



August 22, 2018

Section 301 Committee
U.S. International Trade Commission
500 E Street SW
Washington, D.C. 20436
Docket No. USTR-2018-0026

RE: SOCMA Testimony for Hearing on the Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Thank you, Section 301 Committee, for the opportunity to testify today.

The Society of Chemical Manufacturers & Affiliates (SOCMA) is the only U.S.-based trade association solely dedicated to the specialty and fine chemical industry. SOCMA members play an indispensable role in the global chemical supply chain, providing specialty chemicals to companies in markets ranging from aerospace and electronics to pharmaceuticals and agriculture.

Virtually all chemicals of Chinese-origin are listed on tranche 3. Accordingly, SOCMA is increasingly concerned that the proposed additional 10-25 percent tariff on \$200 billion worth of Chinese goods will have a disproportionately negative effect on U.S. specialty chemical manufacturing. As it happens, specialty chemical supply chains are heavily integrated into China.

SOCMA supports efforts by the Administration to resolve long-standing concerns with China. In fact, most of our sectors are driven by innovation and IP. Nevertheless, when combined with the fact that one-fifth of China's latest retaliatory lists are chemicals, these proposed tariffs will place burdens on domestic specialty chemical manufacturers that could prove overwhelming, not to mention leave those that survive at a competitive disadvantage. The U.S. Chamber recently estimated that if the Administration were to extend its farmer aid package to other sectors, chemical manufacturers would need \$960 million, putting U.S. chemical manufacturers as the second-most-affected-sector behind U.S. auto and auto part manufacturers. Accordingly, we ask that all individual 8-digit categories in HTS chapters 28, 29, 32 and 38 (including 3808), be delisted from tranche 3.

My goal today is to communicate three particular aspects of specialty chemical manufacturing in hopes that the committee will more fully understand the specialty chemical value chain and take a hard look at

listed chemicals and future SOCMA comments, which will detail hundreds of individual product lines and whether or not alternative sources exist.

1. Specialty chemicals, as the name implies, are in fact specially made to meet particular purity, quality and performance demands for numerous downstream industries.

Given these rigid quality standards, alternative sources are extremely finite. For most industry sectors, tariffs mean shifting sourcing which results in a rise in the price of imports. For chemicals, this is not always possible. Dissimilar to other industries, chemical manufacturing requires very costly and specialized infrastructure and expertise. Regulatory burdens and the need for significant capital investment also contribute to the inability to shift production. The speed, or lack thereof, by EPA in permit and pollution systems approvals for new sources of ingredients makes for a slow process and in many cases is a non-starter. Also, the highly regulated nature of this industry often requires that changes in raw materials and suppliers receive prior approval from U.S. agencies and other world regulators.

We realize the Administration hopes that protection will encourage domestic producers to diversify, enter new segments and become more competitive. The reality for chemical production though, is that regulatory and market factors, which will be elaborated upon in future SOCMA comments, often dictate otherwise.

2. U.S. chemical manufacturing is a value-added industry in which manufacturers along the value chain must import chemicals they then use to manufacture new chemicals.

To illustrate this point, consider the Miscellaneous Tariff Bill (MTB). This bipartisan legislation provides tariff relief to American companies. Also, since MTB is only applicable to materials that are not manufactured domestically or available in sufficient quantities, passage does not have a negative effect on domestic manufacturers. As the MTB awaits passage in the House, chemicals make up over 1,000 of the roughly 1,700 petitions recommended by the U.S. International Trade Commission (US ITC) for tariff relief. This fact – that over half of cleared MTB petitions are for chemicals – speaks volumes regarding the degree to which chemical intermediates are simply not domestically available.

3. The combined effect of proposed tariffs and Chinese retaliatory tariffs will overwhelm some small- and medium-sized U.S. specialty chemical manufacturers.

Exposure here will depend on the segments which companies focus and their ability to respond to changes in trade policy conditions. Companies with a larger global footprint will be advantaged, while smaller companies will have less reserves to draw on when times get tough, and less ability to deflect higher materials prices or pass along new costs to customers.

Specialty chemistry brings uniquely manufactured substances to market, often through small batch production. Specialty chemical manufacturers thus face proportionately higher business costs as a segment within the chemical industry and face equivalent (or potentially lower) net revenues. Many such firms must also concentrate their operations around one or a relatively small number of facilities since the batch-manufactured products they create are not afforded the benefits of scale enjoyed by bulk chemical manufacturers.

Imagine a short run in which it is impossible to develop domestic production to replace key inputs. For specialty chemical companies that cannot afford a 25% increase, this is tantamount to a literal cutoff of imports.

While we support the Administration's goal to reach zero-tariff trade, imposing heavy taxation on Americans — made worse by retaliatory tariffs — is not the proper method to achieve that aim. We are thankful for the public comment process and support resolution through constructive and continued dialogue before threatened protectionism creates further uncertainty and leads to countries reducing their dependence on U.S.-made specialty and fine chemicals.

Thank you all sincerely for your time today.

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