Petition for Rulemaking: Guidance to Registrants Regarding Disclosure of China Supply-Chain Risk

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Submitted by:

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Submitted to:

Securities and Exchange Commission
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Attention: Secretary, Securities and Exchange Commission

Pursuant to Rule 192(a) of the Commission's Rules of Practice, we request that the Commission issue guidance to publicly-traded companies regarding disclosure of the risks from supply chain disruptions that may be caused by an abrupt break in relations between the US and Communist China.

The National Center for Public Policy Research is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. The National Center's Free Enterprise Project works to ensure that publicly-traded companies remained focused on their role of creating societal wealth while staying within the bounds of the law, including respecting their fiduciary obligations. Disclosure of material facts and risks is one of these obligations.

We are submitting this petition because U.S. companies have become inextricably entangled and reliant on Communist China, particularly with respect to their supply chains. As a result, the United States as a whole, especially its economy and standard of living, has become similarly entangled and reliant on Communist China.

In a peaceful world, we would not need to be concerned with the geopolitical consequences of supply chain-dependence on China. But we do not live in that world. Communist China has avowed itself as our geopolitical rival. Its goal is to be the lone global superpower by 2049.

Short of nuclear war, Communist China is not likely a match for the US military. War is risky, costly and often has unforeseeable consequences. So Communist China has developed and is implementing a strategy against the US that can best be described as "fighting without fighting." It is using trade to do this. Over the past few decades, Communist China has, by design, become

a key supplier of many raw and processed materials and finished goods that are vital to our economy and society. In the event of an abrupt break in relations, the US could lose significant-to-total access to the following:

- **Critical Minerals, Rare Earth Elements (REEs), and Processed**

  - Why vital: Essential for defense (F-35 jets, submarines, missiles, radars, smart bombs), electronics, EVs, batteries, renewables, AI/semiconductors, medical devices, and everyday tech. China controls ~70% of global REE mining, ~90%+ of processing/refining and magnet production. US import reliance on China exceeds 60–80% for many (e.g., rare earths, graphite, antimony).

  - Impacts: Supply cuts could halt vehicle production, cripple weapons systems, and raise energy/tech costs. Recent Chinese export restrictions highlight risks to national security and economic resilience.

- **Pharmaceuticals — Active Pharmaceutical Ingredients (APIs) and Starting Materials**

  - Why vital: Underpin US drug supply, including essential medicines for military readiness, public health, and standard of living. China supplies ~60–70%+ of imported antibiotic APIs (and significant shares of other APIs/KSMs); indirect reliance via India is also high.

  - Impacts: Shortages could devastate healthcare, raise costs, and affect defense (e.g., antibiotics for troops). This is a health security vulnerability far beyond dollar value.

- **Electronics, Semiconductors/Components, and Printed Circuit Boards (PCBs)**

  - Why vital: Power consumer tech (phones, computers), industrial machinery, autos, and defense systems. China dominates assembly, PCBs (~50% global), and foundational/legacy chips. US imports billions in phones, computers, and components.

  - Impacts: Disruptions raise consumer prices, slow innovation/economy, and impair military electronics. Embedded in global supply chains.

- **Lithium-Ion Batteries and Battery Materials/Components**

  - Why vital: Critical for EVs, consumer electronics, grid storage, and defense applications. US imports ~70%+ of lithium-ion batteries from China; heavy reliance on Chinese graphite and processing.

  - Impacts: Affects energy transition, vehicle affordability, and tech/devices that support modern living and economic growth.

- **Machinery, Electrical Equipment, and Industrial Inputs (Including Chemicals/Plastics)**

  - Why vital: Support manufacturing, infrastructure, and supply chains across the economy. Includes parts for autos, appliances, and capital goods.

  - Impacts: Broad effects on production costs, jobs, and competitiveness. Keeps standard of living affordable via lower prices on goods.

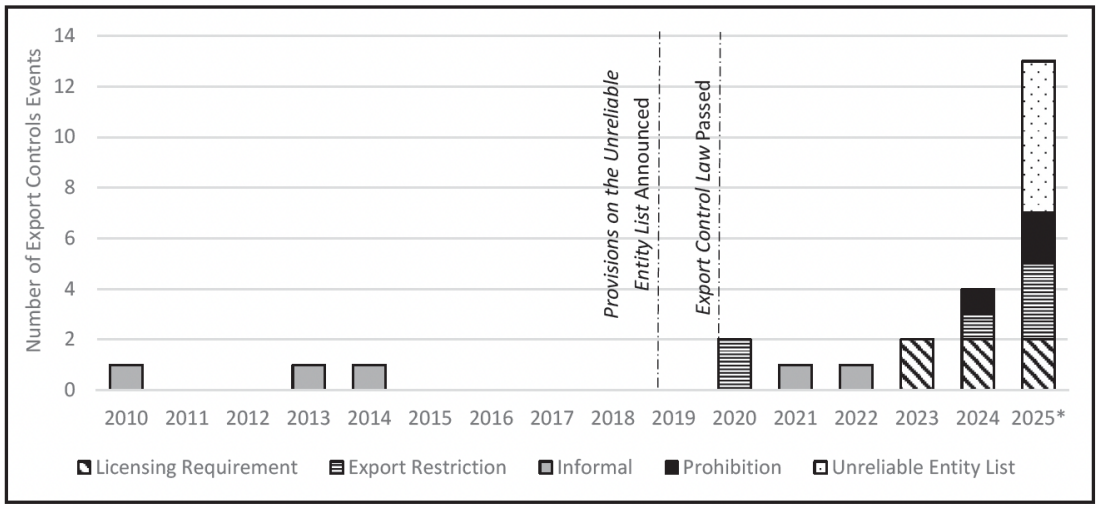
- **Consumer Goods Enabling Affordability (Apparel, Furniture, Toys, Plastics)**

  - Why vital: These maintain lower costs for households, supporting standard of living and reducing inflation pressures. High-volume items like toys/games, furniture, and apparel.

  - Impacts: Less "strategic" than above but vital for economic accessibility; sudden shortages or price spikes hit families hardest.

Supply chain risks that could catastrophically affect US companies and the US as a nation may seem incredible but are a very real possibility. China has, in fact, already implemented export controls. According to the most recent Report to Congress by the U.S.-China Economic and Security Review Commission (USCC), China has significantly increased their use (Figure 1, *below)*.

Figure 1: China's Increasing Use of Export Controls, 2010–2025



Note: *2025 is as of October 10. The number of export control events refers to individual restrictions. Export restriction refers to limits of exports over time (for example, Chinese manufacturers limited sales of drone components to the United States and Europe in December 2024). By contrast, export prohibition refers to a complete ban (for example, of certain materials like gallium, germanium, antimony, and superhard materials to the United States in the same month).
Source: Various.[21]

The USCC ominously states:

> *With the proliferation of licensing requirements, Beijing can request supply chain disclosure and foreign end-user verification, enabling it to map out foreign industrial supply chains and identify future leverage.*

In the event of an abrupt break in relations and with knowledge of "leverage" points, a total embargo could have significant, if not catastrophic, impacts on companies leading to broader societal effects.

The flashing lights of US vulnerability are often reported in the media. Below are some recent examples.

- **China has a near-monopoly on metal critical to modern warfare.** "The U.S. produces zero unrefined gallium, whereas China accounts for 99 percent of global production. Beijing is exploiting this leverage by imposing export controls that inject market friction and uncertainty. China doesn't need a perfect embargo; it only needs to create strategic drag to raise costs, slow production, increase investment risk and force compromises in the U.S. defense industrial base. Over 11,000 components in the Pentagon's defense systems require gallium. With nearly 85 percent of those supply chains depending on a Chinese supplier, the defense industry is at risk." ["Why America's best fighter jets are being made with deadweight," *Washington Post*, April 27, 2026]

- **China aims to control the world by monopolizing manufacturing.** "Many American companies, in their scramble for lower prices, have effectively given away swaths of their practical know-how, machinery, processes and talent to China. They gave President Xi the resources he needed to attain dominance in fields as disparate as rare-earth magnets, solar wafers, steel and pharmaceuticals. The billions China is pouring into building electric cars alone could leave Detroit in the dust. China is building far more than it needs or than importers want. When Western economists criticize the resulting oversupply as inefficient, they're missing the point. China's goal isn't to provide a return to shareholders. It is to control the world by commanding its material production. As the economist Noah Smith observed, 'Profit is not the goal of war.'" ["Tim Cook Was Great for Apple Investors. He Was Not as Great for America" *New York Times*, April 23, 2026]

- **China's new rules for business send America a message: Be our friend or else.** "China is enacting restrictive new rules to make it exceptionally difficult for American companies not just to operate there but also to leave. What kind of message does that send to U.S. firms currently ambivalent about the risks and rewards of doing business with the world's second largest economy?... China's rulemaking State Council announced two new regulations this month specifically aimed at countering the effects of U.S. export controls on certain high-tech exports. One says the government will investigate any

company that 'interrupts normal transactions' or takes what it calls 'discriminatory measures.' The other says that any company that helps enforce U.S. laws outside the U.S. — for example, an American bank freezing a sanctioned Chinese account — can be penalized, including having its assets in China seized. Beyond that, the same U.S. bank could be sued in a Chinese court by a sanctioned company demanding compensation for its losses. A raft of earlier regulations was aimed at stopping foreign private companies from collecting data inside China related to supply chains. That makes it virtually impossible for a U.S. company to gather information about forced labor, as required by U.S. law. The new rules also say that individual company managers, including Americans living in China, can be held personally liable for violating these rules. They can be subject to visa cancellations, travel bans and even criminal charges. This makes it easier to take American managers living in China as hostages." ["U.S. companies don't have to take this," *Washington Post*, April 20, 2026]

- **China dominates vital material processing in order to use it as a weapon.** "Rare-earth metals and the magnets made from them are widely used in a long list of civilian and military applications, from cars to fighter jets. China's position as the leading supplier has given it enormous leverage over manufacturing and leadership in clean energy technologies like electric cars and wind turbines. Companies all over the world depend on Chinese exports of those magnets… In late September 2010, two dozen of the most powerful executives in China's rare-earth industry were summoned to a conference room deep inside China's Ministry of Commerce, a Stalinist building in the heart of Beijing. China was confronting Japan over uninhabited islands north of Taiwan. A senior ministry official gave the executives their orders: no more rare-earth exports to Japan, their biggest market. No extra exports to other countries that might forward supplies to Japan. And not a word was to be spoken publicly about the ban. The embargo was never formally announced, but it forced the Japanese government to compromise on the territorial issue after two months… China is determined to guard its technological lead. Beijing has halted most exports of rare-earth processing equipment. It has also taken away the passports of rare-earth technicians to prevent them from leaving the country with valuable information." ["Inside China's Six-Decade Campaign to Dominate Rare Earths," *New York Times*, December 31, 2025]

- **AI chips depend entirely on Taiwan.** "Taiwan Semiconductor Manufacturing Co., or TSMC, fabricates roughly 90% of the world's most advanced semiconductor chips. Even that striking number vastly understates the U.S. and allied dependency. It can leave the impression that Taiwan's role is mainly a chip-fabrication problem—and that a few advanced chip-making fabs on TSMC's new campus in Arizona can solve it. They can't. Advanced AI systems require leading-edge logic chips but also advanced packaging, high-bandwidth-memory integration, chip-on-wafer bonding, substrate integration, testing, module assembly and server-level integration. Packaging technologies such as CoWoS (chip on wafer on substrate) are what combine advanced chips and high-bandwidth memory into the processors that train and run frontier AI models at scale. Packaging is no longer the back end of the semiconductor business but a front line. This

is why the current debate about 'onshoring' can be dangerously misleading. TSMC's investment in Phoenix is a major achievement. So are new semiconductor investments elsewhere in America and in places like Japan. They will make the U.S. and its allies more resilient. This sort of building should be accelerated. But facilities like the one in Phoenix are a down payment, not a solution. This point was underscored in October, when Nvidia and TSMC celebrated the first Nvidia Blackwell wafer produced at TSMC's Phoenix fab. It was a milestone. But before U.S.-made Blackwell wafers can become usable AI systems, they still must journey back across the Pacific for CoWoS advanced packaging and high-bandwidth-memory integration that can be done only in Taiwan." ["Taiwan Is the Key to AI Dominance," *Wall Street Journal*, May 13, 2026]

- **China could cut off vital supplies of rubber to the US.** "Cutting off global shipping from Southeast Asia would limit America's access to natural rubber, a component in tens of thousands of products essential to the nation's economy and defense. High-performance military jets, for example, must change tires every four to six landings due to extreme temperatures. Synthetic tires aren't a proper substitute, which is one reason the Defense Logistics Agency lists natural rubber on its register of strategic materials. Yet the United States produces none of its own supply, most of which comes from Thailand, Indonesia and Malaysia. Ships arrive here by navigating choke points like the Strait of Singapore and the Strait of Malacca, both susceptible to blockades. Count on China, then, to have been studying the Strait of Hormuz in recent weeks. As the world's largest consumer of natural rubber and the leading producer of finished tires, Beijing knows what a disruption would mean for the U.S economy and military readiness." ["How a Chinese blockade could grind America's military and economy to a halt," *Washington Post*, June 1, 2026]

- **China wants to dominate the US.** "China's leader, Xi Jinping, has spent the last year standing up to President Trump. He met triple-digit tariff with triple-digit tariff and restricted rare earth exports, forcing the Trump administration to back down. Both sides suffered, and so did the global economy. But having made his point, and established China as America's peer, Mr. Xi is now pivoting from retaliation to conciliation. At a summit in Beijing this week that he billed as historic, Mr. Xi offered Washington a choice: Accept China as an equal power with red lines that must not be crossed or continue in a cycle of conflict that risks a global 'Thucydides Trap' of superpower collision… This is a reframing of the relationship, but on Beijing's terms, said Shen Dingli, an international relations scholar in Shanghai. China, for example, could later claim that the Trump administration had violated the tenets of constructive strategic stability by continuing to sell more arms to Taiwan. What China wants is for the China-U.S. relationship to be good and stable, but with the condition that China says, 'I am the one providing the path and I am the one pointing the way,' Mr. Shen said." ["Xi Pitches His Vision for Avoiding a Superpower Collision," *New York Times*, May 15, 2026]

- **China aims to overthrow the U.S. as the world's leading power.** "The U.S. wants 'stability' but China's Communist leader has larger ambitions… The Venus fly trap Mr. Xi

is setting for Mr. Trump is on Taiwan." ["The Stakes of the Trump-Xi Summit," *Wall Street Journal*, May 10, 2026]

- **President Xi threatens war over Taiwan.** "'Taiwan independence and cross-Strait peace are as irreconcilable as fire and water,' Xi said. 'Safeguarding peace and stability across the Taiwan Strait is the biggest common denominator between China and the U.S.'" ["Xi's Taiwan Warning to Trump Highlights Tensions in Beijing Summit," *Wall Street Journal*, May 14, 2026]

- **Treasury Secretary Scott Bessent underscores the problem.** "Trade policy, industrial capacity, and national security are inseparable. And to allow foreign dependencies to degrade any one of those domains is to allow them to define America's future." [X post, May 29, 2026]

The Commission has issued previous guidance to publicly traded companies about doing business in China – in 2020, 2021 and 2023 – but none of this guidance addressed the contemplated scenario of an abrupt break in relations and its supply chain consequences.

Current disclosures of the risks of reliance on China are uniformly vague, inadequate and/or inconsistent. Understandably, perhaps, businesses are reluctant to disclose the details of the very material and significant risks of a break in relations with China. But reluctance does not excuse compliance with the disclosure requirements.

Moreover, both investors and government officials are being left in the dark. Investors can't fully comprehend their portfolio risks and policymakers can't fully comprehend the implications of their potential policy options.

We are asking the Commission to take action as soon as possible under its existing regulatory powers to remedy this situation. Companies, investors and government officials cannot afford to bury their heads in the sand about worst-case supply chain risks with Communist China. Please let us know if you need more information.

Sincerely,

Steve Milloy

Steve Milloy
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