



**American
Iron and Steel
Institute**



July 22, 2020

The Honorable Steven Mnuchin
Secretary of the Treasury
1500 Pennsylvania Ave. NW
Washington, DC 20220

RE: Department of Defense List of Companies Owned or Controlled by China's Military, June 12, 2020

Dear Secretary Mnuchin:

I am writing to you on behalf of the Rail Security Alliance (RSA). RSA is a coalition of North American railcar manufacturers, rail component suppliers, unions, and steel interests that are committed to ensuring the economic and national security of North American passenger and freight rail systems. This alliance was formed in response to the merging of China's two largest rail manufacturers into one massive state-owned conglomerate—China Railroad Rolling Stock Corporation (CRRC). By its own estimate, CRRC controls more than 83 percent of the global rail market and the company has publicized its aim to dominate the remainder of the market.¹ Little wonder that, through CRRC, the Government of China has made aggressive and alarming incursions into the United States rolling stock market – including the use of state-backed financing, below-market pricing, and other anti-competitive tactics. These tactics and the interests of CRRC in undermining the U.S. rail sector has caused grave concern in the market and among a wide, bipartisan swath of policy leaders for the future of the North American rail industry.

The disconcerting ties of CRRC beyond simply the national bureaucracy of China are widely recognized. The National Defense Authorization Act (NDAA) for FY 1999 instructs the Department of Defense (DoD) to release an annual list of companies that are under direct control of China's People's Liberation Army (PLA). On June 12th, DoD released its list for 2020, naming CRRC among others such as Huawei and Hangzhou Hikvision as being subject to PLA control.²

With the identification of CRRC in the PLA Control List, the President may invoke the International Emergency Economic Powers Act (IEEPA) to sanction that and any other PLA-controlled companies.

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 U.S. Deputy Secretary of Defense David L. Norquist Letter to Senator Tom Cotton, June 24, 2020.

<https://www.cotton.senate.gov/files/documents/Sen%20Cotton%20NDAA%20FY%201999%20Sec%201237%20Response%2006242020.pdf>

Given the significant threat to the U.S. rail sector, and the role that rail plays in a vast amount of U.S. commerce and military transport, we write to encourage the imposition of immediate, meaningful, and permanent sanctions on CRRC for the continued protection of the economic and national security of the United States.

CRRC's Aggressive Takeover Tactics

CRRC is a 100% state-owned, PLA-controlled enterprise. By its own admission, via a past tweet from its corporate account, CRRC has set out to “conquer” the global rail industry. It has decimated its competition in the past, and we are able to see from CRRC’s record in Australia -- which had a domestic industry that CRRC systematically destroyed – a clear pattern of aggression and predation³.

With the Australian rail industry undone by its actions, CRRC has spent five years aggressively targeting the U.S. market, seeking to overtake the U.S. rail manufacturing sector. The use of unlimited state-backed financing has allowed CRRC to enter the U.S. market with competitive underbids for new rail projects, and through those efforts, CRRC has already secured more than \$2.6 billion in U.S. taxpayer-supported transit contracts to provide passenger rail cars for the cities of Boston, Chicago, Philadelphia, and Los Angeles. To fulfill these contracts, CRRC has established two rail assembly facilities, in Springfield, MA and Chicago, IL,⁴ though the vast majority of the rail cars that CRRC provides through those facilities are manufactured in and shipped from mainland China.

CRRC’s rapidly growing presence in the U.S. transit rail industry is destabilizing to vital subsets of American industry and the U.S. workforce. The U.S. rail sector supports 65,000 American jobs and \$6.5 billion in annual GDP across all 50 states.⁵ Yet much of this is jeopardized by CRRC’s agenda and conquests to date. CRRC’s anticompetitive tactics to secure new bids have resulted in many other transit rail manufacturers – several of which have had substantial U.S. manufacturing operations – to have to downsize their U.S. workforce and shutter their U.S. operations.⁶ The downstream impact on U.S. rail suppliers has also been marked, impacting the steel and foundry industries and their workforces, among others. Moreover, the slow takeover efforts of the U.S. freight rail sector allow CRRC the opportunity to position itself to move next against the considerable U.S. freight railcar assembly industry -- a subsector of rail not protected by Buy America requirements. CRRC has already attempted to make inroads for such purposes with its launch of the now-defunct Vertex Rail Corporation in North Carolina.

The capability of the U.S. to freely move products throughout the country is vital not only our national security, but to our economic security as well. Due in large part to the role of freight rail’s role in the U.S., transporting sensitive military equipment, energy products, agriculture commodities, and toxic chemicals, among other things, the Department of Homeland Security named freight rail as “critical infrastructure” under Presidential Policy Directive 21.⁷

³ Oxford Economics, *Will We Derail US Freight Rolling Stock Production?*, May 2017. <https://www.oxfordeconomics.com/recent-releases/will-we-derail-us-freight-rolling-stock-production>

⁴ Burroughs, David. “CRRC Hires First Employees for Chicago Assembly Facility.” *International Railway Journal*. Simmons Boardman Publishing, March 6, 2019. <https://www.railjournal.com/regions/north-america/crrc-hires-first-employees-for-chicago-assembly-facility/>.

⁵ Oxford Economics, *Will We Derail US Freight Rolling Stock Production?*

⁶ DiStefano, Joseph N. “Philly Railcar Maker Hyundai Rotem Gives up and Leaves Town.” <https://www.inquirer.com>. *The Philadelphia Inquirer*, August 17, 2018. <https://www.inquirer.com/philly/blogs/inq-phillydeals/septa-hyundai-rotem-crrc-rail-cars-philadelphia-20180817.html>.

⁷ Presidential Policy Directive 21 (PPD-21) identifies 16 critical infrastructure sectors, including “Transportation Systems.” The Department of Homeland Security defines “Freight Rail” as one of the seven key subsectors. See generally, PPD-21, *Critical Infrastructure Security and Resilience*, Feb. 12, 2013, <https://www.whitehouse.gov/the-press-office/2013/02/12/presidential-policy-directive-critical-infrastructure-security-and-resil> and *Transportation Systems Sector*, Dep’t of Homeland Sec., Mar. 25, 2013, <http://www.dhs.gov/transportation-systems-sector>. 15 “Strategic Rail Corridor Network (STRACNET),” *Global Security*, 2012.

With the incursions CRRC has made thus far, China's PLA now has active footholds in two of America's largest cities, on American soil, and is providing passenger railcars to transit agencies across the nation. These facts alone should terrify our nation's leaders and spur them to immediate action.

The Rail Security Alliance has worked closely with the Obama and Trump Administrations and with bipartisan leaders in Congress to help assess these threats as they have recently emerged. We appreciate the Administration's efforts to date to take some measures to stem these threats, including the imposition of Section 301 tariffs and the U.S. Trade Representative's (USTR) investigations into China's technology transfer and intellectual property theft in this sphere. We also applaud the fact that USTR has put tariffs on most rail parts from China.

Following the Administration's early actions, Congress responded to CRRC's aggressive, predatory tactics by enacting key parts of the Transit Infrastructure Vehicle Security Act (TIVSA) as part of the National Defense Authorization Act on December 19, 2019.⁸The Office of Management and Budget provided important support during consideration and passage of this measure, which restricts certain municipalities from using federal funds to acquire CRRC-manufactured passenger trains.⁹

While important, these steps are not enough to put an end to CRRC's goal of dominating our rail sector and imperiling our manufacturing and national security interests tied to this industry.

As you are well aware, the threat from the People's Republic of China has only been made clearer during the COVID-19 pandemic, which has hobbled industries around the globe and made businesses and even nations more beholden to China, the companies that extend the reach of its government and its military. As one recent report stated, "Beijing wants to outmaneuver U.S. companies and become the beneficiary of COVID19 relief – to ensure that Chinese enterprises, State-owned and ostensibly private, are the ones to build the new wave of U.S. infrastructure and manufacture the new wave of materials that COVID19 stimulus will fund."¹⁰

Now is the time for the Administration to take immediate action against CRRC, which has been declared to be under the control of the PLA and which has demonstrated itself to be working against our national interests. The International Emergency Economic Powers Act gives the President clear tools to deal with such threats, allowing for sanctions on state-controlled enterprises to protect our own vital interests. The Rail Security Alliance stands ready to support these efforts, for the sake of the American rail industry and those military, commercial and workforce interests that rely on this sector to be free of control from the Government of China.

Thank you for your consideration.

Sincerely,

Rail Security Alliance
American Foundry Society
American Iron and Steel Institute
Alliance for American Manufacturing
Steel Manufacturers Association
United Steelworkers

⁸ See S. 1790 National Defense Authorization Act for Fiscal Year 2020, Sec. 7613

⁹ Executive Office of the President Office of Management and Budget Acting Director Russell T. Vought Letter to Senator James Inhofe, Sept. 4, 2019. <https://www.whitehouse.gov/wp-content/uploads/2019/09/Letter-to-the-Chairs-and-Ranking-Members-of-the-House-and-Senate-Armed-Services-Committees.pdf>

¹⁰ Horizon Advisory, *When The Iron Is Hot: The Chinese Party's Subversion of US Recovery & Investment*, June 2020. <https://www.horizonadvisory.org/ccpsubversionreport>