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Testimony in response to the proposed action pursuant to the Section 301 investigation of China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Docket No. USTR 2018-0018

July 2018

Joseph M. Pon
Corporate Vice President
Applied Materials, Inc.

Mr. Chairman,

Thank you for the opportunity to speak to you today. I am Joe Pon, Corporate Vice President at Applied Materials. Applied is the leader in materials engineering solutions used to produce virtually every new semiconductor chip and advanced display in the world. We are headquartered in Santa Clara, California, with major manufacturing plants in Austin, Texas; Gloucester, Massachusetts; and Kalispell, Montana. Founded in 1967 in a Silicon Valley garage, Applied has grown into a significant technology company with nearly 20,000 employees in 17 countries around the world.

Applied Materials imports a number of items that are important to building the complex, high-value-added tools that we export around the world. In fact, 90 percent of Applied's revenue is from sales outside the United States. These exports support substantial research and manufacturing operations in California, Texas, Massachusetts and Montana and contribute positively to the U.S. trade balance. Importantly, they also sustain the 15,000 high-paying American jobs represented by our U.S. employees and contractors. With growth in foreign markets, we have been rapidly creating new jobs in the United States — adding more than 3,000 jobs since 2016.

I am here today, on behalf of Applied Materials, to request the removal of semiconductor supply chain items classified under HTS 8486.90 and 8486.20 from the proposed list of products subject to the Section 301 tariffs. We believe these tariffs will cause disproportionate economic harm to U.S. interests. Moreover, we do not believe that these tariffs will advance the Administration's goal of changing the Chinese government practices identified in the Section 301 report.

The Proposed Tariffs Will Harm U.S. Interests, Including Small- and Medium-sized Businesses

The semiconductor equipment industry in the United States consists of about 400 companies, 85 percent of which are small- and medium-sized enterprises, representing nearly every state in the country. Overall, U.S. companies represent 47 percent of this $62-billion global industry. While leading American companies such as Applied top the list in terms of revenue, substantial competition exists from European and Asian companies who can supply comparable quality in sufficient quantity to meet customer needs.

Industry experts estimate the proposed tariffs would place $500 million in costs on our industry alone. Placing this burden squarely on U.S. companies damages America's manufacturing advantage and provides significant benefits to our foreign competitors. The imposition of these tariffs will raise the

cost of U.S.-made equipment, making it less competitive both in the United States and around the world, where our customers reside. In short, these tariffs punish the very success our sector has worked so hard to achieve and puts at risk the high-skilled American jobs that make it possible.

The Proposed Tariffs Will Not Advance the Administration's Objective to Address China's Technology Transfer and Industrial Policies

With regard to China, the products we import under these subheadings are relatively low value-added items with minimal IP. They have little relevance to the *Made in China 2025* industrial policy and have not been the subjects of forced technology transfer. In fact, most of these items are made by non-Chinese companies operating as wholly foreign owned enterprises. The items are largely structural in nature — such as metal mainframe skeletons, chamber bodies, and generator components — which our manufacturing operations in Austin, Kalispell or Gloucester incorporate into the high-tech equipment Applied Materials exports around the world. In other words, the true value of our products is created by American workers on U.S. soil and sold to customers around the world to sustain one of our nation's great manufacturing success stories.

Applied's exports support U.S. manufacturing jobs and R&D, and help narrow the U.S. trade deficit. Without question, the protection of our intellectual property and the integrity of the supply chain is Applied's top priority and critical to our future success. We have fiercely protected our IP in every country in which we operate for the past 50 years. We do nearly all our semiconductor R&D in labs we have long-established in the United States, and have no plans to change.

That said, we recognize the challenges faced by other industries and companies and the unfair playing field they may face in the Chinese market. As a company highly dependent on international trade and strong intellectual property protection — and the rules that govern both — Applied Materials is opposed to forced technology transfers and intellectual property theft that harm U.S. companies.

The Proposed Tariffs Constitute a Tax on the Exports of High-Value-Added U.S. Goods

In summary, we believe the tariffs on these subheadings constitute a tax on the exports of high-value-added U.S. goods, potentially disrupting relationships throughout the value chain and opening the door for non-U.S. equipment suppliers to take the market share which American companies have worked hard to win. We encourage the U.S. Government to help further our export success story, not hobble it by imposing self-defeating tariffs. Accordingly, we respectfully request that 8486.90 and 8486.20 be excluded from Annex C in its final form.

We remain committed to working constructively with the U.S. Government to find effective solutions to address discriminatory foreign trade practices. I thank you for holding today's hearing and for the opportunity to discuss our concerns. I welcome any questions you may have.