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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 2018-0018
July 2018

Thank you very much for the opportunity to present testimony to assist in the preparation of the proposed action pursuant to the Section 301 investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation. SEMI participated in the hearing on this subject in May, and I am happy to testify before you again.

My name is Jonathan Davis, and I am the Global Vice President for Industry Advocacy at SEMI, where I lead efforts on public policy, regulatory, and advocacy issues. Semiconductors are essentially the "brains" of all electronic systems, making possible countless products on which we rely for business, communication, transportation, healthcare, entertainment, and virtually all activities of modern human endeavor. These products have boosted economic growth, enhanced productivity, and driven innovation, and with the advent of emerging technologies, such as autonomous driving, artificial intelligence, and the broader Internet of Things ecosystem, this industry will continue to be central to U.S. growth and prosperity.

For nearly 50 years, SEMI has served as the global electronics manufacturing industry association. With more than 2,000 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, and 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. And according to government data, more than 40 percent of U.S. imports from China in this sector were sourced from firms that are either U.S. based or that are owned by U.S. companies. This means that U.S firms that have operations in China will inevitably suffer alongside Chinese competitors from the blunt application of trade action.

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. 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 China.

Trade has ensured that the United States has remained a global leader in semiconductor industry. In this industry, trade and innovation are intrinsically intertwined. By allowing companies to better tap into foreign markets, trade has enabled greater research and development (R&D), which fuels innovation and growth. Indeed, a change to either affects the other; without trade opportunities, innovation dries up, and without innovation, opportunities to export slow.

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. Nearly 30 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 include products effectively enable this industry, and the countless dependent industries. 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 more than $500 million annually in additional taxes and lost revenue owing to reduced exports. We also worry that these tariffs will impact U.S competitiveness; the net impact of this trade action will be that non-U.S. firms receive an advantage. In this industry that requires constant innovation and cutting-edge development to meet modern market demands, this change, even if slight, will have long-term, compounding impacts.

This action will stifle innovation, endangering U.S. leadership in this sector, and would put thousands of U.S. jobs at risk. We also believe that this will expand the U.S. deficit, threaten future growth, and not solve our legitimate and longstanding concerns with China.

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, stifle American innovation, increase prices, threaten long standing U.S. leadership in a critical technology capability and potentially put thousands of U.S. jobs at risk.

I look forward to answering your questions. Thank you.

Proposed Tariff List with SEMI Member Company Impact

HTS Code	Description
3902.10.00	Polypropylene, in primary forms
3907.40.00	Polycarbonates in primary forms
3917.32.00	Other, not reinforced or otherwise combined with other materials, without fittings
3917.40.00	Fittings
3919.90.50	Self-adhesive plates, sheets, other flat shapes, of plastics, not having a light-reflecting surface produced by glass grains, nesoi
8419.89.95	Industrial machinery, plant or equipment for the treatment of materials, by process involving a change in temperature, nesoi
8483.30.80	Bearing housings; plain shaft bearings; other
8486.10.00	Machines and apparatus for the manufacture of boules or wafers
8486.20.00	Machines and apparatus for the manufacture of semiconductor devices or electronic integrated circuits
8486.30.00	Machines and apparatus for the manufacture of flat panel displays
8486.40.00	Machines and apparatus for the manufacture of masks and reticles; for the assembly of electronic integrated circuits;
8486.90.00	Parts and accessories of the machines and apparatus for the manufacture of semiconductor devices, electronic integrated circuits and flat panels
8536.30.80	Other apparatus for protecting electrical circuits; other
8536.50.70	Electronic AC switches consisting of optically coupled input and output circuits (insulated thyristor AC switches); electronic switches, including temperature protected switches, consisting of a transistor and a logic chip (chip-on-chip technology); electromechanical snap-action switches for a current not exceeding 11 amp
8541.10.00	Diodes, Other Than Photosensitive or Light-Emitting Diodes
8541.40.60	Diodes for semiconductor devices, other than light-emitting diodes, nesoi
8542.31.00	Electronic integrated circuits: processors and controllers
8542.32.00	Electronic integrated circuits: memories
8542.33.00	Electronic integrated circuits: amplifiers
8542.39.00	Electronic integrated circuits: other
8542.90.00	Parts of electronic integrated circuits and microassemblies
8543.70.45	Electric synchros and transducers; flight data recorders; defrosters and demisters with electric resistors for aircraft
8543.70.99	Other machinery in this subheading equipped with two or more apparatus of heading 8535 or 8536
8544.49.10	Insulated electric conductors of a kind used for telecommunications, for a voltage not exceeding 80 V, not fitted with connectors
8544.49.20	Insulated electric conductors nesoi, for a voltage not exceeding 80 V, not fitted with connectors

8544.60.60	Insulated electric conductors nesoi, not of copper, for a voltage exceeding 1,000 V, not fitted with connectors
9025.19.40	Pyrometers, not combined with other instruments
9025.19.80	Thermometers and pyrometers, not combined with other instruments; Other, other
9030.89.01	Instruments and apparatus for measuring, checking or detecting electrical quantities or ionizing radiations, nesoi: w/o a recording device