On behalf of chemical manufacturers producing goods in the United States, the American Chemistry Council (ACC) appreciates the opportunity to provide additional comment on the Administration’s proposed trade action against the People’s Republic of China (PRC) under Section 301 of the Trade Act of 1974.

Uninterrupted access to global supply chains and foreign customer markets is vital to the American chemical industry’s ability to maintain its competitive position. Tariffs increase the costs of doing business in the United States and invite damaging retaliatory actions by U.S. trading partners. We are gravely concerned that the total amount of Section 232 and Section 301 tariffs in effect and proposed – and corresponding retaliation – will cause deep and lasting harm to the U.S. economy, manufacturers, farmers, workers, and consumers. If the United States imposes additional tariffs, direct investment in the United States, both foreign and domestic, will decrease, and supply chains will move to other markets, thereby limiting opportunities for innovation, economic growth, and prosperity.

Thus, the proposed trade action under Section 301 is of fundamental concern to the American Chemistry Council and our members. We strongly urge the U.S. government to rescind and avoid the imposition of tariffs and therefore preempt additional retaliation by China. 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 with the PRC on non-trade issues and real national security concerns of mutual interest that much more difficult. A policy that leverages enforcement (not only tariffs) combined with a strategy of engagement to seek real long-term solutions to U.S. manufacturers, workers, and exporters is a better approach.

ACC’s public comments will argue against imposing tariffs on trade in chemicals and plastics. They will also describe the real-world impacts of the proposed U.S. tariffs and China’s proposed retaliation against our sector. We have included as an Annex to this submission a list of impact stories from our member companies on how Section 301 and Section 232 trade actions and
retaliation by trading partners are adversely impacting their planning, operations, and investments.

**A U.S.-China Trade War Will Harm the U.S. Chemicals Industry**

U.S. chemical manufacturers believe the principles of free and fair trade should apply to all members of the World Trade Organization, including China. The ACC shares the U.S. Administration’s concerns about China’s inadequate protections of intellectual property (IP) and forced technology transfer practices. However, a trade war neither will achieve a more balanced trading relationship between the U.S. and China nor advances the interests of the U.S. economy, manufacturers, or consumers. As China is a key market for many American manufactured exports and an important link in global supply chains providing essential inputs to U.S. manufacturing, American manufacturers and their employees will bear the costs of the U.S.-China trade war.

The Administration has placed American chemical manufacturers in the crosshairs of the U.S. and PRC tariffs. While the first U.S. tariff action on July 6 largely spared the U.S. chemicals sector, the proposed second U.S. tariff action, as defined in Annex C to the Federal Register Notice, heavily targets imports of chemicals and plastics. More than half (54 percent) of the goods that will face a 25% tariff are chemicals and plastics products. ACC estimates that U.S. tariffs on these 152 products will impact $2.2 billion in imports of chemicals and plastics from China. Almost all of these tariff lines are plastics and plastics products. The U.S. plastics industry, in particular, is highly competitive and does not need protective trade policy, especially at the cost of jeopardizing access to global customer markets. However, the Administration’s trade actions are doing just that.

China’s Ministry of Finance issued two retaliatory tariff lists on June 15 to mirror USTR’s own ‘two list’ approach. Almost half (47 percent) of the proposed tariff lines on China’s List 2 are chemicals and plastics products. Out of the 114 products listed, 54 are chemicals, plastics, and plastics products. The ACC estimates that China’s List 2 would impact $5.4 billion in U.S. chemicals and plastics exports to China. $3.2 billion of these exports are plastics and plastics products (22 out of the 114 products on China’s List 2, or 19 percent). If Chinese demand for U.S. products were to remain stable despite the price increase due to the 25% tariff tax, the Chinese government would collect $1.3 billion in duties. Creating barriers to Chinese customers will negatively impact U.S. exporters. For some of the plastics targeted by the Chinese tariffs, exports to China represent 30 percent or more of all export sales to the world. On average, about 14 percent of all export sales of these products are in China. China imported 11 percent, or $3.2 billion, of all U.S. plastic resins in 2017. Tariffs on U.S. exports will result in a contraction in Chinese demand for U.S. chemicals and plastics exports.

The Administration’s proposed Section 301 tariff action and the resulting Chinese retaliation together 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. Some states, especially industry-rich ones like Texas, Michigan, Ohio and Louisiana, will feel a disproportionate brunt of China’s retaliatory tariffs. With their economies being so heavily reliant on the manufacture of chemistry products destined for China, states could see catastrophic losses in jobs, investment, and new construction. If this uncertainty
persists and increases, companies will consider investing in markets with greater policy certainty, low to zero tariffs, and lower input costs.

Our member companies tell us that China’s retaliatory tariffs will lead to reduced U.S. production and jobs and will incentivize offshoring. The Annex to our submission includes the growing number of impact stories from our member companies both regarding the Administration’s Section 301 and Section 232 trade actions and the resulting retaliation by trading partners.

**ACC Opposes Including Chemicals and Plastics Products in U.S. List 2**
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 the blunt instrument of tariffs that could make the world’s most important economic relationship even more difficult. 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. In fact, these duties, if applied, would cause disproportionate economic harm to U.S. interests, including small and medium-sized enterprises and consumers.

For these reasons, we request that the Administration remove all the chemicals and plastics products from the U.S. List 2, which includes a significant number of products in HTS Chapter 39, three tariff lines in HTS Chapter 27, three in HTS Chapter 34, and two in Chapter 38. The chemicals industry is not asking for tariff protection, as tariff costs will diminish the competitiveness of our industry and potentially threaten the viability of the $194 billion in announced chemical industry projects.

**Tariffs Are Not the Solution and Will Cause Economic Damage in the United States**
Tariffs are counterproductive. They often do little more than invite retaliation that ultimately undermines their stated intent. Therefore, we do not believe as a general matter that tariffs are consistent with the goals of U.S. economic growth, innovation and job creation. One conclusion that could be drawn from the Administration’s Section 301 and Section 232 tariffs is that they are intended to protect struggling domestic industries that have failed to achieve profitability in an increasingly global market. However, such protective tariffs in this case will cause one of America’s most competitive and most successful industries – chemicals – to suffer. Substantial tariffs and retaliation by key trading partners (e.g. Canada, China, the European Union, Mexico, and Turkey) is threatening to undermine the unprecedented competitive advantage the U.S. chemical industry now enjoys.

These tariffs are increasing the costs and decreasing the availability of the necessary equipment and inputs for building, operating, and maintaining chemicals plants in the United States. If costs escalate, chemical manufacturers may decide to construct plants in other countries. China is already retaliating against the U.S. tariffs listed in Annex A to the Federal Register Notice. China’s List 2 is a clear signal that it will retaliate again if the USTR applies a 25 percent tariff on the products in Annex C. China’s retaliation will close that market for U.S. chemical manufacturers and will provide opportunities for competing industries in China and other parts of the world to fill U.S. market share.
The U.S. Chemical Industry is Important to the U.S. Economy

The U.S. chemical industry is a nearly $800 billion dollar enterprise, supporting more than 25 percent of U.S. gross domestic product (GDP), and providing over 822,000 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 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 the United States has gone from one of the most expensive places to produce chemicals, to one of the world’s lowest cost producers. In the past eight years, chemical manufacturers in the United States have announced approximately $194 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 the new capacity is intended for export, reflecting investors’ belief that the United States is an excellent platform from which to serve the global marketplace.

Today, American chemical manufacturers produce 15 percent of the world’s chemicals. They are the top exporting industry in the United States, accounting for 14 percent of all U.S. exports, which amounted to $181 billion in 2017. The U.S. trade surplus in industrial chemicals was $33 billion in 2017. Given the competitive advantage created by the American shale gas revolution, that surplus is estimated to grow to $71 billion by 2023.

Higher tariffs in China as a result of retaliation will shut out U.S. chemicals exports to the benefit of competitors in China, Europe, and the Middle East. 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 and workforce development, 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.

China’s Proposed List 2 Tariffs Will Harm the U.S. Chemicals Sector

Due to shale gas and lower costs to produce and export, U.S. chemical manufacturers are competitively advantaged compared to Chinese producers. China may have targeted U.S. chemicals exports because it is an area where the United States is poised to grow the most. 54 out of the 114 products on China’s List 2 are chemicals, plastics, and plastics products. These products are largely basic chemicals, plastic resins, and some specialty chemicals as well as some finished forms of plastics (e.g. films, sheets, and other plastic products). 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.

Chemicals are used in almost every manufacturing activity here in the United States and chemicals are essential to creating the downstream products that are consumed domestically and
exported. As such, China’s tariffs will hit the U.S. chemicals industry, not once, but twice, since demand for chemicals by manufacturers that make products containing chemistry will drop.

Analysis by the Peterson Institute for International Economics\(^1\) estimates that China’s tariffs would impact U.S. exports of $3.5 billion in plastics and rubber; $2.1 billion in chemicals; and $1.7 billion in mineral fuels. The Brookings Institution\(^2\) estimates 2.1 million jobs in all parts of the United States and high numbers of jobs in chemicals and plastics manufacturing will be exposed to China's tariffs. Many US chemical industry jobs depend directly on the ability to export products. Using input-output relationships, ACC assessed the total jobs that would be lost in chemicals and downstream sectors. We found that as many as 24,000 U.S. jobs would be lost including 3,600 in the chemicals sector.

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. An initial analysis of the adverse impacts of the tariffs showed that 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, because there will be less demand for U.S.-made chemicals. For example, a drop in soybean exports affects fertilizer and crop protection sales in the United States. Similarly, a reduction in exports of U.S. vehicles would lead to less demand for U.S.-made chemicals, because nearly 20 percent of the weight of an average vehicle is a product of chemistry and the average light vehicle contains more than $3,000 of chemistry products.

The effect on the American economy of China’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. Ultimately it is the consumer who pays the price. For example, chemicals comprise a significant amount of value in the production of manufactured goods\(^3\) and agriculture\(^4\). Less demand for manufactured goods and agriculture will result in less demand and production of chemicals products, and therefore less investment and job creation over time.

**Practical Recommendations for Managing the U.S.-China Trade Relationship**

The Administration should not take these tariff actions at the expense of the growing, value-add U.S. chemicals industry and other U.S. industries producing trade surpluses, increasing their exports, and entering new markets. 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.

---


\(^3\) Electromedical, industrial and navigational electronics - $9.3 billion; semiconductor and other electronic components - $11.2 billion; medical equipment and supplies - $7.3 billion; transportation/aerospace - $3.9 billion; transportation/motor vehicles - $42.2 billion.

\(^4\) Agriculture (not equipment) - $10.0 billion.
We urge the Administration to focus on concrete initiatives to address the underlying barriers and distortions, including through work directly with U.S. industry on the following alternatives:

- Develop and execute a comprehensive strategy to effectively address longstanding trade policy issues in China. This strategy must include clearly defined objectives, direct negotiating mechanisms with the Chinese, targeted deliverables, and deadlines with measurable results. This policy must be clearly communicated with stakeholders, and must ensure mechanisms to hold China accountable for achieving the results.

- Develop a concrete list of political and binding commitments and actions China can take to meaningfully address significant IPR challenges emanating from China, including IPR theft, forced technology transfers, industrial policies that discriminate against foreign companies, and rampant counterfeiting and piracy. These must be transparent, targeted, monitored and credibly verified – and where possible backed by enforcement mechanisms. They must also reflect the long-standing concerns expressed by a wide range of economic sectors in the United States and should not be narrowly targeted at a select group of sectors.

- Work in coordination with our like-minded trading partners to address China’s trade practices through all available mechanisms, including coordinated strategies in bilateral and multilateral forums with China, joint enforcement actions through the WTO and other mechanisms.

For the chemicals 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 (APEC) forum; and

- Work together to reestablish trust in our societies that the international trade system will benefit more people and be more inclusive.

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 to 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, grow the economy and create U.S. jobs. Simply put, the world does not need and cannot afford a trade war. The United States and its trading partners should find ways to address and prevent intellectual property 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, $800 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 822,000 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.
## Annex

### Section 301 U.S. Tariffs – Impact Stories from ACC Members

| 1 | Specialty polymer company with global operations, including manufacturing facilities in China and the U.S. is concerned that the proposed tariffs will have a significant, negative effect on many U.S. small and medium-sized manufacturers that use imported specialty polymer products in a number of applications, including the paint and coatings industry, the automotive industry, and in various other industrial and consumer applications. The company is also concerned that possible retaliatory tariffs could negatively impact US specialty polymer exports to China, most of which are higher value and require strong intellectual property protections. |

### Section 301 Retaliation – Impact Stories from ACC Members

| 2 | 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. It anticipates moving the production of these materials to its European or Asian operations. |
| 3 | A number of chemical manufacturers are also invested in the agricultural crop protection arena. With the proposed 25% tariff on US soybean imports to China they anticipate a loss of earnings with expected redirection of trade flows to Argentina and Brazil, making the US crop protection market less attractive. |
| 4 | Other U.S.-based ACC members research, develop and manufacture catalysts, catalyst bases, and adsorbents and then export these products to China for use by customers in oil-refining processes. These products would face a 31.5% applied tariff at the border in China (25% tariff plus a general rate of duty of 6.5%), triggering tens of millions of dollars in additional duties. The tariffs diminish the competitiveness of American manufacturers. Foreign competitors would not face these added costs to use global supply chains and thus, become lower cost suppliers. The tariffs will not only increase the costs for chemical manufacturers, they also cut their access to customers in China’s market. Chinese and other foreign suppliers will enjoy increased market share and competitiveness. |
| 5 | U.S. chemical manufacturers often procure key raw materials in both domestic and international markets for production of finished chemicals and goods. When the U.S. government levies tariffs on imported raw materials and inputs, this greatly limits the ability of U.S. manufacturers to minimize costs and produce finished goods competitively. Most manufactured goods are created with global supply chains and compete in the global marketplace. Applying tariffs on inputs and incentivizing retaliatory tariffs in export markets reduces the ability of U.S. manufacturers to stay in business. The real-life consequences of increased barriers to trade, interruptions of supply chains, and decreased access to foreign customers is American companies becoming less profitable, reducing their workforce and the shutdown and offshoreing of U.S. manufacturing plants. |
Given the complex and costly process to produce such products, duplicate plants and manufacturing technologies are not readily available. U.S. chemical manufacturers are then unable to produce these chemicals in other regions to maintain uninterrupted and sustained supply of chemical products to key customers. And since these chemicals are used in applications requiring long qualification periods, such forced changes in material and origin resulting from high tariffs could lead to major interruptions for part manufacturing in key sectors.

| 6 | U.S. produced specialty polymers are typically sold into applications requiring lengthy and costly technical qualification. The Section 301 tariffs are introducing significant supply chain interruptions for critical chemical applications, such as healthcare and water purification. Most specialty polymer product sold into China’s markets is exported for consumption in China and then exported from China to the United States and other countries as final products. Increased tariffs imposed on imports into China will raise prices of goods in the global market. |

| 7 | U.S. specialty polymer producers serve global markets from U.S.-based plants and compete with a large number of suppliers based outside the United States. The proposed China tariffs will create an uneven playing field rendering the U.S. producers noncompetitive in very important export markets. Producers of specialty polymers in the United States will not be able to avoid the proposed China tariffs. With small exceptions, they do not have redundancy to halt production in the United States and then shift production to other countries globally to maintain access to China’s market. Inability to access China’s market would lead to reduced capacity utilization and therefore lower profitability and employment. |

| 7 | One ACC member makes polymer additives (polymeric esters) and personal care ingredients for myriad industries. If China imposes a 25 percent tariff on its products, it would experience a far greater negative impact than a larger company supplying the same products. Small companies are often reliant on a small manufacturing base and, given their relatively small volumes, have little power to negotiate pricing, compared to a larger, global company. Based on its current sales and 2019 forecasts, China’s retaliatory tariffs will likely obliterate its China business. One customer has already told this company that it will reformulate without the company’s product as a result. This will lead to a $300K loss which is a quarter of the company’s total China business. This company’s business is unique in that product qualification is a very difficult and a timely process. This means once the company gains the business it is hard to lose, but once customers are motivated to reformulate, it is extremely difficult to regain business back. Thus, if the tariffs are put in place and later retracted, it is very possible the company will never regain the business. |

| 8 | In addition to the increased capital expenditure on new chemical project construction, these tariffs will also increase maintenance costs for existing facilities. Given the tariffs’ impact on purchases of foreign sourced pipe, structural steel, and domestic fixed equipment, one ACC member company estimates the tariffs will result in $15 million/year of incremental cost for maintenance, turnarounds and plant capital activities. |
vs 2017 purchases. This dramatic shift in cost structure is a powerful disincentive to investing in the U.S.

| 9 | One ACC member is experiencing difficulties with the South Korea steel quotas administered by U.S. Customs and Border Protection (CBP). This member had purchased structural steel products for the multi-billion dollar chemicals plant it is planning to construct in the United States. Unfortunately, this company now cannot get this product shipped from the Port of Busan to the United States. Warehousing the product in Busan and searching for U.S. sources of supply is increasing costs and man-hours for this company. If this issue continues and delays the company’s project, it estimates that startup and production could also be delayed, resulting in operational losses of $3 million for every day final start up and operations are pushed back. |

| 10 | An ACC member contracted for much of the necessary steel products over 2 years ago when a project final investment decision was made. Pipe spools are critical for the work being done over the next 6 months and the project as a whole. Over 1,700 craft workers are on-site now with the cranes and all equipment to build with the spools that the company is attempting to import. In June, the company had an import entry rejected of 152 pipe spools (3 were allowed in) in Long Beach due to the absolute quota on identified Brazilian origin pipe that was included in Chinese-origin pipe spools. The quota on Brazilian steel that went into effect on June 1 was already filled for the 7304.19.1020 and -.1030 category as soon as it was implemented. Some of the other spools are of South Korean origin pipe so there may be similar problems when they arrive to the U.S. (there are over 40,000 pipe spools on said project). The manufacturer is attempting to source elsewhere, but this is a scheduling problem and there is critical need to have the pipe spools for the workers on site now. If the company cannot get these pipe spools or the 40,000 others that they are expecting on the necessary timeline, then they will have to lay off craft workers and delay hiring any further. |