SPIKE IN METAL PRICES: WHAT DOES IT MEAN FOR SMALL MANUFACTURERS?

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

WASHINGTON, DC, MARCH 10, 2004

Serial No. 108–57

Printed for the use of the Committee on Small Business

Available via the World Wide Web: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

93–202 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON SMALL BUSINESS

DONALD A. MANZULLO, Illinois, *Chairman*

ROSCOE BARTLETT, Maryland, *Vice Chairman*
SUE KELLY, New York
STEVE CHABOT, Ohio
PATRICK J. TOOMEY, Pennsylvania
JIM DEMINT, South Carolina
SAM GRAVES, Missouri
EDWARD SCHROCK, Virginia
TODD AKIN, Missouri
SHELLEY MOORE CAPITO, West Virginia
BILL SHUSTER, Pennsylvania
MARILYN MUSGRAVE, Colorado
TRENT FRANKS, Arizona
JIM GERLACH, Pennsylvania
JEB BRADLEY, New Hampshire
BOB BEAUPREZ, Colorado
CHRIS CHOCOLA, Indiana
STEVE KING, Iowa
THADDEUS MCCOTTER, Michigan

NYDIA VELÁZQUEZ, New York
JUANITA MILLENDER-MCDONALD, California
TOM UDALL, New Mexico
FRANK BALLANCE, North Carolina
ENI FALEOMAVAEGA, American Samoa
DONNA CHRISTENSEN, Virgin Islands
DANNY DAVIS, Illinois
GRACE NAPOLITANO, California
ANÍBAL ACEVEDO-VILÁ, Puerto Rico
ED CASE, Hawaii
MADELEINE BORDALLO, Guam
DENISE MAJETTE, Georgia
JIM MARSHALL, Georgia
MICHAEL MICHAUD, Maine
LINDA SÁNCHEZ, California
BRAD MILLER, North Carolina
[VACANCY]

J. MATTHEW SZYMANSKI, *Chief of Staff and Chief Counsel*
PHIL ESKELAND, *Policy Director*
MICHAEL DAY, *Minority Staff Director*

CONTENTS

WITNESSES

APPENDIX

SPIKE IN METAL PRICES: WHAT DOES IT MEAN FOR SMALL MANUFACTURERS

WEDNESDAY, MARCH 10, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS
Washington, D.C.

The Committee met, pursuant to call, at 10:07 a.m. in Room 2360, Rayburn House Office Building, Hon. Donald Manzullo, [chairman of the Committee] presiding.

Present: Representatives Manzullo, Kelly, Akin, Shuster, Chocola, King, Velazquez, Ballance, Napolitano, Bordallo and Sanchez.

Chairman MANZULLO. Good morning, and thank you for all being here today as we examine the recent spike in metal prices, particularly in the steel industry, also copper and other types of commodities, and the effects on small manufacturers. I would especially like to thank those of you who have come great distances to be with us today.

A few weeks ago, I started receiving calls from several manufacturers in the congressional district that I am privileged to represent regarding an unexpected and unprecedented increase in steel prices. For industries still reeling from the effects of the 18 month tariffs period in which they saw price increases of up to 50 percent, this certainly was not welcome news.

When the tariffs were lifted on December 4, 2003, American manufacturers were expecting at the very least a stabilization of prices, and many had anticipated reductions in the price of steel. What they got was the exact opposite. Instead, steel prices have surged since the tariffs have been rescinded. According to some industry reports, prices have almost doubled in the last four months alone.

For example, according to the trade publication, American Metal Market, the price of hot-rolled steel, one of the most widely used types, has soared by more than 80 percent in the last year and by almost half since December of 2003.

The prices of other metals have also risen dramatically in recent weeks. The price of copper soared to an eight year high of nearly $3,000 a metric ton during the third week in February. The price of nickel has more than doubled in the past year.

These unprecedented increases are nearly impossible for manufacturers to absorb. They are caught in the middle between the suppliers and the customers. They need steel and other metals to fulfill contracts already obligated, but they are seeing surcharges added to quoted prices from their suppliers that they cannot pass along to the customers due to contractual constraints.

I have also been informed by many manufacturers in the district that I represent that they are being told that there is no steel available for them, even though they have longstanding contracts in effect. Talk about being stuck between a rock and a hard place.

That said, and listen to me very carefully. We are not here today to point fingers or place blame on any one segment of the industry. I am deeply concerned about the effects these price increases are having on small manufacturers.

This hearing is an inquiry to assemble facts, and you will note that everybody in the steel industry is present—the integrated mills, the mini mills, the steel suppliers, the scrap dealers and the consumers. Everybody is at the table to try to bring to light the problems that are going on and possibly move towards some type of a resolution, if any is possible. I want you guys to discuss, but do not fight among yourselves, okay?

I recognize one of the factors contributing to this situation with regard to the steel shortage is the massive industrialization of the People's Republic of China. Due to what equates to state subsidized business practices, coupled with artificially deflated currencies, Chinese companies are able to absorb global price increases in both raw and finished products.

As we have said before, as a nation the U.S. must exert more pressure on the Chinese Government to comply with the WTO requirements and to stop manipulating their currency. They are not playing fair, and it is killing our businesses here in the United States. It appears as if there is not one single factor that would indicate why prices and shortages are occurring to the degree they have, but rather a culmination of many factors. There is no quick fix here.

Again, the goal of the hearing is to try to discover what caused the various metal prices to rise so high and so fast and also what impact it has had on the U.S. manufacturers, especially the small manufacturers.

I want to remind all of our witnesses that we are here today not to point fingers or place blame on any one part of the industry. We are interested in the root cause of the price increases and to determine if there is any middle ground on which we can work together.

[Chairman Manzullo's statement may be found in the appendix.]

I would now recognize Congresswoman Nydia Velazquez, who is our Ranking Minority Member, for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Today, we are once again examining the issue of rising steel prices and its effect on both U.S. industry and consumers, mainly small manufacturers.

The price of steel has skyrocketed by over 60 percent in the last five months. This incredible surge has been the result of several factors. They include the increased internal demand for steel and foreign trade policies that have limited access to many international steel markets.

This trend is in complete reversal to what our Committee witnessed two years ago when we first examined this issue. At that time, there was a flood of cheap foreign steel inundating the United States. It devastated domestic steel producers and, coupled with an overvalued dollar, resulted in many of them being forced to close their doors.

The solution put forth by the White House was to invoke tariffs that were deemed as necessary to protect the domestic steel industry. Those tariffs were viewed by many, including Members of this Committee, as resulting in an increased cost of steel.

Although originally slated to last three years, after just 21 months the tariffs were repealed due to changed economic circumstances. With the lifting of the tariffs, many expected to see prices fall with an influx of imported steel. However, the exact opposite occurred, and prices went through the roof.

Similar to the situation two years ago, the cause was complex and cannot be attributed to any single cost. Many would like to simplify today's problem and blame China. However, the situation is the convergence of many factors, including growing demand, increased supplier costs, limited international suppliers and rising energy costs.

Much like the crisis two years ago, this is not a cut-and-dry problem in terms of the impact on small businesses and very much depends on where you sit. Certainly these spikes in prices are affecting portions of the manufacturing sector, but also mills and exporters. Many that are small businesses have not been able to operate in the current environment.

Recently, the idea of implementing export control on scrap steel was suggested as a way to soften the domestic supply shortage. This seems surprising considering the Bush Administration tried to restrict what was coming into our country with tariffs, and now he wants to restrict what is being exported the same way. He sends very mixed messages about our nation's trade policies.

One of the main arguments against export control is that they are too costly for the economy. These controls hinder the free market from working and prevent the flow of goods from reaching the highest bidder.

I find it ironic that when the steel industry has been in such dire need for decades, we will reintroduce policies such as export controls which ultimately failed us during the 1970s. As with any complicated problem, there is no simple solution.

I look forward to hearing from the witnesses to find a fix that reduces costs to steel consumers and protects producers. Finding a solution to this problem is just as pressing as finding ways to give entrepreneurs access to health care, capital and reduced energy costs, all of which are pulling resources away from our most important economic driver, small businesses.

Thank you, Mr. Chairman.

[Ranking Member Velazquez's statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much.

The rules are we keep the testimony at five minutes. I know most of you could talk for the entire hour, but we have to do that. We do that so we can leave plenty of room for questions and interaction at the end.

We have been advised there may be a series of three votes coming at 10:15, so we are being subjected to the tyranny of the voting bells. I do not know how long that distraction will occur.

Do you want to have a short opening statement? Go ahead. I really would like to get going, Sue.

Mrs. KELLY. I would like to just simply say something, and that is, as the Ranking Member pointed out, our problem here is a very complicated one, but when you consider the fact that our problem is the fact that we here in the United States in our steel mills are so much more productive with such better quality that the low dollar has affected this market because other people want our steel.

It is not just steel. It is that low dollar also affecting the fact that the scrap can go offshore and get more money. You cannot blame the scrap dealers, but we also need to find a way to keep the high quality steel that we are able to produce here in the United States, which is a tremendous amount, here in the United States for our manufacturers. It is a long-range jobs problem, and I hope that some of you on this panel will address the jobs problem.

Thank you for allowing me to say something.

Chairman MANZULLO. Sue, thank you for raising your hand because what I want to do is start the testimony when we come back from the votes.

We have a couple minutes now if anybody else wants to give just a very brief statement.

Ms. SANCHEZ. Mr. Chairman?

Chairman MANZULLO. Yes? Go ahead.

Ms. SANCHEZ. Thank you.

Chairman MANZULLO. Very brief.

Ms. SANCHEZ. Yes, very brief. I want to commend Chairman Manzullo and Ranking Member Velazquez for calling this important hearing today. It is the second time that the Committee has had a hearing on this particular topic, and it is noteworthy that it does impact many small businesses in the United States.

With that, I am just going to ask unanimous consent to place any opening statements in the record to allow my other colleagues a chance to also give opening statements as well.

Chairman MANZULLO. Does any other Member of the panel want to give a statement?

Grace Napolitano, who lost 21,000 jobs in one day what, four years ago, Grace?

Mrs. NAPOLITANO. Yes, sir. You are correct.

Chairman MANZULLO. Go ahead.

Mrs. NAPOLITANO. We formulated a task force on manufacturing in my area because of the issue of the spiking in steel prices back when.

I am glad, and thank you, Mr. Manzullo. Chairman Manzullo has been at the forefront in helping us bring this issue to the forefront. We need to work together. We need to be able to instead of finding the almighty dollar benefit, we are losing the jobs that will in turn negate any kind of benefit to this country.

Thank you very much for being here, and thank you, Mr. Manzullo. We look forward to the testimony.

Chairman MANZULLO. Does anybody else wish to be recognized?

[No response.]

Chairman MANZULLO. Okay. We are going to adjourn. We will come back as soon as we are done voting.

[Recess.]

Chairman MANZULLO. The Committee will come back to order.

We are going to go a little bit out of order. We will take Mr. Ross first, then Mr. Hickey and then Mr. Atwell based upon the fact that they have to make 1:00 flights. The next votes will not be for two or three hours.

Our first witness is Mr. Wilbur Ross. Mr. Ross, if you could pull that mike real close to your mouth there?

Mr. Ross organized International Steel Group, ISG, in April of 2002 as its board chairman. ISG acquired the steelmaking assets of LTV and Acme Steel Corporation and in April 2003 raised a $1 billion borrowing and acquired bankrupt Bethlehem Steel to become the nation's second largest integrated steel producer.

We have all the principals here in the steel industry. Mr. Ross, we look forward to your testimony. When you see that yellow light come on, that means that you have one minute to go.

Mr. ROSS. Thank you, Mr. Chairman.

Chairman MANZULLO. Okay. We look forward to your testimony. The complete written testimonies of all the witnesses and the Members of Congress will be made part of our record. Thank you.

STATEMENT OF WILBUR ROSS, INTERNATIONAL STEEL GROUP, INC.

Mr. ROSS. Mr. Chairman and Members of the House of Representatives Committee on Small Business, thank you for inviting me to testify today.

International Steel Group has been surprised by the rapidity of costs and steel price increases both here and abroad. We did not initiate any of those increases. We have lagged in implementing them, and in general we price our products below our major competitors. We can do so because we are the lowest cost integrated producer.

Also, we are very concerned that if prices were to remain at current levels for long, other materials would be substituted for steel, so we actually prefer lower price levels. Frankly, we are confident that steel prices will soon decline.

You can see from Exhibits 1, 2, 3 and 4 in my prepared testimony that spot prices for hot-rolled band, the industry's generic sheet product, in China, Europe and the former Soviet Union have paralleled the U.S. pattern. It costs an additional $70 per metric ton to ship steel from abroad to the midwest, so imports are not the solution to the problem.

There are several reasons why steel prices have been so volatile, and those are summarized in Exhibits 4 and 5. The price spike in the second quarter of 2002 was primarily due to the bankruptcy shutdown of the LTV and Acme facilities, 10 percent of the industry. When our company acquired and reactivated those plants, prices fell, even though the tariffs remained, and that proved that the tariffs were only a minor factor.

Also, at the $209 price for hot-rolled band at the trough early in 2002, prices were unsustainably low. No steelmaker in the U.S., Europe or China could deliver quality product profitably at that price. Exhibit 4 shows that those prices were actually far below the levels in the early 1990s, even though costs have obviously risen since then.

In fact, even with the recent steel price increases, 15 steel companies remain in bankruptcy today. Almost everyone in the industry has been unprofitable every quarter since 2002. The reason is that input costs have risen at an extraordinary rate, and 50 percent of integrated mill revenues are on long-term contracts which do not automatically adjust to reflect increased cost.

In contrast, small steel buyers, as well as some major ones, tend to purchase in the volatile spot market. They have made the speculative decision not to lock in steel costs when they quote prices of their product for future delivery. This strategy works well in some years and poorly in others, such as the present.

Congress might consider a program for insurance for small businesses against fluctuating prices of steel and other commodities which, like steel, have no futures market.

In any event, major raw materials needed by an integrated mill to make a ton of steel are 1.6 tons of iron ore, 0.4 tons of coke, 0.2 tons of scrap and 2.5 MBTU of natural gas.

Exhibits 6 through 9 of my prepared testimony show that in the past two years, these commodities have added $178 to the cost of a ton of steel. Increased wages and other miscellaneous items add another $6 a ton, and higher raw material costs tie up more capital in inventory and receivables, adding another $4 per ton of cost.

Assuming that half of one's business is conducted under fixed price contracts, the spot half of the business must go up faster in order to avoid insolvency for the company.

In addition, the industry needs about $40 per ton of EBITDA, earnings before interest, taxes, depreciation and amortization, just to cover debt service and make capital expenditures. At the trough, the industry was losing about $8 a ton of EBITDA, so it needed $48 a ton of price increases just to be able to sustain operations. That level would not make up for the cumulative industry losses of $132 per ton from 2001 through 2003.

Cyclical industries must earn back in strong markets the money lost in weak markets.

Chairman MANZULLO. How are you doing on time there, Mr. Ross? Your five minutes just ran out.

Mr. ROSS. I will finish up quickly.

Chairman MANZULLO. Can you summarize there?

Mr. ROSS. Yes, sir.

Chairman MANZULLO. Thank you.

Mr. ROSS. Scrap, we believe, is in fact in big supply worldwide, but had not been reclaimed because prices were low. Consumption is 340 million tons. There are eight billion tons out there. We think that marketplace will start to change.

We also think that with U.S. Steel solving the fire problem at the Pinnacle Coke & Coal Mine and China solving a similar one, coke may be in a little bit less short supply.

We oppose the idea of putting export controls on scrap. We think it would be preferable to force other countries not to limit their exports of raw materials as they are doing. Putting export controls on scrap would exacerbate our balance of payment problems, which were reported this morning to be a $43.1 billion deficit for the most recent month, and would also just provoke China to do retaliatory things.

[Mr. Ross' statement may be found in the appendix.]

Chairman MANZULLO. Okay. Let us cut you off there so we will have some time for questions.

Let us go to Mr. Atwell, who is a market analyst on steel with Morgan Stanley. We look forward to your testimony.

If you want to pull that mike up close to you, we would appreciate that. Thank you.

STATEMENT OF WAYNE ATWELL, MORGAN STANLEY

Mr. ATWELL. Thank you. Good morning, Mr. Chairman, Members of the Committee. Thank you for inviting me. I am honored to speak here this morning.

My name is Wayne Atwell. I am an equity analyst with Morgan Stanley and follow the steel and nonferrous industry. I grew up in Pittsburgh. My father worked for the steel industry. I have followed the industry for 35 years and have toured 300 mills on four continents, so I have seen a lot of equipment.

The sharp runup in the domestic steel price has its origin in a complicated set of domestic and foreign factors. We believe there are three primary drivers forcing the price of steel up. First, the weak dollar; second, dramatic growth in the Chinese economy; and, third, under investment in infrastructure.

We did not expect a rollback of the 201 to have much of an impact on the industry as the strong dollar and high price for global raw materials was causing a shortage. The weak dollar has driven up the price of steel globally. What has happened is the euro is up 33 percent against the dollar in the last two years. The Canadian dollar is up 20 percent. These two areas account for 40 to 50 percent of our imports.

As a result, imports of steel last year were down 30 percent and exports were up 40 percent, so this is the best trade balance we have seen in 10 years. We have actually seen, ironically, an improvement in the steel industry despite the fact that domestic steel consumption was down last year, so what we have seen is almost the entire shortage is trade balance oriented, i.e., the weak dollar.

The rapid growth in steel consumption in China has put material pressure on raw materials. China imports all of its iron ore growth. They do not have self-sufficiency in iron ore, and all of their steel industry growth has to be funded with or provided from offshore.

They also are a major supplier of coke. What has happened in the last several years is coke, which they used to sell on the world market for $55, is now up to $200 to $300. They have historically been a large exporter of metallurgical coal. They actually imported metallurgical coal last month, and metallurgical coal has gone from $40 up to between $125 and $200.

China's intense demand for raw materials has put pressure on the dry bulk fleet. We have seen fleet prices, bulk prices, up five to sevenfold in the last 18 months, which again has forced up raw material costs. Basically this has forced costs up for the integrated steel companies such as ISG and U.S. Steel. This has forced the industry to turn to scrap based suppliers such as mini mills. This has increased the bill and demand for scrap.

Scrap has gone from $110 in 2002 to $140 in the third quarter and is currently roughly $300. This has forced the industry to put on surcharges. There is a $100 surcharge now, and we think that could be $150 before long.

This in fact has backed up in steel pricing. Having followed the industry a long time, I can say I have never seen an environment like this. Hot-rolled spot was $255 January of last year. It is currently running $550 to $600. We think that is probably going to be the peak. We think what happens is that as scrap prices start coming down it puts some pressure on steel pricing.

Steel prices are very high here, probably among the highest in the world, but this is not unique to the United States. In my testimony, I have a chart going back 25 years, which shows steel prices. You will see from this pattern that this is the sharpest, fastest increase that we have seen in almost two generations.

What I see happening is the seasonable factors for scrap, which typically peaks in the first quarter. Nine out of 10 years scrap has peaked in the first quarter because of the poor weather conditions and difficulty to accumulate scrap. We think scrap probably peaks within one to two months.

If that in fact is correct, that will force the mini mills to roll back some of their surcharge. If that happens, you will see prices start coming down. We think if we have this Committee convene in six months, people will be talking about the sharp decline in steel prices.

I would suggest that the free market be permitted to act. We think that steel prices are quite close to peaking and, if the market is permitted to act freely, should in fact force down prices.

I would encourage a number of our friends here who are steel buyers to be very careful in inventory accumulation because if in fact I am right and we see prices down $50 to $100, they could end up with very large inventory losses.

This is a very difficult period, tough on everybody, but I do not know that there is a government solution to this. I think the free market is probably the best mechanism to solve our problem.

Those are pretty much the extent of my comments.

Chairman MANZULLO. I appreciate that.

We are going to skip then to Bill Hickey, Jr. He is the president of Lapham-Hickey Steel Corporation, which is a steel service center in Chicago.

Mr. Hickey, we look forward to your testimony. Pull that mike real close to your mouth there.

STATEMENT OF WILLIAM HICKEY, JR., LAPHAM-HICKEY STEEL CORPORATION

Mr. HICKEY. Mr. Chairman, I want to thank you and the other Members of the Committee for this invitation.

Chairman MANZULLO. You have to speak up louder than that.

Mr. HICKEY. Mr. Chairman?

Chairman MANZULLO. There you are.

Mr. HICKEY. Thank you. I want to thank you and the other Members of the Committee for the invitation to address the issue of the spike in metal prices and what it will do to small manufacturers across the country.

I am Bill Hickey. I am here representing the Metals Service Center Institute and the company that I am president of, Lapham-Hickey Steel Corporation.

The MSCI is a trade association of steel and aluminum service centers. This group of 350 companies is the steel industry to most of the 300,000 steel consumers in the country. We, as an industry, are the companies that inventory, store, process and deliver metal to the industrial base in this country from Maine to southern California and all points in between.

The company that I am president of was founded in 1926 in Chicago, Illinois, and currently has six locations where we store, process and deliver steel to a wide variety of industrial metal consumers.

Mr. Chairman, as I make my comments on this topic today, I would suggest we change one word in the question posed to us in this topic. Instead of asking what the metal price spike will mean for small manufacturers, I would suggest that this historic spike in steel prices will affect all manufacturers in this country.

Today, we are experiencing the swiftest, largest increase in steel prices that I have seen in my almost 30 years in this industry. The factors of this increase are many—scrap pricing, transportation costs, coke shortages, just to name a few. The other part of this equation is what is causing this corresponding product demand? The answer to that question is China.

I keep wondering when someone in Washington, D.C. will connect the dots on our current economic problems in manufacturing. Since the mid 1990s when the People's Republic of China devalued their currency by almost 80 percent and then pegged that currency to the U.S. dollar, we have seen the most massive shift in manufacturing in the history of the world from one country, the United States, to another country, the People's Republic of China.

Look at the evidence and tell me if you do not also see this issue. Since the People's Republic of China devalued their currency, the balance of trade with the United States has gone from about balanced to a deficit of $104 billion in 2002 and a staggering $125 billion deficit in 2003. This massive deficit is part of the almost $500 billion trade gap that we have as a nation. A chart reflecting this is attached as my Exhibit 1.

China is not the only trading partner that is manipulating their currency for competitive advantage. Japan, South Korea and Taiwan also use currency market intervention to maintain a predetermined value of their currency against the dollar to ensure their manufacturers, big and small, will be able to produce and sell goods in the United States. This effort is ongoing as we speak and enhanced by the dollar holdings of their countries, which is shown in Exhibit 2.

The other factor feeding demand in Asia which has the effect of driving up prices in already overheated metal markets, is a banking system that lends money to companies that will never repay the funds, but will not be closed for domestic political reasons, i.e., they do not want unemployment.

It seems that as we reaffirmed last week with the February employment report, it is okay to have 43 consecutive months of manufacturing employment decline in the United States and the reduction of almost three million manufacturing jobs since July of 2000, but it is not acceptable to question how the existing trade policy of this country is either free or fair.

My final point is about the near term effect of what has and is happening to raw material prices as a percentage of cost in finished goods prices. This explosion in steel and other metals prices should raise product prices of the goods produced out of these metals. I know that this steel cost increase will raise the cost to my customers of the products they make for their customers.

This required cost increase in products to cover higher component cost I believe will not occur with most products coming to this country from Asia. The reason that these costs will not increase is these countries will continue to subsidize their exports to the United States. The results will be an acceleration of large and small manufacturing plants closing in the United States and relocating to low cost countries.

In summary, let us connect the dots. Half of our trade deficit is with four countries that either pegged their currency or intervene in currency markets to ensure the exchange rates allow their manufacturing companies to ship products to the United States. This flood of manufactured goods displaces American produced goods, and our manufacturing companies close and three million manufacturing jobs disappear in 43 months.

I know the members of the Metals Service Center Institute are asking for enforcement of our existing trade laws to level the playing field for our manufacturers. When will the United States Government act?

Thank you.

[Mr. Hickey's statement may be found in the appendix.]

Chairman MANZULLO. Thank you, Mr. Hickey.

Our next witness is Emanuel Bodner, president of Bodner Metal & Iron Corporation of Houston.

With regard to Mr. Hickey, Mr. Ross and Mr Atwell, I will leave it up to you whenever you have to leave to catch your airplanes. If you suddenly get up and disappear we will understand that, but hopefully we will have an opportunity to ask an array of questions.

Manny, we look forward to your testimony. Do you want to pull the mike close to you?

STATEMENT OF EMANUEL BODNER, BODNER METAL & IRON CORPORATION

Mr. BODNER. Thank you. I appreciate the kind introduction, Mr. Chairman.

Chairman MANZULLO. A little bit closer.

Mr. BODNER. I do not see a switch on the microphone. I appreciate the kind introduction. I am Emanuel Bodner, and I am president of Bodner Metal & Iron Corporation in Houston. We are a family owned business with 25 employees, and we have been in business since 1948. We supply both the domestic and export markets.

I am here this morning on behalf of ISRI, I-S-R-I, the Institute of Scrap Recycling Industries, the trade association of the recycling industry. I would like to generally explain what our industry does.

We receive scrap from both industrial and commercial and the general public.

Material includes prompt industrial scrap, in addition to obsolete scrap, including the washers and dryers, the automotives, the automobiles and the agricultural types of sources. We process that variety of scrap that comes into our facilities into a specific grade. There are many grades, and these are specific grades that we supply into our consumers, our customers, which are the mills and the foundries.

I would like to make five points here this morning. The first point is that, number one, there is ample supply of scrap, and there is no shortage of scrap. Every mill, at least to my knowledge, is able to obtain sufficient tonnage in order to maintain their production requirements. In fact, we see some mills in some areas adding capacity, in my mind which would lead one to believe there is sufficient raw material.

The second point I would like to say is that exports and prices of scrap are not unusually high. In fact, today's export levels have been duplicated only seven times when looked over the last 33 years. Pricing expressed in 1998 dollars are not at historic highs.

I want to say to you all on the subject of pricing I want us to bear in mind that mills, our customers, set the price. I respectfully submit that scrap is a good value at whatever the price because do not forget it is highly competitive. There are alternatives to scrap.

Chairman MANZULLO. Manny, take a sip of water. I will not take it out of your time.

Mr. BODNER. Can I take a long sip?

Chairman MANZULLO. Go ahead. Take a little bit of rest here on your throat.

Mr. BODNER. Thank you.

Chairman MANZULLO. You bet. Go ahead.

Mr. BODNER. I would like to submit that scrap is a good value at whatever the price because, quite frankly, if it is not a good value because of the highly competitive nature of our commodity it will seek a value at which it is a good price, and that is the price it is traded.

I would also like to submit that when we hear of scrap surcharges as it is reported in the press that the scrap surcharge includes the cost of scrap, but it also includes the cost of transportation because of energy, as some mills are reporting, the additional margin that is over cost in order to improve investor return.

The third item I would like to say is that history is on our side. We heard it this morning. History will show that the pressure on prices will soon come to an end.

Another sip of water, please.

The fourth item. Extra controls on scrap have historically resulted, as in 1973 and 1974, in even their higher prices because when you artificially remove a commodity from the marketplace, the demand remains even or even increases.

It is simple supply and demand. There is nothing complicated. Price is going to go up. In other words, if you add controls on scrap to try to keep the price in check and level, it is not going to work. History has proven that time and time again.

Item 5. Free trade will regulate this market as it is doing so already. The fact is in the month of March that we have seen the steam, the fuel in the drive for scrap to begin its reseeding, the price in the different areas of the country. Do not forget. In some areas in the north and the south they are different. It is not a constant price. It varies according to the region. While scrap is a globally traded commodity, pricing is local and regional.

In the month of March we have seen a reduction in pricing. Some areas it has gone up. Some areas it has stayed the same. Some areas I understand it has even gone down. The correction is taking place.

I very much appreciate this opportunity to participate in this discussion.

[Mr. Bodner's statement may be found in the appendix.]

Chairman MANZULLO. Thank you. When we get into the questions and answers, I think Mr. Ross takes exception with you, but that will be after everyone testifies.

I know you are itching to do that. We will give you an opportunity to do that.

Our next witness is Mr. Robert Stevens, CEO of Impact Forge, Inc., out of Columbus, Indiana, with Steel Consumers. Mr. Stevens, we look forward to your testimony.

STATEMENT OF ROBERT STEVENS, IMPACT FORGE, INC.

Mr. STEVENS. Thank you, Mr. Chairman. Can you hear okay? Okay.

I would like to thank you and the Members of the Committee for having me speak today. I am Bob Stevens, chairman and CEO of the Impact Forge Group. I started this business with my co-founders in the basement of my home 18 years ago, and with the help of an SBA loan, and I thank you for that belatedly, we grew the business by taking over three companies in financial difficulty, and with four companies we grew to 950 employees.

Because of what has happened in the economy and internationally, we are down to 530. Today, my business is at risk, as is the business of many small and medium sized companies, because of the sharp increase in the price of steel and steel scrap.

I would like to address for the Committee, number one, the problem; number two, the causes; and, number three, the solution I have.

As far as the problem, starting January 1 of this year, our little company has been paying over $10,000 a day in steel scrap surcharges, and it is estimated that effective on April 1 that is going to double to about $20,000 a day. That is absurd, ladies and gentlemen.

As far as the causes, I have attached as the last page of my written testimony a one-page chart that shows what has happened. The export of steel scrap in the United States since 2000 has risen from 6.3 million tons to almost 12 million tons last year. At the same time, the price has driven from under $100 to over $300 a ton, and we do not see any relief in sight on the high quality scrap that is being used.

As far as why these prices are going up, we must take a look at those exports. We also take a look at the restrictions that other governments are putting on their exported steel scrap. We have Russia that has had taxes on steel scrap for quite some time, and we have the Ukraine that started out with a tax, and now they have restricted all scrap exports.

This week, Korea, the same Korea that bought 2.5 million tons of scrap from the United States last year, has put a restriction on their export of scrap, rebar, and I have also read steel bars, and they are also encouraging their steel mills not to export steel products to other countries.

Of course, we have China that has all sorts of restrictions, things they are doing with their currency, and also they are restricting their coke. There is no free trade here. There is no level playing field. These are actions by foreign governments to protect their domestic industries, and they hurt American companies like ours.

A secondary cause of this is also very troubling, and that is the transfer of U.S. manufacturing jobs overseas. When an auto parts manufacturer moves abroad, that means that the prompt steel scrap that is generated from that factory moves, so our economy that lost 2.8 million jobs in the last three years, now we are losing the future scrap to provide the raw material that the steel mills I buy 120,000 tons of steel a year from. We are losing the future.

Our economy has been hollowed out by dumped and subsidized imports and the transfer of companies overseas. We are now seeing the result in the permanent loss of jobs. In our case, one customer moved their entire factory from Indiana down to Mexico, and overnight we lost $12 million of business and over 100 jobs.

The sharp price increase in scrap and the tight supply are harming all manufacturers, buyers of steel and steel products, including construction, all these buildings that you see around, automotive and appliance forgings and many more, including foundries. These are not steel mills, but foundries that buy the raw scrap and make it into castings. They are being devastated by this also.

We cannot afford to absorb the $10,000 to $20,000 per day in scrap surcharges. Therefore, we are in negotiations with our customers to either pay the scrap surcharges, or we will be forced to stop shipments, which are the same terms that have been mandated to us by the steel mills.

As far as a solution, I have been pushing and have helped form the Emergency Steel Scrap Coalition to address this crisis. Our coalition consists of a diverse group of steel scrap consumers and steel users, including construction companies, parts makers, forgers, foundries and others.

My message to Congress and the Administration today is that we need help, and we need it now. I hope that other companies will join us by signing up with scrapemergency.com, which is our website.

We already have existing and tested U.S. law that provides a potential remedy, the temporary imposition of steel scrap export restrictions, and the Commerce Department may impose such restrictions if all the problems that we have addressed today are reviewed. We believe that this is the fastest route. It can happen in less than four months.

Although there are many issues that are affecting the price of steel scrap, this is one that we can address quickly, and we ask for your support. Thank you.

[Mr. Stevens' statement may be found in the appendix.]

Chairman MANZULLO. Thank you for your testimony.

Our next witness is Bill Klinefelter. He is the assistant to the president, the legislative and political director, of the United Steelworkers of America.

Mr. Klinefelter, we look forward to your testimony.

STATEMENT OF WILLIAM J. KLINEFELTER, UNITED STEELWORKERS OF AMERICA

Mr. KLINEFELTER. Good morning, Mr. Chairman, Members of the Committee. We really appreciate this opportunity to testify today.

We as a union are deeply concerned about the health of small manufacturing in the United States. We are not just basic steel. We have 600,000 members in the United States and Canada, and many of them work in small manufacturing, so we are concerned about their well being as well.

Look, the manufacturing sector in this country has taken a hit. We have lost three million manufacturing jobs. It depends on whose figures you use. We support all kinds of tax incentives for business. We support trying to do something about the health care system in the United States to make our industry competitive.

Look, we are here today to say look, when the Congress comes up with legitimate things to deal with the crisis in manufacturing in this country, the United Steelworkers of America will be standing there right with you to try to get those things done because those jobs are ours.

We think that this price increase is temporary, and it is due to a number of factors, including the rising import cost, the reduced inventories, reduced steelmaking capacity and the decline of the U.S. dollar.

This affects both integrated and the mini mills. For integrated steelmakers, iron ore prices have jumped by almost 20 percent in 2004. Coke has been in short supply, and natural gas costs have climbed as much as 70 percent in 2002.

Scrap prices, as you have heard and will again today many times, are volatile. They go up and down. I mean, this is the way the market works. When you are dealing with the spot market, that is the kind of thing you are going to deal with.

In addition, the decline in the U.S. dollar and the recovering global economy has made steel imports more expensive. For example, the domestic price of hot-rolled steel has increased by 13 percent since January 2000, while the average import price has climbed by 19 percent over the same period.

Look, the steel price environment has been affected by the loss of 12 to 15 million tons of American capacity. You know, I do not take any pleasure and the union does not take any pleasure coming here and telling you so, that this was going to happen.

When we do not enforce the trade laws of this country, when this industry has been under assault for 30 years and when all of a sudden we have the collapse of the steel industry in the United States and everybody is pushing us, you know, we need consolidation, we need to reduce our capacity, well, you take out 12 to 15 million tons, and this is what happens in the long run to prices.

I think that one of the interesting things I came across today when I was preparing this testimony—Geneva Works, 2.6 million tons. Now, Geneva Works was built out in Utah during World War II for the government so that the Japanese could not bomb it, but it was in production for all that time until recently. It went bankrupt and finally went down after lots of struggles, lots of sacrifices by the union, but Geneva Works went down.

Geneva Works is going to serve a useful purpose. Geneva Works has been bought by the Chinese, by a Chinese steel company, and they are going to transfer that equipment and add it to their productive capacity in China. I mean, I think that at some point in time, you know, we really in this country have to think about what we are doing.

The manufacturing sector needs the attention of policymakers to regain its competitiveness and stem the loss of domestic jobs. Attempts of small manufacturers by interfering to artificially lower steel prices, however well intentioned, would hurt the domestic steel industry, which has yet to return to profitability, and ultimately injure the very small manufacturers we all seek to help.

Some have suggested that the U.S. trade laws be relaxed to increase steel imports and lower import prices. I cannot overemphasize how disastrous such an approach would be. Unfair trade has contributed directly to the destabilization of domestic steel prices. Unfair trade should not be rewarded. It is not the time to let the people who have been convicted get out of jail.

This is a very volatile situation, and those trade orders have to stay in effect. We have to encourage the Administration now to do away, but to strengthen the trade laws of the United States as we go forward in the DOHA Round.

This has been a bad period for the industry. They have lost $11 billion. Forty-four steel companies have filed for bankruptcy protection since 1997.

Chairman MANZULLO. How are you doing on time there, Bill? We are out of time.

Mr. KLINEFELTER. Okay. Including nine since 2003.

Let me just say to you one last thing. I do not know what the future is going to be, but I heard the future last night on TV.

There was this thing on ABC about this small entrepreneur in Massachusetts who had a software company. He said I do not want to send my jobs overseas. What did he do? Eighty thousand dollar programming jobs. He put an ad in the newspaper, and he said I will pay you $40,000. He had 100 people sign up.

We are de-middle classing the United States, and we are doing it at a far more rapid pace than I ever even thought was possible. I do not know if that is what we want to be. We want to be the low income, low wage, low priced country? We are on that course.

Chairman MANZULLO. Thank you for your testimony.

Our next witness is Barbara Hemme, whose son is celebrating his seventeenth birthday today. Where are you, Michael? Are you back there somewhere? Good to have you out here.

Barbara was at a manufacturers breakfast in the district that I represent about three weeks ago and mentioned something about the price of steel. I said well, you can do something about it, so we asked her to come. She is with the Youngberg Industries.

Barbara, we look forward to your testimony.

STATEMENT OF BARBARA HEMME, YOUNGBERG INDUSTRIES, INC.

Ms. HEMME. Thank you, Mr. Chairman and Members of the House Committee, for letting us be here and giving us this opportunity. We are most grateful.

I am actually the corporate secretary and controller of Youngberg Industries, which is a family owned business that was started in 1947. We are a job shop, and we specialize in vacuum furnaces and general fabrications.

Just a few short years ago, we were one of the largest employers in Belvidere, Illinois. Our company had over 90 employees, and we were enjoying a reasonable profit. Five years ago, that began to change. We witnessed profit erosions so severe that we laid off much of our work force. Part of that was caused by NAFTA, part of it because of the recession, where we saw a decrease in our sales and profits.

Generally, as steel welders and fabricators, we are generally the first to see any economic upturns and downturns. Recent history has proved no different. In the third and fourth quarter of 2003, our sales did begin to increase. We felt the recession was over, and we could get back to a comfortable profit margin.

When steel tariffs were removed, quotes for steel price increases and surcharges began coming in from the steel distributor. Included in my written testimony are some graphs that directly affected Youngberg Industries. You can see in the written testimony on that first graph that prices were fairly flat in the months of October, November, December, and then once the increases started they were changing weekly as we were getting information from our steel service centers.

Not only were those increases happening to us weekly, but sometimes day by day. It gets even worse at the beginning of a month. Steel prices? We cannot even predict what they will be.

In addition to the price increases, our steel service centers are also holding us to tighter terms, so where before we could maybe float our cash for 45 to 60 days, maybe 15 to 30 days, and now all of a sudden I am even being asked to prepay for a load of steel. A load of steel, just so you know, can be anywhere between $20,000 and $80,000. That is a large chunk of change for a small company like ours.

In addition, our customers will pay us in about three months to four months, mainly because we buy steel at the beginning of our process. It takes 12 to 16 weeks to build a vacuum furnace, and then we have 60 to 90 day terms because our customers are holding us on the other end.

We are the ones who are feeling the pinch from both sides. That requires us obviously to go to the bank and get higher credit lines, so now we are paying more interest on top of everything else.

In addition to the price increases, we are experiencing material shortages. Our purchasing department often has to call all over the country, and we will find one plate at this service center, one plate at that service center, and we just cannot in a lot of cases even get the steel that we need. We cannot predict this because we are a job shop, and it is based on the order that we receive from our customer.

In addition, we have been told that there is a limited supply of T–1 plate, as I put in my testimony. We are very grateful that this is going to Iraq. However, it does create a steel shortage for us, and our second largest customer does in fact use the T–1 steel plate. That would be a major food company in the United States that I am sure that you would recognize the name of that particular customer.

These shortages and price increases do not only affect Youngberg Industries. We have been receiving phone calls from companies all over Rockford and Belvidere when they found out I was giving testimony. Their concern is these are even smaller companies of 20 employees and less, which is the majority of the companies in the Rockford and Belvidere area.

These companies are afraid that they will be out of business next week. They do not have time for a lot of congressional hearings to take place. They need an answer now because they will be out of business tomorrow. That was a concern that they all asked me to share with you is please understand the urgency of this.

I did look up some statistics. There are 533 businesses in the Belvidere/Rockford area that have less than 20 employees, and that is the kind of shops we are talking about losing.

We do have a couple of suggestions. Because there is no simple solution to this matter, first, take some kind of action now, whatever it is. Help us out. Over and above that, help equalize trade.

Third, please stop looking at American jobs as being all college educated. Many, many, many Americans can only work with their hands, and these are the kind of people that hold these types of positions. We need your help, and we need it fast, or we will lose manufacturing in the United States permanently.

Last of all, please take a look at things like health care and insurance. Next to my payroll and my steel costs, my third highest cost is the cost of health insurance and workmen's compensation insurance caused by government regulations, so we ask please, we beseech you, help out the small businesses.

We are one voice here. I am representing many, many small businesses in our particular area.

[Ms. Hemme's statement may be found in the appendix.]

Chairman MANZULLO. Thank you, Barbara.

Our next witness is also a constituent whose company, Revcor, is located in nearby Carpentersville, Illinois. Kyle Martinson. Kyle, we look forward to your testimony.

STATEMENT OF KYLE MARTINSON, REVCOR, INC.

Mr. MARTINSON. Thank you, Mr. Chairman. Distinguished Committee Members of the U.S. Committee on Small Business, I would like to express my appreciation and what an honor it is to be before you today.

My name is Kyle Martinson. I am Director of Purchasing for Revcor in Carpentersville. I am a lifetime certified purchasing manager by the Institute of Supply Management and also a respondee to the business activity report that each of you are familiar with issued each month.

My comments today concern our corporate headquarters and manufacturing in Carpentersville, Illinois, about 45 miles northwest of Chicago. In 26 years of experience in metal buying, I have bought both at the mill direct and the service center level.

We currently buy at the service center level from these companies. They slit master coils into smaller coils that we are able to utilize in our manufacturing. They inventory and provide JIT or just-in-time delivery, as well as provide metallurgical support and advice when requested.

As to volume, in 2003, we purchased approximately 5,700 tons of slit coil stock, primarily galvanized, and approximately 800 tons of cold drawn bar stock. These total expenditures represented approximately $5.7 million.

Today's metal buyer is faced with market conditions not seen during my career. It might be useful to recap how we got here. Recent events date back to the current Administration's implementation of what became known as the Section 201.

Almost overnight, steel prices for slit and delivered stock rose 15 percent for those buyers who could even find it. The industry felt these tariffs were necessary to allow the domestic industry to become well financially and to even the playing field against offshore competition.

Fast forward to November of 2003 when the decision was made to lift these tariffs. No one expected pricing to drop. Demand was relatively high. The Great Lakes in our area were just closing, so offshore tonnage would be limited, and pricing gains the industry had gained we thought they would be able to retain. We did not think it would be Attention K-Mart Shoppers at all. The weakened dollar meant that foreign producers could sell elsewhere.

We began putting our buy together for 2004 in October, and at that time we had anticipated a significant savings going into 2004. We had firm price agreements with our suppliers where we allowed some adjustment plus or minus a certain percentage based upon the producer price index that we reviewed in July and in December of each year.

Less than two months later, these agreements were voided force majeure; a combination of coke shortages, energy costs, scrap metal shortages and the industry felt it was necessary to implement surcharges. We were being instructed to sign these new surcharges before steel was going to be shipped.

We have pricing agreements with our customers who are telling us they cannot and will not pay higher prices than previously agreed on. We are in the process of trying to pass through these surcharges now.

With regard to scrap surcharges, it is my understanding the steel industry has been declared national defense critical. How can we allow scrap to be exported to China for big bucks when the domestic industries tell us there is a shortage that drives these surcharges? I am all for maximizing profit where possible, but gouging is an entirely different matter.

Through industry downsizing, consolidation and bankruptcies, we have two players now controlling a major portion of domestic steel production capacity. A few players in turn domestically provide less opportunity for a competitive bidding process we steel buyers have known for so long. Are there not any antitrust issues at stake here? Two companies now control 50 percent or more of the domestic capacity.

The situation has now become instead of buying offshore, completed subassemblies, component items and the associated jobs are being done offshore. In your own district, the Rockford Register Star headlined 11,800 Jobs Lost Since 1998 in a metropolitan community of approximately 300,000 people.

American industry can compete, but before we grant favored nation trade status to China should we not insist they allow their currency to float internationally with other currencies instead of being propped up and supported by their central government? Does this not amount to a subsidy on the part of the Chinese Government?

The last comment I would like to make is the perceived arrogance of the U.S. steel mills. As we sit here, contracts and supply agreements are being voided and handed back to customers. Major integrated mills feel it is necessary that since the electric mini mills have higher surcharges that they need higher transaction pricing, so even orders that they are late on will now be PIE, price in effect, at time of shipment will apply.

Surcharges are one thing. Our customers may not like it, but they understand it. Transaction pricing is entirely different. These are negotiated between you and the supplier, increases here you are forced to absorb.

Chairman MANZULLO. Okay. We are forced to ask you to———.

Mr. MARTINSON. To summarize, if I may?

Chairman MANZULLO. Quickly?

Mr. MARTINSON. Major concerns here are availability. Will we be able to get the metal we need for our production?

Pricing. Can we afford the metal, and will we be able to pass along any of these force fed increases?

Information. We have orders on steel that is due next month. We do not know how much we are going to pay for it. We have almost essentially issued a blank check.

Lastly, there are rumors that a fuel surcharge is going to be implemented before long due to escalating fuel prices. This is just insult on job of injury.

Thank you.

[Mr. Martinson's statement may be found in the appendix.]

Chairman MANZULLO. Kyle, we thank you for your testimony.

Our last witness is Les Trilla. Les has appeared before our Committee I think on two occasions before. Is that correct?

Mr. TRILLA. Yes, sir.

Chairman MANZULLO. His father or grandfather was a cartwright and started making wooden barrels 600 years ago, and you have continued that tradition as a shop in a suburb of Chicago.

Les, we look forward to your testimony.

STATEMENT OF LESTER TRILLA, TRILLA STEEL DRUM CORPORATION

Mr. TRILLA. Thank you very much. Good morning, Mr. Chairman and Members of the Committee. Thank you for the opportunity to appear here before the Committee to discuss the impact of the steel pricing crisis on my company.

My name is Lester Trilla. I am president and CEO of Trilla Steel Drum Corporation with locations in Chicago, Illinois, and Fenton, Missouri. Trilla is a manufacturer of steel drums used in filling and transportation of hazardous materials, food and many other products. As you earlier stated, Trilla is a family owned, family run business for more than three generations.

I traveled to Washington today to tell you about the problems my company and my industry is facing in light of pricing and supply problems with steel. Over the past two months, the price of steel has skyrocketed beyond our belief. It is even worse in the situation we faced when steel tariffs were initially imposed almost exactly two years ago.

We buy domestic steel at Trilla Steel Drum. Our supplier informed us within the last three weeks that they will not honor quoted prices, but will determine the price of an order by market price in effect at the time of shipment. Basically, they are rescinding all pricing agreements.

When asked how they were going to determine the price at time of shipment, the company's representative told us that he was not sure because they did not yet have a system in place that they could do daily pricing changes. This is a seller's market like we have never seen.

Our steel supplier also informed they were raising our price for the intermediate period of time. While we were paying $390 a ton in December and had plenty of supply, we are currently paying over $530 a ton today, and we have been told to expect the steel price—my statement says $680 a ton, but since I wrote this statement it has gone over $800 a ton in April. The most recent spot quotes I have received are for over $850 a ton today, almost three times what I was paying five months ago.

These rapid, unexpected price increases are devastating to our business, which always runs on very tight margins, less than 17 percent gross margins. Where cold-rolled steel is our primary raw material, steel makes up 45 to 60 percent of the cost of making a steel drum. When you include other components—rings, fittings—steel makes up 60 to 70 percent of our cost.

All these costs are much higher than my European counterparts and Asian counterparts who are now taking business to these other shores in filling the drums, making and filling the drums in other parts of the world.

The fact that our steel supplier will not honor a quoted price or let us know how much we will end up paying for a shipment adds tremendous uncertainty to our business; so much uncertainty, in fact, that if we had a choice I would have to look elsewhere for steel. We have quoted a price for our customers and must honor those prices to our customers.

Our customers already balked at the significant higher prices that were necessitated by steel tariffs. We lost 30 percent of our longstanding customers, which we had for over three generations, and we imposed a 20 percent price increase to respond to the steel tariffs.

We are certain that we will lose more customers when we have to raise prices again, but Trilla simply cannot absorb these huge increases. We have notified our customers that we must raise our prices for orders placed after March 15. This is unfortunate. We can only hope that our customers understand the squeeze that we are in and will not go to alternate suppliers or alternate containers.

Furthermore, apart from the problem of increased steel costs, we are faced with unavailability of steel supply. Steel, as I stated earlier, is my chief raw material. We use 11 different sizes, and without a steady and reliable supply of these products I cannot produce steel drums without steel. A very simple fact.

At the price we are being quoted, there should be more steel produced, but this is not the case. Last month, our steel supplier cut the volume of steel that they would supply to us without consulting us. The volume they said they will now supply is not adequate for our needs, and we will have no place else to go for steel. As you heard earlier from other people, there is no steel on the market.

We must maintain a two-week level of inventory for work in process, et cetera, but in February I ran out of most of my major materials, and five of the 11 sizes that I had were very short. We totally ran out of one size. This will force me to cut back on my production.

At the same time, exports of raw material, raw material that I use to make steel drums, has gone up 40 percent, so we are exporting steel rather than using it here in the United States.

Faced with the bleak supply picture I just described, we contacted two other domestic steel mills in our area, but to no avail. Domestic steel producers seem to be either unable or unwilling to sell a new customer.

We have contacted the foreign steel mills we used to do business with before the imposition of steel tariffs, but they will not even return our calls. Their disappearance from the market is———.

Chairman MANZULLO. How are you doing on time, Les? Can you sum up?

Mr. TRILLA. The last sentence. The steel tariffs have forced us to buy domestic steel. As we knew then, they could only supply 70 percent of what we needed. We needed to import 30 percent of steel for the consumption of steel here in the United States.

The rest is in my testimony. I thank you very much.

[Mr. Trilla's statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much.

Just when we thought we had figured in all the components of this crisis, someone throws in the frozen Great Lakes. It is amazing.

I want to turn to you, Mr. Ross, and perhaps have an interchange there with Mr. Bodner. You took exception to a statement he made. Why do you not go ahead and share that with us?

Mr. ROSS. Well, I am not sure which statement you are referring to.

Chairman MANZULLO. I think it was that the price of material was determined when it hit the mills.

Mr. ROSS. Yes. What I took exception to was his theory that people are loading great, big profit components onto it. That would not explain why the industry has been losing money, so he is wrong in that regard.

Second, the reason that we do not have enough capacity to meet the demand is that so many steel companies have been forced out of business by the illegal foreign trade practices of before, so to now say that a shortage that was created in part by bad acts, illegal acts on the part of foreigners, and that they, therefore, should be rewarded now that the shortage they created has occurred I find amazingly illogical, so I disagree very much with that.

I do sympathize with the problems of our consumers, and I think the real reason that they are feeling the pressure is that China subsidizes its steel consuming industries and its other industries. They constantly make loans that they know will not be repaid, loans that are just absorbing losses, and that is why the Chinese companies, whose steel mills are charging the same prices as we are, they are consuming industries and not passing it along because they are being subsidized. That is what is really wrong.

The global problem of steel prices is what it is, but it is wrong that China gets away with subsidizing the people who are manufacturing and competing with Mr. Bodner and other people. That is illegal. Something should be done about it.

I was appalled to learn the other day in the GAO report on our Customs Service in many product areas—for example, textiles—less than one one-hundredth of one percent of what comes into this country is even looked at by anybody from Customs, so how we can say we are going to enforce our trade laws and we do not even know what is coming in is really very horrible.

I really do think the problem is China and others subsidizing the processing industries to the direct disadvantage of our companies, and if Mr. Bodner and his companies get put out of business we will have nobody to sell steel to, so we are very sympathetic to them. The evil is China. The evil is not the domestic mills.

Chairman MANZULLO. Mr. Bodner, did you want to respond to that? You do not have to, but I will give you the opportunity.

Mr. BODNER. I appreciate it. I very much appreciate, first of all, the chance to be able to be sitting right next to him. I very much appreciate that.

We can talk in absolutes. We can talk in generalities. There are always going to be exceptions, and we always can find that. I can only refer to what is reported in the press.

There is an article in the Wall Street Journal January 23, 2004, where a steel industry executive is quoted as saying: "We have put in surcharges on raw materials. At this point in time, with the addition of those surcharges, the price we charge our customers is up more than the cost of our raw materials." It goes on to say: "We will enjoy the higher margins in 2004 than in 2003 across all product lines."

Now, I want to be very clear that the scrap industry, with the scrap industry that we have, several customers, our customers are our suppliers of scrap, yet our customers are our consumers of scrap. In turn, our customers will also be the manufacturers of the products that our consumers are producing.

Our industry throughout history, and anyone who knows me for any length of time, they know that we seek relationships. We seek the dialogues. It is not us versus them. It is us in a way that we can continue to work together and so on and so forth.

Chairman MANZULLO. Let me ask you. Go ahead, Mr. Ross, please.

Mr. ROSS. I would just like to ask Mr. Bodner one question. Are your profits up so far this year, sir?

Chairman MANZULLO. This is interesting. Go ahead, if you would like.

Mr. BODNER. Our company is a private company, but I will share. I will have to say they are. Are your profits up?

Mr. ROSS. We, as we just reported, are not yet profitable.

Mr. BODNER. I would like to keep it in perspective. Mr. Chairman, if I could say this?

Chairman MANZULLO. Go ahead. Go ahead.

Mr. BODNER. When I speak, you see, I do not know the history and how far you go back, sir.

The history of our industry is that historically scrap prices are low. As I have said before, the history of our commodity is that it will trade at a good value because of the competition because if it does not trade at a good value———.

Chairman MANZULLO. My five minutes have expired so I am going to live by the same rules as you do.

Let me go to Ms. Velazquez because I want to leave plenty of time for the other Members of the Committee to ask questions.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Ross, at the end of your statement you mentioned that you have urged the President to invoke the 7.5 per annum import growth capping China's WTO accession agreement. What response have you gotten from the Administration?

Mr. ROSS. Well, we are in discussions with them. We have not received any commitment from them to impose the 7.5 percent annual growth limits.

Ms. VELAZQUEZ. What do you think at the end the Administration is going to do?

Mr. ROSS. I wish I did. I am a businessman, not a politician. I would defer to your judgment on that, ma'am.

Ms. VELAZQUEZ. Well, we are losing jobs, and this situation is part of failed economic and trade policies.

Mr. ROSS. Yes.

Ms. VELAZQUEZ. I hope that the President got an opportunity now to show that there is not a disconnect between what is going on in your part of the world.

Mr. ROSS. Yes. I think there is a serious disconnect because it is industry after industry that is getting the illegal subsidy from China.

It is hard enough to compete with $11 or $15 an hour labor against 89 cents, but when they also are having their companies—almost their whole textile industry loses money right now, and it is amazing that with 89 cent an hour labor they still lose money.

The banks make them loans to subsidize the loss. Then they forgive the loan. That is really tough to compete against, and it is wrong. That is why I think we should impose the caps.

Seven and a half percent a year is wonderful growth. Our country would be in heaven if we could grow seven and a half percent a year.

Ms. VELAZQUEZ. Mr. Ross, in your testimony you also mentioned that ISG has generally continued to price its product below your major competitors.

Mr. ROSS. That is correct, ma'am.

Ms. VELAZQUEZ. Can you provide this Committee with an overview of how ISG is able to achieve lower prices?

Mr. ROSS. Yes. The companies we have acquired thus far, namely Bethlehem, LTV and Acme, all had been bankrupt companies in part because of huge burdens for———.

Chairman MANZULLO. Could you pull the mike a little bit closer?

Mr. ROSS. I am sorry. In part because of huge burdens for unfunded pension liability, which they turned over to PBGC before we came on the scene. Second, they were burdened by vast sums for retiree health benefits, which they also canceled before we came on.

Collectively, those liabilities that were shucked off in the bankruptcy are $10 billion, so we do not have to earn that $10 billion. We can pass it on in lower prices, plus we made a new agreement with the steelworkers, which now is gradually becoming hopefully an industry standard, that lets the companies operate much more efficiently, so we are now using about one person hour to make a ton of steel, whereas the old companies have been using about two and a half people hours to make a ton.

Ms. VELAZQUEZ. Thank you, Mr. Ross.

Mr. Klinefelter, the Section 201 tariffs that were put in place to protect steel producers and allow them to get back on their feet, to what degree has the steel industry returned to profitability?

Mr. KLINEFELTER. Well, I think that in terms of profitability I do not think that we are there yet, but I think that look, I have heard this conflict here this morning about consolidation and concentration in the hands of just a few companies.

Well, I mean, U.S. Steel and ISG are only one-third of the U.S. steel industry out of 120 million tons, but the fact of the matter is this is the President's program. When the industry went to the President and said and the union said we want you to do something about the basic steel industry in this country, the President, his Secretary of Commerce and Secretary of Treasury said to us, yes, we will consider it if you consider consolidation. They strove for consolidation of the basic steel industry in the United States, and now they are getting it.

We are aware of the fact that there are companies where consolidation is not complete. There are other companies, I believe, which will be part of it. I think it is a necessary thing for the industry.

It was a necessary thing for the steelworkers, but let us not forget that hundreds of thousands of people have had their pensions reduced because of this situation and hundreds of thousands of retirees who can ill afford it. People between the ages of 55 and 65 and people over 65 have lost their supplemental health care because of what has happened here.

Look, you know, we are talking about prescription drugs. You know, look. Health care in this country is on the back of the private sector. We are talking about drugs.

Ms. VELAZQUEZ. Thank you. Thank you.

Ms. Hemme?

Ms. HEMME. Yes?

Ms. VELAZQUEZ. Thank you very much for your testimony. I heard you loud and clear. We need to act, and we need to do it now.

One of the issues that you raise is the lack of health care. This is a major issue for a small business to be able to retain workers. We passed an association health plan last year. I would encourage your industry to reach out to the Republican leadership because they are in control.

We passed this legislation. We voted this legislation out from the House, and all we need is the leadership from the White House to get this legislation acted upon on the Senate side.

Chairman MANZULLO. Thank you.

Congressman Chocola?

Mr. CHOCOLA. Thank you, Mr. Chairman. I would like to thank you all for joining us today.

Mr. Ross, I used to be a businessman. I am now a politician, but I have not been here long enough to totally have forgotten what business was like.

I was in the manufacturing business. We bought about 80,000 to 100,000 tons of galvanized steel a year. I just talked to the folks there at that company the other day. They are seeing 65 percent increases in their steel costs between January 1 and March 31. National Steel used to be headquartered in my district, so I have I guess some real life experience with this issue.

Maybe, Mr. Atwell, you could help on this as well. What capacity is the worldwide steel industry operating at right now?

Mr. ATWELL. Almost 100 percent. It is a billion ton industry, 900 million to a billion tons. Maybe there are five to 10 million tons in Europe.

I was marketing, and one of my clients said well, where is the excess capacity? We cannot find it. What you are seeing is really unprecedented.

If I could just add, there is a lot of pain here, which nobody is happy about, but I think what you are seeing is probably the maximum amount of pain. I have a chart in my testimony that shows prices almost vertical. In the time I have been in the industry, it has never happened before.

The process that people are dealing with now is short-term oriented. If they can figure out how to deal with this, prices would never go up for that long and never stay high very long, as you would probably remember, so I think we have to deal with this period, but essentially the industry is running flat out.

Mr. CHOCOLA. One other thing, Mr. Ross. You said you need about $40 a ton of EBITDA to cover. Since you do not have to bear the burden of some of these legacy costs, does that $40 cover your future liabilities with your future pension requirements?

Mr. ROSS. Yes. We do have a defined contribution pension plan, and in fact we put in a VEBT, voluntary employee benefit trust. Even though we had no legal responsibility to the retirees, we felt a moral responsibility, so as our profitability gets over $30 some odd dollars a ton we begin sharing incremental profit with the

VEBT to try to provide through the USWA some benefit, some recoupment of benefits to these old folks who have been unfortunately disadvantaged.

Mr. CHOCOLA. Is that the primary reason you stated that you think you are the low cost producer in the industry?

Mr. ROSS. Those reasons plus having bought the assets out of bankruptcy, we have less capital involved and, therefore, less borrowing expense. Those are the basic reasons.

Mr. CHOCOLA. Mr. Atwell, you are an equity analyst? Is that right?

Mr. ATWELL. Right.

Mr. CHOCOLA. What is your recommendation on steel industry stocks right now?

Mr. ROSS. Thank God you did not ask me that, Mr. Congressman.

Mr. ATWELL. Good question. We actually are recommending U.S. Steel. The reason is I am a pure capitalist I guess bottom line.

Chairman MANZULLO. Can I throw a disclaimer in here at this point so the SEC does not come after the Chairman or what?

Mr. ATWELL. Yes. I do not own any U.S. Steel, but actually I should say we have done business with them. We actually were just involved in an equity offering, so we probably have and will continue to try to get business from U.S. Steel.

I would recommend U.S. Steel because they have a very strong position in natural resources, they are in balance in iron ore, and they are long in coke. Everybody else is a net buyer of iron ore and they are a net buyer of coke, so U.S. Steel is selling coke, and the rest of the industry is buying.

U.S. Steel has a very strong position in Central Europe where they bought assets at 10 cents on the dollar, much like Mr. Ross did here in the United States. They are not buying much scrap. Unlike the mini mills, which have to pass on higher costs, they pass on higher prices, but do not have to pass on higher costs.

The industry is a tough industry. Forty-five percent of the industry has gone bankrupt in the last five years. To add a point, this is not an industry that has historically gouged people. It has been failing. They are finally trying to earn a profit here. It is a very troubled industry, and they finally have a chance to make some profit.

Basically it is a troubled industry. We think that is the most attractive of the names. I do not cover ISG, so I do not have an opinion on Mr. Ross' firm.

Mr. ROSS. Thank you.

Mr. CHOCOLA. I am almost out of time, so just real quickly. Mr. Stevens, welcome from a fellow Hoosier.

Your recommendation for a solution is to impose restrictions on export of scrap steel. Is that correct?

Mr. STEVENS. Yes.

Mr. CHOCOLA. I was not sure if I understood the steelworkers' position. Do you share that opinion or not?

Mr. KLINEFELTER. No, we do not at this time. We think that it is too early to do that. We think that this is a volatile thing. We think the price will come down.

Mr. STEVENS. Everybody talks about historical numbers, but I am worried about today and tomorrow. I do not care what happened 20 years ago or 30 years ago, what the historical average is. I am talking about our workers today. I am talking about the scrap surcharges that we are paying now.

The steel bar business that I am in is related, but a little bit different than the steel sheet that most of the people here at this table are talking about. The bars that we take and we forge into high strength parts for vehicles, the wheels, the hubs that hold your wheels on, the transmissions, the suspension parts, truck-trailer parts, high strength applications, need good quality scrap.

Although the high price of scrap is bringing more scrap out of the closets, so to speak, we have to talk about the quality of the scrap. You cannot take 1958 Oldsmobiles with big, chrome bumpers and put them into the mixes and come out with the quality steel that you need for precision steel bars and sheets today.

One of the things that is happening that has not been mentioned is the prime, prime steel scrap that, for instance, the three big auto manufacturers—GM, Ford and Chrysler—are producing, they are making deals with the steel mills directly, and they are keeping it out of the market, so we do not even have that prime area.

If we do not do something about the export of steel scrap, we all agree that China is out of control. That is a whole separate topic, but unless there is something to———.

Chairman MANZULLO. I do not think that is a separate topic because you are out of time.

Mr. STEVENS. Okay.

Chairman MANZULLO. Congresswoman Bordallo?

Ms. BORDALLO. Thank you very much, Mr. Chairman and our Ranking Member.

I have two questions for Mr. Atwell of Morgan Stanley. I apologize for coming in late. I did not hear your testimony, so you may have covered it, but I will ask it again.

Do you see the recent sharp increase in steel prices as a short-term bubble or problem? If so, would current world market conditions favor steel manufacturers in the United States in the effort to meet growing demands?

Mr. ATWELL. We are short on steel. We are a net importer of steel. We export about eight million tons, and we import about 23 million tons, so we have not been self-sufficient in steel for quite some number of years.

I look at what is happening now as temporary. There are three drivers—the weak dollar, very sharp growth in China and under-spending in infrastructure. Once again I get back to the history. This has not been a very profitable industry. There has been a lack of capital spending, so equipment has not been maintained.

What we are seeing is a great deal of stress on the business primarily emanating from China. China is growing like a weed, and they are putting a lot of stress on the global system. That is going to continue. You have seen metal prices across the board go up. Copper has almost doubled. Nickel has almost doubled. Aluminum is up sharply. Cobalt is up fourfold.

I view this as somewhat of a short-term problem. You have seen an exacerbation of the situation by virtue of underspending. People just have not been prepared for this. I do look at it as a bubble.

Ms. BORDALLO. In the short term.

Mr. ATWELL. History would tell you that prices are going to peak within a couple of months. They are either going up, or they are going down. They are never stable.

I think that if we leave the market alone it will solve this problem. Unfortunately, jobs are probably moving offshore because labor is cheaper elsewhere.

Ms. BORDALLO. I have another question that deals with the long-term effect of rising steel prices on manufacturing companies that require heavy steel input, especially in states like Michigan and Illinois.

Will the rising cost of steel put them out of business, or will steel inflation in other manufacturing countries with less resources give our manufacturers any kind of an advantage?

Mr. ATWELL. You have probably seen the statistic. The cost of health care for an automobile is higher than the amount of steel in the automobile. The manufacturing consumers we have talked to here, they probably have a high percentage of their cost for steel, but in most products it is a very low percentage.

Unfortunately, we will probably see the businesses move offshore, but in most products, unlike the people who have testified here, it is a rather small percentage of your total cost. I would say that we probably will lose jobs, but it is generally not a big percentage of the cost.

The one thing that is happening in China, if you look at what is happening there, their labor cost is very low, their capital cost is low, and they can build capacity very quickly. In our country, six percent of our costs are commodities. Two-thirds of our costs are labor.

In China, basically they can afford to pay a lot more for raw materials because their labor is so much cheaper and their capital is so much cheaper, so the business model would tell you it is very tough to compete in the United States when you are a manufacturer. It is unfortunate. It is just a law of economics.

Ms. BORDALLO. Thank you.

Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.

Congressman Shuster?

Mr. SHUSTER. Thank you, Mr. Chairman, and I thank all of you for being here today.

I believe I have read that part of the problem is there is a shortage of coke in the world. Is that accurate? Can you talk a little bit about, somebody that may know a bit about it, why is there a shortage of coke? Is it because of capacity, or is it raw materials? What is the situation caused by?

Mr. ATWELL. As you may know, coke is a product that is made out of coal. You buy metallurgical coal, and you roast it, and you drive off the volatiles, and you end up with something called coke that goes into making steel.

The steel industry has been very unprofitable. If we take National Steel, they usually would have to spend their depreciation to stay in business. They spent 10 percent of it. Depreciation was $200 million. They were spending $20 million a year.

The industry had such a small profit level they could not afford to maintain their equipment. Coke is very dirty.

Mr. SHUSTER. For coke?

Mr. ATWELL. For coke, yes. I mean in general, but coke in particular.

Mr. SHUSTER. Right.

Mr. ATWELL. It costs around $300 million to build a coke oven battery. People just frankly could not afford it.

China basically was dumping coke on the world market. They were the supplier of last resort. They dumped coke on the world market for $55. We paid $110 here. They ruined the business. No one could afford to compete with them.

Suddenly supply and demand got tight. The price is now somewhere between $200 and $400. In China, you cannot get coke to save your life. We have not spent the money to build our coke ovens because the industry was very unprofitable. Half the industry has gone bankrupt in the last five years.

What you have is an industry that was under stress suddenly is faced with a very tight market. That is really what is backing up a lot of this whole conversation is the tightness of coal. We are not sure there is going to be enough metallurgical coal to fuel the coke ovens once you have built them.

Probably within two or three years there will be enough coke capacity, but we are not sure there is going to be enough coal to fire those up.

Mr. SHUSTER. So right now it is capacity, but very well in the future it could be raw material?

Mr. ATWELL. It is capacity constrained, but then you are going to need the raw materials.

Mr. SHUSTER. You said how much was it to build a coke facility?

Mr. ATWELL. It is about $300 million to build a million ton battery.

Mr. SHUSTER. How much of that cost is driven by environmental regulation? Is that a tremendous problem there?

Mr. ATWELL. I am an equity analyst. I am guessing 20 percent.

Mr. SHUSTER. Is it similar to the refinery problems in this country, oil refineries? They have not built any because it is just too much burden to build them?

Yes, sir?

Mr. KLINEFELTER. Yes. The coke ovens are subject to Section 112 of the Clean Air Act, which is the hazardous pollution section of the Act. Those standards are very restrictive in terms of public health, so I think it has been very difficult to meet those standards.

I think the industry has probably done a very good job of getting as close as they possibly can, but they do add a considerable cost, the coke oven batteries.

I think the other thing is that unfortunately many of our places where steel used to exist in Pittsburgh are really clean, and people in those communities say we do not want it. I mean, that is a fact.

Mr. SHUSTER. Right.

Mr. ATWELL. Yes. The majority of your pollution problem in steel resides in the coke ovens. They are very dirty. The air is awful. If there is one thing you want to draw the line on it is coke ovens, so it is very, very difficult to get approval.

If you are probably only rebuilding old batteries, it is very tough to get approval. We will probably never see another oil refinery built in this country, and coke ovens are extremely difficult to build.

Mr. SHUSTER. As far as the situation with the escalating price of steel in this country, can you sort of divide it up into why it is under three sort of topics? The consolidation, that is part of it I know, but the world economy going up and this coke shortage.

Would you be able to put a percentage of what is causing the biggest problem? Are all three equal?

Mr. ATWELL. Well, I would say the consolidation really has not contributed very much, to be honest with you because imports are down 30 percent, and exports are up 40 percent. Consolidation is healthy for the industry because it is going to hopefully save some of the capacity so I do not think that has really contributed.

Really it all boils down to China. Eighty percent of what I do is try to figure out what is going on in China. What you have seen, just to give you some numbers, is in 1997 China produced 100 million tons of steel. They are now at about 240 million tons of steel. We think they will be 270 million by the end of this year, 300 million by the end of next year, and 400 million by the end of five years down the road, so they will have quadrupled their capacity.

The world does not have the resource to deal with that. It is not a very profitable business. Capital has not been committed to it, so the world is suddenly suffering because of demand. We would not even have this conversation if it were not for China. China is pulling in raw materials in every single sector. They are pulling in every type of scrap, and it has caused prices to go up across the board. It really revolves around China.

Mr. KLINEFELTER. Could I just add to that, Congressman?

I think it is the tip of the iceberg. Right now if you look at China, 53 percent of the steel is going into construction. Fifty-three or 54 percent is going into construction. It has not even touched the automobile market, which is five percent right now of Chinese steel.

We know by statistics that by the year 2006 they are going to be the fourth largest producer of automobiles in the world. Look, if you have 1.2 billion people, you know, you have low income, but you could end up with a middle class of 400 million people. Four hundred million people. That is a lot of cars and a lot of steel.

Chairman MANZULLO. Congresswoman Napolitano?

Mr. SHUSTER. Thank you.

Mrs. NAPOLITANO. Thank you, Mr. Chair. Let me get up closer. I am kind of short.

In listening to the testimony of all of you, I am struck by a couple of things. First of all, we have known for a few decades that the steel industry, the small manufacturing, had been hurting. Am I correct? I think most of you in small business understand where that has been.

Have you taken any steps to inform and educate your Congress people about what is happening in your backyard? What has been the response? Anybody?

Mr. HICKEY. Congresswoman, my representative is Bill Lipinski in Chicago. Congressman Lipinski has been wonderful in our discussions on these issues. We have talked at length about the problems of unfair trade, dumped products, loss of manufacturing.

You know, he certainly has tried very hard to work with all Administrations, the last Administration and the current Administration, to address some of these issues. All we keep asking for is let us enforce the trade laws. We do not get anybody here in any Administration that wants to talk about this.

Mrs. NAPOLITANO. Why do you think that is? Anybody?

Mr. HICKEY. Bring the former Secretary of the Treasury Reuben back and ask him.

Mrs. NAPOLITANO. No. I am———.

Mr. HICKEY. I do not know why. We cannot get an answer. We cannot get an answer.

We ask them why they want to export the middle class, why they want to export manufacturing jobs from the United States. We cannot get an answer from the past Administration or the existing Administration.

Mr. KLINEFELTER. Congresswoman, we have set ourselves on a low cost trajectory in this country. Zelwig, the Trade Ambassador, his favorite company is Wal-Mart. Let us just keep the prices down, keep the prices down, keep the prices down and trade away the good paying jobs because that is the way we should go.

You know, it is the whole idea of the way the global trade situation is set up now, and it is not to our advantage in terms of jobs. I do not know. The only ones who are going to turn that around is if the society takes a different tact.

I mean, these are policies. I mean, these are not laws of nature. These are things that can be changed. It takes the Congress of the United States and the Administration to do that, but it can be done.

Mr. STEVENS. Congresswoman, I have met with Senator Lugar, Senator Bayh and Congressman Mike Pence in our district. First of all, they have generally not been informed about the serious nature until I started meeting with them and bringing this information to them.

We are getting support slowly, but surely. We do hear a lot of comments about well, we believe in free trade and fair trade, and I think most people in this room would believe in the principles of free trade and fair trade, but I also think that most people in this room, that if you take a look at the reality, anybody that thinks we have free trade and fair trade in the international market also has to believe in the tooth fairy.

I mean, it is ridiculous what is out there, and as Americans we need to stand up and say enough is enough.

Mrs. NAPOLITANO. Why do you think then that the Administration does not want to enforce the lack of engagement into this debate, to go to the WTO and ask for the enforcement of China following the rules like we tried to? What is it? What is keeping us from doing that?

Certainly in the vote, when we took the vote to give them most favored nation status, that did not play into the debate. Why was it not brought up and said look, it is hurting you?

I get a little concerned because, number one, I found out from my businesses in my area a couple years ago, and we started a task force to find out where we were going with this. I brought it to the Chairman, and we have been bringing in the testimony.

Until you speak up and join forces, this Administration is not going to do anything. We are losing the jobs. We are exporting our economy, and yet we are sitting here still saying where are you? Why are you not moving on this, Administration?

Ms. HEMME. May I speak, Congresswoman?

Mrs. NAPOLITANO. Yes, ma'am.

Ms. HEMME. First of all, Mr. Manzullo is our representative, so he has———.

Mrs. NAPOLITANO. He does a fabulous job.

Ms. HEMME. He is absolutely wonderful. He spent a lot of time at this breakfast meeting that he discussed talking to the small business manufacturers in the Belvidere/ Rockford area. He has been addressing their needs the best that he can.

One thing that I have found is that people do not have the funds to necessarily help their Congress people or to talk to them. They do not feel comfortable. They are just small business owners just trying to make a nickel. That causes them not to group together and band to go after this.

I will tell you that my phone rang off the hook from the time—we have only known about this for three weeks, and I have been nonstop for three weeks on the phone with small, very small businesses. They are all concerned. They just do not know how to bring it.

They do not know the process, and they do not understand it. All they know is they want to provide jobs for the people that work for them. They are very ethically based and morally based, and they just want to provide a good living. Not even a great one. These are working class people here, not even necessarily middle class.

Mrs. NAPOLITANO. Thank you.

Mr. Chair, I request permission to enter into the record a letter that is being formulated by my small business manufacturers to enter into the record because apparently they were supposed to get it to you. I do not know if you have received it.

Chairman MANZULLO. Without objection. of course.

Mrs. NAPOLITANO. Thank you. Thank you.

Chairman MANZULLO. I have a couple questions here. Mr. Atwell, first of all with regard to scrap metal, does the United States have a trade surplus in that?

Mr. ATWELL. Yes. We are a net exporter of scrap. I think we export maybe about 20 percent of our scrap, something like that. I think we are about a 60 million ton nation, and we export 12 million tons right now. It does go up and down.

Chairman MANZULLO. How much did we import?

Mr. ATWELL. Virtually very little.

Chairman MANZULLO. Okay. Emanuel, you made a statement that no one seized upon, although there was an interesting discourse. You know, what a great moment in time to have this discourse taking place.

You said there is no shortage of scrap in the United States. Someone mentioned a 1958 Buick, and that was the machine that had the diamond teeth. Do you remember? Somebody called in the chromemobile. Did you mention that? Was that Bob?

Emanuel, talk to us about that. A lot of people said there is a shortage of scrap. There is no shortage of scrap? Obviously there is a shortage of scrap. You say there is no shortage of scrap. Talk to us about it.

Mr. BODNER. There are conflicting reports obviously. We heard them this morning. There is no shortage of scrap, sir.

This is just me speaking and our industry as well. It is not just me. It is the industry. We are concerned about manufacturing in the United States. The manufacturing sector is most important for the creation of jobs, the creation of the products, the creation of the wealth of our country. There is no question about that.

With the decrease in manufacturing in the United States, there is a grade of scrap which is produced from manufacturing. It is logical, therefore, that with certain grades of scrap, because the manufacturing base has decreased, there is a decrease in that grade of material. That is on the one hand.

On the other hand, though, the industry is resilient, and it produces a scrap. It will seek the available resources and produce a scrap and produce a scrap of quality, of consistency and of durability that will continue to meet the demands of the steelmaker.

You have heard experts on the steel side. I am going to speak from the scrap side. If I am wrong, I know I will be corrected. You make some steel just like you make a cake. You have some egg, you have some flour, you have a little salt, you have some pepper, and if you like chocolate chips you might put chocolate chips.

The same thing when you are making some steel. You add different varieties of scrap, different industrial specifications of scrap. You also add coke. If you are making some specialty grades, you add some specialty material.

This is history. This is nothing new. I go back again with my original testimony. As far as I know, as far as we are aware, there is no mill, there is no consumer in the United States, that has gone without scrap that needs scrap.

Chairman MANZULLO. Okay. Let me hold you right there. Does anybody disagree with that statement?

Mr. Stevens, is it your industry that represents the mini mills?

Mr. STEVENS. No. We represent consumers that buy from the mini mills.

Chairman MANZULLO. Okay.

Mr. STEVENS. I cannot speak for the mini mills other than to say that I know that the scrap situation is very tight, and this tight situation is what, together with the exports, is driving up the prices.

Chairman MANZULLO. The mini prices are saying there is a shortage of scrap?

Mr. STEVENS. There is a tight supply.

Chairman MANZULLO. Mr. Atwell, is that correct?

Mr. ATWELL. I have never heard them say there is a shortage. It is very tight, and it is a market that clears so what has happened is scrap is being pulled offshore. There is a shortage of coke and iron ore, and so scrap has been pulled offshore.

Freight rates are up sevenfold. If you are making steel in Europe, you need two and a half tons of raw material to make a ton of steel. If you bring in scrap, you need 1.1 tons of scrap to make a ton of steel. Freight rates have gone up from $5 to $25, so a lot of this relates to the freight shortage.

We are seeing the dry bulk freight is backed up loading iron ore in Australia and unloading it in China. Fifteen percent of the freight is tied up in the world in ports because of congestion, so that has raised the freight rates sevenfold.

This whole thing backs up and is very circular, so I would not say there is a shortage. I would say it is extremely tight, and the person willing to pay the most gets the scrap.

Chairman MANZULLO. I have another question, but, Mrs. Velazquez, did you want to have some more questions? I do not want to take your time.

Ms. VELAZQUEZ. No, Mr. Chairman.

Chairman MANZULLO. Mr. Shuster, did you have any more questions you wanted to ask?

Mr. SHUSTER. No.

Chairman MANZULLO. I want to ask Les a question. Les, before the tariffs went into effect, you used to buy a substantial amount of specialty steel for your barrels from South Korea because you had a problem with the American mills were not using the special treatment to make these barrels as I guess nonpermeable as possible.

What has happened with that supply?

Mr. TRILLA. We bought from Korea due to cleanliness issues, and we were able to lower our cost for high grade drums going into food products and hazardous products.

We use the specialty steel, as you recall, to produce a higher grade, higher quality drum for better coatings, et cetera, et cetera. We always were a domestic buyer, but we had to go offshore for quality of cleanliness.

Chairman MANZULLO. And you paid more for that, did you not?

Mr. TRILLA. I paid more for the steel, right. They will not come back.

You know, contrary to what we are hearing from the panel here, I am requesting that the government relax all the quotas and all the restrictions in this shortage period of time. You know, we allow Korea, we allow these other countries that may have been criminal, as they were called earlier, to come back into our marketplace because in the world market, the world market for my product, and I just returned this weekend from an international meeting in Spain. Tough duty, but I just returned.

We compared pricing as we do in our raw materials, et cetera, and the product that goes into our product costs right around $400 to $450 a ton in Europe and the Far East, and now in the United States it is going to be over $800 a ton. I would like to know the answer to that. Why do we have to pay $800 a ton if we have consolidation, we have government intervention, and I do not want to pick on Mr. Wilbur who is gone, but it is government subsidized.

If his industry does not have the hospitalization or the pension liabilities that my company has and every other company has, that is government intervention just like China.

We do not have the luxury of small businesses that have that. Bankruptcy worked in his industry. Thank you. He paid less for his company. The steel industry now has lower costs because of all this government subsidy.

What about us? Let us open it up to the world market. Let us get the world market cooking again. We could take action against China, but let the doors open up.

Chairman MANZULLO. Mr. Klinefelter, you had a response?

Mr. KLINEFELTER. Yes. In terms of this government subsidy for the retirees' health care and pensions, PBGC is a government corporation that the companies pay fees to in order to provide the benefits, as you know, for these pension plans when they go bankrupt, so it is not the government that is proving these benefits. It is what is collected from the corporations who are members of the PBGC.

As for health care, there is no health care. All there is is medicare. If we want to give up medicare, I suppose there is that, but there is no government subsidy for any of the 250,000 retirees who have lost their health care in this situation.

Mr. TRILLA. I agree with that statement, Mr. Chairman. I am not saying that the employees—they got hurt. The corporations, U.S. Steel, ISG, et cetera, are benefits of these government subsidies which add to the profitability, which we hear we should buy U.S. Steel stock, and I agree with that, but, you know, the small manufacturer, the jobs that we place. You need employees.

As we heard earlier, I have hospitalization costs for———.

Chairman MANZULLO. You still work for a union, do you not?

Mr. TRILLA. The second operation I bought in St. Louis was non-union. We put a union in there. We run union shops. We believe in union shops, but, you know, our people are getting hurt.

Chairman MANZULLO. He is a Republican, Bill. I just want you to know that.

Mr. TRILLA. Yes. I am a Republican.

Mr. KLINEFELTER. Some of our best employees are Republicans.

Chairman MANZULLO. There you are. You bet.

Mr. KLINEFELTER. Including U.S. Steel.

Mr. TRILLA. But still, you know, we as a small industry, a small world out here, which probably represents 60 or 70 percent of gross national product, our employees are suffering, and the big companies—once again, it is a big industry, and I am sorry I am not a big industry.

They are getting all the advantages, all the abilities. They get all the steel they want. My biggest competitor gets all the steel it wants from the gentleman that left the room, and he does not have a salesman that calls in Chicago.

Chairman MANZULLO. Mr. Stevens?

Mr. STEVENS. Gentlemen, the whole program, as Mr. Atwell talked about what happened in the coke industry. China builds their coke industry. They sell the product at half the world price.

They drive the American manufacturers out of business, and then they come back. There is nobody left in the United States, and we get into this situation which it is a vicious circle that drives more jobs offshore.

The same thing that Bill just mentioned about what is happening with all of the steel mills being built and the capacity in China with bad credit. They already have $500 billion of bad debt that they admit to, and everybody estimates it is double that. They are still giving credit out to anybody that can breathe with no hope of it getting paid back.

This is the big problem. We are allowing this situation to expand where it is going to put everybody in the whole damn world out of business because they are out of control.

Chairman MANZULLO. Mr. Bodner, and then I want to go ahead and conclude. Go ahead.

Mr. BODNER. I would just like to remind everyone here that we certainly understand the difficulty of the industry, but do not forget the scrap industry, that while scrap pricing could be somewhat high at this point, that our industry has come off since the 1980s. That was a very hard period of time.

Historically, scrap prices are low. There are some spikes, as was discussed here today. Those are already being corrected. The answer is not inputting controls on scrap. That is clear. The evidence I have not seen today would suggest that that would be our solution.

Chairman MANZULLO. This has been a fascinating panel with the major players being involved in it.

I want to take the opportunity to thank you for coming to Washington, for sharing your concerns with us. It has been extremely enlightening. I enjoyed the exchanges on it.

This hearing is adjourned.

[Whereupon, at 12:45 p.m. the Committee was adjourned.]

Statement of Chairman Donald A. Manzullo

House Committee on Small Business

Hearing

The Spike in Metal Prices: What Does it Mean for Small Manufacturers?

March 10, 2004

Good morning and thank you all for being here today as we examine the recent spike in metal prices, particularly in the steel industry, and its effects on small manufacturers. I would especially like to thank those of you who have come great distances to be with us today.

A few weeks ago, I started receiving calls from several manufacturers in the district I am privileged to represent regarding an unexpected and unprecedented increase in steel prices. For an industry still reeling from the effects of the 18-month tariffs period in which they saw price increases of up to 50 percent, this was not welcome news.

When the tariffs were lifted on December 4, 2003, American manufacturers were expecting, at the very least, a stabilization of prices, and many had anticipated reductions in the price of steel. What they got was the exact opposite.

Instead, steel prices have surged since the tariffs were rescinded. According to some industry reports, prices have almost doubled—*in the last 4 months alone!*

For example, according to the trade publication American Metal Market, the price of hot-rolled steel, one of the most widely used types, has soared by more than 80 percent in the last year, and by almost half since December 2003.

The prices of other metals have also risen dramatically in recent weeks. The price of copper soared to an eight-year high of nearly $3,000 a metric ton during the third week in February and the price of nickel has more than doubled in the last year.

These unprecedented increases are nearly impossible for manufacturers to absorb. They are caught in the middle between their suppliers and their customers. They need steel and other metals to fulfill contracts already obligated, but they are seeing surcharges added to quoted prices from their suppliers that they cannot pass along to their customers due to contractual constraints. I have also been informed by some of the manufacturers in my district that they are being told there is no steel available for them, even though they have long-standing contracts in effect. Talk about being stuck between a rock and a hard place.

That said, we're not here today to point fingers or place blame on any one segment of the industry. I am deeply concerned about the effects these price increases are having on the small manufacturers.

I recognize one of the factors contributing to this situation is the massive industrialization of the People's Republic of China. Due to what equates to state subsidized business practices coupled with artificially deflated currency, Chinese companies are able to absorb global price increases in both raw and finished products.

As I've said before, as a Nation, the United States must exert more pressure on the Chinese government to comply with the World Trade Organization's requirements and to stop manipulating their currency. They're not playing fair, and it's killing our businesses here in the United States.

It appears as if there is not one single factor that would indicate why prices have risen to the degree they have, but rather a culmination of many factors. There is no quick fix here. The goal of the hearing is to discover what caused various metals prices to rise so high and so fast, and also what affect it has had on U.S. small manufacturers.

Again, I would like to remind all of our witnesses that we are not here today to point fingers or place blame on any one part of the industry. We're interested in the root cause of the price increases and to determine if there is any middle ground on which we can work together.

U.S. House of Representatives
Committee on Small Business

Testimony of Wilbur L. Ross, Jr.

March 10, 2004

Mr. Chairman and Members of the House of Representatives Committee on Small Business, thank you for inviting me to testify today. International Steel Group ("ISG") has been surprised by the magnitude and rapidity of the ongoing surge in our costs and in steel prices both here and abroad. This is a global phenomenon, not something peculiar to the U.S. ISG does not like wild fluctuations in steel prices and therefore did not initiate any of the steel price increases, has lagged implementing them and generally has continued to price its products below our major competitors. We can do so because we are probably the lowest cost U.S. producer. If prices were to remain at current elevated levels for any long period of time other materials would be substituted for steel; so ISG would prefer lower price levels and is confident that steel prices will soon decline. You can see from Exhibits 1, 2 and 3 that spot prices in China, Europe and the former Soviet Union also have shot up lately to levels similar to the U.S., and it costs an additional $70 per ton to ship steel from abroad to the mid west, so imports cannot solve the problem.

There are several reasons why steel prices have been so volatile (Exhibit 4 and 5). The price spike in the second quarter of 2002 was due partly to the President's imposition of temporary tariffs but primarily to the bankruptcy shut-down of the LTV and Acme facilities, 10% of the industry. As soon as ISG acquired and reactivated those plants, prices went back down even though the tariffs remained in place, proving that the tariffs were only a minor factor. Also, at $230 per ton for hot-rolled band ("HRB"), prices at the trough early in 2002 were unsustainably low. No steelmaker in the U.S., Europe, or

China could deliver quality product to the U.S. market profitably at that price. You can see from Exhibit 4 that prices then were far below the levels in the early Nineties even though costs have increased since then.

In fact, even with the recent price increases, the steel industry is not getting rich. Some 15 steel companies are in bankruptcy today and most U.S. steel companies have been unprofitable in almost every quarter since 2000. The industry will be profitable this year but the reason why the industry has not reaped vast profits even with these price increases is that input costs have risen at an extraordinary rate and about 50% of integrated mill revenues are on long-term contracts which do not automatically adjust to reflect increased costs. In contrast, small and mid-sized steel buyers purchase their steel in the volatile spot market rather than the contract market. They have made the speculative decision not to lock in steel prices when they quote prices of their product for future delivery. This strategy works well for them in some years and poorly in others such as the present. One idea that Congress might consider to help small businesses is a program of insurance against wildly fluctuating prices of steel and of other commodities for which there is no futures market.

In any event, the major raw materials needed by an integrated mill to make a ton of hot-rolled band, the steel industry's generic commodity sheet product, are 1.6 tons of iron ore, 0.4 tons of coke, 0.2 tons of scrap and 2.5 MBTU of natural gas. Exhibits 6 through 9 show that in the past two years these commodities have added approximately $178 to the cost of a ton of steel. Further, higher raw material costs tie up higher amounts of capital in inventory and accounts receivable borrowings. Incremental interest expenses, even at today's low rates, add another $4 per ton to costs. Increased wages, property taxes, insurance, electricity, etc. add another $6 per ton.

Assuming that half of one's business is conducted under contracts that do not escalate rapidly, the spot price half of the business must go up faster to avoid insolvency. In ISG's case, 56% of our output is sold on contracts.

The steel industry needs about $40 per ton of EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) just to cover its debt service and make necessary capital expenditures. At the trough, EBITDA losses were about $8 per ton, so $48 per ton of price increases were needed just to sustain operations. This level, however, would not make up for the cumulative $132 per ton of industry losses from 2001 through 2003. Cyclical industries must earn back in strong markets the money they lost in weak markets or they will not survive. To recoup these losses over the next five years would require an average of $26 per ton each year. As Exhibit 10 demonstrates, the factors enumerated above are why the price had to go from $230 to at least $560, even without recoupment of prior losses.

Raw material costs have been the real culprit and each component has a different dynamic. Scrap is the easiest to analyze. There are an estimated 8 billion tons of scrap in the global reservoir as compared with annual consumption of about 340 million tons. At low scrap prices, it was uneconomical to recover more scrap; but now, it is very profitable to reclaim scrap and since scrap is mainly stored outdoors, it is easier to recover during the warmer months. For these reasons, within the next few months, the scrap supply–demand imbalance will correct itself. To help assure this, ISG is tearing down and scrapping some formerly idled equipment. Unfortunately, Russia and the Ukraine apparently are restricting scrap exports and therefore hurting international mills. Our government should move against these constraints on international trade.

Coke shortages also will be ameliorated. One coke problem has been the fire at the Pinnacle underground coking coal mine, which caused U.S. Steel to declare force majeure and cut many steel customers back 15%. This will be corrected by June 30. China had a similar mine fire this year which has restricted its exports of coke and raised international prices. Coke is also in short supply because, during the money losing years, LTV and other companies permanently abandoned coke facilities. ISG recently arranged for Sunoco to build a $150 million coke plant for us. Others will soon do the same, so before long coke prices should fall. The outlook for gas prices is more difficult. Our country's reserves are dwindling and there is no material increase in gas exploration efforts so far. Therefore, this component of costs may be sticky and so will electricity prices because of gas, oil and coal prices.

The current steel price spike in the U.S. and globally will be short lived, but material costs will probably not go down enough to let prices drop back to the recent lows. Although ISG believes that the shortages will be short lived, we are ramping up our last facility, Cleveland West, to its 750,000 ton per year capacity beginning in April.

Most U.S. integrated mills now have lower costs than European or Japanese ones and ISG is even competitive with Mexico and other emerging nations. Therefore, if President Bush can convince foreign governments to stop subsidizing steel, our domestic industry and its customers will actually have a cost advantage over most of our international competitors.

A high proportion of this year's increase in steel prices has been in the form of material cost surcharges that will automatically go away as costs come down. Most of our major customers have, in turn, been able to pass along surcharges to their customers, but some of our smaller customers are locked into contracts with their customers, and lack the "pricing power" to pass on the increases. We are recommending that all of our customers either match buying and selling contract prices, or charge prices for their products that change automatically with steel prices.

There have been suggestions that steel scrap exports should be limited. This action would impact the Chinese steel industry and they could retaliate by reducing their substantial coke exports to the U.S., exacerbating that problem. Also, in view of our staggering Balance of Payments deficit, it would be ludicrous to reduce our exports. It would be much more effective to convince China to unhinge its currency from the dollar. Similarly, China subsidizes its steel consuming industries and other manufacturers such as textile mills, thereby enabling them to charge artificially low prices. This illegal and unfair subsidization squeezes the profits of automotive industry suppliers and other steel consuming companies in the U.S. This is wrong. Steel hasn't been cheaper abroad than in the U.S., and the US steel consuming manufacturers are very efficient so they would be globally competitive on a level playing field. The ugly truth is that the U.S. does not enforce its trade agreements but other countries do. As you may know, WL Ross & Co. is also in the textile industry, and we have urged the President to invoke the 7.5% per annum import growth caps in China's WTO accession agreements. This would help small and large apparel and textile companies and would send an immediate wake-up call to China to stop subsidizing its exporters. Our country cannot afford foolish trade masquerading as free trade.

EXHIBIT 1

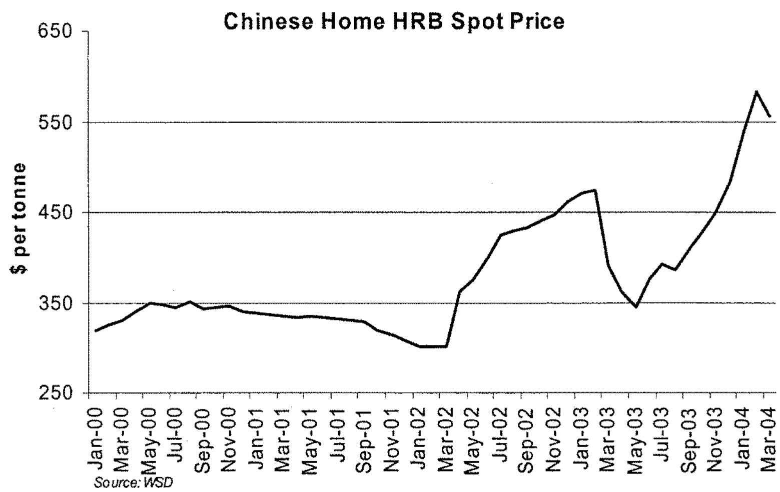
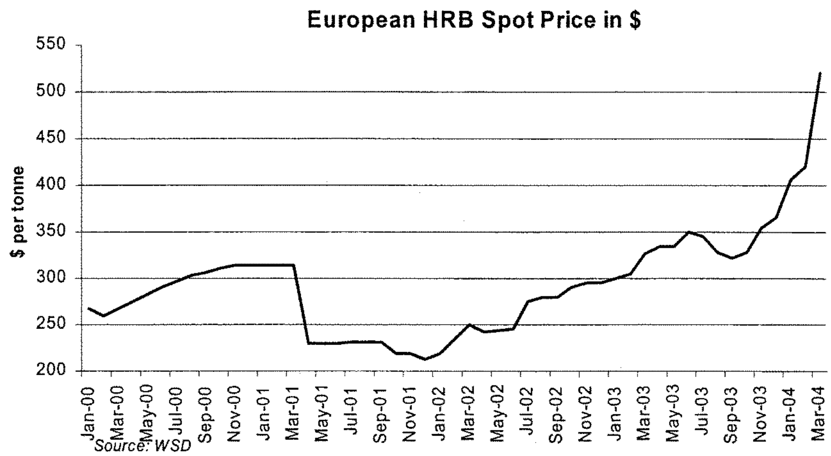

Chinese Home HRB Spot Price
650
550
450
350
250
$ per tonne
Jan-00
Mar-00
May-00
Jul-00
Sep-00
Nov-00
Jan-01
Mar-01
May-01
Jul-01
Sep-01
Nov-01
Jan-02
Mar-02
May-02
Jul-02
Sep-02
Nov-02
Jan-03
Mar-03
May-03
Jul-03
Sep-03
Nov-03
Jan-04
Mar-04
Source: WSD

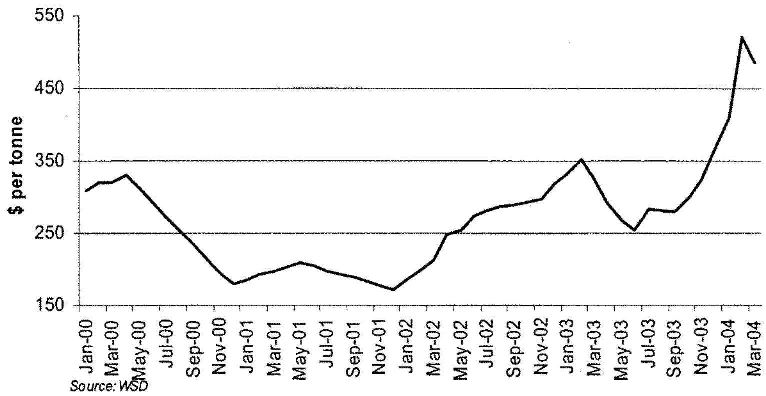
EXHIBIT 2



Source: WSD

EXHIBIT 3

Russia and Ukraine HRB Spot Price



Source: WSD

EXHIBIT 4

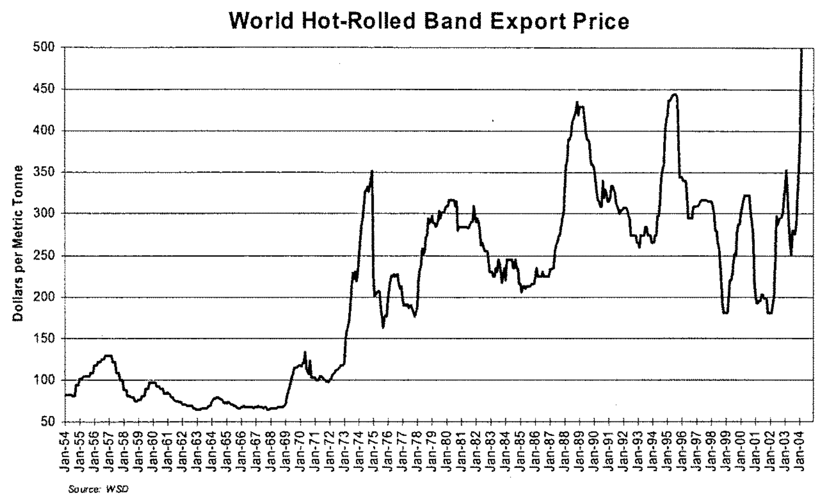

World Hot-Rolled Band Export Price
Dollars per Metric Tonne
500
450
400
350
300
250
200
150
100
50
Jan-54
Jan-55
Jan-56
Jan-57
Jan-58
Jan-59
Jan-60
Jan-61
Jan-62
Jan-63
Jan-64
Jan-65
Jan-66
Jan-67
Jan-68
Jan-69
Jan-70
Jan-71
Jan-72
Jan-73
Jan-74
Jan-75
Jan-76
Jan-77
Jan-78
Jan-79
Jan-80
Jan-81
Jan-82
Jan-83
Jan-84
Jan-85
Jan-86
Jan-87
Jan-88
Jan-89
Jan-90
Jan-91
Jan-92
Jan-93
Jan-94
Jan-95
Jan-96
Jan-97
Jan-98
Jan-99
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Source: WSD

EXHIBIT 5

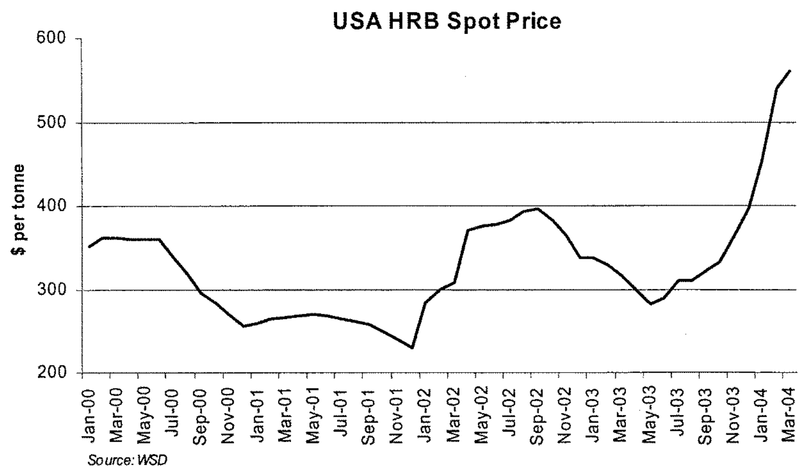

USA HRB Spot Price
$ per tonne
600
500
400
300
200
Jan-00
Mar-00
May-00
Jul-00
Sep-00
Nov-00
Jan-01
Mar-01
May-01
Jul-01
Sep-01
Nov-01
Jan-02
Mar-02
May-02
Jul-02
Sep-02
Nov-02
Jan-03
Mar-03
May-03
Jul-03
Sep-03
Nov-03
Jan-04
Mar-04
Source: WSD

EXHIBIT 6

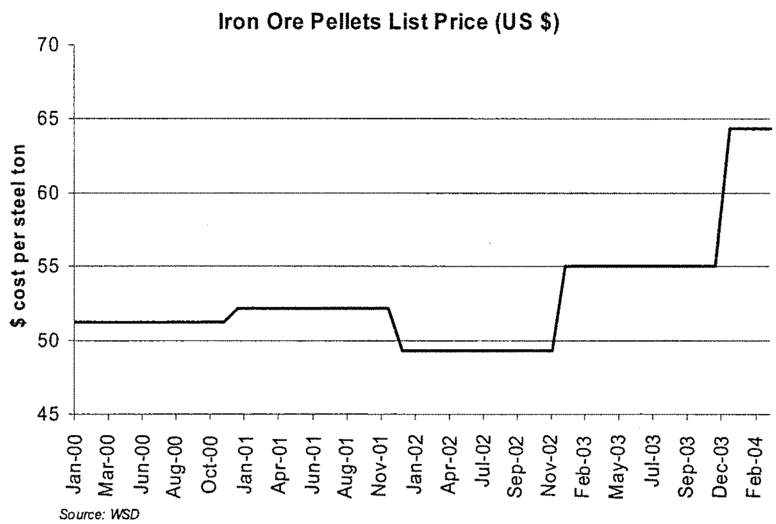
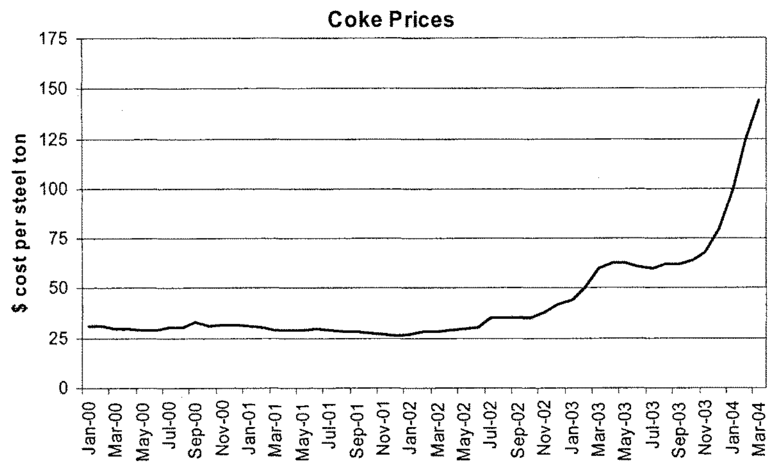
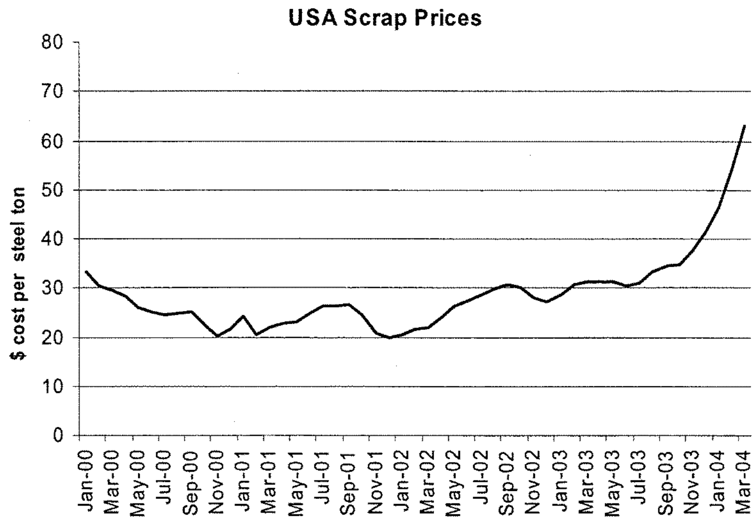

Iron Ore Pellets List Price (US $)
$ cost per steel ton
70
65
60
55
50
45
Jan-00
Mar-00
Jun-00
Aug-00
Oct-00
Jan-01
Apr-01
Jun-01
Aug-01
Nov-01
Jan-02
Apr-02
Jul-02
Sep-02
Nov-02
Feb-03
May-03
Jul-03
Sep-03
Dec-03
Feb-04
Source: WSD

EXHIBIT 7



Source: WSD

EXHIBIT 8



Source: AMM

EXHIBIT 9

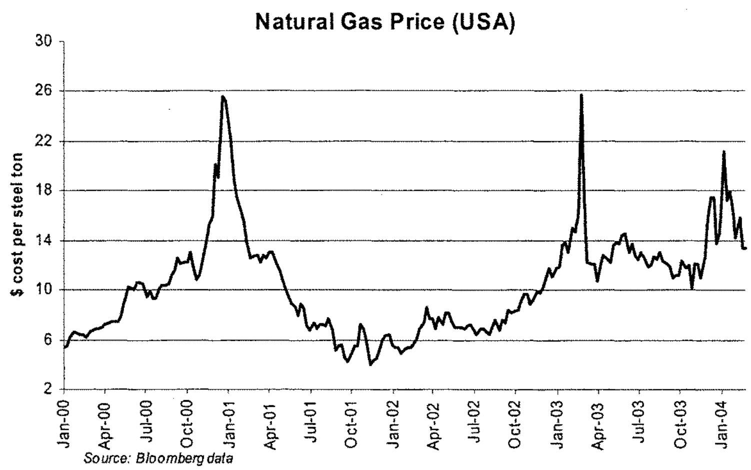

Natural Gas Price (USA)
$ cost per steel ton
30
26
22
18
14
10
6
2
Jan-00
Apr-00
Jul-00
Oct-00
Jan-01
Apr-01
Jul-01
Oct-01
Jan-02
Apr-02
Jul-02
Oct-02
Jan-03
Apr-03
Jul-03
Oct-03
Jan-04
Source: Bloomberg data

EXHIBIT 10

WHY THE PRICE OF HRB CHANGED FROM $230 TO $500+

Amounts per Ton	
$230	Trough price of Hot-Rolled Band ("HRB")
8	Bring trough to break-even EBITDA
40	Subsistence level EBITDA
178	Raw material cost increases
6	Miscellaneous cost increases
4	Extra interest expense
94	Costs unabsorbed on contract *
$560	Spot price per ton of HRB **

* Assuming 50% contractual business.

** Mini mills might need different prices because they are more dependent on scrap.

Morgan Stanley

Comment | Page 1

Equity Research
North America

Industry

Steel

Wayne Atwell
+1 (1)914 225 4802
R.Wayne.Atwell@morganstanley.com

Industry Overview

March 10, 2004

Presentation to the House Committee on Small Business

GICS SECTOR	MATERIALS
US Strategist Weight	2.9%
S&P 500 Weight	2.9%

- **What Caused the Spike in Steel Prices**

The sharp runup in domestic steel prices has its origin in a complicated set of domestic and international factors. We believe the three primary driving forces are the weak US dollar, sharp economic growth in China, and underspending on infrastructure.

The following are comments to be delivered on March 10, 2004, before the House Committee on Small Business.

Please see analyst certification and other important disclosures starting on page 5.

Presentation to the House Committee on Small Business

The sharp runup in domestic steel prices has its origin in a complicated set of domestic and international factors. We believe the three primary driving forces are the weak US dollar, sharp economic growth in China, and underspending on infrastructure.

The weak dollar has driven up the cost of imports, which has provided a pricing umbrella over the domestic steel industry. China's steel consumption has grown much faster than anticipated and has put a strain on the global raw-material industry. We will discuss this later. The metals industry has not generated a satisfactory level of earnings and cash flow, and it has not been expanding capacity. These factors have all been interrelated; shortages in one area, i.e., coal and iron ore, have put upward pressure on the demand for scrap and have forced prices up sharply.

The return on shipping has been relatively poor over the last 10 years, and the global fleet for dry bulk freight has not been expanded sufficiently in recent years. The rapid growth in Chinese steel production has required a sharp increase in dry bulk capability. Ports in Australia and China have not been expanded sufficiently to handle this, and 15% of the global dry bulk fleet is tied up in port congestion, loading and unloading iron ore. This has put severe upward pressure on freight rates, which are up between fivefold and sevenfold over the past 18 months. It should take a year to expand the port capacity and 2–3 years to expand the dry bulk fleet in order to alleviate limited shipping capability. High freight rates have driven up the cost of moving iron ore and coal to Europe and Asia from Brazil, South Africa, and Australia. This has driven up the cost of raw materials in the U.S.

China has historically been a source of low-priced coke. The rapid growth in China's steel industry has forced the Chinese to cut back coke exports. The Chinese coke export price has risen from $55 per ton to between $200–300 per ton. The increased demand for coke has put pressure on the met coal market, and last month China was actually a net importer of met coal versus a typical exporter of one million tons per month. U.S. met coal prices have risen from $40 per ton a year ago to between $125–200 per ton today. A fire at a U.S. met coal mine has caused a shortage of domestic coke.

The sharp increase in the demand for steelmaking raw materials and their short supply have forced up costs for the integrated steel companies and resulted in several domestic steel companies cutting back production due to lack of raw-material availability.

The steel industry has turned to scrap for a source of iron units, and scrap in the U.S. domestic market has risen from an average of $110 per ton in 2002 to as much as $300 per ton today.

Steel and scrap prices are up around the world, and steel consumers overseas are facing similar cost problems.

Domestic steel pricing has not kept up with inflation over the last 20 years, and approximately 45% of the U.S. industry has gone through bankruptcy-law proceedings over the last five years. Due to the current environment, spot flat-rolled steel prices have more than doubled over the last year to between $550–600 per ton. However, we believe scrap prices are within 1–2 months of peaking, which should force spot flat-rolled prices down, as well.

In summary, we believe many factors have combined to drive scrap and finished steel prices higher. Steel prices have risen all over the world, but are among the highest in the U.S. We believe scrap prices will peak in 1–2 months and drive steel prices down beginning in mid-2004. Steel prices are close to or at all-time highs, driven up primarily by higher input costs. The cost pressures are too great for the steel industry to absorb, and the industry has passed its higher costs on to its customers, including the imposition of a rather large scrap surcharge.

We believe steel consumers must find a way to pass higher costs on, as well. If the marketplace is permitted to work, we believe steel prices will be meaningfully lower in 6–12 months. We believe it usually works out best if the market rations product. Unrestricted pricing usually stimulates supply, which brings down prices.

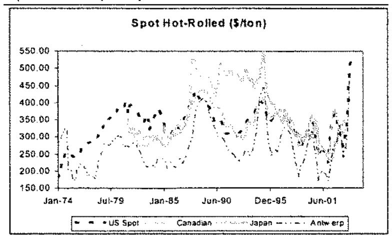
Please see analyst certification and other important disclosures starting on page 5.

Other Metal Prices

The prices of other metals have risen sharply over the last year due to the weak dollar, significant growth in demand from China, and underspending on infrastructure.

Exhibit 1

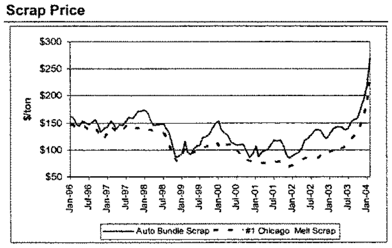
Spot Prices (HRB) $/ton



Source: World Steel Dynamics

Exhibit 2

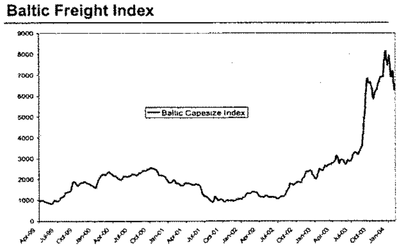
Scrap Price



Source: American Metal Market

Exhibit 3

Baltic Freight Index



Source: Bloomberg

Exhibit 4

US Steel Market

	(000 tons) Apparent Consumption	Shipments	Imports	Exports
1980	95,196	83,805	15,492	4,101
1981	103,942	86,948	19,898	2,904
1982	74,688	59,844	16,683	1,839
1983	83,104	67,226	17,076	1,198
1984	98,246	73,054	26,172	980
1985	95,782	72,435	24,279	932
1986	89,437	69,688	20,678	929
1987	95,864	76,686	20,305	1,127
1988	102,305	83,483	20,891	2,070
1989	96,888	84,144	17,320	4,576
1990	97,495	84,889	17,161	4,555
1991	88,081	78,790	15,637	6,346
1992	94,618	81,834	17,072	4,288
1993	103,686	88,154	19,501	3,968
1994	121,377	95,136	30,066	3,826
1995	114,909	97,658	24,331	7,080
1996	124,263	100,130	29,164	5,031
1997	130,039	104,958	31,116	6,036
1998	138,393	102,463	41,449	5,520
1999	134,354	103,912	35,869	5,426
2000	140,129	108,702	37,957	6,529
2001	122,559	98,554	30,149	6,144
2002	125,649	98,971	32,686	6,009
2003e	118,900	104,100	23,010	8,200
2004e	120,000	105,000	22,000	7,000
2005e	124,000	105,000	25,000	6,000

e = Morgan Stanley Research Estimates

Source: Global Insights

Presentation to the House Committee on Small Business – March 10, 2004

Exhibit 5

Chinese Steel Statistics

(000 tonnes)

	Crude Steel Production	YoY %	Finished Steel Products	YoY %	Net Imp	YoY %	Annual Apparent Consumption	YoY %	Annual Volume Increase
1996	100,060	6.6%	85,479	7.5%	13,787		99,266	13.4%	11,694
1997	107,897	7.8%	94,636	10.7%	8,600	-37.6%	103,236	4.0%	3,970
1998	114,063	5.7%	104,093	10.0%	8,810	2.4%	112,903	9.4%	9,667
1999	123,643	8.4%	119,399	14.7%	11,190	27.0%	130,589	15.7%	17,686
2000	126,316	2.2%	131,099	9.8%	9,750	-12.9%	140,849	7.9%	10,260
2001	142,542	12.8%	156,236	19.2%	12,470	27.9%	168,706	19.8%	27,858
2002	179,710	26.1%	191,067	22.3%	19,030	52.6%	210,097	24.5%	41,391
2003	219,340	22.1%	233,382	22.1%	30,240	58.9%	263,622	25.5%	53,524
2004e	244,521	11.5%	260,474	11.6%	29,500	-2.4%	289,974	10.0%	26,352
2005e	270,214	10.5%	289,070	11.0%	28,500	-3.4%	317,570	9.5%	27,596
2006e	298,500	10.5%	316,565	9.5%	23,200	-18.6%	339,765	7.0%	22,194

e = Morgan Stanley Research Estimates
Source: CEIS, Morgan Stanley Research

Please see analyst certification and other important disclosures starting on page 5.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: R. Wayne Atwell

Important US Regulatory Disclosures on Subject Companies

The information and opinions in this report were prepared by Morgan Stanley & Co. Incorporated and its affiliates ("Morgan Stanley").

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Global Stock Ratings Distribution

(as of February 29, 2004)

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight	604	34%	252	40%	42%
Equal-weight	800	45%	277	44%	35%
Underweight	385	22%	103	16%	27%
Total	1,789		632		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months. Ratings prior to March 18, 2002: SB=Strong Buy; OP=Outperform; N=Neutral; UP=Underperform. For definitions, please go to www.morganstanley.com/companycharts.

Analyst Industry Views

Attractive (A). The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark named on the cover of this report.

In-Line (I). The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark named on the cover of this report.

Cautious (C). The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark named on the cover of this report.

Stock price charts and rating histories for companies discussed in this report are also available at www.morganstanley.com/companycharts. You may also request this information by writing to Morgan Stanley at 1585 Broadway, 14th Floor (Attention: Research Disclosures), New York, NY, 10036 USA.

Other Important Disclosures

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks. Research is available through your sales representative or on Client Link at www.morganstanley.com and other electronic systems.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

This report is not an offer to buy or sell any security or to participate in any trading strategy. In addition to any holdings disclosed in the section entitled "Important US Regulatory Disclosures on Subject Companies", Morgan Stanley and/or its employees not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Morgan Stanley or associated persons.

Morgan Stanley & Co. Incorporated and its affiliate companies do business that relates to companies covered in its research reports, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, investment services and investment banking. Morgan Stanley sells to and buys from customers the equity securities of companies covered in its research reports on a principal basis.

Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

With the exception of information regarding Morgan Stanley, reports prepared by Morgan Stanley research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.

This publication is disseminated in Japan by Morgan Stanley Japan Limited; in Hong Kong by Morgan Stanley Dean Witter Asia Limited; in Singapore by Morgan Stanley Dean Witter Asia (Singapore) Pte., regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Dean Witter Australia Limited A.B.N. 67 003 734 576, a licensed dealer, which accepts responsibility for its contents; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of this publication in Canada; in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that this document has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc., which accept responsibility for its contents; and in the United Kingdom, this publication is approved by Morgan Stanley & Co. International Limited, solely for the purposes of section 21 of the Financial Services and Markets Act 2000 and is distributed in the European Union by Morgan Stanley & Co. International Limited, except as provided above. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International Limited representative about the investments concerned. In Australia, this report, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Morgan Stanley

The Americas	Europe	Japan	Asia/Pacific
1585 Broadway New York, NY 10036-8293 United States Tel: +1 (1)212 761 4000	25 Cabot Square, Canary Wharf London E14 4QA United Kingdom Tel: +44 (0)20 7425 8000	20-3, Ebisu 4-chome Shibuya-ku, Tokyo 150-6008, Japan Tel: +81 (0)3 5424 5000	Three Exchange Square Central Hong Kong Tel: +852 2848 5200

March 8, 2004

Testimony

Mr. Chairman, I want to thank you and the other members of the committee for this invitation to address the issue of the spike in metal prices and what this will do to small manufacturers across this country.

My name is Bill Hickey. I am here today representing the Metals Service Center Institute and the company that I am president of – Lapham-Hickey Steel Corp.

The MSCI is a trade association of steel and aluminum service centers. This group of 350 companies is the steel industry to most of the 300,000 steel consumers in the country. We, as an industry, are the companies that inventory, store, process and deliver metal to the industrial base in this country from Maine to Southern California and all points in between.

The company that I am president of was founded in 1926 in Chicago, Illinois and we currently have six locations where we store, process and deliver steel products to a wide variety of industrial metal consumers.

Mr. Chairman, as I make my comments of the topic, I would suggest we change one word in the question posed to us in the topic for today. Instead of asking what the metal price spike means for small manufacturers - I would suggest that this historic spike in steel prices will effect all manufacturers in this country.

Today we are experiencing the swiftest, largest increase in steel prices that I have seen in my almost 30 years in this industry. The factors of this increase are many – scrap pricing, transportation costs and coke shortages – just to name a few. The other part of that equation is what is causing this corresponding product demand? The answer to this question is China.

March 8, 2004

I keep wondering when someone in Washington D.C. will connect the dots on our current economic problem in manufacturing.

Since the mid 1990's when the Peoples' Republic of China devalued their currency by almost 80% and then pegged that currency to the U. S. dollar we have seen the most massive shift in manufacturing in the history of the world from one country, the United States, to another country, the Peoples' Republic of China.

Look at the evidence and tell me if you do not also see this issue. Since the Peoples' Republic of China devalued their currency, the balance of trade with the United States has gone from about balanced to a deficit in 2002 of $104 Billion and another staggering $125 Billion in 2003. This massive deficit is part of the almost $500 Billion trade gap that we had, as a nation, in 2003. Exhibit #1

China is not the only trading partner that is manipulating their currency for competitive advantage. Japan, South Korea and Taiwan also use currency market intervention to maintain a predetermined value of their currency against the dollar to insure their manufacturing, big and small, will be able to produce and sell their goods in the United States. This effort is ongoing as we speak – and enhanced by the dollar holdings of their countries – Exhibit #2.

The other factor feeding steel demand in Asia which has the effect of driving up prices in an already overheated metal market is a banking system that lends money to companies that will never repay the funds, but will not be closed for domestic political reasons, i.e. unemployment.

It seems that as was reaffirmed last week with the February employment report, it is okay to have 43 consecutive months of manufacturing employment decline in the United States, and the reduction of almost 3 million manufacturing jobs since July of 2000, but it is not acceptable to question how the existing trade policy of this country is either "Free or Fair!" Exhibit #3

March 8, 2004

My final point is about the near term effect of what has and is happening to raw material prices as a percentage cost in finished goods prices. This explosion in steel and other metal prices should raise product prices of the goods produced out of these metals. I know that this steel cost increase will raise the cost to my customers of the products they make for their customers.

This required cost increase in products to cover the higher component cost, I believe, will not occur with most of the products coming to this country from Asia. The reason that these costs will not increase is these countries will continue to subsidize their exports to the United States. The result will be acceleration of large and small manufacturing plants closing in the United States and relocating to "low cost" countries.

In summary, let's connect the dots – half of our trade deficit is with four countries that either peg their currency or intervene in currency markets to insure the exchange rates allow their manufacturing companies to ship products to the United States. This flood of manufactured goods displaces American produced goods and our manufacturing companies close and 3 million manufacturing jobs disappear in 43 months.

I know the membership of the MSCI is asking for enforcement of our existing trade laws to level the playing field for all our manufacturers.

When will the United States Government act?

Thank you.

Bill Hickey
President of Lapham-Hickey Steel Corp.

March 8, 2004

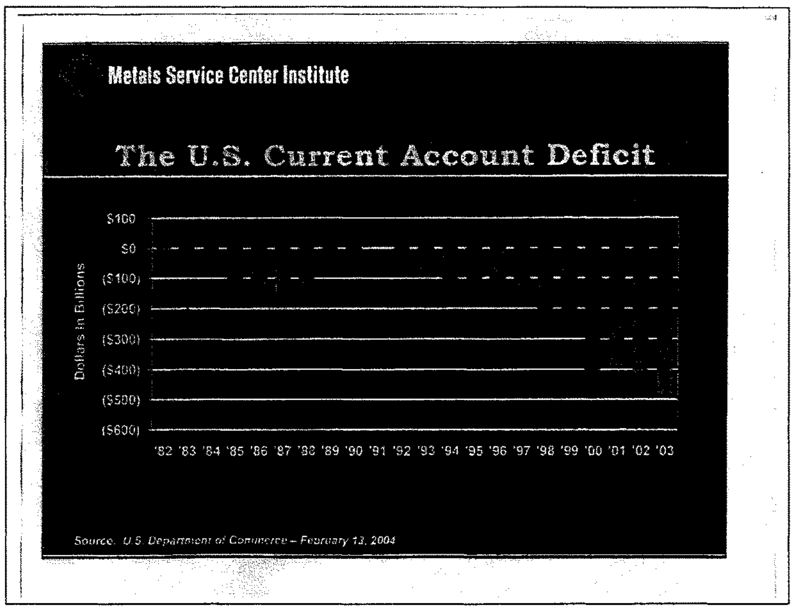


EXHIBIT #1

:arch 8, 2004

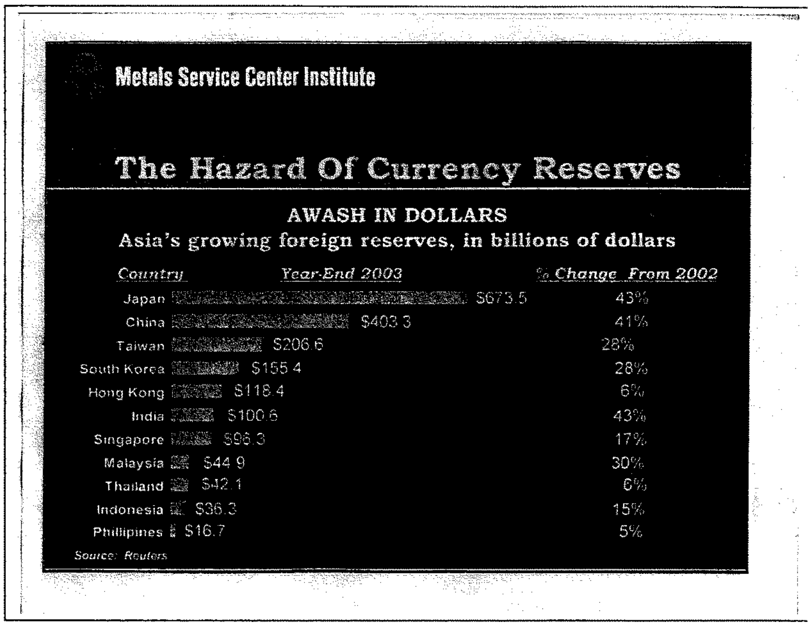


EXHIBIT #2

March 8, 2004

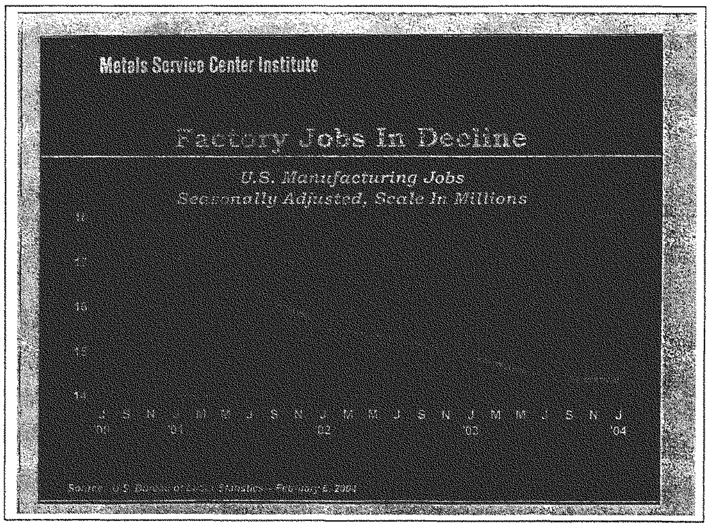


EXHIBIT #3

Institute of Scrap Recycling Industries

Testimony before the Committee on Small Business

United States House of Representatives

Donald A. Manzullo, Chairman

March 10, 2004

Good morning Mr. Chairman and Members of the Committee. My name is Emanuel Bodner. I am President of Bodner Metal and Iron Corp. in Houston, Texas, a family owned company with 25 employees that has been in business since 1948.

Today, I am here on behalf of the Institute of Scrap Recycling Industries, Inc. ("ISRI"), the national trade association that represents approximately 1,200 member companies who operate nearly 3,000 facilities throughout North America and the world. The vast majority of ISRI member facilities – over 2,200 - are in this country, present in all fifty states and Puerto Rico, and in 421 congressional districts. There are at least 5 member facilities in your district, Mr. Chairman, and at least 4 in Mrs. Velasquez' district. Over 30 thousand Americans work in the scrap processing and trading part of our member organizations, with an average of around 30 employees in each location. And this does not include the tens of thousands of individuals who visit our yards daily, bringing in scrap they have collected and who depend on the payments they receive, some to earn a living – others to just earn enough to pay for dinner tonight. Mr. Chairman, the scrap recycling industry defines small business in America.

ISRI members process on an annual basis approximately:

- 65-70 million tons of ferrous scrap
- 47 million tons of scrap paper and paperboard,
- 4.3 million tons of scrap aluminum
- 2 million tons of scrap copper
- 1.4 million tons of scrap stainless steel
- 1.3 million tons of scrap lead
- 214,000 tons of scrap zinc
- 3.5 million tons of scrap glass or cullet (beverage containers only)
- 300,000 tons of scrap plastic (beverage containers only); and
- 56 million scrap tires

ISRI members also are leaders in the newer field of electronic scrap recycling.

These scrap recyclables are collected for beneficial reuse, conserving impressive amounts of energy and natural resources in the recycling process. For example, according to the Environmental Protection Agency (EPA) recycled aluminum saves the nation 95 percent of the energy that would have been needed to make new aluminum from ore. Recycled iron and steel result in energy savings of 74 percent; recycled copper, 85 percent; recycled paper, 64 percent; and recycled plastic, more than 80 percent.

In addition to the obvious environmental contributions of the scrap recycling industry, ISRI members provide economic benefits to the nation, including exports that contribute significantly to the U.S. balance of trade – in excess of $5 billion in 2003, nearly $2 billion of that in ferrous scrap alone.

Many ISRI members are small family-owned businesses, including a significant number that have been in continuous operation for 100 years or more. ISRI itself represents almost a century of service to the business of processing and recycling scrap commodities. The Association was formed in 1987 through a merger of the National Association of Recycling Industries, founded in 1913, and the Institute of Scrap Iron and Steel, founded in 1928.

ISRI members are experts in the handling, processing, shipping, and/or the ultimate recycling of scrap commodities. We assist communities and organizations in the planning, establishment, and implementation of recycling activities. Our experience and capabilities save countless public and private hours and dollars in developing effective approaches to recycling.

Scrap itself is a commodity, traded globally in an open marketplace in accordance with hundreds of internationally accepted industry specifications. Every day, the scrap recycling industry processes scrap metal, paper, plastics, glass, textiles, rubber and electronics, transforming these materials into feedstocks for manufacturing into new products. I will address the commodity-like nature of the scrap industry later in my testimony.

Mr. Chairman, as I understand it, your hearing today was scheduled in response to some concerns relative to the current high prices of steel and other metals. There are some who would ask you to believe that scrap is the primary cause of the current situation and that the solution would lie in some regulation of scrap. But the high prices we currently see are coming from many sources. For example, Monday's Wall Street Journal contains an article stating that steel companies place the blame on increased costs of energy and shipping as well as scrap, iron or and coking coal (*See article, page 21*).

Yet, unfortunately and somewhat disconcertingly, the regulatory relief we most often hear mentioned comes in the form of scrap export controls. Clearly, this does not give due consideration to the entire problem. Suggesting that export controls would resolve the problem for steel makers and steel users is not only incorrect; history shows that it could exacerbate the problem.

Scrap and steel markets today are global markets. **The current, and we believe, temporary, price pressures are being caused by global demand for steel rather than an assumed lack of domestic supply of scrap. Scrap markets are historically cyclical.** In fact, they have likely reached, and perhaps passed, their peak. Attempts to resolve these issues domestically and artificially will, at best, not work. At worst, they could do harm. Further, artificial controls may well violate international trade agreements. **The best way** the United States can assist in resolving this situation is through **global leadership, not through domestic protectionism.**

It is our intention to address this issue in detail. As you go forward there will likely be additional questions that may arise. We invite you to address those questions to us and we will endeavor to provide prompt answers.

Scrap & Steel — Global Commodities

Scrap metals — iron & steel, copper, aluminum, lead, zinc, and others — are raw materials that are directly interchangeable with virgin ores in the manufacture of new metals. For brevity sake, we will focus our comments on ferrous scrap and the demand for finished steel. However, the market dynamics for copper, aluminum, lead, zinc and the other metals are very similar.

Steelmakers using electric arc furnaces (EAFs) utilize nearly 100% ferrous (iron & steel) scrap as their raw material. Similarly, steelmakers using basic oxygen furnace (BOF) technology typically utilize 25-30% ferrous scrap combined with iron ore, coke and other materials to manufacture new steel. EAFs also have the option of easily substituting pig iron, direct reduced iron (DRI) or hot briquetted iron (HBI) for ferrous scrap. Each of these materials, ferrous scrap, iron ore, DRI, HBI, and pig iron are commodities traded in the global marketplace. As global consumption of new steel has grown over the years, demand for these raw materials has increased dramatically not only here in the U.S., but worldwide.

Thanks to industry specifications, ferrous scrap is traded worldwide on a daily basis. Scrap flows from the US to China, Korea, Canada, Mexico, Turkey, and many other countries across the globe. Similarly, scrap flows from the European Union and from Asia to many of the same destinations as well as to the United States. Scrap flows out of the Baltics and into the EU and sometimes to the U.S.

The ferrous scrap market is one of the purest examples of supply and demand economics. Fortunately or unfortunately as the case might be, the greater the demand for scrap, the higher the prices will go. When combined with the huge demand for pig iron, DRI, HBI, coking coal and iron ore (combined with scrap, the U.S. was a net importer of these raw materials in five of the past six years) you have a global situation where the price of these raw material inputs is rising quickly and significantly, as is the price of finished steel. Steel users throughout the world are feeling the impact the same as manufacturers here in the US.

This same trend exists for finished steel. As demand increases, so does price. The international demand for steel shows itself not only in the price of raw materials, but also in the export of scrap <u>and</u> finished steel from the U.S. In fact, last year, exports of finished steel from the U.S. rose at a faster rate than did exports of ferrous scrap (*Figure 1, Page 18*), with both rising due to both increased global demand for steel and with the more favorable market caused by the falling dollar.

The demand that we are seeing here at home is reflective of similar demand worldwide. Last year proved to be a record year for global steel production.

One needs only scan international newspapers to see similar alarming concerns about the availability of both scrap and finished steel showing up in countries from every developed continent on earth. Concerns have been voiced in South Africa, Venezuela, Russia, India, the Ukraine, Korea, and Malaysia to name a few. The concerns have led to export controls being put in place in a few of these countries, a step that clearly has not resolved the crisis and will likely make it worse. News reports from the Ukraine have mentioned occasional reports of theft of important infrastructure metals - pipelines, bridges, etc. as people attempt to find scrap for new steel. These are mere examples of what has happened in other countries that have attempted to use artificial domestic controls to address a global situation.

Some here in the United States have proposed the imposition of export controls on ferrous scrap as the solution to high steel prices here at home.

Such a suggestion is severely misguided and miscalculated. It is a protectionist view that fails to account for the anomalies created by artificial interference with the free market.

The Cyclical Nature of Scrap

It is likely that witnesses who support export controls will base their testimony on the fact that there has been a dramatic run-up in the level of scrap exports since 2000. That is indeed the case. But to look at just the past three or four years is a very myopic view. In fact, the late 1990's and 2000 were some of the worst years on record for the scrap industry with both price and demand at or near historical lows. Using the year 2000 as a baseline for scrap would be like this Committee going to Death Valley, California and declaring it sea level.

Ferrous scrap price and demand are very cyclical in nature. Recognizing this cycle requires a longer-term view of the industry. Since 1970, ferrous scrap exports from the U.S. have approached, and even occasionally exceeded, current levels no less than seven times (*Figure 2, Page 18*).

At the same time, imports of iron and steel scrap by the steel industry do not show the same type of cycle (*Figure 3, Page 19*). In fact, the trend has been ever upward since the mid-1980s. Scrap imports more than doubled between 1993 and 2003 while the average price of scrap increased only 9%. This suggests that adequate supplies of iron making units are readily available at relatively little cost penalty to the purchaser.

When scrap alternatives, such as DRI/HBI and pig iron, are included in the import figures, the U.S. became a *net importer* of scrap and scrap substitutes during the years that domestic scrap prices were at or near their lowest point in a decade. This only emphasizes that scrap is a world-traded commodity whose movement internationally responds to market forces.

Charting the average yearly price for scrap shows the same cyclical pattern found in scrap exports and shows that the 2003 yearly average price was not at near-record levels (*Figure 4, Page 19*). In fact, when stated in constant 1998 dollars, 2003 scrap prices were lower than at most points in the past 33 years. This chart shows one significant spike in both actual and constant dollars -- the price of scrap in 1974 -- the last time export controls were in place - which I would like to focus on more closely later.

A price volatility study over the past thirty years (*Figure 5, page 20*) reveals that only once during that time did the price of ferrous scrap have a sustained rise for three years. That same study shows that 2003 was the second year of sustained price increases in ferrous scrap and recent news reports indicate that the ferrous scrap market may be weakening. (*See article, Page 26*)

<u>What History Shows Us</u>

Viewing data on ferrous scrap for the past 33 years more clearly shows the cyclical nature of the scrap industry, price and demand. The U.S. Geological Survey maintains the data used in these studies back to the early 1930's. Viewing the data back that far back would continue to show the same cyclical nature, with the exception of the years of World War II, the Korean War and the years just subsequent.

We could have only used fifteen or twenty years to make the point of scrap's cyclical nature. But we chose to include data back to 1970 so that we could also highlight a key point in history that is relevant to the discussions today. We ask that you look back to 1973 and 1974 - to the last time the United States instituted export controls on scrap.

To put this into perspective, wage and price controls were in effect in this country. The Commerce Department limited the amount of ferrous scrap that could be exported from the US. At that time, there were no provisions for notice and comment prior to the imposition of export controls. Our industry learned of the controls only at the time they were announced. The result was a precipitous run-up in international prices as panic spread that there would be a shortage of steel scrap world-wide.

A study performed by Dr. Robert Shriner and published in The Business Economist in the Summer of 1977 cites a number of reasons why ferrous scrap prices in the U.S. rose precipitously. We have included a copy of Dr. Shriner's study as an appendix to today's testimony, but I read from his conclusions:

> "The evidence strongly suggests that, rather than holding domestic prices down, the 1973-74 scrap export restrictions actually caused domestic scrap prices to rise more than would have been the case otherwise. This is a fairly clear illustration of "control reversal" that was not recognized at the time it occurred and might well have been repeated if similar circumstances had arisen again."

Dr. Shriner goes on to conclude that US steelmakers spent nearly $2 billion dollars more for ferrous scrap during the time export controls were in place than they would have had there not been export controls. (*See study, page 28*)

Subsequently, the Export Administration Act of 1979 included a provision in section 7(c) that required the Secretary of Commerce to publish a notice in the Federal Register whenever a petition was filed and to provide for comments and hearings if requested. Upon the filing of a petition in 1979 the scrap industry had the opportunity to present facts similar to those we are presenting today. In the end, export controls were not imposed and the market corrected itself.

The Commerce Department stated in its press release announcing the decision that –

> "The Department believes that the mere expectation of action to control or restrict exports can and has contributed in the past to the increase in price and export levels of this and other commodities. Mr Weil [Assistant Secretary of Commerce for Industry and Trade] expressed the view that controls are burdensome to both industry and the Government. This was clearly demonstrated by our experience with such controls in 1973 and 1974. . . .
>
> . . . It would be counterproductive to these efforts, to our export promotion programs, and to our balance of trade to take any precipitate action which might inhibit the expansion of such trade. Crucial to our efforts in this respect is the maintenance of the United States' reputation as a reliable supplier to the world market." (United States Department of Commerce News, March 2, 1979)

This is why we feel a look at the broader picture is necessary as Congress and federal agencies consider our situation today. Please do not simply accept the fact that exports have run-up so quickly in the past three years. History shows that those exports will likely retreat just as quickly.

The Perfect Storm

While it is true that ferrous scrap prices are at or near record highs (in actual dollars, but as already demonstrated not in constant dollars) the same is true for all the other raw materials inputs used in making steel. Indeed, the cost of energy and transportation has risen and is contributing significantly to the cost of making new steel.

There have been many articles in the trade press as well as the mainstream media describing how the electric arc steelmakers are supporting the efforts of their customers to combat the high price of steel and blaming those high prices on ferrous scrap prices. We hope that you will understand, and that the manufacturers who use steel will understand that some of these statements are simply disingenuous. I call your attention to an article in the Wall Street Journal on January 23, 2004 where a steel industry executive is quoted as saying, "We have put in surcharges on raw materials. At this point in time, with the addition of those surcharges, the price we charge customers *is up more than the cost of our* *raw materials.* [We] will enjoy higher margins in 2004 than in 2003 across all product lines (emphasis added)." (*See article, Page 24*)

Some may want to blame the current situation on China. That would be an easy thing to do. We acknowledge that China has become a huge competitor for US manufacturers. We also recognize that China has been the reason many jobs have left the US. However, it is important to put the current ferrous scrap situation in perspective. Scrap prices are not the reason that millions of jobs have left the country over the past several years—the significant run-up in scrap prices has only occurred during the past 6-9 months. Furthermore, the run-up in prices is not unique to the US. Asian buyers, European buyers, and Turkish buyers alike are all complaining about the current price of scrap.

China is taking the largest portion of ferrous scrap currently. Japan was doing the same thing 20 years ago and at a time before that it was Italy. As stated previously, the export of 10-11 million tons per year of ferrous scrap is not an anomaly. This is just a replay of the old saying, "same game—different players." According to the U.S. General Accounting Office, Japan imported approximately one-third of all scrap exported by the U.S. in 1978, with over 75% of their total imports coming from the U.S. (ID-80-38, May 20, 1980). If China was not the largest buyer from the US today, it would be some other country. The global economy can be likened to a balloon—if you push in on one side then another side is likely to pop out.

Demand is high, prices are high, but there is no physical shortage of obsolete scrap. ISRI members are reporting that they are able to fulfill the needs of domestic steelmakers. We have yet to see any documentation of a scrap shortage in the US. A study done back in the 1970's in response to the calls for export controls back then showed that scrap metal supplies are elastic. While recognizing that quantities of prompt industrial scrap—clippings from manufacturing and fabricating plants—have declined over the years due to increasing technological efficiencies and, yes, the flight of manufacturing, the scrap industry has kept up the supply chain by improving its technology and making other types of high quality ferrous scrap available. Clearly, obsolete scrap—materials from demolition, repairs, etc.—is responsive to the price paid for it. As price increases, more supply becomes available. As the price of scrap has risen so has the price scrap processors pay for that material. According to recent reports, additional scrap is now starting to come into the marketplace. As you can see, scrap truly does follow basic principles of supply and demand, reflecting a near perfect marketplace when free of artificial market barriers.

Those charged with the day-to-day operations of our economy largely agree that artificial, protectionist restrictions on free trade would be the wrong choice. At a conference in Pensacola, Florida on February 16, Dr. Tom Cunningham, Vice President & Associate Director of Research for the Federal Reserve Bank of Atlanta was asked about the potential for ferrous scrap export controls on U.S. scrap. His response was a very clear two words: "Bad idea."

A recent news story from the Dow Jones Newswire cited Federal Reserve Governor Edward Gramlich as he cautioned against trade protectionism. The article ends his quote by saying, "...trade protection lowers a nation's standard of living."

Mr. Chairman, these quotes are not unique among experts on the economy. If anything, they are representative of expert opinion. Creating artificial barriers and, at the same time, taking action that would further negatively affect the U.S. balance of trade, is simply not a good idea. Further, attempts to control the export of scrap are a violation of international trade agreements.

Article 11, Section 1 of the General Agreement on Tariffs and Trade reads,

> "No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on . . . the exportation or sale for export of any product destined for the territory of any other contracting party."

While there are exceptions to this general prohibition, each such exception requires that certain conditions exist or be satisfied. No conditions exist within the scrap metal or steel manufacturing industry that would justify under a GATT exception the imposition of export controls on scrap. It is clear that the sole purpose of imposing export controls would be to reduce the domestic price of scrap metal and thereby protect one segment of the domestic steel manufacturing market. To do so would be in contravention of the WTO objectives and principles.

This does not mean that the government is powerless to act on the situation at hand. To the contrary, we believe the United States could take an active and leading role in solving this current and very temporary problem by quickly dispensing with any consideration of export controls and sending a signal to other governments of our commitment to free and fair trade.

Just the news that the government might consider export controls has had an affect on world scrap markets. Since these proposals were first made public a few months ago, many other countries have signaled their willingness to consider export controls as well. A strong endorsement of free trade would be an important step in leveling the scrap market.

Further, the United States should actively encourage those countries that have instituted scrap export controls to remove those controls as soon as possible. History shows that the scrap market can, will, and does freely regulate itself when trade barriers are not present. By supporting the opening of all markets, the United States can actively assist in creating better market conditions both here at home and abroad.

Mr. Chairman, I am honored to be in front of you today, and am more than happy to receive any questions the committee may have. As I conclude, let me point out that ISRI did not seek federal assistance or protection when scrap prices were at record lows a few years ago. ISRI firmly believes in free and fair trade. ISRI understands the cyclical nature of this industry. We knew in 2000 that prices would not stay low forever, and we know now that prices we see today will not stay this high for long. We have good years and we have bad years, but we strongly believe in the free market system.

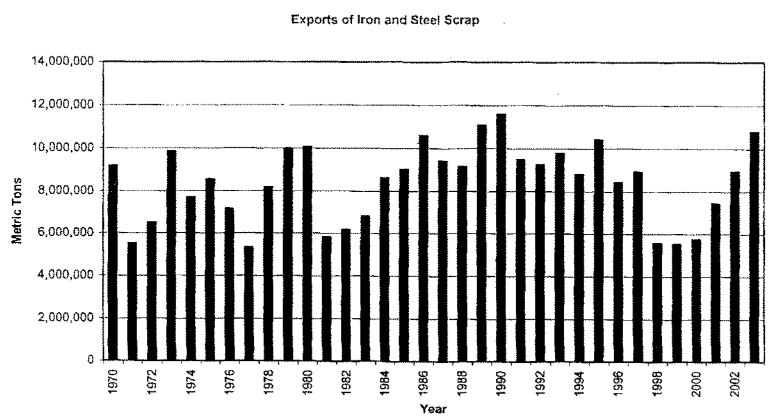
Thank you, Mr. Chairman.

Page 18

Figure 1 (ref. Page 6)

Source: U.S.G.S. Minerals Yearbook

Figure 2 (Ref. Page 8)



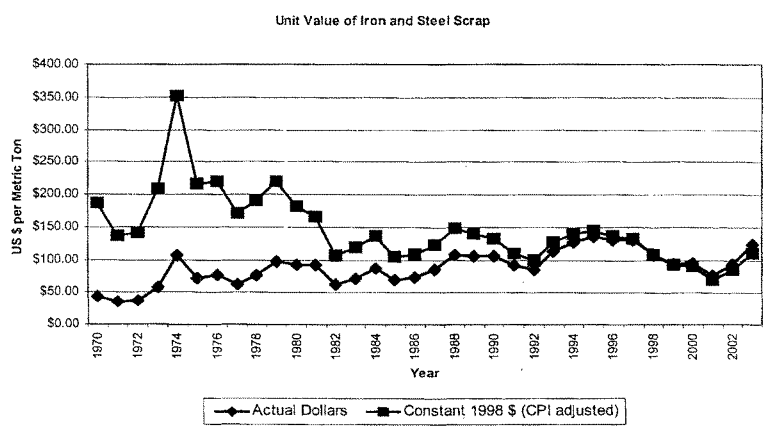
Source: U.S.G.S. Minerals Yearbook

Page 19

Figure 3 (Ref. Page 8)

Source: U.S.G.S. Minerals Yearbook

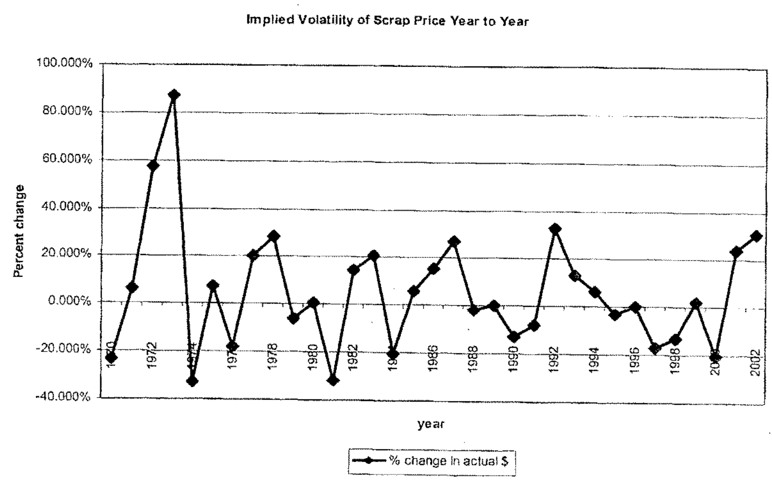
Figure 4 (Ref. Page 9)



Source: U.S.G.S. Minerals Yearbook

Page 20

Figure 5 (Ref. Page 9)



Source: U.S.G.S. Minerals Yearbook

THE WALL STREET JOURNAL. ONLINE

March 8, 2004

ECONOMY

Companies Fight Rising Steel Prices

Some Manufacturers Pass Increases on to Consumers; Delphi Gets a Court Order

By PAUL GLADER and SHARON SILKE CARTY
Staff Reporters of THE WALL STREET JOURNAL

Manufacturers are fighting rising steel prices, and in at least one case taking suppliers to court over the issue, even as they contemplate passing on the increased costs to consumers.

Indeed, a handful of companies -- among them makers of mattresses and gym equipment -- already have or are preparing to ask shoppers to pay more to cover their rising steel costs. But most other manufacturers are trying to push steel-price jumps of up to 30% to 50% to other companies along the supply chain, creating tension between steel producers, their biggest customers and numerous smaller suppliers between them.

Steel companies in the U.S. blame increased costs of energy and shipping and increasingly scarce steelmaking ingredients, such as scrap steel, iron ore and coke coal. Both reflect, in part, vigorous demand in China, which consumes 30% of the world's steel each year. With the weak dollar discouraging imported steel, steelmakers have successfully passed on price increases to many of their customers.

Fight Spills Into Court

One steel-related dispute spilled into court last week, as two suppliers for Troy, Mich., auto-parts maker **Delphi** Corp. threatened to stop shipping parts if Delphi wouldn't agree to pay them more to offset higher steel costs. Last week Delphi obtained a temporary restraining order in a state court in Saginaw, Mich., in effect until the end of the month, requiring the two suppliers, Republic Engineered Products LLC of Fairlawn, Ohio, and NSS Technologies of Plymouth, Mich., keep delivering the products. Delphi said in court filings that a stoppage could result in losses of $10 million a day.

Republic spokesman John Willoughby said most of the company's customers had accepted its surcharges, which the company attributed to "the costs of raw materials we put into our steel that have accelerated over the last few months." NSS didn't return calls. Delphi declined to comment.

Steel prices are expected to keep surging. Steel customers say they expect prices for hot-rolled steel, a basic sheet product used by many industries, to hit $500 to $600 a ton next month from about $330 in January. Concrete reinforcing bar, or rebar, is expected to rise to $400 next month before surcharges, from $320 in December.

Steel producers, citing their own higher costs, have added surcharges on top of prices guaranteed by long-term contracts with their biggest customers. "There are no rules," when it comes to surcharges in many industries, said Dan Meckstroth, chief economist for Manufacturers Alliance/MAPI. "It is a supply and demand" issue, he said, adding that he doesn't believe rising steel prices will dramatically affect the nation's consumer-price index or lead to inflation.

Steelmaker **Nucor** Corp. of Charlotte, N.C., has little choice but to pass on surcharges, company spokesman Bob Johns said. "What's the alternative? Everybody's [steel] supplier goes bankrupt?" he said, adding, "That's not going to happen."

Some contend steelmakers are taking advantage of the situation. A memo written Feb. 16 by **U.S. Steel** Corp. President John Surma to department heads, and obtained and circulated by its customers, said, "We will seek the highest possible returns within the opportunities that the market provides." U.S. Steel, Pittsburgh, and **Ispat Inland** Inc. in Chicago, no longer publish surcharge announcements, but have alerted customers by phone the day increases took effect. "It's a rapidly moving market, and we are after the market price and whatever the price is," said U.S. Steel spokesman John Armstrong.

Not all customers, especially bigger ones with more purchasing power, are acquiescing. **Toyota Motor** Corp. Friday warned parts suppliers and steel mills to keep honoring their existing contracts with the auto maker. "If I were them, I would seriously consider an impact on the long-term relationship. That's important to us, and we do have long memories on these things," said Dennis Cuneo, a senior Toyota executive in New York.

Industry analysts note that prices are cyclical, and some predict the prices will peak by late May, but might drop after that, as double ordering by worried customers subsides.

Meanwhile, a few companies are planning to pass their higher steel costs to consumers. Exercise-equipment maker **Cybex International** Inc., based in Medway, Mass., said last week it will be adding its own steel surcharge, starting April 1, boosting its suggested retail prices by as much as 10%. Cybex Chairman and Chief Executive John Aglialoro said the company is paying 50% more on the nearly $20 million in steel it purchases yearly.

The surcharge means a health club buying a $3,000 exercise bike could end up spending $3,300 on the product. Cybex reported an 11% sales increase last year, to $90.1 million, but has noted the market for exercise equipment is competitive, with price as a factor.

Effect on Mattress Industry

Dave McIlquham, president and chief executive of High Point, N.C., mattress maker Sealy Corp., said rising steel prices look to "impact the entire innerspring-mattress industry in the coming months." Sealy expects to increase the prices of its mattress products, or add a surcharge, although it isn't sure how much.

Many of its products have clearly defined prices, such as $499 or $599, which retailers favor. "We have to figure out how to make it work for the retailers," Mr. McIlquham said. He doesn't expect a price increase will be significant enough to send customers to alternative products, such as airbeds, foam mattresses or waterbeds.

Executives at Newton, Iowa, appliance company **Maytag** Corp. said they have tried to delay price increases to consumers in part through savings from a new union contract. The company also contributed more toward its employee pension fund last year, so it doesn't have to contribute as much this year, according to spokeswoman Lynne Dragomier. Until now, the company has managed to delay price increases, but executives don't know how long that will continue.

— Norihiko Shirouzu contributed to this article.

Write to Paul Glader at paul.glader@wsj.com[1] and Sharon Silke Carty at sharon.carty@dowjones.com[2]

URL for this article:
http://online.wsj.com/article/0,,SB107870154492148667,00.html

Hyperlinks in this Article:
(1) mailto:paul.glader@wsj.com
(2) mailto:sharon.carty@dowjones.com

Updated March 8, 2004

Page 24

Short Order: Playing Steel Card -- With Care

By HENNY SENDER
Staff Reporter of THE WALL STREET JOURNAL
January 23, 2004

Hindsight is a wonderful thing.

If last year held any lessons for investors, surely one of them was to buy anything China needed. Another lesson was to invest in commodities, particularly metals. Best of all was to combine the two. Michael Kaufman, founder and managing partner of MAK Capital, New York, has managed to take such trades one step further by noting that investors also should shun exposure to companies that compete with the rising global juggernaut of China. That means not all steel companies are created equal -- or are affected equally by the global recovery.

In his latest letter to investors, Mr. Kaufman describes his newest so-called pair trade, which plays on all these themes by adopting a bullish position on U.S. Steel Corp. while taking a bearish position on Nucor Corp.

"My interest in U.S. Steel is primarily as a hedge for Nucor, which may turn out to be one of the better shorts of 2004," Mr. Kaufman says. The fund manager was referring to short-selling, a common strategy whereby a hedge fund or other investor sells borrowed shares, expecting that the price will fall by the time those shares need to be replaced. In the latest monthly short-selling tally released Thursday by the New York Stock Exchange, the outstanding short position in Nucor was 5.5 million shares, up 10% from 4.9 million shares a month ago.

Scraping for Scrap Steel

Mr. Kaufman thinks Nucor's best times are behind it for one compelling reason. U.S. Steel, of Pittsburgh, is an integrated producer, which means it sources its own steel. By contrast, Nucor, of Charlotte, N.C., has to buy scrap steel for its minimills. For years, this wasn't a problem. But now, with Chinese producers scouring the world for scrap steel, suddenly Nucor is competing with a steel-hungry behemoth, and its cost structure has been transformed for the worse as scrap-steel prices rose between 60% and 70% last year. Steel scrap accounts for more than half of the costs for minimills such as Nucor.

Moreover, there may be worse news to come. Chinese steel output is expected to increase another 10% this year, according to a report from J.P. Morgan Asian-steel analyst Henry Kwon. Indeed, Japanese steelmakers exporting to China say they don't expect to see any slowdown for their giant neighbor until after the Beijing Summer Olympics in 2008.

One ominous sign for Nucor bulls came on Dec. 22, when an auction of scrap steel at auto maker Ford Motor Co. fetched the highest price on record at $217 a ton. By comparison, the October auction came in at $174.50 a ton.

If the dollar comes under further selling pressure, Nucor's economics may even worsen.

Yet in 4 p.m. composite trading Thursday on the New York Stock Exchange, Nucor shares traded at $55.75, not far from their 52-week high of $58.79.

Analysts note that Nucor's valuation still is at the high end of its historical trading range.

Mr. Kaufman's pessimism regarding Nucor is just beginning to command attention on Wall Street. "We remain 'underweight' Nucor shares as we believe the global economic recovery under way is actually hurting Nucor's earnings prospects, owing to rising scrap prices," note analysts from J.P. Morgan in a recent report. "In addition, the once high-cost integrated steel producers have restructured and consolidated into large, low-cost competitors.

"We are concerned that minimill equities and earnings estimates are only discounting the recent rise in steel selling prices and not the surge in scrap or raw-material costs," the J.P. Morgan report says.
Executives at Nucor dispute this. "We have put in surcharges on raw materials," says Daniel DiMicco, Nucor's president and chief executive.

"At this point in time, with the addition of those surcharges, the price we charge customers is up more than the cost of our raw materials. Nucor will enjoy higher margins in 2004 than in 2003 across all product lines."

Bearish Camp Grows

Page 25

Still, Bear Stearns Cos. recently joined the negative camp. On Jan. 5, analysts at Bear Stearns slashed earnings-per-share expectations for
Nucor's fourth quarter of 2003 to a loss of a penny a share, from a profit of 20 cents a share, significantly below analysts' average profit estimate of 17 cents a share. At the end of December, Morgan Stanley reduced its estimate to 10 cents a share from 30 cents a share for the quarter and cut its 2004 predicted earnings-per-share forecast to $2.30 from $3.64.

That leaves Charles Bradford of Bradford Research Inc. at the optimistic end of the spectrum, with a forecast of 18 cents for last quarter and $2.77 for this year, although he adds that he isn't bullish on the stock.

Meanwhile, Mr. Kaufman's view on U.S. Steel has been widely shared on Wall Street, and the stock's recent performance has been far stronger than that of Nucor. Thursday, U.S. Steel was up two cents at $36.64 at 4 p.m. in NYSE trading.

"We believe that the recovery in steel prices is likely to be more resilient than we forecast," notes Peter Ward, metals and mining analyst for Lehman Brothers Holdings Inc. in a recent report. "As a fully integrated producer, U.S. Steel is well positioned to harvest higher steel prices."

"Nucor trades at roughly a 75% premium on a P/E basis to U.S. Steel, even though Nucor's earnings estimates have been declining while U.S. Steel's earnings have been accelerating," Mr. Kaufman says.

AMM.com - Top Stories - March 4, 2004

Ferrous scrap rocket may be losing some thrust

By Michael Marley
mmarley@amm.com

PHILADELPHIA, March 4 -- The ferrous scrap price spiral hasn't ended, but it might be showing signs of losing the thrust that has propelled it to record heights.

Scrap buying in most major steelmaking regions saw prices increase as much as $30 a long ton. But both dealers and mill buyers said some of the supply pressures that had been at the heart of the price increases over the past six months had begun to ease.

Dealers said they were seeing a better flow of obsolete grades into their yards, possibly because of the higher prices being offered for scrap and the unseasonably warm weather during the past two weeks.

Scrap buyers at the mills and their brokers said they were being offered more scrap than they wanted this month and that many dealers were seeking 60-day orders for scrap-a practice that some say often reveals fears the market might have leveled off and soon will be headed in the opposite direction.

Mills that were short scrap last month reportedly improved their inventories in the past two weeks with so-called "quiet" deals on large tonnage orders with some of the major scrap processors.

Industrial grades like No. 1 dealer bundles and No. 1 busheling remained in tight supply, several sources said, and continued to post the highest price gains in the first week of March. But in several key markets like Detroit and Cleveland, prices for industrial grades were up about $20 a ton from last month's levels while in Chicago they rose about $25 a ton.

Much of the tonnage came from the dealer market, since there were fewer of the auto industry's factory bundles offered for sale this month. Only DaimlerChrysler Corp. offered bundles at auction earlier this week, and then only about 22,000 tons-half the tonnage usually offered for sale each month. Ford Motor Co., Dearborn, Mich., canceled its usual monthly auction of factory bundles from its Chicago stamping plant, reportedly trading the material to its steel suppliers to offset price surcharges.

The feedback from the market was noteworthy because the prices of some of the prime industrial steel mill grades, like No. 1 dealer bundles and No. 1 busheling, crossed the $300-a-ton mark in several regions-a price level that few imagined would ever be broached. Some specialty foundry grades of ferrous scrap and low-residual busheling had passed that level in prior months.

Prices for secondary grades were up about $10 to $15 a ton on average, with cut grades like No. 1 heavy melting steel and 5-foot plate and structural scrap drawing higher offers than shredded scrap, which in some regions saw gains of only $10 a ton.

However, the buying was anything but uniform from region to region, and brokers said they were finding more modest increases drawing more attention as the week drew to a close.

Scrap buyers for two northern New Jersey mini-mills that had been early to the market this month backed out by Tuesday after they were swamped with offers of scrap. That report was echoed by buyers and brokers elsewhere.

In western New York, one mill reportedly paid more than $300 a ton for shredded from a local supplier, but in most regions buyers and brokers said shredded prices seemed to range from $265 to $285 a ton.

Control Reversal in Economics: U. S. Scrap Export Restrictions

Robert Dale Shriner
School of Public and Environmental Affairs
Indiana University – Bloomington

Control reversal is a phenomenon more closely associated with aircraft than with economics, but there is reason to believe we should be concerned with the problem in economics as well. Unexpected feedback loops in the economy can produce unanticipated, and even opposite, responses just as readily as those in the aerodynamics of high-speed aircraft. The problem is illustrated in this article by an analysis of U. S. scrap export restrictions during 1973-74 which, though intended to hold down scrap prices for domestic steel producers, appears to have actually caused them to pay some $2 billion extra for scrap during the two years the restrictions were in effect.

DURING THE EARLY days of supersonic flight, pilots and plane designers were confronted with a frustrating and unexpected problem — control responses were reversed as the plane passed the speed of sound. When the pilot tried to turn right, the plane turned left instead. When he tried to climb, the plane started to dive. Safe flight at supersonic speed was not possible until the problem of "control reversal" was understood and corrected.

Control reversal is a phenomenon more closely associated with the design and testing of supersonic aircraft than with the design and testing of economic policy; but it shouldn't be. Unexpected feedback loops in the economy can produce unexpected, and even opposite, results just as readily as those in the aerodynamics of high speed aircraft. However, because there are many complex factors at work in the economy, it is often not obvious to the policy analyst that he has the problem of control reversal. For that reason, he could unknowingly "crash and burn" a key part of the economy if he is not very careful.

The problem can be illustrated by an examination of the case of U. S. export restrictions on ferrous scrap imposed in 1973 and 1974. It appears that a control reversal phenomenon may have occurred in that case without the awareness of the policy makers involved. The objective of the restrictions placed on scrap exports was to retard the outflow of scrap to foreign users in order to protect the supply available for domestic users and to reduce the level of scrap price increases that were otherwise expected. The evidence suggests that, while it may have reduced the outflow of scrap, the export restriction may have actually brought about domestic price *increases* greater than would have occurred if the outflow had remained unrestricted.

DEFENDING THE U. S. SCRAP SUPPLY

Conventional economics assumes that for a given demand and supply situation, there is a price at which transactions will occur. If demand increases or supply decreases, the transactions price will rise; if demand decreases or supply increases, the price will fall.

Likewise, if we segment a market into two or more parts and restrict transactions between them, each of these segmented submarkets will have a transactions price that is determined by supply and demand in each submarket and independent of prices in other submarkets.

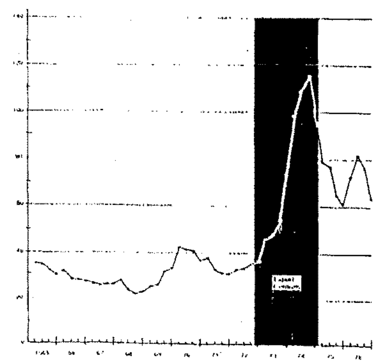
This conventional model is the basis for a substantial amount of trade policy in countries throughout the world; and it generally holds, provided the submarkets are indeed separated and that the separation is more than temporary. The U. S. scrap export restrictions of 1973-74 may have failed to meet these two important provisos, as we shall explain.

The impetus for imposing restrictions on the export of U. S. ferrous scrap came from the surge in scrap exports and prices in late 1972. U. S. steel producers argued that scrap exports were creating a domestic scrap shortage and that foreign scrap buyers were thereby raising the cost of U. S. steel to domestic industries, adding to the existing domestic inflation problem. Although scrap industry representatives argued against restricting scrap exports, controls on the amount of scrap permitted to be exported were imposed in early 1973 and began to affect the level of exports before mid-year.

Figure 1 shows the quarterly movement of the U. S. composite price for No. 1 heavy melting scrap, the dominant grade, between 1966-I and 1976-IV. The increase during 1972 is clear. However, even more clear is that, despite the imposition of export controls, the price continued to rise at an accelerating rate throughout 1973 and into 1974. Export controls were therefore continued into 1974, for fear that removing them would lead to even higher prices.

Figure 1

U.S. Composite Price of No. 1 Heavy Melting Scrap



There was good reason for the fear. Following the imposition of export controls, the export price of ferrous scrap soared even more rapidly than the domestic price. Although there is no data series on export scrap price, reports in the trade press indicate that export purchasers were agreeing to prices substantially above the domestic market level. As the principal supplier of scrap for much of the foreign steel industry, the U. S. substantially reduced the total supply of scrap abroad when it imposed export controls. Caught between rising demand for steel and a suddenly restricted supply of scrap, foreign buyers were, not surprisingly, fighting over the available supply.

Within the U. S., the scrap industry was eyeing the export market longingly, looking for any opportunity to participate in the higher price levels that prevailed there, trying to maintain inventories for sale at even higher prices in the future. Domestic scrap consumers, on the other hand, were watching the export price level nervously, as it seemed to pull the domestic price inexorably upward. Pig iron, which is a substitute for scrap in some uses, moved upward in price only slightly in 1973, held back by government price controls; but with the end of price controls in 1974 the price of pig iron sky-rocketed, more than doubling between the first and fourth quarters from \$78.71 to \$158.59 per ton, even though total U. S. steel production was off during the last two quarters of the year. By the end of 1974, domestic scrap prices had peaked and begun to ease along with the easing in steel production.

With the pressure removed, scrap export restrictions were lifted at the end of 1974 and normal export transactions resumed. The prevailing price, both domestic and export, in the months since has been substantially above the pre-1973 level, yet also well below the level that prevailed during 1974 when the controls were in place.

ASSESSING THE RESULTS

Clearly, we cannot blame export restrictions for the increase in domestic scrap price simply because the rate of price increase was high while the export restrictions were in effect. However, if we look at some other readily available evidence, the case becomes stronger.

SEER, the econometric forecasting model of the U. S. scrap market acquired by the U. S. Department of Commerce in 1976, includes the 1973-74 export controls as a dummy variable in its price determination equation. SEER is based on quarterly data back to 1958 and includes, in addition to export controls, six other explanatory variables in the equation for scrap price determination:

$$\underset{(10.2)}{\text{SCRP} = .68\ \text{SCRP}_{-1}} + \underset{(2.6)}{.005\ \Delta\text{PSCR}} + \underset{(1.1)}{.067\ \text{WPI}} + \underset{(2.0)}{.005\ \text{XNET}}$$

$$+ \underset{(3.4)}{7.67\ \text{TDEM}^*} - \underset{(0.8)}{1.30\ \text{INVR}} + \underset{(5.5)}{21.63\ \text{ER}} - \underset{(0.9)}{5.33}$$

where SCRP is the price of No. 1 heavy melting scrap, PSCR is the quantity of purchased scrap delivered to scrap consumers, WPI is the BLS wholesale price index, XNET is the quantity of net scrap exports, TDEM* is the ratio of current to immediate future aggregate U. S. scrap demand, INVR is the inventory coverage ratio, and ER is the dummy variable for 1973-74 scrap export restrictions. The equation is estimated by two-stage least squares, yielding a Durbin-Watson statistic of 1.73. Parentheses enclose t-ratios for the coefficients.

With the sole exception of the dummy variable for the export restriction, the signs of the coefficients are all consistent with what conventional theory would lead us to expect. The lagged price variable has a positive coefficient and accounts for the greatest share of current price; the coefficient of Δ PSCR is also positive, indicating that increases in scrap purchases tend to increase scrap prices. Similarly, the coefficients of wholesale price, net exports, and anticipated scrap demand are also positive, while the coefficient of the inventory coverage variable is negative — all as we would expect.

The sign of the coefficient for the export restriction dummy variable is *not* what we would normally expect, however. Convential theory would lead us to expect a negative coefficient, thereby indicating the amount by which the export restriction lowered the price of scrap while it was in effect. But the value of the coefficient is positive, not negative; and it occurs in every alternative formulation when the export control dummy variable is included. Moreover, when the export control dummy variable is excluded from the equation, its ability to track price behavior in 1973-74 is greatly reduced.

The conclusion that forces itself upon us is that either (a) the imposition of export controls in 1973-74 actually raised rather than lowered U. S. domestic scrap prices, or else that (b) the export control dummy variable is measuring not just the impact of export controls but also of some other unknown factor or factors that were operating during the same period and which outweighed the presumably negative value of the export controls.

WHY AND HOW DID IT HAPPEN

It might be argued that the value of the dummy variable is really due to the high export price of scrap during the period, not to the export controls themselves. But would that leave us with significantly different conclusions? Not really, as we can readily show.

In the absence of export controls, foreign and domestic scrap are part of the same market and their prices move essentially in harmony. Only when the export controls were imposed did a significant divergence from their traditional relationship emerge. Therefore, any effect on domestic scrap price that is attributed to foreign scrap price must ultimately be attributed to the export restriction itself.

Nonetheless, the role of export prices may hold the key to the unexpected behavior of the market. That key can be summed up in a single word — expectations. It appears that both buyers and sellers of scrap in the U.S. failed to anticipate or recognize the fact that the traditional relationship between domestic prices and export prices could not be maintained once export controls were applied. Seeing export prices sky-rocket and *expecting* the domestic prices to remain in its *normal* relationship to export prices, buyers and sellers may well have been led astray by plausible but naive expectations of market behavior based on previous conditions.

There are other factors also at work that may have contributed somewhat to the positive value of the dummy variable observed in this case. These include the phasing out of domestic price controls on portions of the domestic scrap supply and reported shortages of pig iron and of rail cars used to ship scrap. Further examination of these factors is severely restricted by lack of data; but it is very doubtful that, either individually or collectively, they could account for such a high positive value unless the impact of export controls was already near zero or slightly positive.

CONCLUSIONS

The evidence strongly suggests that, rather than holding domestic prices down, the 1973-74 scrap export restrictions actually caused domestic scrap prices to rise more than would have been the case otherwise. This is (on the basis of 20-20 hindsight) a fairly clear illustration of "control reversal" that was not recognized at the time it occurred and might well have been repeated if similar circumstances had arisen again.

It is important to ask how such a policy error could occur. The simple answer, indicated at the beginning, is that unexpected feedback loops exist in the economy that are often ignored or unrecognized in conventional economic theory. In this case, it appears likely that feedback occurred via the price of foreign scrap, which was closely watched by both buyers and sellers in the domestic scrap market. Naive expectations of a stable relationship between export prices and domestic prices prompted them to continue to bid up the domestic price above the price that is likely to have prevailed in the absence of export controls.

Whether or not that is the path of the feedback, the 1973-74 export controls on ferrous scrap appear to have not entirely satisfied the two essential conditions given earlier for achieving the intended results of separating foreign and domestic scrap markets and thereby holding down domestic scrap prices. First, neither the scrap industry nor the steel industry really expected the controls to be permanent. Second, the small but persistent prospect that scrap dealers had of tapping higher prices in the export market and the conviction by scrap consumers that foreign prices were "pulling" domestic scrap prices upward both indicate that the domestic and foreign markets were never really completely separated.

Two lessons emerge from this. One, greater attention should be given by analysts in industry and government to the possible existence of feedback loops which economic theory (and particularly the standard textbook simplifications of theory) fails to point out. Second, once a "reversed controls" situation has been created and gone unrecognized, the chances of wreaking expensive havoc on the affected parts of the economy are high. If we accept the figure estimated in the SEER model, the U. S. steel industry (and the U. S. economy in general) spent approximately $2 billion more for ferrous scrap in 1973 and 1974 than it would have without scrap export restrictions.

TESTIMONY OF ROBERT J. STEVENS

CEO, IMPACT FORGE, INC., COLUMBUS, INDIANA
President, Emergency Steel Scrap Coalition

BEFORE THE U.S. HOUSE OF REPRESENTATIVES, COMMITTEE ON SMALL BUSINESS

"Spike in Metal Prices: What Does It Mean for Small Manufacturers?"

Mr. Chairman, Members of the Committee, thank you for the opportunity to testify here today. I am Bob Stevens, CEO of Impact Forge in Columbus, Indiana, and President of the **EMERGENCY STEEL SCRAP COALITION**. Eighteen years ago my partners and I started our Green Field business in the basement of our home with the help of a Small Business Administration Loan. We later saved three failing forging businesses and grew to 950 employees but we are now at 530. I am sorry to report that U.S. companies are facing a dire situation due to the sharp increase in scrap and steel prices. Companies are defaulting on their contracts, and suffering heavy and growing losses. We are facing a crisis in many critical American manufacturing sectors, and something must be done right away. In my testimony today I would like to address THE PROBLEM, THE CAUSES, THOSE WHO ARE AFFECTED AND THE SOLUTION.

A. The Problem

I have provided the Committee with a one-page set of charts that illustrate the problem in a nutshell: steel prices are skyrocketing, due to rising U.S. steel scrap exports. (Refer to chart.) The problem of scrap and steel prices has been growing for some time, but its scope and extent is just now beginning to be realized. Steel scrap prices have grown astronomically and are at or above $300 per ton, according to industry reports.

B. The Causes

The primary causes of this problem are clear: 1) Steel scrap exports from the United States are increasing, due to surging foreign demand, 2) At the same time other countries are limiting or even prohibiting their own scrap exports. This fundamental market imbalance must be corrected.

U. S. steel scrap exports have almost doubled since 2000, rising from 6.3 million tons in 2000 to approximately 12 million tons in 2003. This constitutes a substantial increase in steel scrap exports, both absolutely and relatively, to domestic supply – which is relatively inelastic. Meanwhile, U.S. domestic scrap demand has remained steady since 2000 and is increasing as the U.S. economic recovery improves.

In particular, China and South Korea are purchasing greatly increased quantities of U.S. steel scrap. Although more than 50 different countries purchase U.S. steel scrap exports, these two countries alone account for approximately half of all exports. China purchased 3.3 million tons and South Korea more than 2.5 million tons of U.S. steel scrap in 2003.

At the same time these countries are buying all the scrap they can get, many countries are now imposing their own barriers to steel scrap exports. Russia has imposed an export tax on steel scrap for several years; the Ukraine had a tax, and now has a complete ban, on scrap exports. This has removed millions of tons per year of steel scrap from the world market. Last week, Korea - the same Korea that bought 2.5 million tons of our steel scrap last year - closed the door on <u>all</u> steel scrap and steel rebar exports, period. There is no "free trade" here, and no level playing field. 3) Exports are the primary cause of the problem, but I note that there is an important secondary cause that is equally troubling - the transfer of U.S. manufacturing operations abroad. When an auto parts plant or manufacturer moves abroad, that also means that the "prompt" steel scrap generated from that factory moves abroad as well. So when our manufacturing economy lost 2.8 million jobs in the last three years, part of the related cost was a loss of future steel scrap and other recyclables. Our economy has been hollowed out for years by dumped and subsidized exports and the transfer of companies overseas. We are only now seeing the results of that sustained decline in the <u>permanent</u> loss of American jobs.

C. Who Are Affected

Steel scrap is an essential manufacturing component; all steel mills use it and for minimills it is their primary raw material. Foundries and other manufacturers also melt scrap to make liquid steel. And I do not need to tell this Committee that steel is fundamental to our manufacturing economy. For every steel-manufacturing job, there are 59 jobs in the downstream steel consuming industries.

The sharp steel scrap price increases and the tight supply problem are having significant, harmful effects on all manufacturers, buyers and consumers of steel or steel products. When we have sharply higher prices for steel products such as sheet steel, plate, structural steel beams, reinforcing bar, and, bar products, we threaten the viability of all metal working industries including: construction, automotive manufacturing, appliance manufacturing, forging, foundries, military ordinance, etc.

This is a nationwide problem that affects the jobs of millions of Americans across the entire country. This is not a Republican or Democratic issue; this is an American issue that needs to be solved quickly. The problem started last spring for our company and I testified before the Department of Commerce in July about the steel price increases and scrap surcharges caused mainly by U.S. steel scrap exports. Since January 1, 2004, our company has been hit by steel surcharges amounting to $10,000 per day. These surcharges are based upon the prices of scrap in the 4th Quarter of 2003. Due to the rapid scrap price escalations in January, February and March, we expect the steel scrap surcharges starting next quarter, to be approximately DOUBLE or $20,000 per day.

We cannot afford to absorb these increases as our customers also demand annual price reductions and at the same time our health care costs for our workers continue to increase. Therefore we are in negotiations with our customers to either pay the steel surcharges or we will be forced to stop shipments --- these are the same terms mandated to us by our steel suppliers.

NOTE: A conservative increase of $.05/lb. times 2,000 lbs. of steel per average vehicle times 16.7 million vehicles means a $1.7 billion increase in the price of vehicles per year without any benefit. In other words, pure INFLATION.

D. The Solution

I have helped to form the **EMERGENCY STEEL SCRAP COALITION** to address this crisis, and to try and solve it. Our coalition includes a diverse group of steel scrap consumers and steel users, including construction companies, parts makers, forgers, foundries, and many others. My message to Congress and the Administration today is that we need help, and we need it now. I hope that other companies will join us, by signing up at **www.scrapemergency.com.**

Existing U.S. law provides a potential remedy for injurious increases in steel scrap exports: the temporary imposition of export restrictions by the U.S. Secretary of Commerce. According to the law, Commerce may prohibit or curtail the export of scrap, if several conditions are met. To simplify, you need to show that scrap exports have increased, that domestic prices have increased, that the exports caused the increase, and that there has been significant harm to the U.S. Economy or domestic industries as a result.

As I think this hearing will help demonstrate, all of those tests are met. And the harm to our economy and our manufacturing base is growing every day.

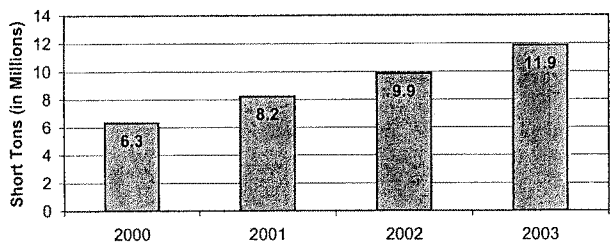
Mr. Chairman, filing this petition is not something we would do lightly. But desperate times call for desperate measures. Even a Department of Commerce investigation, which I am told can take place in a matter of months, may take too long for many U.S. companies.

I emphasize that our Coalition, like this Committee, needs a rapid solution to this crisis before the damage worsens. I look forward to working with the Committee, with others in Congress, and with the Administration, in order to end this crisis.

Thank you. I would be happy to answer any questions.

12179845.1

U.S. Scrap Exports Have Nearly Doubled Since 2000



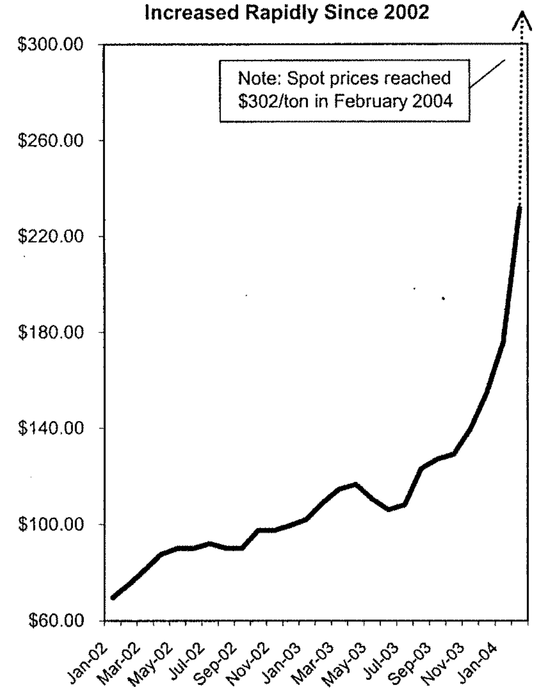
Source: American Metal Market and the U.S. Department of Commerce.

U.S. Domestic Exports of Ferrous Scrap by Destination[1/]
Quantity (in Net Short Tons)

Country	2000	2001	2002	2003
China	1,194,194	2,837,804	2,925,364	3,474,267
Korea	1,582,301	1,652,940	2,296,764	2,505,008
Malaysia	104,480	413,003	350,293	714,980
Thailand	147,323	37,857	213,445	635,510
Turkey	0	304,222	411,963	628,008
Top 5 Non-NAFTA	**3,028,299**	**5,245,826**	**6,197,829**	**7,957,773**
World Total	**6,350,380**	**8,205,038**	**9,865,636**	**11,868,130**

[1/]Includes HTS subheadings 7204.10, 7204.21, 7204.29, 7204.30, 7204.41, 7204.49, and 7204.50.
Source: **Wiley Rein & Fielding LLP**, from official export statistics of the U.S. Department of Commerce, Bureau of the Census.

U.S. Steel Scrap Prices Have Increased Rapidly Since 2002



Based on No. 1 heavy melting steel at Chicago, Pittsburgh, and Philadelphia.
Source: **Wiley Rein & Fielding LLP**, fom Purchasing Magazine's Steel Transaction Price Reports and American Metal Market.

Testimony of

William J. Klinefelter
Assistant to the President
Legislative and Political Director
United Steelworkers of America

before the

House Committee on Small Business

on

"Spike in Metal Prices: What Does It Mean for Small Manufacturers?"

March 10, 2004

Chairman Manzullo and members of the House Committee on Small Business, thank you for your invitation to testify today concerning the impact of steel prices on small manufacturers.

The United Steelworkers is deeply concerned about the health of the small manufacturers, as well as the primary metals sector. Our Union represents over 600,000 members in the United States and Canada who work in virtually every sector of the economy.

The manufacturing sector has been under enormous pressure. Since January 2000, the U.S. has lost almost three million manufacturing jobs. The USWA supports a wide range of initiatives to help U.S. manufacturers, such as tax credits to reward employers that retain manufacturing jobs in the U.S., targeted tax credits for investment, training programs, and efforts to make health care more affordable.

Domestic spot steel prices for the largest product categories have indeed risen about 40% since July 2003. However, it is important to keep this in perspective. The recent price spike takes place against a backdrop of unsustainable 20-year lows during the depths of the steel crisis. The current prices are now in line with their historical 20-year averages. Steel prices are still among the best bargains among manufacturing inputs.

The recent rise in prices is in all likelihood temporary and due to a number of factors, including rising input costs, reduced inventories, reduced steel-making capacity and the decline of the U.S. dollar.

Both integrated steelmakers (those that produce steel from blast furnaces using iron ore and coke) and mini-mill steelmakers (those that produce steel in electric arc furnaces using steel scrap) have faced sharp increases in raw material and energy costs.

For integrated steelmakers, iron ore prices have jumped by almost 20% in 2004, coke has been in short supply, and natural gas costs have climbed as much as 70% from 2002.

Steel scrap prices are historically volatile: falling during period of slow demand and rising sharply during periods of recovery. However, this volatility has now accelerated due to additional demand and increased scrap exports, particularly to China.

As a result, electric arc furnace producers have experienced a 90% increase in steel scrap prices, from $99 per net ton in July 2003 to $188 per net ton in February 2004, and 225% increase from the low point of $58 per net ton in November 2001. Mini-mills have been forced to pass this onto customers through special surcharges of as much as $100 per ton.

In addition, the decline in the U.S. dollar and the recovering global economy have made steel imports more expensive. For example, the domestic price of hot-rolled steel has increased by 13% since January 2000, while the average import price has climbed by 19% over the same period.

Domestic inventories are also at low levels. There is evidence that steel users "de-stocked" or drew down inventories during the last year and one-half and that the recent price increase is due to this inventory correction.

The steel price environment has also been affected by the loss of 12-15 million tons of domestic steel-making capacity that remains idle or shutdown.

I take no satisfaction in noting that the USWA warned policymakers that unless our nation's trade laws were enforced, the United States would lose a substantial portion of its steel making capacity, which would create just such an atmosphere in which prices would rise sharply during periods of strong demand.

While the USWA does not seek to minimize the difficulty of these price increases for small manufacturers, they are temporary. The manufacturing sector needs the attention of policymakers to regain its competitiveness and stem the loss of domestic jobs. Attempts to assist small manufacturers by intervening to artificially lower steel prices, however well intentioned, would hurt the domestic steel industry, which has yet to return to profitability, and ultimately injure the very small manufacturers we all seek to help. Some have suggested that U.S. trade laws be relaxed to increase steel imports and lower import prices. I cannot overemphasize how disastrous such an approach would be. Unfair trade has contributed directly to the destabilization of domestic steel prices. Unfair trade should not be rewarded.

It is important to note that the steel industry has suffered massively during the 1998-2003 period. The industry suffered nearly $11 billion in net losses. Forty-four steel companies have filed for bankruptcy protection since 1997 – including nine since just 2003. The price of hot-rolled steel, the industry's largest volume product fell by 40% to 20-year lows.

But in particular importance to our Union, 55,000 steelworkers and iron ore miners lost their jobs. The Pension Benefit Guaranty Corporation (PBGC) initiated distress terminations of the defined benefit pension plans of 16 steel companies, involving over 250,000 participants and over $7 billion in unfunded guaranteed pension benefits. And most tragically, over 210,000 steelworker retirees, widows and their dependents have now lost their health care benefits.

The steel crisis has exacted an immeasurable toll on active and retired steelworkers and their communities. The President's safeguard tariff remedy provided the industry with much needed breathing room. The industry is on its way to recovery and is undergoing a sweeping consolidation not seen since the formation of U.S. Steel over a century ago.

After the events of the last six years, the recovery in steel prices is necessary if the industry is to provide a return for shareholders and workers, attract capital investment, and continue to grow so that it may remain a reliable low-cost supplier for the manufacturing sector.

Thank you for the opportunity to present the views of the United Steelworkers on these issues.

House Committee on Small Business

"Spike in Metal Prices: What Does it Mean for Small Manufacturers?"

March 10, 2004

Prepared Remarks of Mrs. Barbara Hemme, Corporate Secretary/Controller, Youngberg Industries, Belvidere, IL

Chairman Manzullo, Ranking Member Nydia Velazquez, and members of the House Small Business Committee. Thank you for the opportunity to discuss the effects of metal prices on small manufacturers.

I am the Corporate Secretary and Controller of Youngberg Industries, a family owned business started in 1947. We are a job shop, specializing in vacuum furnaces and general fabrications. Just a few short years ago we were one of the largest employers in Belvidere, Illinois. Our company had over 90 employees, and we were enjoying a reasonable profit. Five years ago, that began to change. We witnessed profit erosions so severe that we laid off many of our workforce, bringing our total number of employees to 62. NAFTA and the recession were a major cause of the decrease in sales and profits. Generally, steel welders and fabricators are one of the first types of industry to feel economic upturns and downturns. Recent history has been no different.

In the third and fourth quarter of 2003, sales began to increase. We felt the recession was over and we could get back to a comfortable profit margin. When the steel tariffs were removed, quotes for steel price increases and surcharges began coming from the steel distributors. Steel prices are doubling and tripling. In addition, the steel service centers are decreasing the amount of time that we have to pay for steel. In the past we received 45-60 day terms. Current terms are now 15-30 day terms, with some steel distributors even asking for prepayment before they will accept the order. At first glance, that may not seem unreasonable. However, a vacuum furnace can take 12-16 weeks to build, and then our customers take another 60 days to pay. With the steel distribution centers asking for these types of payment and our customers extending out our payments, the small manufacturers are doubly hurt – once through increased prices and secondly through loan interest fees that are charged as we borrow against larger and larger lines of credit. We cannot always pass the steel increases on to our customers, as some contracts were written before the steel prices started to escalate.

In addition to price increases, we are now experiencing material shortages. Our purchasing department often has to call several service centers to find plates. The service centers tell us they are having trouble getting steel. We are told that raw slab steel is being sent to China, along with scrap, coke, and coal. This limits the amount of steel available to US producers. There is a limited supply of T-1 plate, which we've heard is being used by the government for protecting our military. We support the government in this use of steel, and do not wish to see any changes to the war effort's priority. However, this does create a shortage for us, which affects sales to our second largest customer. These shortages and price increases do not only affect our company. When word got out in the Belvidere/Rockford business community that I was testifying today, I received numerous phone calls from other companies who utilize steel in their industries. These other business are all feeling the exact same effects of operating in this economy, and asked me to share their concerns with you. They are doubly concerned – once because of the increase in steel prices, which may cause several of them to close their doors, and twice because they are concerned that we will need to close our doors, and in many cases we are their largest customer.

There is no simple solution to this issue. However, we would like to present our thoughts on this matter.

First, we need the government to take some type of action now. With these types of increases and shortages, it will be a matter of weeks before some companies go out of business. An immediate tax on scrap and steel exports would help keep some of the steel here in the United States. We cannot afford to have all our raw materials shipped to China. Russia, Ukraine, Venezuela and Belarus have already imposed taxes on steel exports to protect their steel industries. The United States should take similar action.

Second, we need to equalize trading between the United States and other countries. All companies are in business to make a profit, but why are we sacrificing US profits to foreign entities? Why not penalize American companies that do business in foreign countries then ship back to the United States through taxes or tariffs?

Third, Americans still need jobs. Many people say we are a post-industrial society, and will no longer need manufacturing. We will still have many citizens who will need to work with their hands. The United States has many highly skilled laborers, especially in the secondary markets, that take pride in the products they produce and the services they provide. Perhaps the government could do more to encourage the small, entrepreneurial businesses in this country to hire and train general laborers through grants and loans. The process would need to be simplified. Small business owners tend to want forms and documents to be simple and straightforward. Many in Belvidere still do business on a handshake, where everyone knows everyone else. Complexity just compounds the issue. Grants and loans could also be provided as subsidies during this time, allowing small business owners the opportunity to buy faster equipment to help us offset the rising steel costs. We have seen this done in other industries when a fiscal crisis has occurred. Now is the time to assist small businesses in the steel industry.

Fourth, we need to do something as a country about health care. After steel costs, the next largest invoice every month is for health insurance. Our competitors in other countries do not have to pay these costs, making them more competitive.

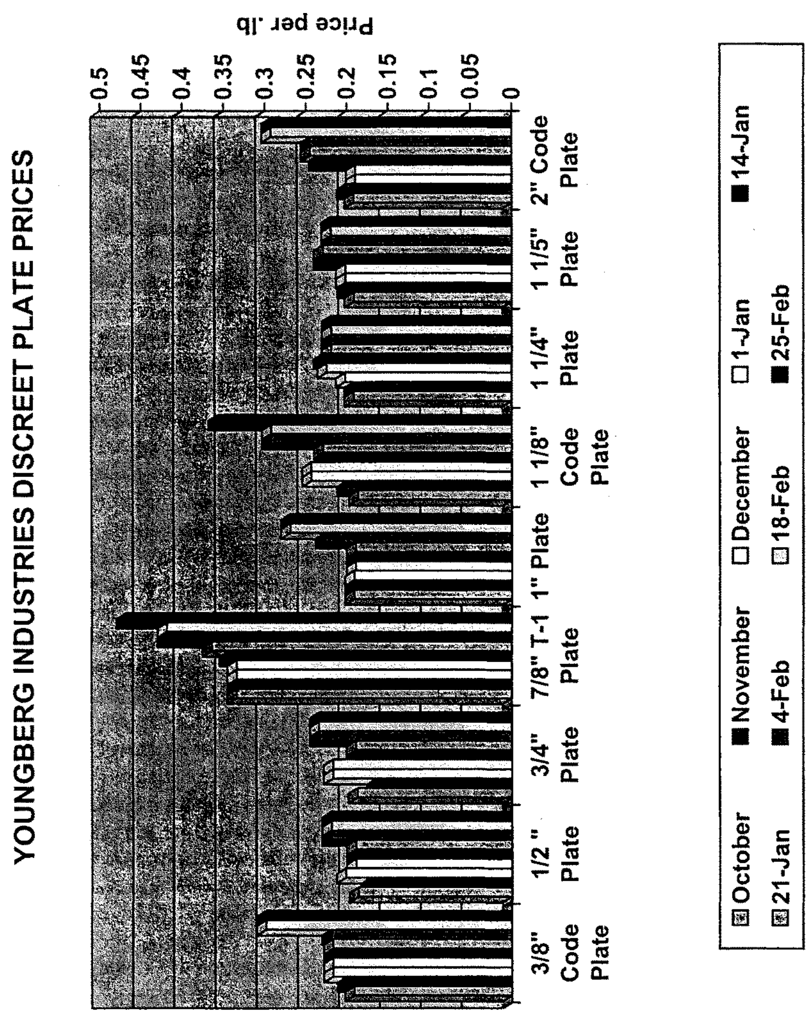
Fifth, ease government regulations on small businesses. This would allow small manufacturers to decrease costs in other areas, making it easier to deal with material price fluctuations.

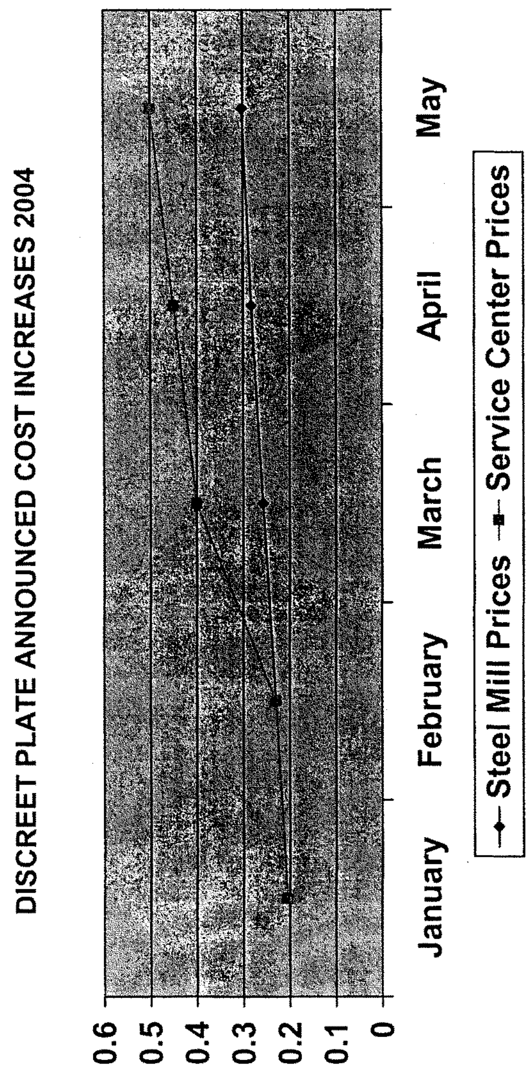
I beseech you, members of this committee and of Congress, to take immediate action to control the steel price increases and the export of steel and scrap to foreign countries. It is companies like ours that are the backbone of this country. With your help, we will be able to stay in business and contribute to the economy for years to come.

Thank you very much for the opportunity to present our issues and resolutions to this committee.

Respectfully submitted,

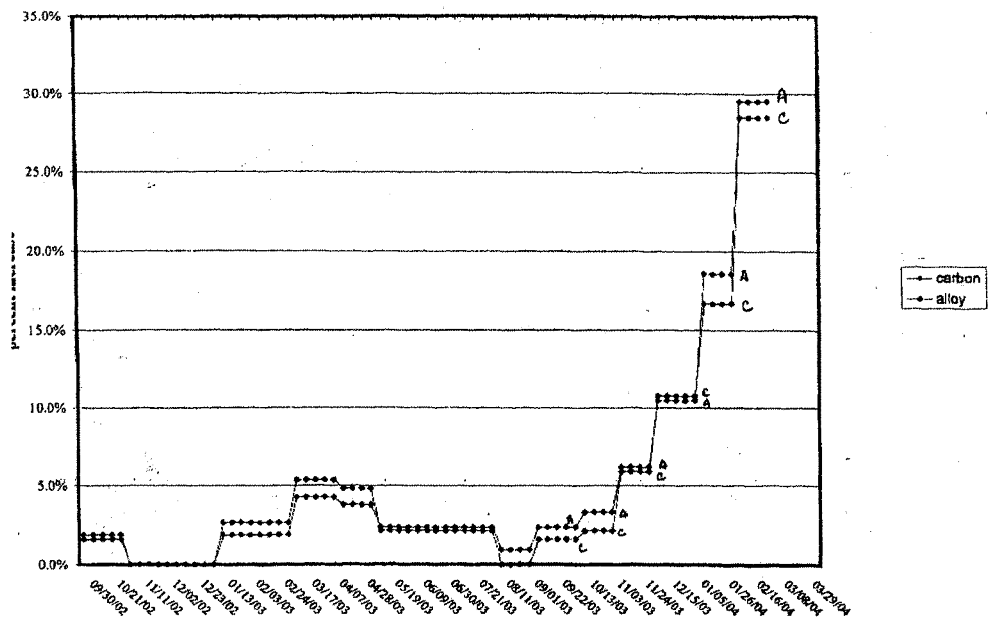
Barbara R. Hemme


YOUNGBERG INDUSTRIES DISCREET PLATE PRICES
Price per .lb
0.5
0.45
0.4
0.35
0.3
0.25
0.2
0.15
0.1
0.05
0
3/8" Code Plate
1/2 " Plate
3/4" Plate
7/8" T-1 Plate
1" Plate
1 1/8" Code Plate
1 1/4" Plate
1 1/5" Plate
2" Code Plate
October
November
December
1-Jan
14-Jan
21-Jan
4-Feb
18-Feb
25-Feb


DISCREET PLATE ANNOUNCED COST INCREASES 2004
0.6
0.5
0.4
0.3
0.2
0.1
0
January
February
March
April
May
Steel Mill Prices
Service Center Prices

FY2003 / FY2004 Steel Pricing

2/24/04



FY 2003 / 2004

For Reference Purposes from: Rotec Inc. / Thyssenkrupp, 1400 S. Chillicothe Road, Aurora, Ohio 44202
Thomas Freborg, Sales Manager Rolled Rings
Dir: 330-995-7227
Tel: 1-800-221-8043
Fax: 330-562-4620

Barbara R. Hemme 384 South Avenue
(847) 683-9551 (Home) (847) 638-7444 (Cell) (815) 544-2177 Hampshire, IL 60140

PROFESSIONAL ACCOUNTING EXPERIENCE

Corporate Secretary/Controller – Youngberg Industries **2001 - Present**

Director of Finance /Chief Accountant

– Digital Innovations, Eli's Cheesecake **1999 - 2001**

Direct all accounting functions. Manage ongoing bank relationships and banking activities as well as daily cash management. Develop budgets and maintain sales, cash and strategic business forecasts and projections. Direct accounting, general ledger, credit and collections, invoicing accounts receivable, and accounts payable.Maintain perpetual inventory systems and direct yearly physicals. Implemented EDI for major retail customers. Implemented ERP systems in each company. Analyzed and adjusted standard costs and factory overhead rates. Built and maintained Access databases to capture and report various financial data to interested parties.

Assistant Controller- Cahner's Direct Marketing Services **1996 - 1999**

Directed revenue and cost center analysis; developed sales staff compensation plans and managerial bonus plans; monthly compensation reporting and analysis; management budgets and reforecasts; management compensation reports; developed two billing systems; acquisition analysis and restatements; directed general ledger and month end close processes; supervised professional staff of 5.

Financial Analyst - Abbott Laboratories **1991 - 1996**

Produced domestic apportionment factors; direct and negotiate tax audits, tax estimates, extensions and returns. Also responsible for analyzing and maximizing state credits. Directed analysis, revision, and documentation of all accounting procedures related to Abbott Mfg. Inc.; administered development and installation of new information systems computer billing system; consolidation of three manufacturing ledgers; consolidation of other manufacturing costs; and monthly financial reporting package pages, including board package commentary; provide accounting support for two cost centers including preparation of monthly Flash and Actuals review packages; latest-best-estimate preparation and commentary; analyzing pricing for International Legal Dept.; preparing subsidiary tax package; and handling special projects as requested by management.

TEACHING EXPERIENCE

Adjunct Faculty

William Rainey Harper College, Main Campus and Northeast Center **Jan, 2002 – Present**

Taught Introduction to Sociology and Introduction to Social Psychology

EDUCATION

De Paul University, Chicago, Illinois, MA, Sociology, June 1998

De Paul University, Chicago, Illinois, BA, Liberal Arts, June 1995

College of Lake County, Grayslake, Illinois, AA, Liberal Arts, May 1993

UNPUBLISHED MASTER THESIS

"The Effects of Television on Youth Life Skills", 1998.

CONFERENCE PARTICIPATION

Illinois Sociological Association Annual Meeting. "Teaching Introduction to Sociology: Tips and Techniques." October 2003

Illinois Sociological Association Annual Meeting. "Tweens and Television". October 2003.

PROFESSIONAL AFFILIATIONS

Financial Executives International

Alpha Kappa Delta – International Sociology Honor Society

Illinois Sociological Association

Midwest Sociological Society

American Sociological Association

SERVICE TO THE COMMUNITY

Board of Directors – Rock River Valley Girl Scout Council 2002-2003

March 3, 2004

Distinguished Committee Members of the U.S. House Committee on Small Business:

I would first like to express what an honor it is to be here before you today and my appreciation for the invitation to discuss the urgent matter of spiraling steel pricing and the impact on small and medium sized manufacturing concerns.

My name is Kyle Martinson, and I am Director of Purchasing for Revcor Companies, Inc., in Carpentersville, Illinois. I have a Bachelor of Science degree from Oklahoma State University and am recognized as a Lifetime Certified Purchasing Manger by the Institute of Supply Management. We are located approximately 45 miles northwest of Chicago along the Fox River. Our company has an injection molding facility in Holtom City, Texas, and a small assembly plant in Juarez, Mexico. Total employment throughout our company is approximately 700 people. My comments today will address activity at the company headquarters facility in Carpentersville where we manufacture component parts and assemblies to service the HVAC market (heating, ventilation, and air conditioning).

In my twenty-six years of experience, I have purchased steel both mill direct and through service centers. At Revcor, our steel purchases are made through steel service centers. These companies slit master coils into smaller coils that we are able to utilize in our manufacturing, they inventory and provide J.I.T. (just in time) delivery, as well as provide metallurgical support and advice when requested. They also inventory slit coil and provide consigned materials when requested.

As to volume, in 2003 we purchased approximately 5700 tons of slit coil stock (primarily galvanized) and approximately 800 tons of cold drawn bar stock. These purchases represented a total dollar expenditure of approximately $5.7 million dollars.

Today's metal buyer is faced with market conditions not seen during my career. It might be useful to recap how we find ourselves where we are from the perspective of my side of the desk. Recent events date to back to the current administration's implementation of what have become known as the Section 201 tariffs. Almost seemingly overnight, steel prices for slit and delivered coil stock rose 15% or more for those buyers who could even find it. The industry felt the implementation of these tariffs was necessary in order to allow the domestic industry to become well financially and to even the playing field against off shore competition.

Fast forward to November of 2003 when the decision was made to lift the tariffs. No one expected pricing to drop. Demand was relatively high, Great Lakes were closing soon so off shore tonnage would be limited, and pricing gains the industry had gained, they should be able to retain, and the weakened dollar meant foreign sources could sell their product elsewhere at higher margin.

We at Revcor Companies, Inc., began putting our metal buy for C2004 together in October of 2003. The final product of these negotiations was an anticipated significant savings for C2004 versus C2003. Our agreements were "firm price" for a specified period, the minimum 6-month of C2004. We had allowed for price relief, if necessary, semi-annually, and pegged to a +/- movement for the product per the Producer Price Index.

Less than two months later, these agreements were voided, "Force Majeure". A combination of coke shortages, energy costs, and scrap metal shortages and the industry felt it necessary to implement surcharges. We are being instructed by our suppliers to sign acceptance of these surcharges before steel will be released. We have suppliers asking for our purchase orders for **April** delivery, but they cannot tell us what the steel will cost. We having pricing agreements with our customers who are telling us they cannot and will not pay higher prices than those previously agreed upon. We are in the process of attempting a direct pass through to our customers of these surcharges.

With regard to the rise in scrap shortages and the shortages of available scrap to those steel mills with electric furnaces. It is my understanding that the steel industry, by law, has been declared "national defense critical". How can we allow scrap to be exported to China for big bucks when the domestic industries tell us there is a shortage that drives these surcharges? I am all for business maximizing profit where possible, but gouging is an entirely different matter.

Further, as I write this, I see an announcement that ISG has acquired the assets of Weirton Steel. Now, to summarize, ISG has acquired the assets of LTV, Bethlehem Steel, Acme Steel, Weirton, (and other smaller), U.S. Steel has acquired the assets of National Steel. It would seem we have two players now controlling a **major** portion of domestic steel production capacity. Aren't there any anti-trust issues at stake here? Two companies now control 50% or more of the domestic steel production capacity.

The situation has now become instead of buying steel off shore, complete sub assemblies and components are now being bought off shore. The implementation of these surcharges will only serve to further this process. And along with this, go American jobs. We at Revcor are being forced to begin exploring increased off shore sourcing in order to remain competitive.

American industry can compete. But before we granted favored nation trade status to China, shouldn't we insist they allow their currency to float internationally with other currencies instead of being propped up and supported by their central government? Doesn't this amount to a subsidy by the Chinese government?

The last comment I would like to make is the perceived arrogance of the U.S. steel mills. As we sit here, contracts and supply agreements are being voided and handed back to customers. The major integrated mills feel it necessary that since the electric mini mills have higher surcharges, that they need higher transaction pricing. So, even on orders they are late, pricing will be PIE (price in effect at time of shipment will apply). Surcharges are one thing, our customers may not like them, but they are aware of them, and we can more successfully pass these charges along. Transaction pricing is entirely different, these are negotiated between you and the supplier, increases here, you are forced to absorb.

On the not too distant horizon the rumor mill is already cranking out the possibility of fuel surcharges this summer on your steel deliveries due to higher fuel costs. When does it end?

My father, Harold Martinson, the son a Danish immigrant, taught me the value of a hard days work, your word is your bond, and when you feel you have nothing else, you always have your family name. **Never,** do anything to bring dishonor to your family name. These traits are not apparent in today's steel market. Agreements negotiated in good faith are being voided, and to add insult to injury, you are **told** to sign paperwork agreeing to the new pricing before shipment of your order will be made. Over the past 26 years, many agreements were reached with a handshake and a purchase order, this is no longer the case. Why should we the consumer be asked to agree, when our original purchase order is not worth the paper it is written on? Because, if we don't, we don't get the metal we require to manufacture our product.

To summarize, at Revcor Companies, Inc., our major concerns are:

- Availability, will we be able to get enough metal to meet our production requirements
- Pricing, can we afford the metal on order, and will we be able to pass along any of these force fed increases.
- Information, we have orders for April delivery that we have absolutely no idea how much we will be paying for this material.

- Jobs, as I mentioned earlier, before long, off shore steel will be the least of the domestic mills worries. More and more, the components and sub assemblies made from both foreign and domestic steel will be sourced in countries other than the United States.
- Additional surcharges being implemented for fuel.

Thank you once again for your time and this opportunity. Any relief and or advice as we proceed to muddle through this chaotic metal market will be greatly appreciated.

I will try, to the best of my ability, to answer any questions you might have.

Kyle R. Martinson, C.P.M.
Director of Purchasing
Revcor Companies, Inc.

Trilla Steel Drum Corporation
2959 West 47th Street
Chicago, IL 60632
800-669-DRUM

HEARING ON SPIKE IN METAL PRICES: WHAT DOES IT MEAN FOR SMALL MANUFACTURERS

TESTIMONY OF LESTER TRILLA, PRESIDENT
TRILLA STEEL DRUM CORPORATION

BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESS

MARCH 10, 2004

INTRODUCTION

Good morning, Mr. Chairman, members of the Committee. Thank you for the opportunity to appear before the Committee today to discuss the impact of the steel pricing crisis on my company. I particularly want to thank you, Mr. Chairman, for your leadership in support of small and medium manufacturers in this country, for your stalwart support of our successful effort to remove the steel tariffs from our lives and for being supportive of small businesses in America by holding this hearing.

My name is Lester Trilla. I am the President and CEO of Trilla Steel Drum Corporation, with locations in Chicago, Illinois, and Fenton, Missouri. Trilla is a leading manufacturer of new steel drums used in the filling and transportation of a hazardous materials, food, and many other products. Trilla has been a family-owned, family-run business for three generations.

I've traveled to Washington today to tell you about the problems that my company – and my industry – is facing in light of the pricing and supply problems with steel.

THE PRICE OF STEEL HAS SKYROCKETED

Over the past two months, the price of steel has skyrocketed beyond our belief – it is even worse than the situation we faced when the steel tariffs were initially imposed almost exactly two years ago. We buy domestic steel at Trilla Steel Drum. Our steel supplier informed us within the last three weeks that they will not honor quoted prices, but will determine the price of an order by the market price in effect at the time of shipment. Basically, they are rescinding all price agreements. When we asked how they were going to determine this "price at the time of shipment," the company's representative told us that he was not sure because they did not yet have a system in place by which they could do daily pricing changes. This is a seller's market like we've never seen before.

Our steel supplier also informed us that they were raising our base pricing for an indeterminate period of time to $25.00/cwt for cold-rolled steel ($500 per ton). This is a 30 percent increase over the already high prices we've been paying. On top of that, they have imposed a new $30 per ton raw materials surcharge. Thus, while we were paying $390 a ton in December 2003, we are currently paying $530 a ton. We have been told to expect that steel prices will be in the $680 per ton range in April. The most recent spot price quotes I have received are for over $850 a ton—almost three times what I was paying five months ago.

These rapid and unexplainable price increases are devastating to our business which always runs on very tight margins, and where cold-rolled steel is our principal raw material. Steel makes up 45-60 percent of the cost of making a steel drum. When you include components, steel makes up 60-70 percent of our costs.

The fact that our steel supplier will not honor a quoted price or let us know how much we will end up paying until time of shipment adds tremendous uncertainty to our business. So much uncertainty, in fact, that if we had a choice, I would have to look elsewhere for steel. We have quoted prices to our customers and we must honor those prices, both because we are committed to keep our word, and because our customers could very well walk away from us, simply refusing to pay prices they had not agreed to. They have already balked at the significantly higher prices that were necessitated by steel tariffs – we lost 30% of our longstanding customers when we imposed a 20% price increase in response to the steel tariffs last year. We are concerned that we will lose still more customers when we have to raise prices again.

But Trilla simply cannot absorb these huge cost increases, and we have notified our customers that we must raise our prices for orders placed after March 15. This is unfortunate – we can only hope that our customers understand the squeeze that we are in and won't go to alternative suppliers or alternative containers.

THE SUPPLY PROBLEM IS THREATENING TO DESTROY MY BUSINESS

Furthermore, apart from the problem of increased steel costs, we are faced with unavailability of steel supply. Steel is my chief raw material. We use 11 different sizes of steel. Without a steady and reliable supply of these products, I cannot produce steel drums that my customers have ordered.

At the prices we are being quoted, there should be more steel produced, but this is not the case. Last month, our steel supplier cut the volume of steel they would supply to us without consulting with us. The volume they say they will supply (and who knows, in these times, if they will really supply what they've said) is inadequate for our needs and we have no place else to go for more steel. We must maintain a two-week level of inventory or more, but in February, I was already facing a major shortage of five of the eleven sizes of steel that we need, and completely ran out of one size. This will force me to cut back on my production.

THERE ARE NO ALTERNATIVE SOURCES OF STEEL AVAILABLE TO ME

Faced with the bleak supply picture I just described, we contacted two other domestic steel mills in our area, but *to no avail*. Everyone seems to be short of steelmaking materials and domestic steel producers seem to be either unable or unwilling to sell to new customers. Steel warehouses do not have steel because they are not being supplied by their sources. We have contacted the foreign steel mill that we used to do business with before the imposition of the steel tariffs, but they won't even return our calls. Their disappearance from the market is a lingering result of the steel tariffs.

The steel tariffs forced us to buy our steel from domestic mills. They opposed our requests for product exclusions that would have allowed us to import the steel we need. Now that the tariffs, thankfully, are lifted, the domestic mills will not fill our needs and foreign mills will not return our calls. We have no place to go for steel.

CONCLUSIONS

Trilla Steel Drum survived the steel safeguard tariffs but others in my industry did not. I am aware of at least two other steel drum companies that have written to this committee, seeking any form of help that might be had to alleviate the crush of steel prices and short supply is having on our industry. It is increasingly clear that the future of any small business in the United States that relies on steel as a raw material has a tougher road to hoe than ever before.

We are in a global market that requires us to be more competitive and lower cost than we've ever been. We cannot survive if our steel supplies are limited by government action of any kind. Small business needs help right now. For starters, we'd benefit from a suspension of all trade restrictions on steel imports until the current crisis has abated. There is no way steel companies are injured right now from imports that the steel companies can't supply.

Thank you very much for the opportunity to share my views with you. I would be pleased to respond to your questions.

PETER J. VISCLOSKY
1ST DISTRICT, INDIANA

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEES:
DEFENSE
ENERGY AND WATER DEVELOPMENT

CONGRESSIONAL STEEL CAUCUS
VICE-CHAIRMAN

U.S. HOUSE LAW ENFORCEMENT CAUCUS

Congress of the United States
House of Representatives
Washington, DC 20515-1401

2313 RAYBURN BUILDING
WASHINGTON, DC 20515-1401
(202) 225-2461

701 EAST 83RD AVENUE, SUITE 9
MERRILLVILLE, IN 46410
(219) 795-1844

Call Toll Free
1 888 423 PETE
(1 888 423-7383)

INTERNET:
http://www.house.gov/visclosky/

Testimony of Congressman Peter J. Visclosky (IN-01)
House Committee on Small Business
"Spike in Metal Prices: What Does it Mean for Small Manufacturers?"
March 10, 2004

Mr. Chairman, I'd like to thank you for the opportunity to submit testimony at today's hearing. The present price of steel is a serious matter facing the nation's steelmakers, manufacturers, and consumers. I welcome the opportunity to discuss this important issue before the Committee.

Several market forces are contributing to what amounts to a "perfect storm" in the steel industry which has driven steel prices up. Increased demand for steel is one obvious market force—as the demand goes up, so goes the price. Raw materials and other input products have also shot up in price before they reach the steel producers, driving up steel production costs. Coal fires have disrupted domestic coke supplies, exacerbating the more serious problem of China restricting its coke exports. Energy prices have risen. Alloys are more expensive, and the market has driven the price of scrap up higher than any time in recent memory.

In fact, in just the few weeks since the end of the third quarter of 2003, the spot prices of many raw materials essential to basic steel making have been driven up. Coke, for instance, has risen about 300 percent, while alloys are close behind at an increase of just slightly under 300 percent. Scrap metal has shown a jump of roughly 180 percent and coal is up roughly 160 percent. In addition, the cost of ocean freight, the basic mode of transportation for these raw materials to be transported to or from the United States, has more than doubled since the third quarter of 2003. However, the nation of China can be cited as one of the biggest single contributors to the rising price of steel over the last few months.

China's rapid increase in steel production capacity has made many steel inputs scarce. Put another way, demand for steel and steel inputs is as high as it has been in recent memory. Steel capacity in China has increased to 250 million tons in 2003 from 100 million tons in 2000. Compare this to the roughly 100 million ton capacity that the United States currently has on-line, and it becomes clear that an enormous amount of raw materials are necessary to support this kind of production. China is buying up all the available scrap steel they can, creating scarcity and almost single handedly fueling the dramatic price increase in domestic scrap steel.

China is also drastically increasing the amount of traded steel it consumes. From 2001 to 2003, Chinese steel consumption increased roughly 70 percent, compared with the rest of the world increasing only 5 percent. In fact, China's increase in steel during this time period is roughly half of the total consumption of steel in the United States for 2003. Again, China is creating scarcity that is driving up steel prices.

The effects of China's steel consumption are unfortunately being felt here at home. However, perspective is important when considering the recent rise in steel prices. The Times of Northwest Indiana, my local newspaper, recently reported that the price of steel in new cars could double to $1,350 due to these recent increases. Yet this increase sounds much larger than it actually is. When you look at this figure more closely, it means that a price of the steel in a car has risen $675. This represents an increase of only 2.25 percent on the mid-level $29,985 Ford Explorer SUV*. I would argue that this represents an almost negligible increase for the ultimate consumer of that vehicle.

I would also like to point out that steel consuming industries have benefited from the steel market in the past. Many steel consuming firms built their business plans on unsustainably low steel prices, entering into long-term contracts based on prices that were bound to rise with the market. Between June 1997 and December 2001, Bureau of Labor Statistics data indicate that the price of hot-rolled steel fell by 26 percent. Steel prices fell to record, unsustainable lows. Meanwhile, prices for major downstream industries remained steady. In other words, when steel prices were falling, prices on steel containing goods were not. Steel consuming industries were profiting on the American steel industry's misfortunes. Now that the tables are turned, steel consumers are the first to point out that fluctuations in steel pricing are affecting their business.

While the Section 201 steel safeguard was in place, steel prices stabilized and supply streams were normalized. Yet the whole time, steel consuming industries fought the 201, claiming that a safeguarded steel industry was hurting their business. "Let the market run free," we heard over and over again. The 201's have lifted, and the market is running. The steel consumers are the first to speak up again, this time asking for market controls! The market is running in the absence of market-distorting trade practices, just not the way they want it to. I would respectfully suggest that for the time being, the market has found its way, even though steel consumers do not necessarily like the way it has gone.

Thank you again for giving me the opportunity to submit testimony before the committee.

*MSRP for the Ford Explorer XLT.
Source: http://www.fordvehicles.com/suvs/explorer/glance/index.asp#Explorer_XLT, March 5, 2004

AMERICAN
WIRE
PRODUCERS
ASSOCIATION
"Steel Wire and Wire Products for America and the World"

801 North Fairfax Street
Suite 211
Alexandria, VA 22314-1757

Phone: 703-299-4434
FAX: 703-299-9233

email: info@AWPA.org
Kimberly A. Korbel,
Executive Director

WRITTEN TESTIMONY FOR THE HOUSE SMALL BUSINESS COMMITTEE

HEARING ON
"INVESTIGATING THE SURGE IN STEEL, METAL PRICES"
WASHINGTON, DC

ON BEHALF OF THE
AMERICAN WIRE PRODUCERS ASSOCIATION

I. Introduction and Background

This testimony is submitted on behalf of the American Wire Producers Association ("AWPA" or "Association") in conjunction with the March 10, 2004 House Small Business Committee hearing on "Investigating the Surge in Steel, Metal Prices."

The AWPA represents the segment of the domestic steel industry that produces wire and wire products. The members of the Association operate more than 100 independent wire plants in 33 states, and employ more than 22,000 American workers. They draw wire from steel wire rod to produce a wide range of products, including all kinds of wire, rope, strand, fencing and netting, nails, staples, garment hangers, springs, and chains. AWPA members produce between 85% and 90% of the domestically supplied wire and wire products. The majority of our members are considered small businesses.

II. Wire and Wire Products Industry – Wire Rod Shortages

Wire and wire products manufacturers require steel wire rod as their primary raw material, but wire rod is in short supply today, particularly from domestic rod suppliers. Current shortages can be attributed to both domestic rod mill closures over the last 3 years and antidumping orders on wire rod imports from many long-time foreign suppliers. Historically, the domestic supply of wire rod has not been sufficient to meet domestic demand and imports have been necessary to fill the gap. Today, supply conditions are deteriorating rapidly, and wire companies are facing serious shortages.

Not only is rod in short supply, but also wire and wire products. With an improving economy, domestic wire and wire products companies need even more rod than before. Plus, over the last couple of months, the volume of imported wire and wire products has dropped off. Basically, we cannot get rod in the increased quantities that we need to meet domestic demand.

AWPA members are reporting delayed or cancelled deliveries of wire rod from domestic suppliers, and wire producers are also being placed on allocation by their suppliers. As a result of these supply problems, the wire and wire products industry is unable to operate at full capacity.

Many wire and wire products companies are now being forced to turn away business. For example, one AWPA member was unable to produce almost 1500 tons of orders because of steel shortages. This same company also had to turn down another 1200 tons of orders last month due to lack of steel inputs. In other cases, wire mills are sitting idle while workers wait for the wire rod to show up.

III. Rapid Price Increases for Steel Wire Rod

Prices for wire rod have risen by more than 70 percent over the last twelve months. The wire industry has, in most cases, been able to pass along these increases. But over time, with continued raw material costs increases, we could experience shrinking margins on our finished products. Further, over the last five years, the wire producers and their customers have faced serious competition from imported wire and downstream wire products. Our continued concern is to make sure we are able to purchase competitively priced rod from both our import and domestic sources.

IV. Conclusion

We know that these are not simple problems and that our industry is not the only one grappling with steel shortages and sky-rocketing prices. Nevertheless, we appreciate the opportunity to explain the circumstances facing the domestic wire and wire products industry, and we applaud the efforts of the Chairman and of this Committee to investigate these problems and to consider possible solutions.

Thank you.

Submitted by,

Janet Kopenhaver
Director of Government Affairs

20GR100

Statement for the Record
United States House Committee on Small Business

Hearings on
"Spikes in Metal Prices: What Does it Mean for Small Manufacturers?"
March 10, 2004 and March 25, 2004

Submitted by
William L. Harbaugh, President
Burrell Mining Products, Inc.
New Kensington, PA

I want to thank Chairman Manzullo and Ranking Member Velazquez for holding these hearings to examine the effects of the spike in metal prices on small business.

Steel is a critical ingredient in our products. At Burrell Mining, we manufacture "mine roof supports" - "pillars" that hold up the roofs in underground mines. Mine safety, and the safety of the miners working below ground in the mines, is foremost in our minds when we design and manufacture our products.

Our mine roof support products are "*The Can*" Cribbing System, and the "*Turbo Prop*". The Can is patented, and we have a patent pending on the Turbo Prop. The exterior of both The Can and the Turbo Prop is a cylindrical steel canister. The Can contains roof and floor convergence better than any other type of support available to the mining industry.

It is important for the Committee to understand that our products are of the highest quality and have gained the respect of the federal government and of the mining industry. The U.S. Bureau of Mines thoroughly tested The Can and it earned this comment from T.M. Barczak, Research Physicist, U.S. Bureau of Mines Pittsburgh Research Center:

"New hybrid supports, such as 'THE CAN' supports developed by Burrell Mining Products, that can be set in place like a prop but function more like a crib, will provide an alternative to wood cribbing in even the most severe mining conditions".

In addition, Mr. Scott Timothy, General Longwall Manager of Energy West Mining Company's Deer Creek Mine in Utah, said in a letter to us: *"The Can has been the most effective alternative support we have tested to date"*.

In January, I was told that the surcharge I pay on steel will increase from $20 a ton to $100 a ton. Further, as an example, the steel cost for a typical 2' x 7' Can increased from $32. 40 in December of 2003 to $46.44 in April of 2004. An increase of 43.3 %.

If that wasn't enough, we now hear from our steel supplier that the orders placed for us in February of 2004 were not accepted by the mill and a delivery date was pushed back from March 24, 2004 to May 1, 2004. As a result, I have no steel to manufacture our products for the month of April.

To give you a further example of the impact on the above, using our typical steel costs of $32.40 per 2' x 7' Cans in December of 2003, and $46.44 in April of 2004 (no steel available at this price) my open market steel costs are $58.55 for that same 2' x '7 support. An increase of 80.07 %. Needless to say, we cannot stay in business very long if this continues. Someone has to help the small business manufacturers.

We currently employ approximately 44 people in our manufacturing operations, which are mostly in the Appalachian area.

In addition, my long-time supplier told me that no new mill orders can be accepted at this time. That means I have to continue to buy steel on the open market, and I don't know if the shipments will arrive in a timely manner to manufacture my products. That is unacceptable.

The steel price spikes are affecting large corporations as well as mid-size and small businesses. For instance, I read an article in the Wall Street Journal on March 23, 2004 that said General Motors is "grappling with rapidly rising steel costs" and that GM has refused to pay a 3% increase over contract prices in the cost of steel fasteners that its supplier Textron has charged.

On that same day, March 23, 2004, I read a New York Times article stating that General Motors' manufacturing arm is spending its white-collar budget on workers in Canada and overseas in order to cut costs. We all have heard complaints lately about outsourcing – that our jobs, including white–collar information technology jobs, are leaving the United States. I wonder if GM's outsourcing was prompted by the higher steel costs.

I have looked into the reasons for the steel price spikes and I have a few suggestions I hope you will consider.

I have heard and read about all of the arguments: we have a weak dollar; China manipulated its currency and is buying up all of the world's scrap steel; and there has been a shortage of coke, which caused our steel mills to run below capacity.

I know you are looking into all of this. However, I ask you to work with your colleague in the House and Senate, and in the Bush Administration, on the following:

First, the United States must use our diplomatic channels to convince China to adhere to the World Trade Organization (WTO) rules. China has not done that.

I read the testimony that Bill Klinefelter of the United Steelworkers submitted for your March 10th hearing. On page one of his testimony, he stated that *"electric arc furnace producers have experienced a 90% increase in steel scrap prices"*.

We know that China is cornering the world market on scrap steel.

Klinefelter goes on to say: *"Mini-mills have been forced to pass this* (high price of scrap steel) *on to customers through special surcharges of as much as $100 per ton"*.

On page one of my testimony, I discussed the increased surcharge I now have to pay. Since China ignores the WTO and is buying up the world's scrap steel market, our government needs to <u>focus</u> on strict diplomatic discussions with China so that I, and countless other U.S. businesses, can get relief from the surcharge we are paying.

Second, there are countless good aspects to the Clean Air Act. However, its pollution control requirements caused the coke industry to shut down in the United States, except for a few of the giant steel makers, who can afford the pollution controls to make their own coke.

Could we expand our coke-making capacity in the United States if large companies, who are the only ones who have the assets to afford to produce coke, are given tax credits to expand their coke-making operations?

Third, steel making is an energy-intensive industry. I know Congress has been deadlocked on its energy bill. We need to pass an energy bill that supports research and development to find new sources of natural gas, which we use in steel making. I understand the cost of natural gas has gone up by 70% since 2002.

Fourth, isn't it ironic that this situation has arisen only months after the 30% tariffs were taken off foreign steel?

Finally, I have read claims that domestic steel producers had to decrease production due to the coke shortage. I ask Congress to look into this – have you contacted the steel companies and asked if the coke shortage was really so bad that some domestic producers had to halt production? Also, what did this do to steelworkers' jobs?

I encourage you to make known to your colleagues in the House and Senate, and in the Administration, the points that have been raised, the policy suggestions that were submitted, and the questions that were asked by your witnesses at these hearings.

We need to do all we can, through diplomacy, research, tax credits or other incentives to stabilize the steel market and to reduce price volatility.

Please remember this – since you lead the Small Business Committee, you know how important it is for a small business to operate from a business plan. It is difficult for any business, small, medium or large, to stick to a business plan when we cannot count on a specified delivery date or price for steel.

I want to thank the Committee for accepting my testimony.

Bill Harbaugh, President
Burrell Mining Products, Inc.
Suite 221
2400 Leechburg Road
New Kensington, PA 15068

(o) 724-339-2511

ITW CIP Stampings
An Illinois Tool Works Company

STATEMENT FOR THE HEARING RECORD
ITW CIP STAMPINGS, SANTA FE SPRINGS, CA
U. S. HOUSE OF REPRESENTATIVES SMALL BUSINESS COMMITTEE
"SPIKE IN METAL PRICES: WHAT DOES IT MEAN FOR SMALL MANUFACTURERS?"
MARCH 10, 2004

These comments are submitted for the record by ITW CIP Stampings, a Santa Fe Springs, CA-based manufacturer of steel components for the automotive and other markets. CIP Stampings employs approximately 160 men and women in its Santa Fe Springs facility, a drop from nearly 300 as a direct result of the most recent government imposed tariffs on sheet steel!

The current spike in steel prices, corresponding shortages, lengthened delivery schedules and lack of availability of certain types and quality of steel are but the latest indications of a growing problem faced by all steel consuming manufacturers: the inability to count on a stable supply of globally competitive, high quality and required chemistry steel. In our view, government is at least partially to blame for this lack of certainty, and at a minimum should avoid making market conditions worse by its actions.

As CIP's parent company, Illinois Tool Works Inc., has exclaimed in its testimony before the House Ways and Means Committee and the International Trade Commission, "Steel is not steel is not steel!" Increasingly, innovative steel consumers look to mills to produce the chemistries of steel we need for specific applications. CIP Stampings, for example, produces automotive components where we "draw" metal into specific shapes where the metal's strength and integrity must be maintained throughout the entire piece. We accomplish this task through precision forming, extensive experience and the right metal chemistry. During the period of the recently lifted "Safeguard Action," we were forced to purchase more expensive domestically produced steel[the domestic industry claimed, in their objections to our exclusion request, that they could meet our requirements] that did not meet our <u>and our customers'</u> metallurgical requirements. As a result, we saw productivity decline by 30%. The cost of these expenses could not be recovered from our customers. That action also forced us, when the tariffs were lifted, to shift our steel purchases to a new offshore producer that could supply us with steel that did not require us to perform any additional finishing work to the metal, causing us to initiate an additional permanent layoff.

As you may be aware, conditions in California have caused many manufacturers to leave this State. After much discussion, ITW chose, instead of closing my facility, to invest in us; but raw material markets continue to challenge this decision.

P.O. Box 2261 • 11525 Shoemaker Avenue • Santa Fe Springs, CA 90670 • Phone: 562-941-3281 • Fax: 562-941-49

ITW and CIP Stampings have consistently stated our support for a strong, globally competitive U. S. steel industry. Just as consistently, we have argued that the U. S. steel industry cannot be made strong for the long term through actions which weaken and/or impair, temporarily or permanently their customer base in the U. S. Unfortunately, recent conditions in the steel market, into which the Congress has been asked to intervene, are leading us again in that direction.

Much has been made of the phenomenon of "off shoring," the practice by which U. S. manufacturers locate production in other countries, sometimes in addition to U. S. production, and sometimes in place of it. And while many factors go into any such decision, raw material cost and availability is certainly a major consideration in many instances. In a recent letter to our employees and customers, ITW CEO W. James Farrell stated that ITW's labor cost equaled only 10%, on average, of our products' costs. For many ITW businesses, raw material is the single most significant cost driver, and over which we have the least control.

Beginning with the Voluntary Restraint Agreements (VRAs) against Japanese steel in the 1970s and 80s, the U. S. steel industry has enjoyed wave after wave of government-imposed protection against imports. All of these actions were designed in some way to give the industry "breathing room" in order to become globally competitive, or to offer protection against "unfairly traded" steel. The most recent example of this practice, the Global Safeguard tariffs imposed under section 201 of the Trade Act of 1974, has just been removed in December of 2003. Yet today, just as following every other instance beginning with the VRAs, steel consumers are no closer to the goal of a stable, globally priced, supply of high quality steel than they were thirty years ago.

Indeed, just 3 months after the U. S. steel industry complained bitterly that removal of the tariffs would surely sink them under a tide of "unfair imports", steel prices in the U. S. are the highest in the world, steel imports are falling, not rising, and rumors are rife that domestic producers intend again to seek protection from the International Trade Commission – at our expense! At the same time, our OEM customers, before which domestic mills appear to cower, give us no quarter and, in fact, continue to demand price concessions based, supposedly, on their ability to "negotiate" with domestic steel producers.

Some observers have attributed the rise in prices to increased demands for steel in China, which has been buying increased quantities of both finished steel and steel scrap at ever higher prices. Others have pointed to a shortage of basic steel-making materials such as scrap, nickel and coke. Still others have blamed the lack of steel imports on the weaker dollar and long term contracts entered into upon the imposition of the "Safeguard Action." No doubt all have contributed to the short-term run-up in steel prices, but short-term conditions occur in any market place, and will correct themselves. But over the longer term, government policies should endeavor to create conditions that promote stability and certainty in the economy not micro-manage the markets. Viewed through that lens, what should government policy be in order to promote the viability of U. S.-based steel consumers?

FIRST, DO NO HARM

Based on the recent experience with the Global Safeguard tariffs, government intervention in the steel market, however well intentioned, has the potential to do far more harm than good, particularly in the downstream economy. In our view, at least a part of the current shortage/long lead time situation is attributable to the withdrawal from the U. S. market by a number of long-term suppliers of imported steel during the period that the tariffs were in place. Unwilling to absorb the higher costs due to the tariffs, many foreign producers, including our NAFTA partners effected increasingly by domestic steel producer sponsored trade actions, would not commit to long-term contracts, and sought alternative customers. Once the tariffs were removed, due to their success at finding alternative customers and due in part to the subsequent weakening of the dollar, there was no incentive for those producers to recommit supplies of steel to the U. S. market, which has exacerbated the increase in U. S. prices and potential shortages. Any action taken by the Congress or the Administration will likely exacerbate the problem because neither entity can react quickly enough to balance its actions with rapidly changing market conditions. As easy as it is to say, "The government ought to do something," the fact is governmental reactions are likely to do more harm than good.

SECOND, REMOVE ANY REMAINING BARRIERS TO THE FREE FLOW OF STEEL DURING THIS TIME OF SHORTAGES AND RISING PRICES

For example, despite the removal of the 201 tariffs in December of 2003, there are still a large number of antidumping and countervailing duty orders in place against steel from virtually every producing country, including our NAFTA partners. In some cases, such as Cold Heading Quality (CHQ) wire rod, dumping duties are being assessed even though none of the U. S. producers of the product were part of the original petition. The net result of these AD/CVD orders is to reduce the supply, increase the price of CHQ in the U. S. and reward, via the Byrd Amendment, companies that don't and won't produce this material, at precisely the wrong time and with no justification on the basis of "unfair trade". These orders should be revoked or suspended until further notice.

THIRD, UNDERTAKE A THOROUGH REVIEW OF THE STATE OF THE U.S. STEEL INDUSTRY AND ITS RELATIONSHIP TO THE OVERALL MANUFACTURING ECONOMY IN THE U. S.

U. S. manufacturing is challenged, and steel-consuming manufacturers are particularly fragile due to the length of the recent recession and the fact that they are caught between rising raw material costs and their inability to pass those costs on to their OEM customers. Yet there is little or no government data available on the state of the U. S. steel industry and its relationship to the overall manufacturing economy, and U. S. trade law restricts or prohibits the use of economic data from steel consumers in many trade policy areas. This proved particularly troublesome during the debate on the imposition of Global Safeguard tariffs, when both the U. S. steel industry and the government's own economic models woefully underestimated the impact of tariffs on steel prices and availability, and the corresponding negative impact on steel consumers. As we stated earlier, ITW and CIP are desirous of a strong globally competitive domestic steel industry – but not on our backs. When the President imposed the Safeguard action, each domestic steel producer was asked to submit a business plan, of sorts, to inform the White House how it intended to use the Action to restructure itself into a dynamic global competitor. While we expect such reports contain proprietary information, we think selected members and staff should be able to review these reports in light of current and prospective market forces and glean from them and other information what the government can do to help them meet both the needs of steel consumers.

Thank you for the opportunity to submit these comments for the record.

-----Original Message-----
From: Jim Zawacki [redacted]
Sent: Tuesday, March 09, 2004 10:08 AM
To: [redacted]
Cc: [redacted]
Subject: Fw: House Committee on Small Business -- Hearing on Steel -- March 10 th

Rep Manzullo & Knollenberg,

The availability and pricing of steel since December of 2003 is in a crisis mode. Many small and medium size companies are going to close their doors. We need HELP, and it is needed now. Another month will only see more companies close. As of this month my company is out of covenant with our bank, because of the high price of steel. Not one of my automotive customers has accepted the steel price increase.

The steel industry needs to be investigated to find out the reasons for the highest price steel ever. Why are we helping other countries with steel, scrap steel, and incentives to sale in the United States? Next we need an Industrial policy that protects jobs in the United States. For your information the steel tariffs started this whole crisis.

Jim Zawacki / CEO
GR Spring & Stamping, Inc
706 Bond Ave N.W.
Grand Rapids, MI 49503
616-831-0108

Statement of the Motor & Equipment Manufacturers Association (MEMA)
House of Representatives
Committee on Small Business
Hearing: Metal Prices and Small Businesses

Chairman: The Honorable Don Manzullo (R-IL)
March 10, 2004

On behalf of our more than 700 member and affiliated companies, the Motor & Equipment Manufacturers Association (MEMA) appreciates the opportunity to provide our comments on the impact of the recent dramatic surge in prices for steel and other metals on the automotive parts industry (automotive suppliers). MEMA member companies have voiced strong concerns over the rising prices for copper, aluminum and most prominently – steel – since Dec. 2003. Automotive suppliers are one of the country's leading steel consuming sectors, with a prominent majority of that consumption stemming from domestic steel producers. We thank Chairman Don Manzullo and the members of the Committee for their decision to convene this hearing and permit debate on this grave issue.

MEMA represents and serves manufacturers of motor vehicle components, tools and equipment, automotive chemicals and related products used in the production, repair and maintenance of all classes of motor vehicles. The association represents the three distinct segments of the motor vehicle supplier industry: aftermarket, heavy duty, and original equipment.

The automotive supplier industry encompasses thousands of large, medium and small companies in all 50 states, directly employing more than two million Americans. Thousands of these jobs are located in the key states of Pennsylvania, Ohio, Illinois, Indiana and Tennessee, as well as Michigan. Steel remains the leading raw material for many auto suppliers. According to ***Automotive Industries***, the typical U.S. family car in 2001 had an average of 1,780.5 pounds of steel, representing 57% of the vehicle's total weight. Aluminum, which is also experiencing a cost surge in the United States, represented 256.5 pounds of the average family car in 2001. As part of the evolution of the automotive industry over the past few years, suppliers have assumed responsibility for much of the manufacturing that was previously performed by the automakers themselves, and consequently directly purchase most of the steel found in automobiles today. As an industry, we are therefore very vulnerable to the kind of raw material price increases now occurring in the market. Many of the small businesses in our sector are particularly at risk; they have very limited leverage with their steel producers and have little to no ability to pass raw material price increases on to their customers.

One specific example can be found in the case of MEMA member company Consolidated Metal Products (CMP), based in Cincinnati, Ohio. This company, which employs 120 individuals, is the world's largest and only full-line manufacturer of high-strength U-bolts for vehicular leaf spring and air suspensions. CMP has a global reach, successfully serving customers in North America, Europe and South America. However, over the past few months, the company's steel costs have risen by a remarkable 40%. They paid more than $90,000 a month in additional costs for their steel purchases, which consist of rod and special bar quality steel, in Feb. 2004. CMP has indicated that its additional costs for March 2004 will total $150,000. This is an

MEMA
1225 New York Avenue, NW, Suite 300
Washington, DC 20005
Tel: 202 393 6362; Fax: 202 737 3742

unsustainable situation for CMP and they have not been able to pass these costs down the supply chain, thus the full burden is being borne by this small manufacturer. Unfortunately, this situation is being mirrored throughout the automotive supply chain in the U.S.

In late December 2003, the U.S. auto parts industry began receiving notices from individual steel producers and steel service centers that additional surcharges would be placed on their orders, effectively immediately. The surcharges within our industry are presently totaling as much as $80 to $130 per ton depending on the specific type of steel. This is already a significant escalation since the beginning of February 2004 when the surcharges averaged from $20.00 per ton to $60.00 per ton. Auto suppliers have received "stop shipment" notifications from steel producers, which will go into effect if they do not accept the surcharges. Additional communications from steel producers have simply stated that the price will be: the "price in effect at time of delivery" with no additional information.

This untenable situation is adversely affecting steel consumers, raising concerns that U.S. manufacturers across the board will lose access to critical raw materials and face further job and business losses in the face of foreign competition. U.S. auto suppliers cannot absorb raw material cost increases at this pace, which rival those witnessed by the industry after the imposition of the Section 201 steel tariffs in March 2002. Over the past three months, the automotive supplier industry has witnessed landmark price peaks. MEMA's member companies have reported this phenomenon across most steel product lines; manufacturers are witnessing surcharges on sheet steel, cold roll flat, rebar, steel wire, steel rod, hot roll flat, electrical steel, stainless steel flat, all forms of carbon bar and coated steel.

Estimates from January 2004 note the following increases in the cost of certain product types[1]. Costs have notably excalated since the first month of 2004, but these figures reflect the beginning of the present cycle:

- Hot Rolled Sheet – Up 23%
- Cold Rolled Sheet – Up 12%
- Galvanized Sheet – Up 7%
- Rebar – Up 10%
- Merchant Bar – Up 17%
- Wire Rod – Up 12%
- Structurals – Up 11%
- Plate – Up 9%

Price increases, however, are only one of the mechanisms by which the present raw materials situation has caused disruption and dislocation in our industry. Many steel producers and service centers have slowed their leadtimes (the period of time necessary for a steel mill or distributor to make delivery on a shipment) to 18-20 weeks for new orders. In addition, some of our small manufacturers reported that mills in the United States have now declined to accept new orders from them.

Automotive suppliers run on strict "just-in-time" delivery systems; balancing a complex and sensitive supply chain that depends heavily on the prompt delivery for materials and the reduction of inventory as a cost-efficient mechanism. Supply problems, in conjunction with surging costs, have disrupted production schedules and forced some of our companies to purchase material from the spot market in order to keep their lines running and to fulfill commitments made to their customers.

[1] Source: **"The Price of Automotive Steel: Not Such a Steal Right Now,"** Tom Pepin of McKinsey & Company, Feb. 12, 2004; numbers drawn from the CIBC World Market's 5-year price averages from 1999 to the end of 2003, compared to the current selling price in the U.S. in January 2004.

MEMA
1225 New York Avenue, NW, Suite 300
Washington, DC 20005
Tel: 202 393 6362; Fax: 202 737 3742

The factors affecting this change in the market are varied and complex, but it is clear that the growing consumption of key raw materials by other countries such as China carries long-term repercussions for the U.S. manufacturing community. The "notification of surcharges" letters that the auto parts companies have received from their steel mills and service centers repeatedly cite factors such as Asia's, and more specifically – China's, rising consumption of steel, rod and other sensitive raw materials as the cause of the surcharges. China's steel imports alone have increased dramatically by an estimated 31.6% over its 2002 levels and 50% over the nation's 2001 levels. In addition, countries including China, Russia and the Ukraine maintain restrictions or outright bans on the export of scarce raw materials such as steel scrap and metallurgical coke. These export restrictions enable these countries to protect their domestic supply, shelter their domestic industries and focus greater demand on the open markets of the world, such as the United States.

Other sources have argued that there is a severe worldwide shortage of coke, which has contributed to the present price surge. In January 2004, the Weirton Steel Corporation idled a blast furnace due to a shortage of coke[2]. Spot coking coal prices in the U.S. have risen to $72 per net ton versus $40 per net ton in August 2003 and $60 per net ton in January 2004[3]. In-country reports have also noted changes to China's export licensing program for coke, ostensibly designed to create a larger domestic reserve of this key input. As China had been a prominent exporter of coke to markets around the world, including the U.S., the potential connection between this policy and the dramatic price escalations that our companies are experiencing is pivotal. The publication ***World Steel Dynamics*** further reported in early March 2004 that China might take additional action to maintain a domestic stockpile of coking coal by restricting exports of this material as well. It is clear that China's consumption of raw materials is growing exponentially as the nation continues to build its infrastructure and engage in new manufacturing initiatives. This development bears significant ramifications for U.S. manufacturers and those companies in the auto parts sector.

Estimates from January 2004 note the following increases in the cost of key inputs for the production of steel[4]:

- Scrap steel, up 53%, from $95/ton to $145/ton
- Natural gas, up 33%, from $3.20 Mcf to $4.25 Mcf
- Coking coal, up 23%, from $44/ton to $54/ton
- Iron ore, up 16%, from $49/ton to $57/ton
- Higher ocean shipping rates to transport steel (more than double in some markets), due primarily to increased security-related costs

MEMA applauds Chairman Manzullo for initiating this hearing to gather data on the present cost increases affecting metals in the United States and its impact on U.S. manufacturers and other metal consumers. The U.S. Congress and the Bush Administration must work with industry to address the root causes of this crisis and to assess potential next steps to aid U.S. businesses. Automotive suppliers and other manufacturers will lose their competitive edge in the global marketplace if they are not able to secure the quantity and quality of raw materials that they need at a stable price. This is essential for the recovery and future growth of the U.S. manufacturing sector.

The cost surges described above come at a time when many U.S. manufacturing sectors are facing unprecedented challenges in terms of healthcare costs, energy prices and foreign competition.

---

[2] Source: **Wall Street Journal;** Feb. 23, 2003
[3] Source: **World Steel Dynamics;** Jan. 29, 2004 edition
[4] Source: **"The Price of Automotive Steel: Not Such a Steal Right Now,"** Tom Pepin of McKinsey & Company, Feb. 12, 2004; numbers drawn from the CIBC World Market's 5-year price averages from 1999 to the end of 2003, compared to the current selling price in the U.S. in January 2004.

MEMA
1225 New York Avenue, NW, Suite 300
Washington, DC 20005
Tel: 202 393 6362; Fax: 202 737 3742

Manufacturing and the job losses within this sector of the U.S. economy have dominated headlines across the country. This also holds true for the auto supplier industry. Our companies must address numerous obstacles on a daily basis: global overcapacity in the automotive industry, loss of domestic market share over the past decades, rising foreign competition, and unfair trade practices by other nations which support their domestic automotive industries or block the imports of U.S.-manufactured vehicles and automotive parts. U.S. automotive suppliers are also struggling to meet strict cost reduction mandates from their customers. Most U.S. automotive suppliers cannot pass higher raw material costs or production costs forward to their customers, leaving automotive suppliers in a "cost-price" squeeze.

Higher raw material costs and supply disruptions have the potential to further damage our competitive position in relation to foreign auto parts manufacturers in the U.S. market and in overseas markets. Over the past few years, automotive suppliers have witnessed a shift in their customers' purchases from the U.S. to foreign sources of automotive parts and components in order to reduce cost. A Feb. 27th press report noted that General Motors has indicated it will purchase $4 billion in auto parts from China by 2009; Ford procured $1 billion in auto parts from China in 2003 and intends to strengthen its purchases of Chinese components over the next few years.

The automotive industry is a leading contributor to our nation's economic health and its ongoing recovery. The automotive industry remains the single largest manufacturing sector in the United States, accounting for more than 5 percent of America's gross domestic product. Automotive suppliers serve as one of the nation's leading high technology sectors, directly driving much of the overall industry's research and development efforts. Suppliers are the foundation for vehicle production, sales and vehicle maintenance in the United States- a network that provides jobs for 6.5 million Americans. MEMA believes that the economic instability rooted in the inability to secure raw materials at an equitable price may place American jobs at risk and may erode the ability of our industry to remain a viable U.S. manufacturing sector.

MEMA has initiated internal mechanisms to estimate the financial and economic damage imposed on groups of its member companies through the additional surcharges on steel shipments and growing scarcity of certain materials. We urge the U.S. Congress and the Bush Administration to take steps to examine the various factors affecting the market, including factors occurring outside of the United States. MEMA looks forward to working with Chairman Manzullo and other concerned members of Congress, as well as the Administration, on this issue. Above all, the automotive supplier industry requires a stable and timely flow of raw materials to its plants to maintain its operations and employment in the United States and it must have access to a globally competitive price for such goods in order to sustain its existing business relationships and explore future opportunities for growth.

MEMA thanks Chairman Don Manzullo of the House Small Business Committee for this hearing and for the opportunity to express its views on this critical issue. Please feel free to contact MEMA's Washington, DC office with any additional questions.

Respectfully Submitted,

Christopher M. Bates

Christopher M. Bates
President & CEO
Motor & Equipment Manufacturers Association

MEMA
1225 New York Avenue, NW, Suite 300
Washington, DC 20005
Tel: 202 393 6362; Fax: 202 737 3742

Mar-08-04 04:38pm From-CONVEYORS & DRIVES, INC. 4043551944 T-268 P.001/002 F-395

CONVEYORS & DRIVES, INC.

1850C MacArthur Blvd., N.W.
Atlanta, Georgia 30318

Telephone: (404) 355-1511
Fax: (404) 355-1944

March 4, 2004

Congressman Donald Manzullo
222B Rayburn House Office Building
Washington, D.C. 20515

Subject: Steel Surcharge Hearing

Dear Congressman Manzullo:

I am very pleased and encouraged to hear that your House Small Business Committee will be holding a hearing on March 10th to investigate the surcharges on steel prices being imposed by U.S. steel manufacturers. This is a very serious situation that could ultimately affect the present economic recovery of our nation if it goes unchecked for a prolonged period of time.

We are receiving steel surcharge announcements almost daily from one or more of our suppliers, and it doesn't take a genius to see what affect this will have on consumer prices once it trickles down to that level. Everything that has steel in it will increase in price, automobiles, appliances, tools, toys, etc.; which could result in a resurgence of inflation, reduction in gross domestic product numbers, job losses, etc.

Our company is a distributor of Material Handling Equipment, and almost everything that we sell is either partially or completely made of steel. The steel surcharges that we are being notified about are creating havoc in our ability to price or quote products that we offer for sale. Also, with the unknowns associated with the surcharges, our suppliers for the most part will only honor their quoted prices for a few days. We have been in business for 35 years and this situation is unprecedented in my recollection. The only thing that might come close is the pricing volatility of the mid-1970's period which was brought on by the Arab oil embargo.

We are beginning to see an impact from this situation with customers balking at surcharges being added to their quoted prices; threatening to go elsewhere to see if they can find a supplier willing to accept an order without a surcharge. Many customers are considering delaying the purchase of equipment that is not absolutely necessary for the operation of their business, hoping that the surcharges will go away in the not too distant future. However, we are being told by our suppliers that they have been advised by their steel suppliers not to expect any relief from the situation anytime within the next several months.

This matter definitely needs to be investigated to see what is the root cause, and if anything can be done to curtail it before it derails our economy. I am not particularly in favor of government intervention in the affairs of business, but this might be an exception.

Thanks in advance for all you and your committee are doing to help get a handle on this matter.

Respectfully,

CONVEYORS & DRIVES, INC.

L. Gary Ashley

L. Gary Ashley
President

LGA/cm-cd4342b

cc: Ms. Susan Eckerly, NFIB/Atlanta, GA
Ms. Pam Lucey, NFIB/Atlanta, GA
Mr. Dan Danner, NFIB/Washington, D.C.

Statement of
The Associated General Contractors of America

Presented to the

U.S. House of Representatives
Committee on Small Business

Hearing
on
Investigating the Surge in Steel, Metal Prices

March 10, 2004

The Associated General Contractors of America (AGC) is a national trade association of 33,000 firms, including 7,000 of America's leading general contracting firms. They are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects and site preparation/utilities installation for housing development.

The Associated General Contractors of America
333 John Carlyle Street, Suite 200, Alexandria, VA 22314 • (703) 548-3118 • Fax (703) 837-5407

Investigating the Surge in Steel, Metal Prices
March 10, 2004
U.S. House of Representatives
Committee on Small Business

The Associated General Contractors of America (AGC) appreciates this opportunity to assist the Committee by calling attention to the harm that soaring steel prices are doing to construction contractors, particularly small businesses. AGC is the leading national trade association for the entire nonresidential construction industry. AGC's 100 chapters in every state represent 7,000 general contractors and 26,000 subcontractors, specialty contractors, and suppliers of goods and services to all types of construction.

Most AGC members are small businesses, reflecting the construction industry as a whole. Census Bureau data for 2001 show that of the 691,000 construction firms with employees, 630,000—91%—had fewer than 20 employees. In addition, there were more than 2 million construction firms without employees that year.

Steel is one of the most essential and pervasive products used in construction, from the pilings used for building foundations to guardrails installed immediately before opening a new highway. Since January 2004, AGC members have been reporting unprecedented increases in the cost of all types of steel and materials containing steel. Here are a few examples, taken from emails sent by AGC members in the past two weeks:

- "We bid a job the first week of November and got a work order the first week of January. The **reinforcing steel** supplier withdrew his bid and repriced it **50% higher**.'
- "Another project required a **metal roof**. Yesterday [March 4], they bid a price on another project guarantying the price for one week with **price increases scheduled for the next three months of 22%, 24%, and then 24%.**"
- "My company's **guardrail steel prices have raised 60% in the past year—30% since December.**"
- **"Pre-engineered steel structures 14%, reinforcing steel 50%'**
- "We paid **$33 a roll for wire mesh in December and are paying $52 a roll now."**

These examples are typical. What makes construction especially vulnerable to these increases is that contractors submit firm bids for projects long before they buy the materials. If the price of a key component, such as steel, rises in price after the contract is signed, the contractor must swallow the increase.

Typically, contractors try to protect themselves from this risk by getting firm supply agreements with steel suppliers before they submit their bids. But currently, steel suppliers are imposing "scrap surcharges" or other price increases and are telling contractors they must accept the increases or not get the product.

In addition, instead of making prices firm until the steel is needed, suppliers are guaranteeing prices for only two weeks, a week, or not at all. There is often a lag of weeks or even months from the time a bid is submitted until the contractor receives a ratified contract or work order. That means the contractor cannot protect itself by buying the steel at the time of bidding unless it is willing to risk being left with a pile of steel for a project it may not win.

Most alarming of all, many contractors are finding that suppliers will not guarantee delivery dates or quantities. Most construction projects depend on very precise timing for delivery of each component. If a contractor does not receive the requisite amount of steel, a bridge project can literally stop in midstream. Hundreds of workers may be laid off. The contractor will not receive its next progress payment, thereby jeopardizing the solvency of the contractor, its subcontractors and its suppliers. Delay of even a minor component of a large project, such as the guardrail that is installed at the end of highway construction, can cause the entire project to keep from opening.

AGC's members have heard a variety of explanations for the current crisis. It apparently will take a variety of steps to increase supply and stop the runaway price escalation. The federal government can play a number of constructive roles. For instance:

- Agencies involved in trade and transportation should make sure that there are no unnecessary barriers to the importation and transport of steel or its ingredients.
- Agencies that regulate steel mills and iron and coal mines should remove any roadblocks that may be delaying the opening, expansion, or reopening of these facilities or discouraging the hiring, retention, or rehiring of qualified workers.
- Agencies that purchase structures, equipment, and fabricated or raw materials using steel, along with agencies that help fund state and local purchases, should examine their purchasing rules to facilitate use of substitutes for scarce materials, flexibility on delivery dates, and possibly price adjustments.
- Agencies that hold stockpiles or surplus steel, raw materials, or unneeded equipment suitable as a source of scrap steel should expedite the disposal of these supplies.

AGC has communicated with the Secretaries of Commerce and Transportation and with all of the principal agencies involved with federal construction and federal grants for construction: the Federal Highway Administration, Public Buildings Service of the General Services Administration, Army Corps of Engineers, Naval Facilities and Engineering Command, Office of Water Quality of the Environmental Protection Agency, and Bureau of Overseas Building Operations of the State Department.

We welcome the Committee's involvement with this urgent issue. We encourage you to continue highlighting the hardship it is causing small business and to seek cooperation and creativity on the part of the federal government to solve the shortage and provide appropriate relief to businesses harmed by these unprecedented price shocks.

YOUNGBERG INDUSTRIES, INC.

February 20, 2004

Congressman Donald Manzullo
2228 Rayburn HOB
Washington, DC 20515
Fax - (202) 225-5284

Dear Congressman Don Manzullo,

As we discussed at the Belvidere Manufacturers Appreciation Breakfast, there is a crisis in the steel industry.

For the past few years, our industry has been particularly affected by the recession. Four years ago our company had over 90 employees. We are now down to 62 employees. We were just beginning to become profitable again, then the steel tariffs were lifted and the U.S. steel market began to increase prices exponentially. Our average price of steel in October 2003 was between \$.16 and \$.18 per pound. The price of steel today is between \$.34 and \$.50, depending on the thickness of the steel. Stainless steel pricing is even more volatile.

In addition to the increase in cost, the steel distribution centers are minimizing payment terms from 45-60 days to 15 days. In some cases, they are requiring payment before they even accept an order. This puts our company into a severe cash flow situation since our products often take 12-16 weeks to build, and then our customers pay 60 days after shipment. I know of no other industry that is affected in this way.

We have already been told by several steel distributors of imminent shortages of steel, as well as imminent price increases of \$.05 per pound every month for the next three months. We have been told that the steel we need is being shipped to China and that they are paying premium dollars for purchasing slabs of raw steel. China is also purchasing scrap, coke and coal above market prices. As a small business, we cannot be competitive in this type of market.

We would appreciate any help the Committee on Small Business could provide. Thank you for your attention to this urgent matter.

Respectfully,

Barbara Hemme

Barbara R. Hemme
Corporate Secretary/Controller

REVCOR
REVOLUTIONARY AIR FLOW

251 Edwards Avenue • Carpentersville, IL 60110

February 18, 2004

Congressman Don Manzullo
U.S. House of Representatives
Washington, D.C.

Dear Congressman Manzullo:

I am writing in regard to the state of turmoil the U.S. steel industry finds itself currently embroiled in and the confusion that abounds.

Recent events date to back to the current administration's implementation of what have become known as the Section 201 tariffs. Almost seemingly overnight, steel prices for slit and delivered coil stock rose 15% or more for those buyers who could even find it. The industry felt the implementation of these tariffs was necessary in order to allow the domestic industry to become well financially and to even the playing field against off shore competition.

Fast forward to November of 2003 when the decision was made to lift the tariffs. No one expected pricing to drop. Demand was relatively high, Great Lakes were closing soon so off shore tonnage would be limited, and pricing gains the industry had gained, they should be able to retain, and the weakened dollar meant foreign sources could sell their product elsewhere at higher margin.

We at Revcor Companies, Inc., began putting our metal buy for C2004 together in October of 2003. The final product of these negotiations was an anticipated significant savings for C2004 versus C2003. Our agreements were "firm price" for a specified period, the minimum 6-month of C2004.

Less than two months later, these agreements were voided, "Force Majeure". A combination of coke shortages, energy costs, and scrap metal shortages and the industry felt it necessary to implement surcharges. We are being instructed by our suppliers to sign acknowledgements of these surcharges before steel will be released. We have suppliers asking for our purchase orders for **April** delivery, but they cannot tell us what the steel will cost. We having pricing agreements with our customers who are telling us they cannot and will not pay higher prices than those previously agreed upon.

With regard to the rise in scrap shortages and the shortages of available scrap to those steel mills with electric furnaces. It is my understanding that the steel industry, by law, has been declared "national defense critical". How can we allow scrap to exported to China for big bucks when the domestic industries tell us there is a shortage that drives these surcharges? I am all for business maximizing profit where possible, but gouging is an entirely different matter.

Further, as I write this, I see an announcement that ISG has acquired the assets of Weirton Steel. Now, to summarize, ISG has acquired the assets of LTV, Bethlehem Steel, Acme Steel, Weirton, (and other smaller), U.S. Steel has acquired the assets of National Steel. It would seem we have two players now controlling a **major** portion of domestic steel production capacity. Aren't there any anti-trust issues at stake here? Two companies now control 50% or more of the domestic steel production capacity.

The situation has now become instead of buying steel off shore, complete sub assemblies and components are now being bought off shore. The implementation of these surcharges will only serve to further this process. We at Revcor are being forced to begin exploring increased off shore sourcing in order to remain competitive.

American industry can compete. But before granting favored nation trade status to China, shouldn't we insist they allow their currency to float internationally with other currencies instead of being propped up and supported by their central government? Doesn't this amount to a subsidy by the Chinese government?

Thank you for your time and efforts on behalf of not only your constituents, but also all manufacturers attempting to ride out this storm. The situation is becoming critical, business and jobs are at stake. Let's level the playing field.

Sincerely,

Kyle R. Martinson

Kyle R. Martinson, C.P.M.
Director of Purchasing
Revcor Companies, Inc.

Hartz, Joe

Subject: FW: Versabar Corp testimony on steel issues

-----Original Message-----
From: versabar [mailto:[redacted]]
Sent: Tuesday, March 09, 2004 2:13 PM
To: Hartz, Joe
Subject: Versabar Corp testimony on steel issues

Hello Joe, as requested, here is the information you requested:

Quote:

Tuesday, March 09, 2004

As requested by Congressman Donald A. Manzullo, Chairman of the House Committee on Small Business, we offer the following testimony as a small manufacturer of steel products:

We are Versabar Corporation, a manufacturer of electrical framing systems located in Paterson, NJ. We have been in business for 60 years serving the Electrical Industry in Northeast region of the United States. We buy steel from "service centers" that buy directly from mills. Traditionally the supply of domestic steel in the U.S. has been supplemented by foreign sources. Today, with the falling dollar, Chinese demand, and limited supply, prices have become outrageous.

Just prior to, and immediately after the onset of the 2001 steel tariffs, we experienced a 30% rise in steel prices. Increases were due to the fact that domestic mills no longer had to worry about competing with the overseas market. It is important to note that the mills called out for help, and got it. Our business took a hit, and the industry spun into a slump: August 2003 was our worst sales months in over 4 years. To cut costs, we have layed off one employee, we have cut some salaries by 5%, and we have also cut back on our health insurance. All of these things have a drastic impact on a small business.

Since the withdrawal of the steel tariffs in mid 2003, we have experienced a backlash from the steel producers resulting in a shortening of supply, and a 70% to 90% increase in pricing, depending on the product. The price continues to rise daily. The mills now seem to embrace the foreign market they demonized just a few years ago.

Steel, coke, and scrap are being exported overseas at record rates. This wholesale exportation is the main reason steel prices have exploded over the last four months. The South Korean government is very close to enacting export restrictions to help protect the manufacturing sector from disaster, isn't it time we did the same.

Due to market forces, we have watched our sales volume decrease approximately 10% over the last year. 2004 has all the makings of a complete disaster for us. To combine that with a 70% increase in our cost adds insult to injury. We believe both the increase in prices and the lack of supply are injurious to companies in the United Sates. This situation is correctable, and must be addressed immediately in order to avoid a catastrophe in the manufacturing sector. This is a sector that is very weak to begin with, and it cannot sustain itself much longer in this current situation.

We believe that an investigation of the metals producer's current policies is warranted and overdue.

end quote

Thanks

William E. Taylor
VERSABAR CORPORATION
PATERSON, NJ 07522
1-800-228-3772

-----Original Message-----
From: Mark Tyler [redacted]
Sent: Monday, March 08, 2004 8:22 AM
To: [redacted]
Subject: Regarding Steel Prices

Good Morning:

I just want to share a few comments regarding the escalating steel prices and the effects on our company. OEM Fabricators is a small manufacturer that builds components for Original Equipment Manufacturers. Typical customers for OEM are companies such as Terex, Caterpillar and Schwing. We employ 125 people.

When the steel tariffs went into effect, it raised our costs of material nearly thirty percent. We were unable to pass any of those increases along. The economy was such that plenty of excess capacity existed and companies would take work at break even to keep their doors open.

The recent increases that have hit since the tariffs were lifted are so severe and came so suddenly that we were forced to tell our customers that their prices must increase or we can't continue to produce their products. At a minimum it has strained relationships that have been long standing. Some work has been lost to more hungry competitors and some lost to off shore sources.

To give you a sense of what we are dealing with, here is a sample of some of the increases. These are representative and not "worst case" examples.

Item	Avg December Price	Week of Feb. 23	Percent Increase
10 Gauge Hot Rolled A36	$.20	$.35	75%
1/4" Hot Rolled A36	$.19	$.35	85%
1/2" Hot Rolled A36	$.18	$.40	122%
1" Hot Rolled A36	$.22	$.49	133%

I can't say I have any suggestions for a solution. But Ouch!

Thank you,

S. Mark Tyler
President
OEM Fabricators, Inc.
300 McMillan Road
Woodville, WI 54028

715-698-2111 [redacted]
715-698-3904 Fax
[redacted]
www.oemfab.com

From: writerep
Sent: Tuesday, March 09, 2004 11:32 AM
To: IL16WYR
Subject: WriteRep Responses

DATE: March 9, 2004 09:45 AM
NAME: Rick Pfeiffer
ADDR1: 2312 virginia dr.
ADDR2: Manitowoc, Wi.
ADDR3:
CITY: [redacted]
STATE: [redacted]
ZIP: [redacted]
PHONE: 920-794-6311
EMAIL: [redacted]
Message:
Good morning Don, we have met several times since most of my life I resided in Rockford. I noticed in yesterday's American Metal Market that you are chairing a house small business committee in regards to "dramatic surge in prices for steel". Presently I'm the Director of Procurement for Fisher Hamilton L.L.C. located in Two River WI., we are in the laboratory furniture business and a large consumer of steel and components with steel content. Since the first of the year steel pricing has moved up 40%-100% depending the grade of product purchased, and in addition availabilty is terrible. Many steel mills are using the term "allocation" which I've not heard from them since the mid-seventies. As you are are probably aware the driving factors are mill consolidations, shortage of scrap, fuel and energy cost's,weak dollar, freight cost's and the great demand for additional steel in China. We need to protect the manufacturing base that remains in this country, the current condition

that exists will eliminate many more jobs in this country. Your immediate attention to this current "crisis" is needed. If I can be of any assitance please have someone contact me, ph. 1-920-794-6311, [redacted]

THE SYRACUSE STAMPING CO.

Syraco PRODUCTS

1054 S. Clinton St. • Syracuse, NY 13202-3409 • Phone (315) 476-5306 • (800) 581-5555 • Fax (315) 474-8876
Web Site:www.syraco.com E-mail:sales@syraco.com

March 2, 2004

Congressman Donald Manzullo
Chairman
House Small Business Committee
415 South Mulford Road
Rockford, Il 61108

Dear Chairman Manzullo:

I am the President of The Syracuse Stamping Co. located in Syracuse, New York. My company has forty-five employees and our main products are hardware items for overhead garage doors. Our primary competitors are importers from China.

Our hardware items use about one thousand tons of steel per year. Prior to the steel tariff we competed very effectively against our competitors. With the steel tariff we stopped making a profit and barely survived. We could not raise our prices because our competitors did not have an increase in steel prices. We were looking forward to returning to profitability when the tariff ended.

What has actually happened is that steel prices are now even higher. Since January of this year our steel prices have jumped 35% and we are looking at April pricing that is up 65%. Beyond that suppliers are not committing to any prices. They are saying that pricing will be determined at time of shipment.

I was happy to see that you are starting to look at the justification for these increases and the damage that they are causing. These price levels are threatening the employment of forty-five people so I hope your committee can find a way to quickly influence price reductions.

Sincerely,

Fred Honnold

Fred Honnold
President

ckw 3-3-04

03/03/2004 00:55 MASTERCOIL SPRING COMPANY → 12022252934 NO.761 P01

[ASTERCOIL SPRING

4010 Albany • McHenry, IL 60050 • Tel: (815) 344-0051 • Fax: (815) 344-0071

March 2, 2004

Mr. Philip Eskeland
Committee on Small Business
U.S. House of Representatives
2361 Rayburn Building
Washington, D.C. 20515

Dear Phil,

I am writing to you since we have worked together in the past with both you and Congressman Manzullo. My concern at this point is with respect to steel pricing and availability.

We have been working for the last year with a large manufacturer of Trampolines and we expected a large amount of new business this year. In my last conversation with them just yesterday, I was informed that they will have to cut back their production for at least the next three to four months due to lack of availability of the steel tubing for their framework. This is incredible in the United States that you would have a problem obtaining steel tubing. This cutback will be devastating for them, and will result in our not having an additional $500,000 of new business. If they are unable to fulfill their commitment to the likes of Wal-Mart, where do you suppose Wal-Mart will go to get the trampolines? Probably China and the jobs won't be coming back!

This is only one example of what we see on an almost daily basis. The entire manufacturing sector is under assault and no one seems to get it. The President's steel policy has been a dismal failure from the standpoint of the overall economy. We are being told by our suppliers that the reason for the high prices and the lack of availability is the lack of Coke and Scrap. We are being told that the Chinese have bought up all the scrap. So, our own steel industry can't supply the demand, but we have forced the foreign suppliers out. This coupled with the weak dollar makes obtaining steel even more difficult.

I'm sure the Congressman has heard this before, but I wanted it known from our perspective, as well.

Thank you for your time and interest.

Best regards,

Richard Piwonka

Richard Piwonka
Director of Sales and Marketing

CORRUGATED INDUSTRIES
OF FLORIDA, INC.
1920 U.S. Highway 301 N. Tampa, Florida 33619
(813) 623-6606 • Watts (800) 545-4580 • Fax: (813) 623-6610

FAX COVER SHEET

DATE: March 4, 2004

FROM: Gene LeBouef, Jr.

RE: **House Small Business Committee Hearing In Investigation of Recent Surge in Prices for Steel and Other Materials.**

ATTENTION: **Representative Donald Manzullo**
The United States House of Representatives
Committee on Small Business, Chairman
2228 Rayburn House Office Building
Washington, DC 20515

FAX NUMBER: (202) 225-5284

TOTAL NUMBER OF PAGES TRANSMITTED (INCLUDING COVER SHEET) 4

IF YOU DO NOT RECEIVE ALL PAGES INDICATED OR IF YOU ARE UNABLE TO READ THE FAX, PLEASE CONTACT ME AT (813) 623-6606 OR (800) 545-4580 AND REQUEST THE PAGES NOT RECEIVED, OR THE FAX TO BE RESENT.

THANK YOU,

GENE LEBOUEF, JR
VICE PRESIDENT
CORRUGATED INDUSTRIES
OF FLORIDA, INC

CORRUGATED INDUSTRIES
OF FLORIDA, INC.
1920 U.S. Highway 301 N. Tampa, Florida 33619
(813) 623-6606 • Watts (800) 545-4580 • Fax: (813) 623-6610

March 4, 2004

VIA FACSIMILE (202) 225-5284
& U.S. MAIL

Representative Donald Manzullo
The United States House of Representatives
Committee on Small Business, Chairman
2228 Rayburn House Office Building
Washington, DC 20515

RE: HOUSE SMALL BUSINESS COMMITTEE HEARING IN INVESTIGATION OF RECENT SURGE IN PRICES FOR STEEL AND OTHER MATERIALS

To the Honorable Donald Manzullo:

This letter shall address your investigation of the recent spike in the price of steel. I am the Vice President of Corrugated Industries of Florida, Inc. ("Corrugated Industries"), 1920 U.S. Highway 301 North, Tampa, Florida 33619, which also does business as Custom Metal Building Products, 4268 Poche Court West, New Orleans, Louisiana 70129. As a small manufacturer of corrugated metal roofing and building components, I am extremely concerned with the recent surge in the price of steel, as it is greatly impacting my ability to serve our markets.

I am aware that the steel mills are faced with record-high costs of scrap steel and escalating prices on raw materials and that U.S. steel prices have jumped 30% in less than two months because of the domestic steel shortage. Furthermore, I understand that China is currently experiencing a tremendous growth period, which has put a strain on the world's steel supply, and the devaluation of the dollar in comparison to foreign currencies also has caused a surge in the prices of domestic steel as of January 2004.

In an effort to serve and to maintain our clientele, Corrugated Industries has been trying to absorb the majority of these increases in cost for the past two months. However, my business is unable to sustain such pricing adjustments for a long period of time. Corrugated Industries is not alone in this crisis. As a member of Associated Builders and Contractors, I am in frequent contact with other small businesses in this industry, and it is

March 4, 2004
Rep. Manzullo
Page 2

clear that all small steel-manufacturers are seeking a solution to the current price situation.

I realize that the Committee on Small Business will hold a hearing on March 10, 2004, in Washington to investigate the dramatic spike in the price of steel, and I anxiously await your proposals for dealing with this issue. I will obtain the transcript of your hearing in order to review the Committee's position on the government's ability to contain the price of steel and to aid small businesses like Corrugated Industries.

Our suppliers are continually learning of potential increases in the near future, and we fear that we have not seen the last of rising steel costs. I respectfully request that your Committee exercise every possible option to avoid any additional price-increases in the steel industry, and I invite any direction you may offer in how a small-business owner, like me, can cope with the ongoing price surges, until larger measures may be taken to lower the price of steel.

Thank you in advance for your attention to this matter. I look forward to receiving your reply to this letter and learning more about actions that will be taken by the Committee on Small Business.

Regards,

Gene D. LeBouef, Jr., Vice President
Corrugated Industries of Florida, Inc.

cc: The United States House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515
Fax: (202) 225-3587
E-Mail: smbiz@mail.house.gov

Representative Nydia M. Velazquez
The United States House of Representatives
Committee on Small Business, Ranking Member
2241 Rayburn House Office Building
Washington, DC 20515-2104
Fax: (202) 226-0327

FEB-09-2004 05:25 P.01

TRILLA STEEL DRUM CORPORATION

2959 West 47th Street • Chicago, Illinois 60632
(773) 847-7588 • FAX (773) 847-5550 • 1 (800) 669-DRUM

Fax Transmittal
202/225-0129
202/225-2934

February 9, 2004

The Honorable Congressman Donald Manzullo
2228 Rayburn HOB
Washington, DC 20515

Dear Congressman Manzullo,

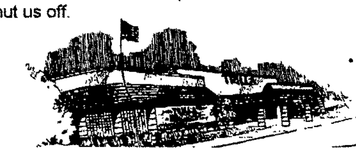
It was nice to talk to you again today. I appreciate all of the help you have given us in the past and I am now asking your assistance again with the current steel market.

It was determined by the Bush Administration that steel tariffs were needed in order to protect the steel industry. They later determined that the steel tariffs were not working and therefore lifted them. Now that the tariffs have been lifted we can no longer obtain the steel that is needed in our production line. This does not seem like an industry that needed orders or needed protection to improve it.

The US steel mills have had adequate time to replenish their inventory but not one of them will sell to us, or even call on us for that matter. We have contacted the three biggest steel mills in our area, USS, Inland Ispat, and ISG all to no avail. Numerous steel warehouses have no steel available and they are not being supplied by their sources. We have contacted our former foreign steel mill and they will not return our calls – they don't want our business. We have no place to go for steel.

I have attached various documents from USS, as well as internal documents for your review.

As you can see, we cannot operate on the amount of steel that is being allocated to us. This amount has been based on steel we have purchased in the past six months; however, Trilla has tried to maintain at least a two-week level of inventory. Now that USS has acquired National Steel we have been shorted on our orders by 35-40% each month and have now needed to go to the open steel market to fill our needs. Furthermore, now that USS has bought National they would like to shut us off.



Page 2
Congressman Donald Manzullo
February 9, 2004

You will also be receiving a similar letter from Mr. Earnest Beardsley of North Coast Container and also Mr. Douglas Brooks of CP Louisiana.

I appreciate your assistance in this matter and please let me know if you need additional information from us.

Sincerely,

TRILLA STEEL DRUM CORPORATION

Lester Trilla
Lester Trilla nal
President & CEO

LT/nal

Attachments:

1. USS January 27 Letter – Surcharge
2. Email January 7 – Trilla/Trilla-Nesco IQ2004 Orders and 2003 Inventory
3. Explanation 1
4. Email January 12 – USS acknowledges receiving April Requirements
5. Explanation 2
6. Email January 27 – Steel Issues
7. Email February 5 – Steel Needs
8. Miscellaneous – Trilla's Orders
9. Miscellaneous – Trilla's P.O.'s
10. Miscellaneous – Trilla/Nesco Steel Request
11. Miscellaneous – Trilla Tonnage Request – April 04

United States Steel Corporation.
Appliances, Containers, Converters
600 Grant Street
Pittsburgh, PA 15219-2749

Mr. Lester Trilla
President
Trilla Steel Drum
2959 West 47th Street
Chicago, IL 60632

January 7, 2004

Dear Mr. Trilla:

Due to unprecedented increases in raw materials and transportation costs, US Steel finds it necessary to implement a $30 per ton surcharge on all shipments effective February 1, 2004. This surcharge will be in effect until further notice.

Also, in conjunction with the opening of our April order book and in recognition of current and forecasted market conditions, effective for April 2004, your pricing will be increased to the following base price:

Cold Rolled: $25.00/cwt FOB mill

US Steel appreciates the relationship with Trilla and looks forward to a mutually beneficial 2004. Please feel free to call me if you have any questions.

Sincerely,

Robert T. Hoelke
Account Manager
United States Steel Corporation
600 Grant Street
Pittsburgh, PA 15219
412-358-0306

#1

RTHoelke@uss.com
01/07/04 01:33 PM

To: asedlacek@trilla.com
cc:
Subject: Trilla / Trilla-Nesco 1Q2004 orders and 2003 Inventory

Andy,

Attached is the email I sent before Christmas.

Bob

----- Forwarded by Robert T Hoelke/Headquarters/USS on 01/07/2004 02:32 PM -----

Robert T Hoelke
12/19/2003 04:42 PM

To: ltrilla@trilla.com, asedlacek@trilla.com
cc: Jeffrey J Bush/Headquarters/USS@USS, Don L Cook/Headquarters/USS@USS, Norma J Johnson/Headquarters/USS@USS, (bcc: Robert T Hoelke/Headquarters/USS)
Subject: Trilla / Trilla-Nesco 1Q2004 orders and 2003 Inventory

Lester & Andy,

Per our meeting and numerous phone conversations, the attached Excel and Word documents detail the orders entered at Gary Works and Midwest for the 1Q04 for Trilla and Trilla-Nesco. Be advised that the March orders Andy submitted have been updated to account for the large amount of inventory in the Gary Warehouse as of this writing. Based on the usage number for each size given to me by Andy, the orders entered should satisfy your requirements through the end of the first quarter.

Trilla Chicago Order book:

(See attached file: trilla 1q04 bookings.xls)

Changes in February & March P.O.'s - Chicago:

(See attached file: trilla orders.doc)

Trilla-Nesco (Fenton) order book:

(See attached file: trilla-nesco.xls)

Changes in March P.O.'s:

(See attached file: fenton march orders.doc)

Be advised that 1160 tons of Fenton's March orders will be placed at US Steel's Midwest facility. Trilla's product has been produced at this mill before, and Andy gave the approval for the move.

In addition, per our December 12, 2003 meeting, be advised that any 2003 inventory not shipped prior to January 1, 2004 will be revised to the new 2004 pricing. This will also pertain to available 1Q04 orders which are not shipped prior to March 31, 2004.

If you have any questions, let me know.

Bob

Robert T. Hoelke
Account Manager
United States Steel Corporation
Office: 412-358-0306
Fax: 412-358-0307
Cell: 412-889-7377

#1 trilla 1q04 bookings.xl

#3 trilla orders.doc

#2 trilla-nesco.xls

#4 fenton march orders.do

A/

TRILLA SHIPMENT / BOOK DETAIL (BOOKING UNITS IN TONS)

	CURRENT BOOKING DETAIL								
	Customer Usage		Current	2003	Jan 2004	Feb 2004	Mar 2004	Weeks Supply	
Size	Monthly	Weekly	Available	To Produce	Book	Book	Orders	Current	Current plus 1Q Book
.0280 x 36.50	120	30	156	0	131	0	100	5	13
.0323 x 36.50	380	95	72	145	418	392	310	1	14
.0323 x 48.00	110	28	196	95	117	0	150	7	20
.0362 x 36.50	140	35	300	8	87	87	150	9	18
.0374 x 36.50	210	53	424	63	131	131	150	8	17
.0374 x 48.00	140	35	204	0	163	0	150	6	15
.0398 x 36.50	35	9	0	0	0	150	0	0	17
.0428 x 36.50	140	35	365	0	0	150	0	10	15
.0433 x 48.00	330	83	181	404	0	300	300	2	14
.0520 x 37.12	25	6	104	0	44	65	0	17	34
.0540 x 48.00	18	5	75	0	0	72	163	17	69
	1648	412	2077	715	1091	1347	1473	5	16

#2

TRILLA - NESCO BOOK DETAIL (UNITS IN TONS)

Size	Inventory & Bookings				
	Current Available	2003 To Produce	Jan 2004 Book	Feb 2004 Book	Mar 2004 Orders
.0287 x 35.75	152	47	157	100	100
.0323 x 35.75	150	75	60	236	100
.0323 x 36.37	23	27	115	0	100
.0323x 48.00	62	65	0	0	100
.0362 x 35.75	18	86	0	0	
.0374 x 35.75	0	80	118	120	150
.0374 x 48.00	0	105	130	0	50
.0398 x 36.37	131	0	65	172	0
.0398x 48.00	42	42	65	65	630
.0437 x 48.00	63	0	65	65	100
.0508 x 36.00	104	0	80	159	0
.0508 x 48.00	0	0	0	0	50
.0508 x 36.38	0	0	0	350	130
	745	527	855	1267	1510

Explanation 1:
USS decided to reduce the inventory level of material on their floor.
Trilla has 11 different sizes of steel and has tried to maintain at least a 2 week level of inventory on USS floor as part as its procurement strategy to limit affects of mills inability to produce steel in a timely fashion.

RTHoelke@uss.com
01/12/04 03:07 PM

To: asedlacek@trilla.com, ltrilla@trilla.com
cc: JJBush@uss.com, NJJohnson@uss.com, DLCook@uss.com
Subject:

#2

Lester & Andy,

US Steel acknowledges receiving your April requirements; however, please be advised of the following regarding your April orders:

US Steel's April order book is not available to enter orders as of yet. You will be notified when authorization is given and entry begins.

US Steel will accept a maximum of 2,300 tons in the month of April. This value is a reflection of Trilla's historic shipping pattern over the past six months.

US Steel cannot guarantee your request to have 25% of the ordered amount available for shipment on April 1st. All orders are subject to entry guide space and lead time availability. USS will do everything to accommodate your request, but orders are promised on a weekly basis and may not be available the first day of the month.;

Successful delivery of your requirements are contingent upon US Steel's ability to secure raw materials necessary for production of your material.

In order to keep inventory at a manageable level, US Steel will require immediate shipment of material as it becomes available in April.

Any questions let me know. I will be in contact once April's order book is open to discuss specific sizes and the dates they are needed.

Thanks,

Bob

Robert T. Hoelke
Account Manager
United States Steel Corporation
Office: 412-358-0306
Fax: 412-358-0307
Cell: 412-889-7377

Explanation #2

USS arbitrarily determined the amount of steel they would supply Trilla in the 2nd quarter. This is not based on any attempt to meet our needs at either of our facilities or having the material ready on a timely basis throughout the month.

"John Vogt" <jvogt@trilla-nesco.com>

01/27/04 10:34 AM

To: "andy sedlacek" <asedlacek@trilla.com>
cc: "Lester Trilla" <ltrilla@trilla.com>, "Dave Tomaszewski" <davet@TRILLA.COM>, "Andy Pipitone" <Andy_Pipitone/Trilla_Steel_Drum@trilla.com>
Subject: steel issues

Andy,

As I told you this morning, I went over the steel in house or in process at the mill to determine what sizes I will be in trouble on in February. Following are the sizes.

.0323x36.375----I will be out the last week of February, possibly sooner since Reichold has switched their drums from 18 gauge to 20 gauge. The March order is not started yet.

.0323x48---------I will be out the 3rd week of February. The March order is not started yet.

.0374x48---------I will be out the last week of February. The January order has been setting at "CAST" since at least December 12th. The March order is not started yet.

.0398x48---------We are out now. I anticipate using 240 tons in February and the mill has 95 tons in process that should ship in the next two weeks. Half of my January order and all of the February order has been setting at "CAST" since at least December 12th. The March order is not started yet.

.0508x36.375-----For Dow----As you know we need this steel ASAP and it still appears to be 2 to 3 weeks from shipping.

John

"John Vogt" <jvogt@trilla-nesco.com>

02/05/04 09:14 AM

To: "Bob Hoelke" <rthoelke@uss.com>, "Norma Jean Johnson" <njjohnson@uss.com>
cc: "andy sedlacek" <asedlacek@trilla.com>
Subject: steel needs

Bob, Norma Jean,
Can you check into the status of following sizes for me. I will call you later this morning for an update.

.0287x35.75--I will be out by Monday and there appears to be plenty at Flat Rock, and it appears to have been there in excess of two weeks. I need them to process this and ship some by tomorrow.
.0323x36.375--Gary had 43xxx scheduled at the Temper on Monday's report--ship this ASAP.
.0398x36.375---Monday's report shows 102,xxx available at Gary. This needs to ship next week or sooner.
.0398x48------Monday's report shows 145, xxx available at Gary. This appears to have been ready for several weeks according to the report. I am out of this size and having to substitute steel. I have requested you to ship this several times and still have not received it. Please see that this ships today, as it is costing me $.31 for every drum that I am substituting steel for to meet my customer's needs. Also since my January and February orders are not ready at Gary, Please rush my March order with Midwest as it appears that it will be ready prior to the orders at Gary. Have Midwest ship this steel ASAP and see if they can rush it.
.0437x48----Again see if Midwest can rush my March order as it is further along than my January order at Gary. I am using this material as a substitute for .0398 and I am starting to run out of it also.

thanks,
John