

THE EFFECTS OF TARIFF INCREASES ON THE U.S. ECONOMY AND JOBS

HEARING BEFORE THE COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS SECOND SESSION

APRIL 12, 2018

Serial No. 115–FC10

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PUBLISHING OFFICE

33–810

WASHINGTON : 2019

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THE EFFECTS OF TARIFF INCREASES ON THE U.S. ECONOMY AND JOBS

THURSDAY, APRIL 12, 2018

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:06 a.m., in Room 1100, Longworth House Office Building, Hon. Kevin Brady [Chairman of the Committee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
Thursday, April 12, 2018
FC-10

CONTACT: (202) 225-3625

Chairman Brady Announces Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs

House Ways and Means Chairman Kevin Brady (R-TX), announced today that the Committee will hold a hearing on the effects on the U.S. economy and jobs of the tariff increases related to Section 232 and Section 301 investigations. **The hearing will take place on Thursday, April 12, 2018, in room 1100 of the Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "[Click here to provide a submission for the record.](#)" Once you have followed the on-line instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, April 26, 2018**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TDD/TTY in advance of the event (four business days' notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at <http://www.waysandmeans.house.gov/>

Chairman BRADY. Good morning. The Committee will come to order. When it comes to trade, how do you avoid punishing Americans for China's misbehavior? Does even the prospect of potentially higher tariffs damage our U.S. economy and harm our local farmers and businesses? Especially now that due to President Trump, we have one of the most pro-growth tax codes in the world.

Today we will hear from a wide range of local American job creators about the real-world impact of increased tariffs and how to ensure that trade enforcement, which is important, does not inflict collateral damage on hard-working American manufacturers, farmers, and families.

We will focus specifically on the U.S. tariff increases relating to the Section 232 action on steel and aluminum, which took effect on March 23. We also want to hear about the proposed tariff increases related to the Section 301 investigation into China's aggressive theft of America's intellectual property and technologies.

We will also discuss the ongoing processes that determine how and when tariffs are imposed, including the country-by-country and product-by-product exclusions for steel and aluminum, as well as your thoughts about the effects of retaliation against our made-in-America products and services being sold abroad.

We will start from common ground. It is clear that China's dishonest and unfair trade practices are hurting the American economy and costing us thousands of jobs here at home. The President is right to take a hard line against China's predatory policies in significant trade violations, including the theft of American intellectual property and policies compelling American businesses to hand over their most valuable technology to Chinese competitors.

These severe trade abuses have gone on for too long and cannot be allowed to continue. The challenge for every president, however, is how to change China's behavior and punish it if necessary, without harming our families, businesses, and farmers.

We know that tariffs are, after all, taxes, and will ultimately be passed on to consumers. And like taxes, they also curtail economic growth, discourage new investment, delay new hiring, and put American workers at a huge disadvantage to foreign competitors. The mere threat of potential tariffs can stunt the economic momentum of the new Tax Cuts and Jobs Act.

In Texas, manufacturing in February was booming. But factories cut production growth by more than half in March due to concerns over higher costs from the potential steel and aluminum tariffs. Worldwide economic growth is on the verge of finally bursting out of a decade of stagnation, but now is pulling back on fears of a significant trade dispute.

Back home, in my district, one of our manufacturing plants in the oil field services industries was planning to grow by up to 500 more jobs as energy recovers, but now could face job layoffs if their fairly-traded steel is not excluded and they lose sales to foreign competitors. I appreciate the President has put in place a process to exclude products like this and give all sides in this trade dispute ample time to resolve it.

I cannot think of a better way to address these challenges than to get input directly from U.S. stakeholders. That is exactly what we are doing today. Our panel today brings a broad range of perspectives, and we are looking forward to hearing from all of you.

Over the last several weeks, many of you have experienced—and some for a longer term—the effects of China’s unfair trade practices or the impact of tariffs on steel and aluminum, whether as a steel producer, a user of steel or aluminum, or an exporter facing retaliation. And although Section 301 tariffs have not been imposed, many of you certainly also experienced market effects of the proposed U.S. tariffs and proposed retaliation by China.

I continue to believe it is vitally important for us to use a targeted approach in enforcing our trade laws, whether it is Section 232 or Section 301 tariffs. China’s distortions to the steel and aluminum market and its IP theft and forced technology demands are global problems that ultimately require global solutions. We should work as closely as possible with our allies, we should never create disincentives for our allies to join us in taking strong action. The world, not just the United States, must stand up to China’s unfair trade practices.

In addition, we must make sure that those who would be hurt by tariffs have a full opportunity to make their case and to seek an exclusion for fairly-traded products. I remain committed to working with President Trump and the White House on strong and forceful trade policies that will target bad actors and encourage economic growth here at home. At the same time, we must avoid unintended consequences that hurt Americans.

Finally, it is in everyone’s best interest to find a path forward with respect to fair trade. Today and throughout the coming months, we will continue to listen to our constituents and our job creators across the country to make sure we take their concerns into account each step of the way.

And now I yield to the distinguished Ranking Member, Mr. Neal, for the purposes of his opening statement. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman. Today’s hearing is an important opportunity to discuss the tariffs that the Administration has started imposing recently as a result of its Section 232 investigations, and the tariffs that the Administration has announced that it will impose as part of its Section 301 investigation.

Discussing the impact of these tariffs on the U.S. economy and jobs is obviously important for us to hear from our stakeholders about the process that the Administration has established for finalizing and implementing the tariffs to ensure that they are fair, transparent, and effective. It seems just as obvious to me that in discussing these tariffs, we also need to talk about what these tariffs are intended to accomplish and whether we think the tariffs will be successful in accomplishing their intended goals.

It is important to keep in mind that the reasons for both Section 232 and Section 301 investigations that are leading to this discussion about tariffs are China's unfair trade practices that undercut American workers and businesses. Section 232 investigations determined that global steel and aluminum imports are threatening U.S. national security. Our producers and workers in these two industries have been seriously hurt by global overcapacity and the crisis it has created.

It is no secret that China has been the leading driver of this challenge. The Chinese government owns many of the steel firms in China and has provided massive government subsidies to many of the firms that it does not outright own. As a result, China has started producing steel and aluminum at a pace that is simply not based on economics and fair competition. China now produces about half of the world's entire supply of steel and singlehandedly produces as much steel as the entire world did in 2000.

During that same timeframe, the U.S. share of global production has been cut in half. China's aggressive, state-sponsored economic intervention goes beyond just the steel and aluminum sectors. As the USTR Section 301 investigation report has already documented, China's government has used its economic and political leverage over a sustained period of time to extort, force, or outright steal intellectual property and technology from American innovators.

I have heard the stories of individual inventor small businesses that—and of our largest multinational corporations and our intelligence community about the harmful impact that these IP-related policies have had on the U.S. economy and our national security. Now we are in a situation where the Administration has decided to respond to both of these problems, or at least in part, through tariffs.

In the case of the Section 232 steel and aluminum tariffs, this logic is pretty direct. Tariffs could, if implemented and designed thoughtfully, bring about a recovery of U.S. steel and aluminum production. In the case of the Section 301 proposed tariffs, the logic is less direct. It seems that for the Administration, these tariffs are intended to be used as leverage to bring about changes in China's practices, or to recalibrate the U.S.-China trading relationship.

In both cases, the tariffs will bring disruption to the U.S. economy, and the tariffs certainly will raise costs for some, disrupt supply chains, and they are also likely to provoke threats of retaliation and real retaliation from countries like China. The key policy question that we are grappling with now is whether the Administration has a plan to use these tariffs effectively. It seems to me that after today's hearing, we should seriously consider holding another hearing specifically on trade—China's trade strategy.

I look forward to hearing from our witnesses today, and if I could sum up what I think would be a general—a context of this hearing this morning, I think our goal is pretty clear, and that is to push China to the precipice, but in terms of a trade war, not over the edge. It is but a delicate balancing challenge that we all have, so I thank you, Mr. Chairman.

Chairman BRADY. Thank you, Mr. Neal. And without objection, other Members' opening statements will be made part of the record.

Today's witness panel includes seven experts. First, I would like to offer a special welcome to Kevin Kennedy, President of Kennedy Fabricating, a great family-owned business in Splendora, Texas. It employs hundreds of my constituents. John Wolfe is the Chief Executive Officer of Northwest Seaport Alliance. Roger Newport is the Chief Executive Officer of AK Steel Corporation. John Heisdorffer is President of the American Soybean Association. Calvin Dooley is a former Member of the U.S. House of Representatives and President and Chief Executive Officer of the American Chemistry Council. Ann Wilson is Senior Vice President of Motor & Equipment Manufacturers Association, and Scott Paul is President of the Alliance for American Manufacturing.

The Committee has received your written statements. They will all be made part of the formal record. We have reserved 5 minutes to deliver your oral remarks, and we will begin with Mr. Kennedy, who hails from the home of the Splendora Wildcats in the 8th congressional district of Texas. Welcome and, Mr. Kennedy, you may begin when you are ready.

**STATEMENT OF KEVIN KENNEDY,
PRESIDENT, KENNEDY FABRICATING, LLC**

Mr. KENNEDY. Thank you. Chairman Brady, Ranking Member Neal, other distinguished Committee Members, I want to thank you for allowing me to discuss the impact of the Section 232 tariffs on our business. Well, the impact is that it is already shifting our jobs and work outside of the United States. What was presented as a tariff on foreign steel has effectively become a tax on U.S. manufacturers like us.

My name is Kevin Kennedy. I am the President of Kennedy Fabricating, a steel fabrication business in Splendor, Texas. My father, Odie Kennedy, founded our company 30 years ago with one employee. We now employ 350 people in a town of less than 2,000. We fabricate the products that make up our country's infrastructure: things like drilling rigs, cell phone towers, commercial buildings, pipelines, and industrial plants. We are the ones that buy the steel that our U.S. mills produce.

In the last decade, we have grown our business over 40 times. That is not common in U.S. manufacturing these days. We are proof that American manufacturers can compete and win against cheaper foreign labor. There are lots of examples I could give of obstacles we have faced and overcome as a business if time would permit, but that is not why I am here.

Today I am here to discuss an obstacle put in front of us that really no U.S. manufacturer should have to face. We face the challenge of our own government subsidizing foreign manufacturers at our expense by giving them a huge cost advantage through the Section 232 steel tariffs. See, these tariffs practically eliminated steel imports overnight, and without the competition, U.S. steel producers have already raised prices over 40 percent.

So a 25 percent tariff has led to a 40 percent price increase. This extra 40 percent that we pay means that a company in China can

now buy a raw steel beam from a Chinese mill at a 40 percent discount to us. They can drill some holes in it and ship it to the United States as a fabricated beam without a tariff. So China's still making beams, they are just using a loophole to get them here. And this is why the AISC recommends that fabricated steel also be covered by the tariff.

And it is not just China that is winning. One of our Canadian competitors, Canada, just went from losing projects to us to now winning projects at our expense. Because they can import the same steel from China without a tariff and buy it 40 percent cheaper than we can buy it from our own domestic suppliers. They can build their structures and ship them to our U.S. customers, having never paid a tariff. And this scenario is not a hypothetical scenario. This one has already actually happened, and it has cost us millions of dollars in work.

You know, up until now, we were an exporter. We have been manufacturing driller rigs for years and exporting them to countries like India, Russia, even Mexico. That is not the case now. We went from exporting to having the U.S. Government force our U.S. customers to import the products we make from all of our foreign competitors. You know, they would buy them from us if these tariffs hadn't made it so expensive.

And it has been said that these tariffs are not significant to downstream prices. Well, that may be true for those things that only have a small steel component to them—canned beverages, Boeing 777s—but it is not true for what we make. The raw steel targeted with these tariffs makes up half the cost of our products. And our customers will not pay for a 40 percent increase, at least that is what they have told us. And our lack of new orders recently confirms it.

You know, we understand, we want to protect the U.S. steel producers from unfair competition. The producers that are here today, they will likely attempt to explain how these tariffs have already increased demand and added jobs, and it sounds nice and everybody feels great, but that is definitely temporary.

Because that demand spike was actually from us, people like us, other manufacturers. See, we tried to buy all the steel we could right away as soon as the tariffs were announced, even right before. Because we had existing projects, so we wanted to buy all the steel we could before the prices skyrocketed, because inevitably, we knew they would. But those projects already existed. And with these tariffs, new projects will go elsewhere.

Who is going to buy the U.S. steel that our mills produce if our government forces our customers to go abroad and buy the steel prefabricated? Now, people may try to say that that is not going to happen, but I am here to confirm it is already happening. For 30 years, our company has adapted to obstacles. But the transfer of our jobs and customers across our borders at the directive of our government is the one obstacle to which we cannot adapt.

So who wins with Section 232? Well, not U.S. manufacturers. Not our workers. We both lose. If a healthy steel-producing industry is in our national security interest, then do not the producers need someone to buy the steel? That is supposed to be us. It is——

[The prepared statement of Mr. Kennedy follows:]

WRITTEN TESTIMONY OF KEVIN KENNEDY, PRESIDENT OF KENNEDY FABRICATING, LLC
HOUSE COMMITTEE ON WAYS AND MEANS
HEARING ON U.S. SECTION 232 STEEL TARIFFS
THURSDAY, APRIL 12, 2018

Chairman Brady, Ranking Member Neal, and other distinguished committee members, I want to thank you for allowing me to discuss the impact of the Section 232 tariffs on our business. The tariffs are already causing our jobs and work to shift to competitors outside our borders and will continue to do so until action is taken. What was presented as a tariff on foreign steel producers has effectively become a tax on US manufacturers like us.

My name is Kevin Kennedy, and I am the President of Kennedy Fabricating, a steel fabrication business in Splendora, TX. The structural steel industry in the U.S. employs over 200,000 people in 2,300 businesses of which 1,700 are fabricators like us. These companies are the very essence of American small business. My father, Odie Kennedy, founded our company over 30 years ago with one employee. Through many years of hard work, perseverance, and divine providence, we now employ 350 people in a town of less than 2,000. We fabricate steel for a wide array of end uses that make up the country's infrastructure: drilling rigs, cell towers, commercial buildings, pipelines and industrial plants. In this decade alone, we have grown revenue over 40x. We are proof that American manufacturers can still compete in a world of cheap foreign labor. We exist today primarily because of our ability to adapt to and overcome the many challenges that private businesses face.

Kennedy Fabricating has encountered a number of obstacles in our life as a business and we have successfully overcome all of them. When the recession of 2008 caused US manufacturing jobs to plummet, we adapted and grew 20% by competing in new markets. When the incoming workforce did not have the necessary technical skills, we adapted by partnering with our local high school in a training program for welders. The school went from never producing a certified welder, to producing 15 in one year.

There are plenty of other examples I could give of obstacles we have faced and overcome if time would permit. Today, however, we are presented with an insurmountable obstacle that no U.S. manufacturer should have to face. We face the challenge of our own government effectively subsidizing foreign manufacturers at our expense by giving them a significant cost advantage through the Section 232 Steel Tariffs. These tariffs have eliminated imported steel overnight, and without any competition, U.S. steel producers have raised prices over 40%. Why should we pay 40% more here than our foreign competitors pay in their countries? This means that a company in China can now purchase a raw steel beam from a Chinese mill at a 40% discount, drill two holes in it, and ship it to the U.S. as a fabricated good without a tariff. This is a major loophole, and it needs to be addressed. It is the very reason why the American Institute of Steel Construction (AISC) recommended that fabricated steel also be covered by the tariff.

And it's not just China. One of our Canadian competitors just went from a position of losing projects to us, to now winning projects at our expense, because they can import raw steel to Canada without a tariff and purchase it 40% cheaper than we can from our own domestic suppliers. They can then build their structures and ship them to our U.S. customers having never paid a tariff. This specific example has already cost us millions of dollars in work. Work we needed in order to maintain our business and employees. So who wins?

Before today, we were an exporter. We were competitive enough to manufacture drilling rigs and export them to countries like India, Russia, and even Mexico. Not so today. We went from exporting our products to international buyers, to having the U.S. government force our U.S. customers to import the products we make from our foreign competitors. Again, who wins?

It's been said that the tariffs are insignificant to "downstream" prices. That may be debatable for some items like cars, planes, and high end equipment, but not for fabricated steel. The raw steel targeted with these tariffs makes up almost half the cost of many products in our industry, and our customers will not pay for such an increase. They've said as much, and our lack of new orders confirms it. This begs the question. Who wins?

We don't need our government to remove the obstacles that our business encounters. We have a 30-year track record proving our ability to adapt and overcome those. We do however, need our government to stop creating obstacles through practices that serve to aide our foreign competition at the expense of US jobs.

We understand that these tariffs are an attempt to protect U.S. Steel producers from unfair competition. But who will be here to buy the U.S. steel they produce if our government forces our customers to go abroad for their fabricated goods? Remember, we've always adapted. For 30 years we've adapted. But, the transfer of our jobs and customers across our borders at the directive of our government is the one obstacle to which we cannot adapt. So who wins? Not US manufacturers and not US workers. We both lose. Is our national security interest truly served by having the ability to produce raw steel but no manufacturers to actually buy it? It is time to reconsider the Section 232 Tariffs, in their current form they do more harm than good.

Thank you for allowing me to testify before you. The ability to have our voices heard by our elected officials is an invaluable testament to the strength of our democracy.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Kennedy".

Kevin Kennedy, President
Kennedy Fabricating, LLC

A simple horizontal line.

Chairman BRADY. Mr. Kennedy, I apologize, that 5 minutes goes fast in Washington, D.C. We will continue the discussion in a moment.

Mr. Wolfe, you are recognized for 5 minutes.

**STATEMENT OF JOHN WOLFE, CHIEF EXECUTIVE OFFICER,
NORTHWEST SEAPORT ALLIANCE**

Mr. WOLFE. Thank you, Chairman Brady, Ranking Member Neal, and Members of the Committee, for inviting me to testify on the effects of U.S. tariff policy on the economy and jobs today. I also want to offer a special thanks to Subcommittee on Trade Chairman Reichert, and to Representative DelBene for their support of strong trade policies that contribute so much to the success of Washington State's economy.

The Northwest Seaport Alliance is a marine cargo operating partnership of the ports of Tacoma and Seattle, and the fourth-largest container port complex in the country. I am also here on behalf of the Port of Seattle's Seattle-Tacoma International Airport, which includes a thriving international cargo facility.

We are deeply invested in U.S. trade policy discussions because they directly impact our core business, the success of our customers and the lives of our local residents. Our marine cargo operations in the Seattle and Tacoma harbor support more than 48,000 jobs, while Sea-Tac air cargo operations help create over 5,200 jobs. The Port and the Northwest Seaport Alliance gateways are truly national assets, with more than 60 percent of the goods imported through the Northwest Seaport Alliance destined for the rest of the country.

For example, \$2.5 billion in imports of industrial and electric machinery move through our ports to Illinois, while Ohio and Indiana respectively import \$1.9 billion and \$1.2 billion worth of these products through our ports. This is true for exports as well. Last year, our gateways sent \$1.89 billion in soybeans to China, yet none are grown in the State of Washington.

Our success as an airport and seaport gateway is inextricably linked to China. Last year, more than \$27 billion in imports from China came through Seattle and Tacoma cargo terminals, with an additional \$1.1 billion in imports from China via Sea-Tac. In addition, almost \$5 billion in exports to China traveled through our cargo terminals in 2017, plus another \$2.2 billion in exports to China through Sea-Tac.

Creating a fair and level playing field for our U.S. exporters competing in the global economy is one of the most important goals of U.S. trade policy. From opening new markets through trade agreements to enforcing existing trade rules, we all win when American businesses and entrepreneurs can sell more goods to more people throughout the world. There is clearly more that must be done to achieve that goal, and I think it is fair to say that the only debate we are having in this country is regarding what are the best tactics to achieve our desired outcome.

While there are justifiable concerns about China's trade practices, we continue to believe that productive engagement and negotiations are the best path to ensuring a fair and level playing field for mutually beneficial trade. The United States must be clear on

the desired remedy sought, and then tariffs should be a measure of last resort that are narrowly targeted to address a problem and minimize the unintended impacts on Americans.

While it is impossible to truly estimate the impacts of these tariffs, roughly \$8 billion in two-way trade through our airport and seaport will potentially face some level of increased tariff. The American Association of Port Authorities estimates that for every \$1 billion in exports shipped through the U.S. seaports, 15,000 jobs are created. And conversely, it is likely true as well, which means that this \$8 billion in trade likely represents 120,000 jobs.

Cherries are a good example of this potential impact. The Northwest cherry harvest creates an estimated 19,000 jobs and \$540 million in economic impact. About 30 percent of this crop is exported, and the majority shipped through air through Sea-Tac airport. China is the top export market for Washington cherries, buying 2.9 million cases valued at \$127 million each year. If the Chinese market is closed to these exporters, they are going to have a very difficult time finding alternative markets for their seasonable perishable crop.

In closing, as a large gateway for two-way trade, the Port of Seattle and the Northwest Seaport Alliance are deeply invested in U.S. trade policy discussions because they impact our core business. We believe that over the long term, we must continue to advocate loudly and consistently for new market access opportunities throughout the globe. Thank you again for the chance to participate in today's hearing, and I look forward to responding to your questions.

[The prepared statement of Mr. Wolfe follows:]



Testimony of John Wolfe
CEO, Northwest Seaport Alliance
United States House Ways and Means Committee
April 12, 2018

Thank you, Chairman Brady, Ranking Member Neal, and members of the Committee for inviting me to testify on the effects of U.S. tariff policy on the economy and jobs today. I also want to offer special thanks to Subcommittee on Trade Chairman Reichert and to Representative DelBene for their support of strong trade policies that contribute so much to the success of Washington state's economy.

The Northwest Seaport Alliance (NWSA) is a marine cargo operating partnership of the ports of Tacoma and Seattle, formed four years ago to maximize the competitiveness of our region's global gateway. The first of its kind in North America, the NWSA is the fourth-largest container port complex in the country. I am also here to speak to one of the other major facilities operated by the Port of Seattle, which is Seattle-Tacoma International Airport (Sea-Tac); in addition to being the 9th busiest passenger airport in the country, Sea-Tac is a thriving air cargo facility, with significant international trade flows.

As large gateways for two-way trade, the Port of Seattle and the Northwest Seaport Alliance are deeply invested in U.S. trade policy discussions because they impact our core business, the success of our customers and the lives of our local residents – all

Wolfe Ways and Means Testimony
April 12, 2018

in direct and tangible ways. The most recent economic impact study found that the marine cargo operations in our Seattle and Tacoma harbors supported more than 48,000 jobs, generated nearly \$4.3 billion in economic activity and produced \$379 million in state and local taxes to support education, police, fire services and road improvements. Similarly, Sea-Tac's air cargo operations now support over 5,200 jobs and over \$1.2 billion in business revenues.

These are two examples of what makes Washington state the most trade dependent economy in the country, with 40% of all jobs tied to international trade. Notably, about a quarter of those jobs are created by imports – whether it be the transportation and logistics companies who carry cargo from our ports to the rest of the country; the headquarters jobs at the companies in our state who rely on global supply chains for their success; or the retailers and manufacturers that use imports as inputs into their end products, many of which are then exported. For example, the Boeing Company employs tens of thousands in our state, using parts from throughout the globe to assemble airplanes – 80-90% of which are then sold to foreign customers. And so, trade restrictions and retaliatory tariffs that lead to decreased two-way trade put our state's economy at risk in multiple ways.

The Sea-Tac and NWSA gateways are not only part of a global supply chain used by local businesses and consumers, but are also truly national assets that benefit stakeholders throughout the country. More than 60% of the goods imported through the NWSA are destined for parts of the country outside the Pacific Northwest, and 44% of imported goods go specifically to states in the Midwest; our gateways are critical for the supply chains of U.S. businesses nationwide. To cite a few specific

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examples, \$2.5 billion in imports of industrial and electric machinery move through our ports into Illinois, while Ohio and Indiana respectively import \$1.9 billion and \$1.2 billion worth of these products through our ports. Similarly, NWSA handles \$3.5 billion worth of imported auto parts (\$464 million from China alone), most of which supply our country's major automotive manufacturers in the Midwest with the materials they need to make cars and trucks for American consumers. This integrated national system is true for exports as well, with businesses from almost every single state in the country using our facilities to access foreign markets. For example, soybeans are the top agricultural export out of our state, yet none are grown in Washington; last year, our gateway sent \$1.89 billion in soybeans to China alone.

Our success as an airport and seaport gateway is inextricably linked to our relationship with China. They are the top source of imports for the NW Seaport Alliance, the destination for 28.5% of seaport exports, and the number one market for exports through Sea-Tac. Last year, more than \$27 billion in imports from China came through Seattle and Tacoma cargo terminals, with an additional \$1.1 billion in imports from China via Sea-Tac International Airport. In addition, almost \$5 billion in exports to China travelled through the Seattle and Tacoma cargo terminals in 2017, plus another \$2.2 billion in exports to China through Sea-Tac. These stats do not include the international travel through our airport that is related to the facilitation of this goods trade; in the past five years, Sea-Tac has seen the number of travelers to and from mainland China increase by 123%, to more than 330 thousand travelers.

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Creating a fair and level playing field for U.S. exporters to compete successfully in the global economy is one of the most important goals of U.S. trade policy, and I want to thank this committee for its consistent and passionate focus on that work. From opening new markets through trade agreements to enforcing existing trade rules, we all win when American businesses and entrepreneurs can sell more goods to more people throughout the world. *There is clearly more that must be done to achieve that goal, and I think it is fair to say that the only debate we are having in this country is regarding what are the best tactics to achieve our desired outcome.*

That is why – while there are justifiable concerns about China’s trade practices – we continue to believe that productive engagement and negotiations are the best path to ensuring a fair and level playing field for mutually beneficial trade with China. It is essential that the U.S. be clear on the exact practices that are objectionable as well as the desired remedies sought from China. Furthermore, enforcement actions such as tariffs should be a measure of last resort, and when necessary, be carefully and narrowly targeted to address the problem and minimize the unintended impacts on American producers and consumers. We are concerned that the proposed Section 232 and Section 301 tariffs do not yet meet either of these criteria.

Our concerns over these tariffs are not limited to our own operations, but also the impacts on the businesses throughout our region and state that depend on trade with China for their success. In addition to the 48,000 jobs mentioned above, 443,000 more people in our state work for businesses that use our facilities, mostly importers and exporters who ship through the NWSA to access overseas markets and global supply chains. In particular, Washington currently leads the nation in the

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percentage of small businesses that engage in exporting, meaning that these increased costs and potential lost market opportunities could hit those employers in our state who can least afford it. As we watch the back and forth escalation of retaliatory tariffs between the U.S. and China, it is Washington state businesses and consumers who will see increased costs, and it is our farmers, ranchers, retailers and manufacturers who are at risk for reduced exports of everything from airplanes to apples.

While it is impossible to truly estimate the impact of the Section 232 and 301 tariffs – especially as their size and breadth continue to evolve – we have done an initial analysis based on the items that have been publicly announced by the U.S. and China. For our airport and seaport, roughly \$8 billion in two-way trade through our airport and seaport will potentially face some level of increased tariff: approximately \$5.8 billion in imported goods and \$2.2 billion in exported products. How those additional costs will affect supply and demand is yet to be seen, but a useful rule of thumb is the American Association of Port Authorities' estimate that – for every \$1 billion in exports shipped through U.S. seaports – 15,000 jobs are created; the converse is likely true as well, which means that this \$8 billion in trade theoretically represents 120,000 jobs.

To put a specific face on this challenge, we can look to cherries, for which our state is the biggest producer in the United States. The Northwest cherry harvest creates an estimated 19,000 jobs and had a local economic impact of roughly \$540 million in 2016. About 30 percent of this crop is exported, a majority shipped by air through Sea-Tac. In the month of July each year, our air cargo volumes can be five times

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higher thanks to these shipments. China is the top export market for Washington cherries, buying 2.9 million cases worth \$127 million each year. If the Chinese market is closed off to them, they are going to have a very difficult time finding alternative markets for that much volume, leading to rotting fruit, wasted effort and lost jobs.

If the United States does continue with these Section 232 and Section 301 tariffs, we encourage the Administration and Congress to consider ways to mitigate the impact on U.S. exporters and importers. If U.S. businesses are being incentivized to shift their global supply chains away from China, this does not happen overnight and it involves significant cost. Similarly, our exporters cannot easily find new customers if existing ones are lost. There must be short term remedies to help those like our farmers who cannot afford to delay their shipments and our small businesses who risk loss of long-term contracts. Long-term, we must continue to advocate loudly and consistently for new market access opportunities throughout the globe. It has been over six years since the last U.S.-signed trade agreement entered into force, while some of our largest competitors have dozens of new such agreements that not only advantage their products but disadvantage ours.

More than 95% of all consumers live outside our country, and we are committed to working with the Trump Administration and Congress to create more and better opportunities in the global economy. Thank you again for the chance to participate in today's hearing, and I look forward to responding to your questions.

Chairman BRADY. Thank you, Mr. Wolfe.
Mr. Newport, you are recognized.

**STATEMENT OF ROGER K. NEWPORT,
CHIEF EXECUTIVE OFFICER, AK STEEL CORPORATION**

Mr. NEWPORT. Thank you, Chairman Brady, Ranking Member Neal, and Members of the Ways and Means Committee. I am Roger Newport, Chief Executive Officer of AK Steel, and I thank you for the opportunity to testify on behalf of our 9,200 employees.

I have worked at AK Steel for 33 years and have seen first hand the challenges confronting the domestic steel industry because of unfair trade. At no time in our history have those challenges been more severe than in the last 3 years, during which unfairly-traded imports spiked to record highs. While finished steel imports grew to an average of 27 percent of the U.S. market over that time, America's steel mills operated less than 75 percent full.

The domestic steel industry has been fighting back through trade cases, but the import surge has continued and has only increased. Countries not subject to the trade case orders rushed in with their dumped and subsidized imports and continue to injure the U.S. steel manufacturers and threaten our national security interests.

Recognizing the global reality we now face and the inadequacies of our trade laws to address it, President Trump took the bold action to impose tariffs on foreign steel under Section 232, and we fully support those actions. AK Steel makes carbon, stainless, and electrical steels. However, we are the last U.S. producer of grain-oriented electrical steel, or GOES. Our facility in Butler, Pennsylvania, located in Congressman Kelly's district, is the only facility in all of North America that melts this electrical steel.

GOES is the critical component in the cores of transformers that move electricity across the entire grid and deliver power to our homes and businesses. Damage to this infrastructure would threaten America's national security and the economy. Thus, it is imperative that we have a domestic electrical steel supply chain that can react quickly following a natural disaster or terrorist attack.

I think it is important to put into context what some are calling a new trade war. The reality is that China has been fighting to take out the American steel industry for many years, and electrical steel provides a great example. Prior to 2009, AK Steel had a healthy export business of electrical steel to China. But China slapped illegal duties on GOES products. By the time the WTO declared those duties illegal many years later, China had already flooded the global market with cheap, subsidized electrical steel.

In 2013, we filed trade case petitions against imports of GOES from 7 countries, including China, Japan, and Korea. The Department of Commerce ruled that GOES from these countries was being sold unfairly in the United States, however, the ITC ruled against the domestic industry. This decision was wrong, as imports of GOES have only continued to surge, and forced the only other U.S. manufacturer to exit the market altogether in 2016.

Last year, imports of GOES nearly doubled compared to 2016. That is why tariffs under Section 232 are essential. It is important to understand, however, that trade relief must not apply only to electrical steel, but to downstream products like cores, core assem-

blies, and transformers. Core-making is simply cutting a coil of electrical steel into sheets and stacking it or winding it into a core. As such, it is easy and inexpensive to set up these minor processing facilities outside of the United States in order to simply evade a trade remedy.

In fact, imports of cores and assemblies in 2017 increased two to six times the 2016 levels. These imports came primarily from Canada and Mexico, where they make no GOES products. This shows that producers will import semi-finished products in order to evade any remedy on GOES. Similarly, our so-called allies, Korea and Japan, have dramatically increased their shipments of GOES in the first quarter of this year.

Korea has already shipped as much GOES in the first 3 months of 2018 as they shipped in total for the 5-year cumulative period of 2012 to 2016. Thus, any significant increases in imports over historical norms must be taken into account if the Administration is to achieve its goal of bringing the domestic steel industry to at least 80 percent of capacity.

While the steel industry has taken the brunt of unfair trade over the last several decades, no industry is immune, as we have seen with washing machines, solar panels, and many other manufactured products. That is why this Administration is to be commended. We must fight back to make American manufacturers stronger here in the United States, given how critical it is to our economy in ensuring Americans have jobs with family-sustaining wages that contribute to the health, our local economies, and our communities across this great country. Thank you.

[The prepared statement of Mr. Newport follows:]

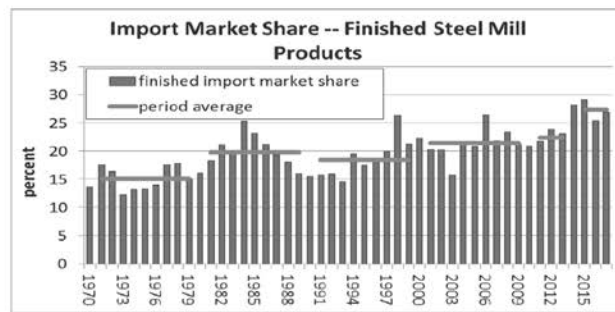


Testimony of Roger K. Newport
Chief Executive Officer, AK Steel Corporation
House Ways and Means Committee
Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs
April 12, 2018

Thank you, Chairman Brady, Ranking Member Neal, and members of the Ways and Means Committee.

I am Roger Newport, CEO of AK Steel. I want to thank you for holding this hearing and for inviting me to testify on behalf of our 9,200 AK Steel employees. AK Steel is headquartered in West Chester, Ohio and its domestic operations include eight steelmaking and finishing plants, two coke plants, a metallurgical coal production facility, automotive tooling and stamping facilities, and two tube manufacturing plants across Indiana, Kentucky, Michigan, Ohio, Pennsylvania, Alabama, and West Virginia. Approximately 6,500 AK Steel employees are represented by labor unions, including the United Steelworkers, United Auto Workers, and the International Association of Machinists.

AK Steel has a proud heritage that spans over 119 years. Over the past century, we have been a leader of innovation in the steel industry, including being the first manufacturer of grain oriented electrical steel, or GOES, as we refer to it, a key material for the nation's electric grid. I am proud to say that I have worked at AK Steel for 33 years, but I have also seen first-hand the challenges confronting the domestic steel industry because of unfair trade over the last several decades. At no time in our history have those challenges been more severe than the past three years during which unfairly traded imports have grown to a record level of the U.S. market. While finished steel imports grew to an average of 27% of the U.S. market over that time, America's steel mills operated less than 75% full.



The domestic steel industry has been fighting back by filing and winning expensive drawn-out trade cases during this time, but the import surge has only increased. Countries not subject to the orders rushed in with their dumped and subsidized imports continuing to injure U.S. steel manufacturers and threatening our national security interests. Recognizing the global reality we now face and the inadequacies of the trade laws to address it, President Trump and his Administration took bold action to impose tariffs on foreign steel under the Section 232 investigation, which we fully support.

AK Steel makes carbon, stainless and electrical steels. We are, however, the last remaining producer of grain oriented electrical steel in the United States. Our facility in Butler, Pennsylvania, in Congressman Mike Kelly's district, is the only facility in all of North America that melts and finishes electrical steel. We also finish electrical steel in Zanesville, Ohio.

Grain oriented electrical steel is the critical component in the cores of transformers that move electricity across the entire grid and deliver power to our homes and businesses. Damage or erosion of this infrastructure would have a significant negative impact on national security and the U.S. economy, which is why it is imperative that we have a domestic supply chain that can react to any such occurrence.

I think it is important to put into context what some are calling a "new" trade war. Our experience is that China has been fighting to undermine the American steel industry for many years, and our electrical steel business provides a good example. Before 2009, exports to China represented a significant part of AK Steel's sales of GOES. In 2009, however, China imposed unnecessary and illegal duties on GOES manufactured in the United States, effectively barring AK Steel and other producers from selling in the Chinese market. In response, the United States Government, at the urging of AK Steel, filed a case at the World Trade Organization (WTO) challenging China's baseless implementation of duties. In 2015, after five long years of litigation, the WTO ultimately determined that China did not meet its obligations under the WTO agreements when it imposed these duties on U.S.-produced GOES. Unfortunately, by that point the damage had already been done to U.S. exports of GOES. China used the five year period during which U.S.-made GOES was excluded from the market to dramatically increase Chinese electrical steel production capacity. China achieved this rapid expansion through state-sponsored subsidization of the Chinese GOES industry, which allowed Chinese producers to sell their newfound capacity at prices so low that no other producers could compete.

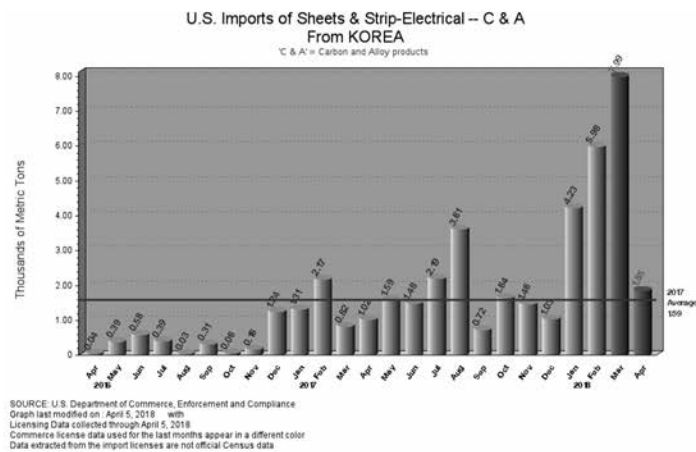
While U.S. steelmakers were boxed out of selling electrical steel in China, China continued to flood our market and other's with steel imports. In 2013, AK Steel and Allegheny Technologies Inc. (ATI) filed antidumping and countervailing duty petitions against imports of GOES from China, Czech Republic, Germany, Japan, Korea, Poland, and Russia. In those cases, the Department of Commerce determined that GOES from these countries was being sold at dumped and subsidized prices in the U.S. market. However, the International Trade Commission (ITC) determined that the domestic industry was neither materially injured, nor threatened with material injury, by reason of subject imports. The ITC's negative determination in 2014 was wrong, as imports of GOES have continued to surge, taking market share and causing tremendous injury to the domestic GOES industry. Among other negative consequences, this forced ATI to exit the market altogether in 2016.

In 2017, imports of GOES nearly doubled compared to their levels in 2016, which were already inflated compared to historical norms. Meanwhile, numerous countries around the world have imposed tariffs or similar trade restraints on exports of U.S.-made GOES. For example, the European Commission enacted a 5 year minimum import price (MIP) on GOES imports that prohibits AK Steel from selling GOES in Europe below a certain price. However, the European electrical steel industry can sell GOES for less than this amount, enabling them to always undercut us. This illustrates why action under Sections 232 of the trade laws is essential. It is important to understand, however, that for the electrical steel market, trade relief must apply not only to electrical steel itself, but to downstream articles like cores, core assemblies and transformers as well. Core-making is simply taking a large coil of electrical steel and slitting it into sheets, called laminations, and stacking or winding them into what we refer to as a core. As such, it is very easy and inexpensive to set up these minor processing facilities in order to evade a trade remedy.

After AK Steel and ATI filed a petition on imports of GOES in 2013, there was a dramatic rise in new core-making capacity outside of the United States, particularly in Canada and Mexico. While the GOES case was ultimately terminated after the ITC's negative determination, the core/transformer-making capacity in Canada and Mexico increased significantly, as foreign producers continue to try to find new ways to evade any relief the U.S. government may put in place.

In fact, imports of cores and core assemblies in 2017 increased by 212% to 670% compared to 2016. These imports came primarily from Canada and Mexico, where there is no GOES production. In 2017, imports of cores and core assemblies were up 273% from Canada and 436% from Mexico when compared to 2016 import levels.

Similarly, our so called allies, Korea and Japan, have dramatically increased their shipments of GOES in the first quarter of this year. For example, according to U.S. licensing data, Korea has already shipped as much GOES in the first three months of 2018 as it shipped, IN TOTAL over FIVE years, from 2012-2016.



In fact, finished imports from six of the seven countries/regions with whom the U.S. is negotiating Section 232 agreements have increased significantly in the first quarter of 2018 compared to the first quarter of 2017.

	2018 1Q	2017 1Q	% change
Canada	1,630,351	1,538,698	6.0
Mexico	650,384	583,440	11.5
Brazil	220,242	177,472	24.1
Argentina	60,414	46,723	29.3
EU	968,245	856,374	13.1
Korea Republic	978,072	889,263	10.0
Australia	61,732	70,244	-12.1

Source: U.S. Bureau of the Census and American Iron and Steel Institute (Volumes in net tons. 2018 data is based on January final import volumes, February preliminary import volumes and March steel import permit volumes.)

Any significant increases in imports over historical norms must be taken into account in country exemption negotiations if the Administration is to achieve its goal of restoring the domestic steel industry to at least 80 percent capacity utilization.

We encourage the Committee and Congress to support the actions of the Administration to ensure the President's steel Section 232 tariffs are effective, and that the U.S. maintains the ability to produce all products critical to our national security interests, including the electrical infrastructure supply chain. In the case of a natural disaster or a cyber- or physical attack on the country's electrical grid, the United States' national security cannot be put in jeopardy due to the absence of a domestic supply chain that supports the key components of the electrical grid. If the U.S. ends up being reliant on foreign suppliers to repair a catastrophic failure of the electrical grid, the disruption to the nation's businesses and citizens' way of life would be unnecessarily long and burdensome.

While the steel industry has taken the brunt of the unfair trade practices over the last several decades, no industry is immune, as we have seen with washing machines, solar panels and other manufactured products. It is only a matter of time before others are afflicted by unfair trade. This is why this Administration is to be commended and supported for its efforts to stand up for American workers and say enough is enough! We will no longer sit idly by and be taken advantage of! We must fight back to defend our industry and make American manufacturing stronger, given how critical manufacturing is to U.S. economic growth, and ensuring that Americans have jobs with family-sustaining wages that contribute to the health of our local communities across this great country.

Chairman BRADY. Thank you, Mr. Newport.
Mr. Heisdorffer, welcome and please proceed.

**STATEMENT OF JOHN HEISDORFFER,
PRESIDENT, AMERICAN SOYBEAN ASSOCIATION**

Mr. HEISDORFFER. Good morning, Chairman Brady, Ranking Member Neal, and Members of the Committee. My name is John Heisdorffer, and I am a soybean farmer from Keota, Iowa. I also grow corn and I feed 10,000 head of hogs a year. I am the current President of the American Soybean Association, and have been on the ASA board since 2010.

ASA represents U.S. soybean farmers on policy and international issues. Thank you for inviting us to testify before the Committee today on the potential impact of Chinese tariffs on U.S. soybeans. I have also submitted written comments for the record.

In 2017, U.S. farmers produced a record 4.4 billion bushels of soybeans and exported 2.3 billion bushels, valued at \$27 billion. For the last 20 years, soybeans have contributed more to the U.S. trade balance than any other agricultural product. We are very proud of this record and of our role in helping to feed a growing world.

China is the world's largest soybean importer, buying 93 million metric tons of soybeans in 2016. In 2017, China imported 1.4 billion bushels of U.S. soybeans, or 62 percent of total U.S. exports. This represents nearly one-third of our annual soy production. Over the next 10 years, Chinese demand for soybeans will grow annually by the size of our exports to the European Union.

Since last year, the U.S. soybean industry has been very concerned about getting into a trade war with China. This concern was heightened when President Trump announced his decision to impose tariffs on steel and aluminum imports. Since this announcement, ASA has raised concerns about the potential for retaliation from our top customers like China. ASA believes that there is room for our industry to grow our exports to China, and we want to focus on ways to expand trade instead of restricting it.

Our fears of retaliation were confirmed after the Administration announced tariffs on an additional \$50 billion of Chinese imports under Section 301, when China stated its intention to place a 25 percent tariff on imports of U.S. soybeans and other products. With this announcement retaliation is no longer a "what if." The prospect of an escalating trade war has already created significant uncertainty in the U.S. soybean market, and has driven up premiums for Brazilian soybeans from \$10 to \$30 per metric ton.

ASA has partnered with the U.S. Government for decades and spent considerable time and money to establish foreign markets for U.S. soybeans. China is perhaps our most impressive success story. Through a long-term and comprehensive program to demonstrate the value of soy-based feeds, ASA and the U.S. Soybean Export Council helped build demand for soybeans to the level Chinese imports are today. The value of U.S. soybean imports to China has grown 26-fold, from \$414 million in 1996 to roughly \$14 billion in 2017.

According to a study for the U.S. Soybean Export Council conducted by economists at Purdue University, soybean exports to

China could drop dramatically if China chooses to impose a 25 percent tariff on U.S. soybeans. The Purdue study projects that China soybean imports from the United States would fall by 65 percent, total U.S. soybean exports would drop by 37 percent, and U.S. soybean production would decline by 15 percent.

It has been argued that trade in agricultural products is fungible, and that the loss of one market to a competitor will be replaced by other markets which that competitor will no longer sell to. In the case of soybeans, this argument fails to recognize that our largest competitor, Brazil, is continuing to expand soybean production on new lands. Brazil is already the world's largest soybean exporter, including to China, and would respond quickly in the event U.S. trade actions trigger retaliation against our soybean exports.

In addition to the concerns of U.S. soybean farmers, other commodity producers are at risk of losing critical sales to a China market. As a result of the prospective U.S. tariffs, China has already retaliated against U.S. pork imports, and has threatened retaliation against sorghum, wheat, cotton, corn, and beef. Actions that threaten these markets have the potential to upend the farm and rural economy and put the livelihoods of farmers in jeopardy.

As producers of the number one agricultural export, soybean farmers want to be an essential part of helping lower our trade deficit with China. We believe that expanding market access can play a vital role in increasing our agricultural trade surplus. We ask this Committee and Members of Congress to help allow soybean farmers to be part of the solution instead of collateral damage from a potential trade war.

Chairman BRADY. Thank you, Mr.—

Mr. HEISDORFFER. Thank you for inviting me to testify. I look forward to answering your questions.

[The prepared statement of Mr. Heisdorffer follows:]

Embargoed until 10am on Thursday, April 12, 2018

Statement of John Heisdorffer
President, American Soybean Association
before the
Committee on Ways and Means
U.S. House of Representatives

April 12, 2018

Good morning, Chairman Brady, Ranking Member Neal, and Members of the Committee. I'm John Heisdorffer, a soybean farmer from Keota, Iowa, and President of the American Soybean Association. ASA is the national organization that represents U.S. soybean farmers on policy and international issues. We appreciate the opportunity to appear before the Committee today on the potential impact of Chinese tariffs on U.S. soybeans.

In 2017, U.S. farmers produced a record 4.4 billion bushels of soybeans and exported 2.3 billion bushels, or 52 percent, valued at \$27 billion. For the last 20 years, soybeans have contributed more to the U.S. trade balance than any other agricultural product. We are very proud of this record, and of our role in helping to feed a growing world.

China is the world's largest soybean importer, buying 93 million metric tons of soybeans in 2016, mostly from Brazil, the U.S. and Argentina. In 2017, China imported 1.4 billion bushels of U.S. soybeans, 62 percent of total U.S. exports and nearly one-third of our annual soy production. Over the next 10 years, Chinese demand for soybeans will grow annually by the size of our entire export market to the EU.

Concern about a Trade War

Since last year, the U.S. soybean industry has been very concerned about getting into a trade war with China. This concern was heightened when President Trump announced his decision to impose tariffs of 25% and 10%, respectively, on steel and aluminum imports. ASA sent a letter to the President on March 12 raising our concern about Chinese retaliation and asking for a meeting to discuss how increasing U.S. agricultural exports can help reduce our Nation's trade deficit. We indicated that there is room for us to grow our exports to China, and that we should be focused on ways to expand trade instead of restricting it.

Our fears were confirmed after the Administration announced tariffs on an additional \$50 billion of Chinese imports under Section 301 when China stated its intention to place a 25 percent tariff on imports of U.S. soybeans and other products. With this announcement, retaliation is no longer a "what if." The prospect of an escalating trade war has already created significant uncertainty in the U.S. soybean market and has driven up premiums for Brazilian soybeans from \$10 to \$30 per metric ton.

The U.S. Role in Developing the China Soybean Market

ASA has partnered with the U.S. government for decades and spent millions of dollars to establish foreign markets for U.S. soybeans. China is perhaps our most impressive success story.

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ASA opened an office in Beijing in 1982. At that time, China did not have a vertically-integrated animal feed industry, and livestock production lacked health and nutritional standards. China has the largest swine herd in the world but, at the time, much of it was backyard-based and its ration did not include soybean meal. Similarly, while China produces more fresh water fish than the rest of the world combined, none of its fish feed included soybean meal 20 years ago.

Through a long-term and comprehensive program to demonstrate the value of soy-based feeds, ASA and the U.S. Soybean Export Council helped build demand for soybeans to the level China imports today. Since 1995, while feed use in China grew by 140 percent, soybean meal used in animal feed rose an unprecedented 839 percent. And we've seen the amount of soybean meal used in aquaculture feeds grow from zero just 20 years ago to 7 million metric tons this year. The value of U.S. soybean exports to China has grown 26-fold, from \$414 million in 1996 to roughly \$14 billion in 2017. Potential tariffs would put years of work to expand markets, and the livelihoods of thousands of U.S. farmers, in jeopardy.

Economic Impact of Chinese Tariffs

Retaliation by China against U.S. tariffs would undercut prices received by soybean producers and further hurt the already depressed farm economy. Crop prices are down 40 percent since 2013, and farm income has fallen by 50 percent. Operating margins are slim, and farmers cannot absorb additional hits to the farm economy.

According to a study for the U.S. Soybean Export Council conducted by Purdue University, soybean exports to China could drop dramatically if China chooses to impose a 25 percent tariff on U.S. soybeans. Using an advanced version of the Global Trade Analysis Project (GTAP) model developed at Purdue, the study projects that China's soybean imports from the U.S. would fall by 65%, total U.S. soy exports would drop by 37%, and U.S. soybean production would decline by 15%.

It has been argued that trade in agricultural products is fungible, and that the loss of one market to a competitor will be replaced by other markets which that competitor will no longer sell to. In the case of soybeans, this argument fails to recognize that our largest competitor, Brazil, is continuing to expand soybean production on new lands. Brazil is already the world's largest soybean exporter, including to China, and would respond quickly in the event U.S. trade actions trigger retaliation against our soybean exports. We simply cannot accept the risk a trade war would create for our industry.

In addition to the concerns of U.S. soybean farmers, other commodity producers are at risk of losing critical sales to the China market. As a result of the prospective Section 301 and Section 232 tariffs, China has also threatened to retaliate against pork, sorghum, wheat, corn and beef. Last year, the value of China's imports totaled \$1.1 billion for U.S. pork, \$1 billion for cotton, \$1.1 billion for sorghum, \$450 million for wheat, \$150 million for corn and \$11 million for beef. Actions that threaten these markets have the potential to upend the farm and rural economy and put the livelihoods of farmers in jeopardy.

Conclusion

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As producers of the Nation's number one agricultural export, soybean farmers want to be an essential part of helping lower our trade deficit with China. We believe that expanding market access can play a vital role in increasing our agricultural trade surplus. We ask this Committee and Members of Congress to help allow soybean farmers be part of the solution instead of collateral damage from a potential trade war.

Thank you for inviting me to testify. I look forward to answering your questions.



Chairman BRADY. Thank you, Mr. Heisdorffer. Congressman Dooley, welcome and please proceed.

STATEMENT OF CALVIN DOOLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN CHEMISTRY COUNCIL

Mr. DOOLEY. Thank you, Mr. Chairman, and Members of the Committee. I represent the American chemistry industry in the United States, and thanks to the American shale gas revolution, in little over a decade, the chemical industry in the United States has gone from one of the most high-cost manufacturers of chemicals to today maybe the most competitive place to produce chemicals in the world.

And the reason for this change is because of the increased supplies of natural gas, which our industry uses as an energy-intensive industry, which is very important to lowering our cost. But also, like flour is to a bakery, natural gas is our raw material in the chemical sector.

This has resulted in an unprecedented level of new investment in chemical manufacturing in the United States. In the last 8 years, about \$194 billion in new investment in chemical manufacturing has come into the United States. And importantly, over 62 percent of that is foreign direct investment.

According to the Department of Commerce, in 2016 and 2017, almost 50 percent of all investment and manufacturing in the United States was accounted for by the U.S. chemical industry. And that expansion is providing for a foundation for a renaissance in manufacturing in the United States, and just with the chemical industry, it is going to create about 850,000 new jobs. Much of this new capacity is intended for export, reflecting the industry's belief that the United States is the most competitive platform to serve global markets.

And today, American chemical manufacturers account for 14 cents of every dollar of exports from the United States. We have a—currently about \$174 billion, and importantly, in 2017 we had a trade surplus of about \$33 billion. And with this enhanced competitive advantage, we expect by the year 2020 that that will more than double to about \$73 billion.

The tariffs proposed by President Trump are intended to reduce our country's trade deficit, an objective that has some merit. But when we impose import tariffs in the hopes of protecting domestic industries that have struggled to be competitive in an increasing global marketplace, we invite retaliation that will inevitably be targeted at America's most competitive and most successful sectors, including chemicals as well as U.S. agriculture.

Nearly 40 percent of the products on China's list of retaliatory tariffs are chemicals and plastics. The ACC estimates that approximately \$5 billion in U.S. chemicals and plastics trade to China would be exposed to these increased tariffs. And a recent Brookings study determined that China's retaliatory tariffs would expose 2.1 million American workers to increased tariffs, and the U.S. chemical sector would account for about 40 percent of that 2.1 million.

ACC shares President Trump's concerns about China's inadequate protections of intellectual property and forced technology transfer practices. We share the Administration's concern about

China's refusal to appropriately address their policies that resulted in an overcapacity of steel manufacturing. China needs to open their market.

U.S. consumers, U.S. workers, and the U.S. economy does not win if the tariffs we have proposed result in the implementation of China's proposed retaliatory tariffs that target those sectors of our economy that are global leaders. U.S. chemical manufacturers, U.S. energy producers, and U.S. farmers are competing and winning in the global marketplace. They are generating increasing trade surpluses, and we cannot allow them to become casualties of trade disputes.

We urge the United States and Chinese governments to put aside talk of a trade war and stop the volley of potential tariffs. We believe the Trump administration should work with our allies across the world to demand that China responds and modifies their unfair and market-distorting trade policies.

In the absence of a full withdrawal of the proposed Section 232 tariffs, we urge the Trump administration to modify the steel and aluminum tariffs to make countries' exemptions permanent, allowing associations to request exclusions on behalf of their members, allowing product exclusions to all companies rather than requiring on a company-by-company basis, and exempting key U.S. allies without conditions.

Thank you for your time today. We are hopeful with the support from Congress, the Administration and the Chinese government will recognize that it is in the best interests of both countries to commit to a process that will produce mutually beneficial agreements before the proposed tariffs go into effect.

[The prepared statement of Mr. Dooley follows:]



**American Chemistry Council
Statement for the Record
House Committee on Ways and Means**

“Effects of Tariffs Increases on the U.S. Economy and Jobs”

April 12, 2018

Thank you for the opportunity to testify today on the “Effects of Tariff Increases on the U.S. Economy and Jobs.” This is a topic of fundamental concern to the business of chemistry in the United States, which is most successful when tariffs do not exist and costs are low. U.S. chemical manufacturers believe the principles of free and fair trade should apply to all members of the World Trade Organization, including China. However, it is not in the interest of the U.S. economy, manufacturers or consumers to engage in a trade war with China for reasons which will be outlined in this testimony.

The American Chemistry Council (ACC) shares President Trump’s concerns about China’s inadequate protections of intellectual property (IP) and forced technology transfer practices. At the same time, China is one of the U.S. chemical industry’s most important trading partners, importing 11 percent, or \$3.2 billion, of all U.S. plastic resins in 2017. We support efforts by the Administration to resolve concerns with China, but strongly believe that these long-standing problems should be addressed through constructive negotiation, rather than through tariffs that could make the world’s most important economic relationship even more difficult.

History has shown that the imposition of tariffs is counterproductive. They often do little more than invite retaliation that ultimately undermines their stated intent. Therefore, we do not believe that tariffs, whether on steel and aluminum products or the broad array of products in the U.S. Section 301 tariff list are consistent with the goals of U.S. economic growth, innovation and job creation.

In this case, the Administration’s proposed tariffs are intended to protect struggling domestic industries that have failed to achieve profitability in an increasingly global market. However, in an effort to prop up challenged industries, two of America’s most competitive and most successful industries – chemicals and agriculture – have become the targets of retribution from China.

The U.S. chemical industry is an \$800 billion dollar enterprise, supporting nearly 26 percent of U.S. gross domestic product (GDP), and providing over 822,000 skilled, good-paying American jobs, with production in nearly every state. Thirty percent of these jobs are export dependent.



And because over 96 percent of manufactured goods are touched in one way or another by chemistry, the chemicals industry is truly the foundation of American manufacturing.

For the first time in decades, the U.S. enjoys a competitive advantage in chemicals and plastic production, made possible by affordable domestic natural gas, the industry's primary feedstock. Since 2010 the United States has gone from one of the most expensive places to produce chemicals, to one of the world's lowest cost producers. Approximately \$194 billion in new chemicals and plastics production capacity has been announced in the past eight years, and more than 60 percent of that is foreign direct investment. In 2016 and 2017, the chemical industry accounted for nearly half of all construction spending in U.S. manufacturing. Much of the new capacity is intended for export, reflecting investors' belief that the U.S. is an excellent platform from which to serve the global marketplace.

Today, American chemical manufacturers produce 15 percent of the world's chemicals, and accounts for 14 percent of all U.S. exports, amounting to \$174 billion in 2016. The U.S. has a large and growing trade surplus in industrial chemicals of \$33 billion in 2017. Given the competitive advantage that has been created by the American shale gas revolution, that surplus in chemicals is estimated to grow to \$73 billion by 2020.

China knows how competitive the U.S. chemicals industry is and has very likely targeted U.S. chemicals exports because it is an area where the U.S. is poised to grow the most. As you know, 40 percent of the products on China's initial Section 301 list relate to chemicals and cover polyethylene, PVC, polycarbonates, acrylates, and many other chemicals. That China has included these products on its tariff list is a recognition of the competitiveness of the U.S. chemicals industry and the challenge it poses to China's own fast growing chemicals industry.

The ACC estimates that \$5 billion in U.S. chemicals and plastics trade to China would be exposed under the tariffs that China has proposed. These tariffs proposed by the Chinese government along with other China-related trade barriers under consideration by the Trump Administration, as well as in the context of the North American Free Trade Agreement, create considerable uncertainty about the United States as a platform to produce goods to supply the growing global demand for chemical and plastic products. Ultimately these actions could undermine the historic competitive advantage the U.S. chemical industry now enjoys.

The threat to American chemical manufacturing goes beyond tariffs on these goods. It is also apparent through the tariffs on goods that use our products. For example, a drop in soybean exports affects fertilizer and crop protection sales in this country. A reduction in exports of U.S. vehicles would have a similar effect, as nearly 20 percent of the weight of an average vehicle is a product of chemistry – the average light vehicle contains more than \$3000 of chemistry products. As a result, the proposed 25 percent Chinese tariff on U.S. exports would be expected to result in a decline in U.S. chemical production of \$2.4 billion to \$2.8 billion. And the effect on the American economy of the Chinese government's proposed tariffs on chemicals and plastics goes well beyond chemical manufacturers. Dozens of other sectors that rely on chemical and plastic products including the automotive, health care, building and construction and consumer goods industries could shoulder higher related costs, and we know that it is ultimately the consumer who pays the price.



We strongly urge the U.S. and Chinese governments to come to a satisfactory and mutually beneficial agreement before the proposed tariffs go into effect. There is ample evidence that tariffs lead to higher costs for downstream producers, higher prices for consumers, fewer jobs in downstream industries, and less economic growth, investment, and innovation in the United States. A trade war will also make cooperating on non-trade issues and real national security concerns of mutual interest that much harder.

These enforcement actions should not be done on the backs of the growing U.S. chemicals industry and other U.S. industries producing trade surpluses, increasing their exports, and entering new markets. We are encouraged by the Administration's willingness to exempt certain countries from proposed tariffs on aluminum and steel. We are hopeful that the Administration will recognize the risks for our economy of a continued escalation with China and will engage in a constructive, long term effort to address its concerns.

The ACC has some practical recommendations for managing both the Section 232 and Section 301 actions.

Section 232

In our view, the exemption and exclusion processes are too bureaucratic, opaque, and heavy-handed. The most positive step would be to revoke the proposed tariffs immediately. Short of that, the Administration should:

- Make country exemptions permanent;
- Allow associations to make exclusion requests on behalf of members;
- Apply product exclusions to all companies (not company by company); and
- Exempt key U.S. allies without conditions.

Section 301

As referenced earlier, the Administration should outline a clear, detailed plan for how it will address longstanding problems in China, including by making greater use of the World Trade Organization's dispute settlement and negotiation pillars. To that end, both the U.S. and China should climb down from mutually destructive actions – but the onus should be on China to change its laws, regulations, policies, practices, and otherwise mercantilist behavior. Other U.S. trading partners, including the European Union and Japan, must be equally forceful in demanding changes by China.

For our sector, the United States and China should:

- Avoid raising tariffs or erecting barriers between them or cause other markets to raise tariffs or erect barriers;
- Work together to cut costs in chemicals trade by eliminating tariffs and dismantling trade barriers bilaterally and across the world, including at the World Trade Organization and the Asia-Pacific Economic Cooperation forum; and
- Work together to reestablish trust in our societies that the international trade system will benefit more people and be more inclusive.

The Administration's Section 301 and 232 actions create significant uncertainty for chemical companies as they plan and build new chemical plants and projects in the United States and work



to export U.S.-made chemicals to trading partners. If this uncertainty persists and increases, companies will consider investing in markets with greater policy certainty, low to zero tariffs, and lower costs.

Tariff costs diminish competitiveness. For example, higher costs of steel inputs as a result of the 232 tariffs undermine new plant construction and investments in the United States. Higher tariffs in China as a result of retaliation will shut out U.S. chemicals exports to the benefit of Chinese companies and other suppliers in the EU and Japan. The overall uncertainty in the trading environment will lead to less wage and job growth in the United States. These dynamics would not only damage the chemical industry and the downstream manufacturers using chemicals – higher prices for chemicals lead to less demand for U.S. chemicals, less manufacturing in the United States, less job creation, less investment, and higher prices for U.S. manufactured products– but could lead to inflation over time and a weaker U.S. economy with less demand and supply.

The ACC believes that the system of international trade disciplines must work for everyone. To do that the United States, the EU, Japan, China and other key trading partners must work together and break down barriers to trade. Increased market access, not less, is essential to the success of the chemical industry. Unilateral actions have the potential of creating less market access, and therefore less opportunities to export, grown the economy and create U.S. jobs. Simply put, the world does not need and cannot afford a trade war. The U.S. and its trading partners should find ways to address and prevent steel overcapacity, IP theft and forced technology transfer practices on a global scale. Such concerted effort will only benefit the global economy, making trade work better for everyone, including businesses and workers in the United States.

The American Chemistry Council (ACC) represents a diverse set of companies engaged in the business of chemistry. An innovative, \$800 billion enterprise, we work to solve some of the biggest challenges facing our nation and our world. Our mission is to deliver value to our members through advocacy, using best-in-class member engagement, political advocacy, communications and scientific research. We are committed to fostering progress in our economy, environment and society. The business of chemistry drives innovations that enable a more sustainable future; provides 822,000 skilled good paying jobs—plus over six million related jobs—that support families and communities; and enhances safety through our diverse set of products and investments in R&D.



Chairman BRADY. Thank you, Mr. Dooley.
Ms. Wilson, you are recognized.

**STATEMENT OF ANN WILSON, SENIOR VICE PRESIDENT,
MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION**

Ms. WILSON. Good morning, Chairman Brady, Ranking Member Neal, and Members of the Committee. My name is Ann Wilson, and I serve as the Senior Vice President of Government Affairs for the Motor & Equipment Manufacturers Association. Thank you for the opportunity to speak with you today.

MEMA member companies manufacture motor vehicle parts, components, and systems for the automotive, heavy vehicle, and after-market industries. Vehicle suppliers are the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 States. Supplier jobs have actually increased by more than 19 percent in the last 5 years.

MEMA supports the Administration's agenda to ensure free, fair, and reciprocal trade and a level playing field for all Americans. Our industry counts on a strong domestic steel and aluminum industry, and has long supported aggressive policies to protect intellectual property rights and enforce IPR laws here in the United States and around the globe, including in China.

However, MEMA is very concerned about the adverse impact on manufacturing jobs relating to the Section 232 and 301 tariffs. I wanted to take the opportunity today to connect the dots with you. I know all of you have heard repeatedly that the vehicle industry counts on a global marketplace. But our industry also counts on regulatory and market certainty.

Our industry buys the vast majority of its steel and aluminum domestically, but imports specialty materials as well as finished parts. Often, these parts are manufactured further and made into other parts, subcomponents, and systems by U.S. workers at facilities all over the country. This allows the U.S. supply chain, as part of the global economy, to be competitive and prosperous, creating hundreds of thousands of U.S. jobs.

So today I brought one of those parts with me. This is a fuel injector. Fuel injectors are safety-critical parts that must be durable and dependable. The manufacturer of this particular part purchases most of their steel in the United States. However, this particular part requires specialized stainless steel for the housing, and that is only available today from a supplier in Germany. This specialty steel ensures the performance of the injector. The South Carolina plant responsible for this fuel injector makes 40 million of these a year, and employs 1,700 Americans.

Being able to bring this steel into the United States is a cost-effective way and allows suppliers to produce and to expand in the United States, hiring U.S. workers, and making more U.S. investment. The steel from this housing is subject to the 232 tariffs. This manufacturer does not know if the EU will be exempt from the tariff, if their individual petition for product exclusion will be accepted, and how long these exemptions or exclusions will be in effect.

This situation is repeated multiple times for our many companies. We have a member, a U.S. company, who must now pre-pay their importer a portion of \$100 million of 232 tariffs in order to

get their steel into the United States. This manufacturer makes 90 percent of the product line subject to the tariffs, in New York in a plant with 1,500 employees. The payment of this tariff puts profits, investment, and potential expansion at risk.

Another one of our members' imports are potentially subject to the \$7 million tariff because of the Section 301 decision. These imported goods support over 600 jobs in Illinois. I am here today because these examples are not isolated. Over the last week, our offices fielded calls from members with operations all over the country. Please understand, the tariffs will cost companies, but they will also cost our country. The price will be current jobs and future investment.

Regarding the Section 232 tariffs, MEMA has urged the Department of Commerce to simplify the process—develop clear procedures and processes for product exclusion applications. Also, we have urged a regular review of the impact of the tariffs on the consuming industries in the U.S. economy. As to the Section 301, we have been heartened by United States—by China's recent announcement regarding excluding motor vehicles from potential retaliatory actions.

We urge the Administration to continue to prioritize a negotiated resolution of the issues before imposing broad-based tariffs. The imposition of these tariffs prior to bilateral discussions between the United States and China will hurt our industry, job creation, and the U.S. economy.

We agree with the Administration and many of you that the United States must take strong action to protect our economy and our Nation's work force. However, we believe that the recently-implemented and proposed tariffs will have a detrimental impact. I look forward to your questions.

[The prepared statement of Ms. Wilson follows:]

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Testimony of Ann Wilson
Motor & Equipment Manufacturers Association
before the
U.S. House of Representatives
Committee on Ways and Means

Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs
April 12, 2018

Introduction

The Motor & Equipment Manufacturers Association (MEMA) represents more than 1,000 vehicle suppliers¹ that manufacture and remanufacture new original equipment (OE) and aftermarket components and systems for use in passenger cars and heavy trucks. Our members lead the way in developing advanced, transformative technologies that enable safer, smarter, and more efficient vehicles, all within a rapidly growing global marketplace with increased regulatory and customer demands.

Vehicle suppliers are the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 states. Together with indirect and employment-induced jobs, the total U.S. employment impact of the supplier industry is 4.26 million jobs.² Nearly \$435 billion in economic contribution to the U.S. GDP is generated by the motor vehicle parts manufacturers and its supported activity. In total, motor vehicle parts suppliers contribute more than 77 percent of the value of today's vehicles.

MEMA supports the administration's agenda to assure free, fair, and reciprocal trade and a level playing field for all Americans. MEMA supports the administration's efforts to strengthen our nation's economy. However, MEMA is very concerned about the adverse impact on manufacturing jobs resulting from the Sections 232 and 301 tariffs. The combined impact of these tariffs has thrown many of our member companies close to a financial crisis and has

¹ MEMA represents vehicle suppliers through the following four divisions: Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA), Motor & Equipment Remanufacturers Association (MERA) and Original Equipment Suppliers Association (OESA).

² "Driving the Future: The Employment and Economic Impact of the Vehicle Supplier Industry in the U.S." Available here: https://www.mema.org/sites/default/files/MEMA_ImpactBook.pdf, released by MEMA in January 2017.



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made some of them question their future investments in the U.S. Tariffs will have a negative impact on these manufacturers, the jobs they create, and ultimately the American consumer.

MEMA urges this committee to work with the administration to reset our discussions with our trading partners to pursue our joint goal of free and fair trade.

Section 232 Tariffs on Steel and Aluminum

MEMA member companies operate in an integrated global supply chain with both suppliers and customers inside and outside of the United States. This model has contributed to continued growth in vehicle production and jobs here in the United States.

Suppliers support and rely on a strong domestic steel and aluminum industry to provide a wide range of raw and semi-finished materials to manufacture motor vehicle components and systems in the U.S. However, many specialty steel and aluminum materials used in many vehicle components are not available domestically.

Often, there are few producers in the world – in some cases only one or two – that can source the grade of specialty materials needed to meet component specifications. Examples include wire used in steel belted radial tires and specialty metals used in fuel injectors.

These steel producers operate in small, niche markets of low-volume, high-strength steel manufactured to stringent performance specifications (often for safety-critical, high-durability applications). For domestic steel producers, it is not a question of whether they can produce these materials, but instead will production of these niche materials be cost-effective and provide them a return on investment.

Given the low volume compared to high investment necessary to manufacture and smelt these specialty products, many U.S. steel producers simply have made the decision that it is not worth the investment to enter into these markets. This is not the ideal situation, but it can take many years for a company to test and validate that a steel producer's product will meet the specifications necessary to perform as required for many of these safety-critical parts.

Specialty materials and components imported by vehicle suppliers are used by hundreds of parts manufacturers. Suppliers' continued access to these specialized products is critical to the industry and our national economy. Additionally, many of the motor vehicle parts manufacturers who rely on these specialty materials in turn export the components manufactured in the U.S. using these specialty materials. In our view, tariffs for these specialty products should be excluded altogether, as these materials are not produced domestically in the United States.

Tariffs lead to increases in the costs of materials, ultimately increasing production costs for products suppliers make for vehicle manufacturers and consumers. Often, these increased production costs cannot be passed on to the Vehicle Manufacturers (OEM). Small- and medium-sized motor vehicle parts manufacturers are particularly susceptible to increased

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costs, squeezed margins, and added burdens. Furthermore, suppliers are also very concerned that these tariffs will lead to greater importation of finished goods that will compete with U.S.-manufactured goods made with higher-cost steel and aluminum due to the tariffs.

MEMA submitted comments to the administration (May 31, 2017³, June 20, 2017,⁴ February 13, 2018⁵) noting that disruptions to supply chains or increases in production costs will not contribute to the national security of the United States and will have a negative impact on the ability of suppliers to continue domestic investments in developing new products, facilities, and jobs.

Now that Section 232 tariffs have been imposed, suppliers, working with their importers, will be applying for product exclusions. However, the process is already creating significant burdens on these companies. The exclusion request process lacks transparency and will be particularly burdensome for smaller manufacturers. It is unbalanced and appears to not allow for successful outcomes for downstream users.

MEMA has urged the Department of Commerce to simplify the process and develop clearer procedures and processes for product exclusion applications. Specifically, we requested the Department of Commerce to do the following:

- Provide timely information on application requirements and to publish an “FAQ” clarifying the process;
- Streamline the exclusion process to allow for applications covering products with the same HTS code in different widths; consolidate the process to allow trade associations to apply for exclusions for an industry which will not create a burden on BIS in processing applications;
- Regularly review the impact of tariffs on the economy and downstream users and implement a plan to sunset the tariffs when they prove to have a significant negative impact;
- Consider the need for and availability of these products in our nation’s supply chain; many specialty products are not available from domestic producers; MEMA urged the administration to take a country- and product-specific approach to this issue rather than imposing blanket quotas or tariffs on all steel and aluminum imports.

MEMA also urges the administration to work to approve timely country exemptions prior to May 1. In addition to the exemptions for Canada and Mexico, the E.U., Argentina, Australia, Brazil, Korea, exemptions should also be extended to Japan and Switzerland. Additionally,

³ In response to the *Notice Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Steel*, 82 Fed. Reg. at 19205.

⁴ In response to the *Notice Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Aluminum*, 82 Fed. Reg. 21509 (May 9, 2017); *Change in Comment Deadline for Section 232 National Security Investigation of Aluminum*, 82 Fed. Reg. 11557 (June 2, 2017).

⁵ MEMA letter to the President, February 13, 2018.

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MEMA urges Congress to carefully monitor the impact any quota requirements have on consuming industries.

Section 301 Tariffs on China

Motor vehicle parts manufacturers are innovators, conducting almost one-third of the annual \$18 billion investment by the automotive industry in research and development. This industry commitment has made the U.S. a leader in more fuel efficient, cleaner, and safer vehicles resulting from domestic development and manufacturing of advanced vehicle technologies. Given this investment in innovation, intellectual property rights (IPR) protection is critical to the sustained success of the motor vehicle parts manufacturing industry. The IPR of a company is among its most valuable assets here in the U.S. and abroad. Strong IPR protections encourage companies to support important research and development investment and to foster innovation as IPR owners are provided certainty that their inventions and technological advancements will be safe from infringers.

China is a large and important trading partner for the supplier and motor vehicle manufacturing industry. Simultaneously, China is also a competitor and remains a challenge for the industry, which is especially significant when it comes to protecting IPR. MEMA has long supported aggressive policies to protect IPR and enforce IPR laws here in the U.S. and around the globe. Protecting these rights has proven especially difficult in China given inadequate enforcement of existing IPR laws.

IPR protection is critical to the sustained success of the motor vehicle parts manufacturing industry. The IPR of a company is among its most valuable assets. Strong IPR protections encourage companies to support important research and development investment and to foster innovations as IPR owners are provided certainty that their inventions and technological advancements will be safe from infringers.

Last year MEMA provided comments to the U.S. Trade Representative identifying Chinese policies and practices that place supplier IPR at risk.⁶ These practices included:

- 1) Promotion of localization based on Chinese government-led industrial plans;
- 2) Laws and policies governing cybersecurity, data, and software, including policies that prevent cross-border data flows;
- 3) Duties and Value Added Tax (VAT) imposed on foreign companies in the Chinese market; and,
- 4) Enforcement actions by China not adequately protecting IPR, resulting in ongoing trade secret theft and production of counterfeit parts.

Given the importance of China as a trading partner for the U.S. economy and the motor vehicle industry, MEMA has encouraged Commerce Secretary Ross and USTR Ambassador

⁶ MEMA comments to USTR on Section 301 Investigation, Docket No. USTR 2017-0016, September 28, 2017.

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Lighthizer to work towards a negotiated resolution of IPR issues before imposing broad based Section 301 tariffs. The initiation of a World Trade Organization (WTO) dispute investigating China's technology transfer requirements is a welcome step in the process. However, we are concerned that the imposition of tariffs prior to bilateral discussions between the U.S. and China will harm the U.S. economy. Instead, the U.S. should focus on developing a fair, binding, and enforceable rules-based trade agreement with China.

MEMA is alarmed at the escalating rhetoric with respect to trade with China. In just one week's time, the U.S. announced \$50 billion in tariffs at the rate of 25 percent, imposed on over 1300 product lines of goods from China on top of other, existing tariffs, including the recently announced Sec. 232 tariffs on steel and aluminum. This does not even include the prospect of additional tariffs recently discussed by the President.

Predictably, China responded with its own set of tariffs on U.S. goods, which will impact the motor vehicle supplier industry by increasing duties on products we export that include steel, aluminum, iron, electrical components, certain vehicles and parts, and heavy-duty machinery. China's response was followed by a presidential announcement directing the USTR to consider an additional \$100 billion in tariffs on China under Section 301. This would go beyond the \$50 billion announced on April 3.

Like any industry, motor vehicle suppliers' growth and success depend on access to markets, predictability, and certainty. As the financial markets have indicated, a trade war threatens economic growth because of higher costs imposed on products, manufacturers, and consumers – which impacts job growth. The total financial costs of the Section 301 tariffs will put an enormous burden on vehicle suppliers and the entire supply chain.

As the National Association of Manufacturers (NAM) explained in a letter to the President on January 8, 2018, the U.S. should “be pursuing a truly modern, innovative and comprehensive bilateral trade agreement with China that wholly restructures our economic relationship” to address these issues comprehensively and on a truly level the playing field for the long-term. The letter explained that “[t]o be successful, this free and fair agreement must:

- Eliminate barriers that unfairly block American companies and America's manufacturing exports from full and fair access to the Chinese market;
- Raise standards in China and create new rules to prevent the wide range of market-distorting practices that violate free markets and fair competition and hurt American businesses and workers; and
- Create clear mechanisms to mandate strong and binding enforcement of the agreement, providing specific channels for government and industry alike to address cheating and violations.”

A bilateral U.S.-China trade agreement would need to build on – but go far past – previous agreements by adding priority issues relevant to China. These range from industrial policy,

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state-favored industries and new transparency and IPR disciplines, to rules that reflect other changes in the global economy since the WTO agreements were negotiated, starting with digital trade and cross-border data flows. In particular, such an agreement would need to address those areas where unfair, discriminatory and harmful Chinese policies and practices are not currently actionable at the WTO.

Conclusion

Representing the largest employer of manufacturing jobs in the United States, motor vehicle suppliers operate in an integrated global supply chain with access to open markets with free and fair trade. Our members are very concerned about tariffs resulting in supply chain disruptions and increased costs, which will not contribute to the national security of the U.S. and will have a negative impact on the ability of suppliers to continue investing in U.S. facilities and jobs.

MEMA urges this committee to work with the administration to exercise restraint before additional tariffs are imposed and to reset our discussions with our trading partners.

We ask for this committee's support in urging the Department of Commerce to simplify and improve the product exclusion process, to urge the USTR to approve long-term country exemptions prior to May 1, and to open a dialog with any country seeking exemptions.

As China remains an important market and trading partner for the supplier and motor vehicle manufacturing industry, we believe the administration should prioritize a negotiated resolution of IPR issues before imposing broad based Section 301 tariffs. The imposition of tariffs prior to bilateral discussions between the U.S. and China will harm our industry, job creation, and the U.S. economy.

We appreciate the opportunity to testify before the committee and we look forward to working with you on these issues. If you have any questions, please contact me at awilson@mema.org. Thank you.

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Chairman BRADY. Thank you, Ms. Wilson.
Mr. Paul, you are recognized.

**STATEMENT OF SCOTT N. PAUL, PRESIDENT,
ALLIANCE FOR AMERICAN MANUFACTURING**

Mr. PAUL. Thank you, Chairman Brady, Ranking Member Neal, and Committee Members. On behalf of the Alliance for American Manufacturing, we appreciate the opportunity to testify.

There is no disagreement that China cheats, which is why these tariffs are now on the table. The testimony by Mr. Newport on steel as well as the Section 301 report prepared by the USTR on intellectual property rights violations both ably demonstrate that.

The United States has only ever made progress with serial trade cheats through extraordinary pressure applied by Congress and the Administration, including but not limited to the threat of tariffs. So now is not the time for anybody to demonstrate to the governments of China, Russia, or other mercantilist nations that our resolve to eliminate unfair trade practices is anything less than strong and unified.

AAM supports the trade actions on steel, aluminum, and intellectual property. We view the possibility of tariffs as a necessary step to achieve real progress, which includes reforming anticompetitive practices and reducing market-distorting behaviors. 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 predatory trade behaviors. If a negotiated solution with specific disciplines and automatic enforcement provisions can be agreed to, then and only then should we look at lifting tariffs. Otherwise, we would be abandoning the best leverage we have had in years.

On steel and aluminum, we are already seeing positive results, with nearly 3,500 American jobs announced and new cooperation from trade partners like South Korea and Canada. JSW USA plans an 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. New steel and aluminum jobs have also been announced in Illinois, Ohio, Florida, Missouri, Indiana, Kentucky, and elsewhere.

More broadly, manufacturing contributed a whopping 21 percent of all private sector job growth last month when the tariffs kicked in, and employment in metals-consuming industries rose substantially. Internationally, we now see allies joining the United States to combat unfair trade practices. Canada is now working to strengthen its anticircumvention and evasion provisions. The EU is ready to adopt safeguards on imported steel and aluminum. The agreement with South Korea to better level the playing field on steel and autos is also an encouraging sign.

Chinese President Xi Jinping has again promised a new phase of opening up and allowing more imports. But after years of China making unkept promises, the United States must impose a sustained and credible threat of consequences should China, yet again, fail to deliver, particularly with Made in China 2025 looming on the horizon. Meanwhile, the product exclusion process under Section 232 should mitigate impacts for metal users.

Let's acknowledge that the way in which this Administration is delivering tariffs is far from perfect. The Administration waited too long to conclude the Section 232 process. Steel imports soared over 15 percent in 2017, putting further pressure on an already-stressed sector. Mixed signals on timing, scope, and applicability put more emphasis on the tactics than on the overall strategy.

Mr. Chairman, in closing, an observation: the three-legged stool of trade policy—expansion, enforcement, and adjustment—was established through the Trade Expansion Act of 1962, and it provided a solid foundation of progress for our Nation. But enforcement and adjustment have been largely neglected as trade and imports have dramatically expanded.

A growing body of evidence shows Chinese imports were a major cause in the loss of nearly one in three factory jobs since 1998. Trade-impacted workers are unlikely to ever find a better job than the one they lost, and many will never work full-time again. From the perspective of these workers, our Nation has been in a trade surrender for decades. Americans do not view the Administration as having fired the opening shots of a trade war.

We should not be afraid to enforce trade laws. We have the leverage to do so. The tariffs, many of which are still aspirational, represent a fraction of our \$20 trillion economy. Goods exports to China amount to less than seven-tenths of a percent of U.S. GDP, while more than 20 percent of China's exports head straight to the United States. If China will not play by the rules, it should lose some access to our markets.

[The prepared statement of Mr. Paul follows:]



**TESTIMONY OF SCOTT N. PAUL
PRESIDENT, ALLIANCE FOR AMERICAN MANUFACTURING
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
APRIL 12, 2018**

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.



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



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.



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 than 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 or 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.

Chairman BRADY. Thank you, Mr. Paul.

Mr. PAUL. Thank you, Mr. Chairman.

Chairman BRADY. Thank you all for your excellent testimony. We will now proceed to the question and answer period, and I will begin.

Mr. Kennedy, your company employs 350 people in Splendora, a town of less than 2,000 people. It would be hard to overestimate just how important your company is to that community. Your family, your father, your business has a wonderful reputation, and you took it and expanded over many years of work over and over again. You have been involved in the community, you are involved in the Chamber of Commerce, the Rotary Club, and you have a heart for the poor, supporting schools in Guatemala that help Mayan children who would not get an education get an education. So you are Main Street, America.

So recently, Congress, working with President Trump, redesigned the tax code, lowering the rates for businesses to the lowest in history and redesigning the tax code so our local businesses could compete and win anywhere in the world, including here at home. So first, can you describe the effects of the tax cuts on your business and the demand for your products?

Mr. KENNEDY. Sure, thank you. The tax reform was good because one, it created certainty. I mean, it allowed us to invest in equipment and we had plans for spending a lot of the money that we were able to make. We were already competitive before the tax reform against foreign competition. All the tax reform did was make us even more competitive. Like, we were just planning and setting on winning more work, creating more jobs, and we had the opportunity to do that.

Now, the tariffs, on the other hand, I think for us, specifically, more than offset that.

Chairman BRADY. Yeah, let's talk about that a second. So look, it is not enough to merely buy American, we have to sell American all throughout the world. The tax code was designed to do that. You, in your testimony, said tariffs were effectively taxes that are paid by U.S. companies, and ultimately, workers. So what was the impact of the tariffs? How did they undermine any improved competitiveness from the tax cuts?

Mr. KENNEDY. First of all, they created a lot of uncertainty in the market. Nobody invests when they do not know where the market is going to go. I mean, it completely halted uncertainty. What they are certain about is that they can go to our foreign competitors, manufacturers, and ship the stuff in at the same price they could before without a tariff. For us, they do not know where our pricing is going to go. We have already told them it is higher.

We have gone back to every customer to say, "Sorry, we are paying 40 percent more for steel, we cannot bear that cost." And our customer says, "Well, we cannot bear that cost either." You know, the tariffs in some ways are good, and I hear across the panel they are—the attempt is to punish China, but, you know, this is not just punishing China. If you want to punish China, make it surgical.

Punish China, we have a lot of free trade—fairly-traded steel that does not make its way here that we cannot get our hands on, and if the U.S. steel producers—which we need, we love U.S. steel

producers—if they cared as much about American jobs, why does the price increase 40 percent? The tariff was only 25 percent. But they clearly took advantage of a market because of demand, everybody tried to buy their steel at one time, all of a sudden there is no imports coming in the water, and, you know, price gouging—there is laws against price gouging in many scenarios. But in this instance, we are doing it to our own manufacturers.

And, you know, I do not necessarily blame all the mills for trying to recover some of the losses that China has put on them unfairly. I just think there is a more tactical, surgical way to address that.

Chairman BRADY. So your point is target the unfairly-traded products—

Mr. KENNEDY. Right.

Chairman BRADY [continuing]. And leave the fairly-traded products—

Mr. KENNEDY. And if you are going to do the tariff, include the whole chain. Do not create a giant loophole that makes it easy for these guys to self-fabricate their steel.

Chairman BRADY. A final point. Do these tariffs help you sell more made-in-America products overseas, or less?

Mr. KENNEDY. No, they absolutely hurt us. I mean, they do not just not help us, they hurt us.

Chairman BRADY. Okay. Thank you. Mr. Neal, you are recognized.

Mr. NEAL. Thank you, Mr. Chairman. We all acknowledge the complexities about how steel and aluminum tariffs will work and how they might become effective to achieve goals. But in some ways, we are still not sure that the Section 232 actions really are to play out, because country exemptions are still being negotiated and product exclusions are still being requested, and the Administration has made clear that it is reserving the right to revisit the overall tariff levels of 10 and 25 percent for aluminum and steel. And I think there is an opportunity to hear from our witnesses about these complexities.

Mr. Paul, with respect to both the steel and aluminum tariffs, could you talk about why the next steps that the Administration takes on country exemptions are critical to whether or not these tariffs will be effective in achieving the intended goals?

Mr. PAUL. Thank you, Mr. Neal, and I think that is the appropriate question. There has been a focus on China, and I will say people rightly point out that China is our number 11 importer of steel. But China's market-distorting behavior has an impact, a dramatic impact on global steel markets, which is why I think the Administration came forth with a global solution.

The direction I think that we are headed in, if we look at South Korea, are negotiated agreements, particularly with trading blocs like the EU, that look at maintaining a level of market certainty in the United States that will allow the industry to recover some lost import market share.

As Mr. Newport mentioned, imports are almost at an all-time high in the United States as a percentage of our market share. Capacity utilization for companies is still only at 75 percent, far below the level needed to assume any sort of sustainability to provide for our national security needs.

What I would like to see as we move forward is both an agreement by our trade partners to approach China through the WTO and other means to essentially quarantine its unfair trade practices, because this is where most of it is originating from. The reason why some other nations have been included in this is that Chinese steel is transshipped; it comes through Vietnam, it comes through Korea, it comes through Malaysia, it comes through Indonesia. And we need commitments from these trade partners that they will not allow Beijing to undermine market disciplines.

China has refused to operate by market disciplines in steel and aluminum since it joined the WTO in 2001. There is no single WTO case that any member could take against China that would change this. It is going to take a dramatic effort. I think the Administration has started the ball rolling. I want to see it keep going in the right direction.

Mr. NEAL. Thank you, and as we hear from our witnesses that are involved in the product exclusion process, especially since the Department of Commerce has already received more than 800 specific exclusion requests, I think we might hear from Ms. Wilson, if you could speak to that issue.

Ms. WILSON. Thank you, Congressman. So we represent a lot of what are called tier-one suppliers. They are very large global companies, but we have 1,000 members. A lot of our members are smaller, maybe have one or two manufacturing facilities in the United States. We have been very concerned, first of all, the product exclusion process is not necessarily transparent. There have been some changing rules on it, and it is hard for those suppliers to understand exactly how they get into the process, and that is part of the 800 applications.

We would like to see, I think as Mr. Dooley mentioned, the ability to have a product exclusion over a wide range of products so that, you know, competitors do not have to go in multiple times asking for exclusions for the same product that is coming from the same place.

We also would like to be able to—for our trade association to be able to apply for an exclusion, because as you can well imagine, many of our manufacturers do not have trade staff. They do not have legal staff. They are going to have to pay for that to be able to file for the exclusion. We also think a sunset would be important, or at the minimum, a Committee like this to be able to regularly review this and see what this is having an impact on in the consuming industries. And we would like to see the country exclusions to include things like Switzerland and Japan.

We worked with Congresswoman Walorski, we really like the fact that we have the duty drawback piece. But we would also like to see—like you said, there are over 800 applications. In my understanding, as of this morning, about 50 of them are public. So we would like to see the duty drawback come from the time of applying for the exclusion, rather than the time that it is made public. Because, you know, a month of duties could be a lot of money for a lot of these companies.

So we think there is some room for improvement, but we really have to help focus in on how they do it. I was real interested in talking about, you know, what we also have for finished product.

We have things like aluminum wheels and bearings, they are subject to the tariff. That is difficult.

Mr. NEAL. Thank you, Mr. Chairman.

Chairman BRADY. No, thank you, Mr. Neal. Mr. Johnson, you are recognized.

Mr. JOHNSON. Thank you, Mr. Chairman. Let me begin by saying I strongly oppose the tariffs on steel and aluminum. And as I have stated before, my primary concerns are that these tariffs pose a serious risk to our economy and could trigger a trade war, and they may damage our relationship with our key allies.

I was, however, glad to see that President Trump has temporarily exempted a number of our key trading partners and allies from these tariffs. But make no mistake, the effects of these tariffs are wide-ranging and will affect folks across our Nation. It is not just affecting business.

Collin College in my district serves about 53,000 students each year and offers more than 100 degrees and certificates. In fact, the college is planning a \$600 million building program that will be completed over the next 7 years and will create nearly 400,000 square feet of new classroom space. And the project will allow the college to provide high-quality education to more folks. But Collin College is now concerned by the tariffs on steel and aluminum, due to the increased cost of construction materials.

Dr. Pepper is another constituent of mine, which is headquartered in my home town of Plano, Texas. And I have heard from this company that they are concerned by the higher cost of aluminum used to make cans, potential retaliatory tariffs on other materials, and the impact higher costs will have on consumer consumption of their products.

Mr. Kennedy, as a fellow Texan, I would like to welcome you to this Committee. And you know Texas leads all States when it comes to importing steel and aluminum products, so that is a big deal, it could really hurt Texas. Mr. Kennedy, can you tell me about how tariffs on steel and aluminum have impacted jobs and exports at your company?

Mr. KENNEDY. Sure, thank you, Mr. Johnson. As I had, kind of, mentioned before, we compete directly with companies in Canada and Mexico, and they are not having to pay tariffs. So at the end of the day, they are able to fabricate and manufacture their goods, modify the steel to create a product, and sell it directly to our customers.

The structures that we make are large enough that it makes sense to be able to ship them. There is a lot of labor that goes into them, and we have worked extremely hard over the last decade implementing technology-efficient processes in our manufacturing so that we can out-compete just about anybody when it comes to labor efficiency.

You know, people say that American manufacturers have a hard time competing with labor. Maybe from a cost-per-dollar standpoint of the wages paid, because we pay decent wages here. We have made up for that with efficiency. But that efficiency goes out the door if our competitor has a 40 percent price advantage on material costs.

And, you know, I can sympathize with our mills, but at the end of the day, we buy from the mills. And if we are not buying the U.S. steel mill-produced steel, then how are they—how are their jobs, how are all these jobs they are talking about creating, how are they going to be sustainable? You know, they are sustainable right now because the mills are producing at capacity today.

Like, today, you have to get in line. But that is because everybody put their orders in right away. We are one of those. We had to, the costs were skyrocketing and we have projects that are due. So we had to buy right away and created a temporary demand. But we cannot pay those prices, and our customers will not pay them. Thank you.

Mr. JOHNSON. Thank you, I appreciate that. Thank you, Mr. Chairman, I yield back.

Chairman BRADY. Thank you, Mr. Johnson. Mr. Levin, you are recognized.

Mr. LEVIN. Thank you, Mr. Chairman. Welcome to the panel. You effectively reflect the present clash of different interests in approaches to trade, that is very clear. For decades, our Nation's trade policy has been handicapped by allegiance to theories ill-equipped to respond to the realities of rapidly-advancing globalization. Japan used a tightly-knit economic structure, operating in its closed market, and manipulating its currency, to take full advantage of the open U.S. market with only a lurch in U.S. policy or action here and there.

NAFTA represented the first major individual trade agreement with a developing nation, with a very different, deeply-imbedded, low-cost labor structure and woesome environmental standards. But the only safeguard was a non-enforceable side letter.

And when China responded to its entry into the WTO with increased, huge governmental expenditures with state-owned enterprises and major currency manipulation, the United States failed to use the surge provisions and the annual review provided in PNTR, and engaged in innumerable discussions, but no actions on currency, action that was opposed by the majority here.

There were some successes that changed the May 10 provisions on labor environment in retention of AD/CVD, a form of tariffs, which we fought to retain in the Uruguay round, but it has turned out not to be enough. Prevailing doctrine often became dogma. Essentially, alternatives for action were dismissed as protectionism. There was little acknowledgement that the notion of comparative advantage could be comparative disadvantage. Now these chickens have come home to roost.

We are caught in years of inaction and ineptitude, and international trade policy with important roots after the Second World War came too often rigid and insensitive on steel and aluminum, I urge. It means using proposed tariffs as a way to achieve a long overdue global solution to a long-known problem of a huge glut caused mainly by China. Also it means addressing at long last China's perpetual mistreatment of intellectual property.

On NAFTA, I urge we negotiate it. But only if Mexico effectively addresses industrial policy and practices. Keeping labor costs cheap at all costs, with workers without any rights and take-home pay at \$1 or \$2 an hour, not only keeps Mexican workers from becoming

part of their middle class, for American middle-class workers, it is impacting their jobs and suppressing their wages. That issue has been acknowledged by the Administration, but so far, the search has been in every which way except the only way that can work.

I want to point now, if I might, to what you said, Mr. Paul. And I urge we all take this seriously. On page one, you say, "We view the threat or imposition of tariffs as a necessary step to achieve real progress, which includes reforming anticompetitive practices and reducing market-distorting behaviors," and later on you talk about the need for a global solution. So let's all try to focus on that for one second.

A global solution. You say tariffs are necessary as a step in that direction. Right?

Mr. PAUL. I do, Mr. Levin. Yes.

Mr. LEVIN. And so I wonder if anybody here disagrees with that? You know, you do? Cal.

Mr. DOOLEY. Yeah, I would just suggest that when you have the United States taking a unilateral action in the implementation of tariffs, now that invites a retaliation targeted at the most competitive sectors of the U.S. economy—

Mr. LEVIN. Okay, but let me—

Mr. DOOLEY. Just excuse me, if I can respond to my question. Now they are—

Mr. LEVIN. No, but you said a caveat—

Mr. DOOLEY. Now they are imposing retaliatory tariffs not against French wine makers, they are imposing tariffs—

Mr. LEVIN. Yeah, I understand that. I understand that. But you need to—and we have talked about trade for years—tell us how we are going to reach a global solution on a glut of Chinese steel that has cost American jobs. You need to answer that.

Mr. DOOLEY. We do, and it takes—

Mr. LEVIN. You do not.

Mr. DOOLEY [continuing]. Leadership to engage with our allies—

Chairman BRADY. Thank you all, time has expired—

Mr. LEVIN. We have been engaging for years, Mr. Dooley.

Chairman BRADY. Thank you, all time is expired. Mr. Nunes, you are recognized.

Mr. NUNES. Thank you, Mr. Chairman. I want to first welcome Mr. Dooley here, who is from the San Joaquin Valley. Glad to have you back, former Congressman, long-time Congressman. Thanks for being here.

So one of the things that I—I think we have to proceed very, very carefully as it relates to these tariffs that are being imposed. Most people in Congress agree with the Administration that China has to be taken on for a number of reasons, and I could go off, number off, tick off a whole list, but I think I will focus mostly on the stealing of intellectual property that they continue to engage in.

So we need to proceed very, very carefully as a country as we implement these tariffs, and be very, very careful that we do not have unexpected results from taking rash or quick decisions. So one of the concepts that I have talked about in the last trade hearing that we had was maybe focusing on a few Asian countries. The Administration has expressed an interest in doing bilateral agreements,

and perhaps there are some Asian countries that we could focus on that were part of the TPP agreement that—where a lot of the negotiations have already taken place.

I have talked about Vietnam and Japan as being a couple of those. There is another country, the Philippines, that wasn't directly involved in those negotiations. But I think that is another opportunity for us. They would open up a lot of market, so at the same time you are putting tariffs on China, you would be trying to open up markets as quickly as possible with allies who could take some of the American products.

With that said, and I want to leave this up to the whole panel, but Mr. Dooley, you have been around these trade issues for a long time, and this maybe is not in your wheelhouse exactly, but if you could talk about maybe some of your experience in Asia and some of those opportunities that we may have moving forward in your mind, you know, where do you see the best opportunities for the United States where we could move the quickest to open up, you know, sizeable markets that would make a difference to the United States?

Mr. DOOLEY. Yeah, thank you, Congressman Nunes. I think you referenced the Trans-Pacific Partnership. I mean, here was an example where the United States was engaged with a number of other Pacific Rim countries in a collective effort to try to advance the opening of markets. In large part, that—if you were trying to address some of the actions of China, it was pulling that group of countries together that was going to be one of the most effective ways to achieve that outcome.

So we look at, you know, if you look at the rapid growth and the increase in the per capita GDP in the Asia region, this is going to be one of the most rapidly-growing consumer markets that will provide tremendous opportunities for chemical manufacturers, other manufacturers, and certainly U.S. agriculture. It also gives us the opportunity to engage in the issue of transshipment of products that Mr. Kennedy talked about. And it also gives us the opportunity to address, I think, again, a collective response to respond to some of the intellectual property practices that China has been taking advantage of that have—we have member companies that have really been harmed by that.

Mr. NUNES. So Congressman, if I may ask, of those—we know that the TPP, for now, has been shelved, but a lot of the negotiations have taken place. I mean, a lot of them, and the deal was practically in its final stages. For your industry now that you are involved in, which of those countries, if you could pick a handful of them, which of—could you name two or three or four that might be beneficial if we were going to explore a bilateral arrangement?

Mr. DOOLEY. Yeah, well it is hard for me to respond to that directly. I mean, we are concerned that if you try to engage in an—you know, strictly in bilateral negotiations, it really gets very, very difficult in terms of, you know, capitalizing on the real opportunity we have to maximize our competitive advantage. When we take a regional approach, you know, that is going to be much more effective in, again, in meeting the—I think the opportunities that our, you know, most competitive industries have to address. I will get back to you with the specific—

Mr. NUNES. Yeah.

Mr. DOOLEY [continuing]. Countries of—

Mr. NUNES. And I am out of time, but maybe for the rest of you, if you could put any thought into this of—in your particular industries, I would be interested to have that for the record. Thank you, Mr. Chairman, I yield back—

Chairman BRADY. Thank you, Mr. Nunes. Mr. Lewis, you are recognized.

Mr. LEWIS. Thank you, Mr. Chairman. Let me thank each and every one of you for being here. Mr. Paul, how important is it that we work with our friends and allies who share our concerns and our values?

Mr. PAUL. I think it is critically important that we do that, which is why I am pleased with respect to the Section 232 process on steel and aluminum, that processes were set out for Canada and Mexico as well as the EU, Korea, Australia, Argentina, and Brazil to provide some level of exemption while specific details could be worked out.

If we look to Korea as an example, where I think that I—at least from my perspective, the U.S.-South Korea Free Trade Agreement was inadequate to meeting the needs of domestic workers in manufacturing. We were able to use the process under Section 232 and the country exemption to make some progress with respect to balancing that trade relationship.

South Korea agreed to limit its shipments of steel—much of which originates in China—to the United States at 70 percent of its recent levels, an effective quota; agreed to some additional market access for automobiles, although I do believe we have a long way to go there; and some recognition of currency. Again, I think we have a ways to go there.

But I do think that this process can be useful in engaging our allies both to apply pressure to the overcapacity issue, most of which emanates from China, as well as to settle some—what I would call irritants that we have in our own trade relationships with these nations.

Mr. LEWIS. Mr. Chairman, I would like to yield the balance of my time to Mr. Pascrell.

Chairman BRADY. The gentleman controls the time. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Lewis, and thank you, Mr. Chairman. I will save my comments for later. I have some questions, though.

It struck me that it depends on what part of the country you live in that really provides you with the impetus on what you feel and what you think about tariffs and trade, and which industries are protected, and which industries are not, winners and losers, like anything else. So I approach this, looking back over the last 20 years, the tariffs can be a tool, but I think we make a mistake when we use them as a weapon.

I have a question. Mr. Dooley, in New Jersey, they have over 100,000 people that work in our chemical industry. These companies employ a lot of people, spend a lot of money, and those employees spend a lot of money. Recently, I visited one of these companies in my district, in Lyndhurst, New Jersey, Sika—S-i-k-a.

They use chemicals in the manufacturing of products that go into our roads, our bridges, et cetera, et cetera. They are probably one of the top three companies in the country that do that.

Can you explain how the chemicals in the tariff of 301 that we are talking about here, on that list, impact companies like Sika in my district?

Mr. DOOLEY. Congressman Pascrell, I would maybe ask you to review the Brookings Institute study, I think it just came out yesterday or a couple days ago—

Mr. PASCARELL. Yes, it did.

Mr. DOOLEY [continuing]. Where they identified those sectors of our economy that would be most impacted or most exposed to the increased tariffs. Number one on that list was plastics and chemical composites. Many of those would probably include the products that Sika is putting into the marketplace. So with that implementation of those tariffs, any market opportunity they had to export into China would adversely be impacted and would be able to create a market opportunity for other companies that were operating in other parts of the world.

Mr. PASCARELL. So we are not debating here, are we, Mr. Dooley, whether or not China has been a bad actor.

Mr. DOOLEY. Absolutely.

Mr. PASCARELL. I do not think anybody, Democrat, Republican, Independent, would conclude from what—looking at their behavior that they need to, in some way, be impacted. And we need to think about that.

Mr. DOOLEY. Absolutely.

Chairman BRADY. Thank you.

Mr. PASCARELL. Thank you.

Chairman BRADY. All time is expired. Yes, Mr. Lewis, thank you. Mr. Reichert, Chairman of the Trade Subcommittee, you are recognized.

Mr. REICHERT. Thank you, Mr. Chairman. I want to thank you all for being here today and for your testimony. And I would especially like to thank John Wolfe, Chief Executive Officer of Northwest Seaport Alliance, for joining us all the way from Washington State.

I share the Administration's goal of addressing unfair trade and ensuring American workers and businesses can compete on a level playing field. But as we evaluate strategies to combat China's cheating, we need to put all American workers, all businesses first, and put forward the strongest approach. I think our response is strongest if we work with our global partners.

And I thank the Chairman for holding this very important hearing so that we can consider the impact of both 232 and 301 tariffs on the consumer, on the worker, on small business owners, as well as on all the jobs that are tied to two-way trade. So it is not just about the direct importer, direct exporter; it is about the ripple effect across our country and our economy. It is about a family that is facing higher prices at the store or the aerospace employee putting the finishing touches on an airplane, the cherry grower who relies on sales to Chinese customers, and the longshoreman working at the port.

In Washington State, we often refer to ourselves as the most trade-dependent State, highlighting the fact that we have at least 40 percent of our jobs directly tied to trade. And we do this because of examples like Mr. Wolfe has shared with us today.

So my first question is to Mr. Wolfe. Can you describe the importance of your operations not just to Washington's economy, but to the entire country as a whole?

Mr. WOLFE. Thank you, Congressman. As you mentioned, we consider ourselves not just a gateway for the State of Washington, but for many regions throughout the United States. Some 60 percent of the cargo moving through the State of Washington moves inland to other markets, and the reverse is true for exports. It is also important to note that there is a direct correlation between imports and exports, and that the trade supply chain is somewhat complex, yet intertwined.

So if we take steps that damage our export opportunities, we can be sure that that will impact not just the State of Washington and the important jobs—some 40 percent of the jobs in the State, but certainly throughout the Nation. So as it has been mentioned before, we support the notion of holding our trading partners accountable to fair trade.

Yet, I think we need to use caution in terms of that tool that we talk about, tariff, to apply to fair trade. We would rather see the Administration work closely with a valued trading partner, China, one of our most important trading partners, to address some of those issues that we are talking about today.

Mr. REICHERT. And as the Administration receives and evaluates comments on the Section 301 tariffs, in your view, what is the most important message that you hope the Administration hears?

Mr. WOLFE. I would say, that building upon what I have shared about the connection and correlation between imports and exports, if we damage our import opportunities as a result of trade barriers or tariffs, we damage our export opportunities. And there are small businesses that are seeking global markets. And if they do not have the equipment, the vessel space, the infrastructure to execute on their foreign trade strategy, then we limit the job creation and the benefits of free trade or fair trade throughout the Nation.

So I would say that the most important thing is to understand that correlation between imports and exports, and make sure that we take a laser focus on those issues where we feel like there is unfair trade practice.

Mr. REICHERT. Great, thank you. Mr. Heisdorffer, I am hearing from my community, they are concerned about losing market share. And I am assuming you are, too. If we do that, and China removes tariffs and we are back in the game again, do you expect to gain those market shares back?

Mr. HEISDORFFER. At this point, yes, I think so if this is rescinded right now. Is that what you are talking about? Or—

Mr. REICHERT. Well let's say it goes on for a while, and finally China decides to do away with the tariffs, then we have a market share we have lost. How hard is that to get back?

Mr. HEISDORFFER. That is very hard to get back, sir. Those market shares will probably go to South America. South America has much more land that can go into production. They are sitting

there just—I will be loving every bit of this—you know, where we are in this situation. But right now——

Chairman BRADY. Mr. Heisdorffer, I apologize. Time has expired. I hope we will be able to get back to that answer, okay? Mr. Doggett, you are recognized.

Mr. DOGGETT. Thank you, Mr. Chairman. Mr. Chairman, as you know, you and I are not regularly in agreement on issues before this Committee. But I think insofar as your opening comments emphasize the importance of focusing on the predatory practices of China and on supporting a targeted approach where we are not going it alone, but working with our allies, that you have it about right.

The main problem I see in the immediate future there, since we are governed on everything from immigration to whether the Special Counsel's future is preserved by the majority of the majority, that a majority of the Republican Caucus has not joined your letter to the President, including one-fourth of the Members of this Committee. And I would hope that our witnesses will focus their attention while they are here in Washington on those many Republicans who have not joined that targeted approach, or who are, just as is so often the case, cowered by whatever tweet the President puts out.

I would ask our panel members when Secretary Ross was here recently. And it is disappointing we do not have any Administration official or any real China expert on the panel here this morning to discuss what the Administration's policy is. But when he was here on other matters, I asked him about the third alternative, the targeted approach, that he advances. This was one of the three alternatives that he presented to the President on steel and aluminum—an approach that would have targeted the tariffs on China; on Russia, notably; and on some of the countries like Vietnam that are major transshipment points.

And I really couldn't get any explanation as to why he did not—why that approach, that alternative was rejected by the White House and instead we took the, kind of, shotgun blunderbuss approach to cover everyone initially. Have any of you or your associations been advised of why the targeted approach against Russia and China and the other countries that he proposed was not utilized? Mr. Newport.

Mr. NEWPORT. Yes, I would comment on that, and I believe the reason it wasn't taking that approach was because of the ease that we have seen of the—if we targeted, say, China, they have figured out how to cheat the system and how to beat it.

So, you know, we have had trade cases and other things in which we have gone against China, and they have figured out how to go through other countries. So it will just appear elsewhere if you only picked a handful of people. And I think if you look at—there were three alternatives put out there, the President took option one. But with the exemption process that is being discussed, you are really falling into option two.

Mr. DOGGETT. Well, he took an approach that covered everyone. He gave a bit of uncertainty to countries that we actually have a trade surplus with, if that is to be the measure. And it seems to me that in the list in option three, they had a number of the trans-

shipment countries, and that the focus there would have gotten us a better result.

In fact, an example of that is what has happened with Russian aluminum. For other good reasons, as you probably know, very belatedly, the Administration finally singled out the aluminum magnate from Russia that provides most Russian aluminum, and since singling him out with sanctions, Rusal's shares have lost half their value and the London Metal Exchange has said it will not stock Rusal metal. And that is a unique situation, but it seems to me to show the value of targeted sanctions rather than just applying it to everyone. Let me ask you in the minute that I have left if any of you can tell me, since we do not have an Administration official here, exactly what the Trump trade policy is on steel and aluminum? Or China generally, or anything—any aspect of it, if you could describe——

Mr. PAUL. Mr. Doggett.

Mr. DOGGETT [continuing]. What the policy is.

Mr. PAUL. Yeah, just with respect to steel—and I think it is worth reading the Section 232 report, that there is a—and Mr. Newport described this in his testimony, that there is a gross amount of overcapacity in the system that leaves both—it impacts from China, from transshipments from China, and then anti-competitive practices that result from oversupply that needs to be addressed that is having a material impact on our ability to supply for our own national defense.

In addition to Mr. Newport's example, there is the example of armor plate. And there is only a handful of makers of that left. And so I think with respect to steel, it is this ability to provide some market certainty for domestic steel makers to provide for our national defense.

Mr. DOGGETT. Thank you——

Chairman BRADY. Thank you. Mr. Roskam, you are recognized.

Mr. ROSKAM. Thank you, Mr. Chairman. Mr. Kennedy, one of your opening sentences resonated with me. I represent suburban Chicago, and I have a lot of manufacturers, and very sophisticated manufacturers at that, many of them manufacturing five times to the right of a decimal. And I think the sentence that I—it was in your first paragraph, and I will paraphrase it. What is presented as a tariff on foreign steel has become a tax on U.S. manufacturing. And that is what I am hearing from my constituency.

So I was out recently at a company in my district, they import specialty steel that is not available here domestically. They showed me a letter and, you know, here is the letter, it is from their supplier, that says, basically, "Not it." This 25 percent is on you, you make the point that there is an exacerbating impact of that, and it is not just the 25 percent.

What I wanted to explore is something I think you talked a little bit about, but maybe to press it a bit more deeply, and that is that the impact of the tariffs could have this really perverse effect of creating an incentive for more imports of finished products that are created outside the United States.

You mentioned, you know, the Chinese doing an end-around and doing, sort of, de minimis changes to steel. Are you seeing that

with your peers? Can you just give us a little bit more color commentary on that?

Mr. KENNEDY. Sure. Absolutely, thank you, Mr. Roskam. Well, we see it every day. We were talking about the energy expansion and the building. You know, these LNG terminals on our coast, already half the steel comes from China. I mean, we are talking about billions of dollars of manufacturing and fabrication, and right now, the U.S. fabricators like myself and even some companies larger than us, we provide the other half.

You know, the long-lead items they can get from China because it is cheaper. We have a geographic advantage, we have a time—a lead time advantage, we are right here. What is happening now is look, they can just fabricate all the steel. If I have to pay 40 percent more for my steel—and steel makes up half the cost of our end product—then China can just fabricate all the steel. And they send it through Malaysia, they send it through Singapore, they send it through Indonesia. And at the end of the day, I do not understand the inability for a targeted approach.

We have to provide traceability on our steel. Because our customers want to know that the steel was made to a certain quality, a certain strength. Steel has a variety of grades and strengths. There is not one carbon steel out there. So I do not know why we cannot have a directed, targeted approach.

We should force our Malaysian exporters, or force the other countries who are our trade partners, to show where they got the steel. It is easy, they come with MTRs, material traceability reports, which show up on every piece of steel. We can enforce that if we want to, we can target where the punishment goes.

Right now, you know, we are talking about picking winners and losers. And look, if we are picking losers, let's pick the people—let's punish the people that need to lose. Right now, we are picking winners and losers within the United States. We are picking winners in one industry and losers in a lot of other industries.

Mr. ROSKAM. Let me shift gears a little bit and switch to a process question now. We have heard that there is going to be, you know, the ability to get exclusions and so forth. I will go back to the company that I visited. They are now in the process of trying to navigate through petitioning for 200 different products that apparently they have to—you know, submit this and have this big review and so forth.

Do you have any insight on that? Do you have that range of products? Is this not a problem for you, is this easier for you? What is your experience?

Mr. KENNEDY. Well I can only really speak for my business, but I would imagine it is similar in that really what it is creating is uncertainty. I mean, timing is important.

Mr. ROSKAM. Right.

Mr. KENNEDY. You know, right now, we build drilling rigs. That is one thing that we compete against Canada for. Once we lose market share, I have 200 employees that touch a rig from the time it starts, until we buy the steel the time it finishes. Well if we lose that portion, and I lose those employees, we have spent years building up a manufacturing process with training personnel,

getting people with the experience they need to build our products, to be better at building them than our competitor.

When we build something for the first time, it is always worse than when we build it again. We get better and better at it. When we lose all of our intellectual property, which is our people, when we lose that temporarily, we may never get it back.

Mr. ROSKAM. Yeah. That is good insight, thank you, Mr. Kennedy. I yield back.

Chairman BRADY. Thank you. Mr. Thompson, you are recognized.

Mr. THOMPSON. Thank you, Mr. Chairman, and I want to thank all of you for being here today telling us how these ongoing trade wars and potential for trade wars are affecting your particular sector. Hearing from you, I cannot tell you how important it is for us to hear from you, and how important it would have been had the President heard from you prior to launching his trade war efforts.

I have voted for trade agreements, and I have voted against trade agreements. And I am not opposed to tariffs. I think they can be a very legitimate tool for trade when they are used strategically. But this Administration is using anything but strategy. The trade policies, they are all over the place. First, they want to renegotiate NAFTA. Then, they say they are going to walk away from NAFTA. First they say trade wars are good, then they say there are no trade wars. One thing is for sure, this type of Washington talk is bad for producers and it is bad for consumers.

Just look at my State of California, in China's retaliatory tariffs. Ninety percent of California's top fruit and nut commodities are being hit. The Chinese already had a 48.2 percent tariff on wine, and as Congressman Dooley notably pointed out, that when they put tariffs on wine, it is not against everything that is competing with the United States. Now, as a result of the President's trade war, we are facing a 67.7 percent tariff on wine. This is unsustainable, and it has already had major negative effects on orders in my home district.

By not having a cohesive trade agenda with consultation from stakeholders and from Congress, this could mean a major loss of jobs across many sectors. The California wine industry employs almost 800,000 people nationwide. How many of those jobs are going to be lost because of this tariff trade war nonsense? I would hope that future hearings will focus on smart trade policies that will promote strong economic ties and building American companies and producers.

So, Mr. Chairman, I have two statements from the California Wine Institute that I would like to ask unanimous consent to have placed on the record.

Chairman BRADY. Without objection.

[The submissions for the Record of Hon. Mike Thompson follow:]

Wine Institute Statement: China Tariff Increase on U.S. Wine

Apr 5, 2018

Effective April 2nd, China has increased the tariff on U.S. wine imports by 15%. This action was taken in retaliation for U.S. government trade actions on steel and aluminum.

This will increase the total tariff and tax paid on a bottle of U.S. wine imported into China from 48.2% to 67.7%. Chile, Georgia and New Zealand wines enter China tariff-free and only pay the 27% combined tax rate. Australian wines will be tariff free starting in 2019. For more information on the tariffs, please see the [report prepared by USDA](#).

"China is an important and growing market for California wines," said Robert P. "Bobby" Koch, President and CEO of Wine Institute, "and we are disappointed by the implementation of these additional tariffs. Over the last decade, we have made tremendous progress in developing a loyal and enthusiastic base of Chinese consumers who enjoy California wines and appreciate their quality. These tariffs put our products at a price disadvantage and we urge swift resolution of this issue before long-term disruptions are felt. We will continue to pursue our marketing initiatives in China with confidence that the popularity of California wines will continue to grow."

China is one of the fastest growing wine markets in the world and will soon be second only to the U.S. in value. U.S. wine exports to China and Hong Kong were up 10% in 2017 to \$197 million. The value of U.S./California wine exports to China alone have increased 450% in the past decade.

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Wine Institute Urges Resolution to Escalating Trade Dispute

Mar 23, 2018

SAN FRANCISCO — Today's announcement by China's Ministry of Commerce that it may impose retaliatory tariffs on U.S. wine imports could have a significant negative impact on the future growth of wine exports to China. China is one of the fastest growing wine markets in the world and will soon be second only to the U.S. in value. U.S. wine exports to greater China (including China and Hong Kong) were up 10% in 2017 to \$197 million. The value of U.S./California wine exports to China alone have increased 450 percent in the past decade.

"Chinese retaliation against U.S. wine would put our producers at a significant disadvantage in one of the most important markets in the world at a critical time," said Robert P. "Bobby" Koch, CEO of Wine Institute. "As a result of free trade agreements, a number of our foreign competitors will soon have tariff free access to the Chinese market. This, combined with additional punitive tariffs on California wine, could result in lost market share for years to come."

The United States is a member of the World Wine Trade Group (WWTG) and Wine Institute has long supported the WWTG position that wine should not be used as a retaliatory target in unrelated trade disputes. "It is incumbent upon all parties involved to resolve this dispute in a way that does not harm consumers or the hundreds of thousands of workers who rely on the wine industry for their livelihoods," said Koch.

Wine Institute is the public advocacy association of 1,000 California wineries and affiliated businesses responsible for 85% of the wine produced in the U.S. and 97% of all U.S. wine exports. The California wine industry contributes \$114 billion annually to the U.S. economy and employs 786,000 Americans nationwide.

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Mr. THOMPSON. And I would like to yield the balance of my time to our Ranking Member on Trade, Mr. Pascrell.

Chairman BRADY. Mr. Pascrell, you are recognized.

Mr. PASCRELL. Thank you, Mr. Thompson, Mr. Chairman. Mr. Paul, you described in your testimony, which I read—I apologize, I wasn't here to hear all of it—how global excess capacity in steel devastated U.S. companies and workers. The problem has gotten worse since 2012, if you look at the numbers. Aluminum production has dropped 60 percent just in that time, and in 2016, the Global Forum on Steel Overcapacity—you are familiar with that—was created to find a multilateral solution, and the OECD has been working on this issue for years.

Do you think that the Global Forum has been effective, in your view? And do you think that unilateral action actually has the chance to incentivize countries to more meaningfully engage in the Global Forum?

Mr. PAUL. Mr. Pascrell, thank you—

Mr. PASCRELL. We are talking about consequences here.

Mr. PAUL. Yes. It is an excellent question. And I do think the Global Forum has been helpful in putting some focus on the issues at stake. I will say it has been an excruciatingly slow process, that there are some key partners that are not engaged in the Global Forum that have pervasive unfair trade practices in steel.

I will say the greater issue here, Mr. Pascrell, is that China first recognized that it had excess capacity about 8 or 9 years ago in steel, and its leadership has made continued promises to reduce that excess capacity. The opposite has, in fact, happened, and as China's economy waxes and wanes, the rest of the world is caught up in this trade tsunami.

The American workers suffer the most because we have the most open steel market in the world. Our market is uniquely penetrated by imports—they account for about 20 percent of our consumption. And while other blocs in the EU may put up some safeguards, we are left for the industry filing after the fact very expensive trade cases to try to make up the difference. That is not a sustainable—

Chairman BRADY. Thank you, Mr. Paul.

Mr. PAUL [continuing]. Policy.

Chairman BRADY. Time has expired.

Mr. PASCRELL. Thank you, Mr. Chairman—

Chairman BRADY. Mr. Smith, you are recognized.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman. Thank you to all of our witnesses here today. And certainly, you bring some important perspectives, and Mr. Heisdorffer, I appreciate your perspective on agriculture. And obviously, heading up the Soybean Association, you bring that perspective, but also as a corn grower and a hog producer, I think you have an additional perspective. And so there is your formal testimony that we certainly appreciate, but also, you know, the impacts that are taking place or might take place.

If you could share a little bit on how tariffs that are already in place or those that are proposed, how you see that affecting your community, not only your own business, but perhaps your neighbors' planting decisions. We know that those are very important,

especially this time of year. And how, perhaps, banks and operating capital might be responding as well. Can you touch on those?

Mr. HEISDORFFER. Yes, Congressman, I can. Right now, farm income is down 50 percent, crop prices are down 40 percent, and we are expecting—and that is over the last 5 years, since 2013—and we are expecting another possibly 6 to 7 percent this year of lower income. We cannot afford to lose a valuable customer like China. It is our number one customer, of course, with soybeans. All other countries combined do not come up to what China takes from the U.S. soybean producers.

So yes, if we lose that and we lose our exports to South America we are going to end up losing farmers. It is already very close to happening out there now. We are going to lose some over the next year just because of the downed prices and things. I am putting in my 47th crop this spring, and I have served the soybean industry for 23 years, either on a State or a national level. My son farms with me. I am not so concerned about myself at this point, but I am concerned about my son's welfare for the future, and for the future young farmers that are out there.

Mr. SMITH OF NEBRASKA. All right, thank you. I yield back.

Chairman BRADY. Mr. Larson, you are recognized.

Mr. LARSON. Thank you, Mr. Chairman, and let me commend you and the Democratic leader, Mr. Neal, for this panel. It is not often that you get to sit in a committee room and hear the dynamic differences that exist within the panel itself. And, Mr. Chairman, I would suggest that perhaps we need another hearing, maybe more extensive, where we get to refine these.

Because I couldn't help but note the body language of individuals when Mr. Dooley was speaking, Mr. Newport's reaction when Mr. Paul was speaking, and Mr. Kennedy's reaction. And rather than having us inquire of you, it would have been great to see that dynamic contrast take place so that we can better sharpen our views.

I say this because I think that what we are discussing here this morning is more tactical than in terms of policy, in terms of our response. And I think, Mr. Chairman, you were surgical in terms of how you discussed this in the beginning, and I think that points to a number of the things that individuals have said. So first, let me ask the panelists in very rapid order, are we experiencing globalization? Yes, Mr. Kennedy? Yes or no? Or is this a globalization issue? Mr. Wolfe.

Mr. WOLFE. Absolutely.

Mr. LARSON. Mr. Newport. Mr. Heisdorffer. Mr. Dooley.

Ms. WILSON. Absolutely.

Mr. LARSON. Mr. Paul. There is no question about the fact that what we are dealing with here is an issue of globalization. No one less than Richard Trumka has said what we need is a massive rewrite of the rules as they relate to global policy. Would you agree with that? Mr. Paul.

Mr. PAUL. I think that is correct. I think that is a very aspirational goal—

Mr. LARSON. It is, but would you agree with it?

Mr. PAUL [continuing]. Given the shortcomings of the WTO as it exists today. But yes—

Mr. LARSON. Ms. Wilson.

Ms. WILSON. Our industries actually flourished in the United States with some globalization policies. I think there are areas, including IPR rights, that we need to take a look at. But overall—

Mr. LARSON. But you would not—

Ms. WILSON [continuing]. We have supported free trade. We have added jobs in the United States because of it.

Mr. LARSON. Would you say that we need a rewrite as it relates to globalization and its impact?

Ms. WILSON. I would use your word, Congressman, and I would say we need a tactical rewrite.

Mr. LARSON. Mr. Dooley.

Mr. DOOLEY. I like Ann's comment there. I think a tactical rewrite would be—

Mr. LARSON. A tactical rewrite?

Mr. HEISDORFFER. Since we have had record crops of soybeans the last several years, we need global exports in order to maintain.

Mr. LARSON. Mr. Newport.

Mr. NEWPORT. Basically, we need fair trade.

Mr. LARSON. Fair trade. Mr. Wolfe.

Mr. WOLFE. I can see opportunities where fair trade has served us well, and trade policy, so I think we should leverage that as we look at a rewrite.

Mr. LARSON. Mr. Kennedy.

Mr. KENNEDY. I agree, I think we need free and fair trade, and we need it quickly, if we can, to eliminate some uncertainty.

Mr. LARSON. Mr. Pascrell pointed out—and I think a number up here on the dais would agree, that tariffs can be an important tool, but not if they are used as a weapon. And there is more than I think a sense of concern up here from the dais about tariffs being used as a weapon. Mr. Newport, I noticed your response to Mr. Dooley's comments. I was wondering if you wanted to have an opportunity for an exchange on what Mr. Dooley was saying. I noticed you nodding your head in disapproval.

Mr. NEWPORT. Oh, no, I think when you look at what has been going on we have been facing a trade war in our industry. What we want is fair trade. When we are exporting products overseas, we are facing tariffs and other duties as an industry. We sell steel overseas. There are tariffs in place, there are duties in place, a lot of industries face it. But they can come here with no tariffs, without duties.

And, you know, we talked earlier about the exemption process, and should it be targeted. Well, actually, on our allies, in electrical steel, as I testified, Korea and Japan are our two biggest issues of what is being imported in, and what was imported in the first quarter of this year from Korea equated to what they imported in total from 2012 to 2016.

Mr. LARSON. Mr. Dooley, do you think we could successfully target and utilize tariffs as a tool versus a weapon, or how would you respond to Mr. Newport?

Mr. DOOLEY. My response is, if you listen to some of the comments here, you would think that our economy was failing or not being globally competitive. But our service sector is globally competitive, if not a leader, our energy sector has now become a global

leader, the chemical manufacturing sector is a global leader, our U.S. agriculture sector is a global leader.

And our concern is if you are not tactical, if you take an axe approach to, you know, heart surgery, and you have a unilateral implementation of a tariff that is targeted at one sector, it invites a retaliation. And that retaliation is going to go at our most competitive sectors. And that is where, you know, we have great concerns.

Mr. LARSON. Thank you, Mr. Chairman, I——

Chairman BRADY. Yeah——

Mr. LARSON [continuing]. I do hope we have another hearing.

Chairman BRADY. Thank you, Mr. Larson. Ms. Jenkins, you are recognized.

Ms. JENKINS. Thank you, Mr. Chairman, and I want to thank all the panelists for joining us this morning. I have voiced my concerns many times about these recent tariffs and the harm that they could cause Kansas producers, manufacturers, and consumers alike. For instance, cattle producers, which Kansas ranks third nationally, note that beef exports account for around \$300 a head, a point reiterated by several Kansas cattlemen who were just in my office yesterday.

President Trump achieved a great victory last year by reopening the Chinese market to U.S. beef for the first time in more than a decade, but unfortunately, China has placed U.S. beef on a proposed tariff retaliation list, which could erase the gains our cattlemen and women have made in the Chinese markets.

So in addition to family farmer ranch operations facing down retaliation over trade restrictions, extreme and exceptional drought is also creeping across most of Kansas, diminishing the odds for bumper crops and resulting in extraordinary measures to protect our livestock. Every producer knows that access to foreign markets and low trade barriers are crucial for rural America, even in the best weather conditions, but especially so when the weather turns sour.

In fact, last month, the State of Kansas issued a statewide drought emergency, and the USDA recently reported that, nationally, just 32 percent of this year's winter wheat crop was in good or excellent condition, compared to 51 percent last year. In Kansas specifically, it includes rates of 13 percent very poor and 31 percent poor. For an additional frame of reference, some cattle producers in the State are having to feed cattle on those wheat fields because the pasture grass is yellow and brittle when it should be green and lush.

So with that being said, Mr. Heisdorffer, how do you foresee the long-term ag economy shaping up if periods of drought continue to hamper production and prices for what farmers are able to produce are greatly diminished from these tariffs and other threats of trade retaliation?

Mr. HEISDORFFER. Well, to start with, you know, if this drought continues, and it is in my area, too. I am in Southern Iowa. Northern Iowa is not quite that way, but Southern Iowa is. We drained the bucket last year, there is nothing left down underneath. And if that continues, yes, like I said, we are going to start to lose farmers. There is no doubt about it.

And livestock, yes, we might be able to get a little bit out of crops, but they are going to start selling off livestock, which I am sure is going to happen in your State. And as that happens, farmers are just going to go out of business. There is no other way about it. We put everything forward to our families as farmers, and we try to continue that generation after generation.

I am fourth generation, my son is a fifth, and we will keep that going, but I am so afraid for these young farmers nowadays, and not just that they may fail, but most of them are like me, who are in partnership with my son. And though I have had a lot of years of farming, they could take me along with them.

Ms. JENKINS. Well, thank you. I guess you have confirmed my fear as well. And with that, Mr. Chairman, I yield back.

Chairman BRADY. Thank you, Ms. Jenkins. Mr. Kind, you are recognized.

Mr. KIND. Thank you, Mr. Chairman. Mr. Chairman, I think you said it very well in your opening statement, I think all the panelists agreed, too, that with China, we have a problem. I think we are all in agreement that they are stealing our intellectual property, they are requiring technology transfers, they are requiring joint ventures that place our companies in a minority position, they are dumping steel below market price in the global marketplace, and that is something that definitely needs to be fixed.

But as someone who spent a strong proponent of a robust trade agenda in this Congress, I am afraid that America, we have a problem. We have an Administration that on day one turned their back on the most significant multilateral trade agreement in the 21st century, the Trans-Pacific Partnership, in the fastest-growing economic region in the globe, the Pacific Rim area. They put on ice the trade negotiations with the second-largest economic marketplace, Europe, with TPP.

They threatened to blow up NAFTA, now they are moving down the unilateral road of 232 and 301 trade sanctions, and they have not embarked on one new bilateral trade agreement in the year-and-a-half that they have been in office so far. Our trade agenda is seriously off the rails, and it needs to get back on track quickly, or we are going to be suffering economically as a consequence.

Mr. Dooley, I do subscribe to your viewpoint, but I think the unilateral approach makes it too easy for countries like China or anyone else to just retaliate in kind, and strategically hurt us where they know it is going to hurt the most. And that is something that should bother all of us. But I want to pick up on a comment that you mentioned in your opening statement, which I think bears a little fleshing out. Right now we are in the process, or the Administration put in a process exempting countries from the tariffs and requiring individual businesses to have to apply for exemptions, and you mentioned that we ought to be looking at allowing associations to be able to represent the members in the exemption. Why do you think that is important?

Mr. DOOLEY. I think Ms. Wilson also commented on this as well. When you have the requirement that an individual company has to apply for an exemption—and it is also, kind of, a black box process—and if you look at a lot of the companies that do not have the internal capacity that have the expertise to even, you know, go

through that process, it is a significant impediment. And it harms businesses such as Mr. Kennedy's, that are, you know, just—that is not what they do. They build and fabricate and, you know—

Mr. KIND. I have heard that there could be a number as high as 6,500 individual businesses applying for some form of exemption moving forward, is that right, Ms. Wilson? Or—

Ms. WILSON. I am not sure if it is 6,500, but we have almost 1,000 now, and if you just look at our membership, many of our companies are going to have to file multiple petitions for some kind of exclusion, product exclusion. I think the other thing that is of concern is the way I understand the process may have an initial application, and there may be a request for more information. And some of this information is going to be considered proprietary. I mean, as you can well imagine, one reason why we would like to see a blanket exclusion process is because many of our members bring in similar types of products. They do not necessarily want to say who that is—

Mr. KIND. Yeah. Well, I hope the Administration will take that into consideration as they move forward. Mr. Newport, listen, I really appreciate your willingness to stand up and defend your industry and the jobs that depend on it, but there is also an important ratio that we need to keep in mind, and that is 20 to 1. For every one job that is affected by the production of steel and aluminum, there are 20 jobs—and I am looking at Mr. Kennedy right now—that are affected by the consumption of steel and aluminum.

Can you sit here today and reassure a business like Mr. Kennedy's that you can replace the lost steel, that they could suffer with these tariffs and still be price competitive in the marketplace so that they are not losing contracts as they move forward?

Mr. NEWPORT. Yes, I think if you look over time, you know, we have been through it in the steel industry, whether it was 201 actions, et cetera, that the steel industry has been there to support manufacturing. And I think the key on the exemption process is making sure it is not another loophole. If we had trade cases that people had figured out how to get around, you have a 232 action becoming a process with exemptions that people are going to look for loopholes to get through. So the key is that it is effective, and that is really what the key needs to be.

We have been here, we are also a supporter, and when you think about what is coming from the tier ones going into the auto industry, besides the steel manufacture, we actually supply parts into the auto industry.

Mr. KIND. Mr. Kennedy, are you confident if the tariffs do move forward that you are going to be able to find replacement steel at a price competitive—

Mr. KENNEDY. Right now, our service suppliers have to get in line at the mill. I mean, there are hulls that are missing. A lot of that is the uncertainty. But there is a lot of fairly, freely-traded steel from our allies that we need. And then my question on the exemption is how do you exempt a new school or a new plant or a wing or a modification or product, a custom product, how do you exempt that? They are—

Mr. KIND. Yeah.

Mr. NEWPORT. And a comment, the tariffs are not stopping the imports.

Mr. KIND. Okay. Thank you, Mr. Chairman.

Chairman BRADY. Thank you, Mr. Kind. Mr. Paulsen, you are recognized.

Mr. PAULSEN. Well, thank you, Mr. Chairman. This has been a really good panel and a really good discussion. We absolutely need to target these unfair trade practices, especially by China, that absolutely has engaged in theft of American technology and innovation.

China's actions have undercut our workers, stealing intellectual property, enacting hostile policies, forcing our American companies, again, to give up their technology. But these solutions do need to be targeted narrowly to avoid inflicting harm on our consumers as well, and our job creators, as we have heard, that rely on fairly-traded imports in order to be competitive.

I have Minnesota medical device companies and supply industries that are very worried that the proposed tariffs under 301 on pacemakers, defibrillators, x-ray equipment, and orthopedics are going to end up making healthcare costs more expensive, drive them up. And, Mr. Chairman, I would like you to consent to enter into the record an April 6 article in the *New York Times* regarding this. If I could submit that for the record.

[The submission for the Record of Hon. Erik Paulsen follows:]

NEW YORK TIMES

Why Trump's Tariffs Could Raise the Cost of a Hip Replacement

By SHEILA KAPLAN and KATIE THOMAS APRIL 6, 2018

Pacemakers and artificial joints. Defibrillators. Dental fillings. Birth-control pills and vaccines. All are made in China, and all could be subject to new tariffs.

Dozens of drugs and medical devices are among the Chinese products and ingredients that the Trump administration targeted for a potential 25 percent tariff in a proposal this week. The list includes some products that are in dangerously short supply, like epinephrine, used to treat allergic reactions, and others, like insulin, whose rising prices have driven public outrage in the United States.

The proposed tariffs have unsettled the medical device and supply industries, given that a growing number of products, as well as their components, are now manufactured in China. In recent years, as trade groups have noted, Chinese manufacturing of medical equipment has undergone a major shift from throwaway items like surgical gloves to more complicated products like magnetic resonance imaging scanners.

China's medical device industry has been expanding rapidly. An International Trade Commission report in January said the fastest growth was in sales of implantable orthopedic devices, plates and screws, mostly made of titanium and used for surgery and sports medicine. One analyst estimates that about 12 percent of medical devices imported into the United States come from China, amounting to \$3 billion a year.

Several companies, including Medtronic and Zimmer Biomet, have orthopedic device factories in China that export goods to the United States.

In 2012, Medtronic, considered the world's leading medical-device maker, bought China Kanghui Holdings, a major provider of orthopedic devices in China. Any products shipped from those operations to the United States would be subject to the tariffs. Medtronic declined to comment, saying it was still reviewing the proposal.

And a report this week by RBC Capital Markets estimated that if the proposed 25 percent tariffs took effect, the move could cost the medical device industry up to \$1.5 billion each year. Some of the higher costs would undoubtedly result in increased prices for those devices, affecting baby boomers, who are now among the biggest recipients of hip and knee replacements.

Brandon Henry, a medical device analyst for RBC Capital Markets, said some of the bigger medical technology companies were surprised to find their products on the list.

Greg Crist, a spokesman for AdvaMed, the trade group for device members, said its members were "disappointed because this action threatens to affect the health and well-being of American patients and those around the world."

How much would be passed on to consumers remains unknown.

"The impact of this orthopedic device tariff isn't a straight line," said David A. Halsey, president of the American Academy of Orthopaedic Surgeons, in an email, adding that the group was working to assess the possible effects.

It is still unclear whether the tariffs will be enacted: Companies have until May to lobby the administration for changes. But on Friday, President Trump ratcheted up the pressure by threatening to levy tariffs on an additional \$100 billion in imports, provoking China to respond that it would strike back yet again.

Indeed, stocks of drug manufacturers remained largely unruffled after the unveiling of the list on Tuesday, but by Friday, the major medical device company stocks had dipped along with the overall market. Medtronic shares were 2.7 percent lower for the week, and Zimmer Biomet was down 2.4 percent.

It was unclear whether the tariffs would have a substantial effect on the drug industry, analysts said, even though China is a leading exporter of raw pharmaceutical ingredients. "We don't see much impact," Umer Raffat, a pharmaceutical industry analyst for Evercore ISI, said in a note to investors on Tuesday.

That is because many generic drugs that contain Chinese ingredients are manufactured in countries like India, meaning they would not be subject to the tariffs. And brand-name drugs made in the United States are frequently so expensive that the list price often has little connection to the product's manufacturing cost.

Nevertheless, at least one trade group sounded the alarm on the tariffs, warning that they could exacerbate the already contentious issue of health care costs, just when the Trump administration has pledged to take action to lower drug prices.

"We are concerned that the proposed tariffs may lead to increased costs of manufacturing for generics and biosimilars and thus higher prescription drug prices for patients in the U.S.," said Jeffrey K. Francer, senior vice president and general counsel at the Association for Accessible Medicines, which

represents generic-drug companies. The generic business has been struggling with falling prices even as brand-name drug prices have risen.

Several major manufacturers, including Pfizer, Merck and the generic-drug makers Mylan and Teva Pharmaceutical declined to comment.

“The cynic in me thinks this is another way for companies to say they need to raise their prices,” said Erin R. Fox, a drug-shortage expert at the University of Utah.

Ms. Fox said she suspected that the tariffs could exacerbate shortfalls of generic injectable drugs — decades-old products that are mainstays in hospitals and have been in short supply for years because of manufacturing problems and supply disruptions.

While many pill forms of generic drugs are manufactured overseas, most generic injectable drugs are made in the United States, using raw ingredients acquired from overseas. But because many companies do not disclose where those raw ingredients come from — saying the information is proprietary — it is hard to know the impact of the proposed tariffs, Ms. Fox said.

Two drugs on the list of 1,300 Chinese exports are epinephrine and lidocaine, which are both in short supply in their sterile injectable form.

“Things are so bad right now with the injectables, we don’t need anything else to pile on, to possibly make things worse,” Ms. Fox said.

Heather Zoumas Lubeski, a spokeswoman for Par Pharmaceutical, a major manufacturer of injectable epinephrine, said the company’s raw ingredients were imported from Europe and that the proposed tariffs would not have an impact on Par or its parent company, Endo International.

Even for some widely used products, it is unclear how American consumers would be affected. While insulin is on the list, all three major companies that sell insulin in the United States — Eli Lilly, Sanofi and Novo Nordisk — said they did not import insulin from China. (Novo Nordisk said that one rarely used insulin product, the NovoPen Echo, does come from China, but that the company was committed to keeping it accessible to consumers.)

Some analysts and trade lawyers pointed out that the list was an early draft and that many different industries and groups would be lobbying the government in the coming months so that their products would not be punished.



Mr. PAULSEN. Mr. Neal, if you want to sub in.

Mr. NEAL. I am ready.

Mr. PAULSEN. Okay. Without objection. But there are concerns here, as the article points out, that we are impacting consumers potentially with knee replacements, hip replacements that could go up because of orthopedic tariffs being put in place. And the Consumer Technology Association has outlined concerns that proposed tariffs on TVs and monitors will raise the price of a television 23 percent. And given Ambassador Lighthizer's testimony to us and to this Committee to minimize the impact to American consumers, this action just seems to contradict that testimony. And these are concerns that have been raised by the proposed \$50 billion of tariffs coming up on products. We do not even know what might be on the next potential list of \$100 billion that we are waiting on the Administration to potentially release.

And look, I think the pro-growth policies that we have seen implemented, especially the tax overhaul, now implemented over the last year, has put our economy in a really good place, adding 600,000 jobs just in the last 3 months, unemployment is at its lowest rate since 2000, and the economic growth numbers are averaging 3 percent in the last 3 quarters.

That is double what they were the year previous, and nearly every quarter. And I am opposed to broad-based tariffs that are going to essentially be taxes that can backfire and then reverse our ability for American businesses and jobs to grow and actually impose economic harm.

So, Mr. Kennedy, I want to follow up real quick in the time I have. I have heard the same concerns that you have expressed today from some of my Minnesota metal fabricating and manufacturing companies. They have seen steep price increases in steel, for instance, similar to the 40 percent you mentioned.

Now, they have also said that their supply has gone from maybe, like, a 6 to 8 week waiting outlook to jumping overnight to as high as 22 weeks. Can you talk a little bit about how that type of a jump in supply also impacts your pricing? Or your jobs—

Mr. KENNEDY. Sure.

Mr. PAULSEN [continuing]. Or your manufacturing and your ability to plan with certainty for the future?

Mr. KENNEDY. Sure, thank you, Mr. Paulsen. Yeah, we are affected a number of ways. One is obviously pricing. We are at a price disadvantage against our foreign competitors, and I would imagine those in Minnesota are really, really close to their Canadian foreign competitors. But lead times are an issue, too. If I cannot meet the expected delivery of my customer and my competitor can because they can get their hands on the steel, then they win the work.

You know, we talked about—you just mentioned that they can supply the steel, our mills can keep up, and it does not prevent imports. Well, uncertainty does. Uncertainty prevents imports. Right away, the imports stopped coming. Who is going to send that over not knowing whether or not it is going to be taxed or whether or not they are going to have to turn the ship around or dump it at a loss, and they are not going to do that.

And I can attest that our mills currently, a lot of those mills cannot keep up. And realistically, we should welcome competitive steel. We are not scared to compete, and I do not think that your Minnesota company fabricators are scared to compete. We want to compete, but we do not want our government putting up obstacles that prevent us from being able to compete. We worked hard to compete on our own and make ourselves competitive against our foreign competitors. But we cannot be at a price disadvantage to our competitors.

Mr. PAULSEN. You know, Mr. Chairman, I think what we have heard, and I agree, is that our American manufacturers can compete and win anywhere. And so we just have to have that certainty, a level playing field in order to be able to do that. And we can win and sell American goods in every respect.

Mr. KENNEDY. That is right, and you know what? Our mills can compete, too. I mean, Nucor Jewett is 2 hours from our facility. They are a U.S. steel producer, and they compete. They have hard-working guys. We come from the same stock of people over there. And they can compete.

But not every mill can compete, and not every fabricator can compete, and we should not pick winners and losers. We should not prop up companies or industries that cannot at the expense of those that can. And that is exactly what is happening now. There are some mills that are going back to work, and that is great. There are some mills that should never go back to work.

Mr. PAULSEN. Thank you, Mr. Chairman.

Chairman BRADY. Thank you. Mr. Pascrell, you are recognized.

Mr. PASCRELL. Thank you, Mr. Chairman. Mr. Chairman, the title of the hearing is "The Effects of Tariff Increases on the U.S. Economy and Jobs." This is about jobs. The Economic Policy Institute reports that 3.4 million jobs, American jobs, have been lost due to China trade since 2001. And I think it has been laid out here that our steel and aluminum production in this country has plummeted due to Chinese overcapacity.

We seem to know what the problem is. The question is what is the response? Many China experts and former government officials agree that our current policy just is not working. We have tried for over a decade. Past attempts at dialogue have not worked. A new approach is needed.

The question now is what is the new approach, and will it be effective? The threat of tariffs, however, may be necessary to getting China to reform its anticompetitive protectionist policies. We have seen the pros and cons of that. But an article in the *Times* the other day kind of sums up everything in our dilemma.

That article was on April 10, it was entitled, "How Long Can We Last Trump's Tariffs at Home in the United States?" And it was about a company based in McKeesport, Pennsylvania. The company makes seamless vessels to store gasses at a high pressure. Steel cylinders of up to six tons that it sells to the likes of the Navy, NASA, and T. Boone Pickens Clean Energy. It has received the first bill from the 25 percent tariff that President Trump placed on steel from China and a few other countries: \$178,703 assessed on steel pipe shipment scheduled to arrive at the port of Philadelphia today. That is equivalent to 2 weeks' payroll.

Overall, tariffs on steel pipe that the company has ordered from China—some are already on the way across the Pacific—will add more than half a million dollars in raw material costs over just 6 months alone. The article goes on to say, “‘How long can we last,’ mused Michael Larson, the company’s Chief Executive. ‘I do not know. We could go down relatively fast. The tariff will add 10 percent to the cost of CP Industries’”—that is the company—“‘their cylinders, which can sell for up to \$35,000.’”

Now, it would seem to me that we have a real dilemma when we try to respond. We have not been able to do it since this problem, as you pointed out, Mr. Paul, really struck us about 12 years ago, and onward. So how do we look at this? And how do we finally come to a settlement that is not just keyed in onto one industry, but it understands the effect that that industry may bring to other industries and the American consumer. That is not an easy thing to trace, is it, Mr. Paul?

Mr. PAUL. If it were easy, it would have been done, Mr. Pascrell. I think that is fair to say. This is a process that is—we are at the beginning of it. I agree that we need to get to a better point. My hope is that Ambassador Lighthizer and Secretary Ross are moving in that direction. I will say that this has worked both ways.

When our economy was humming along well, the steel industry was in a technical recession from about 2014 to about 2016 to 2017, and there was one reason for that and one reason only. And that was the overcapacity that generates all these other unfair trade practices that you see. For steel users, I think one of the solutions may, in fact, be downstream relief that should be temporary. I think the product exemptions—

Mr. PASCRELL. Well, some of these tariffs are temporary.

Mr. PAUL. Pardon me?

Mr. PASCRELL. Some of these tariffs—for instance, in the South Korean trade deal, we made them very temporary.

Mr. PAUL. Yeah, there is a quota with respect to steel from South Korea. It is also important to understand that there are hundreds of dumping orders in place now on various products including steel, and that is an imperfect process. It is like playing whack-a-mole with trade policy. It is very hard to accomplish. My hope is that we speed toward this global solution that you referred to, Mr. Pascrell—

Mr. PASCRELL. Mr. Chairman, may I make—thank you—may I make a recommendation, if you will? Is it possible that in this next hearing, if we put it together as Mr. Larson suggested, which I think would be critical, we bring some economists in? It was just the report that came out yesterday about the consequences of what these tariffs are going to do. And I think we can get both sides together and talk about this, because we have to make decisions ultimately.

Chairman BRADY. Thank you—

Mr. PASCRELL. Article 1, Section 8—

Chairman BRADY. We will certainly consider that. I would love, though, for some economists to be hearing from real-world people about these impacts—

Mr. PASCRELL. Yeah, I think it is a great idea.

Chairman BRADY [continuing]. And balance out, so we really hear both views.

Mr. PASCRELL. Good.

Chairman BRADY. Mr. Marchant, you are recognized.

Mr. MARCHANT. Thank you, Mr. Chairman. I am very privileged in my district to have some companies that have projects that they are building across the world. And they are projects that last 3 to 5 years when they start them. And one of the big concerns that they have is that they are mid-project in many of these, and they have no way to pass on.

They did not contemplate, had no way to contemplate that these tariffs would hit them mid-project. And they are concerned about starting new projects or bidding new projects now, and unfortunately, some of them may get shelved or postponed because of just the sheer unpredictability of the cost. I think some of those industries will affect some of your production, Mr. Dooley. I am sure, Ms. Wilson, these are a lot of facilities.

So, as these companies are beginning to deal with this, many of you deal with the production of the steel, fabrication of the steel. These are people that take the end product of your production and your fabrication and then try to piece them together into a very sophisticated module—a chemical plant, a power plant, you know, something like that.

What do you see as things the Administration can do in their rules that they are making, their product exceptions, et cetera, that we can make sure that these projects are not disrupted, Ms. Wilson?

Ms. WILSON. So the vast majority of our members make motor vehicle components for new vehicles, whether they are heavy trucks or light vehicles. The average—

Mr. MARCHANT. Toyota's headquarters is in my district.

Ms. WILSON. I know. And, you know, the average cost of a new car is about \$35,000. This is a major expenditure for most Americans. So what we see here is the cost of steel—and the vast majority of steel and aluminum comes from the United States. The cost of these specialty steels and aluminum, if it goes up, that cost is going to go down to the consumer. And at \$35,000, are we going to really be able to continue to sell cars? That is a serious concern for our members.

I think what we have to take a look at is this exemption process for the countries. We also have to really look at this exclusion process for products. Because, you know, a lot of the steels that go into something like this are not the steels that, you know, Mr. Paul has been talking about that we have problems with. They are very specialized, and what we would like to see is relief for those kinds of things immediately. And will it completely do away with the cost rise? Probably not. But it will help ameliorate it a little bit.

Mr. NEWPORT. Just one comment in regard—we are big in the auto industry, it is about 70 percent of our business, and we are also a direct supplier of parts. I think you have to put in perspective, there is approximately, on an average vehicle, one ton of steel used. And let's just use \$1,000 a ton on a high end for, you know, total metal products. And even if you put a 20 percent duty on that, you are talking \$200 a ton on an average \$35,000 vehicle.

So when we are looking at this, we are looking at cost impacts on different products that are a fraction of a percent. So I think we have to keep in perspective something even Secretary Ross pointed out, both in the steel and the industry—the aluminum industry—is really what is the overall impact—

Mr. MARCHANT. Yeah, and my projects, the companies that I am talking about—Fluor, Exxon—they are building projects that, after they are bid, they are 3 to 5 years out. And, Mr. Kennedy, you must be the provider for some of those parts, and they are needing some certainty to finish projects and bid new projects that sometimes just the preparation to bid is 3 years out. So that is what I am looking for in this entire process, some certainty to proceed and continue, not to disrupt the main business.

Mr. KENNEDY. Yeah, we are in the exact scenario. I mean, we have rights that are locked in on projects. We get on a vendor supplier list at the beginning of a 3-to-5-year project, and we put some level of uncertainty into our pricing as does every other fabricator in the world when they price it.

But when you immediately add a 25 percent tariff or effectively a 40 percent price increase, we are locked in on those rates, and our customers, even, are locked in on their rates. We still have to supply the steel for a year. We still have to supply the product, but we get no relief. We are bearing the cost. I can promise you we didn't have 40 percent profit in our number.

Mr. MARCHANT. Thank you, Mr. Chairman.

Chairman BRADY. Thank you. Dr. Davis, you are recognized.

Mr. DAVIS. Thank you very much, Mr. Chairman. I want to thank all of our very informative witnesses who have been with us this morning.

Mr. Paul, let me ask you, according to the *Guardian* April 7, 2018, issue, the world's richest 1 percent already own one-half of the world's wealth. And it is on course to control as much as two-thirds of the world's wealth by 2030. The wealthiest 1 percent is growing on an average of 6 percent annually, faster than the 3 percent growth of the remaining 99 percent of the world's population.

What type of jobs could be created with trade agreements and trade modifications that would encourage these individuals to invest and re-invest, and do you see tariff increases as bringing or attracting jobs and work opportunities back into the United States?

Mr. PAUL. Mr. Davis, these are good questions, and I appreciate them. Let me speak to the types of jobs first. First, we obviously have a diverse economy, and one that has been in transition for a number of years.

But manufacturing still plays an outsized role in our economy, both in terms of the types of jobs it provides—new evidence from the Economic Policy Institute shows that there is at least a 13 percent pay premium over the rest of the economy, and some studies show it to be larger than that—the types of manufacturing jobs tend to provide spin-off opportunities as well.

You know, if AK Steel has a steel mill, there is a downstream and upstream and a whole environment that is supported by those types of jobs. It is also fair to say, and I think you know this from talking to your local economic development officials, that getting a manufacturing facility is the holy grail.

Because they know if they get a manufacturing facility, they are likely to get mainstream small businesses to come along with that, they are going to get more income spent in the community. You cannot say that for all its virtues about a retail outlet. A retail outlet is not going to bring a factory in. But the opposite is certainly true.

So there is a value to these jobs that cannot be understated. The types of jobs that are being established or reestablished at the steel mills and aluminum smelters around the country are well-paying. Sixty-five thousand, seventy thousand, in some cases eighty or ninety thousand dollars.

One in particular in Granite City, Illinois, in your State, that is a community I have visited many times, was beset by extraordinary poverty because of these unfair trade practices. The fact that there could be a level playing field is restoring some hope. There are 500 jobs coming back. These are well-paying jobs that are simply irreplaceable in that metro area.

Now, with respect to the effectiveness of the tariffs in bringing these jobs back, again, I think on a temporary basis, companies respond to market signals. And if you need to build your steel facility in the United States, or your aluminum smelter, you will add capacity, you will add jobs to meet that demand.

I think at the end of the day, and something that probably unites us on the panel, is that none of us want Beijing calling the shots in the American economy. And having an authoritarian state capitalist regime is something that a private sector company should not be expected to compete against in a global economy. But that is the situation that we face right now.

To me, tariffs are an emergency room measure. They are triage until we can get a much more sustainable approach, but they are absolutely necessary to achieving the objectives that we are seeking.

Mr. DAVIS. Thank you very much, and of course, we know that China is the big elephant in the room. And would anyone quickly suggest something very concrete that we might be able to do with China?

Mr. NEWPORT. So there is an industry we have been working on globally with global producers in trying to address the overcapacity. So I think what this has done, the action that has occurred has actually resulted in probably the most amount of activity that we have seen collectively in the last couple of years. There has been some slow progress, as was mentioned at the G20 in OECD, but we are seeing action now in discussions with how to address it from many countries.

Mr. DAVIS. Thank you, Mr. Chairman, I yield back—

Chairman BRADY. Thank you, Doctor. Mr. Renacci, you are recognized.

Mr. RENACCI. Thank you, Mr. Chairman. I share President Trump's concern about unfair trade, including the global problem of overcapacity in steel and aluminum and the theft of American technology innovation. China is distorting the market and hurting Ohio workers and businesses through its aggressive and unfair policies. At the same time, it is critically important that we under-

stand and address any unintended consequences so we can collaboratively fine-tune the approach.

As I always say to my staff, if you do the right thing in Washington, there are no hard decisions. That includes favoring free trade when everyone is playing by the rules, always putting America first when other countries are distorting the market, and being ever-vigilant not to create winners and losers along the way. Before coming to Congress, I spent 35 years in the business world.

I started over 60 businesses I provided as context to explain how I view the product exclusion process from the 232 tariffs. While I understand the Commerce Department's need for detail before granting exclusions, it seems especially burdensome for small businesses lacking resources.

So I ask each of you the following yes or no question: are small businesses with very limited resources in a burdensome situation in navigating the product exclusion process, and would allowing them to pull together on exclusions via an association or other means, would that seem like it might help diminish the burden? So start from the left and move forward.

Mr. KENNEDY. Sure, but I would like to point out, how do you exclude certain products, like building a new school or a new hospital, or adding a wing to a facility or custom projects or modifications? How do you—

Mr. RENACCI. Well, that is why I am talking about the exclusion process. Is that burdensome, yes or no?

Mr. KENNEDY. Absolutely.

Mr. RENACCI. Mr. Wolfe.

Mr. WOLFE. I believe it is as well.

Mr. RENACCI. Mr. Newport.

Mr. NEWPORT. I do not see how you can bring them together because they are so unique.

Mr. RENACCI. Do you have any thoughts? Yes or no?

Mr. HEISDORFFER. I agree. Yes.

Mr. DOOLEY. Yes.

Mr. RENACCI. All right.

Ms. WILSON. Yes, we think it is very burdensome.

Mr. PAUL. I do not view it as necessarily burdensome. I think it is a necessary step in the process to ensure there are no loopholes or unintended consequences.

Mr. RENACCI. Again, it depends on whether you are the small business having to go through it, but I do understand. I am glad to see AK Steel represented here today as the last producer of grain-oriented electrical steel in the United States. As Mr. Newport mentioned, AK Steel was headquartered in Ohio. Their footprint includes Coshocton, Mansfield, Middletown, Walbridge, and Zanesville. I know Mr. Newport joins me in applauding the President's effort to crack down on unfair trade practice. We need hearings like this so we can work to avoid unintended consequences.

One such unintended consequence starts with the fact that the 25 percent steel tariff under the Section 232 action does not cover goods made from electrical steel. Leaving out these goods will result in a workaround to the 232 action in that manufacturers using electrical steel can avoid the tariff by simply manufacturing the product outside of the United States and then importing the goods

back into the country. Said differently, the concern is who is the biggest winners of the steel tariff could be foreign and domestic companies who manufacture outside of the United States before sending their goods into the U.S. market.

Mr. Newport, can you further explain the national security importance of the United States having the ability to produce electrical steel domestically?

Mr. NEWPORT. If you think about electricity, you need it to run businesses, you need it to power our homes, you need it to power the financial markets, et cetera. When you think about when a hurricane hits, what that has done to our country sometimes when you have had that hit and you have to get the power restored; when you think of the attacks that occurred in New York when power was lost and, you know, the financial markets were down and needing power restored; et cetera, you think of how quickly you need to get that power restored.

And we have taken actions in the industry to adjust our operations to make sure we prioritize our work to support that industry. And I think about it as if you have to rely on going to China, Japan, or Korea after a natural disaster or something else occurs, or have that product brought to our country if they choose to do so—and by the way, if they are the only ones producing it longer-term, what do you think will happen with the cost of that product if they choose to ship it to you.

And I do not think, as a country, we want to put reliance on another country for something that is critical to run our businesses, to run our companies, and actually to have economic growth in our country.

Mr. RENACCI. Thank you. I want to continue to work with all my constituents on how to make sure that we do not have any window between what the President wants to get done and what Ohio businesses and the economy really need. I am committed to helping all Ohioans in working through any issue that they have with the 232 or 301 tariffs.

I appreciate the Chairman, the staff, and my colleagues working with American businesses on addressing unintended consequences of tariffs. I also encourage my friends in the Administration, my colleagues here in Congress, to continue to work collaboratively toward the best possible outcome for the American people. And I yield back the balance of my time.

Chairman BRADY. Thank you, Mr. Renacci. Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chairman, and thanks to all of you for being with us today. And, Mr. Wolfe, as you know, our home State of Washington is the most trade-dependent State in the country. We are the gateway to some of the fastest-growing markets in Asia, and 40 percent of our jobs are tied to trade.

In an increasingly interconnected world, my constituents rely on open markets, whether that is selling berries and agricultural products overseas; being able to buy fresh, healthy produce in grocery stores year-round; or access to affordable technologies, like computers and smart phones that enable our students, our researchers, and our entrepreneurs to innovate.

But the impact of trade on our region extends well beyond our State. Many agricultural products from across the country, includ-

ing wheat, corn, and soybeans, make their way to China and other Asian countries through our ports. And on the other side, billions of dollars of imports headed to other parts of the country come through Sea-Tac in the ports of Seattle and Tacoma.

Mr. Wolfe, you touched on this in your opening testimony, but could you please expand on the economic impact they could have on Washington State, and also, on how many jobs in our region could be affected by a slow-down in economic activity due to tariffs?

Mr. WOLFE. Thank you. As you mentioned, some 40 percent of the jobs in the State of Washington are tied to trade. And we have talked about manufacturing jobs, and certainly manufacturing jobs are critically important to our economy. Yet, those are not the only jobs that are important to our economy.

Trade creates a tremendous amount of valuable jobs not only for the State of Washington, but for all of the United States. I am talking about jobs like the longshore jobs on the working water front, the truck drivers that service our gateway, the railroads that service our gateway, the warehouse distribution companies, and certainly the exporters that provide those goods to foreign markets.

So if we take a unilateral approach to trade policy where we are lobbying back and forth with our trading partner, China, we run the risk of damaging those valuable jobs, not just in the State of Washington, but throughout the United States.

I would say the impact just in the State of Washington could be tens of thousands of jobs if we enter into a trade war with China, because China is our most trade-dependent partner in the State of Washington. So it would have a huge impact on the economy in the State of Washington, and, I believe, throughout the United States.

Ms. DELBENE. Given supply chain disruptions and just uncertainty for businesses, we know that can cause people to lose long-term contracts. We also know that you can lose business quickly, and it is hard to get that business back.

Between these tariffs, and the fact that Canada is participating in trade agreements in Asia and with the European Union, are you worried about trade being diverted to Canada in the Port of Vancouver? And how would that hurt the long-term competitiveness of the Ports of Seattle and Tacoma and Sea-Tac?

Mr. WOLFE. Thank you for that question. Certainly, as we are situated geographically in close proximity to the Canadian gateway, we are seeing more and more trade move through the Canadian ports rather than using our gateway. There are a number of reasons for that, one of which is the potential risk of these tariffs on trade and the uncertainty that it creates for business.

I was visiting with one of our valued export customers just recently, a fruit grower in Eastern Washington, and they shared with me that although there still is uncertainty about the impact of trade, they are looking at those other gateways, including the Vancouver BC gateway, as an alternative gateway for their exports as a result of the discussion around trade disruption in the State of Washington and nationally.

So it is hard for me to measure the impact today, yet, that uncertainty is creating questions for the business community in our backyard and the potential of job loss.

Ms. DELBENE. And do you agree that if you lose that business, it will be a lot harder to get it back?

Mr. WOLFE. Absolutely. We have seen examples of where our customers have lost market share globally, and then we resolve whatever the issue was. I think even as an example, with the disruption on the West Coast between the employers and our labor partners a few years ago, there was a shift in the trade lanes as a result of that. And some of that market share, you never get back. And so there is certainly risk there.

Ms. DELBENE. Thank you. I yield back, Mr. Chairman.

Chairman BRADY. Thank you. Mr. Meehan, you are recognized.

Mr. MEEHAN. Thank you, Mr. Chairman. I want to thank this panel for a robust discussion. I think we have all benefitted from the idea that there are complex issues here, and I think we also all agree that we need to be dealing directly with the implications of Chinese dumping and other kinds of activities.

Mr. Chairman, I hope we also appreciate the 301 implications, because there is a lot of intellectual property and other kinds of issues, notwithstanding there are implications to what has been proposed.

And, Mr. Dooley, in your presentation, you discussed, I think, some merging opportunities to the United States, which have been realized by virtue of the shale revolution and investment in this country, which has really driven job growth, which has given us opportunities for international markets in chemicals and other kinds of things.

They are job creators, but one of the concerns I have, can you speak to the question of people who have not only made investments in those opportunities, but foreign-based investment that has come onto our shores to take advantage of this, and whether those long-term plans are implicated by this kind of inactivity, which causes an interruption that changes their projections?

Mr. DOOLEY. Yeah, thank you for the question. You know, as I stated, our industry has had a dramatic increase in our global competitiveness. There has been \$196 billion in new investment, half of which has already been completed or is in the process of construction, and the rest of it is in the permitting process. This is unprecedented. Sixty-three percent of that is foreign direct, so it is chemical companies from Europe, from China, from Brazil, from India that are recognizing that we have a global competitive advantage, and they are making significant investments here in the United States.

They are making these investments not to serve the domestic marketplace, but to capitalize on the U.S.' competitive advantage to serve the global marketplace. They are making those also predicated that we are going to have sound trade practices that will not result in implementation of tariffs against our exports of chemicals globally.

And that is what our concern is here, and that is where—you know, no one disagrees, you know, with the inappropriate actions in the market-distorting practices that are used in China. But I think what we should be focused on is what are the metrics for success? How do we determine when we are winning?

And that is what, if we are very concerned of the—right now, if you look at the Section 232s and the 301 tariffs, and we did an evaluation in terms of the metrics in terms of what were the economic impacts, you know, holistically, to the United States, we are convinced our industry would suffer. And I think you would say the soybean industry would suffer. You know, Ms. Wilson's constituency would suffer. It is just, you know, there are dramatic impacts. Maybe the steel industry and aluminum industry would see a marginal improvement.

But is that the right policy that is going to maximize the economic benefits that will benefit workers, that will benefit companies, small and large, in the United States? And that is where it is not the objective, but it is the tactical, strategic approach that you take. And we think that what we are looking at right now, if there is not significant modification in terms of what is ultimately implemented, is that it will have an adverse impact on the broader U.S. economy.

Mr. MEEHAN. And you talk about the implications. Mr. Newport, a question for you if you have a moment to answer it. Because I am concerned that when we look at the capacity to be able to supply here in the United States, if we are being challenged in terms of imports, do we have the capacity to meet these demands? And are there changes now with the abrupt, I guess, higher level that is being paid all over the investments that were made that were predicated on lower prices of steel?

Are we going to be able to meet that capacity to fulfill the requirements that we have currently? And are we going to be losing by virtue of people making changes in the kinds of aluminum and steel that they are manufacturing to meet, you know, this demand so that aluminum goes into high-grade things like airplane parts, but I lose the aluminum that is necessary for a can manufacturer in my district? How are we going to be able to assure that while this is going on, that we can supply the steel that is necessary for American-based businesses?

Mr. NEWPORT. I think two things: one, there is—

Chairman BRADY. Sorry, Mr. Newport—

Mr. MEEHAN. Maybe if there is an opportunity to—

Chairman BRADY. The time has expired. Perhaps you could answer in writing, Mr. Meehan—

Mr. MEEHAN [continuing]. Supplement the record in some way—

Chairman BRADY. Yeah, please. That is a great question. Thank you, Mr. Meehan. Ms. Chu, you are recognized.

Ms. CHU. Mr. Paul, I would like your viewpoint on this particular issue. In addition to being on the Ways and Means Committee, I am also a Member of the House Small Business Committee. Small businesses are extremely important to our economy. They create two out of every three new jobs, and in my home of Los Angeles County, many of these small firms have developed their business models to export overseas, often to Asian countries across the Pacific Ocean.

According to the Census Bureau, the majority of businesses engaged in importing and exporting goods are small or mid-sized businesses. In fact, 76 percent of exporters in the United States

and 75 percent of importers have less than 20 employees. Also, I understand that with the rate of U.S. goods being exported to China increasing by 579 percent between 2001 and 2017, trade with China has been particularly robust. Among the U.S. businesses exporting to China, 53 percent of them have fewer than 20 workers.

Given these statistics, I am concerned about whether imposing tariffs on China's exports in steel and aluminum and the retaliatory measures taken by China on U.S.-made products would have an impact on small businesses back in our districts. Can you speak to how small businesses may be impacted by the tariffs on steel and aluminum?

Mr. PAUL. Ms. Chu, it is a good question, thank you so much for asking it. I agree that small businesses and the U.S. business community in general can benefit from exports, and certainly China has been a growing market. I would like to see it grow even further. And with respect to both the steel and aluminum actions on 232 and the Section 301 action on intellectual property rights violations, I think the strategy is to ensure that we have a level playing field and that we have more market opportunities in China.

If you recall, Mr. Thompson talked about wine and the addition of the tariff on that. It is stunning to me that there is a 48 percent tariff on wine right now that China has and that we have not pushed back enough. Or with respect to soybeans, where there are limitations on value-added processed soybeans coming into China, they prefer to get the raw commodity.

There are far too many restrictions that China has in place that are limiting our export opportunities, which is why the boats going into Seattle and Tacoma are a lot heavier than when they are going out. I would like to see much more balance to this trade relationship. And part of that is to eliminate the market-distorting and anticompetitive practices that China has.

With respect to small businesses in particular, we are looking ahead at a lot of advanced technologies and thinking that the United States can have success because we are an innovation leader. I am thinking in particular of nanotechnology and biotechnology and artificial intelligence and robotics. All of these industries have been targeted by the Chinese government and its Made in China 2025 program to have national champions that will exclude competition from countries like the United States.

I view the tariffs as the beginning of the conversation rather than as the exclamation point at the end of it. I think we have a lot of work to do. I think there is many sectors of the economy that could benefit from a much more balanced relationship with China than we have right now.

Ms. CHU. Well, I am so glad you mentioned the wine, because, of course, that is a big issue in my State of California. China has increased tariffs on U.S. agricultural products such as wine, such as almonds, pistachios, and oranges that are grown in my home State of California. And according to the Wine Institute, China is one of the fastest-growing wine markets in the world and will soon be second only to the United States in value.

The value of the U.S. wine exports to China has increased 450 percent in the past decade, and it is an important export market for U.S. wine producers. And in 2016, 11 percent of California wine, which was worth \$160 million, was exported to China, and in addition, 12 percent of California produced almonds, worth \$518 million, was exported to China. And overall, there were \$2 billion worth of agricultural exports sent to China. So can you discuss how retaliation by China on these products may impact these industries in California's economy as a whole?

Mr. PAUL. Yeah, I do think that the retaliation to the extent that it is extralegal should be vigorously challenged by our U.S. trade representative at the WTO and through other mechanisms, including bilateral consultations. And I think that all of those efforts should proceed expeditiously.

Ms. CHU. Thank you.

Chairman BRADY. Thank you. Mr. Holding, you are recognized.

Mr. HOLDING. Thank you, Mr. Chairman. I appreciate you holding this hearing. It has been very informative. Like the other Members here, I completely agree that the issue of unfair trade practices by China must be addressed. North Carolina has a very diverse economy. I have heard from folks at home regarding how trade actions impact agriculture and manufacturing sectors, and if farmers from my district were here today with us, I think they would echo the points that have been raised by Mr. Heisdorffer.

So, Mr. Heisdorffer, you mentioned in your remarks that there is room to expand our exports into China. And you mentioned that we should focus on expanding our trade rather than restricting it, and I would agree with you. So my question to you is can you elaborate on what specifically we can do in order to expand our exports to China, and what barriers that you see right now that prevent us from expanding our exports to China?

Mr. HEISDORFFER. Yes, sir. Well, the United States Soybean Export Council works constantly through all countries, besides China. China was one of the first places they were in. It has been 20 or so years ago that ASA started in China to develop that trade, and now the Soybean Export Council does that in other countries, smaller countries.

We are going to have to continue to expand just to maintain what we have. Because, like I said, we have South America, who is more than anxious to take a penny of our trade if they can, and Mexico is our number two customer in soybeans, and our number one customer of soybean meal.

I cannot specifically tell you how we can just go in and—you know, we have more soybeans to sell. Let us try to sell them to China. If we keep working with them, we have expanded that market over a number of years, it keeps growing. If we can continue to do that, it would put us in good shape. So—

Mr. HOLDING. We will be on a good trajectory. So maybe as a followup, you know, what are the successful tools that American farmers are using today, as far as increasing their availability for exports and so forth? And can we strengthen any of those tools?

Mr. HEISDORFFER. That is correct. Where I said Brazil has more land, U.S. farmers have to use technology and new genetics in order to make up for larger production. And we have done that,

and we are increasing the yields significantly every year, as long as weather permits. And so we will continue to use those technologies to expand our production.

Mr. HOLDING. So we excel in technology, another reason why Chinese unfair trade practices and thievery of our intellectual property needs to be countered. Existing programs are out there to help farmers, are there any programs that you are aware of that are not working really as they are intended to work?

Mr. HEISDORFFER. I do not know what programs we have—yes, we have the ARC and PLC programs in the farm program. Those are only if you have a loss.

Mr. HOLDING. Right.

Mr. HEISDORFFER. And just like crop insurance, you have to have a loss. And no one wants to have a loss.

Mr. HOLDING. Right.

Mr. HEISDORFFER. So really, they are not any kind of a subsidy. You know, China says we are getting subsidies. Well, there is no subsidy, as you know, when it comes to the U.S. farming—

Mr. HOLDING. Right. Well, thank you, and Mr. Chairman, I think we have agreement that China is a strategic trader that will play by the rules when it only behooves them, and ignore them when these rules do not work in their favor. So I look forward to continuing our work here in the Committee on this issue. And I yield back.

Chairman BRADY. Thank you, Mr. Holding. Mr. Schweikert, you are recognized.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. Look, I am going to try not to go over the questions, because sometimes that is one of our bad habits is asking the same thing over and over. So let's actually take a slightly different approach. We know right now that a lot of our bilateral organizations that actually should have helped us head off massive excess capacity in China and other places are not working. And so this is going to be a novelty for me. I am going to actually start with Mr. Paul.

If I came to you right now and said, "As the United States and our trading partners, China being one of them, we need to change our bilateral organizations so they are no longer debating societies, where we sit there and talk and talk and talk and talk and talk and talk, and then we talk about talking. How do we actually move so things can move quickly, and that when there is actually a finding, that it is not just the marginal to that one sliver, but actually can move across the trading platform of the world?"

Mr. PAUL. That is a good question, Mr. Schweikert. I will first say that we are constrained somewhat by our obligations to the World Trade Organization. I am going to set those aside for a moment—

Mr. SCHWEIKERT. No. And I am living—this is on what being a utopian—

Mr. PAUL. Certainly.

Mr. SCHWEIKERT [continuing]. Instead of these flare-ups where we have to, in many ways, threaten trade to actually force what bilateral organizations should have already fixed.

Mr. PAUL. Absolutely. So you would need the collaboration of the major steel-producing companies of the United States, first of

all. And you have most of that through the G20—not all, but most. And what you would want to do is add the countries to that. You would want to establish objective criteria, and to ensure that countries are committing to aligning their supply and demand as much as possible, and that there are no government interventions in their industries.

For instance, 5 of the 10 largest steel companies in the world are owned or partially owned by the Chinese government. That is simply not a level playing field. You would have to provide some mechanism to——

Mr. SCHWEIKERT. Okay——

Mr. PAUL [continuing]. Alter that, and then there would have to be enforceable, agreed-upon—you would have to enforce those divisions——

Mr. SCHWEIKERT. Okay, so the checklist, I have had a fixation on timelines——

Mr. PAUL. Yeah.

Mr. SCHWEIKERT [continuing]. And responses instead of on delays. And forgive me, it is just the hazard of the 5-minute rule. Mr. Newport, I was under the impression, because of the low prices of our natural gas futures, a lot of other energy that we actually, if things were—what is the term, *ceteris paribus*, you know, level—we should be a low-cost producer in the world. Your opinion?

Mr. NEWPORT. Yeah, I believe we are very competitive. The thing we do not have that others have, like China, is government subsidies to support the business. So that is really what is key is having a level playing field.

Mr. SCHWEIKERT. Let's just do baseline energy costs compared to our other competitors, particularly Europe and other places where their hydrocarbons are imported in. What is the differential? What is our energy production cost? When you produce a ton of steel, you know, the dollars it costs, how much of that ton of steel was energy?

Mr. NEWPORT. It is a smaller percentage when you look at it. Raw materials and energy are probably about 60 percent of our cost. So the key component is your scrap and your iron ore that you buy.

Mr. SCHWEIKERT. Okay.

Mr. NEWPORT. And alloys and a lot of things from the chemical industry that we use for processing steel, et cetera. So energy is a piece of it, especially in the electrical and furnace business.

Mr. SCHWEIKERT. All right, and I am running out of time, and I wanted to get to this. How do you respond to Mr. Kennedy and—forgive me—even some of my family that is in the fabricating world that appreciate and have love and caring for the mill, but they make things, and there is a lot more of them making things, and the cascade effect of the price surges, particularly over the last, you know, 6 weeks, has not been particularly helpful to their contracts? What do I tell them?

Mr. NEWPORT. Well, I would comment on a couple of things. Just one, I think the market will settle down some. There has been overreaction, there has been a lot of uncertainty, I agree, there is a lot of uncertainty, which creates a lot of issues in all of our businesses and that we have to address. Also, in regard to supply mate-

rial, imports have not stopped. We have had successful trade cases, we have had these 232 reports flooding in——

Mr. SCHWEIKERT. Yeah. But it is just my fear that—and this is a horrible—I mean, you want to save, because we need the capacity, but there are multiples and multiples out there on the fabricating side, and they are also our brothers and sisters, and they should not be cast aside either. I yield back.

Chairman BRADY. Thank you, the gentleman's time has expired. Mrs. Walorski, you are recognized.

Mrs. WALORSKI. Thank you, Mr. Chairman. Thanks to all of you witnesses for taking the time to be here. It has been a fascinating discussion, I am thankful that you are here. We are here to examine the effects of tariffs on jobs and the economy, so I want to share some observations from my district. I want to provide some context before I do.

My district is in Northern Indiana, which has the second-highest concentration of manufacturing jobs in the country. They manufacture RVs, boats, trailers, and other heavy equipment. Plenty of suppliers are also in the area. The unemployment rate now in Cook County is around 2 percent, but there are thousands of jobs open on any given day, so really, it is more like zero.

These are good-paying jobs, too. The average RV worker's salary was \$68,000 in 2016, so this is what is at stake. With that in mind, I just want to relay some of the information that I have received from business owners in my district. If they were sitting here today, this is what they would tell you.

One manufacturer said, "We have seen a 50 percent increase in the price of steel, mostly since the tariffs were announced. Additionally, there is a shortage of steel. We are furloughing the production line in one facility today and will probably have to furlough some of the guys in our main facility later in the week due to lack of availability of material. We have raised our prices to customers because our product is a low-margin item. The combination of the increase and the lack of availability is affecting sales."

Another manufacturer that produces bearings said, "We cannot switch to a U.S. source, it would take 1 to 2 years for us to get approval from our customers if there was a U.S. source. We will continue to import steel and we will pay the duties. So far, we have incurred about \$15,000 in tariff costs with the potential of another \$240,000 based upon the orders we have already booked with our Japanese steel supplier."

We are moving forward with our exclusion requests. So far, the cost has been close to 100 hours to complete these exemption forms, along with some legal costs for review and advice. We are beginning to talk to our customers regarding possible price increases this summer."

A trailer manufacturer said, "We have rolling shortages of steel and we are on allocation from our supplier in Utah. Prices have already gone up 25 to 30 percent respectively on aluminum and steel because of speculation. Now we are seeing a trend past 30 to 35 percent each, and of course, I am livid. The manufacturer also cancelled a factory expansion that he was planning with his tax cuts."

A steel fabricator said, "We observed steel prices starting to move up in early 2017 on just the talk of potential steel tariffs, and a

sharp escalation in steel prices in the last 3 months as a tariff started to become reality. This has resulted in a 15 to 29 percent increase in the cost of our steel. To put this in perspective, our increase in steel cost is larger than the entire cost of providing health insurance to our work force."

A component manufacturer said, "We are the sole manufacturer left in the United States that manufactures this type of product. Our competitors import all or most of their finished product from either Mexico, China, or Vietnam, et cetera, therefore, avoiding any impact on this tariff. The bottom line in this is if you raise our steel and aluminum prices, our prices will have to increase in order to cover the cost. Our foreign competitors will not be affected. We currently purchase all of our steel and aluminum from domestic sources."

A canning company said, "We are in the process of trying to build a 147,000 square foot warehouse. The company building the warehouse gets their steel from Canada, a country exempted from the steel tariff. However, we are unable to get a firm quote even out of Canada, because prices are beginning to rise there as well with so much demand shifted to Canada. It is not on hold, we have to build it. So we are at the mercy of a volatile market."

And the final story I would share with you is a steel processor said, "When purchasing raw materials, we give preference to domestic steel mills wherever possible. We enjoy long, outstanding relationships with many domestic mills. We want them to thrive."

The actual dynamics of the entire metalworking market have evolved in the last 40 years. In some cases, we find the domestic mills cannot meet the quality standards required by our customers, or they cannot meet the quality standards at a competitive cost. In those cases, we will buy foreign material. Why put a tariff on these items?"

And, Mr. Chairman, with that, I yield back.

Chairman BRADY. Thank you. Mr. LaHood, you are recognized.

Mr. LAHOOD. Thank you, Mr. Chairman. I want to thank the witnesses for being here today and for your important testimony. I represent a heavy ag district in Central Illinois. Ours is the eighth-largest in terms of corn and soybean production in the country.

Also, I am blessed to have Caterpillar have their operational headquarters there. And whether it is Caterpillar or John Deere, or our farmers, obviously, they are affected by the Administration's current trade policy. And I have described the Administration's trade policy as in some ways unorthodox, unconventional. We have had Ambassador Lighthizer here, and Secretary Ross.

And, I guess, Mr. Heisdorffer, when I look at our ag community and I look at what is going on with NAFTA in our current negotiations, which, obviously, we are having our eighth round this week, and the concerns there in looking at the potential tariffs on steel and aluminum and the retaliation there, what we hear from the Administration is that give them some time in terms of negotiating.

But I look at the commodities markets, and I look at the prices, and the prices continue to go down. But I also look at what our farmers have to do to, you know, think out 6 months, 10 months,

a year in advance, and so much of what our farmers do is looking at the future and what they are going to do. And the uncertainty that we have right now is what I hear every day from my farmers, many of which supported the President when he ran.

You look at how well he did in Iowa and my part of the country, and we just had Secretary Ross here a couple weeks ago, and, you know, he was trying to reassure us and give them some time. I guess, I would ask you, what gives you comfort or reassurance with the direction we are heading as you talk to farmers in your area, and other soybean producers?

Mr. HEISDORFFER. More exports is, of course, our biggest push. We all have to make decisions, as you said, a year in advance, more or less. We are going to put in a corn crop, we have to start putting nitrogen on the year before. I am a livestock person, so we have that swine manure that we have to take care of in the fall, and we inject that into the ground, according to our manure management plan, and that is our nitrogen for our corn crop the following year.

So those acres are committed. And so soybeans work the same way. Whatever acres do not go to corn usually gets rotated. Understanding that your State is the number one soybean producer here—in the last few years, anyway—we are proud that we can produce a protein that will help feed the world. And soybeans are that protein. And we will continue to do that as long as we can, but any kind of interruption in our exports really hurts us.

Mr. LAHOOD. Thank you. Congressman Dooley, I appreciate your comments as it related broadly to trade. I want to maybe ask your comments when I look at the justification of what this Administration is looking at in terms of these tariffs on aluminum and steel and national security, and using that as the reliance and looking at the standard with the WTO and how these cases have been dealt with, it seems to me—particularly when you hear from our Defense Department on what they say about national security as it relates to steel and aluminum—and you couple that with the fact that we have not really partnered with our European partners or the Canadians or our other allies in terms of a trade strategy that would go after the Chinese a little bit more. Can you comment on that?

Mr. DOOLEY. Thank you, and I think that is—you know, when we look at the implementation of the 232s, it was on national security grounds. You know, there needed to be, from our perspective, a little consideration given to who are our strongest allies.

Is our national security really jeopardized because Canada is a source of steel to the United States? I would suggest not. Nor would I suggest that Mexico or Brazil or our allies in the EU were going to jeopardize their security and the U.S. national security by failing to import critical steel to the United States.

That group of allies, though, should be more aligned and prepared to engage with this Administration in a more aggressive, collaborative effort to put pressure on China to address some of their inappropriate practices that are leading to the excess capacity.

Mr. LAHOOD. Thank you.

Chairman BRADY. Thank you, Mr. LaHood. Before I recognize Mr. Kelly, I want to thank the witnesses for being here. I apolo-

gize, I have to scoot down to the White House. You know, April 17 is the last time Americans will have to file their taxes under this old, broken tax code that burdened American manufacturing and farmers with the highest tax rates in the world.

I want to thank you for being here. I am just going to—you have been a remarkable panel, and very insightful. Mr. Kelly, thank you for providing witness for us as well, and you are recognized.

Mr. KELLY. Thank you, Mr. Chairman. And thank you all for being here. I think we need to start talking about trade. There are so many different ways to look at it, but one of the things that I have been marveled at is that for decades now, we have complained about our loss of market share, somehow thinking that there is an honor system out there that people will just stop doing bad things to us because we are nice to them. I have to tell you, being in the automobile business and watching the loss of market share has been incredible. You do not get it back once it is gone. You do not get it back.

Mr. Newport, I cannot tell you how much I appreciate you being here today. You know, last week, during our work week, we actually went down to AK to watch them make the electrical steel. We watched them make that grain-oriented electrical steel. We also were up in Sharon—and Wheatland, too—when we were in Farrell looking at the crankshaft business up there at Sharon Crankshafts.

So with all that in mind, I was looking at some things here, and it says, “The U.S. power system is comprised of 3,300 utilities, 3,300 utilities that work together to deliver electric power through 200,000 miles of high-voltage transmission lines, 55,000 substations, and 5.5 million miles of distribution lines that bring electricity to millions of American homes and businesses.” And any of the system’s principal elements—power generation, transmission, or distribution—could be targeted, and we know that.

And the question is when you go to AK—and I watched the hard-working men and women of AK and what they are doing, and I have been there my whole life, so I know what they do, and I would really suggest that Members of Congress, instead of talking at it, go look and see what these people do. Actually see what it is we are talking about. Do not let somebody give you a bunch of talking points and say, “This is what it is.”

You are the last producer of electrical steel in the United States. I am constantly told about how fragile our power grid is, and how it is at the very—we could lose that, and if we were to lose that, what would the effect be on our national security? And I understand the concern about, well, what is going on now, and how this talk is being harmful to futures, and how it is disrupting.

I would just suggest that this idea, again, that people telling you, “Oh, no, no, Kelly, you know, free trade as long as it is fair trade.”

I say, “You know what, and so what do you do when you find that it is not fair trade?”

And they say, “Well, you go to the WTO.”

I say, “That is fine. And how many years does it take to get a ruling on it?”

“Well, you know, sometimes three, sometimes four.”

I said, “Okay, that ship has sailed. Okay, you win the case, you lose the market.”

I wish we would stop talking about unfair trade practices and change them to illegal trade practices. If we sit back—and we finally have a President that just didn't talk about it when he was campaigning or she was campaigning, but when the rubber meets the road, when you actually get in the office, well, it has only been 14 months, and I know we have passed no judgment on the previous couple decades that we just talked about it and did nothing.

Mr. Newport, could you talk about the effect, if we were to lose AK, if we were to lose the only producer of electrical steel in the United States, what kind of jeopardy that puts our power grid in?

Mr. NEWPORT. Yeah, when you think about it, if you would have something that would occur, whether it be a national disaster, you have a terrorist attack, or something else, or you just have something failing the system—which there have been blackouts that have occurred over the last decade or two in our country, and think about what that has done to businesses, what that has done to the financial markets, et cetera—how critical an impact, or how big of an impact that would have to our industry.

I can tell you, you know, the other competitor that produced the product went out of the business in 2016. Our business levels have not gone up, they actually have gone down. So our utilization is actually lower than it was a year ago, despite the other competitor that made it going out of the business.

But I can tell you also what will happen is if something would occur that they continue to flood the market and take over the market, if we weren't making it, when they are the only supplier, a foreign producer coming in, I can tell you what I believe would happen is the price of that is not coming down.

You think about that, what that could do to our energy costs, and what that can do to our businesses when we become solely reliant on something overseas, and I agree with you. It is getting fair trade. We have already, you know, taking on the trade wars, we have already faced it. It has been going on for decades.

We have seen it, as I gave examples, on electrical steel. And because people were unfairly and illegally trading steel does not give them the right to buy that steel. What we want is fair trade. If we cannot compete, that is fine. I have no problem with that. And we addressed that.

Mr. KELLY. Yeah, good. I wish I had time—we really do need to talk to all of you for a much longer time than this. You flew in from all over the United States and you get 5 minutes to talk about your concerns.

So we want to keep doing that, but I really do believe that at some point, you are going to not just talk the talk, you better walk the walk. And for us to sit back and allow the rest of the world to pick our pockets, and say, "I wish they would not do it," somewhere along the line, we are going to get caught up with this.

I have to tell you, being in the automobile business, there is very few people out of work that can buy a car or a truck. And I am watching this, and us losing. Our base, our manufacturing base, puts us in one hell of a bad position in a global economy right now, in a situation where everything is just so fragile.

So I want to thank you all for being here, you guys are tremendous for coming in. Ladies, thank you all for being here, we really appreciate it.

Ms. JENKINS [presiding]. Mr. Reed, you are recognized.

Mr. REED. Well thank you, Madam Chairwoman, and it is great to be way over here. I feel like I am in Kansas. It is good to see you. Anyway, I just want to thank the panel for being here, and I want to echo some of the things that Mr. Kelly, my good friend from Pennsylvania, indicated. And as this Administration goes down this clearly new trade policy and Putting America First agenda, I join in looking forward, not backward.

And one of the things that I know my colleagues have already touched upon a little bit is I do not think most Americans, when I go back to my district in Western New York—it is a rural area, my home town is Corning, New York, it is up near Buffalo, Rochester, the Pennsylvania border—they have no idea, as has been confirmed here today, that we do not have a trade agreement with China. China is operating under the WTO standards. Nobody knows what that is, that is a DC term, to a large degree, to the people that are working hard day in and day out in Western New York.

And so one of the things that I wanted to stress today and question the panel on, as we put these new tools in this trade policy, and as we go after that even, level playing field that we are looking to achieve—and I hear pretty much consistent agreement from the panel, that is, kind of, the outcome everyone is looking for here—as we go into that future negotiation possibly with China—and I was glad to see the president of China indicate a willingness in his public comments to engage in a conversation, I think that is critical to being successful here—what would you offer us, from your perspectives?

When we sit down at some point in time in the future—because I do believe we will sit down with these representatives from China and other trading partners—to address that even and level playing field, what are the priorities? How do we take on the overcapacity issue of steel coming out of China?

What are you looking for, what would you say to us as we build that next trade agreement? What would you say are the key provisions that have to be in that agreement to make it enforceable and ensure that American workers have that opportunity to compete on that even and level playing field? Anybody like to go first in regard to that? Go right ahead.

Mr. PAUL. Sure, Mr. Reed, I would be happy to. And I appreciate your leadership on manufacturing—

Mr. REED. I appreciate that.

Mr. PAUL [continuing]. I know you have done a lot of policy work on that. You can start with the Section 301 report. There are a number of commitments that China has repeatedly made to protect intellectual property, to stop cyber-hacking, to eliminate forced technology transfers, and to eliminate other anticompetitive practices that they have failed to implement. And there have to be, again, consequences for that, whether it is a loss of market access or tariffs or some other mechanism, there needs to be consequences for that lack of market norms.

The second thing, and this is the more troubling and difficult thing, is that China wants to be treated like a market economy, yet, it is fundamentally an authoritarian state capitalist regime that has resisted both bilateral and multilateral efforts to conform to world trade rules.

There is not an easy question for—or, there is not an easy answer for that, particularly with President Xi, kind of, doubling down on the desire to build national champions, and as I mentioned, Made in China 2025, which is targeting the next generation of our industries. It is steel today, it is robots tomorrow. We have a lot at stake here with respect to American innovation and American jobs.

But fundamentally, what hasn't worked is simply kicking the can down the road. We have been willing in the past—and I do not want to touch on it like you suggested—but we have been willing in the past to simply accept China's word and move on to get to the next negotiation. That has been a failed strategy. It has not worked. I am—

Mr. REED. Sanctions, so I am hearing—

Mr. PAUL [continuing]. I am glad, in a way, that the President has laid the cards on the table because—

Mr. REED. I appreciate that.

Mr. PAUL [continuing]. This is a long overdue conversation.

Mr. REED. And that is exactly where I am not going to go. And one of the things that I have not heard a lot of conversation on today, because we are talking about steel and aluminum: currency manipulation, to me, is one of the biggest things that is sticking out there unaddressed and is the elephant in the room.

So does anybody want to touch on that in my short time left? I would appreciate it. But are there any other comments? When we negotiate this with China, what are we looking for?

Ms. WILSON. I do not necessarily disagree with Mr. Paul. I think we have long been a champion on IP rights with our manufactured products. But I think what we are hearing from our suppliers is because we have cast a wide net, we are bringing in product and we are having consequences that are going to affect U.S. workers.

Mr. REED. And I appreciate that short-term consequence—

Ms. WILSON. That is the reason that has brought me here. There is no—

Mr. REED. I am looking at the long-term—

Ms. WILSON [continuing]. Yeah, I understand.

Mr. REED [continuing]. The long-term effects. Anyone else—

Ms. WILSON. The short-term would hurt us.

Mr. REED [continuing]. Want to offer anything, especially on currency? Yes, sir.

Mr. WOLFE. Yes, I would just encourage us to look at leveraging the export opportunities and some of our small- and mid-sized business and the growth markets in China.

Mr. REED. Perfect, thank you. Well at that, my time has expired. Thank you, Madam Chair. And thank you to the witnesses.

Ms. JENKINS. Mr. Smith.

Mr. SMITH OF MISSOURI. Thank you, Madam Chairwoman. Thank you all for being here. I definitely appreciate the conversa-

tion. I represent Southeast Missouri. We have been devastated by the illegal dumping practices of the Chinese when it comes to aluminum. In March of 2016, I saw 900 jobs vanish because we could not smelt aluminum the way we had for decades, because of the illegal subsidizing of the Chinese government of aluminum.

Let me give you some interesting numbers that need to be reiterated, because some people may not understand it, based on the conversations I have heard today. In 2000, the Chinese produced roughly 10 percent of the world's aluminum. This was in the recent report that was put out by Secretary Ross at the Department of Commerce.

As of 2015, they produced over 55 percent of the world's aluminum. In 15 years, they went from 10 percent to 55 percent, roughly. In that same timeframe, in 2000, we had just under 20 aluminum smelters in the United States. Up until just recently, we had two fully operational aluminum smelters.

High-purity aluminum is very important for our national defense efforts. We all know that. That is what came out in the report. But we only had one plant doing it. Now we are going to have two. The day after the President issued his aluminum tariffs, I stood in New Madrid, Missouri, with the announcement of 450 new jobs that were opening up.

My district is an agriculture-based district. The largest community is 38,000 people. We grow more soybeans in Southeast Missouri in seven counties than the entire State of Missouri. But we also have an aluminum smelter.

Granite City, Illinois, is 50 miles from my congressional district. We have been hit hard by the illegal Chinese practices. When we talk about a trade war, and people talk about a trade war, Mr. Paul, do you know how many tariffs the Chinese impose on products that come into their country? How many different tariffs? Could you guess?

Mr. PAUL. The Chinese have significant tariffs on virtually every American product coming into its country.

Mr. SMITH OF MISSOURI. They have over 19,000 tariffs on goods coming into China. We need to remember that as U.S. citizens, that the Chinese are not looking out for the American citizen. The Chinese are not looking out for the American worker. The Chinese are not looking out for the American farmer. That is why they have all kinds of tariffs on added-value soybean products. And that is why they decided to go after the soybean farmers in Southeast Missouri with a 25 percent tariff.

I hope that the president of the Chinese government will decide to work and negotiate with President Trump. That is what he is asking for, that is what we are needing. We are needing fair agreements, fair deals, to look out for the Americans. They are pulling out billions, hundreds of billions of dollars of our wealth by unfair trade practices, by over 19,000 trade tariffs. Whether it is steel, aluminum, soybeans, corn, biodiesel, pork, or beef. All of it. And we need to do everything we can in supporting the President to make sure we get the best agreement possible so that we are treated fairly and appropriately.

And so I thank you for the conversations, but I think we need to understand that the true problem that we have to look at are

these countries that are not treating us fairly. We just want to be treated fairly. We want to be good neighbors, whether it is Canada or Mexico or China or South Korea. We want to be good trading partners and good neighbors, but we want to be treated fairly and appropriately.

We want to make sure the soybean farmers in Southeast Missouri are getting the best, best value for the products that we grow. We want to make sure that the aluminum industry and steel industry are thriving and surviving.

But we have to do that by making sure we are not taken advantage of. And we have been taken advantage of for way too long. And it has been on the backs of American farmers, American workers, and American manufacturers.

And let me just point out, the *Wall Street Journal*, on April 6, talked about aluminum decreasing since March 1 by 4 percent. They got a 10 percent tariff, but the price of aluminum has decreased by 4 percent. That is the opposite of what everyone said prior to the President proposing that. We just need to make sure things are fair and free, but when 19,000 tariffs are imposed by one country, that is not fair. Let's look at the Chinese. Thank you, Madam Chairwoman.

Ms. JENKINS. I, too, would like to thank our panelists for appearing before us today. Please be advised that Members have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record. With that, the Committee stands adjourned.

[Whereupon, at 1:16 p.m., the Committee was adjourned.]

[Submissions for the Record follow:]



April 25, 2018

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
1102 Longworth HOB
Washington D.C., 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
1139E Longworth HOB
Washington D.C., 20515

Dear Chairman Brady and Ranking Member Neal,

We write to express Acuity Brands' concerns about the economic effects of recent trade actions both undertaken and proposed by the Trump Administration. Specifically, we are concerned that the recently-enacted steel and aluminum tariffs, along with the proposed tariffs on Chinese goods, will harm American businesses in a variety of ways—making it harder for them to affordably acquire necessary materials, utilize existing supply chains, and compete in both domestic and international markets.

For reasons explained in further detail below, Acuity Brands urges Congress to work with the Administration to evaluate both the 232 tariffs and the proposed 301 tariffs, carefully consider the full scope of the economic impact they may have on many American businesses and industries (e.g., cost increases for component parts and materials, supply chain disruptions, loss of technological advancement and efficiency improvements, etc.), and tailor any finalized tariffs in a manner that minimizes potential harm to American companies.

I. Company Background

Acuity Brands, Inc. (NYSE: AYI) is a North American market leader and one of the world's leading providers of lighting and building management solutions for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and select international markets. With fiscal year 2017 net sales of \$3.5 billion, Acuity Brands currently employs approximately 13,000 associates. We are headquartered in Atlanta, Georgia and have operations throughout North America and in Europe and Asia.

The Company's lighting and building management solutions vary from individual manufactured products to intelligent network systems. Individual products include luminaires, lighting controls, emergency lighting, lighting components, controllers for various building systems (including HVAC, lighting, shades, and access control), power supplies, and prismatic skylights. Networked systems, meanwhile, allow the infrastructure in buildings, roadways, and properties to communicate data regarding operations and activities; this can optimize energy efficiency and enhance building occupants' experiences—all while reducing operating costs.

II. The Steel and Aluminum Tariffs Unfairly Harm American Businesses

With regard to the steel and aluminum tariffs, we remain concerned that they unfairly penalize a number of U.S. businesses across a variety of industries. As we have noted in previous communications with the Committee, Acuity's ability to continue innovation in the lighting and building management sectors, as well as the networked systems and Internet of Things sector, is directly impacted by these tariffs. Despite Acuity's strong business relationships with domestic steel mills, the tariffs have created metal availability and pricing concerns, as well as sourcing uncertainty, which threaten to harm Acuity's ability to provide the highest-quality products and services to our customers at the best cost.

First, the fast implementation of the tariffs has put strain on domestic steel capacity, as domestic mills are unable to ramp up production immediately to meet demand. In many cases, domestic capacity will not be able to meet demand for at least a year, and in the interim, there are no safeguards to keep the cost of processed steel and aluminum from spiraling higher and higher (even beyond the percent increase from the tariff). Even when full domestic capacity is achieved, there is no guarantee that prices will be affordable for businesses. Meanwhile, processed steel from China is being imported without any implication of increased tariffs, further harming U.S. businesses.

Second, while Acuity has worked to maintain strong relationships with domestic mills, many of those mills may have relationships with and supply lines through other countries that have been impacted by the tariffs. Although we understand and appreciate that the Department of Commerce is working to process country exclusions, there remains a high degree of uncertainty about which countries may get an exclusion or how long they will last. This uncertainty hampers Acuity's ability to plan sourcing strategies with any degree of reliability, hurting our business and our customers.

Third, in addition to the impacts on Acuity and the lighting/building solutions industry, we would note that the impacts of the tariffs will have ramifications for a much broader swath of industries. For example, pricing uncertainty resulting from the tariffs could negatively impact any construction projects—including school and hospital projects, commercial renovations, and so on—that use Acuity products. Furthermore, the energy efficiency sector, which employs more than 2 million Americans and is growing, could take a hit as energy-efficient lighting products will become more expensive and less available for use. This will harm Acuity's sales, as well as the ability of these related industries to expand their economic impacts. It also will negatively affect the long-term environmental benefits and monetary savings for businesses that result from construction of energy-efficient buildings.

In sum, while we appreciate the intended goal of supporting the domestic aluminum and steel industries—as noted, Acuity is a strong supporter of U.S. steel, purchasing much of our steel from U.S. mills—we are concerned that the tariffs may ultimately operate as a de facto tax on domestic manufacturers of finished products across the nation, harming not only Acuity, but a multitude of other businesses across a variety of industries.

III. Tariffs on Chinese Goods Threaten to Increase Costs of Energy-Efficient Goods and Smart Technologies

As an initial matter, Acuity takes pride in being a U.S.-headquartered manufacturer that provides more than 4,000 good-paying domestic jobs to hard-working Americans. We are concerned that the proposed tariffs on Chinese goods, particularly those that target electrical component parts, will affect Acuity's ability to maintain its competitive business standing. Moreover, beyond the potential direct impacts on Acuity, the proposed tariffs also threaten to harm the U.S.'s status as an innovation leader in emerging areas such as energy efficiency and smart technologies.

With regard to the Trump Administration's Section 301 investigation into Chinese trade issues, we do understand—through direct experience in our industry—the desire to attempt to curtail China's less-than-favorable trade behaviors. We are concerned, however, that inclusion of certain products on the list of goods that may face additional tariffs could harm Acuity's business, the broader lighting industry, and related industries.

In particular, we are concerned about the list's inclusion of electronic components and LED chips that are vital parts of a number of energy-efficient products and smart technologies that Acuity produces. These parts are not easily sourced, as they are not generally available from domestic suppliers and it would be incredibly difficult to adjust Acuity's supply chains. Ultimately, Acuity would likely have to bear an increased cost for these products. Preliminary estimates show that the tariffs on these products could end up costing Acuity as much as \$10 million annually, as long as the tariffs are in place.

In addition to the immediate effect of increased costs for products, Acuity would also be likely to face longer-term supply chain disruptions as a result of the proposed tariffs. Many vendors who manufacture impacted components or materials in China are already developing plans to shift production to other low-cost countries. As such, we are concerned that U.S. manufacturers could be faced with significant business disruptions without an offsetting benefit for U.S. labor. Moreover, the proposal could simply shift the trade deficit to different country.

The tariffs would also put Acuity and other domestic manufacturers at a competitive disadvantage by exposing them to tariffs on necessary components and materials, while finished goods may still be imported from foreign countries at a rate much lower than the proposed component tariffs. This creates a compounded burden on domestic manufacturers who may be exposed to both increased costs for components and lost sales resulting from imported, low-cost finished goods. Customers are aware of these issues and could be driven to shift their purchases to vendors outside the U.S., further harming Acuity's business prospects.

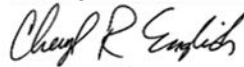
Ultimately, therefore, Acuity risks facing increased cost burdens associated with the tariffs on vital component parts, as well as supply chain disruptions, both of which would affect Acuity's ability to competitively price its products. Meanwhile, Acuity is already facing increased competition from foreign companies that do not have to contend with the tariffs, as well as an increasing competitive disadvantage from companies that can import finished goods.

IV. Conclusion

Again, Acuity urges Congress to work with the Administration to evaluate both the 232 tariffs and the proposed 301 tariffs, consider the full scope of the potential economic harm that could impact a variety of industries across the country, and tailor the tariffs accordingly. One manner in which the tariffs could be tailored, for example, is through a specified timeframe for their application (we would suggest less than one year). Addressing unfair trade practices by other countries should not come at the expense of American businesses. Instead, policies should be implemented to, among other things, avoid disruptions in global supply chain strategies and minimize uncertainty for domestic manufacturers.

If properly designed and implemented, tariffs can help address trade imbalances and unfair trade practices without harming the ability of American businesses to succeed and grow. Moreover, appropriate trade actions will not harm the ability of the U.S. to lead in areas such as energy efficiency and smart technologies. We appreciate the focus Congress has placed thus far on the larger real-world impacts of the Administration's recent trade actions, and we ask that you continue to work to minimize harm to U.S. businesses.

Sincerely,



Cheryl English
VP, Government & Industry Relations
Acuity Brands
Cheryl.English@AcuityBrands.com
770-860-2660

CC: The Honorable David Reichert
Chairman
Subcommittee on Trade
Committee on Ways and Means
1103 Longworth HOB
Washington D.C., 20515

The Honorable Bill Pascrell, Jr.
Ranking Member
Subcommittee on Trade
Committee on Ways and Means
1103 Longworth HOB
Washington D.C., 20515



STATEMENT FOR THE RECORD

SUBMITTED BY:

THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION (AdvaMed)

HOUSE WAYS AND MEANS COMMITTEE

**HEARING ON THE EFFECTS OF TARIFF
INCREASES ON THE U.S. ECONOMY AND
JOBS**

APRIL 12, 2018

Introduction

The Advanced Medical Technology Association (AdvaMed) appreciates the opportunity to provide comments on tariff policy to the House Ways and Means Committee. AdvaMed represents approximately 300 of the world's leading medical technology innovators and manufacturers of medical devices, diagnostic products and medical information systems. AdvaMed members range from the smallest to the largest medical technology innovators and companies.

AdvaMed is dedicated to the advancement of medical science, the improvement of patient care, and in particular, the contribution that high quality health care technology can make toward achieving those goals. We are a research-intensive industry, spending as much as 20 percent of revenue on R&D to provide patients the most innovative technologies and to compete in a highly competitive global market.

The medical technology industry, an American success story, is one of the few remaining manufacturing sectors of the U.S. economy with a positive net balance of trade. The people who work in the U.S. medical technology industry depend on trade to ensure security, growth, and new opportunities. In fact, medical technology industry salaries are nearly 30 percent higher than the average U.S. salary because the industry employs so many highly skilled workers in the areas of research and development, manufacturing, sales and management. The medical technology industry is responsible for nearly 2 million high-paying U.S. jobs – roughly 519,000 directly and 1.6 million indirectly – and 9,800 manufacturing facilities across the 50 states.

Medical technology accounts for 3 percent of U.S. Gross Domestic Product. The U.S. exports over \$50 billion worth of medical devices annually. Opening markets and ensuring a level playing field are essential to the future growth of the U.S. medical technology industry.

Background

Section 301 of the U.S. Trade Act of 1974 authorizes the President to take action against a foreign government that implements policies that violate international trade agreements or is deemed unjustified, unreasonable, or discriminatory, and burdens or restricts U.S. commerce. Section 301 can be self-initiated by the United States Trade Representative (USTR) or by petition from an affected stakeholder. Typically, the goal of a Section 301 investigation is to negotiate a settlement that results in the elimination of a harmful trade barrier.

Initiation of Section 301 investigation against China began August 2017 and is in response to the Administration's position of China's unfair trade practices related to the forced transfer of U.S. technology and intellectual property theft. A final report of this investigation was released

on March 22, 2018, with a list of products subject to a 25 percent tariff released by the USTR on April 3, 2018.

The list provides a 25 percent duty be applied to around 1,300 tariff lines worth around \$50 billion in total on Chinese goods imported into the U.S. It is anticipated that the USTR will issue a final determination on the products subject to the additional duties by late summer at the earliest.

Problem

Improving Access for U.S. Medical Technology Manufacturers to Chinese Markets is Threatened. The Chinese medical technology market is over \$25 billion. China imports about 70 percent of its medical devices and imports are expected to grow. U.S. companies continue to be the leading suppliers of medical devices to China, capturing one-third of all medical device imports. China's growing economy and middle class, and increasing demand for healthcare by a rapidly aging population will continue to make the country an attractive market for U.S. medical technology manufacturers.

USTR's Section 301 Report DID NOT Include Medical Technology. USTR's 183-page report released on March 22, 2018, "Findings of the Investigation Into China's Acts, Policies, and Practices Related to Technology, Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," does not mention medical devices. Thus, it was a surprise to see USTR's 301 list includes tariffs on medical technologies.

Medical Technology is Approximately \$3 billion of the \$50 billion in Goods. There are *at least* \$3 billion worth of medical technology products on the 301 list. This is a significant amount focused on one industry that the USTR did not find evidence of forced technology transfer or intellectual property theft.

Impact of Tariffs on Medical Technology is Likely Understated. The \$3 billion estimate only includes medical devices specific tariff lines using 2016 trade data and does not account for the various non-medical device component parts (semiconductors, switch boards, etc.) that are included in finished medical device products. Thus, the impact on the medical technology industry is understated, unfair, and unnecessary given the absence of medical technology in USTR's March 22 report.

Impact on Healthcare Costs. Numerous studies have shown that medical technology not only directly impacts the health, well-being and life of Americans, but also provides significant economic benefit. A 25 percent tariff could increase the cost of healthcare and limit patient access to life-saving technology.

Non-tariff Barriers Could Be Implemented. Even though China's initial retaliation list did not include medical technology, the government could impose non-tariff barriers that would detrimentally impact U.S. manufacturers and negate significant policy gains we have made in

China in recent years. For example, localization, regulatory and procurement policies could be implemented in response to USTR's Section 301 List, with the ultimate benefit of improving China's domestic industry and strengthening their position to compete internationally at the expense of U.S. firms.

Solution

We believe a successful negotiating resolution to the current crisis is possible and strongly encourage that medical technology be removed from the current USTR 301 list as this process moves forward. As noted by USTR's March 22 report, the lack of evidence of forced technology transfer and intellectual property theft does not warrant tariffs on medical technology. Implementing tariffs on medical devices could increase health care costs, limit access to life-saving medical technology, and harm U.S. manufacturing and jobs.

List of medical devices and diagnostics included in the USTR 301 list:

- X-Ray, generators, screens, desks and chairs associated
- Ultrasound
- MR
- CT
- Needles
- Catheters
- Defibrillators
- Hearing aids
- Pacemakers
- Orthopedic appliances and artificial joints
- Radiation Therapy
- EKG
- Syringes
- Scintigraphy, SPECT and PET
- Patient monitoring systems
- Ophthalmic devices
- Anesthesia delivery
- Psychological aptitude testing apparatus
- Respiration devices
- Dental (e.g. drills, burs, fillings, artificial teeth)
- Thermometers
- Electrosurgery devices
- Drains
- Flu kits
- Cannulae (tubes)
- Blood grouping reagents
- Wound care, e.g. adhesive dressings
- Ostomy appliances





SUBMITTED COMMENTS OF
AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs

United States House of Representatives
Committee on Ways and Means

April 12, 2018

American International Automobile Dealers Association

500 Montgomery Street, Suite 800

Phone: 703-519-7800 Fax: 703-519-7810

United States House of Representatives

Committee on Ways and Means

Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs

SUBMITTED COMMENTS OF
AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

This statement is submitted by the American International Automobile Dealers Association¹ (AIADA). Established in 1970, AIADA is and continues to be the only association whose sole purpose is to represent America's international nameplate automobile franchises that sell and service vehicles in the U.S. Our mission is to increase awareness in Washington, D.C., and around the country of our members' contributions to their communities and the American economy, and to preserve and promote a free market for international brand automobiles in the United States.

Affordability

According to Forbes², there are five areas of spending that will consume over 50% of the money earned by American consumers. The five areas are: home, car, children, education and retirement. For most, the biggest purchase will be a new house, whether it's a condo or a single family home, housing is the largest portion of most budgets. Following the purchase of a house, the consumer's automobile is often the next largest. Statista³ and the U.S. Department of Transportation estimated that there were nearly 222 million licensed drivers in the U.S. that drove over 268 million registered passenger vehicles in 2016. Increasing the cost of an automobile will affect nearly all of them.

The concern of affordability is not new to the auto industry. The economic logic most budget conscious consumers follow when financing an automobile is the 20/4/10 ratio. That means,

¹ AIADA represents America's international nameplate automobile franchises that sell and service the following brands: Acura, Aston Martin, Audi, Bentley, BMW, Ferrari, Genesis, Honda, Hyundai, Infiniti, Jaguar, Kia, Land Rover, Lexus, Maserati, Mazda, Mercedes, MINI, Mitsubishi, Nissan, Porsche, Rolls Royce, Smart, Subaru, Toyota, Volkswagen, and Volvo. These retailers have a positive economic impact both nationally and in the local communities they serve, providing more than 550,000 American jobs. Visit AIADA online at www.aiada.org.

² Forbes, Five Expenses That Will Consume 50 Percent Of Your Lifetime Earnings, <https://www.forbes.com/sites/work-in-progress/2010/08/02/lifetime-earnings-home-car-children-education-retirement/#2d15b54f507d>

³ Statista research and analysis is a combined provider of market research as well as research and analysis services.

when buying a new vehicle a consumer should put down at least 20 percent, finance the car for no more than 4 years, and keep the monthly payment at or below 10 percent of your pre-tax monthly income. Consequently, when the cost of new vehicle rises by even the smallest amount, via regulation, tariffs or taxes, auto dealers become concerned that those new costs will reduce sales.

As technology has advanced, as regulatory burdens of manufacturing have increased, and with time, the cost of vehicles has increased. In March of 2018, Kelley Blue Book⁴ reported the estimated average transaction price (ATP) for light vehicles in the United States was \$35,285. This cost is an increase of \$703, up 2 percent, from March 2017. At the same time, household income has remained fairly stagnant. Cox Automotive⁵ found that while the current average price of a new car has increased by 35 percent in the past 20 years, household income has only increased by 3 percent. New tariffs would make an already bad situation worse.

Tariffs have already impacted the auto industry for over fifty years. Today there is a 2.5% tariff on cars entering the United States and a 25% tariff on trucks – it's often referred to as the Chicken Tax because it was put in place in 1963 in response to a German tax on chicken. The Chicken Tax has been around so long consumers don't realize they are still paying it when they go truck shopping, but it's why there are only six brands of pickup trucks to choose from and over 30 brands of sedans. Without competition for international nameplate brands, domestic truck manufacturers are free to markup their trucks knowing options are being artificially limited for American truck buyers.

The impact of proposed tariffs would be felt throughout the entire dealership. In addition to the increase in the cost of the vehicle, servicing and repairing a car would also increase, as tariffs would also cause the cost of individual parts to rise. Consumers least able to afford the added cost will be the most impacted. Customers need safe cars and trucks to transport their families and get to work. They don't need a new consumer tax, i.e. tariff, increasing the costs of their necessities.

Tariffs that take the form of taxes on consumers would significantly impact new car sales through higher prices, reduced demand, restricted choice, and new obstacles for customers seeking auto loans.

⁴ Since 1926, Kelley Blue Book has been one of the best-known names in the auto industry. Today, KBB.com extends the tradition, with trusted values and a reputation for innovation, including resources to help you research, price and shop for the car you've been looking for.

⁵ Cox Automotive is a leading provider of products and services spanning the automotive ecosystem. No matter the stage of the auto buying or selling process, we have a solution for clients of any size.

For example, a recent study⁶ completed by the Council on Foreign Relations analyzed the effects of the proposed 25% steel tariff on the auto industry. The analysis estimates:

...an average car requires roughly 1.2 tons of steel to build. Given that tariffs tend to increase import prices (which determine domestic prices) by at least as much as the tariff, we calculate that a 25 percent steel tariff will increase the price of new passenger vehicles manufactured in the United States between 0.5 and 0.8 percent.

Now, based on calculations for the sensitivity of auto sales to price, we estimate that such price rises of American-made cars would translate into a decline of between 1.6 and 3.6 percent in global sales.

The historical relationship between U.S. auto sales and employment is tight.... Based on this relationship, we would expect declining sales to result in auto-industry job losses ranging from 18,000 to 40,000 by the end of 2019.

In summary, that's possibly an almost 4% sales decrease and a job loss that could reach 40,000 Americans. Those numbers would cause a dramatic downstream impact on not just dealership operations, but the American economy as a whole.

The automobile industry is so globally integrated that many automobiles traditionally thought of as "foreign" brands are actually built right here in the U.S. and with more U.S. parts than the traditional American brands. Not one car sold in America contains 100 percent domestically produced content. Therefore, tariffs will increase the price on all new vehicles, not just so-called foreign vehicles.

Jobs

Across the United States and in communities in every state, many Americans are employed as a result of the international nameplate automobile industry, including the 577,000 employed in 9,600 international nameplate automobile franchises. Many more Americans benefit from being able to purchase quality products at affordable prices that result from this integrated supply chain. AIADA highlights its economic impact along with the Association of Global Automakers in its annual report, Here for America: International Automakers and Dealers in America⁷.

⁶ Council on Foreign Relations, Trump Steel Tariffs Could Kill Up to 40,000 Auto Jobs, Equal to Nearly One-Third of Steel Workforce, <https://www.cfr.org/blog/trump-steel-tariffs-could-kill-40000-auto-jobs-equal-nearly-one-third-steel-workforce>

⁷ AIADA, International Automakers and Dealers in America, http://www.aiada.org/sites/default/files/HereForAmerica2017_web3.pdf

International nameplate franchises, with their annual payroll of 32 billion dollars, also account for an additional 527,000 indirect jobs. In 2016, those same franchises sold 8.4 million vehicles, or 59 percent of total U.S. market share. International nameplate auto dealers did not stop there. In 2016 they spent an overwhelming \$4.8 billion on advertising and sold \$54 billion in parts and services. International nameplate auto dealers are a large, visible, and vital cog in our nation's economy, and they rely on the competitive pricing of their products to maintain and grow their businesses.

AIADA's dealer members represent the retail side of the international auto manufacturing industry, which has also invested heavily in the United States. International automakers have invested \$75 billion in U.S. operations and have more than doubled their production in the U.S. over the past 15 years, producing 47 percent of all vehicles built here in America. In 2016 alone, 5.5 million vehicles were built by the American employees of international nameplate manufacturers in the U.S., of which 925,000 were exported to over 140 countries worldwide. International automakers directly and indirectly employ 1.29 million Americans and exports of international autos alone supported 265,000 US jobs. In fact, in 2017, according to data from the U.S. Department of Commerce, the BMW Manufacturing factory in South Carolina was the leading U.S. automotive exporter by value. AIADA highlights all this information to ensure that the committee members are aware of the economic impact of international auto dealers and automakers in every state, town and Congressional district in the United States.

These facts prove that trade is an engine of economic growth and is a proven strategy for building global prosperity. Open trade and investment policies play a crucial role in allowing international nameplate dealers, many of whom operate second and third generation family businesses, to compete on a level playing field in cities and towns across the U.S. These policies provide consumers with competitive pricing and service on some of the most popular vehicles on American roads today.

Conclusion

The automotive industry in the U.S. is constantly evolving, and international nameplate automobile manufacturers and dealers are designing, building, and selling more vehicles across the U.S. than ever before. In the process, they are redefining the meaning of an "American" car. International nameplate dealers are growing their investment in the American economy and communities in a variety of ways and today provide the majority of America's auto retailing jobs and vehicles for American consumers, selling 59 percent of the new cars purchased by American consumers in 2016.

AIADA and its 9,600 American auto dealers strongly support a pro-growth economic agenda, and believe it can be accomplished with a positive trade message, not the threat of tariffs and

taxes. As the U.S. Chamber found, America drives the world economy, but outside our borders are markets that represent 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers.

We don't need more tariffs, we need more trade agreements. Agreements with our trading partners ensures that trade is fair, regulated, and gives American businesses large and small the framework they need to grow and thrive in a globalized economy. Trade keeps our economy open, dynamic, and competitive, and helps ensure that America continues to be the best place in the world to do business.

We appreciate the opportunity to submit our statement for the record and thank the Chairman and the committee.





**Statement of the
American Farm Bureau Federation**

**Statement to the House Committee on Ways and Means
regarding the hearing:**

Effects of Tariff Increases on the U.S. Economy and Jobs

April 12, 2018

**Submitted By:
The American Farm Bureau Federation**

The American Farm Bureau Federation (Farm Bureau) offers the following statement for the record on the hearing: Effects of Tariff Increases on the U.S. Economy and Jobs.

Trade is critical to the livelihood of the U.S. agricultural sector because it spurs economic growth for farmers, ranchers and their rural communities. Agriculture supports jobs in the food and agricultural industries and beyond. The fact is that 95 percent of the world's consumers live outside of the United States and over 20 percent of U.S. farm income is based on exports. Expanding opportunities for U.S. crop and livestock producers to access international markets will boost farm income in the United States, while preserving existing access is critical to maintaining farm income at current levels. U.S. agricultural exports amounted to \$140.5 billion in FY2017. Imports, critical for certain products, especially out-of-season produce, totaled \$119.1 billion in FY2017.

Trade agreements have contributed significantly to the decades-long positive growth in trade by U.S. agriculture. Between 2003 and 2017, U.S. agricultural exports to countries with which we have trade agreements increased from \$24 billion to \$59 billion annually, equating to nearly 45 percent of all agricultural exports. Existing trade agreements have proved successful in tearing down tariff and non-tariff trade barriers that hinder U.S. farmers' and ranchers' competitiveness and prevent us from taking advantage of consumer demand for high-quality U.S. food and agricultural products throughout the world. For consumers, trade agreements provide access to new varieties of food products and off-season supplies of fresh produce.

China

The U.S. exported over \$19.6 billion in agricultural products to China in 2017, ranking it as the #2 export market for U.S. farmers and ranchers. The Chinese market is especially critical for U.S. soybean growers as \$12.4 billion of the \$21.6 billion (nearly 60 percent) of soybean exports in 2017 went to China.

Any effort to impose tariffs on Chinese imports by the U.S. runs the risk of retaliatory measures against U.S. agricultural exports. The impact on American farmers and ranchers, and associated businesses, must be considered when pursuing trade actions. U.S. agriculture has strongly supported, for decades, efforts to open the world to our agricultural and other trade products.

On April 2, 2018, China began retaliating against U.S. agricultural products with increased tariffs on pork (25%) and fruit (fresh and dried), tree nuts (shelled and in-shell), wine, ginseng, denatured ethanol and other products (15%). This action is in response to increased U.S. steel and aluminum tariffs on China that went into effect on March 23, 2018. These tariffs will impact roughly \$2 billion in U.S. food and agricultural exports.

The U.S. is also considering imposing tariffs on \$50 billion of various Chinese imported products Under section 301 of the Trade Act of 1974. China has published a retaliation list that would take effect should these U.S. tariffs take effect. The agricultural products potentially subject to a new 25 percent import tariff include soybeans, sorghum, cotton, corn, wheat, beef and other products. China has also launched a case in the WTO against the U.S. on the proposed product tariffs. These proposed tariffs would impact approximately \$16.5 billion in Chinese imports of agricultural and food products from the United States.

Farm Bureau believes in negotiations, not additional tariffs, to resolve trade issues. American farmers and ranchers rely heavily on export markets for their business success, especially at this time of reduced farm income. Agriculture needs a growing trade, not a reduced and burdened trade.





**Written Statement for the Record by Casey Guernsey
Spokesman for Americans for Farmers and Families**

Submitted to the U.S. House Committee on Ways and Means
April 12, 2018

Chairman Brady, Ranking Member Neal, and Members of the House Committee on Ways and Means, thank you for holding this important hearing on the effects of tariff increases on the U.S. economy and jobs. As someone who immediately felt the unintended consequences of the Trump Administration's tariffs on certain steel and aluminum imports, I greatly appreciate your efforts to further examine the issue and identify remedies to help protect America's jobs, particularly in the agricultural sector, access to markets around the world and economic strength.

My name is Casey Guernsey. I'm a seventh-generation farmer from Harrison County, Missouri. Even during my stint in state politics as a member of the Missouri State House, I have spent most of my life working on my family's farm, which has been raising cattle for more than 150 years. I'm writing today on behalf of Americans for Farmers and Families (AFF), a coalition of more than 100 members – including the American Soybean Association that is testifying today – advocating for the 43 million American workers supported by the food and agriculture industry.

Our organization's core mission is to help preserve and modernize the North American Free Trade Agreement (NAFTA). However, in light of escalating trade tensions with China, AFF recently launched a new project called "Retaliation Hurts Rural Families," which is specifically focused on highlighting the impact tariffs could have on communities throughout rural America.

We recognize and appreciate President Trump's commitment to protect American interests through trade. But farmers and families are beginning to pay the price for his methods. In response to Trump's steel and aluminum tariffs, China made good on its threat to levy tariffs on \$3 billion worth of U.S. goods, including a 25-percent tariff on pork, a 25-percent on soybeans, and a 15-percent tariff on fruit, nuts and other agricultural products.

This is bad news for America's food and agriculture exporters and workers. China has become the largest customer for America's farm products, buying well over \$20 billion per year. According to a recently-released study from The Trade Partnership, these retaliatory tariffs could cost the U.S. nearly 470,000 jobs, including 24,000 in the agriculture industry alone. Additionally, the 2018 Farm Forecast reports that net farm income in inflation-adjusted dollars is at its lowest level since 2002. Retaliatory action only expedites this decline.

Despite talks between the United States and China, threats of even more tariffs have continued. These countermeasures will have crippling consequences for America's food and agriculture industries, which stand to lose thousands more jobs, millions more customers and billions more dollars as a result of these actions. And unfortunately, promises of "compensation" cannot reverse the damage to our industries and communities. Securing a better NAFTA deal will.

As China continues to target America's food and agriculture industries – closing off access to major markets, threatening jobs and harming rural families – our message to this committee, Congress and the administration is simple: it is more critical now than ever to finalize a modernized NAFTA that will further enhance our ability to sell home-grown goods to customers around the world, while keeping prices lower, paychecks higher and creating more jobs in the United States.

NAFTA's contribution to our economy cannot be overstated. Under this important agreement, U.S. food and agriculture exports have more than quadrupled and account for 25 percent of American exports. NAFTA has helped to grow domestic jobs and supported \$127 billion in annual economic activity. And in 2016 alone, the U.S. exported \$43 billion worth of agricultural products to our NAFTA partners. There is no doubt that America's farmers and rural communities have benefited greatly from this agreement. Now, President Trump has an opportunity to make it even better and deliver the certainty we desperately need to keep our farms afloat and maintain our contribution to the U.S. economy.



From cutting taxes to rolling back harmful regulations, this administration and members of this committee have been instrumental in propelling America's economic expansion, putting more money into the pockets of farmers and improving lives for families across the country.

We ask that this committee stand with the farming community and rural families by ensuring that these economic gains are sustained and that America continues to be the world's breadbasket for decades to come. Americans for Farmers and Families look forward to working with you as a part of that effort.

Thank you for the opportunity to submit our thoughts today.

ORGANIZATIONAL MEMBERS

Agribusiness Council of Indiana
 Agricultural Retailers Association
 AgXplore
 Almond Alliance of California
 American Bakers Association
 American Beverage Association
 American Cotton Shippers Association
 American Dairy Coalition
 American Farm Bureau Federation
 American Feed Industry Association
 American Frozen Food Institute
 American Fruit and Vegetable Processors and Growers Coalition
 American Peanut Product Manufacturers, Inc.
 American Soybean Association
 Animal Health Institute
 Association of American Railroads
 Association of Equipment Manufacturers
 Brockmann Farms
 Burns & McDonnell
 California Farm Bureau Federation
 Can Manufacturers Institute
 Cargill
 Cooperative Network
 Corn Refiners Association
 CropLife America
 Distilled Spirits Council
 Edge Dairy Farmer Cooperative
 Food Marketing Institute
 Fresh Produce Association of the Americas
 Global Cold Chain Alliance
 Grocery Manufacturers Association
 Growth Energy
 Independent Bakers Association
 Indiana Beef Cattle Association
 Indiana Corn Growers Association
 Indiana Dairy Producers
 Indiana Soybean Alliance
 International Dairy Foods Association



**AMERICANS FOR
FARMERS & FAMILIES**
STRONG FARMING MEANS JOBS

Iowa Association of Business and Industry
Iowa Corn Growers
Iowa-Nebraska Equipment Dealers Association
John Deere
Kansas City Southern
MAP Farm
Marene Farms
Michigan Corn Growers Association
Midwest Food Products Association
Missouri Agribusiness Association
Missouri Cattlemen's Association
Missouri Chamber of Commerce and Industry
Missouri Corn Growers Association
Missouri Dairy Association
Missouri Grocers Association
Missouri Petroleum Council
Missouri Pork Association
Missouri Retailers Association
Missouri Soybean Association
National Association of Egg Farmers
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Corn Growers Association
National Grain and Feed Association
National Grocers Association
National Milk Producers Federation
National Oilseed Processors Association
National Pork Producers Council
National Potato Council
National Renderers Association
National Restaurant Association
National Retail Federation
National Sorghum Producers
National Turkey Federation
North American Millers Association
North Carolina Pork Council
Northwest Horticultural Council
Ohio Corn & Wheat Growers Association
Orchard Country Product
Prosody Consulting, LLC
Retail Industry Leaders Association
R & L Farms
SNAC International
Stellar Industries
St. Louis Agribusiness Club
Sweetener Users Association
The Fertilizer Institute
The Hardwood Federation
Upper Mississippi, Illinois, and Missouri Rivers Association
US Apple Association



**AMERICANS FOR
FARMERS & FAMILIES**
STRONG FARMING MEANS JOBS

USA Rice
U.S. Dairy Export Council
U.S. Dry Bean Council
U.S. Hide, Skin and Leather Association
US Rice Producers Association
Walmart
WIB Agribusiness Coalition
Wisconsin Agri-Business Association
Wisconsin Corn Growers Association
Wisconsin Paper Council
Wisconsin Potato & Vegetable Growers Association
Wisconsin State Cranberry Growers Association

INDIVIDUAL MEMBERS

Brian Smith, farmer and Wayne County Commissioner in Milanville, Pennsylvania
Brian Munzlinger, Missouri State Senator (R-Williamstown)
Casey Guernsey, Former Representative and Dairyman in Harrison County, Missouri
Dan Hegeman, Missouri State Senator (R-Cosby)
Dan Naylor, farmer and former State Director, PA Dept. of Agriculture
Ed Wiederstein, former president of the Iowa Farm Bureau
Erick Coolidge, owner of LE-MA-RE Farms in Wellsboro, PA
Jim VanBlarcom, owner of Sugar Branch Farms in Columbia Crossroads, PA
Martin Yahner, owner of Yahner Brothers Farm in Patton, PA
Sonya Anderson, Missouri State Representative (R-Springfield)

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 JEFFREY D. SHOAF, Chief Operating Officer



April 24, 2018

The Honorable Kevin Brady
 House Committee on Ways and Means, Chairman
 Washington, D.C. 20515

Dear Chairman Brady,

The Associated General Contractors (AGC) of America appreciates your ongoing efforts in the House Committee on Ways and Means to review the Administration's steel and aluminum tariffs, assessing both their immediate and potential impact on the U.S. economy. As the nation's leading construction trade association, AGC represents more than 27,500-member companies that rely upon steel and aluminum to build our nation's infrastructure. The Administration's broad metals tariffs directly threaten pricing stability and are adding to steel and aluminum price increases and order delays. Without stable pricing, the industry faces the prospect of project delays and cancellations, putting up to 66,000 construction jobs at risk.ⁱ

While AGC recognizes the vital need to protect national security interests, the Administration's decision to exceed the Department of Commerce's top-line recommendation of a 24% blanket tariff on all steel imports and a 7.7% tariff on all aluminum imports is highly concerning. National security also depends upon a thriving national economy, of which construction is a vital component. For reference, gross domestic product (GDP) from construction in the U.S. reached \$660.5 billion in the fourth quarter of 2017.ⁱⁱ

AGC urges the Committee to consider the disproportionate and harmful effect these tariffs are having upon the construction industry, and to take any steps available within the Committee's jurisdiction to ameliorate the impact of these tariffs on construction.

Construction Use

AGC's 6,700 general contracting firms, more than 9,000 specialty contracting firms, and almost 12,000 service providers and suppliers all depend on steel and aluminum for a wide variety of construction projects. Aluminum is used in all types of buildings for window frames and curtain walls, siding, and other architectural elements, and, according to the American Iron and Steel Institute, the construction industry consumes 43 percent of domestic steel. For instance, wire mesh is used in highway concrete, while steel plate and wire for cables go into bridges. Buildings use large amounts of structural steel for piles and beams, rebar for reinforcing concrete, and steel studs for interior walls. Pipelines are almost entirely made of steel. Other infrastructure uses a variety of steel for rails and signaling systems; airport runways, control towers and terminals; harbor wharves and seawalls; and many other uses. With such a

ⁱ Francois, Joseph and Baughman, Laura: "Round 2: Trading Partners Respond, The Estimated Impacts of Tariffs on Steel and Aluminum." The Trade Partnership, March 13, 2018

ⁱⁱ U.S. Bureau of Economic Analysis

dependence on steel and aluminum, the health of the construction industry is particularly susceptible to price increases.

Price Increases

The steel and aluminum tariffs have already triggered a surge of orders that mills say they cannot fill on a timely basis, causing prices for certain aluminum and steel products to rise sharply and disrupt project delivery schedules. While increased steel prices will likely lead to cost increases for existing projects, the operations and financing of current, budgeted projects are already being disrupted. Bid prices will rise for future projects, and public owners, which generally have fixed budgets, will be forced to reduce the number and/or scope of projects they put out, including schools, highways and bridges. Some private projects will be canceled as construction cost increases make them uneconomic.

Impact on the Workforce

Most importantly, the proposed tariffs on steel and aluminum will also have a direct and negative impact on construction employment. The steel and aluminum tariffs will thin out a construction workforce that is already experiencing worker shortages. The projected number of jobs that could be affected is staggering. According to a Trade Partnership Worldwide report prepared for the Business Roundtable, 66,022 construction jobs could be at risk.ⁱⁱⁱ The Coalition for a Prosperous America (CPA), a domestic agriculture, manufacturer and union coalition, puts that figure at 10,635 construction jobs.^{iv} These figures do not take into account how the construction industry could be exposed to retaliatory trade measures.

Permanent Country Exemptions and Expiration Date

To remedy this, Congress should press the White House and United States Trade Representative (USTR) to expand the list of exempted countries and make permanent the “temporary” issued exemptions. The seven nations currently exempted are staunch U.S. allies. Congress should also pressure the White House and USTR to set a tariff expiration date to help stabilize prices and facilitate the construction industry’s decisions regarding long-term planning and hiring. Uncertainty is driving up prices, hindering project planning, and leading to workforce cuts. It is also threatening the viability of President Trump’s proposed infrastructure plan.

Impact on the Administration’s Infrastructure Plan

The President’s infrastructure plan depends upon non-federal investment—state, local, and private funding sources. Such investment would be hindered by increased project cost estimates from rising material prices. Broad, global tariffs on steel and aluminum weaken the President’s campaign promise to rebuild this nation’s crumbling infrastructure. Without the appropriate funding sources, it will not be possible to help rebuild and maintain the country’s roads, bridges, mass transit, railways, airports, ports and flood control structures. As the President himself has noted numerous times, the United States’ global competitive edge is dulled by its outdated infrastructure system, and the country’s growing gulf in goods trade with China could be narrowed by an overhauled infrastructure system. Steel and aluminum tariffs will not close this gap, nor do they pose a significant threat to China’s economy. Instead, they threaten the

ⁱⁱⁱ Francois, Joseph and Baughman, Laura: “Round 2: Trading Partners Respond, The Estimated Impacts of Tariffs on Steel and Aluminum,” The Trade Partnership, March 13, 2018.

^{iv} Ferry, Jeff: “Steel & Aluminum Tariffs Produce Minimal Impact on Jobs, GDP: CPA Economic Model Refutes Alarmist Trade Partnership Study,” Coalition for a Prosperous America, March 20, 2018.

very livelihood of the men and women who stand ready to carry out the President's vision, rebuild the country's infrastructure, and restore our competitive advantage.

Conclusion

While the House Ways and Means' April 12 hearing was a heartening first step, AGC remains hopeful that the Committee will take meaningful further action and hold USTR accountable as it seeks to negotiate country exemptions against a May 1 duty-free deadline. Again, we commend your willingness to explore the tariffs issue, but we also implore you to consider applying greater pressure on the Administration.

These broad, global tariffs on steel and aluminum pose serious harm to the construction industry and directly affect AGC's more than 27,500 commercial construction firm membership. AGC looks forward to ongoing consultation with you and your colleagues as the committee moves forward to address the steel and aluminum tariffs issue.

Sincerely,



Jimmy Christianson
Vice President, Government Relations

House of Representatives Committee on Ways and Means
Hearing on the impact of steel and aluminum tariffs
Statement of Jim McGreevy – President and Chief Executive Officer of the Beer Institute
Hearing Date: April 12, 2018

Chairman Brady, Ranking Democrat Neal, and Members of the Committee:

My name is Jim McGreevy, and I am the President and CEO of the Beer Institute, one of the oldest trade associations in Washington, DC, representing America's brewers, beer importers, and suppliers.

A majority of the volume of beer sold in the U.S. is packaged in aluminum cans and aluminum bottles, made from aluminum cansheet. Although 98% of our cansheet is domestic, imported primary aluminum is an essential input. Tariffs or other measures limiting the importation of primary aluminum or cansheet will hurt the economic activities and jobs our industry supports.

When President Trump and Secretary Ross were touting the benefits of aluminum tariffs, they were very specific that the increased costs to end-users would be negligible. Secretary Ross went further to assert that the cost of a can would only go up less than a penny. However, since the tariffs were announced, the price of primary aluminum has skyrocketed, largely because of increases in the Midwest Premium (MWP), which is part of the price all aluminum purchasers in North America must pay for metal.

When a brewer buys cansheet or finished cans, it pays a Midwest Transaction Price (MWTP) plus conversion and fabrication charges. The MWTP has two major components: the London Metal Exchange (LME) price and the MWP.

The LME price is an underlying base price for the aluminum metal as traded daily on the London Metal Exchange, which is an open exchange where global aluminum producers and users can discover a fair and transparent price for primary aluminum which is used to make cansheet and ultimately, beverage containers.

The MWP is an additional premium above the LME price. Metal producers created the MWP many years ago as a means of covering the full logistical cost of moving metal from a supplier's warehouse to a buyer's plant. Factored into the MWP are: freight charges, finance costs, port charges and duties, and warehousing charges, including rent and load in/load out charges.

The MWP is set by a single entity, Platts, which is a division of McGraw-Hill. Platts enjoys a unique and unregulated controlling influence over benchmark pricing for commodity markets. End users must pay whatever Platts sets as the MWP.

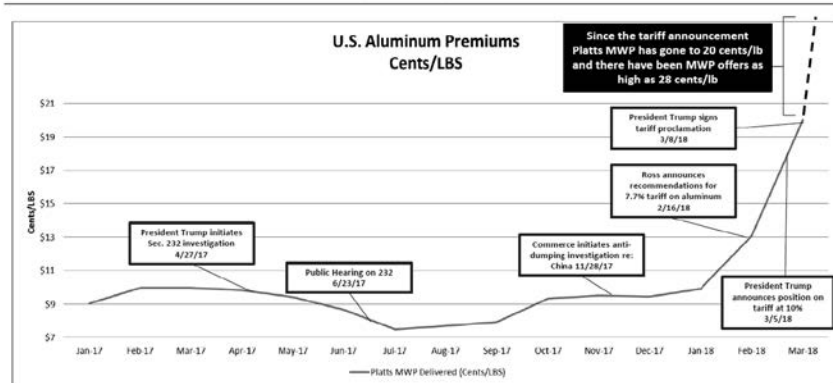
Platts sets the MWP by means of an opaque polling system. Platts asks traders, banks, and aluminum producers to provide pricing information concerning actual completed transactions resulting in movement of physical metal. The MWP is set in an opaque manner without

meaningful input from aluminum purchasers. It is effectively set by those who benefit from it the most. Because the MWP is completely unregulated, it is ripe for possible manipulation.

There is good reason to believe that the MWP does not currently reflect the actual logistical cost of moving metal from a supplier's warehouse to a buyer's plant. The MWP is much higher than the actual logistical cost.

As the attached chart shows, the MWP has skyrocketed since the Commerce Department delivered its tariff recommendations to the White House and increased further since President Trump's tariff announcement. The increases started in earnest on the mere recommendation of tariffs. While some portion of the more recent increase is attributable to the April 6, 2018, announcement of sanctions against Rusal, a major Russian aluminum producer, the increases overall far exceed what one would expect from those sanctions and application of a 10% tariff.

Platts Midwest Premium (MWP)



The MWP price has skyrocketed almost three fold since the Commerce Department delivered its tariff recommendations to the White House, and further since President's Trump's announcement

We hope the Committee will take a closer look at this issue, which is having a significant negative impact on aluminum users.

Section 232

I am the owner of Dai Ichi USA, Ltd. - an importer of stainless steel from Malaysia, Taiwan, and Vietnam. Our customers are primarily companies that further process the material we sell to them, for sale to manufacturers, in various industries including automotive, appliances, kitchen equipment, construction, and so on.

We are now facing tariffs reaching 25% on our imports. Our primary objections to the current application of Section 232 to stainless steel are as follows:

- 1) The Ross report only examined carbon and alloy steels, not stainless steel. Despite this, stainless steel has included along with these steels whose industries were actually examined.
- 2) The countries that President Trump has exempted, or is reportedly considering exempting, other than Mexico, do not have stainless steel mills and are thus not stainless steel producers. Therefore, these exemptions will not save our industry.
- 3) Although the Ross report takes pains to ascertain the quantity of steel that was imported into the USA in the past several years, the report fails to mention the quantity of steel exported from the USA during that same period, much less analyze the one against the other. The report also fails to note the breakdown of these imports into subtypes of steel product, which correspond to stages of the manufacturing process. Thus, the report fails to notice imports of semi-raw materials (such as slabs) which are typically purchased by USA steel mills, which ultimately are sold as finished steel product billed as "Made in America".
- 4) The Ross report focuses almost exclusively on the larger capacity of production from China and how it is harming the industry in USA. However, as in 2016 anti-dumping duties were levied against stainless steel from China, Chinese produced stainless steel has not been sold in the USA for almost two years in any event!
- 5) In 1998, anti-dumping duties were levied against the following countries for stainless steel, duties which remain in place today:
 - a. France
 - b. Germany
 - c. Italy
 - d. Japan
 - e. Korea
 - f. Taiwan

With these dumping duties still in place, any exemption given by President Trump for these countries, does not help our industry – the existing duties already prevent imports from being economical.

- 6) There is an inherent contradiction between the purpose of Section 232 tariffs - for national security - and President Trump's use of them as a bargaining chip for his NAFTA negotiations. How can President Trump use them as leverage to push the EU to reduce tariffs on American-made products, as per his tweet of March 11? How can President Trump suggest that Australia, which is not even a producer of stainless steel, be exempt, because we have a trade balance or surplus with them? Is this Section 232 action for National security or to reduce the USA trade deficit?
- 7) Presently, there are 4 mills that produce stainless steel in the USA. Outokumpu (owned by a Finnish parent company), North American Stainless (Owned by a Spanish parent company), AK Steel (Publicly traded on USA exchanges) and ATI (Now a joint venture with Tsingshan of China). Thus, 3 of the 4 USA stainless producers are owned by foreign entities. ATI has closed their melt shops, and instead imports their slabs (the output of the first stages of processing) from Tsingshan in Indonesia. ATI's reasoning, from their own press release, is that it is that much cheaper to buy the slabs elsewhere than to produce them themselves. It is expected that President Trump will grant ATI an exemption for the importation of slabs from Indonesia from their Chinese partner. If Section 232 tariffs are being enforced for National Security and President Trump blames China for our countries woes, why should stainless steel slabs for ATI be excluded when they come from a Indonesian mill owned by a Chinese company, which is known to be subsidized by the Chinese government?
- 8) It is worthwhile to note that Dai Ichi USA, Ltd. exported more stainless steel in 2017 from the USA than we imported. The dollar value of our exports was double that of our imports.
- 9) There are some types of stainless steel that the existing USA mills are more efficient at producing, and those are that which we export, and there are others that foreign mills are more efficient at producing, and those are that which we import. This is the true meaning of free market.

Furthermore, with regard to the effects on the USA as a whole, these tariffs will ultimately result in inflationary action on prices of almost all goods in the USA, as most goods contain some steel, stainless steel, or aluminum. This applies both to consumer goods, construction, and infrastructure.

Inflationary pricing will curtail exports, incentivizing companies to move their factories from the USA to overseas countries, so that they can compete in global markets. BMW built their largest plant in the world in South Carolina, from where they export cars to all over the world. How can they continue this when their steel and aluminum costs have increased by 25% or more? Six days before President Trump even signed the Section 232 action, Steel Dynamics, followed by other USA steel mills, already increased their prices steel products by 18.5%. After the signing of Section 232, AK Steel stopped offering material on their web portal, saying that they "need to determine what the new market prices are".

Thus, Section 232, ostensibly signed for purposes of National Security, fails to accomplish not only in that, but also in trying to save jobs in USA steel mills that were lost to automation and not underutilization or foreign competition. Are we ready to start a trade war with every steel, stainless

steel, and aluminum producing nation in the world for no discernable gain? Are we, the citizens of the USA really willing or able to pay higher prices for our cars, appliances, homes, and bridges?

Please, stand against the application of Section 232 and the disastrous effects it will have on our economy. At the very least, stainless steel should not be included. Furthermore, Congress should act to limit the President's power to unilaterally enact Section 232, so that he alone cannot impose tariffs, a power which is in any event properly vested in the legislature (as per Article I, section 8 of the Constitution). That, and not this application of Section 232, will save American jobs, prevent trade wars, curtail inflation, and buttress prosperity.





March 13, 2018

Member of Congress
United States Capitol
Washington, D.C. 20510

Dear Member of Congress:

Edge Dairy Farmer Cooperative urges you oppose any tariff approach that could disrupt our long-standing trade relationships. In reaction to President Trump's recently imposed tariffs on imported steel and aluminum, we want to highlight the threat posed to our existing dairy exports caused by this position. Formed in 2010, Edge has nearly 800 dairy farmer members throughout the midwest and is the fastest growing dairy cooperative.

As you already know, exports are crucial to keeping our dairy community strong. Recent trade statistics show that U.S. dairy exports represent about one-seventh of total U.S. milk production. That works out to one day's worth of milk production every week. Our dairy farmers are concerned about the possible retaliatory measures our trading partners could impose that would limit our products' ability to reach consumers in other countries. If history is any indicator, agricultural products are often the first targeted.

Dairy farmers across the nation are experiencing a prolonged period of depressed milk prices. Foreign markets represent the best opportunity to address this challenge. We know that dairy products can help meet future protein demands from the rapidly growing global population. Our dairy farmers are ready to meet that demand, but first we need to maintain our existing markets. We already face uncertainty over our two largest markets - Canada and Mexico - because of the ongoing NAFTA negotiations. For that reason, Edge urges the Administration to successfully reauthorize a modernized NAFTA that does not disrupt the critical partnership that currently exists. We also support seeking improved access and new export opportunities in other foreign markets.

Edge appreciates your understanding and attention to our concerns. We appreciate that you have already been engaged on this issue. We hope you will remain engaged as necessary to safeguard our exports and protect our farmers.

Sincerely,

Brody Stapel
President



185 Admiral Cochrane Drive
Suite 105
Annapolis, MD 21401

Tel (410) 694-0800
Fax (410) 694-0900

www.flexpack.org

Flexible Packaging Association (FPA)

Statement for the Record

**House Ways and Means
Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs
Thursday, April 12, 2018**

My name is Alison Keane, and I am President and CEO of the Flexible Packaging Association (FPA). FPA is the voice of U.S. manufacturers of flexible packaging and their suppliers. The association's mission is connecting, advancing, and leading the flexible packaging industry. Flexible packaging represents over \$30 billion in annual sales in the U.S. and is the second largest and one of the fastest growing segments of the packaging industry. The industry employs over 80,000 workers in the United States. Flexible packaging is produced from paper, plastic, film, aluminum foil, or any combination of these materials, and includes bags, pouches, labels, liners, wraps, rollstock, and other flexible products. With respect to tariff impacts, the industry uses aluminum foil, and it is used for everyday food and beverage products such as candy, salty snacks, yogurt, and beverages; as well as health and beauty items and pharmaceuticals, such as aspirin, shampoo and shaving cream. Aluminum foil provides the barrier protection from oxygen, light and bacteria that these products need to ensure stable shelf-life and freshness. Aluminum foil is also used by the flexible packaging industry to ensure sterility for medical device packaging enabling the products packaged, such as absorbable sutures, human tissue, and artificial joints, to maintain their efficacy at the time of use.



The Section 232 investigation, which resulted in the 10% tariff on aluminum, which includes foils produced from that aluminum, was initiated under the Trade Expansion Act of 1962, and was to determine what, if any, effects imports of aluminum have on national security. FPA is not aware of any impacts aluminum foil imports for use in the packaging industry has on U.S. national security and the Department of Commerce Report entitled "Effects of Aluminum Imports on the National Security," (Report) did not specify any. FPA supports efforts to protect domestic manufacturing and ensure national security, however, these efforts must consider the impact and consequences on all U.S. manufacturing industries, and the recently imposed 10% tariff on aluminum imports does not. Aluminum foil imports necessary for the packaging industry, and without application for national defense, should have been excluded from the tariffs. In its investigation, the Administration was to consider a range of factors related to national security, including the economy and the effects of foreign competition on the economic welfare of domestic industries, including impacts on employment. However, this does not appear to have been the case. These import restrictions on aluminum will have a significant negative impact on the flexible packaging industry and its employment in the U.S with regard to aluminum foil converting. A recent

FPA was pleased to see that one aspect of the Report was adopted in the Administration's proclamation instituting the aluminum tariffs – the process for exclusions from the tariffs "upon request of affected parties if the steel or aluminum articles are determined not to be produced in the U.S. in a sufficient and reasonably available amount or of a satisfactory quality or based upon specific national security considerations." However, according to the direct-final regulations implementing the exclusionary process (83 FR 12106, March 19, 2018), trade organizations, such as FPA, can not petition on behalf

of their respective members, even though our members would all be making the same request – that aluminum foil is exempted as it is not made domestically in the quantities and quality needed for the packaging industry. Many manufacturers, particularly small businesses, rely on their trade associations to assist them in responding and negotiating solutions to government regulations. By not allowing trade associations to file on behalf of their industries, this rule is encouraging excessive and duplicative filings and will disproportionately impact small businesses. And, the tariffs went into effect on March 23, 2018, when the earliest possible date Commerce could grant an exclusion would be May 18, 2018, when the exclusions will “generally” be approved. So, there is no guaranteed timeframe in which petitioners will know whether or not their petition has been approved and they will have already been paying the tariff for at least 90 days. The damage to U.S. flexible packaging jobs may very well already be done after 90 days of this tariff, and once again, this process will certainly disproportionately disadvantage small converting businesses that cannot afford to front these costs.

Further, there is little to no clarity on the petition process from the rule. Commerce must supply FAQ’s answering such questions as how confidential business information (CBI) can be submitted. Right now, there is simply a check box on the form where businesses can state that they have CBI information and there is no indication of the process for submitting such; whether or not the petition is incomplete without the information and if so, what the timeline for completion would be; nor if the arbitrary 25-page limit of the petition includes or does not include this CBI. Similarly, the rule states that Commerce may approve a broader exclusion request to apply to multiple similarly situated importers but gives absolutely no information on how groups of companies can apply for this broader exclusion. Again, as trade associations such as FPA, do not “use

aluminum in business,” we can not file on behalf of multiple companies. If a product exclusion is granted because it is not manufactured domestically in quantities and quality necessary for the industry – why wouldn’t that exclusion be granted to all users of the product? Lastly, the exclusion process, if granted, would only be applicable for one-year. Will companies have to petition for the exclusion every year? If the product is not available domestically now, why does Commerce believe it will be available next year, or the year after, or ever? It should not be up to individual companies to prove to the Administration that these products do not exist domestically, this should have been part of Commerce’s analysis before instituting the overly broad tariff in the first place. Even if the domestic aluminum foil suppliers guaranteed to start making the aluminum foil gauges flexible packaging manufacturers need tomorrow – it would take several years for the mills to produce the quantity and quality of the foil our companies need. Further, under Federal Food and Drug Administration regulations, substitution of the foil substrate could take two to ten years for approval, depending on use in packaging for food or medical devices.

FPA is also concerned about the lack of transparency with regard to the Section 232 remedy and the process Commerce will use to monitor and report on its effects. As stated above, while the investigation was supposed to take into consideration the effects of foreign competition on the economic welfare of domestic industries, including impacts on employment; the Report failed to address downstream industries dependent on aluminum or steel. How will Commerce monitor and report on the effect of this tariff on the primary manufacturers of aluminum in the U.S.; let alone downstream industries, which were ignored in the Report? A recent report by the Trade Partnership Worldwide, LLC/The Trade Partnership estimates the job loss for downstream users of aluminum and steel under the Section 232 tariffs would be 18 for every one job created in those sectors.

Commerce must be accountable to show the impacts to all affected industries and ultimately work towards alleviating the devastating impacts of these tariffs on downstream users of aluminum products and mitigating the burdensome and unnecessary paperwork this exclusionary process would apparently mandate on an annual basis.

The Section 232 investigation and proposed remedy is paralleling an International Trade Commission (ITC) investigation and remedies for Chinese aluminum foil imports. Thus, FPA members are being penalized twice – first with the ITC anti-dumping and countervailing duties that in some cases exceed 140%, and then with the new 10% tariffs on other imports of aluminum foil, which are applied on top of the duties already in place. The consequences of the tariff under this investigation, combined with the duties from the ITC probe, is the loss of flexible packaging jobs in the U.S. The negative impact on American jobs by cutting off the supply of aluminum foil for flexible packaging manufacturing will far outweigh any job benefits that are envisioned by the ITC and Section 232 taxes. These duties and tariffs are leading to U.S. companies sourcing aluminum foil from other non-U.S. manufacturers at a much higher cost; Chinese suppliers of printed or otherwise converted aluminum foil products entering the U.S. market, since this bypasses the duties; and/or U.S. companies moving flexible foil packaging production outside the U.S., thereby reducing the amount of U.S. foil converting jobs. There is simply no scenario where the benefits to the U.S. aluminum manufacturers outweighs the detriment to the U.S. flexible packaging industry.

Aluminum foil used by the flexible packaging industry is not manufactured in the U.S. in the quantities and qualities needed. Failure to invest, and quality lapses, including gauge, width, and lack of appropriate alloys all contribute to the fact that the U.S. producers of aluminum foil are not able to serve the U.S. flexible packaging industry. In fact, the ITC, at

its preliminary hearing on March 30, 2017, found that domestic ultra-thin foil production "may be limited or nonexistent." Thus, the packaging industry in the U.S. should be granted an exclusion for aluminum foil imports from the Section 232 tariff. Since FPA is not eligible to petition on their behalf, Commerce should recognize the broad-based exclusion the rule mentions to reduce the repetitive and burdensome petitions it will receive with regard to this foil for flexible packaging manufacturers.

FPA shares the same goal as the domestic aluminum foil producers who want more American jobs and understands the importance of protecting national security. This tariff is not the answer. The Administration should find ways to work together to improve our country's competitiveness. Everybody loses in unfair trade cases, especially the American consumer.

Thank you.



Introduction

Garmin International, Inc. ("Garmin International") appreciates the opportunity to comment on the proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation - USTR-2018-0005.

Garmin International respectfully submits that the proposed additional duty of 25 percent on a list of products from China at the 8-digit level is too broad.

Garmin International believes that USTR-2018-0005 as written is inconsistent with the spirit of the Section 301 findings, and Garmin proposes below to exclude specific products at the 10-digit tariff level, rather than at the original 8-digit level, thereby enabling the USTR to target those products that fall within the spirit of the findings.

A. Company Overview - Garmin

Garmin Ltd., through its operating subsidiaries, is a leading worldwide provider of navigation, communications and information devices, most of which are enabled by Global Positioning System, or GPS, technology. Garmin operates in five business segments: the outdoor, fitness, marine, auto and aviation markets. Garmin Ltd.'s shares are publicly-traded on the NASDAQ Global Select Market under the ticker symbol "GRMN". Garmin has a market capitalization of approximately \$11 billion, and annual revenue of over \$3 billion.

Garmin employs over 4,600 people in the United States, including over 3,500 people in Kansas, over 500 people in Oregon, over 200 people in Arizona, over 80 people in Maine, over 75 people in North Carolina, and over 45 people in each of the states of Minnesota and California. Garmin also has employees in Florida, Michigan, Missouri, Massachusetts and Oklahoma.

Garmin International, located in Olathe, Kansas, is Garmin Ltd.'s principal operating subsidiary in the United States. Garmin's research and development operations, FAA-approved aviation product manufacturing operations and North American distribution operations are centered in the Olathe, Kansas facility. Garmin has a significant aviation manufacturing facility in Salem, Oregon, as well.

Within the last 5 years, Garmin established a manufacturing facility in China, where Garmin manufactures personal navigation devices that are imported by Garmin International for distribution to the U.S. market from Garmin's Olathe, Kansas facility. Garmin owns 100% of its manufacturing facility in China and it did not seek any financial incentives from the Chinese government that require Garmin to transfer any of its intellectual property rights to the Chinese government. Garmin has registered many of its trademarks and patents in China, and Garmin has experienced helpful cooperation from Chinese customs authorities in ferreting out counterfeit Garmin products in China. Garmin has never experienced a mandatory transfer of any intellectual property rights in China, and Garmin is not aware of any significant theft in China of its intellectual property rights. All of the workers at Garmin's 100% owned manufacturing facility in

China are Garmin employees, subject to Garmin policies to maintain the confidentiality of all Garmin confidential and proprietary information.

In addition, Garmin imports VHF radios from China that it sells as accessories to its marine products. Garmin also imports LCD displays from China that it incorporates into the aviation products that Garmin manufactures at its production facilities in Olathe, Kansas and Salem, Oregon. These LCD displays are critical to the manufacturing processes that take place in the United States and if subject to the additional 25% tariff will negatively impact our ability to manufacture aviation products in the United States.

Additional information about Garmin is available on its website, www.garmin.com, or upon request.

B. Proposed Action Pursuant to Section 301

The President directed the U.S. Trade Representative (Trade Representative or USTR) to conduct an investigation into the laws, acts, policies, and practices of the Government of China to determine whether or not they were unreasonable or discriminatory and were harming American intellectual property rights, innovation or technology development under section 301 of the Trade Act of 1974. This type of investigation is used when a foreign country denies the United States its free trade agreement rights or carries out practices that are unjustifiable, unreasonable or discriminatory. The USTR conducted its investigation and determined that China's actions were unreasonable or discriminatory and burden or restrict U.S. commerce. The President is authorized upon an affirmative finding by the USTR to take unilateral actions against China. The White House determined that appropriate action was to assess an additional duty of 25 percent on a list of products from China valued at \$50 billion. The list of products are defined by 8-digit subheadings of the Harmonized Tariff Schedule of the United States (HTSUS).

Below sets forth the findings by the USTR leading to the present exercise of determining which products will be subject to additional tariffs:

Memorandum dated March 22, 2018 (83 FR 13099) Key Findings

China's Acts, Policies, and Practices are Unreasonable

China has engaged in a wide-ranging, well-funded effort to direct and support the systematic investment in, and acquisition of, U.S. companies and assets **to obtain cutting-edge technology**, in service of China's industrial policy. USTR finds these acts, policies, and practices to be unreasonable under 19 U.S.C. § 2411(b)(1). *(emphasis added)*.

The "unreasonable" conduct of a foreign government is defined as an act, practice, or policy as one that "while not necessarily in violation of, or inconsistent with, the international legal rights of the United States is otherwise unfair and inequitable." In determining reasonableness, USTR also takes into account, to the extent appropriate, whether foreign firms in the United States are provided reciprocal opportunities to those denied U.S. firms. China's acts, policies, and practices are unreasonable because they are directed and supported by the government, and unfairly target critical U.S. technology **with the goal of achieving dominance in strategic sectors**. *(emphasis added)*.

China has directed enterprises to pursue outbound investment with the express objective of acquiring and transferring technology. China has articulated this objective in numerous state planning documents and policies, in furtherance of both military and economic goals. China has also drawn on a range of tools to implement this approach – for instance, through the control that it exercises over SOEs, state-backed banks, and investment funds, and through its outbound investment approval regime.

As a result of these efforts, investments are often “politically driven and financially supported by Chinese government funds. In short, the Chinese government has the means and authority to prevail (and does prevail) on Chinese firms on where to invest, what to invest, and how much to invest.

U.S. Trade Representative's Objective

In a Memorandum dated March 22, 2018 (83 FR 13099), President Trump directed the Trade Representative as follows:

Section 1. Tariffs. (a) The Trade Representative should take all appropriate action under section 301 of the Act (19 U.S.C. 2411) to address the acts, policies, and practices of China that are unreasonable or discriminatory and that burden or restrict U.S. commerce. The Trade Representative shall consider whether such action should include increased tariffs on goods from China.

C. Garmin Believes the Tariffs Should be Targeted at the 10-Digit Level, Rather than at the 8-Digit Level

The proposed list of products that would be subjected to the tariffs is currently designated at the 8-digit level of the Harmonized Tariff Schedule of the United States (HTSUS). Garmin believes further delineating products at the 10-digit HTSUS designation, as they are delineated upon import by the Customs and Border Protection (CBP), would capture commercial electronics that are outside the scope of “cutting-edge technology.” For example, Garmin believes that personal navigation devices, VHF radios and LCD displays are not cutting-edge technology. These products have been in existence for many years and are mature technologies.

Garmin believes the list of products should be targeted at the 10-digit HTSUS level, rather than at the 8-digit level – allowing for more specific targeting of the “cutting edge technology”, and thereby increasing the likelihood of changing the unfair practices mentioned in the report. Specifically, Garmin proposes that the following 10-digit products should be excluded from the proposed tariffs because they are not “cutting edge technology”:

8526.91.0020 - Radio navigational aid apparatus (*Reception Only*)

8526.91.0040 - Radio navigational aid apparatus (*Other*)

8525.60.1040 - Marine VHF-FM

9013.80.7000 - Flat panel displays other than for articles of heading 8528, except subheadings 8528.52 or 8528.62

Additional Comments Regarding Personal Navigation Devices (8526.91.00 [20 or 40])

In addition to Garmin's belief that personal navigation devices (8526.91.00 [20 or 40]) should be excluded from the proposed tariffs because they are not "cutting edge technology", Garmin believes that imposing the proposed tariff on personal navigation devices would lead to an artificial short supply of personal navigation devices in the United States. According to independent market research by the NPD Group, as of January 2018, Garmin had an 80% share of the market for personal navigation devices in the United States, and, as mentioned above, Garmin manufactures many of its personal navigation devices at its 100% owned manufacturing facility in China. If the proposed tariffs were applied to these devices, we cannot absorb the costs and would be forced to significantly raise prices for these devices.

Given that Garmin has an 80% market share in the United States, this price increase would be a significant deterrent to the purchase by consumers of personal navigation devices in the United States. The higher prices may lead some consumers to opt for the less reliable navigation applications on their smart phones. The smart phone navigation systems are less reliable because they are dependent on cell tower coverage. They also consume a significant amount of the smart phone's data. Many consumers in the United States have contacted Garmin over the years to tell us how grateful they were to have a personal navigation device during and following natural disasters, such as hurricanes, when cell coverage was unavailable.

In addition, because much of the research and development for personal navigation devices is done by Garmin engineers in its Olathe, Kansas facility and other Garmin facilities in the United States, a declining market in the United States for personal navigation devices caused by increased prices could result in job losses for engineers in those facilities.

It is important to note again that Garmin owns 100% of its manufacturing facility in China, and Garmin has not voluntarily or involuntarily transferred any of its intellectual property rights to the Chinese government. Therefore, excluding personal navigation devices from the proposed tariffs would not in any way be detrimental to the USTR's objectives.

April 20, 2018

Representative Kevin Brady
Chairman, Committee on Ways & Means
U.S. House of Representatives
Washington, DC

Representative Richard Neal
Ranking Member, Committee on Ways & Means
U.S. House of Representatives
Washington, DC

Dear Chairman Brady, Ranking Member Neal, and Distinguished Members of the Committee:

On April 3rd, the Office of the United States Trade Representative announced its decision to impose tariffs on 1,300 categories of Chinese goods under Section 301 of the Trade Act of 1974. A day later, the Chinese government responded with a proposal to impose import tariffs on 106 categories of US products.

On behalf of the Greater Houston Partnership, I'm writing to inform you of the potential negative impact these actions can have on our region. During the last couple of weeks, we hosted workshops with leaders of the LNG, petrochemical, financial, legal, and construction industries to discuss the actions being proposed as a result of the recent Section 301 and Section 232 investigations.

While the proposed tariffs under Sections 232 and 301 would have a negative impact on certain segments of the Houston economy – particularly those segments dependent on imported steel tubulars and structural steel – of greatest concern is the likely Chinese response to the proposed U.S. tariffs.

The Chinese retaliation announced on April 4th proposes a 25% tariff on a number of products we export from Houston. In 2017, Houston exported \$2.448 billion of commodities under those specific categories. That accounted for 31.7% of our exports to China in 2017. There are an additional six categories which likely don't originate from here but are handled by our customs district. These include grains, vehicles and vehicle parts. We handled \$909.1 million of these goods in 2017. This accounted for 11.8% of our exports to China. The combined \$3.357 billion in exports equates to 44 percent of our exports to China.

The figures above are small compared to the expected growth in Houston exports to China. Houston exports to China have grown by 26.8% per year (compound annual growth rate) from 2012 through 2017, considerably faster than the rate of growth in Chinese imports over the same period (8.3% CAGR).

The United States is in the midst of an energy renaissance. Houston's innovation and entrepreneurship have been the main elements to achieve the unprecedented growth in our country's energy production. As a result of this "feedstock advantage," more than \$50 billion has been invested in our region to expand our petrochemical production capacity. China has always been considered as a priority international market for this expanded capacity.

On a related subject, our nascent LNG industry has the potential to capture considerable market share of this segment of the global energy industry. Importantly, at the same time our first LNG terminals were starting operations, the Chinese government announced its strongest push to increase use of natural gas to replace coal. Although no specific mention of LNG tariffs has been made by the Chinese government, the current uncertainty on bilateral trade policy is adding unnecessary complexities in the negotiation processes that our Houston-based LNG firms are undertaking with potential Chinese buyers. Long-term policy stability is a key element to move forward with investment decisions in the Gulf Coast to satisfy Chinese demand for LNG over the next 50 years. Natural gas is a commodity that China can source from Australia, Qatar or Russia.

It is important – and critical to U.S. interests – that our companies win this generational opportunity to export LNG to China. We should not impair their ability to succeed in securing long-term contracts that will benefit our country for decades.

We recognize that certain Chinese practices with respect to technology transfer, intellectual property, and market access need to change, consistent with WTO rules and China's emergence as a major economic player on the global state. We believe these issues can best be addressed in an atmosphere of mutual respect between our countries.

We stand ready to assist as you continue promoting your targeted approach to address unfair practices while avoiding harm to U.S. workers and job creators.

Regards,

Bob Harvey
President and CEO





DONALD F. SANTA
PRESIDENT & CEO

April 26, 2018

Hon. Kevin P. Brady
Chairman
Committee on Ways and Means
Washington, DC 20515

Hon. Richard E. Neal
Ranking Member
Committee on Ways and Means
Washington, DC 20515

Dear Chairman Brady and Ranking Member Neal:

The Interstate Natural Gas Association of America (INGAA) requests that this letter be included in the record for the hearing held on April 12, regarding "the effect of tariff increases on the U.S. economy and jobs." INGAA is a trade association that advocates regulatory and legislative positions of importance to the interstate natural gas pipeline industry. Our 27 members comprise the vast majority of U.S. interstate natural gas pipeline companies. INGAA's members operate nearly 200,000 miles of pipelines and serve as an indispensable link between natural gas producers and consumers.

On March 22, INGAA joined with seven other energy associations to file a letter with the Committee on Ways and Means expressing our concerns with the tariffs imposed on steel (and steel product) imports levied under section 232 of the Trade Expansion Act of 1962. The natural gas pipeline industry depends on the availability of steel and steel line pipe. Our steel requirements are atypical, however. Federal safety requirements and industry construction standards require steel specifications that exceed those commonly used for other products, such as automobiles and building materials. Pipeline-quality steel is a specialty product, available domestically in only limited supplies. In fact, certain steel pipe products are unavailable domestically.

Recent innovation has allowed for the unprecedented development of shale gas resources across the U.S., including in states such as Pennsylvania, Texas and Ohio. These newly accessible gas supplies have greatly reduced consumer energy costs and have given U.S. industry a competitive advantage in global markets. This has spurred the revival of U.S. industries that use natural gas as a source of energy and as feedstock (such as petrochemicals, fertilizer, glass and metals). Abundant natural gas also has changed the landscape in the electric power sector, lowering wholesale electricity prices and reducing emissions in regions such as New England and the Southeast.

The availability of pipeline-quality steel is critical to building the pipeline infrastructure necessary to realize fully the potential of this abundant, affordable domestic energy resource. The uncertainty created by the section 232 tariffs threatens to delay and perhaps even diminish the consumer welfare, job creation and economic growth benefits of our domestic energy abundance.

INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA
20 F STREET, NW, SUITE 450 • WASHINGTON, DC 20001

The following anecdotes from two INGAA member companies illustrate how the tariffs are affecting the pipeline industry:

- *Company A is currently permitting a \$1 billion project to serve a major utility that requires additional pipeline capacity to meet customer demand for residential and commercial natural gas service. The pipe has very exact, unique specifications not common to most projects. When the company sought bids for the material, domestic suppliers expressly told the company that they could not meet the project specifications. The pipe order was therefore placed several weeks ago with a foreign supplier. Company A expects to take delivery within the next several weeks. The announced tariffs have added significant uncertainty to the markets, and to the overall cost of the project.*
- *Company B is seeing a broad, negative impact from the 232 tariffs on its ability to reasonably procure steel goods for its energy infrastructure projects. The costs are immediate and across the board. For example, Company B has a current project with existing contracts for highly specialized, imported steel pipe. The new tariff boosts costs by 25 cents on every dollar spent. This dramatically changes the economics on which the deal was based and adds price uncertainty and risk that did not exist before. At the very least, it would be equitable for the Department of Commerce to grandfather such existing agreements so as not to punish energy infrastructure development already underway with assumed economics, and allow the domestic steel industry time to expand its capacity and capabilities to meet future demand.*

INGAA endorses the recommendations made by the American Chemistry Council at the April 12 hearing regarding the section 232 tariffs. Specifically, the ACC recommended that the Trump Administration:

- 1) Make current country exemptions permanent.
- 2) Allow associations to make exclusion requests on behalf of members.
- 3) Apply product exclusions to all companies, and not company-by-company.
- 4) Exempt strategic U.S. allies from the tariffs, without conditions.

We urge the Committee on Ways and Means to continue its oversight of the section 232 tariffs, and to take legislative action, if necessary, to ensure the recommendations listed above. The significant cost and uncertainty created by these tariffs threaten the ability to build the pipeline infrastructure necessary to realize the full benefit of our nation's energy abundance.

Thank you for the opportunity to submit these comments for the record.

Respectfully,



Donald F. Santa





Statement to the
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
from
NATHAN NASCIMENTO, EXECUTIVE VICE PRESIDENT
at FREEDOM PARTNERS CHAMBER OF COMMERCE
and
ALISON ACOSTA WINTERS, SENIOR POLICY FELLOW
at AMERICANS FOR PROSPERITY
Thursday, April 12, 2018

Freedom Partners Chamber of Commerce ("Freedom Partners") and Americans for Prosperity appreciate the committee's efforts to highlight the economic impact that tariffs have on the American economy and jobs. Trade has been a hallmark of the American economy since our founding. Tariffs, the subject of today's hearing, are intended to protect American industries, however they have an opposite but greater effect of harming other American industries as well as workers and consumers. This means new tariffs will also undermine the gains from the recently-enacted "Tax Cuts and Jobs Act." Accordingly, Freedom Partners and Americans for Prosperity strongly oppose tariffs, quotas and other trade barriers.

Trade's Benefits are Win-Win

Trade between individuals, companies, and countries, helps promote well-being and prosperity. It provides access to a rich array of goods and services for both trading partners. Trade offers benefits to the most people, and is an essential part of the economy in nearly every state of the country.¹ As the current round of new tariffs are aimed at China, it would be helpful to remember that trade has helped people in both countries grow and prosper.

Our biggest export markets, in order, are Mexico, Canada, and China,² which is currently our biggest agricultural export market³. Our families, workers, and businesses benefit from access to abundant and

¹ Mark Perry, "How important is international trade to each US state's economy? Pretty important for most US states" Carpe Diem, American Enterprise Institute March 9, 2018 <https://www.aei.org/publication/how-important-is-international-trade-to-each-us-states-economy-pretty-important-for-most-us-states/>

² "Top Trading Partners, February 2018" U.S. Census Bureau <https://www.census.gov/foreign-trade/statistics/highlights/toppartners.html#exports>

³ "Infographic: U.S. Agricultural Exports to China, 2016" U.S. Department of Agriculture, Foreign Agricultural Service <https://www.fas.usda.gov/data/infographic-us-agricultural-exports-china-2016>

affordable materials and goods, our trading partners benefit from access to the goods and services that our farmers, workers and manufacturers export. Opening markets is a net win-win and we should continue to work with other countries to unwind problematic trade policies.

Tariffs are Counterproductive and Have a Failed History

Rather than opening markets, tariffs are punitive measures that close access to U.S. markets and so represent a step backward. They harm American workers, consumers, and businesses and those of our trading partners in the process.

Open competition creates strong incentives for businesses and industries to improve their products by innovating. Often, this leads to lower prices, increasing efficiency, or development of new products and services. Tariffs and other trade barriers, however, create a bubble for the businesses and industries they protect. This bubble isolates them from competition and creates artificial disincentives to innovate and improve their own competitiveness.

Numerous studies have analyzed the costs of tariffs and other measures to restrict trade on a variety of industries and found they far outweighed any benefit. One study on trade protections, including tariffs, showed that between the 1950s and 1970s, they did not revitalize affected industries.⁴ Many of those affected companies failed to invest in new innovative ways to regain their competitiveness. Another study on steel and auto protections found that although tariffs effectively limited imports, over the long-term they discouraged improvements in quality and cost controls and merely postponed the inevitable decline of the business.

Between the 1990s and early 2000s there were nearly 150 different antidumping provisions in effect on imported steel. Yet according to one study,⁵ the U.S. steel industry had shrunk in terms of employment and investment, with some firms declaring bankruptcy. The costs of restrictive trade policies on steel to U.S. consumers ranged between \$200,000 and \$2.3 million for every American steel industry job that was protected.⁶

In short, punitive trade policies like tariffs have huge costs on consumers and industries, like manufacturers, which use imports in their business. These costs outweigh the benefits for the small, select group of so-called winners. They certainly did not have any lasting positive impact on the steel industry.

Lastly, policies like tariffs do not operate in isolation. Trading partners often respond with tit-for-tat retaliatory measures that can quickly escalate into a full-blown trade war that could sharply constrict trade. In today's global economy, the damage would be significant. This is the potential situation we now face with China, and it is extremely concerning. As evidence that tariffs are self-defeating, threats of escalating retaliatory measures are already injecting unnecessary uncertainty into our markets. The damage, for example, to agriculture commodities such as soy beans is compelling but far from isolated.

⁴ Scott Lincicome, "No Mr. President, American Steel Protection Hasn't 'Worked' in the Past" Cato at Liberty, Cato Institute, February 31, 2018, <https://www.cato.org/blog/no-mr-president-american-steel-protectionism-hasnt-worked-past>

⁵ Scott Lincicome, "Doomed to Repeat It The Long History of America's Protectionist Failures" Cato Institute Policy Analysis 819, August 22, 2017 <https://object.cato.org/sites/cato.org/files/pubs/pdf/pa-819-updated.pdf>

⁶ Lincicome, "No Mr. President..."

In response, Washington policymakers are purportedly considering new measures to protect farmers, including tapping depression-era programs like the Commodity Credit Corporation. However, we would strongly oppose such an approach as ill-advised and expensive. Moreover, farmers just want to be able to engage in trade without harmful tariffs or additional convoluted government aid such as price supports.⁷

Subsidies, in the Form of Tariffs, Do Not Help the American Economy Grow

In a system of free enterprise, companies and industries should succeed based on the value they create for society. Yet many countries persist in subsidizing or otherwise supporting their industries. For example, China supports their steel industry, while the U.S. subsidizes American corn, wheat, cotton and other farm commodities. These government subsidies siphon away precious resources from their citizens to benefit specific industries at home. Yet, by subsidizing industries that export, the government is also sending benefits abroad. China's subsidized steel benefits U.S. manufacturers, while U.S. farm subsidies support China's food supply. The better answer to tariffs is for both countries to roll back these expensive government supports.

Solutions to Promote Sustainable Economic Growth

Tariffs are lose-lose – they harm our country and our trading partners. There are other solutions:

First, rather than escalating trade tensions and heightening economic uncertainty across the world through high-stakes tariffs, the administration should focus on negotiating with its trading partners to address concerns and find mutually agreeable solutions.

Next, policymakers in Washington should continue to implement policies that increase economic freedom and the international competitiveness of U.S. companies – without protectionist or corporate welfare policies. This should include ending agricultural subsidies for agricultural commodities such as corn, wheat, and cotton, sugar quotas, and other price support programs.

Policymakers should remove other trade barriers. The U.S. ranks as only the 63rd best country for trade policy, according to the Economic Freedom of the World Annual Report.⁸

Congress should reauthorize Trade Promotion Authority which facilitates the president's ability to negotiate additional trade agreements; the president and the administration should work to implement more trade agreements to open markets.

Lastly, policymakers should focus on continued relief from regulatory burdens, continue to reform and improve the tax code, and remove government barriers on individuals and businesses to foster a robust economy that benefits all companies and workers.

###

⁷ Bob Davies, "Trump Looks to Assuage Trade Critics With Farm Package" Wall Street Journal, April 11, 2018, <https://www.wsj.com/articles/trump-looks-to-assuage-trade-critics-with-farm-package-1523453857>

⁸ James Gwartney, Robert Lawson & Joshua Hall, "Economic Freedom of the World 2017 Annual Report" The Fraser Institute, <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2017.pdf>

Freedom Partners Chamber of Commerce is a non-profit, non-partisan, chamber of commerce, representing a diverse group of local leaders, dedicated citizens and successful entrepreneurs, many of whom have achieved the American Dream from very modest beginnings. All supporters share a deep commitment to America, promoting free enterprise, effective fiscal, monetary and tax policies, efficient and effective policies that promote and protect hardworking taxpayers, and genuine accountability in government.

Americans for Prosperity is a non-profit, non-partisan, grassroots organization which educates, recruits and mobilizes citizens in support of the policies and goals of a free society at the local, state, and federal level, helping every American live their dream – especially the least fortunate. Grassroots activists share a common vision for an America where truly free markets allow for a free and prosperous people and they work to educate friends, neighbors, and public officials on the issues shaping the American economy and building a culture of freedom.



The Voice of the Global Methanol Industry

**Methanol Institute
Statement for the Record
House Committee on Ways and Means**

"Effects of Tariffs Increases on the U.S. Economy and Jobs"

April 12, 2018

The Methanol Institute (MI), the trade association representing the global methanol industry, thanks the Committee for the opportunity to submit this statement for the record.

MI would like to echo the testimony given by the American Chemistry Council's (ACC) President and CEO Calvin Dooley and others expressing support for the current Administration's efforts to resolve concerns in the U.S.-China trade relationship. Like the ACC, MI feels strongly that it is not in the interest of the U.S. economy, manufacturers or consumers to engage in a trade war with China. MI believes that concerns with the U.S.-China trade relationship should be resolved through constructive negotiation, rather than through tariffs.

MI strongly urges the U.S. and Chinese governments to come to a satisfactory and mutually beneficial agreement before the proposed tariffs go into effect. There is ample evidence that tariffs lead to higher costs for downstream producers, higher prices for consumers, fewer jobs in downstream industries, and less economic growth, investment, and innovation in the United States. A trade war will also make cooperating on non-trade issues and real national security concerns of mutual interest that much harder.

Driven by the shale gas revolution, the methanol industry is in the midst of a strong resurgence in the U.S., with many new production facilities either currently under construction, or in the planning stages. The imposition of such tariffs could have a deleterious effect, not just on the methanol industry, but on the broader chemical industry, and ultimately the country as a whole.

Last year, MI commissioned a report by ADI Analytics, which shows that a typical 1.5 million metric tons per annum methanol plant in the U.S. drives capital spending of \$1.1 billion, and an economic ripple effect worth \$1.5 billion. In fact, by 2020, U.S. methanol plants will create roughly 2,700 direct jobs with an average yearly salary of \$72,500, 2,800 indirect jobs, and 19,000 temporary construction jobs. The full report can be viewed [HERE](#).

The methanol industry's domestic expansion is an important driver for the U.S. economy, and MI joins the ACC and other industry leaders in urging the President not to impose tariff or trade barriers that prevent our industry from continuing to contribute significant growth and jobs to the economy.

The Methanol Institute (MI) serves as the global trade association for one of the world's most vibrant and innovative industries. Founded in 1989, MI now serves its members in every corner of the globe from our offices in Singapore, Washington, D.C., Brussels and Beijing.

Singapore: 10 Anson Road, #28-12 International Plaza, Singapore 079903, +65 6325 6300

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www.methanol.org

www.methanol.org.cn

www.methanolfuels.org



April 11, 2018

The Honorable Kevin Brady
Chairman
House Ways & Means Committee
1102 Longworth House Office Building
Washington, DC 20015

The Honorable Richard Neal
Ranking Member
House Ways & Means Committee
1102 Longworth House Office Building
Washington, DC 20015

RE:

Dear Chairman Brady and Ranking Member Neal,

The undersigned organizations representing U.S. manufacturers, farmers and agribusinesses, retailers, technology companies, importers, exporters, and other supply chain stakeholders are writing to express our deep concern with potential impact of the Administration's decision to use tariffs to address China's unfair trade practices and its trade and investment relationship with the United States. We agree that China's ongoing intellectual property rights violations, forced technology transfers and state interventions harm U.S. companies, workers, consumers and our competitiveness. We are concerned that the proposed tariff list, and escalating tariff threats made by the Administration, however, will not effectively advance our shared goal of changing these harmful Chinese practices.

We applaud the Committee for holding this hearing to specifically evaluate the impact of tariffs on U.S. companies, farmers, consumers and the economy. As required by the Constitution, Congress must play a strong role in quickly mitigating this situation. We strongly encourage Congress to work together and with the Administration to develop and execute a strategic policy to effectively address the longstanding problems in China. This must include clearly defined objectives, deadlines and immediate negotiations with China, preferably in coordination with likeminded economies. The fundamental challenges with China are real and can best be addressed through aligned efforts.

Congress must ensure that hardworking families in the United States are not forced to pay the price for China's bad behavior. As Committee Members are aware, tariffs are hidden, regressive taxes that will be paid by U.S. businesses and consumers in the form of higher product prices. While the Administration has signaled that the proposed tariffs are intended to inflict maximum pain on China and minimal pain on the U.S. consumer, unfortunately that is not the case. Many of the products that are currently on the proposed U.S. tariff list are consumer goods. Even more troubling the proposed list includes machinery, parts, chemicals and components that U.S. manufacturers and their workers need to make American products. This will impact downstream industries who rely on these materials and will ultimately result in higher prices for consumers for essential everyday products. Higher costs for manufacturing will result in less production here in the U.S. If imposed, these tariffs will result in higher prices for American consumers and fewer jobs for American workers.

While the tariffs are not yet in effect, the possibility of imposition of tariffs on billions of dollars of goods, the as-yet-undefined potential investment restrictions and threats of a potential trade war create unpredictability across the business and farm community here in the United States, depress commodity prices, and have already harmed U.S. companies, farmers, consumers, and markets. China's threat of retaliation further exacerbates uncertainty as farmers and manufacturers rely on the ability to export their crops and products to China for their livelihood, yet they are targeted for potential retaliation. China's potential retaliatory measures would likely have broad, cross-industry impact aimed at constraining current U.S. operations in country and impeding any new market entrants. With no clear strategy to aid those businesses, farms and workers impacted by the new tariffs, their livelihoods are at risk.

The Administration's approach also does not adequately account for the role of the global supply chain in product production and assembly. These complex supply chains can take years to establish, and in some instances rely on suppliers who bring unique capabilities that cannot be replaced. Even in those instances where sufficient alternative suppliers may exist, supply chains cannot be shifted to different countries or facilities without compromising contracts, compliance, quality and value for the consumer. U.S. businesses typically work with contracts anywhere from six to nine months in advance. Applying tariffs on imports from China will certainly disrupt those supply chains. Moreover, if U.S. companies had to try to shift production to different countries in concert, they would face capacity constraints and likely higher prices from suppliers in those countries. Such disruptions in supply chains would likely drive inflation up in the United States.

The concerns also apply to U.S. farmers and exporters who may be subject to China's proposed retaliation tariffs. These businesses and farmers cannot easily find new buyers for their products. Once a market is lost, and a buyer shifts to a foreign competitor, even if only for a short period of time, future U.S. exports and sales likely will be lost as well. Subsidies and other government forms of assistance are also not a solution. While they may provide short-term relief – depending on existing legal authorities – the long-term costs of losing a market will be exponential.

The escalation of trade tensions with China could result in harm to all our member companies, member farms, their workers, and their consumers. The impact of a trade war and tariffs would be felt by businesses, workers, farmers and consumers throughout the U.S. and across industry sectors. This would hurt the economy as a whole, as well as jobs and consumers in every state. Everyone loses in a trade war.

We appreciate the opportunity to submit our thoughts to the Committee. We stand ready to work with the Committee, Congress, and the Administration to find effective solutions that promote and not punish U.S. farmers, workers, consumers, and businesses.

Sincerely,

Agriculture Transportation Coalition
Airforwarders Association
American Apparel & Footwear Association (AAFA)

American Association of Exporters and Importers (AAEI)
 American Chemistry Council
 American Import Shippers Association
 American Soybean Association
 Americans for Farmers and Families
 Association of Equipment Manufacturers (AEM)
 Auto Care Association
 California Association of Winegrape Growers
 California Retailers Association
 CAWA – representing the automotive parts industry
 Coalition of New England Companies for Trade (CONNECT)
 Coalition of Service Industries (CSI)
 Colorado Retail Council
 Columbia River Customs Brokers and Forwarders Association
 Computing Technology Industry Association (CompTIA)
 Computer & Communications Industry Association (CCIA)
 Consumer Technology Association (CTA)
 Customs Brokers and Forwarders Association of Northern California
 Customs Brokers and International Freight Forwarders Association of Washington State
 Distilled Spirits Council
 Electronic Transactions Association
 Farmers for Free Trade
 Fashion Accessories Shippers Association (FASA)
 Florida Retail Federation
 Footwear Distributors and Retailers Association
 Foreign Trade Association
 Furniture Shippers Association
 Gemini Shippers Association
 Georgia Retailers
 Global Cold Chain Alliance
 Halloween Industry Association
 Harbor Trucking Association
 Hardwood Federation
 Home Furnishings Association
 Idaho Retailers Association
 Indiana Retail Council
 Information Technology Industry Council (ITI)
 International Association of Refrigerated Warehouses
 International Refrigerated Transportation Association
 International Wood Products Association
 Internet Association
 Juvenile Products Manufacturers Association
 Kentucky Distillers' Association
 Kentucky Retail Federation
 Los Angeles Customs Brokers and Freight Forwarders Association
 Maryland Retailers Association

Meat Import Council of America
Michigan Retailers Association
Midwest Shippers Association
Minnesota Retailers Association
Missouri Retailers Association
Montana Retail Association
National Association of Chemical Distributors
National Council of Chain Restaurants
National Customs Brokers and Forwarders Association of America
National Foreign Trade Council
National Marine Manufacturers Association
National Retail Federation
Nebraska Retail Federation
New Jersey Retail Merchants Association
North American Meat Institute
North Carolina Retail Merchants Association
NY/NJ Forwarders and Brokers Association
Ohio Council of Retail Merchants
Oklahoma Retail Merchants Association
Oregon Dairy Farmers Association
Oregon Wheat Growers League
Outdoor Power Equipment Institute
Pacific Coast Council of Customs Brokers & Freight Forwarders
Pennsylvania Retailers' Association
Promotional Products Association International (PPAI)
Retail Council of New York State
Retail Industry Leaders Association
Retailers Association of Massachusetts
San Diego Customs Brokers Association
Security Industry Association (SIA)
SEMI
SNAC International
Snowsports Industries America
Society of Chemical Manufacturers and Affiliates
Software & Information Industry Association
South Dakota Retailers Association
Specialty Equipment Market Association
Sports & Fitness Industry Association
Tea Association of the U.S.A., Inc.
Telecommunications Industry Association (TIA)
Texas Retailers Association
The Fertilizer Institute
The Household & Commercial Products Association
The Toy Association
Travel Goods Association (TGA)
Truck & Engine Manufacturers Association

U.S. Direct Selling Association
U.S. Hide, Skin and Leather Association
US Council for International Business
United Egg Producers
United States Fashion Industry Association
Utah Retail Merchants Association
Virginia Retail Federation
Washington Retail Association
Washington Trucking Associations
WineAmerica
Wyoming Retail Association
Yankton Area Chamber of Commerce



April 11, 2018

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Brady, Ranking Member Neal, Chairman Reichert and Ranking Member Pascarella:

On behalf of the members of the National Restaurant Association, we are deeply concerned about the economic impacts of the Administration's recent tariff announcements and retaliatory actions taken by the Chinese government. While we support the Administration taking action to enforce our trade laws, we are concerned these efforts could lead to a trade war between China and the United States that could have devastating effects on our nation's restaurants and the millions of customers we serve.

The National Restaurant Association is the leading business association for the restaurant and foodservice industry, representing more than 15.1 million employees, nearly 10 percent of the nation's workforce. With one million locations across the country, 90 percent of those being small businesses, the \$800 billion in sales from the restaurant industry makes up four percent of the U.S. GDP, making it a vital part of the U.S. economy.

Restaurants rely on global, interconnected supply chains to provide meals to millions of customers daily. Any disruption to these supply chains could significantly impact the availability and price of agricultural products, equipment, and materials to restaurants in every community.

The restaurant industry also operates on thin profit margins and must deal in real time with fluctuations in commodity prices. We are concerned that continued retaliatory actions between China and the U.S. will create volatility and uncertainty in our supply chains, disruptions to international and domestic markets, and hinder economic growth and opportunity for our members.

We urge you to work with the business community to fully understand the impacts these trade actions could have on restaurants and consumers.

Thank you for your continued leadership on international trade issues. We look forward to working with you as these discussions continue.

Sincerely,

A handwritten signature in cursive script that reads "Laura Abshire".

Laura Abshire
Director of Sustainability Policy & Government Affairs
National Restaurant Association

Enhancing the quality of life for all we serve

Restaurant.org | @WeRRestaurants
2055 L Street NW, Washington, DC 20036 | (202) 331-5900 | (800) 424-5156



Cc:
The Honorable David Reichert
Chairman, Subcommittee on Trade
Committee on Ways and Means

The Honorable Bill Pascrell
Ranking Member, Subcommittee on Trade
Committee on Ways and Means



April 11, 2018

The Honorable Kevin Brady
Chairman
House Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
House Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady and Ranking Member Neal:

In advance of the House Ways & Means Committee's hearing on April 12, 2018 concerning the effects of tariff increases on the U.S. economy and jobs, I submit the attached statement for the record on behalf of the members of the National Association of Trailer Manufacturers (NATM). For 30 years, NATM has served as the trade association for manufacturers of light- and medium-duty trailers and suppliers of products and services to the light- and medium-duty trailer industry.

NATM's membership consists of nearly 900 manufacturers and suppliers to the industry. These companies utilize significant amounts of products which have been recently targeted for import tariffs. Thank you very much for your consideration of our views by including them in the Committee's hearing record.

Sincerely,

Kendra F. Ansley
Kendra Ansley
Executive Director



**Statement of the National Association of Trailer Manufacturers
Hearing on Effects of Tariff Increases on the U.S. Economy & Jobs
House Committee on Ways and Means
April 12, 2018**

The National Association of Trailer Manufacturers (NATM) is pleased to provide this written statement in connection with the hearing in the Committee on Ways and Means concerning the effects of recent tariff increases on the U.S. economy and jobs. For 30 years, NATM has served as the national trade association for manufacturers of light- and medium-duty trailers and suppliers of products and services for the industry. NATM's membership consists of approximately 900 companies producing a wide variety of products such as livestock, cargo, boat, and other trailers typically towed behind pickup trucks. The light- and medium-duty trailer industry employs approximately 425,000 Americans and contributes nearly \$3 billion to the economy every year. In recent months, NATM's members have expressed great concern about the impact of recent steel and aluminum tariff increases on their businesses. Since the Great Recession, the light- and medium-duty trailer industry has experienced strong growth, and the industry began 2018 hopeful that passage of tax reform would continue growth in the economy and particularly American manufacturing. These gains are being threatened by the recent tariff increases.

Production of light- and medium-duty trailers requires significant use of metals including steel and aluminum. NATM recently conducted a survey of its membership to determine how much steel and aluminum are being utilized, sources of those products by country, and experiences companies have faced over the last several months. Most notably of concern, many members report having significant price increases as well as a lack of stability in contracts including cancellation of existing contracts for both domestic and foreign sourced steel and aluminum. In many cases, these challenges are having a chilling effect on the companies' abilities to create and retain workers and serve customers without significant price increases of their own.

Lack of Market Stability

NATM members source steel and aluminum for their products from a range of countries. Many utilize U.S. produced steel and aluminum, but report the domestic production capacity is insufficient for the industry's needs. Foreign sources of steel and aluminum included Brazil, Canada, China, France, India, Korea, and Vietnam. Over the course of the last several months, NATM members report both domestic and foreign suppliers of steel and aluminum have not only increased prices significantly, but also cancelled future contracts and begun utilizing shorter contract terms. In several cases, companies have been forced to make purchases on spot markets which have much higher costs than long-term contracts which enable manufacturers to plan for future construction. These supply issues have already led to manufacturers slowing production



and planning increases in the prices of their final products, both of which are expected to decrease consumer demand for products.

Price Increases

Since the announcement by the Department of Commerce that it would self-initiate Section 232 cases on aluminum and steel imports, NATM's members report large increases in the prices they are paying for both domestically produced and imported aluminum and steel. In several cases, members who previously utilized only U.S. produced products were quickly working to secure imported products due to the cost increases, an outcome that seems diametrically opposed to the stated goal of the tariff increases of protecting American manufacturing.

For the majority of light- and medium-duty trailer manufacturers, metal sheeting and coil are among the most significant raw material costs. As noted above, due to the sharp increase in those costs, many manufacturers are raising prices to consumers and cutting back on plans for growth until there is more clarity on the tariff situation. This will greatly depress productivity levels and jobs in the industry.

Conclusion

The companies that comprise NATM's membership, many of whom are small businesses, represent the epitome of American manufacturing – over 400,000 workers welding, painting, affixing safety devices, and undertaking the myriad of other tasks necessary to transform tons of metal into products used by consumers every day. After entering 2018 with significant optimism that the industry would continue to experience growth as it has in recent years, NATM's member companies are troubled that implementation of the tariff increases, as well as retaliatory measures that may be taken by America's trading partners, will cause contraction in the market. Increased production costs and lowered consumer demand will inevitably lead to reduction of jobs across the industry. NATM applauds the Committee's interest in this matter and urges the Committee to exercise the necessary steps to mitigate the implementation of increased tariffs on steel and aluminum imports.

ProAmpac Intermediate, Inc.

Statement for the Record

**House Ways and Means Committee
Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs
Thursday, April 12, 2018**

ProAmpac Intermediate, Inc. ("ProAmpac") submits this Statement for the Record in connection with the hearing held on April 12, 2018 by the House Ways and Means Committee examining the effects of tariff increase on the U.S. economy and jobs.

ProAmpac is a leading global flexible packaging company providing flexible packaging solutions in the food, medical, pharmaceutical, and other consumer and industrial markets.

ProAmpac is headquartered in Cincinnati, Ohio, with executive offices in North Hampton, New Hampshire. The company now has 22 United States manufacturing locations and employs over 2,500 people in the United States.

While the subject of the Hearing was primarily aimed at the 10% tariff imposed on aluminum products pursuant to Section 232, the Committee is also aware that the International Trade Commission ("ITC") has imposed anti-dumping and countervailing duties ("AD/CVD") on Chinese aluminum foil that in some cases exceed 140%. The effect of these duties, on top of the 10% tariffs imposed under Section 232, has negatively impacted, and will continue to negatively impact, ProAmpac's U.S. manufacturing operations.

Until the imposition of anti-dumping and countervailing duties ("AD/CVD") on aluminum foil sourced from China, the Company imported ultra-thin gauge aluminum foil from various countries, including China, for use in its U.S. manufacturing operations. The Company imports ultra-thin gauge aluminum foil into the United States, and then laminates the foil to various backings and substrates in its United States manufacturing facilities primarily for use in

packaging applications. Products that incorporate ultra-thin gauge aluminum foil include food packaging (such as potato chip cans and juice boxes) and packaging for medical supplies.

Since the imposition of AD/CVD on Chinese aluminum foil, the Company has attempted to source all of its requirements for ultra-thin gauge aluminum foil from U.S. producers and producers from other countries, including South Korea, South Africa, Greece, and others. However, there is virtually no U.S. production of ultra – thin aluminum foil in the U.S., and the available supply of ultra – thin gauge aluminum foil from countries other than China is not adequate to satisfy ProAmpac’s need for such material.

The Section 232 Request for Exclusion Process is Cumbersome and Flawed

ProAmpac was pleased to see that the Section 232 proclamation includes a process for requesting exclusions from tariffs “if the steel or aluminum articles are determined not to be produced in the U.S. in a sufficient and reasonably available amount or of a satisfactory quality or based upon specific national security considerations.” As set forth below in this statement, the ultra – thin aluminum foil used by ProAmpac is, for all intents and purposes, not produced in the U.S. However, after reviewing the regulations setting forth the procedures for requesting an exclusion from the Section 232 remedies, we believe the process is unduly burdensome and cumbersome. As an example, the foil used by ProAmpac is imported in various thicknesses and widths, and under the current process, each product requires a separate application. Moreover, separate applications must be filed for each country not excluded from the tariffs, and for each importer of record. Under the current process, ProAmpac expects to file approximately 150 separate requests for exclusion of aluminum foil products. We expect that other importers will have similar numbers of requests. If the exclusions for certain countries from Section 232 are

not made permanent, ProAmpac would likely need to file many more requests in the coming weeks. ProAmpac is concerned that this excessively bureaucratic approach to requests for exclusions will substantially delay the approval process, and cause further damage to its business and the flexible packaging industry. The negative impacts are happening now. ProAmpac cannot wait for an uncertain period of time for its requests for exclusion to be accepted or rejected.

The United States Does Not Presently Have Sufficient

Production Capacity to Allow for Reliance on Domestic Production.

Until 2014, ProAmpac sourced most of its ultra – thin gauge aluminum foil through United States based manufacturers, primarily JW Aluminum and Norandal USA, Inc. (now Granges). In 2014 and 2015, however, JW Aluminum determined to reduce its manufacturing capacity for ultra-thin gauge aluminum foil, choosing to move their capacity into heavier gauge products more suitable to the capabilities of their existing equipment. Norandal also exited the production of ultra-thin gauge aluminum foil prior to JW Aluminum and shut down these assets. ProAmpac does continue to source some of its heavier gauge aluminum foil used in foil lidding (“lidstock”) from JW Aluminum, but JW cannot provide all of the lidstock ProAmpac requires. For all intents and purposes United States – based aluminum foil manufacturers have virtually abandoned the production of specialty ultra-thin gauge aluminum foil, and there is no current prospect for United States producers to resume such production in the next two or three years. ProAmpac and other flexible manufacturing packaging manufacturers therefore have had no choice but to rely on foreign production of ultra-thin aluminum foil and lidstock to satisfy United States manufacturing demand.

The Import of Ultra-thin Gauge Aluminum has No Impact on National Security.

The clear intent of Section 232 is to protect national security interests by ensuring the availability of sufficient domestic materials to meet the ongoing demands of such security interests. Ultra-thin gauge aluminum foil is not used in any goods or services that relate to national security and defense requirements. Imposing additional tariffs on ultra – thin gauge aluminum foil will have an unintended consequence forcing United States-based downstream manufacturers like ProAmpac to reduce or eliminate domestic manufacturing operations. As recognized in the DOC's Section 232 investigation report, ultra-thin gauge aluminum foil is a distinct product from other forms of aluminum foil products. Given the properties of ultra-thin gauge aluminum foil, it cannot be used interchangeably for other aluminum products. As a result, it cannot be used for construction of infrastructure or other products necessary for national security. Additionally, ultra-thin gauge aluminum foil is not used in the production of military arms and could not be used for such a purpose. Therefore, there is no national security interest that would be impacted by the continued import of this product.

The AD/CVD and Proposed Tariffs Under Section 232

Will Have a Significant Negative Effect on United States Manufacturing

The AD/CVD and the Section 232 tariffs will negatively impact the ability of downstream manufacturing users of ultra-thin aluminum foil to manufacture product in the United States. Foreign downstream manufacturers with access to ultra-thin aluminum foil free of tariffs and duties will have a significant cost advantage over United States manufacturers, as customers move to lower priced packaging materials.

Without access to affordable ultra-thin gauge aluminum foil due to the imposition of tariffs and duties, ProAmpac is at a competitive disadvantage, and is sustaining, and will continue to sustain, heavy financial losses. ProAmpac's competitors with access to offshore manufacturing facilities will be able to import converted aluminum foil packaging into the United States without being subject to either the AD/CVD or the Section 232 tariffs. As a direct result, the Company has temporarily shut down production lines, laid off employees, and will be forced to eliminate jobs and potentially close a significant number of its United States facilities. The United States flexible packaging industry may lose up to 2,000 jobs nationwide.

Reliance on Domestic Supply

ProAmpac has consistently maximized its source of supply from the United States in all areas of procurement. ProAmpac is headquartered in the United States, and has minimal operations outside of the United States. Nearly 90% of ProAmpac's \$1.3 billion in sales and 2,500 employees work within the United States. This is unique for a flexible packaging company of ProAmpac's size. The overwhelming majority of ProAmpac's vendors, except recently for aluminum foil, are based in the United States. Specifically, ProAmpac has four main substrates that must be purchased and are critical to keeping operations running in the United States. These include paper, resin, film, and aluminum foil.

Paper is sourced entirely within the United States from suppliers such as Expera Specialty, Twin Rivers, and Domtar. Resin is sourced entirely within the United States from vendors such as Chevron Phillips, ExxonMobil, and Westlake Chemical. Film is sourced entirely within the United States from vendors such as Berry Plastics and Charter NEX. The

inevitable effect of the AD/CVD and Section 232 tariffs will be to shift flexible packaging production outside the United States. This shift will have significant ripple effects on ProAmpac's domestic suppliers.

ProAmpac would prefer to source ultra-thin gauge aluminum foil from United States manufacturers. Current production within the United States, however, will not allow this alternative. A significant amount of time and resources would need to be invested by United States aluminum producers in order to bring the currently available domestic infrastructure up to acceptable levels. Even if domestic aluminum foil producers determined to invest in manufacturing capacity for ultra – thin gauge aluminum foil, the wait time for having such infrastructure, online is likely more than two years. In order to save American jobs and keep its manufacturing facilities operating, ProAmpac and other downstream manufacturers require a reliable source for ultra – thin gauge aluminum foil now. Two years will be too late.

ProAmpac appreciates the opportunity to submit this statement.



April 26, 2018

The Honorable Kevin Brady
Chairman, Committee on Ways & Means
U.S. House of Representatives
Washington, DC

The Honorable Richard Neal
Ranking Member, Committee on Ways & Means
U.S. House of Representatives
Washington, DC

Dear Chairman Brady, Ranking Member Neal, and Distinguished Members of the Committee:

On behalf of the undersigned chambers of commerce representing some of Texas' largest metro regions, we urge you to oppose any actions that would increase barriers to trade, such as tariffs on intermediate goods. On March 8, President Trump issued a proclamation to impose a 25 percent tariff on steel imports and a 10 percent tariff on aluminum imports, both intermediate goods that are heavily utilized in the production process. Tariffs on intermediate goods disrupt existing successful trade relations, increase the cost of domestic production, and open the door to retaliation from other countries. The tariffs on steel and aluminum are no exception and will harm the U.S. economy.

Texas trade relies on the strong relationships built with our international partners and Texas is by far the biggest exporter of goods and services in the U.S. Totaling \$232.6 billion in 2016, the volume of Texas exports was larger than that of the second largest exporting state by nearly \$70 billion. According to the U.S. Census Bureau, Texas leads all states in the amount of steel and aluminum it imports. These imports, in part, allow Texas to contribute almost \$1.5 trillion to the national GDP annually, as it did in 2016. This economic success depends on our trade relationships. Country-specific exemptions to the steel and aluminum tariffs end May 1, with no formal process to negotiate further exemptions. Our companies rely on certainty in trade negotiations, and open-ended disruption to our international supply chain jeopardizes our ability to trade.

Tariffs on steel also increase the cost of domestic production. A large percentage of Texans who work in the energy, commercial construction, and manufacturing industries rely on fair trade and affordable access to steel and aluminum to stay competitive in a global marketplace. The U.S. Chamber of Commerce reports U.S. manufacturers consuming steel employ 40 to 60 times more U.S. workers than facilities producing steel. The most recent steel tariffs in 2002 led to a loss of 200,000 jobs in the steel-consuming sector resulting in nearly \$4 billion of lost wages, according to the Trade Partnership Worldwide. Now is not the time to repeat those losses.



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Chairman Brady, Ranking Member Neal, and Distinguished Members of the Committee
April 26, 2018

Tariffs also invite retaliation. On April 1, China announced tariffs on 128 U.S. goods totaling \$3 billion, citing the steel and aluminum tariffs as the cause. China is Texas' third largest export market for goods, totaling \$16 billion in 2017. We recognize that certain Chinese practices with respect to technology transfer, intellectual property, and market access need to change – we also believe these issues can best be addressed in an atmosphere of mutual respect between our countries. Escalating retaliation will hurt all parties involved.

As representatives of the Texas business community, we oppose any barriers that would prevent our members from staying competitive in a global economy, and result in a net loss for the economic health of our regions, state, and country.

Thank you for your consideration and for your service to our country.

Regards,

Dale Petroskey, President and CEO, Dallas Regional Chamber, 2018 Metro 8 Chair
Mike Rollins, President and CEO, Austin Chamber of Commerce
Michael Jacobson, President and CEO, Arlington Chamber of Commerce
Cleo Rodriguez Jr., President and CEO, United Corpus Christi Chamber of Commerce
David Michael Jerome, President and CEO, Greater El Paso Chamber of Commerce
Bill Thornton, President and CEO, Fort Worth Chamber of Commerce
Richard Perez, President and CEO, San Antonio Chamber of Commerce

April 26, 2018

The Honorable Kevin Brady
Chairman
Ways and Means Committee
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Ways and Means Committee
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Re: Section 232 Steel and Aluminum Tariffs

Dear Chairman Brady, Ranking Member Neal and other Members of the Committee,

On behalf of the members of the RV Industry Association (RVIA), we are writing to express our grave concerns with the Section 232 steel and aluminum tariffs that President Trump enacted on March 8th and which were discussed in the Committee's April 12th hearing.

RVIA is the national trade association representing nearly 300 manufacturers and component manufacturers of family camping vehicles, including motorhomes, travel trailers, fifth wheel trailers, folding camping trailers, park model RVs, and truck campers, collectively known as recreation vehicles (RVs). The RV industry contributes almost \$50 billion annually to the U.S. economy and supports over 285,000 full-time jobs.¹ Our members are proudly leading the economic recovery of their communities from sea-to-sea and throughout the American heartland. We appreciate the opportunity to comment on the tariffs and to highlight three troubling results.

First, the tariffs will have a significant adverse impact on domestic manufacturers who use steel and aluminum through increased production costs. We understand the need to respond to trade policies and practices employed by China such as market access barriers, state-directed investment policies, and state-subsidized industries. Indeed, China's history of predatory trade behavior adversely impacts U.S. businesses. However, the Trump Administration's efforts to ensure American businesses can compete in an international market via imposition of a 25 percent tariff on imported steel and a 10 percent tariff on imported aluminum has had the perverse effect of hurting downstream domestic manufacturing industries who utilize steel and aluminum in their products, such as the RV industry.

As vehicle producers, our members have built their businesses on an integrated global supply chain. Domestic RV component part suppliers depend on a complementing balance of American and foreign steel and aluminum providers to provide highly specialized parts. For example, an Indiana supplier who manufactures trailer hitches told us that their price on domestically sourced steel has already increased 30 percent since the start of 2018. If costs stay this high, they will have to consider moving production overseas and bringing the finished products in at a much lower tariff rate.

¹ Recreation Vehicle Industry Association 2016 Annual Report. Page 7.
<http://www.rvia.org/UniPop.cfm?v=2&OID=9435&CC=42176>

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Another supplier who manufactures heating and cooling systems for RVs sources his steel and aluminum from domestic mills. This supplier received a letter a couple of weeks ago informing him that prices were going up 10 percent immediately. The letter also said that prices were expected to rise another 10-15 percent in May. He too mentioned the possibility of shifting production offshore and importing finished products. Forcing U.S. manufacturers to move production overseas to counter the tariffs certainly is not the result sought by policymakers, but it is the reality some of our members are facing.

Second, the domestic component price increases impact the consumer price and, ultimately, product sales. The effect of the enacted tariffs has been to raise the cost of production inputs, leading to an increase in costs at all levels of our members' businesses. To compensate for increased production costs, our members have been forced to raise the price consumers pay for their products. These artificially raised prices depress RV sales and lower domestic economic output.

Prior to this next round of tariff increases (the 301 tariffs), prices to the consumer on the same RV models at retail are up around 8.5% versus the same time last year. This price trend was verified with the industry's largest retailer earlier this month. The 8.5% increase does not take any potential interest rate hikes into consideration.

The impact on the industry from material increases already incurred, those anticipated to come, along with interest rate hikes they expect this year, is going to potentially take the industry to a "flat" status regarding shipments. If this pricing trend continues it could push us into a negative position compared to last year's numbers as an industry.

Third, in addition to raising production costs for domestic companies and impacting sales, the Section 232 tariffs indirectly subsidize our member's foreign competitors. As foreign-based competitors are not operating under similar tariffs, these companies now have a built-in price advantage over American companies. By paying less than our domestic businesses for steel and aluminum-based supply inputs, a foreign firm can export finished products to U.S. markets at substantially lower costs than American businesses. Our domestic manufacturers, who are forced to pay 25% more for steel-based imports, cannot match the lower prices offered by foreign competitors without substantial cuts to other operating expenses. To continue business in this scenario, domestic manufacturers will be forced to cut overhead and operations expenses such as employees and employee salaries and benefits. The Section 232 steel and aluminum tariffs have placed foreign competitors operating in NAFTA and other countries in a unique position to expand their market share at the direct expense of American businesses.

Tariffs can be an effective tool when properly designed and narrowly focused. The scope of the steel and aluminum tariffs that are currently enacted is far too broad to have the intended effect. Instead of placing pressure on nations employing predatory trade practices to change their

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April 25, 2018
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behavior, the tariffs as currently designed will only create new challenges for American businesses to the benefit of foreign competitors.

We thank you for your continued leadership on trade issues and encourage the Committee to work with the Administration to prevent rapid escalation in this trade dispute.

Sincerely,

A handwritten signature in black ink, reading "Jay Landers". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.

Jay Landers
Vice President, Government Affairs