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Statement of Jonathan Davis, Global Vice President of Industry Advocacy at SEMI, Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation
Docket No. USTR 2018-0005
May 2018

Thank you very much for the opportunity to present testimony to assist in the preparation of the proposed action pursuant to Section 301 investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.

I am the Global Vice President for Industry Advocacy at SEMI, where I lead efforts on critical public policy, regulatory, and advocacy issues. I have worked in this industry for 30 years, in part, because I truly see how important semiconductors are to our economy. Semiconductors are in essentially the "brains" of all electronic systems and have made possible countless products on which we rely for business, communication, transportation, healthcare, entertainment, and virtually all activates of modern human endeavor. These products have boosted economic growth, enhanced productivity, and driven innovation. With the advent of emerging technologies, such as autonomous driving and the broader Internet of Things ecosystem, this industry will continue to be central to U.S. growth and prosperity.

For 47 years, SEMI has served as the global electronics manufacturing industry association. With its more than 2,100 members worldwide, including more than 400 American companies, SEMI represents the full range of U.S. semiconductor technology companies, including chip designers, equipment makers, materials producers, and subcomponent suppliers. Our member companies are the foundation of the $1.5 trillion electronics industry. This vital supply chain employs 350,000 high-skill and high-wage jobs across the United States.

Fundamentally, intellectual property is the cornerstone of the rapidly innovating semiconductor manufacturing industry. SEMI members, on average, spend up to 15 percent of their revenues, or more than $20 billion in nominal terms, annually on R&D to produce important technological advancements necessary to remain competitive and enable ever increasing productivity.

Companies that provide semiconductor manufacturing technology support this activity through trade. The industry relies on complex and expansive supply chains that traverse the globe. Components are made all around the world, brought together and assembled into a single sub-system, which is then integrated into a larger tool, which is used in the chipmaking process. The U.S. is the global leader in semiconductor manufacturing technology, holding more than 40 percent of global market share. Over the last 15 years, U.S. companies in this sector have exported, on average, more than 80 percent of what is produced domestically. It is the highest of high tech in terms of the extraordinary complexity involved in production – involving advanced physics, chemical engineering, electrical engineering, data science, mechanical

engineering, software development and other specialized capabilities to produce a single product. The hallmark of our industry is that we make it here and sell it abroad.

It is because of this dynamic that the United States has long held a trade surplus in semiconductor equipment. In 2017, the U.S. surplus totaled $8.7 billion, which has nearly quadrupled over the last 5 years. Looking with just China, the United States had a $1.9 billion surplus in this industry in 2017, which has more than tripled in the last 5 years. By sector, our industry, with airplanes and soybeans, holds one of the largest trade surpluses.

With that in mind, we believe that the imposition of a 25 percent tariff could be extremely harmful to the U.S. semiconductor manufacturing supply chain. More than 100 total tariff lines, which I've included in my written statement, in the proposed Section 301 tariff list directly impact the semiconductor supply chain. These tariff lines cover products like molds, equipment used to test and inspect semiconductors, and spare parts, which are made by major U.S. semiconductor companies. These products are critical components of semiconductor manufacturing process, effectively enabling this industry, and the countless dependent industries function. We request that these tariff lines be removed from the proposed Section 301 action.

Estimates from our U.S.-based companies suggest that these tariffs, if implemented as proposed, will cost tens, if not hundreds, of millions of dollars annually in additional taxes and lost revenue owing to reduced exports. This will stifle innovation, endangering U.S. leadership in this sector, and would put thousands of U.S. jobs at risk. We believe that this will expand the U.S. deficit, threaten future growth, and not solve our legitimate and longstanding concerns with China.

We also worry about the impact of further tariffs with China. SEMI member companies that produce certain chemicals were marked for a tariff as part of China's retaliatory tariffs. We expect that, should the situation worsen, more of our member companies' products will be hit. It would be particularly easy for China, given their significant role in the globalized semiconductor supply, to target U.S. semiconductor products, which would be a serious threat to U.S. manufacturers. Chinese retaliation could also stunt near-term U.S. innovation, fundamentally altering the development of advanced technologies in their favor for the foreseeable future.

In closing, while we support efforts to ensure that we compete on a level playing field, we can't simply cut off our ability to tap into foreign markets. Trade is critically important to the continued success of the semiconductor industry. These tariffs will inflict unintended damage, such as curbs in American innovation and price increases, which will likely result in reduced foreign sales and job losses – and potentially threaten long standing US leadership in a critical technology capability.

I look forward to answering your questions. Thank you.