury disaster loans, EIDL, and provided some resources to the Small Business Administration in order to administer that. We need to build on that supplemental.

Let me point out, Mr. Chairman, that I have already heard from some small businesses. They need to get the information on how they qualify, so we need to get that help out to small businesses so that they can take advantage of what was in the first supplemental dealing with the coronavirus.

Our resource partners need to be better empowered. They are the ones in which small businesses will go to for help. Our Women Business Centers, our Minority Business Development Centers, and the other resource partners, we need to make sure that they have the resources.

We all heard last night, as President Trump mentioned a number for small businesses that I thought was one that we could work with, \$50 billion. Let us work with that in the most effective way. Chairman, I agree. We all need to come together with a bipartisan solution.

I would hope that the disaster loans will provide help and will deal with resiliency the issues that you talked about—paid leave for the workers of small business, dealing with telecommuting. That is going to cost some resources. Do we have the resources to provide that? Let us take a look at the SBA loan packages. Let us make them easier, more generous, and less costly for small businesses to be able to take advantage of those, including looking at the costs of taking out a small business loan.

And Mr. Chairman, I would hope we would also look at one additional factor. If you have seen a 30 percent decline in your revenues, will you qualify for a loan? The disaster loans are direct loans—that is good—from the SBA. But they have to be repaid. If you do not have the revenues, how are you expected to repay, and will the SBA structure allow those loans to take place? We need to take a look at a targeted grant program to keep small businesses afloat. Why? Because that is where job growth, innovation, and our economy depends upon it.

This is an extraordinary crisis that requires us to respond in kind. Let us act in that regard to triage the current situation, be

prepared for the future. I think we can work together and get this done. We need to do that for the sake of American businesses. As Congress begins to address this economic impact of the coronavirus, we must ensure that we focus on being prepared to withstand the economic disruption that is occurring in our economy.

I look forward to hearing from our very distinguished witness panel, and look forward to all their testimony.

Chairman RUBIO. Thank you, and just along those lines, before I turn it over to our witnesses, items we have discussed with your staff, as you are aware, in the 7(a) loan part, is allowing the loans to be used for payroll support. That would include paid sick leave, so employers could use that. We waive the fees on both the borrower and the lender to lower the costs.

On the particular of the SBA express loans, increasing the loan limit for those, those turn around in about 36 hours. And on the EIDL loans, which have already been approved for coronavirus impact, and 20 states have already applied, the SBA will be able to determine repayment solely on the applicant's credit score. They are not going to have to go and get tax returns or transcripts, and they do not have to prove that they could not get credit from somewhere else.

So some of those ideas to address some of the issues you raised. It will not solve every problem, obviously, but certainly we are trying to move as quickly as we can on these topics. But it will have to be done, because of the nature of this place, not to mention the nature of this crisis, in a bipartisan way, and I think we can get to a point where we can put something forward that would achieve the President's purpose of getting \$50 billion available to small business, but do it in a way that works, is responsible, and works for the borrower.

So with that I appreciate everyone who has come here. We are going to try to move on this now, and we are going to begin with all of our witnesses. I will begin with Ms. Gibson, who is a Senior Advisor at The Hastings Center. She led the National Health Care Quality and Safety Initiatives at the Robert Wood Johnson Foundation. She is the author of *China Rx: Exposing the Risks of America's Dependence on China for Medicine*. So, Ms. Gibson, thank you for being here.

**STATEMENT OF ROSEMARY GIBSON, SENIOR ADVISOR, THE
HASTINGS CENTER, ARLINGTON, VA**

Ms. GIBSON. Good morning. Thank you, Chairman Rubio and members of the Committee for the opportunity to be here today. I am here to talk about small businesses that are prepared to start production of critical medicines that are in short supply, that are needed to care for people who are hospitalized with coronavirus.

The medicines I am talking about today are generic drugs, and generics are 90 percent of the medicines that we take. Members of Congress take them, occupants of the White House—the focus is generic drugs. And right now we are rationing, in the United States of America—the term is “on allocation”—essential medicines, including critical antibiotics that are necessary to treat hospitalized patients with coronavirus.

I visited a hospital last week and there is an antibiotic that they can no longer get. There are other antibiotics that are in short supply. There was a volunteer EMS worker who goes out on ambulances in her community and she said they do not have epinephrine on their ambulance, which is used to revive people. I said, "So what do you do?" and she said, "We just drive faster to the hospital."

The \$8.3 billion emergency package for coronavirus was an important step forward. There is support for research for vaccines for coronavirus, therapies to actually cure people with coronavirus, but there was nothing in that supplemental package to make, here in the United States, the essential generic drugs that are necessary to treat critically ill people with coronavirus, as well as critically ill people under normal circumstances in our Nation's hospitals.

China is the dominant global producer of the core chemicals to make thousands of our generic drugs. It was mentioned of the active ingredients coming from China and other countries. We have to look beyond the active ingredients. That is the data the FDA has. But what is missing are the core chemicals to make those active ingredients. For essential medicines to treat coronavirus patients—sedative, pressers to raise their blood pressure, antibiotics—90 percent of those core chemicals are sourced in China.

There is talk that we should let the free market fix this. The reality is that there is no free market. Generic manufacturing has collapsed in the United States. There are only two Western companies left that are making generic drugs, and they announced last year they are dropping half their products because they can no longer make them, so they are on the FDA shortage list.

And how does this happen? It is because patterns of China forming cartels, which has driven out production of so many of our core medicines—we cannot make penicillin anymore because of what I wrote about in China Rx, the penicillin cartel. We cannot make vitamin C. We cannot even make aspirin, and thousands and thousands of other medicines.

And India put out its export ban because its giant generic industry, which supplies us with 25 percent of our generics, depends on China for those core chemicals.

So what can we do? In doing this work on China Rx, small companies have approached me, and these are brilliant people prepared tomorrow to start using advanced manufacturing technology to make medicines fully made here in the United States that are in short supply.

There is a precedent for the U.S. government to fund medicinal manufacture, namely flu vaccines, through HHS and BARDA. BARDA knows how to do this. We could use that same model to make critical essential generic drugs through BARDA, through public-private partnerships. They do investment for capital and for equipment, but the production costs of using new technology would make our drugs much less expensive.

I would like to close by saying there is another thing we have to address, and this has nothing to do with coronavirus. But there are thousands of children who have died in recent years because we can no longer make the old staple, generic drugs that are necessary to sustain them. These are children with rare diseases. There are small companies that approached me. They want to

make them, and together we can make a difference, not only for coronavirus patients but for these children.

I look forward to working with the Committee and the staff on how we together can do a lot of good to ensure that every patient has the medicines that they need when they need them.

Thank you very much.

[The prepared statement of Ms. Gibson follows:]

Testimony of Rosemary Gibson
Author, *China Rx: Exposing the Risks of America's Dependence on China for Medicine*
Before the Senate Committee on Small Business and Entrepreneurship
The Coronavirus and America's Small Business Supply Chain
March 12, 2020

Thank you, Chairman Rubio, Senator Cardin, and Committee Members for the opportunity to testify today. I am Rosemary Gibson, Senior Advisor at the Hastings Center and author of *China Rx: Exposing the Risks of America's Dependence on China for Medicine*. I am not paid by any industry or government entity for this work. It is conducted solely in the public interest.

My remarks today emphasize that small businesses are ready to begin immediate production of essential generic medicines for people hospitalized with coronavirus that are in shortage or altogether unavailable.

The \$8.3 billion emergency supplemental package to respond to coronavirus does not address this critical vulnerability in the nation's medicine supply.

1. Small businesses want to help our nation respond to the coronavirus. Small businesses are prepared to start manufacturing within weeks in the United States critical medicines that are unavailable or are being rationed.

The coronavirus outbreak has magnified vulnerability in the nation's supply chain for medical supplies such as masks and other protective gear for health care workers. The \$8.3 billion emergency supplemental package to respond to the coronavirus outbreak passed by Congress and signed by the President is a critical step forward to assure the nation's health security.

The supplemental aid package contains more than \$3 billion for:

- research, development and testing of vaccines to *prevent* people from getting coronavirus; and
- research for drug treatments to *cure* coronavirus.

The package *does not include*:

- *funding to manufacture generic drugs that are being rationed or unavailable* and needed to *care for seriously-ill people hospitalized with coronavirus*, as well as other seriously ill people without coronavirus, to enable them to receive effective treatments and return home healthy.

Members of Congress, the White House, members of the military, veterans, seniors, and hard-working families – will all depend on these essential generic medicines if affected by a severe coronavirus infection.

2. The United States faces an existential threat posed by China's control over the global supply of the ingredients in thousands of essential generic medicines.

China's official news outlet threatened in March 2020, "If China retaliates against the US at this time, in addition to announcing a travel ban on the United States, it will also announce strategic control over medical products and ban exports to the United States. If China announces that its drugs are for domestic use and bans exports, the United States will fall into the hell of a new coronavirus epidemic."

The unleashing of this threat will cause unprecedented deaths and social disorder on a scale never seen before on our country. The civilian and military health care systems will collapse. China can wreak other havoc. Medicines in the hands of an adversary can be weaponized. Medicines can be made with lethal

contaminants or sold without any real medicine in them, rendering them ineffective. These products can be distributed to specific targets. Detection is time-consuming at best, and virtually impossible at worst.

Dependence on China is a risk to the U.S. military, combat readiness, and force protection. The thousands of men and women on U.S. aircraft carriers in the South China Sea are dependent on the adversary for many of their essential medicines. Combat readiness and force protection are at risk with the military vulnerable to disruptions in supply and contaminated and toxic medicines. In 2018, more than 31,000 active duty military personnel, veterans, and their family members were notified they may have been given blood pressure medicines containing a cancer-causing ingredient.

3. Coronavirus has brought to the fore U.S. dependence on a single country for its generic medicine supply, and exposed the risks to the nation's health when the dominant global supplier country shuts down production.

The U.S. medicine supply chain is being severely disrupted as production in China has been shut down and transportation and logistics greatly constrained. China has withheld exports of masks and other protective gear. It would be prudent for China to withhold exports of medicines to assure it has enough for its people.

Here is how dependent the United States is on China:

- **90 percent of the medicines used in the United States in hospital intensive care units, emergency rooms, and ambulances, and sold in big box stores and corner drug stores are generic.** Thousands of them are made with chemical compounds and ingredients from China.
- **China makes 9 percent of our generic drugs.** This market share is likely to rapidly increase. The *Financial Times* reported that China is gaining steam in the US generic drug market. China's stated aim is to become the pharmacy to the world, and it is on track to do that.
- **India makes 25 percent of our generic drugs but depends on China for the chemical compounds to make them.** India has recently banned the export of 26 medicinal products because of supply blockages owing to the coronavirus in China, the world's hub of the pharmaceutical chemical industry. *China Rx* predicts that China will eventually overtake India in generic drug production. This is consistent with China's industrial plan which includes the pharmaceutical industry as a target to achieve global dominance.
- **90 percent of the chemical ingredients for generics in the U.S. to care for people with serious coronavirus infections and are hospitalized are sourced from China.** Sedatives, antibiotics, anti-inflammatories, and medicines to raise blood pressure are among the medicines used to care for people with severe coronavirus. China produces 90 percent of the chemical ingredients for these essential medicines.

4. Essential generic drugs to treat severe cases of coronavirus infection are in shortage, being rationed, or unavailable.

While many generic antibiotics and other medicines have been on the FDA drug shortage list and are being rationed, the coronavirus outbreak has exacerbated the situation.

Here are examples of *generic antibiotics in shortage and being rationed* that are needed to treat secondary bacterial infections in coronavirus patients.

- Azithromycin is a generic antibiotic to treat severe coronavirus infection in hospitalized patients. Its chemical components are sourced from Hubei Province whose capital, Wuhan, has been the epicenter of the coronavirus outbreak in China. This antibiotic is listed on the FDA shortage list.
- Ciprofloxacin is a generic antibiotic whose chemical precursor (2,4-Dichloro-5-fluorobenzoic acid) is sourced only in China. It is an essential medicine for severe coronavirus infections. This antibiotic was prescribed for anthrax exposure after the 2001 anthrax attacks on Capitol Hill
- Piperacillin/tazobactam is an essential antibiotic medicine for severe coronavirus infection. It is a treatment for sepsis, a life-threatening blood stream infection that kills 27,000 Americans every year. A single factory in China exploded several years ago, causing a global shortage of this antibiotic. The factory was rebuilt and FDA approved product is made there. Three months later, the EU regulator, the European Medicines Agency, found the plant did not meet US/western standards but allowed the product to be sold to avert a shortage.

5. Generic drugs are being rationed in the United States because the manufacturing base in the U.S. and other Western countries is collapsing as China's generic industry is growing rapidly

Many medicines on the FDA drug shortage list are generic medicines once made by the three largest western generic drug makers: Mylan, Sandoz and Teva.

- Mylan, a U.S.-headquartered generic company, merged with Pfizer. Pfizer announced last year the opening of its global generic headquarters in China.
- Sandoz and Teva announced in early 2019 that they will discontinue production of many medicines. This has occurred as evidenced by many of their generic drugs appearing on the FDA drug shortage list.
- *Western companies cannot compete because there is no free market in generic drug manufacturing and in the production of chemical ingredients.*

6. There is no free market to solve the problem. Chinese cartels and Chinese government subsidies to its domestic manufacturers are driving U.S. and other western generic companies out of the business of generic manufacturing.

A common view is that because China has lower labor costs and weaker regulations governing worker safety and environmental protection, China is a cheaper place to outsource. That is not the full story.

China's cartels fueled by government subsidies are undercutting U.S. and other competitors and driving them out of business. U.S. and other generic drug companies and ingredient makers are competing against the Chinese government, a battle they will not win unless and until the U.S. government develops in concert with industry a smart strategy and executes it successfully on behalf of the American people.

7. Small businesses with expertise in chemistry and pharmaceutical engineering are ready to produce the most critically needed medicines and their ingredients all in the United States using advanced manufacturing technology that lowers the cost of generic drugs.

Small businesses can play a pivotal role to help assure that the nation's hospitals have the essential generic medicines they need during the coronavirus and any other serious infectious disease outbreak, as

well as in normal medical care situations. By using continuous processes in advanced manufacturing, all the ingredients for many drugs can be made fully in the United States.

Innovator pharmaceutical companies have been very slow to use advanced manufacturing technology for new branded pharmaceutical products.

Generic companies have no incentive to invest in this manufacturing technology. Their margins are too thin and risk is too high to move from older, more established batch manufacturing technology. As noted earlier, U.S. and western generic drug makers are stopping production of many generic drugs altogether because of severe pricing pressure from China.

8. Small businesses can help assure the country's ability to meet current needs and be prepared to mitigate the impact of future threats on the nation's health security.

Small businesses can work with the Department of Health and Human Services to identify priority generic drugs, their active pharmaceutical ingredients, and chemical precursors. For example, APIs *fully made in the United States without dependence on other countries* can be manufactured for current use and stockpiled for future use. They have longer periods before expiration than finished drugs. Ready-to-go manufacturing plant capacity can use stockpiled APIs to manufacture finished drugs within weeks. This will assure emergency preparedness and avoid the severe drug shortages that we are facing now.

9. There is precedent for federal investment in manufacturing of medicinal products.

A number of years ago Congress provided funds for flu vaccine manufacturing in the United States. Implementation of congressional intent is performed by the Department of Health and Human Services, Biomedical Advanced Research and Development Authority (BARDA), which executes contracts in a public-private partnership with companies to produce a designated volume of flu vaccines each year.

For domestic production of essential generic drugs and their core components, federal investment for small businesses should be for capital investments to refurbish vacant plants and buy equipment.

The number of finished drugs produced will depend on the complexity of the products selected (which will be determined by the federal government and national health security requirements) and the volume required. One of them could be, for example, enough ciprofloxacin, an essential antibiotic noted above, for the Strategic National Stockpile, the Department of Defense, and the VA.

Once the initial capital investment is made, the cost to actually make the finished drug product can be up to 40% less than current production practices because of much greater efficiency of advanced continuous manufacturing processes as well as direct distribution to government partners.

The sale price of products should include full cost price transparency to the government and be based on manufacturing cost plus a fair rate of return on investment. If products are priced too high, the private market will not purchase the product and the federal investment will have failed to serve the public.

Any federal investment in assuring essential generic drugs should be considered a national security asset that cannot be sold to companies whose governments are strategic competitors to the United States.

This investment will help reinvigorate the U.S. generic manufacturing base and the capacity for the United States to eventually achieve a minimum level of self-sufficiency in the making of essential medicines vital to the nation's health security.

10. Federal investment in small businesses for advanced manufacturing of critical generic drugs is highly likely to attract private investment.

US hospitals are using their procurement dollars to buy essential medicines in shortage made with active ingredients not from China. Civica Rx is a non-profit formed by the Mayo Clinic and 1300 other hospitals representing one-third of licensed hospital beds in the U.S.

Civica Rx pays manufacturers a fair, sustainable, and transparent price, not a race-to-the-bottom price. The country-of-origin and manufacturer are transparent to the purchasers. Long-term contracts with manufacturers enable them to invest in their facilities and assure an uninterrupted supply of quality medicines. Civica Rx is procuring life-saving generic antibiotics that will be manufactured in finished dose form and other places.

Civica Rx wants to assure all ingredients are sourced in trustworthy countries. Federal investment can spur private investment to expand production capabilities and continue to reduce US dependence on China.

11. Thousands of children with rare diseases in the United States have died in recent years because the generic medicines they need are no longer available. There is no “business case” because the “market” is too small. Small businesses want to fill this vacuum and save these children.

There is an untold tragedy happening in hospitals in the United States. Thousands of children with rare diseases have died in recent years because no one wants to make the “old” generic drugs that would help them live. Small businesses that have approached me want to make these medicines on a non-profit basis so children can live. Using advanced manufacturing, these generic drugs can be made quickly and fully produced in the United States.

Concluding Remarks

The American people are deeply concerned and outraged about U.S. dependence on China for medicines. Investing in small businesses is one part of the solution to eliminate U.S. dependence on China for critical medicines. Federal policy to support entrepreneurship and capital investment to restart industries using innovation in manufacturing will yield high-paying American manufacturing jobs and restore common sense in our medicine supply.

Senator CARDIN [presiding]. Thank you, Ms. Gibson, for your testimony. I will now call on Dr. Gerald Anderson, who is a professor of Health Policy and Management and professor of International Health at the Johns Hopkins University Bloomberg School of Public Health and a professor of Medicine at the Johns Hopkins University School of Medicine. He is also the director of the Johns Hopkins Center for Hospital Finance and Management.

Dr. ANDERSON.

STATEMENT OF GERARD ANDERSON, Ph.D., JOHNS HOPKINS UNIVERSITY, BALTIMORE, MD

Dr. ANDERSON. Thank you, Senator Cardin, Senator Rubio, and members of the Committee.

I have been a professor at Johns Hopkins School of Public Health for the last 37 years, and let me tell you about my greatest fear about coronavirus.

Yesterday I went to the local grocery store. Tonight, I will go to the dry cleaners and maybe go out to dinner with my wife. My greatest concern is these people in these small businesses will go to work with coronavirus. The shop keeper will want to keep this business open because they do not have the funds to keep the office closed for 14 days. The worker will not want to report that she has coronavirus because she probably does not have sick leave.

The uninsured worker will not have the \$200 or so that is necessary for the coronavirus test. Remember, 10 percent of Americans are uninsured and they are most likely to be working in small businesses.

So what Congress do to alleviate my fears? Pay the shopkeeper to close the business for 14 days if they do have an employee with coronavirus. A loan probably will not do the trick because most of them have huge bad debts anyway. As Senator Cardin said, grants may be necessary.

At least for the next 90 days, make sure the person has at least 14 days of paid sick leave. And for the next 90 days, pay the provider giving the test to the uninsured person at Medicare rates.

While larger companies allow the people to work from home, and Johns Hopkins is doing that for me, many small businesses do not have the option because they have to work with their clients face-to-face. Helping the cruise line is under discussion. From a public health perspective, small businesses are so much more important than the cruise lines. We can get along without vacations. We cannot get along without the small businesses that feed us.

Let me change the subject for a minute. The good news in my testimony is that small business is doing to develop the vaccine for coronavirus. A significant portion of the world's new drugs come from the uniquely American public-private partnership that involves the NIH, our universities and medical centers, small biotech companies and, finally, large pharmaceutical companies. Most of the initial drug development occurs in universities and small biotech companies, not the big pharmaceutical industries.

For example, this is how the first drug that was effective in treating hepatitis C was developed. It began in a lab at Emory University with funding by the National Institutes for Health. With promising results, they started a small business and attracted ven-

ture capital. After the clinical trials showed positive results, a big company, Gilead in this case, purchased the small company Pharmasset. One year after that, we had hepatitis C drugs with FDA approval and it was brought to market.

One of the companies with a promising coronavirus right now is a small business. Its name is Moderna. It began operations in 2011. The first clinical-grade batch of this drug was shipped to the NIH for a Phase 1 clinical trial in late 2019, and the clinical trials have already begun.

In my written testimony, I list three other small companies that are developing coronavirus and there are 40 other ones developing vaccines.

So how can the Congress help these small biotech companies develop a vaccine? The key is knowing that the small business will get paid for developing the vaccine. Congress can guarantee the purchase of a certain volume of vaccine at a price or giving them advance market commitments to purchase safe and effective products.

In my written testimony, I also discuss some other ways that Congress could help the small businesses provide services to address the coronavirus epidemic. Small business can provide telehealth services to people in quarantine and in rural communities. People in quarantine need to discuss their health condition with medical professionals without subjecting the clinician or the public to the disease. Medicare now pays for telehealth but most private insurers do not.

Congress could ensure that more generic drugs are made in America. In my written testimony, I explained how we helped create a small non-profit company that is going to manufacture drugs that are overpriced and in short supply. Working with Intermountain Healthcare, we created Civica Rx. It has gotten up and running and it is now manufacturing 20 drugs with 20 more in the pipeline. BlueCross just gave them \$55 million to expand into the outpatient market.

Finally, small business can assist in worker training. Many hospitals are not prepared to train their employees, and small business can do that.

I am happy to answer any questions.

[The prepared statement of Mr. Anderson follows:]

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Senators Marco Rubio and Benjamin Cardin and members of the Committee on Small Business and Entrepreneurship, thank you for inviting me to testify this morning.

My name is Dr. Gerard Anderson. I am a professor of Health Policy and Management and International Health at the Johns Hopkins Bloomberg School of Public Health and a professor of Medicine in the Johns Hopkins School of Medicine. I am also the director of the Johns Hopkins Center for Hospital Finance and Management. I am testifying as a faculty member and not as a representative of Johns Hopkins University.

My testimony will focus on how small businesses can help address the problems created by Coronavirus and specific actions Congress can take to assist small business during this outbreak.

- 1. Perhaps the most important provision for reducing the spread of the novel Coronavirus is to monitor the response to the \$1 billion in loan subsidies for small businesses in the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 to determine if more support is needed. Paying for 14 days of sick leave is a critical addition to consider.**

My concern from a public health perspective is that there is a strong financial need for small businesses to remain open during the Coronavirus outbreak since most of them have limited financial reserves. In addition, many of their employees who have symptoms of Coronavirus will likely continue to work because they cannot afford to take 14 days off or lose their job. However, an infected employee working in a small business that caters to the public would likely spread the infection to many hundreds of people.

If the epidemic gets worse, Congress may need to revisit the \$1 billion dollar appropriation for small businesses so that employees do not inadvertently spread the disease by remaining open. Their employees need paid sick leave.

Small businesses who were otherwise succeeding before Coronavirus will need short-term support that allows them to cover lease obligations and recurring payrolls if they need to shut down for 14 days. A loan will not be sufficient.

We have all read stories of people not going to Chinese restaurants because of misplaced fear that they will contract the Coronavirus. These small businesses are hurting for reasons that are totally outside of their control. There is no reason to expect that you will contract Coronavirus in a Chinese restaurant more than any other restaurant.

Larger companies, like some in the Seattle region (e.g. Amazon) have chosen to voluntarily close their offices and allow people to work from home. Most of these companies offer paid sick leave and can telework. But for many small businesses this is not possible since they must deal with their clients face to face.

In contrast to large businesses, most small business do not have large balance sheets to sustain them through periods of operating losses. Many small businesses depend on short-term cash flow to meet their monthly expenses and keep employees on their payrolls. Small businesses that carry debt may face even greater financial pressures.

2. Small businesses already play a key role in the development of most brand name drugs and could do the same for vaccines to treat Coronavirus.

A portion of the \$3.1 billion in the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 should be earmarked to support small biotech companies, as they are the most likely developers of the vaccines that will treat the novel coronavirus.

A significant portion of the world's new drugs come from a uniquely American public-private partnership that involves the NIH, our universities, medical centers, small biotech companies, small service businesses and large pharmaceutical companies.

One of the small companies with a Coronavirus vaccine already in human clinical trials is Moderna, which began operations in 2011 with key contributions from academic medical centers. Another example is NewLink, which helped develop the Ebola vaccine in 2015. A third example is the Coalition of Epidemic Preparedness Innovations (CEPI). CEPI receives funding from multiple federal governments and invests in small biotech for pre-clinical and early stage development of new vaccines. For COVID-19, CEPI with new funding from the UK and Norway announced support for a small biotech, CureVac AG, to develop a vaccine along with Inovio, University of Queensland, Moderna, and GSK. Novavax (based in Gaithersburg, MD with 375 employees) specializes in clinical-stage vaccine development and funded with a large grant from the Gates Foundation. Novavax has worked to develop vaccines for MERS, SARS, and Ebola.

With the benefit of federal funding from NIH and other sources, our universities and medical centers make important scientific discoveries. Their best insights are typically licensed to venture capital-backed biotech startups. These small biotech firms rely on a network of service providers that allow them to obtain essential services, such as drug manufacturing, animal testing and clinical trial management.

As the successful programs approach FDA approval, large pharmaceutical companies partner with these small businesses, or buy them outright. It is typically the small biotech that makes the initial discovery.

For example, this is how the first drug that was effective in treating hepatitis C was developed. It began in a lab at Emory University with funding from the National Institutes of Health. With promising results, the researchers started a small business and attracted venture capital. After the clinical trials showed very positive results, a big company (Gilead) purchased the small company (Pharmasset). One year after that, the new drug to treat hepatitis C received FDA approval and was brought to market. Most of the development was completed by a small business.

Under non-emergency conditions, funding for vaccines is primarily driven by venture capital, government funding through HHS (BARDA and NIH) and DoD, multi-national organizations (Gavi, CEPI, and UNITAID), and philanthropy (PATH, Gates Foundation, and Wellcome Trust).

Under pandemic conditions, a flood of money comes into the space and there is the challenge of bringing the product to market in as short a time period as possible. In these conditions, we are often funding several duplicative streams of development with the hopes of one product making it to market as quickly as possible. The urgency of the situation fosters several public-private partnerships and some of the companies may not have the expertise to work on a vaccine/treatment.

Despite the additional funding and the urgency, a vaccine is typically 12-18 months from discovery to market. I think the key question is - how do we create the right incentives so we are not in a race to save people after an outbreak occurs but are willing to build a robust system to develop products to prepare for the next epidemic?

In order to sustain development over the long run, the federal government should support small businesses, by guaranteeing the purchase of a certain volume of vaccine (if it is approved by the FDA) at a certain price, or by giving them an advance market commitment to purchase safe and effective products after approval.

3. Telehealth is a critical component of treatment in a public health emergency, especially when

people are quarantined.

Congress permitted waiver of Medicare requirements to allow payment for telehealth services during emergency periods in the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020. This is an important action, but much more can be done. It is important to have telehealth services available to everyone not just Medicare beneficiaries.

In addition, having electronic medical records that are interoperable and can be accessed in a public health emergency is critical so that we can track the outbreak in real time. Currently, most electronic medical system are not interoperable and cannot share information on disease outbreaks easily.

Perhaps the best source of information on the spread of Coronavirus in the world today is the Johns Hopkins database. (<http://www.centerforhealthsecurity.org/resources/COVID-19/>). We have spent years assembling this database. It is what the federal government has been using in this crisis.

Taiwan has taken this a step further and linked the travel documents with electronic health records. (<https://focustaiwan.tw/society/202002160009>) Given that Coronavirus did not begin in the US, it must have been transmitted from people arriving from other countries. Connecting the dots between international travel and disease outbreaks is an important addition to traditional disease tracking.

Addressing the Coronavirus and other disease outbreaks given the high level of international travel that occurs daily is critical. Small businesses could assist in developing this linkage.

4. People with chronic conditions are most susceptible to death from Coronavirus. We need a new source of supply for generic drugs to treat illnesses associated with Coronavirus. Small businesses can help supply these generic drugs.

Many of the people with the most severe reaction to Coronavirus conditions have multiple chronic conditions. Making drugs inexpensive is especially important for people with multiple chronic conditions since they are likely to be taking multiple drugs.

A portion of the \$3.1 billion in the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 should be used to support small businesses that can manufacture generic drugs.

The first step in the drug development process is to develop a branded drug. However, after the patent protection and market exclusivity period for the branded drug has ended, the next step in the process is to manufacture a generic drug that has a lower price than the branded drug. This is a very important way that drug prices are kept down and this an important role for small business.

Small businesses play an important role in manufacturing generic drugs because they do not have to incur the very large cost of doing research and development.

One problem is that the market has placed hurdles for small businesses manufacturing certain categories of generic drugs. Congress has already passed laws such as the CREATES Act that will address some of these problems, but additional problems remain.

One area that Rosemary Gibson highlights is our heavy dependence on China and India for the manufacturing of these drugs. This topic needs to be addressed.

There are also problems with shortages in many generic drugs and this problem is exacerbated by the dependence on China for many of our drugs when there are trade embargos or a Coronavirus outbreak.

One possibility is for small businesses to enter the generic market where there are market failures. The United States could promote "Made in America" generics.

I helped create a small nonprofit small business that manufactures generic drugs that hopefully will fill some

of these market failures. We outlined our vision – for what is now Civica Rx - in a New England Journal of Medicine paper in 2018. (<https://www.nejm.org/doi/full/10.1056/NEJMp1800861>) (Liljenquist, Dan, Ge Bai, and Gerard F. Anderson. "Addressing generic-drug market failures—The case for establishing a nonprofit manufacturer." *New England Journal of Medicine* 378.20 (2018): 1857-1859.)

Civica Rx was established in 2018 by health systems and philanthropies to reduce chronic generic drug shortages and high generic drug prices in the United States. It exists in the public interest as a non-profit small business.

Over 250 drugs that hospitals and clinicians need to treat patients have been on and off drug shortage lists. It was necessary to create a non-profit small business to address this market failure. Small businesses like Civica Rx are stepping in to fill these shortages. For Civica Rx to succeed it needed to have a guaranteed market for the drugs that it produces.

The initial market for Civica Rx was hospitals because they offered a guaranteed market to purchase the drugs at a cost plus rate. Having a guaranteed buyer is a critical component for any small business attempting to disrupt the market. The company, Civica Rx, was designed to give hospitals the ability to obtain generic drugs at a reasonable price. Civica Rx now has over 1200 hospitals participating in its network.

Civica Rx recently announced plans to expand its market to include consumers who are purchasing essential medications themselves. Blue Cross recently gave Civica Rx \$55 million dollars to provide select high-priced drugs that are sold in pharmacies. This is an example of a small business filling a niche in the drug supply chain.

While Civica Rx did not need government help to get started, it may be beneficial to create mechanisms to incentivize generic drugs that are made in America. Such policies would protect American consumers from safety risks and potential supply disruptions from dependence on a foreign supply chain for essential medicines – something especially important now, given the impact of the coronavirus on manufacturing in China.

There are other approaches underway. My colleagues and I are working with the State of California to create an entity that would supply drugs for the 13 million people getting drug coverage through the state of California. While the details are still being worked out, there may be the opportunity for a small business to manufacture some of the drugs for California.

The start-up costs in the generic industry are rather small, so it is possible for small businesses to enter the market if they can find market niches. Trade agreements and disease outbreaks can make it challenging to obtain necessary generic drugs and a domestic source of generic drugs could address this challenge. Drugs in shortage are where US small businesses can enter the market. Congress can help small businesses enter this market and have generic drugs “Made in America”.

5. Support for public health preparedness is critical and the need for additional investment in supplies is clearly demonstrated by this Coronavirus outbreak and small business can help fill his void.

Congress appropriated \$3.1 billion in the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 that prioritized “U.S. – based manufacturing capabilities, and the purchases of vaccines, therapeutics, diagnostic, necessary medical supplies, medical surge capacity and related administrative activities.”

We are already seeing a shortage of key materials, such as masks and gowns.

There is a story in Tuesday’s Washington Post about the problems Massachusetts General Hospital is having getting prepared for a large number of Coronavirus patients. Johns Hopkins showed the challenges it was having getting prepared in a 60 minutes story on Sunday. If these great institutions are having difficulty can you imagine the small rural hospital?

Perhaps dedicating some resources to promote small business manufacturing would help small businesses

enter the market and help fill this void. These are products that could be manufactured very quickly.

6. There is a strong need to assist first responders and medical professionals to address Coronavirus and small business can assist in several ways.

In the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Congress appropriated \$10 million dollars for "worker-based training to prevent and reduce exposure of hospital employees, emergency first responders, and other workers who are at risk of exposure to Coronavirus through their work duties."

Dedicating a portion of these resources to education and training to be provided by small business could make sure that health care providers are adequately protected.

I am happy to answer any questions

Chairman RUBIO [presiding]. Thank you, Dr. Anderson.

Tim Morrison is a Senior Fellow at the Hudson Institute, where he specializes in Asia-Pacific security, missile defense, nuclear deterrent modernization, and arms control. He was previously Deputy Assistant to the president for national security and has written and spoken extensively about the national security aspects of supply chain issues.

Thank you for being here.

**STATEMENT OF TIM MORRISON, SENIOR FELLOW, THE
HUDSON INSTITUTE, WASHINGTON, DC**

Mr. MORRISON. Thank you, Chairman Rubio, Ranking Member Cardin, and members of the Senate Small Business Committee. Thank you for the invitation to be here today.

I would like to start with the cold reality and the simple fact: according to the World Health Organization, the National Health Commission of the People's Republic of China initially knew of the Wuhan virus as early as December 8 of 2019. Yet, initial substantive disclosures to the WHO did not take place until approximately January 11, 2020.

I do not think it is too much to ask how many people in the United States and elsewhere have been infected, gotten sick, or worse as a consequence of the Chinese Communist Party's decision to sit on the fact of this epidemic?

In fact, I think you as our elected officials must demand the answer to this question and determine how to respond.

In 2004, as Ms. Gibson has explained, the United States stopped making penicillin domestically. This happened without a vote in this body. It happened without decision in the Executive Branch. It is a decision that was consulted about this decision. It was a decision prompted by China's Made in 2025 plan to dominate what the Chinese Communist Party determined were strategic sectors which Chinese industry should control globally.

And so we are here today to ask, "on a good day, what does it mean to rely on the People's Republic of China for our basic health care commodities?"

Larry Wortzel, a member of the U.S.-China Commission, will tell you about his blood pressure medicine making him sick because it was contaminated with rocket fuel in a Chinese manufacturing facility. Rocket fuel.

Surgeons around this country may tell you about the hundreds, if not thousands, of surgeries that were canceled because millions of surgical gowns had to be recalled because they may not have been sterile when they were packaged up in the People's Republic of China and sent to the United States. This was in January of this year.

Now what if there was a malign intent? For example, what if this body passes a resolution demanding a high-level visit of an American official to Taiwan in furtherance of the Taiwan Travel Act of 2018? What if the United States chooses to sanction Huawei, or another Chinese state-proxy, for the Uyghur suppression? What if the Chinese Communist Party decides to retaliate to these sovereign decisions by cutting off the shipment of medicines to the United States?

Do you think it cannot happen? Ask the Japanese who lost access to rare earth elements from the People's Republic of China in 2010 over a territorial dispute.

The People's Republic of China's state-owned Xinhua, a communist party propaganda outlet, recently noted that the PRC could—and I quote—“plunge the U.S. into the mighty sea of coronavirus” if it wanted to do so.

I ask you to think about all of the tools of economic statecraft that you can use to support American producers, including small businesses and strategic industries. For example, I know that several of you were involved in the passage of the BUILD Act in 2018. This was an effort to leverage private sector investment in international development to counter China, Inc.

What other tools are available to do the same at the Small Business Administration or the Export-Import Bank?

I urge you, do not allow America's job creators and innovators to be unilaterally disarmed. Their government can and should defend them from foreign aggression.

Chairman Rubio, your amendment to last year's National Defense Authorization Act concerning reliance on the PRC for pharmaceuticals was a key step. You sounded the alarm on this risk.

Lastly, I know several of you serve on the Senate Foreign Relations Committee and related national security committees. I urge you to investigate the influence of the People's Republic of China in international organizations like the World Health Organization. Ask yourselves why, despite meeting all of its established criteria, the World Health Organization waited more than three months to label COVID-19 a pandemic? Why is the World Health Organization choosing now to adopt the Chinese Communist Party's playbook by removing Taiwan from its country list?

I want to thank you for the opportunity to testify here today and I stand ready to answer your questions.

[The prepared statement of Mr. Morrison follows:]

CONGRESSIONAL TESTIMONY

The Coronavirus and America's Small Business Supply Chain

BY TIM MORRISON

Senior Fellow, Hudson Institute

*Testimony before the U.S. Senate Committee on Small Business & Entrepreneurship
March 12, 2020*

Chairman Rubio, Ranking Member Cardin, and members of the Senate Small Business Committee, I thank you for the invitation to testify here today, and for the opportunity to represent the Hudson Institute, to share my views on "The Coronavirus and America's Small Business Supply Chain."

As you may know, prior to joining the Hudson Institute, I spent 18 months at the White House National Security Council; for approximately 12 of those months, I was privileged to lead the Counterproliferation and Biodefense directorate, which included the team of exceptional professionals who drafted and have implemented the National Biodefense Strategy, an Executive Order to modernize influenza vaccination, and coordinated the interagency and international response to the outbreak of Ebola in the Democratic Republic of Congo. That team, despite uninformed rhetoric to the contrary, was never dismantled and continues to serve today as the United States responds to COVID-19.

Based on the expertise you have gathered here today, I will focus my testimony on the manner in which the Chinese

Communist Party (CCP) conducts its affairs domestically and internationally, including by distorting free markets to the detriment of our small-, medium-, and large scale businesses, our national security, and our health security.

Let's start with the cold reality and the simple fact that the Chinese Communist Party initially concealed the fact of the viral outbreak of what we now know as COVID-19 from the Chinese people, international healthcare authorities like the World Health Organization (WHO), and other nation states, including the United States.

According to the World Health Organization (WHO), the National Health Commission of the PRC initially knew of the "Wuhan virus" as early as December 8, 2019. Yet, initial substantive disclosures to the WHO did not take place until approximately January 11, 2020.¹

I don't think it's too much to ask how many people in the United States and elsewhere have been infected, gotten sick, or worse as a consequence of the Chinese Communist Party's decision to sit on the fact of this epidemic?



In fact, I think you as our elected officials must demand the answer to this question and determine how to respond.

This is not a new phenomenon when dealing with the CCP, unfortunately.

Many of us will remember the outbreak of SARS in 2003, which the communist party also concealed from the Chinese people and world until it was a full-blown epidemic.

Alarming, the Chinese Communist Party has continued to censor information on such Chinese social media apps as WeChat.² It is actively denying information to its people.

By now, we all have heard about Dr. Li Wenliang, who was among the first to call attention to the spread of COVID-19 in China. It's been reported that his dissemination of his findings about the then-identified virus on a WeChat chat room ultimately attracted the attention of authorities, which led to his detention. He tragically died from the virus as a result.³

At the same time, the Chinese Internet has been overtaken by conspiracy theories that the "Wuhan virus" actually originated in the United States, not in Wuhan province.

Does anyone in this hearing room actually think the Chinese Communist Party isn't tacitly accepting, if not actively promoting, this misinformation?⁴

It is an inescapable conclusion that due to the insecurity, corruption, and lack of moral legitimacy of the Chinese Communist Party, it fears the kind of openness and transparency that we in the West take for granted.

Too often we turn our backs on the CCP's malevolence because it only affects the Uyghurs or Tibetans, or the Chinese people themselves. We don't think it affects us.

And we seem to nonchalantly accept China's behavior when it involves predatory economics against our businesses or those of its mercantilist clients in the "One Belt, One Road" ecosystem in Africa, Asia, and, increasingly, Europe.

But this is all part-and-parcel of the same corrupt Chinese Communist Party that concealed the existence of COVID-19 when we could have taken steps to protect the American people before this virus reached our shores.

A few weeks ago, I wrote an op-ed on the extent of how China might use, with either benign or malignant intent, the leverage we gave it over the U.S. health care system.⁵

I will not repeat myself here today, but I will focus on a few key points, without preempting what my colleagues will likely have to say.

In 2004, as Ms. Gibson will likely explain, the United States stopped making penicillin domestically. This happened without a vote in this body. It happened without decision in the Executive Branch. I am aware of no part of our government that was consulted about this decision.

It was a decision made in a corporate board room based on short-term decision focused on showing a profit on a balance sheet.

And it was a decision prompted by China's Made in 2025 plan to dominate what the CCP determined were strategic sectors which Chinese industry should control globally.⁶

But that's where we are during this global public health emergency.

And so we are here today to ask, "on a good day, what does it mean to rely on the People's Republic of China for our basic health care commodities?"



Larry Wortzel, a member of the U.S.-China Commission will tell you about his blood pressure medicine making him sick because it was contaminated with rocket fuel in a Chinese manufacture facility.⁷ Rocket fuel.

Surgeons around the country may tell you about the hundreds if not thousands of surgeries that were canceled because millions of surgical gowns had to be recalled because they were manufactured in the PRC and may not have been sterile when they were packaged up and sent to the United States.⁸ This was January of this year.

What about a bad day? What about malign intent?

For example, what if this body passes a resolution demanding a high-level visit of an American official to Taiwan, in furtherance of the Taiwan Travel Act of 2018?

What if the United States chooses to sanction Huawei, or another Chinese state-proxy, for the Uyghur suppression?

What if the Chinese Communist Party decides to retaliate to these sovereign decisions by cutting off the shipment of medicine to the U.S.?

Think it can't happen?

Ask the Japanese who lost access to rare earth elements from the PRC in 2010 over a territorial dispute.⁹

Already, we are seeing shortages of basic medication like acetaminophen—otherwise known as “Tylenol”—which, of course, we depend on factories located in the PRC to produce.¹⁰

The PRC's state-owned Xinhua, a communist party propaganda outlet, recently noted that the PRC could “plunge [the U.S.] into the mighty sea of coronavirus” if it wanted to do so.¹¹

Can we realistically expect to enforce our security guarantees in East Asia against aggression by the People's Republic of China when we can't even ensure our own health care security here at home?

This committee has a role to play to reverse this situation. I ask you to consider the following:

First, I urge you to conduct a comprehensive survey of the strategic sectors where small-, medium-, and large-scale businesses depend on the People's Republic of China for their supply chains. You can start with the Made in China 2025 plan.

Second, the term “industrial policy” is considered by some economic theorists and purists to be dirty words. But understand this, China Inc—China's state sponsored capitalism—has destroyed the free market in many sectors, from 5G to Active Pharmaceutical Ingredients. Just look at the PRC's Made in China 2025 plan for the roadmap. The CCP has not been shy about this—it does not think we will respond to its predations.

You cannot expect American producers and innovators—especially small businesses—to try to survive against the full economic might of the Chinese Communist Party all alone.

Continuing to refuse to fight back against such predatory economics is also known as “unilateral disarmament.”

I ask you to think about all of the tools of economic statecraft you can use to support American producers in strategic industries.

For example, I know several of you were involved in the passage of the BUILD Act in 2018. This was an effort to leverage private sector investment in international development to counter China Inc.



What other tools are available to do the same at the Small Business Administration or the Export-Import Bank?

I urge you, do not allow America's job creators and innovators to continue to be unilaterally disarmed. Their government can and should defend them from foreign aggression.

Third, consider legislation to promote the development of an American market in strategic sectors like healthcare.

Chairman Rubio, your amendment to last year's NDAA concerning reliance on the PRC for pharmaceuticals is a key step. You sounded the alarm on this risk.

As does H.R. 4710, the Pharmaceutical Independence Long-Term Readiness Reform Act, introduced by Representatives

Garamendi and Hartzler, would leverage the resources of the Defense Production Act and the market power of the Department of Defense through TRICARE and the Department of Veterans Affairs, to create new opportunities for ensuring domestic supply chains.

Lastly, I know several of you are on the Senate Foreign Relations Committee and related national security committees. I encourage you to investigate the influence of the PRC in international organizations like the WHO. Ask yourselves why, despite meeting all of its established criteria, the WHO still has not labeled COVID-19 a "pandemic."¹² What influence, what tools of suasion, is the PRC using against the WHO?

I want to thank you for the opportunity to testify here today. I stand ready to answer your questions.

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About the Author

TIM MORRISON

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Tim Morrison is a senior fellow at Hudson Institute, specializing in Asia-Pacific security, missile defense, nuclear deterrent modernization, and arms control.

Most recently, Mr. Morrison was deputy assistant to the president for national security in the Trump administration. He served as senior director on the National Security Council for European affairs, where he was responsible for coordinating U.S. government policy for 52 countries and three multilateral organizations.

For 17 years, Mr. Morrison worked in a variety of roles on Capitol Hill. From 2011 through July 2018, he served on the House Armed Services Committee staff, initially as staff director of the Subcommittee on Strategic Forces and ultimately as policy director of the Committee. As policy director, Mr. Morrison led implementation of Chairman Mac Thornberry's priorities, including overseeing implementation of the Trump administration's National Security Strategy and National Defense Strategy, prohibition of Chinese Communist Party-linked information technology and video surveillance technology, and House-passage of the Foreign Investment Risk Review Modernization Act (FIRRMA) and the Export Control Reform Act (ECRA) as part of the Fiscal Year 2019 National Defense Authorization Act.

From 2007 until 2011, Mr. Morrison was the national security advisor to U.S. Senator Jon Kyl (AZ), the Senate Republican Whip, where he assisted in coordinating national security policy and strategy for the Senate Republican Conference and led policy initiatives on nuclear weapons, arms control, export controls, and economic sanctions.

Mr. Morrison has a B.A. in political science and history from the University of Minnesota. He also has a J.D. from the George Washington University Law School. He is an intelligence officer in the United States Navy Reserve, serving since 2011.

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Chairman RUBIO. Thank you.

And our final witness is Ms. Wynne Briscoe, the Acting Director of the Small Business Development Center in the Southern Maryland Region. Thank you for being with us.

**STATEMENT OF WYNNE S. BRISCOE, ACTING DIRECTOR,
MARYLAND SMALL BUSINESS DEVELOPMENT CENTER,
SOUTHERN REGION, LA PLATA, MD**

Ms. BRISCOE. Good morning. Thank you all for having me this morning. Again, Wynne Briscoe, the Acting Director for the Small Business Development Center. In that capacity, I consult with manufacturers throughout the State of Maryland. Based on those experiences, I wish to offer some recommendations to your Committee.

I see the coronavirus pandemic and the supply chain disruptions that it has caused for some companies offering an opportunity to address the supply chain concern with a longer-term question: What opportunities do the current crisis offer U.S. businesses to fill newly emerging supply chain vulnerabilities within other companies? And how can these supply chain opportunities assist American small businesses long after the current health crisis has come and gone?

In other words, I believe that we should act and think about the supply chain disruption and the current crisis in a way that will take us beyond the current crisis and set our economy on a level plane.

When I consult with Maryland manufacturing companies, I insist that they have at least three alternative sources for the products that they produce. This is something that is going to be long beyond the current health crisis and something that the SBA can help make happen. And my idea I have created based on my experience with manufacturing companies is that I am recommending that you direct the Small Business Administration to produce a nationwide list of companies. Let them self-identify their supply chain concerns, those that have current supply chain concerns and those that forecast in the future of having supply chain concerns.

From there, it would be a self-identified list of Made in America products and services the SBA would be monitoring, and these would be an opt-in list for those businesses that wish to participate. This would be businesses that the SBA has worked with throughout the country currently as well as over the last 10 years. This list would be compiled and it would be monitored by the Small Business Administration.

For example, if they find when they are doing their outreach efforts, hypothetically a company in Miami that might be producing paper and its largest manufacturer might be China, can we find an American company to replace that source?

Again, another example might be a Maryland-based company that may be looking to replace its suppliers of key ingredients for its bakery supply products of a specialty product that it sells locally. The SBA does not have to do this process alone. They can work together with other Federal agencies such as the Department of Commerce or the Minority Business Development Administration to identify additional smaller companies that may be having

concerns. With SBA compiling this Made in America master list, it could be sorted through NAICS Codes and have descriptions that would describe it, such as “paper products” or “sweeteners” so that it would be easy to sort and address. These companies would receive this information on a regular basis, and it would be distributed throughout our network of Small Business Development Centers as well as the agencies that the SBA regularly communicates with.

This process and something similar to it, using the SBA to identify companies looking to expand their American supply chain suppliers as well as the companies looking to bolster their supplies domestically is essential to our Nation’s economy. May we learn from this time and learn from this crisis using this to strengthen our Nation’s supply chains well into the future.

Developing alternative suppliers of key products and services well in advance is how we like to prepare our businesses with the Maryland Small Business Development Center. And it is how I suggest that we move the Nation forward and proceed. We should look at this situation as a way to strengthen America’s supply chain and ways to benefit America’s smaller businesses.

So I appreciate you listening to my suggestion of creating a voluntary, opt-in nationwide list of supply chain opportunities of Made in America products and services and for recognizing the insights of America’s Small Business Development Center consultants and what we bring into solving this national problem by inviting me to this panel today.

Thank you for your time.

[The prepared statement of Ms. Briscoe follows:]

MS. WYNNE S. BRISCOE

ACTING DIRECTOR, MARYLAND SMALL BUSINESS DEVELOPMENT CENTER – SOUTHERN REGION

TESTIMONY BEFORE THE US SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

March 12, 2020

“Coronavirus and America’s Small Business Supply Chain”

Good morning. My name is Wynne Briscoe. I am Acting Director of the Southern Region of the Maryland Small Business Development Center. In that capacity, I often consult with owners of small manufacturing companies and based on those experiences, I wish to offer a recommendation to your Committee.

I see the coronavirus epidemic and the supply chain disruptions it has caused for some companies, as offering a great opportunity to address a long-term question: “What opportunities does the current coronavirus crisis offer US small businesses to fill newly emerging supply chain vulnerabilities within other companies, both large and small; and how can these supply chain opportunities for America’s small businesses remain long after the current health crisis has come and gone?”

In other words, I believe that the current crisis offers an opportunity to think and act about supply chain disruption and small business in a way that will last beyond the current health crisis.

When I consult with owners of Maryland manufacturing companies, I insist that they find at least three alternative sources for each key component of the products they produce. For example, if I were advising the owner of a soft drink company, I would insist that they find several alternative suppliers for the artificial sweetener that they need to make their product. That way, my client would be shielded in advance from bottom line vulnerabilities should their principal artificial sweetener supplier suddenly become unavailable.

And because I believe that small business owners should always have a list of alternative suppliers, I believe the current health crisis has created a good opportunity for the SBA to help make that happen.

That’s why I recommend directing the Small Business Administration to produce a nationwide list of companies self-identifying as having supply chain concerns. These could include companies that experienced actual supply chain disruptions resulting from the current coronavirus epidemic, as well as companies where the small business owner simply perceives supply chain vulnerabilities in the future. In other words, it’s a self-identified list that small business owners would opt to be included in. The SBA would produce the list by contacting all the companies it now works with, or has worked with over the past decade or so, through SBDCs and other SBA related organizations. And it would be compiled by having the SBA, as it reaches out to each company, ask each to list any prospective supply chain products or services for which it would like to have additional suppliers.

For example, the SBA outreach canvassing of a larger, Miami-based multi-national corporation hurt by the coronavirus outbreak might uncover the fact that they need to seek new sources and is looking to support its list of American small companies that would be able to step in to supply certain paper products currently manufactured in China for which there is now a shortage. The canvassing of smaller companies might identify a Maryland-based company looking to add to its list of suppliers of the key ingredients it needs to create the specialty desserts it sells locally.

And the SBA doesn't have to do this alone. It could work in tandem with other federal agencies, like Commerce's Minority Business Development Administration, to identify even more small companies having concerns about their supply chains.

Then, the SBA would aggregate its findings into a master list – one consistently revised over time – of the companies, large and small, whose actual or perceived supply chain opportunities have been identified. That master list of companies and their self-identified supply chain opportunities could detail the supply chain opportunities through a combination of NAICS Codes and/or narrative descriptions, such as "paper products" or "artificial sweeteners." And the list of companies and their supply chain opportunities would be sent on a regular basis, possibly quarterly, to all the organizations which the SBA routinely communicates with, including all SBDCs.

The SBDCs, and others, in turn, would share that list with their own current and former small business clients so that they, subsequently, could directly connect with the identified companies in their state or elsewhere whose supply chains they potentially could support.

This process or something close to it – using the SBA both to identify companies looking to bolster their roster of supply chain suppliers and to share that roster with other smaller companies with whom the SBA and its various programs maintain ongoing relationships – is essential if our nation is to learn from the current crisis and use it to strengthen our nation's economic supply chains well into the future, long after the current coronavirus outbreak has come and gone.

Developing alternative suppliers of key products and services, well in advance of the inevitable next crisis that may arise is how we like to do things in the Maryland Small Business Development Center. It's how I suggest the nation should proceed as well if we look at this current health crisis as an opportunity instead to permanently strengthen America's economic supply chains in ways that benefit America's smaller companies.

I thank you for recognizing the insights America's SBDC consultants can bring in solving this national problem by inviting me to this panel, and I thank you for listening to my suggestion involving creation of a voluntary, opt-in nationwide listing of small business supply chain opportunities.

Chairman RUBIO. Thank you.

The Ranking Member, are you ready for questions?

Senator CARDIN. Let me thank all four of our witnesses. Ms. Briscoe, let me just ask a question where you ended off. I think your suggestion is an excellent suggestion, but it does point out the fact that we need to be better prepared for the next crisis. I said that in my opening statement. We need to have better supply chains locally, and there is real opportunity for small businesses in helping us in that regard.

The challenge will be to connect the opportunities with the businesses that are there, and there is where our resource partners can be of tremendous help. I appreciate what you do in the State of Maryland in our Minority Business Development Centers, our Women Business Centers. All those are places of contact where this type of a list could connect to the companies that are out there with investors to really provide new opportunities for small businesses.

So I just really wanted to underscore and get from you your capacity today to reach out. We have already modified the disaster relief programs so that small businesses can qualify. I know that they are going to be knocking on your door saying, "Can we get help under this program?" The State of Maryland will help, but they are going to be your offices that are going to be called upon to do this.

Do you have the capacity to expand your reach to take care of, for example, the suggestion you made on developing a list?

Ms. BRISCOE. Well, it would initially start with compiling the data from the businesses, so the SBA is what I am recommending start from the top down, utilizing the Small Business Development Centers, utilizing all of the agencies that work along with the SBA, and find the businesses that currently do produce products here in this country that can be of assistance to other businesses that they may not be aware of.

So the first short term would be identifying what is made here in this country, and from there SBA would then follow up with sort of an opt-in matching, if there is a company that is looking for that product or service and they are now being matched with a product and service that is made here with that business in exchange.

So that is how we see foresee this rolling out from the top down through SBA, through the resource partners such as the Small Business Development Center and SCORE and the Minority Business Centers and the Women Business Centers and our Veteran Business Centers, and connecting with the key stakeholders throughout the State, and then not just doing it alone, throughout the country working along with the Commerce Department and all of the other Federal agencies that work with businesses so that we can from a higher level identify what is being made here currently and how that can be a gap in the supply chain for the businesses that need them here nationally.

Senator CARDIN. I think it is an excellent suggestion, and I am just trying to figure out how we encourage that to be done and where the resources need to be placed in order to make that a reality. And I think you have given us a good blueprint, so I thank you for that.

Ms. BRISCOE. You are welcome.

Senator CARDIN. Dr. Anderson, you gave a pretty chilling account. You are small business owner. You are running a cleaning establishment that depends upon you and perhaps one or two other workers. You do not feel well. The advice is for you to go home and stay home, and perhaps someone in your operation, in fact, did get the virus. Now you have got to be treated and be isolated for a period of time. That is what we want you to do. We do not want you to spread that disease to people coming into your establishment because you need to keep your business open.

So how do we provide the financial help to that type of a small business owner, which is in our interest to stop the spread of the virus, but also to keep that business open because of the impact it has on the local community? The Chairman talked about and we are working on a program that is going to make it easier for SBA loans, including how we determine whether they are creditworthy. Those are important steps. But if you are talking about closing a business, it is hard to understand how you can deal with another loan on top of that, and that is why I appreciate your response in regards to perhaps looking at a grant program. It is a little more complicated because we have not done that in the past. But I take it that your comment means that in our toolbox, if we really are interested in dealing with this crisis, we are going to have to look beyond the traditional loans.

Dr. ANDERSON. Yeah, I mean, my local person that does my dry cleaning—there are two people that work in that place. I am sure there is somebody in the back office, but there are two people in the front office. And if one of them has coronavirus, that place has to close because they are essentially—you know, they just cannot work with just one person. And they are not going to be able necessarily to take out a loan. It is going to be a lot of work. They are going to need help to open again 14 days later, and I think a grant is what they are going to actually need.

Senator CARDIN. I thank you. I think we just have to have—we have got to be flexible. This is a crisis that no one could anticipate how it is impacting. Every hour it is becoming more and more devastating to our economy. So we are going to need to develop in Congress a flexible toolkit in order to keep businesses going in our community, particularly small businesses.

Again, I thank you all for your testimony.

Chairman RUBIO. Thank you.

Senator Hawley.

Senator HAWLEY. Thank you, Mr. Chairman, and thank you for holding this hearing today and for focusing our attention on what is obviously a very hugely significant topic. I think it has been clear for a while now that we are far too reliant on China for our domestic production, especially for essential products that we rely on, and, of course, our medical supply chain is at the very top of that list, as we are sadly finding out. This is one of the reasons that I introduced legislation 2 weeks ago that would give the FDA more authority to require that our medical product manufacturers report all the details of their supply chain, report where they are facing potential shortages, and then give the FDA new authority to

speed potential replacements, including, of course, replacements ideally that are made in this country.

Ms. Gibson, can I just start with you? You stated in your testimony that we know China produces about 9 percent of our generic drugs, which is a lot, but do you have any sense of how many of our drugs involve Chinese production? In other words, maybe they are not made wholly there, but Chinese production is involved.

Ms. GIBSON. Thousands. Thousands of our generic drugs and even some of the brand-name products and perhaps even new therapies for coronavirus may depend on the chemicals that are sourced primarily in China. If you are hospitalized with coronavirus, if you have a severe case, which, thankfully, is small numbers of people, a small percentage, you will need—you might be on a ventilator, so you will need sedatives like fentanyl and propofol. Your blood pressure may get dangerously low, so you will need pressors like dopamine or epinephrine. You might get a secondary infection, bacterial in nature, and you will need antibiotics. You might become septic, which is life-threatening.

I was sitting in a room where the people actually make medicines. These are the men and women in pharmaceutical engineering, pharmaceutical chemistry. I said, “So tell me, if you have to make these tomorrow, where do the core chemicals come from to make it? How much are we dependent on China?” They said 90 percent of the chemicals to make those basic generic drugs depend on China.

The good news is that there are advanced manufacturing technology and really brilliant chemists right here in the United States that want to make it, are capable of starting production tomorrow. And Civica Rx, they have committed to all their APIs being made outside of China. But they want to take the next step and make sure all the chemical components were not dependent on China. Advanced manufacturing technology—and we have brilliant people in this country, and they want to do it. So we can make a lot of these medicines here. They just need the investment to get started.

Senator HAWLEY. It just strikes me, based on your testimony, which I think is really eye-opening, that we probably do not appreciate or have not appreciated until now the extent of our reliance, the true scale of the vulnerability in our medical supply chain.

Dr. Anderson, let me ask you, in your view, what is the most helpful thing the Federal Government can do to support these small biotech companies that you have spoken about and that you write about? What are the right incentives that we ought to be proposing or adopting?

Dr. ANDERSON. Essentially, that they have a guaranteed place to sell their products. So right now, they are coming up with these great new ideas, and they do not always have a place to sell their products. And it is true mostly in—not in cancer where there is a lot of profit in there, but in anti-infectives, in antibiotics, and things like that. You develop something new in that area, and the current system does not work. So that is why we had to create Civica Rx, which is this thing that is run out of Intermountain Health Care in Utah and other places. We just did not see that the marketplace was producing certain areas because the profitability was not high enough.

Senator HAWLEY. Let me ask you about something else I found interesting. You wrote in your testimony that while small biotech companies often make the initial discoveries during a vaccine or drug development process, it is the large pharma companies that then often buy them up.

Dr. ANDERSON. Correct.

Senator HAWLEY. And gain ownership over the IP. I am wondering if that trend accelerates the offshoring of our capacity to China. Are those things related?

Dr. ANDERSON. Well, I think what we are seeing now is, in fact, that is happening. So all of a sudden, you know, Pfizer has their major manufacturing plant in China. So the big companies are looking where they can produce it the least expensively and are going there, especially in the generic because it is all price-driven.

Senator HAWLEY. Mr. Morrison, before I run out of time, I was reading your testimony and was astounded to learn—you reiterated this fact; Ms. Gibson, you mentioned it, too—that we stopped making penicillin domestically in this country in 2004, right? Yet the CDC says 62 million penicillin prescriptions were filled in the United States in 2015. I have got two little boys at home. I think the Hawley household accounted for a number of those prescriptions.

[Laughter.]

Just to make it clear here, is it correct to characterize the decision to move the production of penicillin overseas as an economic decision, it was economically driven, it was a profit-driven decision? Is that your understanding?

Mr. MORRISON. Yes, sir. I think the point of Made in China 2025 is essentially to destroy the free market and create incentives to offshore production in China. And originally this seemed like a good thing. We will save prices, we will move value where value could be moved. We will continue to do the innovation. But China is scooping that up as well. And so without any decision by any Government authority, this happened, and now we are going to deal with the consequences. And, of course, an antibiotic is not instrumental to treat a virus, but the respiratory infection, it is.

Senator HAWLEY. Right. It just strikes me—and this is my last comment, Mr. Chairman—that our current drug policy seems to privilege economic considerations of maybe a few companies over public health considerations. Is that fair to say, Mr. Morrison?

Mr. MORRISON. I would largely agree, sir.

Senator HAWLEY. Thank you, Mr. Chairman.

Chairman RUBIO. Senator Booker.

Senator BOOKER. Mr. Chairman, thank you very much.

I have got three areas that I want to try to get to in a very short 5 minutes, and, Dr. Anderson, maybe I can just get you, because I am uncomfortable right now. The Senate is about to go on a recess. We see this curve, the bell curve that we are in right now, of increasing levels of infections and it is going to continue to go up. Any modeling would say that our control actions to try to bend this curve are not doing that well. Having been an executive during a number of crises, including Superstorm Sandy, it is the first order of keeping people safe, but it is the second-order consequences when something like that happens.

We are about to face nationwide second-order consequences of what it means to have schools closed, what it means to be told to go home and stay home. And so could you just take 30 seconds for me to sound the alarm a little more dramatically than you did, just like saying going out tonight to your—what does it mean if we have large-scale orders for social isolation as well as basically people sheltering in place in terms of the local economies that depend upon small businesses? Can you just paint this picture for me? Because I think that we need to be taking a lot more dramatic action to try to stabilize a lot of the small businesses and help people who are going through this crisis.

Dr. ANDERSON. So I just walk through my neighborhood, and I see basically restaurants basically empty. I see dry cleaners, no one going. I see in the last week or so a fundamental change in how the economy is working, and I think the stock market is telling you that is what is happening. And I think what we are seeing in the real world in our neighborhoods every day is just so—

Senator BOOKER. So something as basic as schools closing, child care crises—I live in a community at the poverty line where people if they miss one paycheck, they cannot make a rent payment, they cannot make their car payment. Their lives spiral out of control. So telling a food service worker, for example, to stay home for 2 weeks is just not going to happen, right?

Dr. ANDERSON. Unless they get paid.

Senator BOOKER. Right.

Dr. ANDERSON. And you have got to make sure that they are willing to stay home because they are going to get paid.

Senator BOOKER. Eighty percent of our food service workers do not have paid family leave. Every year we see the spread of flu and like that because they are handling our food. Right now in this crisis we cannot bend the curve unless we find a way to make it so people can stay home without putting themselves in pending doom.

I want to stop there and pivot real quick. The testimony of Morrison and Gibson, I wish every Senator could read that because clearly this is a national security issue. It is not just pharmaceuticals. It is rare earth metals. I can go through the things, should something more major in terms of a conflict between us and China break out, that would cripple our economy and our health and well-being and safety. And so this idea that it is a free market, when I know this from New Jersey that people are luring companies to manufacture over in China, and so, again, knowing—here we are in a time of crisis, it is too late. Shouldn't we as a Federal Government be doing more on these issues to make sure we are building manufacturing capacity here?

Ms. Gibson.

Ms. GIBSON. Yes, what we can do and what small businesses want to do to prevent a future situation with drug shortages, they want to make the active ingredients, which is what makes the medicine medicine. They can make it fully here in the United States using advanced manufacturing technology. Stockpile that, because it lasts longer than the finished drugs. And if we have another coronavirus outbreak, have a stand-up facility ready to go, which we have with—you know, companies have these as backup, redundant capability. Take that API out and make those medicines

that are in critical shortages. This is what small business, the innovative thinking and the technology and the brilliance—

Senator BOOKER. But this takes conscious, long-term planning. You cannot just flip a switch and have the manufacturing capacity here. I have a bill that tries just talking about seeding critical startup capacity here so that we build it, correct?

Ms. GIBSON. There are small businesses that can start production of active ingredients made here in the United States. They could start within weeks. It would take maybe 9 months to start making small quantities of these key ingredients fully made in the United States, not dependent on China for chemicals. They could do that in about 9 months.

Senator BOOKER. Mr. Morrison.

Ms. GIBSON. And they could start for the stockpile DOD and VA, use our Government purchasing power to stimulate that market.

Mr. MORRISON. That is, in fact, where I was going, sir. You have tremendous purchasing power through Medicare, Medicaid, TRICARE, the Department of Veterans Affairs. These are some of the largest health care consumers in the world. You can control their procurement regulations.

And if I could just make one more pitch, right now the Federal Government may be about to allow the TSP I Fund to invest in the MSCI Index. We are going to be investing in Chinese enterprises. I have worked 19 years for the Federal Government. Please do not put my pension in nontransparent Chinese companies.

Senator BOOKER. And so I just want to make just a massive appeal to my Chairman right now that this should be a Committee urgency. We can address this. It is actually not that hard. We just do not have the collective will. This is a national security crisis that one of our serious adversaries is doing things strategically to undermine our health and economic well-being, which at any point they could cripple our economy. And, actually, this has a win-win. It corrects for a national security crisis, and it actually helps our overall economy, and the fact that they are doing it and we are not.

So I would just appeal to the Chairman and the Ranking, let us work on this as a project. This is an obvious area where we should have bipartisan commitment to fill these vulnerabilities and actually build more American economic manufacturing.

Chairman RUBIO. Absolutely. And that is the goal of the second tranche of work we are going to have to do on this. We are trying to figure out what can we do to help assist small business quickly right now. But we are going to have to come back and do more on a host of issues. This hearing has actually been scheduled for over a month and a half before this, so we already identified this in our report last year. And I agree with you. There are still a couple people that debate whether we have a supply chain issue. I am not sure they will be able to make that argument here any longer in any event.

Senator CARDIN. Let me just underscore what the Chairman is saying. We are going to try to see whether we can get something done as early as today, if at all possible. We recognize that within the next couple weeks we really need to put together a package that is going to make a broader appeal to some of the issues that

are here. We are not talking about months. We are talking about we need to respond while there is an interest.

So we are going to try to work with everyone and try to see what we can get done.

Chairman RUBIO. Yes, and one last point before I turn to Senator Hirono. We want to do it in a way that obviously respects the jurisdiction of this Committee, which is small businesses that have supply chain disruption vulnerability, but also small businesses as the answer to the supply chain vulnerability. And that will require access to capital and the ability to invest to ramp up. So we have got some work to do, but I am glad we have a head start on some of this.

Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman.

Did I hear you say that we can reduce or totally eliminate the overdependence we have on China, that we in our country have the capacity to create or manufacture these chemicals that are so necessary?

Ms. GIBSON. For a lot of medicines, brilliant chemists and pharmaceutical engineers can make these chemicals here.

Senator HIRONO. So why is that not happening?

Ms. GIBSON. Well, on the generic side, the margins are so slim that companies would not invest in the new plant and equipment to do it, and also our last large generic company, Mylan, in Morgantown, West Virginia, merged with Pfizer, and Pfizer last year announced the opening of its global generic headquarters in Shanghai. So we do not have these companies. In 5 years—there are two more Western companies—they will be gone.

Senator HIRONO. So we have a so-called free marketplace where companies can make those kinds of relocation decisions. So are you suggesting that there be some kind of legislation that will prevent or effect a cost on these companies that will take their manufacturing to places like China?

Ms. GIBSON. Well, I think sort of the horse is out of the barn on that. How can we grow and incent small businesses that are eager to fill this very large vacuum that we have. They want to do it. Civica, I am sure, would want to purchase essential medicines and all their ingredients made here in the United States. The DOD could purchase it, the VA. We could start a whole new market with manufacturing here in the United States.

Senator HIRONO. I think we are going to need to figure out, though, because if a small business creates these chemicals, et cetera, and they get bought up by a larger company that is interested in the bottom line, they go off to China, that is not resolving the situation. So we are obviously going to need to come up with some really, in my view, tightly drafted legislation that will get us to where we need to go.

Ms. GIBSON. There are some provisions that can be done, that you cannot sell your plant for national security reasons. If we make any investment, it—

Senator HIRONO. I think those are the kind of ideas we need to put in place, I would say.

Dr. Anderson, here we are in the midst of a pandemic. It is here and now. And, you know, any State that is so dependent on tour-

ism as a major part of their economy, I would say most States tourism is their number one or number two driving factor. So we are already seeing thousands of people losing their jobs. Most of them probably do not have paid leave, sick leave, or anything else. So here and now, I agree with you that we really need to figure out how to ease the impact on workers and their families in the here and now, because if we expect people, 20 percent who are not even insured, to go to the doctor, that is not likely to happen.

I think this crisis has really illuminated and illustrated the huge gaps in health care coverage in our country and how it is creating a risk for all of us. So we can have that conversation later. But for the here and now, I am wondering whether you think, Dr. Anderson, that we obviously need to have a lot more testing in our country so that we can get a sense of how far this—how much of this virus is already in our country. We do not know that, so testing.

And then, obviously, we are going to see this continue if we do not develop a vaccine. Would you agree that testing and developing a vaccine are critical to our ability to get a handle on the spread of coronavirus in our country?

Dr. ANDERSON. First of all, the vaccine is absolutely critical, but it is going to take a year or whatever.

Senator HIRONO. And in the fall this virus can come back.

Dr. ANDERSON. Hopefully, it will not happen again, but it may resurge in the fall. Let me go back to the question, though, about what we can do besides for generic drugs, because we are now working with the State of California, and they have said that they want to essentially manufacture or produce drugs for the 13 million people that they insure. And they are trying now to do that based upon plants in California. And so they have the power of 13 million people that could manufacture drugs, and they are trying to do it with Civica and other places based in the United States.

So the Government has this huge purchasing power and can use it to do things that are manufactured or produced in the United States.

Senator HIRONO. I am all for Government using its purchasing power, but I would note that we cannot even under Medicare have a discussion about, you know, drug purchasing where we cannot even negotiate those things. So I am all for our Government using its power to create the kind of situation where drugs that we need are being produced for our people, and we apparently are not there yet. But whatever you can do to raise your voices to head us in the right direction along these lines, I am grateful.

Dr. ANDERSON. Medicare cannot, but Medicaid can. DOD can, VA can. So there are a number of very important buyers in the public system that can.

Senator HIRONO. Yes. Medicare, though, is a huge gap.

Dr. ANDERSON. I understand.

Senator HIRONO. Thank you.

Chairman RUBIO. Senator Shaheen.

Senator SHAHEEN. Thank you all very much for being here and for your testimony.

The President last night talked about one of the actions that he was taking would be to invoke a travel ban on passengers coming from the EU, and initially it sounded like he was also saying cargo,

although that got corrected later. But given what Senator Hirono said and what I know to be true in New Hampshire about the importance of the tourism industry and the impact on so many small businesses of our European travelers, can you speak to what the impact of that might be on the small businesses that you are working with? I had some questions, as did other Senators earlier, out of a briefing on the coronavirus about why the U.K. was exempt from that travel ban, and what we were told is because they are no longer, because of Brexit, part of the Schengen zone, which is where people can travel across borders without screening. But they are a part of that zone until December of 2020, so they are still very much in the Schengen zone, so I am just saying that I guess as a point. I am not necessarily asking you to comment on that, but if you could comment on what the impact you think will be on small business of the travel ban from European customers.

Dr. ANDERSON. So, I think it is going to be huge for the people. I mean, if you are just in the Washington, D.C., area, we get so many visitors. You get them for skiing and other things. So you know, these are huge industries that are going to lose 20, 30 percent of their business literally overnight. They do not have contingency plans for a 20 or 30 percent reduction in their business.

And it is not just oh, take out a loan. You are going to need some real cash immediately that you know you do not have to pay back because you are going to be in the hole for a while.

Senator SHAHEEN. Ms. Briscoe, have you heard from any folks through the SBDCs in Maryland about the potential impact? Or is too soon to know?

Ms. BRISCOE. We have not had, at this current time, any businesses that have reached out to us specifically about the supply chain impact at this moment. But we will be sending out a correspondence to our caseload to ask them have they had an impact or how do they feel about a future impact. They may have supplies that can sustain them currently but is it something that, for the long run, that they can maintain. So we will be in communication with them.

Senator SHAHEEN. Great, thank you.

On February 27th, the FDA pointed out that it had received its first notification from a drug manufacturer about a drug shortage. I am sorry, I did not hear all of the testimony earlier from Ms. Gibson and Dr. Anderson, so you may have referenced this. But the question that I have is how do we balance the public's need to know on an issue like that without it creating a run on those drugs and a real panic about how to respond to that kind of situation?

Ms. GIBSON. I think the FDA did the right thing in not naming the medicine because that would have contributed to hoarding and precluded the opportunity to allocate it to those people who need it the most.

But I also think, we have had drug shortages in this country for more than 20 years and we have not been honest about the impact that it has had on patients. So at some point, maybe when coronavirus—we get through this, we have to have an honest conversation about the shortages of medicines in this country, the terrible impact it has, what the real root causes are, and address those.

Dr. ANDERSON. So the FDA says there are about 100 drugs. At places like Johns Hopkins, we know that there are 250, 300 drugs that are, in fact, on shortage. And we sort of borrow it from the University of Pennsylvania and then pay it back to the Mayo Clinic and do all sorts of bartering on this when there, in fact, a shortage.

But this is not a new thing. It is just going to get worse with the travel bans because so many of the drugs are manufactured overseas.

Senator SHAHEEN. And of course, that does not address the cost of so many drugs which, while they may be available, if you cannot afford to use them because you do not have insurance and cannot cover the cost, you are in the same position.

Dr. ANDERSON. Well, that is particularly true in this case for the uninsured because if you go to the doctor, it is going to cost you \$200 just to get a simple test. And if you need to get some kind of x-ray or something, it is going to be now \$1,000. And if I am uninsured, I probably do not have \$200 or \$1,000.

Senator SHAHEEN. Well, as you all point out, this is an opportunity for us to look at some of those issues and hopefully respond in a more positive way going forward.

Mr. Morrison, I would just like to share your concern about investment of the Thrift Savings Plan and the MSCI index, using that as the index for how to make those investments. Senator Rubio and I have been beating that drum for a while without much support from the administration.

Mr. MORRISON. Time is running out.

Senator SHAHEEN. Thank you.

Chairman RUBIO. Just on that point, we have reason to believe that they have actually expedited moving in that direction. It is just crazy. It is crazy. And I mean, it is not a term that you normally use to describe public policy, but this is nuts, taking the retirement funds of Federal employees and the military to be invested in companies in China that are actively working to undermine our national security, our health care security, and our economic security. It just cannot happen. I mean, if it was not so serious, you would laugh at it and say that cannot be true, that is something from the Enquirer, or whatever.

But it is real, and hopefully we can see action taken on this promptly, among other things.

Senator Rosen, are you ready?

Senator ROSEN. Yes, thank you.

Thank you, Mr. Chairman. Thank you to the Ranking Member. Thank you all for being here today.

Needless to say, it has been quite the roller coaster since the coronavirus has reared its ugly head, and it is going to probably get worse before it gets better.

And so, practically speaking, I can tell you that people think of Nevada and Las Vegas as these giant casinos. And we are those. But in fact, 99 percent of businesses in Nevada are small businesses in support of a lot of—especially in the Southern Nevada area—in support of those large businesses. They provide over 40 percent of the private jobs in our state. They really are the backbone of our economy. You think about all of the weddings we have. They are the vendors who bring the flowers and the candles. All

of those people that make that happen, make the magic happen in Las Vegas, of course, in Reno and all across our state. And we have nearly 50 million of those visitors a year.

So as far as small businesses go, what suggestions do you have for those businesses to be able to adapt in some way to the current environment. Maybe specifically, if you could speak to the people in the travel and tourism industry, do you suggest working through the Small Business Development Center? Are they a good cooperative partner, the SBA? Can you just talk about how some of these supportive businesses from our tourism industry, if you can? Anyone at all? Or just in general?

Dr. ANDERSON. Let me try.

I mean, I think the key thing is to make sure that they are going to be around in three months or two months. And I think what the challenge is, if you just give them a loan, they are going to be in trouble because they are now going to have to pay for it and not get any money for the last two months or so for the flowers and all those things because nobody is going to be having weddings and using all those flowers because they cannot bring all their friends and relatives to the wedding.

Senator ROSEN. Right.

Dr. ANDERSON. And so, you are going to have to essentially, if you want them to survive after two months, is to give them a grant to survive. You are going to have to give the worker who might have coronavirus 14 days of paid sick leave so that they can quarantine at home. And you are going to have to give the uninsured person who needs to go to the doctor but does not have the \$200 to go to the doctor some money and pay them on the basis of Medicare rates. You will not make them a medicare beneficiary but pay them on the basis of Medicare rates so they actually do get tested. And so when they are working in one of these small businesses, we know that you are safe to go to a small business.

Because as soon as we feel like it is not safe to go to small business, we are going to stay at home.

Senator ROSEN. So we have to just remove the obstacles for specifically getting testing and being quarantined. I think that is the best thing. And then financial support that may not need to be repaid back is really the way to do it because it is going to take a while for everything to recover when we do, hopefully, all go into recovery.

I know this is going to sound—this is happening, I know, across the country and not specific to tourism. But we have a lot of wonderful things about our entire Nation. A lot of it is diversity. I have heard stories about people and businesses, that they are not buying frozen Chinese food in a grocery store. They are not going—because they think that the virus is going to be at the Chinese restaurant. Or they think that oh, now that it has been in Italy, so I should not do this or that.

So how do you think the mechanism for some of our small businesses—I guess they can put up signs. But how do we just try to dispel these myths that you shopping or going to a Italian restaurant in Henderson, Nevada, is not going to give you—it is not getting the coronavirus from Italy if we are living there.

Ms. GIBSON. Well, I will take a stab at that. To the extent that food service companies import food from China, we do have a lot of food imports from China, we should be mindful that the FDA withdrew its inspectors from there to protect them from what was going on.

So the big question is who is going to be inspecting the places that are making our food in China or elsewhere to ensure that it is safe? The same is true for our medicines.

Senator ROSEN. Again, that is an imports issue.

Ms. GIBSON. That is a different issue from what you are talking about but there is some concern there. And I think it is going to be a long time before the FDA meaningful can get back into certainly China and some of these other countries to really do the work they need to do to protect the American people.

Senator ROSEN. Thank you.

Chairman RUBIO. Go ahead and follow up, because I have a number of questions.

Senator CARDIN. I just was going to thank your panelists.

But I do want to respond to Ms. Gibson's point about drug shortages because there is no question the coronavirus is causing a concern in our supply chain on drugs. That is a fact. And we need to be able to have domestic productions. That is a need.

But make no mistake about it, the couple hundred drugs that were short before the coronavirus had nothing to do with the supply chain issue because they were produced domestically. It had all to do about the economics of productions of those medicines because they were basically inexpensive medicines in which the pharmaceutical companies were not making big profits off of. And that is a fact.

So when we are dealing with the shortages of drugs, let us make it clear that we have responsibilities to make sure drugs are available in this country, and it is not just supply chain. It is the economics of how the pharmaceutical industry is organized here in the United States.

Dr. ANDERSON. And that is why, when we created Civica, we had to have a guaranteed market. And so 1,200 hospitals jumped up and said we know there are shortages. We will buy these drugs from Civica. We will guarantee the purchase of those.

So having a guaranteed purchase is the key thing for these small businesses.

Ms. GIBSON. If I may add, American companies are competing not with companies in China, they are competing with the Chinese government because their domestic companies are subsidized. So it really is an unlevel playing field.

Senator CARDIN. Again, I want to thank the witnesses for their testimony.

Chairman RUBIO. Thank you.

Before we conclude, I had a number of observations and I wanted to elicit points from you. Let us start with the first, and that is—let me begin by saying I am a big believer in capitalism. I am a big believer in free markets. And one of the reasons I am is because I believe it provides for the most efficient allocation of capital to the most productive place.

However, there are times in which the most efficient allocation of capital does not align with our national interests. And in those times in which it does not align with our national interest, it is incumbent upon public policymakers to make adjustments. So we are now facing that.

And for many months and years we have been making this conversation, we have been talking about this in conversation with people. The answer always was that either a denial that a problem existed or accusing this of being some sort of rejection of the market. It was theoretical.

Now, it is no longer theoretical. We have before us, just in the health care and medical field, a market decision that it was more efficient, that you can do it at lower costs despite transportation and everything else, if you made these things somewhere else. And that is what the market did, destroying jobs and companies here and providing that there.

And this is now couched now in some anti-China narrative and so forth, but it really is not. There is a national security component to the fact that China is a geopolitical, near-peer competitor. But beyond it is the reality that even if they did not do it on purpose, the shutdown of factories because of an outbreak of this virus has impacts that end up hurting us here.

So the question now becomes how do we address it? And what can we do to incentivize investment in critical industries? And the topic of critical industries today is broader than it has ever been in the history of the world.

So we have to identify what those critical industries are and then decide, from a small business perspective, what do we need to do to incentivize investment in those industries? And that will require potentially government investment but also incentivizing private investment in those fields.

Is that an accurate way to assess the challenge before us now? That what we have seen these things leading is the combination of our adherence to let the market decide where it goes, which is generally the right decision, combined with a deliberate policy aim on behalf of the Chinese government to attract that capacity away from us. And the result is we have reached an efficient market outcome despite market interference in their part that now places our national security and economic security interests in danger.

Dr. ANDERSON. So I agree with you totally. I would just make one slight modification. That is saying not government investment but government purchase. I think it is important for these small businesses—

Chairman RUBIO. Meaning on the demand side?

Dr. ANDERSON. On the demand side. That they essentially have to have a guaranteed market. So when we are working in California, they are going to buy for 13 million Californians—the state is going to buy those. And that allows a company to get started in California because they have a guaranteed market.

Civica has a guaranteed market for 1,200 hospitals. They are willing to get started. Otherwise, they would not get started. So guaranteed purchase is the critical thing.

Chairman RUBIO. And in that realm, let me say that there is a court decision that undermined the ability to do that. There is a

DOD and VA requirement to Buy American on key components and drugs. And the Court ruled against it. And so this requires a legislative fix.

Dr. ANDERSON. Correct.

Chairman RUBIO. And there is hopefully, any moment now or any day now, an Executive Order issued by the White House that will strengthen these Buy American requirements. Because now the Federal Government, in addition to driving the investment, one of the things that will drive investment is that there is a customer that is going to buy it. And we can be a big customer in some sectors.

Again, that is not government ownership of the means of production, that is what socialism is. But it is government saying it is in our national interest to do these things.

This is not just about—this is not even protectionism. This is security. So I hope we can fix that.

Ms. GIBSON. If I may add, Senator Rubio, and thank you for your leadership on this. We would not have our aircraft carriers or military equipment fully made in China. If we wanted to do a free market, we could do that and just outsource all of that. But we realize there is a point which we do not want to cross.

I will say that if we want to have manufacturing here in the United States for our essential drugs as a national security issue, if we look at how we have been making medicines it is the same way we have been doing it 100 years ago. We have the opportunity to bring manufacturing home to make it more efficient, less costly. And that will take some initial investment so the DOD and the VA can have all of their components made here in the U.S.

Otherwise, if we just buy—and Civica has found this. Civica is still finding it. It still has to get the core ingredients from China. New types of manufacturing, we can bring all of it back to the United States.

Chairman RUBIO. And this is something that I hope that we will be able to do together. Part of these hearings and the report we did is to create awareness about these challenges.

I wanted to ask you about that in a second, Mr. Morrison.

But I wanted to ask you, Ms. Briscoe, from the small businesses perspective—so we view the small business sector as a place that we can see some of the stuff happen. It is easy to focus on the guys on the cover of the magazines and on the stock market on a daily basis. But there is a lot of potential capacity out there now. And you have done a good job of addressing small businesses through your idea.

Small business is vulnerable to supply chain disruption. But also, small businesses who could fill supply chain disruptions.

Ms. BRISCOE. Correct.

Chairman RUBIO. But finding the way small businesses could fill that is a key thing.

So right now we are focused on just keeping people in business; right? There are a substantial number of small businesses that cannot afford to go seven to 10 days without operating. They do not have that kind of cash reserve, and things of this nature.

Ms. BRISCOE. They basically would be the problem and the solution at the same time. And that is what we are looking to do.

Chairman RUBIO. So what can we do, as we move forward on this first tranche of work, which is just making available in the most appropriate way, through 7(a) and Community Advantage—and using and leveraging the community banking industry which is there and on the ground, providing an increase in the percentage of guarantees to make the loans easier to issue.

What would be the best thing we can do for small businesses to be able to access it quickly and stay afloat? Obviously, we have to make them aware of it, and from a paperwork standpoint and so forth. Do you have any practical advice as to how to make that—because one thing is to pass a bill that allows it and another thing is utilization, knowing it is there. And for some businesses, frankly, it may not be the solution.

But what can we do on the ground level to actually make the program accessible?

Ms. BRISCOE. It should be a step-by-step process that is going to be easily and readily accessible for business owners to understand what they make and how it can benefit. As they have stated, a guaranteed buyer. If they have a matchmaking process, if I know I am making something and I know you are interested in purchasing, it should be just as simple as that.

They will need an infusion of capital if they are going to scale up their production. So that is something that we are going to have to address as far as cash flow. And also work force. Those are two major things.

Chairman RUBIO. And that second point, about the infusion of capital, ties right in to one of the things that we have been talking about as far as the second step, and that is not only do you want to make more capital available for companies to stay afloat. But to the extent possible, we want to try to focus as much of that as possible not just to small business writ large, but in specific critical industries that could help fill these gaps and that are tied to all of this.

Which leads me to the question for you, Mr. Morrison, and that is is not one of the challenges we face now that the definition of a critical industry for the country has to be broader than it has historically been? Everyone will agree aircraft carriers and airplanes are things we need to make. It takes a little while to convince people that making forklifts or pharmaceutical ingredients that, at an individual level may not mean anything to most people around this country but in the cumulative have enormous impact. Part of the challenge we have is identifying a much broader scope of what qualifies for a critical industry or critical supply need for the country in the 21st century which either we took for granted in the past or never had to address.

Mr. MORRISON. Mr. Chairman, I think that is exactly right. There is a reason that we have effectively lost the race for 5G. It is because we have relied on the market and now there are no American companies left that do this work.

The Chinese had a plan. They are on the cusp of their 14th five-year plan. They have Made in China 2025 and Made in China 2035 is about to come out.

They have determined the strategic sectors that they want to dominate in the future economy. And what they do in the domestic

market is they boost up the price, they restrict the ability for outside companies, American companies and other companies to compete, and then they provide all manner of trade promotion tools, zero interest loans, to dominate export markets.

And so our small businesses, our medium-sized businesses and other American ventures are playing by one set of rules and the Chinese companies are playing by another set of rules. In another realm of national security, we would call that unilateral disarmament.

And so that is the question to investigate. That is why I talked about the BUILD Act. That is why I talked about your amendment to the Defense Authorization Act last year.

Using our market power, determine what industries are critical, and then taking steps to level the playing field. Do not put our businesses on a different playing field and tie them to different rules than the Chinese hold its businesses.

Chairman RUBIO. I appreciate all of you being here today and your patience on the hearing. The Senate is voting now, so we will have to head to that.

But I want to thank you because your expertise and your ideas are aligned with a lot of the work we are already doing. We have come up with some good new ideas, as well.

The hearing record will stay open for two weeks and any statements or questions for the record should be submitted by Thursday, March 26 at 5:00 p.m.

With that, the hearing is adjourned.

[Whereupon, at 12:03 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Questions for Dr. Gerard Anderson Questions from ^[1]Senator
Rosen

Given the rapidly changing situation with the coronavirus outbreak, I would like to hear more about how this impacts the safety of the medical supply chain. FDA recently announced that inspections overseas will stop through April, impacting food, drugs, and medical devices. This is potentially concerning, as around 80 percent of active ingredients used in pharmaceutical products are produced outside of the United States, with most being from China and India.

QUESTION 1:

Do you expect that halting of FDA inspections overseas will increase the risk to our supply chain, specifically for drugs? What steps could be taken to ensure the safety of inspectors while also allowing them to continue to do their jobs? For instance, is remote monitoring an option for safety inspections? Or is there other technology that can help bridge the gaps?

International inspections are a challenge in the best of times. Having 80% of the raw materials created in China is a problem for inspectors since they must schedule a visit with the authorities in advance. This means that the Chinese factory can clean up the facility before the inspectors arrive.

Remote monitoring is particular challenge because the factory owners control exactly what you can see and can hide the areas that they do not want the inspectors to see. While it might be a temporary solution in a pandemic, it cannot last very long

Fortunately, the epidemic in Wuhan seems to have passed and it should be safe for FDA inspectors to return to China and conduct inspections.

My main concern is that ongoing inspections might not be

sufficient to detect all the manufacturing problems in China. There needs to be a new approach to having more drugs being developed in other countries besides China. This is for national security reasons and for drug supply reasons.

QUESTION 2:

What is the best way for all small businesses to ensure the safety of the supply chain for the products they manufacture or sell during this pandemic? How have small businesses innovated to be part of the solution for making our supply chain safer?

I am not sure that most retailers can actually do very much to assume the safety of the supply chain. They do not know what has happened before their products arrived on their shelves and they cannot and should not open the packages to do any inspections.

Clearly, they need to purchase the products from reputable sources. The challenge is that sometimes the least expensive source is not the most reliable or provides the best quality. For most generic drugs the key factor is price and so it is difficult for a small business to choose a better, more reputable product instead of the least expensive because the store down the street will choose the less expensive option and get more of the business. We have no way of saying one drug is better than another. If approved by the FDA they are all the same.

MS. WYNNE S. BRISCOE ACTING DIRECTOR,
MARYLAND SMALL BUSINESS DEVELOPMENT CENTER – SOUTHERN REGION

TESTIMONY BEFORE THE US SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
March 12, 2020

“Coronavirus and America’s Small Business Supply Chain”

Senate Committee on Small Business and Entrepreneurship Hearing

March 12, 2020

Follow-Up Questions for the Record

Questions for Ms. Wynne S. Briscoe
Questions from: Senator Rosen

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ANSWER 1:

Senator Rosen, I do not have expertise in the area of FDA and safety inspections. However, at the beginning of our testimony panel, Ms. Rosemary Gibson the Senior Advisor of The Hastings Center did reference the FDA inspections.

I have included a direct link to her testimonial for your review:

https://www.sbc.senate.gov/public/_cache/files/1/c/1c39a1bc-f22c-4178-951e-29b92dcb2182/3AD9C94FB267763A83913E2303A6A772.gibson-testimony.pdf

QUESTION 2:

What is the best way for all small businesses to ensure the safety of the supply chain for the products they manufacture or sell during this pandemic? How have small businesses innovated to be part of the solution for making our supply chain safer?

ANSWER 2:

Senator Rosen, given my expertise and in my testimonial, I advise small businesses to have at least 3 sources for their supply chain. This method ensures the safety of the products they manufacture or sell on a consistent basis, both now and in the future after the pandemic.

Small businesses have innovated to be apart of the solution by using my recommendations provided in my testimony; by both manufacturing and utilizing products that are made in America.

I have included a direct link to my testimonial for your review:

https://www.sbc.senate.gov/public/_cache/files/7/9/792bc6aa-f6a0-4d8e-afd1-751bab42998b/48A7BF2B804BC1DDFF4F4D2410D1338F.briscoe-testimony-002-.pdf

Also here is a direct link to the entire hearing which provides additional insights to your questions:

<https://www.sbc.senate.gov/public/index.cfm/2020/3/the-coronavirus-and-america-s-small-business-supply-chain>

Please let us know if you have any further questions regarding Coronavirus and America's Small Business Supply Chain. We are happy to assist.

Thank you,

Wynne Briscoe, Acting Regional Director
The Small Business Development Center - Southern Maryland Region

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

CHRISTEL SLAUGHTER, Ph.D, CHAIR
SMALL BUSINESS COUNCIL

TOM SULLIVAN, EXECUTIVE DIRECTOR
SMALL BUSINESS COUNCIL

March 11, 2020

The Honorable Marco Rubio
Chairman
Committee on Small Business
& Entrepreneurship
United States Senate
Washington, DC 20510

The Honorable Ben Cardin
Ranking Member
Committee on Small Business
& Entrepreneurship
United States Senate
Washington, DC 20510

Re: Statement for the Record; Hearing on the Coronavirus and America's Small Business Supply Chain

Dear Chairman Rubio and Ranking Member Cardin:

Thank you for holding the hearing tomorrow entitled, "The Coronavirus and America's Small Business Supply Chain."

I am Christel Slaughter, Ph.D., CEO of SSA Consultants based in Baton Rouge, Louisiana and I serve as Chair of the U.S. Chamber of Commerce's Small Business Council. The Small Business Council works to ensure the views of small business are considered as part of the Chamber's policy-making process.

Today, we released our latest MetLife and U.S. Chamber of Commerce Small Business Index. Our findings from the first quarter of the year reveal the highest level of confidence in the history of our Index.¹ This is important because it shows the strength of the small business sector at the beginning of the coronavirus outbreak, which will help the sector weather the weeks and months ahead.

On behalf of the Chamber, thank you for working in an expeditious and bipartisan manner to pass the Coronavirus Preparedness and Response Supplemental Appropriations Act last week. Because of Congress and the President's quick action, the U.S. Small Business Administration (SBA) can provide \$7 billion in low-interest loans to small businesses impacted by the coronavirus (COVID-19). We supported this legislation and view this hearing as an important oversight function to help guide the effective distribution of resources made available under the \$8.3 billion package² and to

¹ See, www.sbindex.us.

² U.S. Chamber Letter on H.R. 6074, the "Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020," (March 4, 2020). Available at: <https://www.uschamber.com/letters-congress/us-chamber-letter-hr-6074-the-coronavirus-preparedness-and-response-supplemental>.

explore what further action may be necessary to help small businesses weather the coronavirus outbreak.

On Friday, March 6, the Chamber launched four task forces to prepare businesses for any potential long-term economic effects of the coronavirus. In addition to the task forces on Employee Support, Business Operational and Revenue Disruption, and Supply Chain and Trade Disruption, a task force will focus exclusively on addressing the unique needs of small and medium-sized enterprises.

The Chamber is ensuring the business community is ready for any scenario, but urges that the response to the coronavirus is grounded in facts, not driven by fear. The Chamber's website³ is designed to be a resource for business leaders and others, linking to the latest CDC information and state and local health officials. The Chamber believes that businesses, working with government, can help instill the confidence and calm that is necessary both to contain the coronavirus and maintain economic growth.

The coronavirus was certainly part of the conversation at our Small Business Council meeting that was held earlier this week in Miami. As business owners, we are laser focused on working to ensure the safety of our employees and, at the same time, ensure continuity of operations. I am proud that the Chamber continues to operate at 100 percent. In addition to our Small Business Council meeting in the Chairman's home state, the Chamber is holding events in Austin, Minneapolis, Jacksonville, and San Diego this week.

Thank you for holding tomorrow's hearing. Tom Sullivan, who heads our Small Business Council, will follow-up with the Committee on the progress of both our Supply Chain and Trade Disruption and our Small and Medium Enterprises Task Forces.

Sincerely,



Christel Slaughter, PhD
CEO
SSA Consultants
Baton Rouge, Louisiana

cc: Members of the Committee on Small Business & Entrepreneurship

³ www.uschamber.com/coronavirus