Congress of the United States
Washington, DC 20515

July 27, 2018

The Honorable Robert E. Lighthizer
United States Trade Representative
Office of the United States Trade Representative
600 17th Street NW
Washington, D.C. 20508

Dear Ambassador Lighthizer:

We write to you to highlight the importance of the semiconductor industry to the U.S. economy, and to express our concerns with the proposal to impose tariffs of 25 percent on $6.3 billion in U.S. imports of semiconductor devices, semiconductor manufacturing equipment, and related products from China. Doing so will not only fail to encourage China to address forced tech transfer and IP theft, it will adversely impact the semiconductor industry value chain in the United States. We urge you to remove all semiconductor products and semiconductor manufacturing equipment from the final tariff action and, importantly, devise more effective solutions to address China's discriminatory and unfair trade practices in the semiconductor industry.

We share the Administration's goal of maintaining a strong and growing semiconductor industry in the United States. Semiconductors are America's fourth largest export, with a healthy trade surplus in devices of over $6 billion in 2017, including a surplus with China. The industry directly employs approximately 250,000 workers in the U.S., with manufacturing operations in 19 states, and American semiconductor companies command approximately half of the global market.

The semiconductor equipment and materials sector, which provides the necessary tools and specialty materials to semiconductor manufacturers, exported more $24 billion worth of goods globally, and nearly $2 billion directly to China. In fact, the United States is the global leader in producing semiconductor manufacturing equipment and materials, holding about 40 percent of the global market share, with U.S. companies exporting more than 80 percent of what is produced domestically.

We understand that USTR's goal with the proposed tariff action is to bring about policy change in China, and we agree with this goal. However, we fail to see how tariffs on imported semiconductor and semiconductor equipment can achieve that goal. Tariffs on semiconductors will not impact Chinese companies since they export almost no semiconductors to the U.S. market. Instead, these tariffs would harm U.S. companies and innovators. Most U.S. imports of semiconductors from China are designed and manufactured by U.S. firms, largely in the United States, and then shipped to China for final assembly, test and packaging. This step in the semiconductor manufacturing process comprises approximately 10 percent of the value of the final product and does not result in the transfer of valuable IP. Similarly, imports of finished semiconductor tools are essentially non-existent. Rather, imports of relatively low-value/low-IP components are incorporated into high value-added tools made by U.S. equipment makers and sold around the world.

In addition to misdirecting penalties at the U.S. semiconductor value chain, the proposed tariffs fail to provide the U.S. with meaningful leverage to press China to change its behavior. As outlined in your Section 301 report, China is engaged in a colossal $150 billion state subsidy program, ongoing and persistent IP theft, forced technology transfer, state-backed M&A, and application of its anti-monopoly regime for protectionist purposes to build out its domestic chip sector. We agree that it is essential to address these policies but fail to see how tariffs on American chip firms will change these Chinese practices as they will not have any meaningful impact on China's domestic chip industry.

We call on the Administration to explore more effective and targeted policies, such as penalties for state-actors engaging in IP theft, WTO cases, and strengthened multilateral action with our allies to address the transfer of sensitive technology.

Semiconductors and their supporting supply chain are the bedrock of the digital and information economy and a key component of America's technology leadership. Our response to the discriminatory practices found in USTR's 301 report should be targeted, effective, and avoid jeopardizing America's leadership in this important technology. China is the world's largest and fastest growing market for semiconductors and equipment, totaling nearly 32 percent of the global market in 2017 for chips, and for equipment, 17 percent in 2018, and growing to 25 percent in 2019. U.S. policies in this area must be properly focused on expanding access to global markets on fair terms and protecting our IP, while also avoiding harm to our own industry.

We look forward to working with you to remove semiconductors, semiconductor manufacturing equipment, and related products from the 301 tariff action, and to develop tough and effective remedies that are properly tailored to achieve our shared goals.

Sincerely,

Pete Sessions

Pete Sessions
Member of Congress

Zoe Lofgren
Member of Congress

Nanette Diaz Barragan
Member of Congress

Andy Biggs
Member of Congress

Suzanne Bonamici
Member of Congress

Ken Buck
Member of Congress

Barbara Comstock
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Charlie Crist
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Jimmy Gomez
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Jeb Hensarling
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Eddie Bernice Johnson
Member of Congress

Sam Johnson
Member of Congress

Mike Kelly
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Ro Khanna
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Derek Kilmer
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Ron Kind
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Darin LaHood
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Doug Lamborn
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Leonard Lance
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James P. McGovern
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Martha McSally
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Seth Moulton
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