Matthew Borman  
Deputy Assistant Secretary of Commerce for Export Administration  
The United States Department of Commerce  
Bureau of Industry and Security  
1401 Constitution Ave NW  
Washington DC 20023

RE: Notice of Request for Public Comments on Section 232 National Security Investigation of Imports of Laminations for Stacked Cores for Incorporation into Transformers, Stacked Cores for Incorporation Into Transformers, Wound Cores for Incorporation Into Transformers, Electrical Transformers, and Transformer Regulators (85 FR 29926; BIS-2020-0015)

Dear Mr. Borman:

The U.S. chemical industry is a $553 billion dollar enterprise, supporting more than 25 percent of U.S. gross domestic product (GDP), and providing over 542,000 skilled, good-paying American jobs, with production in nearly every state. Thirty percent of these jobs are export dependent. And because over 96 percent of manufactured goods are touched by chemistry, the chemicals industry is truly the foundation of American manufacturing.

For the first time in decades, the United States enjoys a competitive advantage in chemicals and plastic production, made possible by affordable domestic natural gas, the industry’s primary feedstock. Since 2010, chemical manufacturers in the United States have announced approximately $205 billion of investment in new chemicals and plastics production capacity. More than 60 percent of that capacity stems from foreign direct investment. In 2016 and 2017, the chemical industry accounted for nearly half of all construction spending in U.S. manufacturing. Much of this capacity is intended for export, reflecting investors’ understanding that the United States is competitively advantaged in serving the global marketplace.

Due to the shale gas revolution, the United States has gone from one of the most expensive places to produce chemicals, to one of the world’s lowest cost producers. American chemical manufacturers today produce 15 percent of the world’s chemicals. They are one of the top exporting industries in the United States, accounting for 10 percent of all U.S. exports, which amounted to $136 billion in 2019. The U.S. trade surplus in industrial chemicals was $35 billion in 2019. Given the competitive advantage created by the American shale gas revolution, that surplus is estimated to grow to $61 billion by 2024.

**Electrical Transformers Are Essential to U.S. Chemical Manufacturers**

Chemical manufacturing plants require significant amounts of energy to operate and to produce chemicals. They also require steel in large quantities. We estimate that 18,500 tons of steel are used on average in the construction an ethylene cracker in the United States. Chemical
manufacturers depend on optimal, reliable, and resilient transmission of electricity in their plants. They purchase electrical transformers both in the construction and maintenance of chemical manufacturing plants.

**Additional Tariffs on Imports of Electrical Transformers Would Harm U.S. Chemical Manufacturers**

If the Administration determined that imports of electrical transformers threatened to impair the national security and then imposed additional tariffs on those imports as a means of addressing that threat, there would be a negative impact on U.S. chemical manufacturing competitiveness in three respects:

- First, tariffs would increase the cost of manufacturing, upgrading, expanding, and maintaining chemical manufacturing plants due to higher costs for imported and domestically manufactured transformers.
- Second, increased costs would reduce availability of the highest quality and most reliable transformers on the market. U.S. chemical manufacturers forced to purchase less reliable, less efficient, and lower quality transformers in response to cost pressures would have to manage the risks of less optimal conduct of electricity through their facilities. Such risk management would also be a cost and drag on innovation.
- Third, given the above, costs of energy would rise for U.S. chemical manufacturers if the conduct of electricity in their plants is less reliable and efficient.

Higher costs for U.S. chemical manufacturer may result in those costs being passed down to U.S. industries consuming chemicals, such as building and construction, automotive, agriculture, and electrical.

**Chemistry Plays a Vital Role in the Manufacturing of Electrical Transformers**

Grain-oriented electrical steel is a primary input into the manufacturing of transformers. However, chemicals and plastics are also critical inputs. For example, epoxy resins serve both as structural components (e.g., bindings and laminations) and as insulators for transformers, which increase their resistance to hot/cold thermal shocks, physical flexibility, and ability to self-extinguish in the case of fires (e.g., dielectric fluids). There also may be chemicals present in the steel and copper alloys used in transformers, as well as in the coatings that encase the transformers. It is likely that U.S. chemical manufacturers export epoxy resins and other chemicals to manufacturers of electrical transformers in other markets. A U.S. additional tariff on imports of electrical transformers could create opportunities for U.S. trading partners to retaliate against U.S. exports of chemicals and replace U.S. market share abroad.

**U.S. Trading Partners May Retaliate Against U.S. Exports of Chemicals and Plastics**

After the imposition of additional tariffs on imports of steel and aluminum under Section 232, U.S. trading partners retaliated against a range of U.S. exports, including chemicals. The European Union, India, and Turkey are still retaliating against $1 billion in U.S. exports of chemicals in response to these Section 232 tariffs. U.S. chemical manufacturers also still face retaliatory tariffs in China, which impact $11 billion in U.S. exports of chemicals and plastics.
The European Union has signaled in its draft countermeasure list that it could apply tariffs of up to 100 percent on $3 billion in chemicals and plastics. Given the above, if the Administration takes action against imports of electrical transformers, we anticipate that U.S. trading partners would retaliate again against U.S. exports of chemicals, further reducing our market access around the world and undermining the viability of the historic investments in U.S. chemical manufacturing.

**Conclusion**

If there are specific national security concerns with certain manufacturers of electrical transformers, there may be other tools better suited to address those concerns, such as anti-dumping or countervailing duties, than broad, unilateral additional tariffs under Section 232. As we describe above, additional tariffs on electrical transformers may have a detrimental impact on the U.S. chemicals industry in a number of respects. For U.S. manufacturing to increase its competitiveness, U.S. chemical manufacturers must enhance their own competitiveness, which includes ensuring that energy supplies in chemical manufacturing plants are optimized, reliable, and resilient. Broad additional tariffs on imports of electrical transformers under Section 232 would threaten to impair U.S. manufacturing competitiveness and weaken U.S. national security, not strengthen it. We appreciate the opportunity to provide these comments and look forward to serving as a resource during your conduct of this investigation and determination of possible actions.

Sincerely,

Ed Brzytwa
American Chemistry Council
Director for International Trade