Testimony
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on
Policy Recommendations on the Global Steel Industry Situation and Impact on U.S. Steel Industry and Market
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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.

Over the next two days, you will be barraged with an enormous set of statistics on trade flows, domestic shipments, investments and a variety of other data. All of this, of course, is critical to understanding the problems in the steel sector here and globally.

I don't need to add to those statistics. Because, for me, behind those statistics is the most important thing: People. Today, more than 13,500 steelworkers across the country are holding layoff notices that they received from their employers. Statistics and an academic discussion of free trade can't be allowed to mask the pain that has been inflicted on too many hard-working Americans and their families by unfair trade practices and trade policies that have essentially ignored the impact of trade on real people.

When I submitted my pre-hearing brief two weeks ago, I said that 12,800 steelworkers had received those layoff notices. That number has risen by another 770 people in that short time.

For far too long, our trade policies and negotiations have been guided by theory rather than the reality of how trade is actually conducted. The U.S. is a nation that adheres to the rule of law and believes that every other nation wants to be like us and act like us. That simply is not the case and Americans across this country – from both political parties – are rising up this year to make clear that their elected leaders need to change course.

I appreciate the engagement of the Obama Administration in recent weeks about the crisis in steel. At all levels, and across every relevant agency, we have had in-depth discussions about the problems and potential solutions. These hearings, hopefully, will provide the final information needed for an all-of-government, comprehensive approach to addressing the crisis in steel.

Let's understand too that this crisis in the steel sector, is also plaguing the aluminum sector. And paper. And rubber. And many others.

From the depths of the recession, the Administration implemented policies that helped reclaim more than 900,000 manufacturing jobs. That's a fact to be applauded. But, at the same time, that represents only a fraction of the millions of manufacturing jobs that were lost during that period. And it can't be forgotten that is coupled with the closure of more than 60,000 manufacturing facilities.

Manufacturing in America is at a critical juncture. Manufacturing is the lifeblood of countless communities and the foundation of good, family-supportive jobs. The sector pays higher wages, on average, than the service sector and significantly expands indirect employment as each direct job in manufacturing supports many more jobs in the economy. Depending on the study, that multiplier has been calculated to be anywhere from 1.4 to 16 jobs – so while the number may be variable, there is no dispute that one manufacturing job sustains and creates many more. The manufacturing sector is the single largest innovation engine in our economy. To consume things, you have to produce things. That's a basic fact of economics that our competitors seem to grasp better than we do. Yes, the digital economy is important. And, selling people insurance products and derivative financial instruments creates some jobs. But, manufacturing creates <u>real</u> value.

Our nations' trade deficit in manufactured goods is unacceptably high and is unsustainable. To me, this deficit is a sign of weakness. It's, in part, the reason that more than 60,000 manufacturing facilities have shuttered their doors. If running a trade deficit in goods was such a good thing, why isn't every nation out to beat us?

Manufacturing, and the critical steel sector, is vital to America's national and economic security. In terms of national security, it's not just the steel that goes into our ships, tanks, armored personnel vehicles and other weapons. It's the critical infrastructure that supports our warfighters and our nation. The steel rails that guide our trains. The steel girders that support our bridges, docks, warehouses and our buildings. The grain oriented electrical steel that is vital to electrical transformers and the steel towers that support electrical transmission lines. Steel is, indeed, the backbone of America.

Our steel sector is among the worlds most advanced and efficient. It produces steel with fewer man-hours per ton than any other country. Since the early part of the last decade, the industry has invested billions of dollars in new plant, equipment and technology to ensure that it continues to be a world class competitor. It is the cleanest producer of steel of any across the globe, with the kind of processes and equipment – and commitment -- needed to abide by the highest environmental standards.

The current steel crisis is primarily caused by unfair foreign trade including dramatic expansions of global overcapacity. The largest source of that overcapacity is China, which currently has more than 400 million metric tons of overcapacity.

China's overcapacity is not the result of "market forces". China has developed massive overcapacity because it is a non-market economy. It has continued to build its productive capacity in steel and other sectors because it was reliant on an export-led economy to employ its people and fuel its growth. This was built as a result of state-led direction, through its Five Year Plans and associated governmental policies.

Sure, China says that it knows it has a problem and wants to reduce its overcapacity.

However, actions, in my view, speak louder than words. It's time for our negotiators to recognize that China will not make the dramatic changes needed unless there is a real cost. And, that cost has to be in the form of access to foreign markets, not simply in how others may perceive them.

Attached to my testimony is a short paper which highlights the repeated promises made by the Chinese government, often at the State Council level, as to their intention to reduce overcapacity. Time after time, these promises and intentions have been followed by rising capacity. http://usw.to/a2

On the day of the deadline for requests to appear here today, Baosteel, one of China's state-owned steel producers, announced a huge rise in output of 20 percent. This is a state-owned company and nothing makes China's intentions clearer than that.

Policy elites – the same ones that told us that granting China most favored nation treatment would result in greater democratic rights and freedom of speech and a vast market for our exports – say that China knows that it's in their interests to reign in overcapacity.

When are these policymakers going to start worrying more about what happens here to critical U.S. industries and workers than what China says it intends to do?

Our Union has supported dozens of trade cases – primarily antidumping and countervailing duty cases – to try and address the flood of unfairly priced steel that is decimating the U.S. market. We don't want to bring these cases - we have to. Cases aren't a sign of success, they are a sign of failure and, most important, injury. To bring a trade case, and win, we have to show how much injury has been inflicted on our members.

We're sick and tired of having to take the lead on enforcing our nation's laws and ensuring that the commitments supposedly made by our trading partners in trade agreements are actually enforced.

Since 2011 alone, we have participated in more than 50 trade cases. The cost in terms of legal and other fees probably approaches $75-100 million. The cost in terms of lives and livelihoods is incalculable. Communities have been devastated. America's industrial strength is under attack.

These cases have been vital, but they have not been sufficient. Substantial evasion and circumvention continue to plague our market. Several major antidumping and countervailing duty cases are currently in the pipeline and the success of those cases can't be underestimated. As they have moved through the process, we have had to highlight that the discretion that exists under the law should be used to advantage domestic producers and workers, not our competitors.

But, China's overcapacity has resulted in substantial downward pressure on steel prices making it almost impossible for market-based sales to continue. Free markets are under attack. Elites talk about needing to be careful, or we'll start a trade war.

But right now, we are simply engaged in unilateral disarmament.

It is time for the U.S. to act through a series of steps:

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 would 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. The time for talk has run out. 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.

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. So is the recent decision on South Korean Washing Machines which could further undermine the effectiveness of our dumping law. 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. Either change is managed, 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. that 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.

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 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 before the USTR are literally life and death issues. Life for a critical sector of our economy. And, life 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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