



September 19, 2023

The Honorable Katherine Tai
The Office of United States Trade Representative
600 17th St NW
Washington, DC 20006

RE: Re: Docket ID No. USTR–2023–0008

Dear Ambassador Tai:

The Rail Security Alliance (RSA) appreciates the opportunity to comment on the Office of the United States Trade Representative’s (USTR) and the Trade Policy Staff Committee (TPSC) Request for Comments regarding China’s compliance with its obligations as a Member of the World Trade Organization (WTO). China has not honored the commitments made in connection with its accession to the WTO and continues to embrace a state-led, non-market economy that has harmed the U.S. domestic economy and global competitiveness.

Introduction

RSA represents the manufacturing segment of the rail industry in North America for freight railcars and the supply of railcar components. Working alongside congressional leaders as well as current and past administrations, we have sought to erect barriers to the Chinese state-owned rail enterprise (SOE), CRRC Corporation Limited (CRRC), as it pursues its goal of dominating railcar manufacturing in the United States and around the world. This \$35 billion SOE¹ has made aggressive and alarming inroads into the U.S. by using state-backed financing, direct government subsidization (\$1.8 billion since 2015)², below-market pricing, and other anti-competitive tactics to decimate domestic railcar manufacturing and with the single end goal of producing all railcars in the People’s Republic of China (PRC) – wiping out American manufacturing in the process.

The domestic freight railcar industry is a vital component of our economy – supporting more than 65,000 family wage jobs and upwards of \$6.5 billion in GDP.³ Freight rail is also a crucial part of America’s critical infrastructure as it safely and efficiently carries hazardous materials, military equipment, key commodities, energy products, and everyday goods. In 2013, President Obama, joined by then Vice President Biden, recognized freight rail’s importance to the security

¹ CRRC Corporation Limited, *Annual Report 2021*, June 2022.

² Oxford Economics, *Off Track: The Role of China’s CRRC in the Global Railcar Market*, July 2022

³ Oxford Economics, *Will We Derail US Freight Rolling Stock Production?* May 2017.



of critical infrastructure by issuing Presidential Policy Directive 21 (PPD-21), explicitly including the freight rail industry.⁴

China's Quest to Dominate Global Rail Supply Markets

As noted above, over the past 8 years, CRRC has made aggressive inroads into the U.S. market to decimate our domestic railcar manufacturing. The subsidies received by CRRC enable it to significantly underbid private companies for global rolling stock contracts and pose a direct threat to our domestic rail manufacturing industry.

According to CRRC, its products are now offered in more than 104 countries, and it has 83% of the world's rail and rolling stock market.⁵ Further underscoring the threat from CRRC, in 2020⁶ and again in 2022⁷, the Department of Defense included the firm in a list of major state-owned companies it says are effectively controlled by the Chinese military. Also in 2020, the Department of Treasury included CRRC in its Chinese Military-Industrial Complex Companies Sanctions List.⁸

CRRC's activities in Australia should serve as a blueprint for its designs in the North American market. Within a decade of entering Australia's once-thriving domestic rail manufacturing industry, CRRC used its anti-competitive tactics to wipe out Australia's domestic rail manufacturing entirely in less than 9 years. Today, Australia's railcar manufacturing is completely controlled by CRRC.

CRRC also secured more than \$2.6 billion in U.S. taxpayer-supported transit contracts to provide passenger railcars for the cities of Boston, Chicago, Philadelphia, and Los Angeles (federal funding is included in three of those contracts). CRRC underbids its competitors by 22% on average but has submitted bids as much as 50% lower than "Buy-America" compliant companies with large manufacturing facilities in the United States.⁹ CRRC also attempted to win several other transit contracts in the U.S., including one from the Washington Metropolitan Area Transit Authority (WMATA). These bids, however, were unsuccessful due to a combination

⁴ 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.

⁵ @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.

⁶ U.S. Deputy Secretary of Defense David L. Norquist. [Letter to Senator Tom Cotton](#). June 24, 2020.

⁷ [DOD Releases List of People's Republic of China \(PRC\) Military Companies in Accordance With Section 1260H of the National Defense Authorization Act for Fiscal Year 2021](#), Oct. 5, 2022

⁸ [Executive Order 13959 of November 12, 2020](#)

⁹ Nigel Cory, Information Technology and Innovation Foundation, [Heading Off Track: The Impact of China's Mercantilist Policies on Global High-Speed Rail Innovation](#), April 2021.



of public and Congressional pressure, and the passage of the Transportation Infrastructure Vehicle Security Act (TIVSA).

CRRC has pivoted to the Canadian domestic market as well. In 2017, CRRC won a bid to supply Montreal's transit system with 44 double-decker coaches. That same year, CRRC announced a joint venture with ARS Canada Rolling Stock Inc. to build freight railcars in Moncton, New Brunswick. In 2019, ArcelorMittal purchased CRRC freight railcars for use in its mining operations. More recently, CRRC has also moved to the Mexican domestic market. In 2019, CRRC was awarded a \$1.5 billion contract to renovate Line 1 of the Mexico City metro. In 2020, the firm won a \$60 million contract for the Monterrey Metro. Currently, CRRC is one of four companies pre-qualified to bid on a Toronto transit contract worth \$1.7 billion.

China's Anticompetitive Domestic Rail Market

While CRRC has been making aggressive inroads globally, the Chinese government has continued implementing hostile, anticompetitive practices toward foreign firms in China. China controls one of the most restricted procurement markets in the world.¹⁰ For instance, foreign market access to China's rail markets has decreased dramatically in recent decades. The Association of the European Rail Supply Industry (UNIFE) found that the Chinese rail market was only 17 percent accessible for 2017–2019, compared with 63 percent for 2009–2011.¹¹

China also has a long, continuing pattern of forced technology transfer in the rail sector. For instance, in 2004, the Ministry of Railways announced three tenders for the construction of high-speed trains and each tender required foreign companies to collaborate with domestic partners and transfer key technologies to Chinese firms.¹² Forced technology transfers remain a lynchpin of China's broader rail and high-speed rail development strategy. For example, the country maintains an ongoing requirement for 100 percent Chinese-owned technology in many procurement contracts. Additionally, foreign firms must also engage with majority-Chinese-owned JVs to submit bids for contracts. These factors result in an effective mandate to transfer technology to Chinese firms.¹³ Despite announcements by China's State Council to the contrary, procurement discrimination in the rail market persists.¹⁴

¹⁰ European Commission, *Study on the competitiveness of the Rail Supply Industry*. November 2019

¹¹ UNIFE. *White Paper on levelling the playing field as regards foreign subsidies position*. September 2020.

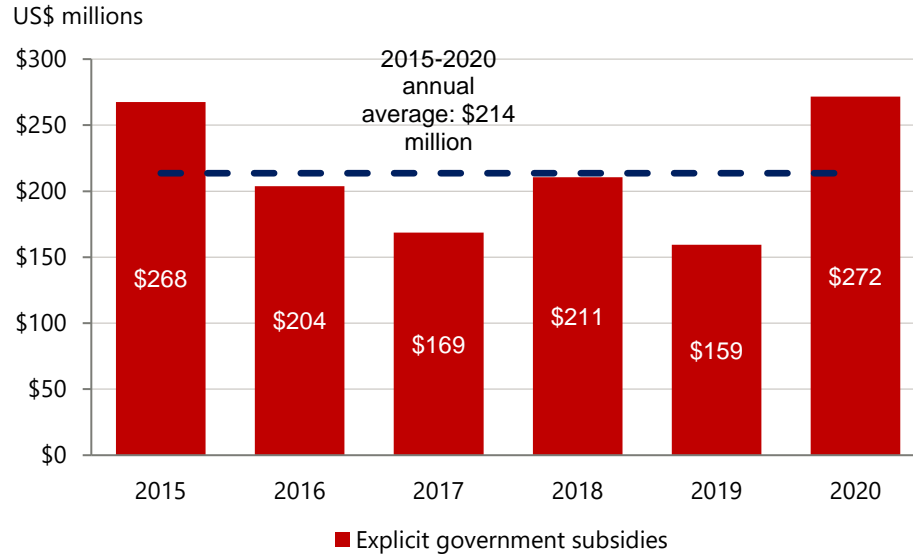
¹² China Daily, *China gears up for high-speed rail plan*. November 2005.

¹³ Nigel Cory, Information Technology and Innovation Foundation, *Heading Off Track: The Impact of China's Mercantilist Policies on Global High-Speed Rail Innovation*, April 2021.

¹⁴ Mingyan Xu, "China's State Council Issued Measures To Launch New Round Of High-Level Opening-Up." *Mondaq*, December 15, 2017



Fig. 1. CRRC explicit government subsidies, 2015-2020



Source: Bloomberg, CRRC annual reports, Oxford Economics

China continues to significantly subsidize its rail champion, CRRC. It is one of the most heavily subsidized companies in China. In fact, CRRC received explicit government subsidies of \$271 million in 2020 and almost \$1.3 billion from 2014 to 2020.¹⁵ Like other Chinese SOEs, CRRC is the recipient of larger implicit subsidies. In a recent report, the Center for Strategic and International Studies estimated that direct subsidies to Chinese firms represent up to 20% of total industrial spending.¹⁶ For instance, as one of the ten sectors China targets under the Made in China 2025 strategy, CRRC is also eligible to receive preferential subsidies and tax incentives for R&D.¹⁷ In addition, China reduced the income tax rate for high-tech firms like CRRC from 25% to 15%, and raised the rate of additional deductions of R&D expenses from 50% to 75%.¹⁸

¹⁵ Oxford Economics, *Off Track: The Role of China's CRRC in the Global Railcar Market*, July 2022.

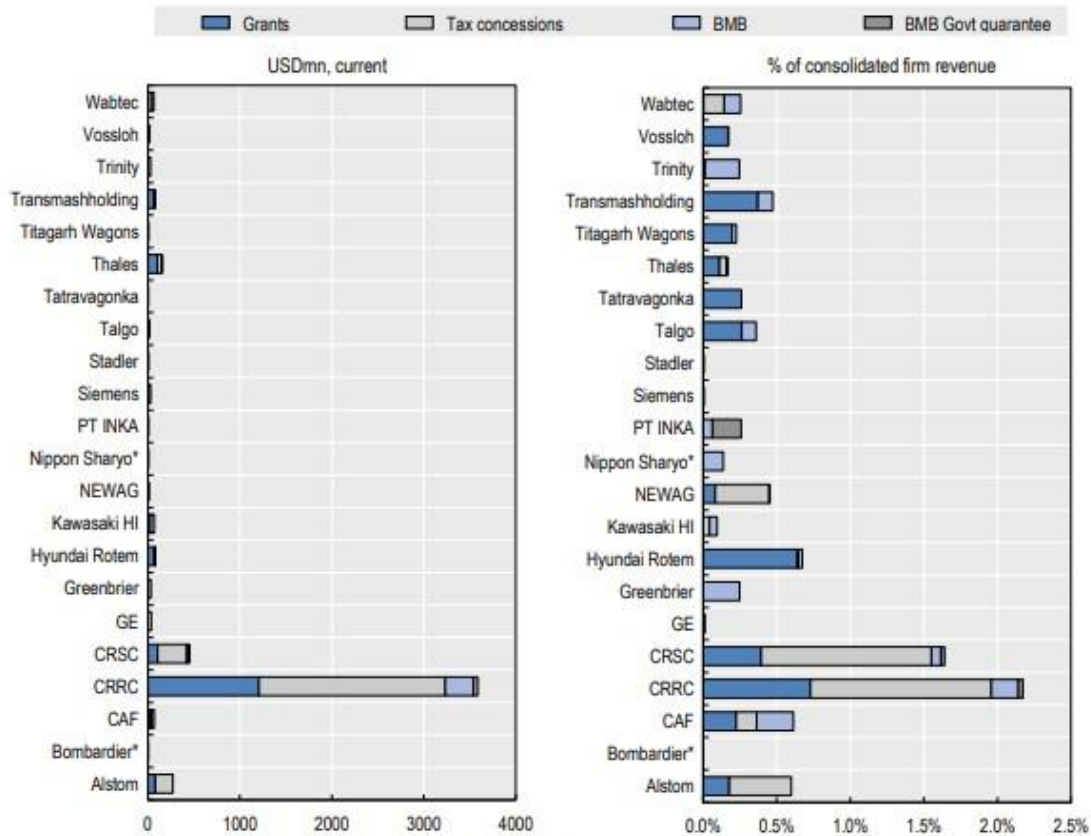
¹⁶ DiPippo et al. The Center for Strategic and International Studies (CSIS). *Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective*. May 2022

¹⁷ Emily de La Bruyère & Nathan Picarsic. Radarlock. *Beijing's Dash for Global Rolling Stock Dominance*. October 2019.

¹⁸ UNIFE, *A call for urgent action: The Fast Expansion of China's State-Owned Rail Suppliers*, November 2019.



Fig. 2. Total government support for sampled companies in the global rolling stock market, 2016 – 2020



Note: BMB = below-market borrowings. Data could not be located on the government grants obtained by firms marked "*". Data for GE only concern the period 2016-18 as the company exited the rail segment in 2019.
Source: OECD research.

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Also troubling is the fact that CRRC makes clear that its chief obligation is to the Chinese state, and it has been uncovered that company executives and employees have direct ties to the Chinese Communist Party and the People’s Liberation Army. According to a 2018 report, three of CRRC’s current board members previously held high-level positions at state-owned defense companies, the Aviation Industry Corporation of China (AVIC) and the China Shipbuilding Industry Corporation (CSIC). Moreover, two former CRRC board members held positions at AVIC and the China North Industries Group Corporation Limited (NORINCO).²⁰

¹⁹ OECD, *Measuring distortions in international markets: The rolling-stock value chain*, February 2023.

²⁰ Brigadier General John Adams, US Army (Retired), *National Security Vulnerabilities of the U.S. Freight Rail Infrastructure and Manufacturing Sector – Threats and Mitigation*, October 2018.



Conclusion

Since its accession to the WTO in 2001, China has not instituted meaningful change to its state-led, non-market economy. Instead, China increased state and communist party control of the economy while using direct and in-direct subsidies, forced technology transfers, and other anti-competitive practices to harm global competitiveness.

RSA commends the efforts of the United States Trade Representative and President Biden's continued vigilance toward the threat China poses to America's economy and manufacturing sector. We urge you and President Biden to ensure current trade agreements and tools are used to hold China accountable for its failure to follow through on commitments with its unfair and anti-competitive policies and practices. Together, we can build a better and stronger America and keep the freight rail market in the U.S. producing for decades to come.

Sincerely,

A handwritten signature in blue ink that reads "Erik Olson". The signature is fluid and cursive, with the first name "Erik" and last name "Olson" clearly distinguishable.

Erik Olson
Executive Director
Rail Security Alliance