U.S. Trade Representative (USTR) and Section 301 Committee
"Negative Impacts of Proposed Additional Section 301 Tariffs on the Oil and Natural Gas Industry"

Written Testimony of Stephen Comstock
Director
American Petroleum Institute (API)
August 9, 2018

Members of the Section 301 Committee, thank you for the opportunity to speak with you. My name is Stephen Comstock, and I am a Director at the American Petroleum Institute (API) and manage the development of our association's trade policy. With 625 corporate members, API is the only national trade association representing all facets of the oil and natural gas industry, including large integrated companies, as well as exploration and production, refining, marketing, pipeline, and marine businesses, and oilfield equipment manufacturers, service, and supply companies. While we represent a diverse group, there is strong consensus amongst the members to support free and fair trade practices that enhance the industry's access to global markets and to global supply chains.

In recent years, the U.S. oil and natural gas industry has experienced significant growth, and this energy production has been touted by the administration and led to greater U.S. energy security. Furthermore, for the first time in decades, the U.S. also enjoys a competitive advantage in chemicals and plastic production, made possible by affordable domestic natural gas, the US petrochemical industry's primary feedstock. The benefits of trade flows in both energy products and in the industrial components used in the manufacturing of oilfield equipment have cascaded through the U.S. economy by creating jobs for U.S. workers and supplying factories and U.S. consumers with more affordable energy.

API welcomes the opportunity to comment on the proposed additional section 301 tariffs. Broadly, this action, especially when added to 301 positions taken earlier this year, represent continued steps in the wrong economic direction. We understand the need to curb discriminatory trade practices, but our actions should be of a prudent and targeted fashion and implemented through a multilateral approach with our allies. We believe that this approach could better achieve the administration's main trade objective as well as other energy policy objectives while mitigating unintended impacts on the U.S. economy.

Specifically, the U.S. natural gas and oil industry relies upon various industrial components on the proposed tariff list to fulfill the Administration's own energy goals. Supply chain cost disruptions and cost increases that would be caused by these additional Section 301 tariffs would likely hurt US energy growth and negatively impact jobs and investments. Our industry relies on imports from China on many products listed under the additional proposed tariffs and have already suffered harm from the finalized tariffs already enacted by the Administration. These additional products include:

1. Natural barium sulfate covered under HTS codes 2511.10.10 (natural barium sulfate) and 2511.10.50 (natural barium sulfate product in a not-grounded form). This is 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

2. Raw material and component parts used to support the U.S. manufacturing of oilfield surface and subsea production equipment such as:
    a. taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, hand operated, of iron or steel covered under HTS code 8481.80.30 and not elsewhere specified or indicated,
    b. iron or steel articles covered under HTS code 7326.90.86 and not elsewhere specified or indicated,
    c. parts of hand operated and check appliances for pipes, boiler shells, tanks, vats or the like, of iron or steel covered under HTS code 8481.90.30,
    d. taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, other than hand operated covered under HTS code 8481.80.90 and not elsewhere specified or indicated,
    e. other machines and mechanical appliances having individual functions, not specified or otherwise included elsewhere in chapter 84 covered under HTS code 8479.89.94 and not elsewhere specified or indicated,
    f. iron or steel, articles forged or stamped but not further worked covered under HTS code 7326.19.00 and not elsewhere specified or indicated, and
    g. iron or steel (other than stainless), not cast, flanges for tubes/pipes, not forged or forged and machined, tooled & processed after forging covered under HTS code 7307.91.50.
3. Components used in pressure control, completion (bridge plug and packers) and artificial lift equipment necessary for use in well construction and oil and natural gas production operations such as:
    a. speed changers other than fixed; multiple and variable rate speed changers covered in HTS code 8483.40.70,
    b. transmission shafts and cranks other than camshafts and crankshafts covered in HTS code 8483.10.50,
    c. other machines and mechanical appliances having individual functions, not specified or otherwise included elsewhere in chapter 84 covered in HTS code 8479.89.94 and not elsewhere specified or indicated (note, also listed above),
    d. indicator panels incorporating liquid crystal devices (LCDs) or light emitting diodes (LEDs) covered in HTS code 8531.20.20, and
    e. Parts not elsewhere specified or indicated and used solely or principally with spark-ignition internal-combustion piston engines of heading 8407 covered in HTS code 8409.91.99 and not elsewhere specified or indicated.

We recognize that there is a process companies could use to exclude their import from the tariff, but we have had experience from the section 232 process that it is does not work efficiently. There is an overall lack of transparency into the decision process or understanding of the metrics used to make such determinations. Companies seeking an exclusion are seldom given an opportunity to adequately rebut challenges or provide additional facts into the process. This is consistent, though, with the overall lack of adequate consultation with the U.S. natural gas and oil industry to determine unintended consequences of trade actions and the potential impact on U.S. investments, jobs, and consumers.

We should also highlight that these proposed 301 tariffs could negatively impact domestic operations in other ways. In reaction to these additional tariffs, the Chinese government has proposed retaliatory tariffs that specifically target U.S. produced liquified natural gas (LNG). China is the third largest importer of U.S. LNG and those export amounts have been increasing since 2017 to match China's rising demand for natural gas. The US is one of the world's main LNG suppliers but other countries are capable of supplying China – including Australia, Qatar, Malaysia and Russia. This trade dynamic suggests that additional tariffs by the Chinese on U.S. LNG will hurt the US more than it hurts China and naturally incentivize other LNG suppliers to fill this market. This could impact the construction of domestic LNG projects looking to capture Chinese market which could cascade into reductions in domestic natural gas production. The potential loss of markets in addition to impacts on domestic production provide a small example of how destructive trade wars can be on the parties involved.

Of course, eventually, this string of costs, inefficiencies and market destruction begin to directly undermine any economic gains achieved through tax and regulatory reform. The positive effects of these policies drive opportunities to continue to build on the robust expansion of U.S. energy dominance. However, industry needs vibrant supply change and to markets which are compromised by a 301 tariff policy that leads to the limitation of both.

The U.S. seems to be departing from a path of free trade tied to the rules of a multilateral system, to one of managed trade where every aspect of the U.S. trade and investment relationship is up for negotiation on a bilateral basis. We strongly believe that any Section 301 effort to address any discriminatory and market-distorting practices of our trade partners be undertaken only after a more consultative approach with industry at home and coupled with a more multilateral approach abroad with our allies. We also urge the Administration to end or limit the extent of Section 301 tariffs imposed on Chinese products used in the U.S. natural gas and oil industry and to approve petitions for product exclusions from U.S. natural gas and oil companies – including oilfield equipment manufacturers, service, and supply companies.