Testimony of

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Before the

Steel Caucus
House of Representatives

March 21, 2012

Good morning Chairman Murphy, Co-Chairman Visclosky and Steel Caucus Members. I am Tom Conway, the International Vice-President of the United Steelworkers (USW). The USW is the largest industrial union in North America with 850,000 active members working across a broad range of manufacturing industries, including basic steel and steel products. In short, USW members are the heart and soul of America's manufacturing base.

Thank you for inviting me to testify today. The nation's economy has continued to improve, albeit slowly and with fits and starts, since I testified last year. The unemployment rate is trending the right way – downward – but is still high overall and much too high in many places across the country. We have also seen manufacturing generally trending more up then down, but steel capacity continues to be at below normal levels, which is worrisome, and manufacturing communities are still trying to regain their footing following the devastating 2008 financial crisis. As you well know, over the last decade alone, six million manufacturing jobs and 55,000 manufacturing facilities have been lost while a greater and greater amount of manufactured goods are being imported. That is not a recipe for successful economic growth. On top of that, we have seen our large U.S. multinational companies during the last decade cut their workforces in the U.S. by a staggering 2.9 million, while simultaneously creating 2.4 million jobs overseas (according to data from the Department of Commerce).

The President is right, then --in his *Blueprint for an America Built to Last*-- to focus on actions that will encourage insourcing and discourage outsourcing of manufacturing jobs so American manufacturing can be restored to its rightful place as a primary engine of growth and good-paying jobs for American workers. He is also right in focusing more resources on trade enforcement through a new trade enforcement unit, to make sure that unfairly traded imports cannot erase the gains that we may be achieved in restoring manufacturing. America's best days need not be behind and our decline in manufacturing is far from inevitable; if Congress has the will to act with a combination of proactive and thoughtful measures, we can reverse it and create millions of manufacturing jobs here in the U.S.

Today, I would like to focus on some concrete steps that can put manufacturing back on an upward path that leads us towards prosperity for all Americans and that supports a vibrant and growing – not shrinking – middle class.

We Need Tax Policies To Encourage Domestic Manufacturing, Investment and Innovation

We need to pass tax incentives that encourage domestic manufacturing and discourage moving manufacturing off-shore. That means forever closing the tax loophole that allows companies to shift profits overseas. In fact, companies should pay a minimum tax on profits made overseas. The savings to the Treasury could then be used to cut taxes on domestic manufacturers by providing for a larger and permanent tax deduction on domestic manufacturing activities and a double credit for advanced manufacturing activities. That would provide lift-off for domestic manufacturing. We also need to expand and make permanent the R&D and the Research and Experimentation tax credits so capital can be invested to create jobs here and grow and put our technological know-how to use on factory floors all across America. Likewise, at least for 2012, Congress should reauthorize 100% expensing of investment in plants and equipment here, which comes to about $50 billion in tax relief. On the other hand, Congress should not permit one dime to be expensed for plant and equipment shipped overseas to set up manufacturing operations there.

As we noted last year, America must not cede the clean energy sector to foreign competitors, like China, which are massively investing to capture the technology, capacity, jobs and world market share that is there for the taking if we can find the will to seize it. To compete to win we need to encourage the use of advanced clean energy technologies and revive and expand the advanced manufacturing tax credit (48c of the IRS Code) by at least $5 billion. That single tax incentive (oversubscribed before) would be a smart investment that will pay off in the future because it helps to position American manufacturing and workers to compete globally in this future growth arena.

We Need To Invest In The Nation's Infrastructure And Use American-Made Steel And Manufactured Goods To Do It

The USW has been advocating for years that Congress recommit to serious investment in our infrastructure, which is crumbling all around us from decades of neglect. As I have stated before, the deficit in the nation's infrastructure is tremendous – standing at over $2.2 trillion according to the American Society of Civil Engineers – and every bit as dangerous to our economic and national security as the trade or fiscal deficits. Meanwhile, as we are falling backwards, our foreign competitors are rushing forward by investing in their infrastructure to seize future economic growth in the global marketplace. Again, this is not a recipe for America's economic success. The House should come together on a sensible surface transportation measure right now working from the highway bill the Senate passed last week.

Included within any surface transportation bill should be strengthening improvements to the existing Buy America statues that are under the jurisdiction of the Department of Transportation so that we can grow our steel and manufactured goods production in America and create manufacturing jobs here. A valuable domestic content improvement was passed by the Senate last week as part of its highway bill. It was authored by Senators Sherrod Brown and Merkley and creates real transparency so taxpayers can see where their dollars get spent on public work projects and have the opportunity to comment before waivers from the Buy America preferences are granted. Likewise, Ranking Member Nick Rahall (D-WV) of the Transportation and Infrastructure Committee introduced a similarly thoughtful measure which harmonizes and strengthens these statues to bring them into the 21st century.

In no event should Congress accept any measures designed to weaken or undermine Buy America transportation preferences, such as the amendment offered by Congressman Gary Miller (R-CA) in the T&I Committee to the recent House surface transportation bill. Luckily, that was overwhelmingly defeated, and rightly so. But let there be no doubt, if the Miller amendment ever passed it would eviscerate the preference for buying American-made steel and manufactured goods in transportation projects, thus killing the usefulness of the preference.

<u>We Need To Get Our Trade House In Order And Make Sure We Are Fully Enforcing Our Trade Laws</u>

Our trade deficit, especially with China, is massive and symptomatic of the imbalanced nature of our trade and economy. We cannot hope to get on with a full recovery by restoring our manufacturing base if we continue to rely on a model where we consume so much more than we produce. Adding to the underlying imbalance is the fact that some of our trading partners break the rules of trade to capture U.S. market share which costs American jobs and undermines manufacturing, like steel, and clearly discourages investment. The most damaging is currency manipulation; it's time for the House to act and pass legislation this Session, such as that offered by Mr. Levin, Mr. Tim Ryan and Chairman Tim Murphy. This passed in the House in 2010. It would counter that worst beggar-thy-neighbor trade practice by allowing for a countervailing duty to be placed on offending imports to correct for that most unfair trade advantage. We urge you to pass it in this session.

We urge you to press the Administration to stand up to China in the area of auto parts, and we thank those Members who signed onto a letter (sent last week) to the President to do just that. China has given $27.5 billion in subsidies to its auto parts sector as part of China's "pillar" automotive industry. Not surprisingly, imports of Chinese auto parts have increased by 900% since 2001, causing a $10 billion deficit and a loss of about 400,000 U.S. jobs, which clearly affects steel jobs and production. Like so many industries before, auto parts is being seriously harmed and we must fight to stop that from continuing. As I've said before, we cannot make the same mistakes over and over again and expect a different outcome. The Administration needs to stand up now before it's too late.

We also applaud the Administration's decision to create a new trade enforcement unit to start to deal – across the government – with the broad range of unfair trade practices relied on by many trading partners – but most particularly China – and strongly urge Congress to provide the $26 million dollars in funding requested by the Administration, at a minimum, so it can begin to systematically deal with unfair trade through strong trade enforcement.

I also want to sincerely thank all of you who voted in favor of H.R. 4105, which reverses a deeply flawed Court decision that would have stopped the Department of Commerce from countering unfairly subsidized imports from non-market economy countries like China. The President signed that bill (which passed by unanimous consent in the Senate) into law last week.

<u>We Need To Address the Growing Problem of State-Owned Enterprises (SOEs) Not Acting On A Commercial Basis</u>

The USW is deeply concerned about unfair competition from SOEs, particularly Chinese SOEs and particularly in the U.S. market. When a home government, which owns and/or controls the SOE, provides various subsidies, like financing or raw materials at below market rates, it gives a tremendous competitive advantage to the SOE to the detriment of private market actors competing in the same market. When SOEs have <u>exported</u> goods here, like steel, such unfair advantages have cost USW members thousands of jobs and shutdown hundreds of steel plants. But at least we have had the trade remedy laws to fight back against unfair imports and get duties in place in the amount of the unfair trade. That at least erases the harm going forward and helps get domestic companies back on their feet and workers back to work.

Now the challenge is changing, and we will be facing the same threat but from *within* our borders. Some countries are intending, especially China, to invest directly in the U.S. through their SOES to buy or build commercial (green field) facilities. That likely means that foreign-owned SOEs with operations in the U.S. market will continue to receive subsidies from their home government and continue to act at that government's direction and control – not based on commercial considerations – but to gain market share in the U.S. and possibly for other government purposes. We think that will be the case in the current environment because there are simply no U.S. laws or international agreements that can discipline such an unfair competitive advantage; instead right now foreign SOEs face no disciplines under such circumstances. This will become a substantial threat to our members and domestic producers, like U.S. steel-makers, if countries, in particular China (with half of its production under the control of SOEs), significantly invest in the U.S. to compete against us on our "home turf."

The USW has been working to develop sufficiently strong SOE disciplines in the Trans Pacific Partnership (TPP) negotiations, which will serve as a template for all future SOE disciplines. <u>It's critical for Congress to weigh in on this and make sure we get it right and that it works for American workers and companies</u>. We all need to make sure that when SOEs from TPP Members invest in productive assets in the U.S. that investment, including any green field operations, is based solely on commercial considerations and not subsidized by the home government of the SOE. Currently, there are many SOEs operating in all of the negotiating countries and some, like Vietnam, have about half of their productive assets under SOE control.

Likewise, right now the Administration and the Chinese government are in technical negotiations for a Bilateral Investment Treaty (BIT). <u>It's very important for Congress to weigh in and make sure that the SOE disciplines are strong enough to counter China's subsidization and control of its SOEs so we can compete on a level playing field in the U.S.</u> market and in China. Additionally, Congress should consider legislating a screening process for all SOEs investing here to make sure those investments are not subsidized or otherwise advantaged unfairly by home governments. Both Canada and Australia have broader investment screening (beyond SOEs). So, such screening need not run afoul of the WTO.

Thank-you.