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January 17, 2023

The Honorable Katherine Tai
U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, D.C. 20006

RE: Request for Comments in Four-Year Review of Actions Taken in
the Section 301 Investigation: China's Acts, Policies, and Practices
Related to Technology Transfer, Intellectual Property, and Innovation
(Docket No. USTR-2022-0014)

Dear Ambassador Tai:

The Specialty Equipment Market Association (SEMA) appreciates this opportunity to provide comments to the U.S. Trade Representative (USTR) on the adverse impact of the Section 301 tariffs on the specialty automotive industry and recommend that they be removed. The tariffs were imposed with little warning four years ago and continue to inflict economic harm on the industry.

SEMA represents the nearly \$51 billion specialty automotive industry comprised of about 8,000 mostly small businesses nationwide that manufacture, retail, and distribute custom parts and accessories for motor vehicles. The industry produces performance, restoration, and enhancement parts for use on passenger cars and trucks, collector vehicles, racecars, and off-highway vehicles. Products range from wheels and tires to engines, exhaust systems, lighting equipment, suspensions, truck caps, leather seating, mobile electronics, and more.

Nearly all SEMA members sourcing goods from China have been directly impacted by the tariffs. Most of the auto parts imported by our member companies are covered by the List 3 tariffs. Parts that do not fall under List 3 are included within Lists 1 and 2.

More than 90% of our member companies are small businesses (100 or fewer employees). They have tight operating budgets with business models that did not include unexpected tariffs. The ability to absorb or pass-along the cost of the tariffs has caused economic strife. Four years later, our companies must still cope with the economic uncertainty as to whether the tariffs will be removed, reduced, or extended.

SEMA member companies frequently rely on complex, integrated, and long-standing global supply chains to procure parts and materials. The manufacturers expend considerable time, expertise, and financial resources in identifying, vetting, equipping, testing,

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and validating both domestic and international suppliers. In many instances, there may be no immediate alternative suppliers in the U.S. or other countries for our members' highly specialized products. Further, many SEMA member companies also sell their products in China, so building relationships with suppliers in that country can be an appropriate part of a comprehensive business model.

SEMA is sympathetic to the burdens placed on USTR staff to implement the Section 301 tariffs and process exclusion requests. That said, specialty automotive aftermarket businesses submitted compelling exclusion requests that were denied by the USTR with little explanation beyond "a failure to prove that the tariffs would cause severe economic harm." The requests had demonstrated that there were no alternative suppliers immediately available, the goods would not impact national security and were not a target for Chinese intellectual property acquisition, and failure to provide the exclusion posed economic harm to the member company. Many of the companies seeking exclusions were small, family-owned businesses that had made significant investments in capital, workers, and research and development based on a business model that included a Chinese parts supplier for which there was no immediate alternative. As a result, businesses laid off American workers when forced to cut costs or raise product prices. The USTR's exclusion decisions seemed to mirror the overall failings of the Section 301 tariffs, which were spontaneously imposed without a complete understanding of potential ramifications to U.S. businesses and consumers.

SEMA and its members support efforts to hold China accountable for policies or practices allowing intellectual property theft, forced technology transfers, currency manipulation, and other unfair trade issues. While tariffs can be used as a tool in changing behavior and implementing successful trade pacts, those results have not been observed after four years. Rather, the Section 301 tariffs have been counterproductive and injurious to American businesses, workers, and consumers.

SEMA urges the USTR to remove the tariffs since they have not helped achieve the Section 301 investigation's goal of eliminating China's unfair practices with respect to technology transfer, intellectual property, and innovation. The tariffs have had the opposite effect of making U.S. manufacturers less competitive and preventing American companies from growing. They have also increased costs for American consumers and contributed to inflation.

Thank you for your consideration of these comments. Please feel free to contact me if you have any questions.

Sincerely,



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