March 20, 2018

Senator Orrin Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Senator Ron Wyden
Ranking Member
Committee on Finance
United States Senate
221 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Kevin Brady
Chairman
Committee on Ways of Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways of Means
United States House of Representatives
341 Cannon House Office Building
Washington, DC 20515

Dear Chairmen and Ranking Members:

As your committees prepare to conduct hearings this week on the trade policy agenda, we would like to share with you our organization's views about the Administration's Section 301 investigation into China's acts, policies and practices related to technology transfer, intellectual property and innovation.

The National Foreign Trade Council (NFTC) member companies have significant concerns about China's growing use of trade and investment policies, including those designed to promote "indigenous technologies." These practices deny national treatment and create discriminatory burdens that are unreasonable for American companies, innovators and workers.

While NFTC supports efforts to investigate and address these discriminatory practices, the NFTC and its member companies are interested in a strong, multi-pronged effort aimed at improving the ability of U.S. companies to compete in China rather than making things worse. Our observations are directed at this fundamental goal.

The overall focus of the Section 301 investigation should be to bring China to the negotiating table for a meaningful resolution of specific, sector-by-sector issues with the ultimate goal of removing the offending practices and policies. Premature, unilateral sanctions alone are unlikely to achieve this objective. It is critical that the United States work with our allies and major trading partners to identify and outline the specific actions we seek from China, and to devise a strategy to increase pressure in order to guarantee all of our exporters and investors fair treatment in these areas. Multilateral pressure and a consensus with our allies will be key to maximizing leverage over China's practices.

The NFTC is particularly concerned with reports that the Administration is considering immediate imposition of tariffs on up to 100 categories of products including consumer electronics, toys, IT products, furniture and sporting goods, as a potential remedy prior to any coordinated negotiating effort. This runs contrary to the long history of successful use of Section 301 as a carefully managed device to obtain foreign compliance rather than a pretext for import protection.

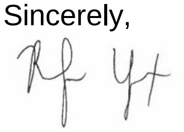
Unilateral imposition of tariffs prior to any meaningful negotiations with China will raise charges that the U.S. has ignored its WTO commitments and will turn the focus from China's unjust behavior to the legitimacy of our own action. This will, in turn, alienate many of the trading partners we are relying upon to support our cause and may embolden China to resist our efforts. It will provoke retaliation by China against major U.S. exports, causing significant harm to key U.S. industries and agricultural interests and increasing the likelihood that competitors from Europe, Japan and elsewhere supplant American businesses, innovators and farmers as suppliers in China's market.

Higher tariffs on a broad range of consumer goods will increase the shopping bill for all Americans, while tariffs on components will harm U.S. productivity in all sectors and U.S. manufacturing exports by making it more expensive and challenging to procure key inputs. At a time when the U.S. economy is enjoying a resurgence thanks to tax and regulatory reform, these tariffs run the risk of stifling our own growth while making our exporters less competitive in the global economy. In combination with the tariff increases already announced on steel and aluminum, these additional taxes will be even more harmful to domestic manufacturers.

Finally, it is reported that the Administration is also considering measures to impose "reciprocal investment restrictions" on Chinese investors in the United States as part of its response under Section 301. Efforts to develop new investment restrictions on China should be the subject of extensive consultations with U.S. companies, as it is vital to consider existing U.S. investment interests that could be adversely affected if the matter is not handled appropriately. Furthermore, as with other possible Section 301 remedies, proposed investment restrictions should not be imposed immediately, but should be used as leverage to obtain the far more desirable goal of fundamental changes in China's investment and IP regimes.

We urge your committees to impress upon USTR the importance of a strategy to address Chinese policies and practices in a manner that will achieve maximum benefits for U.S. trade and investment interests and avoid unintended effects that may cause greater harm than good to U.S. economic interests.

Sincerely,



Rufus Yerxa
President