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Oral Testimony for USTR Public Hearing on Proposed U.S. Tariff Action against China under Section 301 of the Trade Act of 1974

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On behalf of chemical manufacturers producing goods in the United States, the American Chemistry Council (ACC) appreciates the opportunity to testify on the Administration's proposed trade action against the People's Republic of China (PRC) under Section 301 of the Trade Act of 1974. We respectfully request that the Administration remove all the chemicals and plastics products from the U.S. List 2, which includes a significant number of products in HTS Chapter 39, three tariff lines in Chapter 27, three in Chapter 34, and two in Chapter 38.

I would like outline two primary reasons why we are making this request.

First, the U.S. chemicals industry has not asked for this protection from imports from China. In fact, these tariffs on $2.2 billion in imports of chemicals and plastics from China will make it more difficult for the U.S. chemicals industry to do business in the United States, to follow through on our $194 billion in announced investments in chemicals manufacturing, and the promise of industry's contribution to the American manufacturing renaissance. Costs in the U.S. will go up, not just for our member companies but the downstream industries that buy U.S.-made chemicals, including farmers and manufacturers. These tariffs will weaken U.S. competitiveness overall and the competitiveness of the U.S. chemicals industry in particular.

Second, retaliation by China is a significant concern for U.S. chemicals manufacturers. Chemicals are used in almost every manufacturing activity here in the United States and chemicals are essential to creating the downstream products that are consumed domestically and exported. As such, China's tariffs will hit the U.S. chemicals industry, not once, but twice, since demand for chemicals by manufacturers that make products containing chemistry will drop.

Due to shale gas and lower costs to produce and export, U.S. chemical manufacturers are competitively advantaged compared to Chinese producers if there are no U.S. tariffs and China does not retaliate. China may have targeted U.S. chemicals exports because it is an area where the United States is poised to grow the most. 54 out of the 114 products on China's List 2 are chemicals, plastics, and plastics products. These products are largely basic chemicals, plastic resins, and some specialty chemicals as well as some finished forms of plastics (e.g. films, sheets, and other plastic products). That China has included these products on its tariff list is a recognition of the competitiveness of the U.S. chemicals industry and the challenge it poses to China's own fast-growing chemicals industry.

China's retaliation against U.S.-made chemicals will make it prohibitive to supply China's large and growing demand for chemicals. China's corresponding list of retaliatory tariffs will impact $5.4 billion in exports of U.S.-made chemicals to China. This will result in U.S. chemical manufacturers moving production to other markets. China is already retaliating against the U.S. tariffs listed in Annex A to the Federal Register Notice. China's List 2 is a clear signal that it will retaliate again if the USTR applies a 25 percent tariff on the products in Annex C. China's retaliatory tariffs will close that market for U.S. chemical manufacturers. Their retaliation through qualitative means and non-tariff barriers will threaten the ability of U.S. chemical manufacturers to operate in China. And China's retaliation will provide opportunities for competing industries in China and other parts of the world to fill U.S. market share.

Thus, the proposed trade action under Section 301 is of fundamental concern to the American Chemistry Council and our members. We strongly urge the U.S. government to rescind and avoid the imposition of tariffs and therefore preempt additional retaliation by China. We support efforts by the Administration to resolve concerns with China, but strongly believe that these long-standing problems should be addressed through constructive negotiation and enforcement at the WTO where possible, rather than through the blunt instrument of tariffs that could make the world's most important economic relationship even more difficult. There is ample evidence that tariffs lead to higher costs for downstream producers, higher prices for consumers, fewer jobs in downstream industries, and less economic growth, investment, and innovation in the United States.

Imposing increased duties on the products in Annex C of the Federal Register notice would not be practicable or effective to obtain the elimination of China's acts, policies, and practices. In fact, these duties, if applied, would cause disproportionate economic harm to U.S. interests, including small and medium-sized enterprises and consumers.

I would like to conclude my testimony by highlighting three stories about how the U.S. tariffs and China's retaliation will impact our members:

- A specialty polymer company with global operations, including manufacturing facilities in China and the U.S. is concerned that the proposed U.S. tariffs will have a significant, negative effect on many U.S. small and medium-sized manufacturers that use imported specialty polymer products in a number of applications, including the paint and coatings industry, the automotive industry, and in various other industrial and consumer applications. The company is also concerned that possible retaliatory tariffs could negatively impact US specialty polymer exports to China, most of which are higher value and require strong intellectual property protections.

- Some U.S.-based ACC members research, develop and manufacture catalysts, catalyst bases, and adsorbents and then export these products to China for use by customers in oil-refining processes. These products would face a 31.5% applied tariff at the border in China (25% tariff plus a general rate of duty of 6.5%), triggering tens of millions of dollars in additional duties. The tariffs diminish the competitiveness of American manufacturers. Foreign competitors would not face these added costs to use global supply chains and thus, become lower cost suppliers. The tariffs will not only increase the costs for chemical manufacturers, they also cut their access to customers in China's market. Chinese and other foreign suppliers will enjoy increased market share and competitiveness.

- One company reports that a number of its U.S.-sourced specialty plastic products are on China's list. The overall direct impact to this company is likely to be into the millions of dollars. It is also worried about the indirect, downstream impact of the tariffs, which they expect to be significant. It anticipates moving the production of these materials to its European or Asian operations.

We have included additional stories in our public comments and anticipate offering more in our public comments for the $200 billion list, which hit the entire spectrum of chemicals and plastics products of interest to the business of chemistry in the United States. I thank you for your time and look forward to your questions.