

**Testimony of Owen E. Herrstadt Chief of Staff and Director of Trade and
Globalization,
International Association of Machinists and Aerospace Worker,
Before the
House Ways and Means Committee**

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“U.S.-China Trade and Competition”

Thank you, Chairman Neal, Ranking Member Brady and members of the Committee, the International Association of Machinists and Aerospace Workers (IAM) represents several hundred thousand workers in North America in a variety of industries, including manufacturing, electronics, wood working, defense, transportation, shipbuilding and of course aerospace. IAM members work for both prime and sub-tier contractors, producing, assembling, servicing, and maintaining a wide variety of products. IAM members have helped build some of the world’s largest and most successful companies in the world, including many aerospace companies. We are honored to testify before you today to share some of our concerns regarding U.S.-China Trade Competition.¹

Almost two years ago, the Office of the United States Trade Representative issued its “Findings on the Investigation Into China’s Acts, Policies, and Practices Related to Technology Transfers, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974”.² Last year, USTR released its report on China and WTO Compliance.³ Both reports confirmed previous findings concerning China’s reliance on forced transfer of technology from U.S. aerospace companies in return for market access. They also emphasized the serious threat of these market distorting activities on U.S. competitiveness in the global economy. This activity has contributed to the loss of U.S. jobs. As the Economic Policy Institute recently reported, 3.7 million U.S. jobs have been lost between 2001 and 2018, due to the growing trade deficit with China.⁴

The IAM has been sounding the alarm over the forced transfer of technology and production to China for many years. In addition to raising national security concerns, the transfer of production and technology from U.S. aerospace companies poses a related threat to U.S. jobs and our industrial base. Among other things, they cost U.S. aerospace jobs and lead to a further decline in our industrial base in at least four different but related ways: First, jobs that may be associated with the transfer of technology and production are lost; second, the skills that accompany the transfers are lost leading to a further decline in our industrial base; third, future jobs are lost as China (and other countries) utilizes the transfer from the U.S. to create and strengthen their own aerospace companies that compete directly with U.S. companies; and

¹ Portions of this testimony are borrowed from my past testimony and articles.

² <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>

³ <https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf>

⁴ <https://www.epi.org/publication/growing-china-trade-deficits-costs-us-jobs/>

fourth, the technology and production that would have led to more U.S. jobs through the development of innovative products is lost.

China continues to utilize every tool available to establish a strong aerospace industry increasingly at the expense of U.S. workers.⁵ The U.S. urgently needs to seek ways to effectively stop China from using market distorting activities to assist it in this endeavor, like curbing the transfer of technology and production. In the past, far from implementing any strategic policy to stem this transfer, the U.S. government has largely left it up to U.S. aerospace companies to either comply with China's forced transfer demands, or be shut out of China's market.

While the precise details of transactions involving these transfers are not public, numerous reports shed light on how China continues to play the world's two large commercial aircraft producers, Boeing and Airbus, against one another. For example, Boeing reports that it--

has a long-standing partnership with China spanning more than 47 years...The country has a component role on every current Boeing commercial airplane model — the 737, 747, 767, 777 and 787 Dreamliner. More than 10,000 Boeing airplanes currently fly throughout the world with parts and assemblies built in China. Boeing activity in China contributes more than \$1 billion annually in direct support of China's economy, including procurement from Boeing's extensive supply base, joint venture revenues, operations, training, and research and development investment.⁶

In 2015, Boeing announced that it had sold 300 planes to China. At the same time, it also announced that it would be "teaming" with the Commercial Aircraft Corp of China (COMAC) to build an aircraft completion center. As reported by the Wall Street Journal, "The new plant would be Boeing's first big manufacturing facility overseas and would mark a milestone for its presence in China..."⁷ The head of the Machinists Union District 751 in Puget Sound, warned that "...any job moved out of Washington state, where most Boeing planes are built, would be a loss for American workers."⁸ He stated, "It's a tough pill to swallow to see our jobs being used as bargaining chips to win orders..."⁹

Not to be outdone, Airbus, the only other large commercial aircraft manufacturer in the world, reported:

⁵ <https://www.cfr.org/background/made-china-2025-threat-global-trade>; <https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf>

⁶ http://www.boeing.com/resources/boeingdotcom/company/key_orgs/boeing-international/pdf/chinabackgrounder_english.pdf

⁷ <https://www.wsj.com/articles/boeing-in-deal-to-sell-300-jets-to-china-1443016009>

⁸ <https://www.reuters.com/article/us-boeing-china-unions/machinists-vow-to-fight-boeing-if-china-plant-costs-jobs-idUSKCN0RM2SY20150923>

⁹ Id.

[There] are more than 1,900 employees in China that work for Airbus and its joint ventures on commercial aircraft in multiple locations across the country.

Many of these employees work at the final assembly line in Tianjin. Opened in 2008, the Chinese FAL is a joint venture between Airbus and a consortium of Tianjin Free Trade Zone (TJFTZ) and China Aviation Industry Corporation (AVIC).

As part of this framework, a new Airbus A330 Completion and Delivery Centre (C&DC) in Tianjin was inaugurated in 2017.¹⁰

Airbus reaffirms its commitment to its long-term strategic partnership with China's aviation industry, and has signed new agreement with AVIC to deepen industrial cooperation on Airbus single-aisle production....

...Industrial cooperation between Airbus and Chinese aviation industry on commercial aircraft dates back to 1985 at the signing of the first sub-contracting agreement with Xi'an Aircraft Company (currently AVIC Aircraft Co.Ltd) on manufacturing and assembling access doors for Airbus A300/A310 wide-body aircraft.

The total value of industrial cooperation between Airbus and Chinese aviation industry reached US\$900 million in 2018.¹¹

Given all of the technology that has been transferred to China from Western aerospace companies, it is not surprising that China is now developing its own large commercial aircraft to compete directly with Boeing and Airbus, the C919.¹² Although Western companies are seeking to become suppliers to the program, even if they are successful, questions remain regarding how much of those contracts will be supported by production outside of China. As reported in the China Daily, "With more than 100,000 components required for the plane, more than 240 local Chinese companies have served as suppliers and manufacturers for the C919. More than 460,000 people have been involved in its research and development..."¹³

Although efforts to stop China's demand that U.S. aerospace companies transfer technology and production by relying on tariffs is a positive step, it will mean little to U.S. workers if the work they had performed (or could perform) remains offshore. Given that we are yet unaware of any major aerospace work that has returned to the U.S. from China, we have a growing skepticism that the imposition of tariffs on aerospace parts has not been as effective as they could have been. As a result, we are left with several questions concerning the impact of tariffs that were imposed on aircraft parts:

1. Did the aircraft parts and components that were subject to the tariffs include work that had been performed by U.S. workers?

¹⁰ <https://www.airbus.com/company/worldwide-presence/china.html>

¹¹ <https://www.airbus.com/newsroom/press-releases/en/2019/09/airbus-lifts-its-partnership-with-china-to-new-heights.html>

¹² <https://www.bloomberg.com/news/articles/2017-05-04/china-s-first-jet-to-rival-boeing-is-helped-by-u-s-technology>

¹³ http://www.chinadaily.com.cn/china/2017-06/13/content_29742065.htm

2. Did the amount of the tariffs create an incentive for U.S. companies to shift the work back to the U.S., given that aircraft cost millions of dollars and the increase in tariffs might be easily absorbed in an aircraft's overall cost?
3. Was work moved from China to another country, instead of the U.S.?
4. What waivers were granted for aircraft parts and components from the tariffs and were these parts and components that had been produced in the U.S.?
5. Did companies feel the need to keep production in China, despite the tariffs, so that they could secure future sales in China?

Regardless of the answers, it is clear that we cannot alone simply tariff our way into competitiveness with China. We need a greater, more comprehensive effort, to ensure the health of our manufacturing sector, including aerospace. Some specific suggestions include the following:

1. **USTR should aggressively pursue a WTO Complaint against China's forced transfer of technology and production based on its unfair trade practices.** It should also make every effort to convince the EU, which faces the same demands, to join in the complaint.
2. **USTR should pursue a WTO complaint against China for illegal subsidies to its aerospace industry.** Billions of dollars of subsidies have been directed to the development of China's own large commercial aircraft, the C919.¹⁴ Again, the U.S. should make every effort to convince the EU to join in the complaint.
3. **Efforts to prohibit forced transfers of production and technology should also be made a priority in all trade negotiations with other countries, including the EU and UK.** If the U.S., EU and UK were to agree to prohibit these transactions with respect to China (and each other), than U.S. and EU aerospace companies will be able to compete on the quality and price of their goods, not on who can give away more technology and production to China.
4. **USTR should pursue a WTO complaint against China for unfairly subsidizing its companies by keeping its labor costs artificially low as a result of its failure to respect fundamental human rights.** Several years ago, the AFL-CIO, submitted two petitions to the U.S. government to file a complaint against China asserting that China was able to unfairly compete with U.S. companies because its labor costs were artificially low through its failure to permit workers to form their own labor unions and engage in meaningful collective bargaining. Despite numerous reports by the U.S. State Department, NGO's and the media of egregious and persistent human rights violations,

¹⁴“China is spending well over \$7 billion for the C919”,
https://www.rand.org/content/dam/rand/pubs/research_reports/RR200/RR245/RAND_RR245.pdf;

the petitions were rejected.¹⁵ The time is long overdue to review this matter and pursue a WTO complaint.

5. **Phase one of the China trade deal was a major disappointment and USTR needs to move quickly and aggressively to negotiate Phase Two.** Phase One either ignored critical matters like human rights or failed to effectively address matters like illegal subsidies, state owned enterprises, currency manipulation and other issues of major concern. As stated by AFL-CIO President Rich Trumka, “There is precious little in this deal that addresses China’s long-standing denial of basic labor rights...It is another big giveaway to Wall Street and Big Pharma and prioritizes new protections for companies that move to China, creating even more incentives for outsourcing.”¹⁶
6. **While Phase One contains language regarding the transfer of technology, it must also clearly include the transfer of production.** Phase One is also not detailed enough to result in moving work that was outsourced to China back to the U.S. It also needs to include specific language encompassing the broad scope of these transfers, so that it encompasses the broadest category of enterprise operating in China. Swift and effective enforcement mechanisms must also be detailed.
7. **Require companies applying for government finance support, grants, awards or contracts to report the precise nature of any transfers of technology and production that are related to their bid or project.** For example, the U.S. Export-Import Bank should require companies seeking finance support to provide the details of any transfers of technology and production to another country when they seek assistance.
8. **Strengthen Buy America and Buy American requirements in government procurement.** Among other things, increase domestic content requirements and implement uniform rules on how to calculate domestic requirements. Domestic content definitions throughout the government should be closely reviewed to ensure that they are limited to a common sense understanding that truly relates to domestic employment. Specifically, only direct costs such as production, manufacture, maintenance, assembly, and raw materials should be considered as domestic content. Waivers from these requirements should also be greatly narrowed.
9. **Insist that federal, state and local government procurement promote employment impact statements by requiring bids to state the U.S. employment that would be supported by an award, contract or grant.** Employment impact statements should be a major factor in making these determinations. Taxpayers should know if their money is

¹⁵ See e.g., <https://www.state.gov/reports/2018-country-reports-on-human-rights-practices/china-includes-tibet-hong-kong-and-macau-china/>; The AFL-CIO petitions were filed in 2004 and 2006.

¹⁶ https://www.washingtonpost.com/business/economy/trumps-china-deal-was-pitched-as-boon-for-working-class-but-he-celebrated-with-wall-street-titans/2020/01/19/dfdf6296-3968-11ea-bf30-ad313e4ec754_story.html

going to support work at home or in other countries. Bids from companies in other countries, like China, should state if their bids are based on unfair subsidies, enabling them to underbid others.

10. Consider the domestic employment impact of Chinese investment under CFIUS investigations.

Some skeptics dismiss alarms over China's industrial policy which relies in part on forced transfer of technology and production to grow its own aerospace capacity. For them, China does not have the skilled workforce, technology, and ability to produce products of a quality to compete with the U.S. Skeptics made the same argument years ago with respect to Japan, only to see Japan become a significant aerospace supplier. Japan now produces leading edge technology like the wings for the Boeing 787—production that could have been undertaken in the U.S. And 50 years ago, the notion that Europe would be home to one of the top two commercial aerospace companies in the world would have been hard to believe. Simply stated, we cannot afford to believe in the skeptics. China is poised to become a serious competitor in the global aerospace industry.

We must match China with a comprehensive industrial policy of our own that removes incentives for companies to outsource work to other countries and satisfies international trade rules. Time is growing short, however. Each time a company outsources work that could be performed by a U.S. worker to China, we go further down the path of losing our competitiveness. For millions of manufacturing workers and their communities, the status quo is not an option.