

Statement of Senator Carl Levin
Congressional-Executive Commission on China Hearing
“Ten Years in the WTO: Has China Kept its Promises?”
December 13, 2011

I commend the Chairman and Cochairman of the CECC for holding this hearing. Despite nearly 10 years as a member of the WTO, China continues to engage in unfair trade practices. China’s joining the WTO offered the promise of a significantly more effective tool for monitoring and changing the trade practices and human rights conditions in China. While it is true that China’s being in the WTO obligates China to follow WTO rules, China continues to flout many of the WTO’s basic principles in order to promote its domestic manufacturers and exports.

One area of concern I would like the Commission to look at is China’s lack of intellectual property rights protections and its failure to act against wide-spread counterfeiting. I am also concerned about the anti-competitive policies China is implementing to favor its domestic renewable energy technology sector and automotive industry.

Earlier this year, the Senate Armed Services Committee, which I chair, began an investigation of counterfeit electronic parts finding their way into the systems that our military uses to defend us. On November 8th, we held our first hearing to look at what our investigation has discovered so far, and what we have found is shocking. There is a flood of counterfeit electronic parts entering the defense supply chain. It is endangering our troops and costing us a fortune. And the overwhelming share of these counterfeits comes from one country: China.

Here is some of what we have found:

- Looking at just a slice of the defense contracting universe, the committee reviewed approximately 1,800 cases of electronic parts suspected to be counterfeit. Those 1,800 involve more than 1 million individual parts. Now, 1 million parts is surely a huge number, but remember, we’ve only looked at a portion of the defense supply chain. Those 1,800 cases are just the tip of the iceberg.
- Staff selected more than 100 of those cases to trace the suspect counterfeit parts back through the supply chain. In more than 70 percent of cases, the trail led to China, where a brazenly open market in counterfeit electronic parts thrives. In most of the remaining cases, the trail led to known resale points for parts coming from China.
- We also conducted detailed investigations of how suspect counterfeit parts from China ended up in three key defense systems. In each case, we traced the parts through a complex web of subcontractors and suppliers back to Chinese companies.
- It is stunning how far Chinese counterfeiters are willing to go. We asked the Government Accountability Office (GAO), acting undercover, to go online and buy electronic parts used in military systems. Every single part the GAO has received so far has been counterfeit. GAO found suppliers who not only sold them counterfeit parts; suppliers were also willing to sell them

parts with nonexistent, made-up part numbers. Every one of the counterfeit parts GAO has received so far came from China.

At the Committee's November 8th hearing, witnesses told us how counterfeiters in China remove electronic parts from scrapped computers and other electronic waste, how they wash the parts in dirty rivers, and dry them in the street. Counterfeiters make this scrap look like new parts and sell them openly in markets in Chinese cities and through the Internet to buyers around the world.

We attempted to send Committee staff to mainland China to see counterfeit markets for themselves. But Chinese authorities impeded our investigation, refusing to issue visas to our investigators to even enter mainland China. At one point, a Chinese embassy official told staff that the issues we were investigating were "sensitive" and that the investigation could be "damaging" to U.S.-China relations.

They got it backwards. What is damaging to U.S.-China relations is China's refusal to act against brazen counterfeiting.

If China does not act promptly to end counterfeiting, then we will have no choice but to treat all electronic parts coming in from China – whether for military or civilian use – as suspected counterfeits. That would mean requiring inspection of shipments of Chinese electronic parts to ensure that they are legitimate.

We cannot afford to put our troops at risk by arming them with unreliable weapons or asking them to fly planes with fake parts on them. We cannot afford to spend needed defense dollars on fake parts. And we cannot allow our national security to depend on electronic scrap salvaged from electronic trash by counterfeiters in China.

The Chinese government is not acting to stop the flood of counterfeits coming from their country. But we are. The Department of Defense authorization bill passed by the Senate contains critical provisions to enhance border inspections of suspect counterfeit goods and strengthen efforts to detect and avoid counterfeit electronic parts in the defense supply chain. I look forward to those provisions becoming law.

I am also concerned about the counterfeiting of auto parts, concerns that extend beyond monetary losses to U.S. firms and directly impact human health and safety. A counterfeit auto part could be the wheel or the brakes on your car. Since counterfeit parts are often substandard and produced with inferior materials, they put lives at risk. The Motor & Equipment Manufacturers Association (MEMA) recently has found that most counterfeits appear to be made in China. For almost 20 years the United States has been aggressively pressing China to improve its intellectual property protection regime. Yet China continues to be the number one source country for counterfeit and pirated goods.

There are many other areas of Chinese policy that raise concern and that clearly violate the spirit and letter of the WTO. We should all be alarmed by China's attempts to dominate the renewable energy industry through measures that discriminate against foreign manufacturers. China does

this by requiring the use of domestic suppliers and production for green and renewable technology. China also has designs to dominate clean car technology. According to the Wall Street Journal, China is preparing a 10-year plan to turn China into the world's leader in developing and producing battery-powered cars and hybrids.

At a time when American manufacturers are working hard to compete in the emerging field of green technologies, China must not be allowed to unfairly or illegally undermine those efforts. The reality is that when American companies do business in the global marketplace, they are not competing against companies overseas; they are competing against foreign governments that support those companies.

China's trade distorting practices need to be aggressively investigated by the USTR as we work to hold China to its WTO commitments in international trade.