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The Honorable Katherine Tai
United States Trade Representative
Office of the United States Trade Representative
600 17th St. NW
Washington, D.C. 20508

Re: Request for Comments in Four-Year Review of Actions Taken in the Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (Docket Number USTR-2022-0014)

Dear Ambassador Tai:

On behalf of the Association of Equipment Manufacturers (AEM) and our 1,000 member companies in the construction, agriculture, utility, forestry, and mining sectors, we respectfully submit these comments on the Request for Comments in Four-Year Review of Actions Taken in the Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (Docket Number USTR-2022-0014). The unilateral imposition of tariffs on critical inputs from China initiated four years ago continues to undermine U.S. manufacturing competitiveness and artificially inflate the cost of domestically manufactured equipment used by America's farmers and construction workers.

The equipment manufacturing industry is steadfast in supporting the administration's goals of bolstering U.S. manufacturing and increasing exports. However, as detailed below, the taxes assessed on equipment manufacturers in section 301 tariffs continue to negatively impact the industry's ability to help build, feed, and power the world, and exacerbates an already challenging supply chain and skilled labor environment.

I. <u>Supply Chain Impact</u>

U.S. equipment manufacturing is reliant on global supply chains. Necessary parts and components are sourced from suppliers across the globe and used in domestic manufacturing using American labor. Each piece of equipment utilizes thousands of specialized parts and components unique to the functionality of the equipment. Often, there are limited suppliers of specialized parts, forcing U.S. manufacturers and their global competitors to source their inputs from the same suppliers in the international marketplace.

The U.S. equipment manufacturing sector is not immune to China's unfair trade and investment practices. But the imposition of billions of dollars of tariffs on U.S. manufacturers and farmers has failed to alter China's behavior. Instead, tariffs have artificially raised the cost of manufacturing domestically, harmed U.S. competitiveness, and compounded near record inflation and supply chain disruptions.

In a recent AEM survey of 150 equipment manufacturing companies, nearly all respondents (98 percent) continue to face supply chain issues with more than half of respondents (58 percent) experiencing continuously worsening supply chain conditions. Year to date, equipment manufacturers are seeing an average of 12 percent production loss, and are forecasting a slightly lower, but still significant production loss of 8.2 percent in 2023.

The publicly stated rationale for continuing the section 301 tariffs on U.S. manufacturers has been to force the reshoring of supply chains and manufacturing production back to the United States. However, the two leading disruptions of manufacturing supply chains are workforce shortages and access to intermediate components for production. U.S. manufacturers literally can't hire enough skilled employees to fill current job vacancies. Six-in-ten equipment manufacturers are having issues with workforce recruitment and retention, and while production lead times understandably increased during the pandemic, they have only continued to grow as things stabilized, jumping from an average of 2.42 months in 2019, to 6.92 months in 2022.

There is also not enough access to intermediate components to produce equipment in a timely manner. Limiting U.S. manufacturers' access to critically needed parts and components and making them 25% more expensive to import will not change America's skilled labor shortage, nor increase the availability of intermediate components required to manufacture equipment in the U.S.

II. Lack of Exclusion Process

To make matters worse, there is no permanent exclusion process available to injured domestic manufacturers or workers to petition the government using facts and data in a transparent process to obtain tariff relief on specific products necessary for U.S. manufacturing. This leaves the administration with no way to review tariff exemptions on a case-by-case basis and to grant justified relief to U.S. manufacturers. With no ability to adjust tariff rates on a case-by-case basis, USTR has created a political stalemate that only hurts the U.S. economy and fails to address China's unfair trade and investment practices.

The Administration can combat China's unfair trade and investment practices without needlessly hurting U.S. manufacturers, American workers, and farmers. By establishing a permanent section 301 tariff exclusion process that is transparent, and driven by data and facts, tariffs can be accurately applied or removed on individual products not impacted by China's trade practices. In addition, critical components needed for U.S. manufacturing not produced domestically in sufficient quality or quantity could be regularly examined and open to exclusion.

III. Conclusion

The administration is correct to strengthen and bolster the Committee for Foreign Investment in the United States (CFIUS) to protect the U.S. economy from unfair trade and investment practices by China. However, continuing the section 301 tariffs imposed four years ago on large swaths of the U.S. economy has not worked and is not the answer. We urge the Administration to abandon this failed policy by rolling back the tariffs and pursuing a new and more effective strategy. Thank you for the opportunity to provide these comments on behalf the equipment manufacturing industry. We look forward to the outcome of USTR's review.

Sincerely,

Kip Eideberg
Senior Vice President, Government & Industry Relations
Association of Equipment Manufacturers