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Oral Testimony for USTR Public Hearing on Proposed U.S. Tariff Action against China under Section 301 of the Trade Act of 1974

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The American Chemistry Council (ACC) appreciates the opportunity to testify on the Administration's proposed modification of action against the People's Republic of China (PRC) under Section 301 of the Trade Act of 1974. On behalf of chemical manufacturers producing goods in the United States, we respectfully request that the Administration remove all the chemicals and plastics products from the U.S. List 3, which includes a significant number of products in HTS Chapters 27-29 and 31-39, equating to $16.4 billion in imports from China.

Before I explain the impact of these tariffs and China's retaliation on our industry and the supply chains that underpin U.S. manufacturing, I would like to note ACC's disappointment that the Administration did not heed our request in July to remove approximately $2.2 billion in Chinese imports of chemicals and plastics from U.S. List 2. Previously, we notified the Administration that the tariffs on List 2 substances would hurt our industry's ability to do business in the U.S. We cautioned that they would jeopardize nearly half of the $194 billion in announced investments in chemicals manufacturing that have been announced over the past decade. And we explained that costs in the U.S. will go up, not just for our member companies, but also the downstream industries that buy U.S.-made chemicals, including farmers and manufacturers.

If tariffs on $2.2 billion in chemicals and plastics imports that appeared on List 2 would weaken the competitiveness of the U.S. chemicals industry, then the $16.4 billion in tariffs on additional products of chemistry in List 3 would have a potentially irreparable impact on our industry's economic structure and supply chain.

Manufacturing supply chains do not exist in a vacuum but move with the ebb and flow of market forces. They are complex and intricate and rely on interconnected networks and channels that work together as one to bring finished products to market. That is what makes supply chains vulnerable to the disruptive effects that tariff and non-tariff barriers to trade can have in the global marketplace. Supply chains are not plug-and-play – they cannot easily be reconfigured to meet the whims of U.S. trade policy. Forcing companies to reconfigure their supply chains would threaten the viability of their businesses.

We reiterate, in the strongest possible terms: the best way to preserve the interests of the U.S. chemicals industry and indeed the entire manufacturing sector is by removing chemicals from the front lines of this trade war. China is retaliating in response to these tariffs. It will retaliate against $2 billion in U.S. exports to China in response to U.S. List 2. Its new $60 billion product lists issued in response to U.S. List 3 include 987 chemicals and plastics products. These tariffs will close off China's market to U.S. exports just when our industry was ready to supply China's large and growing demand for chemicals.

Trade flows between the U.S. and China will contract as tariffs are imposed on each side. Tariffs raise the price of imports and, as a result, quantity demanded will decline. How much demand falls off for each product impacted will be directly related to the availability of substitutes and alternative suppliers of the right quality, quantity, and specifications. Chinese customers may have alternatives more readily available given their position within the Asian manufacturing hub. If that's the case, the negative impact from tariffs on the Chinese side will be less severe. Still, both sides lose when tariffs are introduced and supply chains are interrupted. A surprising proportion of international trade is actually intra-company transfers. Imported inputs to the U.S. from China keep American firms competitive in the U.S. and in the global marketplace.

Tariffs would erode the competitiveness of U.S. manufacturers and incentivize offshoring and trade diversion. If U.S. manufacturers are less competitive, then they're unlikely to be in a position where they could increase domestic sales or exports to China, or Europe, or anywhere else.

We share the Administration's concerns about China's inadequate protections of intellectual property (IP) and forced technology transfer practices. Instead of taking a unilateral enforcement approach, we urge the Administration to work closely with like-minded allies to change China's behavior and practices.

However, a trade war will neither achieve a more balanced trading relationship between the U.S. and China nor advance the interests of the U.S. economy, manufacturers, and consumers. Furthermore, imposing increased duties on the products on List 3 would not be practicable or effective to obtain the elimination of China's acts, policies, and practices. In fact, these duties, if applied, would cause disproportionate economic harm to U.S. interests, including small and medium-sized enterprises, farmers, manufacturers, and consumers. We therefore strongly urge the U.S. government to rescind and avoid the imposition of tariffs and preempt additional retaliation by China.

We have included stories from American chemical manufacturers in our public comment that describe in detail how U.S. tariffs and retaliation by China will damage our industry. I would be happy to discuss them with the Section 301 Committee in the question and answer period.