ORAL TESTIMONY

TO: Section 301 Committee, U.S. International Trade Commission (USITC)

FROM: Matthew Moedritzer
Manager, Legal and Government Relations

DATE: May 17, 2018

RE: **Proposed U.S. Tariff Action against China under Section 301 of the Trade Act of 1974**

The Society of Chemical Manufacturers & Affiliates appreciates the opportunity to testify today.

SOCMA is the only U.S.-based trade association solely dedicated to the specialty and fine chemical industry – a $300 billion industry that is fueling the U.S. economy. Our 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.

SOCMA is concerned that the proposed additional 25 percent duty on products in the Annex to the Federal Register Notice could have a negative effect on U.S. specialty chemical manufacturing because

1. Various listed chemistries are produced exclusively in China;
2. Specialty chemical supply chain modification is particularly burdensome; and most importantly,
3. 40 percent of China's proposed retaliatory list targets chemicals.

SOCMA agrees that the Chinese intellectual property (IP) regime restricts U.S. commerce. In fact, most of our sectors are driven by IP. Nevertheless, SOCMA favors resolution through constructive negotiation before imposing broad based tariffs that could offset positive impacts from the American shale gas revolution and 2017 tax relief legislation.

1. Chemical intermediates from China –

   U.S. chemical manufacturers often procure key raw materials in both domestic and international markets for production of finished chemicals and goods. Increased U.S. tariffs on these raw materials would limit the ability to produce finished goods at competitive manufacturing costs, making it very difficult for U.S. chemical manufacturers to offer a value product at a competitive price globally.

   While several of the 1,333 products on the proposed U.S. tariff list implicate chemicals, some of those chemistries listed are chemical intermediates that are produced exclusively in China. If tariffs are implemented, costs to specialty chemical manufacturers that rely on those inputs could escalate to levels that render domestic manufacturing uncompetitive and in other instances halt or greatly increase the cost of manufacturing for life-saving pharmaceuticals and other specialty chemicals in the United States.

Regarding pharmaceuticals, approximately 90% of all prescriptions written are for generic drugs. For years, downward pricing pressure on generic drugs has precipitated a move to outsource production to other parts of the globe where labor savings can be achieved. India and China have been the primary beneficiary of this movement although quality problems at facilities in India have led to a greater reliance on active pharmaceutical ingredient (API) manufacturing in China. In many cases, Chinese manufacturers have become the sole global supplier of many APIs used in over-the-counter drug products, such as headache and cough and cold remedies.

While these APIs present a major cost factor for all generic medicines, they are by no means the only cost driver. Excipients, binders, coatings and a variety of other specialty and fine chemicals are needed as starting materials in pharmaceutical manufacturing processes. Tariffs on these chemicals will only add to cost factors and will force increases in prescription and over-the-counter retail drug prices, which would adversely affect the Trump administration’s recently announced plan to lower the cost of drug prices. SOCMA therefore asks that these and other specialty chemical intermediates be removed from the proposed list.

2. Supply chain modification –

As before-mentioned, altering specialty chemical supply chains is particularly burdensome because alternative sources are finite, and modification can require regulatory approval. Specialty chemicals have purity and performance demands that require particularized expertise and infrastructure to manufacture. Given the complex and costly process to produce such products, duplicate plants and manufacturing technologies are not readily available.

U.S. chemical manufacturers are then unable to source these chemicals in other regions to maintain an uninterrupted and sustained supply of chemical products to key customers. And since these chemicals are used in applications requiring long qualification periods, such forced changes in material and origin resulting from high tariffs could lead to major interruptions for chemical manufacturing in key sectors.

In the pharmaceutical industry for example, finding suppliers and qualifying new supplier facilities and raw materials can be very expensive and time consuming. The highly regulated nature of this industry requires that all such changes in suppliers receive prior approval from the FDA and other world regulators. Revising or initiating new Drug Master Files and amending Abbreviated New Drug Applications to document these changes can easily cost hundreds of thousands of dollars and take months to years to accomplish. New quality agreements with new suppliers will need to be put into place. FDA reviews, approvals, and inspections will also add to the time it takes to shift production to new suppliers. The time required to make these changes will almost certainly lead to short-term and possibly long-term drug shortages for some of the drugs impacted by the proposed tariffs.

3. China’s retaliatory list –

40 percent of China’s proposed retaliatory list targets chemicals – this is SOCMA’s foremost concern. American chemical manufacturers are the top exporting industry in the U.S., accounting

for $181 billion in 2017, which amounted to 14 percent of all U.S. exports. Also, 30 percent of the more than 800,000 jobs in the U.S. chemical industry are export-dependent.

While specialty chemicals are a sector of this vital industry, our members make the products that improve downstream manufacturing. In fact, over 96 percent of manufactured goods are touched in one way or another by chemistry. Given the chemical industry's heterogeneity, we urge the Administration to consider the compound effects to the specialty chemical industry and its many downstream manufacturing sectors.

If tariffs are implemented or uncertainty continues, there will be less demand for U.S.-made chemicals. Therefore, SOCMA urges the Administration to work with industry and WTO trading partners to coordinate non-tariff strategies to address China's IP theft, forced technology transfers, and industrial policies that restrict U.S. commerce.

These duties, if applied, would cause disproportionate economic harm to U.S. interests, including small and medium-sized specialty chemical manufacturers. Thus, if the 301 list is implemented, before such implementation, SOCMA urges USTR to work with USITC and U.S. Customs, to identify the individual chemical products contained in many of the listed basket-categories, and then reach out to the consumers of such products to be sure that there are reasonable alternatives to China. It is a very difficult task, especially for many of the smaller companies that SOCMA represents, to cross-reference HTS numbers on the 301 list with chemicals that companies are purchasing.

We are happy to see that the Administration recently began what we hope are constructive and sustained negotiations to improve the manufacturing competitiveness of the chemicals trade – an industry that is particularly apt to grow economies and reestablish trust in our societies.

I welcome any questions you may have and thank you sincerely for your time today.