Business Roundtable[SM]

Testimony of Joshua Bolten
President & CEO

On behalf of Business Roundtable

Before the U.S. Senate Committee on Foreign Relations

On "Tariffs: Implications for U.S. Foreign Policy and the International Economy"

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Chairman Corker, Ranking Member Menendez, Members of the Foreign Relations Committee, thank you for holding this important hearing. I am grateful for the opportunity to testify on behalf of Business Roundtable regarding the implications of tariffs for U.S. foreign policy and the international economy.

Business Roundtable is an association of chief executive officers (CEOs) of leading U.S. companies. Collectively, our CEO member companies employ more than 16 million people. These companies, their workers, and the communities in which they operate rely on international trade for their continued success.

Benefits of International Trade

International trade supports approximately 36 million American jobs – which is roughly one in five – and is a driver of economic growth in all 50 states. Through our nation's commitment to free and fair trade and our network of free trade agreements, the United States has shaped the international trading system in favor of our businesses, workers and consumers. The benefits of this approach are immense, helping U.S. businesses compete, helping more workers find and secure well-paying jobs, and helping families access a wider selection of products at more affordable prices. Ninety-five percent of the world's consumers and 80 percent of global GDP are located outside U.S. borders. America's future prosperity, even more than its past, is dependent on a well-functioning, rules-based international trading system.

Today, Business Roundtable CEOs are overwhelmingly bullish about America's economy. The Administration's agenda on tax reform and streamlining regulation is increasing America's competitiveness around the world and supporting new investment and growth here at home. Our major concern now is that these gains will be reversed by major missteps on trade policy.

Business Roundtable Opposes Administration's Approach on 232

The Trump Administration is rightly focused on addressing unfair trade practices that hurt American businesses and workers. However, Business Roundtable strongly disagrees with many of the Administration's recent trade actions – particularly, invoking "national security" concerns to impose unilateral U.S. tariffs under Section 232 of the Trade Expansion Act of 1962. This is a mistake by the Administration that risks forfeiting decades of U.S. leadership on trade and carries substantial consequences for the U.S. economy and the entire rules-based international trading system.

The Administration's global Section 232 tariffs on steel and aluminum – now imposed on all but a few countries – are hurting the very workers and families the Administration aims to protect while doing little to address a real problem in the global economy, which is overcapacity in steel and aluminum resulting largely from China's distortionary trade practices. In addition to diminishing the economic benefits of the Administration's successful tax and regulatory policies, these tariffs – and resulting trade retaliation from other countries – will continue to impose tremendous costs on U.S. businesses and workers, erode U.S. global competitiveness and economic growth, and undermine key U.S. economic and security relationships. This is the wrong approach.

For four important reasons, Business Roundtable has been strongly opposed to the Administration's imposition of Section 232 tariffs on steel and aluminum imports:

#1 Increased Cost to Consumers

The Administration's tariffs are a tax hike on American businesses and ultimately, consumers. In the case of the 232 steel and aluminum tariffs, it is a tax increase on $23 billion of imported steel and $18 billion of imported aluminum – both of which are key manufacturing inputs for industrial products and a variety of everyday items consumed by the American people. As the cost of production rises from these tariffs, so too will the cost of finished goods, making products less affordable for families across the nation and reducing demand for those products.

#2 Makes American Businesses Less Competitive

Higher production costs resulting from the Administration's Section 232 tariffs are also making U.S. companies and products less competitive here at home and our exports less competitive in foreign markets. An increase in the cost of finished goods as a result of these tariffs makes U.S. products more expensive – and less attractive – versus their foreign rivals. Inevitably, this means lower revenue, lost profits and fewer jobs.

Companies and workers are already experiencing the harm from these increased cost pressures and the subsequent loss of competitiveness from the Administration's 232 tariffs. For example, Gradall Industries' plant in New Philadelphia, Ohio, shelved plans "to hire at least 30 more workers" after the cost of steel increased by one-third. At the Mid Continent Steel & Wire manufacturing plant in Poplar Bluff, Missouri, 60 employees were recently laid off "due to lost business from increased steel costs."

#3 Invites Retaliation Against America's Most Competitive Exporters

These tariffs are resulting in a cascade of retaliatory tariffs from some of our nation's closest trading partners.

Because of the Administration's implemented Section 232 tariffs on steel and aluminum, a number of countries have announced significant retaliatory tariffs. So far, retaliation measures have been announced on approximately $40 billion in U.S. exports. U.S. exports targeted for retaliation include products throughout the United States, including: flat-rolled steel exports from Ohio, Michigan and Pennsylvania; aluminum scrap from California, Texas and Florida; motorcycles from Missouri and Pennsylvania; herbicides from Iowa; pork products from Missouri and North Carolina; whiskies from Tennessee and Kentucky; cherries from Washington; and coal from West Virginia and Alabama.

Harley-Davidson's recent announcement is the most notable example of how these tariffs and resulting retaliation can hurt America's most competitive exporters and their workers. Due to the U.S. tariffs on steel and aluminum, Harley estimated that it would see an additional $30 million to $45 million in increased costs here in the United States. On top of this, the European Union (EU) imposed a retaliatory tariff of 25 percent on Harley motorcycles, making their products significantly less competitive in a vital foreign market.

Because of this "double whammy," Harley was forced to choose between losing sales in a lucrative market or shifting some of its production outside the United States – where it would prefer to manufacture its products – to another location that would allow the company to continue to sell competitively to European customers. Ultimately, Harley chose the latter, a very difficult and understandable business decision given the dual damages of both the U.S. 232 tariffs and the retaliatory tariffs imposed by the EU.

One Business Roundtable member company, a U.S. manufacturer of consumer and personal care products, faces a 10 percent Canadian retaliatory tariff across multiple categories of exports. Canada is a large export market and most of what this company sells in Canada is made in the United States, with U.S. jobs across multiple U.S. manufacturing sites. Faced with this additional duty, the U.S. manufacturer will have no other choice but to (1) increase prices which would reduce sales, or (2) absorb the duty which would affect jobs. The net result will make this U.S. manufacturer less competitive versus other companies that produce in Canada or source from outside the United States.

The lost opportunities for workers at Harley and other leading U.S. companies are a glimpse at the potential widespread damage to come. According to a recent economic analysis by Trade Partnership Worldwide, the Administration's steel and aluminum tariffs, and the resulting trade retaliation from our allies, will result in a net loss of over 400,000 American jobs. The study found for every steel or aluminum job created in the United States because of these tariffs, 16 American jobs will be lost in other sectors of the economy.

<u>#4 Misuse of National Security Designation</u>

Section 232 of the Trade Expansion Act of 1962 provides the president of the United States with broad authority to restrict foreign imports for national security purposes. This authority has only been used twice, once to ban oil imports from Iran in 1979 and a second time in 1982 to ban oil imports from Libya. The national security purpose in both cases was clear.

The national security purpose of restricting steel and aluminum imports from our closest allies is not at all clear. In fact, in a February Defense Department memo regarding the Commerce Department's Section 232 investigation, Secretary of Defense James Mattis wrote, "DoD does not believe that the findings in the reports impact the ability of DoD programs to acquire the steel or aluminum necessary to meet national defense requirements."

The Administration's improper use of the 232 statute – twisting the definition of "national security" beyond reason – only invites other countries to do the same. Countries looking for a way to bypass long-established international trade rules to gain an unfair advantage over American businesses and workers now have a perfect opening to do so.

232 Tariffs on Autos Would Dramatically Escalate a Dangerous Approach

Despite the dangerous precedent set by the Administration's 232 tariffs on steel and aluminum and the harm these tariffs are already causing, the U.S. Commerce Department is now investigating whether to employ the same "national security" argument to restrict imports of automobiles and auto parts under Section 232.

The damage from this approach would be exponentially worse on all four fronts: costs to consumers, decreased competitiveness of American businesses, retaliation against U.S. exporters and the perversion of the statute. Families looking to purchase or repair their car would face significantly higher prices. American auto manufacturers and dealers would see their costs go up, their competitiveness decrease and their ability to grow diminish. Retaliation from our allies of equal magnitude would be a $320 billion hit to American exports. There is no national security purpose to restricting imports of automobiles and auto parts from our allies.

Business Roundtable Supports Congressional Action

For all these reasons, Business Roundtable supports Chairman Corker's bipartisan bill to require congressional approval of tariffs designated under Section 232 of the Trade Expansion Act of 1962.

Article I of the Constitution is clear: "The Congress shall have the power… To regulate commerce with foreign nations," including levying tariffs. In the Trade Expansion Act, Congress delegated narrow authority to the executive branch, providing authority to the president to impose tariffs to safeguard national security.

As current circumstances make clear, 232 authority is susceptible to misuse. Business Roundtable today is calling on Congress to assert its constitutional authority when a president misuses Section 232 to restrict trade.

There may be other ways to accomplish the goals of Senator Corker's legislation. Business Roundtable would also enthusiastically support other legislative approaches that advance our goal of preventing the misuse of Section 232 to restrict trade.

Addressing China's Trading Practices

In addition to the harms caused by the increased costs to consumers, the loss of American competitiveness, retaliation against U.S. exporters and the perversion of the 232 statute, there is another less direct, but no less substantial harm. The President's use of 232 alienates the U.S. allies we need the most in addressing the real problem: China's many policies and practices that distort international commerce.

Business Roundtable welcomes the Administration's focus on China's trade practices. Most of our members have faced problems in China in at least one of the following areas:

a) Unfair restrictions on access to and investment in Chinese markets: China should, among other reforms, lift restrictions on foreign ownership of Chinese enterprises subject to certain narrow and specific exceptions; substantially reduce tariff rates and other import barriers in priority sectors for U.S. exporters; and provide foreign investors treatment no less favorable than the best treatment offered to any domestic Chinese company.

b) Intellectual property theft: China should strengthen intellectual property protection by, for example, prohibiting theft of proprietary information, providing effective enforcement against counterfeit goods and ensuring effective prosecution of cyber intrusion targeting foreign companies.

c) Forced technology transfers: China should eliminate technology transfer requirements and regulatory preferences for indigenous innovation.

d) Subsidies on domestic production: China should eliminate market-distorting subsidies that artificially support industries, and domestic support that promotes domestic overproduction and global overcapacity, among other reforms.

e) Restrictions on digital trade: China should allow the free flow of data across borders subject to a very narrowly defined national security exemption, exclude all commercial ICT products from "secure and controllable" requirements and lift requirements to use or locate computing facilities locally as a condition for conducting business in China.

Business Roundtable believes the Administration can best address these problems by (1) detailing to China how their current practices must change; (2) establishing deadlines for China to adopt concrete reforms; (3) and describing the actions the United States will take – hopefully in coordination with U.S. allies – if China fails to address our concerns.

To encourage U.S. allies to join the Administration in convincing China to reform its trade practices, the Administration should permanently exempt U.S. allies from the Section 232 tariffs. This would create a constructive environment for the Administration to coordinate with our allies on our real, mutual challenge. The Administration and China should suspend their reciprocal imposition of tariffs in order to give negotiations for systemic economic reforms a chance to succeed.

This is in stark contrast to both countries' current approach. Utilizing its authority under Section 301 of the Trade Act of 1974, the U.S. Administration has so far imposed a 25 percent tariff on $34 billion worth of Chinese goods exports with promises to impose a 25 percent tariff on another $16 billion. China has responded commensurately, immediately implementing retaliatory tariffs of 25 percent on an estimated $29.6 billion of U.S. exports, with another $15.4 billion under review. The top U.S. sectors affected by China's tariffs include soybeans, automobiles, cotton, pork products and wheat. Following China's retaliation, the Administration announced this week it intends to impose a 10 percent tariff on an additional $200 billion of Chinese goods.

Cummins Inc., an Indiana-based manufacturer of diesel and alternative fuel engines, has already been swept up in the damage of the escalating trade war. As a result of the Administration's actions under Section 301, Cummins must now pay a 25 percent tariff on manufacturing components it imports from China for use in U.S. production. In addition, the company is absorbing a 25 percent U.S. tariff on finished products that it manufactures in China for sale to off-highway equipment manufacturers in the United States. If Cummins were to pass this tariff-related cost increase to its off-highway customers, it would lose vital sales in the market to European and Asian competitors.

Business Roundtable considers the cycle of tariffs and counter-tariffs initiated by the Administration to be dangerously counterproductive. Imposing Section 301 tariffs without undertaking serious negotiations – based on clear, realistic negotiating objectives – unnecessarily places U.S. jobs, families and our economy in the crosshairs of a rapidly escalating trade confrontation. Recent events indicate a need to reassert some control over not only Section 232 authority, but also other areas a president may take actions that could dramatically harm the U.S. economy by inappropriately restricting trade. That includes Section 301 authority.

Business Roundtable encourages Congress to exercise more oversight of the Administration's approach to the trade challenges posed by China. Congress should press the Administration more on its negotiating objectives with China, how the escalating tariffs advance those objectives, and the Administration's strategy for achieving the objectives rather than letting a trade war with China grow out of control.

America Needs a Constructive Path Forward

Business Roundtable strives to be a constructive partner to both the White House and to Congress as policymakers weigh the potential costs and benefits of any action on trade.

As I have detailed, there is far more harm than good to come from imposing unilateral tariffs under Section 232 and placing America's economy – and American workers – in the crosshairs of an escalating trade war. The current approach does not put America in a position of strength on international trade. Rather, it puts our nation in retreat from closely-held international relationships and undermines international trade rules that promote a fair and level playing field for U.S. businesses and workers.

Mr. Chairman, thank you for your leadership in holding this hearing and for encouraging a more constructive American trade policy that will truly benefit American businesses and workers. Again, I appreciate the opportunity to testify, and I look forward to answering the Committee's questions.