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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 today. I plan to use the next few minutes to highlight four key points from our public comments and describe the real world impacts of China's proposed retaliation on chemicals manufacturers.

First, China's proposed retaliatory tariffs on U.S. chemicals could not be more ill-timed for our industry and our country. We are an $800 billion enterprise with 822,000 U.S. workers and $194 billion in announced U.S. investments. We are the top U.S. exporting industry with $181 billion in exports in 2017, and we expect to have a trade surplus of $73 billion by 2022. Nearly a third of U.S. chemical manufacturing jobs depend on exports. Given this potential for growth, we are deeply concerned about the impact of tariffs on our industry.

Second, our primary concern is the threat of retaliation by China. 40 percent of the products on China's initial retaliation list relate to chemicals. These products are largely basic chemicals, plastic resins, and some specialty chemicals as well as some finished forms of plastics. China is a key export market for U.S.-made chemicals. That China has included these products on its tariff list is a recognition of the competitiveness of the U.S. chemicals industry and the challenge it poses to China's own fast growing chemicals sector. Enabling a retaliatory trade war will only advantage China's growing industry at the expense of American production.

China's tariffs will hit the U.S. chemicals industry, not once, but twice, by closing the China market both to our exports and to exports of products using chemicals in their production (e.g. agricultural goods and autos). The tariffs on downstream products will lead to less demand for those products and therefore less demand for U.S.-made chemicals. ACC estimates that as many as 24,000 U.S. jobs in the chemicals and downstream sectors would be lost.

Third, we agree that USTR has identified the right set of problems in China. Intellectual property theft and forced technology transfer are challenging issues for our industry. However, punitive tariffs against China are not the solution. Neither the threat of tariffs nor their application will change China's mercantilist behavior. Imposing increased duties on the products in the Annex to the Federal Register Notice would not be practicable or effective to obtain the elimination of

China's acts, policies, and practices. These duties, if applied, would cause disproportionate economic harm to U.S. interests, including small and medium-sized enterprises and consumers.

Fourth, about 5 percent of the 1,333 products in the FRN Annex relate to chemicals. We urge USTR to remove these products from this list and reconsider the inclusion of so many vital inputs that U.S. manufacturers use to further their operations and support American jobs and manufacturing.

I would like to conclude my remarks by sharing a few firsthand accounts from ACC's members on the damaging, real-world impacts these tariffs would have on their businesses:

- One company reports that a number of its U.S.-sourced specialty plastic products are on China's list. The overall direct impact to this company is likely to be into the millions of dollars. It is also worried about the indirect, downstream impact of the tariffs, which they expect to be significant. The tariffs will incentivize offshoring. The company anticipates moving the production of these materials to its European or Asian operations.

- Some ACC members are specialty polymer producers serving global markets from U.S.-based plants and competing with non-U.S. suppliers. China's retaliatory tariffs will weaken the competitiveness of U.S. producers in very important export markets. Some producers will reduce or end production in the United States in order to maintain access to China's market and others will be greatly disadvantaged. The tariffs could also result in significant supply chain interruptions for critical applications, such as healthcare and water purification.

- A number of ACC members are invested in agricultural crop protection. A 25 percent tariff on U.S. soybean imports to China would lead to a loss of earnings and redirection of trade flows to Argentina and Brazil, making the U.S. crop protection market less attractive.

- Some ACC members research, develop and manufacture catalysts, catalyst bases, and adsorbents in the U.S. and then export to China for use in oil-refining processes. These products would face a 31.5 percent applied tariff at the border in China, triggering tens of millions of dollars in additional duties. Lower-cost competitors would gain more Chinese customers and become stronger in China and globally, undermining U.S. competitiveness.

Our preferred pathway to solving these problems is constructive, thorough, and sustained negotiations focused on pragmatic solutions to the challenges of China's mercantilist policies. We are pleased that the U.S. and China have begun to negotiate. We strongly urge both sides to avoid the imposition of tariffs. We would welcome the opportunity to discuss alternative ways to change China's behavior in the question and answer period. Thank you for your time.