PUBLIC COMMENTS

"Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation"

May 11, 2018

SABIC, one of the world's leading petrochemical manufacturers, welcomes the opportunity to comment on the Administration's proposed trade actions under Section 301 of the Trade Act of 1974.

SABIC has operated in the United States for more than 30 years. Today, SABIC has more than 3,500 employees in the United States, and operates 14 sites in 11 U.S. states, with our headquarters for the Americas region in Houston. SABIC has ambitious plans for further growth in the United States, including a proposed $10 billion manufacturing facility in Texas, via a joint venture with ExxonMobil, which would feature the world's largest ethylene cracker.

As a global company, SABIC attaches high importance to clear, enforceable rules for international trade, including for the protection of intellectual property. We are concerned, however, that the Administration's proposed action, and China's retaliation, would have a significant negative impact on SABIC's business in the United States. The proposed additional tariffs, if applied, would undermine the competitiveness of SABIC's production in the U.S., damage the investment climate for the future expansion of domestic petrochemical manufacturing, and raise costs for customers and suppliers.

SABIC has provided separate, business confidential comments that outline the specific impact of the proposed action on our operations in the United States. In our public comments, we outline in broad terms the reasons why the proposed U.S. action, if implemented, would lead to unintended consequences and result in disproportionate harm to one of the most competitive manufacturing sectors in the United States.

<u>Proposed U.S. Action</u>

The shale gas revolution has dramatically changed the economics of chemicals and plastics production in the United States. The U.S. has gone from a high-cost producer to one of the most competitive in the

SABIC
2500 CityWest Blvd, Suite 100
Houston, TX 77042
United States of America
T: +1 713-430-2301
E: Info@sabic.com
www.sabic.com

world. This has resulted in massive new investment in domestic chemical manufacturing, estimated by the American Chemistry Council to total more than $190 billion across the industry. SABIC is one of the companies leading this surge: we have identified North America as a priority region for future growth, as demonstrated by the recent formation of our joint venture with ExxonMobil to build a manufacturing facility including an ethylene cracker and three derivative units, along the U.S. Gulf Coast. Several additional growth projects are in the planning stage.

SABIC is concerned, however, that the proposed U.S. tariffs would undermine the value proposition for further manufacturing expansion. Some of the products on the proposed U.S. tariff list are important inputs to plant construction in the U.S. Imposing additional tariffs on these steel, iron, aluminum and other equipment items will directly increase costs for new investment in chemical manufacturing.

In particular, SABIC **calls for the exclusion of items beginning with HTS code 8419 from the proposed action**. This HTS subheading includes large modules that form the building blocks for new construction of petrochemical manufacturing facilities by SABIC and other companies. This modular assembly helps to reduce construction costs and makes the building of multi-billion dollar chemical plants economically viable, particularly given the shortage of available skilled labor in the U.S. SABIC anticipates that future plant construction in the United States will require up to 80% modularization.

The inclusion of these modules in the proposed action would have a major impact on current and future SABIC investment in the U.S., potentially resulting in planned projects either not going ahead, or being constructed outside the U.S. Given the multi-decade operating life of these high-technology, high-wage facilities, the imposition of tariffs on items beginning with HTS code 8419 under the proposed action would risk significant economic losses for the country.

China's Proposed Retaliation

China's list of proposed retaliatory tariffs has a heavy focus on chemicals and plastics. In part, that is likely a recognition of the competitiveness of U.S. chemicals and plastics manufacturing, but it may also result in U.S. manufacturers losing market share in China to Chinese or other foreign manufacturers. SABIC is a significant exporter of potentially affected products to China, particularly polycarbonate plastic. Specific numbers are included in our business confidential submission.

SABIC manufactures polycarbonate in Mt. Vernon, Indiana, and Burkville, Alabama – locations that rely heavily on the good manufacturing jobs that we provide and that would suffer adverse effects from a prolonged disruption in demand due to higher Chinese tariffs. If China implements these retaliatory tariffs as proposed, SABIC would seek to maintain its market share in China – but this may mean moving production out of the U.S. to our existing production facilities in other regions. This would have associated cost impacts for downstream industries in the United States, such as automotive, electronics, and medical devices, that currently source their polycarbonate from SABIC's U.S. production.

China's proposed tariffs would also reduce demand for products made by key SABIC customers here in the United States. For example, U.S.-made automobiles, which on average contain more than $3,000 of chemistry products per vehicle, would also face additional duties for exports to China. This would likely further reduce demand by our U.S.-based customers for chemicals and plastics that are in many cases already included in China's proposed list, adding further to the potential economic and job impacts in the U.S.

Avoiding Negative Impacts of the Proposed Action

While it is not the intention of the Administration's proposed action to bring negative repercussions to companies manufacturing in the U.S, it is important to factor in the real-world impact. Imposing tariffs on the imported modules that SABIC and other companies use to construct new chemical plants in the U.S. would significantly undermine the business case for new investment, and undermine economic growth and job creation in important local communities. SABIC has ambitious plans for growth in the U.S., but it is essential to exclude modular construction from additional tariffs if these plans are to come to fruition.

A trade war with China is in no one's best interests. Chemical and plastics manufacturing is one of the fastest growing industries in the U.S., with a large and growing trade surplus. Yet the Administration's proposed action and China's announced retaliation would disproportionately affect our industry, and the numerous downstream sectors that we supply. SABIC urges the U.S. government to avoid actions that would adversely affect our current operations and future growth in the United States.

ABOUT SABIC

SABIC is a global leader in diversified chemicals headquartered in Riyadh, Saudi Arabia. We manufacture on a global scale in the Americas, Europe, Middle East and Asia Pacific, making distinctly different kinds of products: chemicals, commodity and high performance plastics, agri-nutrients and metals.

We support our customers by identifying and developing opportunities in key end markets such as construction, medical devices, packaging, agri-nutrients, electrical and electronics, transportation and clean energy.

SABIC recorded a net profit of SR 18.4 billion (US$ 4.9 billion) in 2017. Sales revenues for 2017 totaled SR 149.8 billion (US$ 39.9 billion). Total assets stood at SR 322.5 billion (US$ 86 billion) at the end of 2017. Production in 2017 stood at 71.2 million metric tons.

SABIC has more than 34,000 employees worldwide and operates in more than 50 countries. Fostering innovation and a spirit of ingenuity, we have 11,534 global patent filings, and have significant research resources with innovation hubs in five key geographies – USA, Europe, Middle East, South Asia and North Asia.

The Saudi Arabian government owns 70 percent of SABIC shares with the remaining 30 percent publicly traded on the Saudi stock exchange.