U.S.-CHINA TRADE AND INVESTMENT: IMPACT ON KEY MANUFACTURING AND INDUSTRIAL SECTORS: FIELD HEARING IN AKRON, OHIO

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

SEPTEMBER 23, 2004

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The Commission was created in October 2000 by the Floyd D. Spence National Defense Authorization Act for 2001 sec. 1238, Public Law 106–398, 114 STAT. 1654A–334 (2000) (codified at 22 U.S.C. sec. 7002 (2001)), as amended, and the "Consolidated Appropriations Resolution of 2003," Public Law 108–7, dated February 20, 2003. Public Law 108–7 changed the Commission's title to U.S.-China Economic and Security Review Commission.

The Commission's full charter is available via the World Wide Web: http://www.uscc.gov.

The Commission's Statutory Mandate begins on page 166.

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

OCTOBER 18, 2004

The Honorable TED STEVENS,
President Pro Tempore of the U.S. Senate, Washington, D.C. 20510
The Honorable J. DENNIS HASTERT,
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR STEVENS AND SPEAKER HASTERT:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the record of our field hearing in Akron, Ohio on September 23, 2004. The hearing on "*The Impact of U.S.-China Trade and Investment on Key Manufacturing Sectors*" allowed the Commission to hear important perspectives on the pressures faced by manufacturers as a result of imports from China and the off-shoring of U.S. production capacity.

Ohio has lost 114,000 jobs since the start of the last recession in March 2001. Over the same time period, Ohio's economy shed 158,000 manufacturing jobs. That loss represents 16 percent of Ohio's employment in manufacturing. Thus, manufacturing job loss has exceeded net job loss for the state. Moreover, while job loss is concentrated in the manufacturing sector, it has been spread broadly across almost all manufacturing industries. The goal of our hearing was to identify what role the U.S.-China economic relationship plays in these trends, how this relationship affects the U.S. manufacturing base and communities dependent on manufacturing industries, and what policy responses the U.S. Government should consider.

We heard testimony from businesses, labor representatives, and industry experts. The hearing began with a discussion of broad economic trends in Ohio and then moved on to focus on specific industries including: automobiles and automobile parts, steel, glassware and ceramics, printed circuit boards, and machine tools. Witnesses from these diverse industries all identified China as a major challenge for U.S. manufacturing.

Ohio's Experience with U.S.-China Trade and Investment

Ohio has been systematically impacted by our rapidly growing bilateral economic relationship with China. Studies show that Ohio is running a substantial trade deficit with China, with imports from China outpacing exports by nine to one. Nationally, that ratio is six to one.

Several recurring themes were presented by witnesses. All expressed concern that their industries are disadvantaged by the value of China's currency. An undervalued renminbi effectively makes it difficult for U.S. firms to export to China and subsidizes China's exports to our country. The Commission dealt with this issue in detail at our September 25, 2003 hearing "*China's Industrial, Investment and Exchange Rate Policies: Impact on the U.S.*" We stand by our finding from that hearing that China is improperly intervening to hold down the value of its currency by as much as 40 percent and our recommendation that the U.S. Government press China for an immediate revaluation of its currency.

Witnesses also complained of China's poor protection of intellectual property rights (IPR). Many of the commercial advantages that U.S. producers hold are in patented products and brands. Chinese producers continue to copy products and steal proprietary information from U.S. manufacturers. U.S. brands must compete with thinly veiled counterfeits, often of inferior quality. These undercut the price of the brand and damage its brand name as well. These repeated and egregious violations are the result of a lack of IPR enforcement by the Chinese government despite repeated assurances by Chinese officials that they are stepping up their efforts in this regard.

China continues to ramp up industrial manufacturing capacity, most notably in the steel and automobile industries, with complete disregard for the global demand outlook. Chinese industries pay little heed to market forces as a result of the subsidies they receive from their local and national governments. One witness testified that Chinese government entities were paying for a portion of his Chinese competitor's raw material inputs, had built roads to service the manufacturer, and had even cleared a large plot of land for use by the manufacturer.

Many witnesses felt that the U.S. Government has failed to aggressively enforce U.S. trade laws intended to mitigate the damage caused by China's trade practices. For example, they looked to safeguard provisions negotiated as part of China's WTO accession as a way of mitigating the damaging effect of import surges from China, but were disheartened by the Administration's categorical rejection of all Section 421 safeguard cases approved by the International Trade Commission (ITC) to date. One witness explained how his company had filed a Section 421 petition and won an ITC ruling, but relief was denied by the President, leaving the company to fend for itself after it had incurred significant legal expenses. This witness noted that the time and expense of bringing such cases are not worth undertaking if there is no sense that the government will approve them.

Several witnesses testified as to the limited choices they face as a result of the Administration's failure to aggressively enforce our trade laws. For example, one business leader noted that, "While outsourcing is a choice we prefer not to make, given the current Administration's denial of our petition to keep jobs in the United States, it is one we have to consider carefully for the long-term survival of our business." Others talked about the need for continuing wage and benefit cuts for their workers.

Questions were also raised about the U.S. Export-Import Bank. Several witnesses said they believe the bank finances exports of manufacturing equipment to China in industries where U.S. manufacturers still produce and there is global overcapacity. In so doing, the U.S. Government has effectively paid China to create production capabilities that will compete with U.S. producers.

Industry Impact

The Commission heard extensive testimony on the challenges facing the automotive and auto parts sectors of our economy as a result of China's accelerating development of its capacity in these sectors. Representatives from business and labor addressed the Commission, as well as an analyst from a major investment firm that closely follows the sectors.

China has aggressively sought to develop the size and scope of its automotive and auto parts sectors. According to one comprehensive study reviewed by the Commission in conjunction with the hearing, China is on pace to producing around 7 million units within three years. At the same time, demand is expected to only increase by about half that amount, leaving 3 million or more units available for export. Unlike the development of the Japanese automotive sector years ago, China has welcomed foreign investment and our manufacturers have reached several agreements to develop production there. As well, while Japanese manufacturers were forced to develop their own distribution system here in the United States, Chinese manufacturers, through their U.S. partners, have a readily accessible distribution network that could accommodate large volumes of imports from China.

It should be noted that the Commission heard testimony about the current substandard quality of many Chinese automobiles. However, during questioning, testimony was also elicited that these limitations may be addressed in the near term (3–4 years), potentially creating enormous competitive pressures on our domestic auto market, as well as our markets in third countries.

Similar testimony was heard with regard to the auto parts sector where increasing numbers of U.S. suppliers are either sourcing or producing in China. The Commission heard that the "Big Three" auto companies are demanding that U.S. auto parts suppliers that wish to sell to domestic assembly plants in the United States must price to the Chinese level. And there was further testimony that demands are being placed on U.S. auto parts suppliers to actually source minimum specific percentages from Chinese suppliers.

In addition, testimony was received from a number of machine tool and industrial companies regarding the extent of Chinese piracy, unfair trade practices, subsidies and other efforts to gain market share and sales at the expense of our domestic firms. It is a tribute to those business leaders who appeared before us that are fighting to compete, rather than joining the bandwagon of those abandoning the U.S. market.

Community Impact

The Commission heard poignant testimony on the extent to which trade-related economic dislocations have impacted Ohio communities. The Commission was told that the significant loss of jobs in Ohio due to import competition and off-shoring has resulted in the erosion of the local tax base in many communities and has had a debilitating impact on families and the quality of life in these areas. Moreover, these effects can be long-lasting. Youngstown, for example, has never recovered from its de-industrialization. Several decades later its economic prospects are dim and social problems abound.

Based on the record of the hearing and the Commission's other work on these issues to date, we present the following recommendations to the Congress for consideration. The Commission will continue to develop these recommendations and provide additional analysis following further Commission work in this area.

Recommendations:

- The U.S. Government should immediately pursue a WTO action against China regarding the undervaluation of its currency. Months of bilateral discussions have failed thus far to yield positive results. We believe that the Treasury Department and the United States Trade Representative (USTR) should immediately file a WTO complaint, and if such action is not forthcoming, Congress should move to enact pending legislative measures to force such action.
- Many areas of China's WTO accession agreement impose dramatically unequal tariffs on Chinese and U.S. goods. For example, U.S. auto exports to China face far higher tariffs than do exports to the United States from China (e.g., Chinese tariffs on autos range from 30–50 percent, while U.S. tariffs average around 2.5 percent). China has developed at a pace far faster than was envisaged at signing of the WTO accession agreement and these unequal tariff settings now heavily disadvantage U.S. exporters, risk import markets here and are no longer supportable. The U.S. Government should expeditiously examine the potential for rectifying this situation as part of the Doha Round negotiations.
- China's restrictions on the export of coke drive up costs for U.S. steel manufacturers while suppressing costs for their Chinese competitors. USTR should immediately consult with our trading partners with the goal of filing a WTO complaint regarding this violation of China's WTO commitments on export restraints.
- The U.S. Government should more fully and effectively make use of all available enforcement tools, especially the Section 421 China-specific safeguards negotiated as part of China's WTO accession. Congress should consider undertaking measures to make the imposition of such safeguards mandatory in circumstances where import growth in particular goods exceeds a threshold level. In addition, the Department of Commerce should implement a procedure to make financial assistance available to small businesses to pursue safeguard cases where prima facie evidence exists of injury or a sufficient surge in imports to merit immediate attention. Safeguard cases can be highly costly and out of financial reach for many impacted businesses.
- The Congress should fund information sessions and a public awareness campaign to inform laid-off workers about existing and newly established programs such as Trade Adjustment Assistance (TAA). Petitions for TAA eligibility should be processed expeditiously. Further, many workers adversely affected by trade are still excluded from TAA. Eligibility for TAA should be expanded in a comprehensive manner to cover the broad array of workers adversely affected by trade with China, including those in the service sector and others who have not traditionally been covered.
- Congress should reexamine the statutory advisory process by which USTR receives input on pending trade negotiations from interested stakeholders to ensure that adequate attention and input is afforded to the representatives of organized labor.

We hope you will find the hearing record and our recommendations helpful as the Congress continues its assessment of the implications of China's growing role in global trade and manufacturing.

Sincerely,

C. Richard D'Amato
Chairman

Roger W. Robinson, Jr.
Vice Chairman

cc: Members of the Ohio Congressional Delegation

Commissioner Stephen D. Bryen dissents in whole or in part from the recommendations contained in this letter. Commissioner William A. Reinsch does not agree with the first recommendation.

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THURSDAY, SEPTEMBER 23, 2004

U.S.-CHINA TRADE AND INVESTMENT: IMPACT ON KEY MANUFACTURING AND INDUSTRIAL SECTORS

U.S.-CHINA TRADE AND INVESTMENT: IMPACT ON KEY MANUFACTURING AND INDUSTRIAL SECTORS

THURSDAY, SEPTEMBER 23, 2004

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION,
Washington, D.C.

The Commission met in Room 301, Akron City Council Office, Akron Municipal Building, Akron, Ohio at 9:00 a.m., Chairman C. Richard D'Amato, Commissioner Michael R. Wessel and Commissioner June Teufel Dreyer (Hearing Co-Chairs), presiding.

OPENING REMARKS OF CHAIRMAN C. RICHARD D'AMATO

Chairman D'AMATO. Good morning, and welcome to everyone to the U.S.-China Commission's first hearing since issuing our 2004 annual report. By the way, the 2004 annual report, if anyone would like a copy, is on a table outside of the hearing room. It's an important report containing a 12-page summary of the Commission's recommendations and findings.

We begin our new report cycle by holding a hearing in the field, a practice that we initiated for our last report and found to be extremely helpful in giving us a practical perspective of what is happening to the manufacturing base of the United States. We're pleased to be here in Akron today, and I want to express my gratitude to the Akron city government for the use of this facility and all the other help from the Mayor's office and others who made this hearing possible.

The Commission was established by the United States Congress to investigate the national security implications of our trade and economic relationship with China. The Members of the Commission were appointed by the Republican and Democratic leaders of both the House and the Senate of the United States. It is a bipartisan Commission in practice and spirit and in the way we conduct our business. The report that we issued this past June was released with a unanimous vote of 11 to 0, with one Commissioner position currently vacant. Congress has directed us to take a broad view of national security, to include an assessment of how our wide-ranging economic relationship with China affects our basic economic health and prosperity, and hence our national security. It is this central mandate that brought us to Ohio.

Congress is increasingly interested in determining whether or not our country has in place the appropriate policies to enhance American well-being through our international trade and investment activities. We're keenly interested in whether the Administration is implementing those policies on behalf of our businesses, our workers and ordinary citizens. What's the track record in Ohio? If we need new policies, what should they be? Are U.S. Government policies and practices helping people in Ohio; if not, why not?

The goal of today's hearing is to hear practical first-hand perspectives of how U.S.-China trade and investment patterns are impacting our industrial base. U.S. manufacturers, labor unions, economists and others have increasingly identified China's manufacturing competition as a critical factor in the erosion, and some say decimation, of the United States manufacturing capacity.

The loss of our manufacturing base also reverberates at the personal and community levels. So we are also here today to understand the human context of manufacturing job losses. We hope this hearing will help this Commission and the broader national audience understand what challenges Ohio's manufacturers and workers face, what hardships they have endured, and responses in Washington have worked to help in Ohio, and what responses have failed or have yet to be tried.

With that I would like to turn over the proceedings to the Co-Chairs of today's hearing, my colleagues, Commissioner Michael Wessel and Commissioner June Teufel Dreyer.

[The statement follows:]

Prepared Statement of Chairman C. Richard D'Amato

Good morning, and welcome to the U.S.-China Commission's first hearing since issuing our 2004 Annual Report. We begin our new report cycle by holding a hearing in the field—a practice that we initiated for our last report and found to be extremely helpful in giving us a practical perspective of what is happening to the manufacturing base of the United States. We are pleased to be here in Akron today, and I want to express my gratitude to the Akron city government for use of this facility and all the other help from the Mayor's office and others that has made this hearing possible.

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Chairman D'AMATO. Co-Chair Wessel.

OPENING REMARKS OF COMMISSIONER MICHAEL R. WESSEL HEARING CO-CHAIR

Co-Chair WESSEL. Thank you, Mr. Chairman.

I'm pleased to Co-Chair today's hearing with my colleague, June Dreyer. I will chair the morning panels, and Co-Chair Dreyer will chair this afternoon's panels. As my esteemed Chairman said, we have got a lot of help from the Mayor's office and others. We would like to take this opportunity to recognize the outstanding support Mayor Plusquellic and his very capable staff have given us. A special thanks goes to Laraine Duncan, Deputy Mayor for Intergovernmental Relations, who assisted us with the facility and logistical arrangements. We want to personally thank you, Laraine—I saw her earlier—for all your personal efforts on our behalf.

We also owe a special thanks and our deep gratitude to Mr. Mark Williamson, John Valle, and Laurie Hoffman of the Mayor's office for their support and assistance. They did an outstanding job for us and thanks to each of you.

We also want to thank Congressman Sherrod Brown and his staff for their assistance and support. The personal efforts and hard work of Brett Gibson, Laura Pechaitis, Mike West and Joanna Kuebler were instrumental in our ability to successfully conduct this important regional hearing.

And finally we want to thank Congressman Regula and his office, especially Karen Buttaro, for their help in organizing today's hearing and witnesses.

As the Chairman said, in June of this year we issued our second comprehensive report. We did so with a unanimous vote, Democrats and Republicans, representatives from business and labor, Commissioners with varied backgrounds in government and in the private sector. While the Commission's report is comprehensive, its conclusion was simple, and I quote, "A number of the current trends in U.S.-China relations have negative implications for our long-term economic and national security interests, and therefore that U.S. policies in these areas are in need of urgent attention and course corrections."

Ohio has been called ground zero in this year's Presidential race. That's not an issue this Commission will address, that's for the voters to decide.

But as we see it, Ohio is ground zero in terms of the impact that trade has had on our nation. In the past four years Ohio has lost almost 19 percent of its manufacturing jobs. That's over two-thirds of the total private sector job loss in Ohio over the same period.

Ohio maintains a merchandise trade deficit with China that increased by more than eight percent from 2002 to 2003. Ohio is not alone: 48 states have merchandise trade deficits with China, and all but two of those states saw their deficits increase in 2003.

The Commission's focus here today on America's manufacturing base stems not only from the fact that it is explicitly mentioned in our Congressional mandate, but also because manufacturing is an indispensable part of the U.S. economy. Two-thirds of the money that the U.S. spends on research and development is spent by the manufacturing sector, and 90 percent of new patents originate in manufacturing. Manufacturing is also important for the maintenance of a middle class, with its jobs paying 20 percent more than the average American jobs, accompanied by better benefits.

So I thank all the participants who are here today to aid us in our duty to inform and advise Congress of the implications that the U.S.-China American trade and investment relationships hold for the American manufacturing base, the American economy, and ultimately the American way of life.

I would now like to turn to Co-Chair Dreyer for her opening statement.

[The statement follows:]

Prepared Statement of Commissioner Michael R. Wessel
Hearing Co-Chair

The Commission is pleased to be meeting today in Akron to continue its comprehensive investigation of how the U.S.-China trade and investment relationship is affecting vital regions and sectors of our economy. This is the third in a series of field hearings the Commission has held this year.

I am pleased to co-chair today's hearing with my colleague, Commissioner June Dreyer. I will chair the morning panels and Commissioner Dreyer will chair this afternoon's panels.

We would like to take this opportunity to recognize the outstanding support and assistance we have received from Mayor Don Plusquellic and his very capable staff. A special thanks goes to Laraine Duncan, Deputy Mayor for Intergovernmental Relations, who assisted us with the facility and logistical arrangements. We want to personally thank you, Laraine, for all your personal efforts on our behalf.

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Finally, we want to thank Congressman Regula and his office, especially Karen Buttaro, for their help in organizing today's hearing and witnesses.

The U.S.-China Economic and Security Review Commission was created by Congress in 2000 to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China.

In June of this year, we issued our second comprehensive report. We did so with a unanimous vote—Democrats and Republicans, representatives from business and labor, Commissioners with varied backgrounds in government and in the private sector. While the Commission's report is comprehensive, it's conclusion was simple: "*a number of the current trends in U.S.-China relations have* ***negative implications*** *for our long-term economic and national security interests, and therefore that U.S. policies in these areas are in need of urgent attention and course corrections*."

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As we explore the impact of U.S.-China economic relations on Ohio and the neighboring region, we will be focusing on how U.S. trade policies can better respond to the challenges posed by China. Certainly more effective and aggressive enforcement of our trade agreements is called for. But beyond that there may be policy reforms that are needed to right the growing trade imbalances we are seeing in so many vital manufacturing sectors.

So I thank all of the participants who are here to aid us in our duty to inform and advise Congress of the implications that the U.S.-China trade and investment relationships hold for the American manufacturing base, the American economy, and ultimately the American way of life.

Our first panel will help provide an overview of the overall impact of trade with China on Ohio. We are pleased to have before us Mr. William A. Burga, President of the Ohio AFL–CIO. We also have Dr. Jon Honeck, a research analyst with Policy Matters Ohio, an economic policy think tank. Mr. David Hansen, Managing Director of the Ohio Manufacturers' Association will then speak, followed by Mr. Jeff Otterstedt, General Manager of CLOW Water Systems Company who has specific experience in terms of the impact of trade with China on his company.

We will hear from the witnesses in the order in which they were introduced. So that all of the Commissioners can have adequate time to discuss these important issues with the witnesses, we ask that each witness speak for no more than 7 minutes. At the end of the panel's presentation, each Commissioner will be recognized for 5 minutes.

OPENING REMARKS OF COMMISSIONER JUNE TEUFEL DREYER HEARING CO-CHAIR

Co-Chair DREYER. I would like to join my hearing Co-Chair, Co-Chair Wessel, in thanking the Mayor's office and the Akron community for facilitating our visit here today. This is an area of the country that, as we are all aware, is on the very front lines of U.S.-China trade. I noticed on the television this morning that your neighboring city, Cleveland, has undergone further job losses and more people have sunk into poverty. The reason is loss of manufacturing jobs. Interestingly the third city on the list was my own city, Miami, so this is very close to home in many ways.

Later today we are going to talk about the steel and glassware and ceramic industries and how they've been affected by trade and investment with China and the likely trends for the future. Finally, a panel will address the machine tool industry. As a former resident of the State of Ohio I'm very familiar with Square D and Cincinnati Millicron and so on.

These industries, as we all know, are vital parts of Ohio's economy. For example, Ohio employs 16 percent of the nation's iron and steel workforce, which generates one-sixth of America's raw steel. Ohio's machinery manufacturing accounts for 2.4 percent of its economic activity compared to one percent nationally. The industry is characterized by above average wages and significant spending on research and development.

Since I'm in charge of the afternoon, the contrast with the morning session will be that we hope to garner information regarding the continued vitality of these industries, the pressure they are under from trading with, and investment in, China, and appropriate U.S. Government policy responses to meet the competitive challenges posed by China.

I note from an article in today's newspaper that the cost of producing a disposable camera for Kodak in Rochester, New York was one dollar. The cost for producing it in China is 15 cents. How can we compete with something like that? Are there ways? What can we do better?

There are also broader questions that need to be examined. This is the Economic and Security Review Commission. We are aware that economics is vitally connected to security, and if we lose jobs, our security position is eroded as well. Hence, we're looking forward to productive discussions with business and labor representatives from these manufacturing sectors who are going to testify.

Our final panel will discuss the effects of a declining manufacturing base on the local community, and we will close with an open microphone session. With these portions of our hearing we hope to ground ourselves in the human element of the economic forces that we are discussing. They will provide an opportunity for us to assess at the most material level which U.S. policies have proved helpful and what economic and human needs remain unfilled.

Again, we are very pleased to be in Akron today, and we're looking forward to this day of testimony. Thank you.

[The statement follows:]

Prepared Statement of Commissioner June Teufel Dreyer
Hearing Co-Chair

I would like to join my hearing co-chair, Commissioner Wessel, in thanking the Mayor's office and the Akron community for facilitating our visit here today, an area of the country that is on the front lines of U.S.-China trade. This afternoon we will begin with our panel examining how the steel, glassware, and ceramics industries have been affected by trade and investment with China and the likely trends for the future. The subsequent panel will address the machine tool industry.

These industries are vital elements of Ohio's economy. By way of example, Ohio employs 16% of the nation's iron and steel workforce, which generates one-sixth of America's raw steel. Ohio's machinery manufacturing accounts for 2.4% of its economic activity, compared to 1% nationally. The industry is characterized by above average wages and significant R&D spending.

As during our morning session, we hope to garner information regarding the continued vitality of these industries, the pressures they are under from trade with and investment in China, and appropriate U.S. Government policy responses to meet the competitive challenges posed by China. These are key questions for exploration within the Commission's broader examination of the economic and security dimensions of the U.S.-China economic relationship. We look forward to a productive discussion with the businesses and labor representatives from these manufacturing sectors.

Our final panel will discuss the effects of a declining manufacturing base on the local communities, and we will close with an open microphone session. With these portions of our hearing, we hope to ground ourselves in the human element of the economic forces that we are discussing. They will provide an opportunity for us to assess, at the most material level, which U.S. policies have proved helpful and what economic and human needs remain unfilled.

Again, we are very pleased to be in Akron today and look forward to this afternoon's testimony.

Co-Chair WESSEL. We'll begin quickly. Our first panel will help provide an overview of the overall impact of trade with China on Ohio. We are pleased to have before us Mr. William Burga, President of the Ohio AFL–CIO. We also have Dr. Jon Honeck, a research analyst with Policy Matters Ohio, an economic policy think tank. Mr. David Hansen, Managing Director of the Ohio Manufacturers' Association will then speak, followed by Mr. Jeff Otterstedt, General Manager of Clow Water Systems who has specific experience in terms of the impact of trade in China on his company.

We will hear from the witnesses in the order in which I just introduced them. So that all of the Commissioners will have an adequate chance to question and interact with the witnesses, we have a series of lights. We are asking each witness to speak for no more than seven minutes. Commissioners, you will be limited to five minutes for questions and responses, and we will try not to be rude, but we are going to try to stick to our timeframes today.

With that, Mr. Burga, please commence.

PANEL I: OVERALL IMPACT OF CHINA TRADE ON OHIO

STATEMENT OF WILLIAM A. BURGA
PRESIDENT, OHIO AFL–CIO, COLUMBUS, OHIO

Mr. BURGA. Thank you. Mr. Chairman, Members of the U.S.-China Trade Commission, our organization represents approximately 750,000 members of the AFL–CIO. If this meeting had been held one or two years ago, we would have nearly 850,000 members. But as you know, Ohio has been hit hard with over 240,000 jobs lost since January 1, 2001.

Many, but not all, of the job losses have been union jobs, high-paying jobs, with the manufacturing sector taking the brunt of the hit with 170,000 jobs disappearing. The Ohio AFL–CIO has been frustrated with the lack of response to this crisis and set out to find the facts to help move public policy.

The facts are backing up what common sense has told us: That unfair trade and outsourcing are major causes for the loss of jobs in Ohio. Domestic economic problems associated with unfair trade are documented in recent studies conducted by organizations such as Policy Matters Ohio and the Economic Policy Institute. These findings are highlighted in a May 2004 Ohio AFL–CIO report titled Jobs for Us. Additionally, a report released just this week by the AFL–CIO Industrial Union Council entitled Ohio Job Exports establishes a relationship between Ohio companies that have had massive layoffs since January 2001 and unfair trade.

Obviously we cannot discuss trade without looking at China. China now accounts for over one quarter of our global trade deficit, which nears $500 billion. We have come to learn that 98 percent of China's exports are manufactured goods with 40 percent of its exports landing in the United States. This information will not come as a surprise to any Ohio consumer as made in China is the dominant label on goods we find at our local stores.

At the same time the U.S. trade deficit with the rest of the world and China in particular has soared. Ohio's jobless rate and our economic downturn spiral out of control. Ohio has outreached the rest of the nation in job loss with no sign of recovery. In fact, Ohio is last in the nation in job growth and wage growth with our leading export being our young people as they move out of Ohio looking for a brighter future.

The crisis in Ohio's manufacturing sector and resulting job losses created a state budgetary fiasco which led to draining the state's rainy day fund, raising the sales tax rate and expanding fees on goods and services. Yet this was not sufficient, and cuts to state services across the board were executed by the governor. It is our opinion that the state's budgetary problems will not get better until we straighten out our priorities and policies which favor multinational corporations and leave workers behind.

From our viewpoint the Bush Administration and our trade representatives have not been standing up for workers. I would like to recount something President Bush said Labor Day 2003 while here in Ohio. He said, quote, "We expect there to be a fair playing field when it comes to trade. See, we in America believe we can compete with anybody just so long as the rules are fair and we intend to keep the rules fair," end quote.

Today the Commission will hear testimony that demonstrates the rules are not fair, especially as it relates to China. And contrary to what the President says, he has had ample time to review the trading practices of China and has failed to take action when confronted with its trading violations.

The light on China exposes a trading relationship that appears less about fair trade and more about providing multinational corporations with a place to find and exploit cheap labor. This leads us to the conclusion that our current trade policies place corporate interests over national interests. How else can we explain giving Permanent Normal Trade Relation status to a totalitarian nation that does not live up to its international obligations with respect to human rights, labor lights, environmental standards and rules governing currency?

We are pleased the Commission is allowing for time to hear from some of Ohio's displaced workers, as it is their stories that matter most. Workers such as Frank Rayl, who after 17 years of hard work at Eljer saw his company move to China. Workers like David McCune who worked 24 years at Massillon Stainless Steel only to have the company pick up and move to China. The list of Ohio's working families that have been displaced as companies seek to find cheap labor to do business is long and disgraceful.

It doesn't have to be this way, Mr. Chairman. First, let me suggest that in order to overcome our shortfall of trade-related data, there should be requirements to collect information related to job relocation and outsourcing. In Ohio the Ohio AFL–CIO proposes to create a new state agency that in part would be responsible for collecting such business-related data and representing Ohio on trade matters.

Second, tax laws should be modified prohibiting rewarding corporations that move business or jobs to foreign nations.

Third, U.S. trade negotiators should have an understanding of trade problems, which would negatively affect U.S. workers.

Fourth, we believe current trade agreements should be vigorously enforced and violations appropriately remedied.

Finally, the U.S. should not expand existing trade agreements or usher in new deals until the aforementioned problems and controversy surrounding trade and globalization are responsibly addressed.

In closing I would simply like to thank the Commission for coming to Ohio and for providing us this opportunity today.

[The statement follows:]

Prepared Statement of William A. Burga
President, Ohio AFL–CIO, Columbus, Ohio

Mr. Chairman and Members of the U.S.-China Trade Commission our organization represents approximately 750,000 members of the AFL–CIO. If this meeting had been held one or two years ago we would have nearly 850,000 members but as you know Ohio has been hit hard with over 240,000 jobs lost since January 1, 2001.

Many, but not all, of the job losses have been union, high paying jobs with the manufacturing sector taking the brunt of the hit with 170,000 jobs disappearing. The Ohio AFL–CIO has been frustrated with the lack of response to this crisis and set out to find the facts to help move public policy.

The facts are backing up what common sense has told us—that unfair trade and outsourcing are major causes for the loss of jobs in Ohio. Domestic economic problems associated with unfair trade are documented in recent studies conducted by organizations such as Policy Matters Ohio and the Economic Policy Institute. These findings are highlighted in a May 2004 Ohio AFL–CIO report titled ''Jobs for Us.'' Additionally, a report released this week by the AFL–CIO Industrial Union Council entitled ''Ohio Job Exports'' establishes a relationship between Ohio companies that have had massive layoffs since January 2001 and unfair trade.

Obviously, we cannot discuss trade without looking at China. China now accounts for over one quarter of our global trade deficit which nears $500 billion. We have come to learn that 98% of China's exports are manufactured goods with 40% of its exports landing in the United States. This information will not come as a surprise to any Ohio consumer as ''Made in China'' is the dominant label on goods we find at our local stores.

At the same time the U.S. trade deficit with the rest of the world and China in particular has soared Ohio's jobless rate and our economic downturn spiral out of control. Ohio has outpaced the rest of the nation in job loss with no sign of recovery. In fact, Ohio is last in the nation in job growth and wage growth with our leading export being our young people as they move out of Ohio looking for a brighter future.

The crisis in Ohio's manufacturing sector and resulting job losses created a state budgetary fiasco which led to draining the state's rainy day fund, raising the sales tax rate and expanding fees on goods and services. Yet, this was not sufficient and cuts to state services across the board were executed by the Governor. It is our opinion that the state's budgetary problems will not get better until we straighten out our priorities and policies which favor multi-national corporations and leave workers behind.

From our viewpoint, the Bush Administration and our trade representatives have not been standing up for workers. I would like to recount something President Bush said Labor Day 2003 while in Ohio. He said, ''We expect there to be a fair playing field when it comes to trade. See, we in America believe we can compete with anybody, just so long as the rules are fair, and we intend to keep the rules fair.'' Today the Commission will hear testimony that demonstrates the rules are not fair especially as it relates to China. And, contrary to what the President says, he has had ample time to review the trading practices of China and has failed to take action when confronted with its trading violations.

The light on China exposes a trading relationship that appears less about fair trade and more about providing multi-national corporations with a place to find and exploit cheap labor. This leads us to the conclusion that our current trade policies place corporate interests over national interests. How else can we explain giving Permanent Normal Trade Relation status to a totalitarian nation that does not live up to its international obligations with respect to human rights, labor rights, environmental standards and rules governing currency.

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It doesn't have to be this way Mr. Chairman. First, let me suggest that in order to overcome our shortfall of trade related data there should be requirements to collect information related to job relocation and outsourcing. The Ohio AFL–CIO proposes to create a new state agency that in part would be responsible for collecting such business related data and representing Ohio on trade matters.

Second, tax laws should be modified to prohibit rewarding corporations that move business or jobs to foreign nations.

Third, U.S. trade negotiators should have an understanding of trade problems which would negatively affect U.S. workers.

Fourth, we believe current trade agreements should be vigorously enforced and violations appropriately remedied.

Finally, the U.S. should not expand existing trade agreements or usher in new deals until the aforementioned problems and controversy surrounding trade and globalization are responsibly addressed.

In closing, I would like to thank the Commission for coming to Ohio and providing us this opportunity to testify.

Co-Chair WESSEL. Thank you, I appreciate it.

Dr. Honeck.

STATEMENT OF JON HONECK, Ph.D.
RESEARCH ANALYST, POLICY MATTERS OHIO, COLUMBUS, OHIO

Dr. HONECK. Thank you, Mr. Chairman.

Good morning. My name is Jon Honeck. I am a research analyst with Policy Matters Ohio, a nonprofit research institution with an interest in employment, taxation, education and economic development policy. I would like to make a few remarks about Ohio's employment situation in general and then discuss how our economic relations with China have affected Ohio's manufacturing sector.

Mr. Chairman, Ohio is truly experiencing a "jobless recovery." Total nonagricultural wage and salary employment in July of this year is over 207,000 jobs below the level of July of 1999, so five years running. This represents a loss of 3.7 percent of our total employment base. Of course, in the previous five years our population has continued to grow. If total employment has kept pace with population growth, Ohio would have about 315,000 more jobs than it does now.

The job loss in manufacturing is by far the single greatest cause of the unemployment crisis in Ohio and the other Great Lake states. A recent U.S. Department of Labor report estimated that 353,000 workers have been displaced from the manufacturing sector between January 2001 and December of 2003 in Ohio, Michigan, Illinois, Indiana and Wisconsin. As shocking as that figure is, it only includes workers with more than three years on the job. With these workers the same report estimated that just 60 percent of them were able to find another job after they were laid off, and those that were reemployed full time, nearly two-thirds reported that their earnings at their new jobs were below those of their old jobs.

The economic meltdown was widespread in Ohio's manufacturing sector. We look at Ohio's manufacturing sectors using four-digit North American Industry Classification System codes. There were 77 industrial sectors that accounted for 99 percent of all wage and salary employment. Seventy of them had fewer jobs in December of 2003 than they did four years before. The seven industrial sectors that gained employment created a combined total of 1,757 new jobs.

Manufacturing, especially durable goods manufacturing, has always been a very cyclical industry. Some of its problems are due to a fall off in demand due to terrorism and the recession between March 2001 and November 2001. Yet as recessions go, the contraction in GDP from March to November of 2001 was shallow compared to other recent recessions, particularly the one that occurred in the early 1980s. There are two factors at work that economists cite. Productivity is a factor in the decline in employment, but clearly the other factor is international trade, as evidenced by our growing trade deficit. According to the Economic Policy Institute in Washington, D.C., almost one-fourth of domestic demand for manufactured products is now met by foreign imports.

There's no doubt that international trade has led to substantial job losses in Ohio's manufacturing sector. Earlier this year, Policy Matters Ohio released a report that analyzed program data from the U.S. Department of Labor's Trade Adjustment Assistance Program. The report found that nearly 46,000 Ohioans had been displaced from their jobs due to international trade between 1995 and November of 2003. The highest number of annual certifications took place in 2002, when 13,000 workers became eligible to apply for trade adjustment assistance. Last year's total was above 6,000, and this year's certifications are on a similar pace.

Unfortunately, the TAA program data fails to capture the full extent of job losses due to trade. Program coverage has been expanded recently so that it now covers shift in production facilities to countries other than Mexico or Canada. Just in the last year the program certified workers at three Ohio companies that outsourced production to China: Senco Products in Cincinnati, Irwin Industrial Tools in Wilmington, and Ericsson Manufacturing Company in Willoughby.

Despite these restrictions on program coverage, our report found that job losses certified under the TAA program accounted for nearly 19 percent of the net decline in manufacturing employment between January of 1999 and October 2003.

It is well known that the United States runs a substantial and growing trade deficit with China. What are the implications of China's export surge for Ohio's economy, which is concentrated in more capital-intensive sectors? Let's take a look at the 50 Ohio industrial sectors with the highest numbers of job lost between 1999 and 2003, and the proportion of total imports within each sector that came from China. In 1999, the median share of Chinese imports to all imports in each sector was six percent. By 2003, the median Chinese share had risen to 11.4 percent. China's share of total imports was 18 percent or over in 20 sectors. Only one of these 50 sectors did not experience an increase in the Chinese share of total imports. Over the 1999 to 2003 period the median increase in the value of Chinese imports across all 50 sectors was 106 percent.

Increased Chinese import competition played an important role in creating market conditions that led to severe job losses in certain Ohio sectors. For example, in the communications equipment sector, which lost nearly half of its workforce in Ohio, Chinese imports grew in value by 148 percent and accounted for nearly one-fifth of the value of all imports by 2003. Chinese import competition played a major role in the recent shutdown of two large plants in central Ohio, Techneglas in Columbus and Thomson in Circleville. These two plants made glass picture tubes for televisions. These shutdowns combined to cost over 1,000 workers their jobs. Although changing technology also played a role in the shutdowns of these two plants, the U.S. International Trade Commission found that certain cathode-ray tube Chinese televisions were being dumped on the U.S. market, and an antidumping order has been in place since June of this year unfortunately too late to help the over 1,000 workers who lost their jobs.

Co-Chair WESSEL. If you can sum up, please.

Dr. HONECK. Mr. Chairman, standard economic models of international trade often assume that the economy is functioning at full employment. In this situation international trade shifts jobs among various sectors of the economy, but does not determine the overall level of employment. This may have been the case in Ohio and the rest of the United States during the 1990s. However, Ohio's experience in the last several years is an example of what can happen when severe manufacturing job loss due to unbalanced trade occurs in the context of an economic downturn. The shrinking manufacturing sector becomes a decisive influence on the overall level of employment because it sets in motion a vicious circle of falling consumer and business demand. No one can say when this process will end, but the latest chapter in the dismantling of Ohio's industrial base will make it even harder for our economy to provide an acceptable standard of living for all of our residents.

[The statement follows:]

Prepared Statement of Jon Honeck, Ph.D.
Research Analyst, Policy Matters Ohio, Columbus, Ohio

Good morning. My name is Jon Honeck. I am a Research Analyst with Policy Matters Ohio, a non-profit research institution with an interest in employment, taxation, education, and economic development policy. I will make a few remarks about Ohio's employment situation in general, and then discuss how our economic relations with China have affected Ohio's manufacturing sector.

Ohio is truly experiencing a "jobless recovery." Total non-agricultural wage and salary employment in July of this year is over 207,000 jobs below the level of July 1999. This represents a loss of 3.7 percent of our total employment base. Of course, during the previous five years, our population has continued to grow. If total employment had kept pace with population growth, Ohio would have 315,000 more jobs than it does now.

Despite reports about signs of an upturn in national employment, preliminary statistics indicate that Ohio lost 12,000 jobs in August, the worst in the nation. Our seasonally adjusted unemployment rate rose from 6 percent in July to 6.3 percent in August.

Another indicator of economic distress is that statewide unemployment claims for the first half of this year are still 40 percent higher than they were in the first half of 1999. Moreover, the rate at which unemployment compensation recipients exhaust their benefits before finding a job is still at a recessionary level.

Job loss in manufacturing is by far the single greatest cause of the employment crisis in Ohio and the other Great Lakes states. A recent U.S. Department of Labor report estimated that 353,000 workers had been displaced from the manufacturing sector between January 2001 and December 2003 in Ohio, Michigan, Illinois, Indiana, and Wisconsin. As shocking as this figure is, it only includes displaced workers with more than three years at the same job. Nationally, the same report estimated that just 60 percent of workers laid off from manufacturing were able to find another job. Of those who were reemployed full-time, nearly two-thirds reported that their earnings at their new jobs were below those of their lost jobs.

Layoffs and attrition combined to cause the loss of 202,143 jobs in Ohio's manufacturing sector between December 1999 and December 2003, a decline of nearly 20 percent. The manufacturing sector lost jobs in each year. The worst year was 2001, when 91,242 jobs were lost. Current estimates indicate that an additional 11,000 positions have been lost this year through August, leaving about 825,000 manufacturing jobs in our state.

The economic meltdown was widespread. If we look at Ohio's manufacturing sectors using four-digit North American Industry Classification System codes, or "NAICS" codes, as of 1999, there were seventy-seven industrial sectors that accounted for 99 percent of all wage and salary employment. Seventy of them had fewer jobs in December of 2003 than they did in four years before. The seven industrial sectors that gained employment created a combined total of 1,757 new jobs.

During the four years between December 1999 and December 2003, motor vehicle parts, which has the largest employment of any industrial sector in Ohio, lost 19,500 jobs, or 17 percent of its workforce. Plastic products, which has the second-highest employment level, lost 9,900 jobs, or 16 percent of its workforce. Three other sectors—foundries, metalworking machinery, and rubber products—all lost over 9,800 jobs, eliminating between 28 and 35 percent of their respective workforces. Seven other industrial sectors lost over 5,000 jobs. Thirteen industrial sectors lost between 3,000 and 5,000 jobs.

Manufacturing, especially durable goods manufacturing, has always been a very cyclical industry. Some of its problems are due to a fall-off in demand due to terrorism and the recession between March 2001 and November 2001. Yet, as recessions go, the contraction in GDP from March to November of 2001 was shallow compared to other recent recessions, particularly the one that occurred in early 1980s.

As employment has failed to recover, it is clear that other factors besides domestic demand are at work. Federal Reserve Board Chairman Alan Greenspan and other economists often cite rising productivity in manufacturing as a key reason for the decline of manufacturing employment, but productivity alone is insufficient to account for the nationwide loss of three million manufacturing jobs between 1998 and 2003. Clearly, the other factor at work is international trade, as evidenced by our growing trade deficit. According to the Economic Policy Institute in Washington, D.C., almost one-fourth of domestic demand for manufactured products is now met by foreign imports.

There is no doubt that international trade has led to substantial job losses in Ohio's manufacturing sector. Earlier this year, Policy Matters Ohio released a report that analyzed program data from the U.S. Department of Labor's Trade Adjustment Assistance (TAA) program. The TAA program offers extended unemployment benefits, relocation and job search allowances, a health care tax credit, and limited wage supplements for reemployed older workers. The report found that nearly 46,000 Ohioans had been displaced from their jobs due to international trade between 1995 and November 2003. The highest number of annual certifications took place in 2002, when 13,000 workers became eligible to apply for trade adjustment assistance. Last year's total was above 6,000, and this year's certifications are on a similar pace.

Unfortunately, TAA program data fails to capture the full extent of job losses due to trade. When a plant closes or reduces production, the effects cascade down the supply chain and also are felt by businesses that provide services to the plant. But, until November 2002, the TAA program did not cover workers at supplier companies, nor did it cover shifts in production facilities to countries other than Mexico or Canada. Just in the last year, the program certified workers at three Ohio companies that outsourced production to China: Senco Products in Cincinnati, Irwin Industrial Tools in Wilmington, and Ericsson Manufacturing Co. in Willoughby. Otherwise, program coverage for establishments that provide services to a manufacturing plant remains extremely limited. Despite these restrictions on program coverage, our report found that job losses certified under the TAA program accounted for nearly 19 percent of the net decline in manufacturing employment between January 1999 and October 2003.

Finally, there are an unknown number of jobs lost in other sectors of the economy because of the negative multiplier effects of manufacturing job loss on consumer spending. I would like to draw the Commission's attention to the fact that there are 6.4 percent fewer people employed in Ohio's retail sector than there were five years ago.

It is well known that the United States runs a substantial and growing trade deficit with China. American consumers are already familiar with China's exporting prowess in labor-intensive sectors such as apparel, toys, and footwear. What are the implications of China's export surge for Ohio's economy, which is concentrated in more capital-intensive sectors? Let's take a look at the fifty Ohio industrial sectors with the highest numbers of jobs lost between 1999 and 2003, and the proportion of total imports within each sector that come from China. In 1999, the median share of Chinese imports to all imports in each sector was 6 percent. By 2003, the median Chinese share had risen to 11.4 percent. China's share of total imports was 18 percent or over in 20 sectors. Only one of these fifty sectors (non-ferrous metals except aluminum) did not experience an increase in the Chinese share of total imports. Over the 1999 to 2003 period, the median increase in the value of Chinese imports across all fifty sectors was 106.2 percent (in nominal terms).

Increased Chinese import competition played an important role in creating market conditions that led to severe job losses in certain Ohio sectors. In the communications equipment sector, which lost nearly half of its workforce in Ohio, Chinese imports grew in value by 148 percent and accounted for nearly one-fifth of the value of all imports by 2003. Chinese import competition played a major role in the recent shutdown of two large plants in Central Ohio that made glass picture tubes for televisions (Techneglas in Columbus and Thomson in Circleville). These shutdowns combined to cost over 1,000 workers their jobs. In 2002, Chinese products accounted for one-fourth of the U.S. market in the household audio-visual equipment subsector, which includes television production. Although changing technology also played a role in the shutdowns of these two plants, the U.S. International Trade Commission found that certain cathode-ray tube Chinese televisions were being dumped on the U.S. market, and an antidumping order has been in place since June of this year (I.T.C. Case no. A–1034).

In the plastic products sector, which lost almost 10,000 jobs (16 percent of its workforce), Chinese imports grew in value by 75 percent and China increased its share of all imports from 19 to 24 percent. Most of Ohio's job losses occurred in the "all other plastics products" subsector, in which China is the leading exporter to the

United States, sending $2.8 billion worth of products to the U.S. in 2003, up from $1.6 billion in 1999. In contrast, U.S. exports to China were a paltry $124 million. Chinese goods in this subsector held a 3.4 percent share of the U.S. market in 2002.

In the rubber products sector, which lost 30 percent of its Ohio workforce, Chinese imports grew in value by 129 percent and China doubled its share of imports in the sector to 11.6 percent over the 1999 to 2003 period. Over half of the total job loss in rubber products occurred in the tire and tire products subsector. By 2002, China had become the third largest exporter of tires and tire products to the United States, holding roughly three percent of the U.S. domestic market. If present rates of growth continue for four or five years, China may surpass Japan and Canada to become the largest exporter of tires and tire products to the United States.

Those who support normal trade relations with China often point to that country's potential as an export market. Ohio's exports to China have grown significantly since the U.S. and China began normal trading relations in 2000, but from a very low level. China became Ohio's seventh-largest export destination by 2003. Even so, China only accounts for slightly over 2 percent of Ohio's total exports. To put this in perspective, Ohio's exports to China in 2003 were just 3.8 percent of the value of goods that Ohio exports to Canada ($16.9 billion), our largest trading partner. Put another way, the value of Ohio's exports to China probably comprise no more than one-half of one percent of Ohio's total industrial output. It should also be mentioned that recently there has also been another downside to China's rapid growth—shortages of scrap metal, certain steel products, and cement. These shortages are beginning to affect the construction industry, which has been one of the few bright spots in Ohio's economy.

Standard economic models of international trade often assume that the economy is functioning at full employment. In this situation, international trade shifts jobs among various sectors of the economy but does not determine the overall level of employment. This may have been the case in Ohio and the rest of the United States during the 1990s, as a brisk rate of economic growth hid the effects of a rising trade deficit. However, Ohio's experience in the last several years is an example of what can happen when severe manufacturing job loss due to unbalanced trade occurs in the context of an economic downturn. The shrinking manufacturing sector becomes a decisive influence on the overall level of employment because it sets in motion a vicious circle of falling consumer and business demand. No one can say when this process will end, but the latest chapter in the dismantling of Ohio's industrial base will make it even harder for our economy to provide an acceptable standard of living for all of our residents.

Co-Chair WESSEL. Thank you. Your full testimony, and all the witnesses' testimony, will be made part of the record.

Mr. Hansen, welcome.

STATEMENT OF DAVID HANSEN
MANAGING DIRECTOR, OHIO MANUFACTURERS' ASSOCIATION
COLUMBUS, OHIO

Mr. HANSEN. Good morning, Commissioners. My name is David Hansen and I am the managing director of public policy for the Ohio Manufacturers' Association. Our association has 2,000 members, and we represent the interests of approximately 20,000 manufacturing establishments in Ohio.

I want to try to help you today in two ways. One, to give you, as previously heard, an overview of the condition of manufacturing in our state today. And, finally to share with you at least our association's views on the biggest issue at stake competing with China.

You have heard about the manufacturing base here in Ohio. It's exceptionally broad—20,000 manufacturing establishments—a tremendous number of business activity. It's exceptionally deep. I lack hard data, but I can tell you there are hundreds of corporations that are into their hundred plus year of operation, and there are thousands of family-owned companies well into their third, fourth, and even fifth generation of family leadership.

The manufacturing base of Ohio is large and dense. It's the third largest manufacturing state in terms of total dollar value and only one other state has a larger share of its citizens directly employed in manufacturing. One in six Ohioans work in this sector.

We produce about a quarter of the state's economy and about half of state and local government receipts and paying premium wages and benefits unmatched by other economic sectors, manufacturing is Ohio's single most important source of growth and prosperity.

Today, because Ohio manufacturing is challenged, Ohio itself is challenged. The latest total of manufacturing employment as measured by the U.S. Department of Labor is 825,000 Ohioans. You heard some other comments. Ours is pretty much the same. This is 204,000 jobs fewer than the pre-recession employment peak of about 1,030,000 people employed in manufacturing, and we count back to February 2000 when the recession peaked.

Some of the direct consequences are, as Mr. Burga mentioned, a state budget in disarray, tax rates going up as the tax base fails to grow, schools going through spending cutbacks. Here in Ohio, property tax, especially Ohio's antiquated, anti-manufacturing tangible personal property tax, still predominantly pays for schools here. Aggregate wages are stagnant as workers move from well-compensated manufacturing jobs into less compensated service sector jobs or no jobs at all.

One particularly compelling consequence: Ohio's population has grown by just three-tenths a percent over the period of 2000 to 2003. I will check with Dr. Honeck about the numbers. We have grown in Ohio population while the nation on the whole has grown by a full three percent in this same three-year period. Growth and prosperity have come to a halt here in Ohio.

Please note as a visitor to our state that despite the mythic image of a tired-out, run-down rust belt, stagnation and decline are neither the heritage of manufacturing Ohio, nor its recent history.

For the 25 years leading up to the recent recession, Ohio manufacturing experienced strong growth. Embracing a vision of manufacturing competitiveness and applying strategies and techniques to achieve this, our companies grew the real dollar value of their manufacturing output here in the state between the 1991 and 1997 from $65 billion to $88 billion. From 1975 to 2000, Ohio manufacturing output grew an average of three percent a year. Not a tech bubble perhaps, but certainly not the rust belt image many hold of manufacturing, including unfortunately many here in Ohio.

About the current situation. Three factors lie behind the job loss in Ohio in our view, gains in labor productivity, a contraction in the American economy, and a loss of the domestic market share for Ohio manufactured products.

Our best estimate of the loss of Ohio manufacturing jobs due to the loss of domestic market share without taking into account any increases in foreign market share is 75,000 jobs of the 203,000 jobs lost. Market loss to China is the single largest factor, but accounts for only half these job losses. Mexico, Europe, Canada and other producers have together made similar inroads all in American markets as does China. Between 35,000 and 40,000 Ohio manufacturing jobs have been lost in economic competition with China over the past four years. This is not netted against any changes in Ohio-supplied market share in China, but I don't think that today at least this is a very significant factor.

Thirty-five to 40,000 jobs lost is a real significant number, it's a mind-boggling amount of pain, disappointment and lost dreams both for the employees and obviously many of the business owners who are in the sights of China competition. But the collapse of capital spending, which is the root of the manufacturing recession in the U.S. over the past four years, and the accelerated growth in productivity without mitigating economic growth overall, each of these are far bigger contributors to Ohio's manufacturing job loss today.

Much of the blame for loss in domestic market share lies in government action, inaction or just plain mismanagement. Manufacturers have earned the right to point fingers elsewhere. They paid a tremendous price to their employees for their uncompetitive practices in the early 1980s and again in the early 1990s. But they have remade themselves and their management methods are now organizational models for the rest of American private industry and certainly for our government. OMA members know they are doing all they can do to compete with China and other competitors, but the government is failing them in three important ways.

First, the Federal Government is not doing enough to correct China's manipulation of its currency. When China pegs its currency at a lower-than-market rate, it artificially lowers retail prices for Chinese products in the U.S. Consumers may benefit temporarily from their greater purchasing power in the manipulated market. However, you will hear today from Ohio manufacturers about how they lost their competitive edge due in large part to this action of the Chinese government and due to the unresponsiveness of our government to stop it. For every one person you'll hear from today, there are probably a thousand other Ohio manufacturers who will have a China pricing story that would make you cringe when you consider the stakes for Ohio and our country.

Second, the Federal Government is woefully mismanaging its duty to protect the intellectual property rights of Ohio manufacturers. Product innovation in Northern Ohio is manufacturing's best competitive advantage in the global marketplace. Entrepreneur and engineering and marketing talents abound in this state, but it doesn't mean a thing when Chinese economic interests so shamelessly pirate our members' inventions and innovations. Domestic market share is impossible to defend when your competitors do not have to face costs for research and development or even brand development and customer service.

We have a member manufacturing sophisticated pumps for water, wastewater, petroleum and agricultural uses. A Chinese company has not only copied and exploited the Gorman-Rupp product and its manuals and its performance specifications, but the very Gorman-Rupp brand is displayed on the products in the Chinese company's literature.

There seems to be plenty of agreements and trade rules that would ban piracy, but the state of U.S. Federal enforcement in the words of Senator Voinovich's, "is nothing short of abysmal."

On another note about trade enforcement with China: The Byrd Amendment is a meaningful inducement against trade dumping. You will hear more about that later. The WTO position that it unfairly double compensates victimized industries doesn't ring true to Ohio manufacturers. What better incentive could there be for a trading partner to play fair than to avoid directly compensating your competitors with the receipts from tariff price penalties?

Co-Chair WESSEL. If you can sum up, please.

Mr. HANSEN. Yes. Third, manufacturing market share, whether domestic or global, is extremely price sensitive. Yet state and local government in particular seem unaware of this. For example, during this recession the State of Ohio has increased direct taxes on capital investment at least four times. A recent court decision ruling invalid a state machinery and equipment tax credit will be the fifth tax increase if it is upheld. So to sum up, members, global and competitiveness of China is everybody's business. The feds certainly have their share of work to do, but we would also say, and please check my own remarks, there's a lot that can be done by state and local government to help our members become more competitive here in the U.S. and globally as well.

[The statement follows:]

Prepared Statement of David Hansen
Managing Director, Ohio Manufacturers' Association, Columbus, Ohio

Good morning, Commissioners. My name is David Hansen and I am the Managing Director of Public Policy for the Ohio Manufacturers' Association. Since 1905 our Association has represented the interests of Ohio manufacturing before opinion- and policy-making forums.

I hope that I can contribute to your work in two ways. First by giving you an overview of Ohio manufacturing to complement the industry-targeted testimony you'll hear today. Then I will try to give our Association's view on some of the issues at stake for all of Ohio's manufacturers in competing with China in today's global economy.

The manufacturing base in Ohio is exceptionally broad: there are approximately 20,000 manufacturing establishments in the state producing products in every category of industry.

The state's manufacturing base is also exceptionally deep: I lack hard data, but please take my word for it: there are hundreds of corporations well over one hundred years old and probably thousands of family-owned manufacturing businesses well into their third, fourth and even fifth generation of family leadership.

The manufacturing base of Ohio is large and dense. Ohio is the third largest manufacturing state when measured in total dollar value of product. Only one other state has a larger share of its citizens directly employed in manufacturing—one-in-six Ohioans work in this sector.

Producing about a quarter of the state's economy and about half of state and local government receipts, and paying premium wages and benefits unmatched by other economic sectors, manufacturing is Ohio's single most important source of growth and prosperity.

Today, because Ohio manufacturing is challenged, Ohio is challenged. The latest total of manufacturing employment as measured by the U.S. Department of Labor is 825,000 Ohioans. This is 204,000 fewer than the pre-recession employment peak of about 1,030,000 employed in manufacturing in February of 2000.

Some of the direct consequences are: a state budget in disarray; tax rates going up as the tax base fails to grow; schools going through spending cutbacks (property tax, and especially Ohio's antiquated, anti-manufacturing tangible personally property tax, still predominately pay for schools here in Ohio); aggregate wages stagnant as workers move from well-compensated manufacturing jobs into less compensated service sector jobs.

One particularly compelling consequence: Ohio's population has grown by just 0.3 percent over the period of 2000 to 2003, while the nation on the whole has grown by a full 3 percent in total population. Growth and prosperity have come to a halt here in Ohio.

Please note that despite the myth-image of a tired-out, run-down Rust Belt, stagnation and decline are neither the heritage of manufacturing Ohio, nor its recent history.

For the twenty-five years leading up to the recent recession, Ohio manufacturing experienced strong growth. Embracing a vision of manufacturing competitiveness and applying strategies and techniques to achieve this, our companies grew the real dollar value of their manufacturing output between the 1991 and 1997 from $65 billion to $88 billion. From 1975 through 2000 Ohio manufacturing output grew an average of 3% a year. Not a tech bubble perhaps, but certainly not the Rust Belt image many hold of manufacturing, including even many here in Ohio.

About the current situation . . .

Three factors lie behind the loss of jobs in Ohio: gains in labor productivity, a contraction in the American economy, and a loss in domestic market share for Ohio-manufactured products.

Our best estimate of the loss of Ohio manufacturing jobs due to the loss of domestic market share, without taking into account any increases in foreign market share, is 75,000 jobs. Market loss to China is the single largest factor, but accounts for only half these job losses. Mexico, Europe, Canada and other producers have together made similar inroads in American markets. Between 35 and 40 thousand Ohio manufacturing jobs have been lost in economic competition with China over the past four years. This is not netted against any changes in Ohio-supplied market share in China, but I don't think that today this is a significant factor.

Thirty-five to forty-thousand jobs lost is a real, significant number, a mind-boggling amount of pain, disappointment and lost dreams. But the collapse of capital spending, the root of the manufacturing recession, and the accelerated growth in productivity without mitigating economic growth overall, are each far bigger contributors to Ohio's manufacturing job crisis today.

Much of the blame for loss in domestic market share lies in government action, inaction or just plain mismanagement. Manufacturers have earned the right to point fingers elsewhere. They paid a tremendous price for their uncompetitive practices in the early 80's and again in the early 90's. But they have remade themselves and their management methods are now organizational models for the rest of American private industry and certainly our government. OMA members know they are doing all they can do to compete with China and other competitors, but their government is failing them in three important ways.

First, the Federal Government is not doing enough to correct China's manipulation of its currency. When China pegs its currency at a lower-than-market rate, it artificially lowers retail prices for Chinese products in the U.S. Consumers may benefit temporarily from their greater purchasing power in a manipulated market. However, you will hear today from Ohio manufacturers about how they have lost their competitive edge due in large part to this action of the Chinese government. And due to the unresponsiveness of our government to stop it. For every one person you'll hear today, there are probably a thousand other Ohio manufacturers who will have a China pricing story that would make you cringe when you consider the stakes for Ohio and our country.

Second, the Federal Government is woefully mismanaging its duty to protect the intellectual property rights of Ohio manufacturers. Product innovation is one of Ohio manufacturing's best competitive advantages in the global marketplace. Entrepreneur and engineering and marketing talents abound in this state, but it doesn't mean a thing when Chinese economic interests so shamelessly pirate our members' inventions and innovations. Domestic market share is impossible to defend when your competitors do not have to face costs for research and development or even brand development and customer service.

We have a member manufacturing sophisticated pumps for water, wastewater, petroleum and agricultural uses. A Chinese company has not only copied and exploited the Gorman-Rupp product and its manuals and its performance specifications, but the very Gorman-Rupp brand is displayed on the products in the Chinese company's literature.

There seem to be plenty of agreements and trade rules that would ban piracy, but the state of U.S. Federal enforcement of these rules, in the words of Senator Voinovich's, "is nothing short of abysmal."

On another note about trade enforcement with China: the Byrd Amendment is a meaningful inducement against trade dumping. You'll hear more about that later. The WTO/EU position that it unfairly double compensates victimized industries doesn't ring true to Ohio manufacturers. What better incentive could there be for a trading partner to play fair than to avoid directly compensating your competitors with the receipts from tariff price penalties.

This kind of inducement for fair play is a part of our own civil justice system. Our courts routinely award treble economic damages in punitive assessments made in anti-trust cases, just to name one example. Our manufacturing members would clearly support increasing the export of our civil justice system to our competitors and we urge that the Byrd Amendment be retained.

Third, manufacturing market-share, whether domestic or global is extremely price sensitive. Yet state and local government, in particular, seem unaware of this. For example during this recession, the State of Ohio has increased direct taxes on capital investment at least four times. A recent court decision ruling invalid a state machinery and equipment tax credit will be the fifth tax increase if it is upheld.

The state has increased its auditing of capital investment taxpayers despite the Ohio Department of Taxation admission that these taxpayers are more accurate in their filing than before the recession. This is a sixth, hidden tax increase on manufacturing capital investment in our state.

The economic evidence is clear: we are most losing market share to China in those of our many industries which have lower capital needs. The path for competitiveness lies in greater capital investment. Capital flows to where the return on investment is greatest, yet Ohio is taking repeated steps to lower the return on investment here is this state.

Other costs to manufacturing have been increasing in Ohio: workers' comp premiums are up, Ohio EPA permitting fees are up, the tort system costs more each year the General Assembly fails to reform it, sales taxes paid by manufacturers are up—these are just a few of the cost increases imposed on Ohio manufacturers by our state government.

Faced with these cost increases our members cannot raise their product prices in today's global economy. The only option they have is to cut expenses in Ohio or cut jobs here, or both.

Secretary of Commerce Evans was recently at a manufacturing CEO roundtable at a plant just a ways to the north and east of here. The manufacturer host has a gang-busters business, adding thousands of sorely needed jobs over the past 10 years. Secretary Evan heard the CEO there relate that further expansion on their site was in jeopardy because of the unwillingness of the township to grant a zoning exemption to expand the employee parking lot. Several other CEO's then related how state and local rules, regulations and costs were a hindrance to global competitiveness.

The Secretary was shortly after quoted in a paper in effect saying that Ohio has contributed to its own problems in terms of being a less than friendly place to grow a manufacturing business.

I argue that if state and local government costs—NAM documents all of these costs paid in the U.S. to be 22% greater than our global competitors and this is exclusive of labor costs—if these costs are such a burden to an Ohio manufacturer than that company is now in the sights of a Chinese competitor. And if this Ohio company is now a potential loser to a Chinese competitor, for whatever the reason, that fact should concern this Commission.

Global competitiveness—and competitiveness with China especially—is everybody's business. The fed's certainly have their share of work to do, but so do state and local government.

Thank you for your time and attention.

Co-Chair WESSEL. Thank you.

Mr. Otterstedt.

STATEMENT OF JEFF OTTERSTEDT
VICE PRESIDENT AND GENERAL MANAGER, CLOW WATER SYSTEMS
COSHOCTON, OHIO

Mr. OTTERSTEDT. Good morning. My name is Jeff Otterstedt, and I am vice president and general manager of Clow Water Systems based in Coshocton, Ohio and a division of McWane, Incorporated, located in Birmingham, Alabama.

Thank you for allowing me to speak today during which time I would like to address the impact of Chinese imports on the domestic Ductile Iron Waterworks Fittings Industry.

Ductile iron waterworks fittings are used to connect pipes in municipal water and sewer systems throughout the United States and serve a crucial role in our nation's water infrastructure.

Over the past four years, Chinese production of ductile iron waterworks fittings has increased dramatically. As a result during the same period, and despite increased domestic demand, sales for American producers have actually declined. In September 2003 McWane, Inc., which owns three of the major ductile iron waterworks fittings producers in the United States, petitioned the United States International Trade Commission to determine if fittings were being imported into the United States "in such increased quantities or under such conditions as to cause market disruption to the domestic producers of like or directly competitive products." This petition enjoyed wide support, not only from other domestic producers such as U.S. Pipe Company and American Cast Iron Pipe Company, but also from the United States Steelworkers of America. The domestic industry was represented by Paul Rosenthal of the Collier Shannon Scott law firm located in Washington, D.C., a firm that has substantial expertise in international trade. Mr. Rosenthal expresses his regret that he could not be here to join me for the testimony today.

After conducting hearings and collecting information from both domestic and Chinese companies, the Commission made a determination in December 2003. By unanimous vote of 6–0, the Commission found that imports of ductile iron waterworks fittings from China are increasing rapidly, both absolutely and relative to consumption. During this time, domestic production declined as did prices for final products; and that as a result one American plant closed in 2003 and two others shut down production lines. Based on these findings the Commission concluded that the domestic industry has been materially injured.

To help resolve this troubling issue the Commission recommended proposing a tariff rate quota on imports of ductile iron waterworks fittings from China over a period of three years. In addition, the Commission recommended that if applications were filed, the President should direct the Department of Commerce and the Department of Labor to provide expedited consideration of trade adjustment for the firms and workers affected by the imports.

These recommendations were sent to President Bush for his review and decision and in March 2004 the President announced that he would not accept the recommendations of the Commission, and he would not provide relief for the industry, arguing it was not in the national economic interest of the United States and that other countries would quickly replace China in exporting these fittings into the United States.

Let me now address the 421 process and what we would do differently.

China agreed to the Section 421 provision when it joined the World Trade Organization in the year 2000. The provision was implemented to provide American businesses and workers with relief for injury without placing any blame on the Chinese industry involved. Interestingly despite several affirmative determinations by the ITC, the President has never granted relief to a domestic industry under Section 421.

McWane, Incorporated, followed the appropriate procedures in seeking relief, and ITC's investigation confirmed our assertions about the damaging effects of Chinese imports on the American ductile iron waterworks fittings producers.

As such it was the hope of McWane and other domestic producers that the Administration would demonstrate its commitment to U.S. manufacturing jobs and the and foundry industry by imposing an appropriate remedy under the law to save thousands of American jobs that were being lost.

When President Bush announced his decision, McWane, Incorporated, expressed its disappointment, especially in light of the unanimous judgment by the U.S. International Trade Commission that relief under Section 421 was needed.

Our company continues to express the appreciation for the support it received throughout the process from many Members of Congress, our industry peers, the United Steelworkers of America, and our valued employees. McWane will continue to work with these parties to overcome this difficult challenge.

Aside from addressing the trade issue, the company has taken several steps to combat unfair competition. These include asking the American Waterworks Association to enforce its own standards, working with municipalities to help them understand the dangers of using products that do not meet American Waterworks Association specifications, enlisting the support of distributors to maintain a domestic supply of fittings, promoting the Buy American campaign, and finally, lowering prices to remain competitive with Chinese producers who manufacture products by paying wages of 83 cents per hour, adhering to no meaningful labor laws, and taking no measure to protect the environment.

Also, McWane remains supportive of Congressional efforts to address problems such as the Chinese manipulation of its currency and the lack of environmental and safety standards and enforcement in foreign countries.

The case was very expensive to pursue both for the legal and economic fees, and for the burden placed on the officials from the company to compile data and testify at hearings. While we were pleased with the ITC's care in reviewing all of the information presented, we would not enter into this process again given that despite the unanimous judgment of the U.S. International Trade Commission that relief under Section 421 was needed, this Administration decided not to provide relief for McWane.

When you look at the domestic industry today, the picture is bleak. Our industry is losing millions of dollars each month in large measure due to the price reductions that have resulted from the surge in cheap ductile waterworks fittings entering the U.S. market. Capacity utilization has decreased, and U.S. producers, in the form of plant shutdowns and layoffs, have felt the impact.

Without significant and prompt relief, the U.S. water infrastructure system will become almost totally dependent on fittings made in China and other countries. The simple reality is that capital costs are so great that once one of these plants is closed it is not feasible to restart it.

Although our company's profit margins have been depressed well below typical manufacturing margin levels, we have made an effort to maintain a domestic industry. We've acquired facilities that cannot survive independently and made investments in new plants and equipment designed to make them run more efficiently. This was a bet on economies of scale and a level playing field. The economies of scale are there, but unfortunately we are not operating on a level playing field.

Despite the Administration's refusal to help, McWane remains committed to providing well-paid manufacturing jobs in America as far as we can. At the same time McWane will continue to evaluate all reasonable options to remain competitive.

While outsourcing is a choice we prefer not to make, given the current Administration's denial of our petition to keep jobs in the United States, it is one we will consider carefully for the long-term survival of our business.

The reality is, that to preserve jobs in the United States, we have to remain competitive. Where possible, we will strive to maintain production needs in an industry vital to American homes and businesses. Thank you.

[The statement follows:]

Prepared Statement of Jeff Otterstedt
Vice President and General Manager, Clow Water Systems, Coshocton, Ohio

Good morning.

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To help resolve this troubling issue, the Commission recommended imposing a tariff-rate quota on imports of Ductile Iron Waterworks Fittings from China over a period of three years. In addition, the Commission recommended that if applications were filed, the President should direct the Department of Commerce and the Department of Labor to provide expedited consideration of trade adjustment assistance for the firms and workers affected by the imports.

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(a) asking the American Water Works Association to enforce its own standards;
(b) working with municipalities to help them understand the dangers of using products that do not meet American Water Works Association specifications;
(c) enlisting the support of distributors to maintain a domestic supply of fittings;
(d) promoting a 'buy American' campaign; and
(e) lowering prices to remain competitive with Chinese producers who manufacture products by paying wages of 83 cents per hour, adhering to no meaningful labor laws and taking no measures to protect the environment.

Also, McWane remains supportive of Congressional efforts to address problems such as the Chinese manipulation of its currency and the lack of environmental and safety standards and enforcement in foreign foundries.

The case was very expensive to pursue, both for legal and economic fees, and for the burden placed on the officials from the company to compile data and testify at hearings. While we were pleased with the ITC's care in reviewing all of the information presented, we would not enter into the process again given that, despite the unanimous judgment by the U.S. International Trade Commission that relief under Section 421 was needed, this Administration decided not to provide relief for the industry.

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The reality is, that to preserve jobs in the United States, we have to remain competitive. Where possible, we will strive to maintain production needs in an industry vital to American homes and businesses.

Thank you.

Co-Chair WESSEL. Thank you.

Chairman D'Amato.

Panel I: Discussion, Questions and Answers

Chairman D'AMATO. Thank you all for your testimony. It's interesting to me that you seem to have a consensus here on the part of business and labor in Ohio that Ohio is suffering from decimation of its manufacturing base as a result of a two-pronged attack on your workforces and on your businesses. One is an unfair system of trading practices that impose on you and second, a lack of effective response by the Federal Government to those unfair practices. Tell me if I'm wrong in that assumption.

Mr. HANSEN. I would agree with that. Again I would just add the Republican statement of response to——

Chairman D'AMATO. This past June this Commission recommended a decisive action to two areas—financial reform and NIBR. In both cases we were well within our rights to go and initiate the dispute settlement action against the Chinese. Would you all think that would certainly be one effective step taken by the government?

Mr. BURGA. I agree those are steps that could be taken. It seems as though our government is more interested about intellectual property rights than they are about the human side of this about the trading. I was informed that Chinese government representative, spoke to some business groups in New York and said come to China. You will be the lowest cost producer for at least the next 20 to 30 years because we will have our people produce it at low wages. I just think that too much emphasis sometimes on intellectual property rights and things that businesses want without really looking at the impact on workers.

And if I could just add briefly to that one of the things that I've kind of noticed, and I don't know if the others in labor even agree with me, I don't think our trade negotiators really understand working people's plight about losing jobs. Whether it's the Clinton Administration or this one. I just don't think they have a comprehension of what impact this is going to have on workers, and I think it would be good to have somebody at the bargaining table for the U.S. workers.

[Audience applause.]

Chairman D'AMATO. To offer one point to the currency situation issue, the Commission did take a position that if there was not going to be a case brought before the WTO, we recommended that Congress was within its rights to go forward and engage in legislative action. As you may know, your two senators are both involved in legislative vehicles that will do just that. So I commend your delegation for their initiative in this area. Thank you.

Co-Chair WESSEL. Commissioner Reinsch.

Commissioner REINSCH. Thank you. I appreciate the very thoughtful testimony from all of you. I have a couple questions.

First of all, for Mr. Burga. You had five recommendations in your testimony about things that we ought to do, which I think I support. I guess the first question is if the government did all those five things tomorrow, would that be sufficient? Would that solve the problem?

Mr. BURGA. Well, it probably wouldn't, but these are five things that we think should be implemented as quickly as you can and one of them, of course, is the state problem. But there will still be problems, I suppose, in our trade the way our world is constructed today.

When I worked in the steel mill, we were told we had to compete by making the best quality, highest quality and most productivity. Now, today across the globe we are talking about competing by who will receive the least wages or benefits, and if we don't solve the healthcare problem, I don't know how you can solve a lot of these problems.

The five issues that we proposed I think would help, but it may not solve the entire problem because there are other things out there such as healthcare that's a detriment to our whole economy structure.

Commissioner REINSCH. Related to that I think Mr. Hanson had some other subjects that ought to be covered and I want to ask your opinion, Mr. Burga, on at least two of those. One was he had a number of the state and local government tax laws for manufacturers in Ohio. Do you agree with him that the state has made some mistakes in the set up of manufacturing tax laws?

Mr. BURGA. I agree to this extent that we have—the Ohio AFL–CIO has agreed to sit down with business and government and try to work out a fair arrangement on their personal property tax. There may be some unfairness in it, but at the same time there's unfairness in the other tax—parts of the tax code for Ohio citizens that need to be addressed. And I think it could be worked out if everybody would just sit down and discuss it in an intelligent way.

But our state government right now they don't want to do that. They want to talk to business alone and labor alone, and business usually gets something out of it and we don't. So if we all come to the table I don't disagree there are things that could be done to the tax business and we don't object to that.

Commissioner REINSCH. Mr. Hansen, do you want to comment on that?

Mr. HANSEN. I think the discussions could be pretty fruitful. The point is not to transfer tax burden from business to citizens. We don't want to do that, but there are parts of our economy on the business side that aren't contributing their fair share. I think the taxes—it's not really fit for the 20th century and we are in the 21st century. So we would appreciate that opportunity.

Commissioner REINSCH. Mr. Burga, Mr. Hansen's testimony also made a point about intellectual property rights. I know we'll have some other witnesses later on may be talking about that as well, and our own report highlighted serious difficulties we have with Chinese intellectual property piracy, for example. You said something in your comments with Commissioner D'Amato that suggested that problem perhaps wasn't quite as important as some other things. Can you clarify that?

Mr. BURGA. Well, my point of it is I don't object to intellectual property rights protection, but I think that seems to be the first thing that is looked at by our trade negotiators more than anything else, and I'm not sure that that's—where does that stand in relation to workers and human rights in the trade issues?

The public probably is as uninformed about how they even do their negotiating on trade. I don't understand how they do it, so I don't object to property rights being protected, especially in China obviously. I don't disagree, but I question where is that in priority of the things that affect workers? There's an appearance of the government helping the corporations more than the people in their negotiating these treaties. That was my point about it.

Commissioner REINSCH. Let me ask one final question. You made reference in your opening statement about the prevalence of "made in China" labels on consumer goods here. Have you ever given any thought to encouraging members not to buy Chinese?

Mr. BURGA. Well, boycotting products is a longstanding tactic by organized labor for over a hundred years now. Sometimes it works and sometimes it does not. But it's a bigger problem today, I think, because so many people are out of work, so many people are looking for a lower-priced product because they don't make enough earnings if they are working so they don't look at the labels anymore. A lot of people, working people with families, they are struggling every day so they look for price—I admit that—instead of looking for the labels.

So if we could try to boycott it—there are some products that don't even get manufactured in the United States anymore. I can't find the kind of clothes I want anymore. I'm getting fat and I need a certain type of clothes. They're all made somewhere else. What's wrong with this picture?

If you have a choice, yes, we could try to do that and I think in many cases we do. It's not a concentrated effort to buy goods made in China.

Commissioner REINSCH. Well, your suit looks pretty good to me. Thank you, Mr. Burga.

Co-Chair WESSEL. Co-Chair Dreyer.

Co-Chair DREYER. As you know, one of our charges, in fact major charge, is to suggest to Congress things that could be done better. As I listen to your collective testimony I come away with four ideas that I have heard here that could be presented. First, that the U.S. Government press the Chinese government harder for a currency reevaluation. Second, that the United States Government should do more to control piracy, counterfeiting, et cetera. Third, the Administration needs to develop a more supportive attitude in general. And finally, that a representative of workers should be put on the trade negotiation team. Can anyone think of anything I missed here, and is there something you would add?

Mr. HANSEN. Commissioner, this actually goes to Commissioner Reinsch's questions or one of the comments. If Congress does all that it can do to straighten out problems in trade rules and compliance, ethics on the part of the Chinese, it still remains this big, new player on the block which will be competing here in America as much as we want to go competing over there. That is going to cause changes in our Ohio economy, in our manufacturing economy as significantly as the arrival of the Japanese goods did in the end of the 1970s, early 1980s.

So those particular recommendations are the starting point. If they can be carried out, maybe other steps will level the playing field.

On that playing field there's a pretty big team on the other side. Instead of trying to stop this rising tide, it's better to build a better boat which begins with some comments that a foreign investor in Ohio, the President of Honda American manufacturer, made. He said that competitive advantage for manufacturing in Ohio in America perhaps lies in workforce development, providing training, helping this tremendous workforce and all the talent that we have here to be better placed into the 21st century manufacturing jobs. That may be a step beyond what you're hearing, but that may be something to be looking at down the road. It's going to be very challenging, very wrenching for this economy. And we are all struggling to be able to adapt to that, master it, which we have done before. But we would need a lot of vision from the government.

Co-Chair DREYER. Let me call what someone had in a hearing we had in Columbia, South Carolina last year. Several people in fact said it's all very well and good to propose job retraining, but we don't know what to retrain for, and we are not sure that the jobs will be there in any case. Do you have any concerns about that? Would you agree with that? Any of you.

Mr. HANSEN. I would not say that the track record of the Federal, state and local government workforce retraining has really been in line with——

Co-Chair DREYER. Reality.

Mr. HANSEN. —well, with reality and the vision of what we can do here in the U.S. So it's a self-fulfilling prophesy. The Ohio Department of Job and Family Services sees manufacturing jobs go down, so they discourage the development of manufacturing training courses at our community colleges. Well, if there are not the workers at higher levels—I will attribute it to some of the overall company moves that we have seen in the U.S.

Mr. BURGA. I would just follow up by saying in Ohio I don't think it's clear where our economy is headed in terms of types of work and jobs that will be in Ohio ten, twenty years from now. They really haven't filled it all out. We all agree here manufacturing should be considered to retain its basis and stop losing more.

Our government in Ohio, they don't know what they're doing either. They are not sure where it's all going.

The government proposed a bond issue last election to promote some high-tech, but it got shot down by the voters and I don't think they know and no one knows where it's all going.

Mr. HANSEN. We would want those jobs to be manufacturing jobs. The average Ohio manufacturing worker adds a hundred thousand dollars in value to the product—a hundred thousand dollars—which means that average manufacturing wages in the state are on the order of $50,000 plus as workers get that fair share of that value add. No other sector in our Ohio economy provides that kind of productivity, and wages are less because of that. We would want there to be plenty of manufacturing here. There's no doubt about it. If somebody says we are lost about what we want down the road, I think we would disagree as well.

Dr. HONECK. I would like to address this point as well. Our organization does study the labor market. Part of the problem is we can train people all you want. But if you're down to 200,000 jobs, it's very difficult with people going back getting associate degrees and still it's difficult for them to find a position.

Secondly, there's a deeper issue here. We do all of these four things that you pointed out, Commissioner, but Mr. Burga pointed that out dealing with labor standards and environmental standards. Those are not addressed. I don't see how these four things necessarily are going to halt the advance of China. I personally regard granting China normal trading status as policy in the state but it was done but we need to address the situation as it stands by including labor environmental standards in the WTO and other trade.

Co-Chair WESSEL. Commissioner——

Co-Chair DREYER. I know it's somebody else's turn, but getting China to deal with labor and environmental standards probably isn't within the capacity of any U.S. Administration.

Dr. HONECK. That could be the case, but we could try.

Co-Chair WESSEL. Commissioner Becker.

Commissioner BECKER. Thank you. I enjoyed very much hearing your testimony, and in many respects each one complemented the other in conclusion, but none of you really addressed U.S. manufacturers who abandon America to relocate in China and then import back the products, and the other manufacturers that stayed in the United States but outsourced to China and bring it back. That's a problem with a little bit of a different dimension. I was wondering collectively or individually if you could speak on what you think should be done about that. How should we deal with that? American employers that abandon the workplace, leave the burden to fall on taxpayers and loss of jobs, unemployment, insurance, untrained and——

Mr. BURGA. Commissioner Becker, as I understand we have said we need to change the laws of awarding companies moving their facility offshore in Europe and company flee plants in China and then they are going to probably shut down some of their operation here. That's terrible. Now, it's my understanding that the tax code actually rewards them and our proposal said stop that. Don't allow them to help. If you're going to reward them, give them some tax incentives to stay here and keep the jobs here. So currently we have those.

Commissioner BECKER. Any other ideas?

Mr. HANSEN. The Timken Company is also moving a lot of jobs. Actually, I know it's has many acquisitions in other parts of this country, so that gets to actually the part that Ohio is not very competitive for companies that have been here for a very long time. If costs are greater here to manufacture, capital needs to flow where it can get its best rate of return. If capital goes to China, we have to remember it is a tremendously large market. And if people are asked to go there by their customers, then I think manufacturers who want to stay in business need to do that.

The alternative to turn your back on the rest of the market just doesn't seem to be really the best for the future. And I guess I would say that as far as the free flow of capital this state benefits from that. Some 20 percent of our manufacturing output is based on investments from companies that are outside of the U.S. At least 20 percent, because that's beginning with one company and that's a direct impact and other companies have other impacts as well.

Commissioner BECKER. Should there be penalties to companies that relocate to China and import exports back into the United States?

Should we just give them free access to the market after they abandon us and then get back the product to be competition to their very employees?

Mr. HANSEN. Commissioner, again we talk about the pain that's felt by lost jobs, but blaming the companies that do that is blaming the wrong problem. There are tremendous costs in trying to be competitive here in Ohio and the U.S. The National Association of Manufacturers has documented that after the cost, there's a 23 percent price tag over our competitors in doing business here in the U.S. Almost certainly that is 23 percent here in Ohio. When manufacturing margins mature in competitive industry, manufacturing margins are bouncing around at 23 percent. A 23 percent price tag is a tremendous burden, and I would say that the thought of penalties should be applied to what government is doing or not doing in helping out manufacturing. Companies need to act on behalf of their shareholders, the people who invest in them, who are taking the risks in them. And free flow capital is something that we in America can win on. But if we start trying to shut down the flow of capital, we risk losing manufacturing in Ohio.

Dr. HONECK. There are many that say that trade deals and the WTO are really more about investment than they are about trade. They are about making the world safe for multinational investment. You asked about penalties. The tariff rate should be reasonable and compensates for the things the Chinese government does, repressed labor rights.

The other thing that hasn't been brought up here that will show up in a later panel is, I'm not sure that we got the best deal for American exports to China. You talk about autos and other products. Chinese tariffs are still higher than ours. There are still a number of Chinese government anticompetitive practices that need to be addressed as well.

Commissioner BECKER. Thank you.

Co-Chair WESSEL. We have several other Commissioners that wish to question.

What I have heard across the board this morning is—I hate to say—a crisis of confidence in the future of manufacturing. I heard about IPR, I heard about the currency, I heard about your frustration with Section 421 and the fact that you wouldn't do it again. We have a lot of trade agreements on the nation's books, but as far as I can tell we see a rise in the trade deficit with virtually every nation we have signed a trade agreement with. We are now on our fifth memorandum of understanding of how our intellectual property commitments from other nations are going to be enforced.

You're not going to use 421 again, and I would say that after the third case coming out of the ITC where the President refused to provide relief to any of the companies, his refusal last week or the week before on the currency petition that was jointly done by labor and business, I don't know how manufacturers this state or elsewhere are going to say well, the government is standing by them. I commend you for staying in the state and doing everything you can, but is there a crisis of confidence? Do you believe your government is standing by your side?

Mr. OTTERSTEDT. I'm not a 421 expert. I'm a general manager. We observe the proper laws. We have been able to do a very good job providing a needed product into the marketplace. In doing so investing in Ohio manufacturing jobs here in Ohio.

Having said that, I will throw out a question, something I don't quite understand on the 421 process. Currently there are basically two groups. You have got the experts at the ITC that you satisfy their concerns, and we move to the—move to the political reason. You have to go over another hurdle there. When an industry has satisfied the experts, and this goes back to the following action, so I question why the political agreement—sort of a hurdle—would need to be there. That's not my area of expertise, but it's something I don't know and you guys will need to consider.

Co-Chair WESSEL. Our laws have always provided some discretion but as far as I can see that discretion was being abused. There was a story a couple weeks ago that we no longer have the domestic capability to make ammunition for our troops in Iraq and Afghanistan. That's because of a loss of manufacturing capability.

We saw the same thing in the steel industry with the loss—or the bankruptcy—of Bethlehem Steel which created the armor plates used in tanks, et cetera. For the life of me I share your concern. I don't know why the politicians, or some politicians, are turning their back on manufacturing. That appears to be what's taking place, whether it's currency, whether it's your tax issues because you need a hand to stay in the game. If you're productive and you're profitable you will pay your taxes. But if you're all the way down and taxes are pushing you further down, the workers are ultimately going to be the ones that pay the price. They won't have a job.

So have you lost confidence now? When other businesses talk to you whether it's about your experience in 421, which is a vital provision of law, whether it's currency, are you basically saying I have got to do this on my own because no one's standing by my side?

Mr. OTTERSTEDT. To a large extent, yes. We're a small industry. We are also a vital industry. We look at ourselves. We are privately owned. We don't have a lot of lobbyists. We don't have a lot of the expertise the steel industry would have or something like that, that has an exponential number of more jobs than what we do so we got to do a lot on our own.

The 421 process was very expensive to undertake. We hired some top-notch people and they provided some top-notch results, and the fact that we were able to convince the six panelists at the ITC to give us relief.

Co-Chair WESSEL. I see my time has expired.

Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you very much. And thank you for taking the time out of your busy day to come in here before us. More significantly, thank you for the work you continue to do on behalf of the working people of Ohio and in effect the working people of this country. I spoke to one tragedy I think Ohio is experiencing is being experienced in so many other ways.

I have a specific question for Mr. Otterstedt and then a broader question for all of you. Under Section 421 it's fairly striking that you say—given the way it turned out—you wouldn't go through the whole process again, and I was just wondering if you had any insight into why the Administration decided not to do anything even though that was the recommendation? Then, do you think part of it is they are trying to discourage other companies from moving forward through that?

Mr. OTTERSTEDT. I don't have any specific knowledge. When you go across the political hurdle—we can all pick up the paper and read what's going on at that particular time. Then it was the North Koreans and hoping to get China to put some pressure on North Korea and that was on the front page at that particular time. Whether or not that played into that decision at all some speculated I don't know. As far as other companies what was your question?

Commissioner BARTHOLOMEW. Are these kinds of decisions serving to dissuade other companies? You have to do a cost benefit analysis. Do you engage in the process if the ITC recommendation is that action be taken? The Administration decision not to take action repeatedly one would presume it will dissuade people from——

Mr. OTTERSTEDT. I would think that anybody looking at the Section 421 now would have some of this background and they would make, it's not the economic hurdles that you have to cross. It's the political hurdles and it's significant. But I think that would definitely dissuade them from moving forward.

Commissioner BARTHOLOMEW. Unfortunately with the Bush Administration, and actually with the Clinton Administration also, there always seems to be something that was determined to be more of national security concern or of more concern than what was happening. That has been a discouraging feature of the U.S.-China policy for at least the past ten or fifteen years.

Mr. Burga, I was really struck by your comment that our trade negotiators don't seem to have any understanding of or concern about what's happening with American workers when they're in negotiations. I think that's an excellent suggestion that somehow workers be represented during negotiations.

I have to say I'm astonished at the ability of trade experts to disconnect the living and working conditions of both the people who make the goods and services that are being produced and the consumers of the goods and services. It's like there's this movement of widgets, movement of goods and services, taking place here, that they somehow completely disconnect from the people. I think that's an important point that you make. What I would really ask all of you is what does the future hold?

Several of you mentioned ripple effects. Dr. Honeck in particular, you talked about there being 6.4 percent fewer people employed in Ohio's retail sector, and the ripple effects for the economy. Mr.

Burga you mentioned that Ohio fact. What about your young people as they go other places. I'm not sure they can do that, but what is the future if these kinds of trends continue? We don't have any reason to believe they won't.

Mr. BURGA. Well, that's another suggestion we made. Let's stop expanding into new territories until we try to correct what's out there now. It seems like everybody keeps wanting to expand like NAFTA and all these other new trade agreements and trade areas, and I just think they multiply. Unless they put a hold on things and straighten out what we have now and see if they can make it work better, and then move into other areas. We need to put a moratorium on that. I think that will help.

Commissioner BARTHOLOMEW. Dr. Honeck.

Dr. HONECK. I think the future is rather bleak unless we turn the situation around. This state was built on manufacturing. There's no immediate prospect of another sector for information technology or anything else taking its place, so we need to take actions right now.

Just look at the long-term trends of wages in the state and they're basically stagnant. More and more people without health insurance as they lost their job in manufacturing plants and was working part-time or working in the service sector. I mean, those trends are likely to continue, and so we have to instill a sense of urgency in our trade negotiators that this is the reality on the ground. You can talk about consumer goods being priced a little bit better or something like that, but there's another side of the equation to consider.

Co-Chair WESSEL. I have to go to the next Commissioner.

Commissioner Wortzel.

Commissioner WORTZEL. Thank you very much. I appreciate all your testimony. You really highlight a series of serious problems. I have some questions and want the data that you can provide later. I think Dr. Honeck might be the one to respond. But I'm interested in population; if you factor out birth and deaths, are people leaving the state, and if so, do you know where they are going? If there is population growth, are people migrating into the state? And if so, do we know where they are going and what are they doing?

Second, it would be useful to complement your very compelling testimony if we could get an idea of the unemployment costs and welfare costs of this state. How have these costs changed over the same period of time that you gave for your job data, which I think it was '99 to 2003?

And finally it would be useful, and we'll make sure this gets into the record, if there were data available on self-employment or entrepreneurial job creation outside the manufacturing sector in this state, particularly in small to medium enterprises.

So what are people doing? Are people employed in multiple part-time or contract jobs? I am asking for the household employment report for the state instead of labor report for the state.

I just have one comment back to you, Mr. Burga. In 2001 during the crisis two weeks when the Chinese fighter aircraft bumped into the U.S. reconnaissance aircraft and those Americans were held by China, there was an amazing reaction across this country. Companies that stopped stocking their shelves with nothing but Chinese products got calls from Americans demanding that Chinese products by removed from the shelves. You have some 250,000 odd members in your union. That's 250,000 Americans or Ohioans with jobs and middle class incomes that can bring pressure on companies. If they said "we got to make choices but Mexico is okay, and Hungary is okay and Canada is okay, but I'm not buying from country X," retailers would change where they purchased. So that ties back a little bit what to Commissioner Reinsch talked about an education program for the population.

Mr. BURGA. Let me make a comment to that. His question was relating to consumer boycotts. What about supplier boycotting and such, putting those products on their shelves to sell to the public? We never hear that mentioned because it's always what the consumer.

Commissioner WORTZEL. I think shelves are going to be stocked with what people buy.

Mr. BURGA. Not necessarily. I don't mean to be argumentative. Let me give you an example. I went to the store looking for a sport coat. They didn't have anything made in the U.S.A. I said why don't you have something for me to choose from besides foreign-made goods? He said no one will buy it. I said I just told you I would buy it from you. Why don't you stock it? So I think there's a market for different products, but it seems like the buyers from the corporation that are selling this stuff, they want to go to a country or a specific place—Wal-Mart is now the biggest contractor in the world, I guess, buying products.

Commissioner WORTZEL. It also employs 37,000 people in the State of Ohio.

Mr. BURGA. Well, their employment in the State of Ohio certainly doesn't compensate for what we have to give them to be here. Their healthcare is usually paid by the government because they won't provide it. That's a downward trend that leads us nowhere.

[Audience applause.]

I didn't bring any of these people.

Commissioner MULLOY. I want to apologize to the group for not being here at the beginning of the hearing this morning but I did read my briefing book yesterday. I have a clear idea of where we are heading. Mr. Burga, in your testimony you state President Bush was here on Labor Day and you quote him saying, "We expect there to be a fair playing field when it comes to trade. See, we in America believe we can compete with anybody just so long as the rules are fair and we intend to keep the rules fair."

Now, Mr. Hanson, in your testimony you tell us one of the rules you think is not fair is the fact that China is manipulating its currency to gain a competitive advantage, and our government has not dealt with that issue so that's one rule, that is not fair. I think we all agree with that.

Now, let me go further because you talk about capital flows. Dr. Honeck said we have to look at these trade agreements more as investment agreements. I think he's absolutely right. When the creation of the WTO was being discussed, there were people who said this isn't such a good idea because we, Europe and Canada have built societies where people get pensions, people get healthcare. We have environmental standards. We have a decent standard of living. We have labor unions. People have made nice standards of living for themselves and their families.

If we get into the globalized economy, capital, which has no conscience, will flow to where it can get a higher return and employ workers who do not have pensions, healthcare, Social Security, any of these costs and ship the goods they make right back here because the WTO agreement has our markets open.

That was the worry of people who were saying don't go in that direction. But the whole lobbying front by corporations did not discuss that as these companies could make more money by granting such a system. That's my understanding of what happened.

Do you think there's any truth to this idea that capital will flow where it can get its highest return? That means it will flow out of this country, make goods and ship them back here because they don't have all of these costs that we impose on them in this country? Which one is the American way of life? I direct that to Mr. Hansen because you talked about capital flows. Then I invite any of the others to comment on that worldview of where this is all headed.

Mr. HANSEN. Let me try to answer your question although I'm not an economist.

Commissioner WORTZEL. I'm not either.

Mr. HANSEN. Let's take this example of it will flow somewhere where there's no expectation of social infrastructure like we have here in the west. It will be a wrenching transition as we have talked about, but there will be expectations on the part of over a billion people in China for the kind of lifestyles that we have here. I think we have seen that time and time again. I can't say for sure because the application of history to this particular country at this particular moment in time is not certain. And if that happens, then we in the U.S. still have significant competitive advantages that will keep capital here so we can continue to make products and sell them around the world. That is, if everybody's income grows, if everybody's wealth grows, we'll be able to sell more here.

I want to talk about productivity. People say, well, manufacturing is just going to be like agriculture. You're only going to need one worker per state, the way we only need one farmer to feed a hundred families. Well, the fundamental difference is the demand for manufacturing products income is income elastic, and that Bill Gates has basically the same breakfast each morning that I have, but he buys a whole lot of things during the course of a day than I do.

In that particular dynamic, if it's played out in China, will hold tremendous prongs for us here in Ohio. Our manufacturing feature will not have plant after plant after plant doing different variations on the same product. We will be at the very top of the pyramid in terms of there will be one plant here. That's the only plant in the world that does what it does, and we will do it with such quality and such reward that can support the kind of social infrastructure that we here in Ohio want to have. Does that help to answer?

Commissioner WORTZEL. Anybody have any other comments on the different view?

Dr. HONECK. I would just like to say we hear two different things from large corporations. On the one hand they are instrumental politically for the WTO, NAFTA trade agreement, to create a playing field that's to their advantage. But then when it comes time to close down specific plants they say, well, market conditions are forcing us to do this. We don't have a choice. Our competitors are all doing this so a strange disconnect. We just need to realize that the model development that's going on in Mexico and China is in some sense flawed because it puts the workers less, and unlike in this country we allow unions and labor standards, we can develop our internal market. We can develop a middle class. Until that happens in some of these third world countries, trade relations will always be one-sided. That's something to be considered.

Commissioner WORTZEL. Thank you.

Mr. BURGA. I would like to if I could make a comment about education and studies. What is a level playing field? Say China, how much do they have to raise their wages for their workers to make it a level playing field here? They wouldn't have to come up here to our level because then there are transportation costs and other costs involved. I don't have—I haven't seen any studies on what the level playing field really would amount to in terms of competing, and we say it all the time, but I would like to know what a level playing field is in terms of dollars and cents. Make it so that that can be——

Commissioner WORTZEL. Thank you.

Co-Chair WESSEL. I want to thank all the panelists. It's been very informative and hopefully over the coming weeks we may be able to return to ask you some questions as we think about today's testimony. We are going to have our next panel set up and take a minute or two and we look forward to working with you in the future.

PANEL II: AUTOS AND AUTO PARTS

Co-Chair WESSEL. If the audience can please take their seats.

We will begin the instructions and start the panel. The other Commissioners are working their way in.

The second panel that we appreciate everyone being here for is focused on the auto and auto parts sector, a vital area of not only Ohio's economy, but our nation's economy as a whole. We are pleased to have with us Mr. Ron Gettelfinger, President of the United Auto Workers of America, Mr. Steve Girsky, Managing Director of Morgan Stanley, Mr. Tackett, of Denman Tire Corporation and I apologize. We have one other witness I assume with Mr. Tackett. If you could introduce yourself to the Commissioners, we would appreciate it.

Mr. PEARL. I am Mr. Jim Pearl. I am a Senior Vice President of Sales and Marketing Department.

Co-Chair WESSEL. Appreciate you being here.

Mr. Gettelfinger, if you'd begin, we'd appreciate it.

STATEMENT OF RON GETTELFINGER, PRESIDENT INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW) DETROIT, MICHIGAN

Mr. GETTELFINGER. Thank you very much.

Mr. Chairman, Members of the Commission, my name is Ron Gettelfinger. As the president of the UAW and speaking on behalf of our active and retired members, our union certainly appreciates the opportunity to present our views on the impact of the U.S. and China trade and investment on the automobile and the automotive parts industries.

The UAW first became deeply concerned about automotive trade with China in the mid 1990s, when China announced an industrial policy for the automotive industry that established it as a pillar industry of the Chinese economy. The announcement in June of this year as a new "development policy" that identifies the auto industry as a "backbone industry" has only added to our concerns.

China is now the world's third largest market for vehicles and the fourth largest producer. The plans for future development of the industry by the Chinese government and the world's automotive companies will have a profound effect on the location of production around the world and the jobs and incomes of UAW members and other American workers in this critically important industry.

We have seen automotive imports from China and the U.S. deficit in automotive trade with China grow at a rapid pace in the past ten years. This deficit reached $2.2 billion in 2003 and is expected to be 2.8 billion this year. We are very deeply concerned about the impact on U.S. automotive production and employment of the Chinese government's goals for the continued rapid development of the industry are achieved. The objectives of China's automotive policy include becoming the world's largest automobile manufacturer, a producer of its own brands of vehicles and parts for the international market, and an importer of between 70 and $100 billion in automotive products by 2010, only five short years away. Every objective observed has acknowledged that hundreds of thousands of American jobs will be lost if these goals are met. Although U.S. automotive exports to China may increase, this will offset only a small fraction of the increase in U.S. automotive imports from China. The net result will be a soaring U.S. auto deficit with China.

According to the International Metal Workers Federation automotive production in China will double by 2007, but the demand for vehicles will increase far more slowly. The result will be additional excess capacity. But what market will be open to receiving the extra vehicles and parts that can be produced in China? Korea, which has resisted imports from all over the world for more than 20 years, will not open up to imports from China. Japan will not accept the displacement of the local production, nor will Thailand or India. Europe is unlikely to accept large numbers of vehicles from China. But the U.S. with its history of running huge automotive trade deficits with all major auto-producing countries seems like the obvious dumping grounds for Chinese excess capacity.

Even today excess capacity in China is visible. According to some reports we have read from JP Morgan, excess supply for this year will be 11 percent and it will grow to 23 percent next year. And that is before much of the new capacity begins to operate.

The increase in competition from Chinese products, especially auto parts, has had a serious negative impact on wages and jobs available to workers in Ohio and across the country and to the compensation that they can hope to earn. The auto parts industry accounts for the majority of the jobs in the automotive industry, and it is in this area that intense price competition has led to intense false competition between producers and a search for lower and lower labor costs. While it is very difficult to pin down the compensation of auto industry production workers in China, manufacturing workers in Shanghai, where GM and other auto producers are concentrated, earn about $1.50 per hour in wages and benefits. That's about half of what Mexican autoworkers are paid and as little as five percent of the compensation of an American autoworker.

That is one of the reasons why assemblers from around the world invested $6.3 billion in Chinese facilities in the past two years and have promised to invest another $10 billion in the next three years. The losers in the race to China are the American workers who are making high-quality products in highly-efficient production systems using high-technology equipment. This pressure undermines their jobs and their skills. It also eliminates the livelihoods of the workers who make materials and components for those products that are now made in China and it impoverishes the community where those workers live.

For American workers the growing international role of the Chinese auto industry is an especially serious problem because of the Chinese absolute repression of independent trade unions. The most fundamental of workers rights, freedom of association, is brutally repressed in China as are the other rights covered by the International Labor Organization Fundamental Principles and Rights at Work.

A petition filed under Section 301 of the U.S. trade law by the AFL–CIO on behalf of the UAW and other U.S. unions provided a stunning picture of the depths of that repression and its devastating impact on Chinese workers. The large profits reported by many automotive joint venture companies in China are the result in part of the inability of Chinese workers to form independent labor organization that can represent the interests of workers in receiving a fair share of the value of their contribution to the production process.

Along with other unions we have focused attention on the cases of Yao Fuxin and Xiao Yunliang. They were arrested, charged with subversion and convicted for leading a peaceful protest against the failure of a shuttered Ferro-Alloy factory to pay pensions and other benefits legally due to foreign workers. The Chinese government's behavior in these cases, and in countless others, is shameful and inexcusable, and as unions we will carry on our efforts on behalf of Yao and Xiao and all other workers and their advocates who have the courage to stand up for the rights of Chinese workers.

But the question is now are there effective solutions to the threat of sharply higher Chinese auto and auto parts exports to the U.S. in the future? And we believe there are at least five ways to address this problem, but they require making up for lost time.

Co-Chair WESSEL. If you can sum up quickly, please.

Mr. GETTELFINGER. I will read a little faster. U.S. Government should have included these measures in the World Trade Organization's negotiations with China.

First, the Administration must take action to bring about the upward reevaluation of China's currency.

Second, address the routine abuses of workers' rights in China. And it's important that we also move beyond that and talk about internationally recognized workers' rights within all trade agreements.

Third, we should have vigorous enforcement of China's trade agreements and they must be implemented.

Fourth, the Administration must be willing to invoke the special safeguard provisions in China's World Trade Organization accession agreements and strengthen the U.S. measures that protect domestic industries against injury caused by surges of imports.

And fifth, the U.S. Government must penetrate the lack of transparency in China's industrial policy to identify all government programs at the national, provincial and local levels that promote local production, discourage imports and reward exports.

Thank you very much.

[The statement follows:]

Prepared Statement of Ron Gettelfinger, President International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), Detroit, Michigan

Mr. Chairman, Members of the Commission, my name is Ron Gettelfinger. I am the president of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). I appreciate the opportunity to present the UAW's views on the impact of U.S.-China trade and investment on the automobile and automotive parts industries.

The UAW first became deeply concerned about automotive trade with China in the mid-1990s, when China announced an industrial policy for the automotive industry that established it as a "pillar industry" of the Chinese economy. The announcement in June of this year of a new "Development Policy" that identifies the auto industry as a "backbone industry" has only added to our concerns. China is now the world's third largest market for vehicles and the fourth largest producer. The plans for future development of the industry by the Chinese government and the world's automotive companies will have a profound effect on the location of production around the world and the jobs and incomes of UAW members and other American workers in this critically important industry.

We have seen automotive imports from China grow at a rapid pace in the past ten years. We are deeply concerned about the impact on U.S. automotive production and employment that will occur if the Chinese government's goals for the continued rapid development of the industry are achieved. The objectives of China's automotive policy include becoming the world's largest automobile manufacturer and a producer of its own brands of vehicles and parts for international markets by 2010—that is only five short years away. The size of recent investments in vehicle and parts production capacity that have taken place and been announced makes these projections quite realistic. If all of the additional vehicles and parts were consumed in China, there would be a relatively small impact on workers and producers in other countries. The question that must be answered, though, is whether demand in China will grow fast enough to consume all that production. We believe that such growth is not at all likely.

While the new Chinese auto policy has eliminated several of the 1994 policy's obvious violations of international trade rules (for example, local content requirements, quotas on imports, limits on distribution rights, and more), it still shows a bias toward local production over imports and forced investment in order to participate in the local market. Those who argue that such provisions cannot be required and cannot be enforced are not familiar with the auto industry's history of development internationally or with China's governmental and industrial structure.

China is not the first country to aspire to a major role in the international auto industry. Government industrial policies propelled the Japanese companies in the 1970s and 1980s and Korean companies in the 1990s into successful international producers. Brazil's industrial policies encouraged massive investment there in the 1990s and now the same strategy is being pursued in China. The result has been an accumulation of global excess capacity that allows the shrinking number of major producers to threaten their workers in every country with the loss of jobs and plant closings unless they become "competitive." With the rise of China as a major auto producing country, being "competitive" means compensation of as low as a dollar an hour, no independent union rights and broad government intimidation of the pursuit of workers' legal rights. These conditions have become the new standard of competition for companies around the world, to the detriment of workers everywhere.

The less restrictive rules in China's new auto development policy are not comforting to us because the course of U.S.-China automotive trade has been largely set by the decisions already made by the Chinese government and the multinational corporations that dominate the global industry. Under the terms of the 1994 Chinese auto industrial policy, companies invested in China, made alliances with Chinese companies, made commitments to high levels of Chinese content in their vehicles and agreed to set up R&D and technical centers to transfer the latest technology. This led to substantial Chinese investment by the global auto parts companies, often in joint ventures with Chinese firms, that mirrors the assemblers' investments. The elimination of the specific Chinese government requirements in the newly adopted industrial policy will not alter this pattern at all. The U.S.-based assemblers and suppliers will only export products from their U.S. and other global production facilities to China until their local production and local sourcing arrangements are fully in place. The huge investments in Chinese production ensure that the companies will not want to add to competition in the Chinese market by importing any more than they must. We have seen the same pattern develop in Mexico, Brazil and other countries that established tight rules for participating in perceived high-growth markets and then let those rules fade away as they were no longer needed to produce the desired result.

Since 1993, the U.S.-China automotive trade balance has moved from a surplus of more than $500 million to a 2003 deficit of $2.2 billion. Through June 2004, the deficit grew by more than 25 percent from last year, indicating a 2004 deficit of $2.8 billion. That would result in a doubling of the deficit in only three years. Recent announcements by the Big 3 auto companies of additional exports of vehicles to China over the next couple of years will not be enough to keep the U.S. auto trade deficit with China from growing. Past experience with announcements of this sort, which are intended to distract attention away from the soaring U.S. trade deficit with China rather than to fundamentally change that imbalance, makes us skeptical that the exports will actually be made.

Though U.S. exports of automotive products to China have increased significantly in the past two years, they are still no match for the increase in U.S. imports. The growth in exports is consistent with a rapid increase in production of new models in China. In the past, the local content of Chinese-assembled vehicles has increased over time, in line with the commitments of U.S.-based companies that have formed joint ventures with state-owned Chinese companies. With more than 30 new model launches last year and this year, Chinese imports of auto parts have been substantial. However, most of the imported parts come from other countries, limiting the benefit of the joint ventures for U.S. production and employment.

In 2003, according to Automotive News ("U.S. suppliers miss boat in China," April 12, 2004), a Chinese auto industry group reported that China's imports of auto parts totaled $9.5 billion, with Germany supplying $3.13 billion, Japan $2.92 billion and the U.S. a mere $268 million. GM's claims that it exported $1.4 billion in parts and machinery to China in 1995–2002 and will ship $1.3 billion in 2004–2005 do not seem consistent with the official U.S. export numbers. In addition, some of GM's parts imports into China come from its traditional suppliers in Europe, Brazil and elsewhere in Asia.

Using U.S. Department of Commerce trade data, it is clear that modest increases in U.S. auto parts exports will not come close to offsetting climbing parts imports from China. The U.S. deficit in automotive parts trade with China has grown from $121 million in 1993 to $1.4 billion in 2000 and to $2.3 billion in 2003, even though U.S. auto parts exports increased from $218 million to $510 million from 1993 to 2003. Through June 2004, the U.S. parts deficit with China jumped by an additional 24 percent despite an 87 percent increase in exports—the value of imports grew to $1.8 billion from $1.4 billion, while exports were up by only $165 million. Over time, we are confident that Chinese-made parts will replace the limited U.S. parts exports. The number of auto parts companies that are establishing new plants in China assures that U.S. exports will be displaced and that U.S. imports of auto parts from China will continue to grow rapidly.

The escalating U.S. deficit in automotive trade with China must be viewed in the context of the overall U.S. automotive trade picture. The worldwide U.S. vehicle and parts trade deficit was $128 billion in 2003; through June 2004, it was up 11 percent and should be above $140 billion for the full year. We now have deficits of more than $40 billion each with Japan and with our NAFTA partners, Canada and Mexico. If China achieves its ambitions, it will join this club of countries with huge automotive trade surpluses with the U.S. and undermine the jobs of UAW members and other American workers in this critical U.S. industry.

Looking at what has happened to U.S. automotive sales, production and trade since NAFTA and China's auto industrial policy went into effect provides a sobering picture of the impact of globalization on the U.S. industry and its workers. In 1993, when the U.S. economy was slowly coming out of a recession, U.S. vehicle production was nearly 11 million and sales were nearly 14 million. The auto trade deficit was $50 billion at a time of depressed sales and a relatively weak dollar. Imports from outside North America accounted for 15.5 percent of sales. Ten years later, U.S. sales had increased by three million, or more than 20 percent, but U.S. production increased by only 1.1 million—more than 60 percent of the increase in sales came from imported vehicles, as the non-North American import share jumped to nearly 20 percent. The automotive trade deficit reached $128 billion. Employment of American auto workers was left at about the same level as in 1993, despite the increase in U.S. production and the larger increase in U.S. sales. NAFTA contributed a significant part of this deterioration in trade—the deficit with Canada and Mexico of $13.1 billion in 1993 grew to $41.0 billion in 2003. The deficit with Japan grew from $33.4 billion to $43.9 billion.

Much of this damage, though, has occurred in the past three years. From 2000 to 2003, when the U.S. economy fell into recession and a barely visible "recovery," U.S. production fell, and imports from Japan, Germany, Korea and other countries increased. And, contrary to past experience with recessions, the trade deficit increased despite the decline in U.S. sales. Employment in the industry has fallen by more than 100,000 jobs during that time, and the auto trade deficit continued to climb. The same pattern has continued this year—during the first half of 2004, employment is down, along with U.S. production, but sales of imports are up and so is the trade deficit. Most of those job losses have been in the auto parts industry and thousands of workers in Ohio and other states have been the victims.

While the automotive industry is an important contributor to the nation's economic well-being, it is especially important to Ohio's. The downward pressure on the wages and working conditions of American auto workers that results from increasing competition from Chinese products, especially auto parts, has had a serious negative impact on the employment opportunities available to workers in Ohio and to the compensation that they can hope to earn. The auto parts industry accounts for the majority of the jobs in the automotive industry and it is in this area that intense price competition has led to intense cost competition between producers. That competition has led many companies to search for lower and lower labor costs; many of those companies have moved their production to China. Pressure from the assemblers has also contributed to some companies deciding to move production to China.

Just one company, Delphi, which has numerous Ohio production facilities, has invested $500 million in China during the past decade, setting up 14 operations and, soon, a research and development center in Shanghai. By 2009, Delphi expects to have 1,400 employees at its technical center. They will be added to the 7,000 current Delphi employees in China. And what are the savings to Delphi from setting up a local technical facility? A young electrical engineer in China earns less than $400 a month, while a new U.S. engineer earns about $4,000 a month.

While it is very difficult to pin down the compensation of auto industry production workers in China, manufacturing workers in Shanghai, where GM and other auto producers are concentrated, earn about $1.50 per hour in wages and benefits. That is about half of what Mexican auto workers are paid and as little as five percent of the compensation of an American auto worker.

That is one of the reasons why assemblers from around the world invested $6.3 billion in Chinese facilities in the past two years and have promised to spend another $10 billion in the next three years. And it is why GM expects to purchase $4 billion a year in parts from China for its operations around the world.

The announcements by General Motors and Ford that they expect to source $10 billion annually in parts from China within three to six years sends a compelling message to their suppliers that they had better make investments in China in order to retain the business of their traditional customers. The losers in that race to China are the American workers who are making high-quality products in highly efficient production systems, using high-technology equipment. This pressure undermines their jobs and their skills. It also eliminates the livelihoods of the workers who make materials and components for those products that are now made in China and it impoverishes the communities where those workers live.

The Chinese government has reinforced this process. A Vice Minister has announced that China expects to export between $70 billion and $100 billion in automotive products, 40 percent of total production, by 2010. Last year, China's exports were $4.7 billion and the government's target for 2005 is $15–20 billion. The growth rate of exports that is being pursued is simply staggering. Every objective observer has acknowledged that hundreds of thousands of American jobs will be lost if these projections are on the mark.

According to a recent report by the International Metalworkers' Federation, automotive production in China will double by 2007, but demand for vehicles will increase far more slowly. The result will be excess capacity in China that adds to the excess capacity that exists already around the globe. But what market will be open to receiving the extra vehicles and parts that can be produced in China? Will Korea, which has resisted imports from all over the world for more than 20 years, open up to imports from China? Will Japan accept the displacement of local production, or Thailand, or India? Even Europe is unlikely to accept large numbers of vehicles from China. But the U.S., with its history of running huge automotive trade deficits with all major auto producing countries, seems like the obvious dumping ground for Chinese excess capacity.

Even today, excess capacity in China is visible. With vehicle sales slowing down this year (as pent-up demand is exhausted, banks cut back on loans), JPMorgan reported that excess supply for this year will be 11 percent and it will grow to 23 percent next year. And that is before much of the new capacity begins to operate. The finances of the companies could change dramatically as a result. The high prices of vehicles that were fed by the scarcity of modern vehicles are disappearing as more and more new models hit showrooms and lower tariffs make imports more competitive. High profits will be squeezed and the pressure to keep plants running at capacity will be even stronger. The companies also have memories of Brazil firmly in mind. In the late 1990s, multinational auto companies saw rapid sales growth in Brazil and responded with massive investments in new capacity. The spillover of the Asian financial crisis put a hole in Brazilian sales and Argentina's economic crisis eliminated a major export market. About half of Brazilian capacity has been idle, and the auto companies cannot afford for that to happen again in China. They will be under intense pressure to keep their Chinese plants profitable. And that will mean large Chinese exports of vehicles and parts to the markets that are open to them.

Before starting to examine how the U.S. Government should respond to the current and future automotive trade problems with China, it is important to identify two important factors that intensify the U.S.-China automotive trade imbalance—the exchange rate and the absence of independent Chinese trade unions. It is accepted by virtually all analysts that China manipulates the yuan-dollar exchange rate to keep it fixed at 8.2781 yuan to a dollar. China's central bank has bought billions of dollars of government bonds to maintain the fixed exchange rate as China's trade surplus with the U.S. has exploded. The undervalued yuan subsidizes China's exports and overprices U.S. exports. While the Chinese government has paid lip service to the need to upwardly revalue the yuan, it has taken no action to achieve it. The purchases of U.S. assets continue and the trade imbalance continues to expand. This situation sustains China's exports to the U.S. and Chinese economic growth, while it undermines the strength of the U.S. economy and extends the adverse impact of the trade imbalance with China into ever more U.S. industries.

The absence of any action by China to reverse the absolute repression of independent trade unions demonstrates the continuing repressive nature of China's social and economic system. The most fundamental of worker rights, freedom of association, is brutally repressed in China, as are the other worker rights covered by the International Labor Organization's Fundamental Principles and Rights at Work. A petition filed under Section 301 of U.S. trade law by the AFL–CIO on behalf of the UAW and other U.S. unions provided a stunning picture of the depths of that repression and its devastating impact on Chinese workers. The large profits reported by many of the automotive joint venture companies in China are the result, in part, of the inability of Chinese workers to form independent labor organizations that can represent the interests of workers in receiving a fair share of the value of their contribution to the production process. The widespread evidence of health and safety problems is another indicator of the harm done to Chinese workers as a result of the repression of independent unions.

Along with other unions, we have focused attention on the cases of Yao Fuxin and Xiao Yunliang as examples of the intensity of the attacks on workers' rights in China. They were arrested, charged with subversion and convicted for leading peaceful protests against the failure of a shuttered Ferro-Alloy factory to pay pensions and other benefits legally due to former workers. Yao was sentenced to seven years in prison and Xiao to four years for exercising basic rights that are legal in

China. Both men suffer from serious illnesses and should be released from prison on medical grounds, but they remain imprisoned despite an appeal by the Freedom of Association Committee of the International Labor Organization for their release. The Chinese government's behavior in these cases, and in countless others, is shameful and inexcusable. We will carry on our efforts on behalf of Yao and Xiao and all other workers and their advocates who have the courage to stand up for the rights of Chinese workers.

Are there effective solutions to the threat of sharply higher Chinese auto and auto parts exports to the U.S. in the future? We believe there are at least five ways to address this problem, but they require making up for lost time. The U.S. Government should have included these measures in the WTO accession negotiations with China.

First, the Administration must also take decisive action to bring about the upward revaluation of China's currency. The current exchange rate does not reflect the competitiveness of China's industries in general, and the automotive industry in particular. For international trade to be fair and balanced, the exchange rate must adjust; China's policy of fixing the value of the yuan to the dollar eliminates the pressure for that adjustment to take place. The reluctance of the U.S. Treasury Department to tackle this issue, in deference to China's large purchases and holdings of U.S. Government securities, is simply unacceptable. China is preventing an upward revaluation of the yuan in order to ensure that it can continue to increase its exports to the U.S. and keep its factories humming. The resulting displacement and injury in the U.S. requires action by our government to remedy the situation and eliminate the unfair currency advantage that China creates. The currency manipulation that is taking place is actionable under U.S. trade laws and action must be taken.

Second, to address the routine abuses of workers' rights in China, renegotiation of the WTO accession agreement or a new set of negotiations is required. The Section 301 worker rights petition demonstrated that the effect on the prices of Chinese-made goods of the violation of workers' rights is substantial. As a start, that petition must be accepted for review next year when a new Administration takes office. However, it is also necessary to move beyond that case. We cannot achieve a level playing field for U.S.-China trade without ensuring that China will implement internationally recognized worker rights or allowing the U.S. to retaliate against abuses through a non-discretionary procedure, similar to the handling of anti-dumping charges. Just as a special safeguard procedure was recognized as appropriate for trade with China, a special worker rights provision is needed as well.

The UAW and other unions must also take advantage of corporations' commitments to comply with fundamental worker rights through the negotiation of International Framework Agreements (IFAs). These agreements apply to a company's own operations and to those of its business partners and suppliers. And they apply in countries where those rights are not legally protected as well as in those where they are. IFAs have already been negotiated with several automotive firms (DaimlerChrysler, Volkswagen, Bosch), opening the possibility of insisting on their Chinese workers, and the workers of their joint venture partners and suppliers, being able to exercise the right to freedom of association, to form a union of their own choosing. We will be looking for opportunities to take advantage of IFAs to improve the lives of Chinese workers, through higher compensation, improved health and safety conditions and a voice for workers in the organization of their work.

Third, vigorous enforcement of China's trade agreements must be implemented. The Bush Administration has failed to pursue clear violations of intellectual property rights protections, including the counterfeiting of auto parts and the illegal appropriation of vehicle designs by Chinese companies. China's market opening commitments must also be fully enforced so that the inadequate level of U.S. exports is not limited even further by discrimination against imports at the border or in distribution channels. While the Bush Administration has created "offices" for monitoring and enforcement of China's trade commitments, there has been precious little action to achieve results.

We strongly urge the Bush Administration to advise all companies doing business in China that they should report any inappropriate or illegal behavior by Chinese public officials or corporate officials. This should apply to communications that contradict China's trade obligations or that promise special treatment in return for certain behavior, such as investing in China rather than supplying the market with imports, meeting "suggested" local content levels rather than importing parts. The Bush Administration must follow up on any of these activities by insisting on Chinese government action to reverse them.

Fourth, the Administration must be willing to invoke the special safeguard provisions in China's WTO accession agreement and strengthen the U.S. measures that protect domestic industries against injury caused by surges of imports. The potential for rapid increases of imports from China, of vehicles and parts, should be clear from the rate of expansion of production capacity there. The U.S. Government must be ready to respond if the U.S. industry and its workers are threatened with injury by such imports. Recent experience with the U.S. import surge protections of Section 201 of the trade laws has shown that they must be strengthened to be effective.

Fifth, the U.S. Government must penetrate the lack of transparency in China's industrial policies to identify all government programs, at the national, provincial and local levels, that promote local production, discourage imports and reward exports. There are provisions in the new automotive industrial policy that are intended to accomplish this result, but they have not been spelled out clearly. The U.S. Government must press the Chinese government to obtain that information. A variety of other government policies, such as taxes applied to foreign-owned enterprises that discriminate in favor of those producing for export, must also be examined. Because of the complex set of inter-governmental relationships in China, it is critical to have information about the policies in place at each level of government and about their interactions in practice. We have not seen any evidence that the Bush Administration has spent the necessary effort to investigate these policies.

Mr. Chairman, Members of the Commission, thank you for coming to Ohio to get a firsthand look at the serious economic problems facing workers in America's heartland and for your interest in the impact of the U.S.-China trade relationship on the U.S. auto industry and its workers as well as the denial of workers' democratic rights in China. Your past efforts to bring the challenges created by U.S.-China trade to the attention of the public and to policymakers have made a valuable contribution to their understanding of what is at stake in our economic and security relationship with China. We urge you to support our proposals for government action. In the weeks and months ahead, we look forward to assisting the Commission's examination of the industry and answering any questions you may have.

Co-Chair WESSEL. Thank you. We'll have the rest of your statement entered into the record.

Mr. Girsky.

STATEMENT OF STEPHEN GIRSKY
MANAGING DIRECTOR, MORGAN STANLEY, PURCHASE, NEW YORK

Mr. GIRSKY. It's a pleasure to be here. I want to thank the Commissioners as well. My name is Stephen Girsky. I'm the lead Morgan Stanley Global automotive research effort. My goal here is to give you the Wall Street perspective from an outside perspective and a bit of financials of what's going on here. I have a number of slides to run through. I will talk quickly.

Basically I'm going to give you five things. I'm going to tell you what China's significance is in the global auto industry. I'm going to talk a little bit about the landscape here. I'm going to talk about the company strategies that are being employed, the implementation of recent changes in the economic environment, and I'll talk about export potential here.

I'll give you bottom line first, that way if I get cut off you'll know where we are. The Chinese auto industry in our opinion has the potential to be a major player long-term in the global auto industry. The Chinese impact on the U.S. vehicle market is likely to be very low in the near-term, largely due to cost and quality issues. A shake-out in the Chinese car market is likely to be a prelude to any significant global expansion here. Component export growth is much more likely in the near term for a number of reasons, and we'll go into that.

So why is China important? It's the fifth largest car market in the world. It's one of the fastest growing and highly profitable. It's got export potential and component sourcing opportunities. The ones that are before are because trucks are included. They are the fifth largest in the world right behind the UK. They are the fastest growing car market in the world. They're going to grow about 15 percent this year.

As I will discuss in a minute, the growth was much greater earlier in the year, but since then the economy has slowed. Long-term potential is very high. I have no doubt that China will be one of the largest auto manufacturers in the world, whether it's 2010 or 2020. That's because they have a big population to support the vehicles. There is significant potential here. There are eight vehicles per thousand people in China compared to almost 900 in the U.S.

This is a very profitable market. Volkswagen makes about a third of their profit in China. GM made 23 percent so far this year. They have a billion dollars invested there. Honda makes about six percent.

Labor costs are certainly lower. Ron Gettelfinger threw out some numbers. Our best guess is China's auto industry pays their workers about $3 an hour. The UAW wage in the United States, excluding benefits, is about 25.63 according to the latest facts.

However, the high profits are not related to low costs. They're related to high pricing. The prices Chinese consumers pay for cars is significantly above similar prices they pay here. That's because there has been a supply demand imbalance up until now and that's starting to change.

Overall costs in China: this is very different than auto industries. China is not a low-cost producer of cars right now. They have absence of scale in manufacturing. They have a very immature supply base, they have logistics issues and they have quality issues that need to be overcome before there is going to be lower cost. It could be two or three years at the earliest before they are cost competitive with the rest of the world.

The structure is very confusing. You have a number of government entities that have joint ventures with a lot of different multinationals, and the multinationals are global partners at the government level. The government has different partners at the multinational level.

The market is very fragmented. You have out of 36 basically producers our best count. Putting that on the U.S. scale is like our having 240 car companies here. It would be very difficult for anybody to make money with 240 car companies.

The market is dominated by the multinational. Volkswagen, General Motors, Honda. The local players, the indigenous players, have very low share in this market.

Here are the strategies. I can lump them into three groups. These government-sponsored entities want to be self-sufficient in cars. They don't want to have to rely on the outside world, and they do have long-term global aspirations. The multinational corporations that are in China are a source of growth and profit, and they have been investing a lot of money in China. They would like a payback on that investment, and they also view it as an opportunity to low cost source component.

There are a bunch of indigenous players. Their whole goal here is to survive a shake-out that's likely to come.

We have a number of announcements supporting this. GM and Ford both want to source a lot of parts in China whoever's going to export out. There have been a number of capacity announcements, and even at the bottom, one small indigenous player is going to seek approval to try to export a small car to the U.S., but this will take some time.

The economic environment has changed a lot recently. Demand weakens as capacity growth continues. Profit pressure is likely. In changing the tariff structure a little bit, the car tariffs are going to continue to fall. Component tariffs are going to go up so you are going to see car imports increase at a slow rate. You're going to see parts imports into China probably declining.

In monthly sales you can see the growth rate in green has slowed dramatically from where it was. It's basically running up 0 to five percent. It was up above 40 percent plus.

Meanwhile capacity growth continues. Excess capacity is significant. We estimate pretty close to the other brokerage firm that Ron Gettelfinger cited in his testimony. It's likely to get worse before it gets better. And that's going to lead to a shake-out.

Chinese auto stocks haven't fared that well either. To be certain, Wall Street does not like it. The investment community does not like what's happening here and are uncomfortable with it. You can see that in the near-term outlook.

The prospects for vehicle exports are low in the near-term. The costs are still high. The quality is not up to global standards. The local players have logistics and distribution constraints, and then there is the whole question of market acceptance. Fifteen or twenty years ago Yugo, a company from Yugoslavia, tried to import into this country a low-price car that failed miserably because they could not get high quality.

Hyundai, on the other hand, it's a Korean company. It stopped, it started, it stopped again. They are finally making significant inroads here. If exports are going to be significant, existing multinationals will likely have to facilitate this.

Many multinational plants are being built along the coast. That will provide some long-term flexibility, if that's the way they decided to go.

The prospect for component exports is higher. Those components within risk of export are high labor portion of the total value, high environmental cost or logistic costs. Components that are easy to ship, tires and wheels, for example. Seats are not as easy to ship because they have a lot of air that they go through.

Here's just a cost structure. We estimate the cost of building a tire in China is about $7 cheaper than it is to build a tire it here. China is not the only low-cost country in the world, there are plenty of others.

Although chasing low cost labor has never been a successful strategy here, these companies stretch their supply line very long and it adds a lot of risks.

Imports from China have been growing. They've been growing about an 18 percent clip, faster than any other country's imports of auto parts.

One of the interesting things is we run a trade deficit of parts with China. Europe runs a trade surplus of parts with China. This estimate was on the multinational sourcing strategies. Europe seems to import a lot more parts to develop there. I would argue that Europe's surplus with China is going to go down.

Risk and opportunities. The opportunities here are multinationals want to participate in one of the potentially largest markets in the world. They have been investing a lot of money. They want a return on that. China can easily ten, twenty years from now more likely be bigger than the U.S. market.

The risks are our intellectual properties. Our multinationals are getting a lot of technology to their companies. The risk is are they potentially creating a better company to compete with them.

This is my last slide. We have had a number of intellectual property lawsuits that have been filed. None have been successful. Toyota and some of the Chinese companies have a brand that looks a lot like Toyota. GM has a car that's been—that Chinese indigenous company has a very similar product as well. These have not defending patent intellectual property is one of the big issues on the table in our opinion.

Did I get through it in time?

Co-Chair WESSEL. Take some oxygen.

[A copy of Mr. Girsky's slide presentation is on file in the Commission's office.]

Mr. Tackett, please.

STATEMENT OF JAMES G. PEARL
SENIOR VICE PRESIDENT OF SALES AND MARKETING
ACCOMPANIED BY SCOTT TACKETT
VICE PRESIDENT, HUMAN RESOURCES AND ADMINISTRATION
DENMAN TIRE CORPORATION, LEAVITTSBURG, OHIO

Mr. PEARL. Good morning. My name is Jim Pearl. I'm the Senior Vice President of Sales and Marketing in Denman Tire Corporation. I'm joined at the table today by Mr. Scott Tackett Vice President of Human Resources and Administration.

First, I would like to thank the Commission for this opportunity and this time to present the Denman story to you. We are a very small little-known tire company located here in northeastern Ohio. Denman Tire is a proud American-owned company that has been in business since 1919. We are a single-site specialty tire manufacturing company. We currently employ 311 hourly and salary employees in Leavittsburg, Ohio. Our hourly workforce is represented by the United Steelworkers of America Local 98L and is one of the oldest rubber unions in the nation.

Strategically positioned, Denman Tire Corporation is located in northeast Ohio with sales offices throughout the United States including Indianapolis, Indiana; Gainesville, Virginia; Wheeling, West Virginia; Kansas City, Missouri; and Houston, Texas.

Denman Tire produces the kinds of specialty tires that are in high demand in the replacement tire market and the private brand specialty light truck tire market. Denman Tire produces specialty tires for many applications including on/off road light trucks, agricultural, construction, special trailer, industrial, classic and vintage as well as tires for our military.

Competing in the tire business this long has not always been a paved road. In fact, it's quite the opposite. Denman Tire was founded by Walter R. Denman who originally built the plant exclusively for the manufacture and shipment of the Denman brand passenger tires. Much has changed since that time both within the industry and within the tire.

One thing that has not changed is Denman Tire Corporation has long strived for a history and reputation of serving its customers. The cornerstone of our organizational philosophy is making customer service our number one priority. Many of our customers will tell you that we have the best customer service department in the business, and we are justifiably proud of that compliment.

In an era of consolidations and mergers, Denman Tire has remained a stand-alone, American-owned company, and we are very proud of this fact. We feel this pride reflects upon our attitude in both quality workmanship and our approach to this business. Every day we strive to produce and ship the best-made tires in the world to our many and varied customer base.

Denman Tire is an ISO9001-certified company, which assures our customers that our quality systems meet or exceed worldwide standards. We feel strongly that if provided a level playing field, Denman Tires produced in Leavittsburg, Ohio can compete with any other tires made anywhere in the world.

The realities of the global marketplace have in the past, and continue today, to cause us great consternation and concern.

In 1992 the company was faced with significant competitive pressures that required an aggressive and proactive approach to our business. Consequently, we explored avenues of enhancing and growing our business and in turn providing our customers with the products they required. We outsourced to round out several of our product lines with tires that we were unable to produce in our Ohio facility due to either lack of equipment and physical capabilities.

After much work and effort it was determined that our best course of action was to develop a relationship with another manufacturing organization. Consequently, we determined that our best opportunities existed with forging an association with a Chinese manufacturer.

The decision to have product made in China was based on three issues: First, cost; secondly, the Chinese manufacturer would build and put the Denman name on our product; and the ability to ensure a quality product would be produced.

If we look at this decision retrospectively, we find that this was, in fact, the best business decision that could have been made at the time. Cost of Chinese-produced tires remains very competitive in this American marketplace. Even considering the freight cost, Chinese-produced tires are sold below what our current factory costs are in Leavittsburg, Ohio.

Concerning the quality of the product, we have found that the quality of tires produced in China has greatly improved, and today China does, in fact, produce a very high-quality product.

Over the last few years we have witnessed China becoming extremely aggressive in exporting tires to the U.S. markets. Today you not only see Chinese passenger and light truck tires, but you see Chinese medium and heavy-duty truck tires, you see specialty tires of all kinds including agricultural, industrial and construction.

Today as we speak here there are construction vehicles working on the renovations to our Capitol Building in Washington, D.C., with imported tires from China on them.

Obviously this has resulted in lower margins for us as an organization. Based on these factors, Denman Tire Corporation has two choices: Compete or close the doors. We have chosen to compete and protect as many American jobs as best we can.

Another factor that has negatively affected our business is the fact that in China the Chinese have in the last couple years sought out and sold significant product to the smaller distributors across the United States. Where once they only concentrated on selling to large distributors, they are now directly selling tires to the heart and soul of our customer base. These are the very customers that we used to sell to and now are negatively affecting our profit margins. Market pressures such as this have increased over the last years to the point of causing concern for our long-term survival.

We believe strongly that the Chinese tire manufacturers have a significant cost advantage over Denman Tire Corporation for three basic reasons. The first is obvious, labor costs. Second, the current levels of government subsidies that are provided to the Chinese tire manufacturers. And finally, the very modern and efficient plants and factories provide considerable cost advantages.

Conversely, our plant is old and very labor intensive. We have significant costs associated with numerous and sometimes very burdensome regulations, and we believe that unreasonable tort liability issues threaten all organizations regardless of the products they produce.

Obviously for the reasons just mentioned there does not exist an opportunity for Denman Tire to export tires produced at our plant in Ohio to China.

In closing, we are a small American manufacturing company competing with the Chinese government. We work daily to make the proper business decisions, and we strive not only to keep our costs under control, but to reduce costs in our old factory wherever possible.

However, there are numerous issues that are out of our control, and simply stated we cannot expect to resolve these issues without significant changes and help from others in this battle.

Thank you for your time and attention to a small American manufacturing company that just wants to provide and protect good American paying jobs.

[The statement follows:]

Prepared Statement of James G. Pearl
Senior Vice President of Sales and Marketing
Accompanied by Scott Tackett
Vice President, Human Resources and Administration
Denman Tire Corporation, Leavittsburg, Ohio

HISTORY

Denman Tire Corp. is a proud American owned company that has been in business since 1919. We are a single site specialty tire manufacturing company. We currently employ 311 hourly and salaried employees in Leavittsburg, Ohio. Our hourly workforce is represented by the United Steelworkers of America Local #98L and is one of the oldest rubber unions in the nation.

Strategically positioned, Denman Tire Corp. is located in Northeastern Ohio with sales offices throughout the United States including Indianapolis, Indiana, Gainesville, Virginia, Wheeling, West Virginia, Kansas City, Missouri, and Houston, Texas.

Denman Tire Corp. produces the kinds of speciality tires that are in high demand in the replacement tire market and the private brand speciality light truck market. Denman Tire produces speciality tires for many applications including on/off road light trucks, agricultural, construction, special trailer, industrial, classic and vintage as well as tires for our military.

Competing in the tire business this long has not always been a paved road. In fact, quite the opposite. Denman Tire was founded by Walter R. Denman who originally built the plant exclusively for the manufacture and shipment of the Denman brand passenger tires. Much has changed since that time, both in the tire industry and within Denman Tire Corporation.

One thing that has not changed is that Denman Tire Corp. has long strived for a history and reputation of serving its customers. The cornerstone of our organizational philosophy is making customer service our number one priority. Many of our customers will tell you that we have the best customer service department in that business and we are justifiably proud of that complement.

In an era of consolidations and mergers, Denman has remained a stand-alone, American owned company and we too are very proud of this fact. We feel this pride reflects upon our attitude in both quality workmanship and the approach to our business. Every day we strive to produce and ship the best-made tires in the world to our many and varied customer base.

Denman Tire Corp. is ISO 9001 certified which assures our customers that our quality systems meet or exceed worldwide standards. We feel strongly that if provided a level playing field Denman tires produced in Leavittsburg, Ohio can compete with any other tires made anywhere in the world.

CURRENT ISSUES

The realities of the global marketplace have in the past and continue today to cause us great consternation and concern.

In 1992, the Company was faced with significant competitive pressures that required an aggressive and proactive approach to the business. Consequently, we explored avenues of enhancing and growing our business and in turn providing our customers with the products that they required. We outsourced to round out several of our product lines with tires that we were unable to produce at the Ohio facility, due to the lack of equipment and physical capabilities. After much work and effort it was determined that, our best course of action was to develop a relationship with another manufacturing organization. Consequently, we determined that the best opportunities existed with forging an association with a Chinese manufacturer. The decision to have product made in China was based on three issues; (1) cost, (2) the Chinese manufacturer would build the product with the Denman name on the sidewall of the tire, (3) ability to ensure a quality product would be produced.

If we look at this decision retrospectively, we find that this was in fact the best business decision that could have been made at the time. Cost of Chinese produced tires remains very competitive in the American marketplace. Even considering the freight costs Chinese produced tires are sold at below what our current factory costs are in Leavittsburg, Ohio.

Concerning the quality of the product we have found that the quality of tires produced in China has greatly improved and today, China does in fact produce a very high quality product.

Over the last few years, we have witnessed China becoming extremely aggressive in exporting tires to the U.S. markets. Today, you not only see Chinese passenger and light truck tires, but you see medium and heavy duty truck tires, you see speciality tires of all kinds including agricultural, industrial and construction. Today, as we speak here, there are construction vehicles working on the renovations to our Capitol building in Washington, D.C. with imported tires from China on them.

Obviously, this has resulted in lower margins for us as an organization. Based on these factors Denman Tire Corp. has two choices; choose to try to compete or close our doors. We have chosen to try to compete and protect as many American jobs as best we can.

Another factor that has negatively affected our business is the fact that the Chinese have for the last couple of years sought out and sold significant product to the smaller distributors across the U.S. markets. Where once they only concentrated on selling to large distributors they are now directly selling tires to the heart and soul of our customer base. These are the very customers that we used to sell to and now are negatively affecting our profit margins. Market pressures such as this have increased over the last years to the point of causing great concern for our long-term survival.

LONG TERM CONCERNS

We believe strongly that the Chinese tire manufacturers have a significant cost advantage over Denman Tire Corporation for three basic reasons. The first is obviously labor cost. Second, the current levels of government subsidies that are provided to the Chinese tire manufacturers. Finally, very modern and efficient plants and factories provide considerable cost advantages.

Conversely, our plant is old and is very labor intensive. We have significant costs associated with numerous and sometimes very burdensome regulations and we believe that unreasonable tort liability issues threaten all organizations regardless of the products produced.

Obviously, for the reasons mentioned above there does not exist any opportunity for Denman Tire to export tires produced at our plant in Ohio to China.

In closing, we are a small American manufacturing company competing with the Chinese government. We work daily to make the proper business decisions and we strive not only to keep our costs under control but also to reduce costs wherever and whenever possible. However, there are numerous issues that are out of our control and simply stated we cannot expect to resolve those issues without significant changes and help from many others in this battle.

Thank you for your time and attention to a small American manufacturing company that just wants to provide and protect good paying American jobs.

Panel II: Discussion, Questions and Answers

Co-Chair WESSEL. Thank you and thank you to all the panelists. If appropriate, I will begin the line of questioning this round.

I would like to understand something about the different nature of the Chinese auto industry and the relationship of large companies, because quite frankly, I got scared to death both hearing your presentation, Mr. Gettelfinger, and reading through your presentation background materials, Mr. Girsky, in terms of the company threat.

The International Metal Workers Federation, I believe, indicated that, and I think you said in your testimony, Mr. Gettelfinger, that capacity may be 50 percent higher than demand within the next three years. I understand some small differences in opinion. China is growing at eight, nine percent depending on what numbers, may be higher, may be lower. Energy prices and a lot of other things will affect that. As you said, Korea and many other countries, Japan, have a long history of keeping other countries out of their market. Where's this excess capacity going to go?

And unlike the challenge of the Japanese auto industry in the '80s, we see U.S. multinationals investing there and producing there, which as far as I can tell that unlike the Yugo that you referred to and Hyundai that have developed distribution networks, with the high profits of U.S. companies on their Chinese production, they have got a ready-made distribution system that this stuff's going to be flowing here quickly if there's any reduction in demand in China. Response?

Mr. GETTELFINGER. I will let Mr. Girsky take a spin on part of that, but let me make a couple suggestions. Number one, and Steve knows better than I do, somewhere between 70 and 80 percent of the world's automotive profits come out of the United States. Korea, if you look at foreign nameplates in their market, it's one percent. If you look at Japan it's five percent. If you go to European it's about 22 percent, and if you come to the United States, it's 40 percent. It's very clear and I believe with the production capability being similar in the neighborhood of 70 million vehicles and sales around 50 million, that there is already excess capacity out there, and this is the market where it's going to come.

If the American companies want to do business with China, they go there. They venture together. They make investments. They are required to take over research and development center and on the end of it we are in a race to the bottom from our standpoint. We are losing out every day, and it's unfortunate that there are no provisions in these trade agreements, or the provisions that are there, we are walking away from because through currency manipulation China's out buying out bonds and puts us in a precarious situation as a nation so we've got to be willing to take them on as a nation.

Mr. GIRSKY. The only companies that have announced export out of China right now, Hyundai has said they are willing and plan to export cars probably going to Europe. They said they have no plans to export cars from the China to the U.S. Another company I think Volkswagen is going to export a small amount of cars to Australia just to sort of prime the pump.

Right now the reason the companies have high profits in China is because they pay about 30 percent more per vehicle over there than we pay over here. They are not in a position right now to turn around and ship that Buick over here, A, because the quality isn't as good, and B, if you sell that Buick for 30 percent like you have to sell it here you couldn't be making any money on it. So yes, I think the multinationals ultimately will facilitate this if they are going to be exports because they do have distribution there, but they are a long way away. And I think that what they would like to see happen is demand raise in China again because there's a lot of people who would like to have cars there. In contrast to say other countries they'd like to be able to participate in that growth.

Co-Chair WESSEL. Let me understand if I can. If I remember when GM created their joint venture three or four years ago through the negotiation there was a, I believe, a billion dollar investment or something along those lines as well as an agreement that they would source domestically within a period of years 80 to 100 percent of the domestic content to that facility. They were buying U.S. auto parts and shipping them there, and the result, and I assume this is also the case as it relates to Denman Tire, is that you helped your Chinese partner get up to the quality levels that your customers here in the U.S. would want. You want to be proud of what you're selling under your name wherever it's made.

Aren't we creating our worst nightmare? Aren't we teaching them to become ISO9001 because that's what ultimately the Chinese customers would want?

And as these capacity increases continue, and if the Chinese market slows down, we are going to have all this capacity here. We're going to have world-class competitors. Their wage rates, despite all you said, their wage rates are going to be a huge differential. This stuff is going to flood our market. You're looking—for the American worker I think you look beyond the three-year——

Mr. GIRSKY. Also if our prices fall in China demand—there are a lot of people—China does not need to export cars to have a successful auto business. They need technology because their consumers demand good product. The consumers, the more cars you sell the more people you employ there and the standard of living goes up in China. So they don't necessarily need to export.

These car companies are global companies. They ship cars two places, one place. Honda exports cars from here to Europe. They bring cars here from Europe. They bring them from Japan and so there are a lot of things that bore out there. But the prospect of excess capacity is large, that is true, where that ends up. But as Ron said we already had excess capacity in this business so it's already out there. It's not a new problem. We have excess capacity and China hasn't started yet.

Co-Chair WESSEL. Understand. I see my time is expired.

Commissioner Mulloy.

Commissioner MULLOY. Mr. Gettelfinger, in your testimony on page five, you talk about General Motors and Ford expecting to source $10 million annually in parts within three to six years. My understanding is that the Chinese have identified the automobile industry as a pillar industry. This question is for Mr. Girsky. Haven't they already announced as a government target that they want to export about a hundred billion dollars worth of auto and auto parts by 2010?

Mr. Girsky, when you say they are a long way away from exporting auto parts, what do you mean by a long way away? What timeframe are you talking about?

Mr. GIRSKY. For example, one manufacturer told us it would be two or three years at the earliest before their cars would be cost competitive with cars they produce outside of China. So you get that two or three years and listen, these developing markets typically take longer to come to fruition. If you look at Brazil or some of these other, Korea, take longer to develop. But ultimately so you're talking some time before we think significant exports can ramp up here.

Now components are a different story. I'm not familiar with the numbers thrown out here. There's no question GM and Ford are sourcing more components. That's a stated fact.

Commissioner MULLOY. Yes. Now, let me ask you this.

Mr. GIRSKY. Those are global numbers by the way. They're not all coming here. They're reporting components from China, Europe and all that stuff.

Commissioner MULLOY. Mr. Stephen Roach, your company's chief economist, was good enough and come to testify in a hearing that we had last September 25th. He wrote an article in your firm's publication, Global Investment Research and he talked about the global labor market and whether that is why we are having a jobless recovery in the United States. He said we are being influenced by the maturization of offshore outsourcing platforms in places such as China and India. I think he means that companies go there and produce there rather than here.

Mr. GIRSKY. Yes.

Commissioner MULLOY. Two, the Internet because now you can move not just blue collar jobs out of the country, you can move white collar jobs out of the country. Three, the cost-cutting imperatives of the low-price industrial world. He felt we might be having a global labor arbitrage. Do you agree that he's on to something in talking about this issue?

Mr. GIRSKY. One, I don't want to speak for Dr. Roach. He's got his own opinion. I do want to point out the difference between China and other industries right now, like the auto industry and other industries, is the high—they are not a low cost country right now where they may be low cost in tires or other—computer chips or what have you, but the auto business right now is different. It's very immature and very fragmented.

Commissioner MULLOY. But right now there's ten billion dollars in auto parts coming into this country——

Mr. GIRSKY. It's much smaller than that right now, but ultimately it could be——

Commissioner MULLOY. I understand. You're right. But do you think there's anything to this? Now, his company, Mr. Tackett told us they felt they had to move. They didn't want to, but they had to because of these pressures. And I think some of the pressures are environmental standards, labor standards, Social Security, other things that build the American style of life. Is that the world we are now entering?

Mr. GIRSKY. In the car business chasing low cost labor around the world, the source on the low cost a day, is not a viable long-term strategy. All the Japanese when they built plants here they are wanting to source components here. They don't want to source components from Japan and bring them here. They want a balanced trade post. They don't want to be currency exposed, so ultimately ten years from now, twenty years from now, if that currency does start to flow that as far as change the economic equation. History says you're going to chase low cost labor around the world it's not a viable long-term strategy.

Commissioner MULLOY. History is not 1.2 billion new workers.

Mr. GIRSKY. I agree. There's a lot of market to be sold in China. There's a lot of money to be made so our multinationals, GM sitting there saying I want to participate in this because I didn't participate in growth in Japan and I didn't participate in growth in Korea and I want to participate in growth in China so they have an opportunity to do that. That's their perspective.

Commissioner MULLOY. Thank you.

Co-Chair WESSEL. Commissioner D'Amato.

Chairman D'AMATO. Thank you. First of all, I want to commend the panel because this is such an important industry. The Commission operates under a mandate to try and connect economic trends to China to our basic national security. I can't think of too many industries where the economic impacts are so large. There are so many different kinds of companies associated with the building of automobiles and the tremendous volume that goes into those components. Clearly what happens to the auto industry if these trends continue beyond the next five to ten years certainly would qualify as a matter of national security concern.

I want to thank Mr. Gettelfinger for pointing out not only that there's an unfair playing field, but also there are a number of tools that the government could put into place that would help level the playing field. You mentioned currency. You mentioned it's important to create safeguards and going after subsidies are not being pursued at this time. I think that's fair to say. Certainly we would like to try to insist that Congress take a look at all these tools and make sure they are used to help out the industry.

I was interested to hear that Chinese considered the automobile industry a pillar industry. When I hear pillar I hear the word subsidy. This is a government-promoted industry, and therefore we have to be concerned about not being able to get to a level playing field.

My question is similar to Mr. Mulloy's. I'm worried about the same timeframes involved here. Two to three years to me is not a long-term situation. What if the current trends continue what would the state of the automobile industry in the United States look like in ten years, particularly in terms of multinational corporations?

I hope you're right about history not chasing low-cost labor because that seems to be the story of China today. Maybe history won't show that, but we've still got companies chasing low cost labor. That seems to be one of the great attractions of that market and floating into China.

What will the impact on our economy be in ten years if current trends continue and the United States Government does not take the kinds of action you suggest to use the tools available to level this playing field? Do you have any kind of estimate that you looked at in the UAW or in your firm? We don't have an automaker here on the panel, but do you know what automakers are saying about the ten-year prospects?

Mr. GETTELFINGER. I think one of the things we can do is look back to the past ten years and see how the United States is impacted, and if we just go back to 1993 production was nearly 11 million vehicles with 14 million being sold. In ten years' time—and at that time the auto trade deficit was $50 billion—in ten years' time U.S. sales have increased by an additional 3 million units. That took us up to over 17 million units. But production capabilities in the United States had only increased by 1.1 million.

In other words, the import vehicles that were coming in here were taking over that market. If you look at that short period of time, the automotive trade deficit reached $128 billion, and that's all in the written testimony.

So it appears to us with the research and development that is being demonstrated for companies that go to China with the fact that right now if you're a corporation there's nothing to prevent anybody in China from counterfeiting your parts.

I'm not sure the issue of Automotive News, but I can provide it for you. A company called Metaldyne that knew that their parts were being counterfeited, went over and said we're going to form a joint venture, the company—to use their terms—went underground. In other words, they continued to manufacture their parts, put them in the marketplace.

I think the snowball effect is here. I think that China clearly has every intent of increasing that capacity as quickly as they can using our research and development, our technology, and then coming into our market where they are going to sell their vehicles. Steve and I may have a little difference of opinion on that because he's looking at it strictly from the numbers.

I'm also looking at it from the standpoint of what we have witnessed happening in the past, and I think it's a very challenging time for us. I think time is of the essence for us as a government to stand up to these trade agreements and put workers' rights agreements, enforce the provision in there and stop this currency manipulation, 8.2781 I believe is what the yuan's been pegged at for a number of years so we should be looking at that.

Someone mentioned on the earlier panel that they thought workers should be represented on the trade agreements when negotiated. I happened to be in Seattle. George, you might have been there when they had the trade meeting. I went there as a member of our union but also as an American citizen. We had a peaceful demonstration. Were there some fringe groups that created problems? Absolutely, no question about that, and the government dealt with it.

But I have got to tell you that when we went to Miami last November to make an issue over the free trade areas of the Americans I felt like a prisoner in this country. The interstate highways, you couldn't get down. They would lock down the hotels. Helicopters flying overhead, a barrage of police officers. You can't cross this street, you can't cross that street. I was not hurt nor was a lot of people.

And yes, again there were some fringe people there. It's my understanding that this country appropriated $87 billion for Iraq. Well, there was 12 or 13 million dollars for the trade ministers' meeting in Miami so how can workers ever have a voice? It's one thing to sit here and talk about numbers and talk about statistics. It's another thing to watch plants close down, to watch families destroyed, communities destroyed, to see plants exposed. That's really what we're talking about here so I think workers must have a voice in what is going on in these bargaining tables. Just as we say China should be transparent, our trade negotiations should be transparent.

[Audience applause.]

Commissioner MULLOY. Mr. Girsky, did you want to talk about the ten-year timeframe?

Mr. GIRSKY. Ron used up all the time.

Commissioner MULLOY. We'll give you some extra time.

Mr. GIRSKY. I don't have a lot to add. The reason companies are going there they are pursuing low-cost labor and pursuing big demand opportunities, and they want to participate in this.

Number two, we are—the auto industry is increasing capacity here as well. There's between 500,000 and a million units going into North America over the next 30 years so it's not just China that's adding capacity. Their capacity is alarming, don't get me wrong. But they're not the only place that's increasing pressure.

We have global excess capacity. Part of the reason is we have a bunch of egos in the car companies that think they're all going to gain market share when, in fact, not everybody can continue to gain market share.

Ultimately if you look at Japan they sold—import a lot of cars here. They took big share. The currency started to move and they realized that continuing import is not a long-term strategy. They need to localize. Ultimately if China does end up importing a lot of cars here, the currency starts to move. They are not going to be able to protect this currency forever. The currency starts to move and that will force them to localize here. So there's no other way for this to play out.

Co-Chair WESSEL. Commissioner Wortzel.

Commissioner WORTZEL. Thank you very much. I have a question actually for Mr. Tackett. You said you can complement Mr. Pearl's testimony. I am very interested in this decision that was made. It sounds like a rational decision for survival of the company. What did it do to your labor force? And how did that affect employment? Jobs lost? Job gained? How did you sit down and work with your union to try to mitigate the problems the decision created.

And then I have a question I think Mr. Gettelfinger, Mr. Girsky, or both can respond. I don't know if you have ever been to Tokyo. There's a wonderful automobile museum underneath this shopping center, and in there if you go in there is the history of the Japanese car industry post World War II. You can see knockoff copies of MGTDs, knockoff copies of Jaguars and rip-off copies of Thunderbirds and Corvettes that were made only for Japan. That brings me to this ten-year projection of what China's going to do. Should we think now of the sort of actions that were taken against Japan and Japanese auto manufacturers in the Reagan Administration which forced them in the intervening years to begin to manufacture here and to deserve copyright laws?

Mr. TACKETT. Thank you, Commissioner. I appreciate your question. We have had a longstanding relationship. As you heard we have been in business since 1919. Our union was incorporated in 1939 so we are truly one of the oldest rubber worker unions in the country. Over that period of time we have always worked with the union, and our leadership has always been very, very cooperative.

Now, to explain the product that we are currently buying in China is not product that we at the time could make in our facility. We did not have the capital expenditure or the equipment. We sat down with the union leadership at the time and explained that scenario, and we were all in agreement that that was the best course of action for us at that point in time. So the union accepted that, acknowledged that. Our level of employment at the time was unimpacted by that decision so we didn't reduce jobs.

Our whole message was we're an American manufacturer. We want to stay here, but we have to provide other product that we can't make here in this location, and that was accepted, and they're fully aware of that situation.

Mr. GETTELFINGER. I'm not sure that the quotas as to that were put on the voluntary retraining at one point in time. I'm not sure how effective they were or they weren't. And I can remember when our international union president Doug Fraser went to Japan and said if you're going to sell vehicles here, then you should build the vehicles here. And we're really proud as a union that the workers at those plants that are here even though many of—most of them are not unionized, our union helps those workers every day because of the contracts that we have in other auto plants. So that's the difference in what's happening here and what's happening in China.

But if we go back to the basic trade agreements, are we talking the currency manipulation with the yen probably twenty percent under value. In other areas a closed market. We can't get into the Japanese market so I think if we just look at the trade agreements, try to look at it from a worldwide standpoint and what's going to really help our country and we believe that the rate should be fair.

I'm not sure what the term free means, and when you look at our deficit at this country, $496 billion trade deficit, and then with a huge budget deficit that's there, something's going to give somewhere in our country. The tax base will continue to erode as jobs go away.

So I think that the best thing we can do is go back and revisit these trade agreements and make sure that they are fair agreements. And we should be just like other countries are: If we set up the trade imbalance starts to excess, somebody should step up and not let it spiral out of control and that's what's happening here.

Mr. GIRSKY. The only thing I would add is I would agree with Ron that the—I'm not sure how much the voluntary retraining agreement helped as opposed to the yen moving from 2/40th of a dollar to 1/20th of a dollar. I think that may change the economics a lot and force them, as he said, to localize here more aggressively.

Co-Chair WESSEL. Co-Chair Dreyer.

Co-Chair DREYER. Quick question, first for Mr. Gettelfinger. On page three of your testimony you quote Automotive News as saying that "U.S. suppliers have missed the boat to China." China's import of auto parts totaled 9.5 billion, Germany 3.3 billion, Japan 2.92 billion, and the U.S. a mere 268 million.

How did this happen and is there a lesson we can learn from it, something that we should not do again?

Mr. GETTELFINGER. Again, I think it's definitely a lesson we can learn as Mr. Girsky pointed out earlier when we're talking about a trade with other countries it's worldwide.

Co-Chair DREYER. Were we not watching what was going on here?

Mr. GETTELFINGER. Absolutely not. We were not paying attention. Somebody's asleep at the switch and it's going to continue going. I would just hope that out of these hearings people could just take back the impact on the families. And think about what happens when we say job, it may be job, but that's somebody's job, somebody's family, somebody's home, somebody's future, and we see what these other countries are doing. There's no guarantee regardless of the investment that is made in China that we are going to benefit as a nation. And you can see here where we talk about investment, the other countries perhaps bring more of the product in initially, but in the long run this is where the lost profit center is at and this is what we are gunning for, and there is no question that article that you referenced appeared in and accuses us really of missing the boat.

Co-Chair DREYER. So there is a lesson. Thank you.

For Mr. Pearl and for Mr. Tackett, as I understand your testimony you say that the only way Denman Tire can continue to stay in business and continue to employ U.S. workers is by outsourcing some of this production to China; is that correct?

Mr. PEARL. Yes, that's correct.

Co-Chair DREYER. I happened to sit next to a blanket manufacturer on a recent airline flight. He has one facility left in Maine, and he keeps it up as an act of charity to the workers; all his other production has been outsourced to China. My question for both of you is how long do you expect that this can continue?

Mr. PEARL. Well, when we went to China and set up an alliance with the manufacturer over there, our thrust was to purchase tires that we were not able to make at our Denman facility. However, customers, in this the largest tire market in the country or in the world, were buying these tires from China and not only buying that line of tires, but then this line of tires and this line of tires and this line of tires that were all made in our Ohio facility. So by going out and enhancing our product offering and getting our customers more dependant on our small company by providing them a larger breadth of product, we secured production in our Leavittsburg facility and that's been going since 1992.

Co-Chair DREYER. So this is actually a very clever business strategy then?

Mr. PEARL. I would like to think so.

Co-Chair DREYER. Finally just a comment from Mr. Gettelfinger. I will take your observations on the handling of the demonstrations in Miami back to Miami with me and pass them along for what they are worth, and I would also add to what you said if workers' voice is excluded from trade negotiations, then you encourage demonstrations and perhaps workers becoming fringe groups. So it's all the more important to include them in this opportunity.

Co-Chair WESSEL. Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you very much, and thank you to all of our panelists for presenting some very moving testimony. A special thank you to Mr. Gettelfinger of the UAW for his leadership on the basic human rights fight going on regarding China's treatment of its own people. UAW had become engaged in that fight very shortly after Tiananman Square in 1989 and was an important player on that particular aspect of U.S.-China relations as well as others. It's noted and appreciated so thank you for that.

I have a broad question to pose first, but then specific for Mr. Girsky particularly so you have time to think about the broad question. The broad question is with China's development of these pillar industries and industrial policies, how can it compete generally in the absence of an industrial policy on our own part?

I would like you to think about that for a few minutes. Mr. Girsky, you mentioned a couple of times return on investment. Could you give us a some information on how many years you have all been investing in China, how much have they invested and what kind of return on their investment are they getting to date?

Mr. GIRSKY. So when GM first invested in China probably six, seven years ago I think. The publicly available financial statement I have got a billion dollars investment China. They are making—last year they made—what was the number?—it was in like five hundred million or something like that, so the return on that investment has been quite high—so they make quite a bit of a return on investment. It was risky at the time but it certainly at least in the near term has paid off.

Commissioner BARTHOLOMEW. As of several years ago according to this it was questionable what kind of return they would get. Has it been escalating?

Mr. GIRSKY. It's been last year was their record. The first six months of this year has been a record over last year.

Commissioner BARTHOLOMEW. Under risks and opportunity and the risks, you mentioned of course, are both in intellectual property and creating vendor/distributor relationships. Could just elaborate a bit on that. What is the future of the U.S. auto industry 20 years from now? Are they going to compete themselves out of business?

Mr. GIRSKY. Let's be clear here. I'm an advocate for shareholders so if GM invests a billion dollars in China, the shareholders would like to see billion grow to five or ten billion but if that five or ten billion in growth means they have to write off five or ten billion in facilities in the U.S., then the shareholders are no farther ahead. The shareholders only win here, the company only wins if this growth supplements what they do here.

Now, we talked about intellectual property and there have been a lot of lawsuits and the companies are concerned about that, but GM is providing a lot of that. GM, Honda, the multinationals are providing a lot of that in intellectual property over there and they do that and cross their fingers. So they are doing that at their own risk.

Ten years from now are we going to have 36 car companies in China? Probably not. You probably have a lot less. That number is going to have to shrink particularly if any of these are going to be global players.

But some of them will be large. They're going to make probably most of their living supplying the home market, and there will be some exports that will have to be facilitated through GM, or what have you. GM imports cars over there now from other countries. They do that now so that could continue or be supplemented. But if they build a lot of capacity in China as a replacement for the capacity here, the shareholders are going to be no farther ahead.

Commissioner BARTHOLOMEW. Another risk has been alluded to here is that the auto industry in this country has been a critical provider of R&D spending and what is the ripple effect of R&D spending. Is it all going to be shifted over to China?

Mr. GIRSKY. I don't know if it's going to be shifted certainly globalizing. They have R&D centers in Western Europe, in Japan, North Korea. They have R&D centers all over the world and part of the R&D centers are all the markets have different states so Chinese cars don't necessarily sell here or vice versa so they need to basically engineer cars for the local markets.

Commissioner BARTHOLOMEW. One brief question about the issue of industrial policy, how does the United States compete against a country that has institutionalized policies to support certain industries?

Mr. GETTELFINGER. Well, what we're doing right now is we're not competing. As I indicated to you, in 1973 we had a $500 million surplus. Last year it was $2.2 million, and Mr. Pearl pointed out the article in Newsweek or Automotive News showed exactly what was happening where the Chinese auto industry that China's import of auto parts totaled 9.5 billion, Germany 3.13 billion, Japan 2.9 billion and the U.S. a mere 268 million. There's no way that we're going to compete with this kind of a trade strategy with these countries.

And if we look and go back again you have got to have the joint venture, you have got to have the research and development and the incentive to use the workforce there because the labor is so cheap they get their foot in the door.

Now, we are attempted to on occasion to get lulled to sleep when we hear companies here say we are going to export to China. Let's not kid ourselves. Time is of the essence and we must address these problems.

Co-Chair WESSEL. Thank you.

Commissioner Becker.

Commissioner BECKER. I want to thank all of you for your very enlightening and interesting testimony. I want to focus on Mr. Gettelfinger first, and then the auto industry. It's such a big and important industry to the United States. It touches so many suppliers, machine toolers and tire builders. There's a related figure how many people in manufacturing are associated with an automobile industry. It's been disappointing to me that the gains and strides that the Chinese auto industry has made has been really as a result of the United States auto industry themselves by forming these joint agreements and transferring research and development and high-tech information to China as a condition of working.

That's the assumption that I'm going on. This is what I believe. This is what I read. I will leave it for you to tell me if I'm wrong on that and that is not the case.

And with the parts industry, Mr. Girsky, you said something like two or four years before they would hit their stride. Now, this was an act that was initially done by the auto industry here in the United States to train and develop the parts industry in China so they could in turn import back into the United States cheaper products which would in turn cause layoffs and shutdowns of the auto part industry.

The third point I want to lay out of what I believe is that—I'll see if I can frame this right—the auto industry has a proservice supplies in many cases to match the China price for their supplies, their parts, with the threat of hanging out their head if they can't match or won't match the China price. Then they are going to suppliers from China, which are internal happenings. It seems like it's a deliberate plan to transfer auto industry technology into China that is going to come back and haunt it whether it's two or four years or six or ten years. The handwriting seems to be on the wall.

My only comment that Denman Tire on this where your actions could be and were for all the good reasons of protecting employment, protecting jobs, it has the same effect. We have developed a tire industry that at least with those folks that you deal with in China. We developed them with the technology, the ability to be able to challenge us, and you as we go down the road. I would appreciate any comments any of you would have on that.

Mr. GETTELFINGER. I would just agree with you on the parts. Technically we talk about being in a race to the bottom when it comes to the race and benefits, but suppliers also feel that pressure. If you take a large corporation, find a supplier out of this country they are reinforcing when they relocate or go to China and make the big investments that they make and then the big three put pressure on the other suppliers saying we need for you to do this in order for you to be competitive. In fact, if you want to compete you basically have to go there.

That's basically unwritten but that appears what's happening. And there is a tremendous amount of pressure on the suppliers and the supply industry, as Steve pointed out, would be easier to move and happen quicker get out ahead of the completed vehicle. So I think you're right on the track with everything you said.

Commissioner BECKER. Is it as blatant as that? You match the China price?

Mr. GETTELFINGER. I don't think it's as blatant as that, but I do think the auto industry and suppliers are starting to talk more, but the impression of large company a large supplier company going over to China making huge investments and obviously calls competition is competitive industry. It's always try to take it out somewhere.

Now the question becomes you can't get blood out of a turnip so what do you do? We have actually seen plants that are moving now from Mexico that are going to China, so that's another part of the problem.

And let me just step away from the auto industry for a second and point out Electrolux in Greenville, Michigan. Swedish-based company making a profit, having a good workforce, no labor problems and they moved to Mexico so they could make refrigerators cheaper there, but where are they going to sell them? That's the question.

And the same way here, if we move enough jobs out of this country—we have lost 2.7 million manufacturing jobs in the last three, four years—that has a major impact on the tax base.

Commissioner BECKER. One last point if I could make it very quickly. I was in Shanghai four or so years ago with the Commission. We went through the Buick facility in Shanghai and had discussions with the American plant manager. I think it was co-managed. He told me that the profit on a Buick built in China for GM was $10,000, and the profit on a Buick built in Detroit for GM was 1,000. Does that figure pretty well hold true now?

Mr. GIRSKY. Directionally it's right. We don't know the exact numbers, but remember the reason—the reason is the consumers in China are paying 35,000 per Buick that we're only paying—the consumers in the U.S. are willing to pay only 26,000 for. Longer term there is no reason why Chinese consumers should be paying higher prices for cars than every other consumer in the world. Those prices are going to fall, and that's going to accelerate a shake-out.

A lot of Chinese car companies are going to go out of business, and the ones that are left—the reason people want companies moving to China one is a sourcing issue. The other is there's 1.4 billion people there. The hope is the standard of living grows and those people can afford cars so that's sort of—there's sort of two reasons there. But yes, the issue though on the Buick is a price issue more than a cost, especially four years ago there was no way Buicks were cost competitive four years ago in this country.

Co-Chair WESSEL. But just as a point of clarification and then Mr. Reinsch, as the consumers demand a lower price, the quality is going to increase at the same time. We have seen quality increase in these vehicles, right?

Mr. GIRSKY. The consumer is sophisticated over in China.

Co-Chair WESSEL. I understand. So Mr. Becker's point about the differentials of the labor differential and quality kick in there will be a greater competitive advantage for China two or three years from now as the quality increases?

Mr. GIRSKY. Naturally.

Co-Chair WESSEL. Commissioner Reinsch.

Commissioner REINSCH. I want to pick up on something that Larry Wortzel started which is the theme of what do we do now in dealing with a problem that Mr. Girsky suggested will be much larger in the future than it is today. One thought that occurred to me, as we were talking about the Japan situation in the late '80s is that—I'm not sure I completely agree with your analysis of what happened. I don't disagree what happened with the yen is a significant factor, but I also think that one of the other factors at that time was the change in the political climate here which persuaded the Japanese they were going to be in for a long series of difficult political steps by the United States unless they addressed this problem in some positive way, and they figured out that rather address it by not importing, they addressed it by domestic production here.

But my point though is in the question for you, Mr. Girsky. I think that whole thing happened relatively late in the process and in an atmosphere of some crisis not only about the auto industry then, but also enormous fears about Japanese competition generally. We don't seem to be quite at that point right now with respect to China and certainly not with the auto industry. Americans seem to react to these things mostly when there's a crisis, and not before there's a crisis so here we are.

You might also want to comment on the way the Japanese responded. They definitely responded to a whole bunch of trade problems we had with them, and I'm not sure that's what the Chinese response in similar circumstances would be which suggests that it wouldn't work because we are dealing with a different adversary. But given those thoughts maybe you can reflect on whether you agree with any of that and more importantly what do we do now rather than wait four years? Then I have a question for Mr. Pearl I want to squeeze in.

Mr. GIRSKY. So let's just think back to where they were politically so the end move we have import quotas and a voluntary restraining and the big three filed dumping charges against the Japanese on minivans I think it was in the early '90s or something and all these sort of came together at once that sort of accelerated the globalization. The problem we have—is back then was like okay. You force Honda or Toyota to build cars here. What are we going with related to China? Force GM to build cars or GM's already building cars here.

That's part of the problem. The multinationals are driving this decision. Volkswagen is one of the biggest players. GM is one of the fasting growing players in China. Ford has got capacity going in there. Chrysler's got plants in China so that's what makes it sort of challenging from the policy perspective is not necessarily the government that's driving this. It's the multinationals driving this so it's sort of policy issues on a number of levels that have to be dealt with.

Commissioner REINSCH. And the answer is?

Mr. GIRSKY. The answer is—I just present the facts.

Commissioner REINSCH. Everybody else has an answer. That's why I wanted to hear what you had to say.

Let me squeeze in my question—not so much a question as a comment. I think you have wrestled very creatively with a problem many American companies face. I guess I'm not entirely persuaded you will succeed. It seems to me what you have done, and I'd just like a comment back, is you have traded short-term survivability for long-term disaster because what you have done is done the things you need to do to make your company viable that any rational, intelligent person would do in the circumstances. At the same time you've also created a lot of competitiveness that in the long term may come back and bite you. You seem not to be worried about that. Are my fears misplaced?

Mr. PEARL. No. Your fears are misplaced. Every day Chinese tires come into this market, and we compete with them every day on product we make in our Ohio facility. So we had those two options of slowly bleeding to death or getting back in there and doing battle. We chose to do battle.

Yes, it may be a short-term fix for a long-term problem, but our industry is huge but also very small dominated by three large manufacturers, Bridgestone-Firestone, Goodyear, Michelin, all who today have technology agreements with the Chinese government and are manufacturing product with their name on it, and many other names, out of China. So our small inplay into China was more important for our 300 people working than would disrupt or cause any technology change in China. They were getting that technology anyway.

Commissioner REINSCH. Thank you. I didn't mean to suggest you made an unwise decision, but you made a brave decision. We all need to be worried about the future.

Mr. GETTELFINGER. Can I just add though when you think about policy we don't want to do anything that's going to inhibit their growth. We want their economy to grow. And we want them to buy more cars. We just want to make sure their growth doesn't necessarily come at our expense. That's what it comes down to, and part of that is making sure our industry domestically is as competitive as possible, and that brings a whole lot of other issues, healthcare being one of the chief among them that sort of has to be dealt with here. So our goal is making sure our industry is on solid ground here because it makes us more competitive.

Commissioner REINSCH. That's a very sophisticated point to make. I won't, but I'm tempted to ask you whether you agree with Mr. Gettelfinger's recommendation that he just described about not retarding Chinese growth, but as I said I don't have time.

Mr. GETTELFINGER. I understand.

Co-Chair WESSEL. Commissioner D'Amato.

Chairman D'AMATO. I think we all agree with what Mr. Reinsch just said. One very quick question. IPR piracy now has become a very, very serious issue. This Commission recommended that United States not waste any more time and take a case to the WTO in terms of Chinese violations. The longer this situation continues the more difficult it is going to be to fix. Do you all agree that this kind of action that should be taken right now by the United States Government? Mr. Gettelfinger?

Mr. GETTELFINGER. Yes. I think that's the beginning step, and I think we have to do something rather quickly to show as a nation we are going to do something about these trade imbalances that exist. And certainly there are plenty of issues that need to be addressed, and as we pointed out in our testimony there are the five things.

But also I agreed with what Steve said and I think everybody here does. We certainly want to see the people in China—we want to see them do better; we want to see them move forward in their quest. There's an example the people cannot buy the product. There are more people unemployed in China than we got working in this country.

Steve and I may disagree because I'm not sure when you bring the peasants into it, we have seen estimates as low as 18 cents an hour. We've seen wages as high as 1.60, so there's just a broad, broad picture here that we need to try to get our arms around in the immediate future with a long-term plan to address the issues in our trade agreement that allow this country to be taken advantage of and also not only the workers in other countries being taken advantage of. Certainly we want to step up for them as well.

Chairman D'AMATO. Mr. Girsky, do you agree with——

Mr. GIRSKY. Well, intellectual property is an issue not just in the auto industry—I'm not sure how you all handle that kind of thing, but they're the logos when you look close up they look different. When you look far away they look pretty similar. There are two cars and they look similar to me so whether—I mean, these things have not—as far as I know there has not been a successful lawsuit here. There have been a number of brought, not just by our companies, but by Japanese companies and other foreign companies there.

Chairman D'AMATO. Thank you.

Co-Chair WESSEL. Very quick final question by Commissioner Mulloy.

Commissioner MULLOY. Mr. Girsky, first a comment. You said that once Europeans got production here they don't want to move it all to China, that the auto manufacturers are pushing their suppliers to do the outsourcing. In other words, maybe they will keep their production here, at least a lot of it. But people aren't stockholders, they're suppliers and they are getting outsourced. Is that correct?

Mr. GIRSKY. It does seem odd that GM and Ford, some of the Detroit-based manufacturers, are trying to buy more parts from emerging markets not in China at a time when some of the foreign competitors that produce here are trying to buy more parts here. It does seem odd. Long term I'm not sure how that strategy is going to play out.

China's low cost now, but ten years from now it may not be low cost. What are you going to do? Pick up and move to somewhere else? It just seems like a strategy that's very short-sighted, but that seems to be at least for some components it works. Some components it doesn't work. Some components they think it works and it doesn't work and that's sort of where they're going to get into trouble is when all of the sudden you got a bunch of components and a boat, and the boat can't get here and all your plants are shut down.

Commissioner MULLOY. Last question, last point. Mr. Pearl, in your testimony you say, "We feel strongly that if provided a level playing field, Denman tires produced in Leavittsburg, Ohio can compete with any other tires made anywhere in the world."

What do you mean by level playing field? Obviously you're not competing; you're moving your production to China. What do you mean by level playing field?

President Bush apparently also talks about this level playing field. I don't know what it is. What is it?

Mr. PEARL. Well, first we haven't moved any production to China. We are sourcing product out of China that we don't currently manufacture here in the United States. But from a statement of a level playing field, I have been in discussion with the people that we purchased tires from in China and the plant is owned by the government and there are subsidies there that we can't compete with here. So it's a small American company going up against the government, and there's not a long-term prospect of us winning out.

Commissioner MULLOY. Thank you.

Co-Chair WESSEL. Thank you to all the panelists, especially Mr. Gettelfinger and Mr. Girsky. I know you traveled a good distance to be with us here today. No slight to Mr. Pearl and Mr. Tackett. We appreciate you being here as well.

This closes the morning session. We'll resume in about twenty minutes with Co-Chair Dreyer taking over the chair.

PANEL III: STEEL, GLASSWARE AND CERAMICS

Co-Chair DREYER. I'd like to call Panel III to order. This panel will examine steel, glassware and the ceramics industries. First, we have Mr. David McCall, a District 1 Director of United Steelworkers of America, Columbus, Ohio.

Mr. McCall, the floor is yours. Seven minutes, please.

STATEMENT OF DAVID McCALL DISTRICT 1 DIRECTOR, UNITED STEELWORKERS OF AMERICA COLUMBUS, OHIO

Mr. MCCALL. Thank you.

Good afternoon to the Commission and a very special hello to our former international president, Commissioner Becker. My name is David McCall. I'm the Director of District 1 of the United Steelworkers of America, and I very much appreciate the opportunity to testify before the Commission on behalf of our members. My complete written testimony has been submitted and would have taken me about 35 minutes to read where I have discussed in some depth the challenges of the titanium, aluminum and other manufacturing sectors. In my allotted time I would like to summarize that written testimony.

I would also like to thank the Commission for holding these hearings in Ohio. Ohio is an important state for the United Steelworkers of America. In Ohio we represent over 100,000 retired and working active members who work in industries ranging from basic steel to rubber and tire, glassware, aluminum, plastics and many others.

First, I would like to discuss the effect that the phenomenal growth the Chinese steel will have and the impact on the American steel industry, and secondly, I would like to discuss the catastrophic effects of so-called Chinese trade has had on manufacturing in Ohio in general.

Most of you know in the past few years the basic steel industry in the United States has gone through major restructuring, a process that has been painful to the workers and retirees in our industry. Hundreds of thousands of retirees and their dependents in Ohio and other states have lost their retiree healthcare, and even seen their pensions reduced because of the necessity of a takeover by the Pension Benefit Guaranty Corporation. Yet despite these painful experiences we are today in the process of working with management to create the most productive steel industry anywhere in the world.

In 1994 there were over 200,000 employees in the basic steel industry; by 2003 that figure dropped to about 160,000. In 1999 in the United States we produced over 107 million tons of steel, while in 2003 production declined to slightly over a 103 million tons. However, as a result of the significant changes that have been made in the manning and wages and benefits structures and employment costs in the steel industry have been reduced from slightly over eight billion dollars in 1999 to a total of three and a half billion dollars in 2003. Today the production of steel in the United States is as efficient as anywhere it is in the industrial world.

The challenge we face in American steel is the continued growth of the Chinese steel industry and the inevitable impact that growth will have on the global overcapacity problems. In 1999 global steel production was 800 million tons. In 2003 global production increased to over one billion tons. In 1999 China produced 136 million tons and today is producing over 240 million tons. In just four short years China's production capacity has skyrocketed by 77 percent.

If the Chinese domestic consumption of steel begins to decline it is unclear—rather it is clear what will happen is a repeat of 1998 Asian financial crisis. China may well try to preserve its productive capacity by moving its output to an export market. As a matter of fact, already this year, the first half of 2004, Chinese exports have reached 5.7 million tons, which puts them on target to finish the year as one of the world's leading exporting nations.

The union believes it is vital to enforce a subsidy agreement to be concluded before we face another global steel crisis. It is important for the Commission to understand that while consolidation and revitalization have taken place in the U.S. steel industry, any situation similar to the one in 1998 would set the stage for another unlevel playing field and again severely damage, if not destroy, our industry. We have been inundated with dumping from China and many other countries. It's no different—it's akin to stolen auto parts. People sell stolen auto parts. They can sell them much cheaper than what it costs to produce. It's the same sort of theft that happens with dumping steel. It's illegal and it shouldn't be allowed but it continues in countries that have work over capacity.

Glass and glassware is another industry whose workers are represented by the USWA. Ohio ranks as number one in both employment in terms of the total value of shipments of glassware production. Imports of glassware from China have increased by 84 percent since 2000. In 2000 and 2002 we have had a dramatic employment loss in this sector and we have roughly lost one-sixth of our jobs.

In the rubber and tire section we have seen China begin its rise as a world producer. They are not quite there yet, but already more than 200 rubber tire companies operate in China, and it's only a matter of time before they directly challenge our markets here at home.

They must not weaken our trade law. It's vital that the United States goes forward in the current WTO negotiations, and American trade remedy laws not be weakened in any way. The union believes that any weakening in American trade laws will leave us helplessly exposed if we face another surge of imports similar to those of 1998.

China's clearly a global force in manufacturing and it's growth and economic decisions will be felt throughout the world including here in Ohio. One issue that greatly concerns the union is the denial of worker rights in China. In March of this year the AFL–CIO filed a Section 301 petition asking the Administration to investigate whether China's repression of worker rights constitutes an unfair labor practice—unfair trade practice. Probably unfair labor practice too.

The Administration rejected that issue. China's policy not only gives China an unfair advantage by suppressing labor costs but it is also is a matter of basic human rights. President Gettelfinger talked about that earlier. That's why it's impossible for the steelworkers to understand why the Administration will not investigate labor rights violations in China.

Co-Chair DREYER. Could you sum up?

Mr. MCCALL. I would like lastly to talk about issues that affect us in terms of national security. The loss of jobs in Ohio whether it be Eljer or whether it be World Kitchen or one of the other locations where we have lost, they're not isolated incidents in terms of losing jobs. Job losses like these are happening in Ohio and all across America. Plants have been closing to move to China. In some cases literally whole plants have been moved to China. There are a few cases here in Ohio. At the end of the process the logical conclusion is that America will be void of manufacturing capability. We must ask ourselves at what point does it threaten national security?

During the last steel crisis, we raised this issue concerning iron ore. We were told not to worry. We can count on Brazil and Australia to always be our friends and always interact with them. The world's changed since that report was made to the steelworkers. There is no certainty of our allies in a world where terrorists aggressively try to shape policy as they have in Spain.

If we now look at the world with a different lens in the areas of foreign policy and military preparedness, then why do we continue to view economic policy as business as usual? The grand hope of the free traders has been that economic policy would make the world a safe and secure place. It is not happening. The United

States continues to be abandoned by significant and important manufacturing industries to trading partners who may or may not be our friends in the future.

I hope that—the United Steelworkers of America hopes that our voice will stand out in the national debate about our trading and economic policy with not only China but other countries as well.

[The statement follows:]

Prepared Statement of David McCall
District 1 Director, United Steelworkers of America, Columbus, Ohio

Thank you very much, Mr. Chairman. My name is Dave McCall. I am the Director of District 1 of the United Steelworkers of America and I appreciate the opportunity to testify before the Commission on behalf of our members.

I would like to thank the Commission for holding these hearings in Ohio. Ohio is an important state to the United Steelworkers of America. Altogether we represent over 100,000 workers and retirees here in the state in industries ranging from basic steel to rubber, glassware, aluminum, plastics and others. These hearings, and your attention to the impact that trade with China has on our members, is appreciated.

I will divide my testimony today into two parts. First, I will discuss the effects that the phenomenal growth in Chinese steel will have on the American steel industry unless immediate action is taken by the Administration. Secondly, I will discuss the catastrophic effects that so-called "Chinese trade" has had on manufacturing in Ohio.

U.S. Steel Industry—Restructured and Efficient

As most of you know, in the past few years, the basic steel industry in the United States has gone through a major restructuring—a process that has been painful to the workers and retirees in our industry. Hundreds of thousands of retirees and their dependents in Ohio and other states have lost their retiree healthcare and have seen their pensions reduced because of the necessity of a takeover by the Pension Benefit Guaranty Corporation (PBGC). Yet, despite these painful experiences, we are, today, in the process of working with management to create the most productive steel industry in the world.

In 1994, there were 222,600 employees in the basic steel industry; by 2003, that figure had dropped to 162,300.[1] In 1999, the United States produced 107,395,000 net tons of steel, while in 2003, production declined to 103,261,000 net tons of steel.[2] However, as the result of the significant changes that have been made in the wage and benefit structure, employment costs in basic steel have been reduced from a little over eight billion dollars in 1999 to a little more than three and a half billion dollars in 2003.[3] Today, the production of steel in the United States is as efficient as anywhere in the industrialized world.

The Challenge of China Steel

The challenge we face in American steel is the continued growth of the Chinese steel industry and the inevitable impact that growth will have on global overcapacity problems. In 1999, global steel production was at 869 million net tons. In 2003, global production increased to over one billion net tons.[4] In 1999, China produced 136 million, 636 thousand net tons (136,636,000); in 2003, China produced 241 million, 775 thousand (241,775,000) net tons.[5] In just four years, China's production capacity has skyrocketed by 77%! China has been aggressively and constantly growing in its production of steel and it is now both the largest steel producer and largest steel consumer in the world. World Steel Dynamics estimates

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[1] Bureau of Labor Standards, NAICS Code 3311 and 3312, National Employment, Hours and Earnings.

[2] American Iron & Steel Institute (AISI), *2003 Annual Statistical Report*, Table 23 (Raw Steel Production).

[3] American Iron & Steel Institute (AISI), *2003 Annual Statistical Report*, Table 6 (Number of Employees, Hours Worked & Employment Costs).

[4] American Iron & Steel Institute (AISI), *2003 Annual Statistical Report*, Table 1B (Raw Steel and Employment Data).

[5] American Iron & Steel Institute (AISI), *2003 Annual Statistical Report*, Table 59 (World Raw Steel by Countries).

that, compared to its 2002 capacity, China's total steel capacity will increase 62% by the year 2005 and increase 99% by the year 2010.[6]

In the future, we will see a dramatic increase in China's demand for iron ore and coke. China is very poor in iron ore reserves and will make ever-increasing demands on other iron ore sources. While it is clear that, at its current growth rate, China will continue to import steel, coke and iron ore, it is unclear how long this unprecedented growth will continue.

It is estimated that China's overall economic growth has been in the neighborhood of 9% a year. Much of this growth has been targeted at infrastructure creation leading up to the 2008 Olympics. If the Chinese growth rate does not continue at the same pace, however, the world may well be plunged into a deep global steel capacity crisis. If the domestic consumption of steel begins to decline, it is unclear what will happen to all the new capacity that has been added in China in recent years. If other countries can be used as a model, then we may have a repeat of the 1998 Asian financial crisis. China may well try to preserve its productive capacity by moving its output to an export market. Indeed, this is already occurring. The Metal Bulletin reported in August 2004 that China's steel imports had fallen significantly in recent months and that steel exports were increasing. The report explained: "With Beijing introducing measures to slow the Chinese economy, it seems that Chinese producers are turning increasingly to exports. In the first half of 2004, Chinese exports reached 5.7 million tonnes, which puts them on target to finish the year as one of the world's leading exporting nations." [7]

In global steel production, only the United States, Canada and Western Europe experienced a decline in production between 1999 and 2003. The target of Chinese overcapacity may be into these markets. Historically, the Europeans have successfully limited the penetration of steel mill products into Europe during periods of economic downturn. As in 1998, the American market is still today the most open and thus the most tempting market for import penetration. Census data for 2004 shows that U.S. imports of steel from China have increased substantially. Steel imports from China totaled 564,156 metric tons for the period of January–July 2004 compared to 371,398 metric tons for the same January–July period in 2003, an increase of 52 percent.[8]

A New Steel Crisis Can Be Averted

China must adhere to its WTO commitments

A new steel crisis, however, is not inevitable. It can be averted if attention is given to the steel situation that now exists. First, the U.S. Government should not enter into discussions to relieve China of the obligations it agreed to as a condition to attaining membership in the WTO. One of those commitments was that China agreed that members could continue to treat China as a non-market economy for 15 years (or until China demonstrated that its economy operated upon market principles), meaning that the U.S. could continue to deal with dumped Chinese products using a special non-market economy antidumping methodology. Recently, China asked the Bush Administration to begin discussions that would relieve China of this obligation and to treat it as a market economy for antidumping purposes. Because China has not yet attained the status of a market economy, the USWA opposes any such relief being granted to China at this time; the conditions agreed to at the time of the accession to the WTO should remain in force.

Another commitment that China made was to allow, for 12 years, other WTO members to quickly address, through a special safeguard mechanism, import surges from China that cause market disruption to an industry. In the U.S., this safeguard is referred to as a "Section 421" safeguard. To date, this safeguard mechanism has not been effective. So far, there have been five 421 investigations by the U.S. International Trade Commission. In three of those cases, the ITC found that Chinese imports caused market disruption and recommended relief for the industry concerned to the President. However, in each of those cases, the Administration rejected import relief. In those 421 cases, China has actively lobbied the Administration against granting relief and shockingly, the Administration has listened to them instead of the workers we represent and American companies like McWane Industries, producers of ductile iron waterworks fittings here in Ohio.

[6] P.F. Marcus, K.M. Kirsis, WORLD STEEL DYNAMICS, *Chinese Steel—Facts and Forecasts, 2002–2010*, Core Report IIII (April 2004) at iv.

[7] Steve Mackrell, *China Shifts Focus To Export Markets As Rejuvenated USA Takes Up Slack*, METAL BULLETIN, August 23, 2004, at 23.

[8] U.S. Census Bureau, U.S. Imports For Consumption of Steel Products From Selected Countries and Areas (July 2004), http://www.census.gov/foreign-trade/Press-Release/2004pr/07/steel/steel2f.pdf.

The problems of global excess capacity and subsidies must be resolved

Second, a principal goal of the Bush Administration has been to deal with the issue of global overcapacity. Negotiations under the leadership of the OECD took place in Paris these past two years. The union and the industry have given active counsel to our government negotiators as the process moved forward. The negotiations were divided into two categories: one category being a series of descriptive briefings of the capacity issues that face each of the steel-producing countries involved in the negotiations; the other, and more important, category centered around the need to address the steel subsidy issue as a means to reducing current capacity and preventing future subsidized growth. The OECD parties agreed that subsidies utilized to mitigate the social and employment costs associated with plant closure are an acceptable form of government subsidy.

Unfortunately, it has been impossible to reach agreement on any of the other issues involved in these negotiations. The Europeans continue to demand that the environmental subsidy that will be granted to European industry, in order for them to comply with their obligations under the Kyoto Treaty, should be excluded from any agreement that is reached. After repeated requests by our government, we have still not been able to ascertain the exact extent of the EU subsidy. Late in the negotiations, Japan stated that it needed exemption from environmental subsidies as well. The developing countries, including India and Brazil, believe that financial backing for new development by their governments should be excluded from the agreement. These negotiations were suspended in June and will not be revived until after the U.S. Presidential election.

Although the Chinese have been reluctant participants in these negotiations and have stated that they believe that negotiating over subsidies is really an issue for the older economies, not one for an economy that is growing as fast as China, it provides its steel industry with substantial subsidies. Many of China's steel companies are government-owned and have benefited from subsidies in such forms as access to special loans by state-owned banks at lower interest rates, loan forgiveness, and debt for equity swaps.[9] Continued subsidies to China's steel industry will encourage massive capacity increases that are not driven by rational market signals.

The union believes that it is vital that an enforceable subsidy agreement be concluded before we are faced with another global steel crisis. It is important for the Commission to understand that while consolidation and revitalization has taken place in the U.S. steel industry, any crisis similar to the one in 1998 would severely damage, if not destroy, the reconstituted industry.

Those are some of the facts regarding the basic steel industry—and the story of what has happened to steel is important, because it is emblematic of what has happened, or what may happen, to many other industries in our economy.

Glass and glassware is another industry whose workers are represented by the USWA. Ohio ranks as number one in both employment and in terms of the total value of shipments of glassware production. Imports of glassware from China increased by 84% between 2000 and 2003. Between 2000 and 2002, employment suffered dramatically as this sector shed roughly one-sixth of its jobs.

In the rubber tire sector, we have seen China begin its rise as a world class competitor. They aren't there yet, but they're close. Already, more than 200 rubber tire companies operate in China and it's only a matter of time before they directly challenge our markets here at home.

U.S. Trade Remedy Laws Must Not Be Weakened

It is also vital that, as the United States goes forward in the current Doha Round of WTO negotiations, American trade remedy laws are not weakened in any way. We believe that there is a real danger that, if agreement is reached on agricultural subsidies, the current gridlock may be broken and in a rush to see the successful conclusion of this round of negotiations, a condition would be created where destructive compromise would be reached. The union believes that any weakening of American trade remedy laws will leave us helplessly exposed if we face another surge of imports similar to those of 1998.

The Denial of Worker Rights in China Should Be Investigated

China is clearly a global force in steel and its growth and economic decisions will be felt throughout the world, including here in Ohio. One issue that greatly concerns the union is the denial of worker rights in China. In March of this year, the AFL–CIO filed a Section 301 petition asking the Administration to investigate whether China's repression of worker rights constitutes an unfair trade practice. The Admin-

[9] See Comments of American Iron & Steel Institute (AISI) to U.S. Trade Representative Concerning China's Compliance With WTO Commitments, September 14, 2004, at 3–4, 8–10.

istration rejected the petition. China's policy not only gives China an unfair trade advantage by suppressing labor costs (which results in the loss of U.S. manufacturing jobs) but it is also a matter of basic human rights. That is why it is impossible for the union to understand why the Bush Administration will not investigate labor rights violations in China. As I think all the Members of this Commission would agree, the foundation of a truly free market economy is the ability of employees to join together collectively in a union of their own choosing and bargain for wages and benefits. The tide of freedom did not wash over Eastern Europe and the former Soviet Union until workers demanded the right to form free trade unions. Today those conditions are not allowed to exist in China. Any worker advocating or trying to promote free trade unions is crushed by the state immediately.

The Administration should take up this investigation so the full report can be made to the American people on the conditions of workers in China. It appears that we have become so economically dependent upon China trade that we are afraid to irritate the Chinese government in any way. We owe it to the 2.3 million Chinese steelworkers to let the truth be known. We owe it to the 240,000 Chinese held in labor camps. And we owe it to the 60,000 Chinese who are being held for public protest. We believe that our government should look with grave concern when Chinese Communist party chief Hu Jintao says that Western style multi-party systems are a blind alley for China and that the one-party state will fight power abuse and corruption by policing itself.

China's Currency Policy Distorts U.S.-China Trade

The U.S. trade deficit with China is severely imbalanced. In 2003, the trade deficit with China reached a record 124 billion dollars, and it is expected to increase in 2004. A significant contributor to the trade imbalance is China's policy of pegging its currency by maintaining a fixed exchange rate between the yuan and the U.S. dollar. Many economists believe the yuan is undervalued by about 40%, a situation that effectively subsidizes China's exports and causes loss of U.S. manufacturing jobs. The Bush Administration has done nothing to address this problem which is robbing our farmers, industrial workers and Ohio businesses of opportunities. China's policies amount to a virtual tax of 40% on all our exports to China and a subsidy of as much as 40% on the price of their products coming here.

That is why the USWA joined with the AFL–CIO, other unions and a number of members of the business community on September 9 in filing a Section 301 trade case against China for its currency manipulation policies. Within hours, the Bush Administration rejected the petition. No wonder our trade deficit with China reached $124 billion last year and is continuing to grow at unprecedented rates.

Why does the Administration refuse to act?

Taxpayer Dollars Used to Subsidize Shipping our Jobs Overseas

It's also impossible to understand why the Bush Administration is willing to use taxpayer dollars to subsidize shipping our jobs overseas. I'm not talking about the tax bill that is currently being debated in Washington in which President Bush wants to expand tax breaks for companies that move production offshore. That debate is well underway.

I'm talking about the use of taxpayer subsidies through the Export-Import Bank. Earlier this year, the Bush Administration approved the subsidized sale of steel production equipment to China. That's absurd and an insult to workers here. China has been dumping product in our market—why would we provide a subsidy to them to further lower their costs of production? The same holds true in the case of global over-capacity, which I talked about earlier. Why would we subsidize the increase in their capacity?

This is not an isolated event. Right now, the Bush Administration is considering subsidizing soda ash production equipment for Turkey. Turkey is a major competitor in the glass and glassware sector. There's a worldwide glut in soda ash and the U.S. is the world's largest producer. Providing this subsidy will directly hurt workers here in the U.S.—both in glassware and in the soda ash production sector.

A bipartisan group of Members of Congress, led by Republican Senators Enzi and Thomas have spoken out against the Bush Administration's proposed subsidy. We don't believe that this subsidy should be approved and are working to defeat this Bush Administration initiative. We believe there must be a change in the basic law so that we can prohibit subsidies from going to our competitors that cost us our jobs.

The Loss of Manufacturing Jobs in Ohio

While it is true that steel is important to the United Steelworkers of America, we also have significant representation in other important sectors of the economy. The situation in Ohio is not good. Since President Bush took office, we have lost 173,000 manufacturing jobs in Ohio. The situation is not getting better: in August

2004, Ohio lost 4,100 manufacturing jobs. Since October 2002, the USWA has seen more than 52 plant closings in Ohio. The total jobs lost at these USWA-represented facilities are about 2,500. These are head-of-household premium jobs that impact the future dreams of families, the tax base of communities and school districts. We will need to consider a study of these shutdowns to determine how many were offshored to China. I'll cite a few of these USWA shutdown units in which production was relocated to China.

- Eljer Company

Let me give you some examples of what is happening to manufacturing jobs in Ohio. In Salem, Ohio, the Eljer Company was represented by USWA Local Union 3816. The company produced cast-iron sinks and bathtubs. It employed 250 workers whose average pay was $16 per hour. In May 2004, the company was closed and the patterns used to make the sinks and bathtubs were sent to China. The union tried to work with the company to keep the operation open. In the negotiations, the company claimed that it had lost 4.8 million dollars the previous year. The union devised a program that would have saved the company 9 million dollars a year. This was rejected and the production moved to China. Of course, why wouldn't they? The workers in China are on twelve hour shifts, seven days a week, fifty weeks per year; the highest paid production worker earns $100 per month and the lowest $50 per month. The workers live in barracks and no dissent is tolerated because there are hundreds of others ready to take the place of any worker who complains.

The President of Local Union 3816, Frank Rayl, is now running for the Ohio State legislature. He will add his voice to the growing chorus of those who are tired of the economic elite who value profit above all else. They are not the ones who lose their middle-class standing and see their modest dreams destroyed by the neglect of their government when their jobs leave for China.

(Recognize Frank Rayl of the shutdown Eljer plant, who is participating in the hearing.)

- Huffy Bicycle Company

Then there is the case of Huffy Bicycle Company. First, the company left Ohio, and then Missouri, and then moved its production to Mexico; but even the low wages and benefits in Mexico were not enough for them. The operation left Mexico and its workers for the more friendly environment of China where the workers earn four percent of what the workers in Ohio made. This reminds me of what the CEO of General Electric once said: "the best factory is the one that you could place on a moveable barge, that way you could continually seek the lowest wages in the world."

(Recognize John Folk of the shutdown Huffy plant, who is participating in the hearing.)

- World Kitchen—Ecko Products

Another recent example of job losses to China is World Kitchen Ecko Products, a manufacturer of bake ware and related goods. The USWA represented workers at World Kitchen. On Friday, September 10, 2004, after 75 years in Massillon, Ohio, World Kitchen Ecko Products closed its bake ware factory. The company decided to outsource their production to China. 200 workers lost their jobs.[10] Such losses also have ripple effects on other companies that do business with the companies that shut down. Gentzler Tool & Die, a supplier to World Kitchen, lost two of its 30 employees because of the lost business from World Kitchen. Gentzler's purchasing manager, Jim Evans, commented: "It's cheaper to go to China. Everyone is doing it."[11]

Loss of Manufacturing Jobs and Capacity Threatens National Security

These are not isolated incidents. Job losses like these are happening all the time in Ohio and across America. Plants have not only been closed and moved to China, but in some cases, literally, the whole plant is moved. Steel mills in Cleveland and in Geneva, Utah, are being broken down, packed, and sent to China.

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[10] Steve Greenhouse, *It's Not Just About Jobs, but Where the Jobs Are*, NEW YORK TIMES, September 5, 2004, Section 4, page 3.

[11] R.J. Villella, *World Kitchen plant to be sold*, MASSILLON INDEPENDENT, September 18, 2004; available at *http://www.indeonline.com/left.php?ID=430&r=0*.

At the end of this process, the logical conclusion is that America will be void of manufacturing capability. We must ask ourselves—at what point does this threaten our national security?

During the last steel crisis, we raised this issue concerning iron ore. We were told not to worry—we can get it from Brazil and Australia who will always be our friends. The world has changed since that report was made to the union. There is no certainty of allies in a world where terrorists aggressively try to shape policy as they recently did in Spain. Al Qaeda has said repeatedly that its attack on the United States was intended to cause economic disruption. A more sophisticated approach would be to cut off America from suppliers that it has become dependent upon for resources and finished products. If the economic terrorists succeed, the consequences for our economy would be catastrophic.

If we now look at the world with a different lens in the areas of foreign policy and military preparedness, then why do we continue to view economic policy as business as usual? The grand hope of the free traders has been that economic policy would make the world a safe and secure place. This has not happened. The United States continues to abandon significant and important manufacturing industries to trading partners who may not be our friends in the future and, in some cases, may be aggressively belligerent to our goals.

(Recognize Michael Sayers of the shutdown World Kitchen plant, who is participating in the hearing.)

Investment in China Will Significantly Affect U.S. Tire Manufacturers

As I noted earlier, the USWA represents workers in the rubber industry. According to 2001 census data, Ohio is the leading state in overall rubber product manufacturing.[12] The state of Ohio has noted that "approximately one of every 10 rubber manufacturing concerns in the United States is located in Ohio, and about one of every eight workers in rubber manufacturing is employed in Ohio."[13] Generally, U.S. employment in the "plastics and rubber products" sector, like other manufacturing sectors, has declined. Over the last three and one-half years, rubber and plastics employment has decreased by 13.3%, going from 933,000 in January 2001 to 809,000 in August 2004.[14] In Ohio, the "plastics and rubber products" sector lost 18,900 jobs from November 1999 to November 2003, a 20.5% loss over that period.[15]

Tire manufacturers make up a significant component of the rubber industry. Many major tire producers, including Goodyear, Bridgestone-Firestone and Cooper Tire & Rubber, have production plants in Ohio. These companies provide good paying manufacturing jobs for U.S. workers. However, the China economic boom has been and will continue to affect this industry as, increasingly, China attracts more and more investment from U.S. tire producers looking to service both the expanding Chinese market and export markets.

Just last month, the publication Tire Review (located here in Akron, Ohio) examined the effect and impact that China has had, and is likely to have in the future, on tire manufacturers. It noted that while low-cost Chinese brand tires have long been present in the U.S. market, times have now changed. I quote:

> Over the last decade and a half, China has gone from being a bit player in the global tire industry to becoming THE player. Thanks to countless technology-sharing joint ventures between global majors and local tiremakers, many of China's hundreds of tire plants now turn out "global quality" passenger, performance, light truck/SUV and medium truck tires for domestic consumption and export.[16]

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[12] Ohio Department of Natural Resources, *Ohio's Rubber Industry*; available at *http://www.dnr.state.oh.us/recycling/awareness/facts/tires/ohiorubber.htm*.

[13] Ohio Department of Natural Resources, *Ohio's Rubber Industry*; available at *http://www.dnr.state.oh.us/recycling/awareness/facts/tires/ohiorubber.htm*.

[14] C. McMillion/MBG Information Services; available at *http://www.mbginfosvcs.com/pdfs/usjobs.pdf*.

[15] Jon Honeck, Ph.D., *A Report from Policy Matters Ohio: International Trade and Job Loss in Ohio* (February 2004) at 9, Table 4.

[16] Steve LaFerre, *CHINA: Dealers, Tiremakers Are Capitalizing, But Economic Revolution Has Issues*, TIRE REVIEW (August 2004); Tire Review Online: *http://www.tirereview.com/?type=art&id=2084&sid=·1&iid=239*

Domestic tire demand in China is increasing and it is estimated that it will exceed 100 million tires by 2010.[17] There are more than 200 tire producers in China, counting both joint ventures and domestic companies.[18] Tire Review reported that "China exported 8.54 million passenger tires to the U.S. in 2003, up 27% over 2002" and exported "2.24 million light truck/SUV tires to the U.S. in 2003, up nearly 59% over 2002."[19]

Much of the increased tire production in China is the result of investment by major global tire producers, including U.S. tire producers.

- **Goodyear** was the first major tire manufacturer to set up an operation in China when it formed a joint venture with the Dalian Rubber General Factory in 1994. In 2001, Goodyear announced a $120 million expansion at the Dalian plant. By 2007, that plant's capacity will nearly triple from 1.9 million tires to more than 5.3 million tires.[20]
- **Bridgestone** (Firestone's parent company) has built three tire factories in China, the latest being a $99 million radial passenger tire plant in Wuxi with an initial capacity of 8,000 tires per day for domestic and export sales. Bridgestone says this new plant will complement its existing auto tire plant in Tianijin and its truck and bus tire plant in Shenyang.[21]
- **Cooper Tire & Rubber** also has established a presence in China. Last year, Cooper entered into an agreement with Hangzhou Rubber Co. in which Hangzhou agreed to supply Cooper with 250,000 to 350,000 radial medium truck tires per year.[22] As part of this agreement, Cooper will ship tire making equipment from its factory in Albany, Ga., to Hangzhou.[23] In February of 2004, it was announced that Hangzhou would supply Cooper with about 1 million entry-level radial tires a year under the Cooper, Mastercraft, Dean, and Starfire brands.[24] The Toledo Blade reported that "Hangzhou will make entry-level passenger tires in six sizes using Cooper Tire specifications and quality standards for the North American market."[25]

  In January 2004, Cooper announced a joint venture with Kenda Rubber Industrial Co. Ltd. of China to build a tire factory in China that will make radial tires for cars and trucks for export to North America and Europe. The joint venture will be named Cooper Kenda Tire Manufacturing (Jiangsu) Co. Ltd. and initial production is scheduled for late 2005.[26]

  Furthering its investments in China, Cooper announced on September 17, 2004 that it had agreed to sell its auto parts business for 1.17 billion dollars and planned to spend part of the proceeds in building a tire factory in China.[27] *In other words, Cooper Tire is cannibalizing its domestic facilities and the jobs of their U.S. workforce in order to finance their investments in China!*

While these tire production investments are undoubtedly benefiting the various companies' profit margins and creating millions of high-paying jobs (by Chinese

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[17] Steve LaFerre, *CHINA: Dealers, Tiremakers Are Capitalizing, But Economic Revolution Has Issues*, TIRE REVIEW (August 2004); Tire Review Online: *http://www.tirereview.com/?type=art&id=2084&sid=·1&iid=239*

[18] Steve LaFerre, *CHINA: Dealers, Tiremakers Are Capitalizing, But Economic Revolution Has Issues*, TIRE REVIEW (August 2004); Tire Review Online: *http://www.tirereview.com/?type=art&id=2084&sid=·1&iid=239*

[19] Steve LaFerre, *CHINA: Dealers, Tiremakers Are Capitalizing, But Economic Revolution Has Issues*, TIRE REVIEW (August 2004); Tire Review Online: *http://www.tirereview.com/?type=art&id=2084&sid=·1&iid=239*

[20] Steve LaFerre, *CHINA: Dealers, Tiremakers Are Capitalizing, But Economic Revolution Has Issues*, TIRE REVIEW (August 2004); Tire Review Online: *http://www.tirereview.com/?type=art&id=2084&sid=·1&iid=239*

[21] Steve LaFerre, *CHINA: Dealers, Tiremakers Are Capitalizing, But Economic Revolution Has Issues*, TIRE REVIEW (August 2004); Tire Review Online: *http://www.tirereview.com/?type=art&id=2084&sid=·1&iid=239*

[22] *Cooper Tire to Boost Production in China of Low-Priced U.S. Tires*, TOLEDO BLADE, February 25, 2004.

[23] *Global Sourcing Newsletter*, December 2003, Vol. 1, No. 11; available at *http://www.xporta.com/press/newsletter11203.html*.

[24] *Cooper Tire to Boost Production in China of Low-Priced U.S. Tires*, TOLEDO BLADE, February 25, 2004.

[25] *Cooper Tire to Boost Production in China of Low-Priced U.S. Tires*, TOLEDO BLADE, February 25, 2004.

[26] *Area Firms Join Business Rush to China*, TOLEDO BLADE, January 1, 2004.

[27] *Cooper Tire to Sell Auto-Parts Business in $1.17 Billion Deal*, TOLEDO BLADE, September 18, 2004; *Cooper Sells Unit for $1.17 Bln, Will Invest in China*, Bloomberg.com, September 17, 2004; available at *http://quote.bloomberg.com/apps/news?pid=10000103&sid=aGtwaWLmp7nI&refer=us*.

standards) in China, they will also inevitably result in the loss of tire manufacturing jobs in Ohio and other U.S. states as these companies increasingly use China as a base from which to export their China-produced tires to the U.S. and other countries.

Conclusion

I hope this testimony is helpful to the work of the Commission. The United Steelworkers of America hopes that your voice will stand out in the national debate about our trading and economic policy not only with China, but with the rest of the world.

Thank you.

Co-Chair DREYER. Thank you, Mr. McCall. Thank you. The next speaker will be Mr. David Johnson, the President and CEO of Summitville Tile of Summitville, Ohio.

STATEMENT OF DAVID W. JOHNSON
PRESIDENT AND CEO, SUMMITVILLE TILES, INCORPORATED
SUMMITVILLE, OHIO

Mr. JOHNSON. Thank you very much, and it's a pleasure to be here this afternoon. I'm president of Summitville Tile, a third generation family-owned manufacturer of ceramic tile and related products in a tiny little village of Summitville, Ohio.

For three generations we have been converting clay and slab products and shipping them throughout the United States and to the furthest corners of the globe. However, we are now in a life and death struggle for our very survival. With virtually our entire industry wiped out, Summitville Tile is the last remaining charter member of its national trade association, The Tile Council of America. Today I hope to give definition to the full extent of this struggle in both financial and human terms. By way of introducing the Commission to Summitville I would like to say just a little bit about the company, the history, the products we make, the markets we serve.

We began in the year 1912 as Summit Brick Works, a producer of highway paving products that paved the first transcontinental highway in America which runs right through Ohio. The company weathered its ups and downs in the early years. It survived the Great Depression, survived the difficult World War II years; it survived two devastating fires that literally just about put us out of business.

My grandfather, dad and uncle kept their nose to the grindstone, however, and made a fledgling little brickyard into one of the leading ceramic tile manufacturers in the United States.

By the 1980s the company had reached the pinnacle of success. We were shipping products throughout the United States and throughout the world, everywhere from McDonald's and Burger King and Kentucky Fried Chicken worldwide to the roofing tiles on the White House. More than 600 employees were working at our four factories earning decent incomes with full benefits, healthcare, defined benefit pension, 401(k), five weeks' paid vacation, and I could go on. In our four facilities we were manufacturing some ten thousand colors, shapes, size and thickness and texture of tile for virtually every application you could conceive.

My brothers and I took over the management of the company in the mid 1980s and laid a foundation for a new ultra modern factory in Morganton, North Carolina. In a facility that was four football fields long with totally automated production lines, this was the most advance tile making facility its kind in the world. It was designed to be the future of our company, but ended up being an albatross around our neck. Not because the factory wasn't performing, but because its first years in production coincided with the greatest onslaught of cheap, low cost imports from all over the world which accelerated throughout the decade of the 1990s.

Little did we know in the year 1990 when we opened the doors to this facility that imports would rise from 40 percent to 80% of the U.S. ceramic tile market in one decade. Little did we know that the average unit selling price for the products that we were manufacturing would go from 1.25 in 1990 to 60 cents in the year 2000. All of this happened in one short decade, a decade during which the American currency appreciated by about 30 percent vis a vis most of America's trading partners in the world.

After having invested $120 million in capital to build our North Carolina facility, including the wages and the healthcare and all of the benefits to our employees, including the taxes we paid to all of the governmental authorities, after all of this, it seemed that everybody had made something out of this investment but the shareholders! And at the end of it all, when we shut the factory down in the year 2001, we were left with $25 million in stranded losses. The economic downturn that was spawned by 9/11 exacerbated our woes and caused us to undertake a restructuring of the entire company.

We shut down two of our four factories. We shut down eleven distribution centers. We laid off 450 employees. Before we were all done with it, we had to file Chapter 11 to reorganize the financial structure of the company. We hope to emerge out of Chapter 11 later this year probably about the third (1/3) of the size the company once was, still laden with "stranded debt" that we will be paying off for the next five and a half years, if my company can make it.

There's been a major public debate in this country about free trade and fair trade. One need only examine the public record maintained by the U.S. Department of Commerce, however, to see who's really winning this debate. I doubt over the long haul it will be the American people.

Within the ceramic industry alone imports are at an all-time high and prices at an all-time low and most of the industry is just about finished. The largest tile factory in America in Landsdale, Pennsylvania, owned by American Olean Tile Company, has been bulldozed over for a housing development, and I could say a lot more.

Soon China will even be a major force in our market. Yet, in the case of China, the tariff that we pay for product we ship to China is 69 percent. That includes a so-called value added tax that is over and above their tariff schedule.

We recently secured a large job in China, believe it or not. We're tiling all the Kentucky Fried Chickens in China. It's a miracle. They have already copied our product, and they're undercutting the price, but the corporation that we are selling to in China believes in our quality and prefers our product over the copycat. But they're paying an effective duty rate between 46 and 69 percent tariff. What is fair about that?

If this were not bad enough, on more than one occasion I have had container loads of product seized by Chinese customs demanding full description of my product and full manufacturing processes by which we manufacture the product. One can only draw the inference that their real intent is to copy what we have so they can come out and undercut us in price.

I would conclude by saying that as one of the last remaining tile manufacturers in the United States we are fighting a titanic battle for survival. It is a battle that we have paid hugely for both financially and in human costs, especially in terms of all the fine employees in my company that have either lost their job or haven't had a raise in three years, but that stuck by us. I pray that the leaders in Washington on both sides of the aisle will recognize the reality and sheer scope of the unfair, misguided trade practices that are at play today in nations like China and others. If we do not do something to wake up soon, we are going to end up with our entire industrial base in the country gone and gone for good.

That's my story and I'm sticking to it.

[Audience applause.]

Co-Chair DREYER. Thank you for finishing exactly in the seven minutes.

Mr. JOHNSON. I timed this all day yesterday.

[The statement follows:]

Prepared Statement of David W. Johnson
President and CEO, Summitville Tiles, Incorporated, Summitville, Ohio

I am here today as the President of Summitville Tiles, Inc., a third-generation family owned manufacturer of ceramic tile and related products headquartered in Summitville, Ohio. I also am speaking as a charter member of the U.S. tile industry association, Tile Council of America. I also am the Chairman of the Ohio Manufacturer's Association, which is an Ohio trade association and public policy lobbying organization representing 1,800 member companies that range in size from small family owned manufacturers like Summitville Tiles to companies like Honda, the single largest manufacturer in the state of Ohio. My testimony today, however, shall be focused specifically upon Summitville Tiles and the U.S. ceramic tile industry, and the devastating effects that one-sided "globalization" of our trade laws and protections has had on us and our industry over the course of the past decade.

Just by way of introducing the Commission to Summitville Tiles, let me say a few words about the company, our history, the products we manufacture and the markets we service. This background is significant if only to establish a context for assessing the value of companies like ours . . . companies that have been providing quality livelihoods for hundreds of families for so many years, that have paid millions of dollars in local, state and Federal taxes, and that have contributed to the betterment of the communities in which we do business.

An American Success Story

Summitville Tiles began in the year 1912 as the Summit Brick Works, a producer of highway paving block and later on, by the 1920's, a producer of face brick. The company weathered the ups and downs of its early years . . . survived the Great Depression, survived a 19 month strike, and endured the difficult World War II years.

After World War II, the company's founder, my grandfather, F.H. Johnson, handed over the reins to a second generation of the family: my uncle and father, Fred and Peter Johnson. They soon launched an altogether new company, producing quarry tiles and industrial floor brick. Under their leadership, despite two disastrous fires in the 1950's, the company flourished.

The post war construction boom of the 1950's and 1960's bolstered the company sales and led to it becoming a national company. In 1965, a second factory was established, soon doubling the output of the company. During this time frame, new distribution centers were added across the nation . . . and by the 1980's we had locations coast to coast. In 1970, the company expanded its clay mining operations into the coal mining business when it acquired the Zoar Mining Company. And in 1980, a new division of the company was started to manufacture ceramic tile installation materials.

By virtually every measure, Summitville Tiles had become an American success story. We were supplying floors to virtually every McDonald's, Burger King, and Kentucky Fried Chicken restaurant in the U.S. and world-wide (except where overseas high tariff and VAT taxes, and especially hidden non-tariff barriers, have kept us out of many countries) . . . and also to the major hotels, shopping malls, and public institutions of all kinds. Our industrial flooring was being specified in Anhueser Bush breweries, Carnation Dairies and at Kraft Cheese. We supplied subway tile for the Washington, D.C. and New York City transit authorities. We supplied the roofing tiles on the White House.

Employment at Summitville Tiles had grown to over 600 by the 1980's. And of course we offered our employees good health care coverage, a defined benefit retirement plan, a supplemental 401K savings plan, life insurance, perfect attendance pay, jury pay, funeral pay, and up to five weeks vacation pay. Working at Summitville Tiles was a coveted thing.

Era of Growth Turns Into Decade of Decline

With the company at an all time high in terms of its growth and earnings, a third generation took the helm of the company in the mid-1980's as my brothers Peter, Jr. and Bruce joined together with me in managing the company. To fuel the company's continued growth, foundations were laid in 1989 to construct a new, ultra modern tile manufacturing facility in Morganton, North Carolina. Four football fields long with automated production lines, this facility was the most advanced of its kind in the world. It was designed to become the future bulwark of the company . . . but it would soon become an albatross around our necks.

Little did we know at that time that imports of ceramic tile into the U.S. would go from 40% of the domestic market in 1990 to 80% of the market by the year 2000. Who would have thought that the average unit selling price for the products that we were making would go from an average unit price of $1.25 in 1990 down to $.60 in 2000. All of this happened in one short decade . . . a decade during which the value of the American dollar appreciated by as much as 30% against most of the currencies of the world, which helped fuel the increase in imports into the U.S. But, more importantly, this also was the decade during which NAFTA and a whole host of other new trade initiatives had been given birth . . . and a time frame during which China was just gearing up for the ultimate assault on America's industrial competitiveness, which is unfolding today. China—which has a larger ceramic tile production capacity than the rest of the world combined.

After having invested some $120 Million in capital to build the North Carolina factory and to equip it . . . and operate it for a decade . . . the shareholders of the company were left with stranded losses to the tune of $25 Million. The economic downturn that was spawned by 9/11 exacerbated our woes, causing us to undertake a major, life-and-death restructuring and downsizing of our entire company. With the banks nipping at our heals, we moved quickly to close down the North Carolina plant, to close down eleven distribution centers, to close down a glaze tile operation in Ohio, to consolidate two quarry tile facilities in Ohio and to liquidate any and every other asset that we could—for $.50 on the dollar, if we were lucky.

Some 450 employees were impacted by all of this . . . out on the street with no health care. Meanwhile, our ultra-modern tile plant lays idle in North Carolina. With some $18 Million worth of equipment, we have yet to get a single offer from anybody to buy it. And who in the U.S. ceramic tile industry is left to buy it? Just in the past five years, four more U.S. tile companies have closed their doors. This leaves a few survivors, like Summitville Tiles, and the one giant of our industry . . . DAL Tile, which is part of a large conglomerate with most of its sales coming from imports. Summitville Tiles, in fact, is the *only* charter member of the U.S. ceramic tile industry's national trade association to remain in business today.

With all of our operational restructuring and downsizing in place, one final piece of the restructuring remained: one that could only be accomplished through a Chapter 11 filing which we did in December of 2003. Soon we will emerge out of Chapter 11 as a company that is ⅓ the size that we were four years ago, still laden with stranded debt from operations that are no longer in operation. And in order to save the company, my family has had to put virtually everything that it has on the line, personally guaranteeing new loans and locking into a Plan of Reorganization that will be "tight" at best. At least for now, though, we have saved the company . . . and saved 250 American jobs.

Free Trade vs. Fair Trade

There has been a major debate going on in the United States for more than a decade . . . a debate between the proponents of unfettered Free Trade and the defenders of truly balanced Fair Trade policies. One need only examine the public record maintained by the Department of Commerce, however, to see who is really "winning" this debate. The bare bone facts of the matter are as chilling as they are dramatic.

According to statistics gathered by the Tile Council of America through the Department of Commerce, for instance, ceramic tile imports are at an all time high in the history of the United States—77.6% import penetration for all tile, and 80% for the largest category of glazed tile, at the end of 2003. Not much left for U.S. manufacturers to compete for. And prices are at an all time low. This coincides precisely with the passage not only of NAFTA but of all of the rest of the multiple bilateral and regional free trade initiatives of the past decade: the Caribbean Basin initiative, the Andean Trade Preferences Act, and the multiple Latin American and world-wide free trade agreements (FTAs), with more already negotiated and awaiting Congressional passage (like CAFTA); others now actively being negotiated (like the Free Trade of the Americas or FTAA, and WTO Doha Round, and Thailand—a huge tile producer and historic cheater as to its ceramic tile exports); and many more already announced by the USTR for negotiations. And it is the declared intent of the Administration to eliminate all industrial and other tariffs by 2015. The GATT treaties merely extend the unfair advantages born out in these bilateral and sub-regional treaties to all of our trading partners in the rest of the world.

Meanwhile, some of the world's largest exporters of tile maintain tariffs in their own country that make it absolutely prohibitive for American companies to ship product into their country. I know, I have tried for years. Brazil, the second largest producer of ceramic tile in the world, maintains not only a 17% tariff on all ceramic tile coming into its borders but an additional 29% so called "value added" tax that is over and above their tariff rate. China's glazed tile tariff rate is at 45% with a 17% "value added" tax *compounded* on top of that = a 69.65% combined duty and tax rate!

Who really knows all of the additional hidden advantages that nations such as China have, insofar as energy costs and banking practices and government subsidies are concerned? We know they do *not* have the health care costs, the tort litigation costs, or the tax burden calculated into their prices. Certainly, we have long known about China's manipulation of their currency, and we talk and meet about it—but nothing is done. All of these factors skew the concept of fair trade and make free trade a charade. We have traveled to China to try and serve an international food chain customer—we couldn't get our tile across the dock without prohibitive tariffs, VAT taxes, and multiple hidden fees and charges.

What has all of this brought the U.S. ceramic tile industry—it has virtually decimated it, and caused it to be sold off to foreign producers who just want access to our distribution networks and regional warehouses. Since NAFTA's inception, imports out of Mexico into the United States have grown by a whopping 260%. China's exports into the U.S., though still relatively small, already have increased by 350% just in the past five years. And the prices at which these and other nations are selling their products in the U.S. are at *below* our manufacturing costs . . . even with ultra modern tile manufacturing facilities such as Summitville's in North Carolina, which we closed because countries like Turkey could put ceramic tile on our loading dock at less than our costs of manufacture.

If this were not bad enough, on more than one occasion, Summitville Tiles has had its ceramic tile shipments to Shanghai simply seized . . . with Chinese customs officials demanding that we supply not only physical descriptions, product formulae, and other highly confidential and proprietary information about our products, but the manufacturing process by which these products were made. The obvious inference that one draws from this is that they wish to copy the products and replace them with their own products. And it is well known that they do exactly that for the full range of U.S. products, both in high tech and for basic industrial products like ceramic tile, as one of the world's most blatant intellectual property (IP) violators. Their knock-offs of our proprietary Stratta tile are, I am sure, on the floors of our food chain customer's stores in China.

Conclusion

Summitville Tiles is one of the last remaining ceramic tile manufacturers in the United States. We are fighting a titanic battle for survival. It's a battle that we will not give up. But I do pray that our leaders in Washington wake up and recognize the reality of . . . and the sheer scope of . . . the multiple unfair trade practices that are at play today with nations like China. *If we do not do something to curb this,* there will be no more ceramic engineers being educated in this country—imagine how difficult it is right now to convince an engineering student that there is a future in ceramics? *If we do not do something to curb this*, we are going to wake up one day without our manufacturing base in this country—much of it already is gone . . . and, soon thereafter, without our nation's wealth . . . or our role as a manufacturing leader (not just assembling foreign components—but truly manufacturing), and our role as a military leader in a dark and dangerous world.

Summitville

PRESS STATEMENT

David W. Johnson, President and CEO
December 12, 2003

Summitville Tiles to File Chapter 11—"*To Save the Company*"

For more than two years, Summitville Tiles has been engaged in a strategic restructuring of its *operations*. In the process of this, two of the company's three tile manufacturing facilities have been closed with all remaining tile manufacturing operations consolidated into its Pekin, Ohio plant. Additionally, three of the company's tile distribution centers have been sold with eight more centers liquidated. And, company-wide employment has been reduced from 650 to a little more than 250 . . . *where it is expected to remain*.

With these essential elements of the company's restructured *operations* now in place, it is being announced today by Summitville President & CEO David W. Johnson that the company intends to file Chapter 11 at the Federal Court House in Youngstown, Ohio in order that it may restructure its debt and become fully rehabilitated . . . *and save 250+ jobs*. The petition is to be filed with the Court Friday morning, December 12, 2003. Employees, Customers and Suppliers are being notified today.

What Are the Root Causes of Summitville Tiles' Difficulties?

Summitville Tiles, and the entire U.S. ceramic tile industry, have been ravaged in recent years by the effects of low-cost foreign imports that are pouring into America's ports from all over the world at prices that are below U.S. tile manufacturers' costs. Just in the decade of the 1990's, imports of ceramic tile into America have gone from *40%* of the market to now *80%*. And the average unit selling price has been cut in half.

U.S. trade agreements such as NAFTA, GATT and now the WTO have exacerbated these conditions to such a degree that Summitville Tiles is *the last* remaining charter member of the U.S. tile industry's national trade association, The Tile Council of America. In addition to Summitville's plant closings, five other U.S. tile manufacturers have either closed for good or have shut down factories . . . *just since September 2001*.

Strategy for Summitville Tiles Overcoming Foreign Tile Import Threat

In conjunction with the company's *operational* restructuring efforts of the past two years, it has painstakingly peeled away all of its nonperforming entities, getting completely out of the business sectors most impacted by imports. As a consequence, the company will now be in a position to focus 100% of its resources and energies on the core base of product lines for which it is not only best known, but which it is best able to produce *profitably*. These products include its unglazed quarry tiles, acid resistant industrial floor brick, precision thin brick . . . and a *new* product, ceramic roof shingles. Summitville Laboratories will remain in the mix as well, producing a full line of tile installations materials at the company's Minerva, Ohio facility.

Capitalizing on the advantages of an almost unlimited supply of high-grade, low-cost raw materials, an experienced and dedicated work force, and facilities that have had a proven track record of performance, Johnson views the company's prospects for recovery to be *strong*. Summitville Tiles currently markets its products through more than 150 distributors all across the nation and to a lesser extent to ports overseas. Its top quarry tile customers are fast food giants like McDonald's, Burger King and Kentucky Fried Chicken . . . *world-wide*. Its industrial flooring accounts are the likes of Anheuser Busch Brewery, Coca Cola Bottling and Kraft Cheese to name just three. And its thin brick products are used on large commercial projects like Hilton Hotels and Home Depot Centers.

How Does Chapter 11 Rehabilitate Summitville Tiles?

Chapter 11 will assist with the company's rehabilitation in a number of ways, but the most significant ways in which it will help are as follows:

- It will allow the company to restructure the payment terms to, both, secured and unsecured creditors;
- It will allow the company to make critical capital investments in its manufacturing operations without subjecting such investments to creditor lien actions;
- It will enable the company to terminate leases that are no longer needed.

Generally, a Chapter 11 proceeding will afford the company some "breathing room" in order that it may put together and implement a business plan that enables the company to survive while satisfying its creditors and saving 250+ jobs.

What about the State of Ohio Loan Package for Summitville Tiles?

The original $3.5 Million State of Ohio loan facility that had been approved for Summitville Tiles (to have been facilitated by the Columbiana County Port Authority and Carroll County) has been substituted with a lesser, $1.1 Million facility that will be administered directly by the state, through the Ohio Department of Economic Development. This facility shall be fully collateralized by assets provided by the Johnson family . . . and further secured by the personal guarantees of Summitville Tiles CEO David W. Johnson and his brother, company Executive Vice President Bruce F. Johnson.

This loan facility shall be for the express purpose of a planned $1.2 Million capital investment project at Summitville Tiles' Pekin, Ohio manufacturing facility. This project will include: (1) new kiln control equipment that is designed to improve productivity and product recoveries; (2) new clay feeding and blending systems designed to improve shade control and product yields; and (3) an additional production line designed to expand production and enhance scheduling flexibility. This capital improvements project has been in the planning & design stages for months and shall be ready to implement early in the 1st quarter of 2004.

Key Elements of Summitville Tiles' Chapter 11 Plan

Additional key elements to the Summitville Tiles Chapter 11 plan are as follows:

- The Johnson family and current management team shall remain in control of the company throughout the Chapter 11 time frame . . . *and beyond*;
- The Johnson family shall be placing additional equity in the company *over and above* that which is securing the state of Ohio loan facility;
- Emergence from Chapter 11 is projected to be a relatively quick, *six-month time frame*;
- There will be no raw material, product shipment or employment interruptions to operations expected during the Chapter 11 time frame;
- Reasonable assurances have been given to the company that key suppliers and valued customers remain in full support of the company's turn-around plans.

We Will Survive!

Summitville CEO David Johnson concluded his comments with: "Summitville Tiles started in business in 1912. It has survived both World Wars, the Great Depression, a 19-month strike, two devastating fires and a lot more. Three generations of my family have worked right alongside of three generations of employees here. We have an unusually strong bond with one another. And the same might be said of many of our customers and suppliers. The steps that we are taking today are meant to *solidify* these relationships . . . and ultimately to save a company that is worth saving if only for the increasing scarcity of companies like ours."

"Though we regret having to put everybody through the exercise of a Chapter 11 proceeding, we feel that this course of action is truly in the best interest of *all* of the stakeholders of the company. And, frankly, we feel grateful for the opportunity to restructure the company around its core, profitable business . . . the part of the business that is *not* as heavily impacted by imports. This is a far better prospect than just being forced to close our doors, *forever*."

"Finally, we wish to thank everybody that has remained at our side through all of this . . . employees, customers, suppliers, the State of Ohio's Economic Development team and others. This support has bolstered us and kept us mindful that *you never lose a fight unless you quit*. And, we are *not* quitters!"

Summitville Tiles

Economic Impact

Decade 1993–2003

$130 Million Payroll Paid—($90 Million—Ohio)
$ 14 Million Medical Benefits Paid—($10 Million—Ohio)
$ 11 Million Pension Assets—(Current)
$ 10 Million FICA Taxes Paid
$ 4 Million Property Taxes Paid—($2 Million—Ohio)
$ 11 Million Sales Taxes Paid—($1 Million—Ohio)
$210 Million To Vendors Paid—($52 Million—Ohio)

***$390 Million* Economic Impact—(*$166 Million—Ohio*)**

Employee Impact

- **$30,000 AVG Annual Total Compensation (Hourly)**
- **Health Care Coverage—*No Top Limit*—$1K out-of-pocket**
- **Defined Benefit Retirement Plan**
- **Matching 401k Retirement Plan**
- **Up to Five Weeks Paid Vacation**
- **Jury Pay**
- **Funeral Pay**
- **National Holiday Pay**
- **Perfect Attendance Pay**
- **Life Insurance, Plus Supplemental Life Insurance Plan**
- **Supplemental Disability & Sickness Plan (20 Weeks)**
- **Johnson Scholarship Plan—$50,000 in past 10 years**

Co-Chair DREYER. Our next speaker will be Mr. Jerry Vanden Eynden, Lancaster Colony Glassware and Candle Corporation, accompanied by Mr. Brad Root. As I understand it, Mr. Vanden Eynden will testify and Mr. Root will be available during a Q&A?

Mr. ROOT. That's correct.

STATEMENT OF JERRY VANDEN EYNDEN, PRESIDENT LANCASTER COLONY GLASSWARE AND CANDLE GROUP CINCINNATI, OHIO ON BEHALF OF CANDLE-LITE AND NATIONAL CANDLE ASSOCIATION ACCOMPANIED BY BRAD ROOT

Mr. VANDEN EYNDEN. On behalf of Candle-Lite of Lancaster Colony and the National Candle Association I appreciate the opportunity to appear today. I am Jerry Vanden Eynden, President of Candle-Lite. Our headquarters are in Cincinnati, Ohio and our production facilities are located in Leesburg, Ohio. Joining me today is Brad Root, Senior Vice President of AI Root Candle Company here in Ohio. I know I'm not going to get done in seven minutes so I'll tell you what I'm trying to show where we successfully used the unfair trade laws that are in practice today to ensure fair competition.

Ohio plays a significant part in the candle production. Fifteen members of the NCA are located in Ohio. NCA was the petitioner in the original antidumping investigation and participated as an interested party in four administrative reviews, four new shipment reviews, and the first Sunset review of the antidumping order. The NCA also participated in approximately 102 investigations regarding the scope of the Order.

We believe the U.S. manufacturers should not outsource jobs, American jobs, or move production to China. There is an alternative. Instead we should fight for our share of the U.S. market by using the U.S. unfair trade laws to ensure fair competition in the U.S. market. The U.S. candle industry has proven the PRC candle producers are dumping candle in the U.S. market, and as a result of an antidumping order we were able to successfully compete against the import candles from China.

On September 3rd, 1985 the NCA filed an antidumping petition with the Department of Commerce against petroleum wax candles from the PRC. The U.S. candle market has experienced huge increases in the volume of such candles being unfairly traded from the PRC causing domestic candle manufacturers to experience significant loss of customers, loss of sales, erosion of profits, employee layoffs, underutilization of capacity, companies going out of business and decline in financial performance.

For the period of 1979 through 1985, the volume of PRC imports of candles into the United States increased by 4,000 plus percent. That's 710,000 pounds in '79 to 28.7 million pounds in 1985. The PRC share of total imports increased from one percent in 1979 to 46 percent in 1985. Over that same period, the number of producers of candles in the United States declined as 30 companies went out of business.

The price undercutting by PRC producers was so severe that PRC candles were being sold in the U.S. market at prices below the cost of the raw material, which is petroleum wax, to U.S. producers. U.S. producers were unable even with their advanced technology to produce candles at costs low enough to prevent further erosion in the market share to the unfairly traded PRC imports.

On July 10th, 1986 the department issued its final determination. The department found that the PRC candles were being sold in the United States at less than fair value and that the antidumping margin was 54.1 percent. In August 1986 the Commission issued its final affirmative determination wherein it found that an industry in the United States was materially injured by reason of import candles of petroleum wax from the PRC.

On August 28th, 1986 the department issued the Antidumping Duty Order.

The Order has been remarkably effective over its 18-year history. The imposition of the Order in 1986 allowed the domestic industry to recover from the material injury that the Commission found in its original investigation. This turnaround in industry performance was the direct result of a dramatic reduction in imports from the PRC in the year the 54.2 percent antidumping duties was imposed. From the record level of 28.9 million pounds reached in 1985, the last year of the original period of investigation, imports fell by 80 percent in 1986 to 5.7 million pounds. Imports from the PRC fell even further in 1987 and remained below the 1985 level well into the '90s.

The large decline in the quantity of imports from China was accompanied by a dramatic increase in the price of candle imports from China. During the years '83 through '85, or the original period of investigation, the average unit value of imports from China ranged from 44 to 51 cents per pound. These prices were well below, or approximately half, the average unit values of imports from all other countries. The low prices of imports from China likewise undersold domestic producers.

The Commission stated in its original investigation that pricing data for Chinese candles reflect large margins of underselling for all candle varieties examined during that period of investigation. The Commission also found that, even in the 1983–1985 period of the original investigation, Chinese candles offered a direct substitute for domestic candles across all types and all major market segments. The combination of widespread underselling and direct substitutability between Chinese candles and domestic candles led inevitably to price depression in the U.S. market. As imports from China took an increasing share of the U.S. market from domestic producers, Chinese candles forced domestic prices downward by eight percent over the period of investigation.

The imposition of the Order had a major upward influence on Chinese import prices and reversed the price depression evident in the U.S. market. In 1986 the average unit value of imports from China rose to 71 cents per pound, or 40 percent above the 1985 level. In 1987 the average unit value again rose to a dollar per pound, a level that took the average price of Chinese candles above that of imports from nonsubject countries.

This strong upward movement in Chinese import prices was due in part to product mix changes, as imports from China included more high-priced, novelty-type candles not included within the Order. It also reflects the positive impact of the order on prices of candles within the order, which represented the vast majority of candles consumed in the U.S. market. The average unit value of imports from China continues to rise from the late '80s into the mid '90s. More importantly it remained well above the average unit value of candle imports from all other countries.

Candle producers uniformly reported that candle demand experienced strong growth during the early and mid '90s. Towards the late '90s the quantity of apparent domestic consumption of candles had more than tripled from the consumption levels measured by the Commission in the original investigation.

In its 1999 Sunset Review determination the Commission noted the substantial growth in apparent domestic consumption that had occurred since the original investigation, and that domestic producers, importers of candles from China, and importers from nonsubject countries have shared in this growth. I'm over.

Co-Chair DREYER. Nine seconds.

Mr. VANDEN EYNDEN. Okay. One thing we did find out just recently is we were successful in another Sunset Review of getting duty raised to 108.

[The statement follows:]

Prepared Statement of Jerry Vanden Eynden, President
Lancaster Colony Glassware and Candle Group, Cincinnati, Ohio
On Behalf of Candle-Lite and National Candle Association
Accompanied by Brad Root

The Impact of U.S.-China Trade and Investment on Ohio's Economy

On behalf of Candle-Lite of Lancaster Colony and the National Candle Association ("NCA"), I appreciate the opportunity to appear before you today. I am Jerry Vanden Eynden, President of Candle-Lite. Our headquarters are in Cincinnati, Ohio and our production facilities are located in Leesburg, Ohio. Ohio plays a significant role in U.S. candle production. Fifteen members of NCA are located in Ohio. NCA was the Petitioner in the original antidumping investigation and participated as an interested party in four Administrative Reviews, four New Shipper Reviews, and the first Sunset Review of the Antidumping Duty Order (the "Order"). NCA also participated in approximately 102 investigations regarding the scope of the Order.

We believe that U.S. manufacturers should not outsource American jobs, or move production to China. There is an alternative. Instead, we should fight for our share of the U.S. market by using the U.S. unfair trade laws to ensure fair competition in the U.S. market. The U.S. candle industry has proven that PRC candle producers are dumping candles in the U.S. market and, as a result of an antidumping Order, we are able to successfully compete against candle imports from the People's Republic of China ("PRC" or "China").

On September 3, 1985, NCA filed an antidumping Petition with the Department of Commerce (the "Department") and the International Trade Commission (the "Commission") against petroleum wax candles from the PRC. The U.S. candle market had experienced huge increases in the volume of such candles being unfairly traded from the PRC, causing domestic candle manufacturers to experience significant loss of customers, loss of sales, erosion of profits, employee layoffs, underutilization of capacity, companies going out of business, and a decline in financial performance. For the period of 1979 through 1985, the volume of PRC imports of candles into the United States increased by 4,077% (710,000 pounds in 1979 to 28.7 million pounds in 1985), and the PRC share of total imports increased from 1% in 1979 to 46% in 1985. Over that same period, the number of producers of candles in the United States declined as 30 companies went out of business. The price undercutting by PRC producers was so severe that PRC candles were being sold in the U.S. market at prices below the cost of the raw material, petroleum wax, to U.S. producers. U.S. producers were unable, even with their advanced technology, to produce candles at costs low enough to prevent further erosion of market share to the unfairly traded PRC imports.

On July 10, 1986, the Department issued its final determination. The Department found that the PRC candles were being sold in the United States at less than fair value and that the dumping margin was 54.21%. In August 1986, the Commission issued its final affirmative determination wherein it found that an industry in the United States was materially injured by reason of imports of candles of petroleum wax from the PRC. On August 28, 1986, the Department issued the Antidumping Duty Order.

The Order has been remarkably effective over its 18-year history. The imposition of the Order in 1986 allowed the domestic industry to recover from the material injury that the Commission found in the original investigation. This turnaround in industry performance was the direct result of a dramatic reduction in imports from the PRC in the year the 54.21% antidumping duty was imposed. From the record level of 28.9 million pounds reached in 1985 (the last year of the original period of investigation), imports fell by 80% in 1986 to 5.7 million pounds. Imports from the PRC fell even further in 1987 and remained below the 1985 level well into the 1990s.

The large decline in the quantity of imports from China was accompanied by a dramatic increase in the price of candle imports from China. During the years 1983–1985, or the original period of investigation, the average unit value of imports from China ranged from $0.44 to $0.51 per pound. These prices were well below, or approximately half, the average unit values of imports from all other countries. The low prices of imports from China likewise undersold domestic producers. The Commission stated in the original investigation that "pricing data for Chinese candles reflect large margins of underselling for all candle varieties examined during the period of investigation." The Commission also found that, even in the 1983–1985 period of the original investigation, Chinese candles offered a direct substitute for domestic candles across all candle types and in all major market segments. The combination of widespread underselling and direct substitutability between Chinese candles and domestic candles led inevitably to price depression in the U.S. market. As imports from China took an increasing share of the U.S. market from domestic producers, Chinese candles forced domestic prices downward by 8% over the period of investigation.

The imposition of the Order had a major upward influence on Chinese import prices and reversed the price depression evident in the U.S. market. In 1986, the average unit value of imports from China rose to $0.71 per pound, or 40% above the 1985 level. In 1987, the average unit value rose again to above $1.00 per pound, a level that took the average price of Chinese candles above that of imports from non-subject countries. This strong upward movement in Chinese import prices was due in part to product mix changes, as imports from China included more higher-priced novelty-type candles not included within the Order. It also reflects the positive impact of the Order on prices of candles within the Order, which represented the vast majority of candles consumed in the U.S. market. The average unit value of imports from China continued to rise from the late 1980s into the mid-1990s. More importantly, it remained well above the average unit value of candle imports from all other countries over that period.

The pricing environment for U.S. producers was greatly improved as margins of underselling were greatly reduced or eliminated and the price depression evident in the period of investigation was reversed.

The continuing impact of the Order on the quantity and price of imports from China permitted the domestic industry to thrive during the 1990s, when candle demand increased strongly. The expanded role of candles in household and personal use, particularly as a fragrance delivery device, lead to annual demand growth rates of up to 20% during this period. There were two components to this increasingly popular function. One was the health-oriented practice of aroma therapy, which involves the burning of candles containing essential oils with reputed therapeutic effects. The second was a marked shift in consumer taste generally toward the use of scented candles of all kinds. This fragrance delivery function augmented the more traditional use of candles for the type of light, ambiance, and decor they can provide.

Candle producers uniformly reported that candle demand experienced strong growth during the early and mid-1990s. Toward the late 1990s, the quantity of apparent domestic consumption of candles had more than tripled from the consumption levels measured by the Commission in the original investigation. This rapid growth was a strong contrast to the consumption trend during the original period of investigation. Over the three-year period 1983 to 1985, the quantity of apparent domestic consumption rose at an annual compound rate of less than 6%, while consumption in terms of value was essentially stable. The stable dollar consumption was in large part the result of the price depression caused throughout the U.S. market by sharp rises in imports of dumped candles made in the PRC.

In its 1999 Sunset Review determination, the Commission noted the substantial growth in apparent domestic consumption that had occurred since the original investigation, and that domestic producers, importers of candles from China, and importers of candles from non-subject countries have shared in this growth.

Since the Commission's 1999 Sunset Review determination, however, the economic performance and financial condition of the domestic industry has weakened. Despite the continuation of the Order at the same antidumping rate of 54.21%, domestic production and shipments have declined, while industry profitability has fallen. The industry is thus particularly vulnerable. The weakened state of the industry can be attributed to two factors: (1) low growth in U.S. candle demand, and (2) continued growth in imports from China, despite the Order.

As the domestic industry predicted in the last Sunset Review, the exceptional growth in the popularity and use of candles that occurred during most of the 1990s ended as that decade came to a close. The ending of this unusual period of demand growth, combined with the recession of 2001, resulted in little growth in U.S. candle consumption over the last five years. Based on a survey conducted under the auspices of the NCA, domestic production of candles in 2003 is actually *lower* than domestic production in 1998.

Despite the weakening of U.S. demand, candle imports from China nevertheless continued to increase. Over the period of 1988 through 2003, imports from China more than doubled from 86.6 million pounds to a record 183.6 million pounds. In contrast, imports from all other countries actually declined over the same period by 16%, falling from 214.1 million pounds in 1998 to 179.9 million pounds in 2003. This same trend of increasing imports from China and decreasing imports from non-subject countries has continued strongly in 2004.

Chinese candle exporters responded to the decline in U.S. consumption by simply increasing the margin of dumping dramatically. This intensified dumping permitted Chinese exporters to undersell both domestic producers and non-subject imports despite the existence of the 54.21% country-wide margin.

The re-emergence of significant underselling by imports from China, even with the Order, can be traced to 1998. There was a notable sharp decline in the average unit value of Chinese candle imports from $1.52 per pound in 1997 to $1.00 per pound in 1998. This large price decline accompanied the surge in the quantity of imports in 1998 and brought the average per-pound price of imports from China to a level not seen since 1986.

This decline brought the unit value of imports from China well below the unit value of imports from all other countries. This reversed the pattern of overselling by imports from China relative to imports from all other countries that had prevailed since 1987, or for a decade. The unit value of imports from China has remained at or significantly below $1.00 per pound from 1998 to today.

The large decline in the price of imports from China created chronic, significant price pressure throughout the U.S. market over the last five years. Even the beneficial impact of the 54.21% antidumping duty was not sufficient to prevent an intensifying competitive pricing environment from harming domestic producers.

The intensification of dumping was confirmed and measured through the administrative review process at the Department of Commerce. Between 1986, when the antidumping order was first imposed, and 2000, there was only one administrative review of the order. This review in 1988 of one Chinese exporter re-confirmed the 54.21% rate for all Chinese producers and exporters. However, in response to the Customs crackdowns, Chinese producers and exporters dropped their prices sharply, and began to request administrative reviews by the Department of Commerce.

The first of these reviews to actually calculate an antidumping margin yielded a margin of 95.22% for the exporter that requested the review. The period covered by this review was August 2000–January 2001, and the much higher margin found by the Commerce Department reflects accurately the impact of the sharp drop in Chinese candle prices that occurred in 1998. Increased dumping was further confirmed by an administrative review covering the period August 2000–July 2001. This review yielded a calculated rate of 65.02% for the Chinese producer/exporter.

In an effort to make the antidumping order reflect the actual magnitude of intensified dumping affecting the U.S. market, the NCA initiated a major initiative in August 2002, requesting administrative reviews of 104 Chinese producers and/or exporters. This request covered firms that the NCA believed accounted for the majority of imports of subject merchandise. The administrative review period covered imports during August 2001–July 2002. The result of this major review was a new calculated rate of 108.30%, which was applicable to all Chinese producers and exporters. The NCA believes that this result, effective as of April 19, 2004, brought the antidumping order more closely in line with the magnitude of dumping that is actually occurring and that has been ongoing for several years. This result clearly confirms the intensification of price pressure from candle imports from China in the U.S. market that has seriously affected U.S. producers over the period since the last Sunset Review by the Commission. The 108.30% antidumping brings the Order in line with the current PRC dumping practices, levels the playing field in the market, and enables U.S. candle companies to again compete effectively with PRC imports.

Without the Order, or if it were revoked, the volume of imports of candles from China would increase dramatically, both in absolute terms and relative to production and consumption in the United States. The NCA estimates that, at a minimum, imports from the PRC would double within a reasonably foreseeable time. How quickly this increase in imports would occur is tied to the speed at which the PRC would be able to (1) divert current production to the open U.S. market; (2) ramp up production with existing facilities to process excess PRC-produced paraffin wax into candles for the U.S. market; and (3) ramp up new automated capacity to expand candle production further.

Diversion of current production and an increase in production at existing facilities would occur immediately upon revocation. For more than a decade, the PRC industry has purchased and installed significant new capacity based on state-of-the-art automated candle-equipment from Europe. Indeed, as early as the 1980s, a U.S. candle producer—San Francisco Candle—moved its advanced candle equipment to the PRC. Since the mid-1990s, the PRC is known to have bought significant amounts of modern machinery, much of it purchased directly from Germany, the primary source of advanced candle making machinery. Fushun, the largest PRC petroleum wax refinery, bought German candle equipment for the candle factory it built next to its refinery.

In addition, a significant PRC production base exists based on more traditional, labor-intensive production methods and supported by large amounts of used candle production equipment available in China and elsewhere. Finally, many candle producers in China do not produce candles year-round, but rather utilize their facilities to supply the market during the heaviest seasonal demand. As a result of all of these factors, utilization of existing capacity can be increased rapidly to affect a large increase in supply.

The purchase and ramp-up of new candle production capacity is also likely to begin immediately and continue for the foreseeable future. Although its impact would not be immediate, the building of new candle production facilities with the most sophisticated, automated technologies would also add significantly to Chinese candle supply available to the U.S. market within a reasonably foreseeable time. The addition of such capacity would be only a continuation of the long-term expansion by Chinese producers of their production capacity through investment in state-of-the-art candle-producing machinery that has been ongoing for more than a decade.

An equally important factor in the likely surge of imports from China upon revocation is the large and growing capacity of China to produce petroleum (paraffin) wax. The availability of excess paraffin wax in China would support a massive expansion of Chinese candle production, most of which would be intended for export to the United States.

Consistent with this wax production capability, China has dramatically increased exports of paraffin wax to the U.S. since the mid-1990s. In 1996, U.S. imports of paraffin wax were a negligible 10 million pounds, or only 5.4% of total U.S. imports. By 1998, the last year of the period reviewed in the prior Sunset Review, paraffin wax imports from China had grown to 106.4 million pounds imports, or 37.4% of total U.S. paraffin wax imports.

By 2003, imports from China had tripled to 309 million pounds. In the first half of 2004, imports from China increased to 256 million pounds or 50% more than the same period in 2003. In the first half of 2004, imports from China accounted for 73.3% of total U.S. imports of paraffin wax.

Absent the Order, candle imports from China would increase dramatically, as much of the Chinese petroleum wax would enter the U.S. in the form of candles, rather than as the raw material. Imports of paraffin wax from China in the first half of 2004 alone are far above the total pounds of candle imports from China. Thus, China could rapidly double their candle exports to the United States.

Finally, there is incontrovertible evidence in the track record of Chinese producers that China can rapidly increase the volume of dumped imports of candles over a short period of time. This occurred prior to the original investigation, when imports from China increased from negligible levels in 1979 to 28,949,000 pounds in 1985, capturing 19% of the U.S. market in the process. Over that period, China's share of total imports increased from 1% in 1979 to 46% in 1985. Even with the Order in place, imports from China tripled in the space of only three years, rising from 45.9 million pounds in 1997 to 151.9 million pounds in 1999.

Revocation of the Order would greatly reduce the prices at which PRC candles are sold in the U.S. market and cause significant depression in domestic producer prices. Candles are a widely-consumed, popular consumer product that is sold through well-established channels of distribution in large volumes. The candle market is thus very price sensitive. As a result, domestic producers must meet lower quotes from sellers of Chinese candles whenever offered. In fact, even with the Order in place domestic producers find that Chinese product is offered at low prices for virtually every candle type, in all market segments, and through all channels of distribution.

There is considerable product differentiation within the candle market, differentiation that involves a combination of the intended end-uses (e.g., light, atmosphere, relaxation, decor, fragrance, religious or holiday celebration, etc.), the channel of distribution (e.g., mass merchandisers, specialty/gift shops, department stores, etc.), the type of candle (e.g., votive, tapers, columns, wax-filled containers, large pillars, etc.), and the particular characteristics of the candles (e.g., scented or unscented, decoration, color, etc.). Despite this extensive product differentiation, Chinese candles compete in virtually every market segment with every type of candle.

Of particular importance to both Chinese and domestic suppliers are the very high-volume sales to the mass merchandiser market segment. This segment is traditionally defined as large discount retailers, such as Wal-Mart and Target Stores, plus the food store and drug store chains. This market segment is now estimated to account for approximately 60% of the total U.S. market. Customers in this segment are extremely price sensitive due to the high volumes involved and competition among retailers. These large discount retailers and chain stores will switch suppliers readily, based on relatively small changes in price. It is in these high-volume segments wherein domestic producers have had their greatest success as a direct result of the Order. Likewise, it is in this same segment where the most immediate and dramatic price depression would re-appear if the Order were revoked. Revocation of the Order would cause a comparable downward spiral on prices throughout the market.

Without the Order, there is a certainty of very significant margins of underselling guaranteed to occur. There already is a significant Chinese presence in the market with notable instances of underselling by candles from China even with the Order. Such underselling contributed, for example, to the doubling in the quantity of imports from China from 1997 to 1999. It has also been a key factor in the continued growth in imports from China in the recent period of weakened demand.

This pricing behavior by Chinese exporters can be properly interpreted as a dramatic escalation of dumping in an aggressive attempt to capture a much larger share of the U.S. market, seemingly irrespective of costs. As found by the Commission in the original investigation, the PRC had captured 19% of the U.S. market by

1985, up significantly from the 12% market share held only two years before. During this same period, the Commission also reported significant price declines for domestic producers, despite increasing demand for candles. The average price of domestic shipments fell from $1.59 in 1983 to $1.42 in the first quarter of 1986. Continued price depression and more severe injury to the domestic industry were halted by the Order.

Today, U.S. producers are acutely aware of the PRC's presence, experience, and potential in the candle market. Without the Order, the immediate price decline is expected to be much larger than the 8% price decline experienced by domestic producers in the original period of investigation, particularly in view of the recent determination of the Department of Commerce that increased the dumping margin on all subject merchandise to 108.30%, or double the 54.21% rate that was found during the original investigation in 1986. Without the Order, price declines will be immediate, with the quantity effects on domestic output, sales, and market share becoming increasingly severe. The NCA estimates that a significant portion of the domestic industry would be forced to close operations and exit the market. Commensurate with the expected large decline in production, employment effects would be severe. Anticipated losses of production and related worker employment directly in the industry are in the thousands.

Without the Order, the combination of the expected declines in prices and sales quantities would yield a severe decline in domestic sales revenues and profitability. The reduction in cash flow would be enormous, hindering the ability of companies that remained in business to invest in plant and equipment and new product development. The ability to raise capital would be severely compromised, not simply because of the downward trend in industry sales and profits, but also because of the high risk and reduced prospects of adequate return on any such investment absent the Order. This anticipated inability to raise capital would be in sharp contrast to the large investments made by the industry since the Order was imposed. Domestic companies as a whole raised and invested hundreds of millions in their domestic candle operations since the Order was imposed.

Without the Order, there would be reduced investment by companies in new product development and marketing. With the Order, the industry has witnessed an explosion in new candle product types and uses, reflecting the creativity of U.S. candle producers in an environment of expectation of reasonable profits and return on investment. Not only would new product development and marketing slow to virtually nothing, the candle market itself would likely stagnate, as company financial support of efforts to increase consumer choice, value, and satisfaction dwindled.

Without the antidumping Order, the U.S. candle industry would have been destroyed by unfairly traded PRC candle imports. The U.S. unfair trade laws were enacted to ensure fair competition between U.S. produced and imported products. These laws are effective. The enforcement of the antidumping law has saved the U.S. candle industry as well as other industries. We urge other U.S. producers who are being injured by unfairly traded PRC products to fight for their markets and rely on U.S. trade laws to offset the PRC unfair trade practices. We also urge the U.S.-China Commission to defend these important trade laws against dilution in the WTO negotiations and/or negotiations with China.

Co-Chair DREYER. Thank you. Now, Mr. Doug Bartlett, Director of the U.S. Printed Circuit Board Alliance of Cary, Illinois. Thank you for coming.

STATEMENT OF DOUGLAS BARTLETT
OWNER, BARTLETT MANUFACTURING COMPANY, AND DIRECTOR
UNITED STATES PRINTED CIRCUIT ALLIANCE, CARY, ILLINOIS

Mr. BARTLETT. Thank you.

Thank you, Mr. Chairman, and Members of the Commission for allowing me to talk about our industry and the devastating impact of U.S. trade policies on our industry.

I am a graduate of the United States Naval Academy and served as a captain in the Marine Corps and for the last 20 years running Bartlett Manufacturing. My father started this business 52 years ago; one of the oldest family-owned printed circuit board business in the industry and my father was a pioneer in this industry.

Our industry is basically that of home electronics. We build the circuit board that support and interconnect the components within the electronics industry. What's important about this is that—I will pass these around—we are the interconnecting device.

That board that's being passed around, this is what's inside of it. This is a high-tech industry. It's an important industry for our country. Without the circuit boards, electronics is nothing more than a bag of parts. The blueprint (circuit board) tells everybody in the world how it's built. We provide product for the military, aerospace, homeland security and industry in general that provide for the welfare of our population.

In my handout I'll just refer very briefly, there are a bunch of charts to show you what's going on. Bartlett revenues have gone from $22 million in the late 1990s down now to eight million as of last count. And remember our trade agreement? We are going to lose the low-tech jobs and keep the high-tech jobs.

Well, let's take a look at California. In California, the whole California industry went from basically 2.7 billion down to 1.3 billion. That's where the high-tech jobs are in our industry, in California.

Well, maybe that's just not bad enough. We went from 19,000 California jobs down to 9,000. This is not a reduction in industry. This is devastation. And to a critical industry.

Let's look at the United States overall. The United States Printed Circuit Board Alliance gathered some data. An $11 billion industry that is now down to a $5 billion industry, and included in that $5 billion are the boards that we import from China because the imports count as revenues for sale so we are probably from 11 billion down to 4 billion. That's basically what's happening, and by the way 78,000 jobs down to 41,000 jobs and declining even further. The situation is not a particularly good one. So why is this happening?

We didn't forget in 2001 how to build printed circuit boards in this country. Low-cost products become available in the United States from China. They have acceptable quality and delivery. That's what's dramatically different. We have faced these foreign competitors in the past, Japan in the '80s in our industry, and Taiwan in the late '80s. What's dramatically different about China is they are half the price.

In a high-tech industry low labor costs alone cannot create such a price advantage. This is not the result of free market forces. These are the direct and significant result of various Chinese government subsidies, principally currency manipulation and direct subsidies and rebates. No amount of ingenuity or proximity to the market is going to be able to offset the unfairness that's being dealt by the Chinese government.

Let's talk about our current trade thought. Let's go ahead and lose our low-tech industry because that's not important, and keep the high-tech industry. Here's the laminate that we make the circuit boards from, it's about as low tech as low tech can get generally speaking. We used to dominate this industry ten years ago, dominate! Now at the end of this year there will be no major—still some specialty producers, but no major suppliers to the United States.

So it's not bad enough we are getting beat by half the price. China, which is now the major producer, can cut off our supply line of laminate basically at a moment's notice. Okay. It's not much to look at, [a piece of laminate passed around] but then again we don't really care about our low-tech industries because we are going to keep our high-tech jobs.

Currently Chinese demand on this material is all but consuming all Chinese production so we're at the mercy of the Chinese to get it now, and market conditions are such that prices may be going to be going up about ten percent a month for the foreseeable future. May be a little bit aggressive but not much. So we enter a double squeeze by Chinese prices and a choke to our supply lines.

The implications are clear. China's using predatory trade practices to destroy our printed circuit board market, and because of Washington's indifference, sometimes encouragement, the Chinese will win.

Let me talk about one other board. This is the sonobuoy board. A sonobuoy is a device that is dropped in the ocean to detect nuclear power or conventional submarines. We want to know where every one of them are, and a whole other issue is that China's trying to build a whole submarine fleet like that. But at any rate Bartlett has been building this product for over ten years. Recently we were notified that we are not competitive by the buyer company, and we were given the offshore pricing. And that's the last chart in the handout you have.

My experience tells me this is a Chinese price. Now, if you take away a forty percent currency issue and you take away a 15 percent subsidy you will see in that chart that we are the low price producer. So if free market forces are left to control this we have a fair chance. But we are going to lose this business because again we produce 40 percent higher cost.

Now, I don't know about you all, but it seems kind of crazy to me that we are going to have the Chinese build the boards for the sonobuoy that are going to detect the Chinese submarines. Maybe it's just me. I don't know.

So if I was asked what needs to be done for the printed circuit board industry our government needs to enforce (the problem is with our government—the Chinese government's doing a great job to the Chinese) we need to enforce the Buy American provision for the printed circuit board industry with 50 percent domestic purchase. It's already on the books. Just enforce it. You would think the Defense Department would be on our side. They are not.

Take it to 80 percent in two years and in three years take it to 90 percent. Spend the U.S. taxpayers' dollars with U.S. employees, please. Spend time and funds that let small business know how you're defending their industry through fair trade practice.

We have got to deal with the Chinese subsidies. A comprehensive approach to look at the Chinese subsidies it needs to be done quickly. If you try to eliminate just one, it's a game of whack-em-all, whack a mule, hit them over here and one pops up over there. You must take action that effectively extracts the Chinese subsidy into the pocketbook of the American people. That's what needs to be done. Small businesses do not have the time or money to do this on their own.

So in closing I just want to say our industry is defined by a few large manufacturers and many small ones. The large facilities packed up and went to China for the most part. They are making money for their shareholders. The executives are paid as much as they possibly can be at the expense of the U.S. workers and the U.S. society. That's not right. If actions are not taken against unfair trade practices used by the Chinese government, and if our government continues to either encourage, be indifferent or ignore these practices, our printed circuit board industry (critical to homeland security, I would think nuclear-powered submarines are something I want to know about), is going to be damaged beyond repair.

It's like a hundred meter dash. We want the Chinese to be competitive so we took and built them training facilities. We moved our factories to China. We gave them the best training people. We sent our engineers over there to teach them how to train, and I can understand that and I can deal with that, but then when it comes to the race, again, I'm at the starting line. They say the Chinese can start on the 50-yard line because of subsidies and rebates and at the end of the race the people in Congress in Washington say, gee, Mr. Bartlett, try harder next time. No. Some day I won't be able to show up for that race, and some day I won't care about the race anymore.

Thank you for your time. I appreciate it.

[The statement follows:]

Prepared Statement of Douglas Bartlett
Owner, Bartlett Manufacturing Company, and Director
United States Printed Circuit Alliance, Cary, Illinois

Thank you, Commissioner and Members of the Committee for the opportunity to speak with you about critical trade policy issues. I am the owner of a small business, Bartlett Manufacturing Company, located in Cary, Illinois, a suburb of Chicago. Our company produces printed circuit boards, which are a key building block of the American electronics industry.

I am a graduate of the United States Naval Academy and served as a Captain in the United States Marine Corp during President Reagan's first term in office.

Following my military service, I joined the family business that my father started in 1952. Our company is the oldest family-held printed circuit board business in the country. My 20 years in this industry have enabled me to learn the business from shop floor to the president's office. In addition, I have worked with many of my competitors to strengthen the U.S. PCB industry as a whole.

In 1987, along with three colleagues, I founded the Chicagoland Circuit Board Association.

In 2003, I became a founding director and a significant force behind the formation of the United States Printed Circuit Alliance. This alliance has a mission of revitalizing the national printed circuit board industry, and has already recruited more than 70 members to date. All the members of both organizations are small- to midsize domestic companies. I am here today representing these organizations' views as well as my own.

The printed circuit board industry, like the semiconductor industry, is the heart of the electronics industry. The PCB is the mounting platform and the interconnecting device that literally makes electronic components function. Without the PCB, an electronics assembly is just a bag of parts incapable of doing anything. Just as important, the PCB, like a semiconductor, is a blueprint for how a device works.

Everyone understands the importance of electronics in our world today. Still, it is vital to emphasize that electronics is critical to the future of U.S. manufacturing. Even more important, a vibrant domestic electronics industry is essential for maintaining U.S. security at home. Yet the American electronics industry is also under attack from abroad and is being soundly defeated at home. The attached graphs show the recent deterioration of my company, companies in California and the domestic PCB industry.

The PCB industry in the United States did not see a minor recession, it went through a very dramatic downsizing over the last three years.

Bartlett Revenues and Employment

Revenues for Bartlett declined from approximately $20 million in 2000 to just over $9 million three years later. We cut employment from 140 to 93 over the same period. Although electronics is considered a high-tech industry, Bartlett and other PCB makers are often criticized as lower-end electronics producers. And we have been vulnerable to low-cost offshore manufacturers.

But a closer look at the industry reveals much more disturbing trends.

California Revenues and Employment

California is a center of high-end PCB production. Yet as the data shows, California's PCB production has declined from an annualized rate of $2.7 billion to approximately $1.2 billion. Employment in the state is down by more than 50 percent, to just under 9,000.

National Revenues and Employment

United States PCB production shows the same alarming pattern. Annualized sales have gone from approximately $10 billion in 2000 to just over $5 billion in 2003. Many estimates indicate the level is really as low as $4.5 billion, due to U.S. manufacturers reselling offshore production and booking it as production revenues instead of commissions. It is estimated this reselling amounts to 10–20 percent of production revenues. North American employment levels have fallen from 78,000 to 42,000.

As is obvious from these figures, the decline of the industry is not limited to one company, state, region, or product segment. The industry did not forget how to produce a quality product at a realistic price in 2001 nor did it lose just the low-tech sector. So what happened?

Clearly, the turn of the century witnessed the bursting of a technology bubble. In addition, the events of September 11th affected not only the electronics industry but also the entire economy. In the PCB industry, however, the greatest damage came from low-cost product becoming available in the United States with acceptable quality and delivery. Although the industry has competed with foreign producers in the past and prospered, the huge price advantages offered by Chinese fabricators in particular represented a wholly new threat: comparable products at half the price. More important, this advantage is not solely or even mainly the result of market forces. It stems significantly and directly from various Chinese government subsidies, ranging from currency manipulation to explicit export subsidies. In high-tech industries, low-cost labor alone can not create such price advantages. And no amount of ingenuity or proximity to market on the part of domestic PCB companies or their workers can offset these Chinese government practices.

The implications are clear: China is using predatory trade practices to destroy our PCB market. And because of Washington's indifference—and sometimes encouragement—China is succeeding.

Example: Sonabuoys

Bartlett Mfg. has produced PCB's for the sonabouy market. These devices are used by our military to detect and track submarines and are clearly vital for national security. Bartlett has been involved with this contract for approximately 15 years and has been competitive and effective in the support of this product. Most recently, we were informed that our prices had become uncompetitive. We were given "off shore" pricing. My long experience in the business tells me that these prices could be established only in China or other similar S.E. Asian countries. We are also told that the customer who supplies the U.S. military would like to work with us but that the contract was won on a very competitive basis and our current pricing would not allow us to retain the contract. Enclosed is a comparison of our prices against what we believe are Chinese prices. When adjusted for currency manipulation and manufacturing export subsidies, Bartlett is competitive.

The Concerns for National Security Should Be Obvious

At a time when the U.S. Government is rapidly and carelessly opening the U.S. market to any and all foreign competition, the Chinese government is targeting electronics manufacturing with brazenly protectionist policies and effectively destroying the industry in the United States. Thoughtless U.S. trade policies are forcing our private sector industry to compete against heavily subsidized competition—i.e., a foreign treasury. And let me remind you—Chinese foreign currency reserves have risen to nearly $500 billion. How can any U.S. company or industry keep its production in the United States and win? The answer is "We can't."

Companies conduct business based on the rules laid out for them. When trade is involved, the effective rules are written by two parties; the export country and the import country. Today the rules are such that we encourage our large corporations to move off shore to take advantage of low-cost production sites and tax advantages while at the same time are allowed to sell in the high-profit market. We encourage our larger businesses to move overseas in order to maximize profits. And we pursue these policies with complete disregard not only for their long-term economic effects, but for their effects on our national security.

In many ways our government should be run like a business. We need business leadership. We need to balance our revenues with our expenses and we need to have positive cash flows. Congress needs to keep results in mind more than specific procedures. The end results are what is needed.

When domestic industry and the nation at large was briefed on recent and current trade policy initiatives, we were told that we would give up less valuable jobs but wind up creating more valuable jobs—as well as increased exports due to newly opened foreign markets. We can spend all day arguing the effectiveness of the process and of specific trade laws, but the results should be clear to all. For many critical domestic industries, for millions of American workers and their families, and for our national security, they have been a dismal failure.

The results for our national finances have been similarly dreadful. I know that the trade deficit figures often make the eyes of American leaders glaze over. But as a businessman, I look at the rapid, unprecedented widening of our trade deficit with alarm—and you should, too. This loss of cash flow can not be sustained at its current level of acceleration.

So what can be done? I was informed by the director of the United States Printed Circuit Alliance about the trade law safeguards provisions that can be applied to industries that have been dramatically and rapidly affected by surges of imports from China. From the data presented earlier it is clear the PCB industry has a strong safeguards case. Yet my colleagues and I quickly ran into two big obstacles to pursuing a safeguards case.

First, trade actions take a long time to come to a conclusion.
Second, trade actions take significant sums of money to complete.

Even with better and timelier government information, the time and money needed to prosecute trade cases is usually prohibitive not only for single companies like ours, but often for entire industries like ours. This is especially true given the often-long odds against winning. Public officials and politicians need to remember: Deciding to spend money on a trade case is like making a big investment for a small- to mid-size business. You need a reasonable assurance of a good return. The risk-reward ratio has to be right. For companies and industries like ours, too often, this ratio is all wrong.

This problem is especially important in safeguards cases. After all, safeguard provisions were put into our trade agreements to help companies respond to rapid import damage—to sudden change. But our trade law machinery doesn't work rapidly at all, and the lawyers needed to work it well are very expensive. And then we run into a third big problem: In the end the WTO would almost certainly reject the position and in the unlikely event the WTO did support it, China would challenge the action, and drag out the time and costs still further. There is very little reason for a small company owner to risk his funds and time for such a small chance in taking this trade action.

There are many areas where trade laws need to be strengthened. But let me start with one recommendation that could support my industry right now: Congress should require that all circuit boards purchased by Federal, state or local entities with U.S. taxpayer money be manufactured by facilities in the United States. It's time to start using the Buy American laws already on the books much more effectively, closing most loopholes and waiver options. And it's time to start increasing the required Buy American percentages.

In addition, safeguard procedures must be greatly simplified and expedited to make them more user-friendly for small- and mid-size companies. Such changes could allow the printed circuit industry to find a way to survive the current pricing attacks that are supported by foreign governments, in particular, China.

Still, as I suggested above, those pushing stronger trade law remedies or their more frequent use need to understand the towering obstacles to these goals that have been created by the new governing body for global trade, the World Trade Organization. The WTO has an agenda sharply at odds with U.S. trade policy interests. This organization is not akin to an American court of law. Rather, like all international organizations, it is a political organization. And its roughly 150 member countries have an overriding interest in keeping the U.S. market much wider open to their exports than their markets are to U.S. exports. Worse, thanks to the organization's one-country, one-vote system—which the United States has not agreed to in any other significant international organizations—the WTO protectionist majority has a powerful tool for getting its way.

The bottom line: Our independence as a trading nation is dramatically weakened by the WTO. We should either secure fundamental reforms in the organization that give America the authority it deserves by virtue of its role and the world's largest and most open economy (as in the U.N. Security Council), or we should withdraw and regain our independence as a trading nation.

But as stated earlier, we must focus our efforts on results and spend less time struggling with the methods. The United States has established itself as a free trade market. Yet China has used a broad array of subsidies and tariffs to keep our products out of their markets and gain undeserved advantages in U.S. markets. We turn cartwheels attacking individual predatory practices and, before we know it, a new one is instituted that is as effective or more effective than its predecessor. This is a mug's game and a waste of valuable time and resources.

We should take actions that we bring trade into much better, more sustainable balance. These actions should be taken independent of the WTO, if need be; above all, they must be taken soon. Washington must combat subsidies effectively by transferring the value of these subsidies from foreign manufacturers to the U.S. Treasury. This can be done by requiring our trade with China balance within a small percentage between the two countries. Either China buys more or we buy less.

Rapid action is also needed to protect U.S. intellectual property rights. As a country we can compete against low wages to some degree by using our ingenuity. When countries disregard these rights, swift and effective action need to be taken against them. We can not stop China from stealing our designs, producing and consuming them in their own country. We can however stop them from exporting these products and other products into our country.

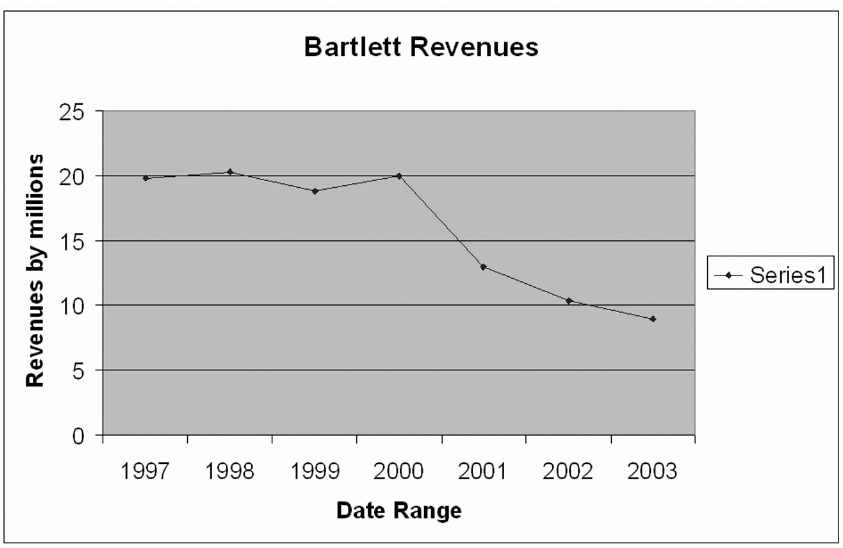
In summary, I am a free market supporter and a free trader, but not a blind free trader. I believe in free, fair and balanced trade. I am amazed by how many Americans refuse to even talk about tariffs and subsidies or any types of truly effective trade policy tools when many of our trading partners use them routinely. Since the 1970s, both American political parties have pursued free trade policies that are undermining domestic manufacturing. This has resulted in the "real wages" of our workers being only 93% of what they were when we went to a "free trade" policy. The trade deficit is worsening rapidly as we rapidly expand our free trade agreements with the rest of the world. This can not be sustained at this accelerating rate for more that a few more years.

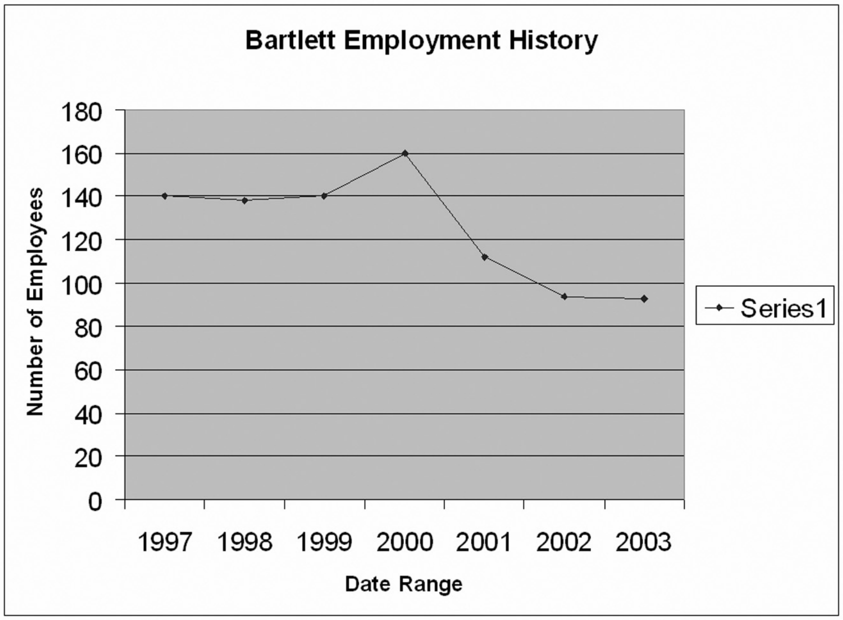
As a small businessman I feel like I am in a 100 yard dash with China. My own government wants to help China out by building them new training facilities (U.S. corporations moving facilities to China) so they can train better. We also provide them with the best trainers and training techniques (U.S. corporations moving managers and engineers to China). Although I am not crazy about this idea, as an American runner I still have my ingenuity and hard work ethics that will allow me to compete (intellectual property rights). But when I get to the race I find the Chinese runners are allowed to start on the 40 yard line (Chinese currency manipulation and other subsidies).

When I meet you at the finish line, do not expect me to be the winner, do not expect me to show up at the next race, and do not tell me how I need to try harder. China's artificial, government-provided advantages can not be overcome with even superhuman effort.

We must shift from a trade policy that looks only at "free trade" with China to one that is "free, fair and balanced." At this time the fix is on and we can not win.

Type of Board	Off Shore Pricing	China currency subsidy X 1.4	China manufacturing subsidy X 1.15	BARTLETT Price	Outcome	% difference
1	$2.960	$4.144	$4.766	$4.513	BARTLETT LESS	5.30%
2	$1.720	$2.408	$2.769	$1.995	BARTLETT LESS	27.96%
3	$1.720	$2.408	$2.769	$2.000	BARTLETT LESS	27.78%
4	$0.130	$0.182	$0.209	$0.193	BARTLETT LESS	7.79%
5	$0.106	$0.148	$0.171	$0.130	BARTLETT LESS	23.83%
6	$1.080	$1.512	$1.739	$2.250	OFF SHORE LESS	29.40%
7	$2.930	$4.102	$4.717	$4.720	SAME PRICE	0.06%





Panel III: Discussion, Questions and Answers

Co-Chair DREYER. Thank you, Mr. Bartlett. You have all given us something to think about, and I'm going to start with questions and Commissioner D'Amato.

Chairman D'AMATO. Thank you. I have the same question to ask both Mr. Bartlett and Mr. Johnson, two different situations talking about unfair trade practices in terms of subsidies not ending. For Mr. Johnson's case I want to know a bit more about what the Chinese put the high tariff on your product and also demanded manufacturing processes information as a price of getting into the country. What steps did you take to try and get the United States Government's support and attention and what results did you get? In particular, I would be very interested in that.

Mr. JOHNSON. Well, I can tell you that I have testified on an informal basis before the International Trade Commission, before the United States Trade Representative Office, before the United States Department of Commerce's Trade Commission. And I have had a private audience with Secretary Evans himself. In each of these settings, I have been pleading for help from anybody that would listen to what's happened to our industry. Everyone nods in concern; they think this is terrible. But no one really gives a damn. The ceramic tile industry is about a two billion dollar industry. It's insignificant in the great grand scheme of things.

Chairman D'AMATO. Did it further upset you that those individuals are being paid by your tax dollars?

Mr. JOHNSON. You bet it does. I have presented all of this in my briefing book. I can't go into all the details here, but the facts are there. Indeed, there is much more that I could have said today about the advantages that China and so many of our foreign competitors enjoy in terms of energy costs, litigation costs, and all the various costs that we have calculated into our pricing.

I can tell you in the last decade my little company—we're a small company in the grand scheme of things—but in Columbiana County I paid $390 million in the economy in the last decade in wages, in healthcare, in pension, in taxes. It's all laid out in the briefing booklet that I have presented to you. Meanwhile, during this decade in which we pumped $390 million into the economy, the shareholders of my company, my family, took zero. I earned an income, a salary. No bonuses. No dividends.

And this is happening to little companies like mine all across this country. Here in Ohio, I'm Chairman of the Ohio Manufacturers Association representing 1800 companies big and small, and sitting around the table with 25 members of our board, I can tell you that many of them wonder if they will be here in five years.

Chairman D'AMATO. Did any of these individuals, including the Secretary of Commerce, suggest any steps would be taken to help you?

Mr. JOHNSON. Everybody took notes and expressed concern.

Chairman D'AMATO. But no action?

Mr. JOHNSON. No action. They suggested I contact the office in Cleveland to help with exports. It's a miracle, frankly, that I'm selling China product right now. It really is. My brother flew to Shanghai recently to consummate the deal, a deal that developed just because we answered some inquiries over the Internet.

But I'm afraid to say too much about the China situation for fear of retribution. We need every order right now. I'm sweating it out to try to bring my company out of Chapter 11. We have been through tough times. My whole management team has taken a 30 percent cut in pay. My workers haven't had a raise in three years. But they stuck by me, and I'm sticking by them.

This is not a Republican or Democrat thing. I think that everybody in Washington is out of touch! I would like them to come to my factory and my clay mines and look into the eyes of my employees, three generations of people that have worked in that plant, husbands and wives and their kids. It's their jobs and their livelihoods that are in jeopardy because of this unfair trade situation.

We have one employee in my company that has cost us over $3 million in doctor and hospital bills for his daughter. Do you know how many million dollars of product you have to sell to come up with three million to pay for just the healthcare of one employee? And I'm glad I can do it. But my counterparts in Mexico and China and in Malaysia and in Turkey aren't paying that. That's no level playing field.

Co-Chair DREYER. Just one follow up. You fear retribution and I wonder if you could expand on that. The reason I'm asking is that during field hearings in South Carolina this Commission was told there were actions about to be taken up against the Chinese who at that point decided to make minor investment in South Carolina. It seemed to have bought off a sufficient number of people. I wonder if that's the case with you here in Ohio.

Mr. JOHNSON. My brother didn't want me to come here and testify because of this big order we got and we are shipping some other product to China. That's what I meant. I just don't want to jeopardize our future business, meager as it is, by testifying today. But somebody has got to hear this story!

Co-Chair DREYER. Could it be?

Mr. JOHNSON. Could what be?

Co-Chair DREYER. That the reason that you got that order is to try to shut you up?

Mr. JOHNSON. No. I don't think so. I know the people I'm dealing with, and we make a very unusual product that's used in fast-food chains all over the world. They like our floors because they last forever. And they never show the dirt. The Chinese already have a knockoff product. My brother was in Shanghai a month ago and saw it. But our customers in China have rejected this product and are sticking with us, at least for now.

Co-Chair DREYER. I'm sorry.

Chairman D'AMATO. I wanted to ask Mr. Bartlett the same question.

Mr. BARTLETT. It's an interesting issue we had a group the IPC which was the group was actually started by the people in and around Chicagoland, and it was as the circuit board issue started developing. It was the governing group. But what happens in a lot of these groups you get big companies and small companies, so what happened was that the large companies look and say I want to produce in a low cost country instead of the high cost country so I can maximize my profits.

Those large companies dominate the industry, and so instead of helping out the domestic supplier, they hurt it. They remove tariffs, make a free world, and I agree with that, but it's only free when both sides are playing by the same set of rules, not this cockamamie game we got going now.

But at any rate so our history is if small guys want to go in there and change the tide like we try to do, the big guy, remember the big companies have staff that can sit in Washington, sit in the headquarters of the industry, donate the time to be able to run the staffs, and the guys that are in my league are on the factory floor from 6 in the morning to 7:00 at night. I was fortunate enough to have good staff that I could say I'm not going in the factory. I'm going to head out.

I have been to both the staff of President Bush and the staff of Senator Kerry to listen to their policies and identifying what things that we can do.

We formed an alliance of small companies. The problem is the funding. Small companies don't want to put a lot of money into alliances because they think it's a waste of time, and when you try to get the small guy to go to Washington with you its three days out of the factory, three days' worth of manufacturing facility running without it's best and most knowledgeable person. But even what happens beyond that is once you get out there and start to talk about these issues, the first thing that's slapped on you is, well, you are just a protectionist. We all know that didn't work. Well, I will tell you what, if not moving my company to China because I want to do everything I can to protect my workers, if that makes me a protectionist, I'm damn happy to be one.

[Audience applause.]

That's what we have been trying to do, just raise the awareness of the issue.

Co-Chair DREYER. Thank you very much.

Commissioner Wessel.

Co-Chair WESSEL. Thank you, and Mr. Bartlett, I can't thank you enough for your passion and the amount of time that all of you are donating not only to be here today, but on a continuing basis because we are all up against a system that is run by those who are making profits whichever way the product goes and aren't necessarily as concerned about where the product comes from. I appreciate your being here.

I was interested, Mr. McCall, in part of your testimony as well because it doesn't appear that it's just acts of omission that we have to be concerned with but acts of commission in your testimony talking about the use of taxpayer dollars to subsidize shipping jobs overseas. Can you talk a bit about that in terms of what you—talk about bank money going to enhance our competitors.

Mr. MCCALL. Recently the Export Import Bank has subsidized through low interest loans and for grants in some cases for Chinese companies to ship former American equipment that's been shut down in some cases and other cases still operating, shut down and transferred to those other countries. So not only do we give them an advantage in terms of subsidized equipment they can produce steel with, we increase the overcapacity that already exists in the world so we are really hitting ourselves on both sides of the face in terms of government trying to help relations in China or wherever by using Export Import.

Co-Chair WESSEL. I had done a little more research after seeing your testimony and looked at the question of steel. My understanding is the steelworkers actually opposed the sale. They wrote to the president. When you raised this issue, they still went through with it?

Mr. MCCALL. Absolutely. We were as many of the other issues we have filed on behalf of and with the AFL–CIO in trying to protect what belongs to agriculture and enforce the law we have on the books we usually get rejected every two or three days.

Co-Chair WESSEL. Mr. Bartlett, you talked about the sonobuoys, and I am certain we share your belief that that's an issue of importance to our own national security. Have you talked to the Department of Defense? Are they concerned about outsourcing this? Have you gotten response from anybody?

Mr. BARTLETT. I was contacted by the U.S. manufacture of sonobuoys and they gave me tons of information about sonobuoys, and I don't know this for a fact but what was passed on to me was the United States Department of Defense has signed a ten-year agreement with a British company to basically dominate this market. I don't know that for a fact. This is hearsay.

But our concern is we go to the Department of Defense, the United States Printed Circuit Alliance, through Congressman Manzullo, his group went and presented our position to the Pentagon about what was happening in electronics. But they have limited tax dollars they want to spend, and I believe the agenda is not of supporting a strong manufacturing base. It's more of if you want to be an alliance with Germany today, you need to buy more German products. So a lot of them are pretty smart on how they, you know, alliances for sale!

I don't think national security obviously is an issue. I don't think they're looking at the long-term implications of a very weakened manufacturing base in the United States. Manufacturing needs to be obvious to people in Washington. It doesn't seem as obvious or that's tomorrow's problem, not today's problem. You can't rebuild manufacturing as rapidly. It takes years to do that and not as easy as you can in some of the other types of industry.

Co-Chair WESSEL. Mr. Vanden Eynden, I'm interested also we heard from a representative this morning who had a case before the Federal Government said he wouldn't do it again. White House rejected the offers of relief. You have been tenacious in the fight what 18, 19 years you've been at this trying to respond tariff problem?

Mr. VANDEN EYNDEN. Yes.

Co-Chair WESSEL. Do you have an estimate of what you had to spend over this period in defending your own interests?

Mr. VANDEN EYNDEN. I think in this year's budget it was probably at least 300,000 to half a million dollars budgeted just to go forward with the review process that happens. There are two reviews that will come up this year, but I could get you that number of what the candle association spends every year but it's close in the range.

Co-Chair WESSEL. So despite the fact that you have a continuing fact pattern, if you will, that the ITC, Department of Commerce and others have, you're having to spend hundreds of thousands of dollars every year to go through the same fact patterns?

Mr. VANDEN EYNDEN. You're trying to protect it. All it takes is one of those companies to ask for a review and you go through the whole review process.

Co-Chair WESSEL. The government has decided on the fact pattern, I guess, I'm somewhat at a loss here as to why you have to, and maybe we need to change the law that says once you're successful in this and somebody asks for a review you shouldn't have to foot the bill for it. Maybe the government should step in and present the facts; that's what your tax dollars are going for. Maybe the first time you bring a case when you're looking at competitive market, but after that, I don't know how you do it. So I think it's something we may want to look at.

Co-Chair DREYER. Commissioner Wortzel.

Commissioner WORTZEL. Thank you. I would like to concentrate a little bit on the national security aspects of this. It could be sonobuoys, it could be radar systems in aircraft. It's something I was doing at the Heritage Foundation as well. If you outsource the industrial base to Germany, for instance, and the Germans dislike American policy in country X, could they cut off that source of supply? So I wonder if you could characterize for us those countries capable of being competitive at manufacturing these printed circuit boards, or whether China would end up the sole source in the world. Do we really end up in a situation where we can't make a sonobuoy until somebody starts up the line?

Mr. BARTLETT. Well, the ability to build let's say mid to high level but not extraordinarily space age or the real advanced circuit boards, the Chinese are currently there, along with putting factories into Vietnam so it's wide based across the world, but because of the advantage that China has in its cost structure, it's very rapidly coming to dominate the industry.

But the United States will have the ability, the knowledge, to build these components, but what happens over time is the factory jobs move. We'll keep the R&D? The R&D goes with the factory. So you're starting to lose the ability and can you regain it in time of national crisis? Well certainly. But you'll have to rebuild the factories.

But what will happen in the interim? If it's not sonobuoys it could be a hundred other items. When something from the Defense Department, let's say, it gets purchased from the assembler. It gets assembled in North Dakota. Well, items come in from North Dakota factory and get screwed together. Let's say we bought it from a North Dakota manufacturer, but the electronics came from China, or maybe it came from Canada, but they bought the circuit boards from China. So where is bill of materials? There's bill of materials and the manufacturer doesn't tell you where it all comes from.

The automotive industry does that very well. The Defense Department doesn't seem to look at that. They say, well, it came out of North Dakota. I don't think the danger is that we won't be able to build it at some point. It's just where's it being built today and how is it functioning?

Commissioner WORTZEL. And just a follow up—is there anything that would require this bill of materials that you described? Is there hope for legislation in that regard? Who should we be talking to?

Mr. BARTLETT. When we go to Washington one thing we talked about when you're going to put together these groups, maybe it's a novel idea, but why don't you get some manufacturers on the group instead of lawyers and politicians (we used to call them legislatures and statesmen), but why don't you get these people off the group and get on people who know how to run factories so when they say what's the U.S. content? He'll say, "I don't know. Let me see the bill of material." Don't tell me where it's shipped from. I'll go down there and I'll add it up, sir, and I'll come back and tell you exactly what U.S. percent the raw materials are.

It's the raw materials you want to know about. If somebody screws it together, that's value added but where did all the components come from? Get the manufacturers on this Commission, get the manufacturers and the people who know how to do that and get the real answer. That would work.

Co-Chair DREYER. That's it?

Commissioner WORTZEL. Yes.

Co-Chair DREYER. Commissioner Becker.

Commissioner BECKER. Thank you. I have a question or two that I want to direct to Mr. McCall. First, I want to congratulate you and your colleagues for successfully working with that aspect of the companies that you could for restructuring the steel industry during this last collapse. In that regard I want to ask you—we are going through a period right now of massive profits for the steel industry, and you would think that the steel industry and the analysts would feel more comfortable. But I also notice on the other hand that the inventory of steel being built up in China by the end of this decade or whatever 500 million tons of capacity that will be looking for a home if there's any kind of downturn, and not just the Chinese but the Koreans and Brazilians and other countries. Are we in a position to better withstand a flood of import steel again? What would happen if we suffered those same imports again? Can we go back to the table for another bite?

Mr. MCCALL. There's no table to go back to for another bite. We are the most efficient most productive steelworkers in the world and nobody even tries to debate it. You can't compete against a Chinese government that subsidizes, and not only subsidizes the product, but controls the currency as well.

Steel mills are kind of different. It takes a lot of money to start one up, build one, takes a lot of money to keep it going. Once you get it up to 50, 60, 65 percent utilization, everything over that is sort of gravy so to speak. If the Chinese have a capacity, whatever their total capacity is, and their utilization is 50 percent, they simply take that extra utilization that they made in their factories and mills and they put it on boats and ship it to the United States and they sell it for a penny, it's a penny's worth of profit. All the money is going in again to utilization.

So are we set to face another 1998? No. We'll never be able to survive that. Even though we are the most productive, even though we provide the best volume, the best on-time shipping.

We've done a lot of things. It's not just in the last five years that we've done a lot in the industry. We have been over the series of the last decade in changing and talking about working efficiently, working smart and doing the right thing and making sure we are selling the product the customers need. But to compete against a country who's producing a hundred percent of what they are capable of and dumping the rest of it on the shores of Oakland or Cleveland, or anywhere in the United States, and just practically giving it away, not only can't you compete against that, it lowers the entire market and entire price for everything else. The domestic steel suppliers are at that same 50 to 60 percent utilization rate where they've got to be making something at that rate in order to sell it cheaper and cheaper and cheaper.

Commissioner BECKER. Something has to be done.

Mr. MCCALL. Something has to be done in terms of fair trading.

Commissioner BECKER. Mr. Johnson, you're beginning to come out of bankruptcy?

Mr. JOHNSON. Yes.

Commissioner BECKER. My question over the years is, it's a struggle to come out of bankruptcy. That's a hard thing to do whether or not it's a big or small industry. What's to prevent another charge by the Chinese to push you right back into it? Are you more solid now to withstand that?

Mr. JOHNSON. Well, we have attempted to identify certain core products that have been in our line for a lot of years that we enjoy a competitive advantage right now, and there are not as many products coming in from overseas, the types of products I'm talking about, which is basically unglazed flooring tile, acid proof floor brick and I now make a precision cut thick brick that's used in big precast construction calls, like they're in all the Home Depots in America right now. Nordstrom is a new account of mine and it's specialty product of mine but could someone else overseas make it cheaper? Probably. It's a relatively small niche market right now. I'm putting together a bunch of niches that offer some hope of making money so that's where we are.

Co-Chair DREYER. Commissioner Mulloy.

Commissioner MULLOY. Mr. Bartlett, you're a Naval Academy graduate and you were a Marine Corps captain?

Mr. BARTLETT. Yes.

Commissioner MULLOY. And you pointed out there is a national security implication. This Commission was set up because the Congress wanted us to look at the national security in terms of what's going on with our economy. You noted that people called you a protectionist. I want you to know that in our last report we made some strong recommendations regarding exchange rates, and called our report protectionist.

I'm trying to understand and maybe the panel can help me think about this: When anybody starts talking about these issues for some reason the newspapers want to call them protectionists. Senator Kerry, for example, has talked about China's exchange rate manipulation, and about using our unfair trade laws and using the China specific safeguard. The New York Times, normally one wouldn't think of it as being hostile to Democrats. They called him a protectionist for talking that way.

Some people tell me the newspapers are free traders—retailers do so much advertising in newspapers. Of course, if you are a retailer and you import something very cheap and sell it at the same price as if you had it made here, your profits go up, your boss is happy and everybody benefits. I don't know whether that's the case or not, but it would be helpful if you have any thoughts about this when you look at the evidence and it doesn't support what people are saying about the benefits of trade? Now Mr. Johnson and maybe Mr. Bartlett.

Mr. JOHNSON. I think you probably hit on something if you look at every little community in the country now has a Wal-Mart. It's putting the local merchants out of business and you've got super big retail giants that are making lots of money.

In my industry it's the Home Depots. You can walk into a Home Depot and buy tile for half the price that we sell it for. You can buy tile in China right now for 23 cents a square foot, that's perfectly good product, and believe me the Home Depots don't sell it for 23 cents. They will sell it for over a dollar a square foot, just about twenty percent cheaper than where the domestic supplier would sell it. So there are a lot of people making a lot of money in retail, but the manufacturing base, all these little communities like mine, companies that create wealth—we take dirt out of the ground and make a product out of it—we are the ones taking it on the chin. We used to make ten thousand ceramic tile products, employing about 650 employees with decent wages. We supported the communities in which we did business. But at this rate we are headed, such companies as these, big and small, are all going to be gone so that the consumer will save 50 cents a square foot of tile. Big savings in ceramic tiles, but where are we going to earn our living, what companies will exist to support the communities in which we live, where does this take us.

Commissioner MULLOY. Mr. Bartlett.

Mr. BARTLETT. We talked about this in some of our groups, and I think part of it is you are hard pressed to find protectionists economists. An economist that believes in protectionism, free traders, and I, myself, am a free trader. I think free trade is great. I also believe in fair trade. Fair trade with two countries making rules. We follow them to a large degree and China doesn't.

When we try to find an economist that looks at anything other than free trade you are hard pressed to find one, and if you do find an economist that believes that, he's probably pretty lonely when he gets together with the other economists at their clubs talking about economist-type issues.

One of the things that our group decides to do let's take the argument to the university. Let's talk to the students in front of the professors. As the students are looking for jobs, professors are talking about free trade. I believe that a lot of it just comes from teaching.

In school we learn that protectionism is a bad thing, but there's been a paradigm shift with the Internet and the ability of knowledge and to move so rapidly around the world.

So I think we have to go back and take a look at some of the better-run models. My personal belief is that within six years we are going to be forced to look for models because the rate of our trade deficit are not only huge but their rate of change is so alarming that if one doesn't figure it out soon, the economy will figure it out for itself in a devastating manner.

Commissioner MULLOY. One last comment. Mr. Vanden Eynden, you pointed out the importance of our unfair trade laws and how they ship your supplies. You do know that they have been put on the negotiating block although a lot of people recommended that they not be. Every country wants to weaken our unfair trade laws. My recommendation is you guys who have these industry groups be very active politically because you have to be active politically in this country to make it work.

Mr. VANDEN EYNDEN. That's very expensive. We do it as a trade. We are in the retail business that you talked about. He said free trade is fine but we need fair trade. If it's fair trade we are competitive.

Commissioner MULLOY. Thank you.

Co-Chair DREYER. Commissioner Wortzel.

Commissioner WORTZEL. Just a quick comment: there's a little light in the tunnel we don't generally see, but I believe it was Reuters several weeks ago announced that they were offshoring several journalists' jobs so maybe they will start to see some risk to their profession as well.

Co-Chair DREYER. Outsource the economists as well.

Mr. BARTLETT. We can get the same bad advice for a third of the price.

Co-Chair DREYER. Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you very much, and thank you to our panelists. One of the most important points you made through your examples and your statements was laying to rest this myth that American companies aren't being innovative and aren't making the changes in productivity in order to compete. You all are clearly examples of the kind of capital investments and structural changes that should make you in a fairer situation incredibly competitive in the global workforce. That's an important point because there are still people who say that the fault lies with American companies and that's clearly just not true.

A couple of points as well as questions. Mr. Johnson, I was very interested in what you said about the shipment you were trying to export into China that was stopped. Essentially they were trying to support technology transfer which is a phenomenon we heard a lot about for these companies that are trying to set up for production in China. That's the first time I actually heard it happened at the gateway. Do you have any sense if that was systematic or perhaps there was something involved specifically about the shipment you were sending?

Mr. JOHNSON. I think the example I cited was systematic and broad ranged. It happened on two different occasions. One case it was a shipment of grout. We make mortar and grout and installation materials to install tile, and that was one of the shipments that they stopped. And all this was related to me through our freight-forwarding people. So it was a couple steps removed from the end user, and I got involved because customer service came to me and started telling me about this and I had a heightened interest in it. So I was the one that supplied the data, and I didn't give them the correct formulas or the correct manufacturing processes but it sounded like I did.

Commissioner BARTHOLOMEW. They're still trying to figure out why it looks so bad? That's interesting. Maybe we'll be able to hear from some freight-forwarding companies.

Again, I recognize that a lot of people take risks in coming forward and talking about their experience. We thank you very much for that. It's some phenomenon I like to call the long arm of Chinese censorship. They have a lot of ways of making sure that people don't speak up about practices that are taking place.

Mr. Vanden Eynden, it strikes me in listening and looking at the timing, that in some ways it's been very expensive for you all to do this year in and year out. You're probably fortunate that you started the petition process so early. I have a feeling if you would have waited another ten years in order to do it the politics of whatever it is that was taking place at the time of the U.S.-China relations very well might have colored the result. So I'm really struck by how much force you all had to deal with and you acted early.

Mr. VANDEN EYNDEN. I think that if we wouldn't have acted that early, we wouldn't have been here ten years later.

Commissioner BARTHOLOMEW. I think it's really important. Mr. McCall, I listened to your comment about how the Chinese are buying plants that are closed here. We had an example in northern California a couple of years ago, with the workers having the further indignity of not only was the plant closed and then sold, but they couldn't even have the jobs to dismantle the plant. The Chinese company that bought it insisted on bringing Chinese workers over to dismantle the plant. I have been told there are so many aspects of that shifting of American production capabilities to China still going on. I know it would be incredibly difficult for people to have to dismantle their own plant and yet lose the income.

Mr. MCCALL. We have actually had examples where they've shown up and brought in people and said we should help train them so they know how to reassemble when it comes back.

Commissioner BARTHOLOMEW. Amazing, astonishing. I think you have done a very good job of identifying for us steps that need to be taken. When we sit here it is very frustrating because there's a clear identification of a problem but what do we do? And I think you all have identified that. My question to you would be: Why do you think that nothing is being done when you have so clearly identified a problem and a solution to the problem?

Mr. JOHNSON. You couldn't be more active than I am. Ohio Manufacturers Association. I know the senators of Ohio and that's probably why I'm here today and my Congressman and a number of Congressmen and I have been writing them and screaming about this for years. They seemed concerned but the tariff schedule in China hasn't changed. It's still between 46 and 69 percent if you add the value added tax in with it. The effective rate of what my products are costing in China compared to America is eight and a half to ten percent. I don't know. I think people seemed concerned but——

Commissioner BARTHOLOMEW. Mr. Bartlett.

Mr. BARTLETT. There are some plans that are politically pretty unpopular. I just like to add one more item. We talked about the dismantled factories. After we box it up and ship it over there, on top of that being not bad enough we count it as an export! But to go back to the issue there's a gentleman of Chicago that has identified a solution, very similar to the Warren Buffett solution that is balanced trade.

It is very simple, you can turn to a given country that's subsidizing and doing all kinds of unfair things and say well, in five years you're going to be in balance with us and we are going to start slapping—I hate to say tariffs—let's call it reverse subsidy, less painful, and you could do that all until the trade balances. You say to that country, ship less or buy more. Preferably they will buy more.

What happens then in the interim is it costs more at Wal-Mart and politically that's not going to be very popular. If you take that amount of money that would come from those subsidies and you take that money and put it right in the coffers of the U.S. Treasury and then turn around and reduce the taxes on the lowest income brackets first, you have a solution that's the best one I heard so far. Warren Buffett's solution is okay, but it puts the power in the hands of businessmen, which I would rather see it in the benefit of the people.

Commissioner BARTHOLOMEW. We do have one more witness.

Mr. MCCALL. Call them surcharges.

Commissioner BARTHOLOMEW. Protectionist is the other thing people like to bring up. Please include all of this when you start talking about some of these issues.

Mr. MCCALL. It's an identifiable problem across lots of industries in manufacturing America. The reason why nothing is done about it is because everybody's got a lot of short-term thinking about some country trying to help out export their unemployment. It's a short-term relationship agenda on foreign policy and the ignoring of monetary policy or fiscal policies. It's a short-term—talk about a cheap price at Wal-Mart. It's not about the long-term impact of a strong economy.

One of our employers recently within the last month here in Ohio shut down. They moved the jobs to China. Lost 200 jobs here in Ohio. It's good—in Chinese standard—good paying jobs in China, but the new Chinese workers won't make enough money to buy that product, and the old American workers here in Massillon, Ohio won't have any money to buy that product. In the short-term everything's okay because we got unemployment or some retraining, but we need to retain jobs.

And it's all about short-term and it's all about eventually the economy is going to get smaller and smaller and we're not going to have a manufacturing base and it's going to impact our national security and it's going to impact our national security first.

Co-Chair DREYER. Commissioner Reinsch.

Commissioner REINSCH. Mr. Vanden Eynden, has your company received relief under the Byrd Amendment?

Mr. VANDEN EYNDEN. We received it for the past few years, yes.

Commissioner REINSCH. How much?

Mr. VANDEN EYNDEN. I don't know the exact total but I can get it for you.

Commissioner REINSCH. I'm just curious to what extent it offset the expense of pursuing the case.

Mr. VANDEN EYNDEN. Again, I would have to get you percentages and numbers like that to do for you.

Commissioner REINSCH. I assume you support retaining the benefits?

Mr. VANDEN EYNDEN. Yes, we do.

Commissioner REINSCH. Okay.

The only other comment I would make is that I was happy in your testimony to see your reference to the negotiations on subsidies. I certainly agree with you it was disappointing we failed because I think over the long term the only way you're going to get capacity under control is through some sort of multilateral realignment, and a subsidies agreement would probably be to our benefit because we do less than everybody else.

I have to say in passing I worked on that particular thing for a long time. I was disappointed in 1992 when industry management passed up the opportunity to get an agreement at that time because I think if they had got it in 1992 some of the problems we experienced subsequently wouldn't have happened, at least not to the extent they occurred. I offer that up for comment.

Mr. MCCALL. With respect to your comment 1992 at least my memory certainly a lot of things have occurred since then. A lot of the sacrifice being asked at that time was sacrificed based on American manufacturing and training. Even in 1992 we were still one of the few countries left in the world that had a larger demand for steel and steel products than we had capacity and that's true today as well. That's the real problem with China. That's the real problem with countries like Brazil keep building steel mills because the technology is pretty good to build and if you have three times the capacity and don't use it in your economy and build your own economy and build your infrastructure. You're not going to build the economy unless you stand by good product and service.

And that's part of the problem with the negotiations is that other countries want to build capacity and want to continue to dump in our markets, and we are asked many, many occasions at our United States industry steel whether it be rubber, titanium or aluminum, we're asked to shut down capacity when in fact we have more demand than capacity undercut so it really does have an issue now and it has an issue over the long-term economic growth as opposed to short-term costs and short-term economic advantages.

Commissioner REINSCH. Well, I wouldn't argue with you by any means. I would just comment that in negotiations it's give-and-take, and my calculation at the time was our guys would have gotten about five-eighths of the loaf but didn't regard that as enough. I guess we can reflect back on whether that was a wise judgment or not but it was better than half.

Mr. MCCALL. I have got several hundred thousand retirees giving all they need to give.

[Audience applause.]

Co-Chair DREYER. Gentlemen, do I take it that apart from Mr. Bartlett's suggestion about how free trade could be made into fair trade at the end that you agree that if existing legislation were simply truly enforced, the situation could be made materially better? Is that fair? (All panelists nodded their heads up and down.)

And do you sense any particular reasons for the lack of will of the Administration to do something about this? I mean, is it simply that certain big businesses are making money from outsourcing or is it something further?

Mr. JOHNSON. I'm not an economist, but the word I seem to be getting a lot is America is the largest export nation in the world and that we have more to lose by engaging in protectionism and singling out an industry like the steel industry is we try to help. We ended up helping half of the industry and then hurting the other half, the half that wasn't fabricate anymore. The full side of it, they were just raging mad about it, and soon there were going to be other tariff measures taken against us in Europe and the effect on the economy would have even worsened so it makes some sense.

And I rather—I'm kind of moping about it today, but really what we all have to do is refashion our companies in the way I did it in our old company. New high-tech equipment on the furnaces improve productivity. I got a million dollar low interest loan from the State of Ohio to help me do that.

Co-Chair DREYER. But how is it that even though the plant in North Carolina is fully automated, it could not be competitive against the Chinese?

Mr. JOHNSON. The particular sector of the market that we were in down there is glazed floor tile. That's the biggest sector of our market and that factory if you see it, you would cry. It's four football fields long, not a single human hand touches these tiles. It went from raw material at one end to the other end of a long furnace and automatically packaged, boxed tile, placed it on the pallet, and I have $18 million worth of equipment in a factory that is like new and I haven't had the first bid.

Co-Chair DREYER. But I don't understand because usually we are told that the reason the Chinese are able to undercut us is lower labor costs and obviously that can't be because there are no human labor costs.

Mr. JOHNSON. Well, we did have humans. We had a hundred employees there. There's energy cost, there's healthcare costs. It's all the additives, the alternate minimum tax of the 1990s right at the time that hammered me.

Co-Chair DREYER. Which tax? I'm sorry.

Mr. JOHNSON. The alternate minimum tax which would have benefited if we hadn't the depreciation we had at that facility so it just seemed like everything at once was going against us and at the same time that currency issue, the value of the currency without even referring to the European market in the 1990s, 30 percent of all this and that was a tremendous advantage for imports.

Mr. MCCALL. I agree with what you're saying. If we enforce the currency exchange, if we did all the right things, would that be sufficient? I think so. I believe in fair trade as well. I don't think we ought to have quotas and tariffs as protectionist tools.

I'm not an economist either. Sometimes I think I am. But the fact is, we can compete on a level playing field. It needs to be fair and it needs to be equitable. And whether it's in China or other emerging economies around the world, they have to trade with us on a fair and equal, level playing field.

They have to break down their tariffs. They have to break down their surcharges. You can't get a pound of steel in China or anywhere else on the globe without paying a tariff first, and the first time the American steelworkers get a look at the tariff everybody says oh, that's terrible.

It goes to the reference I made before. It is illegal to sell stolen auto parts in the country. You can buy a stolen fender a lot cheaper than a produced one—a legally sold one. That's what they are doing with steel, this illegally dumped steel. When steelmakers complain that the tariff is not fair, the tariffs bring it up to the fair market value. The fair market value can be anywhere else in the world but I can't imagine it. The workers that I represent can't sell steel in China without paying a big tariff. Take them all away.

Co-Chair DREYER. Mr. Root has been awfully quiet.

Mr. ROOT. It's also frustrating that after you turn around, you got the order in place and you do the administrative reviews and yet you still have to go to the Commerce Department and the Customs Bureau to make sure they are enforcing the order which the Campbell Association was trying to make sure that keeps getting done. From our standpoint as manufacturers and such, we want to focus on the production of products we have to also having sure that the Commerce Department is collecting the funds.

Co-Chair DREYER. Thank you all very much. This has been very, very helpful. I appreciate your efforts.

PANEL IV: MACHINE TOOLS AND OTHER INDUSTRIES

Co-Chair DREYER. I would like to call to order Panel IV. This will examine machine tools and other industries. Mr.—could you pronounce your name for me, I'm sorry.

Mr. IMBROGNO. Imbrogno.

Co-Chair DREYER. Mr. Imbrogno, Mr. Dan Imbrogno, President and CEO of Ohio Screw Products, Elyria, Ohio.

STATEMENT OF DAN IMBROGNO, PRESIDENT AND CEO OHIO SCREW PRODUCTS, INCORPORATED, ELYRIA, OHIO

Mr. IMBROGNO. Thank you very much, and I appreciate the Commission giving me this opportunity to speak with them.

My little story is very specific. It is a case study of a specific incident that has occurred with our company. I'm President of Ohio Screw Products, been in business 55 years now located in Elyria, Ohio. We are a manufacturer of precision turned parts or precision machine parts.

Our little story starts back in 1999 when we were asked to work with our major customer help them reduce costs and to partner with them. As part of that process we looked at our systems and decided to invest in about a half billion-dollar piece of equipment to improve our manufacture of one specific part. We did do that.

Unfortunately several years later in 2001 we learned that after we had cooperated with them, they were now going to outsource most of their components they were purchasing to China. Total amount was about $200 million. In fact, in December of 2001 we learned they had already placed 20 people in China to begin that outsourcing process.

Not willing to give up, we spent considerable time and effort working with our employees to try to bring down our costs. The cost of the Chinese parts are 28 cents apiece, and we said gee, what can we do to get better? Originally when we purchased the piece of equipment we were able to reduce their costs by about six percent and then use the rest of it to pay off that loan. But now we had another 8 cents we had to pull out of the product.

We got employees together, worked with our vendors on raw materials, worked with our sales reps, and as a result we were able to bring the cost down to 29 cents. That was foregoing any recovery of the cost of the equipment. It was giving up all profit in order to keep the machine and production people employed.

Guess what? They went back to their Chinese source and came back with a price of 21 cents. That price was a penny and a half above the cost of our raw material. We just can't compete with that.

We did what American manufacturers do: We solve problems. We got productive. We did what was necessary to compete but yet we still couldn't compete. It's kind of a distressing story not only for myself but for our employees and I have to look them in the eye.

Now, we replaced that work. We since found work for that particular machine. In following some of the procedures you always hear about. What you hear about are plant closings—well, we are not closing our plant, and I didn't lay anybody off as a result of that. I lost business, laid people off as a result of recession, but you will see in the details a number of parts we're losing—a million and a half dollars out of 6 and a half million, 7 million company, over a three year period of time, we will have lost a million and a half dollars of business that is going directly to China, being sourced to China.

Now we are getting business to replace that so I'm not going to be laying anyone off. But that million and a half dollars would have been new business added to what we already had, it would have increased our employment seven to eight additional people—direct labor and a couple indirect employees, and we pay our employees 16 and 18 dollars an hour. They are the middleclass of America. I'm not going to be adding any people to that middleclass now, and we are seeing those jobs disappear.

My concern is with the next recession we won't recover. We won't have the base. We will fall below that point where it's economical for us to stay in business. We're performing now but just barely breaking even. We are in the black but barely.

Besides that one part, three other parts will be lost to China from that same customer who's outsourcing over $200 million, and they are moving their manufacturing facility out of the U.S.

Another customer of ours is a multiple wheelchair manufacturer. An article appeared in the paper about their business not being able to compete with Chinese imports. Consequently they will be shutting their plants. It was one of the most productive in their organization.

And then we just learned that another customer of ours has been ripped off because of intellectual property rights. One of the products which we make some components for has been copied in detail down to the part numbers on their pumps, and their manual was copied in detail with only the Chinese company's name placed over theirs. They are going to lose business and as a result we are going to lose business. We have not detailed the cost to us on that.

In addition to these individual losses, other things are occurring. As China draw—increase their manufacturing and draws on natural resources the cost of steel and brass, two items we use extensively in our manufacturing process, have been increased. When we are dealing with major corporations and our customers, we often can't pass those increases on so we end up swallowing it. We have lost approximately—the impact on the bottom line about $220,000 over this past year of non-recoverable costs because we couldn't pass on those costs of the raw materials so we are being impacted by scrap going offshore and increase of raw materials.

What's important to recognize is that there are more impacts than just jobs. We devoted our resource in getting new business instead of improving processes. There's a loss to manufacturing. We are not going to invest in new equipment. After getting burned we're just not going to do it. Besides the balance sheet wouldn't survive it. We can't afford to put money in new equipment, and new pieces of equipment cost half a million dollars.

We have terminated all training. We just can't afford to do that anymore. Where we should be growing and prospering and helping our employees we can't do it. As quickly as we can get new business, additional business goes overseas. It's insidious. We are going to survive and you don't see this stuff because it's not a plant closing, but it is happening. It's impacting the future and it's impacting growth and jobs in middle class for the United States citizens.

Thank you very much.

Co-Chair DREYER. Thank you, Mr. Imbrogno.

Mr. John Colm, Executive Director of Wire-Net of Cleveland.

STATEMENT OF JOHN COLM
EXECUTIVE DIRECTOR, WIRE-NET, CLEVELAND, OHIO

Mr. COLM. Thank you. Nice to see you all here in Ohio. My name is John Colm. I am the Executive Director of the West Side Industrial Retention Network, which is a nonprofit economic development organization in Cleveland. I'm here today representing the Northeast Ohio Campaign for American Manufacturing, which is a coalition that our organization and about 12 others in Northeast Ohio has organized over the last year.

We represent 900 Northeast Ohio manufacturing firms that employ 30,000 people and 60,000 Ohio families of the United Steelworkers of America, and over the last several months we have been involved in a very active grass roots educational effort and political effort in the sense of raising the issue of the importance of manufacturing in Northeast Ohio and have started to get some real responses. The cities of Cleveland, Akron and Twinsburg, for example, have all passed resolutions in support of the agenda that NEOCAM has put forth addressing trade issues and their impact on Northeast Ohio. I want to applaud the work of the Commission in starting to get a handle on the impact of trade on our communities, particularly China. If there's one country that has a major impact on us due to international trade and the trade agreements it's China. I think the negative impacts of trade are still very poorly understood.

And the question that was raised earlier about why is there so little action I think part of is that we don't really measure well. We can't measure the kind of impacts that Mr. Imbrogno was just talking about very well. There are many other reasons as well.

What I'm going to try to do is speak for half a dozen of the member companies of NEOCAM that shared their story with me. I think one thing that I would like to do is to say first of all, that there's a real theme in what I was hearing from the firms that we work with that the issues that we're dealing with are not, it's not that China is to blame for this really. They are taking advantage of a situation that we have created in this country and we can change that. We can't change the way the Chinese behave. But we can change how we approach these issues in terms of the policies that we put forth and in the issue of political leadership, which I think is really critical.

The first instance I guess I'd like to talk about is the vacuum cleaner industry, which we've already heard a little bit about, I think. The firm that we have been working with in 2000 they employed nearly 220 people. Didn't pay as much as Dan's folks are making, but they are making a good wage. They have full benefits, retirement program, and many other company-sponsored programs. They were a supplier of major components to the OEM, the original equipment manufacturing vacuum cleaner industry in northeast Ohio, which is the center of the vacuum cleaner industry in this country, at least what's left of it. This firm was the largest low-cost producer and the technical leader of that particular product line, but by June 2001 their employment had been cut by one-half, 50 percent, because their customers, the OEMs, had moved to China. And as the general manager put it, "we could not stop or delay the exodus of customers had we provided our product free of charge. Once Wal-Mart enticed a major OEM to produce a low-cost offer made in China, the remainder of our customer base soon followed."

Many international firms are no longer manufacturers. They are integrators. They warehouse, they distribute, they assemble, they market, but they don't manufacture in the old way in the way we use to understand that term.

The major point of this individual is that we are losing our manufacturing infrastructure. So those who are banking on a recovery fueled by manufacturing innovation or engineering innovations are probably going to be waiting for a long time particularly as this trend continues with the erosion of our manufacturing base, not just the jobs, but the talent and the ability to bring new young people into the field as well.

There are also a couple examples having to do with metal forming. A firm in the Canton area, Republic Storage Systems, employed 500 people. This is an employee-owned company. You can't have a company that has more buy-in from their employees than an employee-owned firm, but they are facing very tight competition. They are seeing parts from larger manufacturing being brought into the United States, made in China, assembled in various customer locations. Their big complaint has to do with the currency issue, which as far as we can tell here in the boondocks is illegal, and we are waiting for the political leadership to respond to that reality.

One other example I would raise is the paper tube industry. This is not a particularly high-tech industry but still it's important. Tubes are used for shipping product. They are used for paint rollers. This particular example the firm makes impregnated cores that are used for—the lambskin paint rollers are assembled with that. They're very high-end market, specialty market for master painters, and the Chinese are coming in for much lower cost, 20 percent of the cost of what this particular firm is able to offer it for which is less than his raw material cost. Similar thing Mr. Imbrogno talked about.

The subsidies, there's a long list of subsidies that the Chinese manufacturers are getting from their government, bank loans that are written off, raw materials subsidies, energy, transportation, currency, et cetera, are all creating this situation that's basically going to push this company to the edge.

The last thing I wanted to say goes to the issue of why this is happening. It's a leadership question. The International Trade Commission as you pointed out in your 2003 report ruled against the import of Chinese wire hangers for the cleaning industry. Yet in that particular case the President ruled for the company that it was pursuing an import strategy. He ruled in favor of the import strategy instead of the domestic production strategy and that to me is a real problem.

Co-Chair DREYER. What reason do we give?

Mr. COLM. Grounds of national economic interest. So I guess I would just end there. I would be glad to take questions. Thank you.

Co-Chair DREYER. Okay. Thank you very much, Mr. Colm. Mr. David Murphy, Director of Personnel for Ferriot, Incorporated, of Akron.

STATEMENT OF DAVID MURPHY
DIRECTOR OF PERSONNEL, FERRIOT, INCORPORATED, AKRON, OHIO

Mr. MURPHY. Good afternoon, Members of the Commission. I am the Director of Personnel and Labor Relations for Ferriot, Incorporated, and I would like to thank you for the opportunity to speak here today. I represent Ferriot, Incorporated, a company that's been in business since 1860. It's been five generations of the Ferriot family, and we're primarily a custom molder and finisher of injected plastic parts. Up until January of this year we were also a maker of molds. We manufactured molds. We had to shut that division down this past January. Our hourly workforce is represented by the United Steelworkers of America, Local 1045L.

I'm not an economist by any stretch of the imagination. My training and education is in labor relations; thus I can't dazzle anyone here with statistics and fine detailed analysis. I can only relate what's happening in our industry and what's happened to our company.

Back when I started at Ferriot, which was 1980, we were primarily into toy manufacturing, and we made molds and it was about $7 million of annual sales. We started seeing the toy business going offshore in the late '80s. Most of it was being placed in Asia at that time although it wasn't on mainland China at that point in time. Most of what we saw was going to Malaysia and Korea. During that period of time we had to shift our focus, and we started changing our customer base. We got into cut steel molds and growing copper molds, and we also got into more business machines products. The last toy manufacturer left us in 1993 and they did depart for mainland China.

During the 1990s we saw a great influx of growth in our injection molding and finishing area, and we still struggled to make money on our molding manufacturing area. And sales continued to decline, but we made enough money in our other divisions that more than offset the losses that were occurring in the tooling manufacturing.

In this decade we have seen China making a growing impact in our injection molding area as well, and what—we continue to struggle to get sales. And most of what we're seeing at this point in time is work that is short-run type of jobs, quick turnaround, low volume of parts. It's items that we jokingly used to refer to as bottom feeding, and the problem with that work is you never get very much of a backlog. It doesn't eat up a lot of labor hours. It also ties up your machine time and it's a lot of overhead cost of changing molds, putting molds in and out.

We saw significant sales decline after 2001, particularly after 9/11, and it reached the point that the other divisions could not offset our mold-making area so when we made the decision to get out of the injection business all together in January. And at that time we had to inform the employees in that division that they no longer had jobs. Although it's part of my function and my job, we are a small company, and we know everybody, and we know their families, and it was extremely difficult to tell people that have been with us 20 years you no longer have jobs.

One of the small positive things that came out of that was with the United Steelworkers' help we were able to qualify for trade readjustment, but it's small solace for people that lost their jobs and are having to be trained in doing other things.

To put things in perspective at one time in the recent past we employed 297 people. We now have 175 so we have lost 122 jobs from our company alone. And what we have seen here in the last couple years we'll get spikes of work in, and then you get periods where you don't have work. And the trouble with the short-term work we have been able to stay afloat with that it makes it difficult to invest in capital. It makes it difficult to plan your business because you get periods of time when there's not enough work and you start escalating your overhead costs.

One of the things when we shut down our tooling business it really brought home and shocked quite extensively when auditors and accountants told us the people could offer their labor for free and we would still be noncompetitive. The price that we were producing our molds was five times less than being offered from China.

So when we went to the union to tell them we had to shut down the division there's essentially nothing they could do to help us out on that. Our overhead and fixed costs, power the cost of the building and we had moved into a new building at the end of '90s. Those types of things made us noncompetitive.

Ferriot's a longstanding company and it offered several generations of decent living to raise and educate their children and provide economic security, health insurance and retirement. When I first started in the company, it prided itself on being a place where you can hire in and work your whole career until retirement. This is a company that survived the great economic panics of the 1890s, two world wars and the Great Depression.

We choose to approach the future as the glass being half full versus half empty. We plan to survive these difficult times. We are searching for specialized niches, which we can exist in and offer specialized products. However, if things continue under present force, injection mold manufacturer and small manufacturers in this company will end up in the same boat as mold maintenance.

I wonder about the future of our children and grandchildren with manufacturing shrinking. Can they all work the service industry such as banking, healthcare, and government? For their sake we better wake up and wake up now.

Co-Chair DREYER. Thank you very much, Mr. Murphy. And now I would like to turn to Mr. Bruce Cain, President of manufacturing at Xcel Mold and Machine in Canton.

STATEMENT OF BRUCE A. CAIN, PRESIDENT XCEL MOLD AND MACHINE, INCORPORATED, CANTON, OHIO

Mr. CAIN. Thank you. The first thing I would like to say is I'm not a public speaker. I'm a machinist. So if I stumble around here, I hope you will sort of hang with me.

Xcel Molds has been in business since 1956. I started working there as an apprentice in 1969, and we have 11 employees who have been there longer than I have. The average employee tenure is over 25 years. We build molds and dies for the lighting, automotive, small appliance and household products. We have 53 employees, with ten laid off at this time and we are hoping to pick up. We don't have any employees we don't want. We have a great group of guys there, and we are hoping to get them back.

Over the last six years we have spent $1.75 million on new and used equipment. Some of the equipment has come at the expense of other companies. We bought a new machine that was only three years old—we paid $40,000 for it. Three years before that, brand new, it was $270,000. I was so excited that I bought that thing. Then you look around and you're standing in a building where one hundred people used to work and it's a spooky feeling. I mean, that could be you. Hopefully it won't be, but it could be.

In buying equipment it helps us speed up our process. We have to be cheaper. I'm sure you've heard this all day long, pricing is everything. If you can't be cheaper, you're not even in the game.

It used to be our mold deliveries were 18 weeks. Now we are down to 10, some are down to six; some are down to four if they are small. Last year in May I was asked by Congressman Regula to testify at Commerce, Justice, State and Judiciary Committee on May 22nd. So May 1st I started saving auction fliers of companies in the metal working industries. On May 22nd I gave them 11 auction fliers. They were pretty impressed with that so I thought I will just keep doing this. So in 510 days I saved 180 auction fliers in an eight to ten state area in and around Ohio including Ohio. I brought 28 with me here today for you. I realize this is a more industrialized area than the whole country, but if you multiply that times three that's probably how many businesses have gone out of business in the metal working industry.

In Stark County alone according to Congressman Regula, we have lost 3,500 jobs in the last three years. I brought our local paper with me today. There over six pages of sheriff's sales in there which is high. I was watching Lou Dobbs the other night and Senator Edwards was on. He said the average bankruptcy in Ohio is every five minutes.

In 1988 to 1998 Black and Decker was our biggest customer. In 1997 we did $1.7 million with them. Last year we did 23,000. Almost all their molds are made in China now. One of our customers in June sent 40 molds to China that would have kept five shops busy for two to three months. We quoted a mold for one of our customers, and I called them a couple days later and asked them how our price was. He said, well, your price was great. He said the only problem I'm not going to run the mold here. They are going to run it in China and to run it in China; China will build it for nothing just so they could run the parts.

Last year we quoted a 24-mold package for one of our customers. Our price was 2,068,000, Korea was 1,620,000 and China was 1,440,000. Now, if their currency is 40 percent undervalue, their price would have been $2,016,000, but they lowered their price because there's a lot of people over there making big money. I think we should add tariffs—40 percent until they float their money.

They have to float their money. Our economy is fine. There's nothing wrong with our economy. We are just running out of Asia. There's money being spent. Large companies are just spending it overseas.

China is without a doubt the worst country as far as the WTO, but there are other countries, too that aren't doing things right. When Korea sends 600,000 cars here a year, we are only allowed to send 2,800 cars there in a year, there's something wrong with that. That's not right. Japan essentially has a 400 percent tariff on imported rice. I don't understand these numbers, but if we're going to be a member of this World Trade Organization I think everybody should go by the rules. Fifty percent of China's imports are by foreign-invested companies, like IBM, Black and Decker, Motorola.

On May 22nd, I testified that I did a survey of 12 area companies, one of which no longer builds molds and another, which is out of business at this time. Here are the results: From 1996 to 2002 employment was down 36 percent. Average hours worked were down 18 percent. Average backlog of work was down 8 weeks. Total Federal taxes paid including Social Security by employer and employee down 24 percent. Workload projection for 2003 was good. Three good, five fair, four poor, no excellent.

If your business is not doing well, what's the largest contributor? Imports.

What do you feel the government should do to help the tooling industry? Lower interest rates, tax incentives, tariffs on imports, and tax incentives for corporations not to go overseas.

If imported molds are a major threat to your business, what countries affected it most? Without a doubt China headed the lead and then Canada.

If you designed and built a mold in 1996 for $50,000, what would your quote be today? $44,700.

And here that states that a lot of the companies have done things. They have actually given their employees less benefits to try to compete. When I was at the Small Business Forum in Washington in June, Congresswoman Nancy Pelosi said 23 million companies in the United States are small businesses. That represents 99 percent of the employers. They generate three out of four jobs, but still we listen to big business. We are geared that way.

The only way I see to save manufacturing is abide by World Trade Organization rules. I don't want protection. I just want a shot. I want to make a living, have my employees make a living.

Here I have two e-mails from a couple people in China. Billy Chin sent me one. He has 3,800 employees in his mold making facility and wants me to be his partner. I'm so proud of that, but I don't think that's going to happen. That's not the direction Xcel Mold is going. We like our employees, and we want to keep things the way they are, and we think government should listen more to small business. Thank you.

[Audience applause.]

[The statement follows:]

Prepared Statement of Bruce A. Cain, President
Xcel Mold and Machine, Incorporated, Canton, Ohio

U.S.-China Trade and Investment: Impact on Key Manufacturing and Industrial Sectors

I would like to thank the Commission for inviting me here to testify on behalf of my partners, our company and most importantly our employees. Xcel Mold has been in business since 1956 of which I have been involved for 34 years. Xcel builds molds and dies for the lighting, automotive, small appliance and household product industries. At the present time eleven of our employees have more years of service than I do and the average tenure of Xcel employees is over 25 years. On August 6, 2004 we had to layoff ten of our 53 employees due to lack of work. That kind of day is always hard on all the employees because our tenure is so high and you see your friends walk out the door. Although we had to layoff, I think our work situation will improve in the last quarter of this year.

Over the last six years we have spent $1.75 million on machinery. We have purchased some of the machinery at the expense of other shops that have gone out of business. We purchased a machine that was three years old at auction for $40,000 which would have cost $270,000 new. I was so excited that day but then I looked around and I was standing in a building where 100 people used to work. In our business you have to keep buying machines that can go faster so you can shorten your deliveries. A mold that we used to build in 18 weeks now has a delivery of 10–12 weeks. Along with being quicker on deliveries, we have to be cheaper but we can not match China's prices. We build a good quality mold, better than one from China and in the same time frame. The issue comes down to price. China, having an unfair advantage because they refuse to float their currency will continue to drive companies like ours out of business.

On May 1, 2003, I was invited by Congressman Ralph Regula to testify before the Commerce, Justice, State, and Judiciary Committee in which I testified on May 22, 2003. The hearing was about trade with China and how it was affecting business. I starting saving auction flyers of companies in the metal working industries on May 1, 2003 and on May 22, 2003 I gave the Committee 11 flyers. Since then I have continued to save auction flyers and on August 1, 2003 I sent 29 to Congressman Regula, gave 45 to Grant Aldonas at Congressman Regula's office on November 12, 2003, mailed 16 to Senator Voinovich on December 16, 2003, mailed 29 to Congressman Regula on March 30, 2004, gave 22 to Congressman Sherrod Brown at a small business forum in Washington on June 17, 2003 and I have brought 28 here with me today. The total comes to 180 companies going out of business in the last 510 days which is one company going out of business every 3 days. Most of the flyers we receive are from an 8–10 state area around Ohio. I know this area is more industrialized than other parts of the country but if you multiply 180 by 3 that would probably be the amount of companies nationwide that have closed. In Stark County alone we have lost 3,500 jobs in the past three years according to Congressman Regula's office. On Thursdays in our local paper, The Canton Repository, there are 6–8 pages of sheriff sales of homes in Stark County.

From 1988 to 1998, 35% of our business was done with Black and Decker. In 1997 we did 1.7 million with Black and Decker; last year we did $23,000. Almost all their molds are being built in China. Another one of our customers sent 40 molds to China in June. That amount of work would have kept five shops busy for 2–3 months. Last year we quoted against China and Korea for a 24 mold package for this same customer. Our price was $2,068,000; Korea was $1,620,000 and China was $1,440,000. When shipping is added our price and the Korean price end up close but China was cheaper. Everything I've read says China's currency is 40% undervalued; therefore if you add 40% to China's price the cost would have been $2,016,000. If our government would put a 50% tariff on all products coming from China to force them to float their currency our economy would be fine. When I talked to a Representative from the Commerce Department, he said that would ruin China's economy. What is it doing to our economy?

When products are brought in our country the tariff is 3.31%. To send products to China there is a 12% tariff and a value added tax of 17%. I think there should be reciprocating tariffs with each country we deal with to ensure there is free and fair trade. China is the most flagrant but every country in Asia bends or disregards the rules of the WTO. Korea sends over 600,000 cars here a year, we are allowed to send 2,800 cars a year to them. Japan has a 400% tariff on imported rice. These are just two examples of how our government views free trade. When a country adds tariffs or limits the number of products we can export to them, this is against the rules of the WTO.

With the monetary issues, the high tariffs and the limiting of our products to other countries, I do not see manufacturing returning to the way it once was. We need to overhaul our trade policies to bring manufacturing back. Multinational companies enjoy our trade policies as they are but small to medium sized manufacturing companies are at a real disadvantage. Fifty percent of all exports in China are made by foreign-invested manufacturers, which are our own companies such as IBM, Black and Decker, and Motorola. I have read that 60% of all products consumed in the world are consumed in the United States, so why do we let these countries and our own companies ruin our economy?

When I testified in Washington on May 22, 2003 I did a survey of area shops to get their opinion on our industries changes from 1996–2002 that I would like to share with you (see Exhibit 1). Two of these businesses have gone out of business because they could not compete.

In my opinion the only way to save manufacturing is to make everyone abide by the WTO rules. This does not mean I think we should be protected, but it should be fair. China knows if they can keep their monetary situation the same more and more businesses will not be able to survive. Our trade policies must be changed to stop the exporting of America and be a Government of the People not the CEO's. There are 23 million small businesses in the country which represents 99% of all employers and we still listen to the voices of Big Business. If you have any questions, I would be glad to answer them at this time. Thank You.

Exhibit 1:

May 8, 2003

Almost two years ago, we conducted a survey of area shops, in which you all participated. Shortly after, a meeting was held at Xcel Mold where the following people were present:

Bruce Cain	Xcel Mold and Machine Inc.
Corkey Keeler	Ferriot Inc.
Steve Schler	Promold
Steve Paquette	Stark Regional Development Board
Bob Algera	Akron Regional Development Board
John Appledorn	Akron Regional Development Board
Robert Mullen	Representative from Rep. Regula's Office
Chris Sinagra	Representative from Mike Dewine's Office
Bill Richards	Formerly of Tenibac-Graphion
Donald Loepp	Plastics News
Angie DeRosa	Plastics News

A month after the meeting, I met with Congressman Regula at his office. I found him to be most supportive of our situation. On May 1, I was contacted by his office and asked to consider testifying before the Commerce Committee of the House of Representatives in regards to the state of our industry. The tentative date is May 22, 2003. I would like you to fill out the attached survey to supply me with as much information as possible. Please return the survey by **May 15, 2003**. This will allow me the time to prepare all the data.

Obviously, I am not certain of the results, but at least the people in Washington are starting to pay attention to our industry's dilemma. The survey is being sent to the same companies as were previously involved and also the members of the AMBA-Ohio Chapter.

I would like to thank you for your help and cooperation. Hopefully, we can make a difference.

Sincerely,

Bruce A. Cain
Vice President, Manufacturing
Xcel Mold and Machine Inc.

COMPANY NAME: ________________________

NAME: ____________________________

The following results are from 12 companies surveyed:

1. Number of Employees.
   1996 ________ 2000 ________ 2002 ________ down 36%
2. Average hours worked per week.
   1996 ________ 2000 ________ 2002 ________ down 18%
3. Average Backlog of work in weeks.
   1996 15 weeks 2000 ________ 2002 ________ 7 weeks
4. Total Federal taxes paid including Social Security by employer and employee.
   1996 ________ 2000 ________ 2002 ________ down 24%
5. Workload projection for 2003.
   0 Excellent 3 Good 5 Fair 4 Poor
6. If your business is not doing well, what is the largest contributor.
   - 4 a. Economy
   - 2 b. Particular customers are slow
   - 11 c. Imports
   - 3 d. Other
   - 1 e. Lack of support by U.S. Government
7. What do you feel the government should do to help the tooling industry.
   - 3 a. Lower or no interest rate loans for new equipment
   - 4 b. Tax incentives
   - 6 c. Tariffs on imports
   - 10 d. Tax incentives for corporations not to go offshore
8. If imported molds are a major threat to your business, what countries are affecting it the most.
   7 a. Canada 3 b. Portugal 1 c. Japan 12 d. China
   5 e. S. Korea 2 f. Taiwan 0 g. not affected
9. If you designed and built a mold or die in 1996 for $50,000, what would you quote today. $44,750.00
10. What has your company done to compete with domestic and imported molds.
    1. Automate wherever possible (buy machinery).
    2. Cut back labor. Run multiple machines with one operator or run machinery at night with no operator.
    3. Lowered benefits to employees.
    4. Developed alliance with Asian tool builders.

Please add any additional comments:

1. Allow grants to businesses to upgrade facilities and equipment. It would improve companies and stimulate investment now.
2. Made in the USA is becoming a "thing" of the past. We need help from our government.
3. U.S. companies have to deal with rising health care costs, OSHA and EPA.

Co-Chair DREYER. Thank you. Thank you, Mr. Cain. I think you should consider being a public speaker.

Next, we have Mr. Jim Evans, a purchasing manager, representing Gentzler Tool and Die in Green, Ohio.

STATEMENT OF JIM EVANS, PURCHASING MANAGER GENTZLER TOOL AND DIE, GREEN, OHIO

Mr. EVANS. Good afternoon, Mr. Chairman, Members of the Commission. Thanks for having this hearing and allowing us to let you know what's going on in Ohio.

My name is Jim Evans. I am the purchasing manager for Gentzler Tool and Die. We are a small metal stamping plant just south of here in Green, Ohio. We are a woman-owned small business, and we specialize in high-volume stamping for automotive, aeronautics, appliance and some electrical industries.

Gentzler was established in 1953. Currently we employ 28 people.

I'm here to talk about all of this from a local manufacturing standpoint how the U.S. trade relationship with China has affected our company and other companies about our same size throughout this area.

As you know, business conditions in the metal stamping tool and die industries have been very difficult in the last few years. Manufacturing recession began in 2000 high cost of doing business due to high healthcare costs, product liability costs, taxes, steel tariffs of 2002, 2003 and most recently more than doubling of what is my largest commodity is, steel. There are many reasons for that. And one of those is China. It's very difficult for smaller manufacturers in the area.

Unfortunately as you have seen it's not an anomaly. It's indicative of the entire manufacturing base in Ohio and throughout the entire nation.

My comments will focus on what I know, which is what this is going to do to the local economy as far as Gentzler Tool and Die and some of the smaller people we do business with. I'm testifying on behalf of Gentzler and the Precision Metalforming Association, which they affirmed in a written document to you.

In the past two years our company and other local companies have lost clients to China. Just last week World Kitchen in Massillon, Ohio closed their doors. They manufacture cookware under the names of Pyrex, Corning and Ecko, which is nationally known. They had 200 manufacturing employees. They announced they would be closing down, mid September their doors would close. They told us that all of the work we were doing for them was going to China. Unfortunately that was 15 percent of our work. We're a $3 million company and that's $500,000 that was just gone. We had to layoff two employees because of it, which took us down to the 28 we currently have.

World Kitchen discarded all of the tooling they have, we made in excess of $40,000 because it's cheaper for them to have Chinese people make it again instead of shipping it over to them. With 30 people that was probably about ten, fifteen percent of our workforce as well so the impact on these and the Ohio tax base should be pretty clear as well as the local tax base.

To put it in perspective, we manufactured tin muffin cups in three different sizes for World Kitchen. The loss of business will cost the city of Green $13,000 in just income tax alone. The closing of a plant put 200 people out of work in Massillon and that amount to about $125,000 to the city of Massillon in lost tax revenue. I talked to the Mayor of Massillon numerous times and he has no idea what to do to try to keep businesses here. He lost about three different businesses to Chinese work in the last year.

World Kitchen was a long-time customer of ours and our problems aren't limited to our current customer base. Recently I was speaking to a gentleman from Scott's that manufacture lawn care. They have a company out in California and they had asked us to do some tooling work for them. I called him. He said that all morning he had been waiting to talk to me, but then his boss talked to him just before I called and told him they're not allowed to get any domestic quotes. All their quotes had to be from China. Now they have a full injection mold facility out there. They are talking about turning down an entire line and sending all of the machinery down to China just because of the lower labor costs.

Gary McAfee, President of McAfee Tool and Die, which is one of our dealers and is in the same type of business we are, started his company in 1977. He shared with me that in the last two years he lost 20 percent of his work to China. That's resulted in laying off 25 of 70 employees that he had. He's now down to 40 employees. The loss of this income tax revenue to the city of Green is $30,000. That's just in the income tax from his employees.

Mr. McAfee supplies the automotive industry, which we do as well, and according to the National Machine Association and Market, these are quotes from auto manufacturers in the United States. General Motors states that they will—in 2003 they bought $3 billion worth of product from China and brought them here. In 2009 that will be $10 billion. Ford is expected to source $10 billion by the year 2010. Chrysler purchases from suppliers in China and Korea are expected to top 6 billion by 2010. That's another $26 billion of American manufacturing dollars that are going overseas to China.

Chinese government provides subsidies to their companies. Mr. McAfee had visited China and what the Chinese government is doing they are taking 2 to 300 acre parcels of land, leveling them, putting in roads and then sending Chinese companies over here for American companies to come over there and build. They subsidize it with the purchase of the steel in China. Last year Chinese manufacturers were paying 11 cents a pound for products that I was paying 35 cents a pound for here in the United States. And we produce steel here. We have two of the leading producers of steel right here in the United States.

Chinese manufacturers in Suzhou is where the government cleared out those parcels of land three companies from right here in this area have taken China up on the offer and built over there. Wellman Friction Products from Brookpark, Timken Bearing Company from Canton and Copeland Compressor Company have all built facilities over in China.

In this sense U.S. manufacturers are not only competing with their competitors in China but they are competing with the Chinese government. The Chinese government grows stronger every day from any action taken by the people they're hurting most which are American companies because we can't do anything to them.

Finally, there's a distinct shortage of raw materials here over in the United States. We need export controls for countries such as China. As long as China continues to harbor coke, coke supplies which is approximately 30 percent of the world's supply, in anticipation of opening five new mills for steel over there the U.S. price of steel will continue to rise. U.S. steel manufacturers are also exporting steel and raw material to China leading to a shortage here and therefore astronomical steel prices for domestic bought product.

The price of products that I buy some of them have increased over 125 percent in the last year from this time a year ago. To compound this they are also adding $190 to 230 surcharges on top of the already increased price.

Other factors that create an unfair level of market competition in China is their lack of EPA regulations, their lack of OSHA requirements, their lack of healthcare costs and their lack of wage negotiations. All these factors make the price of doing business a lot higher than what it is in China.

In summary trade with China is having a detrimental effect on my small business in the Ohio region and the U.S. economy as a whole. It's time for the U.S. Congress and the Administration to take real action so the U.S. economy to be a factor in the global marketplace and not be a result of it.

Thank you for allowing me to testify, and I will answer any questions that you have.

Panel IV: Discussion, Questions and Answers

Co-Chair DREYER. Thank you very much. Anybody I missed for questions?

Co-Chair Wessel.

Co-Chair WESSEL. I expect that several of you have heard some of the other panelists here today. Unfortunately, I think we're hearing a continuing message of concern, frustration and Midwestern tempered anger at what—as opposed to New York, yes—about what your government is not doing for you. You just raised the question of China's limit on coke and I just got from the World Trade Organization at the end of August a document the U.S. Government filed on the issue of coke. The United States—this is their final point—has previously raised its concern both bilaterally and for its counsel that China's export quotas and license fees on other raw materials such parts. What are China's plans for bringing these measures into compliance with WTO rules?

I don't know why we continually ask questions, making you wait for the answer because as I understand while we wait for answers, you have to downsize, you have to lay people off, you lose market share. If you were sitting on this side of the table, what would be the things that you would like to see done immediately?

Mr. EVANS. I think the biggest thing that needs to be done immediately that would put some type of damage control on this that if American manufacturers choose to purchase overseas, lot of them do, tax and tariff their imports. They're bringing these parts back here, assembling them and then expecting us to buy it, but yet they're the same American they expect to buy it and put them out of work. So fine. If you want to buy it overseas, buy it overseas, but you are going to pay for it. You either pay a tariff on it or you keep it here.

Co-Chair WESSEL. Mr. Cain.

Mr. CAIN. Well, actually I think that maybe getting out of the World Trade Organization for a year wouldn't be a bad idea. Sixty percent of the products in the world are consumed here. Don't you think we should have some leverage? At this point, the only people that have leverage are the CEOs.

Co-Chair WESSEL. You raise an interesting point. Our chief economist presented some materials in advance of this hearing. Roughly one-third of all China's products come to the United States, and 4 percent of our products go to China. Your point is a good one.

Mr. CAIN. We have leverage. I don't understand why we are not using it.

Co-Chair WESSEL. Mr. Murphy.

Mr. MURPHY. Some incentive for companies to keep work in the United States, one of the things that we see generally is, particularly large companies, and I can just relate what one of our largest customers who has been our largest customer two years ago that we will not be getting any projects of high volume they're going to China. When China's no longer the cheapest, they will find a new place such as India, and we have talked to our Congressman and government officials. Feel bit like the gnat on the elephant's backside particularly when you are talking to them and we have employment (where we're at now) of 175 people so it isn't like we have clout or the screaming power of some of our larger customers of large company seem to. It gets frustrating because we go all around our area and it's happening to everybody's jobs.

And I also believe I saw something recently where Ohio was like the second and third in people between 18 and 30 years old leaving the state, so it's a big deterrent.

Co-Chair WESSEL. Mr. Colm.

Mr. COLM. Well, you're asking if I were on the Commission what would I do?

Co-Chair WESSEL. If you were in charge what would you do?

Mr. COLM. I think you guys are doing a pretty good job.

Co-Chair DREYER. If you were the President, whether it is Bush or Kerry, what would you do?

Mr. COLM. NEOCAM is asking for three things. One is we have to increase the pressure on the Chinese to do something about the currency, the one company I cited of the tube manufacturer: if the currency were allowed to rise in value by 30 percent or something in that range over time, that would level the playing field for that particular industry. I'm not sure it would solve every problem. We would probably see some product move from China to elsewhere. But we have to get better at using trade remedies that we are given through the agreements that various nations have signed including ourselves. So that would be number one. That also gets at the base when we start dealing with the currency issues we start getting at the heart of the trade deficit overall which is another matter.

The second issue has to do with the funding for the manufacturing extension program which has been extended and how we come to some moderate agreement on the conference committee on that. But that's an important program because it offers small firms a resource to help them improve their competitiveness in the global market, and the third issue is the Foreign Sales Corporation program.

Oh, this is a program that has to be overturned or ended by World Trade Organization rules. Every month that the Congress sits on its hands there's another one percent tariff added to company product exported to European markets. That program should be ended and some tax relief should be delivered to domestic producers in proportion to the share of their products that are being made here. And I don't think that's necessarily a comprehensive solution, but if we don't practice some of these trade remedies, we are never going to get very good at it, and I believe we need a new approach to enforcing trade.

I watched the whole debate with how Japan was manipulating various loopholes year after year after year in negotiating with them and no result. And now we are repeating the same thing over again with China.

Co-Chair WESSEL. Let me give you this, it is the President's economic report from February and ask you a question whether it is manufacturing—I don't know if you read the report yet, but it says when a fast-food restaurant sells a hamburger, for example, is it providing a service or is it combining input to manufacture a product? And maybe manufacturing——

Mr. COLM. We have just been counting the wrong things.

Co-Chair DREYER. Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you, and thanks to our panelists. It was very interesting. It's always difficult for us as we come and listen to the problems that you are grappling with on a daily basis. It's kind of overwhelming to hear about. I can't imagine what it's like on a daily basis as you work to take care of your employees and position your business.

Mr. Colm, I want to make sure I heard something correctly about what you said. I know the pure free market people have a tendency to believe that somehow you'll be able to reinvent our way out of the current problems. I thought you said there's no reengineering or redesign that would be able to address these challenges; is that correct?

Mr. COLM. Yes. That was my basic point. I apologize if I didn't make it very clearly. But I think that what we're seeing in reference to the brain drain occurring in Ohio and other communities is part of that challenge in the sense that we're losing—well, for example, one of my member companies was—they do business with a lot of companies that are based in China. All of their production currently is domestic, but he was meeting with an Intel engineer who told him that they are no longer replacing U.S. engineering talent. They are hiring purely Chinese engineering talent as Intel's engineers retire.

So there's kind of this debate going on about what the U.S. is going to do about the engineering crisis. We don't have enough young engineers coming out of college. If we're not hiring them here, why bother training them?

But I think that is the key issue here about our future ability to innovate and to—there's kind of a line I guess you hear from people that think we are going to be okay here. We'll innovate our way out of this. If we don't have the engineering talent, if we don't have the machining talent and the actual production talent, how do we do that? How do we do that in the field of nanotechnology? So I think that's a real challenge, and I think we are seeing the end game of the 25-year strategy the Chinese pursuing. They have been very disciplined and we need something now comparable, which is——

Commissioner BARTHOLOMEW. That is an important point as you look at Chinese industrial policy if you don't have anything comparable in the country. I am very impressed with the ingenuity you all expressed of how you are meeting the particular challenges. Could you share with us a bit how you see the future of your industries, what is going to happen? As we talk about preparing for the future, where are you in ten years or in twenty years?

Mr. IMBROGNO. The Screw Machine Products Association has lost approximately 15 to 20 percent of its membership over the last couple years primarily from companies going out of business. We estimate within the next probably seven to ten years, we'll be down by another 40 percent at least, the majority of it being a result of businesses going to China, some of it being a result of new developments in technology. But we see it continually shrinking and changing. In all we are a high production type manufacturers. We isolated a niche of our own, very short volume, short run, short timeframe type jobs with the same number of highly skilled people.

Unfortunately as some of them have described those people soon aren't going to be available and we find a niche for ourselves that we can't support long term, we can't attract young people into this business, training them, because they hear what's going on and they're fearful of being in manufacturing. I think long term that all gels with what John was saying that the impact is actually spiraling.

Commissioner BARTHOLOMEW. Mr. Murphy.

Mr. MURPHY. Well, unfortunately I think the future for mold making is pretty bleak in this country because I think the horse is already out of the barn, as described by the other panelists here there's nobody going into the machine trades so many out on the street and seeing what happens, and I know too what I hear on the street. I live in Stark County where Xcel Mold is located. My neighbors work for Hoover and Timken and they are fearing their jobs. I can only use my children as a barometer. They don't want to be a part of manufacturing. They want no part of business.

Commissioner BARTHOLOMEW. Do they want any part of Ohio?

Mr. MURPHY. Well, my son started his own business but it's a service industry and he's planning to go to Florida, and my daughter who's going to graduate and she's hoping to go work for the Center For Disease Control. So I think you're seeing that commonly with the younger people.

As far as injection molding we kind of found our niche with short run things, but it's tantamount to hopping lily pads, and we are looking into some proprietary products and we have some promising marketing projections but they are just marketing projections. We are also doing remanufacturing automation trying to drive costs down.

Commissioner BARTHOLOMEW. Mr. Cain.

Mr. CAIN. In the mold industry, you're going to have to be aligned with somebody where you can do their repair work from the molds coming from overseas, and we are sort of like that with one of our customers. But you're hoping you're not one of the next guys closing your doors.

You guys quit building molds this year, about six of them in the Akron area in the last two, three years and you would think when that happens well, there's going to be more work. Well, that's not happening. It's going out of the states faster than anything.

And I just laid off one kid at the shop. He is a great kid, and he was Mr. Everything at Massillon High School in their machine shop. I've laid him off twice in the last year and he liked working there and he liked everybody there, but he just decided that wasn't going to be for him. And it was sad to lose a kid like that.

I'm on a board over at Massillon High School, advisory board for their work programs, and they asked me what I thought of the machine industry and I told them I would no longer make it a cornerstone for your vocational program. You got to take them somewhere else, whether it's nursing or something—everyone is going to get sick. Not everybody wants a mold and it's getting worse. I think we are a well-run company. I think we have done whatever we had to do to get stuff done, but you can only do so much. When the bill comes down and your price is hundred thousand dollars and they see they can get it made for 40 overseas, friendship only lasts so long.

Commissioner BARTHOLOMEW. Mr. Evans, any?

Mr. EVANS. Well, since the steel tariffs back in 2002 companies lost approximately 60 percent of its manufacturing base. The only saving grace for our company is we diversified. We are in many different areas, bake ware, electronics. We lost all the appliance portion of our business. Now, we lost what bake ware we had.

Ten years from now you ask if it continues this way that's back to this country Gentzler Tool and Die won't exist. They won't have any work. The country's slowly progressing towards a service nation, and this country has never been a service nation and it should never be. We can't survive that way.

Co-Chair DREYER. Commissioner Mulloy.

Commissioner MULLOY. I wanted to first talk about the WTO, Mr. Cain. You talked about if we could all live up to the WTO rules. Part of the problem I think is the way the WTO is structured. When we have a 2.5 percent tariff on autos from China coming to the United States, that does not mean they have a 2.5 percent tariff on autos from the United States going to China. Under the WTO agreement, which we negotiated and agreed to they could keep about a 25 percent tariff on autos going from here to China and they get 2.5 percent tariff from us.

Secondly, on auto parts again we have about a zero to 2.5 percent tariff on their parts coming here. Even when they phase in they are going to have a 10 percent tariff on our parts going there. Now, this isn't just China. This is a lot of different countries around the world. Our average tariff may be 3 percent. India, it's maybe 14 percent.

When you look at the structure it might have made sense when you didn't have mobile capital and technology. But when you have mobile capital and technology and capital has no conscience because it wants the highest return. It will move where it can make the most money and if it leaves workers here behind, somebody is going to make money off it and it will do that.

People keep talking about this level playing field. Mr. Johnson came in here before and he said his company offered his employees good health coverage, a defined benefit retirement plan, a supplemental 401(k) savings plan, life insurance, et cetera. That was the package their employees got. How can it be a level playing field now when they are competing against somebody in another country that offers none of that? People keep saying we need a level playing field. How can you get this kind of structure? Do you have any comment on that? Am I seeing this wrong?

Mr. CAIN. I think that you're right. We pay a lot of expense here for our employees. Last year our healthcare was $400,000. I'm willing to not even look at that if you get them to float their money and bring our tariffs up the way theirs are.

Commissioner MULLOY. We can't bring our tariffs up to what theirs are and live up to our WTO commitments.

Mr. CAIN. That's what I'm talking about.

Commissioner MULLOY. Theirs is 25, ours is 2.5.

Mr. CAIN. Why is that fair?

Commissioner MULLOY. It's not fair. That's the way it's set up. That's what we agreed to. That's the legal agreement we are now part of.

Mr. COLM. Oops.

Mr. CAIN. That's okay when they are making the little figurines that go in the Happy Meals, but it's way past that now. So we are just content that large companies here, they're loving the way this is. Making stuff over there for next to nothing, bringing it over here.

Look at the Wall Street Journal. Almost every week somebody else's profits are up. Record profits and CEOs, nine of the top CEOs in the country I think their income went up 30 percent, and if you took the top 350 average nine—these are nine CEOs that deal with China.

Geez, I want to make money. I love to make money. Right now it's not working out for us, but if they change the tariffs and everybody floats their money and——

Commissioner MULLOY. President Bush on Labor Day in Ohio said, ''We in America believe we can compete with anybody just so long as the rules are fair and we intend to keep the rules fair.''

Now, does the structure I described to you sound like a fair system? I think people don't understand the structure. Mr. Imbrogno, do you have a comment?

Mr. IMBROGNO. Yes. And you are absolutely right. What you described is a real world that we live in on a daily basis. The situation is that it's not free trade. I mean, the definition of free trade doesn't envision the mobile capital. It doesn't and we have that aspect of it now.

What we are doing is competing against our own multinational corporations that are located over there so definition of free trade is an invalidated one. That puts the whole thing in perspective. We won't ever be on a level playing field because the rules have changed. The whole precept and definition of free trade is different now. They put an aspect in and the economists aren't buying it.

What's really going to happen in the future? They don't know. I mean, economics is not a precise science. It's guesswork. It's precepts. It's a theory. There's nothing to support it. There's not a cause and effect other than past history, and the rules have changed and they are trying to make these past rules, these past events, past consequences in carrying into the future in a different environment where capital is now mobile. It doesn't work. It doesn't work, and we continue to let these economists preach free trade, but frankly I don't think they know what they're talking about and we're getting shafted in the process.

Commissioner MULLOY. You mentioned companies that were moving their operations to China because of low labor cost. I think it's much more complicated than low labor costs to be honest with you.

Mr. EVANS. I agree. And we've been asked, the labor here today, what we do to fix that. With all due respect to the Federal Government, Congress makes these deals you just talked about with the WTO. They make the deals with all the other countries.

Commissioner MULLOY. Actually the Administration.

Mr. EVANS. The Administration, Congress, the Federal Government makes these decisions for us. We elect them to make those decisions. We don't get to go into the negotiations and say this is what we want to happen. The final decision is theirs. They broke it. They need to fix it.

Commissioner MULLOY. Well, they won't unless they hear from you.

Mr. EVANS. That's why we're here.

Co-Chair DREYER. Commissioner D'Amato.

Chairman D'AMATO. Thank you, and I want to thank you all for coming. I personally find this whole set of testimony very disturbing. I have always felt, and I believe I'm correct, the machine tool industry is an essential component of our industrial structure, and a healthy machine tool industry is vital to our national security. I don't think there's any way to get around that.

What I hear from you is that as far as the Federal Government is concerned it hasn't been any help to you at all. Let me just tell you that nobody in Congress negotiated these agreements. Actually nobody that you ever elected negotiated these agreements. They're all negotiated by non-elected people who are appointed. Maybe we need to change that to being elected.

My other conclusion is that if something isn't done differently in terms of enforcing the agreements we have or changing the agreements we have, this industry is going to continue to deteriorate and eventually it will affect the health of our whole country. So it seems to me it's a national security matter, which is the mandate of this Commission.

I would be interested in following up this hearing with each of you to find out what it is you think the government should be doing that it's not doing. And we can follow up on that to see whether there are things in place now that are not being done that could be done to help you. And if not, the things that should be done that are on the books now that we need to take action on to correct the situation. Thank you.

Co-Chair DREYER. We have four minutes left and I have Commissioner Wortzel and Commissioner Becker so if you could endeavor to ask your questions quickly.

Commissioner WORTZEL. I will defer to you.

Co-Chair DREYER. Go for it, George.

Commissioner BECKER. Thank you. I feel very keen about the machine tool industry. I have worked on the periphery most of my adult life and I have always felt that a viable machine tool industry is absolutely essential for a strong manufacturing base and changes come about to the machine tool industry. We develop our high-tech capabilities to the machine tool industry either directly or indirectly like in your case, Mr. Imbrogno. I stuttered over that a little bit. I suspect that if you would have met the 21 cents or what was the——

Mr. IMBROGNO. 21 cents.

Commissioner BECKER. —they would have undercut that. This has been my experience. If they were out to target something they would get it. There's no way you are going to pull back, and what I wonder is are they doing this everywhere? Is this a widespread activity going on in the machine tool industry? Are they really striving to replace and take over this aspect of American business? They have in many other industries, but is the machine tool industry targeted. Do you know?

Mr. IMBROGNO. It would seem definitely the case. One of the things we have seen too we had—one of our association had a trip organized. Unfortunately I was not able to go to China and they visited a number of facilities, guided tour actually. What they found was a mix of old equipment and really surprisingly brand new equipment, much more sophisticated, much more than anything we have in our factory and that was disturbing. They have equipment that is stuff we can only dream about.

They were getting money from their banks that they're not going to have to pay back that I can only dream about ever being able to buy. With them putting limits on the kind of equipment they can import into their country, it would seem that their intent to be the best in the world at it and take the largest portion of that manufacturing capability, it would seem, yes, you're right.

Commissioner BECKER. All of your companies would be small players compared to the big players, right?

Mr. IMBROGNO. Absolutely.

Commissioner BECKER. That's my feeling. The big companies, the multinationals, are they transferring machine tool technology to China themselves?

Mr. IMBROGNO. Yes. I guess that's one of the parts we are soon to lose. We had spent several years about 15 years ago developing a technique to make this particular part for them. They wanted us to share that information. In fact, they would send us their prints and say okay. Now you put in detail how you do it and they turned around and send it to China. We learned very quickly not to give them detailed information of how we made the parts.

Unfortunately, one part we'll lose probably in February. We were able to delay it because we wouldn't share the information. Yes, the company—our customer was demanding that we share our information that they were then going to give to the Chinese.

Commissioner BECKER. I just want to make a comment on how you stay competitive, cut employee benefits, and there's been a reference made to healthcare. As sympathetic as I am for you being able to stay competitive and to stay in business, I really suggest that that's the wrong way to do that. We need a national healthcare system. Employers from one end of this country to the other, large and small combined, find it almost impossible to pay healthcare benefits. We need a national healthcare system and I would look long and hard at something like that.

Co-Chair DREYER. Thank you, gentlemen. I declare this session at an end. Thank you very much for your testimony and your comments.

PANEL V: COMMUNITY IMPACT

Co-Chair DREYER. Okay. I would like to call open Panel V on Community Impact. We'll start with Mr. John Folk representing United Steelworkers of America, Columbus, Ohio.

STATEMENT OF JOHN C. FOLK
UNITED STEELWORKERS OF AMERICA, DISTRICT 1, COLUMBUS, OHIO

Mr. FOLK. Thank you.

Thank you for the opportunity to be here to speak and tell my story about what I went through dealing with Huffy Bicycle, a mass producer of bicycles and watching our plant close down.

In 1955 Huffy Bicycle Company built a plant in Celina, Ohio, a city with a population of approximately 8,500 people. The plant became the finest mass bicycle production facility in the United States.

In 1956 the workers voted to be represented by the United Steelworkers of America, and a collective bargaining agreement was successfully negotiated between the parties. I was hired in about 1978. At that time, John Mariotti, was the president of the plant there. During the meetings he would tell us that we have to prepare for a fight and that fight was not with Roadmaster or other bikes being manufactured in the United States. It was with China and the bicycles that were going to be dumped on this country in the future as he saw.

In 1980, a labor management cooperation program began, and we developed a labor management agreement to work towards the continued improvement in that plant and we (labor and management) worked together well.

In June of 1982 Huffy filed for a subzone in Celina. The application was submitted pursuant to the provisions of the Foreign Trade Zones Act. The facility produced some 2.5 million children's and lightweight bicycles in the United States. Forty percent of the lightweight bicycle components and about 20 percent of the children's bicycle components were purchased from foreign sources. Zoned procedures exempted Huffy from customs duties on parts on components used for export.

On its domestic sales the company took advantage of the duty rates that applied to the finished bicycles, which accounted for 20 percent of the United States market.

The company estimated that duty savings from zoned procedures would equal up to two percent of retail price of bicycles. In 1990 imports from China threatened the jobs of 2,000 workers at the Celina facility. The union and company requested relief under the antidumping laws. The relief request was denied.

Right after John Mariotti was fired. At that time the focus changed from a labor management cooperation—let's work towards improving cost by improving quality—improving productivity to—taking the money away from the workers in order to be able to compete. At the same time the company was giving themselves bonuses and increases and saying it was all for the good of the shareholders.

During the 1993 negotiations the company demanded a $4.00 per hour reduction in labor costs. The workers were making $13.00 an hour plus benefits at that time. A contract settlement was reached providing a 25-cent an hour wage increase over three years.

In 1994, the company demands an early contract opener and threatens to build another plant and take jobs out of the Celina plant if we did not agree to the concessions. The company made what they called their last, best and final offer, which included 33 percent reduction in wages and benefit but has no job security for any workers. That contract was turned down and a plant was built in Farmington, Missouri and 1,000 jobs were eliminated in the Celina facility.

In 1995 the workforce in Celina was reduced to 500 employees. The company again asked for concessions. This time the company said they would close the plant if the workers did not agree to reduce their wages. Workers agreed to this package that was approximately $7 reduction in wages and benefits, but did give us a 30-month guarantee for 500 employees. The new average hourly wage with benefits was $16 an hour including benefits.

In 1997 the union made yet another attempt to rebuild our relationship between labor and management. And we were denied.

At that time I had been elected president of the local union, I felt we needed to start rebuilding what we had lost during the late '80s or early '90s to compete but I was turned down.

In 1998 in what turned out to be our final negotiation, we thought things were looking good and we thought we had an opportunity to discuss the possibility of hanging on to our plant in Celina. Huffy produced all kinds of records. They showed us records comparing us to the Farmington, Missouri plant, and we were 82 cents per bicycle cheaper even though our wages were different, we were still more productive than the Farmington, Missouri plant.

Despite that fact the company came to us with a contract proposal of $6.10 an hour with no benefits. Naturally the employees at that point realized there was nothing we could do. No one was going to agree to 6.10, no health insurance and no other benefits.

On July the 31, 1998 all production ended at the Huffy facility in Celina and approximately 1,000 employees were left without jobs and Celina was left without a part of its soul. Mercer County's unemployment went from three percent to nine percent in just 24 hours. By November of that year the unemployment in Mercer County was 13.4 percent. The ex-Huffy employees had very little to look forward to. One-third of the workers were 55 to 65 years of age. With unemployment benefits alone they could not afford to pay COBRA benefits that might shut them out. COBRA benefits are $400 a month for your family.

In 1999 Huffy closed its remaining U.S. facility they had in Farmington, Missouri. They also had a fabrication plant in Mississippi that they closed at the same time. This brought an end to Huffy production in the United States, the last mass producer of bicycles in the United States.

In 2000, Huffy decided to move its primary manufacturing to China, importing five to six million bicycles from China into the United States each year.

This is the overall effect of the community after the closing. In March of 1998 Mercer County had 4,406 workers employed in manufacturing jobs and a payroll of approximately $124 million dollars. By March of 1999, there were 3,449 employees in the manufacturing field in our area. Our annual payroll was $99 million at that time.

In 2000, the number of workers was 2,957 and the payroll was $95 million, and in 2001 it went down to 2940 with a payroll of approximately 94 million.

In addition to this the community lost $191,000 in real property tax, and 497,000 in personal property tax that Huffy had been paying. That doesn't sound like a whole lot of money when you look at a rural area like this. For a community the size of Celina, that's a major impact.

The rest of the story clearly shows corporate greed, lack of concern for U.S. communities, and the quality of life for the workers of the United States and China as evidenced by the following report on the production of Huffy bikes in China.

And at this point I turn it over to my good friend Jimmy Newport.

Co-Chair DREYER. Mr. Newport.

STATEMENT OF JAMES C. NEWPORT, ORGANIZING COORDINATOR UNITED STEELWORKERS OF AMERICA, DISTRICT 1, COLUMBUS, OHIO

Mr. NEWPORT. Thank you for the privilege to testify here today and see my good friend, Commissioner Becker again. I'm going to report on the bike manufacturing in China. This information was a result of the National Labor Committee for Worker and Human Rights in the late 1999 and early 2000.

Huffy bicycles made in China sold at K-Mart, Wal-Mart and Sears. They were made at the Baoan bicycle factory, which consists of a factory storehouse near that. The Baoan facilities are owned by the Taiwanese Zhenzhen Nan Guan Corporation. That's the reason I'm here, I can pronounce these. It is a major production for Huffy bicycles. Other lesser brand names include Gemini and Tec. The bikes are exported to the U.S., Canada and Europe.

There are 700 to 800 workers, mostly men, but there are also 200 women and employees ranging in age from 21 to 24 years old, who are mostly employed in the packing section. As is typical in the export assembly industry, most workers leave after they reach 25 years of age since they are worn out from the grueling overtime hours.

The vast majority of the workers in this plant are migrants from such rural provinces some as far as a thousand miles away.

The factory is broken down into several sections—preparing and assembling parts, the tire section, welding, final assembly and packing.

They are forced to work overtime 13 and a half to 15-hour shifts, seven days a week. The regular daily work shift is 8 a.m. to 11:30 p.m. with an hour break for lunch and an hour break for supper. The workers report they are forced to work overtime nearly every day, including Sunday. On average, the workers may receive every other Sunday off. During particularly large rush orders some workers said they had to work through to 3:30 in the morning, which means they would be at the factory for a shift of 19 and a half hours.

During the regular shift the workers would be at the factory 13 and a half to 15 hours a day, six and seven days a week, while be being paid for 11 to 12 and a half hours. On average, they would be at the factory over 93 hours a week while being paid for just 76 hours.

Refusal to work mandatory overtime is punished by a fine of $6.02 U.S. wages, which amounts to more than two days' pay.

Wages range from 25 to 41 cents an hour, which amounts to $16.68 for a 66-hour workweek. Workers in the assembly and packing section are paid according to piece rate. They earn between 25 and 34 cents an hour.

In the painting and welding departments, the workers are paid by the hour and earn approximately 41 cents an hour. For example, someone working a seven-day, 81-hour week would earn $33.36. This would include a $7.23 U.S. bonus each month for those working in the welding section due to the extremely high temperatures.

No overtime premium is paid to the hourly workers, while those on piece rate only receive overtime bonus if they reach their production goal.

The working conditions are harsh, and there are no rights. Workers complain about the extremely long mandatory overtime hours and the lack of even one regular day off each week. They say that they hardly rest and at the end of even the standard overtime shift they return to their cramped dorm rooms exhausted. Many workers have to handle heavy weights all day long while others are on their feet constantly for 11 to 12 and a half hours a day.

Illegally, the workers are not given written work contracts that describe factory hours, working conditions and wages or overtime rates.

There's a strong chemical odor in the spray-painting section, and the temperature in the welding area is excessively high.

Workers also complain about the strict factory rules and harsh management style. For example, talking during working hours is strictly prohibited. Cutting into a line is punished with a fine up to $1.20, nearly five hours' wages. One worker in the packing section explained that he earned $72.29 a month and was unable to save or send any money home. Despite all the overtime hours he worked, he was just able to survive, never getting ahead.

There is no medical insurance or Social Security pension. The workers have nothing, not even a primitive factory clinic. If they are sick, they need to go to the local hospital in town, but it's very difficult to get permission to be absent from work.

No worker had heard of any so-called U.S. corporate code of conduct.

The first month's wages are illegally withheld as a deposit so the workers only receive their pay during the second month. More than $21.67 is deducted to pay for the workers' temporary residency permit. Another $1.23 is deducted from each worker for their factory ID cards.

There's no independent union allowed in China in the Baoan bicycle plant. Any public dissent or raising of a grievance is met with firing.

In 1999 the factory workers went on a wildcat strike and all the strikers were fired.

They are forced to live in dark, crowded dorm rooms, 12 to a room, and they are charged $5.42 for food, two meals a day.

Since 1998, 1,800 Huffy bicycle workers have lost their job as Huffy shut down its last three remaining plants, Celina, Ohio, Farmington, Missouri and southern Mississippi. The workers in Ohio, represented by the United Steelworkers of America, earned $17 an hour, $11 in wages and $6 in benefits. Their last job was to cover an American flag sticker that was on bikes made in China with a new sticker representing the globe.

In the meantime, Huffy Corporation CEO Don Garber, paid himself $771,091 in 1999.

Workers are now having to work two or three jobs to try to make the mortgage and car payments, school and other expenses for their children.

In closing, Lou Dobbs said it best in his book: "The thing that is not being communicated is that the American multinational companies that are outsourcing and off shoring are also essentially firing their customers. India can provide our software. China can produce our toys, Sri Lanka can make our clothes, Japan can make our cars. But at some point we have to ask what will we export? At what will Americans work? And for what kind of wages? No one I have asked in government, business or academia has been able to answer those questions."

Thank you very much.

[The statement follows:]

Prepared Statement of James C. Newport, Organizing Coordinator, and John C. Folk, United Steelworkers of America, District 1, Columbus, Ohio

USA/China
The Huffy Bicycle Story

I. History of the Huffy Plant in Celina, Ohio

In 1955 Huffy Bicycle Company built a plant in Celina, Ohio, a city with a population of approximately 8,500 people. The plant became one of the finest bicycle production facilities in the world.

In 1956 the workers voted to be represented by the United Steelworkers of America and a Collective Bargaining Agreement was successfully negotiated between the parties.

In 1980 a Labor/Management Cooperation program was developed at Huffy to improve the operation of the plant.

On July 30, 1982, Huffy filed for a sub-zone in Celina. The application was submitted pursuant to the provisions of the Foreign Trade Zones Act. The facility produced some 2.5 million children's and lightweight bicycles and a number of bicycle parts. Over 40% of the parts for the lightweight bicycles and about 20% of the parts for the children's bicycles were purchased from foreign sources, including brakes, chains, wheel-hubs, derailleurs, control levers, tires, rims, seats and pedals.

Zone procedures exempted Huffy from custom duties on parts and components used for exports. On its domestic sales, the company took advantage of the duty rates that applied to finished imported bicycles, which accounted for 20% of the U.S. market in 1980. The company estimated that duty savings from zoned procedures would equal up to 2% of the retail price of bicycles.

In 1990 imports from China threatened the jobs of 2,000 workers at the Celina facility. The Union and the Company requested relief under the anti-dumping laws. The relief was denied.

In 1993 the company leadership changed. The workers saw no new innovative product lines to take them to the next level of success. Instead, the new corporate bosses were being innovative in a new way. The focus shifted from working together, to taking wages and benefits away from the workforce that made them the world's number one producer in the bicycle industry. At the same time, the Company was giving themselves bonuses and wage increases and saying it's all for the good of the shareholders.

During the 1993 negotiations, the Company demanded a $4.00 per hour reduction in labor costs. The workers were making $13.00 an hour plus benefits and Huffy was making record profits. A contract settlement was reached providing a .25 cent wage increase over three years.

In 1994 the Company demands an early contract opener and threatens to build another plant and take jobs from Celina if the Union did not submit to its demands. The Company made a "last, best and final" offer that contains concessions, but no offer of job security. The Company was making good profits and the workers rejected the wage cuts. Huffy then opened a new plant in Farmington, Missouri and eliminated 1,000 jobs at the Celina facility. Workers in Farmington are paid $7.00 an hour.

The Mayor, Craig Klopfleisch, told reporters that Huffy rebuffed the governments 14 million incentive package to stay in Celina. The incentive package was only 10 million at Farmington, Missouri. It was obvious that Huffy no longer wanted to manufacture products in Celina, Ohio.

In 1995 the workforce in Celina was reduced to 500 employees. The Company again asked the Union for concessions. This time Huffy said they would close the plant if the workers did not agree to reduce their wages. The workers agree to a package that provided for a $7.00 per hour reduction in wages and benefits and a 30-month guarantee of employment for 500 people. The new average hourly wage was $16.00 including benefits.

In 1996 employment levels improve to 900 workers at the plant. The two facilities could produce 7 million bikes per year, but only sold 3.7 million.

In 1997 the Union made an attempt to rebuild the relationship between labor and management at the plant. The company rejected the Unions offer.

In April of 1998 Huffy had shown nine (9) consecutive profitable quarters. Things were looking good and negotiations were taking place. In late April the company produced records indicating the Celina plant employees were paid more, and the

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The information herein was formulated from news publications, Mercer County records, committees as identified in the document and personal knowledge as a resident and/or work assignments in the Celina area.

productivity, quality and safety records were better than the workers at the Farmington, Missouri plant. Per clocked hour, they were able to build a better quality product for .82 cents less than the workers in Missouri. In spite of this, the Company still wanted concessions. Their offer was a $6.10 per hour wage and no medical insurance. The members could not afford any more concessions and the Company then made the announcement to close its Celina, Ohio facility after 43 years in the community. The company's intent was to increase imports from Asia and later open a plant in Neuvo Laredo, Mexico, taking advantage of the NAFTA Agreements. During this same time, Huffy was importing bicycles from China. The import numbers increased to 2.5 million bicycles for 1998.

On July 31, 1998 all production ended at Huffy and approximately 1,000 workers were without a job and a town was without part of its soul. Mercer County's unemployment tripled, going from 3% to 9% in just 24 hours. By November the UC rate in Mercer county was 13.4%. Larry Steltzer, the County Economic Development Director, said, "just about everybody had a relative or neighbor or friend that worked at Huffy."

The ex-Huffy employees had very little to look forward to. One-third of the workers were 55 to 65 years of age. Most of the people couldn't afford to pay the $400 per month for medical coverage under COBRA. Most of the other jobs in the area only paid between $7.00 and $9.00 per hour and had little or no benefits. In cases where the husband and wife both worked at Huffy, they had no income and were faced with loosing everything.

Some workers were driving long distances, up to 100 miles one way, to earn a living. Others were driving all the way to Michigan and working all week and returning home on the weekends. Job and Family Services Director, Dale Berger, said Mercer County lost 10% of its residents.

In 1999 Huffy closed its remaining U.S. manufacturing plants, including the non-union plant in Farmington, Missouri. The era of U.S. made Huffy bicycles was over.

In 2000 Huffy decided to move its primary manufacturing to China, importing five to six million bicycles from China into the United States each year.

The overall effect to the community, due to the facility closing, was as follows:

In March of 1998, Mercer County had 4,406 workers employed in manufacturing jobs and an annual payroll of $123,806,000. By March of 1999, the manufacturing employment was only 3,449 and the annual payroll was $99,543,000.

In 2000 the number of workers were 2,957 and the payroll was $95,287,000 and in 2001, the number of workers were 2,940 and the payroll was $93,673,000.

In addition to this, the community lost $191,600 in real property tax and $497,000 in personal property tax that Huffy had been paying.

The rest of this story clearly shows corporate greed, lack of concern for USA communities, and the quality of life for the workers in the USA and China, as evidenced by the following report on the production of Huffy bikes in China.

II. Report on Bicycle Manufacture in China

The National Labor Committee for Worker and Human Rights documented the following report in late 1999 and early 2000.

Huffy Bikes Made in China
Sold at Kmart, Sears, Wal-Mart

Huffy bikes are being made at Baoan Bicycle Factory I

Zhen Bei Road
Sha Jiang Town
Bu Gang, Shenzhen
China

- Forced 13½ to 15-hour shifts, from 7:00 a.m. to 11:00 p.m. seven days a week
- Workers are at the factory 93 hours a week
- Wages are between 254 and 414 an hour—$16.68 for a 66-hour work week
- Failure to work overtime is punished with a fine of two-day's wages; no overtime premium is paid
- Strong chemical odors in the painting department, excessively high temperatures in the welding section
- No health insurance or social security pension
- Strict factory rules and harsh management; no talking during working hours
- 12 workers housed in each dark, stark dorm room
- Two meals a day; poor quality food

If workers complain or attempt to raise a grievance about the harsh working conditions, excessively long forced overtime hours or low wages, they are immediately fired. In late 1999, all the workers in the delivery section who went on strike were fired.

(There is a factory, a storehouse and nearby dorms. The Baoan facilities are owned by the Taiwanese Zhenzhen Nan Guan Corporation. Nearby, there is a second smaller Baoan Bicycle Factory #2, with 200 workers. The Baoan factories assemble bicycles from parts supplied from local materials factories or from the Fuda Corporation of Taiwan.)

Baoan Bicycle Factory #1

The major production in the factory is for **Huffy Bicycles** (other lesser band names include Germini and Tec). The bikes are exported to the U.S., Canada and Europe.

There are **700 to 800 workers**, mostly men, but there are 200 women employees ranging in age from 21 to 24 years old, who are mostly employed in the packing section. As is typical in the export assembly industry, most workers leave after they reach 25 years of age, since they are worn out from the grueling overtime hours.

The vast majority of the workers are migrants from rural provinces such as Hanin (over 1,000 miles from Shenzhen), Jiangxi, Hunan and Xianxi.

The factory is broken down into several sections: Preparing and assembling parts, the tire section, welding, final assembly and packing.

Hours: Forced Overtime; 13½ to 15-hour Shifts; Seven Days a Week

The "regular" daily work shift is:

- 8:00 a.m. to 12 noon
- 12:00 noon to 1:30 p.m. (lunch break)
- 1:30 p.m. to 5:30 p.m.
- 5:30 p.m. to 6:30 p.m. (supper break)
- 6:30 p.m. to 9:30 p.m. or 11:30 p.m.

Workers report that they are forced to work overtime nearly every day, including Sunday work. On average, the workers may receive every other Sunday off. During particularly large rush orders, some workers said they had to work through to 3:30 in the morning, which means they would be at the factory for a shift of 19½ hours.

During the "regular" shift, the workers would be at the factory 13½ to 15 hours a day, six and seven days a week, while being paid for 11 to 12½ hours. On average, they would be at the factory over 93 hours a week, while being paid for just 76 hours.

Refusal to work mandatory overtime hours is illegally punished by a fine of 50 rmb-U.S. $6.02, which amounts to more than two days' wages.

Wages: 25 to 41 Cents an Hour; $16.68 for a 66-hour Workweek

Workers in the assembly and packing section are paid according to a piece rate. They earn between **25 and 34 cents an hour**.

A worker putting in a 66-hour workweek would earn **$16.68**—25 cents an hour. Other workers working 81 hours a week earned **$27.80**, or 34 cents an hour.

In the painting and welding departments, the workers are paid by the hour and earn approximately **41 cents an hour**. For example, someone working a seven-day, 81-hour week would earn **$33.36**, or 41 cents an hour. This would include a $7.23 U.S. bonus each month for those working in the welding section due to the extremely high temperatures.

Low Wage:	***High Wage:***
.25 cents an hour	**.41 cents an hour**
$1.78 a day (for an 11-hour shift)	**$4.77 a day** (for an 11½-hour shift)
$16.68 for a 6-day, 66 hour week	**$33.36** for a 7-day, 81-hour week
$72.28 a month	**$144.56** a month
$867.36 per year	**$1,734.72** per year

No overtime premium is paid to the hourly workers, while those on piece rate only receive an overtime bonus if they reach their production goal.

Working Conditions: Harsh Treatment; No Rights

Workers complain about the extremely long mandatory overtime hours and the lack of even one regular day off each week. They say they "hardly can rest" and at the end of even the standard overtime shift they return to their cramped dorm rooms "exhausted." Many workers have to handle heavy weights all day long, while others are on their feet constantly for 11 to 12½ hours a day. Asked if they would like to take mechanical skills or other learning classes at night, the workers responded saying that because of all the overtime hours, they "haven't the time or the energy at night to attend classes, even if they existed."

Illegally, the workers are not provided written work contracts describing factory hours, working conditions and wages, including overtime rates.

There is a strong chemical odor in the spray painting section, and the temperature in the welding area is excessively high.

Workers also complain about strict factory rules and harsh management style. For example, talking during working hours is strictly prohibited. Cutting into a line is punished with a fine of up to $1.20—nearly five hours wages.

The workers said these wages were too low. One worker in the packing section explained that he earned 600 rmb per month, $72.29, and was unable to save or send any money home. Despite all the overtime hours he worked, he was just able to survive, never getting ahead.

At the Baoan Bicycle Factory there is no medical insurance or social security pension. The workers have nothing, not even a primitive factory clinic. If they are sick, they need to go to the local hospital in town. But the workers said it was then very difficult to get permission to be absent from work.

No worker had ever heard of any so-called U.S. Corporate Code of Conduct, and they had no idea what it might be.

The first month's wages are illegally withheld as a deposit, so the workers only receive their first pay during the second month.

The amount 180 rmb—$21.67, more than a month's wages—is deducted to pay for the worker's temporary residency permit. Another 10 rmb ($1.23 U.S.) is deducted from each worker for their factory ID cards.

No Rights: Fired for Raising a Grievance

As is standard in China, no independent union is allowed at the Baoan Bicycle plant. Any public dissent or raising of a grievance is met with firings.

Toward the end of 1999, delivery workers at the Baoan factory went on a wildcat strike to protest the harsh factory treatment, excessively heavy workloads and long overtime hours and the low wages. All the strikers were fired. Dissent is not permitted.

Living Conditions: 12 to a Dark, Crowded Dorm Room

Twelve workers are crowded into each dorm room, which the workers described as stark and dark. There are no entertainment facilities other than a single TV in the common area. The workers explained that the only "entertainment" available to them was to hang around nearby snack and grocery stores.

The Baoan workers are charged 45 rmb per month ($5.42) for food—two meals a day, which is deducted from their wages along with a small dorm fee of $1.81 U.S. The workers report that the quality of the food is very poor.

Huffy Wages in China are Less than 2 Percent of What They Paid in the U.S. 1,800 U.S. Workers Lose Their Jobs

III. Closing Observations

In the last 17 months, 1,800 Huffy Bicycle workers have lost their jobs as Huffy shut down its last three remaining U.S. plants to outsource its production to China, Mexico and Taiwan. The plants closed were in Celina, Ohio; Farmington, Missouri, and southern Mississippi.

The 850 Huffy workers fired in July 1998 from the Celina, Ohio plant were members of the United Steelworkers of America (USWA), who earned $17 an hour—$11 in wages and $6 in benefits. Their last job was to cover an American flag sticker that was on bikes made in China with a new sticker representing the globe. The average wage of the workers in China currently making Huffy bicycles is 33 cents an hour, less than two percent of what the USWA members made.

The Huffy Bicycle Company (which owns the Huffy, Royce Union Bikes and American Sports Design brands as well as producing private brands for other companies) controls 80 percent of the U.S. bicycle market. In 1998, the Huffy Corporation had sales of $584 million and a gross profit of $97.5 million.

Huffy Corporation CEO, Don R. Garber, paid himself $771,091 in 1999.

Many of the fired Huffy workers are now working two, or even three, minimum wage jobs to try to make ends meet and not fall behind in mortgage and car payments, school and other expenses for their children.

NAFTA must be eliminated or changed to address the many problems of the workers in foreign countries such as environmental standards, labor laws, working conditions and low wages. People in the USA can compete with anyone, anywhere, if the playing field is leveled.

Do we want a global economy that feeds the insatiable appetite of Wall Street and giant multinational corporations who owe allegiance to no flag, but the almighty dollar; a global economy based on reducing our wages, working conditions and environmental standards down to the lowest level possible?

Or should we create a global economy that works for working families and communities, raising wages, working conditions and environmental standards for all of us?

In closing, I suggest that Lou Dobbs, in his book Exporting America, said it best: "The thing that is not being communicated is that American multinational companies that are outsourcing and off shoring are also essentially firing their customers. India can provide our software; China can produce our toys; Sri Lanka can make our clothes; Japan can make our cars. But, at some point we have to ask, what will we export? At what will Americans work? And for what kind of wages? No one I've asked in government, business or academia has been able to answer those questions."

Co-Chair DREYER. Thank you very much, Mr. Newport.

I would like to introduce Professor John Russo, who is the coordinator of Youngstown State University's Labor Studies Program.

STATEMENT OF JOHN RUSSO, Ph.D.
PROFESSOR, LABOR STUDIES, THE WARREN P. WILLIAMSON COLLEGE OF BUSINESS ADMINISTRATION
CO-DIRECTOR, CENTER FOR WORKING-CLASS STUDIES
YOUNGSTOWN STATE UNIVERSITY, YOUNGSTOWN, OHIO

Mr. RUSSO. Thank you. My name is John Russo, and I am Professor of Labor Studies at the Warren P. Williamson College of Business Administration at Youngstown State University. I'm also the coauthor with Sherry Linkon of the book Steeltown USA, Work and Memory in Youngstown, and I want to thank the U.S.-China Commission for giving me this opportunity to discuss my research on the deindustrialization and its impact on local communities such as Youngstown.

In many ways the story of Youngstown is the story of industrial America and its workers in the 20th century. The 25-mile stretch along the Mahoning and Shenango Rivers composed what was called the Youngstown steelmaking district. This district produced much of the steel that helped build the country's infrastructure and armaments that made the U.S. an industrial and military leader. The Youngstown steelmaking district was known the Ruhr Valley of America, and it was never less than the fifth largest steelmaking area in the world throughout much of the 20th century.

Countless waves of European immigrants and African-American migrants from the South were given an economic foothold in the mills and factories of this industrial community. Their work gave them a high standard of living and for many years a strong sense of community and stability. As early as the 1930s, Youngstown had the highest per capita home ownership of any American city and became know as the city of homes. The people of Youngstown were hardworking, industrious, proudly patriotic, and strongly committed to social and economic justice in the workplace.

Beginning in 1977 the steel mills in Youngstown began to close, an economic change that devastated the community. Some have argued that those closings were the result of free trade policies involving Japan, while others argue it was the result of corporate mis-investments and the lack of a clear national industrial policy.

I'm not here to discuss why those closed, but instead I can say much of what I heard here today is reminiscent of the discussions.

Between 1977 and 1985, 50,000 steelmaking and steel-related jobs were lost in the Youngstown area. That translates to over $1.3 billion annually in lost manufacturing wages, which has a devastating impact on the local economy. As a result during this period Youngstown often led the nation in unemployment, bankruptcies, foreclosures and arson.

The social and economic devastation was closely followed by the media, and Youngstown quickly became the poster child for deindustrialization. Even today, as they have for the last quarter century, national and international reporters and academics all come to Youngstown to see if it has recovered or to validate conventional wisdom about economic recovery such as the idea of creative destruction. Presidential candidates also visit every four years proclaiming that the social and economic devastation would not have happened if they had been in office and promising to help rebuild Youngstown's economy if they were elected. Yet relatively little economic support has been forthcoming.

I should also mention that Chinese scholars have also come to visit Youngstown. Just this summer I met with a group of Chinese scholars who were intensely interested in deindustrialization. As they explained to me China has begun to face similar social and economic issues of deindustrialization as it introduces the most modern production methods and technology in an attempt to become a world-class producer of goods and services. Some of that can be seen recently in the urban goings-on in China.

So what do they see and others see in Youngstown some 25 years after the mill closings? Youngstown continues to suffer the effects of the deindustrialization, most notably out-migrations and declining standards of living and public services. Attempts to revitalize the area have largely failed; many represent what we might call the economics of desperation. For example, between 1992 and 2000, about nine percent of the economic growth in the area was a result of building the prison.

In the early 1990s the per capita murder rate in Youngstown was among the highest in the nation. Interestingly criminal justice experts determined that the murders were being committed by young adults that were born between 1977 and 1984. That's the most intense period of the deindustrialization. It's not the mill closing—it might have been the mill closings would have gone—they could have gone to work in the steel industry. Just as the sociologist William Julius Wilson has said in his now classic work, When Work Disappears, Youngstown's stable social networks and ethnic and racial communities have been disrupted by unemployment as has the capability of working- and middle-class families to reinforce conventional patterns of work, family, community and education.

Let me end this brief presentation by saying that those of us that live and study in industrial communities like Youngstown understand that there's a capacity between traditional economic theory about economic development and trade and what happens to the real people who are faced with this investment, deindustrialization and joblessness.

When traditional manufacturing disappears, there's no easy and quick movement to new jobs or transference of skill, especially not in the global economy. Many have dedicated their lives, and sometimes their health, to employers now feel betrayed and economically expendable. As one steelworker suggested to me, "We are simply too old to work and too young to die."

Today in ever increasing numbers working- and middle-class families in communities like Youngstown feel that they are being sacrificed at the altar of traditional economic theory. A theory that I might add, functions more like a religion based on scripture and tradition than on the lived experiences of economic actors.

Working people do not see themselves suffering at the hands of abstract economic forces. Rather they see themselves as victims of conscious decisions by corporate leaders and government officials and they are resentful. Nor are they likely in the future to believe economic thinkers who argue that the fate is part of the, quote, natural economic order, unquote, nor will they be content to view themselves as, quote, acceptable losses, unquote, in the transformation of the global economy.

As Pulitzer Prize winning journalist Dale Maharidge has chronicled in his new book, Homeland, there is an undercurrent of rage in America's industrial heartland. Perhaps that rage and anger is best summarized by Bruce Springsteen in his song, Youngstown: "From the Monogahela Valley to the Mesabi Iron Range, to the coal mines of Appalachia, the story's always the same. Seven hundred tons of metal a day, now, sir, you tell me the world's changed. Once I made you rich enough, rich enough to forget my name."

Thank you very much.

[The statement follows:]

Prepared Statement of John Russo, Ph.D.
Professor, Labor Studies, the Warren P. Williamson
College of Business Administration
Co-Director, Center for Working-Class Studies
Youngstown State University, Youngstown, Ohio

Impact of U.S.-China Trade and Investment on Ohio's Economy

My name is John Russo and I am Professor of Labor Studies at the Warren P. Williamson College of Business Administration at Youngstown State University. I am also the co-author with Sherry Linkon of the book, *Steeltown U.S.A.: Work and Memory in Youngstown*. I want to thank the U.S.-China Commission for giving me this opportunity to discuss my research on deindustrialization and its impact on local communities such as Youngstown, Ohio.

In many ways, the story of Youngstown is the story of industrial America and its workers in the 20th Century. The 25-mile stretch along the Mahoning and Shenago Rivers composed what was called the Youngstown Steelmaking District. This district produced much of the steel that helped build the country's infrastructure and armaments that made the U.S. an industrial and military leader. The Youngstown Steelmaking District was known as the "Ruhr Valley of America" and was never less than the fifth largest steelmaking area in the world throughout much of the 20th Century.

Countless waves of European immigrants and African-American migrants from the South were given an economic foothold in the mills and factories of this industrial community. Their work gave them a high standard of living and, for many years, a strong sense of community and stability. As early as the 1930s, Youngstown had the highest per capita home ownership of any American city and became known

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Dr. Russo is a professor of Labor Studies in the Warren P. Williamson College of Business Administration and the co-director of the Center for Working-Class Studies at Youngstown State University. He is the co-author of the book, *Steeltown U.S.A.: Work and Memory in Youngstown*.

as "the city of homes." The people of Youngstown were hardworking and industrious, proudly patriotic, and strongly committed to social and economic justice in the workplace.

Beginning in 1977, steel mills in Youngstown began to close, an economic change that devastated the community. Some have argued that those closings were the result of free trade policy involving Japan, while others argue it was the result of corporate disinvestments and the lack of a clear national industrial policy. (I am not here to discuss why the mills closed, but instead I want to focus on how those closings affected the community.) Between 1977 and 1985, 50,000 steel making and steel related jobs were lost in the Youngstown area. That translates to over $1.3 billion annually in lost manufacturing wages, which had a devastating impact on the local economy. As a result, during this period, Youngstown often led the nation in unemployment, bankruptcies, foreclosures and arson.

The social and economic devastation was followed closely by the media, and Youngstown quickly became the "poster child for deindustrialization." Even today, as they have for the last quarter century, national and international reporters and academics come to Youngstown to see if it has recovered or to validate conventional wisdom about economic recovery such as the idea of "creative destruction." Presidential candidates visit every four years, proclaiming that the social and economic devastation would not have happened if they had been in office and promising to help rebuild Youngstown's economy if they are elected. Yet, relatively little economic support has been forthcoming.

I should also mention that Chinese scholars have also come to visit Youngstown. Just this summer, I met with a group of 15 Chinese scholars who were intensely interested in deindustrialization. As they explained to me, China has begun to face similar social and economic issues of deindustrialization as it introduces the most modern production methods and technology in an attempt to become a "world class" producer of goods and services.

So what did they and others see in Youngstown some 25 years after the mill closings? Youngstown continues to suffer the effects of deindustrialization—most notably outmigrations and declining standards of living and public services. Attempts to revitalize the area have largely failed; many represent what we might call the economics of desperation. For example, between 1992 and 2000, about 9% of the economic growth in the area was the result of the building of prisons.

In the early 90s, the per capita murder rate in Youngstown was among the highest in the nation. Interestingly, criminal justice experts determined that the murders were being committed by young adults that were born between 1977 and 1985—the most intense period of deindustrialization. If not for the mill closings, they would probably have gone to work in the steel industry. Just as the sociologist William Julius Wilson found in his now classic work, *When Work Disappears*, Youngstown's stable social networks and ethnic and racial communities have been disrupted by unemployment, as has the ability of working-class and middle-class families to reinforce conventional patterns of work, family, community and education.

Let me end this brief presentation by saying that those of us who live and study in industrial communities, like Youngstown, understand that there is a chasm between traditional economic theory about economic development and trade and what happens to real people when faced with disinvestments, deindustrialization, and joblessness. When traditional manufacturing disappears, there is no easy and quick movement to new jobs or transference of skills, especially now in a global economy. Many who have dedicated their lives and sometimes their health to an employer feel betrayed and economically expendable. As one steelworker suggested to me, "We are simply too old to work and too young to die."

Today in ever increasing numbers, working- and middle-class families in communities like Youngstown feel that they are being sacrificed at the altar of traditional economic theory. A theory that, I might add, functions more like a religion based on scripture and tradition than like social science based on the lived experiences of economic actors. Working people do not see themselves suffering at the hands of abstract economic forces. Rather, they see themselves as victims of conscious decisions by corporate leaders and government officials, and they are resentful. Nor are they likely in the future to believe economic thinkers who argue that their fate is part of the "natural economic order," nor will they be content to view themselves as "acceptable losses" in the transformation to global economy. As Pulitzer Prize winning journalist, Dale Maharidge, has chronicled in his new book, *Homeland*, there is an undercurrent of rage in America's industrial heartland. Perhaps that rage and anger is best summarized by Bruce Springsteen in his song, *Youngstown*:

From the Monogahela Valley
To the Mesabi Iron Range
To the coal mines of Appalachia
The story's always the same.

Seven hundred tons of metal a day
Now sir, you tell me the world's changed
Once I made you rich enough
Rich enough to forget my name.

Co-Chair DREYER. Thank you very much, Dr. Russo.

Next we have Reverend Anne Hagler. I don't have any bio data on you. Perhaps you can tell us.

STATEMENT OF REVEREND ANNE HAGLER, AKRON, OHIO

Ms. HAGLER. I would be happy to. I am the minister of a small Presbyterian Church here in Akron. I also work on a volunteer basis for the American Committee on Economic Justice Empowerment Program. I'm also part of a local grass roots organization called the Akron Global Network, which is attempting to find alternatives to globalization on the local level.

When I think about the people I know whose lives have been devastated by job loss, downsizing and outsourcing, the picture that comes to my mind is a statue that stands in Rockefeller Center in New York City—Atlas holding up the world. The problem is that none of the people I know have the mythological strength of Atlas nor do they have the motivation. All they can do is learn to cope with reduced income, minimal job satisfaction, loss of community and lowered self-esteem.

You have heard lots of words and numbers here today, and words and numbers tell a story, but they only tell part of the story. The rest of the story comes in human form of people like you and me whose lives have been thrown into turmoil by job loss, reduced income and lowered vocational satisfaction. The rest of the story is told by people who find themselves holding up the world like Atlas. The rest of the story bursts forth from middle-class homes on the market, apartments abandoned in the middle of the night, and 15-year-olds working two jobs because daddy can't support the family on a minimum-wage job.

I know someone who worked for Goodyear in accounts payable for 32 years. She was laid off three years ago and is now employed caring for her grandchildren at a greatly reduced income. I know someone who had a good sales job for a manufacturing company. When he was sent home on a Friday afternoon with his last paycheck in his pocket, he ended up going to work for Dial-America, sometimes working 80 hours a week in order to hold onto his home and keep his wife and three children in clothes and food.

I know someone who worked in marketing and new product development in a polymer adhesive company. After he was told his position was being done away with, he ended up working temporary clerical jobs and moving to a two-room apartment. These days, we all have friends and neighbors who have to find a new way of making ends meet due to job loss, and some of us have friends among the working poor, folks who have jobs but don't make enough to live in decent housing or provide healthcare to their children.

Nor is the problem all about money. Loss of a job can mean loss of self-esteem, loss of community and the beginning of despair. I know of someone in the Columbus area who was laid off by a small company that made television tubes. It wasn't the greatest job in the world, but he was able to support his family by supplementing his income working the family farm. The company that laid him off found him a job in Texas, so now he commutes back and forth between Ohio and Texas because he can't make ends meet without the income from the farm, and he was unable to find a job close to the farm.

He not only lost a job, but he also lost his community, and he and his family had to start all over again in a new place without sufficient income to make it work. An experience like that sows the seeds of despair, depression and demoralization for a whole family.

I wish I could say that experiences like this one are isolated incidents, but unfortunately they are not. The church I serve only has 50 active members, but since I became their pastor two and a half years ago, five members have lost their jobs, three members live below the poverty level, two have retired prematurely and many of the rest live in fear of their jobs being lost due to outsourcing and downsizing. For some, their only source of support and hope is their church family and their faith in God. And even for those with a strong faith, there are far too many times when God seems absent. Often, I wish I could do more than pray, listen and bolster self-confidence. And that's part of why I agreed to testify today.

I want to tell you a story about a man of faith, a man whose belief in God is unshakable, a man who has certainly been tested in a variety of ways, but pertinent to this hearing today he was tested by the experience of abrupt, unexpected job loss. For the purposes of storytelling we'll call him Adam Thompson.

Adam is a married man in his 50s with three grown sons, two married, one single. He lives outside of Akron in a semi-rural area in a three-bedroom ranch house on about half an acre. He moved here from Texas several years ago, worked as an estimator in Cleveland, and then about five years ago he landed a job he really liked with a local company that manufactures and installs steel stairs for schools, businesses and office buildings. His title was project manager, and it was his job to coordinate and oversee various projects taken on by his company by working with drafts persons, delivery schedules, installation crews and the customers themselves, doing what was necessary to get the project completed in a timely, efficient manner.

Adam felt like he made it. Here was a job that made use of his many abilities and even included the possibility of moving up. He intended to stay with the company until retirement. But that was not the way the story played out.

About two years ago on a January Friday at 3:45 p.m. he was called into his boss's office and informed that the company was downsizing and that his position would be eliminated immediately. He was instructed to clean out his desk and be gone by 5:00 p.m. And then he was told, adding insult to injury, that he could stay with the company as an estimator with a 40 percent reduction in pay. He was also told that he would have to make up his mind then and there because that job would be gone by Monday.

Adam finally convinced his boss to give him until Monday morning to decide so he could think about it and discuss the offer with his wife. I asked him to describe how he felt that day, and he said, "I felt like I had the whole world on my shoulders."

Adam accepted his company's offer even though it was a backward step professionally because he feared being without work and perhaps not finding another job. When I asked him how he reacted to being an estimator again, he replied, "I felt like I lost ten years of my life."

Adam shared with me that his whole lifestyle changed after being demoted. He and his wife don't go out to eat anymore. They used to take pride in the fact that they could assist their boys financially. One of them was starting his own business, but now the tables were turned and their boys were helping them out with painting, house repairs, and yard work. They had to use up their savings to pay off credit cards. Adam indicated that the only thing that saved them was being able to refinance their home. In addition, his wife went to work part-time at the church and began taking care of babies and preschoolers in their home.

And now they have been hit with another pay cut. When Adam was first demoted he was informed that he could get overtime, which amounted to about $500 a month. But now he's been told that there's going to be no more overtime so he and his wife face another loss of income.

In conclusion, Adam's story is far too typical of life in America today. Adam has the advantage of a strong marriage and sons who live close by and are willing to pitch in. Adam also has the advantage of a strong faith in God and a willingness to trust God no matter what. But what about the even more average American who doesn't even own a home to begin with or doesn't have a savings account or doesn't have family members who are able to help or doesn't have a faith in God or a church community to carry him or her through a crisis? What about the vast numbers of Americans who start out just barely getting by and then lose their jobs to downsizing or outsourcing? And worse yet, what about those who have nothing to fall back on and so end up in a homeless shelter or on a park bench? Thank you.

Panel V: Discussion, Questions and Answers

Co-Chair DREYER. Thank you very much.

Commissioner Becker first.

Commissioner BECKER. I wanted to thank all of you for what actually was very, very touching testimony and it gets to what the heart of what this panel is supposed to be talking about. I have no questions, but I have a few observations that I wanted to mention. On the Huffy thing, I just want to compliment you and your union and your director for continuing this fight and not letting it die, and for keeping it before the public's eye, not only in Ohio, but throughout the United States. Thousands and thousands of people know about Huffy now, and it is reaching people in a very positive way. Did either one of you go to China to Shanghai to the plant?

Mr. FOLK. No.

Commissioner BECKER. Did you try to?

Mr. NEWPORT. I didn't.

Did you, John?

Mr. FOLK. I wanted to go along. At the time we were trying to research where the bikes were coming from manufacturing.

Commissioner BECKER. Let me offer a comment to that because we tried. We tried and the AFL–CIO tried, and they wouldn't let us in. When this Commission was making the visit, this is one of the places we asked to be able to take a look at based on some of the information that was coming out. They denied that. We haven't actually been able to go in.

Are there any American bikes being made at all or were those the last ones?

Mr. FOLK. It was the last mass producer of bikes. Schwinn had already left mass producing years before that. There are some specialty bikes being made. Huffy has a plant in Springfield, Ohio that just deals——

Commissioner BECKER. You mean like custom bikes?

Mr. FOLK. They were working with the Olympic team one year building those bikes, custom-designed for that person's body and for the enthusiast.

Commissioner BECKER. In essence we have lost the bicycle industry too. It's now all Chinese.

To Mr. Russo, again I lived a lot of that being old enough back in Youngstown, Ohio during those years—the '70s and early '80s and mid '80s, and I just want to point out a couple of events that happened then. The major employer in that area, without identifying who the employer was, had something like 13,000 workers, if I recall, maybe more. At that plant they were given four hours' notice on the shutdown to grab their tools and get out. The shifts that they were on—I think the notice came down at 1:00 in the afternoon. Four hours to get out. No chance to make plans. No chance to get your affairs straightened out, nothing to be able to talk over with your spouse to plan what we are going to tell the children. Just four hours' notice and it was bam, it was gone.

Two things happened as a result of that. We didn't know what was going to take place, the union, but the company did. We found out those plans are usually made four, five years in advance, even on shutdowns of that magnitude. But the workers demanded—and it was achieved—that the union would have a member on the board of the steel companies at the next round of negotiations. That was a breakthrough for the union to have a person out of the shop that would sit on the board and not win a vote, but there would be no surprises. They would know what the hell was going on.

The other thing I want to mention in my research of this, Mr. Russo, is that the steelworkers sent a delegation to Japan because of the promise Japan had of lifetime employment, and Japan, shortly after this what happened in the United States announced the reduction of 25 percent capacity and we didn't know how they were going to handle this situation. The employees' representatives went to Japan to meet with the community, the government, the workers, the banks to see how—very interesting story without going into it here, but something you may want to take a look at. I could point you in the direction.

And your story, I've heard that so many times. I get a feeling that there's no end to the argument that spills out from these things, and I want to compliment you for handling that, for staying with that and not letting go because in many cases that's the only help they have. Thank you.

Co-Chair DREYER. Co-Chair Wessel.

Co-Chair WESSEL. Thank you, all of you. It's an important panel because it brings back to us why we all are here and why these problems and positions are important. I would like to ask a political question without being partisan or anything else. As you relate to the people who have gone through all this, we were asked earlier on many of the panels about political leaders what do they do to exact change. As you deal with people, have they given up hope on the political system? How do they view this when somebody loses a job how do they vent their anger with themselves? At the system? I sort of think if there's so much anger out there maybe we could bring change but people don't participate. Have they given up hope on the system?

Mr. RUSSO. I think in Youngstown, and I have written a lot about this, the politics of resentment. And that manifests itself in many ways. When industry disappears the way it did in Youngstown, there's an incredible disbelief in all institutions, disbelief in unions, disbelief in corporations, there's disbelief in religious institutions, there's disbelief in terms of government.

In thinking about this, we could go back and study post World War I Germany and see the same thing and how it breeds a mistrust of outsiders. In Youngstown, this sense of disbelief extends to every presidential candidate since 1980 that has come to Youngstown and stood in front of the Youngstown Sheet and Tube complex and proclaimed that this wouldn't happen if they had been in office. Relatively little has been done in terms of economic development-support following the mill closings.

Youngstowners see very little difference between Democrats and Republicans. I have done 25 interviews in the last six months on this same issue. And therefore they see very little difference between the Republicans and the Democrats, they will vote for social issues. They won't vote their own economic self-interest. And actually there's a new book out that talks about the same thing.

So there's a great sense of disbelief in terms of traditional economic ideas and a sense government officials aren't going to do very much at all. There's a great deal of cynicism. At the same time there's that underlying discontent that's seemingly not apparent to people.

President Gettelfinger said this morning about what happened in Seattle, and I remember giving the speech before the Society of Professional Journalists and I asked why are you asking me? I'm not a journalist. They said because we missed the story about what was happening to working people in Seattle and to a lesser extent Miami where we saw tactics that were shocking to say the least, and I think there's a rage among working people. But I overheard one of the Commissioners say that today's testimony was not only depressing for us but the community.

For those of us who study deindustrialization, we get numb to the depressing conditions. Yet, today's discussion is quite amazing to me because we were very much making these types of discussions in the past in isolation.

Dave Johnson and I have appeared on a number of panels. He was a pioneer. He raises $400,000 a year for Republicans, comes in here and tells you I disagree with the trade policy of the Republicans and is on the same panel with me, something has changed. When you have that group of people, small business people that are being gorged both by a trade policy and multinationals who are forcing them to move overseas, something's going on. Change is in the air.

This Commission, it's in an incredibly important place in history. And there's a lot that you can have to say in this regard to what's happening to industrial America, and you're hearing it.

So I was kind of hopeful today, but at the same time I teach my students, my undergraduates, what's called Russo's Law. Russo's Law says the law does not set the rules of the game. It's part of the game, and the law at any particular time represents the relative power between conflicting institutions in the society. We can talk about trying, but we better be talking about the structural problems in the global economy created by unregulated global corporation and their corporate dominating institutions such as the WTO. These people are very much responsible for what's happening in the company in terms of working conditions and workers' rights. That discussion is building. And it represents itself in the type of politics of resentment.

Ms. HAGLER. I have a response to your question about anger. The people that I see and that I'm involved with don't know what to do with their anger. They don't have the time or the energy to do anything with it politically because they are working so hard simply to keep their heads above water and that uses it all up. And so there's no energy left over. In the church I serve I'm the biggest activist because although I am affected, I'm not as directly affected as they are, and I consider it part of my job, part of my calling, if you will, to advocate for them. But I think that the anger gets turned inward. The anger gets turned towards family, in neighborhoods, because they don't know what to do with it, and even if they did, they wouldn't necessarily have the time or energy to use it constructively as you suggest, which I think would be wonderful.

Co-Chair DREYER. Commissioner Mulloy.

Commissioner MULLOY. Thank you all very much for being here.

Mr. Russo, There was a book by Bill Wolman called the Judas Economy: How Capital Is Betraying Labor. It was written about '98. When this Commission was first set up, we brought Bill Wolman, who was then the chief economist of Business Week Magazine, in to testify. He said you have to look at China as part of a larger picture of globalization and that Europeans had a historic advantage because they have had training, technology, more capital, and they're able to live a higher standard of living. But when you globalize, and you move pretty rapidly, you are going to have tremendous downward pressure on American wages. You teach a business school, don't you?

Mr. RUSSO. Yes.

Commissioner MULLOY. And you tell us that people in Youngstown feel they are sacrificed at the altar of traditional economic theory. You must be dealing with economists who look at the evidence. When you tell them what's going on, how could they justify continuing to think that this is to the advantage of the American people?

Mr. RUSSO. With all due respect to Reverend Hagler, I think of economics as a religion. When people like myself are talking about outsourcing or this or working people, it's like we're none believers. But recently Paul Samuelson comes out and says outsourcing isn't so good, this begins to reshape beliefs. I always remember a presentation by John Kenneth Galbraith to graduate class. At the beginning of a presentation he said, I want to tell you guys one thing. The beginnings of thing: The beginnings of wisdom are to never trust an economist. Economy is theory. I want to stress theory. And we are coming into a stage where traditional economic thinking is no longer accepted on faith.

You call it a paradigm shift. Economic theory really only talks about the upside. We are going to go forward, ideas of progress are very much tied up with that economic theory but that is the theory. We assume things will get better over time. But that may not be true any longer.

It was very compelling to me to listen to the Chinese visitors, listen to working people in Youngstown, and hear them ask how are we going to deal with this problem of deindustrialization? They think we have—by the way the industrial policy in this country is a military industrial policy. And there's a lot of evidence on that talk about Boeing. We can talk about all the money that's going to composite wings and shipped and being made overseas and issues that was somewhat mentioned here earlier.

I think we are at a very critical point in terms of American economy. I think that we have to come to grips with dramatic declines in our standards of living, but it's a complicated issue and I will give you an example about that.

The Federal Reserve Board in northeast Ohio is trying to figure out ways to develop the economy. They want to see what they can do in Ohio and parts of Michigan and Kentucky, a little bit of West Virginia that covers this territory, and I asked them a throwaway question. I said, around my area I see a lot of low-end stores. Can we talk about deflationary economy? Have you made plans about that?

The next thing I know they provide me with a report or I know they really thought about it and knew it was going to happen. I asked them, "what do you think about trade and the value of the dollar, again and what can you do about it?" They said, "We can't do anything about it." Why? Because if the Chinese stop buying our bonds our economy goes down. Basically they're taking those dollars and purchasing our bonds. So there are a couple levels of economic blackmail that are going on within the economy and international sphere.

But I want to get back to the role of the Commission. I think it's an incredibly important place and your responsibilities are very important, not only to the political process because, like you said, the WTO and these other corporate dominated organizations are not elected. You are appointed by elected officials. It's very important for you to take your job very seriously and give, I think, some direction to economic policy.

Commissioner MULLOY. Is Congressman Ryan your Congressman in Youngstown?

Mr. RUSSO. Yes.

Commissioner MULLOY. He's been very interested in the work of this Commission. He wanted to put in a bill today endorsing a recommendation from our 2004 report and asking the President to get together a plan specifically addressing the recommendations.

Mr. RUSSO. That's correct.

Commissioner MULLOY. Thank you.

Co-Chair DREYER. Commissioner D'Amato.

Chairman D'AMATO. Yes. First of all, I want to also commend this whole panel for its riveting testimony. Many of us sat on a previous Commission called the Trade Deficit Review Commission. Unlike this Commission, which is pretty much bipartisan, that Commission was completely driven by partisan policies, and it was a different prospective and we didn't agree on anything.

We issued a final report that was basically two reports in one except there was one thing we agreed on, we should have trade assistance, adjustment assistance for people who have jobs. It comes to my mind that actually none of us knew what we were talking about. The trade adjustment assistance was more than simply another factor in efficiency and probably shouldn't have been left to Congress at all. We should at least be able to put something together.

It seems to me as a nation we have two failings at this panel. The first is that we don't have any kind of workable concept and plan as to what happens when you deindustrialize an area. We just don't and we ought to try to take another look at that. But the second failing of our country here is our lack of ability to hold accountable those multinationals and companies in terms of their behavior. When I listen to what the—is the Huffy bicycle company still an American-owned company?

Mr. FOLK. Yes.

Chairman D'AMATO. I think the behavior of that company is actually obscene. In my opinion, it is an obscenity what that company did. It seems to highlight an issue the Commission will look at in this session, which is a code of conduct for multinationals. This has been talked about for many, many years. I think there's a need for it because companies need to have some kind of accountability to the communities.

Now the economic theory—accountability—isn't part of this theory. No accountability is necessary. Economic efficiency stands on its own merits. Accountability isn't a part of it. The Huffy Company isn't for the welfare of people in China at all and it's not accountable to those people who get fired when Huffy leaves the United States to go to China. Accountability in terms of corporate America is far overdue and I think part of your problem.

Mr. RUSSO. That's what happens when you try talking about corporate accountability.

Chairman D'AMATO. Part of our problem it seems to me in this economy is not addressing to this globalization, but the fact that we have not really stepped up to the question of corporate accountability. If we do, we may be able to solve a lot of problems at once. Thank you for your testimony.

Mr. NEWPORT. Could I respond? You also asked about the Huffy Company. They are still headquartered in Springfield, Ohio. They still make some bikes, high-priced bikes mostly. But in 1998 when they actually moved, they closed the Celina plant down; they had sales that year $584 million and a gross profit of 97.5 million, which added insult to injury.

Co-Chair DREYER. Thank you.

Commissioner Reinsch.

Commissioner REINSCH. As I mentioned before, I have a sense of deja vu here because I spent the '70s, '80s and '90s on Capitol Hill, working for John Heinz and then for Jay Rockefeller—not much time in Ohio, but a lot of time around Ohio, and heard the same stories. In some ways they were the same and in some ways different. They weren't about China, but they were about trade and mostly they were about change, and how you handle and cope with change, and that's what I want you all to react to for a minute.

One question is at an individual level people in Pittsburgh or the region of small apparel manufacturers in eastern Pennsylvania were as devastated as the individuals you were talking about today, the stories that you talked about, Reverend, those same stories were told 15 and 20 years ago with other individuals. I guess one question to think about is how is now different from then?

One of the underlying questions that runs through a lot of our hearings is whether outsourcing to China is fundamentally different than what we dealt with in the '80s and '90s and therefore requires different remedies, or alternatively, as I said, deja vu all over again. I don't know the answer, but it may make a difference in what kind of policy we pursue. Some things worked and some things didn't. Is it fundamentally a different situation here now?

But the second thing I would like to reflect on is you're speaking as community leaders, people who are thinking about the community. There are different approaches you can take in the way you deal with these problems; there are different approaches you can take. One approach is are there things that we can do to slow down or stop the changes that are taking place, and I think the answer to that may be yes. And some of the previous witnesses made some comments about those things. Those are by and large, however, not things the community can do by itself. I'm not sure the Akron City Council, for example, wants to try to deal with this on its own.

On the other hand, the other set of things is how does a community cope with change that occurs, no matter how evil this change may be. And it may be that while some of us on this Commission or others in Washington work on trying to forestall change or make sure it is a fair level playing field, at the same time you're faced with the question what are you doing here? What are community leaders doing to help citizens experiencing change here cope with it in some constructive way and help the community move on?

Professor Russo, unfortunately this is 25 years later. The community hasn't recovered is really what you're saying, but that's a doubly sad commentary. The event is sad, but the fact that 25 years later things are not better, perhaps worse, is another question. Maybe some of you can reflect on either of those two issues—

whether right now things are fundamentally different and we face a different challenge than we used to, and second, what can you all or what can the people you speak for or with as community leaders do to try to help all of your colleagues cope with the change that's occurring whether they want it to or not?

Mr. RUSSO. Let me talk about coping mechanisms. It's an interesting psychological term. How do we help people cope with change? But I think by starting with that question that you avoid systemic questions. Because it once again falls back on the individual that they have to get that extra training although they don't know what they are training for or some are going to need enormous amounts of psychological services to cope. You are asked to cope when you devoted your life to a particular job and particularly hazardous industry like steelmaking. Working people cope as best they can but it's not a question about coping, per se?

It's not a question about the Trade Readjustment Act, either. There are a lot of people in Youngstown that got trained in refrigeration. We don't need refrigeration training in Youngstown. There is another part to the coping and readjustment question. It is about the people who help others.

One of the things we talk about in the book after talking to the community mental health people who were having labor problems. During the 1980's, I interviewed 40 therapists and found out that what they needed was group therapy because their caseload had tripled, and the cases were not simply about wife disputes. "Hello, I want to kill myself, I'm beating my kid." The cases involved much more serious types of issues—matters of life or death.

Training and education has been the hope for many. But I in good faith cannot tell my students that just because they get a BA or an MBA now or a degree in engineering that they are going to do better than their parents. And part of it is a sense that there is a decline in America. A declining standard of living and that's the only way we are going to compete.

Somebody asked me when did this all start? We have a columnist from the back of the room from Business Week. I'd like him to go back and read the report in September of 1974 where during the oil embargo Business Week talks about the global economy and the future of America and it says the only way we're going to compete is to lower the standard of living in America. Really interesting commentary.

And now here we are a quarter of a century later and we have seen that occur over a long period of time. How does a community cope with such traumatic declines? You know, you write about self-esteem and what happens when a whole town, a whole community, loses its identity and when you lose your identity other people define who you are. And when other people define who you are, they start blaming you for your own situation, and therefore the only way for you to survive is basically to trust only those closest to you. De-industrialized communities have to cope with bootstrap journalism that is reflected on why didn't they recover? Why can't the community pull itself up by the bootstraps? What is wrong with you? Is there something culturally wrong with you? Where's the leadership? Those are good questions.

But the industries that often control those towns left a leadership vacuum.

I understand your question was about coping. It's an important sensitive question—what are the needs of these particular people, but for somebody who's looked for a long time when I start hearing about coping mechanisms I start to shudder a little bit because the issues are more systemic. Maybe it's industrial policy. Maybe it's a national health policy; maybe it's a national educational policy.

Commissioner REINSCH. Again, with the premise that's right, but here you are and you're not going to create a national health policy by yourself. Neither are we. So we all work in our own places in our own level, and the question was what can you all do at your place in your level with respect to this problem? One thing you can do is make sure the people that represent you elsewhere, whether it's in Columbus or Washington, are moving on things that you describe. But even when that happens, that's not going to happen next week. Here we are, all these people with problems, and what are we going to do about that?

Co-Chair DREYER. Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you, this is very thoughtful. I think it's a good way for us to end the official formal part of our session today because it's dealing again with what's going on in the communities. I was going to start with an amusing observation, which is that you can tell we are not in Washington. There, people generally start their comments with "I'm not a lawyer." Today it's "I'm not an economist," which is kind of a different orientation.

Mr. Newport, I want to thank you particularly for documenting the exploitative work conditions the Chinese workers are working under. That's a very important piece about what is going on and our concerns about what is happening vis a vis China. It's not an attitude of hostility between the American people and the Chinese people. Chinese people are being forced to work mandatory overtime 14, 16, 18 hours a day in locked factories and living in dormitories under the worst circumstances. I think it's important to remind people of that because of the importance of continuing to push for the rights of the Chinese workers to organize. You have a critical piece of the solution.

Also it's important to remind people when they purchase products made in China to think about the condition under which they were produced so it is not just a competition between American workers and Chinese workers. It's not that the playing field isn't level, but to think about it as people making consumption decisions about what are the circumstances under which this product was produced, which I might or might not need. I think that's an important piece of information; I'm very pleased. Thank you.

Mr. NEWPORT. Thank you.

Commissioner BARTHOLOMEW. Going back to what is going on in the communities here, I have to say that I leave with this real respect and admiration for the strength of all of you and your people who are coping with these situations, people who have to get up every day and go on with their lives. Some of the difficult circumstances we have heard about what people have had to endure is a source of strength for all of us.

I think you mentioned earlier that some of us were in Columbia, South Carolina in January and heard similar kinds of stories happening to textile manufacturers primarily. This is a problem that is happening in so many American communities. We all have to do a better job of making sure not only your voices are heard, but people really believe that they have to do something about it. I can understand the citizens who see politicians coming through every two years, every four years, or every six years and saying this won't happen on my watch, and then it happens again and again and again, that's a consequence for the entire country for what it means.

No question on my part. Thank you for the work you're doing. I hope you continue to stay in touch with us as these issues unfold and keep us informed about what is happening in the communities.

Co-Chair DREYER. Thank you. Question for Messrs. Folk and Newport. I watched the development of the bicycle industry in Taiwan some years ago with great interest. As you know, Taiwan manufacturers were not producing bicycles under their own name. Initially, they were manufacturing bikes for Schwinn and others. They solved that problem to at least their satisfaction by devising their own brand, Giant, and coming up with new technology for bicycles: carbon frames, folding bikes and so on. Could American bicycle manufacturers not compete in that way, or is it just that Taiwan got there first and there's no more niche for American bicycle manufacturers? Or is it just the market is too small because these are such specialty bikes?

Mr. FOLK. I don't know if I know the whole answer to that question. You know, we went into carbon, not producing it, we imported those frames to this country. We painted, assembled the parts to them, boxed them, shipped them back out. That was during when we asked for subzone relief. It just didn't pan out. My understanding is we just could not compete with the low wages to what they could ship to this country versus what we can bring in——

Co-Chair DREYER. From China or Taiwan or what?

Mr. FOLK. I'm not sure with reference to the carbon frames——

Co-Chair DREYER. Those must have been Taiwan.

Mr. FOLK. We buy those frames from them, bring them in here and try to make a go and compete.

Mr. NEWPORT. I have to say that I think that greed has a lot to do with it. We were in Celina making bicycles at $17 an hour, including the wages and benefits we had, and that was when they opened the nonunion plant in Farmington, Missouri. Top wage in that plant was $7. In the Mississippi plant they were probably paying minimum wage, but when they moved they moved them all.

It still, as I quoted before, had sales of $584 million and profits of 97 million that year. It wasn't that they just picked on the union backs, even though as an organizing coordinator and when you see what they did to Huffy, but Huffy just wasn't going to make bicycles in this country. I believe they just decided they were not going to do it, and how is anyone in this country going to compete with 21 to 41 cents an hour and living 12 to a room? Even the coal mine towns weren't that bad. And so I think greed had a lot to do with it. Thank you.

Co-Chair DREYER. For Dr. Russo, listening to you and Reverend Hagler, I was reminded of just how devastating and worthless one feels when one loses a job, and so I can empathize with the despair of these people. I was interested though in what Dr. Russo said is the recent resentment of labor. It seems to me that ever since I can remember labor has been resentful. As a child I read stories about the "dark and satanic mills," and even for gosh sake, the "patient martyrdom" of having to take the subway every day. That one I couldn't swallow since I took the subway every day.

And then in the '70s workers were upset because of the repetitive nature of their work. People used to have to try to alter a car that was built on a Tuesday through Thursday, because workers were coping with boredom by smoking pot on the lines and putting coke bottles in between the door panels to drive the owners crazy. Management responded by introducing robots that don't smoke pot or complain about repetitive labor. So to some extent we have unfortunately sown what we reaped here. Is there any way to recoup this?

There may not be a way to recoup, for example, if you go to Maine, you see town after town after town that used to be successful mill towns—Reverend Hagler is nodding—industry never came back. Maine is one of the poorest states in the Union. Is there a way to reverse this—can we look for new niches in biotechnology or something like that to move into or do we simply have to accept it?

Mr. RUSSO. I think that certain politicians these days would prefer to watch Dan Rather than Lou Dobbs because Dobbs is asking some really hard questions. For example, he asked Alan Greenspan training for what? Greenspan said for whatever. Okay? Jobs will be there. And so there really isn't an easy answer to training for what.

You heard these different strategies that small business are using to improve competitiveness. In many cases, multinational corporations are forcing them to engage in certain activities like overseas outsourcing. I also resent your characterization of autoworkers. Thirty years ago I was an autoworker.

Co-Chair DREYER. But you can't deny that that was the popular characterization?

Mr. RUSSO. It was. I'm writing a new book on Lordstown. The Lordstown syndrome is where cars came down with all the parts in the front seat.

For example, what I do in my class is I make my students write the first paragraph of their book for 35 seconds and then I say stop. And I make them do it again five seconds later because the normal job recovery time was five seconds which means the assembly line moving a hundred cars an hour. After 40 minutes the students say this is not what we paid for. And I say get out of here. You're fired. They begin to leave and within seven minutes there's rebellion. And the point they begin to understand something about the nature of work and how work occurs and part of these struggles in an earlier era resulted in the development of quality work life programs, mandatory participation employee involvement. But if you talk to the steelworkers about their job, and it was a dirty awful job, but there's nothing like making steel.

We asked an artist why he uses steel elements in terms of his work for a book and he looked at us really like you are a dumb academic. He said what is more basic than three types of earth and fire? Think about that. Bringing together taconite, coal, and limestone and heating and making something, the pride of making something. There are times that I think about the time I spent making cars. Often, it is during the times I am grading examinations that I'm missing making something.

We see now. People are studying the popularity of all these programs on TV on cable channels on making things. People miss making things, whether it's choppers or cars or houses. Something's going on there, and there's a sense of community for those viewers. Everybody's feeling isolation as a result of overwork in some cases. We still face a lot of problems with overwork, that is, people working three jobs, two jobs to just survive. So, people are coping—to use the term mentioned earlier. They're trying every way they can to stretch the dollars, but it's a struggle. But it's not always seen, that underlying resentment and anger and frustration about work.

You can see that in many African-American communities because now they openly say there's an economic draft going on. We have a draft in the country that's economic. If you're poor, Hispanic, black, your way out is the military. And you can just see and listen to who's talking in terms of some of the reports from Iraq. Is that the future? And they don't see any future. Many of these are people in my area are former steelworkers. What do they see for their kid? I know you didn't want to talk about that.

Co-Chair DREYER. Really fast because we are over time. Commissioner Mulloy.

Commissioner MULLOY. Thank you again for being here. Mr. Russo, Sir James Goldsmith was an economist who said there was an alternative way of doing this globalization. You would start with free trade between the U.S. and Europe, Canada, et cetera, and then these other countries like China would be brought in more gradually as part of moving their standards of living up. We did not choose to go that way because I don't think people fully understood what we were doing. Have you heard this kind of discussions among your economist friends?

Mr. RUSSO. It's important for you to understand where you are. You're in Akron, Ohio. Sir James Goldsmith is a name in infamy because basically what he did is was borrow a lot of money, bought Goodyear stock, pushed the stock price up over one month, and made about $400 million and destroyed Goodyear, and here was a company that was trying to diversify, move out of the tire business, try to move into chemicals and other areas, spent a lot of money and getting a smaller return on the investment.

But by the time Goldsmith was finished with Goodyear, they were in recovery. And they had to sell off their assets. So when you hear Goldsmith, you must suspend your disbelief.

But the argument of modeling economic change is very difficult as you are obviously finding out, especially in this current sort of political climate, and I think as—first of all, we have to bring corporations themselves under control. It's not going to be done in an unregulated type of environment, and yet the trend for the last couple decades is deregulation. Some have argued that the deregulation is turning back the 20th Century. An at tempt to go back to a deregulated economy of the 1920s that some people believe is actually on the economic global scale right now? I think it's going to be very difficult, and that to do that without a different critical discussion about corporate behavior, about investment behavior.

We heard today first person from Morgan Stanley I represent my shareholders. Okay. That's going to put enormous constraints on corporations. Because their interests are going to be short-termed, short-sighted, quick return on the investment. So when we think about this, and you think about this developing policy, you have to think about not only regulation of manufacturing corporations, but also you have to think about in terms of financial communities because the idea of return on investment hamstrings a lot of companies who would like to reinvest and stay here at home but they can't.

Commissioner MULLOY. Thank you.

Co-Chair DREYER. Thank you. I would like to declare session five closed.

OPEN MICROPHONE SESSION

Co-Chair DREYER. Ladies and gentlemen, may I please ask you to take your seats. Fellow Commissioners, sit down, please.

We're now having an open microphone session. Thanks to all of you who sat here so patiently. It's now your turn. Each individual making an oral presentation is going to be limited to three minutes.

First on my list is Mr. Michael Sayers representing local 2787 World Kitchen United Steelworkers from Massillon, Ohio. Mr. Sayers.

Mr. SAYERS. Sorry. I'm not a speaker.

Co-Chair DREYER. Is your microphone on? Yes, now it is.

Mr. SAYERS. I'm 75 years old. I'm dying and, in fact, tomorrow I get buried. 75 years I put food on the table, paid bills, bought homes, helped young and old go to school, go to college and gave hope for many of them for retirement.

I still make money. I was profitable up until tomorrow. I have a disease that is fatal. It's a cancer that was given to me in Washington. The cure is yet to be found. It seems as though you can get sick and die before you can get the cure.

My name is Mike Sayers. I am the president of our local 2887 World Kitchen, Massillon. We make bake ware. We have been mentioned three or four times today already. And I venture to say that each and every one of you in your kitchens at home has our product. I stand here and beg you to walk in my shoes tomorrow and October 1st. I get to tell my large family good-bye and good luck.

People have been there, one in particular for 29 years and 50 weeks, two weeks shy of his 30 years and he won't get it. People have been there for 25 years looking for that last five. People have been there ten years thinking they have something to fall back on for retirement, and people who only just started had the goal of a steady income, apple pie and retirement. And all I can say to them is good luck. I wish you well.

Good luck to the Mr. Evans of Gentzler Tool and Die who spoke earlier. They hurt because of us. Good luck to all of our schools and all of our local agencies because they are going to have a bigger burden on their hands now. Most of all, good luck to our kids. We spoke about it, what do they have to look forward to? Nothing. We are fighting now for our lives. Can't imagine what they are going to fight for.

All I really ask you to do is try to help find a cure for this. I don't know what it is. I don't know if you do. Maybe a combination of the group can find it and get somebody that can. I sure don't know what it is and I'm too old to work, too old to start over. I have got less than ten years before I can retire. This was my one shot. It's gone.

I don't blame the company. The company only did what they were supposed to do. This was dealt to them. You want to be profitable. You want to make money. This is what you got to do. It's what they did at Huffy and everybody else that's done this.

So I thank you for letting me speak briefly, and as you can tell I'm not a speaker, but I'm passionate and I have lost a big family. Thank you.

Co-Chair DREYER. Thank you, Mr. Sayers.

Next will be Dave McCune from Massillon, Ohio.

Mr. MCCUNE. Good afternoon. I am David McCune, and I am the former USWA Unit Chairman of the facility last known as Massillon Stainless, Incorporated. My former facility was the original all-encompassing stainless steel cold rolling facility in the United States. Our product contributed in many different ways to people's everyday lives.

Along with those contributions we also helped arm not only our nation's armed forces, but also the armed forces of many other nations in World War II, Korea and Vietnam.

Our facility also contributed to such landmarks as the Empire State Building, the Chrysler Building and the former World Trade Center. If you ever stood in that big, shiny lobby of our former Twin Towers, you viewed our work and our facility's contribution to that once proud symbol of American commerce.

Jindal Strips, Ltd., of India purchased my former facility in 2000 for $3.5 million from the now former Bethlehem Steel Corporation. After being unable to adapt to the American stainless market, Jindal made the decision to close the facility in November of 2003.

After the time of their purchase of our facility, Jindal promised the city of Massillon to not only create jobs but to also do further investments in the facility. Due to those promises, the city of Massillon granted Jindal a ten-year 75 percent tax abatement.

Jindal's failure resulted in the loss of our jobs and our ability to properly provide for our families, but also the loss of $120,000 per year in the years 2001 and 2002 by the local government and the Massillon City School System coupled by a loss of $150,000 in personal property taxes for the year 2002 by the city of Massillon itself due to a 70 percent property tax abatement the State of Ohio awarded Jindal at the time of their purchase of the facility.

Jindal also defaulted on $300,000 of a $1.2 million loan that was a portion of an earmarked $3 million loan of which I, along with the USWA's state political director, acquired for them after they had been turned down for in an effort to secure our futures.

Early in 2002, the local Indian management group had decided to work with myself and the Ohio Employee Ownership Center on identifying a possible strategic partner for the company. But prior to investigating that possibility we first had to have a feasibility study performed on the facility to determine if, in fact, the facility was a viable entity worthy of investment.

With the aid of the Ohio Employee Ownership Center, the city of Massillon and the USWA, we were able to afford to have the study done. The study was performed by Locker Associates of New York City, a leader in the field of saving distressed facilities by identifying purchasers and/or strategic partners. This study found that our former facility was, in fact, a very viable and very worthwhile investment.

But before we could get far along in the process, the owner flew in from India and announced his decision to close the facility. It was at this time Mr. Jindal had me informed that due to my assistance with acquiring the low interest state loan for the company he would set the price for the facility at $8 million, and if Locker Associates could identify a potential purchaser before he could close a deal with a Chinese concern, he would permit a domestic sale rather than a Chinese sale.

He did so knowing all along he was asking an exorbitant price for the facility, a price that would most likely prevent a sale to a domestic buyer. But we were, in fact, able to identify three potential purchasers.

Even armed with that knowledge, Jindal refused us the time required to get funding for a purchase and announced the sale of all equipment to a Chinese concern, and today, an entire U.S. stainless cold rolling facility has been relocated to China, not only costing myself and my former coworkers our jobs, but also many other additional American steelworkers who will be adversely impacted by the product that will be produced off of our machinery and shipped back into this country stamped "made in China" at prices U.S. producers cannot compete against.

Because of these actions along with the import penetration that already existed in the U.S. stainless market, myself and my former coworkers of the facility were awarded TRA/TAA. With our facility now in China, that import penetration will continue to grow, and with that penetration, additional U.S. facilities and the workers will most likely face the same fate as my former coworkers and myself, a fate that I must say leaves not only families but entire communities at risk.

In closing, I want to thank everyone for taking the time to hear this short and not so sweet story of my former facility's demise. Please consider doing everything possible to see that our nation's trade policies, especially those policies in regard to China, are investigated and changed so as to prevent others from facing the same fate that my former coworkers and I now face which is a very, very uncertain future for our families, our communities and ourselves. Thank you.

Co-Chair DREYER. Thank you, Mr. McCune.

Next on my list is Mr. Dennis Black of the Save American Manufacturers of New York, Creative Relations.

Mr. BLACK. I am Dennis Black. Thank you for the opportunity. A little bit of background about myself. I spent a little over 36 years in the automobile industry before ending up an executive. That took me around the world, so I had firsthand experience with the setting up of numerous facilities like we have been talking about today. That was my job, subsequently I'm retired.

The bottom line is, I understood this is just not right. I heard all the stories today. There are thousands and millions of stories, each and every one about much disruption. I'd just like to make a comment or two and observation from my level that comes to my mind about what's really going on here.

First, I have pulled here from a friend of mine who's an HR recruiter, Hal Netkin, who's currently retired himself and a big activist on anti-immigration policy in Los Angeles, quite a name out there. But while he was doing his recruiting, he had a conversation that I thought recapitulated the name of this game and was certainly consistent with my view of the world very succinctly.

I once asked a marketing guru that I placed with Carrier in Syracuse who he had a lots of relationships with Carrier—and by the way that's one of the recent major casualties of this Carrier Corporation of United Technologies. I asked him what was involved in global marketing. He said, there are just three objectives. One, get the component parts from anywhere in the world that manufacture them for the least amount of money. Two, assemble the component parts from anywhere in the world where labor is cheapest, and three, sell the finished product anywhere in the world where the market exists.

Never mind how this affects blue collar or professional workers who eventually wouldn't be able to afford the cheap Chinese or another country's products. And I would submit to you that this is the name of the game that's been perpetrated upon the American worker and small businessman for these last decade and a half.

My request to the Commission, please, is when you get back and you talk to Mr. Zoellick and the congressmen: I think when you are sick, the first thing you need to do is get out of denial.

I've heard several times today, and I couldn't agree more wholeheartedly, that what's been going on here in the last decade or two is a battle between the theorists and realists. What we heard here today are a lot of the realists. However, I think the theorists have been winning.

So if you would, please, make a button like this, but when you are talking to these folks the first thing is the need for them to get out of denial and simply come to the realization that whatever's been going on is not working. It is not working.

And the second thing would be that if it continues to persist in being oblivious to this eventually the American public will wake up enough and there will be enough disruption that the people that these folks work for will be replaced. And it can't be soon enough for some of them. Please carry that message back. Get out of denial.

Co-Chair DREYER. Thank you. It was, believe it or not, Chairman Mao Zedong who said if your theory differs from reality, it's time to rethink the theory.

And with that as background Frank Rayl, representing Local 3816 of the Steelworkers of America from Columbiana County, Salem, Ohio.

Mr. RAYL. I was present in the Steelworkers Local 3816. I'm here today representing working families of Columbiana County, specifically Salem, Ohio where the plant I worked at, Eljer, closed and went to China. 253 jobs were lost May 28th, 2004 and a community lost a plant that had been there one hundred years. The company at one time was shut down by the government to make bonds for World War II.

On September 28th, 2003 we were told the company lost money and it was no longer feasible to continue production at our plant. The company stated to us they could get cheap labor in China. They didn't have to worry about EPA, OSHA, workers' comp, health insurance.

They said they lost 4.8 million, and we immediately went to work to try to recoup that 4.8 to keep the plant open. They got a little bit worried that we were coming up with numbers that might meet what they wanted, and they suddenly raised it to seven million because they could make 2.2 million in China so now the new number was seven.

After some hard negotiations and some serious, serious numbers crunching, we ended up passing a proposal that we thought was worth $9 million. They took it behind closed doors, hacked it up and said it was worth about four, four and half. If they didn't have seven up front, they were just going to go ahead and close the doors. So we knew there was no way we could come up with that.

One of the company officials who had gone over to help set up in China told me that the Chinese workers at the plants work 12 hours a day, seven days a week, 50 weeks a year. They get two weeks off for Chinese New Year. The lowest paid worker made $50 a month; the highest got paid a little over a hundred dollars a month.

Our community is now in trouble financially and has stated that the reason is our plant closing. The City Council is trying to find ways to cut money there. Now, they are even trying to get rid of our full-time, professional, union-operated fire department and go to a volunteer fire department in a nearby township. Our plant closing will forever have an impact on that community, that in 1922 when the plant burned down didn't have enough money to build again. The city residents raised $15,000 to rebuild that plant.

There have been some horror stories about fellow workers in the short time the plant been closed. Houses have been lost, families moved, bankruptcy, health problems divorce and we have had one suicide. I hope the Commission takes a serious look at this trade issue and its impact.

I'm not sitting still. I'm a candidate for state representative in Columbiana County where my plant was. And I just hope that we can find a solution so these stories end up stopping. So thank you for allowing me the time to speak today.

Co-Chair DREYER. Thank you for speaking to us, Mr. Rayl.

Last, but not least, Mr. Curtis Ellis representing I Squared R Element Company from Akron, New York.

Mr. ELLIS. Akron, New York.

Co-Chair DREYER. I didn't realize it existed until this morning.

Mr. ELLIS. Much smaller than Akron, Ohio. I Squared R Element Company, thank you for letting me speak. My name is Curtis Ellis. I'm here on behalf of Jack Davis who has asked to have his statement read into the record.

Jack Davis is an engineer, a former Naval officer, patriot and the founder, owner and manager of a successful manufacturing business, the I Squared R Element Company located in Akron, New York. I Squared R Element is the nation's largest manufacturer of silicon and carbine heating elements. It is a ceramic product. These are used in high temperature electric furnaces. This company makes the things which makes the things which makes the things which show up in your home.

Some of his customers include General Motors, Corning Glass, numerous foundries, companies like that. Now most of his customers are overseas.

The workers at this company earn an average of $25 an hour with full benefits and a profit sharing plan. The company is still profitable. The company is not for sale and it is not sending any jobs to China.

Jack Davis is also a candidate for U.S. Congress in the 26th District of New York in the Buffalo, Rochester area. He is on the democratic and working-family party line. Mr. Davis was a life-long Republican, voted for Barry Goldwater, gave thousands of dollars to Mr. Bush and Mr. Cheney. When they would not listen to him on the issues of free trade, he is now a Democrat. Mr. Davis would like me to read this statement into the record.

"The future of our country is at stake. We are at war, an economic war, and we are losing. The shock troops in this war are 100 million red Chinese willing to work for less than one dollar an hour. They are aided and abetted by a fifth column of multinational corporations, American in name only, paid lobbyists, and bought and paid for politicians in Washington.

"Our elected officials are actually encouraging American companies to move offshore. For a nation to be strong it must grow, dig or make a product. We are losing that ability as multinational corporations and fellow travelers invest and manufacture in low wage countries like China. We cannot maintain our standard of living if we send our good paying jobs overseas, period.

"Let's face the facts. Our cost of labor, infrastructure, energy, environmental and safety regulations make America the high-cost producer in the world today. Our industries and farms simply cannot compete. And that would be true even if every American were paid minimum wage, taxes reduced to zero, all health and safety regulations removed, and we dumped our waste into the streets. But would we want to live in a country like that? That is not the America we know and love.

"As a candidate and as a called out realist, I support tariffs as one tool to balance trade and stop the flood of imports that are devastating American farms and industries. I believe in defending

American farmers and workers and the American people against the slave labor of Communist China.

"The stakes could not be higher. Our country is being destroyed. White collar, blue collar, management, labor, union, nonunion, academics, intellectuals, farmers. Together we will change how business is done in Washington. Their jobs aren't safe if our jobs aren't safe. Then together we'll make three words a reality: Made in America."

Thank you.

Co-Chair DREYER. Thank you. Thank you very much, Mr. Ellis. Do any Commissioners have any thoughts they would like to share with our microphone people?

Again, I very much want to thank you for coming all this way and speaking your very moving words.

Conducting a regional hearing takes a lot of hard work and personal devotion and long hours of planning and advising and implementing and coordination on your part and some on ours too. We are very fortunate as a Commission to have a devoted staff, and I would personally like to thank on behalf of all of us Dr. Tom Palley, the Commission's Chief Economist, David Ohrenstein, the Commission's Chief Executive Director, and Tony Sutton, the program analyst who really, really worked hard and was instrumental in this hearing. Also to thank a couple people I don't see here, Justin Rzepka, M.L. Faunce, and Davetta Vaughn for their hard work and assistance.

I consider this regional hearing a great success in providing an opportunity for the Commissioners to learn about the economic impact of trade with China on the regional industrial and manufacturing sectors of Ohio and New York.

We are very appreciative of all the support we have received and very grateful to all of you for taking the time to appear before this Commission today. We'll be sending a copy of the transcript for each participant to review and would appreciate a quick response so we can print and distribute the hearing record to Congress as soon as possible. It will also appear on the Commission's Website, www.uscc.gov, so you can recommend it to all your friends. And, again, we thank all the participants for their excellent testimony and for their support of our—the Commission's work and activities and I hereby——

Commissioner BARTHOLOMEW. Co-Chair Dreyer, I just want to direct a compliment to the work of the Commission staffer Kathy Michels who keeps us all going.

Co-Chair DREYER. Here, here.

Commissioner BARTHOLOMEW. Thank you.

Co-Chair DREYER. A special round of thanks for Kathy Michels, and now I would like to draw this to a close. Thank you again.

[Proceedings concluded at 5:35 p.m.]

STATUTORY MANDATE OF THE U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Pursuant to Public Law 108–7, Division P, enacted February 20, 2003

RESPONSIBILITIES OF THE COMMISSION.—The United States-China Commission shall focus, in lieu of any other areas of work or study, on the following:

PROLIFERATION PRACTICES.—The Commission shall analyze and assess the Chinese role in the proliferation of weapons of mass destruction and other weapons (including dual use technologies) to terrorist-sponsoring states, and suggest possible steps which the United States might take, including economic sanctions, to encourage the Chinese to stop such practices.

ECONOMIC REFORMS AND UNITED STATES ECONOMIC TRANSFERS.—The Commission shall analyze and assess the qualitative and quantitative nature of the shift of United States production activities to China, including the relocation of high-technology, manufacturing, and R&D facilities; the impact of these transfers on United States national security, including political influence by the Chinese Government over American firms, dependence of the United States national security industrial base on Chinese imports, the adequacy of United States export control laws, and the effect of these transfers on United States economic security, employment, and the standard of living of the American people; analyze China's national budget and assess China's fiscal strength to address internal instability problems and assess the likelihood of externalization of such problems.

ENERGY.—The Commission shall evaluate and assess how China's large and growing economy will impact upon world energy supplies and the role the United States can play, including joint R&D efforts and technological assistance, in influencing China's energy policy.

UNITED STATES CAPITAL MARKETS.—The Commission shall evaluate the extent of Chinese access to, and use of United States capital markets, and whether the existing disclosure and transparency rules are adequate to identify Chinese companies which are active in United States markets and are also engaged in proliferation activities or other activities harmful to United States security interests.

CORPORATE REPORTING.—The Commission shall assess United States trade and investment relationship with China, including the need for corporate reporting on United States investments in China and incentives that China may be offering to United States corporations to relocate production and R&D to China.

REGIONAL ECONOMIC AND SECURITY IMPACTS.—The Commission shall assess the extent of China's "hollowing-out" of Asian manufacturing economies, and the impact on United States economic and security interests in the region; review the triangular economic and security relationship among the United States, Taipei and Beijing, including Beijing's military modernization and force deployments aimed at Taipei, and the adequacy of United States executive branch coordination and consultation with Congress on United States arms sales and defense relationship with Taipei.

UNITED STATES-CHINA BILATERAL PROGRAMS.—The Commission shall assess science and technology programs to evaluate if the United States is developing an adequate coordinating mechanism with appropriate review by the intelligence community with Congress; assess the degree of non-compliance by China and [with] United States-China agreements on prison labor imports and intellectual property rights; evaluate United States enforcement policies; and recommend what new measures the United States Government might take to strengthen our laws and enforcement activities and to encourage compliance by the Chinese.

WORLD TRADE ORGANIZATION COMPLIANCE.—The Commission shall review China's record of compliance to date with its accession agreement to the WTO, and explore what incentives and policy initiatives should be pursued to promote further compliance by China.

MEDIA CONTROL.—The Commission shall evaluate Chinese government efforts to influence and control perceptions of the United States and its policies through the internet, the Chinese print and electronic media, and Chinese internal propaganda.

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS