Bayer MaterialScience

September 15, 2006

Ms. Barbara Weisel
Assistant U.S. Trade Representative
Office of Southeast Asia and the Pacific
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Delivery by Email: fr0625@ustr.eop.gov

RE: Opposition to Acceleration of Duty Reduction on Polycarbonates Under USSFTA

Bayer MaterialScience LLC
100 Bayer Road
Pittsburgh, PA 15205-9741

Phone: 412 777-2000

Dear Ms. Weisel:

On behalf of the Bayer MaterialScience LLC ("Bayer"), I am responding to the August 11, 2006 USTR *Federal Register* notice (71 *Fed. Reg. 46250*) which asks for comments on the probable economic effect of an accelerated duty reduction on polycarbonates under the United States-Singapore Free Trade Agreement (USSFTA). Bayer, headquartered in Pittsburgh, Pennsylvania with approximately 3,000 employees throughout the United States, is a major U.S. producer of polycarbonates, a major chemical component in the manufacture of a number of information technology devices such as optical discs and computers.

In 2002, Bayer went on record with USTR stating that an immediate or five-year elimination of the 5.8% U.S. duty on polycarbonate resin imports from Singapore, particularly specialty grade polycarbonates, could have a significant adverse effect onBayer, as well as other U.S. producers. Accordingly, Bayer strongly urged the adoption of the maximum 10-year timetable for eliminating the duty on polycarbonate resin imports from Singapore under the USSFTA.

The economic conditions that prompted our request for a 10-year tariff phase-out of the duty in 2002 are equally applicable in 2006. An acceleration of the tariff phaseout on polycarbonates from Singapore would have a detrimental effect on U.S. domestic producers, their workers and on total U.S. trade. This is in contrast with the situation of Chile and Australia, which were granted immediate tariff elimination in their FTAs with the United States. The main difference with these countries is that neither one is a significant supplier of polycarbonate to the United States.

I. Product Description and Uses

Polycarbonate resin, provided for under Harmonized Tariff Schedule # 3907.40.00, is a high temperature, high impact strength, transparent polymer that is used in a variety of industries, including consumer products (e.g., five gallon water bottles), and information technology (e.g., computers and optical discs ("ODs"), including CDs, CD-ROMs and DVDs).

Polycarbonate is the material of choice where transparency, resistance to high temperatures and impact strength are required. Its properties make polycarbonate particularly suitable for the manufacture of optical discs. Singapore has specifically targeted the U.S. optical disc market with its polycarbonate exports.

II. Singapore's Growing Polycarbonate Industry

Teijin Chemicals Ltd., of Japan, is one of the world's most competitive polycarbonate producers and is the only producer in Singapore. Teijin Polycarbonate Singapore Pte Ltd. increased its annual production capacity in Singapore in 2004 by 20,000 tons, to 200,000 tons.[1] This compares to a production capacity of 130,000 tons in 2002. Therefore, in the course of a few years, Teijin increased its production capacity in Singapore by nearly 54%.

A significant percentage of Teijin's polycarbonate production in Singapore is destined for export, such that an accelerated elimination of the U.S. tariff will only invite a shift of this material to the U.S. market. Teijin is a low-cost manufacturer of polycarbonates and does not require the increased competitive advantage of accelerated tariff elimination.

III. U.S. Polycarbonate Producers and the U.S. Market

Bayer produces roughly 30% of the polycarbonate resins manufactured in the United States. Over 500 workers are employed at Bayer's Baytown, Texas facility. An acceleration of the

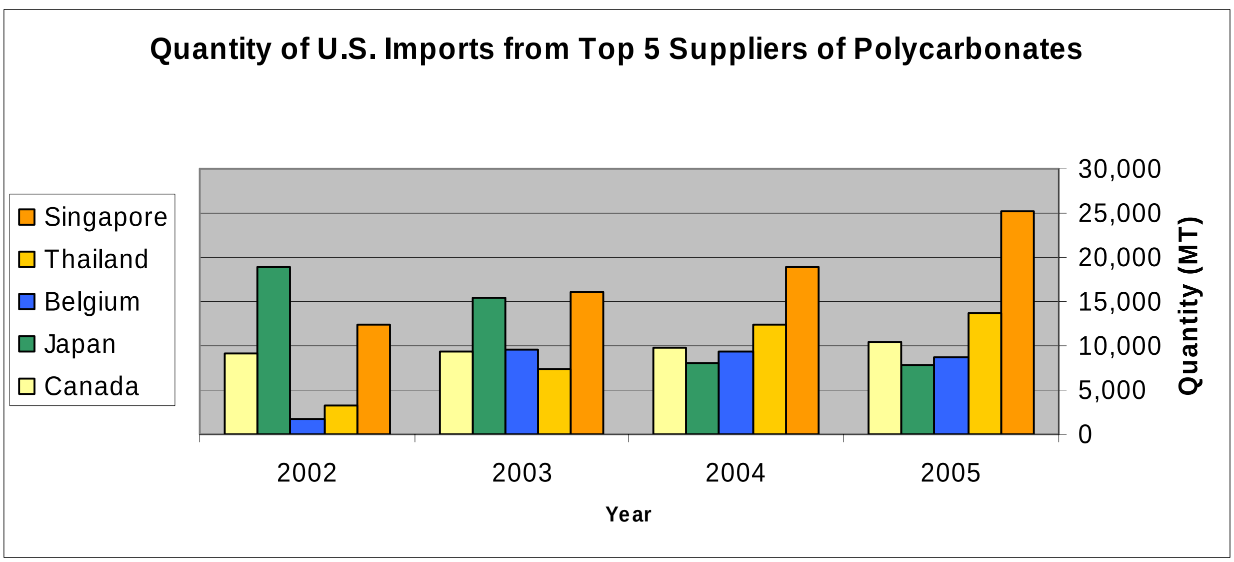
[1] Teijin Annual Report 2005, p. 19

elimination of the U.S. duty on polycarbonate imports from Singapore would directly affect the workers employed at Bayer's Texas facility.

The North American market for polycarbonates intended for optical data storage (ODS) applications is expected to be 108,000 tons in 2006. Of Teijin's 220,000 tons of polycarbonate production capacity in Singapore in 2006, 130,000 tons (or approximately 60%) is ODS-grade polycarbonate. Therefore, Teijin clearly has the capacity to ship higher quantities of this optical-grade polycarbonate to the competitive U.S. market.

IV. <u>Singapore's Rapid Expansion of Exports to the U.S. Market Since 2002.</u>

In 2001, the year before the USSFTA was concluded, Singapore was the 11th largest exporter of polycarbonates to the U.S. market in terms of quantity. At the time, Japan was the largest supplier, exporting approximately 21,000 MT compared to Singapore's 0.6 MT. By 2003, the year the USSFTA was enacted, Singapore was the largest exporter to the United States in terms of quantity, shipping 16,070 MT compared to Japan's 15,500 MT. Last year (2005), Singapore exported over 25,300 MT of polycarbonates to the United States, far surpassing other foreign suppliers.[2]



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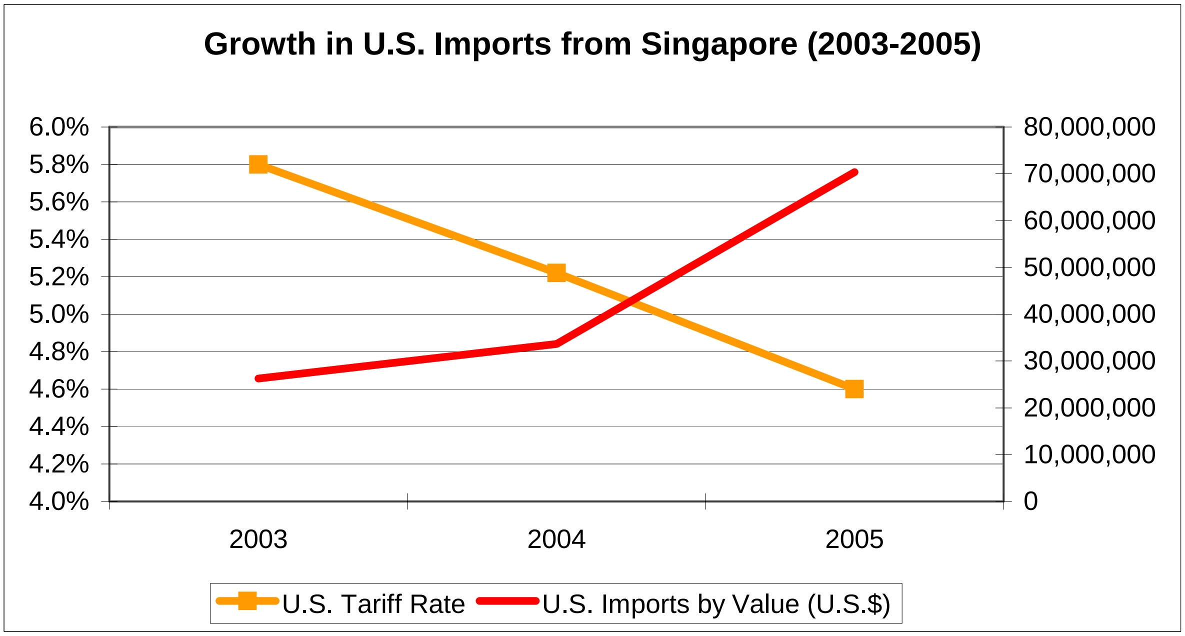
[2] Import data accessed from USA Trade® Online, a service of the Foreign Trade Division of the U.S. Census Bureau.

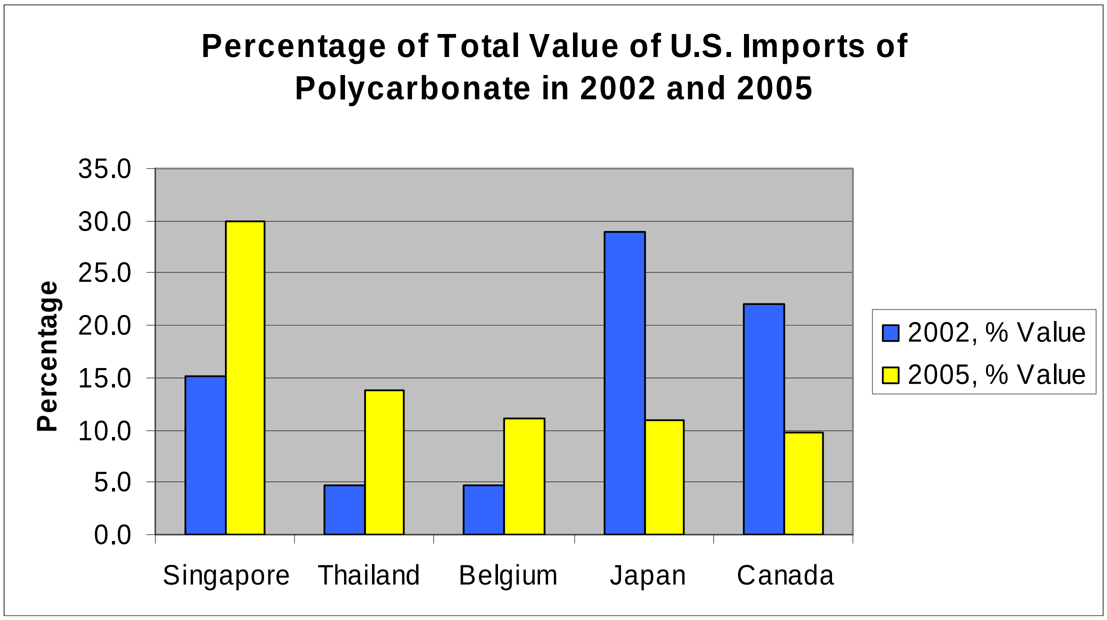
Further evidence of Singapore's dramatic increase in polycarbonate exports to the U.S. market is seen in the following chart[3] showing import values. Between 2003 and 2005, imports from Singapore increased by 168% in terms of value, to a high of 70.4 million in 2005 as the U.S. duty was reduced to 4.6%.



The tremendous growth in polycarbonate exports from Singapore to the United States in the past five years is connected to a large extent to the duty reductions provided under the USSFTA. Based on Singapore's recent export performance, there is no extra incentive needed for Teijin to be competitive in the U.S. market.

An acceleration of the U.S. duty reduction would only further solidify Singapore's position as the dominant source of U.S. polycarbonate imports. In 2002, Singapore supplied approximately 15% of U.S. imports by value. By 2005, Singapore held 30% of the U.S. import market. Thailand, the second largest supplier of polycarbonates to the U.S. market, has seen its exports to the United States grow from $5.5 million in 1999 to over $32 million in 2005 as a result of duty-free preferences under the GSP program. Singapore will undoubtedly increase its market share if the U.S. duty is eliminated immediately.

[3] Import data accessed from USA Trade® Online.



V. Accelerated Duty Reduction Would Worsen Bilateral Trade Deficit

Elimination of the U.S. duty would be one more incentive for Teijin to shift its Singapore exports from other export markets such as China and the European Union to the United States. Tariffs in the EU and China, two major markets for Singapore-produced polycarbonate, are 6.5% and 12.2% respectively. As the U.S. duty is eliminated, the United States will become an even more attractive destination for Singapore's polycarbonate exports in comparison to other markets.

As illustrated in the following chart[4], the U.S. bilateral trade balance with Singapore in polycarbonates has reversed in recent years. Whereas the United States as a net exporter of polycarbonates to Singapore in 2002, in 2005 U.S. imports from Singapore exceeded U.S. exports in terms of volume. In terms of value, imports from Singapore exceeded U.S. exports by over $3.1 million in 2005 ($70.4 million vs. $67.2 million). This is in stark contrast to 2002, when the United States had a $41.5 million trade surplus with Singapore in polycarbonates. The fact that the United States went from a large trade surplus to a deficit in this product in the span of a few years indicates that Singapore does not warrant duty reduction acceleration on polycarbonates.

[4] Import data accessed from USDA Trade® Online.

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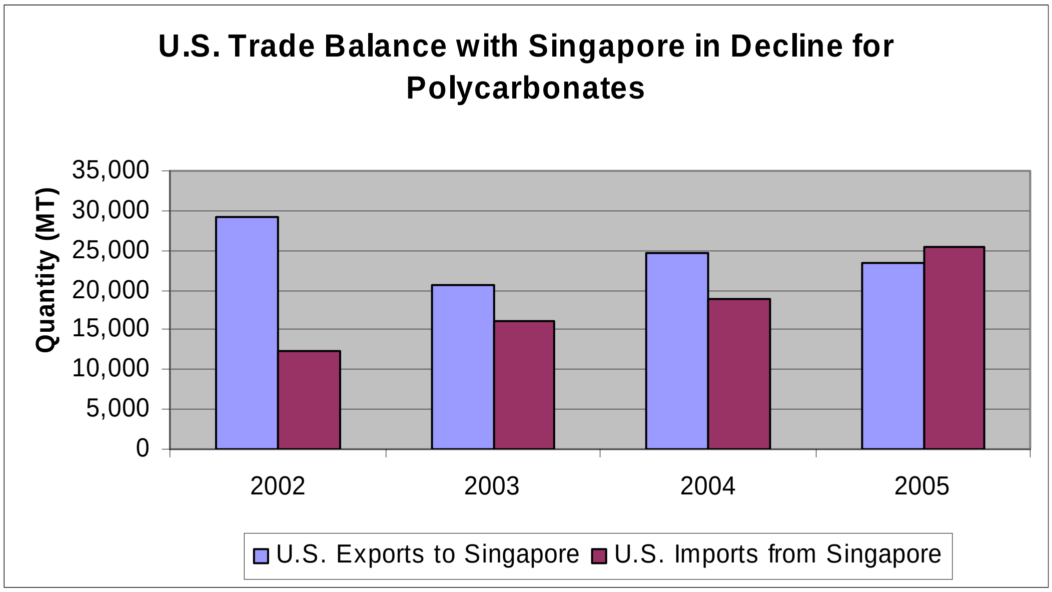

VI. <u>Conclusion</u>

Accelerated elimination of the U.S. tariff would provide polycarbonate producers in Singapore a further cost advantage to compete against U.S. producers and workers, an advantage it clearly does not require to be competitive in the U.S. market. Bayer urges the continuation of the current phase-out schedule for the U.S. duty on polycarbonate imports under the USSFTA. The maximum tariff phase-out will provide U.S. producers the ability to adjust to Singapore's targeting of the U.S. market.

Polycarbonates from Singapore are already eminently competitive in the U.S. marketplace, as is demonstrated by the rapid growth in imports and Singapore's position as the number-one foreign supplier. Teijin's ODS-grade polycarbonates would disrupt the marketplace adjustment if the duty elimination is accelerated. The current tariff elimination schedule continues to be necessary for the U.S. polycarbonate industry to make a smooth adjustment to a zero-tariff market.

On behalf of Bayer, we appreciate the opportunity to provide these comments to USTR and other members of the Trade Policy Staff Committee.

Sincerely,

Roger Rumer
Vice President
Polycarbonate Product Management
Makrolon Polycarbonates