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## Senate Finance Subcommittee Holds Supply Chain Hearing

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Business representatives, a think tank, and Senate Finance Committee members of both parties aired recommendations for improving supply chain challenges during a subcommittee hearing June 15, including trying to shape the USICA-America COMPETES conference committee and recommending trade policy changes with the shared goal of increasing manufacturing of key goods either in the United States or US-friendly nations rather than relying on foreign adversaries.

Chairman Thomas Carper (D-DE) said: “[W]hile we know that the tremendous supply chain backlogs that we are seeing today come largely from the economic shock of the pandemic, many systemic vulnerabilities existed long before COVID. Fundamental weaknesses in our global logistics systems are the result of a decades-long focus on supply chain efficiencies, ‘just in time’ manufacturing, and a reliance on foreign adversaries for a wide array of goods. The result is a system so brittle and fragile that it cracked under the pressure of the worst pandemic we’ve endured in over 100 years.” Ranking Member John Cornyn (R-TX), who is a USICA-America COMPETES conferee, inquired about the proper balance between outbound investment and domestic investment.

Following is testimony from the Subcommittee on International Trade, Customs, and Global Competitiveness hearing, “Supply Chain Resiliency: Alleviating Backlogs and Strengthening Long-Term Security:”

- Scott Paul, President, Alliance for American Manufacturing, Washington, DC, called for enactment of the Bipartisan Innovation Act (the name for the eventual USICA-America COMPETES agreement) that merges the most attractive provisions from each chamber’s bill, including CHIPS Act funding to strengthen domestic semiconductor manufacturing and the Supply Chain Resiliency Fund in the House bill to fill gaps in critical industrial capabilities.
- Doug Potvin, CFO, Trinity Logistics, Seaford, DE, discussed the role of 3<sup>rd</sup> party logistics professionals in ensuring that essential goods continue to be delivered in an efficient manner and, along with motor carriers, “are a main component of why during this crisis and disruption, the supply chain bent but never broke.” He applauded the 2021 Infrastructure Investment and Jobs Act’s (IIJA) investment in infrastructure.
- Orit Frenkel, CEO, American Leadership Initiative, Washington, DC, said, “The U.S. should continue to strengthen constructive relationships with allies as well as expand its network of plurilateral arrangements to create new opportunities for friend shoring and supplier resiliency. Rethinking supply chains also offers the opportunity to emphasize trade facilitation, align standards, and strengthen near shoring in the Western Hemisphere to create economic opportunity and build new resilient sourcing paradigms that benefit American consumers and workers, as well as advance American values.”
- Gilman Louie, CEO, America’s Frontier Fund, Arlington, VA, said the US has pursued just in time manufacturing while moving key capabilities offshore. He called for “reimagining US manufacturing capabilities,” including additional technology hubs beyond those on the coasts, and deepening technology partnerships.

Chairman Carper asked about areas of consensus or agreement:

- Paul highlighted R&D and supply chain resiliency for manufacturing plus deployment, saying if you are just investing in R&D but not in US production, that is leaking tax dollars. He also called for reducing dependence on adversaries for key goods like Lithium-ion batteries.
- Potvin said the US cannot rely on just a few sources for goods and services. We need to be able to source goods from other places so that no one player controls an industry, he said.
- Frenkel called for increased investment in R&D and key technologies like semiconductors, as we have seen in the CHIPS Act, as well as what we want to be on shored, or made in countries the US has a positive relationship with.
- Louie agreed that we need to lead in various industries, but a dollar invested in US not the same as a dollar invested in adversarial nations, and we need to extend the promise of the innovation economy to all of America, with every citizen at every level of education.

Senator Robert Menendez (D-NJ) cited the Indo-Pacific Economic Framework (IPEF) and asked what else needs to be done to secure supply chains. Frenkel said IPEF is an excellent first step for US leadership in Asia, focusing on supply chain resiliency in that region, and that US engagement in trade agreements with Latin America would be very important. Further, the U.S.-EU Trade and Technology Council (TTC) is an excellent initiative in doubling down on key technologies to stay in countries where we have strong alliances and shared values, she said, adding that we also need to be looking at which technologies need to be on shored or sourced in US-friendly countries.

Senator Bob Casey (D-PA) lamented the outsourcing of manufacturing to other countries that “don’t play by the rules,” affecting every facet of the economy and resulting in higher prices. He said we need to know how much we are relying on foreign adversaries and how outbound capital and IP flow to adversarial nations. Paul said the impact of investment has an outsized effect on the abilities of the US to produce and innovate. Shareholder interests and national security interests are rarely aligned, and often misaligned, he said, and there is often an unlevel playing field, including through the attraction of state aid in certain nations.

Senator Catherine Cortez Masto (D-NV) said the US must grow the mining and production of minerals and rare earth minerals to create good paying jobs, and that she supports the USICA because it includes dedicated funding for extraction of minerals. She also said she plans to introduce legislation to provide tax credits for rare earth magnets and asked about investment in rare earth minerals as a national security issue. Paul said we have seen how vulnerable we are for rare earth mineral supplies, including Lithium. We don’t make enough here and too much is made in countries that could cut us off at any time, he said, adding that more control would come with domestic production and supply chain improvements.

Frenkel suggested the issue is critical for clean energy goals. On preferential supply arrangements, IPEF sets out certain standards to raise labor, digital and environmental standards, and the US should also provide incentives for companies to locate in countries that meet our standards, she said.

Senator Sherrod Brown (D-OH) suggested that supply chains are too spread-out, and too fragile, including with countries that have unfair trade practices. He asked why trade enforcement is an investment in American workers. Paul said it prevents leakage; we must have a rules-based system our businesses can count on. It also sends a market signal to businesses that if they invest in the US, we will stand up to unfair trade practices that may affect them in our market or a third market, he said, adding that importers have figured out a way around trade enforcement measures. Senator Brown’s Level the Playing Field 2.0 Act, to

strengthen US trade remedy laws, would provide the government with new tools to modernize trade laws to keep up with the 'whack-a-mole' strategy of many importers.

Full Committee Chairman Ron Wyden (D-OR) said the US needs to put points on the board against the climate crisis, including in investment in clean energy and solar power, and bringing manufacturing back to the US. Other nations and state-owned enterprises have "cheated and bullied and stolen" from US solar manufacturers, decimating the domestic solar industry, the Chairman said. The Clean Energy for America bill, reflected in the Build Back Better Act, would provide greater tax savings based on the level of improving carbon emissions, he said, with a special focus in the bill on solar manufacturing. Chairman Wyden asked what other steps should be taken to promote solar manufacturing here in the US.

Paul said we have seen solar installations escalate over the last decade but manufacturing jobs decline, so market share is dominated by other countries. The fundamental principle is that the incentive for installation and production must be aligned, so there must be tax credits for production in the US as well as incentives for installation for utilities and residential and commercial property. Another aspect is trade enforcement, and we must make sure foreign solar panels aren't entering the US improperly, he said.

Senator John Thune (R-SD) touted his Ocean Shipping Reform Act (S. 3580), which both chambers passed and is headed to the President's desk, to provide the Federal Maritime Commission new tools to curb anticompetitive behavior. Beyond reforms at the Commission, ports need modernization and transparency, Senator Thune said, adding that failure to provide investment in automation and data sharing compounds problems we are facing. He asked about increased data sharing and better utilization. Potvin said data analytics and data generation of where cargo is located would be very helpful in getting goods moving sooner in the process.

Paul said a lot of supply chain strains are related to inventory misalignment, especially on semiconductors. The challenge is the domestic production of semiconductors is limited but demand is high. Efforts to increase investment in additional capacity for critical commodities is essential, he said, adding he is hopeful the BIA includes provisions to that end; the more control we have, the better supply chains and inventory management will be.

Senator Thune also raised the baby formula shortage as a supply chain failure that the FDA was unable to anticipate. It is a major crisis, and the Administration has been too slow to respond, he suggested, adding there is a lot of talk about reshoring and supply chain resiliency and the crisis has shown how strong relationships with other countries are extremely critical.

Senator Thune said the IPEF is nonbinding, and enforceable market access commitments would be better for consumers and workers. Frenkel said the Administration was hesitant to launch a market access agreement due to concern about the reaction and support in public and in sectors of Congress. What they launched is a positive first step but could evolve into a market access agreement, she said.

Senator Carper cited medical product supply chain legislation he introduced with Senator Cornyn and asked what measures Congress should consider to strength medical supply chains. Frenkel called for reducing trade barriers, deciding which projects we want to on shore, and thinking about how to prevent consumers from simply opting for cheaper goods from abroad for things like PPE.



Chairman Carper's opening statement is at:  
<https://www.carper.senate.gov/public/index.cfm/pressreleases?id=672B2014-F6DB-4C74-B4F7-E49E17F252A8>

Testimony is at: <https://www.finance.senate.gov/hearings/supply-chain-resiliency-alleviating-backlogs-and-strengthening-long-term-security>