



Neglected Facts and Omissions

RE: ENO Transportation “The Implications of the Federal Ban on Chinese Railcars”

CRRC’s incursions into the U.S. market represent a far greater threat to U.S. economic and national security than many realize. CRRC is an entity that is owned by the Chinese government, has its roots in intellectual property and technology theft from foreign firms, openly touts its goal of overtaking both U.S. and foreign railcar manufacturers, and is led by Communist Party officials who put the interest of the state above market considerations or profit. By CRRC’s own admission, they claim to dominate 83% of the global rail market and ask the question of how long it will take until they are done “conquering the remaining 17%”.¹

To be clear, this is not just another foreign company trying to do business in the United States. While CRRC MA is now attempting to use credible voices to back its claim of being just another American company with foreign ownership, the truth of the matter is that CRRC MA is wholly owned by CRRC Corporation Limited, a Chinese state-owned enterprise (SOE) with deep ties to the Communist Party of China. With that in mind, the proposed ban on FY 2019 Federal Transit Administration grants will ensure that a Chinese SOE that poses a risk to American jobs, innovation, and security is not being subsidized by the U.S. federal government and the American taxpayer.

ENO’s piece makes numerous contentions that, while factual, omit or misunderstand the concerns that countless industry groups, political leaders, government agencies, and national security experts have raised regarding CRRC, while perpetuating the fiction that CRRC is just another foreign company being unfairly singled out.

MYTH: CRRC is no different than any other foreign railcar manufacturer competing in the United States.

REALITY: As an SOE, CRRC is not driven by the same market incentives as its competitors. Rather, Chinese industrial policy initiatives promoted by the Government of China drive its business agenda. It is well established that numerous Chinese SOEs have been found to have engaged in cyber-espionage or permitted hacking against its competitors. In fact, many of CRRC’s own board members maintain close ties to companies who have engaged in such activity.

Three of CRRC’s current board members (and two former board members) previously held leadership positions at major Chinese state-owned defense companies that have been subject to allegations of industrial espionage and sanctions evasion. In one instance, one of CRRC’s board members previously served as the Deputy General Manager and Director of China Shipbuilding Industry Corporation (CSIC) during the same period that a senior technical advisor from the company was indicted by the U.S. Department of Justice for industrial espionage.² In another instance, a CRRC board member had previously served as Deputy General Manager of NORINCO at the same time that the U.S. Department of State imposed sanctions on the company for contributing to Iranian WMD development.³ Given the senior roles these board members held during these periods, it is highly likely that they were complicit in these activities, raising serious concerns about the command structure behind CRRC today.

¹@CRRC_global, “Following CRRC’s entry to Jamaica, our products are now offered to 104 countries and regions. So far, 83% of all rail products in the world are operated by #CRRC or are CRRC ones. How long will it take for us conquering the remaining 17%?” Twitter, January 11, 2018. https://twitter.com/CRRC_global/status/951476296860819456

² <https://www.justice.gov/opa/press-release/file/1058166/download>

³ <https://2001-2009.state.gov/t/isn/c15233.htm>

MYTH: Transit agencies stand to benefit in the long-term from contracting with CRRC on railcar purchases.

REALITY: CRRC's low bids on passenger vehicles are understandably attractive to cash-strapped municipal transit agencies across America. But low costs often result in poor build quality without consideration for safety, which has been a chronic problem for CRRC. For example, in 2016 Singapore was forced to return a large amount of CRRC transit cars due to cracks in the train bogies.⁴ In South Africa, Transnet simply refused to accept the remaining locomotives in an order after the first two delivered failed testing, rendering them unable to operate.⁵ Similarly, Namibia had to sell all of its CNR-manufactured locomotives in 2014 after a host of technical problems rendered the locomotives unfit for use. According to a 2016 report, 7.4% of all train malfunctions in China were due to problems related intrinsically to the railcars themselves, about 80% of which were due to quality issues.⁶ In light of the pervasive difficulties transit agencies have raised with CRRC and its predecessor companies in the past, transit agencies today may face persistent quality issues moving forward if the agencies choose CRRC. These quality issues mask the true cost to the American taxpayer and could only result in further issues and long-term increased costs for U.S. transit authorities.

MYTH: A new job in a CRRC plant will replace job losses elsewhere in the country.

REALITY: Unlike other foreign railcar manufacturers here in the U.S., the jobs being brought in by CRRC are not manufacturing jobs—these are merely final assembly jobs. Meanwhile, the design and engineering are done in China as is as much of the manufacturing as possible (particularly in the case of Boston, where there is no Buy America requirement). By contrast, companies such as Siemens, Alstom, Bombardier, Hyundai, and Kawasaki do much of this domestically. A 2017 Oxford Economics study found Chinese competition in freight rail also projected that up to 65,000 U.S. jobs could be eliminated if we allow China to displace U.S. freight rail manufacturing.⁷ It would also lead to a \$6.5 billion reduction in American GDP and \$4.2 billion in lost labor income. The study does not examine the economic impacts of China's incursions into transit rail. Yet we know that each contract CRRC wins in transit moves it one step closer to moving over into the freight rail sector.

MYTH: Other railcar manufacturers will keep a check on current and future prices for contracts.

REALITY: China has built the foundation of its rail manufacturing industry using stolen intellectual property and technology from the very same companies it now competes with for rail contracts in the U.S. market.⁸ Unlike CRRC's competitors Bombardier, Siemens, Alstom, or Kawasaki, CRRC's business decisions are driven by the geopolitical objectives of the Chinese government rather than market considerations. CRRC's founding bylaws explicitly state that the company will consult the Chinese Communist Party when making significant operational decisions, making industrial policy initiatives such as Made in China 2025 the driving force behind CRRC's expansion into the U.S. market. Indeed, CRRC makes no claims to the contrary; as noted by CRRC itself in its FY 2017 report, "the company actively positions itself to capitalize on opportunities brought by key national strategies such as the One Belt One Road initiative to establish worldwide operations and expand international business."⁹ Profit is a secondary motive for CRRC, so while other railcar manufacturers will continue to compete

⁴ "Mainland manufacturer for MTR secretly recalls 35 trains from Singapore due to cracks," Hong Kong Free Press, July 5, 2016. <https://www.hongkongfp.com/2016/07/05/mainland-manufacturer-mtr-secretly-recalls-35-trains-singapore-due-cracks/>

⁵ "Exclusive: Transnet's new Chinese locomotives 'fail first test'," News24, January 23, 2017.

<https://www.news24.com/SouthAfrica/News/exclusive-transnets-new-chinese-locomotives-fail-first-test-20170123>

⁶ "Breakdowns Ebb on China's High-Speed Rail," Caixin Global, March 14, 2017. <https://www.caixinglobal.com/2017-03-14/101065871.html>

⁷ Oxford Economics, *Will We Derail US Freight Rolling Stock Production?*, May 2017.

⁸ "China's High-Speed Rail Diplomacy," U.S. China Economic and Security Review Commission, February 21, 2017, at 5. <https://www.uscc.gov/sites/default/files/Research/China%27s%20High%20Speed%20Rail%20Diplomacy.pdf>

⁹ CRRC Corporation Limited FY 2017 Results, March 2018.

for as long as it is feasible, CRRC's access to cheap credit from state policy banks and massive government subsidies will ensure that CRRC can continue to make ultra-low bids in the U.S. until it is successful in pushing out its competitors.

MYTH: CRRC does not pose a national security threat to transit rail systems.

REALITY: While the authors of this report correctly point out that there are serious concerns in allowing a Chinese SOE to manufacture freight railcars—which carry everything from dangerous chemicals to sensitive military equipment—they disregard the fact that many of those same issues pertain to transit. Transit railcars contain sensors to ensure safety, GPS systems, surveillance cameras, Wi-Fi, and more. Allowing a Chinese SOE to manufacture those technologies with potential backdoor visibility and monitoring capabilities presents a clear and present danger to the operating systems of these trains and the privacy and security of the passengers who ride them.

Let us not forget that this is a company being led by individuals who oversaw major defense-SOEs with deep ties to the Chinese military and, in two notable cases, oversaw companies that faced a U.S. Department of Justice indictment for industrial espionage and sanctions for contributing to Iranian WMD development.¹⁰ These are not players we want to be operating in the U.S. market.

¹⁰ See supra notes 1 and 2.