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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. We provided public comment last year for the Section 301 investigation and welcome USTR's excellent and comprehensive report and fact-finding. We have filed additional public comment in response to the Federal Register Notice for the proposed tariff action. In my remarks today, I want to highlight four key points from our public comment and focus on the real world impact 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. The chemicals industry is a successful $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. Given our present success and potential for continued growth expansion, the Administration should be just as concerned about the impact of tariffs on our industry as we are.

Second, the threat of retaliation by China is deeply concerning to ACC and our members. 40 percent of the products on China's initial Section 301 list relate to chemicals. 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). China is a key export market for U.S.-made chemical products. Nearly a third of U.S. chemical manufacturing jobs depend on the ability to freely export product. 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. 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, who 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. While some producers will reduce or end production in the United States in order to maintain access to the Chinese market, other producers will be greatly disadvantaged.

- U.S. produced specialty polymers are typically sold into applications requiring lengthy and costly technical qualification. The increased tariffs could result in significant supply chain interruptions for critical applications, such as healthcare and water purification. Increased tariffs on imports into China will ultimately raise prices of goods in the global market.

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

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 our views on alternative ways to change China's behavior in the question and answer period. Thank you again for the opportunity to appear here today.