SEMICONDUCTOR INDUSTRY ASSOCIATION

Testimony of the
Semiconductor Industry Association
Regarding

Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

For Public Hearing Docket Number: USTR-2018-0018
July 24, 2018

The Semiconductor Industry Association (SIA) appreciates the opportunity to provide written comments on the proposal to impose 25% tariffs on an additional $16 billion in U.S. goods imports from China as part of the Section 301 investigation into unfair acts, policies and practices of China.[1]

Semiconductors and its value chain are the bedrock of the modern American economy, powering virtually everything digital from cellphones and cars to supercomputers and military systems. U.S. chipmakers lead the world with close to half of the global market share. Semiconductors are America's fourth largest export, with a trade surplus of over $6 billion in 2017.[2] Nearly half of the manufacturing operations of major U.S. semiconductor firms is located here in the United States, across 19 states, directly employing close to 250,000 workers in the U.S. with well-paying jobs.

SIA supports the Administration's goal to address discriminatory and burdensome trade practices of the Chinese government.[3] However, as stated in our submission on May 11, 2018[4], imposing tariffs on semiconductors and semiconductor related products such as semiconductor manufacturing equipment will adversely impact U.S. consumers of semiconductor products and the U.S. semiconductor producers - one of America's top exporting industries and a critical driver of U.S. economic competitiveness and technological leadership - while failing to address the problematic Chinese forced tech transfer and IP theft that was the subject of the Section 301 investigation.

As of today, Chinese companies export almost no semiconductors to the U.S. market. In reality, most U.S. semiconductor imports from China are semiconductors designed and/or manufactured in the United States, and shipped to China for the final stage of semiconductor fabrication known

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[1] For more information on SIA, please visit www.semiconductors.org
[2] Official U.S. government trade data, U.S. Department of Commerce, obtained from the U.S. International Trade Commission, Dataweb: https://dataweb.usitc.gov/.
[3] SIA Written Comments to USTR Regarding the Initiation of a Section 301 Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation. October 5, 2017.
[4] Submission of the Semiconductor Industry Association Regarding Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation. Docket Number USTR-2018-0005. May 11, 2018.

as assembly, test and packaging (ATP). This stage in the semiconductor manufacturing process is the least value additive stage of production, comprising about 10% percent of the value of the final product. In addition, ATP does not result in the transfer of valuable IP. Relocating this step in the supply chain would be costly, time consuming, and make our own semiconductor companies less competitive vis-à-vis Chinese and other foreign chipmakers.

In sum, tariffs on U.S. semiconductor imports from China will have no impact on China's industry nor will they address the issues identified in the Section 301 Report. Instead, they will handicap U.S.-based semiconductor firms vis-à-vis our international competitors, threaten U.S. industry market share leadership in China, and raise the cost of manufactured consumer goods to U.S. consumers in the United States.

We therefore request that all semiconductor and semiconductor supply-chain lines be removed from the tariff lists, including all 8-digit HTS subheadings under HS 8542, 8541, and 8486. We remain committed to working with the U.S. government to identify more effective approaches to address China's unfair and discriminatory trade practices.