FIRSTHAND ACCOUNTS OF THE IMPACT OF CHINA SECTION 301 TARIFFS ON U.S. CHEMICALS MANUFACTURERS

American Chemistry Council

The American Chemistry Council (ACC) and its members are gravely concerned that Section 301 tariffs and corresponding retaliation by China will cause deep and lasting harm to the U.S. economy, manufacturers, farmers, workers, and consumers.

With the U.S. Lists 1, 2 and 3 now in effect, a total of 1,517 chemicals and plastics products, valued at $15.4 billion, are exposed to the tariffs. At the same time, retaliatory tariffs on $11 billion in U.S. chemicals and plastics exports to China have put nearly 55,000 American jobs and $18 billion in domestic activity at risk as a result of reduced demand for those products.

As the tariffs take effect, direct investment in the U.S., both foreign and domestic, will begin to decrease, and supply chains will move to other markets, thereby limiting opportunities for innovation, economic growth, and prosperity in the United States. Below are a selection of first-hand accounts shared by ACC's members on the projected impacts to their businesses.

SECTION 301 U.S. TARIFFS – IMPACT STORIES FROM ACC MEMBERS

1

One ACC member, which is a specialty polymer company with global operations, including manufacturing facilities in China and the U.S., is concerned that the 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 retaliatory tariffs could negatively impact U.S. specialty polymer exports to China, most of which are higher value and require strong intellectual property protections.

2

One ACC member reported that a 25 percent U.S. tariff on imports of certain polyurethane dispersions from China will negatively impact this company, its customer(s) and its respective businesses, including its competitiveness in the automotive market. Although these raw materials are also available in Europe, the European market is near capacity, meaning that there is no excess supply to divert to the United States. These tariffs will increase costs for this chemical company, which would have to pass the costs on to downstream customers. This company would then suffer loss of this business within the U.S. to other foreign competitors. These chemicals are typically sold into applications requiring lengthy and costly technical qualification periods. The impact of these additional tariffs is likely to be in the millions of dollars and would greatly minimize the ability for companies in the value chain to be competitive.

3

One ACC member is raising the prices of its engineered materials polymer products to combat the rising costs of raw materials and the effect of a 25 percent tariff on products imported into the U.S. from China. The company said it is raising the price of its propylene-based long fiber thermoplastics and its polybutylene terephthalate and polyethylene terephthalate compounded engineering plastics. The price hikes will become effective for orders shipped on or after August 23, or as contracts allow.

4

One ACC member researches, develops and manufactures catalysts for use in catalytic convertors on light and heavy duty vehicles in North America to meet government mandated emission standards. These technologies are dependent on raw materials that in many cases are only available in China. The proposed 25 percent tariff will increase the direct costs associated with manufacturing these products and ultimately be passed on to the end consumer. The tariffs will also weaken the competitiveness of the companies that manufacture these products in the USA and potentially shift jobs and defer investments to other regions and countries that are not impacted by these tariffs.

5

For one ACC member, the U.S. tariffs will lead to losses for its industrial chemicals business in the U.S. It will pass on the additional duties where it can, which will result in increasing prices and a loss in competitiveness for its customers in end markets (domestic and foreign). For other raw materials from China where there is local competition and the company cannot pass on the duty, the increased production cost may lead to decreased competitiveness and consequently the closure of a U.S. facility and loss of U.S. jobs.

6

One ACC member is concerned about the negative impacts of the U.S. tariffs on the U.S. cast polyurethane (PU) elastomer industry, and downstream U.S. consumers. PU processors across the United States have shown strong business performance over the last two to three years, but have also faced constraints due to both lack of labor and availability of upstream di-isocyanate raw materials. As a consequence, PU prepolymer producers and processors alike have been burdened with increasing costs. In an effort to mitigate this impact on its U.S. customer base, the company leverages global supply chains to ensure the best availability of products to customers. This company's PU prepolymer imports into the United States are not intended to replace U.S.-based production, but to complement the ability to support U.S. PU processors and downstream customers in their ongoing growth. This company and other PU industry players are making the necessary investments to re-localize these imports to U.S. production sites. However, major structural measures require at least 24-36 months to implement. In the meantime, imports from overseas, including those from Chinese production plants, are essential to further support downstream growth in the U.S.

7

The U.S. tariffs will cause a significant impact on one ACC member's biocide business. Most of the products/raw materials coming from China are used to formulate biocides that go into the construction market (e.g. wood treatment, gypsum board, adhesives, etc.). This company's wood business sells technical grade biocides to treaters. They then formulate products to treat wood (pressure and sawn timber treatment, etc.). Margins are tight as the main market is construction, as soon as the company passes any increase across the chain, the final consumer will pay the bill.

8

One ACC member has invested on data package and knowledge development to register biocides. Besides being compliant, the company works diligently to ensure biocides are used properly and safely. It offers a complete support package to customers. This company estimates that the U.S. tariffs are going to shrink its margins and give Chinese producers a competitive advantage over time.

9

For one ACC member, the U.S. tariffs may lead to higher costs and intellectual property concerns. It would be impractical if this company were to attempt to use a different supplier as the quality and technical specification which it has invested in having its plant in China achieve would be lost and its sensitive IP would need to be shared with a third party. Additionally, such an interruption or delay from changing its supplier would have an immediate impact on its ability to produce the quantity of products that its U.S. customers demand for 2019. As a result, a 10 or 25 percent tariff will actually have a negative impact on the U.S. economy, through higher costs for the company, translating into higher costs for U.S. automotive manufacturers and ultimately American consumers.

10

One ACC member is concerned that the 10 or 25 percent tariff increase will have a significant impact and potential loss of $13.1 million annually in its skin care business, and on its U.S. sales of ultraviolet (UV) filters. This company is committed to maintaining a world class quality system that consistently meets or exceeds its customer expectations. Its business process, global supply base and manufacturing sites operate according to the principles of ISO9001. In effort to identify alternative sourcing outside of China, a recent market study was conducted. There are limited suppliers of UV filters located in India, Europe and United States. The suppliers in India do not meet quality and safety standards. The European and U.S. suppliers offer a limited supply and are over market value price. The U.S. tariffs will threaten its ability to maintain uninterrupted and sustained supply of chemical products to key customers.

11

One ACC member is concerned about the potentially broad and negative effects that the tariffs would have on various supply chains for key products and materials that are used not only in its own production processes, but also, in other cases, in the production process of its key customers. In addition, in at least one particular case, due to domestic supply and/or capacity issues, a key chemical intermediate must be imported from Chinese sources because there is no available domestic supplier. Higher tariffs on domestically-constrained products like this will only add substantial costs for U.S. chemical manufacturing companies that have no choice but to use certain, key imported chemicals.

SECTION 301 RETALIATION – IMPACT STORIES FROM ACC MEMBERS

12

One ACC member 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 company reps expect to be significant. The company anticipates moving the production of these materials to its European or Asian operations.

13

A number of ACC members are also invested in the agricultural crop protection arena. With the potential 25 percent tariff on U.S. soybean imports to China, these companies anticipate a loss of earnings with expected redirection of trade flows to Argentina and Brazil, making the U.S. crop protection market less attractive.

14

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-re-fining processes. These products would face a 31.5 percent applied tariff at the border in China (25 percent tariff plus a general rate of duty of 6.5 percent), 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 will also cut their access to customers in China's market. Chinese and other foreign suppliers will enjoy increased market share and competitiveness.

15

ACC members 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 offshoring 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.

16

A number of ACC members produce specialty polymers, which 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.

17

ACC members producing 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 non-competitive 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.

18

One ACC member makes polymer additives (polymeric esters) and personal care ingredients for myriad industries. A 25 percent tariff levied by China on its products would cause a greater negative impact than it would on 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 the company's 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.