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Oral Testimony for USTR Public Hearing on "Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation"

Docket No. USTR-2019-0004

The American Chemistry Council (ACC) appreciates the opportunity to testify today on the proposed 25 percent additional tariff on another $300 billion in U.S. imports from China, including $11 billion in chemicals and plastics imports.

ACC holds the position that a prolonged trade war between the United States and China – in which chemicals being subjected to higher tariffs becomes a fixture, not an exception – could reverse the fortune of the U.S. chemical manufacturing sector. Our industry's future growth depends on a strong U.S.-China trading relationship, full access to China's large and growing market, and a certain and predictable trade policy – not threats of more or higher tariffs.

While we continue to support the Administration's efforts to address unfair trade practices in China, including inadequate protections of intellectual property and forced technology transfer practices, chemicals must be taken off the front lines of this trade war. We urge the Administration to get back to the negotiating table, end the trade dispute, and lift the China Section 301 additional tariffs.

With regard to proposed List 4, we respectfully urge the Section 301 Committee to remove, at a minimum, the 214 eight-digit U.S. Harmonized Tariff System (HTS) codes for chemicals and plastics. These codes are in HTS Chapters 28, 29, 32, 33, 34, 35, 36, 38, and 39. If the List 4 tariffs come into effect, the total value of U.S. chemicals and plastics imports from China subject to tariffs across all four lists will reach $26.4 billion. This would amount to the biggest tax increase that U.S. chemical manufacturers have ever experienced. Retaliatory tariffs from China are simultaneously impacting $11 billion in imports of U.S.-made chemicals and plastics, resulting in a decrease in U.S. exports by 24 percent from December 2017 to December 2018.

The U.S. chemicals manufacturing sector is one of the hardest-hit sectors in the current volley of tariffs between the United States and China. A 25 percent tax increase on $26.4 billion in chemicals and plastics products is unsustainable for a majority of chemical manufacturers, regardless of size or sector, due to their early position in the manufacturing supply chain. When the chemical industry's costs increase, it causes a ripple effect across the U.S. economy, impacting downstream customers that rely on chemicals to do business. Ultimately, U.S. consumers will pay higher prices for goods and services.

The timing of the trade dispute with China is especially harmful for our industry. The shale gas revolution has given U.S. chemicals manufacturers an unprecedented competitive advantage in producing high-demand chemistries at low cost and exporting them around the globe. The uncertainty created by the tariffs on U.S. chemicals imports, the artificial cost increases, and the resulting retaliatory tariffs on our exports are threatening investments – and could all but nullify the historical gains our industry has witnessed over the past ten years. For U.S. chemicals manufacturers, a prolonged trade war with China could cause the gift of the shale gas revolution to whither and fade – significantly undermining our industry's global competitive advantage.

Because chemistry touches 96 percent of all manufactured goods, the U.S. manufacturing sector – and, in fact, the entire U.S. economy – thrives when the cost to produce and import chemicals is low. Many of the products in Lists 2, 3, and 4 are inputs into chemical manufacturing – building block chemicals, raw materials, and feedstocks – that can only be sourced from China. If the current situation continues, and companies want to continue producing chemicals that require these inputs, they will be forced to move production to or invest in other countries. High-paying, high-skilled jobs will move from the United States to other markets. U.S. hiring may slow and U.S. production facilities could close. Small and medium-sized chemical manufacturers will bear the disproportionate effects of these tariffs, because they will not be able to mitigate their impacts in the same way that multinational companies can.

We believe the Administration listened to our case for removing essential chemicals from the tariff lists. In September 2018, U.S. chemicals manufacturers welcomed the Administration's removal of $3 billion in chemicals and plastics imports from the final U.S. List 3. To ACC and our members, it appeared that the Administration had determined that these 141 products were essential to U.S. manufacturing and agriculture, and therefore should not be subject to tariffs.

However, in an unexpected reversal, the Administration's proposed List 4 includes at least 114 chemicals and plastics products that had been taken off the proposed List 3. These products accounted for $2.68 billion in imports in 2017. The Administration's reversal on these products is surprising, injecting more confusion and greater uncertainty in the U.S. chemical sector.

Also confusing is the significant overlap between the chemical products in the Miscellaneous Tariff Bill and all the China Section 301 tariff lists. These products should not be subjected to any additional tariffs, as the U.S. International Trade Commission and Congress deemed them essential to U.S. manufacturing competitiveness.

At the G7 Summit in Canada in June 2018, the Administration stated that one of its goals is to eliminate tariffs globally. ACC and our members support this goal and welcome opportunities to assist the Administration in achieving it immediately. Tariff elimination for chemicals must lead to the lowest possible bound rates at the WTO and the avoidance of additional duties on top of applied duties. With this, we urge the Administration to lead the world into a new era of fairer, broadly beneficial global trade and investment. Thank you.