



The Impact of Foreign State-Owned Enterprises on the U.S. Public Transit and Freight Rail Sectors

Testimony to the U.S. House of Representatives' Committee on Transportation and Infrastructure

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Chairman DeFazio, Ranking Member Graves and members of the Committee on Transportation and Infrastructure Committee. First and most importantly I want to thank you for inviting me to testify today. My name is Hamilton Galloway and I am the Head of Consultancy for the Americas at Oxford Economics— a leader in global forecasting and quantitative analysis. Our worldwide client base comprises more than 1,500 international corporations, financial institutions, government organizations, and universities. Headquartered in Oxford, England, with offices around the world, we employ 400 staff, including 250 advanced degreed economists and analysts. Our best-in-class global economic and industry models and analytical tools give us an unmatched ability to forecast external market trends and assess their economic, social and business impact. Over the past four years, my team and I have conducted a significant number of robust economic impact assessments that have been time tested, across a broad range of industrial manufacturing activities, including those within the rail industry, giving us unique insight into the domestic value that private companies provide the U.S.— specifically in terms of jobs, income, Gross Domestic Product (GDP) and taxes. Our work is regarded as best-in-class by some of the world's leading firms. It is within this context that I appear before you today.

Overview

In September 2018, Oxford Economics in collaboration with the Rail Supply Institute published a report that analyzed the economic contribution of the rail supply industry. That report is attached to my testimony. Our study included the manufacturing of railcars, locomotives, signaling and communication, rail ties and tracks, as well as the maintenance of way. Taking into consideration the extensive, integrated domestic supply chains of hundreds of producers of parts and components for the rail supply industry, we concluded that the activities of this sector support 650,000 mostly middle-income jobs, \$74 billion in U.S. GDP and contributes nearly \$17 billion to federal, state and local taxes. This value spreads coast to coast, covering every state in the Union. Simply stated, one job in the rail supply industry supports four additional jobs elsewhere

190,000 jobs

Supported by railcar manufacturing activities

Includes passenger, freight and locomotive manufacturing and their supply chains.



8 jobs supported per 1 job in railcar production

Number of jobs
supported by rolling
stock manufacturing in
the U.S.

Reflects deep supply
chains that are
predominately American-
based

in the U.S. economy, which means that significant value is retained in here in the U.S. In fact, data from the U.S. Bureau of Economic Analysis indicates that approximately 82% of the rolling stock manufacturing supply chain is U.S. based.¹

Nested within the rail supply industry is the sector that manufactures public transit and freight railcars, and rolling stock—a sector that directly employs over 21,000 middle-class workers in the U.S. and supports nearly 190,000 U.S. jobs.² In other words, every job in the public transit and freight rail car and rolling stock manufacturing sector supports nearly eight additional jobs in the U.S. economy. This is the context of value to the U.S. that is under threat from anti-competitive business practices demonstrated by state-owned enterprises.

State-Owned Enterprises

Foreign competition in the form of state-owned enterprises is an increasing factor for the U.S. economy. While competition in the private sector is generally regarded as positive, state-owned enterprises operate with a different business model than for-profit companies. At their core, state-owned enterprises have as their purpose to fill a social or economic need within their home country's economy. In recent decades, however, many state-owned enterprises have expanded outward, becoming multinational. Because state-owned enterprises enjoy certain advantages of government ownership—including direct state subsidies, concessionary financing from state-owned banks, state-backed guarantees, and exemptions from antitrust enforcement or bankruptcy rules—this expansion raises serious questions about the role that government owners of some of the world's top companies have on competition, particularly in the U.S. In fact, the advantages afforded state-owned enterprises threaten to undermine the benefits gained from fair competition in true private sector production—such as improvements to efficiency and technological advancement. Instead, anti-competitive practices displace private sector competitors, causing cascading effects through U.S. domestic supply chains and the business owners, workers and families who rely on them.

¹ IMPLAN 2016 figures, based on U.S. Bureau of Economic Analysis data

² Freight railcar manufacturing supports approximately 65,000 jobs—as evidenced from an Oxford Economics study conducted in 2017 evaluating the industry with respect to the threat of state-owned enterprises. Passenger railcar and locomotive manufacturing represent the remaining balance of 125,000 total jobs supported.



Up to
12,900 jobs
lost

For every \$1 billion in
freight railcar
manufacturing sales lost
to state-owned
enterprises

Implications on Freight Railcar Manufacturing

In 2017, Oxford Economics conducted original research into the potential disruption of state-owned enterprises in the freight railcar manufacturing sector.³ That report is attached to my testimony. Our findings illustrated a pattern of anti-competitive behavior with respect to pricing freight railcars, which ultimately led to the collapse of Australia's freight railcar manufacturing industry. If similar practices were to occur in the U.S., it would threaten the 65,000 jobs supported by freight railcar manufacturing. This problem is further amplified because measures designed to preserve domestic production and content, such as Buy America, do not apply in the freight rail sector.

In its 2017 research, Oxford Economics built two scenarios to better understand the implication of state-owned enterprise disruption in the U.S. freight railcar market. These scenarios were calculated in \$1 billion sales/output increments—about one-fifth the size of the current freight railcar market. The first scenario evaluated *a partial preservation* of domestic supply chains—although the bulk of the railcar inputs would be produced in China. Under this scenario, if \$1 billion in freight railcar sales were to shift to a state-owned enterprise, approximately 5,100 U.S. jobs would be lost and U.S. GDP would decrease by approximately \$540 million. The second scenario evaluated a full transfer of freight railcar production to China—similar to what occurred in Australia.⁴ Under this scenario, a \$1 billion shift in freight railcar sales to a state-owned enterprise would result in a U.S. job loss of nearly 12,900, as well as a \$1.3 billion loss to U.S. GDP. The bulk of this loss would be felt across the supply chains of freight railcar manufacturing.

Implications on Public Transit and Passenger Railcar Manufacturing

State-owned enterprises have already established operations here in the U.S.—including the establishment of final assembly facilities. While the activity of assembling components and parts will occur here in the U.S., a significant proportion of those components are likely to be sourced from the home country of the state-owned enterprise. There are two key reasons for this: 1) the mission of the state-owned

³ Oxford Economics (May 2017). Will We Derail U.S. Freight Rolling Stock Production? An Assessment of the Impact of Foreign State-Owned Enterprises on U.S. Freight Rolling Stock Production.

⁴ Australia's freight rail market was nearly fully displaced by a state-owned enterprise in a span of less than one decade. In 2008, CRRC comprised about 40% of production output in Australia. By 2016, CRRC comprised more than 95% of output. Three key factors contributed to this outcome: 1) The Australian dollar during this time was very strong relative to foreign currencies, which reduced the effective price of Chinese freight railcars. 2) Australia's increasing economic reliance on China to buy Australian goods. 3) Australia's recognition of China as a market economy leading up to the bilateral Chinese-Australian Free Trade Agreement, which limits Australia's access to WTO remedies related to pricing and anti-dumping.



enterprise is to drive value back to the home country, and 2) the state-owned enterprise has already made significant long-run capital investment in their home country's supply chain, which they rely on to produce railcars. As a result, the supply-chain jobs and value that have largely been a staple of the U.S. railcar economic landscape would be offshored.

New research by Oxford Economics evaluating the potential disruption of these activities covers two scenarios. The first scenario evaluates the net impact of passenger railcar manufacturing wherein the state-owned enterprise does not need to abide by Buy America provisions (wherein, for FY2018-19, 65% of the parts used in railcar manufacturing must consist of content made in America. After FY2020, the U.S. content requirement moves up to 70%)—in other words, the municipality purchasing railcars in this scenario is not drawing on federal funds. Therefore, it is highly likely that much of the railcar content will be made in the state-owned enterprise's home country. The second scenario evaluates the impact of a good faith adherence to Buy America provisions.

For context, local municipalities, including MBTA in Boston, SEPTA in Pennsylvania, LACMTA in Los Angeles and CTA in Chicago have already awarded contracts to a state-owned enterprise. Three of these four contracts are entirely funded by state and local governments, meaning that Buy America provisions are not required.

Scenario One – No Buy America Provision

In the non-Buy America adherence scenario, we assume that approximately 52% of the parts used in the railcar are produced overseas, with final assembly completed in the U.S. The outcome from this scenario is a net loss of 5,100 jobs, \$508 million in productivity and \$113 million in taxes in the U.S. economy for every \$1 billion in passenger railcar final output. Put another way, for every 1 US final assembly job created by a state-owned railcar manufacturer, a net 5.4 jobs are lost in the US economy relative to traditional non-SOE producers, including direct, indirect, and induced impacts.

Scenario Two – Adherence to Buy America Provision

In the Buy America scenario, where more U.S. domestic content is incorporated into the production of railcars and final assembly completed, the effects are less severe, though the outcome still implies loss of jobs and value in the U.S. We estimate that there would be a net loss of 3,250 jobs, \$318 million in productivity and \$70 million in taxes for every

Up to 5,100
jobs lost

For every \$1 billion in
passenger railcar
manufacturing sales lost
to state-owned
enterprises

Reflects significant
offshoring of supply-
chain



\$1 billion in final output. In this scenario, every state-owned enterprise US final assembly job created results in a net loss of 3.5 jobs in the U.S. economy.⁵

Conclusion

The conclusions drawn from our research suggest that anti-competitive business practices among state-owned enterprises could:

- Destabilize competitive, private sector railcar manufacturing, causing long-term consequences to productivity and efficiency
- Lead to significant losses of private-sector jobs and value in the U.S. economy, as supply chains for state-owned enterprises are offshored
- Create cascading negative effects across the U.S. due to the loss of private sector jobs in key manufacturing industries

This disruption is further amplified when one factors in the passenger railcar manufacturing sector—an area where state-owned enterprises have already established operations here in the U.S. In sum, it is imperative that policy makers acknowledge, assess, and respond to state-owned enterprises that have and will likely continue to make headway into the U.S. rail industry in the near future to prevent, among other things, the loss of tens of thousands of jobs, as well as billions in wages, GDP and taxes.

Thank you again for this opportunity and I look forward to answering any questions that you may have.

⁵ This scenario is designed to apply to situations similar to the SEPTA contract, wherein Buy America is a requirement.