AmericanCoatings ASSOCIATION℠

TESTIMONY OF

American Coatings Association, Inc.

BEFORE THE SECTION 301 COMMITTEE, UNITED STATES TRADE REPRESENTATIVE

JULY 24, 2018.

Ambassador Lighthizer, it is our privilege to be here to today to discuss a matter of concern to the manufacturers of paints and coatings.

The American Coatings Association strongly supports free trade and believes the tariff approach being undertaken is harmful no only to the U.S. Coatings industry but to the broader U.S. manufacturing base as well. Instead of pursuing the blunt instrument of tariffs, we encourage the Administration to pursue more precise and strategic approaches such as enforceable bilateral trade agreements to address the issues facing manufacturers with China.

ACA does not believe that increased duties on the series of HTSUS subheadings beginning at 3901 through 3914 supports the stated objective of influencing China's acts, policies, and practices, and for reasons noted below, the harm to U.S. interests, including SMEs and consumers, would far outweigh any potential trade benefits so accrued.

The USTR's final list includes 1,102 product lines, of which a significant number are chemicals used in coatings, adhesives, inks, and other formulated specialty chemical products such as "binders"; i.e., coatings resins. These resins are largely captured under the tariff lines that are incorporated in Annex C as noted above. While the materials that fall under this chapter are characterized as "Plastics and Articles Thereof," they are neither plastics nor plastic articles in the commonly understood sense of that term.

They are more properly characterized as polymers and are generally shipped in a liquid medium and subsequently formulated, along with pigments, solvents, additives, etc. to produce our industry's key coatings products. Resins are, in fact, one of the most important raw material input in coatings formulations, comprising more than 40% of the raw material cost.

The paint and coatings industry in the U.S. is a strong, export-oriented industry that is quite competitive internationally. Many manufacturers in this industry are small and medium sized businesses. The latest trade data published by the International Trade Commission's Interactive Tariff and Trade DataWeb indicates that the trade in the primary categories of coatings (HTS 3808 and HTS 3809) generated a positive trade balance of $1.33 billion (out of overall product shipments of approximately $25 billion). The international competitiveness of the American coatings industry is a product of strong innovation, manufacturing efficiency, and robust supply chains. Raw materials comprise approximately 75% of the direct cost of manufacturing coatings, and price inflation affecting those inputs is a matter of great concern for the industry. ACA believes that imposing tariffs of this magnitude on such chemicals could, as a practical matter, largely exclude these affected products from the market. The disappearance of even a relatively small portion of the supply for these polymers would inevitably result in significant upwards pricing pressure on this key input. The actions proposed by the USTR in this regard could impose costs on the U.S. coatings industry that will not only harm consumers and end users (including downstream manufacturing customers), but render it less completive internationally. This outcome could quite easily erode or dissipate the current strong trade position we enjoy, leading to decreased exports of coatings and/or increased imports.

We understand that the materials included in the first two rounds of this Section 301 action were identified for additional tariffs based on their importance within China's Made In 2025 plan, which aims to advance Chinese high-technology industries such as robotics, aerospace, industrial machinery and automobiles. , The list of affected chemicals within HTS Chapter 39, at least insofar as they are used by our industry, are largely chemicals manufactured using mature processes.

As such, imposing tariffs on this raw material category would not appear to support the USTR's objectives concerning the "Made in China 2025" plan. Moreover, as noted above, these products, as used in our industry, are not "plastics or plastics articles" in the ordinary meaning. The broad and unnecessary inclusion of these tariff subheadings could effectively inflict unwarranted collateral damage on the coatings industry.

Thank you for your kind attention.