Rethinking Supply Chains and Shipping to Reduce America’s Vulnerability to China

TRANSCRIPT

Discussion

- Hon. Peter DeFazio (D-OR, ret.), Former Chairman of the House Transportation and Infrastructure Committee
- Michael Roberts, Senior Fellow, Center for Defense Concepts and Technology

Disclaimer: This transcript is based off a recorded video conference and breaks in the stream may have resulted in mistranscriptions in the text.

A video of the event is available: https://youtu.be/Yc0f7_GN1Dc

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Michael Roberts:

Okay, let's get started. Thank you all for being here today. Joining us live here at the Hudson Institute. Thank you for joining online. It's a pleasure and a special thanks to CSPAN for being here with us today and for sharing this discussion with your viewers. A little background, this is the second in a series of conversations being organized by a new group called the American Maritime Security Initiative. It's a joint project of the Hudson Institute and the Navy League's Center for Maritime Strategy. The group is focused on the national and economic security challenges we face in dealing with China as it relates to the commercial maritime industry. Shipping is at the intersection of trade and transportation of national security and economic security. Our first conversation in this series was with Admiral Mark Busby, who focused his discussion on Sealift and national security, and you can find that discussion on the Hudson website.

The focus today is on shipping and economic security, and particularly the concern that China might have or obtain the power to weaponize, and that's an overused term these days, but I'll use it, to weaponize control over the international maritime supply chains. Most experts would say that if that were to happen, if China were to gain that power and use it, the potential harm to the American and global economy could be catastrophic. So we are delighted to have with us today Chairman Peter DeFazio, who represented Oregon's fourth congressional district, a purple district along the coast. He began congressional service in 1987 and retired just 10 weeks ago at the beginning of the current Congress. He served on the House Transportation and Infrastructure Committee for his entire tenure and was chairman of the committee, which is the largest committee in Congress, for the last four years. Many accomplishments over 36 years. Mr. Chairman, we don't have the time to go into many of them, but I can say from personal experience that I've always appreciated your deep understanding of the maritime industry among many other subjects. So thank you very much for your service in Congress and your commitment to doing the job the right way, and welcome.

Hon. Peter DeFazio:

Thanks, Mike. Appreciate it. Thanks for the opportunity.

Michael Roberts:

How is retirement so far?

Hon. Peter DeFazio:

It's a work in progress.

Michael Roberts:

We're glad to have you with us. We're going to get it right into the conversation and the door we're going to use to get into it is on trade policy. And this is going to sound a little bit like a confrontational question, but I'll ask it anyway. You told me earlier that you opposed every free trade agreement that came for Congress in your 36 years. You might have found one or two that were okay, but offered all of them, and that included most favored nation treatment for China and China's accession then into the WTO in 2001. Can you tell us why? Tell us what your thought process was.
Hon. Peter DeFazio:

Well, I studied economics in college and graduate school, and to me, the theory of comparative advantage didn't make much sense in the 20th century or now in the 21st century. And most of our trade has been based on that. And secondly, a lot of our trade was colored by our coming out of World War II where we had the Marshall Plan. We were the only industrial power in the world. We controlled the seas. And it was like, okay, well, we'll allow a lot of concessions to other nations in order to move things along. But it really came to a point with me with NAFTA. Clinton and Gore selling it, oh 500, 600,000 jobs in the US. And then I looked at Mexico's total GDP, if they spent every penny on American goods, was less than the state of New Jersey. And I said, how is that going to create five or 600,000 jobs here? It isn't.

It was all about going across the border to access cheaper labor, lack of environmental standards. And then Clinton was having trouble passing it and finally, since labor and environmental standards weren't in it, they adopted non-binding side agreements to get some Democrats to vote for it and it passed, but not by a huge margin. So in the EU, they did things differently. When Portugal wanted to come in, they said, "Wait a minute, wait a minute. Your low wage, your court system, your labor protections, your environment. You've got to bring all those things up before you can join." And they did. And the EU made them. It took quite a period of time to exceed. We just instantly said, okay, here's a country that there's really not much rule of law, no judicial system, no labor protections, no environmental enforcement, and we're going to enter into a borderless agreement with them regarding the production of goods.

It was just a way to outsource. And then when China came along, with Clinton, we had just come out of the Soviet Union had collapsed. And so it was this 10 years before. So it was this rosy period of, okay, democracy and capitalism is ascendant and we will bring China along. We'll bring them into this by allowing them to have MFN status, permanent MFN status, and then exceed them to the WTO and they'll follow the rules. Well, I never believed they'd follow the rules and of course they haven't. And at least before when we had MFN on a limited basis, most favor nation status, we could set the time period over which we would renew it and say, "Okay, well if in two years you don't deal with these abuses, we're not going to renew your status." But we made it permanent. And we made it permanent because the US companies who wanted to move to China, which had even cheaper labor, wanted assurances that their investments would be protected indefinitely. So we made it permanent, and that was a huge mistake.

Michael Roberts:

So granting full trading rights to China was a mistake.

Hon. Peter DeFazio:

Definitely by going to what we now call normal normal trade relations.

Michael Roberts:

Permanently. Right.

Hon. Peter DeFazio:
Yeah. Used to call MFN. And I think there’s a way to deal with that actually. And I would reconsider moving them either back to an annualized or multi-year most favored nation status or even revoking their PNTR. And we've already imposed section 301 tariffs on them, and we've found that those tariffs did not cause a huge run open price here because they manipulate their currency down and a lot of their industries are subsidized. So the added tariffs that would come out of moving them from schedule one to schedule two by saying, no, you don't have that until you clean your act up, would not be a huge inflationary increase here in the United States by any counts for consumers.

Michael Roberts:

You mentioned you didn't trust that China would do what they said and the assumptions that were offered in selling the China free trade deals were that China would democratize, that economic freedom and prosperity would cause China's Communist party to share power. And certainly we assume that China wouldn't turn on America the way it has in the last few years. Those don't seem like very good assumptions at this point.

Hon. Peter DeFazio:

No, those assumptions have all been proven to have been mistakes at the time. And again, like I say, I think it was just sort of the glow of ... It was like the glow after World War II when we allowed discriminatory trade policies to be put in place against the United States. And I mentioned one to you earlier that most people don't know about. Most of our competitor nations have a value added tax. That's where they raise their money. They are all allowed under the general agreement trade and tariffs now under the WTO to rebate that entire value added tax to their manufacturer when they export a good. But in the 1950s, we allowed GAT to say you can't do that with income taxes. Income taxes cannot be rebated. That violates the general agreement and trade in tariffs. So we put ourselves at an extraordinary disadvantage as long as we're taxing corporations. And then we've been trying to deal with that. Well, we're going to lower the corporate tax rate. Well, of course then that lowers federal revenues. So we've created this whole problem by allowing that to happen. And the same thing when China exceeded later, we were in the glow of the dissolution of the Soviet Union. Oh yeah, they will move in the direction of capitalism and democracy, but it didn't work.

Michael Roberts:

That's caused questioning in a lot of different areas of our relationship. The focus today is on the shipping, and you led the subcommittee on Coast Guard and Maritime and Merchant Marine, which has jurisdiction over the regulation of ocean shipping and the Merchant Marine, except as it relates to national security, which is an interesting caveat that we don't necessarily need to get into because it seems to me that ocean shipping is critical to national security as we've discussed. But in any event, the supply chain crisis of the last couple of years fell squarely within the jurisdiction of your committee. And eventually your committee approved and the House passed and the Senate passed legislation, the Ocean Shipping Reform Act, to respond to that. What are your thoughts about the supply chain crisis and that legislation?

Hon. Peter DeFazio:

Well, it was an immediate crisis. We had 100 ships waiting to get into LA Long Beach. The containers went from a few thousand bucks or 2000 bucks to $20,000 a container. And the
shipping companies didn't want to wait to load agricultural goods or US goods and go back. They were happy to just take empty containers and go back. There were all sorts of abuses that were being put upon the American industry. We had basically gone through a series of deregulations over time that relate to shipping. And let me just go way back. 1882, Secretary of the Navy, William Coleman. "Any nation that relies on another nation for its supply of ships loses in peace time its commercial independence and in time of war places its very existence at the mercy of the powers which control the ocean." That was 1882. And then in 1920, we adopted the Merchant Marine Act, the Jones Act, which we've talked about, and I think we need to talk about a little bit more. Lead up to World War II in that, we had a US Maritime Commission built 6,000 ships. And then at the end of World War II, we started to pull back.

The ships were becoming obsolescent. We sold a lot of them overseas. They went under foreign flags. But we were giving subsidies to US flags so they wouldn't have to compete with really cheap foreign labor and the lack of other issues when they're under flags of convenience. And then Reagan took away the subsidies and basically most of the rest of the US fleet got sold overseas. And then finally, John McCain in 1997 passed the Ocean Shipping Reform Act. And here's the premise of that. This is to achieve a competitive and efficient ocean transportation system, a policy that would put greater reliance on the marketplace. Well, we've done that and now we have three conglomerates that control 95% of the US-Asia trade. So the marketplace has created these conglomerates. They had inordinate power. They were doing very abusive things. They have demurrage charges. One company controls the truck beds to take the containers off the port. They said, you can only use ours. But then they had containers sitting on them and they were charging people demurrage because their containers were sitting on them. They were all sorts of abuses. So we were really focused on the economic crisis. It wasn't a time when we could really focus on the longer term, how do we rebuild American maritime. We wanted to deal with the impacts of inflation and supply chain at that point in time. So that's how the bill got shaped. In a crisis.

Michael Roberts:

In a crisis. We've pointed out in some of our work, and we've discussed the fact that unlike air transportation and telecommunications and other critical network industries, there are no American shipping companies in the top 25 globally. There are just 85 US flagged ships trading internationally out of a global fleet of something like 50,000. These are the companies and the ships that transport just about everything. Our commodities, our manufactured goods, our intermediate goods, which is parts for everything else. And because there are no large American international shipping companies, so few American ships, we have essentially no control over that maritime supply chain, that logistics supply chain carrying all this stuff. We're just customers in that deal. And so our consumer economy depends entirely on the international ... I'm pontificating here. Please excuse me, but the shipping equivalent of Uber. And there are almost no American cars and American drivers or companies involved in this business. Was this discussed much during your work on the Ocean Shipping Reform Act?

Hon. Peter DeFazio:

No. Again, as I told you, this wasn't where we were dealing with the longer term problems. I mean, I had dealt with that ... The Jones Act is the last vestige of maintaining a US ship building industry, but it has to be port to port in the US. And that has been under constant attack and was under constant attack when I was chairman of the committee and before I was chairman of the committee. Because there are groups who claim, oh, this just drives up costs for American consumers. Puerto Rico has made a run on it a number of times, even though we have a GAO
report that says actually Puerto Rico is advantaged by having a dedicated fleet of Jones Act vessels, modern vessels, because they need regular service from the US for a whole lot of things. And if they didn't have that, they would be at the end of a very long international shipping chain controlled by three conglomerates and they are a minuscule market. They would not be particularly interested in providing things on a daily, timely, weekly basis to Puerto Rico.

But still, there was just a recent ... Even under the Biden administration after the last hurricane, there was this, oh, they need diesel, they need diesel. Actually, I talked to the Puerto Rico representative and she said there's no diesel shortage. And so the administration under being pushed by a small group of members of Congress who were claiming that this was a problem waived the Jones Act for a ship that was already in transit loaded with crude from the United States, and it was a foreign flagged ship and they were allowed to divert to Puerto Rico. And the total wages on that ship for the crew are one merchant mariner for the US.

Michael Roberts:

The equivalent of one merchant mariner.

Hon. Peter DeFazio:

But they're always pushing and pushing and pushing. So generally in my time in Congress, I've been on the defense, but I think people are now starting to wake up and it's time to go on the offense and begin to have much more serious conversations about what's going to happen. When we went to war in the Persian Gulf, we had to use foreign flagged ships. Because we've got the ready reserve fleet, which is pretty decrepit. That's the first place to start. Rebuild, revitalize, and modernize. And we're doing a little tiny bit of that. And we're finally get one of the Merchant Marine Academies a new ship. They had a 60 year old ship. But we need to really focus on these things. We can build these ships here and we can do a really good job. Yes, they are going to be more expensive, but you get all of the spillover effects into our economy when you build those things here as opposed to buy them from overseas, you don't get any of those added effects. You don't create the jobs and the other economic activity, the suppliers and all those things that go into these ships.

One other example, if I might. And I've thought this one out because the Jones Act stuff is very important. The wind industry. They're getting massive subsidies. We're going to have all sorts of wind inserted in the ocean around the United States. And right now the only insertion ships are foreign, but Dominion Resources is building one. And other US manufacturers, other companies would build them if they knew there was going to be a market and they could compete. These are all within our territorial waters. They should all fall under the Jones Act. And I actually went three or four years ago to the wind industry when we were doing the Coast Guard bill and I said, "Look, just let me do this. We'll have a five year window and if in five years ..." Because basically they contract out about five years for this wind insertion. "There were qualified US manufacturers chips available, and crews, the Jones Act is going to apply." And they initially agreed, but then the American Petroleum Institute got ahold of and said, "No, you can't do that because we got to waiver many, many years ago and we're doing all of our stuff in the Gulf with foreign flags and foreign crews and it's way cheaper." So that's the question. Do we value creating jobs, economic security, or are we just going to chase the cheapest service?

Michael Roberts:
And in the context of China, I think that's a very relevant question here. And I completely are on board with what you've said about domestic shipping trades. But you talk about the international shipping industry and the really small American involvement in that system. In a sense, the bigger concern is maybe what you alluded to in your quote from 1882, which is that if the country doesn't control its international shipping industry, it's in trouble. And so the trouble here is not just that we don't control it. I think the bigger concern is the growing dominance of China and China's involvement throughout the system. And that reflects the stated objective of President Xi Jinping going back 10 years ago in one of his first speeches to the Politburo, which is we're going to make China a say a global powerhouse when it comes to the maritime industry, the full range of industries, because every country in history that does that grows and succeeds and does better. And every country that backs away from the maritime industry and the seas declines. And so that's the path-

Hon. Peter DeFazio:

The Belt and Road Initiative. One of our assumptions has been we have all these foreign flagged ships, that some of them are our allies and we can depend upon them to carry our goods or carry our troops when in a time of conflict. But the Chinese are spotting themselves all around the world, 100 ports now, and they're getting influence in those countries which control the foreign flags. And it's less and less likely that we're going to easily be able to call on many of these countries in a time of crisis or these foreign flags and say, "Hey, we've got to move our troops. Hey, we need to move our agricultural goods overseas. We can't get shipping." The Chinese are being very, very deliberate about this. And some of them, they're putting in very strategic places, right by the Suez Canal. Djibouti-

Michael Roberts:

Djibouti.

Hon. Peter DeFazio:

Djibouti. Yeah. Sorry. Djibouti. And now Haifa. They've got a contractor around the port of Haifa where the sixth fleet is domiciled, and now they're going to know the movement of everything in and out of that harbor. And we didn't even get into cranes yet. We might want to go there.

Michael Roberts:

Yeah. Okay. Well, I've got a few data points I want to run by you. Stop me anytime. But China state owned shipping company, COSCO Shipping, is gunning to become the top container carrier in the world. It's one of the three conglomerates you mentioned. Again, no American company in the top 25. China has half the global order book for ship construction compared to less than 1% for US shipyards. 96% of shipping containers are made in China. Around 80% of shipping cranes, gantry cranes, ship to shore cranes are made in China. And the Pentagon is concerned these cranes can be used to spy on our supply chains. Another US government agency is concerned that all of this data is being combined with other shipping data and giving the Chinese the ability to track just about any container cargo shipments anywhere in the world, including shipments of US military cargo. You mentioned Beijing having a foothold in 100 ports in 63 countries and a growing share of the marine finance and insurance business, which of course is one of the hooks that we relied on or tried to rely on to impose and enforce sanctions on Russian oil. So how should we react to all of this?
Hon. Peter DeFazio:

Well, I already suggested earlier that we may want to ... And there is legislation pending in Congress introduced by Republicans and Democrats to reconsider permanent normal trade relations with China. And the question is, what do you move to? Do you move back to a conditions and time limited approval subject to them changing their behavior? Or do you take the even bigger step of pulling the whole thing out and saying, look, there's so much abuse going on here that we're going to move you to the same schedule of tariffs that we have for Russia, which is generally up from an average of 3% to an average of 34%, except with the renminbi going down and all that it isn't going to become anywhere near 34%. And I think I mentioned earlier when there was a lot of press about there's a Buick made in China, and when Section 301 was applied, it's 24% tariff. They said, "Oh my God, the prices are going to go up by $8,000 here in the United States." Well, no, the renminbi went down and the Chinese subsidized the industry and the price of the Buick imported into US actually went down despite the 24% tariff. So it seems like we're going to need a really, really substantial club to deal with this, and we can't let it go on much longer. And at that point, we will be totally captive.

Michael Roberts:

Well, just to take you to recent action, the Microchip Act, the US market share of microchip manufacturing went from 25 or whatever it went from down to roughly 10 or 12%. I mean, it was getting lower and lower. And we're relying on Taiwan, we're relying on South Korea and increasingly on China for certain chips. And the Congress decided that's not a good place to be, but we had at least 10% of the market share there. Thinking about that in terms of the maritime industry, the American maritime industry, yes, we have to get better relations with China, a firmer footing for the economic and the trade side of things. But in terms of starting to regain some footing for the American maritime industry, we're below 1% now. Is there a path that we should be considering that would get us toward a more meaningful market share?

Hon. Peter DeFazio:

Well, I think there is some minimal number of US flagged international carriers that we need to protect ourselves. And like I say, we used to ... Well, we built a lot of the bottoms during World War II. Then we used to give them a subsidy to deal with the fact that they're competing against this incredibly inexpensive foreign labor and the other things with flags of convenience. So I think we need to have, and I think that this may be a conversation that's armed services, homeland more than the Transportation Infrastructure Committee to talk about what is the minimal merchant fleet we need. Let's just assume that what's worked in the past like with the Persian War, that we can go to some of these foreign flags and say, "Hey, we need these ships," and they provided them. But let's maybe make the assumption with the Chinese growing influence in many of these countries with the foreign flags that if a conflict's coming, they might just influence those countries not to cooperate with us. I think we should be making that assumption and talk about what's our minimum? What do we need? I started with the ready reserve fleet. That's an easy thing. That is there specifically for the military. RORO ships. We need to increase the supply there and we need to update those ships. That's a basic starting point. And then we have to emphasize training mariners in this country too.

Michael Roberts:
Yeah. We have a big workforce challenge there. Also, I think Admiral Busby talked about the Sealift need, which is now we have 85 ships in international trade. He put the number at 250 as being a reasonable number to really cover what a realistic Sealift requirement would be. In light of what you mentioned in terms of foreign flag, balking, ships not responding and attrition, these would be operating in contested waters and then without us total dominance of the airspace so we would lose ships. So we need a lot more ships and we need some ships for what we're talking about here, which is the economic side of things.

Hon. Peter DeFazio:

And we need to question the basic concept of flags of convenience. I mean, Mongolia now is getting a lot of revenue through flags of convenience. And I did this-

Michael Roberts:

I hadn't realized that one.

Hon. Peter DeFazio:

Oh yeah. No, it's a new thing for them, but they don't have too much shipping. But a number of years ago when I was pushing hard on this, particularly with the cruise lines who are massive amounts of American passengers, all foreign flagged, and I said, "So you're flagged in Liberia." And Liberia happens to be ... The registry is somewhere in, I think it's Herndon, with a bunch of Coast Guard flag officers are the registry for Liberia. But it's really great because it's really cheap. You avoid taxes. Your registration fee is really low. You're not held to our standards in terms of crew and equipment and all those sorts of things. And so I said, "So what happens the next time someone hijacks a cruise liner on the high seas? You're going to call the Librarian Navy to come and assist? There is none."

This is an absurdity, what was allowed to happen here. And it almost happened in aviation. They started to try and do it in aviation. Something called Norwegian Air relocated, based itself in Ireland with weak labor laws. And they were going to fly planes to the US crewed by Malaysian pilots and Singaporean flight attendants under contract. And said that they were going to try and create flags of convenience. Luckily they collapsed during the pandemic. But this is a model we do not want to replicate anywhere else. It's been a failure for us. I mean, imagine if we lost the US heavy lift fleet. We have what's called the civilian reserve air fleet, and we subsidize the wide body planes to a certain extent so that we can call on them to carry our troops overseas because we don't have enough airlift capacity in the Air Force to do that. So I mean, these are all just big red flags that are being waived.

Michael Roberts:

Yeah. Your point about the aviation industry and the differences there is a really important point. The aviation industry is structured totally different than the maritime industry. The maritime industry, if you're willing and able to meet certain safety standards, you're eligible to operate in international trade. You can bring-

Hon. Peter DeFazio:
Yeah, but there's questions whether they really meet those standards a lot of times. You know that.

Michael Roberts:

There's sure that. I'm sure that's true. But in aviation, there's a controlled system. It's competitive. It's a very, very competitive system, but it's also controlled. So if America gets landing rights in a country or vice versa, it's an American flag airplane that gets those rights and not a flag of convenience airplane. And that's just not the way the international shipping system works.

Hon. Peter DeFazio:

But back to the flags of convenience. I fought and we got involved in a scandal in the Philippines about 10 or 12 years ago where anybody could buy papers at any level. You want your captain's papers? There you go. You're a captain now. And they were running this marketplace. It finally got clamped down on. But you're saying flag's of convenience that ... Does Mongolia send out people to inspect their ships and their crews and assure that ... We can do a lot more port inspections and we can do a lot more enforcement on this side and say, if you're coming in under one of these suspect flags of convenience from a country like Liberia that hardly exists or others, we want to see the credential of these mariners. We're going to inspect the condition of the ship. And we've been doing very little of that. That's something else we could do to fight the flags of convenience plague.

Michael Roberts:

You mentioned American allies. It seems to me that when you look at the total system, getting back to China here and the concerns we have around the degree to which they have control over so many segments of the international shipping supply chain, from ship building to crane construction to information to operating the ships and crewing them and so on. That to me is a major concern from a economic security standpoint. They could decide if they have the power, if they acquire the power to exert control over that supply chain. Can we trust that they wouldn't use it to our disadvantage at some point in the future?

Hon. Peter DeFazio:

Well, yeah, over Taiwan for instance. No, we certainly can't. And they say, "Well, don't worry, it would hurt the Chinese a lot because economically they're exports." But that is a country that is very rigidly controlled and-

Michael Roberts:

Just coming out of COVID lock downs.

Hon. Peter DeFazio:

Yeah. Well, they have things like they facial recognition. They monitor you if you cross the street when you're not supposed to and you add up points and after a certain level you lose rights or your kids lose rights to go to school. I mean the level of control is extraordinary. In the US, if suddenly all these goods disappeared, then there would be havoc.
Michael Roberts:

There would be.

Hon. Peter DeFazio:

So I don't believe that they wouldn't use that tool as they get more and more and more dominance.

Michael Roberts:

And it seems to me that it's something that could escalate. They could start at a certain level imposing economic pain and ratchet it up depending on how things go. And ultimately I think if they completely shut down the system, it'd be catastrophic for everyone. But again, as you say, they can absorb that. Their political system is designed to absorb that, unfortunately. And hopefully it would never come to that. But that to me is the concern about just accepting that Chinese control over so much power there.

Hon. Peter DeFazio:

Well, again, back to my premise on conditioning MFN or PNTR. People say, "Oh, wait a minute. We don't ..." Okay, well we'll say it's going to happen two years from now or three years from now. Meanwhile, you develop other sources. I had this fight. There was a Chinese rail company totally owned by the People's Revolutionary Army. And they were sending in totally subsidized light rail cars and trying to take over the whole US market. They also were going into heavy rail and trying to take over heavy rail. They put the Australian heavy rail people out of business in short order. And I finally was able to get an amendment on a bill to say that they could have no further contracts in the United States because basically it was a state owned company that was not fairly competing. And by the way, the stuff wasn't very good and we also had security concerns about them tracking people and things and all that.

But they're very clever and they had based their two manufacturers, one was buses, one was trains, in the districts of very powerful members of Congress who fought because they had 400 jobs. There could be thousands of jobs making these things, but they had 400 jobs taking off the shrink wrap and doing a little bit of assembly. And so I couldn't end their existing contracts. And now they're going around to transit districts. Their transit districts that they already have are going around and saying to other transit districts, "We'll subcontract with you and you can get this cheap Chinese stuff that's totally subsidized." So this is going to be a very difficult struggle.

Michael Roberts:

Yeah. I think when we talk about the maritime supply chain piece of this, it's important that supply chain and logistics are broad terms that mean lots of different things depending on who you're talking to and what the issues are. And the supply chain and logistics issues we're talking about here are not about a specific type of commodity or product. It's not microchips or refined rare earths or high Mars rockets. It's the transportation system that brings all of this stuff to us. Our concern is that is outside of our control and in then the control is going-

Hon. Peter DeFazio:
And what little we're exporting back in particular. Like I say, during the crisis, the ag people were hit really hard. And again, just to China. When they were going for MFN, they allowed in a big shipload of wheat. And I had the wheat farmers, they weren't my district, but eastern Oregon, big wheat country. And they came in and said, "Look, this is going to be a huge new market for us. We've never been able to get in there before." But at the same time, I had received a translated radio broadcast internally in China by a trade minister saying, "Don't worry. We are not going to become dependent upon the United States for our food supply." And after that one ship went in and they got MFN, the next year, the same ranchers came in to see me and they all sat there kind of hang dog. And they said, "Well, you going to say it?" And I said, "Say what?" "You going to say I told you?" And I said, "No, I'm not going to say that." I said, "We've got to fix this." Because they started using phytosanitary barriers. They do this in so many ways saying, "Oh no, your wheat isn't clean enough for us, so you can't bring it in anymore." So this is a real dilemma.

Michael Roberts:

Well I appreciate the conversation. We've got some time for questions. I think it's a really important conversation and discussion. I don't think that there are easy answers. This has been going on for such a long time and turning the corner and getting the ship pointed in the right direction is going to take a lot of work and a lot of patience. But I really appreciate your leadership on this through the years and just open it up to anything you'd like to add.

Hon. Peter DeFazio:

I'd love to take some questions. It's better with questions.

Michael Roberts:

Okay, great.

Hon. Peter DeFazio:

Come on.

Michael Roberts:

Let me open it up to questions from the audience. In the back.

Speaker 3:

I was hoping you could speak a little bit about cargo preference. There's been an effort by our own government and even a movement within Congress to try and use those same flags of convenience for taxpayer purchased cargo, particularly from USAID and some of these other food aid agencies. Could you talk a little bit about that and what do you think would get these agencies and even some folks in congress to change their tune on cargo preference?

Hon. Peter DeFazio:

Yes. We've had to fight that because the NGOs, non-governmental organizations, get involved and say, "Hey, wait a minute, wait a minute. We could supply more at a lower price if we use
these foreign flagged ships.” And that’s been an ongoing off and on struggle over the last, I don’t know, decade or so. And cargo preference definitely needs to be tightened up.

Michael Roberts:


Speaker 4:

I’ll do one. I’m just thinking as we’re talking about all of this.

Speaker 5:

Can you wait for a mic please?

Hon. Peter DeFazio:

Oh, microphone. He’s going to give you a microphone.

Speaker 4:

Just thinking as we’re talking on all of this. As you said, we have become very, very dependent on China. We can go into any store within a mile of here and find a hundred million things made in China. And so obviously we’re, as consumers, very dependent on these things now. So not really trying to be confrontational, just how do you balance that? Because obviously there are national security concerns. There’s also concerns to consumers. So which do we take more seriously?

Michael Roberts:

Good question. Very good question.

Hon. Peter DeFazio:

Well, the question is can we mitigate it and balance it and deal with it. I think the national security has to ultimately trump, but you have to figure out how we’re going to get there because of the dependence. Now, people are beginning to reshore under policies that have been adopted by Biden and the CHIPS Act is going to cause reshoring with incentives. Others have just decided to reshore because they experienced that meltdown during COVID and they say, well, this could happen again. So they’re reshoring to some extent. But we also have to be looking at other areas of the world who are not hostile to the United States as potential suppliers in the future. And that’s going to take time. It’s going to take time here to get back up in chip manufacturing and other areas. And I had this fight numerous times over the percent of a transit vehicle that had to be manufactured in the US and every time we would raise it, all of the transit, people would say, “Oh my God, we’ve been told that there will be no more buses, there’ll be no more ...” And we’ve managed to overcome it and find substitutes.

But we didn’t say, “Okay, today it’s going up to 75%.” It was over three years, five years, we’re going to move up to 75%. And as you move up, people move into those niches and say, “Okay,
we can supply that, we can supply this, we can supply that." But right now, if they don't see any potential for a market, they're not going to make the investment. And it's just like what happened with protective equipment. If that wasn't a wake up call ... And it turned out during the pandemic, I found out that a guy in Texas, I'd read an article in the Wall Street Journal, had bought old 3M plant and he had six lines he could make masks, N95s, and only one was running.

And so then I went to Homeland Security and I said, "Hey, give this guy a contract, but you've got to give him a contract that says we'll buy this much over this period of time and if we don't use it all, we're going to put in a strategic stockpile because we might need it again. But you are guaranteed this purchase." And they kept going around and around. They finally did a contract with them for dental offices, but not as big. And so that's part of the key here is assuring through ... And some people don't want to talk about it, but through industrial policy that these markets are going to be there.

Michael Roberts:

Yeah. Yep. Very good question and I appreciate your response. The other thing I would add is that when you look at some of the things we're talking about on the maritime side, again, the market share that we see, for example, in container construction, 96% in China, 80% on ship to short cranes, we wouldn't tolerate that in this country under the antitrust laws. We wouldn't tolerate that kind of concentration. And yet because they're outside the United States in different corporate entities, I'm sure, we seem to be paralyzed to do anything about that. If everybody played by the same rules and so on that there might not be the kinds of issues we're dealing with now, but they don't. That's my impression.

Hon. Peter DeFazio:

Well, state-owned enterprises should, we can and should be tariffing. We do that under existing law. More regularly, state-owned enterprises bringing things into this country. I mean that's the People's Republic of China government running those companies at a loss for the most part until they get enough market share and they take over and no one else is making it and then they can jack the price up. And that's ultimately going to happen with some of these things. Yeah. I mean, okay, it's a bargain now, but what happens when they've got the total market and you're totally dependent upon it.

Michael Roberts:

Good. Question back there.

Speaker 6:

Oh, thank you. Thank you for this wonderful conversation and I'm just interested to learn more about the competition between US and China in third countries like South America and Africa. Can you talk more on that? Thank you. Did you hear my question? Is this working?

Michael Roberts:

The work that China is doing with other countries in South America and so on.

Speaker 6:
Yes. The competition between China and America.

Michael Roberts:

And certainly an example of that would be brokering the deal between Iran and Saudi Arabia would be the current event element there.

Hon. Peter DeFazio:

Well, China's doing a lot. I mean they're building infrastructure around the world. They generally bring in most of the workers and these things are not free and a number of them have either deteriorated, not worked out, but these countries are then on the hook to China for the loans they took from the Chinese. And this is a pretty regular occurrence. It's happened numerous times in Africa and elsewhere where the project ultimately failed, but they still have to pay the bill. For the most part through Belt and Road, it's oriented toward economics. But now with ports, as they control more and more ports, Djibouti is the only one that is overtly used regularly by the Chinese Navy, but they are getting a foothold in ports all around the world where their ultimate plan is we are going to be able to use those in times of crisis and we can then spread our naval sea power around the world. So it's an interesting diplomatic, economic struggle that's going on and the US has pulled back a lot on those sorts of things overseas and we've left the gap and the Chinese are filling that gap and we need to rethink a lot of what we're doing.

Michael Roberts:

Question?

Speaker 7:

Hi. Thanks for the discussion. I wanted to get your thoughts on the impact of friendshoring and just big US manufacturers. Apple of course is a big recent example. Moving production out of China into other countries. How much do you think that'll hurt China's shipping dominance or have a knock on effect on the ways that they can dominate if a lot of their basic manufacturing moves out?

Hon. Peter DeFazio:

Well, it depends on the locale to some extent. As I think we pointed out earlier, 95% of the Asian trade is controlled by three conglomerates and one of those is totally dominated by the Chinese, another partially and one not so much. But it depends upon basically the location. If they grow more and more dominant in shipping, where are you going to go, except maybe Europe with Maersk or wherever Maersk serves. And of course a lot of what you're talking about, the electronics, a lot of that comes by air. They're not putting that stuff in containers on ships. So that hasn't been as much of a problem except of course during COVID when flights were grounded and all that. So that is something that at this point in time where they can't dominate and FedEx, UPS can pick the stuff up and bring it here to the United States for a lot of those consumer goods you're talking about. So in that case, it will work.

When you get to bigger, heavier items that have to go by sea, it's going to be more difficult. For instance, if someone was to begin to really compete with the Chinese on the ship to shore cranes, huge. And so they all have to go on. In fact, they have to go on special ships and the
Chinese have built the special ships. I don't know if anybody else has built those kind of special ships to carry those things whole.

**Michael Roberts:**

We have a little bit of experience with that. But yeah, that's actually a proposal that the ports authorities are supporting at this point to start to reshore some of the crane construction to try and reduce that. I'm not sure whether reshoring or nearshoring or friendshoring is going to ... Well, the more it happens, and the more the threat that it continues to happen, the more likely it is that the Chinese will play better. They'll play by the rules more. So there's less vulnerability to our supply chains when that happens, I think. And so we've talked about Central America, based on my experience, the benefit of going there, you get the low lower labor rate onshoring as best of all if they can make that work. But ultimately it's about diversifying supply chain sourcing decisions. And that's a really important part of all of this I think, but I think the part that gets overlooked is the maritime logistics supply, the shipping part of it. Because if the shipping is overly controlled by China, we are vulnerable to them in my opinion and we need to try and mitigate that vulnerability.

**Hon. Peter DeFazio:**

There's a gentleman in the middle there. Oh, okay. Then that guy would be next. Okay.

**Speaker 8:**

Yes. Thank you so much for the discussion. I just want both of your thoughts on IPEF. IPEF is basically building this supply chain resilience, especially for Southeast Asia. And you mentioned about the Philippines and most of Southeast Asian countries still have problems with standards. And on the US side there's no talks on tariffs. There are a lot of markets potentials in Southeast Asia and they want to get into the US market, but there's no discussion much on tariffs. So what are the alternatives that the United States can offer to Southeast Asia? And I know this is a very difficult question to tackle because I'm originally from Thailand, and so we have not have FTAs directly from the US and Thailand. So if there's any efforts, any thoughts on that so far in Congress? Thank you.

**Hon. Peter DeFazio:**

Well, you're a little beyond my pretty good area of expertise on on that. I mean China in the WTO? I mean is Thailand?

**Speaker 8:**

Thailand?

**Hon. Peter DeFazio:**

Yeah. Yeah. So you're in the WTO, so you're getting schedule one tariffs, which are the lowest tariffs. They're virtually insignificant. I mean, our average is 3.4%, which is lower than any other trading nation in the world under the schedule we have submitted to the WTO, under schedule one. So Thailand is already getting the same access as China. Of course, that's probably a problem that they're getting the same access as China because the Chinese are probably
subsidizing more than the Thai government. I’m not intimately familiar with the comparison between two systems, but I think that Thailand does not have large state owned enterprises in Thailand and it’s mostly more entrepreneurial and capital based. Is that correct?

Speaker 8:

Yeah.

Hon. Peter DeFazio:

Yeah. So you’re still at a disadvantage unfortunately, even though you are getting the same tariff payment. That's why I'm arguing that we should move China off of PNTR and begin to condition or take away that and put them on schedule two. And then that would be a great advantage to countries like Thailand. When suddenly the average tariff goes from 3.4% to almost 24%, then your goods would become way more competitive coming into the US than the Chinese goods.

Michael Roberts:

Good.

Speaker 9:

Thank you for the discussion today. I'm interested in cranes and other enabling aspects of port management and all the darker things and interested in what particularly scares you and what you think we ought to do. It goes back to the resilience question, particularly as we look at national security implications. Thanks.

Hon. Peter DeFazio:

Sure. Well, I talked a little bit about Haifa, where they control the port and they can obviously know what the movement of the US ships in and out is. Well, the same thing with cranes. Basically they can be tapping into what is going on what ship and where is it going as they're loading the ship, which if we got into more of a time of conflict or something strategic or tactical we needed to do it, unfortunately they would have the intelligence just right from that spot. Now people say, oh, there's fixes. We can tape over the cameras, we can do this, we can do that. That's not the solution. Just so we can get a cheaper crane. It's a bigger issue than that. And we used to make beautiful cranes here, and we could make them again and not have to worry about what sort of software is in them and where it's transmitting the data as it loads the ship and what they're going to do with it. And it doesn't even necessarily have to be with conflict. It can be just competitive. This gives them an unfair competitive advantage. You're lading the ship with this to go there? And it's like, okay, well then we can figure out a way that we might get that market instead. A number of the ports-

Michael Roberts:

Well, just to build on that, I think the owner of the Chinese crane maker was quoted five years ago saying, "We sell systems," or something to that effect. In other words, what's valuable is not picking the box off the ship and putting it on the dock, it's the information that we can derive from all of that and we can slice and dice that and sell that back to you and others just like is
done throughout the consumer economy today. You slice your card at the grocery store and that information gets sliced and diced and sold. So the information is really powerful in the consumer peacetime setting and in some respects that's competition, but it's also a real concern in the context of a global competitor that doesn't have our best interest in mind and that is government controlled. And whether it's peacetime or in war, I think there's real concerns about that sort of thing.

**Hon. Peter DeFazio:**

Yeah. No, it's a critical part of infrastructure. It's something we haven't really thought about before.

Front row. Yeah.

**Speaker 10:**

Hi. How important do you think sustainable fuels are for the ships themselves? It's one area I think that the US has a narrative. US companies with sustainable fuels against our CCP counterparts. It's very nascent industry, but companies like Interlake, Matson, Crowley, Patia are all on the cutting edge of actual greener fuels, which is something that the Chinese companies and their shipping companies especially have been resistant to. So with all these other areas that we're being at a disadvantaged narrative wise, how important is it that push the sustainable fuel side of things?

**Hon. Peter DeFazio:**

Well, in so many aspects of society, it's incredibly important. Everybody's talking about electricity, but hydrogen has got to be a solution, particularly in shipping and potentially in aviation. And of course the question is how do you obtain the hydrogen? There's four or five kinds of hydrogen. They label them. There's brown hydrogen, that means it's just made out of regular natural gas and the methane escapes or CO2 escapes. And then there's blue where the oil companies say, "Oh, well, we're going to capture all of the CO2 or excess methane emissions and we're going to sequester it in the ground somehow." And then you move on to green and how do you produce the green? You can produce green hydrogen merely by cracking water.

So that could be very sustainable if you're using renewable power to crack the hydrogen. But it's a very nascent industry. I mean part of the IRA, the Inflation Reduction Act ... Very ineptly named because every time you say IRA, people start thinking about their retirement accounts. My accountant called me and said, "What's this big IRA bill going to do to my clients?" And I said, "Nothing." So they're going to subsidize six hydrogen hubs and there's a bunch of applications with all different technologies in different parts of the country. So there's just one little tiny example, but there's a transit district in Champaign Urbana and they had fuel cell buses and they wanted to go green and they couldn't afford electric. So they said, "Well, how could we do green hydrogen?"

And they went to the university, partnered with them, built a solar ray. They're cracking water and they're producing their own green hydrogen and they're a market for it too. And so they've got surplus more than they need. And then there's pink hydrogen, which is produced by nuclear power, and we're potentially moving toward modular nuclear reactors, which are going to be
standardized. They're not going to have cost overruns. They don't have safety or security issues. You still have the waste issue to deal with. These were first developed at Oregon State University. There's now a couple of companies that are in the approval process. So we have different ways of producing hydrogen, and there's tremendous promise there. Other sustainable fuels in terms of ... I mean, I read about something that I totally don't understand. It's in California and they can take any kind of mixed waste and they can subject to a plasma torch and the carbon comes out solid and that's apparently marketable for something.

And then they create hydrogen. I don't know how it works. I mean there's a lot of cutting edge technology out there, but now we're having conflicts because there's so little SAF out there, sustainable aviation fuel, and then they're worried about trucking moving to hydrogen. And so we've really got to get ahead of this because electricity is not going to be the solution for aviation, even though some people are experimenting with hybrids, and it may or may not be the solution for long distance trucking in this country because of the current battery technology. It's really cold and the charging takes quite a while. And at this point, we don't have any really charging network. That's also part of the IIJA and the IRA is to build out a network and theoretically we're going to build out a charging network that is being run by sustainable power so that's why all the investment in wind and solar and all those things. So we are finally taking some very big steps in that direction. And I don't know if that answered your question, but it's-

**Speaker 10:**

More or less.

**Hon. Peter DeFazio:**

Yeah. Okay.

**Michael Roberts:**

That was a good answer. I enjoyed it. I certainly learned a few things. I think we're about out of time, aren't we? We could take one more if anybody has a burning question they want put. All right. Well, I want to stop and just say thank you Mr. Chairman. It's been really good discussion from my perspective. We've certainly learned a lot. And again, I want to thank you for your service in Congress and your dedication to this country. You're a great example for young members of Congress coming up and in terms of taking this seriously and doing the best you can and you did a great job and we really appreciate being with you today and learning from you.

**Hon. Peter DeFazio:**

36 years. I never expected to stay that long. We checked with the House historian before I retired. Out of 14,400 people have served in Congress I'm the 65th longest serving member. I don't know what that says about me, but anyway.

**Michael Roberts:**

Anyway, thank you so much.