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Testimony/Pre-Hearing Submission for USTR-2018-0018-0001
Response to Annex C ("List 2") Tariffs on Chinese Goods Imports

About ITI. ITI represents over 65 of the world's leading information and communications technology (ICT) companies. We are the global voice of the tech sector and the premier advocate and thought leader in the United States and around the world for the ICT industry.

- ITI would like to focus on illustrating the deleterious impact of USTR's proposed List 2 tariffs on consumers, businesses, and supply chains.

Tariffs are counterproductive and harmful. While ITI highlights several product lines in our comments, we do not support the imposition of tariffs, particularly as a method of resolving issues under the Section 301 investigation.

- Tariffs are the wrong answer to the right question. We agree with USTR's March findings report and appreciate the attention to issues of market access, but we remain opposed the use of tariffs as a method to resolve these issues.
- In a coalition of over 100 associations across sectors, ITI has continually advocated against tariffs. We remain discouraged knowing that the first list of tariffs has already had a distinct **negative effect on American farmers, workers, and consumers**.
    - We are further concerned by the widespread effect of the additional six thousand-some tariffs announced on July 10, which have the potential to push prices up on all aspects of modern American life if imposed.

List 2 Effects on Consumer Products. This list contains consumer products, despite the administration's stated intent to avoid doing so. **Thermometers (9025.19.80)** as well as temperature and motion **sensors (8543.70.45)** are a few key examples that have a direct consumer impact.

- The proposed tariffs would raise costs on both outdoor thermometers and thermometers that we use in our homes when we or our children fall ill.
- This List would also raise costs on sensors that go into **thermostats and security systems** that ensure safety for millions of Americans.
    - Americans purchase 17 million thermostats each year to help manage energy costs, and automatic thermostats are already subject to a 25 percent tariff as of July 6.
- Tariffs will hurt the retailers who sell these consumer goods. Tariffs on sensors and thermostats also negatively impact small businesses who install those systems.

U.S. Leadership in Semiconductors. Another key example that I will focus on is the semiconductor-related lines from List 2 that fall under **HTS-4 subheadings 8486, 8541, and 8542**. U.S. companies have built their leadership in the global tech sector in part through the development of semiconductors.

- The U.S. semiconductor industry **takes the lion's share of global revenue** due to the significant value that U.S. companies have contributed in designing these components.
- U.S. chip manufacturers conduct the **majority of design and initial manufacturing** in the United States.

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- The **assembly and testing** of semiconductor chips is the final and lowest cost stage in the manufacturing process, and almost all of this low value-added activity takes place in Asia, including China.
    - The majority of semiconductor chips that are imported back into the United States are thus **actually made in USA products**.
- From cars to phones and industrial machinery to household consumer products, all of these products are fitted with various types of semiconductors and contain multiple diodes in order to function.
- By applying tariffs to inputs as prolific as semiconductors and diodes, which are essentially manufactured in the United States, everyday items that Americans use will become more expensive.
- U.S. companies currently retain half of global market share for semiconductors, while Chinese companies trail significantly behind.[1]
- Placing a tariff on these items would effectively place a tariff on U.S. companies rather than protect them.

Effects on Supply Chain. We understand that some assume supply chains can be easily rerouted to third countries or the United States. This is neither cost-effective nor does it account for the complexity of the global supply chain.

- China's size and role in the market makes identifying markets with similar capacity to supply components extremely challenging.
- Companies expend significant time and money in negotiating contracts with suppliers and distributors, which is a competitive process and can take years to finalize.
- Imposition of tariffs will drive up costs for U.S. companies and likely force layoffs as well as reduce production, ultimately with the perverse effect of undermining their global competitiveness.
- These outcomes run counter to the very purpose of the Section 301 investigation.

Retaliation and Long-term Effects. Given the Chinese government's broad authorities, China can manipulate its currency and introduce other measures to subsidize losses.

- Chinese companies can thus bear the burden of tariffs in the short term and ultimately emerge unscathed in the long term.
- The same cannot be said of the United States.

Alternatives. The trade conflict has undeniably escalated with the imposition of the first Section 301-related tariffs list. We encourage the administration to carefully consider steps to addressing systemic issues in China's trade practices.

- We urge the administration to now seriously pursue negotiations with the Chinese on concrete commitments with clear accountability mechanisms and timelines for implementation.

[1] https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/semiconductors/pdfs/mosc_1_revised.ashx