ALLIANCE FOR american manufacturing

TESTIMONY OF SCOTT N. PAUL
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BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
HEARING ON EFFECTS OF TARIFF INCREASES
ON THE U.S. ECONOMY AND JOBS
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Chairman Brady, Ranking Member Neal, and members of the Committee, on behalf of the Alliance for American Manufacturing (AAM), thank you for the opportunity to testify at today's hearing on the *Effects of Tariff Increases on the U.S. Economy and Jobs.*

The Alliance for American Manufacturing is a non-profit, non-partisan partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers. Our mission is to strengthen American manufacturing and create new private-sector jobs through smart public policies. We believe that an innovative and growing manufacturing base is vital to America's economic and national security, as well as to providing good jobs for future generations. AAM achieves its mission through research, public education, advocacy, strategic communications, and coalition building around the issues that matter most to America's manufacturers and workers.

There's no disagreement that China cheats. So, then, the only question is, do we continue to ignore China's cheating or do we finally act decisively to stop it?

The only progress the U.S. has ever made with serial trade cheats has been the result of extraordinary pressure applied by Congress and the Administration, including, but not limited to, the threat of tariffs. Now is not the time for Congress to demonstrate to the governments of China, Russia, or other mercantilist nations that our resolve is anything less than strong and unified.

The past 20 years of seemingly endless dialogue with China and other nations show that polite requests to curtail state-driven industrial overcapacity or to refrain from forced technology transfers and joint ownership partnerships in exchange for market access do not yield meaningful results. China is not holding up its end of the bargain, at the WTO or via its bilateral relationships, and kicking the can further down the road is simply not a smart trade policy strategy. Meanwhile, on steel, the United States has for years worked at the OECD and for the last two years at the Global Forum on Steel Overcapacity to address these serious problems and achieve enforceable multilateral disciplines, but these efforts have not produced meaningful results and we cannot afford to wait any longer.

As time has passed, our bilateral trade deficit with China has surged to unthinkable levels. The theft of our intellectual property has inflicted serious injury and dampens our future economic outlook. China's industrial overcapacity has spread like a virus throughout global markets, putting at risk our ability to produce essential materials like steel and aluminum for our national security and domestic preparedness requirements. Regrettably, our trading partners have refused to act.

The Alliance for American Manufacturing (AAM) supports the administration's recent imposition of tariffs on steel and aluminum under Section 232 of the Trade Expansion Act of 1962 to defend our national security capabilities. We also support the intention to impose tariffs under Section 301 of the Trade Act of 1974 to protect our intellectual property. We view the threat or imposition of tariffs as a necessary step to achieving real progress, which includes reforming anti-competitive practices and reducing market-distorting behaviors.

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Returning to a posture of "endless dialogue" with China simply will not work. And, withdrawing the threat of tariffs without achieving results would be tantamount to waving the white flag of trade surrender – signaling to China and other trade cheats that there will be no consequences for their non-market actions that harm our economy. If a negotiated multilateral solution with specific disciplines and automatic enforcement provisions can be agreed to, then, and only then, we should look at lifting the tariffs. Otherwise, we are simply abandoning the most effective leverage we have had in years.

U.S.-China trade relationship is on an unsustainable path. Since Beijing's 2001 entry into the World Trade Organization (WTO), the U.S. bilateral goods trade deficit with China has more than quadrupled, from $83 billion in 2001 to a record $375 billion in 2017. Too often, the impact of this surging U.S-China trade deficit on U.S. companies and American workers has been overlooked or even characterized as a positive development. Our communities have shed more than 54,000 manufacturing facilities. A staggering 3.4 million jobs, largely in manufacturing, have been lost because of this massive trade imbalance. Each state and every congressional district in the United States has experienced lost jobs. And the losses extend into nearly every sector of the economy, ranging from computer and electronic parts to textiles and apparel, furniture, steel, aluminum, and other capital-intensive sectors.

Steel and aluminum are vital to our economic and national security. Years of predatory trade behaviors by China and many other countries threaten America's ability to produce steel and aluminum for our national security interests, as well as the critical infrastructure that keeps us safe here at home. Global excess steelmaking capacity has reached 700 million tons, more than seven times annual U.S. production. Since 2000, China has added nearly a billion tons of steel capacity – a 660 percent increase. And despite repeated promises to make reforms, China continues to increase production beyond what its own market or the global market can consume.

The flood of low-priced imports in the world market have ended up here in the United States, wreaking havoc on our companies and workers. Ten major steel-producing mills have closed in the United States since 2000. America's ability to produce electrical steel (GOES) and oil country tubular goods (OCTG) for our energy infrastructure is threatened; a steel mill that produces armor plate to protect our service men and women from IED attacks in Iraq and Afghanistan recently reduced operations; and, domestic steel mills are operating at just 75 percent capacity in 2018, far below the levels necessary to turn a profit and make investments in equipment and workers.

Meanwhile, Chinese aluminum capacity increased by 1,200 percent from 2000 to 2015. Since 2012, aluminum imports from non-North American sources are up over 95 percent, while U.S. production has declined by more than 60 percent. There is just one remaining operational producer of high purity aluminum necessary for defense applications including the F-35, F-18, C-17, and next-generation military vehicles.

In 2000, there were 23 domestic aluminum smelters, but the import crisis has prompted closures in West Virginia, North Carolina, Maryland, New York, Ohio, Tennessee, Texas, Montana, Oregon, and Washington. Reduced to just five remaining smelters, only two are operating at capacity. Aluminum industry employment fell by 58 percent between 2013 and 2016. Robots didn't eat those jobs, but imports surely did.

Just one month has passed since President Trump signed a Section 232 proclamation and we are already seeing positive results with factory investments, nearly 3,500 jobs

announced, and cooperation from trading partners like South Korea and Canada. Already, the level playing field created by the tariffs is helping to support thousands of new direct jobs, allowing us to strengthen our national security, and spurring indirect job creation as well -- the Main Street restaurants and stores in steel towns, and the long value chain supported by the industry.

- JSW USA has announced a $500 million expansion of its steel plant in Baytown, Texas, a move that will add up to 500 new jobs at an average salary of $65,000. News report suggest that the plant – currently operating at just 30 percent capacity – will produce raw steel rather than importing it from foreign sources.

- U.S. Steel Corporation is restarting one of two blast furnaces in Granite City, Illinois, recovering approximately 500 jobs. Both Granite City furnaces had previously been idled.

- Republic Steel is recalling over 1,000 jobs to restart its formerly idled Lorain, Ohio, facility to meet anticipated demand for steel following Trump’s 232 trade action.

- Nucor Corporation is building a new rebar micro mill in Frostproof, Florida, creating approximately 250 jobs with an annual average salary of $66,000. Previously in November 2017, Nucor announced plans to open another new rebar micro mill in Sedalia, Mo., creating 255 jobs and 450 temporary construction jobs.

- Century Aluminum Company is restarting the idled potlines of its smelter in Hawesville, Kentucky, restoring 300 jobs. Additionally, Century Aluminum is investing over $100 million to upgrade smelting technology at the site.

- Magnitude 7 Metals is opening a new aluminum plant, producing 400 jobs, in New Madrid County, Missouri, at the site of a plant that closed in 2016.

- Alcoa Corporation is restarting three of five aluminum potlines at a smelting facility that had closed in 2016. This restart of Warrick Operations in Evansville, Indiana, will generate approximately 275 jobs.

Zekelman Industries, a consumer of steel and the largest independent steel pipe and tube manufacturer in North America, plans to pay each of its employees a $1,000 bonus once the tariffs are instituted. Pacific Boat Trailers announced that it won't raise prices despite using steel in its trailer construction. More broadly, manufacturing contributed 21 percent of all private sector job growth in March, and employment in metals-consuming industries rose substantially.

All aspects of implementation of this policy must be completed with the primary, overriding objective of strengthening domestic steel and aluminum production capacity – from start to finish – and rapidly achieving specific and enforceable commitments to fight and to eliminate global overcapacity. We are pleased with the work of Ambassador Lighthizer leading productive discussions with our trading partners, who must acknowledge that country exemptions from steel tariffs are not blank checks. National governments must be active partners in efforts to eliminate overcapacity, prevent circumvention and transshipment, and punish trade cheaters that dump and subsidize.

The recent agreement with South Korea to better level the playing field on steel and autos is an encouraging sign that the administration’s trade strategy can achieve results. The strict limits on steel and aluminum imports coming from South Korea are a recognition that substantial amounts of

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Chinese product were being transshipped or processed there and then shipped to the United States. Elsewhere, Canada is working to strengthen its anti-circumvention and evasion provisions. And, the EU appears to be ready to adopt safeguards to guard against dumped and subsidized product that was destined for the U.S. from entering their own market. These promised actions have the potential to be helpful, but must turn into reality for the national security and economic benefits to materialize.

Earlier this week, Chinese President Xi Jinping promised “a new phase of opening up” and allowing more imports into their market. This reportedly includes an effort to reduce their 25 percent tariffs on autos (compared to 2.5 percent in the United States); to implement stronger protections of intellectual property and an easing of foreign ownership restrictions (though many strategic sectors would undoubtedly remain off-limits); and, to join the Government Procurement Agreement (a promise made upon their 2001 entry into the WTO). These would all be important outcomes, but after years of China making promises, and not keeping them, it is difficult for U.S. companies and American workers to believe that President Xi’s words have any meaning. China needs to promptly adopt these reforms, and many others. And the United States needs to impose a sustained and credible threat of consequences should China yet again fail to deliver on its promises.

Meanwhile, the product exclusion process under the Section 232 remedy should be transparent, allow for public comment and producing-industry and worker input, and primarily focus on matters related to economic and security considerations. If a product is excluded based on short-term market limitations, the exclusion should be time-limited, and we should adopt a government-wide effort to develop strategies that encourage domestic suppliers to begin production.

While there are already positive developments, it is still early in the process and we should judge the effectiveness of the Section 232 tariffs based on the final outcomes and results achieved. These tariffs lay the groundwork for a stronger economy and industrial base if importers don't unnecessarily weaken the remedy. Any exemption or exclusion granted could potentially have an adverse impact on our ability to achieve the goal of meeting our critical defense needs through safe and assured supplies, as well as maintaining an adequate capacity within the steel and aluminum industries.

We believe the market, our workers, and consumers are best served when global production and consumption are better aligned and fair market pricing is restored. An effective, lasting remedy will jump start a long-overdue process of squeezing out massive overcapacity in the steel industry while enabling U.S. producers to revive idled production and jobs.

Theft of America’s intellectual property (IP) threatens our future. The administration’s proposed actions under Section 301 will help to restore some balance with China, as well as to recreate an ecosystem to innovate, design, and make products here that we can sell abroad. IP-intensive industries support approximately 45.5 million jobs in the United States, represent more than 39 percent of U.S. GDP, and account for 52 percent of exports. The administration’s Section 301 report found “China to be the worst infringer of American IP, stemming primarily from Chinese policies and laws.” Altogether, Chinese theft of American IP currently costs between $225 billion and $600 billion annually – meaning that the United States has already suffered well over $1.2 trillion in economic damage since 2013.

A full 18 pages of the 2017 National Trade Estimate Report on Foreign Trade Barriers published by the United States Trade Representative are devoted to China's anti-competitive practices.

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According to the report, "inadequacies in China's IPR protection and enforcement regime continue to present serious barriers to U.S. exports and investment." The report describes how "actors affiliated with the Chinese government and the Chinese military have infiltrated the computer systems of U.S. companies, stealing terabytes of data, including the companies' intellectual property (IP), for the purpose of providing commercial advantages to Chinese enterprises."

In its most recent annual report to Congress, the U.S.-China Economic and Security Review Commission (USCC) offered detailed analysis on China's "Industrial Policy Toolbox" used to disadvantage foreign firms and obtain foreign technology through predatory actions. "China has laid out an ambitious whole-of-government plan to achieve dominance in advanced technology. This state-led approach utilizes government financing and regulations, high market access and investment barriers for foreign firms, overseas acquisitions and talent recruitment, and, in some cases, industrial espionage to create globally competitive firms," according to the report.

Any assessment of the administration's Section 301 strategy must take into consideration what has already happened to our economy. We have amassed more than $4.3 trillion in merchandise trade deficits with China since 2001. A substantial portion of that is the result of China's unfair and protectionist policies -- especially as it relates to intellectual property theft. The transfer of IP has advanced China's ability to be a manufacturing powerhouse and has expanded its economic and military capabilities. The Congressional Research Service (CRS) estimates that 46 percent of Chinese exports are from foreign-invested enterprises. Those exports are fueled by China's policies and coercive and predatory practices in IP. We cannot reasonably assume that in the future high-value and strategically-important products will be manufactured here in America if the underlying IP belongs to China.

The Section 301 tariffs have not even taken effect yet, and will undergo thorough vetting and public comment. To those who are against these tariffs, I ask, "What is your plan?" The U.S. economy is currently strong and unemployment is low, but our country is on a course for long-term economic disaster if we continue to allow our innovation base to be hollowed out by China's theft of our IP. Advanced industries such as robotics, nanotechnology, and additive manufacturing could be the next victims—before they even gain a substantial foothold in America.

Many are focused on the potential for retaliation against our agriculture sector, but it is a mistake to broadly assume that the U.S. agriculture sector fully benefits from the current trade relationship with China. According to a 2013 USCC report, "For the past three years, China has been the largest export market for U.S. agricultural goods. However, trade is far from free, and enormous opportunities are being withheld. China's WTO accession has not been as productive to the U.S. as initially expected. In contrast to U.S. agricultural exports to the rest of the world, most U.S. exports to China are bulk commodities, particularly raw soybeans that supply China's outsized live-stock sector. Conversely, processed commodities, meat products, consumer foods, and other higher value-added products have not kept pace with the overall growth in bilateral trade." The report also notes that "much of the value-added processing of commodities is taking place in China rather that in the U.S., which is hurting U.S. manufacturers and contributing to U.S. unemployment."

For example, in soy, the real value-addition is in the "crushing" process, yet China refuses to buy our crushed soy so that they can retain those jobs for its workers. In alfalfa, China has selectively blocked imports of U.S. product by refusing to accept international standards, despite the proven impact on improving the yield of dairy cows.

For years, China refused to buy our pork products. Yet, as Chinese household incomes rose, consumers reached a point where they could afford more protein in their diet. Rather than opening their market generally to U.S. pork products, arguably the best in the world, they bought one of our leading vertically-integrated pork producers and processors, Smithfield Foods, to gain access to its genetic stock. This allowed China to expand its own production, rather than engaging in truly free trade. In 2015, WH Group, the Chinese company that purchased Smithfield Foods in 2013, reported that Smithfield provided 97 percent of U.S. pork exports to China, to the detriment of smaller farmers and processors throughout the United States.

Tariffs should be used only as an emergency measure. In fact, they are designed to be uncomfortable and to get the attention of trading partners. But, in today's climate, tariffs are necessary to bring about meaningful negotiations that have proved to be elusive despite ample opportunities for China and others to make positive reforms. If China is unwilling to come to the negotiating table and won't play by the rules, it should lose some access to the U.S. market. Otherwise, nothing will change and American jobs will continue to suffer at the hands of Beijing's practices. Imposing tariffs should be viewed as an emergency measure, one that is necessary to force China to change its practices and come to the negotiating table seeking a settlement that delivers on the promises they have continually made, but have not been forced to keep. China values access to our market above all else.

Let's also acknowledge that the process by which this administration is delivering tariffs is far from perfect. We can quibble with the tactics, most notably the uncertainty that was created in steel markets. We were deeply disappointed that the administration waited months before delivering relief under Section 232. That delay gave foreign producers ample opportunity to stockpile steel and aluminum here on our shores in anticipating of future action being taken to limit imports. Total steel imports soared 15.4 percent in 2017, putting further pressure on an already stressed sector. And the mixed signals sent by the Administration on timing, scope, and applicability put more emphasis on the tactics than the overall strategy: To reduce unfair trade practices and global industrial overcapacity in steel to a point that they no longer harm America's national security.

But, despite the shortcomings of the rollout, we do think it is entirely appropriate to put credible consequences on the table to leverage better outcomes. It is a mistake to suggest that tariffs simply "don't work," which is a popular talking point we hear from those seeking to capitalize on a return to the status quo of endless dialogue with China. Tariffs have been characterized as "draconian" and "reckless" by the same so-called experts who assured us China would reform when it entered the world trade system. Companies that have benefited from shipping jobs to China are screaming the loudest. It should come as no surprise that these same interests are now saying tariffs won't work.

The research being produced by those opposed to tariffs is unfounded and has, in the past, proven to be wildly inaccurate. Research released during the Section 201 action in 2002 to 2003 made similarly exaggerated claims of job loss, but the International Trade Commission (ITC) questioned their methodology and cited another study showing that, within the broad definition of "steel-consuming industries" used, employment *increased* by almost 53,000 after falling 281,000 prior to the tariffs. Studies claiming large job losses prepared by economists at the Trade Partnership have been shown to be wildly inflated, reliant upon nonstandard economic models, and based on assumptions that aren't reflective of current economic conditions. Put simply, these studies are wildly out of sync with the reality of the 2002 tariffs, as well as today's circumstances. For example, the International Trade Commission (ITC) analysis of the Section 201 steel tariffs of 2002 to 2003 found no discernible impact on the economy, a possible overall gain in GDP, lower domestic prices relative to foreign markets, increased year-over-year sales and profits for steel-consuming industries, and an improved employment situation among consuming industries. It's also worth noting that the largest price shock steel consumers have faced over the past two decades was the result of an overheated economy in China, and not through any specific trade action.

Tariffs represent a very small share of the overall economy. The estimated $9 billion in steel and aluminum tariffs represent a tiny fraction of the overall $20 trillion economy. With respect to the proposed 25 percent Section 301 tariffs covering about $50 billion of Chinese imports, it is too soon to assess their actual size and scope. But, even if the President follows-through on that amount, plus an additional $100 billion of Chinese imports, the impact remains modest compared to the overall economy, the barriers our exports face when entering China, the theft of our IP, and the surging bilateral trade deficit that is currently in place. All U.S. goods exports to China amount to less than 0.7% of U.S. GDP, while the American consumer is indispensable to China's economy. More than 20 percent of China's exports head straight to the United States.

Everyday consumers will see very minor cost impacts, if any at all. That will ultimately depend on whether the consuming industry passes along costs of absorbs them. There is about one ton of steel in the average North American automobile – at today's prices, that is about $700 of steel. A 25 percent tariff on steel would therefore only increase the price of a car by about $175. There is about 3 cents worth of aluminum in a beer can. A 10 percent tariff on aluminum would therefore only increase the price of an entire six-pack of beer by one and a half pennies. It's also a fair question to ask steel and aluminum consuming companies that have complained about the tariffs if they have ever demonstrably passed along the cost savings they accrued through purchases of dumped or subsidized product to consumers. I haven't noticed changes in the end price of autos or beer as commodity prices plunged, which leads me to believe that these companies and their shareholders pocketed the savings, rather than American consumers.

Trade enforcement is within our rights and the reaction has been overblown. Trade enforcement actions are common, with 82 new antidumping and countervailing duty cases initiated in 2017 and a total of 411 orders in place across a range of different industries, covering both allies and strategic competitors. In the case of the Section 232 action, the United States is on firm ground in citing national security as a rationale, as provided for under Article XXI of the General Agreement on Tariffs and Trade (GATT). Threats and fears of retaliation should not deter America from using the tools available nor from putting an era of trade surrender to an end. The United States will vigorously defend its interests at the WTO if other nations seek to retaliate without proper cause.

The tariffs currently in place and under consideration are nothing like "Smoot-Hawley," an argument that has no basis in historical fact or present circumstances. The Smoot-Hawley Act, which included tariff changes impacting 20,000 categories of goods, was enacted by Congress in 1930 amidst a nosediving economy and in the wake of a stock market crash. Even Nobel Prize-winning, free trade economist Paul Krugman says the 1930 action didn't cause the trade contraction that was already underway.

Mr. Chairman, the legislative authority for the President's action on steel – Section 232 – is derived from the Trade Expansion Act of 1962, a notable achievement that included authority to cut tariffs, provided adjustment assistance for impacted workers, established the United States Trade Representative's office, and ensured imports did not harm national security. This "three-legged stool" of U.S. trade policy – expansion, enforcement, and adjustment – provides a sound framework for progress, so long as all aspects of the policy are robust. However, Congress and the Administration have all too often neglected enforcement and adjustment as we have broadly expanded trade.

Trade-impacted workers are unlikely to ever find a better job than the one they lost, and a significant number will never work full time again. Our safeguarding tools, meanwhile, are only selectively employed. President Reagan, often cited by Trump, occasionally took them up – on motorcycles, semiconductors, automobiles, currency exchanges, and steel. Presidents Bush and Obama invoked them at times, too, but our wariness to offend importers and trading partners has effectively relegated them the back bench of our trade policy.

A third of the country's manufacturing jobs have vanished in little more than a decade, and there is a growing body of evidence showing that Chinese imports were the primary cause. We now find that trade is at a tipping point in the eyes of Americans of all political backgrounds, who perceive that they are getting a raw deal on trade. For these Americans, our nation has been in what feels like a trade surrender for several decades now. They don't view the Administration as having fired the opening shots of a trade war.

Thank you for the opportunity to testify at today's hearing. We look forward to working with you and members of the committee to strengthen America's economy and national security through smart trade policy.

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