Testimony of

Leo W. Gerard
International President
United Steelworkers of America
AFL-CIO CLC

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necessary in order to ride out the lean times. We are in a period of high demand globally for steel. As this Caucus knows, China's consumption of steel is far beyond any estimates that were made by any of the steel experts. The Union fears, however, that China's rate of rapid growth cannot be sustained over the long haul. If the Chinese growth rate declines by even 2% it will have a profound impact on the global economy. It is hard to imagine that China would close all its steel mills as their growth rate decreases. Instead China will attempt to keep these valuable capital investments operating by exporting their product to other countries. This would cause the destabilization of the global steel market. With so much steel chasing a finite global consumption rate, it would be inevitable that imports will eventually increase to United States. The Caucus should look carefully at the impact this would have on the domestic steel industry. Would we be able to survive another steel crisis?

China is a force that will need to be carefully watched by the United States. Our current trade deficit with China is $162 billion. Our overall trade deficit is $666.2 billion. China currently accounts for 24.3% of our trade deficit. It wasn't too many years ago the Steel Caucus was focused on the ever-increasing Japanese economic juggernaut. Today China has moved by Japan, which accounts for 11.3% of our trade deficit.

It is important that we force China to deal with is undervalued currency. The current situation gives China a 40% subsidy on products exported to the United States. But I think that it is more important for us to be deeply concerned about the direction that China is heading in terms of overall manufacturing. China plans to become the world's largest automobile manufacturer. By the year 2010 they plan to export $100 billion in automobile products. This year's target of 6 million vehicles would place them ahead of Germany and make them the third-largest producer in the world. By 2007, capacity for auto production will exceed demand by roughly 3 million cars a year. The average autoworker in China makes roughly $1.00 per hour in wages and benefits. It is not difficult to see that the future direction of Chinese autos lies beyond its borders.

China has also been very aggressive in the area of aerospace technology and capacity. They very skillfully played off Airbus and Boeing to acquire the necessary foundation to establish a domestic aircraft manufacturing capability. They have been successful to the point that they are producing aircraft for export and regional capacity.

In addition we've seen the recent purchase of IBM's personal computer business by China. I could go on and on about the penetration of China into industry after industry. But what is more alarming is the intelligence the Chinese are demonstrating in regard to the future of the world. The Chinese are spanning the globe in order to secure resources and energy supplies for future growth. In Canada they are seeking to purchase mineral resources, and they are exploring the possibility of a development venture in the vast reserves of oil sands that exist in the Canadian western provinces. They have firmed up oil contracts with Iran and are reaching out to South American countries like Brazil to secure iron ore supplies. These efforts not only make good business sense but also provide a future strategic advantage in a world where resources will

On the first point, when Americans face unusual catastrophes or damages -- whether it is a flood or crop failure or a failed savings and loan -- Congress has time and again recognized that cataclysmic losses can destroy an insurance system unless Congress wisely injects outside assistance. In short, there is ample precedent for Congress's looking for ways and means of unburdening the PBGC balance sheet to the extent that the agency's obligations result from extraordinary events in the steel and airline industries. By taking this important first step, Congress can avoid imposing an obligation of billions of dollars on PBGC premium payers, and by doing this Congress can maintain the size of the PBGC premium base.

Beyond this step, our pension law should be amended to introduce sensible improvements to the current rules for defined benefit pension plans, including those for funding. This is not the first time we have seen a deterioration in the financial position of the PBGC. In past situations, the Congress enacted serious but measured reforms that worked to improve overall funding and the net position of the PBGC, even moving the agency into surplus territory. With respect to the need for a long-term replacement rate of interest for the 30-year Treasury, the interim rule of today uses a four year moving average of corporate bond rates. This has worked relatively well, and this approach or one like it should be made a more permanent part of our pension funding law. We should protect existing credit balances but look at their treatment on a going forward basis. Congress should also strongly consider lifting the maximum allowable funding limit so that employers can use their years of good business performance to achieve up to 130% of full funding of pension promises. A mechanism should be perfected for the funding of shutdown pensions. The rules concerning disclosure of plan information should be strengthened as well.

In stark contrast to this approach, the Administration has recently announced that it favors radically re-structuring the defined benefit pension system in a manner that will, we believe, greatly shrink the entire system. In these few pages, it is difficult even to summarize the many ill-conceived elements of the Administration proposal. For example, it would classify plan sponsors by their bond ratings for purposes of determining both funding and PBGC premium responsibilities. That step alone would effectively dismantle the social insurance features that have been integral to the defined benefit pension system since 1974. And on the most sensitive topic for retirement vehicles –the rules for determining an employer's contribution obligations – the proposal would have Congress literally throw out every rule that has governed for the past 30 years. It would erect instead new rules for determining funding that will financially shock many plan sponsors, particularly those facing the greatest financial difficulty. For PBGC premiums, the Administration would impose a 57% increase on even the healthiest of companies. Financially troubled companies would face vastly increased premium costs. Together these funding and premium changes would pressure plan sponsors to look for the first available opportunity to leave the defined benefit system, and it hardly needs to be said that a shrinking system is a de-stabilized one.

As if the above were not bad enough, the Administration would, for the first time, unduly burden the ability of plan sponsors to increase pension benefits, impose in some cases automatic