American Chemistry Council
Statement for the Record
House Committee on Ways and Means

"Effects of Tariff Increases on the U.S. Economy and Jobs"

April 12, 2018

Thank you for the opportunity to testify today on the "Effects of Tariff Increases on the U.S. Economy and Jobs." This is a topic of fundamental concern to the business of chemistry in the United States, which is most successful when tariffs do not exist and costs are low. U.S. chemical manufacturers believe the principles of free and fair trade should apply to all members of the World Trade Organization, including China. However, it is not in the interest of the U.S. economy, manufacturers or consumers to engage in a trade war with China for reasons which will be outlined in this testimony.

The American Chemistry Council (ACC) shares President Trump's concerns about China's inadequate protections of intellectual property (IP) and forced technology transfer practices. At the same time, China is one of the U.S. chemical industry's most important trading partners, importing 11 percent, or $3.2 billion, of all U.S. plastic resins in 2017. We support efforts by the Administration to resolve concerns with China, but strongly believe that these long-standing problems should be addressed through constructive negotiation, rather than through tariffs that could make the world's most important economic relationship even more difficult.

History has shown that the imposition of tariffs is counterproductive. They often do little more than invite retaliation that ultimately undermines their stated intent. Therefore, we do not believe that tariffs, whether on steel and aluminum products or the broad array of products in the U.S. Section 301 tariff list are consistent with the goals of U.S. economic growth, innovation and job creation.

In this case, the Administration's proposed tariffs are intended to protect struggling domestic industries that have failed to achieve profitability in an increasingly global market. However, in an effort to prop up challenged industries, two of America's most competitive and most successful industries – chemicals and agriculture – have become the targets of retribution from China.

The U.S. chemical industry is a $768 billion dollar enterprise, supporting more than 25 percent of U.S. gross domestic product (GDP), and providing over 811,000 skilled, good-paying American jobs, with production in nearly every state. 30 percent of these jobs are export dependent. And because over 96 percent of manufactured goods are touched in one way or another by chemistry, the chemicals industry is truly the foundation of American manufacturing.

For the first time in decades, the U.S. enjoys a competitive advantage in chemicals and plastic production, made possible by affordable domestic natural gas, the industry's primary feedstock. Since 2010 the United States has gone from one of the most expensive places to produce chemicals, to one of the world's lowest cost producers. Approximately $194 billion in new chemicals and plastics production capacity has been announced in the past eight years, and more than 60 percent of that is foreign direct investment. In 2016 and 2017, the chemical industry accounted for nearly half of all construction spending in U.S. manufacturing. Much of the new capacity is intended for export, reflecting investors' belief that the U.S. is an excellent platform from which to serve the global marketplace.

Today, American chemical manufacturers produce 15 percent of the world's chemicals, and accounts for 14 percent of all U.S. exports, amounting to $174 billion in 2016. The U.S. has a large and growing trade surplus in industrial chemicals of $33 billion in 2017. Given the competitive advantage that has been created by the American shale gas revolution, that surplus in chemicals is estimated to grow to $73 billion by 2020.

China knows how competitive the U.S. chemicals industry is and has very likely targeted U.S. chemicals exports because it is an area where the U.S. is poised to grow the most. As you know, 40 percent of the products on China's initial Section 301 list relate to chemicals and cover polyethylene, PVC, polycarbonates, acrylates, and many other 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 industry.

The ACC estimates that $5 billion in U.S. chemicals and plastics trade to China would be exposed under the tariffs that China has proposed. These tariffs proposed by the Chinese government along with other China-related trade barriers under consideration by the Trump Administration, as well as in the context of the North American Free Trade Agreement, create considerable uncertainty about the United States as a platform to produce goods to supply the growing global demand for chemical and plastic products. Ultimately these actions could undermine the historic competitive advantage the U.S. chemical industry now enjoys.

The threat to American chemical manufacturing goes beyond tariffs on these goods. It is also apparent through the tariffs on goods that use our products. For example, a drop in soybean exports affects fertilizer and crop protection sales in this country. A reduction in exports of U.S. vehicles would have a similar effect, as nearly 20 percent of the weight of an average vehicle is a product of chemistry – the average light vehicle contains more than $3000 of chemistry products. As a result, the proposed 25 percent Chinese tariff on U.S. exports would be expected to result in a decline in U.S. chemical production of $2.4 billion to $2.8 billion. And the effect on the American economy of the Chinese government's proposed tariffs on chemicals and plastics goes well beyond chemical manufacturers. Dozens of other sectors that rely on chemical and plastic products including the automotive, health care, building and construction and consumer goods industries could shoulder higher related costs, and we know that it is ultimately the consumer who pays the price.

We strongly urge the U.S. and Chinese governments to come to a satisfactory and mutually beneficial agreement before the proposed tariffs go into effect. There is ample evidence that tariffs lead to higher costs for downstream producers, higher prices for consumers, fewer jobs in downstream industries, and less economic growth, investment, and innovation in the United States. A trade war will also make cooperating on non-trade issues and real national security concerns of mutual interest that much harder.

These enforcement actions should not be done on the backs of the growing U.S. chemicals industry and other U.S. industries producing trade surpluses, increasing their exports, and entering new markets. We are encouraged by the Administration's willingness to exempt certain countries from proposed tariffs on aluminum and steel. We are hopeful that the Administration will recognize the risks for our economy of a continued escalation with China and will engage in a constructive, long term effort to address its concerns.

The ACC has some practical recommendations for managing both the Section 232 and Section 301 actions.

Section 232
In our view, the exemption and exclusion processes are too bureaucratic, opaque, and heavy-handed. The most positive step would be to revoke the proposed tariffs immediately. Short of that, the Administration should:

- Make country exemptions permanent;
- Allow associations to make exclusion requests on behalf of members;
- Apply product exclusions to all companies (not company by company); and
- Exempt key U.S. allies without conditions.

Section 301
As referenced earlier, the Administration should outline a clear, detailed plan for how it will address longstanding problems in China, including by making greater use of the World Trade Organization's dispute settlement and negotiation pillars. To that end, both the U.S. and China should climb down from mutually destructive actions – but the onus should be on China to change its laws, regulations, policies, practices, and otherwise mercantilist behavior. Other U.S. trading partners, including the European Union and Japan, must be equally forceful in demanding changes by China.

For our sector, the United States and China should:

- Avoid raising tariffs or erecting barriers between them or cause other markets to raise tariffs or erect barriers;
- Work together to cut costs in chemicals trade by eliminating tariffs and dismantling trade barriers bilaterally and across the world, including at the World Trade Organization and the Asia-Pacific Economic Cooperation forum; and
- Work together to reestablish trust in our societies that the international trade system will benefit more people and be more inclusive.

The Administration's Section 301 and 232 actions create significant uncertainty for chemical companies as they plan and build new chemical plants and projects in the United States and work to export U.S.-made chemicals to trading partners. If this uncertainty persists and increases, companies will consider investing in markets with greater policy certainty, low to zero tariffs, and lower costs.

Tariff costs diminish competitiveness. For example, higher costs of steel inputs as a result of the 232 tariffs undermine new plant construction and investments in the United States. Higher tariffs in China as a result of retaliation will shut out U.S. chemicals exports to the benefit of Chinese companies and other suppliers in the EU and Japan. The overall uncertainty in the trading environment will lead to less wage and job growth in the United States. These dynamics would not only damage the chemical industry and the downstream manufacturers using chemicals – higher prices for chemicals lead to less demand for U.S. chemicals, less manufacturing in the United States, less job creation, less investment, and higher prices for U.S. manufactured products– but could lead to inflation over time and a weaker U.S. economy with less demand and supply.

The ACC believes that the system of international trade disciplines must work for everyone. To do that the United States, the EU, Japan, China and other key trading partners must work together and break down barriers to trade. Increased market access, not less, is essential to the success of the chemical industry. Unilateral actions have the potential of creating less market access, and therefore less opportunities to export, grown the economy and create U.S. jobs. Simply put, the world does not need and cannot afford a trade war. The U.S. and its trading partners should find ways to address and prevent steel overcapacity, IP theft and forced technology transfer practices on a global scale. Such concerted effort will only benefit the global economy, making trade work better for everyone, including businesses and workers in the United States.

The American Chemistry Council (ACC) represents a diverse set of companies engaged in the business of chemistry. An innovative, $768 billion enterprise, we work to solve some of the biggest challenges facing our nation and our world. Our mission is to deliver value to our members through advocacy, using best-in-class member engagement, political advocacy, communications and scientific research. We are committed to fostering progress in our economy, environment and society. The business of chemistry drives innovations that enable a more sustainable future; provides 811,000 skilled good paying jobs—plus over six million related jobs—that support families and communities; and enhances safety through our diverse set of products and investments in R&D.