



STATEMENT FOR THE RECORD OF
THE RAIL SECURITY ALLIANCE
BEFORE THE
**SENATE COMMITTEE ON COMMERCE, SCIENCE, &
TRANSPORTATION'S SUBCOMMITTEE ON MANUFACTURING,
TRADE, AND CONSUMER PROTECTION**

AT A HEARING ENTITLED
**"EXAMINING THE AMERICAN MANUFACTURING INDUSTRY'S RESPONSE TO
THE COVID-19 PANDEMIC"**

NOVEMBER 17, 2020

Introduction

The Rail Security Alliance (RSA) is a coalition of North American freight railcar manufacturers, suppliers, unions, and steel interests committed to ensuring the economic and national security of our passenger and freight rail systems. On behalf of our coalition, thank you for the opportunity to submit a statement for the record before the committee to communicate to you the work of RSA and the importance of protecting U.S. competitiveness and North American manufacturing jobs while discussing the devastating impact the COVID-19 pandemic has had on this industry. Given the hearing will examine the American manufacturing industry's response to the COVID-19 pandemic, we wanted to provide you with the unique perspective of the American freight railcar manufacturers, the importance of the industry to America's economic and national security, and the serious, potentially industry-ending impacts of the COVID-19 pandemic.

Effects of COVID-19 Pandemic on the Freight Industry

The COVID-19 pandemic has had devastating effects on the U.S. economy and has greatly impacted the freight railcar manufacturing and supply industry. Freight railcar orders and backlog are plummeting due to the effects of the pandemic, with 65,000 jobs at risk if the U.S. domestic freight railcar manufacturing industry collapses.¹ The freight railcar industry is cyclical, meaning that railcar orders vary each year, but it is generally predictable. A good year will produce about 70,000 new freight railcars, an average year will produce about 50,000 cars, and a down year will produce about 30,000 cars. 2020 was already forecasted to be a down year due to the railcar industry's cyclical nature. Still, the effects of the COVID-19 pandemic have slowed production so greatly that industry analysts estimate only 18,000 railcars will be produced this year.

According to industry experts, tens of thousands of jobs in the freight industry have already been furloughed or lost due to the massive slowdown in production and the cancellation of orders. In 2019, the freight railcar manufacturing industry consisted of 65,000 direct jobs. In 2020, experts estimate this number has dropped to 40,000 jobs, with the potential for even more significant losses if immediate action is not taken to stabilize the industry. Downstream effects will be felt in every sector that supplies the freight railcar industry, from iron and steel manufacturers to factory equipment suppliers.

Freight Industry Response to the Covid-19 Pandemic

With tens of thousands of jobs at risk and a once robust domestic manufacturing industry plummeting, we urge Congress to take decisive action as the freight railcar industry seeks to survive the severe economic effects of the COVID-19 pandemic.

We applaud the work by Representatives Brad Schneider and Darin LaHood, who have introduced legislation, The Freight RAILCAR ACT ([H.R. 8082](#)), that would provide short-term investment tax credits to encourage the replacement or modernization of North America's

¹ Oxford Economics, *Will We Derail US Freight Rolling Stock Production?*, May 2017, at 4.

freight railcar fleet with higher capacity, more fuel-efficient vehicles. This legislation assists in the stabilization of jobs in the railcar manufacturing industry in response to the COVID-19 pandemic.

There are currently 1.7 million freight cars in the North American fleet, with many cars older than 30 years. This legislation would enhance and modernize the fleet, making cars lighter and more fuel-efficient. According to industry experts, as much as 300,000 cars are due to be replaced in the next decade due to age. The short-term tax credits laid out in this legislation would speed up that process to help spur production and get Americans back to work.

Chinese Rail State-Owned Enterprises Seek to Use COVID-19 Pandemic to Undermine the U.S Freight Industry

Five years ago, RSA was formed in response to the merging of China's two rail manufacturers into one massive 100% state-owned enterprise (SOE), the China Railway Rolling Stock Corporation (CRRC). CRRC, by their calculation, controls roughly 83 percent of the global rail market, with the intent to "conquer" the remaining 17 percent, per the company's own public acknowledgment.² As a state-owned enterprise, CRRC has access to unlimited state funding that allows them to win rail contracts around the world by underbidding competitors. CRRC has made aggressive and alarming incursions into the U.S. rail market using state-backed financing, below-market pricing, and other anti-competitive tactics and has used the lingering economic effects of the pandemic to continue its domination of global market share. Alarming, CRRC was recently named one of 20 companies by the Department of Defense that it says is owned or controlled by China's People's Liberation Army.³ CRRC has won four U.S. metropolitan transit contracts—through severely underbidding its competitors by way of unlimited financing from the Chinese government—in Boston, Chicago, Los Angeles, and Philadelphia.

The North American freight industry is not immune to the advances by CRRC. Their current foothold in the U.S. transit industry allows them the opportunity to pivot into freight rail assembly, a subsector of rail not protected by the same Buy America requirements as transit rail. CRRC has already attempted to enter the U.S. freight rail manufacturing sector with a joint venture, Vertex Rail, in North Carolina. Fortunately, that effort failed, in large part to the public scrutiny placed on the company. CRRC also attempted a joint venture by launching American Railcar Services, with its headquarters in Miami, FL, and maintaining its assembly operations in Moncton, New Brunswick.

Our concerns regarding CRRC's transition from transit railcar manufacturing to freight railcar manufacturing is best highlighted by the recent experience of the rail industry in Australia. CRRC entered the Australian freight rail market in 2008, and within less than 10 years,

² @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

³ 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>

decimated the sector. The result was four domestic suppliers being forced out of business and the rail market, leaving only CRRC.⁴ We risk the same in the United States if this industry is not protected. Congress has supported the rail industry as recently as last year with its passage of the Transit Infrastructure Vehicle Security Act (TIVSA) and it must continue to stand with this vital industry that is an economic and national security backbone of the United States.

Given current economic conditions brought on by the COVID-19 pandemic, the U.S. freight industry is concerned that CRRC could see this as a prime opportunity to move into the U.S. market more aggressively and pursue breaking into our freight market. The Chinese government has not been silent about their plans to gain market share from industries crumbling due to the pandemic's effects. A March 2020 report from Horizon Advisory Group, examines how Beijing plans to seize this opportunity and leverage foreign investment to pursue its strategic ambition. Chinese sources reviewed by this group state explicitly that the economic devastation brought on by the COVID-19 pandemic gives China an opportunity to expand its dominance in global markets and supply chains, in both the manufacturing and technology industries.⁵ H.R. 8082 ensures the continued viability of the freight railcar market during this difficult time, and the legislation includes proper safeguards to ensure that CRRC cannot take advantage of the law.

Conclusion

American industries, if given the opportunity, will adapt, survive, and even thrive during the most difficult of times. It is imperative that we work alongside them, with the help of Congress, to guarantee continued job creation and industry survival.

H.R. 8082 is an important, much-needed step to ensure this critical American manufacturing industry survives the impact of the COVID-19 pandemic. Given the discussions by members of Congress and the Administration regarding a large-scale infrastructure package in the future, we see that as a vital action at this time. We hope that Congress would consider taking action and implementing the language laid out in this legislation by including it in any upcoming infrastructure package, helping a struggling industry stay viable while it is being battered by the double threat of China and the economic impacts of the COVID-19 pandemic.

Thank you again for the opportunity to submit this statement for the record, and we stand available as a resource if you have any questions.

Respectfully submitted,



Erik Robert Olson
Vice President

⁴ Oxford Economics, *Will We Derail US Freight Rolling Stock Production?*, May 2017, at 16.

⁵ Horizon Advisory Group, *Viral Moment China's Post-COVID Planning*, March 2020, at 7.
<https://www.horizonadvisory.org/coronavirus-1>