Computer & Communications
Industry Association
Tech Advocacy Since 1972

June 17, 2019

Ambassador Robert Lighthizer
U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20508

Via Electronic Submission at Regulations.gov

Re: Docket No. USTR-2019-0004

Dear Ambassador Lighthizer:

Pursuant to the request for comments issued by the Office of the United States Trade Representative (USTR) and published in the Federal Register at 84 Fed. Reg. 22,564 (May 17, 2019),[1] the Computer & Communications Industry Association (CCIA) submits the following written comments regarding the proposed increase in tariffs of 25 percent on approximately $300 billion worth of products. CCIA urges USTR not to move forward with tariffs on key digital technologies affecting consumers and small businesses. Instead, the U.S. should continue to engage with China to obtain meaningful commitments to change its discriminatory practices.

The Chinese market has long been hostile to foreign competitors, but in recent years the focus on U.S. information technologies and Internet services has intensified.[2] An influx of anticompetitive laws directed at information infrastructure and cloud services combined with an uptick in Internet shutdowns has business more and more hesitant to enter the Chinese market, costing American firms. China's influence on global approaches to Internet governance also poses a significant threat to the future of digital trade and innovation. CCIA asks USTR to remain vigilant and oppose policies restricting foreign companies' ability to enter the Chinese technology sector, and to promote policies focused on allowing free and open competition within China's borders. Any agreement that neglects these market access issues for U.S. technology exporters would lead to a bad outcome.

---

[1] Available at https://www.federalregister.gov/documents/2019/05/17/2019-10191/request-for-comments-concerning-proposed-modification-of-action-pursuant-to-section-301-chinas-acts.

[2] CCIA has repeatedly criticized these discriminatory practices that are the focus of USTR's Section 301 investigation in regulatory filings. *See, e.g.*, Comments of the Computer & Communc'ns Indus. Ass'n, *In re Request for Public Comments to Compile the National Trade Estimate Report on Foreign Trade Barriers*, Dkt. No. 2018-0029, filed Oct. 30, 2018, *available at* http://www.ccianet.org/wp-content/uploads/2018/10/CCIA-Comments-to-USTR-for-2019-NTE.pdf. CCIA has also testified in Senate hearings about China's internet censorship as a trade barrier.

However, the imposition of tariffs on these same technologies harms the U.S. advantage in innovation that the Section 301 investigation aimed to protect. To illustrate, the Peterson Institute for International Economics released a study last year showing how detrimental a broad imposition of tariffs to address China's current practices would be to U.S. tech competitiveness.[3] The technology industry—responsible for 10 percent of U.S. GDP and more than 15 million American jobs—has already suffered from the tariffs imposed.[4] Industry reports show that the existing tariffs are costing the technology industry up to $1 billion a month.[5] Further research shows that Chinese retaliation is compounding the negative impact to American consumers, illustrating how China is lowering barriers to the market for other countries and diverting trade away from the U.S. market.[6]

There are specific HTS lines on consumer devices in the May 17 Federal Register notice that are immediately concerning and pose a direct threat to U.S. technological leadership. CCIA strongly encourages USTR to remove the following HTS lines from the proposed list: 8517.12.00; 8517.62.0090; and 8471.30.0100. These lines cover ubiquitous digital devices including mobile phones, connected devices such as smart speakers and digital media streaming devices, and laptops and tablets. U.S. consumers and small businesses derive great benefit from these widely-used devices, and increased costs of production due to tariffs are very likely to be passed on to consumers, placing a particular burden on the millions of low-income U.S. users of these devices.[7] Further, these devices are integrated across American industry and increased costs will affect broad sectors from agriculture to manufacturing to healthcare services.

There are a variety of different U.S. producers of mobile phones and other connected devices serving different segments and income brackets in the U.S. market. Firms selling phones and other devices to lower-income consumers face particularly low margins on their sales. Many of

---

[3] Mary E. Lovely & Yang Liang, *Trump Tariffs Primarily Hit Multinational Supply Chains, Harm US Technology Competitiveness*, Peterson Inst. for Int'l Econ. (May 2018), https://piie.com/system/files/documents/pb18-12.pdf.

[4] According to Consumer Technology Association data, tariffs on identified tech products jumped to $1.3 billion in October 2018, over seven times the amount from the same month in 2017. The tech industry paid $122 million more on 5G-related imports alone in October. *CTA: Tariffs Now Cost the Tech Industry $1 Billion a Month*, Consumer Tech. Ass'n (Dec. 14, 2018), https://cta.tech/News/Press-Releases/2018/December/CTA-Tariffs-Now-Cost-the-Tech-Industry-$1-Billion.aspx.

[5] *Id.*

[6] *See, e.g.*, Chad P. Bown, Euijin Jung & Eva Zhang, *Trump Has Gotten China to Lower Its Tariffs. Just Toward Everyone Else*, Peterson Inst. for Int'l Econ. (June 12, 2019), https://piie.com/blogs/trade-investment-policy-watch/trump-has-gotten-china-lower-its-tariffs-just-toward-everyone ("China's retaliatory tariffs put them at a disadvantage relative to local firms, which obviously don't have to pay any border taxes. But reducing tariffs on imports from other countries means US exporters also face an increasing disadvantage relative to competitors in Canada, Japan, Europe, and elsewhere.").

[7] The Internet of Things Forecast, Ericsson (2016), https://www.ericsson.com/en/mobility-report/internet-of-things-forecast (noting that at the end of 2016, there were 400 million connected devices with cellular connections and that Ericsson projected 29 billion connected devices by 2022); Smartphone Users in the US Expected to Reach Over 270 Million by 2022, Internet Innovation Alliance (July 3, 2018), https://internetinnovation.org/general/research-peek-of-the-week-smartphone-users-in-the-us-expected-to-reach-over-270-million-by-2020/ (noting that in 2017, the number of smartphone users in the U.S. reached 224.3 million).

these firms would be unable to internalize a 25 percent surcharge on products. Smaller U.S. firms in these sectors would likely go out of business, while larger U.S. producers would face a choice between wiping out profits on U.S. sales or exiting key segments within this global market, ceding ground to foreign producers in Korea, China, and elsewhere.

U.S. technology producers rely on global supply chains to manufacture these intricate devices, utilizing multiple suppliers in the process. To illustrate, a mobile phone requires many components including cameras, displays, memory, sensors, and printed circuit board assemblies, as well as producer-specific equipment for assembly. The costs and challenges associated with production shifts out of China are significant. For phones and connected devices, U.S. producers have to consider a number of items including, but not limited to, bill of materials costs, labor sourcing and other value-added activities, infrastructure needs, and transportation costs to a new market.

The timeline outlined in the Federal Register notice will not provide adequate time for U.S. firms to restructure and divert their complex production cycles to other countries, especially in areas where companies are already in the middle of the product development cycle. Industry indicates that a lead time of at least 8-10 months is necessary to avoid jeopardizing the current production cycle and necessary to consider alternatives to their existing process. Absent adequate time to restructure supply chains, foreign competitors threaten to surpass U.S. firms in the global market.

In conclusion, CCIA strongly encourages the U.S. not to move forward with this latest iteration of tariffs on imports from China. At minimum, the HTS lines referenced above that cover technology products in everyday use should be removed from the next iteration of tariffs. Escalation will only lead to further retaliation and costs for U.S. citizens and businesses, and the tariffs that have been put in place over the past year have not been effective in obtaining meaningful commitments from China. U.S. and Chinese negotiators must continue to seek real solutions to the legitimate concerns about market access for U.S. technology firms. Addressing real trade concerns with China is critical, but additional tariffs that hurt U.S. consumers and innovation are not the solution.

Sincerely,

Ed Black
President & CEO
Computer & Communications Industry Association
25 Massachusetts Avenue NW, Suite 300C
Washington, DC 20001