T 202.974.5200 ▪ F 202.296.7005 ▪ www.plasticsindustry.org

T 202.974.5235 ▪ F 202.296.7243 ▪ www.npe.org

THE SOCIETY OF THE PLASTICS INDUSTRY, INC.

1667 K STREET, NW ▪ SUITE 1000 ▪ WASHINGTON, DC 20006-1620

Statement of
The Society of the Plastics Industry, Inc.
to the
House Ways and Means Committee for the April 14, 2005 Hearing on
United States-China Economic Relations and China's Role in the World Economy

The Society of the Plastics Industry, Inc. (SPI) is pleased to submit comments to the House Ways and Means Committee for the April 14, 2005 hearing on United States-China Economic Relations and China's Role in the World Economy. SPI applauds the Chairman and the Committee for addressing this critical issue and appreciates the opportunity to submit these comments.

Founded in 1937, SPI is the primary plastics industry trade association with over 1,000 members representing all segments of the supply chain -- plastics products processors, manufacturers of machines and molds, and raw material (resin) suppliers. With more than $300 billion in annual shipments and employing 1.4 million workers across the 50 states, the plastics industry is the nation's fourth largest manufacturing segment. SPI's members range from large multinational corporations to small and medium-sized companies, many of which are family-owned businesses, all playing a vital role in the delivery of myriad plastics products that enhance every aspect of our lives.

The emerging consensus that China presents both challenges and opportunities for U.S. manufacturers confirms the importance of a strong and cooperative relationship between the two countries. The United States is China's second largest trading partner, and China has become the fifth largest export market for U.S. manufactured goods. China's rapid domestic growth spurs robust demand for plastics products, creating opportunities for U.S. plastic companies to supply China's large and growing market. However, many of our members who desire to keep their manufacturing operations in the United States have found it difficult to leverage the opportunities of China's vast market because they are forced to compete against low-priced Chinese imports, have lost business to customers that have moved offshore to take advantage of lower Chinese production costs, and confront barriers that hinder export growth. Simply put, we are concerned that the mutually beneficial relationship between the United States and China is increasingly becoming one-sided to the detriment of U.S. manufacturers and workers. China reaps the benefits of an open U.S. market but fails to live up to its international trade obligations. Below, we briefly describe some of the challenges U.S. plastic manufacturers confront in the context of U.S.-China trade relations.

The Plastics Industry's Trade Balance

Over the past decade, the plastics industry enjoyed a large and growing trade surplus, peaking to $6.1 billion in 1997.[1] This surplus has steadily declined in recent years, reaching a record low of $2.3 billion in 2003. While a 16.2% increase in total plastic exports last year helped boost the trade balance to $3.8 billion, the industry still observed some alarming trends. We had a $3.3 billion overall trade *deficit* with China. Only 5.5% of U.S. plastics shipments went to China, but China accounted for 19.5% of plastic imports. Moreover, despite a 9.5% increase in plastic product imports, the plastic products trade deficit reached an all-time high of $4.5 billion. Production of plastics products is the industry segment representing about 60% of shipments and over 85% of industry employment. Thus, the plastics product trade balance is an important measure of the industry's overall trade performance.

China stands out as the trading partner having a significant impact on the plastics products trade balance. Last year, China took in only 3.1% of U.S. exports, but accounted for 29.5% of plastic product imports. Indeed, Chinese plastic product imports have grown by more than 15% *every* year for the past 5 years. This analysis does not account for the enormous quantities of Chinese imports that enter the U.S. market as either part of, or as packaging for other products, such as audio and video equipment, games and toys, furniture, etc. To illustrate the impact of such "contained trade," whereas in 2003, the $3.3 billion deficit in plastic products trade represented only 2.2% of U.S. plastic product shipments, when "contained trade" is accounted for, the deficit increased to $20.2 billion, or 13.3% of industry shipments.[2] Our preliminary analysis of "contained trade" data for 2004 shows that Chinese imports are continuing to rapidly capture significant U.S. market share.

In light of these trade data in which China stands out year after year as a major contributor to the declining plastics trade surplus, it is no wonder that SPI members identify China as a significant influence on the industry's ability to remain competitive both in the United States and abroad.

China's Currency Manipulation

In recent periods, many of SPI's members have experienced a difficult cost-price squeeze that has eroded their profitability. For some, the price pressures have stemmed from low Chinese import prices reflected in the substantially undervalued yuan. As demonstrated above, the U.S. plastics industry has borne a heavy burden from the distorted yuan-dollar relationship,

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[1] *Global Business Trends, Partners and Hot Products*, August 2004. The *Global Trends* report is an analysis of plastic industry trade flows prepared by Probe Economics on behalf of SPI. Unless otherwise indicated, trade statistics cited in this submission are based upon data contained in the *Global Trends* report. For purposes of the trade data analyses, "plastics industry" includes four sectors: resins, plastics products, molds for plastics and plastics machinery. In the case of plastics products, trade data are analyzed for items categorized under HTS 3916 to 3926, consistent with the categorization applied by the U.S. Census Bureau.

[2] "Contained" plastics trade is quantified using an input-output methodology based upon data compiled by the U.S. Bureau of Economic Analysis.

which has effectively made U.S. exports more expensive and Chinese imports cheaper than they otherwise would be if market forces determined China's yuan value. Our members believe that the alarming bilateral trade deficit with China will continue to increase unless China's exchange-rate system reflects fundamental economic conditions. While we are heartened by President Bush and Secretary Snow's recent admonishments to the Chinese government that the time is ripe for exchange-rate reforms, we implore the Committee to continue to press the Administration for concrete results in the near term. The Administration and Congress should immediately pursue all WTO-consistent measures to eliminate the unfair competitive advantage that China enjoys from its substantially undervalued yuan. Even a small increase in the yuan value would curb the lost sales that some U.S. plastics companies have experienced from low-priced Chinese imports.

For example, in 2003, a plastics cutlery and housewares manufacturer lost 14% of his sales valued at $4 million to Chinese imports. The imported products were sold for less than the manufacturer's raw material costs alone. The manufacturer could not understand how this was possible given that the products had to be produced and shipped half way around the world. Lower labor costs in China did not account for this anomaly because the manufacturing process for this particular product is quite automated, even in China. It stands to reason that the undervalued yuan drove the extraordinarily low prices this manufacturer was compelled to compete against.

This is just one example of many illustrating the growing frustration that some plastics companies express when facing the harsh reality of lost sales due largely to the prolonged undervalued yuan. As Jon McClure, a SPI member and President and CEO of ISO Poly Films, Inc., attests: " I've compared my costs to a hypothetical Chinese film producer's costs. And based on average selling prices of imported Chinese film sold in the U.S. market, it is absolutely clear that the low yuan value is only way China can compete head to head with us in films. It's not cheap labor or about being competitive. It's the exchange rate."[3]

Severely Lax Protection of Intellectual Property Rights

The widespread illegal counterfeiting and pirating of U.S. goods extends to U.S. plastics products. Although extremely difficult to track down, several SPI members possess evidence of egregious counterfeiting of their products in China. Some notable examples include:

> A medical device manufacturer makes Class II patented medical devices which are registered with the FDA and sold globally. He discovered that unauthorized copies of his patented products made in China were being offered for sale in Canada.

[3] Mr. McClure has testified and presented this analysis before the U.S.-China Economic & Security Review Commission's January 30, 2004 Field Investigation on China's Impact on the U.S. Manufacturing Base.

A household goods manufacturer found his product for sale in Europe packaged to look like it was produced by his company. The packaging even included a counterfeited "Made-in-the-USA" label. However, the company never sold this product in Europe. It was counterfeited in China.

A molder that makes proprietary stints for the medical imaging market saw his product knocked-off and sold in China. The counterfeited product was of inferior quality, but was sold in China and exported to other markets with less stringent health and consumer safety regulations.

A manufacturer of plastic flashlights with registered design and functional patents, trademarks, and copyrights found blatant counterfeiting of his products in China. The illegal counterfeiters are massively producing these knock-offs and using the company's own logo to market and sell the flashlights around the world. The manufacturer has been unable to stop the illegal counterfeiting in China, but after expending enormous resources was able to ban them from importation in the United States. The company is now having to grapple with the fact that these knock-offs are sold by a major retailer in Canada. However, because Canada does not offer the same protections as the United States to ban imports of counterfeited goods, the manufacturer is hoping to persuade the Canadian retailer to terminate its purchases of the knock-offs.

Despite China's steps to strengthen protection of intellectual property rights, far more work remains to be done in this area, as even the U.S. Trade Representative's Office acknowledged in its 2005 *National Trade Estimate Report on Foreign Trade Barriers*. In fact, it is in China's best interests to stop this criminal activity because the pervasive counterfeiting is not limited to electronic and media devices, but as shown above, extends to plastic products used for medical purposes. Needless to say, counterfeited medical products pose a dangerous threat to public health and safety in China.

For the U.S. plastics industry, the severely lax protection of intellectual property rights is a *de facto* trade barrier that hinders plastics exports to China. The Chinese plastics market offers great opportunities for U.S. plastics manufacturers, who are constantly innovating and producing superior quality products to serve a variety of end-use markets. However, many companies are understandably weary of even attempting to sell their products in China for fear of having their proprietary designs and trademarks illegally ripped off. Equally disturbing is evidence that counterfeited products are exported to the United States and other markets around the world. The time is long overdue for China to institute a far more stringent enforcement regime that extends *to all levels and sectors of its economy*.

We recognize that stronger protection of U.S. intellectual property rights is a top priority for the Administration, and we certainly support the efforts to date to engage the Chinese government on this issue. However, the unrelenting counterfeiting and pirating of U.S. goods calls for greater urgency. For this reason, after completion of USTR's out-of-cycle review of

China's intellectual property regime -- which we believe will evidence the devastating impact on U.S. economic interests -- we encourage the Administration to seriously consider filing a formal WTO complaint against China on this matter. We hope the Committee will join the efforts of industry and other interested parties in supporting this exercise of U.S. rights under the WTO.

Elimination of Remaining High Tariffs on Plastics Industry Products

Upon joining the WTO in 2001, China committed to tariff reductions of about 10%. Although China has implemented many of these tariff cuts, its overall tariff levels remain high, particularly on plastics imports. For example, as a signatory to the WTO Chemical Tariff Harmonization Agreement, China agreed to reduce tariffs on plastic resins. China currently imposes tariffs of 9.7% on most plastic resins even though the Agreement calls for tariffs cuts to 6.5%. China does not intend to reduce these resin tariffs to 6.5% until 2008. Tariffs on polytetrafluoroethylene resin (PTFE), a major input for the production of cookware and other consumer products, remains high at 10%. In addition, on a host of plastic products, such as tubes, pipes, bath items, bags, kitchenware, and construction materials, China imposes a 10% tariff. Extrusion and blow molding machines enter at a 5% tariff rate, and plastic molds at tariffs ranging from 5-10%. When combined with the 17% VAT rate, U.S. exporters outlay significant funds to gain access to China's market.

In contrast, these same plastic products enter the U.S. market at tariff levels *no higher than 6.5%*. Tariffs on imports of machinery and molds are even lower, with most items in these tariff headings entering at 3.1%. The disparity between U.S. and Chinese tariff levels starkly illustrates the relatively less restricted access that Chinese plastics imports enjoy in the U.S. market – a competitive benefit exacerbated by the undervalued yuan.

SPI certainly commends China for the substantial tariff cuts it made when joining the WTO in 2001. However, we strongly believe that further tariff reductions are warranted to help expand U.S. plastics exports to China. Given its competitive position in the worldwide plastics market, China is fully capable of opening its market by cutting tariffs to levels comparable to other major plastics markets such as the United States and the European Union. To this end, SPI will call upon USTR to press for further tariff reductions as part of the non-agricultural market access negotiations in the Doha Round. While we recognize that substantial liberalization of agricultural trade is a top priority, deep cuts in industrial tariffs, particularly among WTO members such as China and India, are needed to obtain a good deal for U.S. manufacturers. We would welcome the Committee's support for our efforts to achieve parity with China on market access for U.S. plastics goods into that market.

Strict Enforcement of U.S. Trade Laws to Combat Unfair Trade Practices

Finally, as the Committee examines the U.S.-China trade relationship, we encourage it to ensure that our trade laws remain effective to combat unfair trade practices. SPI supports strict enforcement of these laws as remedial measures against injurious unfair trade practices. In this regard, we join the National Association of Manufacturers' support for legislation directing the

Commerce Department to apply the countervailing duty statute to China and other countries designated as non-market economies. Despite China's WTO commitment to discipline subsidies, Chinese manufacturers' continued receipt of governmental assistance at the federal, provincial, and local levels, is well-documented. Such benefits confer an unfair competitive advantage to these manufacturers when they sell their products in the global market. We feel strongly that U.S. manufacturers who believe they are injured by such unfair subsidization should have an effective mechanism to remedy their harm. Closing this loophole in our unfair trade laws will send an unequivocal message to U.S. manufacturers that Congress will not countenance any relaxation of the mechanisms to combat unfair trade practices.

Conclusion

China is not the panacea to the many challenges confronting the continued viability of plastics manufacturing in this country. Indeed, exorbitant natural gas and health care costs, a shortage of skilled workers and other pressures may pose an even greater threat to the industry's survival if these domestic impacts are not addressed in the short-term. For our part, SPI has been working on all fronts to secure both domestic and international policies that will guarantee the industry's health for decades to come. Our members have stepped up to the challenge of globalization by continuing to innovate and further increase productivity to compete in the global marketplace. They do not want or need protectionist measures but believe *strongly* that all U.S. trading partners, and particularly, *China*, must be held accountable for their international trade commitments.

SPI appreciates the opportunity to present the plastic industry's concerns regarding China on the record. We look forward to the Committee's continued work in this area and would welcome the opportunity to work further with you on developing mechanisms to address the complex issues arising under U.S.-China economic relations.

Respectfully submitted,

William R. Carteaux
President

Karen Bland Toliver, Esq.
Senior Director, International Trade and Industry Statistics

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