



Before the
Office of the United States Trade Representative
Washington, D.C.

In re:

Section 301 investigation of China's Acts,
Policies, and Practices Related to Technology Transfer,
Intellectual Property, and Innovation.
Notice of determination, request for comments,
and notice of public hearing

Docket No. USTR-2018-0018

COMMENTS OF
INTERNET ASSOCIATION

Internet Association represents over 40 of the world's leading internet companies. IA's mission is to foster innovation, promote economic growth, and empower people through the free and open internet. We support policies that promote and enable internet innovation -- ensuring that information flows freely across national borders, uninhibited by restrictions that are fundamentally inconsistent with the transnational, free, and decentralized nature of the internet.

U.S. internet platforms are a significant driver of the U.S. economy and U.S. exports. Our industry represents an estimated 6 percent of U.S. GDP, totally nearly \$967 billion, and accounts for nearly 3 million American jobs. Many of these jobs depend on internet-driven exports. Digital trade alone has added up to 2.4 million jobs to the U.S. economy.

In China, many U.S. internet companies are either blocked from operating or are severely restricted. China's ongoing intellectual property rights violations, forced technology transfer policies, and state interventions harm U.S. companies, workers, and consumers. Barriers to digital trade in China continue to present significant challenges to U.S. exporters. China is forcing U.S. cloud service providers to transfer valuable U.S. intellectual property, surrender use of their brand names, and hand over operation and control of their business to a Chinese company in order to operate in the Chinese market, effectively barring U.S. cloud service providers from operating or competing fairly in China.

China imposes numerous requirements on internet services to host, process, and manage data locally within China, and places significant restrictions on data flows entering and leaving the country. China actively censors -- and often totally blocks -- cross-border internet traffic. It has been estimated that approximately 3,000 internet sites are totally blocked from the Chinese marketplace, including many of the most popular websites in the world. High-profile examples of targeted blocking of whole services include China's blocking of Dropbox, Facebook, Google search, LinkedIn, Twitter, and YouTube. China's business environment has cost U.S. services billions of dollars in potential business.

Tariffs remain the wrong solution to real problems. The U.S. government should not undertake policies that stifle growth. Internet companies understand that tariffs are hidden, regressive taxes that will be paid by the U.S. consumer in the form of higher product prices and by hurting companies ability to invest in future technology. Instead of punishing China for its trade violations, tariffs will punish hard-working Americans across the country.



Compounding this new list of proposed tariffs is the fact that they have come after the first set of tariffs. IA filed comments during the first set and many of those products remained on the final list. That original list included consumer goods – including goods which incorporate hardware, software, design, and R&D inputs from the United States.

The industry is a bright spot in the American global export market, but this current list is compounding the problems created by the original list. The results will be bad for the American economy. It will cause a decreased global competitiveness for American technology firms and other firms that will ultimately lead to fewer jobs for American workers.

We agree that it's time to address China's unfair trade practices, but we should do so in a way that doesn't punish American families or firms. Instead of unilateral tariffs, the Administration should lead a coalition of countries that share our concerns about China and its unfair trade practices.

The following tariff lines are problematic for internet companies. We respectfully request that USTR remove the following items from the list of products subject to the proposed additional duties:

- **Parts used to manufacture electronic integrated circuits boards including: Diodes (HTS 8541.10.00), Diodes for semiconductor devices (HTS 8541.40.60), Processors and controllers (HTS 8542.31.00), Memories (HTS 8542.32.00), integrated circuits amplifiers (8542.33.00), Electronic integrated circuits (HTS 8542.39.00), Parts of electronic integrated circuits and microassemblies (HTS 8542.90.00), Semiconductors (HTS 8486.20.00), switches/fuses (HTS 8536.30.80)**

U.S. manufacturers of high-technology products who rely on imported industrial inputs to support jobs in the United States will see their input costs increase due to tariffs. Imported hard drives and parts/accessories of printed circuit assemblies are essential components in technology products manufactured in the United States, such as servers. The imposition of tariffs will represent a tax on these U.S. manufacturers, workers, and on the products they build and export. This will potentially make these products more expensive, raising the price of finished goods and negatively impacting U.S. jobs as foreign competitors gain market share.

In addition, information available indicates that about 95% of motherboard parts originate in China. While some other countries have the capability to produce enterprise class motherboard parts, current supply from those countries could not meet U.S. companies' demand.

- **The connectors for optical fiber cables (HTS 8536.70.00) and optical fibers (HTS 9001.10.00)**
Optical fiber cables and the connectors are essential components for the U.S. information and communications technology (ICT) industry. These products are specialized and widely used in data centers, which form the backbone of the internet, wireless applications, and data storage. While often assembled and sourced from China, these products feature key components made in the U.S. The imposition of 25% tariffs will put an upward pressure on the cost of these products for American companies (including manufacturers), and will negatively affect U.S. ICT industries' ability to supply the rapidly expanding data centers and could potentially affect jobs growth related to data centers.
- **Thermometers (HTS 9025.19.80) and motion sensors (HTS 8543.70.45)**
Tariffs on thermometers and motion sensors will negatively impact consumers of connected home devices and other household essentials. These tariffs go against the Administration's stated aim in the product selection process of avoiding goods "commonly purchased by American consumers." Moreover, thermometers and motion sensors are not products targeted in China's Made in China 2025 plan, and not part of China's core industrialization strategy. These products are used as parts of thermostat and home security systems used by millions of American families.



The thermometer tariff line covers a broad range of consumer goods. Tariffs on this line will negatively affect nearly every American household. The common consumer products covered include: outdoor thermometers, window thermometers, kitchen temperature tools like meat thermometers, digital thermometers that parents use for their children, and temperature sensors that are used as part of household thermostat systems. Tariffs will also hurt the retailers who sell these consumer goods. And for temperature sensors, tariffs will hurt the small businesses who install thermostat systems.

The proposed tariffs cover a core part of home security systems that millions of American households purchase to stay safe. Motion sensors are a key input to home security systems, a consumer product that reached \$4.69 billion in U.S. sales in 2017. Tariffs on motion sensors will punish the U.S. consumer, imposing a double burden of higher prices on a consumer necessity, and compromised household safety because consumers will be less able to afford technologically advanced home security systems. Tariffs will hurt the retailers and small business installers who sell and install home security systems by increasing prices and depressing demand.