ACC Oral Hearing Testimony

Investigation No. 332-591

Economic Impact of Section 232 and 301 Tariffs on U.S. Industries

Thank you for giving the American Chemistry Council (ACC) and the members it represents the opportunity to present at this hearing. We commend the House and Senate Committees on Appropriations for directing this investigation and appreciate the Commission commencing it without delay.

ACC represents more than 190 companies engaged in the business of chemistry—an innovative, economic growth engine that is helping to solve the biggest challenges facing our country and the world. Our members are the leading companies engaged in all aspects of the business of chemistry, from the largest corporations to the smallest, and everything in between. They are the people and companies creating the groundbreaking products that are improving the world all around us by making it healthier, safer, more sustainable, and more productive. We are committed to fostering progress in our economy, environment, and society. We believe that if America is to remain a country that innovates and competes globally, it must do so with a thriving American chemical industry. Protecting that unique role and promoting our industry's interests drives everything we do

In analyzing the economic impact of the Section 232 and 301 tariffs on U.S. industries, we think it is particularly relevant to look at not just the effects on industries who produce "final" or consumer end-products but on industries who produced intermediate inputs, like chemicals and plastics, used into the production of these products. Such products include essential products like high-capacity batteries, pharmaceuticals, and semiconductors and a variety of products for use in key U.S. industrial sectors such as defense, ICT, transportation, agricultural commodities, and food production. Such products are a focus of the President's February 2021 Executive Order on America's Supply Chains as well as other Administration and Government initiatives on Supply Chain Resiliency and Security. In fact, because of its critical role to so many parts of the U.S. economy, the chemical sector has been identified as one of sixteen "critical infrastructure sectors", defined as "sectors … considered so vital to the United States that their incapacitation or destruction would have a debilitating effect on security, national economic security, national public health or safety, or any combination thereof."[1]

U.S. chemical producers have told us about the effects of these tariffs not just on their production but also on their ability to invest to innovate new products, hire more American workers, and remain competitive globally. In particular, one story concerns a member company that produces a material that is used in the development of many manufacturing and consumer products, from roller skates to tires to farm equipment. This material must first be mixed with a specific chemistry that cures, or hardens, the final product. That essential hardening chemistry is subject to the 301 tariffs and is not produced in the United States; it must be imported. Despite this fact, the vast majority of the material using this chemistry is made in the United States. In fact, the ratio of the chemistry produced in the United States to the chemistry imported is 8:1 (8 parts produced to 1 part imported). Most of the customers that purchase the hardened material are small and medium-sized companies based in the United States. Taxing such vital inputs have raised costs for producers, which had little choice but to pass the costs onto their customers in the form of higher prices. This producer has tried to final alternative suppliers in places like Japan

[1] Presidential Policy Directive 21, https://obamawhitehouse.archives.gov/the-press-office/2013/02/12/presidential-policy-directive-critical-infrastructure-security-and-resil

and Taiwan, but there has been simply not enough capacity to supplant the supply from China. Applying the additional 301 duty to this product has not hurt China – it has hurt U.S. businesses which have no choice but to pay the tariff anyway to maintain the competitiveness of their American made products.

According to an analysis conducted by Trade Partnership Worldwide for ACC, these effects have not just affected individual U.S. chemical companies but the U.S. chemical sector as a whole. More than half of all U.S. chemical imports are intra-company. Not only is this a sign of an efficient supply chain, but it also means that competitiveness of the U.S. chemistry industry is dependent on having a supply of intermediate inputs at reasonable costs. The 232 and 301 tariffs simply increased costs and did not reduce U.S. imports of chemicals from China. In fact, even though **U.S. chemical manufacturers have paid $8.5 billion in tariffs between June 2018 (when the duties were first imposed) and December 2021,** U.S. chemicals imports have been continually *increasing* since June 2018, reaching $35.4 billion during 2021. China now accounts for a *larger* share of U.S. chemical imports in 2021 than in 2017, before the tariffs were first imposed. As tariffs have added to the cost of doing business in the U.S., competitors in other countries (including China) have been advantaged by the imposition of the 301 tariffs on chemicals and plastics. China is the primary source of many valuable inputs to U.S. chemical manufacturing processes, and for which few or no alternatives exist. It would take years, and billions of dollars, to build manufacturing capabilities for these inputs in the United States or other countries. Therefore, U.S. firms have beared the costs of the tariff and (to the extent possible) passed on a portion of those costs to consumers in the form of higher prices. While China continues to buy U.S. made chemicals and plastics due to their high quality, such tariffs have *increased* the competitiveness of China and other countries who did not have to pay such tariffs, providing incentives for such companies to create innovative chemistry and plastic products and build new plants *outside* the United States.

We also asked Trade Partnership Worldwide to analyze the effects of the limited exclusions from the imposition of the 301 tariffs from the United States as well as exclusions from retaliatory tariffs to the 301 tariffs imposed by China. Their analysis showed that **the net benefit for U.S. chemical manufacturers and the downstream companies who use U.S. chemical inputs were several orders of magnitude higher compared to what China gained from such exclusions.** A similar story can be told with U.S. exports of chemicals and plastics to China. Initially, China imposed retaliatory tariffs on about 85% of U.S. chemical exports that initially led to export declines – though exclusions and/or inclusion in the U.S. China "Phase 1" deal mitigated some of these impacts. However, when looking at export trends, the analysis shows that neither retaliatory duties nor inclusion of such products in the U.S. China "Phase 1" deal impacted such trends but, by and large, exclusions from tariffs granted by China did. **Further exclusions of chemical and plastic tariffs from imposition of the 301 tariffs are more likely to *strengthen* U.S, manufacturing, boost exports, and help contribute to the U.S. trade surplus.**

These negative effects affect the entire business of chemistry. U.S. chemistry provides 529,000 skilled good paying jobs—plus over 3.6 million related jobs—that support families and communities across the country. Workers in the chemical industry earn a substantial wage premium compared to the average manufacturing average. The business of chemistry accounts for over 9 percent of U.S. goods exports, among the largest exporters in the United States. **These are not just statistics; these are something we are proud of.** However, as producers of intermediate inputs, ACC and its members' capacity to adapt to the continued imposition of the

301 tariffs on our products without affecting our long-term competitiveness is very limited. The U.S. chemicals sector has been one of the *hardest* hit from the imposition of the Section 301 tariffs industries, affecting almost three-quarters (74%) or $20 billion in U.S. chemicals industry imports. While several sectors saw much higher tariffs overall, tariff rate increases, and/or share of products affected, **chemicals were among the top sectors where most of the 301 tariffs were paid.**

Chemicals are essential inputs into the production of nearly all manufactured goods. As a result, the negative impact of such tariffs on chemicals has been felt across the American economy, including many industrial and agricultural sectors such as defense, information and communication technology, transportation, agricultural commodities, and food production. Many of the Administration's initiatives are focused on increasing supply chain resiliency and promoting domestic production. Keeping tariffs in place when they clearly increase the cost of doing business in the U.S. runs counter to this objective.

In closing, the U.S. chemicals industry is uniquely situated to supply the innovations needed to help fight climate change as well as new capital investment and exports to support job growth around the country. However, the continued imposition of the 301 tariffs puts our competitiveness at risk. Such tariffs are making a bad situation worse by adding to U.S. inflation and regressively taxing U.S. businesses and consumers. The tariffs – and especially uncertainty over the tariffs – are weakening our supply chain resilience. The U.S. is competing for FDI in the chemical industry like never before; such tariffs are clearly not working for the chemicals and plastics sector and are making the United States a less attractive place for jobs, innovation, and plant expansion.

We hope the Commission's investigation will reach similar conclusions and are happy to share more details about our analysis and experience with these tariffs to support the Commission's work.

Thank you for your time and for hearing our testimony.