

US Trade Representative (USTR) and Section 301 Committee
“Negative Impacts of Proposed Additional Section 301 Tariffs on the Natural Gas and Oil Industry”

Oral Testimony of Dr. Aaron Padilla
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Members of the Section 301 Committee, thank you for the opportunity to speak with you. I am Dr. Aaron Padilla, Senior Advisor for International Policy at the American Petroleum Institute. API is the only national trade association representing all facets of the oil and natural gas industry. Our more than 600 members include large integrated companies as well as exploration and production, refining, marketing, pipeline, and marine businesses, and oilfield equipment manufacturers, service, and supply companies.

Section 301 tariffs already levied on more than 100 products – including bearings, drill collars, electronic circuits, fluids, lithium batteries, meters, motors, pumps, pump parts, rotors/stators, steel, turbines, and valves – are hurting the natural gas and oil industry.

And US energy interests are harmed by Sec. 301 tariffs because of retaliation from China against US energy exports. In the nine months from October 2017 to June 2018, before the US first imposed Sec. 301 tariffs on imports from China in July 2018, China received 22% of total US crude oil exports and 4% of total US refined products exports. In the nine subsequent months, from July 2018 to March 2019, China received 3% (down from 22%) of total US crude oil exports and 2% (down from 4%) of total US refined products exports, demonstrating that China can easily turn to other countries, quite possibly US adversaries like Iran and Russia, to meet their needs.

Expanding 301 tariffs would increase the harm to the US natural gas and oil industry, and consequently the US economy, energy security, and energy consumers, as it would not be possible to relocate quickly the sourcing of the following products and still meet the industry’s exacting product reliability specifications and standards:

- Natural barium sulfate (barytes), ground and not ground [*HTS 2511.10.10 and 2511.10.50*]. Barytes (or barite) are a dense mineral commonly used in our industry as a weighting agent for all types of drilling fluids, used to turn the drill bit, remove cuttings, and, critically, maintain control of the well during drilling operations.
- Parts of hand operated and check appliances for pipes, boiler shells, tanks, vats or the like, of iron or steel [*HTS 8481.90.30*]. These industrial components are

used in the US manufacturing of oilfield surface and subsea production equipment.

These three products were previously proposed – and then excluded – from the Section 301 List 3 tariffs, and they should be excluded again from List 4. China is the single largest source of barite available that meets API's standards and required specifications for its use in drilling fluids, and in 2017 China accounted for over 40% of global mine production. The US lacks domestic reserves and quality of barite to meet the drilling fluid industry's demand and has needed to import between 75-80% of the barite domestically used. Trade in barite and in hand operated and check appliances are not examples of the Chinese government's technology transfer and intellectual property policies found to be problematic by USTR.

Since US Lower 48 exports began in February 2016, China is currently the fourth largest importer of US LNG, dropping from third since mid-2018 at the outset of the US-China trade dispute. China has levied 25% retaliatory tariffs on US LNG and has alternative supply options to meet its rising LNG demand– including Russia, Australia, Qatar, Malaysia and others. China's expected retaliation against US crude oil, refined products, and LNG would disadvantage US exports and could cascade into US domestic production. US market share in China for LNG and other petroleum products may be difficult to restore with China turning to alternative suppliers.

The US has departed from a path of free trade, tied to the rules of a multilateral system, to one of increasing protectionism and managed trade where every aspect of the US trade and investment relationship is up for negotiation on a bilateral basis. As an alternative, we strongly believe ongoing US efforts to address China's discriminatory and market-distorting practices should include the following:

1. Resolve quickly the current US-China trade dispute, achieving what is possible within these negotiations to address China's unfair practices, and lifting all Sec. 301 tariffs, so that we can return to the marketplace match where abundant US supply of natural gas and oil flows as exports to meet China's growing demand.
2. Work with US trade partners that are allied with US interests vis-à-vis China to achieve additional solutions through multilateral negotiations and within the WTO and the rules-based global system.
3. Reach an agreement as soon as possible to end all Section 232 import restrictions – both tariffs and quotas – on steel and aluminum, based on other countries' willingness to work in concert with the US to address China's discriminatory practices, such as the US has now agreed with Canada and Mexico.

Thank you for the opportunity to provide this testimony today on behalf of API member companies.

API Supplemental Submission on Barite
Per proposed USTR action of imposing additional Section 301 tariffs

API is re-submitting this supplemental document (after submitting it initially following the Section 301 Committee hearings in August 2018) to accompany API's comment letter submitted on June 17, 2019 and the oral testimony by API's Aaron Padilla on June 25, 2019. This submission re-addresses questions from the Section 301 Committee that were raised in August 2018 with regards to the imports of barium sulfate ("barite" – HTS 2511.10.10 and 2511.10.50) and its significance to the natural gas and oil industry. The intent of this document is to explain what barite is, how the natural gas and oil industry use it, and why it is imported from China.

Barite is a key mineral commodity utilized in water-based drilling fluid/mud used for the development of oil and gas wells. During the drilling process fluids are needed to be pumped into an oil or gas well to lubricate and cool the drill bit and stem, remove excess rock chips, preserve the structural integrity of the well walls, and prevent blowouts if over pressured areas are encountered while drilling. Water-based drilling fluids/muds is the most common system used in drilling and operators rely upon barite to be mixed with fluids and other chemicals to meet the drilling objectives. Barite has a unique combination of high density, softness, and chemical inertness, when mixed with water, make it best suited for this purpose. First, the density of barite makes it an ideal to help stabilize the wellbore and the formation pressures that could damage or contaminate the well. Second, the softness of the mineral allows it to minimize wear and tear on the drill bit and drilling equipment as cuttings are removed from the wellbore. Third, the chemical inertness means that there is no risk of an unanticipated or harmful chemical reaction while the drilling takes place. Not all barite produced is the same and API Standard 13A indicates that barite used in drilling fluids needs to be a minimum density weight of 4.1 grams per milliliter (g/ml).

From a global perspective, China is the single largest source of barite available that meets API's standards and required specifications for its use in drilling fluids and in 2017 China accounted for over 40% of global mine production. India and Morocco accounted for 15% and 10%¹, respectively, of the global production, but the quality of that ore is not always consistent with the specifications needed to meet API drilling standards and would still likely need to be mixed with Chinese barite to be usable. The U.S. lacks domestic reserves and quality of barite to meet the drilling fluid industry's demand and has needed to import between 75-80% of the barite domestically used.² US production has been falling in comparison to world production, since 2013, when the US supplied around 10 percent of world demand. In 2016, US production supplied only 3 percent of the world total.³ Therefore, tariffs on Chinese imports will not push U.S. drilling fluid providers to seek out other sources; but, instead, they will merely be forced to source Chinese barite at a higher cost.

Placing tariffs on imports of barite from China runs counter to a number of national policies including the main purpose for imposing section 301 tariffs. Barite trade is not an example of the Chinese government's technology transfer and intellectual property policies found by the U.S. Trade Representative to be part of China's stated intention of seizing economic leadership in

¹ USGS. "Mineral Commodity Summaries: Barite." 2018; While Iran and Kazakhstan round out the top five world producers, the US cannot receive barite from Iran and Kazakhstan is landlocked and unable to ship large quantities of barite.

² Ibid.

advanced technology as set forth in its industrial plans, such as “Made in China 2025.” Further, as a critical mineral,³ the Administration should be seeking ways to avoid jeopardizing fundamental supply chains that provide a necessary mineral to domestic industry. To that end, imposing tariffs would then run counter to the Administration’s stated goal of increased domestic energy production which has been so beneficial to the economy and jobs. Therefore, we reiterate that, like other products necessary to the domestic development of natural gas and oil, barite should be removed from the list of products subject to the proposed additional Section 301 tariffs.

³ USGS critical mineral citation.