



July 1, 2020

The Honorable Chuck Grassley
Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20510

RE: The President's 2020 Trade Policy Agenda Hearings Records, June 17, 2020

Dear Chairman Grassley Ranking Member Wyden:

The Americans for Free Trade coalition, a broad alliance of American businesses, trade organizations and workers united against tariffs, respectfully submits this written statement to include in the public records of the House Ways and Means Committee and Senate Finance Committee hearings on the 2020 Trade Policy Agenda, which took place on June 17, 2020. We appreciate the Committees holding these hearings on this important matter.

Our coalition represents every part of the U.S. economy including manufacturers, farmers and agribusinesses, retailers, technology companies, service suppliers, natural gas and oil companies, importers, exporters, and other supply chain stakeholders. Collectively, we support tens of millions of American jobs through our vast supply chains.

We agree that our trading partners must abide by global trade rules so that American businesses can compete on a level playing field, but we also believe that the tools used to hold trading partners accountable should be strategic, targeted, and serve the best interests of the American people and economy. Accordingly, we support the Administration's efforts to address China's unfair trading practices, including intellectual property violations, forced technology transfer, market-distorting subsidies, and more. We also appreciate the progress made by the "Phase One" agreement with China and lifting a small number of tariffs on Chinese imports. Nevertheless, we disagree with the continued and indiscriminate use of tariffs to achieve those goals and believe that such tariffs cause unnecessary harm to American businesses and consumers while creating little leverage to achieve further concessions. The Administration has committed to keeping the tariffs in place until a "Phase Two" deal with China is reached – a deal that seems less likely with each passing day. Meanwhile, China has lowered its tariffs for competing products from other trading partners to an average of 6.7 percent, which allows them to eat into U.S. shares of China's market.¹ The Section 301 tariffs have sown uncertainty in the world's economy and mistrust with trading partners and have hindered, not helped, the U.S. response to the COVID-19 outbreak. The American economy deserves a better approach.

¹ Peterson Institute for International Economics (June 2019), available at <https://www.piie.com/blogs/trade-and-investment-policy-watch/trump-has-gotten-china-lower-its-tariffs-just-toward#content>.

More specifically, tariffs remain in place on nearly \$370 billion in goods, and it is American businesses, manufacturers, farmers and ranchers, and consumers who pay these taxes – not the Chinese. While the suspension of the List 4B tariffs and reduction in the List 4A tariffs were welcome steps, they fall well short of alleviating the burden that the tariffs place on Americans. In fact, Americans paid \$72 billion in duties in fiscal year 2019 – a staggering 73 percent increase over fiscal year 2018.² \$50 billion of this increase is the direct result of the trade war. For U.S. companies importing components or finished products subject to the tariffs, these figures mean higher prices, job losses and reduced investment. Before the COVID-19 outbreak, the Congressional Budget Office estimated that these increased tariffs would cost the average American household \$1,277 in 2020³ – nearly eliminating any savings enjoyed as a result of the *Tax Cuts and Jobs Act*.⁴ Just recently, the Federal Reserve Bank of New York released a survey finding that “[t]he U.S. trade war with China cut \$1.7 trillion from the market value of listed American firms” and will reduce their investment growth rate by almost 2 percentage points by year end.⁵ **We urge Congress to insist that the Administration lift all punitive China tariffs immediately before any further damage is done to the U.S. economy.**

Until those tariffs are lifted, we urge the Committees to demand that USTR improve the Section 301 product exclusion process and percentage of approvals so that it provides meaningful relief. Ambassador Lighthizer’s remark during the Ways and Means hearing that he “hope[s]” that the exclusion process is “not too lengthy or too difficult” was stunning. As constituents from around the country have noted in prior hearings, letters, and comments, the exclusion process remains opaque, burdensome, and difficult. In fact, there have been numerous reports⁶ regarding the inconsistencies with which the exclusion process has been administered, the opaqueness with which USTR makes decisions on exclusion petitions, and the overall sluggishness of the process. We urge Committees to increase its oversight of the exclusion process and insist that USTR administer the process in a fair, transparent, and efficient manner to ensure that it provides meaningful relief for those bearing the brunt of these harmful tariffs.

We applaud the Committees’ request for the United States International Trade commission study seeking to identify these key products. **As a follow up to the release of that study, we ask for the Committees’ support in urging the Administration to immediately grant product exclusions and eliminate Most Favored Nation (MFN) tariffs for all products – including inputs – needed to respond to the COVID-19 outbreak.** While USTR opened a new comment period for this purpose, the process suffers from the same shortcomings as all previous product exclusion comment periods. In addition, Ambassador Lighthizer shared his view during the hearings that he is “not in favor of reducing tariffs on the things we need” and instead is “far

² CBP Trade and Travel Report, Fiscal Year 2019 , p. 1 (January 2020), *available at* <https://www.cbp.gov/sites/default/files/assets/documents/2020-Jan/CBP%20FY2019%20Trade%20and%20Travel%20Report.pdf>.

³ The Budget and Economic Outlook: 2020 to 2030, p. 33, Congressional Budget Office, *available at* <https://www.cbo.gov/publication/56073#:~:text=>.

⁴ Laura Davison, *Trump’s Tariffs Have Already Wiped Out Tax Bill Savings for Average Americans*, Bloomberg (June 7, 2019), *available at* <https://www.bloomberg.com/news/articles/2019-06-07/trump-s-tariffs-have-wiped-out-most-families-tax-cut-gains>.

⁵ Ben Winck, *The U.S.-China trade war has erased \$1.7 trillion from US companies’ market value, Fed report says*, Business Insider, *available at* <https://markets.businessinsider.com/news/stocks/trade-war-cut-trillion-stocks-market-value-us-federal-reserve-2020-5-1029253690> (June 24, 2020).

⁶ See, e.g., Leticia Miranda, *Amid opaque tariff process, questions arise as to why some companies receive exemptions*, NBC News (February 13, 2020), *available at* <https://www.nbcnews.com/business/business-news/amid-opaque-tariff-process-questions-arise-why-some-companies-receive-n1119071>.

more in favor of increasing tariffs on the things that we need.” That is opposite of the policy we need now and creates little confidence that products needed for the COVID-19 response will receive exclusions from USTR. It also fails to recognize that “[t]rade is not the problem; it is part of the solution.”⁷ As companies now focus on reopening their businesses and ensuring the protection of their workers and consumers, we need to make sure we do not increase the costs of these products now for those who need them the most.

Further, we are deeply concerned with Ambassador Lighthizer’s testimony before the Committees that “from now on the extensions of the exclusions will expire at the end of this calendar year and then we’ll decide what happens after that.” Ambassador Lighthizer further stated that companies “have had a year or, in some cases, two years to make some change in their process so that they don’t come under these cases.” These statements demonstrate a fundamental lack of understanding regarding the complex business decisions that determine where global supply chains are developed and whether they can or should be moved. Hundreds of companies testified during the Section 301 process discussion regarding the difficulty of shifting supply chains, especially in a short period of time. In addition, it shows little regard for the economic uncertainty faced by American businesses because of the COVID-19 outbreak. Rather than create additional uncertainty by extending product exclusions for a few months, **we ask the Committees to insist that USTR grant extensions for at least 12 months.**

We also are concerned that the Administration believes that a complete decoupling from China is possible or in American interests. We appreciate Ambassador Lighthizer’s testimony that a complete decoupling of the U.S. and Chinese economies is not a “reasonable policy option at this point.” However, President Trump tweeted just a day later that “the U.S. does maintain a policy option, under various conditions, of a complete decoupling from China.”⁸ While “decoupling” can mean a range of things, we caution that a forced decoupling from China—or any other country – will harm U.S. companies, American consumers, and the U.S. economy. Instead, **we urge Congress and the Administration to pursue new trade agreements around the globe – including in the Indo-Pacific region—that open new markets to American businesses, manufacturers, farmers and ranchers, and service providers and that leads the world in setting the trade rules for the 21st century.**

As the Committees know, the COVID-19 pandemic has resulted in historic closure of businesses, diminished revenues, and significant financial hardship for American companies and their workers. While the U.S. economy has started to reopen, businesses will continue to face liquidity challenges for some time. To help those businesses weather this financially difficult time, the Administration announced a program to allow the deferral on Most Favored Nation (MFN) duty payments. This move was a welcome step to help American companies stabilize their finances and preserve cash during the unprecedented economic crisis resulting from the COVID-19 outbreak. Duty deferral freed up cash for companies to make investments in personal protective equipment and cleaning supplies, pay critical bills, and in some cases avoid default; however, many companies were not able to avail themselves of the intended relief. To truly fulfill its stated goal, **we ask for the Committees’ support in urging the Administration to: (1) extend the duty deferral policy to cover imports through at least the summer months; (2) apply the policy retroactively; (3) broaden the scope of duties that may be deferred; and (4) modify the hardship test to allow companies in different circumstances to defer duties.**

⁷ Martin Wolf, *The Dangerous War on Supply Chains*, Financial Times (June 23, 2020), available at <https://www.ft.com/content/e27b0c0c-1893-479b-9ea3-27a81c2506c9?63bac0e6-3d28-36b1-7417-423982f60790>.

⁸ <https://twitter.com/realDonaldTrump/status/1273706102023237633>

Finally, we have attached two documents for your reference: (1) AFT's Tariff Misery Index, which demonstrates the economic impact that the Section 301 tariffs are having on the U.S. economy; and (2) a list of recent studies on the economic impact of the tariffs.

As was noted by the Father of Economics, Adam Smith: "There is no art which one government sooner learns of another than that of draining money from the pockets of the people."⁹ But that is just what this Administration has done with these tariffs. Americans have paid more than \$60 billion in tariffs because of the trade war, and these taxes continue to threaten the survival of American businesses already struggling to keep their doors open amid the economic crisis. **The time is now for Ambassador Lighthizer and the Trump Administration to end the tariffs.** We thank the Committees for holding these hearings for the opportunity provide this statement for the record.

Sincerely,

List of AFT Member Associations

⁹ Adam Smith, *The Wealth of Nations*, Book IV, Chapter II, p. 456, ¶ 10 (1776).

AMERICANS FOR FREE ★ TRADE

TARIFF MISERY IMPACT

Tariffs have **cost Americans**
\$50 BILLION
since the trade war began

\$1,277
Cost of trade war to
average American family



Manufacturing has contracted **5 months in a row**,
leading to higher prices and less jobs

0%
of tariffs are
paid for by China

Farmer bankruptcies have **surged**
24%

AMERICANS FOR
FREE ★ TRADE

Source: Americans for Free Trade Tariff Misery Index available at <http://americansforfreetrade.com/tariff-misery-impact/>.

AMERICANS FOR FREE ★ TRADE

Recent Studies on Economic Impact of Tariffs

1. June 2020, Peterson Institute for International Economics: [US-China phase one tracker: China's purchases of US goods](#); Chad Bown
2. May 2020, National Bureau of Economic Research: [The Effect of the U.S.-China Trade War on U.S. Investment](#); Mary Amiti, Sang Hoon Kong, David Weinstein
3. January 2020, National Bureau of Economic Research: [Who's Paying for the US Tariffs? A Longer-Term Perspective](#); Mary Amiti, Stephen J. Redding, David E. Weinstein
4. January 2020, National Bureau of Economic Research: [Rising Import Tariffs, Falling Export Growth: When Modern Supply Chains Meet Old-Style Protectionism](#); Kyle Handley, Fariha Kamal, Ryan Monarch
5. January 2020, Congressional Budget Office: [The Budget and Economic Outlook 2020 to 2030](#)
6. December 2019, Federal Reserve Board: [Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector](#); Aaron Flaaen and Justin Pierce
7. October 2019, Revised December 2019, National Bureau of Economic Research: [The Consumption Response to Trade Shocks: Evidence from the US-China Trade War](#); Michael E. Waugh
8. October 2019, National Bureau of Economic Research: [Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy](#); Alberto Cavallo, Gita Gopinath, Brent Neiman, Jenny Tang
9. June 2019, Peterson Institute for International Economics: [Trump Has Gotten China to Lower Its Tariffs. Just Toward Everyone Else.](#); Chad P. Bown, Euijin Jung, Eva (Yiwen) Zhang
10. March 2019, Revised October 2019, National Bureau of Economic Research: [The Return to Protectionism](#); Pablo D. Fajgelbaum, Pinelopi K. Goldberg, Patrick J. Kennedy, Amit K. Khandelwal
11. March 2019, National Bureau of Economic Research: [The Impact of the 2018 Trade War on U.S. Prices and Welfare](#); Mary Amiti, Stephen J. Redding, David E. Weinstein
12. February 2019, The Trade Partnership, LLC: [Estimated Impacts of Tariffs on the U.S. Economy and Workers](#), Laura Baughman

13. December 2018, National Bureau of Economic Research: [Macroeconomic Consequences of Tariffs](#); Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry, Andrew K. Rose