Testimony
Leo W. Gerard
International President
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Services Workers International Union (USW)
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I am Leo Gerard, International President of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, or USW. The USW represents 1.2 million active and retired workers. It is the largest industrial union in North America representing workers in steel and other metals, mining, plastics, rubber, glass, paper and many other industrial sectors. Perhaps more than any other union or entity, our membership feels the impact of international trade.

I am thankful that the House Steel Caucus is holding this hearing on the state of the industry as America's steel sector faces a growing crisis. Day-by-day, the hopes and dreams of thousands of Americans are being shattered by a global onslaught of unfairly-priced steel fueled not only by dumping and subsidies but, an underlying Chinese overcapacity of over 400 million tons of steel.

Today we're here to talk about steel. But I also want to talk about people. As of today, more than 13,500 workers in the steel industry have received layoff notices. Last week, one of the major companies announced that 750 salaried workers would be laid off.

This is an employment crisis. But, it also poses serious threats to our national security. Steel is literally the backbone of our military – weapons and armaments. It is also the backbone of critical transportation and energy infrastructure in this country from rails and bridges to docks and depots.

Steel, is not the only sector facing devastation from Chinese overcapacity. Aluminum is in crisis with more than 6,500 workers who already have received, or will receive layoff notices by the end of this June. From the 14 smelters running in 2011, we are down to only 5 that are operating with one of those expected to be idled by the end of June.

In many other sectors, there is extensive injury from global overcapacity and unfair trade practices: paper, cement, rubber, glass, chemicals, solar, shipbuilding, wind power generating equipment and others. Each of those sectors employs thousands of USW members. It is those workers and their families that are experiencing this crisis first hand and soon the ripple effects of these layoffs and closures will be felt throughout their communities.

There's a reason the public is so angry. They see what's happening to their factories, their communities, their friends and <u>their own</u> jobs. This isn't a new problem but it's reached crisis proportions and, in my view, the time for talk is over. The time to act is now.

Earlier this week, I testified before the USTR's hearing on the steel crisis. Like your hearing today, I appreciate the attention to this pressing issue. Let me outline six steps that I believe need to be taken:

1. Broad-based import restraints;
2. Comprehensive, enforceable measures to reduce global overcapacity;
3. Definitive statement that China does not qualify as a market economy under U.S. law and engagement with the E.U. to ensure that they do not grant China market economy status later this year;
4. Stimulation of domestic demand;
5. Aggressive enforcement and expansion of domestic procurement policies;
6. Retention of domestic procurement policies in international trade negotiations.

Let me briefly discuss each of these.

First, we need broad-based import restraints. The Administration has broad authority to do just that and doesn't need to wait for the private sector to act. There are many tools in current law and at the WTO which allow for action. Time is of the essence.

The catalog of authority ranges from 201 to 232 to other authorities, including the International Emergency Economic Powers Act. Other provisions of the law, including the Defense Production Act, and others, should be evaluated as well. If needed, a combination of authorities should be used to dramatically reduce the flood of imports. In my view, we should seek to have imports reduced by one-third within three months to help stabilize production and employment and give confidence to our producers that they should maintain productive capacity.

Second, we need comprehensive, enforceable measures to reduce global overcapacity. Next week, the Organization for Economic Cooperation and Development (OECD) will hold a High Level Dialogue on Global Overcapacity and another Steel Committee meeting. New, updated PowerPoints will show the increasing injury and continued failure to create a sustainable market in steel. Following that, we can expect that the Joint Commission on Commerce and Trade (JCCT) and the Strategic and Economic Dialogue (S&ED) will talk and renew communiqués calling for restraint. Enough talk, our members and this industry need action.

Attached to my testimony is a paper we prepared that highlights some of the promises China's leaders have made, and the results. http://usw.to/a2 For me, one of the most telling facts is that on the deadline requests to testify on overcapacity before the USTR had to be made, March 29, China's Baosteel, a major state-owned company, announced production increases of 20 percent. Time and time again we hear of promised steel capacity cuts, but actions speak louder than words and China's actions show that the U.S. must act.

We need sustained, verifiable and enforceable commitments. Those could happen through multilateral negotiations with specific time limits or through action at the WTO through a case based on what's known as "serious prejudice" or through "taking an exception".

I'm not a trade lawyer; I'll leave it to them to argue about the best path. But, our government has the tools to act; we just need the will to act. And, if someone wants to say that there are no existing authorities to restrain imports domestically AND provide a long-term solution, we either need to create them, or admit that the current situation is untenable and act in our nation's best self-interest. If the WTO isn't working, let's abandon it.

In my personal view, the WTO is part of the problem as it has become an excuse for inaction – or worse. I say "or worse" because the WTO has continually overreached and imposed commitments on the U.S. that were never agreed to through negotiations. The Byrd Amendment is a perfect example. And there are other examples as well.

The public is losing confidence in our trade laws, our trade agreements and in trade institutions. They're right to lose that confidence. Either we change how trade is managed in America, or the system may have to be completely dismantled.

Third, any reasonable expert on China's economy and its actions clearly knows that they are not operating based on market principles. Why on earth, with commodity prices dropping, with global overcapacity in sector after sector, would China keep their factories humming and actually increasing their capacity? One only has to look at their most recent Five Year Plan issued just a couple of weeks ago, along with all of the activities and policies that they have implemented, and continue to implement, to know that they are not a market economy nor are any of their sectors or companies operating exclusively based on market principles.

This isn't some esoteric theoretical issue. If China were to be granted Market Economy Status later this year by the U.S., which would completely run counter to the existing statutory test, it could dramatically undermine the effectiveness of our antidumping laws. Right now, the antidumping cases that have been filed by industry and supported by our Union, are the only things helping to limit what would be an ever greater crisis in the steel sector.

The U.S. government should make clear that China is not a market economy and is unlikely to be considered such for a long, long time.

In addition, the U.S. should actively engage with the EU to make clear that what they decide to do later this year has clear implications for the U.S. If they grant Market Economy Status to China, the goods that China exports to the EU, which under existing procedures are considered to be dumped, might very well be given a free pass. That would affect domestic industry and workers in two ways: First, our exports to the EU of similar products – where we follow market-based principles and pricing – could be priced out of their market. And, second, the products the EU exports to the U.S. which may include Chinese components – potentially dumped Chinese components under existing dumping methodology – could underprice competing U.S. products here. We would be injured both coming and going.

If the EU were to go forward and grant China Market Economy Status, Congress should reconsider whether fast track trade negotiating authority is appropriate for the Transatlantic Trade and Investment Partnership (TTIP). The USTR should be reviewing the market access offer they intend to make in the TTIP and reduce any potential benefits for the EU if they were to proceed with granting China Market Economy Status.

Fourth, we need to stimulate domestic demand. Most important here would be dramatic expansion of infrastructure investments not only to repair our roads, bridges and water and energy systems, but to retrofit existing buildings and installations to improve energy efficiency. Increased investments in alternative and renewable energy and building a "smart grid" to improve electricity transmission are also necessary. Congress did a great job coming together to pass a 5 year highway reauthorization, but everyone knows it's really only a drop in the bucket of what America's infrastructure truly needs.

Fifth, this needs to be coupled with aggressive implementation of domestic procurement preferences, all in line with our existing international obligations. Buy America. Buy American. Americans want their tax dollars used to create American jobs.

Sixth, we must retain domestic procurement policies in international trade negotiations. Our trading partners know that the U.S. procurement market is a pot of gold. When we provide access, it is seldom reciprocal. Sure, our trading partners may say it is, but experience and reality paint a far different picture.

Connected with this, we need to promote the utilization of domestic products in terms of rules of origin in any trade agreements that are negotiated. To me, one of the critical failures of the Trans Pacific Partnership (TPP) comes in this area. In the North American Free Trade Agreement, the rule of origin for autos was 62.5 percent. In the U.S.-Australia Free Trade Agreement, it dropped to 50 percent and in the US-Korea Free Trade Agreement it further dropped to 35 percent.

In the TPP our negotiators agreed to a 45 percent rule but, through specific loopholes created in the text, that 45 percent is actually closer to 37 percent according to an official study prepared by some of the staff of the House Ways and Means Committee. In essence, 63 percent of a vehicle's content, by value, could come from China but be eligible for a Made in America sticker on its side.

How on earth is that in our interest? The loopholes that were created, in part, specifically provide new opportunities for China and other non-TPP countries to ship steel into the U.S. and, after only being put in a stamping press to form body parts, could be deemed to have originated in the U.S.

That is unacceptable at any time. At a time of crisis in the steel sector it is insanity and reason enough to defeat the TPP.

These issues facing the industry are literally life and death for a critical sector of our economy. And, life as they know it for the tens of thousands of Americans – directly and indirectly – whose jobs are on the line. And, for all of America, it's our national security that's at risk.

I would be happy to answer questions on any of the issues I have raised today.

Thank you.

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