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**Telecommunications Industry Association**

**K.C. Swanson**

**Pre-hearing Testimony**

**Request for Comments**

**Concerning Proposed Modification of Action Pursuant to Section 301:**

**China's Acts, Policies, and Practices Related to Technology**

**Transfer, Intellectual Property, and Innovation**

USTR-2018-0026

August 22, 2018

Thank you for the opportunity to testify at this hearing. The Telecommunications Industry Association, TIA, represents approximately 250 manufacturers and suppliers of communications networks in the United States and around the world.

I'd like to discuss today why imposing tariffs on telecom goods will have a negative impact on the U.S. economy and strategic competitiveness. Most of my comments will focus on products classified under HTS heading 8517, especially 8517.62.

**First, the proposed tariffs target equipment that is essential for transformative technologies such as 5G – and by the way, 5G will enable other network-based innovations like the Internet of Things (IoT) and Artificial Intelligence (AI).** But the bottom line is that all of these highly advanced technologies run on hardware. Taxing the network equipment used to deliver them would handicap America amid a global race for technology leadership.

Take 5G as an example. 5G is viewed as an evolutionary jump forward for the telecom industry, allowing far more data to be transferred at faster speeds. A new generation of mobile technology only comes along once every decade or so, and the United States, China and a few other countries are now jostling to be first in rolling out 5G. The United States has led the world in the current generation of technology, 4G, and reaped very substantial benefits. By one estimate, winning the race to 4G boosted America's GDP by nearly \$100 billion and spurred an 84 percent increase in wireless-related jobs; it also gave rise to an entirely new app economy.<sup>1</sup>

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<sup>1</sup> "How America's 4G Leadership Propelled the Economy," Recon Analytics, April 16, 2018, p. 1, [https://api.ctia.org/wp-content/uploads/2018/04/Recon-Analytics\\_How-Americas-4G-Leadership-Propelled-US-Economy\\_2018.pdf](https://api.ctia.org/wp-content/uploads/2018/04/Recon-Analytics_How-Americas-4G-Leadership-Propelled-US-Economy_2018.pdf)



However, America faces fierce competition in 5G: China has to date far outpaced the United States in its build-out of wireless sites, outspending the U.S. by an estimated \$8 billion to \$10 billion per year since 2015.<sup>2</sup>

Consider that 5G network equipment is expected to begin shipping in 2019. If the U.S. government proceeds with imposing tariffs on products used in 5G networks, the resulting cost increases may artificially depress demand, especially among more budget-conscious American consumers. Higher price tags might prompt smaller companies or schools or government agencies, for example, to consider delaying upgrades or making smaller investments.

Such a result would only serve to strengthen China's hand in the technology sphere and bolster its lead in the 5G race – an outcome clearly at odds with the original goals of the Section 301 investigation.

**Second, tariffs will impede efforts to narrow the digital divide in the U.S., and will hurt consumers by making it more expensive to build broadband internet networks.** The proposed tariffs would hike the costs of core network equipment that is essential to the operation of the internet. This is likely to impede efforts to narrow the digital divide. According to the FCC, over 24 million Americans still lack fixed terrestrial broadband -- a challenge that makes it harder to access good jobs, health care and education.<sup>3</sup> The gap disproportionately affects those living outside cities – around 30% of those in rural areas and 35% of citizens in tribal lands don't have broadband access.

More broadly, tariffs are likely to impact the many American consumers and companies that rely on the internet for everyday work and life activities, as they may now see the costs of that access increase. The tariffs would hit a range of products that play central, behind-the-scenes roles in powering telecom networks. To illustrate how wide-ranging that impact would be, consider just one example -- what happens when you send an email through your smartphone.

- Where this process begins, at the edge of the network, the radio in your smartphone first connects to the radios in a cell tower and in turn to digital baseband units. Or if you are connecting via Wi-Fi, to a wireless access point. According to the third Section 301 tariff list, those radios, digital baseband units, and wireless access points have all been tagged for duties.
- Data is then routed to the core network by gateways, which are on the latest tariff list.

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<sup>2</sup> "5G: The Chance to Lead for a Decade," Deloitte, August 7, 2018, p. 5, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/technology-media-telecommunications/us-tmt-5g-deployment-imperative.pdf>

<sup>3</sup> FCC, *2018 Broadband Deployment Report*, February 2, 2018, p. 22, <https://www.fcc.gov/reports-research/reports/broadband-progress-reports/2018-broadband-deployment-report>



- The information is directed around the internet by routers, which are included on the most recent tariff list.
- Your email will typically be stored in the cloud until needed, which in physical terms means it's sent to a data center. Data centers run on servers that are – once again - on the tariff list.
- Finally, most or all of the devices I've just mentioned include transceivers, optical transmitters, and network interface cards and modules. These, too, are all featured on the tariff list.

I'll stop there, but the point I want to leave you with is that proposed tariffs of up to 25 percent will hit a significant portion of the ICT products fundamental to the functioning of broadband internet.

**To conclude, tariffs on network equipment stand to hinder the U.S. expansion of high-speed internet and next-generation network technologies. In doing so, tariffs will damage our technological and economic competitiveness relative to other countries, and hurt our economy.** For these reasons, we urge the administration to refrain from imposing Section 301 duties on telecom products.