U.S. Trade Representative (USTR) and Section 301 Committee
"Negative Impacts of Proposed Additional Section 301 Tariffs on the Oil and Natural Gas Industry"

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Members of the Section 301 Committee, thank you for the opportunity to speak with you. My name is Dr. Aaron Padilla, and I am Senior Advisor for International Policy at the American Petroleum Institute (API). With 625 corporate members, API is the only national trade association representing all facets of the oil and natural gas industry, including large integrated companies, as well as exploration and production, refining, marketing, pipeline, and marine businesses, and oilfield equipment manufacturers, service, and supply companies. API and its members support free and fair-trade practices that enhance access to global markets and to global supply chains. While we recognize that enforcement actions may be necessary to curb discriminatory trade practices, API believes that any actions taken under Section 301 should be of a prudent and targeted fashion through multilateral approach with our allies in order to mitigate unintended impacts on the U.S. economy and the conflicts with the administration's other policy objectives for energy.

In recent years, the U.S. oil and natural gas industry has experienced significant growth, and this energy production has allowed for greater U.S. energy security. Furthermore, for the first time in decades, the U.S. also enjoys a competitive advantage in chemicals and plastic production, made possible by affordable domestic natural gas, the US petrochemical industry's primary feedstock. Trade flows in both energy products and in the industrial components used in the manufacturing of oilfield equipment have bolstered the U.S. economy, created jobs for U.S. workers, and supplied U.S. consumers with more affordable energy.

We believe that the proposed Section 301 tariffs on several products in Annex C of USTR's June 20, 2018 Federal Register Notice – and the retaliatory tariffs from China that they will provoke – run counter to the priorities of this Administration to promote US energy production and US energy exports. The U.S. natural gas and oil industry needs access to the industrial components on the Annex C list to build the infrastructure and production facilities necessary to fulfill the Administration's own energy goals. Supply chain cost disruptions and cost increases that would be caused by these additional Section 301 tariffs would likely hurt US energy growth and negatively impact jobs and investments.

The U.S. natural gas and oil industry – especially oilfield equipment manufacturers, service, and supply companies – utilize and rely on imports from China for several products currently on the Annex C list. Our industry has already been harmed by Section 301 tariffs now in effect on approximately 100 products – including pumps, pump parts, motors, rotors/stators, valves, fluids, drill collars, and lithium batteries. In Annex C, the following are the products of most concern for our industry:

- Steam turbines other than for marine propulsion – which are used by engine and power generation manufacturers that supply the natural gas and oil industry (HTS 8406.82.10).
- Bearing housings, plain shaft bearings, motors, power connectors and cables – which are components for pumps used to artificially lift oil and gas from the reservoir during production (HTS 8483.30.90. HTS 8503.00.95, HTS 8544.60.60).
- Electronic integrated circuits and their components – which are used in the increasingly digital oilfield and industrial facilities of the natural gas and oil industry – electronic integrated circuits: processors and controllers, memories, amplifiers, other and parts of electronic integrated circuits and microassemblies (HTS 8542.31.00, HTS 8542.32.00, HTS 8542.33.00, HTS 8542.39.00, HTS 8542.90.00).
- Meters for gas, liquid and electricity supply – which are used extensively across our industry to monitor and measure pressure and volume – gas supply or production meters, liquid supply or production meters, electricity supply or production meters (HTS 9028.10.00, HTS 9028.20.00, HTS 9028.30.00).
- Steel, grating for structures or parts of structures – which is used for ladders and walkways in oil and natural gas facilities (HTS 7308.90.70).
- Lubricating oils, lubricating greases – which are used to prevent abrasion and increase viscosity (HTS 2710.19.30, HTS 2710.19.35, HTS 2710.19.40).
- Additives for lubricating oil – which are used to improve the quality and performance of lubrication oils and greases (HTS 3811.21.00, HTS 3811.29.00).

Our industry relies on these industrial components for the manufacturing of oilfield equipment here in the U.S., some of which is deployed in domestic oil and natural gas production, and the remainder of which is exported to the global oil and natural gas market. Much of the equipment that our industry requires upon requires manufactured inputs, such as these industrial components that originate in China. The operating environment for this equipment demands reliability, and the industry holds itself to exacting product specifications and standards. Relocating the sourcing of certain manufacturing inputs outside of China while maintaining applicable product specifications and standards, if possible, cannot be done quickly.

The industrial components used in the U.S. natural gas and oil industry are a perfect illustration of the reason *not* to place tariffs on intermediate goods or on capital goods like machinery that are also used in domestic production. Putting tariffs on these industrial components hurts U.S. domestic energy production capabilities and could ultimately burden U.S. consumers.

In addition, the U.S. natural gas and oil industry will be harmed by China's retaliation to these additional U.S. Section 301 tariffs. China has announced that it will retaliate with tariffs on U.S. crude oil and refined products. China currently imports from the U.S. roughly 300,000 barrels per day (BPD), which is about 20% of U.S. crude exports. Energy is a bright spot in US-China trade: the balance of trade in natural gas and oil products between the US and China changed from a net deficit of $68M in 2008 to a net surplus of $8B in 2017. Yet today China's imports of crude oil from the U.S. only account for about 2% of its total crude oil imports, which means that with retaliation of US Section 301 tariffs, Chinese importers can easily will likely turn to other countries to meet their crude needs. For example, China could turn to Iran for crude oil that it would no longer import from the U.S. So, the net effect of U.S.

Section 301 tariffs will be to harm U.S. natural gas and oil production at home *and* to drive China away from U.S. energy exports toward supplies from U.S. adversaries.

China also announced retaliatory tariffs on many petrochemical products such as lubricants, additives for lubricants, plastics, and other plastic products. China is the third largest export market for the U.S. chemical industry, behind Canada and Mexico. In addition to retaliatory tariffs that would harm U.S. exports, on the investment side, this Section 301 trade dispute also has the potential to hurt long-term U.S. ventures and investments in petrochemical facilities in China.

Our industry's is significantly concerned about disproportionate harm from Section 301 tariffs and retaliation in contrast to any potential benefits of Section 301 policies. For this reason, API and the US natural gas and oil industry are apprehensive that Section 301 policies are going in the wrong directions. The lack of transparency in the policy making process, as well as the lack of adequate consultation with the U.S. natural gas and oil industry to determine the potential impact on U.S. investments, jobs, and consumers, is especially troubling. Without access to manufactured inputs and dependable supply chains, domestic energy production and U.S. energy exports to the world could suffer. This will create a ripple effect that will impact the U.S. economy, jobs, and, ultimately, consumers. Therefore, we strongly believe that any Section 301 effort to address any discriminatory and market-distorting practices of our trade partners be undertaken only after a more consultative approach with industry at home and coupled with a more multilateral approach abroad with our allies. We also urge the administration to end or limit the extent of Section 301 tariffs imposed on Chinese products used in the U.S. natural gas and oil industry and to approve petitions for product exclusions from U.S. natural gas and oil companies – including oilfield equipment manufacturers, service, and supply companies.