THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON

January 4, 2024

Select Committee on the Chinese Communist Party
548 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Gallagher and Ranking Member Krishnamoorthi:

Thank you for your letter describing your concerns regarding China's practices in its automotive industry, and in the electric vehicle (EV) sector in particular.

The automotive industry is critically important to the United States, and I share your strong concerns about China's state-led approach to its economy and its use of unfair policies and practices in this sector, where it seeks to achieve market dominance of China's electric vehicle and battery companies in China and around the world. These concerning policies and practices include state-led industrial plans, use of massive subsidies and financial support, control of the raw materials necessary for the production of EV batteries, and other state-directed support that favor PRC-made EVs and disadvantage EVs made in the U.S. and elsewhere.

The issues you described are a priority to the Administration, and we are clear-eyed that China has developed and implemented a plan to target the EV sector for dominance through a wide and evolving range of non-market based policies and practices applied across the entire EV supply chain. These plans cover the mining and processing of minerals, the production of battery materials and batteries, and the production of the EVs themselves. In light of this, the U.S. response needs to work at all levels of the EV supply chain in order to defend U.S. workers and businesses, correct distortions arising from China's non-market policies and practices, and restore fair, competitive, market-oriented economic conditions. To that end, the Inflation Reduction Act is one key tool for the United States to increase critical investments necessary in clean energy technologies and to promote the domestic adoption of electric transport and EVs while also promoting supply chain diversification away from the PRC.

In addition to the important support provided by the IRA, we need to work with U.S. companies and unions to identify and deploy additional responses to help overcome China's state-directed industrial targeting in this sector. This includes working to ensure that our markets do not reward China's industrial targeting and building out our actions with like-minded partners. As the Select Committee recognizes, we have been working with our allies and partners to develop more resilient supply chains, such as by bringing those who share our values into the IRA and taking effective actions with our G7 and other like-minded partners.[1]

With regard to Section 301 tariffs, as you know, USTR is conducting its statutory four-year review of the tariff actions in the Section 301 investigation of China's unfair policies and practices related to technology transfer, intellectual property and innovation. The statutory review, which I expect we will conclude in the next few months, provides an opportunity for USTR to make a full assessment of the Section 301 tariffs, and their effectiveness in changing China's behavior and counteracting China's unfair policies and practices. This review also provides an opportunity for USTR to consider the effects of the tariffs on the U.S. economy, including consumers, and ways to make the tariffs more strategic.

We must also be aware of the incentives created by the tariffs. For instance, the Section 301 tariffs have promoted diversification of supply chains away from China, thereby protecting U.S. firms from forced technology transfer. As you note, the substantial 301 tariffs have also encouraged Chinese firms to set up operations outside China, whether in the United States or in other jurisdictions. Existing rules of origin have left openings for those Chinese firms to benefit from MFN treatment (avoiding Section 301 tariffs) or preferential treatment under free trade agreements (avoiding MFN tariffs). Given the openness of our market to goods from key trading partners and to foreign investment, we will need to work closely together with the Congress on evaluating and addressing these challenges.

I appreciate your and the Select Committee's attention to this matter. We continue to closely examine China's non-market policies and practices in its automotive industry and other sectors, and I look forward to working with you on effective actions to address these important issues.

Sincerely,

Ambassador Katherine Tai

---

[1] *See G7 Leaders' Statement on Economic Resilience and Economic Security* (May 20, 2023) ("Drawing lessons from recent incidents of weaponizing energy and other economic dependencies, we stand firmly against such behavior. We will enhance resilient supply chains through partnerships around the world, especially for critical goods such as critical minerals, semiconductors and batteries."); *G7 Trade Ministers' Statement* (October 29, 2023) ("We note that a transparent, predictable and sustainable business environment without the prevalence of non-market policies and practices or the threat of coercive economic measures is essential for a fair and productive global economy. We also acknowledge the need for further efforts to build *resilient and reliable supply chains* for critical goods such as critical minerals, semiconductors, and batteries.") (emphasis in original); *Joint Declaration Against Trade-Related Economic Coercion and Non-Market Policies and Practices* (June 9, 2023) ("We also commit to the sharing of information, data and analysis concerning these policies and practices as well as exploring the development of new diplomatic and economic tools that support and reinforce the rules-based multilateral trading system in responding to these challenges.").

cc:

The Honorable John Moolenaar
The Honorable Haley Stevens