



AMERICAN PETROLEUM INSTITUTE

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The Honorable Robert E. Lighthizer
United States Trade Representative
Office of the United States Trade Representative (USTR)
600 17th St., NW
Washington DC 20006

Subject: API Comments on Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation; Docket No. USTR-2018-0026

Dear Ambassador Lighthizer,

On behalf of its members, the American Petroleum Institute (API) welcomes the opportunity to respond to the Request for Comments on the Proposed Determination of Action Pursuant to Section 301 regarding China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation. API is the only national trade association that represents all aspects of America's oil and natural gas industry. Our more than 625 corporate members come from all segments of the industry and include large integrated companies, independent exploration and production, refining, marketing, pipeline and marine businesses, along with oilfield equipment manufacturers, service, and supply companies.

API members support free and fair trade practices that enhance access to global markets and to global supply chains. These principles recognize that enforcement actions may be necessary to respond to unreasonable or discriminatory trade practices and that Section 301 of the Trade Act of 1974 provides the Office of the U.S. Trade Representative (USTR) a process to seek to compel other countries to stop such practices. However, we believe that these and other trade remedies must be used in a prudent and targeted fashion to mitigate unintended impacts on policies or broader trade flows.

Recently, the USTR proposed the imposition of a 25 percent additional tariff on approximately \$200 billion worth of Chinese imports. Our member companies are finding that there are a wide range of products used in the domestic energy industry that will be subject to these tariffs:

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, facilitates drill bit operations, 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.

Our industry members utilize these products in the manufacturing of oilfield equipment and in domestic and natural gas exploration and production (including transportation and construction activities). Increasing the costs of these imported products with tariffs will likely hurt energy growth and negatively impact jobs and investments. We believe that the breadth of the impact of the proposed Section 301 tariffs on our industry runs counter to the actions this Administration

has taken to liberalize the development of domestic oil and natural gas resources and could restrict the capacity of the U.S. to enhance our energy security.

In addition, 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.

Furthermore, 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.

API welcomes the opportunity to engage with USTR, the Department of Commerce, and other relevant federal agencies consult with the oil and natural gas industry companies and API to better determine the best course of action for the U.S. pursuant to Section 301 that (a) would increase the likelihood of a positive impact in promoting U.S. economic interests vis-à-vis China and (b) would simultaneously reduce the negative impact on the U.S. oil and natural gas industry domestically.

API appreciates the opportunity to submit its comments on Section 301 to USTR. Again, we encourage caution – accounting for prohibitive cost or logistical burdens for API members, and working with other organizations like API – which we believe will result in sensible policy positions to promote America's energy interests.

Sincerely,



Vice President, Regulatory & Economic Policy
American Petroleum Institute (API)