LIANDA *More than a Distributor*

July 13, 2018

Office of United States Trade Representative
600 17th Street, NW
Washington, DC 20006

Subject: Testimony of Lee Mao in Support of Exclusion of Chlorinated Polyethylene Elastomer (CPE) From Section 301 Duties
HTSUS Code: 3901.90.1000

Dear Sir or Madam:

Thank you for permitting me to appear before you today to explain my company's concerns about the possibility that 25% duties could be imposed on Chlorinated Polyethylene Elastomer, which is known in the trade as "CPE."

I am the President of Lianda Corporation, which is a small family business located in Twinsburg, Ohio. Lianda is a distributor of high-performance, specialty elastomers and chemicals. Our primary focus is the rubber and plastics industries, which we have served for over 23 years. Lianda's business model is to provide high quality products at good value to our U.S. customers to enable them to be more competitive in terms of performance and cost.

Lianda imports Weipren™ brand Chlorinated Polyethylene (CPE) under HTSUS code 3901.90.1000 and provides this product to customers for use in a variety of end products, especially for use in automotive and industrial hose, and electrical cable for power and mining. CPE, among all synthetic elastomers, is the material of choice due to its performance and cost. In these applications, CPE is the main ingredient that comprises about 40% of the formulation. CPE is also used in vinyl siding, fences, and decks for residential housing to make these products less brittle and more durable.

All Chlorinated Polyethylene is imported, and the vast majority of CPEs are produced in China. There has been no U.S. production of CPE since 2009. Thus, China is going to remain the U.S. principal supplier of CPEs. Therefore, the greatest effect that imposing a 25% tariff on CPEs will be to damage the interests of U.S. companies that incorporate CPEs in their end products and the U.S. consumers that use these products.

We understand and appreciate the tremendous effort made by this Administration to reduce the trade deficit and change China's trade practices. However, in this particular instance, we believe that an additional tariff on CPE from China will not provide any incentive for the Chinese Government to change its IPR policies or other complained of activities. On the contrary, the extra tariff will only increase our customers' costs and reduce their competitiveness. Here are the main points we wish to make:

1. China essentially is the only country that produces CPEs in the quantities necessary to supply the U.S. and world markets. Therefore, imposing a 25% additional duty on CPE under Section 301

would not be practical or effective in eliminating the complained acts, policies, and practices because there are no viable alternative sources of CPE in the quantities needed by U.S. industry. Thus, increased duties would not significantly discourage importation of CPE from China.

2. Increasing the capacity for production of CPE in countries other than China is not a viable solution, certainly not in the near term or in the long term, for the following reasons.
    a. First of all, it takes 2-3 years at least to build additional capacity. Production of CPE requires two chemicals: chlorine and polyethylene. Thus, to increase capacity of CPE, two chemical plants must be built, a CPE production facility and a dedicated polyethylene facility. Construction of each of these plants, according to the information available to us, would cost at least tens of millions of dollars and more likely hundreds of millions of dollars and would take 2 to 3 years to construct, after design approval for the plants is secured and all necessary environmental permits are granted. In addition, a secure source of chlorine, a very hazardous chemical, must be secured and be located close to the CPE facility. Thus, for at least 2 to 3 years after imposition of the proposed increased duties, China would still remain the principal source of supply for U.S. requirements of CPE. Realistically, designing and planning plants, securing permits, and then constructing the plants, could easily take 3 or 4 years. Thus, there is no short-term solution to increasing non-China capacity.
    b. Further, construction of such costly plants over a 2 to 4 year period would entail substantial, extraordinary risk on the part of a chemical company. Such risk would be over and above the normal business risk entailed in building chemical plants. That extraordinary risk would stem from the assumption that construction of the plants would be largely justified to service ONLY the U.S. market. If, as many people expect, the trade dispute that generated the current Section 301 action is settled, the money and time spent in constructing the plants could very well come to naught. Therefore, there likely would be no long-term increase in capacity in third countries due to the extraordinary risk involved. It is questionable that China's role as principal supplier of CPE to the U.S. would be changed for years to come.

3. Since China will remain as the principal supplier of CPE, imposing a 25% tariff will only cause the U.S. manufacturing companies that use CPE in their end products to experience higher costs. These costs would make them less competitive in world markets and would necessarily be passed on to U.S. consumers. Therefore, we think that imposing duties on CPEs would result in disproportionate harm to U.S. interests.

4. The switch to new suppliers will be a costly and disruptive exercise for U.S. users of CPEs, even if imposing increased duties on CPEs from China resulted in the creation of alternative sources of supply, which is questionable. Through its 23 years of experience, Lianda Corporation knows that changing suppliers of CPEs is not a simple matter and some companies, much to their chagrin, learned that they sorely underestimated the complexity of the process. This is because there are subtle but significant differences between the product made by different CPE manufacturers, and these differences can have significant effects on the performance and durability of the end product. Thus, any changeover will necessarily be disruptive. Further, Lianda believes that in many instances, the time required to qualify a new CPE supplier could

easily be 12 to 18 months because meeting U.S. end users' particular specifications and needs, many of which are subject to technical approval, is not an easy process.

5. All of this will adversely impact the production of finished products that incorporate CPE in the U.S. In fact, to avoid this 25% tariff, what will happen is that many of our U.S. customers will leave the U.S. by shifting production of their high value, downstream CPE related products to other countries where they would not be subjected to the tariffs. We believe that the damage done to U.S. production and world-wide competitiveness will be disproportionate to the deterrent effect felt by the Chinese Government.

6. Lianda's CPE manufacturer, Weifang Yaxing Chemical, which is the largest CPE manufacturer in the world, purchased the manufacturing technology from Hoechst AG in Germany in 1990. Weifang Yaxing Chemical is a publicly traded company and is not a state-owned enterprise.

7. To our knowledge, production of CPE does not involve industrially significant technology for purposes of the Made in China 2025 program.

Conclusion: In view of the above, assessing CPE with retaliatory duties would cause little or no harm to China, so any deterrent effect would be minimal. At the same time, China's role as the principal supplier of CPE to the U.S. is unlikely to change due to the costs and risks involved in building new CPE production facilities. Thus, the end result would be that U.S. producers would be put at a competitive disadvantage and U.S. consumers would be paying higher prices. Moreover, imposing tariffs on CPE would encourage U.S. producers to leave the U.S. by shifting production of their high value downstream CPE related products to countries where they would not be subject to a 25% tariff. This results in disproportionate economic harm to U.S. interests vis-a-vis providing any incentives for China to change its behavior. Therefore, we ask USTR to exempt chlorinated polyethylene from Section 301 duties.

Respectfully submitted,

LeeMao

Lee Mao
President
Lianda Corporation