IMPACT OF THE SECTION 201 SAFEGUARD ACTION ON CERTAIN STEEL PRODUCTS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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IMPACT OF THE SECTION 201 SAFEGUARD ACTION ON CERTAIN STEEL PRODUCTS

WEDNESDAY, MARCH 26, 2003

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:11 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
March 17, 2003
No. TR–2

CONTACT: (202) 225–6649

Crane Announces Hearing on the Impact of the Section 201 Safeguard Action on Certain Steel Products

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the impact of the section 201 safeguard action on certain steel products imposed by the President on March 20, 2002. **The hearing will take place on Wednesday, March 26, 2003, in the Main Committee Hearing Room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

Oral testimony at this hearing will be from both invited and public witnesses. Witnesses are expected to include small and large steel consuming businesses, U.S. steel producers, and economic and financial analysts knowledgeable on the steel industry. Also, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

Acting under section 203 of the Trade Act of 1974, the President on March 5, 2002, announced a series of temporary trade measures to safeguard the U.S. steel industry against injury from imports (Investigation No. TA–201–73 Certain Steel Products). Steel tariffs ranged from 8 percent to 30 percent on nine categories of steel, and slab imports were subject to a Tariff Rate Quota (TRQ) of 5.4 million tons. The safeguard took effect on March 20, 2002, and is to be phased down over three years. The Administration excluded free trade agreement partners from the remedy (Canada, Mexico, Jordan, and Israel) and certain developing countries that ship less than 3 percent of total imports for each product category. In accordance with section 204 of the Trade Act of 1974, the International Trade Commission is scheduled to release a mid-term review of the safeguard measures by September 20, 2003.

The goal of this hearing is to promote awareness of the impact that the March 20, 2002, steel safeguard has had on U.S. steel consuming industries, domestic steel producers, and the U.S. economy, and also to examine whether the domestic steel industry has made adequate efforts to make a positive adjustment to import competition in the past year as required by the statute, and the efficacy of actions by the President to facilitate such efforts by the domestic steel industry.

In announcing the hearing, Chairman Crane stated, “The past year has shown us that the steel safeguard action has had wide-ranging effects on steel consuming industries and the U.S. economy. During this hearing, we will examine just how much of an impact that action has had on jobs in industries that are key participants in the American economy.”

FOCUS OF THE HEARING:

The hearing would focus on changes in employment, wages, profitability, investment, sales, and productivity of steel consuming industries as a result of the safeguard action, whether the safeguard remedies affected steel prices and availability in the United States, and the effects of the safeguard on the domestic steel industry and the industry's efforts to restructure.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bill Covey at (202) 225–1721 no later than the close of business, Thursday, March 20, 2003. The telephone request should be followed by a formal written request faxed to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515, at (202) 225–2610. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE–MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Committee are required to submit 200 copies, along with an *IBM compatible 3.5-inch diskette in WordPerfect or MS Word format,* of their prepared statement for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Monday, March 24, 2003**, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings. **Failure to do so may result in the witness being denied the opportunity to testify in person.**

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to hearingclerks.waysandmeans@mail.house.gov, along with a fax copy to (202) 225–2610, by the close of business, Wednesday, April 9, 2003. Those filing written statements that wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the Subcommittee on Trade in room 1104 Longworth House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to hearingclerks.waysandmeans@mail.house.gov, along with a fax copy to (202) 225–2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at http://waysandmeans.house.gov.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. Good morning. This is a hearing of the Subcommittee on Trade of the Committee on Ways and Means to consider the impact on the past year of the President's section 201 safeguard action on certain steel products.

As everyone is well aware, on March 5, 2002, the President announced import relief measures on several categories of steel imports. Steel producers argue that the tariffs are necessary to offset distortions in world steel markets, and have helped the U.S. steel industry to restructure.

Conversely, steel users contend that the tariffs have done far more harm than good to the U.S. manufacturing base and to the U.S. economy, and that tariffs have undermined their global competitiveness.

Steel producers and their customers are mutually dependent upon one another. While steel producers will obviously look out for their best interests, they also need to be mindful of the impact their actions have on the economic health of their customer base. With that in mind, a complete analysis of the section 201 safeguard must look at effect of the tariffs on everyone, steel producers, steel consumers, and the U.S. economy as a whole.

This is the goal of the hearing today. For my part, the specific question I pose is regardless of whether it was the right decision to impose the relief 1 year ago, have we reached the point where the industry has restructured or do the costs of the action to others outweigh the benefits?

The debate on steel policy has been shaped by shouting and emotional accusations on both sides. Some producer and consumer relationships that go back 20 to 30 years have been destroyed over the issue of the section 201 tariffs, and it should not come to that. My hope is that this hearing will initiate a constructive dialog between steel producers and their customers.

I look forward to hearing the testimony of our witnesses today, and in particular I welcome one of my constituents, Mr. Tim Taylor, President of MacLean Vehicle Systems in Mundelein, Illinois.

I now yield to the Ranking Member of the Subcommittee, Mr. Levin, for any remarks he would like to make.

[The opening statement of Chairman Crane follows:]

Opening Statement of The Honorable Philip M. Crane, Chairman, Subcommittee on Trade, and a Representative in Congress from the State of Illinois

Good Morning. This is a hearing of the Ways and Means Trade Subcommittee to consider the impact over the past year of the President's section 201 safeguard action on certain steel products.

As everyone is well aware, on March 5 last year, the President announced import relief measures on several categories of steel imports. Steel producers argue that the tariffs are necessary to offset distortions in world steel markets and have helped the U.S. steel industry to restructure. Conversely, steel users contend that the tariffs have done far more harm than good to the U.S. manufacturing base and to the U.S. economy and that tariffs have undermined their global competitiveness.

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Today we will hear from a number of distinguished witnesses. In the interest of time, I ask that you keep your oral testimony to five minutes, and I will strictly enforce the rule for both Committee Members and witnesses. We will include longer, written statements in the record. And now I welcome several of my colleagues who are interested in this issue.

Mr. LEVIN. Thank you very much, Mr. Chairman. I join you in saying that it is appropriate that we be holding this hearing on this truly important trade issue.

With the ever growing expansion of international trade, and its importance not only to our Nation and the world economy, it is also important to domestic policies and regulations. I think one takes that view unless one has a totally laissez-faire attitude toward trade policy.

That means an active congressional role in shaping trade policy is critical. This requires vigorous oversight by Congress and is best exercised, at least initially, at the Subcommittee level where we have an opportunity to delve, as we will today, into issues in greater depth.

So, I hope that this signals, our hearing today, that this Subcommittee will be taking a more active role in helping to shape the activities of the full Committee and Congress. The hearing today is on a subject that clearly deserves active congressional oversight. I hope it will proceed, and the Chairman has indicated this now, as objectively as possible, digging into the facts and avoiding rigid prejudgments.

That is why I was concerned, with other colleagues, by some aspects of the recent section 332 request to the U.S. International Trade Commission (ITC) coming from the Chairman of our Committee, the tenor of which indicated a clear predisposition against the steel safeguard relief. I believe that, in general, accurate, comprehensive, and balanced information is the servant of good policy. I think that the information requested in the section 332 letter, while useful, needs to be balanced by consideration of all relevant facts and issues.

I favored use in 2001 of the safeguard mechanism.

I viewed it as a necessary response to a series of clear events and necessary to the maintenance of a vibrant domestic steel industry. In 1998, in the wake of the Asian financial crisis and economic crises in Russia and Latin America, steel imports flooded into the open U.S. market in unprecedented levels, a 30-percent increase in just 1 year.

In 1999, the market stabilized somewhat, largely as a result of successful anti-dumping and countervailing duty cases brought by the industry, but between 1998 and 2001 steel imports remained at historically high levels.

Additionally, and perhaps most importantly, the continuing high levels of imports meant that steel prices in the United States never fully recovered and, in fact, hit historic lows, in some cases dramatically so, in 2001.

The conditions were unsustainable, as evidenced by the tumult in the domestic steel industry. During the period 1997 to 2002, 31 companies in the U.S. steel industry went bankrupt, almost one-third of the U.S. steel-making capacity, including some of our largest producers. Tens of thousands of U.S. workers lost their jobs, hundreds of thousands had their health and retirement benefits put in jeopardy.

If this is not the kind of crisis that the safeguard relief was created for, it is unclear what is.

In March 2002, after intensive investigation by the ITC, as we know, which examined the impact of proposed relief on the steel consuming industries, the Administration put in place the steel safeguard relief. The initial safeguard relief included extensive exclusions and exemptions. For instance, several million tons of slab could enter free of any import relief, as could all steel imports from about 100 countries, some of which are major producers, and all imports from any source of 104 different steel products, including about 750,000 tons from South Korea.

In the ensuing months, the Administration exempted several hundred additional steel products from relief. In fact, before the latest round of steel exclusions last week, about 60 percent of all steel imports entered the United States completely free of the safeguard relief. Last week there were some additional exclusions announced.

So, today we need to examine the ongoing impact of the steel safeguard relief and the concerns of the domestic steel industry and the steel consuming industries in light of these exclusions. I anticipate we will hear today about the impact of the tariffs on prices and steel supply in the United States. I hope that we will have some discussion about the impact of these exclusions.

As stated above, accurate and comprehensive and balanced information is critical in crafting policy. So, let me just say one last thing, as we meet, Mr. Chairman. The decision of a World Trade

Organization (WTO) panel is likely being issued. It is very possible that during this hearing its exact details will become known to all of us.

If this occurs today, and that is supposedly going to happen, I simply want to urge that we remember that any decision of the panel of the WTO will be subject to appeal, no matter what its contents and no matter who "wins" and who "loses." So, I hope that the hearing today, its importance, will not be undercut by any decision from the WTO.

We need, as we are doing today, to sit down, to hear testimony, and to consider the impact of this safeguard action, both on the steel producers and the consumers of steel in this country. Thank you, Mr. Chairman.

[The opening statement of Mr. Levin follows:]

Opening Statement of The Honorable Sander M. Levin, a Representative in Congress from the State of Michigan

I am glad that the Trade Subcommittee is holding a hearing on this important trade issue.

With the ever-growing expansion of international trade and its importance not only to the U.S. and world economies, but also to domestic policies and regulations, unless one takes a laissez faire attitude toward trade policy, an active Congressional role in the shaping of trade policy is critical. This requires vigorous Congressional oversight. This oversight is best exercised, at least initially, at the subcommittee level, where we have an opportunity to delve into issues in greater depth. So, I am pleased that the Trade Subcommittee is holding this hearing today, and I hope that this signals that the Subcommittee will be taking a more active role in helping to shape the activities of the Committee.

The hearing today is on a subject that clearly deserves active Congressional oversight. I hope that it will proceed as objectively as possible, digging into the facts and avoiding rigid pre-judgments. That is why I was concerned by some aspects of the recent "section 332" request to the ITC coming from the Chairman of the Committee, the tenor of which indicated a clear predisposition against the steel safeguard relief. I believe that, in general, accurate, comprehensive, and balanced information is the servant of good policy. I think that the information requested in the 332 letter, while useful, needs to be balanced by a consideration of all relevant facts and issues.

I favored use in 2001 of the safeguard mechanism; I viewed it as the necessary response to a series of clear events and necessary to the maintenance of a vibrant domestic steel industry. In 1998, in the wake of the Asian financial crisis and economic crises in Russia and Latin America, steel imports flooded into the open United States market in unprecedented levels—a 30% increase in just one year. In 1999, the market stabilized somewhat, largely as a result of successful anti-dumping and countervailing duty cases brought by the industry, but between 1998 and 2001, steel imports remained at historically high levels.

Additionally, and perhaps more importantly, the continuing high levels of imports meant that steel prices in the U.S. never fully recovered, and in fact hit historic lows—in some cases dramatically so—in 2001. The conditions were unsustainable, as evidenced by the tumult in the domestic steel industry. During the period from 1997 to the March 2002, 31 companies in the U.S. steel industry went bankrupt—almost one third of U.S. steel-making capacity—including some of the largest U.S. steel producers. Tens of thousands of U.S. workers lost their jobs; hundreds of thousands had their health and retirement benefits put in jeopardy. If this is not the kind of crisis that the safeguard relief was created for, I am not sure what is.

In March of 2002, after an intensive investigation by the ITC, which examined the impact of proposed relief on the steel-consuming industries, the Administration put in place the steel safeguard relief. The initial safeguard relief included extensive exclusions and exemptions. For instance, several million tons of slab could enter free of any import relief, as could all steel imports from about 100 countries some of which are major steel producers, and all imports from any source of 104 different steel products (including about 750,000 tons from South Korea). In the ensuing months, the Administration exempted several hundred additional steel products from relief, many over the objections of the U.S. steel-producing industry. In fact, before the latest round of steel exclusions last week, about 60% of all steel imports entered the United States completely free of the safeguard relief. Last week, the Administration announced an additional 295 exclusions, about a third of which were opposed by the domestic industry.

Today we need to examine the ongoing impact of the steel safeguard relief and the concerns of the domestic steel industry and the steel-consuming industries in light of these exclusions. I anticipate that we will hear today about the impact of the tariffs on prices and steel supply in America. I hope that we will have some discussion about the impact of the exclusions on these issues, and perhaps how they relate, as well, to the fact that steel imports actually increased between 2001 and 2002.

As stated above, accurate, comprehensive, and balanced information is helpful in crafting policy. I am particularly concerned that some of the information circulated on the impact of the steel tariffs does not meet some, if not all, of these tests. In particular, I have heard the claim that there have been 200,000 job losses resulting from the steel safeguard relief alleged in a study by one of the interest groups. I read with interest the op-ed in the *Financial Times*—a source that is no friend to the safeguard relief—suggesting that the conclusions announced by the study were not supported by data from that study. I will leave it to the *Financial Times* to discuss whether or not the "devil is in the details," so I submit for the record today the *Financial Times* article and I hope that we can keep our testimony to the facts, rather than to allegations that may or may not be supported by sound economics.

Thank you.

Chairman CRANE. Thank you. Today, we will hear from a number of distinguished witnesses and in the interest of time, I ask that you keep your oral testimony to 5 minutes and I will strictly enforce the rule for both Committee Members and witnesses. We will include longer written statements for the record. Also, we will break for lunch at 12:00 noon for approximately 1 hour.

Now, I welcome several of my colleagues who are interested in this issue and yield the first 5 minutes to our distinguished colleague from Indiana, Mr. Visclosky.

STATEMENT OF THE HONORABLE PETER J. VISCLOSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. VISCLOSKY. Thank you very much, Mr. Chairman.

Mr. Chairman, I appreciate your holding a hearing today and would point out that when, in October 2001, the ITC unanimously found that serious injury had occurred because of trading practices by our trading partners, the Government of the United States of America had a responsibility to act.

What were these serious injuries? We have seen a closure of American steel-making capacity of 34.5 million tons since 1977. At the time of war, we ought to keep in mind that we are the only developed nation on the planet Earth who can now not meet its own current demand in an average economic year.

What was that serious injury? It represented the loss of thousands of jobs in communities across America. Each one of those jobs represents a household of an American citizen we are to help economically.

In my district alone, the question raised by the Chair initially is has consolidation been completed? Should the program be removed? One, the program has not yet been completed. As it is completed throughout the remainder of this year, I would tell the Chair, that another 1,500 to 4,000 people in my Congressional District are going to lose their economic life because of what the industry is doing to comply with the Administration's request. Each one of those is an American citizen.

Tens of thousands of American citizens who were promised health care in their retirement years have been sent letters saying you are not going to receive it. That is American steel-making capacity. That as Americans' defense. That is an American citizens.

As far as the tariffs that have been put into place, I would point out they were placed with precision. You had steel products excluded by the ITC. You had free trade partners, such as Mexico and Canada, excluded. You had the domestic industry work with the U.S. Department of Commerce to exclude more than 200 products in the original proposal. An additional 1,000, as Mr. Levin has pointed out, have also been excluded.

Have prices in America firmed? Yes, because previously American producers could not sell a ton of steel for what they produced it, despite the efficiencies they have secured over the last two decades because their throat was being slashed. I would point out that the price for hot-rolled product today is still below the 22-year average for those products. That the price for cold-rolled is still below the 22-year average for those products.

Ultimately, I am concerned that if the program is changed, the Administration loses its one lever as far as the fundamental issue that still needs to be addressed, and that is the reduction of the 268 million excess tons internationally. If our training partners have a scent that we are going to back off of this program they will not negotiate in good faith and an extremely difficult proposition for the Administration, that I believe they have pursued in good faith, is going to become impossible. At that point, we might as well forget having a domestic steel industry.

The Chair asks two questions in his opening remarks and I would respond, in conclusion, by saying restructuring has not yet been completed. Have all of the benefits that the Administration, and we in Congress who have supported, been achieved by the industry? Certainly not, but I would also point out that earlier this month we have already lost 20 percent of the benefit because the program was imposed with a sliding scale.

The ITC unanimously found serious injury. We have a responsibility to redress that injury and to assure that no additional American worker is injured in the future.

I thank the Chair and would excuse myself, if that is permissible. I am a Ranking Member on another Subcommittee and our hearing started at 10:00 a.m.

[The prepared statement of Mr. Visclosky follows:]

Statement of The Honorable Peter J. Visclosky, a Representative in Congress from the State of Indiana

Mr. Chairman, Mr. Levin, and Members of the Committee, I appreciate the opportunity to testify before you today regarding the positive impact of the President's steel program and specifically the remedy imposed by the President under section 201 of our trade laws.

Since last March, when the President's section 201 remedy was implemented, the domestic industry has made real progress toward again becoming a viable industry, meeting the needs of our steel consuming industries, and providing good jobs in communities across the United States. In brief, prices have recovered—although they remain below 20-year averages, supply both from domestic producers and imports is more than ample to meet domestic consumption demands, and the industry is undergoing critical restructuring.

The President's remedy was the correct solution to address the injury to the domestic steel industry caused by the import crisis and the excess global steel capacity at the root of it. It was the right program in March, 2002, and it continues to be the right program today. We in Congress who saw firsthand the devastating effects of the steel crisis in our communities know that this program must be continued for the entire three-year term to have its full positive effect.

While the President's steel program has brought critically important relief to the domestic steel industry, it has not unduly harmed consumers. First, many steel products were excluded from the International Trade Commission (ITC) findings and therefore not subject to relief. Second, 201 tariffs were not imposed on steel imported from our free trade partners, namely Mexico, Canada, Israel and Jordan, as well as from most developing countries. Third, the domestic industry worked with the Department of Commerce during the investigation to exclude almost 200 products from the scope of the investigation. Fourth, after the remedy was implemented, the Department also excluded more than 1,000 additional products at the direct request of consumers and foreign producers. In total, steel imports covered by section 201 tariff represent only about 5 percent of apparent domestic consumption of steel.

Prior to the imposition of the 201 remedy, steel prices were at unsustainable levels and often below the cost of production for even the world's most efficient producers. Clearly, consumers could not expect that prices could be sustained at those levels. Since the imposition of the 201 remedy, prices have recovered, yet the recovery has been modest. Prices remain below 20-year averages, and have actually declined since last summer. In addition, steel prices have increased at a greater rate in foreign markets than they have in the United States. It is patently absurd to suggest that U.S. businesses would move abroad because of a temporary steel tariff, especially when steel prices are rising more rapidly in foreign markets than in the United States.

Steel imports have remained robust. Steel imports were actually higher in 2002, after the imposition of the remedy, than in 2001. As a result of the 201 relief, domestic production has been put back on line and capacity utilization has increased. The fact is that there is ample supply to meet our domestic consumption needs.

The President's remedy has been effective thus far, and must be supported by Congress in the face of opposition from foreign producers so that it can have its full remedial effect. It is our right under the World Trade Organization (WTO) agreements to protect industries collapsing under the weight of foreign imports. The ITC conducted one of the most exhaustive safeguard investigations in the history of the WTO, and correctly found, by a unanimous vote, that the domestic steel industry had been seriously injured as a result of high levels of low-priced steel imports. We should not second guess the ITC and the President.

Contrary to the claims of the opposition, this safeguard measure is not only the right thing to do for an industry under siege, but is *explicitly* provided for under the terms of the WTO agreements. International rules allow countries to maintain the ability to respond to serious and unforeseen economic dislocations, and protect their industries against predatory actions from foreign companies or countries. The problem is that the WTO dispute settlement body has rejected every 201 remedy imposed by any country. This demonstrates that we have a problem with how the WTO dispute settlement system is working more than demonstrating any problems with this 201 remedy.

The President's 201 remedy plan was an enormous step toward correcting the problems that ail the U.S. and global steel markets, but it will be rendered meaningless unless it is allowed to continue for the full term of three years. Congress must stand by the President's remedy and help foster a marketplace where the domestic industry, one of the strongest and most efficient steel industries in the world, can actually thrive.

Chairman CRANE. Absolutely and we thank the gentleman for his participation and his presentation. Now, the Honorable Peter Hoekstra.

STATEMENT OF THE HONORABLE PETER HOEKSTRA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. HOEKSTRA. Thank you, Mr. Chairman. Thank you for allowing me to testify on section 201 this morning.

My testimony today regards the unintended but harmful consequences of section 201, which impose a tariff of up to 30 percent on certain categories of imported steel products. These unintended consequences affect the thousands of workers throughout the country who process steel, bend steel, and fabricate it for use. They are now forced to use—or what they are finding is that they are losing their jobs to foreign competitors whose products are built with perhaps cheaper steel. When those products come to the United States, there are no tariffs imposed.

The President introduced these measures in March 2001 to give U.S. steel producers breathing space to restructure and adjust to import competition. Unfortunately, section 201 tariffs have wreaked havoc with steel consumers and processors by causing dramatically higher prices, some as much as 50 percent or more, long lead times, broken contracts, and a short supply of steel in the United States, which has made U.S. steel manufacturing users uncompetitive with foreign steel users. Eliminating the tariffs would level the playingfield for U.S. steel consumers, which are losing much of their customer base as a result of the economic impact of these tariffs.

Under section 204 of the Trade Act of 1974 (P.L. 93–618), the President is required to hold a midpoint review (MPR) for measures imposed for more than 3 years. The section 201 safeguards run for 3 years and 1 day. The MPR starts with a monitoring report prepared by the ITC and is due to the President in mid-September 2003. I am encouraged that the Committee on Ways and Means has requested that the ITC include in its report an additional fact-finding investigation.

I believe that the results of these studies will validate the claims of U.S. steel using manufacturers that imposing these tariffs is creating an anti-competitive environment and driving many companies out of business. The damage caused by the economic disruption to steel manufacturers is spreading throughout the economy.

This is especially troublesome with many steel using manufacturers experiencing the worst business climate in 30 years. It is feared that many steel using businesses will not survive the next 3 years. We do know that customers and jobs lost will be very, very difficult, if not impossible to reclaim.

The office furniture industry in Michigan's Second Congressional District has laid off thousands upon thousands of workers in the past 2 years and closed several production facilities. Many of these jobs are being lost to foreign producers of steel-containing products. Once lost, the jobs will not come back.

In the State of Michigan, there are 794,795 steel-consuming jobs and 11,744 steel-producing jobs. That is a ratio of 68 to 1. Some of the larger steel-consuming jobs in Michigan, including transportation equipment, industrial machinery and equipment, and fabricating metal products are fighting for their very survival. In Michigan's Second Congressional District there are at least 46,000 steel-consuming jobs, scarcely any steel-producing jobs exist in the district.

The President is authorized to amend or terminate the safeguard action if he finds that its effectiveness has been impaired by changed economic circumstances when he conducts the MPR. Since the administration could not have foreseen the drastic impact of imposing steel tariffs on steel consumers, I believe that the President should use the MPR as an opportunity to end them. The market should dictate the price of steel, not the government.

Thank you for the opportunity to testify.

[The prepared statement of Mr. Hoekstra follows:]

Statement of The Honorable Peter Hoekstra, a Representative in Congress from the State of Michigan

Mr. Chairman, thank you for allowing me to testify on Section 201 Safeguard Action on Certain Steel Products. I appreciate the opportunity to speak before the House Ways and Means Committee as it examines the impact of steel tariffs on U.S. steel consuming industries, which are vital components of the U.S. economy and Michigan's Second Congressional District.

My testimony today regards the unintended, but harmful consequences of these safeguards, which imposed tariffs of up to 30 percent on certain categories of imported steel products in an effort to restrict imports.

The President introduced the measures in March 2002 to give U.S. steel producers "breathing space" to restructure and adjust to import competition. Unfortunately, the safeguards have wreaked havoc with steel consumers by causing dramatically higher prices—some as much as 50 percent or more—long lead times, broken contracts, and a short supply of steel in the United States, which has made U.S. steel manufacturing users uncompetitive with foreign steel users.

Eliminating the tariffs would level the playing field for U.S. steel consumers and therefore benefit domestic steel producers, which are losing much of their customer base as a result of the economic impact of these tariffs.

Under section 204 of the Trade Act of 1974, the President is required to hold a "mid-point review" (MPR) for measures imposed for more than three years. The section 201 safeguards run for three years and one day. The MPR starts with a monitoring report prepared by the International Trade Commission (ITC) and is due to the President in mid-September 2003.

I am encouraged that the House Ways and Means Committee has requested that the ITC include in its report an additional fact-finding investigation. The additional report will examine competitive conditions facing steel-consuming industries in the United States with respect to the tariffs imposed by the President and to foreign competitors not subject to such measures.

I believe that the results of these studies will validate the claims of U.S. steel-using manufacturers that imposing tariffs is creating an anti-competitive environment and driving many companies out of business.

The damage caused by the economic disruption to steel manufacturers is spreading throughout the economy because of impacts to major industries such as automobile manufacturers and furniture producers. This is especially troublesome with many steel-using manufacturers experiencing the worst business climate in 30 years.

It is feared that many steel using businesses will not survive three years of tariffs.

The office furniture industry in Michigan's Second Congressional District has laid off thousands upon thousands of workers in the past two years and closed several production facilities over the past 18 months. Many of these jobs are being lost to foreign producers of steel-containing products, and they won't come back.

In the state of Michigan, there are 794,795 steel-consuming jobs and 11,744 steel-producing jobs, a ratio of 68 to one. Some of the larger steel-consuming jobs in Michigan including transportation equipment (300,837 jobs), industrial machinery and equipment (133,017 jobs), and fabricated metal products (130,588 jobs).

In the Michigan's Second Congressional District, there are at least 46,245 steel-consuming jobs. Scarcely any steel-producing jobs exist in the district.

The President is authorized to amend or terminate the safeguard action if he finds that its effectiveness has been impaired by changed economic circumstances when he conducts the mid-point review.

Since the Administration could not have foreseen the drastic impact of imposing steel tariffs, I believe that the President should use the MPR as an opportunity to end them.

The market should dictate the price of steel, not the government.

Thank you for your consideration of my testimony. I would be happy to answer any questions.

Chairman CRANE. I thank you for your testimony. Now the Honorable Joe Knollenberg.

STATEMENT OF THE HONORABLE JOE KNOLLENBERG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. KNOLLENBERG. Good morning, Mr. Chairman and Members of the Subcommittee. I want to thank Chairman Thomas, and certainly Chairman Crane, and all the Members of the Subcommittee, for the effort they put into investigating this issue.

I want to commend Chairman Crane for assembling a truly balanced series of witnesses for this hearing. I know that both steel consumers and steel producers have a great deal to say about the subject.

As many of you know, I am the sponsor of the resolution about the steel safeguard program known as House Concurrent Resolution 23. Many of the Members of this Subcommittee are cosponsors and there currently are 72 cosponsors total.

My resolution urges the President to direct the ITC to report on the steel tariffs impact on steel producers and steel consumers during the mid-term review. The ITC, as you know, is required to review the steel tariffs and report to the President on their effects in September of this year. While the ITC must listen to the steel consumers, it is in no way required by law to report to the President on what they heard from the consumers. Much like this Subcommittee, I am seeking a balanced and full review of how the steel tariffs are affecting our economy.

Today I am happy to say the request in my resolution has been fulfilled. Last week, Chairman Thomas sent a letter to the ITC to initiate a section 332 investigation, which means that the ITC will conduct an investigation on the impact of the steel tariffs on steel producers and on steel consumers. This will ensure that the full economic effects of the tariffs are examined. All parties involved in this issue should welcome this investigation and welcome the opportunity to present the facts to the ITC and the President. Nobody should be afraid of the facts. This investigation will simply put all of the information on the table.

Let me briefly tell you about my Congressional District. The Ninth Congressional District in Michigan is home to more than 1,500 manufacturing establishments, 93 percent of which employ less than 100 people. These establishments represent nearly 21 percent of my district's work force.

One of the companies headquartered in my district is America's largest automotive supplier, Delphi Automotive. Several thousand of my constituents are Delphi employees. On behalf of Delphi, I would like to submit their testimony for today's hearing for the record. You will see Delphi describe the pain that the steel tariffs have caused the company.

[The information follows:]

Statement of R. David Nelson, Delphi Corporation, Troy, Michigan

Mr. Chairman, thank you for holding this hearing on this critical economic issue. I am pleased to provide written testimony for the record on the impact of the Steel Safeguard Program on Delphi.

Delphi Corporation is a world leader in mobile electronics and transportation components and systems technology. Delphi has approximately 192,000 employees globally, and 60,000 in twelve U.S. States, including Michigan, Ohio, Indiana, Wisconsin and New York.

Along with our trade association, the Motor and Equipment Manufacturers Association (MEMA), Delphi supports Rep. Joe Knollenberg (R–MI) and the 68 cosponsors of House Concurrent Resolution 23, who have called on the International Trade Commission (ITC) to include an analysis of the impacts of the steel tariffs on consumers as part of the program's mid-term review. Delphi's Chairman, Chief Executive Officer and President, J.T. Battenberg III joined 19 other automotive supplier Chief Executive Officers in sending a letter to President Bush last year describing our industry's concerns about the program.

Delphi's steel purchases are being affected both directly and indirectly through the present tariff program. We currently purchase $1 billion in steel annually, including $200 million in direct steel requirements and $800 million in steel related components. Over 98% of our direct steel purchasing is from domestic suppliers.

The most significant impact to Delphi is with our suppliers, many of who are smaller companies that have been affected by steel pricing increases in the range of 5% to 30%. Like Delphi, these suppliers cannot pass-on the price increases to their consumers, nor do they have the ability to leverage away price increases delivered by the steel industry.

Today's U.S. automotive supplier industry is dependent on reliable and competitive materials to survive. The automotive industry's original equipment manufacturers demand high quality products at competitive prices and "just-in-time" delivery. Any disruption of this system jeopardizes Delphi's relationship with our consumers and our suppliers, many of whom are small and mid-sized manufacturers already challenged by the struggling economy.

As the largest automotive supplier in the country, Delphi is particularly susceptible to disruptions and price increases. Consumer demands for lower prices coupled with the increased cost of steel have left little room to maneuver for either Delphi or our supplier base.

The final factor I want to address is the lead-time inherent in the production process of the automotive industry. Today, automotive suppliers are making decisions that will impact job sourcing and production for the next 10 years or more. The consequence of this is that if Delphi or another supplier is forced to move production outside the United States due to raw material or other costs, it is likely that those jobs will never come back.

In conclusion, the negative impacts from the steel tariffs are already hurting Delphi and our suppliers. The present economic situation finds the automobile industry on the down-slope, thus damaging the automotive supplier industry. By raising the prices of steel—an intrinsic component in the manufacturing of parts—the cycle only grows more vicious. The business decisions Delphi makes today will impact the economy for the next 10 years or more.

In closing, I want to thank the Committee for holding this hearing, and for urging the ITC to consider consumer issues during the upcoming review. You are to be commended on your efforts in solving this problem and allowing steel consumers a voice in the Administration's decision whether to continue the steel tariff program.

Mr. Chairman, I would also like to submit for the record a letter from the Motor and Equipment Manufacturer's Association sent to President Bush and signed by 25 of the leading automotive suppliers in the country.

[The information follows:]

Motor and Equipment Manufacturers Association
Research Triangle Park, North Carolina 27709
March 20, 2003

The President
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

March 20, 2003 marks the 1-year anniversary of the enactment of the section 201 steel tariffs. As we approach this date, the Motor and Equipment Manufacturers Association (MEMA) seeks to emphasize the ongoing economic hardships faced by American manufacturers of automotive parts and components resulting from the section 201 steel tariffs. The automotive supplier industry encompasses thousands of large, medium and small companies in all 50 States, directly employing 2.2 million Americans. Thousands of these jobs are located in Pennsylvania, Ohio, Illinois, Indiana and West Virginia, as well as Michigan. Automotive suppliers are one of this nation's leading consumers of steel. The average vehicle sold in the U.S. contains more than 1,810 pounds of steel parts and, historically, suppliers have purchased the overwhelming majority of their steel from U.S. mills.

Our message, Mr. President, is that the effects of the section 201 steel tariffs on automotive suppliers, as well as other steel consumers, requires careful and expeditious examination in the upcoming section 201 Mid-Term Review, as proposed in House Concurrent Resolution 23. The steel tariffs are seriously damaging U.S. automotive suppliers as well as other American manufacturers and, as a result, are damaging the American economy as a whole.

Our industry has experienced significant losses over the past year as a result of the tariffs, at a particularly sensitive time for our industry as well as the U.S. economy. Upon the implementation of the section 201 tariffs our companies suddenly faced widespread steel shortages, delivery delays and quality problems. This uncertainty was exacerbated by steep and sudden increases in raw material costs ranging as high as 65 percent on items such as hot rolled and cold rolled sheet. Recent reports indicate that certain U.S. steel producers are seeking additional price increases of up to 10 percent. This will be placed on top of the steel industry's present pricing structure for auto suppliers; a burden that we cannot sustain.

Most U.S. automotive suppliers are under firm cost reduction mandates and cannot pass higher raw material costs or production costs forward to their customers. Nevertheless, in the last year many of our customers have shifted from U.S. to foreign sources of automotive parts and components to reduce their exposure to the uncertainty created by the section 201 steel tariffs. Based on our experience in 2002, it is clear that imports of intermediate and finished products, and the related job losses from that shift of sourcing, will continue to grow. The steel tariffs are also forcing large, Tier-1 auto suppliers to shift from manufacturing or buying automotive components and assemblies in the United States to foreign sources of supply. Several companies are now debating the permanent relocation of manufacturing facilities to other countries to avoid the disruption caused by the steel tariffs and to remain internationally competitive.

In late 2002, MEMA gathered data from 17 select automotive parts suppliers to assess the financial and business impact of the steel tariffs on the industry. Our survey of this sample set of 17 companies indicated losses in 2002 of $122 million directly attributable to higher steel prices. Additional losses of $12 million in 2002 were reported due to longer lead times and delivery problems arising from the steel tariffs. Our sample set of only 17 automotive suppliers projected a staggering cumulative cost **of $224 million in 2003** due to increased steel prices alone. This small sample points to far greater financial and employment losses and lost competitiveness throughout the American automotive industry, as well as other steel-consuming sectors.

Many automotive suppliers have sought relief under the Administration's exclusion process. Obtaining exclusions, however, has proved to be an expensive and complex legal and regulatory process, essentially out of reach for many small and even medium sized automotive suppliers. The exclusion process has provided little relief to steel consumers in our industry as a whole due to our heavy reliance on domestically produced steel products.

We clearly believe that it was not the Administration's intent to damage the international competitiveness of our industry or to cause job losses in American manufacturing; yet, the current situation poses those very risks for our companies and other steel consuming industries in this nation. The Administration is now facing a critical opportunity to re-examine the effects of the section 201 steel tariffs and to assess the effect of the tariffs on both steel producers and steel consumers. Automotive suppliers, together with appliance manufacturers, toolmakers, stampers, maritime manufacturers, and many other steel consuming industries strongly support House Concurrent Resolution 23. Introduced by Congressman Joe Knollenberg of Michigan on January 29, this Resolution has drawn the support of 69 Republican and Democratic cosponsors. Many of these lawmakers represent both steel producing and steel consuming constituents, yet they all recognize the need to expand the scope of the section 201 Mid-Term Review to ensure that the costs and benefits to steel producers and steel consumers can be assessed in concert. On March 20, 2003, we also welcomed the introduction of Senate Concurrent Resolution 27 by Sens. Christopher Bond, Chuck Hagel, Peter Fitzgerald and Mary Landrieu. SCR 27 reinforces our petition for the inclusion of steel consumers in the Mid-Term Review. We urge the Administration's prompt consideration and support for these two Resolutions.

Thank you for the opportunity to express our views on this critical issue.

Sincerely,

Christopher M. Bates
President and Chief Executive Officer

Ronald Cutler
Vice President, Automotive Marketing
TRW Automotive and
Chairman, Motor and Equipment
Manufacturers Association (MEMA)

Lawrence A. Denton
President and Chief Executive Officer
Dura Automotive Systems, Inc. and
Chairman, Original Equipment Suppliers Association (OESA)

Charles E. Johnson
President and Chief Executive Officer
Transpro, Inc. and
Chairman, Automotive Aftermarket
Suppliers Association (AASA)

J.T. Battenberg III
Chairman, Chief Executive Officer and President
Delphi Corporation
Troy, MI

John Doddridge
Chairman and Chief Executive Officer
Intermet Corporation
Troy, MI

John Plant
President and Chief Executive Officer
TRW Automotive
Livonia, MI

Timothy D. Leuliette
Chairman, President and Chief Executive Officer
Metaldyne Corporation
Plymouth, MI

Larry Yost
Chairman and Chief Executive Officer
ArvinMeritor, Inc.
Troy, MI

Edward E. Zimmer
President and Chief Executive Officer
Electronic Controls Company
Boise, ID

Joseph Magliochetti
Chairman, President and
Chief Executive Officer
Dana Corporation
Toledo, OH

Joachim V. Hirsch
Chairman, President and
Chief Executive Officer
Textron Fastening Systems

Grant H. Beard
President and Chief Executive Officer
TriMas Corporation
Bloomfield Hills, MI

Joel D. Robinson
President and Chief Operating Officer
American Axle and Manufacturing
Detroit, MI

Ronald I. Parker
Chairman and Chief Executive Officer
Indian Head Industries, Inc.
Charlotte, NC

Thomas Mowatt
President
Champion Labs
Albion, IL

Joseph V. Borruso
President and Chief Executive Officer
Hella North America, Inc.
Plymouth, MI

William J. Laule
Chief Executive Officer
TI Automotive
Warren, MI

Jeff Romig
Vice President, Strategic Resource Management
Eaton Corporation
Cleveland, OH

Wallace E. Smith
President
E&E Manufacturing
Plymouth, MI

D.W. Shaw
President
Means Industries, Inc.
Saginaw, MI

Timothy L. Tindall
President
Spring Engineering and Manufacturing
Canton, MI

Lawrence Sills
Chairman
Standard Motor Products, Inc.
Long Island City, NY

William D. Grote III
President and Chief Executive Officer
Grote Industries, Inc.
Madison, IN

Dennis M. Welvaert
Executive Vice President
Dayco Products, LLC
Tulsa, OK

Chairman CRANE. Without objection, so ordered.

Mr. KNOLLENBERG. Thank you. This letter describes the financial losses attributed to the steel tariffs, which is in the hundreds of millions. Like my resolution, this letter urges the President to direct the ITC to fully consider the effects of the steel tariffs on steel-consuming companies during the mid-term review.

When the tariffs were announced in March 2002, we all knew that steel-consuming companies would feel the pain, but we did not know how bad the pain would be. Sadly, the increased prices and supply disruptions came in more rapidly and severely than anyone could predict, including the Administration.

A strong manufacturing base is critical to our Nation's economy. These are already difficult times for manufacturers and the steel tariffs are making them tougher. Steel-consuming companies are global. They need access to their product inputs at the global market price because they have to sell their finished products in global markets.

I have heard from company after company that the current environment is causing them to rethink their future here in the United States. They are contemplating moving their manufacturing operations overseas in order to remain globally competitive. If steel consumers cannot get inputs in the United States at global market prices, then they have to look overseas. It is a business decision, pure and simple. When those jobs move overseas, they are not coming back.

I do not want to see this happen anymore than it already has. Everyone wants a strong domestic steel industry and this is clearly stated in my resolution. I am glad the health of the steel companies is improving, but the process of consolidation that is occurring under the protection of tariffs is happening at the expense of the customer base.

What good will the tariffs have achieved if there are no customers left to buy steel from U.S. steel companies?

I want to thank Chairman Crane and the Members of this Subcommittee again for holding this important hearing. Our economic policymaking should be based on what is right for the whole economy, including the whole manufacturing sector. Let us not lose sight of that important point.

Again, Mr. Chairman, I want to thank you very kindly for the opportunity to appear here today.

[The prepared statement of Mr. Knollenberg follows:]

Statement of The Honorable Joe Knollenberg, a Representative in Congress from the State of Michigan

Good morning, Mr. Chairman and Members of the Subcommittee. I want to thank Chairman Thomas, Chairman Crane and the Members of the Subcommittee for investigating this issue.

I want to commend Chairman Crane for assembling a truly balanced series of witnesses for this hearing. I know that both steel consumers and steel producers have a great deal to say about this issue.

As many of you know, I am the sponsor of a resolution about this very issue—H. Con. Res. 23. Many of the Members of this Subcommittee are cosponsors. My resolution urges the President to require the International Trade Commission to report on the steel tariffs' impact on steel consumers. The ITC is required to review these steel tariffs and report to the President on their effects in September of this year. But while the ITC must listen to the steel consumers, it is in no way required by law to report on what they heard to the President. Much like this Subcommittee, I was seeking a balanced and full review of how the steel tariffs are affecting our economy.

I am happy to say the request in my resolution has been fulfilled.

Last week, Chairman Thomas initiated a 332 investigation, which means that the ITC will conduct an investigation to examine the impact of the steel tariffs on steel producers AND consumers. This will ensure the whole economic picture of this issue will be examined.

And we should all be grateful that this 332 investigation will be included in the same document as the mid-term review and that these reports will be made public. This means that the President, when he is considering whether to extend the steel tariffs in September, will have both reports in his hands and he can truly weigh the full economic costs of his decision.

All parties involved in this issue should commend Chairman Thomas for this action, and welcome the opportunity to present the facts to the ITC and the President. Neither steel consumers nor steel producers should be afraid of the facts. This investigation will simply put all the information on the table.

Let me tell you a little about my congressional district. The Ninth Congressional District in Michigan is home to more than 1,500 manufacturing establishments, 93 percent of whom employ less than 100 people. These establishments represent nearly 21 percent of the district's workforce. The numbers are similar for Michigan as a whole, and many States in the Midwest.

Since the Steel Safeguard Program was implemented just over a year ago, manufacturers throughout my district have been telling me of steel price increases, supply shortages, and quality problems. The steel consumers panel can tell you much more forcefully and specifically than I can about their struggles. Unfortunately, their stories are not unique.

When the tariffs were announced in March 2002, we all knew steel-consuming companies would feel the pain. But we didn't know how bad the pain would be. Sadly, the increased prices and supply disruptions came in more rapidly and severely than anyone predicted—including the Administration.

A strong manufacturing base is critical to our Nation's economy. But these are already difficult times for manufacturers and the steel tariffs are making them tougher. Steel consuming companies are global. They need access to their product inputs at the global market price because they have to sell their finished products in global markets.

I have heard from company after company that the current environment is causing them to rethink their future here in the United States. They are contemplating moving their manufacturing operations overseas in order to remain globally competitive. If steel consumers can't get inputs in the United States at global market prices, then they have to look overseas. It's a business decision pure and simple.

And when those jobs move overseas, they are not coming back. I don't want to see this happen any more than it already has.

Everyone wants a strong domestic steel industry, and this is clearly stated in my resolution. I'm glad the health of the steel companies is improving. But the process of consolidation that is occurring under the protection of tariffs is happening at the expense of its customer base. What good will the tariffs have achieved if there are no customers left to buy steel from U.S. steel companies?

I want to thank Chairman Crane and the Members of the Subcommittee again for holding this important hearing. The strength of our economy is not based on one sector. Neither should our economic policymaking. Let's not forget the little guys who make our economy run. Thank you.

Chairman CRANE. Thank you for participating. Our next witness is my good friend and neighbor, the Honorable Don Manzullo.

STATEMENT OF THE HONORABLE DONALD A. MANZULLO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. MANZULLO. Thank you, Mr. Chairman, Mr. Ranking Member.

I represent Rockford, Illinois, which is at the top of the State. Rockford has a manufacturing base of 25 percent which is double or triple the amount of manufacturing base in most cities. Our unemployment rate is at about 8.7 percent, pushing 9 percent. In 1981, Rockford, Illinois led the Nation in unemployment at 24.9 percent.

Traditionally known as the tool and die center and the fastener center of the world, our city obviously is extremely dependent upon the utilization of steel from various sources.

The small manufacturers are already under a tremendous amount of pressure as a result of the high regulatory burden, the overvalued dollar, the fact that there is a lack of capital, and also double digit increases in health care premiums. So, now they are facing stiff competition from China. We lost 5,000 Motorola jobs within a matter of a year or a year-and-a-half, we could lose in our district probably another 10,000 jobs if things do not turn around within the next 2 years.

When I go back home, my people hand me resumes and ask me if I know of any opportunities where they can work. They are the steel-consuming industry. They are the fabricators, the people that take the steel and make it into different products. So, they are at the brunt of the problem with a tremendous increase in the cost of steel.

Everybody agreed, including the steel users, back at the ITC hearing a year-and-a-half ago, that there is a need to keep a strong steel manufacturing base in this country. The testimony then that came from the steel manufacturers is that at most there would be an increase of between 7 and 9 percent in the cost of steel to the steel users.

The problem is that the cost of raw steel to the people in my district has gone up anywhere between 25 and 79 percent. Let me give to you an anomaly of a facility that is located in the Speaker's district. It is National Hardware. National Hardware is that last American manufacturer of hardware left. They are the last ones. They are the only ones that are left. There are 900 people that work at National Hardware in the Speaker's district, Mr. Evans' district, and people who live in my district. They are struggling.

The cost of their domestic steel, because they want 100 percent domestic content, has gone up 25 percent. That is uncalled for. That means the steel companies are gouging. That means the promise to keep the increase of steel as a result of protection from 7 to 9 percent has gone unheralded.

That is the problem with this whole scenario; there has to be some type of balance. If the steel producers continue to charge these types of prices for what they call profit recovery, then they will knock out of business the very customers that they are in the process of selling their products to.

So, that is where the problem is. They are charging too much for the steel. If you keep the steel price increase modest, then it will work for everybody because that is how this whole thing was intended.

We also had the anomaly of where I am working to try to keep our titanium industry in this country. Why the Secretary of the Air Force signed a waiver to allow Russian titanium to be used on our military jets, closing down titanium mills in this country.

You ask yourself, what type of intervention is this where everybody ends up losing?

I am just very much concerned that we have to find a balance here somewhere and the peas have to be on the knives of the steel producers that charge these outrageous increases.

The steel producers themselves are breaking written contracts with the steel users, and saying if you do not like our increase in the price of steel, then go somewhere else, holding the little guys hostage. This has to come to an end.

That is why I support Mr. Knollenberg's legislation, because it goes right down the middle and it tries to help out the steel producers while at the same time maintaining a reasonable price of steel for our users. I thank you for the opportunity to testify.

[The prepared statement of Mr. Manzullo follows:]

Statement of The Honorable Donald A. Manzullo, a Representative in Congress from the State of Illinois

Mr. Chairman, Mr. Ranking Minority Member, Members of the Subcommittee, the area of the Nation that I am privileged to represent is in dire distress. This past January, the unemployment rate in the three counties forming the center of the 16th District of Illinois reached 8.7 percent, the highest level in 11 years. This is one-third above the Nation's unemployment rate of 5.8 percent. Only 25 cities out of 331 metropolitan areas in the entire Nation have a higher unemployment rate than Rockford, Illinois. In the past four years, 8,000 factory jobs have been eliminated in Boone, Ogle, and Winnebago Counties—the heart of the Rock River Valley.

How did this happen? Rockford, unlike most other cities, is disproportionately dependent upon the manufacturing sector for its economic livelihood. Twenty-five percent of Rockford's economy—double the average for most American cities—relies upon a healthy manufacturing base. The vast majority of these manufacturing jobs are located in small firms of 30 to 50 person tool and die shops or machining facilities.

These small manufacturing facilities were already struggling against a high regulatory and tax burden. They were fighting against an overvalued U.S. dollar. They were fighting a serious credit crunch as banks would not extend credit to them—in some cases, banks were recalling loans demanding immediate repayment. They were fighting double-digit health care premium increases, making it extremely difficult to continue extending coverage to themselves and their workers. They were fighting to save their businesses as their larger customers were moving production overseas, mostly to China, taking their supply chain foreign shores. Then, to top it all, their steel supplier informs them of record increases on the price of their raw material, blaming it on Washington, and their customer refuses to accept any price increase or else they'll go offshore to purchase their product.

Last year, as Chairman of the Small Business Committee, I held two hearings documenting the devastating impact these higher steel tariffs were having on an overwhelming number of small manufacturers. I concede that the steel industry and their suppliers have been temporarily helped in the past year by these tariffs. The section 201 safeguard protection has granted short-term stability to these manufacturers but at an enormous cost. The decision has created extreme ***instability*** for the vast majority of small manufacturers, particularly upon those rely on a steady supply of steel. These manufacturers dominate the 16th District of Illinois and many other Congressional districts across the Nation.

This is not a problem just facing Rockford-based manufacturers. The problems of Rockford are representative of the crisis in manufacturing across this Nation. As a follow-up to the hearings the Small Business Committee held last year, I sent a questionnaire last January to all those who contacted the Committee on this issue to get an update. I received a 17 percent response rate. These companies experienced an average 25 percent increase in the price of their steel, one going as high as 71 percent. Sixty-two percent of the respondent companies experienced broken contracts from their steel supplier. Over half of the respondents can demonstrate that their company lost business to foreign competitors because of the higher price of steel in the United States. Finally, a third of the companies that responded experienced job layoffs or reduced work hours, some as high as 50 percent of their entire workforce.

Mr. Chairman, we all want a strong and vibrant steel industry. But when we've already lost 200,000 manufacturing jobs—more than are employed in the entire steel industry—due primarily to higher steel prices in 2002, I cannot help but conclude that the Section 201 Safeguard Action is an overwhelming failure. Illinois was the fifth largest State in terms of job loss because of this decision. Nearly 10,000 Illinois workers at facilities like A–American Machine in Rockford, which laid off 15 workers over the past year, lost their jobs last year due to higher steel prices. Small manufacturers and their workers are hurting from arbitrary price hikes and supply shortages. They are also losing their global competitiveness, as foreign companies are able to import finished goods made with steel bought at world market prices, undercutting American small manufacturers. There's got to be a better way to solve the problems facing the steel industry.

I commend this Committee for requesting the International Trade Commission to examine the steel safeguard's effects on steel-using manufacturers in time for the mid-point review next September. This information is critical to developing a complete picture of the steel tariff decision, which should provide sufficient rationale for the President to rescind these tariffs as soon as possible.

We all need to step back and take a deep breath in order to reexamine fundamental assumptions. We cannot have the problems of one sector pushed onto other key sectors of our economy, many of which are vital to our defense industrial base. This is also ***not*** a union/non-union issue. Last year, the Small Business Committee heard from many local labor union officials—including representatives from the United Steel Workers of America—who argued against the higher steel tariffs. We need a comprehensive manufacturing revitalization agenda to help all industrial sectors, not pit part of our industrial base against another. Much of my energy for the rest of this Congress will be dedicated to this initiative. I ask you to join me in this effort. Thank you very much, Mr. Chairman.

Chairman CRANE. I thank the gentleman for his testimony. Now the Honorable Bart Stupak.

STATEMENT OF THE HONORABLE BART STUPAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. STUPAK. Thank you, Mr. Chairman, Ranking Member Levin, and the rest of the Committee Members. Thank you for the opportunity to be here.

I will disagree with my last colleagues who spoke in favor of reviewing the section 201 action, because I believe the Administration's section 201 action 18 months ago was absolutely critical and came not a moment too soon. The future of our domestic U.S. steel industry was being jeopardized as steel companies were going into bankruptcy by the droves due to the flood of the under-priced foreign imports.

In fact, Mr. Chairman, just looking at my blackberry here, yesterday Bethlehem Steel, which has agreed to be bought by International Steel Group (ISG) for $1.5 billion, won a U.S. Bankruptcy Court permission to eliminate health care and life insurance benefits for its retirees. About 90,000 retirees and their spouses will be affected by the March 31, 2003 cutoff of the benefits.

The point I am making with this news story that just came out yesterday is the effect of the flood of under-priced foreign steel in this country continues to hurt us today. As we see here, 90,000 Americans losing their benefits, health and life insurance benefits.

So, while some people complain about the tariffs and the quotas that was put forth, I did not think they went far enough. The tariffs on slab steel, which I am particularly concerned about, as well as those other areas in this industry, have allowed the U.S. industry to stabilize its downward spiral. Companies have been able to charge market price. We still do not produce enough to meet our own needs here in the country. There have been many consolidation efforts, and some of the companies are starting to plan for the future.

In my northern Michigan district, which is home to two of the last few iron ore mines in this Nation that supply iron ore to our steel companies, our mines experienced shutdowns as a result of the depressed demand and industry bankruptcies, and hundreds of our workers were forced out of work.

The section 201 remedy gave renewed hope to our troubled mines. As a result of the section 201, Cleveland Cliffs, the majority owner and operator of the Empire and Tilden Mines in my district, have been able to re-open the mines and resume partial production. Cleveland Cliffs has been making efforts to consolidate the ownership of the mines, as other traditional steel company owners sell their interest and concentrate on making steel.

Some of my colleagues and industry groups have recently suggested the section 201 remedies should be terminated at midterm. I could not disagree more. To do so would wholly obviate any progress that the industry has achieved.

The ITC set forth a 3-year remedy for a reason. In its judgment, following a thorough investigation that considered comments from every angle, including consumer groups, and it decided upon a 3-year remedy in order to preserve the domestic steel industry. The President reviewed this decision and agreed with the need for relief to the steel industry. That decision was correct, and nothing has changed to justify a departure from that plan.

In addition, both last year and as recently as last week, the Administration has granted numerous exclusions to steel products from the steel safeguard remedy. In 2002, 727 products were excluded from the tariffs. Last week another 295 products were excluded. Clearly abundant consideration has been given to the concerns of the steel consumers and these exclusions have been given to accommodate their needs.

In fact, 79 percent of imported steel products are not covered by the section 201 tariffs. These facts clearly contradict those who argue that the voice of the consumer is not being heard.

Mr. Chairman, I am further concerned about those who call for terminating section 201 remedies would once again allow the unchecked flow of foreign below market priced steel imports at a time when our Nation's security is ever more important. The prices at the gas pump around the country, as we have seen them fluctuate in the last 2 weeks, should be a clear signal that we should not rely on other countries for our vital products. To put this country in a position where the domestic steel industry may not survive, so that we would need to rely on foreign steel, is totally unthinkable. Our national defense and our Nation's infrastructure cannot be made dependent on foreign steel providers.

I thank the Subcommittee for the time to allow me to testify and hope you will give strong consideration to the testimony. We must allow the tariffs to continue to work so we can preserve and protect the U.S. steel industry.

With that, Mr. Chairman, I would yield back the balance of my time.

[The prepared statement of Mr. Stupak follows:]

Statement of The Honorable Bart Stupak, a Representative in Congress from the State of Michigan

Mr. Chairman, and Ranking Member Levin from my home State of Michigan, I appreciate the opportunity to come before you and testify about the important subject of the 201 Safeguard Action. I would also like to acknowledge the Members of the Subcommittee who have been supporters of the steel industry through their work on the Steel Caucus.

The Administration's action in instituting the section 201 tariffs was absolutely critical and came not a moment too soon. The future of our domestic U.S. steel industry was being jeopardized as steel companies were going into bankruptcy by the droves due to floods of under-priced foreign imports.

While the tariffs were not quite at the level I would have hoped for in the case of steel slabs, and were not straight tariffs but rather tariff rate quotas, nevertheless, the tariffs on slabs as well as other areas of the industry have allowed the U.S. industry to stabilize its downward spiral.

Companies have been able to charge market prices, to start consolidation efforts, and to plan for the future. My district in northern Michigan is home to 2 of the last few iron ore mines in this Nation that supply our steel companies.

Our mines experienced shut-downs as a result of depressed demand and industry bankruptcies, and hundreds of workers were forced out of work while the mines were idled. The 201 remedy, however, gave renewed hope to our troubled mines. As a result of the 201, Cleveland Cliffs, the majority owner and operator of the Empire and the Tilden mines in my district, has been able to reopen the mines and resume partial production.

Cleveland Cliffs has been making efforts to consolidate the ownership of the mines as the other traditional steel company owners sell their interest and concentrate on making steel.

Cleveland Cliffs has been focusing its own efforts on restoring capacity production to the mines, and improving efficiency. While one unfortunate result has been a downsizing of the workforce, I am hopeful that Cleveland Cliffs efforts will benefit the long term survival of the mines, and the surrounding industries and communities that depend on these iron ore mines for their own survival.

Some industry groups have recently suggested that the section 201 remedies should be terminated at the mid-term review. I could not disagree more. To do so would wholly obviate any progress that the industry has achieved.

The International Trade Commission set forth a 3 year remedy for a reason: in its judgment, following a thorough investigation that considered comments from every angle, including consumer groups, and it decided upon a 3 year remedy in order to preserve the domestic steel industry. The President reviewed this decision and agreed with the need for relief to the steel industry. That decision was correct, and nothing has changed to justify a departure from that plan.

If anything, I am concerned regarding the scheduled phase-in of reductions of the tariff rate quotas during this second year of the remedy from a 30% tariff on slab imports above 5.4 million tons, to a 24% tariff on imports above 5.9 million tons. More foreign slab steel will be allowed to flow into the United States under the second year quota, and foreign slab steel that comes in above the quota will be subject to a lesser tariff in this second year. Any critics of the remedies should be satisfied with these phase-ins, rather than seeking to deal the steel industry a mortal blow by terminating the section 201 remedies.

In addition, both last year and as recently as last week the Administration has granted numerous exclusions to steel products from the steel safeguard remedy. In 2002, 727 products were excluded, and last week, another 295 products were excluded. Clearly, abundant consideration has been given to the concerns of steel consumers, and these exclusions have been given to accommodate their needs. In fact, 79% of imported steel products are not covered by the section 201 tariffs. These facts clearly contradict those who argue that the voice of consumers is not being heard.

I am further disturbed that those who call for terminating the section 201 remedies would allow once again the unchecked flow of foreign, below-market priced steel imports, at a time when our national security is ever more important.

The prices at the gas tanks around the country should be a clear signal that we should not rely on other countries for vital products. To put this country in a position where the domestic steel industry may not survive, so that we would need to rely on foreign steel, is totally unthinkable. Our national defense and our Nation's infrastructure cannot be made dependent on foreign steel providers.

I thank the Subcommittee for allowing me to testify, and I hope that you will give strong consideration to my testimony—we must allow these tariffs to continue to work, so that we can preserve and protect our U.S. steel industry.

Chairman CRANE. I thank you for your participation. Now the Honorable Ted Strickland.

STATEMENT OF THE HONORABLE TED STRICKLAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. STRICKLAND. Mr. Chairman and Ranking Member Levin, thank you for the opportunity to be here today to express my strong support for the President's decision last year to impose temporary safeguards to help the steel industry adjust to imports surges that began in 1998.

The section 201 relief is working. I think the President's steel tariff remedy, without a doubt, should stay in place for its full 3-year term or we risk dependency on foreign steel sources.

Over the past 20 years, the U.S. steel industry has invested tens of billions of dollars to modernize facilities and eliminate inefficient capacity, but these changes have not been pain-free. The U.S. Department of Labor, Bureau of Labor Statistics indicates that steel jobs have declined by more than 50,000 since 1998. The State of Ohio has felt that pain, losing over one-third of its steel jobs since 1998.

These numbers underscore the human element in this debate about tariffs and it is important because we cannot afford to lose this skilled work force. The steel industry serves as the cornerstone for our national defense and a shift away from the President's steel program could do irreparable damage to this industry and its work force.

Now some opponents of the steel program might claim that the domestic steel industry is largely responsible for its own problems and that relief is futile. I would like to remind these critics that a vast majority of steel production outside the United States is governed by cartels or funded by subsidies. These practices by foreign competitors result in enormous levels of excess capacity which lower domestic prices and, in fact, lead to historically low prices at home in the late nineties. These low prices, in turn, denied the domestic industry the means to make critical investments in technology, equipment, and training needed to ensure that the U.S. industry can compete in the global market.

Today, over 30 American steel companies have gone into bankruptcy. Relief is not futile. It is not a leap to assume that weakening or revoking the section 201 relief before the end of the full 3-year period could lead to a new surge of imports causing another drop in prices and another decline in industry profitability. This makes no sense at a time when the industry is on the road to recovery.

I would like to take this opportunity to share with you information about a specific steel company in my Ohio district. Wheeling-Pittsburgh Steel Corporation operates steel mills in the upper Ohio valley, employing approximately 3,800 workers in Ohio, West Virginia, and Pennsylvania. About 20,000 retiree families depend on the company for health care. The company is one of the 30-plus steel companies that declared bankruptcy in the last 5 years.

It has benefited from the President's steel program. Wheeling-Pittsburgh has restructured in order to be more competitive. Hourly workers have taken voluntary wage concessions and the company recently laid off over 100 managers. Presently, the company is relying on the approval of a $250 million loan guaranty from the Emergency Steel Loan Guarantee Board so that it can modernize its operations and emerge from bankruptcy.

Wheeling-Pittsburgh also happens to be an important source of materials that are currently being used in the war zone. It is companies like Wheeling-Pittsburgh that enable defense and construction work to be completed around the United States in emergency and compressed timetables that allow just-in-time deliveries.

If the Emergency Steel Loan Guarantee Board makes a favorable decision, and I pray to God that they do, I am confident that Wheeling-Pittsburgh could continue to play a significant role in this Nation's steel production and our national defense. It is just the kind of company we need as a part of our Nation's industrial base.

However, if we discontinue section 201 remedy before the 3-year term is up, I fear we cut short this and other companies efforts to be viable. Now is simply not the time to abandon programs critical to the continued revitalization of this Nation's steel industry.

Since the section 201 relief was implemented, a number of companies have returned to profitability and other companies have shown significant improvements. Recovery will take time. The President's program should stay in place for the full 3-year term or, in the long run, I think we will regret decisions that send our steel workers home and our steel industry overseas.

I thank you for the opportunity to speak before you this morning.

[The prepared statement of Mr. Strickland follows:]

Statement of The Honorable Ted Strickland, a Representative in Congress from the State of Ohio

Mr. Chairman, thank you for the opportunity to be here today and to express my strong support for the President's decision last year to impose temporary safeguards to help the steel industry adjust to import surges that began in 1998. I think the section 201 relief ***is*** working. And, I think the President's steel tariff remedy, without a doubt, should stay in place for its full three-year term or we risk dependency on foreign steel sources.

Over the past 20 years, the U.S. steel industry has invested tens of billions of dollars to modernize facilities and eliminate inefficient capacity. But these changes have not been pain free. Bureau of Labor Statistics indicate that steel jobs have declined by more than 50,000 since 1998. The state of Ohio has felt that pain, losing over one-third of its steel jobs since 1998. These statistics underscore the human element in this debate about tariffs, and this is important because we cannot afford to lose this skilled workforce. The steel industry serves as the cornerstone for our national defense, and a shift away from the President's steel program could do irreparable damage to this industry and its workforce.

Some opponents of the steel program might claim that the domestic steel industry is largely responsible for its own problems and relief is futile. I would like to remind those critics that a vast majority of steel production outside the United States is governed by cartels or funded by subsidies. These practices by foreign competitors result in enormous levels of excess capacity which lower domestic prices and, in fact, led to historically low prices at home in the late 90's. These low prices in turn deny the domestic steel industry the means to make critical investments in technology, equipment and training needed to ensure that the U.S. steel industry can compete in the global market. Today, over 30 American steel companies have gone into bankruptcy.

Relief is not futile. It is not a leap to assume that weakening or revoking the 201 relief before the end of the full three-year period could lead to a new surge of imports causing another drop in prices and another decline in industry profitability. This makes no sense at a time when the industry is on the road to recovery.

I would like to take this opportunity to share with you information about a specific steel company in my Ohio district. Wheeling-Pittsburgh Steel Corporation operates steel mills in the upper Ohio Valley employing approximately 3,800 workers in Ohio, West Virginia and Pennsylvania. About 20,000 retiree families depend on the company for health care. The company is one of the 30-plus steel companies that declared bankruptcy in the last five years, but it has benefitted from the President's steel program. Wheeling-Pitt has restructured in order to be more competitive. Hourly workers have taken voluntary wage concessions, and the company recently laid off 100 managers. Presently, the company is relying on the approval of a $250 million loan guarantee from the Emergency Steel Loan Guarantee Board so that it can modernize its operations and emerge from bankruptcy successfully. Wheeling Pitt also happens to be an important source of materials that are currently in use in the war zone. It is companies like Wheeling-Pitt that enable defense and construction work to be completed around the United States in emergency and compressed time tables that allow just in time deliveries.

If the Emergency Steel Loan Board makes a favorable decision, I am confident Wheeling-Pitt could continue to play a significant role in this Nation's steel production and our national defense. It is just the kind of company we need as a part of our Nation's industrial base. However, if we discontinue the section 201 remedy before the 3-year term is up, I fear we cut short this, and other companies' efforts to be viable international competitors into the future.

Now is simply not the time to abandon programs critical to the continued revitalization of this Nation's steel industry. Since the section 201 relief was implemented, a number of companies have returned to profitability and other companies have shown significant improvements. Recovery will take time and the President's program should stay in place for the full three-year term or in the long-run, I think we will regret decisions that send our steelworkers home and our steel industry overseas.

Chairman CRANE. I thank the gentleman for his participation. Now, the Honorable Thaddeus McCotter.

STATEMENT OF THE HONORABLE THADDEUS G. MCCOTTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. MCCOTTER. Mr. Chairman and Members of the Committee, thank you for the chance to share with you one of the challenges facing many of the families and employers at my Eleventh District home in the Western Wayne and Oakland County suburbs of Detroit.

Mr. Chairman, manufacturing moves Michigan. The auto industry makes the world's finest cars. Primary, secondary, and tertiary suppliers provide quality parts. Tool and die shops provide the equipment to make it all possible. Defense manufacturers provide vital parts for the fighters, airlift and tanker aircraft liberating Iraq.

Yet in these uncertain economic times of falling demand and rising prices, the manufacturing sector has seen the layoff of thousands of employees and the loss of too jobs overseas. These companies, both large and small, count on other suppliers to provide the raw materials to make their ventures run. Often, this material is steel, and now steel itself poses a real problem.

True, our Nation's steel industry is also suffering tremendous economic hardship. Consequently, the steel tariff of 2000 was implemented to bolster the U.S. steel industry and protect American jobs. Only now, however, are we just beginning to recognize the impact of these actions. Clearly, as is often the case when government presents a solution, we now face a well-intentioned policy's unintended consequences.

Tim Tindall, owner of Spring Engineering, a steel consumer in Canton, Michigan and in my district, said it sadly and succinctly. The tariffs made us uncompetitive overnight. I have had an opportunity to visit Tim and meet with his workers. He has many bright, highly skilled employees producing quality parts and adding to our economy, as do other steel consumers such as Wes Smith and Jim Heller, whose family founded employers employ so many family breadwinners in my district.

These people are resourceful and they can weather whatever the natural forces of our economy sends their way. In this instance one of their problems is not caused by an economic swing, but instead by a policy imposed upon them. Due in large part of the steel tariff, in some instances, small manufacturers have seen steel prices rise more than 70 percent.

Thus, steel users face arbitrary allocations and shortages of product. Steel producers are breaking existing contracts and forcing customers to renegotiate at higher rates. Small manufacturers throughout southeast Michigan have been forced to cope with these issues while trying to stay afloat amid an economic down turn. From their perspective, some larger businesses have the flexibility of simply expanding operations overseas, where they can escape the tariffs. When those jobs leave our shores, they are gone for good.

Mr. Chairman, we must take into account the real world impact the tariff is having on workers who depend on steel. We simply cannot afford to lose these jobs.

Ninety-five percent of all manufacturers are considered small or medium-sized businesses. They account for more than $1 trillion in receipts. Even a conservative multiplier effect shows a significant impact manufacturing has across our country. One million dollars in manufacturing sales equates to eight manufacturing jobs and six service jobs. The same $1 million in service sector orders only creates 3.5 service sector jobs.

The ITC must complete a mid-term review of the steel tariff by September 2003. The voices of Michigan workers worried about their future and worried about their sector must be heard in the review, which is why I am supporting legislation offered by my colleague, Joe Knollenberg, calling for just such consideration.

Mr. Chairman, I appreciate the opportunity to share with you my concerns, for they are the concerns of the men and women who every day must contend with the steel tariff as a direct threat to their economic security and ultimate survival. These stories are too common in my district and in our country. We cannot afford to let these stories be the last chapter and the storied history of American manufacturing.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McCotter follows:]

Statement of The Honorable Thaddeus G. McCotter, a Representative in Congress from the State of Michigan

Mr. Chairman and Members of the Committee, I appreciate the opportunity to join you today to share with you the challenges facing many of the families and employers in my home district in the western suburbs of Detroit. If you were to visit my district and meet with some of families who work there, you would find one simple, common thread running throughout the region.

Manufacturing moves Michigan. Final assembly of some of the world's finest cars. Primary, secondary, and tertiary suppliers providing quality parts. Tool and die shops to provide the equipment to make it all possible. And even defense manufacturers providing vital parts for the fighters, airlift, and tanker aircraft liberating Iraq as we speak.

With the downturn and uncertainty facing our economy, the manufacturing sector has been especially hard hit, laying off thousands and sending many jobs overseas. Falling demand and rising prices are taking a toll.

These companies—both large and small—count on other suppliers to provide the raw materials to make their ventures run. Often, this material is steel. And too often, steel is causing some real problems for families across Michigan.

I recognize our Nation's steel industry is suffering under a great period of economic hardship.

Though the steel tariff of 2002 was designed to bolster the U.S. steel industry and protect American jobs, we are now just beginning to recognize the impact of these actions. As is often the case when government presents a solution, we are now facing unintended consequences.

Tim Tindall, owner of Spring Engineering, a steel consumer in Canton, Michigan said it best recently when he said "The tariffs made us uncompetitive overnight." I have had an opportunity to visit Tim and meet with his workers. He has many bright, highly skilled employees producing quality parts and adding to our economy.

They are resourceful and they can weather whatever the natural forces of our economy sends their way. But I am growing frustrated when I realize more and more of their problems are not caused by the economic swings but instead by policies we have brought upon ourselves.

Thanks, in large part, to the steel tariff, small manufacturers have seen steel prices rise more than 70% in certain instances. Steel users face arbitrary allocations and shortages of product. Steel producers are breaking existing contracts and forcing customers to renegotiate at higher rates.

Small manufacturers throughout Southeast Michigan have been forced to deal with these issues while trying stay afloat amid an economic downturn.

From their perspective, some larger businesses have the flexibility of simply expanding operations overseas where they can escape the tariffs—when those jobs leave our shores, they are gone for good.

Mr. Chairman, we must take into account the real-world impact the tariff is having on workers who depend on steel. We simply cannot afford to lose these jobs:

95% of all manufacturers are considered small or medium sized businesses. They account for more than $1 trillion in receipts—even a conservative multiplier effect shows us the significant impact manufacturing has across our economy. $1 million in manufacturing sales equates to 8 manufacturing jobs and 6 service jobs—the same $1 million in service sector orders only creates 3.5 service jobs.

The International Trade Commission must complete a mid-term review of the steel tariff by September 2003. The voices of Michigan workers worried about their future and worried about their sector must be heard in the review. Which is why I am supporting legislation offered by my colleague, Joe Knollenberg, calling for just such consideration.

Mr. Chairman, I appreciate the opportunity to share with you my concerns. But listen not to me or my colleagues here on this panel, listen to the men and women who fight these battles everyday, who must contend with the steel tariff as a direct threat their to the employees they lead.

Their stories are far too common in my district and in America today. We cannot afford to let them continue.

Thank you very much.

Chairman CRANE. Thank you, Mr. McCotter. Now the Honorable Dennis Kucinich.

STATEMENT OF THE HONORABLE DENNIS J. KUCINICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. KUCINICH. Thank you very much, Mr. Chairman.

America needs a healthy domestic steel industry and we must protect the steel workers who built up this great Nation. Between 1997 and 2002, America's steel industry and its workers were under attack by foreign companies illegally dumping steel into the American economy, sending 35 steel companies into bankruptcy and costing 54,000 industry employees their jobs.

As a result, I am proud of the efforts of the Steel Caucus, which continually advocated for the Administration to initiate a section 201 steel investigation into these imports. We also succeeded in pushing the ITC to recognize the devastating effect of steel imports through a finding of injury. We even gathered with 25,000 steel workers on the ellipse to make sure the President imposed an effective tariff to help stem the tide of imports.

One year later this remedy is working, and it must be continued. In my hometown of Cleveland it has helped us find a new owner to keep our steel mills running. Industrywide, since the section 201 relief was implemented, domestic steel is beginning to see signs of a recovery. Domestic producers have experienced incremental improvements in revenues, operating income, and capacity utilization.

Additionally, the industry has made significant progress toward restructuring and consolidation. The ISG, which came into existence following its purchase of LTV Steel, has agreed to acquire the assets of Bethlehem Steel. U.S. Steel announced plans to purchase National Steel. Section 201 relief, if allowed to run its course, will result in a more competitive domestic industry.

The tariffs have also caused a modest price recovery in the industry. Prices for hot-rolled steel rose from historic lows of only $210 per ton in December 2001 to around $300 per ton today. Even so, prices for all major flat-rolled products are still below 20-year historical averages and steel imports will remain approximately 25 percent of the market.

The tariffs are a good start and they must be allowed to continue. The United States has finally made clear that is no longer willing to serve as the world's steel dumping ground. The United States also made clear that the domestic security of our country requires a strong and viable domestic steel supplier base. Only the continuation of the section 201 tariffs will mitigate the harm of unfairly traded imports and assist the industry in a critical recovery. Keep the steel tariffs working.

Thank you, Mr. Chairman. I yield back.

[The prepared statement of Mr. Kucinich follows:]

Statement of The Honorable Dennis J. Kucinich, a Representative in Congress from the State of Ohio

America needs a healthy domestic steel industry and we must protect the steelworkers who built up this great Nation.

But between 1997 and 2002, America's steel industry and its workers were under attack by foreign companies illegally dumping steel into the American economy, sending 35 steel companies into bankruptcy and costing 54,000 industry employees their jobs.

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We also succeeded in pushing the International Trade Commission to recognize the devastating effect of steel imports through a finding of injury. We even gathered with 25,000 steelworkers on the ellipse to make sure the President imposed an effective tariff to help stem the tide of imports.

One year later, this remedy is working and it must be continued. In my hometown of Cleveland, it helped us find a new owner to keep our steel mills running. Industrywide, since the section 201 relief was implemented, domestic steel is beginning to see signs of a recovery: domestic producers have experienced incremental improvements in revenues, operating income, and capacity utilization.

Additionally, the industry has made significant progress toward restructuring and consolidation. The International Steel Group (ISG), which came into existence following its purchase of LTV, has agreed to acquire the assets of Bethlehem Steel. U.S. Steel announced plans to purchase National Steel. Section 201 relief, if allowed to run its course, will result in a more competitive domestic industry.

The tariffs have also caused a modest price recovery in the industry. Prices for hot rolled steel rose from historic lows of only $210 per ton in December 2001 to around $300 per ton today. But even so, prices for all major flat rolled products are still below 20-year historical averages, and steel imports still remain approximately 25 percent of the market.

The tariffs were a good start, and they must be allowed to continue. The United States has finally made clear that it is no longer willing to serve as the World's Steel Dumping Ground. The United States has also made clear that the national security of our country requires a strong and viable domestic steel supplier base. Only the continuation of the 201 tariffs will mitigate the harm of unfairly traded imports and assist the industry in a critical recovery. Keep the steel tariffs working!

Chairman CRANE. Thank you. Now the Honorable Bob Ney.

STATEMENT OF THE HONORABLE ROBERT W. NEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. NEY. Thank you, Chairman Crane and other colleagues. Thank you for calling this hearing this morning. On behalf of my constituents, I want to thank the Chairman for providing me the opportunity to submit testimony regarding steel imports.

For years, our jobs have been washing away in a flood of cheap dumped foreign steel. Until the Bush Administration, these calls for help fell on deaf ears. Thankfully, President Bush took a good look and formally recognized the damage being done to our domestic steel industry. On March 5, 2002, the President imposed tariff relief for a period of 3 years. One year later, the President's steel program is working. It is critical to the continued success of the President's plan that tariff relief remain in effect for its full term.

I have been engaged in this important issue for a number of years. U.S. steel companies such as Wheeling-Pittsburgh Steel Corporation and Weirton Steel Corporation in Weirton, West Virginia, have made tremendous efforts to remain competitive in the world market. That includes labor and management. They have worked together to make some very difficult and tough decisions. Wages have been cut. The number of workers and managers have been reduced. New efficiencies and technologies have been pursued. Bonds have been restructured to reduce interest expense and avoid bankruptcy.

Despite these sacrifices and improvements, these steel companies were still suffering from illegally dumped foreign steel prior to the intervention of President Bush. Since implementation of the section 201 tariff relief, several positive trends have occurred. The industry has made significant progress toward consolidation and these efforts will continue. The international talks on overcapacity and subsidies are making real progress.

In addition, domestic producers have enjoyed improvements in revenues, operating income, and capacity utilization. A number of companies have returned to profitability, while others have showed significant improvement even though they have not yet become profitable, but we trust that they will.

There have, however, been significant surges of imports from certain excluded countries, and to the extent there is any concern about the program, it is that too many imports could be undermining relief. In fact, imports of flat-rolled steel increased substantially after imposition of section 201 measures in 2002, as compared to the same period in 2001.

Therefore, the section 201 tariff measures must be fully enforced if our industry is to arrive at a successful conclusion. While recovery will take time, the President's plan has allowed the industry to make a real start.

I would note, in the overall picture, it is very own difficult to say that we should be competitive when we are dealing with countries that used maybe World Bank money or used government subsidies to produce steel at $400 a ton, but yet sell it on our market at $100 a ton. We still have made the industry, with the management and laborers working together, have still fought the good fight to keep themselves alive.

I have no doubt in my mind that, had the President not done the section 201, and had the President, in fact, not done the 30 percent tariff, at least one of our corporations would have lost probably 3,000-some jobs, and the workers would have been out on the street well over a year ago.

So, we are trying to keep our head above water with some real unfair competition. It is hard to compete against countries that work their people and give them 1 day off and 10 cents an hour, but we have managed to try to do that. So, we need the support. Thank you.

[The prepared statement of Mr. Ney follows:]

Statement of The Honorable Robert W. Ney, a Representative in Congress from the State of Ohio

Chairman Crane and other colleagues, thank you for calling this hearing this morning.

On behalf of my constituents, I want to thank the Chairman for providing me the opportunity to submit testimony regarding steel imports. For years our jobs have been washing away in a flood of cheap, dumped foreign steel. Until the Bush Administration, these calls for help fell on deaf ears. Thankfully, President Bush took a good long look and formally recognized the damage being done to our domestic steel industry. On March 5, 2002, the President imposed tariff relief for a period of three years. One year later, the President's steel program is working. It is critical to the continued success of the President's plan that tariff relief remain in effect for its full term.

Unlike some others, I have been engaged in this important issue for a number of years. U.S. steel companies, such as Wheeling-Pittsburgh Steel Corporation and Weirton Steel Corporation, have made tremendous efforts to remain competitive in the world market. Labor and management have worked together to make tough decisions. Wages have been cut; the number of workers and mangers has been reduced; new efficiencies and technologies have been pursued; bonds have been restructured to reduce interest expense and avoid bankruptcy. Despite these sacrifices and improvements, these steel companies were still suffering from illegally dumped foreign steel.

Since implementation of section 201 tariff relief, several positive trends have occurred. The industry has made significant progress toward consolidation, and these efforts will continue. The international talks on overcapacity and subsidies are making real progress. In addition, domestic producers have enjoyed improvements in revenues, operating income, and capacity utilization. A number of companies have returned to profitability, while others have shown significant improvement even though they have not yet become profitable.

There have however been significant surges of imports from certain excluded countries, and, to the extent there is any concern about the program, it is that too many imports could be undermining relief. In fact, imports of flat-rolled steel increased substantially after imposition of section 201 measures in 2002, as compared to the same period in 2001. Therefore, the section 201 tariff measures must be fully enforced if our industry is to arrive at a successful conclusion. While recovery will take time, the President's plan has allowed the industry to make a real start.

Chairman CRANE. Thank you, Mr. Ney. Now our final witness, the Honorable Aníbal Acevedo-Vilá.

STATEMENT OF THE HONORABLE ANÍBAL ACEVEDO–VILÁ, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PUERTO RICO

Mr. ACEVEDO–VILÁ. Good morning, Mr. Chairman, Ranking Member Levin, and Members of the Committee.

I am pleased to have this opportunity to testify in support of import relief for Puerto Rican manufacturers who are unfairly burdened by trade remedies designed for mainland markets but which, in certain circumstances, have unintended consequences for our island economy.

I want to recognize the presence here of Mr. Victor Gonzales, President of Mateco and Vice President of Celta Agencies, Inc., two Puerto Rican corporations involved in the importation, finishing and sale of steel rebar in Puerto Rico.

As a matter of principal, I believe in free but fair trade with all of our trading partners. Puerto Rico's largest market is the mainland United States, with whom we are the eighth largest trading partner, generating over 270,000 jobs in the U.S. mainland.

However, in certain cases, for reasons of geography and cost, we must rely on imports from our neighbors in the Caribbean and the other regions. One important example is in small-sized steel rebar used in the housing construction industry in Puerto Rico. Mills on the United States mainland historically have supplied less than 3 percent of Puerto Rico's requirements. Even after the imposition of section 201 remedies, domestic mills are still supplying less than 4 percent of Puerto Rico's requirements.

The 12 percent additional duty mandated by these sanctions significantly increases the cost of building needed housing in Puerto Rico while providing marginal, if any, benefit to domestic steel producers.

The majority of imported rebar to Puerto Rico is in smaller sizes, principally for the use in the construction of low income residential housing in Puerto Rico. Housing in tropical climates such as Puerto Rico must be built of concrete to withstand hurricanes, earthquakes and pests. These cast concrete structures employ smaller rebar size. Therefore, low income residential construction in Puerto

Rico depends on an adequate supply of this smaller sized rebar and there is not rebar production on the island.

The steel section 201 measures implemented last year have had a very negative effect on Puerto Rico's ability to source rebar from traditional and highly efficient foreign suppliers. The impact is having a very tangible effect on low income housing in Puerto Rico. They are adding between $2,000 to $3,000 to the cost of a low income home.

U.S. rebar producers were never significant suppliers of rebar to Puerto Rico, before or after the steel section 201 measures. This is because U.S. mills are not an option for rebar supply. The United States does not and cannot meet the demand for smaller sized rebar in Puerto Rico. U.S. mills concentrate on producing larger sized rebar for use in the commercial construction projects including highways, office buildings, bridges or nuclear reactors.

U.S. Customs statistics confirmed that U.S. mainland shipments to Puerto Rico are insignificant and unable to meet the demand. Before the steel section 201 measures in 2001, U.S. shipments represented only 2.8 percent of all rebar shipments into Puerto Rico in 2001. After section 201, measures represent only 3.7 percent of all rebar shipments into Puerto Rico.

Only three U.S. mills can supply rebar in smaller sizes to Puerto Rico, SMI Steel Products, Nucor and Gerdau, but their capacity to do so is very limited. Despite efforts to find suppliers of rebar for the Puerto Rico housing market, there is insufficient amounts available domestically. U.S. mills do not have sufficient production to accommodate demand for larger diameter rebar, much less to satisfy the Puerto Rican low income market niche for smaller rebar.

Puerto Rico currently purchases its small-sized rebar from foreign suppliers, but like U.S. mills many foreign mills are not set up to efficiently produce smaller sized rebar and cannot provide adequate supply.

There are exceptions. Venezuelan rebar, for example, is efficient and is geared toward smaller sized rebar. Venezuelan used to be a primary supplier to Puerto Rico. Venezuela is now subject to section 201 tariffs and not excluded as a developing country. Venezuela's request for exclusion of some limited amounts of rebar from the section 201 measures in order to supply Puerto Rico's tropical housing market was rejected by the United States last week because U.S. producers insisted to the Federal Government that they can supply Puerto Rico's demand.

I am here to say that this has not been the case. As of last week, Puerto Rican importers have still been unable to obtain adequate supply from U.S. producers.

In 2003, it is estimated that Puerto Rico will require approximately 300,000 tons of rebar and the low income housing market is predicted to grow over the next year. Puerto Rico's low income housing market and construction industry should not be penalized for trade remedies designed to protect a U.S. industry that does not and will not supply our demand. Thank you.

[The prepared statement of Mr. Acevedo-Vilá follows:]

Statement of The Honorable Aníbal Acevedo-Vilá, a Representative in Congress from the Commonwealth of Puerto Rico

Good morning Mr. Chairman, Ranking Member Levin and Members of the Committee. I am Resident Commissioner Acevedo-Vilá, the Representative of Puerto Rico in Congress. On behalf of Governor Sila Calderón, her Secretary of Commerce and Economic Development, Milton Segarra, who is with me today, I am pleased to have this opportunity to testify in support of import relief for Puerto Rican manufacturers who are unfairly burdened by trade remedies designed for mainland markets but which, in certain circumstances, have unintended consequences for our island economy. In addition to the Calderón Administration, I want to recognize Victor L. Gonzalez, President of Mateco, and Vice President of Celta Agencies, Inc., two Puerto Rican corporations involved in the importation, finishing and sale of rebar in Puerto Rico.

As a matter of principle, I believe in free but fair trade with all of our trading partners. Puerto Rico's largest market is the United States, with whom we are the eighth largest trading partner, generating over 270,000 jobs on the U.S. mainland. However, in certain cases, for reasons of geography and cost, we must rely on imports from our neighbors in the region.

One important example is in small-sized steel rebar used in the housing construction industry in Puerto Rico. Mills on the United States mainland historically have supplied less than 3 percent of Puerto Rico's requirements. Even after the imposition of the section 201 remedies, domestic mills are still supplying less than 4 percent of Puerto Rico's requirements. The 12 percent additional duty mandated by these sanctions thus significantly increases the cost of building needed housing in Puerto Rico while providing marginal, if any, benefits to domestic steel producers.

The majority of imported rebar to Puerto Rico is in smaller sizes principally for use in the construction of low-income residential housing in Puerto Rico. Housing in tropical climates, such as Puerto Rico, must be built of concrete to withstand hurricanes, earthquakes and pests and these cast-concrete structures employ smaller rebar sizes. Therefore, low-income residential construction in Puerto Rico depends on an adequate supply of this smaller sized rebar and there is no rebar production on the island.

The Steel 201 measures implemented last year have had a very negative effect on Puerto Rico's ability to source rebar from traditional and highly efficient foreign suppliers. Their impact is having a very tangible effect on low-income housing in Puerto Rico: They are adding $2,000 to $3,000 to the cost of a low-income home.

U.S. rebar producers were never significant suppliers of rebar to Puerto Rico—before or after the Steel 201 measures. This is because U.S. mills are not an option for rebar supply. The U.S. does not and cannot meet the demand for smaller size rebar in Puerto Rico. U.S. mills concentrate on producing larger-sized rebar for use in commercial construction projects, including highways, office buildings, bridges or nuclear reactors. Moreover, shipments to Puerto Rico from the U.S. mainland must be made on Jones Act fleet, and this increases the price of U.S. rebar almost 20%, making the cost of U.S. rebar prohibitive. Thus, the U.S. mainland shipments to Puerto Rico generally are made to satisfy Buy America requirements.

U.S. Customs statistics confirm that U.S. mainland shipments to Puerto Rico are insignificant and unable to meet demand. Before the Steel 201 measures in 2001, U.S. shipments represented <u>only 2.8 percent</u> of all rebar shipments into Puerto Rico during 2001 and, after the Steel 201 measures represented <u>only 3.7 percent</u> of all rebar shipments into Puerto Rico.

Only 3 U.S. mills can supply rebar in smaller sizes to Puerto Rico: SMI, NUCOR and Gerdau (Ameristeel), but their capacity to do so is very limited.

I want the Subcommittee to understand that despite efforts to find suppliers of rebar for the Puerto Rican housing market, that there is insufficient amounts available domestically. U.S. mills do not have sufficient production to accommodate demand for large diameter rebar, and much less to satisfy the Puerto Rican low-income market niche for smaller rebar. U.S. mills have their hands full supplying added demand created by the reduction in steel imports in the continental USA. In sum, all mills have claimed that they are already at capacity in supplying existing customers and cannot provide any rebar beyond the very limited amounts they are already offering.

Puerto Rico currently purchases small size rebar from foreign suppliers. But, like U.S. mills, many foreign mills are not set up to efficiently produce smaller-sized rebar and cannot provide adequate supply. There are exceptions. Venezuelan rebar production, for example, is efficient and is geared towards smaller sized rebar. Venezuela used to be a primary supplier to Puerto Rico, and they shipped to meet demand when the Puerto Rican housing market was booming in 1996–1997. Because of these shipments, Venezuela is now subject to 201 tariffs and not excluded as a developing country. Venezuela's request for exclusion of some limited amounts of rebar from the 201 measures in order to supply Puerto Rico was rejected by the U.S. last week because U.S. producers insist to the U.S. Government that they can supply Puerto Rico's demands. I am here to say this has not been the case. As of last week, Puerto Rican importers have still been unable to obtain adequate supply from U.S. producers.

Let me give you a sense of the situation of the current market for rebar in Puerto Rico due to the 201 measures. Last week, an international trader brought into San Juan a ship with 5,000 tons of smaller rebar from Gerdau's Uruguayan mill. This is a small, inefficient mill set up to take care of the Uruguayan market, now capable of exporting because the section 201 measures exempted Uruguay. It is no wonder that Gerdau-Ameristeel is one of the strongest proponents of shutting an efficient producer like Venezuela out the Puerto Rican market.

The Subcommittee should be aware that since Mateco has price contracts for 75% of Puerto Rico's annual capacity and these prices are set for the duration of a project (usually one year), Mateco has to absorb the price increases of the section 201 safeguards. Mateco pays the section 201 additional 12% to U.S. Customs if they buy from a non-exempt country or a 12% higher price to the exempt country as they charge more for their rebar when it is to be shipped to the USA.

In closing, I ask you to consider what lies ahead. In 2003, it is estimated that Puerto Rico will require approximately 300,000 tons of rebar, and the low-income housing market is predicted to grow over the next few years.

Section 201 has limited foreign sources of smaller-sized rebar into Puerto Rico, creating unnecessary shortages and a windfall to the foreign mills lucky enough to win what can be described as the "201 lottery." Ultimately, it is the end-users and Puerto Rican consumers who are paying the price for the free trade distortions created by the 201 measures. Puerto Rico's low-income housing market and construction industry should not be penalized for trade remedies designed to protect a U.S. industry that does not and will not supply our demand.

Thank you.

Chairman CRANE. I thank you for your participation, Aníbal, and I thank all of our colleagues for their participation. Now I would like to invite our next panel: Timothy Taylor, President, MacLean Vehicle Systems, MacLean-Fogg Company, Mundelein, Illinois; Paul Nixon, President, Bakersfield Tank Company, Bakersfield, California; Timothy Leuliette, Chairman, President and Chief Executive Officer (CEO), Metaldyne Corporation, Plymouth, Michigan; Lester Trilla, President, Trilla Steel Drum Corporation, Chicago, Illinois; Robert Pritchard, President and Chief Executive Officer, A.J. Rose Manufacturing Company, Avon, Ohio, on behalf of the Consuming Industries Trade Action Coalition; and Wes Smith, President and Chief Executive Officer, E&E Manufacturing, Plymouth, Michigan.

Before we get started here, I am going to yield to my distinguished colleague, the Chairman of the Committee on Ways and Means, the Honorable Bill Thomas.

Chairman THOMAS. Thank you very much, Mr. Chairman.

While the panel members are finding their seats I want to compliment you and the Subcommittee. When you have the list of distinguished Members in terms of a good cross-section of those concerned with this issue, this panel of consumers to a certain extent, and then producers, followed by third parties, it is this kind of extensive hearing that lays the groundwork for us to monitor those decisions made in front of the WTO and, in fact, to it assist in making sure that this policy is concluded in the most successful way possible.

I am here for a brief introduction, and it may be out of order, but I do not want to disrupt the Committee any more than I am. I do thank the Committee for that indulgence. I wanted to just underscore the fact that Paul Nixon has come from Bakersfield. It happens to be in my district. More importantly, I think he is very representative of those people who produce very needed and useful products, are consumers of steel product, and of particular kind of steel product, as you might guess from the name of his company, the Bakersfield Tank Company. I believe it will be a useful contribution to understand the full and complete impact on both sides for the producer and the consumer.

Mr. Chairman, I want to thank you. Thank you Paul. Thank you very much for coming back. We look forward to all of your testimony and making a record that allows us to make the best possible decision in a very difficult area. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Let me remind the panelists that each Member's oral presentation is to be limited to 5 minutes. You will see the red light go on after 5 minutes. Any written statement, however, will be made a part of the permanent record. The same principle applies for Members of the Committee when we get to questions. Now I would like to yield to Timothy Taylor, President of MacLean Vehicle Systems and a constituent.

STATEMENT OF TIMOTHY N. TAYLOR, PRESIDENT OF MACLEAN VEHICLE SYSTEMS, MACLEAN-FOGG COMPANY, MUNDELEIN, ILLINOIS

Mr. TAYLOR. Thank you, Mr. Chairman and Members of the Subcommittee for the opportunity to speak to you today. I am President of MacLean Vehicle Systems, a wholly-owned subsidiary of MacLean-Fogg Company. MacLean-Fogg is a privately held manufacturing company based in suburban Chicago, employing about 2,000 people in 24 facilities, in 8 States, and 6 countries.

We produce fasteners and component parts for the automotive, transportation equipment, general industrial, electrical equipment, and telecommunications markets worldwide.

Approximately 10 percent of our $400 million in annual sales is exported, and we import a similar amount of products from our facilities and suppliers in Europe, Latin America, and increasingly from Asia.

The majority of products we produce at MacLean-Fogg have steel as a primary raw material. We purchase approximately 50,000 tons of steel annually in our businesses. About half of the steel comes from the United States, 40 percent from Canadian producers, and the remainder from European and Asian producers.

We support a strong viable, profitable steel industry. We prefer to buy U.S.-made steel when it is competitive in price, quality and delivery, but we absolutely must have access to globally priced steel on the same basis as our competitors around the world if we are to remain competitive in the products we produce.

Mr. Chairman, I am also immediate past-Chairman of the Industrial Fasteners Institute (IFI). It is an industry trade group representing 85 percent of North American fastener production.

As Chairman of IFI, I am very familiar with what happens when tariffs and other trade barriers are enacted on steel. In the seventies and eighties voluntary restraint agreements, tariffs, quotas and other trade restraints enacted to protect steel producers resulted in 40 percent of U.S. fastener manufacturing capacity disappearing or relocating offshore as a result of the higher U.S. steel prices that resulted from these protections.

I am here today in the hope of preventing an additional, similar decline in the fastener industry and other steel-consuming industries.

This principle of economic production never changes. When a base raw material is protected by tariffs or other constraints, imports of value-added products made from that material increase and U.S.-based manufacturers are placed at a competitive disadvantage.

What is different today is only the speed with which this happens. What used to take decades now takes years. What used to take years now takes months. In our globally competitive economy, production changes happen far more rapidly than they did 30 years ago, and I am concerned by the pace with which we are exporting steel consuming jobs.

Our government has provided repeated tariff, countervailing duty and other protection to the large integrated steel producers since the seventies. Despite these “temporary” tariffs, many of the large integrated steel producers have not been able to earn an acceptable return. I would suggest that after more than 30 years of nearly continuous protection for the steel industry, there are structural problems in the steel industry that would be better solved by market forces than by continued government action.

My concern is that in attempting to save jobs in the domestic steel industry, we have severely damaged domestic steel consumers. There are 50 manufacturing jobs in the products produced from steel for every one job in the steel-making industry. To protect one job in steel with tariffs, we are placing the 50 steel-consuming jobs at risk.

In fact, according to a recent economic study commissioned by the Consuming Industries Trade Action Coalition, 200,000 jobs in products produced from steel were lost between 2001 and 2002 in December as a result of higher steel prices brought on largely by the tariffs. To put that in perspective, there about 180,000 jobs in the entire steel-producing industry.

Let me be more specific. We have a plant in Richmond, Illinois that employs 19 people making steel nuts. This plant is the most productive fastener plant in the world. It is so automated these 19 people produce the equivalent of $12 million of sales of fasteners, which is three times the industry average on a per person basis.

In our Richmond plant, our steel costs us 30 to 35 cents per pound. We can buy these nuts in Asia, complete and delivered to Chicago, for 44 cents a pound. That is because in Taiwan and China, steel costs 20 to 25 cents per pound. These 19 people are likely to lose their jobs this year if this tariff remains in place.

Let me say again that MacLean-Fogg supports a strong steel industry. We urge the removal of these tariffs at the earliest possible opportunity and we ask Members of Congress to support that goal.

Thank you for the opportunity to appear today and I would be pleased answer any questions that you might have.

[The prepared statement of Mr. Taylor follows:]

Statement of Timothy N. Taylor, President of MacLean Vehicle Systems, MacLean-Fogg Company, Mundelein, Illinois

Mr. Chairman and Members of the Subcommittee, my name is Timothy N. Taylor and I am President of MacLean Vehicle Systems, a wholly-owned subsidiary of MacLean-Fogg Company. MacLean-Fogg is a privately held manufacturing company, based in suburban Chicago, employing about 2,000 people in 24 facilities in eight States and six countries.

We produce fasteners and component parts for the automotive, transportation equipment, general industrial, electrical equipment and telecommunications markets worldwide. Approximately 10 percent of our $400 million in annual sales is exported, and we import a similar amount of products from our own facilities and suppliers in Europe, Latin America, and, increasingly, Asia.

The majority of products we produce at MacLean-Fogg have steel as a primary raw material. We purchase approximately 50,000 tons of steel annually in our businesses. About half of this steel comes from U.S. producers, 40% from Canadian producers and the remainder from European and Asian producers. We purchase wire rod in the form of finished alloy steel wire for our cold forming operations, hot-rolled bar, cold-rolled bar, and stainless steel wire rod as well as a small amount of plate and cold-rolled sheet steel.

We support a strong, profitable, viable steel industry. We prefer to buy locally made steel when it is competitive in price, quality and delivery. But we must have access to globally priced steel, on the same basis as our competitors around the world, if we are to remain competitive in the markets we serve.

Mr. Chairman, I am also Immediate Past Chairman of the Industrial Fasteners Institute, an industry trade group representing 85% of North American fastener production. As Chairman of IFI, I am very familiar with what happens when tariffs and other trade barriers are enacted on steel. In the 1970s and 80s, Voluntary Restraint Agreements, tariffs, quotas and other trade restraints enacted to protect steel producers resulted in 40% of the U.S. fastener manufacturing capacity disappearing or relocating offshore as a result of the higher U.S. steel prices that resulted from these protections. I'm here today in the hope of preventing an additional similar decline in the fastener industry and other steel-consuming industries.

This economic principal of production never changes: when a base raw material is protected by tariffs or other constraints, imports of value-added products made from that material increase, and U.S.-based manufacturers are placed at a competitive disadvantage. Very shortly, production of those value-added products moves offshore, and those jobs are lost forever. What is different today is only the speed with which this happens. What used to take decades now takes years; what used to take years now takes months. In our globally competitive economy production changes happen far more rapidly than they did 30 years ago and I am concerned by the pace with which we are exporting steel consuming jobs.

MacLean-Fogg has suffered steel price increases averaging 7% on most of our purchased steel items from both U.S. and overseas sources, and up to 15% on our stainless steel wire as a result of the 201 steel tariff implemented in March of 2002 and prior Administration actions implemented in 2000. That may not seem like a lot, given the 30–50% increases that other steel consumers have suffered, but it is more than enough to place us at a competitive disadvantage, especially when we started with a 25% disadvantage on steel costs before the 201 tariff. That is a fundamental point: the price of the raw material is irrelevant, so long as it is a global price. When it is artificially increased in one country, manufacturers in that country are disadvantaged and production moves to the lowest cost.

We have approached our customers, primarily large automotive producers, who have denied our requests for relief from these increased raw material costs. They have threatened to replace our products with products originating outside of the United States if necessary. They have indicated that their own vehicle prices are under severe pressure and they are actively seeking lower cost components from other suppliers while at the same time demanding that we lower our prices further or face the loss of business to our competitors around the world.

Our government has provided repeated tariff, countervailing duty and other protection to the large integrated steel producers since the 1970s. Despite these numerous "temporary" tariffs many of the large integrated steel producers have not been able to earn an acceptable return. I would suggest that, after more than 30 years of almost continuous protection, there are structural problems in the steel industry that would be better solved by market forces than by continued government action.

My concern is that in attempting to “save” jobs in the domestic steel industry, we have severely damaged domestic steel consumers. There are at least 50 manufacturing jobs in the products produced from steel for every one job in the steel making industry. To protect one job in steel making with tariffs we are placing the 50 steel consuming jobs at risk. In fact, according to a recent economic study commissioned by the Consuming Industries Trade Action Coalition (CITAC), 200,000 jobs in products produced from steel were lost between December of 2001 and December 2002 as a result of higher steel prices, brought on largely by the tariffs. To put that in perspective, there are only about 180,000 jobs in the entire steel producing industry.

Faced with increasing raw material costs, and with no ability to recover those costs from their customers, many companies, including MacLean-Fogg, are buying or building factories outside of the United States to avoid increased raw material prices here. We have purchased three factories in Mainland China recently in order to have access to competitively priced raw materials. I cannot overemphasize the importance of raw material costs. Many of these products, fasteners included, have such low labor costs that labor is not the critical factor. In our fastener product lines, for example, labor is less than 10% of the cost but steel is 30–50% of cost. Since the steel we buy is 33% cheaper in Asia we are buying and manufacturing in Asia increasingly because of raw material costs, not labor.

The products we will be buying and manufacturing in Asia include products produced with some sophisticated manufacturing technologies that without the pressure of raw material costs would best be kept in the United States. In other words, to remain a viable supplier to our customers, we are being forced to export our technology by government-induced economic forces, such as tariffs and other imposed constraints. We would not need to make these decisions if we had access to competitively priced raw materials in the United States.

Let me be more specific. We have a plant in Richmond, Illinois that employs 19 people making steel nuts. This plant is the most productive fastener plant in the world. It is so automated that these 19 people produce the equivalent of $12 million of sales value of fasteners, which is three times the industry average on a per person basis.

However, the steel we buy for our Richmond plant costs $.30–$.35 per pound today. We can buy these nuts in Asia, complete and delivered to Chicago, for $.44 per pound, because the same steel we buy here for $.30–$.35 per pound costs $.20–$.25 per pound in Taiwan and China. As a result, these 19 highly skilled people may well lose their jobs this year if the tariffs remain in place, because we will be forced to manufacture these nuts in Asia where we can find competitively priced raw materials.

We won’t make this decision because we want to. We will do this because, if we don’t, our customers will do it for us. Mr. Chairman, this is a travesty of the worst sort. It is an example of the unintended consequences of government actions to meddle in the market. And, when we go offshore the steel making jobs that supply us will go offshore too, and none of these jobs will return once the technology is transferred.

Let me say again that MacLean-Fogg supports a strong, globally competitive domestic steel industry. We also support a strong, globally competitive domestic steel-consuming manufacturing industry. In our view the best way to accomplish those two goals is to allow the market to work without undue influence from government. We therefore urge the removal of the tariffs at the earliest possible opportunity, and we ask Members of Congress to support that goal.

Thank you for the opportunity to appear before you today. I would be pleased to answer any questions you may have.

Chairman CRANE. Thank you, Mr. Taylor. Our next distinguished witness, President Nixon.

STATEMENT OF PAUL NIXON, PRESIDENT AND MAJORITY OWNER, BAKERSFIELD TANK COMPANY, BAKERSFIELD, CALIFORNIA

Mr. NIXON. Thank you, Mr. Chairman and Members of the Subcommittee for the opportunity to speak today.

My name is Paul Nixon and I live in Bakersfield, California. I am President and Majority Owner of Bakersfield Tank Company, a steel tank and vessel manufacturer founded in 1980. We currently employ approximately 25 people.

I am here to speak on behalf of my company, its employees, and other similarly situated small steel-consuming businesses about the impact of the section 201 safeguard action of March 2002.

I support a strong, healthy steel industry for America. I do not wish, nor am I qualified, to speak on the complex broad international trade and economic issues involved. I can only comment on the significant and untimely effects the section 201 action had on the health of my business.

We have experienced a steady rise in the cost of our steel materials since March 2002. The initial price increase was approximately 10 percent and settled at around 28 to 32 percent in the fall. It remains at that level today.

We buy our materials primarily from steel distribution service centers. To their credit, it appeared that most of our suppliers used some restraint in applying the expected increases to existing or inbound inventories. Ultimately however, our costs reflect their costs and those costs have risen dramatically from a year earlier.

To appreciate the true impact of these increases however, they must be viewed in the context of when they occurred. As is well documented, the overall economy has been in significant decline since the beginning of the year 2000. This is especially true in California with the crash of the tech sector and has been particularly pronounced since the events of September 11, 2001.

In addition to a soft economy, small businesses have been faced with several new financial challenges in the past year. In California, workers compensation rates have virtually doubled, even for businesses with exemplary safety records.

Health insurance for employees has increased at a rate of 15 to 20 percent per year with an even larger increase promised for the upcoming renewal. I just found that was going to be 88 percent just before I left.

Liability insurance rates have increased 15 to 20 percent. There is pressure from our major customers to increase liability limits that will further add to the cost.

While the perfect storm analogy has been overused, I believe it may be appropriate here. Given this array of challenges for small businesses, you can understand why we found the section 201 action, in our view optional, to be most unwelcome.

We find that the current economy gives us little or no opportunity to raise prices. A typical small manufacturing business can realistically hope for no more than 8 to 10 percent net profit, even in good times. We have had to absorb a 30-percent increase in a cost component that makes up as much as 20 percent of our revenue. Under the best of circumstances, this represents up three-quarters of our net profit. Added to the bottom-line pressures already present, the impact of the tariff induced material cost increases are devastating.

We have taken a number of steps to cope. Three key positions that were vacated through attrition were left unfilled. We have switched our health coverage to a partially self-insured plan, much to the displeasure of our employees. We have begun declining contracts that require liability limits greater than we can afford.

Raises have been suspended for all management and most line employees. Needless to say, bonuses have been eliminated.

We have yet to find an antidote for the section 201-related material cost increases. Until an economic climate returns which allows us to reflect some of these cost factors in our pricing, we simply are left to try and survive the squeeze.

I have informally surveyed other small steel consuming businesses and found their experience to be similar to ours. Some, like us, have seen their profits erased. Others have also seen the loss of business to offshore producers as a result of downstream dumping of manufactured items.

Our cynicism about the section 201 action is amplified by the realization that a number of the more well-heeled industries were able to obtain relief in the form of waivers. An elaborately funded and coordinated lobbying effort is simply not an option for small businesses like ours.

For that reason, I am most appreciative of the opportunity to speak to you today and I would urge the Committee to continue to carefully monitor the adverse effects of the section 201 action. Thank you very much.

[The prepared statement of Mr. Nixon follows:]

Statement of Paul Nixon, President and Majority Owner, Bakersfield Tank Company, Bakersfield, California

My name is Paul Nixon. I live in Bakersfield, California. I am President and majority owner of Bakersfield Tank Company, a steel tank and vessel manufacturer founded in 1980. We currently employ approximately 25 people. I am here to speak on behalf of my company, its employees, and other similarly situated small steel consuming businesses about the impact of the Section 201 Safeguard Action of March 2002.

I support a strong healthy steel industry for America. I do not wish, nor am I qualified, to speak on the complex broad international trade and economic issues involved. I can only comment on the significant and untimely effects the 201 action had on the health of my business.

We have experienced a steady rise in the cost of our steel materials since March 2002. The initial price increase was approximately 10%, and settled at around 28% to 32% in the fall. It remains at that level today. We buy our material primarily from steel distribution service centers. To their credit, it appeared that most of our suppliers used some restraint in applying the expected increases to existing or inbound inventories. Ultimately however, our costs reflected their costs, and those costs had risen dramatically from a year earlier. To appreciate the true impact of these increases, however, they must be viewed in the context of when they occurred.

As is well documented, the overall economy has been in significant decline since the beginning of the year 2000. This is true especially in California with the crash of the tech sector and has been particularly pronounced since the events of September 11th, 2001. In addition to a soft economy, small businesses have been faced with several new financial challenges in the past year. In California, workers compensation rates have virtually doubled, even for businesses with exemplary safety records. Health insurance for employees has increased at a rate of 15 to 20 percent per year with an even larger increase promised for the upcoming renewal. Liability insurance rates have increased 15% to 20%. There is pressure from our major customers to increase liability limits that will further add to the cost.

While the “Perfect Storm” analogy has been overused, I believe it may be appropriate here. Given this array of challenges for small businesses, you can understand why we found the 201 action, in our view optional, to be most unwelcome. We find that the current economy gives us little or no opportunity to raise prices. A typical small manufacturing business can realistically hope for no more than 8 to 10 percent net profit, even in good times. We have had to absorb a 30% increase in a cost component that makes up as much as 20% of our revenue. Under the best of circumstances this represents up to three-quarters of our net profit. Added to the bottom line pressures already present, the impact of the Tariff induced material cost increases are devastating.

We have taken a number of steps to cope:

- Three key positions that were vacated through attrition and were left unfilled.
- We have switched our health coverage to a partially self-insured plan, much to the displeasure of our employees.
- We have begun declining contracts that require liability limits greater than we can afford.
- Raises have been suspended for all management and most line employees.
- Needless to say, bonuses have been eliminated.

We have yet to find an antidote for the 201 related material cost increases. Until an economic climate returns which allows us to reflect some of these cost factors in our pricing, we simply are left to try and survive the squeeze.

I have informally surveyed other small steel-consuming businesses and have found their experiences to be similar to ours. Some, like us, have seen their profits erased. Others have also seen a loss of business to offshore producers as a result of "downstream dumping" of manufactured items. Our cynicism about the 201 action is amplified by the realization that a number of the more well heeled industries were able to obtain relief in the form of waivers. An elaborately funded and coordinated lobbying effort is simply not an option for small businesses like ours. For that reason I am most appreciative of the opportunity to speak to you today. I would urge the Committee to continue to carefully monitor the adverse effects of the 201 action.

Chairman CRANE. Thank you, Mr. President. Now our witness is Tim Leuliette.

STATEMENT OF TIMOTHY D. LEULIETTE, CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, METALDYNE CORPORATION, PLYMOUTH, MICHIGAN

Mr. LEULIETTE. Mr. Chairman and Members of the Committee, I would like to thank you on behalf of Metaldyne Corporation for the opportunity to present this testimony before you today.

I am Chairman, President, and Chief Executive Officer of Metaldyne Corporation, a privately held company headquartered in metropolitan Detroit.

Metaldyne and our affiliated companies employ over 11,000 people at over 100 locations worldwide, and we had 2001 revenues of $2.4 billion. We produce a safety critical chassis, engine, driveline, and transmission products to the U.S. auto industry.

In terms of steel, Metaldyne has historically purchased 98 percent of its primary raw material, special bar quality (SBQ) forging steel, from U.S.-based steel manufacturers. That steel represents a significant portion of our total cost, on some components as much as 50 percent. At over 380,000 tons annually, we are one of the largest consumers of SBQ steel in North America. To say that we have been negatively affected by the steel tariffs is an understatement. Since their inception, we have experienced up to 10-percent increases in our SBQ material cost in aggregate and up to 50 percent on specific items.

We are also experiencing supply shortages domestically on specific grades of steel, which is forcing us to go offshore and pay the full 30 percent tariff in some cases. This was the basis for exclusion requests that were rejected by the U.S. Trade Representative (USTR) last week. The requests were not granted because we had not suffered significant steel unavailability in 2003 yet.

Unfortunately, the Administration's analysis went no further. They do not understand, or worse choose to ignore, how the manufacturing supply chain works, particularly in the automotive sector. The truth of the matter is that domestic steel producers are neither approved sources, nor in some cases do they have the capacity or capability to supply some of our requirements despite what they told the Department of Commerce that they could.

The net result of the tariffs is that our competitive position in the marketplace has been jeopardized because most of our customers will not accept pass-through price increases. In the automotive industry our customers, the vehicle manufacturers, require that we deliver 3 to 5 percent price reductions every year. Metaldyne has not had a price increase from our vehicle manufacturer customers since 1991. Rather, we have diligently implemented productivity improvements which are the basis of our viability as a successful supplier today.

The point of all this is that steel tariffs have hand-cuffed us with the highest SBQ steel prices in the world, and the fact is seriously threatening our competitive position as a global supplier.

The door has been opened for foreign companies to compete for business against us. The bottom line, we have already lost business due to foreign competition as a result of the tariffs, and we are going to lose more business due to tariffs.

We are not ones to sit around when there is work to be done. We are actively and aggressively pursuing alternatives to losing business as a result of steel tariffs. Those alternatives include resourcing up to 40 percent of our domestic steel buy to exempt countries, including Turkey and Brazil. We expect to achieve half of this by year end, and the balance in 2004.

We are currently purchasing offshore components that before the implementation of the tariffs were made in the United States. Not only is this taking jobs and revenue away from Metaldyne, this is damaging our supply base.

For example, this transmission clutch component here we used to make at Royal Oak, Michigan facility which is North America's most technically advanced hot-forging operation. We are now buying it in Korea. This represents a $6 million loss for Metaldyne and its suppliers. Our customers were unwilling to pay a premium for U.S. steel.

The same principle applies to this performed differential gear that we have begun to purchase offshore. We made this in Detroit for 30 years, but now we have sourced it to Korea, $13 million of business, for a savings of 15 percent again because our customers were unwilling to pay a premium for U.S. steel. This particular example has already cost the U.S. steel industry 2,500 tons of steel annually.

These jobs will never return to the United States.

With regard to capital investment, Metaldyne's plan for this year is to invest over $100 million in new equipment technology and facilities. Due primarily to the section 201 tariff, 75 percent of that capital will be expensed offshore, including Korea, Mexico, China and the Czech Republic.

Before I close, I would like to take a minute to share some employment data with you. When Metaldyne and its affiliate companies were formed into January 2001, we had almost 11,000 U.S. jobs. At the beginning of 2003 we dropped to 8,500 jobs. We will announce today another 600 jobs that will be lost in Michigan, Indiana and Ohio to steel tariffs.

In these uncertain times, we cannot afford to shirt production offshore and risk cutting employment in our domestic operations, but our customers and their customers, the American consumer, demand that we be globally competitive.

On behalf of our 8,500 U.S.-based hourly employees and salaried employees and other steel consuming companies in the global automotive industry, I would like to thank Chairman Thomas, on behalf of the Committee on Ways and Means, for representing the ITC study the impact of tariffs on consumers and Congressman Knollenberg for his early and strong leadership on behalf of steel users.

I thank you, Chairman Crane and Members of the Committee, for providing me with the opportunity to speak. Thank you.

[The prepared statement of Mr. Leuliette follows:]

Statement of Timothy D. Leuliette, Chairman, President, and Chief Executive Officer, Metaldyne Corporation, Plymouth, Michigan

Mr. Chairman and Members of the Committee, I would like to thank you on behalf of Metaldyne Corporation for the opportunity to present this testimony before you today. My name is Tim Leuliette, Chairman, President and CEO of Metaldyne Corporation.

Headquartered in the metropolitan Detroit area, Metaldyne and its affiliate companies employ over 11,000 people at over 100 manufacturing locations worldwide and had 2002 revenues of $2.4 billion. Metaldyne is a leading global supplier of metal-based components, assemblies, and modules for safety-critical chassis, engine, driveline, and transmission applications.

To put that into a larger perspective, Metaldyne is the 38th largest automotive supplier in the world according to Crain's Detroit Business Magazine. That means that there are some larger suppliers and many smaller suppliers, most of whom are being negatively impacted by the Section 201 Safeguard Action on Certain Steel Products. As a group, we are world-class competitive companies who, when faced with competitive issues, we take the necessary actions to retain our competitive positions.

At Metaldyne, if we have to invest in new equipment and technology to remain competitive, we do so. Last year we invested over $100 million into capital improvements. We will invest over $100 million into our business again this year. Likewise, if we have to locate a facility overseas to remain competitive and meet our customer's requirements, we do so. Unfortunately, more of our investment dollars and facility locations are ear-tagged for overseas as a direct result of the steel tariffs. I'll address that in more detail shortly. The point is, we allocate our assets to be globally competitive. Similarly, we support and in fact, our business requires a strong U.S. steel industry that is globally competitive.

In terms of steel, Metaldyne purchases 98% of its primary raw material, Special Bar Quality (SBQ forging steel), from U.S. based steel manufacturers. That steel represents a significant portion of our total cost, in many cases in excess of 50%. At over 380,000 tons annually, we are one of the largest consumers of SBQ steel in North America.

With that background, it would be an understatement to say that we have been negatively affected by the steel tariffs. Since their inception, we have experienced 5–10% increases in our SBQ material cost in aggregate and up to 50% on specific items. We are also experiencing supply shortages domestically on specific grades of steel which is forcing us to go offshore and pay the full 30% tariff in some cases. This was the basis for our exclusion submissions which are being contested by our steel suppliers who claim they can meet our requirements. The truth is they are neither approved sources nor, in most cases, do they have the capacity or capability to meet some of our requirements despite the fact that they told the U.S. Commerce Department that they can. The simple truth is that they misrepresented themselves to the Commerce Department at our expense.

The net result of the tariffs is that our competitive position in the marketplace has been jeopardized because most of our customers will not accept pass-through increases. In the automotive industry, our customers, the vehicle manufacturers and many first tier suppliers to the manufacturers require that we deliver 3–5% price reductions on an annual basis. Metaldyne has not had a net price increase since 1991. Rather, we have diligently implemented productivity improvements, which are the basis for our viability as a successful supplier today. Those suppliers who have not focused on productivity improvements are no longer in business. The point of all this is that steel tariffs have hand-cuffed us with the highest steel prices in the world, and that fact is seriously threatening our competitive position as a global supplier. The door has been opened for foreign companies to compete for business against us. Before the tariffs, this would not have been possible. The bottom line, we have already lost business to foreign companies as a result of the tariffs and we are going to lose more . . . because of the tariffs.

The same market dynamics are true for countless other suppliers whether they use SBQ, flat roll steel or any other category of steel that falls under the classification of "Certain Steel Products" that are protected by the 201 safeguard.

As I said earlier, we are not ones to sit around when there is work to be done. . . .

We are actively and aggressively pursuing alternatives to losing business as a result of steel tariffs. Those alternatives include:

- Resourcing up to 40% of our domestic steel buy to exempt countries including Turkey and Brazil. We expect to achieve half of this by year-end and the balance in 2004. These are long-term sourcing decisions that are clearly inconsistent with the Administration's intentions when the 201 safeguard program was initiated.
- We are currently purchasing offshore components that, before the implementation of the tariffs, were made in our U.S. facilities. Not only is this taking jobs and revenue away from Metaldyne, this is damaging our supply base as well. For example, a transmission clutch component that we used to make at our Royal Oak, Michigan facility—North America's most technologically advanced hot forging operation—is now being purchased in Korea. This represents a $6 million loss in revenues for Metaldyne and its six affected suppliers. The same principle applies to a preformed differential gear that we've begun to purchase offshore. Maybe the most devastating example to date is at our plant in Detroit. It is currently resourcing 11 jobs to South Korea that account for nearly $13 million in lost revenue and ten Metaldyne jobs. By purchasing the preformed components in Korea, we're saving 15 percent compared to what we would pay for domestic steel. This particular example has cost the U.S. steel industry over 2,500 tons of steel annually, and two of its own employees have been cut as a result of the lost business. As a result of these resourcing decisions, jobs are lost at Metaldyne and our downstream suppliers including steel producers, tool and die makers and heat treatment operations. These jobs will never return to the U.S.
- With regard to capital investment, I mentioned earlier that Metaldyne's plan for this year is to invest over $100 million into new equipment, technology and facilities. Due primarily to the market environment created by section 201, 75% of that investment is ear-marked for offshore investment, including a new manufacturing facility in Korea, a new sales, technical and purchasing office in China as a first step toward establishing manufacturing operations there, and additional investment in an existing facility in the Czech Republic. Again, that translates into jobs.

Mr. Chairman, regardless of what the steel industry will tell you, what I have just shared with you are the facts with regard to the impact of section 201 on Metaldyne specifically and other automotive steel consumers in general. They are the facts. They are undisputable, and I do not believe for one minute that these were the intended consequences of the Administration. The steel industry will try to tell you otherwise with a lot of words and phrases that need to be questioned.

Catch phrases such as:

- "Illegally dumped steel"—make them prove it item by item. Two years ago, the steel producers reduced market capacity for SBQ steel by 30 percent, and today they are simply reaping the financial benefits of section 201 at Metaldyne's expense.
- "Artificially low prices" or "Prices have returned to normal levels"—By whose determination the market or steel producers, we have not had a net price increase since 1991, we'd be happy to go back to 1997 pricing.
- "Far below historic levels"—join the club and get competitive like we have. At the end of the day, the price of domestic steel is irrelevant, we deal in a global market place, and what matters is the cost of steel on a global basis.

- “Record imports in 2002”—How much of that is purchased by U.S. steel producers under exemption for re-processing and resale at tariff inflated prices?
- “Where are the profits going?”—We do not see the reinvestment in technology or the drive to become more globally competitive.

At the end of the day, there is only one reason why section 201 must be reversed immediately. It is costing us U.S. manufacturing jobs that will never return. By some estimates, 201 has already cost more jobs in the steel consuming segment (over 200,000) than even exist in the U.S. steel industry (178,000). And it has only just begun.

Lastly, I’d like to tell you about the President of the UAW bargaining unit at our Royal Oak, Michigan facility. He represents the hourly employees at the most automated, technologically advanced hot forging operation in North America. These workers are among the most efficient in the world, operating $15 million automated forging presses. His membership has, and will continue to lose jobs, not because they are not productive or because their wages are non-competitive. He is losing membership because section 201 has forced us to buy the most expensive steel in the world and opened the door to foreign competition and our response is to purchase offshore and accelerate our plans to manufacture offshore. And the irony of all of this is that every job lost in the steel consuming segment will not save one single job in the steel producing segment. In fact, if other companies like Metaldyne look to offshore alternatives, the U.S. steel industry will be in worse shape than before the tariff program began.

Before I close, I’d like to take a minute to share some employment data with you. When Metaldyne and its affiliate companies were formed in January 2001, we had almost 11,000 U.S.-based employees. At the beginning of 2003, our U.S employment dropped to about 8,500, and in the next 60 days, we expect to lose about another 600 hourly and salaried workers in the U.S. due in part to the steel tariffs, and in part to decreased domestic auto production in the face of this uncertain economy.

In these uncertain times, we cannot afford to shift production overseas and risk cutting employment at our domestic operations. Even when domestic auto production increases, if the steel tariffs are still in effect, we will be forced to restore our manufacturing operations in countries that allow us to be globally competitive.

On behalf of Metaldyne and our 8,500 U.S. based salaried and hourly employees, both represented and not represent, and on behalf of all other steel consuming companies in the global automotive industry, I thank you Mr. Chairman and Members of the Committee for providing me with the opportunity to testify.

Chairman CRANE. Thank you. Mr. Trilla.

STATEMENT OF LESTER TRILLA, PRESIDENT AND CHIEF EXECUTIVE OFFICER, TRILLA STEEL DRUM CORPORATION, CHICAGO, ILLINOIS

Mr. TRILLA. Thank you. Mr. Chairman and Members of the Subcommittee, thank for the honor of appearing before you today to discuss the impact of the steel section 201 tariffs on steel-consuming industries.

My name is Lester Trilla. I am President and Chief Executive Officer of Trilla Steel Drum Corporation, which is located in Chicago. We are a leading manufacturer of new steel drums used in filling and transportation of a variety of products, including hazardous materials. We employ approximately 50 union employees. Trilla is a third generation family-owned business.

The steel safeguard has had significant negative consequences for our company. The steel tariffs have increased our steel costs and, by limiting us to domestic steel that does not work well in our machinery, have increased our production costs due to quality issues.

Cold-rolled steel is the major raw material used in our drums and the increase in the price of steel last year resulting from additional tariffs, caused our steel costs to go up 70 to 80 percent. Prices have moderated in recent months, but not nearly enough to restore our competitive position.

Moreover, we cannot get a steel product exclusion for the steel we need.

Because of steel supply difficulties, we have been forced to increase the price of our drums over 20 percent. Some of our best and oldest customers have not accepted this increase and have moved to foreign competitors who have much lower steel costs. Our business today is down 30 percent.

We are particularly saddened that the major beneficiaries of our lost business are steel drum manufacturers in foreign countries. These drums are cheaper abroad because foreign drum producers do not have high raw material costs as we do. We hear credible reports from abroad that the cold-rolled steel prices are lower than the ones we see by a substantial margin, which is probably more than 20 percent.

Other customers have switched from steel drums altogether and use non-steel containers like plastic or intermediate bulk containers. These companies had to change their logistics facilities and they will never come back to steel drums produced by myself or anybody else in the United States.

The loss of business has done serious damage to us, not only because we are a small business and not a large and diverse corporation that can absorb or offset these losses, but also because we take pride in relationships that we have built over the years with our customers. Many of these lost customers have used Trilla steel drums for over 30 years.

Meanwhile, the tariffs have effectively cut off our previous source of imported steel and forced us to switch to domestic steel. Unfortunately, domestic steel is of a significantly lower quality than what we have been getting from our foreign suppliers. The quality of the steel feedstock is very important to us because our drums are used to carry very hazardous, dangerous and flammable products and they are subject to very stringent quality standards. Trilla's scrap rate has doubled since we had to move to completely domestic material.

In addition, for the first time, we have had a problem with the coatings on our steel products. In the past year we have had almost $100,000 in claims from customers for failed coatings or linings, as we call them. That is directly related to the problems we are having with cleanliness and the quality of the steel. Before last May, Trilla has never had a failure in its coatings.

Mr. Chairman, the steel tariffs imposed by the President have had an effect of making Trilla significantly less competitive. Steel costs in the United States skyrocketed last year, causing me to lose business from customers that I will never get back. Now, even though the prices have moderated somewhat, the poor quality of steel I have to use from domestic mills have caused other problems with customers and have created additional costs for us at Trilla.

I appreciate the safeguards were supposed to help the U.S. steelmakers, but I do not understand why the steel consumers like myself and all of my union employees have to suffer.

Thank you for the opportunity to present my views.

[The prepared statement of Mr. Trilla follows:]

Statement of Lester Trilla, President and Chief Executive Officer, Trilla Steel Drum Corporation, Chicago, Illinois

Mr. Chairman and Members of the Subcommittee, thank you for the honor of appearing before you today to discuss the impact of the steel 201 tariffs on my business and my workers, as well as the industry in which we participate. My name is Lester Trilla. I am the President and CEO of Trilla Steel Drum Corporation, which is located in Chicago, Illinois. We are a leading manufacturer of new steel drums used in the filling and transportation of a variety of products, including hazardous materials. Trilla is a family-owned, family run business—three generations of the Trilla family have built the company from a $500 investment in a drafty garage on the Southwest Side into a major Midwest supplier of more than one million 55-gallon steel drums annually to a diverse client base.

The steel 201 safeguards have had significant negative consequences for our company. The steel tariffs have increased our steel costs, and, by limiting us to domestic steel that does not work as well on our machinery, have increased our production costs due to quality issues.

Cold-rolled steel is the major raw material used in our drums, and the increase in the price of steel last year resulting from the additional tariffs on imported steel caused our steel costs to go up 70–80 percent last year. Prices have moderated in recent months, but not nearly enough to restore our competitive position. Moreover, we cannot get a steel product exclusion for the steel we need.

Because of steel supply difficulties, we have been forced to increase the price of our drums over 20 percent. Some of our best and oldest customers could not accept this increase, and have moved to our foreign competitors, who have much lower steel costs. As a result, we have lost 30 percent of our longstanding customers. We are particularly saddened that the major beneficiaries of our lost business are steel drum makers in foreign countries. The drums are cheaper abroad because foreign drum producers do not have as high raw material costs as we do. We hear credible reports that foreign cold-rolled steel prices are lower than the ones we see by a substantial margin, more than 20 percent.

Other customers have avoided the price increases by switching from steel drums altogether and now use non-steel containers like plastics and IBCs ("intermediate bulk containers"). The companies that have made this switch have had to change their logistics facilities, and will never come back to steel drums or Trilla or any drum manufacturer in the United States. This loss of business has been seriously damaging to us—not only because we are a small business, that cannot absorb these losses, but also because we take pride in the relationships that we have built over the years with our customers—many of these lost customers have used Trilla steel drums for thirty years and more.

Meanwhile, the tariffs have effectively cut off our previous sources of imported steel and forced us to switch to domestic steel. Unfortunately, the domestic steel Trilla has to buy is of a significantly lower quality than what we had been getting from foreign mills. The quality of our steel feedstock is very important to us because our drums are used to carry very hazardous, dangerous, flammable products and they are subject to very stringent quality standards. Without getting into the technical details of drum production, I can say that Trilla's scrap rate has doubled since we had to move completely to domestic material—we get some deliveries where we just can't use the steel because it doesn't weld or clean properly. In addition, for the first time, we have had problems with coating our steel products. In the past year, we have had almost $100,000 in claims from customers for failed coatings that are directly related to the problems we have had with the cleanliness and quality of the steel. Before last May, Trilla never had a failure of its coatings.

Mr. Chairman, all of this is to say that the steel tariffs imposed by the President have had the effect of making Trilla significantly less competitive. Steel costs in the U.S. skyrocketed last year, causing me to lose business from customers that I will never get back. Now, even though the prices have moderated somewhat, the poor quality of the steel that I have to use from domestic mills have caused other problems with the customers I have been able to keep and have created additional costs for Trilla. I appreciate that the safeguards were supposed to help the U.S. steelmakers, but I don't understand why steel consumers like me have to suffer.

Thank you for this opportunity to present my views.

Chairman CRANE. Thank you, Mr. Trilla. Mr. Pritchard.

STATEMENT OF DAVID PRITCHARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, A.J. ROSE MANUFACTURING COMPANY, AVON, OHIO

Mr. PRITCHARD. Good morning and thank you, Mr. Chairman.

Thank you very much for asking me to testify about the consequences of the steel section 201 tariffs have had on my company. My name is Dave Pritchard and I am President and Chief Executive Officer at A.J. Rose Manufacturing. A.J. Rose is headquartered in Avon, Ohio and we have plants for manufacturing in both Cleveland and Avon.

A.J. Rose is a family-owned company with three generations in the business since 1922. We have approximately 370 employees, 250 of which are members of the United Steelworkers Local 735. We specialize in the manufacturing of high tolerance metal stampings, airbag components and spun form products for the automotive market.

We face all the dilemmas that the gentleman before me have been speaking in regard to the automotive market and the pricing situations. We buy hot-rolled steel flat products that are subject to the tariffs. We buy from both domestic and foreign sources. The tariffs have increased our steel prices dramatically. We estimate that the tariffs have added $1.1 million to our cost of material in the last 12 months. We have been able to obtain price increases on only one-third of our products to cover that additional cost.

The increased costs have had a devastating effect on our bottom line. The increased steel pricing has put us at a distinct disadvantage with respect to our foreign competitors.

As a result, we have lost significant amounts of business to our foreign competitors and it looks like it is only going to get worse.

We have lost over half a million dollars in existing business since the start of 2003 because one of our large customers did not want to pay the increased amount we now need to charge. This business was placed with a company in Korea instead, a company where steel prices are considerably less than the United States.

Also, in the last year alone, we have lost approximately $7.5 million covering 15 contracts to competitors outside of the United States. These contracts were awarded simply because we could no longer meet our foreign competitors' prices due to the steel tariffs.

This loss of $7.5 million in new contracts this year translates to a loss of $45 million to $60 million over the next few years. This is because, in our business, when you are awarded a contract, it generally runs for the life of the part in application, which could be 4, 6, 10 years even. This means that the loss of a job now really costs you many times the annual revenue in lost future sales.

The situation shows no sign of improving. In January, our largest customer stated that they would no longer accept the cost increase the tariffs forced us apply to their pricing. They stated if we insisted, they would continue to pay the increase but it would signal the beginning of the end of our 12-year relationship. They advised us of this in the same meeting they informed us that they had awarded one of our competitors a contract for parts that we had been told we would get. Prior to this time, we were the only company supplying this customer with this type of product in

North America. The competitor that was awarded this business is a Canadian company.

In addition, a Canadian customer of ours that has accepted one-half of the increased costs from the tariffs has been demanding that we use Canadian steel and Canadian tool shops to produce products for them. Over the past 30 days, they have been actively soliciting bids for parts that we make for them from Canadian and Chinese firms.

This loss of business has had a significant impact on our day-to-day operations. Due to the loss of orders, we have had to lay off over 33 people in the past 12 months—10 of those since the start of 2003.

In addition, our cash flow and operating loan situation has become tenuous. We have scheduled a meeting with our bank to discuss our deteriorating financial condition. This is the first time in 35 years that I have been involved with A.J. Rose that I have ever had to have a conversation like this with a bank.

We, and our suppliers, used the product exclusion process to try to soften the negative effects of the tariffs. While we had some degree of success in obtaining product exclusions, these product exclusions have only provided us with very limited relief. The basic problem remains—the tariffs have made it virtually impossible for us to compete with our foreign competitors.

This constant threat to our business is very real and will get worse if we are forced to continue to pay such a premium for the steel we need to run our business.

We sincerely hope that these tariffs can be lifted as soon as possible. Thank you.

[The prepared statement of Mr. Pritchard follows:]

Statement of David Pritchard, President and Chief Executive Officer, A.J. Rose Manufacturing Company, Avon, Ohio

Good morning. Thank you very much for asking me to testify about the consequences the steel 201 tariffs have had on my company. My name is Dave Pritchard, and I am President and CEO at A.J. Rose Manufacturing Company. A.J. Rose, headquartered in Avon, OH, is a family-owned company, with three generations in the business since 1922. We have approximately 370 employees, 250 of which are members of the United States Steel Workers' Local #735. We specialize in manufacturing tight tolerance metal stampings, air bag components, and spun-formed products for the automotive market.

We buy hot-rolled steel flat products that are subject to the tariffs. We buy from both domestic and foreign sources. We estimate that the tariffs have added 1.1 million to our cost of material in the last 12 months. We have been able to obtain price increases on only one-third of our products to cover that additional cost. The increased costs have had a devastating effect on our bottom line. The increased steel pricing has put us at a distinct competitive disadvantage with respect to our foreign competitors. As a result, we have lost a significant amount of business to our foreign competitors and it looks like it is only going to get worse.

We have lost over a half a million dollars in existing business since the start of 2003 because one of our big customers did not want to pay the increased amounts we now need to charge. This business was placed with a company in Korea instead—a country where steel prices are considerably less than the U.S.

Also, in the last year alone, we have lost approximately 7.5 million in new orders (15 contracts) to competitors outside of the United States. These contracts were awarded simply because we could no longer meet our foreign competitors' prices due to the steel tariffs. This loss of 7.5 million in new contracts this year translates into a loss of 45 to 60 million over the next few years. This is because in our business, when you are awarded a contract, it generally runs for the life of the part in application (approximately 4 years). This means that the loss of a job now really costs you many times the annual revenue in lost future sales.

The situation shows no sign of improving. In January, our largest customer (MACI) stated that they would no longer accept the cost increase the tariffs forced us to apply to their pricing. They stated that if we insisted, they would continue to pay the increase but that it would signal the "beginning of the end of our 12 year relationship." They advised us of this in the same meeting they informed us that they had just awarded one of our competitors a contract for a part we were told we would get. Prior to this, we were the only company supplying MACI with this type of product in North America. The competitor that was awarded this business is a Canadian company.

In addition, a Canadian customer that has accepted one-half of the increased cost from the tariffs, has been demanding that we use Canadian steel and Canadian tool shops to produce products for them. Over the past 30 days, they have been actively soliciting bids for the parts we make for them from Canadian and Chinese firms.

This loss of business has had a significant impact on our day to day operations. Due to the loss of orders we have had to lay off 33 people in the past 12 months—10 of those, since the start of 2003. In addition, our cash flow and operating loan situation has become tenuous. We have scheduled a meeting with our bank to discuss our deteriorating financial condition. This is the first time in the 35 years I have been involved with A.J. Rose that I have ever had to have a conversation like this.

We, and our supplier, used the product exclusion process to try to soften the negative effects of the tariffs. While we had some degree of success in obtaining product exclusions, these product exclusions have only provided us with very limited relief. The basic problem remains—the tariffs have made it virtually impossible for us to compete with our foreign competitors.

This constant threat to our business is very real and will get worse if we are forced to continue to pay such a premium for the steel we need to run our business. We sincerely hope that these tariffs can be lifted as soon as possible.

Thank you. I will take any questions you might have.

Chairman CRANE. Thank you. As you know, the bells have gone off indicating votes over on the floor. We are going to break for lunch after these votes and then reconvene at 1:00 p.m. Mr. Smith, can you put off your testimony until 1:00 p.m.?

Mr. SMITH. Absolutely.

Chairman CRANE. All right. Then we will have your testimony and then we will get to questions of the entire panel. With that, thank you all, and the hearing stands in recess subject to the call of the Chair.

[Whereupon, at 11:36 a.m., the hearing recessed, to reconvene at 1:00 p.m., the same day.]

Chairman CRANE. We are sorry for a little bit of delay here, but we would now like to hear from Mr. Wes Smith, President and Owner of E&E Manufacturing in Plymouth, Michigan.

STATEMENT OF WES SMITH, PRESIDENT AND OWNER, E&E MANUFACTURING COMPANY, INC., PLYMOUTH, MICHIGAN

Mr. SMITH. Thank you. My name is Wes Smith and I am the President and Owner of E&E Manufacturing Company. I appreciate the opportunity to submit testimony to bring attention to the fact that the steel section 201 tariffs have resulted in a significant and negative impact on our company.

E&E is located in Plymouth, Michigan and is a world-class leader in metal joining technology. It meets the needs of its world-class automotive customers by manufacturing heavy gauge stamp metal fasteners such as these, progressive die metal stampings such as this engine component, and high value-added assemblies.

E&E was founded in 1963 by my father and provides meaningful employment to over 250 dedicated employees.

Steel comprises 40 percent of our total costs of producing these parts. For our raw steel needs we generally have relied upon 6 month or yearly contracts with steel warehouses that obtain their supply from domestic mills, with 75 percent of our requirements met by one major supplier. Our relationship with this supplier has been positive and constructive. The day after the steel section 201 tariffs were imposed last March, this supplier broke its contract with E&E and imposed a swift and hefty increase in our pricing that left us in a state of shock and awe.

What is ironic about this incident is that this supplier obtains the majority of its product from a mini-mill, not an integrated mill. The mini-mills have not been subject to the legacy costs that the integrated mills have had to suffer.

Since February 2002, our steel costs have increased an average of 34 percent, which amounts to over $3.3 million. The consequences of the steel section 201 tariffs have impacted E&E in a dramatic way. Nearly half of our stamp fastener product is supplied to an automobile company, which has bought its requirements from us since 1970. This account comprises a third of our sales. In February 2002, E&E had to negotiate a significant price decrease to keep this business because our customer has made it clear that it has increasing options of purchasing its requirements from offshore sources.

We applied to the USTR for steel exclusions on this product and found out on March 21, 2003 that our request was denied.

Immediately after making this concession in 2002, at a loss of over half a million dollars in revenue, the steel section 201 tariffs were imposed. We are currently negotiating another significant decrease for 2003.

I fear that this illustrates the flaw and the reasoning underlying the steel section 201 tariffs. The assumption was that small businesses, the steel-consuming industry in this country, would not get hurt by the steel section 201 tariffs. We should be able to pass this cost down to our customers who would pass the cost on to their ultimate customer or absorb the costs themselves.

It does not work this way in reality, as my example proves. If a component manufacturer like E&E tries to pass these significant increases on to its customers, those customers will procure their inputs from offshore sources, where the production is cheaper for a lot of reasons, including a raw material cost unfettered by significant additional tariffs.

Our customers tell us that in this economy we need to compete globally. We are willing to meet that challenge but cannot do so with our hands tied behind our backs by having our government tax our largest input.

Smaller manufacturers rely on their larger customers for work. However, the tariffs have been a catalyst for these customers to source more work overseas, which threatens our very existence. Of the approximately 355,000 manufacturing locations nationwide, 90 percent of these have less than 100 employees and do not have either the wherewithal or the desire to move their operations offshore.

Our larger customers have options and they are exercising their options. They can bypass the tariffs by bringing in semi-finished components from offshore sources, which is causing epidemic job losses. There have been 31 consecutive months of job loss in the manufacturing community, with the small and medium manufacturing being hit the hardest.

Many so-called scholared economists feel that the market is suggesting that perhaps manufacturing should go. Well, I consider myself a Will Rogers economist, and I think it is interesting to note that the United States has had a number of false starts toward an economic recovery.

However, they have sputtered out due to, in large part, to the fact that one of our largest and most significant employment sectors, manufacturing, has been in an economic depression with the loss of over 2 million jobs in the past 2 years.

It is also interesting to note that there has been a country in this global economy that has been able to increase their economic prosperity by double digits. That country is China and they are basing their growth on manufacturing.

Working with Plante and Moran, a regional accounting and consulting firm, and using an industry model that has been in existence for over a decade, we reviewed 13 manufacturing sectors whereby steel represents over 10 percent of the non-value added input, representing 3 million jobs nationally. We used a debt-to-equity ratio of 3 to 1 to determine the threshold whereby a company's access to cash is cut off. Basically the banks will refuse to loan you any more money at that point.

Based on this data, it is certain that manufacturing jobs, 1.5 million by 2005, will be lost, or be in serious jeopardy, as a direct result of the price increases incurred from the steel tariffs.

From a personal standpoint, it has been very discouraging that there has not been a cohesive effort by all industry participants, producers, consumers and the government, to find an appropriate solution to secure the health of the domestic steel industry. Their losses have simply been transferred disproportionately to the small and medium manufacturers who are the least able to cope with them.

Quite frankly, the steel tariffs are the wrong medicine for a sick industry. Thank you.

[The prepared statement of Mr. Smith follows:]

Statement of Wes Smith, President and Owner, E&E Manufacturing, Inc., Plymouth, Michigan

My name is Wes Smith, and I am the President and owner of E&E Manufacturing Co. I appreciate the opportunity to submit this testimony to bring attention to the fact that the steel 201 tariffs have had a dramatic impact on the price and availability of steel in the market, and have resulted in a significant and negative impact on our company.

E&E is located in Plymouth, Michigan, and is a world-class leader in metal joining technology. It meets the needs of its world-class automotive customers by manufacturing heavy gauge stamped metal fasteners, progressive die metal stampings, and high value-added assemblies. E&E was founded in 1963, and provides meaningful employment to over 250 dedicated employees. Steel comprises 40 percent of our total cost of producing these products.

For our raw steel needs, we generally have relied upon six-month or yearly contracts with steel warehouses that obtain their supply from domestic mills, with 75 percent of our requirements met by one major supplier. Our relationship with this supplier has been positive and constructive, but the day after the steel 201 tariffs were imposed last March, this supplier broke its contract with E&E and imposed a hefty increase on our pricing. What is ironic about this incident is that this supplier obtains a majority of its product from a mini-mill, not an integrated mill; the mini-mills have not been subjected to the legacy costs that the integrated mills have had to suffer. I have prepared a spreadsheet, which is appended to my testimony, that tracks the significant and sudden price increases we have been experiencing in our raw material purchases since the imposition of the steel tariffs. This analysis illustrates the significant effect these additional tariffs have had on the pricing and availability of steel, as well as a drop in our revenue. Since February of 2002, our steel costs have increased an average of 34 percent, which amounts to $3.3 million.

Aside from pricing, a continued reliable supply of steel is of great concern to us. The lack of available steel has brought us close to shutting down our Original Equipment Manufacturer (OEM) and Tier One customers. Because of late deliveries due to capacity limitations that the steel mills have had since the imposition of steel tariffs, we have had to pay expedited freight costs in order to get our shipments in time so that we can deliver the final product to our customers in time. In addition, E&E has had to spot buy material at a significantly higher cost because our suppliers have failed to deliver steel we have ordered.

The consequences of the steel 201 tariffs have already impacted E&E in a dramatic way. Nearly half of our stamped fastener product is supplied to an OEM, which has bought its requirements from E&E since the 1970's. This account comprises a third of our sales. It involves a proprietary product that is now subject to a reverse auction process, whereby the contract is auctioned off on a yearly basis. In February 2002, E&E had to negotiate a significant price decrease to keep this business, because our customer has made it clear that it has the increasing option of purchasing its requirements from offshore sources, such as Chinese sources. We applied to the USTR for steel exclusions on this product, and found out March 21, 2003 that our request was denied. We are currently negotiating another significant decrease for 2003.

Immediately after making this concession—at a loss of a half-million dollars in revenue—the steel 201 tariffs were imposed, and the price spikes I described earlier hit us. At this point, it is absolutely out of the question for E&E to approach this customer to renegotiate this deal in a way that would cover the increased costs of our raw materials. The customer has made it abundantly clear that it will exercise its option to take its business offshore for this product. In addition, another of our largest customers told us that when the tariffs were imposed, they reforecast their budgets for the end of last year and were so upset by the numbers they saw, that they instructed their Purchasing Department to price all components currently purchased and internally manufactured to Asia.

I fear that this illustrates the flaw in the reasoning underlying the steel 201 tariffs. The assumption was that the small businesses, the steel-consuming industries in this country, wouldn't get hurt by the steel 201 tariffs. We should be able to pass this cost on to our customers, who would pass the cost on to their ultimate consumers or absorb the cost themselves. But this doesn't work in reality, as my example proves. If a components manufacturer like E&E tries to pass these significant increases on to its customers, those customers will procure their inputs from offshore sources, where the cost of production is cheaper for a lot of reasons, including a raw material cost unfettered by significant additional tariffs. Our customers tell us that in this economy, we need to compete globally. We cannot, however, compete under the best of circumstances when our raw material costs are artificially inflated as a result of the steel 201 tariffs. We have lost other opportunities for new products that we have designed, and there is increased pressure placed on *our* customers from *their* customers to buy all their smaller components offshore. We are willing to meet the challenge of competing with the Asians, however, we cannot do that with our hands tied behind our backs by having our government tax our largest input by 30%.

Smaller manufacturers rely on their larger customers for work, however, the tariffs have been a catalyst for these customers to source more work overseas, which threatens our very existence. Of approximately 355,000 manufacturing locations nationwide, 90% have less than 100 employees, and don't have either the wherewithal or desire to move their operations offshore. Our larger customers have options. They can bypass the tariffs by bringing in semi-finished components from offshore sources, which is causing epidemic job loss (31 straight months) in the manufacturing community, with the small and medium manufacturers being hit the hardest.

I consider myself a "Will Rogers economist," and I think it is interesting to note that the U.S. has had a number of false starts to the economic recovery, however, they have sputtered out due, in large part, to the fact that one of the largest and most significant employment sectors (manufacturing) has been in an economic depression with the loss of over 2 million jobs in the past 2 years. It is also interesting to note that there is a country in this global economy that has been able to increase their economic prosperity by double-digits. That country is China. They are basing their growth on manufacturing.

Working with Plante & Moran, LLC, a regional consulting firm, and using industry models that have been in existence for over a decade, we reviewed 13 manufacturing sectors representing 3 million jobs nationally. A debt-to-equity ratio of 3–1 was determined to be the threshold whereby a company's access to cash is cut off. Based on this data, it is certain that manufacturing jobs (1.5 million by 2005) will be lost or in serious jeopardy as a direct result of the price increases incurred from the steel tariffs.

As you can see, the price increases and supply constraint resulting from the steel 201 tariffs have had a significant impact on our company and customer base. Unintended or not, the consequences of the increased steel tariffs have been significantly detrimental to our company's ability to protect and grow meaningful manufacturing jobs.

From a personal standpoint, it has been very discouraging. My own reaction, as well as that of many of my peers, has been one of "shock and awe." The suddenness and size of the price increases seemed to fall on us out of the sky; it was not a gradual or predictable experience that you would expect from a decrease in capacity as a result of bankruptcies in the steel industry. Also, there has not been a cohesive effort by all industry participants (producers, consumers, and government) to find an appropriate solution to secure the health of the domestic steel industry. Their losses have been transferred to the small and medium manufacturers who have been least able to cope with them. Quite frankly, the steel tariffs are the wrong medicine for a sick industry.

E and E Manufacturing Co., Inc., Plymouth, MI, 48170

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P/N	Ordered Gauge	Width +/−.010 unless noted	MATERIAL SPEC	ESTI-MATED MONTHLY	Jan–02 Price	Monthly Cost	Apr–02 Price	Monthly Cost	Jul–02 Price	Monthly Cost	Oct–02 Price	Monthly Cost	Jan–03 Price	Monthly Cost
0685	.048/.052	2,4000	1050SS	4,000	$34.25	$1,370.00	$34.25	$1,370.00	$41.25	$1,650.00	$49.25	$1,970.00	$41.25	$1,650.00
0684	.048/.052	3,3000	1050SS	5,000	$34.25	$1,712.50	$34.25	$1,712.50	$41.25	$2,062.50	$49.25	$2,462.50	$41.25	$2,062.50
1171	.048/.052	4,7500	1050SS	7,000	$34.25	$2,397.50	$34.25	$2,397.50	$41.25	$2,887.50	$41.25	$2,887.50	$41.25	$2,887.50
1266	.053/.057	4,1250	SAE J1392 050 XLF HR	7,000	$20.00	$1,400.00	$25.00	$1,750.00	$25.00	$1,750.00	$28.95	$2,026.50	$22.50	$637.50
0970	.054/.064	2,7000	1008/1010 CR	1,000	$20.00	$200.00	$25.00	$250.00	$25.00	$250.00	$28.95	$289.50	$25.50	$255.00
1047	.054/.064	8,0000	1008/1010 p o akdq CR	6,000	$20.00	$1,200.00	$25.00	$1,500.00	$25.00	$1,500.00	$28.95	$1,737.00	$25.50	$1,530.00
0994	.059/.066	4,7500	1008/1010 HD Galv GM6185 70G 70GU	25,000	$21.95	$5,487.50	$21.95	$5,487.50	$28.95	$7,237.50	$28.95	$7,237.50	$27.95	$6,987.50
1110	.059/.070	5,5000	HRCQ ASTM A569 .05-.13C,.30 Mn min	5,000	$16.95	$847.50	$24.65	$1,232.50	$26.95	$1,347.50	$27.60	$1,380.00	$21.95	$1,097.50
1140	.059/.070	16,8500	HRCQ ASTM A569 .05-.13C,.30 Mn min	45,000	$16.75	$7,537.50	$16.75	$7,537.50	$25.25	$11,362.50	$25.25	$11,362.50	$21.95	$9,675.00
1227	.059/.067	2,2500	ASTM A621 HRDQ 0.02% C. Min	1,200	$20.00	$240.00	$25.00	$300.00	$25.00	$300.00	$28.95	$347.40	$21.50	$258.00
0906	.060/.066	1,1000	1008/1010 COLD ROLLED	100	$20.00	$20.00	$25.00	$25.00	$25.00	$25.00	$28.95	$28.95	$26.75	$26.75
1245	.072/.084	6,2000	1008/1010 SAE	80,000	$15.95	$12,760.00	$18.95	$15,160.00	$22.95	$18,360.00	$23.95	$19,160.00	$20.45	$16,360.00
1169	.074/.083	7,0000	? ASTM A622 type B HRDS ?	27,000	$17.95	$4,846.50	$20.95	$5,656.50	$22.95	$6,196.50	$23.95	$6,466.50	$21.25	$5,737.50
1277	.074/.084	5,8000	ASTM A622 type B HRDS	8,000	$17.95	$1,436.00	$19.95	$1,596.00	$23.95	$1,916.00	$23.95	$1,916.00	$20.25	$1,660.00
1215	.074/.082	5,8000	sae J1392 050 xlf	6,000	$16.75	$1,005.00	$20.95	$1,257.00	$23.25	$1,395.00	$24.20	$1,452.00	$21.50	$1,290.00
1218	.074/.082	35,0000	sae J1392 050 xlf	70,000	$16.75	$11,725.00	$20.95	$14,665.00	$23.25	$16,275.00	$24.20	$16,940.00	$21.50	$15,050.00
1221	.074/.082	29,2000	sae J1392 050 xlf	45,000	$16.75	$7,537.50	$20.95	$9,427.50	$23.25	$10,462.50	$24.20	$10,890.00	$21.50	$9,675.00
1223	.074/.082	17,0000	sae J1392 050 xlf	25,000	$16.75	$4,187.50	$20.95	$5,237.50	$23.25	$5,812.50	$24.20	$6,050.00	$21.50	$5,375.00
1224	.074/.082	17,8800	sae J1392 050 xlf	35,000	$16.75	$5,862.50	$20.95	$7,332.50	$23.25	$8,137.50	$24.20	$8,470.00	$21.50	$7,525.00
1226	.074/.082	10,0000	sae J1392 050 xlf	7,000	$16.75	$1,172.50	$20.95	$1,466.50	$23.25	$1,627.50	$24.20	$1,694.00	$21.50	$1,505.00
0864	.078/.084	2,0600	1010 DQ	200	$15.75	$31.50	$20.50	$41.00	$20.50	$41.00	$24.45	$48.90	$22.50	$45.00
1120	.078/.088	3,9380	HRCQ ASTM A569 .05-.13 C, .30 Mn min	1,200	$15.75	$189.00	$20.50	$246.00	$20.50	$246.00	$24.45	$293.40	$21.00	$252.00
1259	.078/.086	20,9500	sae J1392 050 xlk	35,000	$16.75	$5,862.50	$20.95	$7,332.50	$23.45	$8,207.50	$24.45	$8,557.50	$21.50	$7,525.00
0943	.079/.089	2,2800	1010	700	$15.75	$110.25	$20.50	$143.50	$20.50	$143.50	$24.45	$171.15	$21.75	$152.25

E and E Manufacturing Co., Inc., Plymouth, MI, 48170—Continued

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0956	.079/.089	2,9100	1010	1,400	$15.75	$220.25	$20.50	$287.00	$20.50	$287.00	$24.45	$342.30	$21.75	$304.50
0992	.079/.086	11,7000	1008/1010 70g 79gm	40,000	$21.95	$8,780.00	$21.95	$8,780.00	$28.95	$11,580.00	$28.95	$11,580.00	$26.95	$10,780.00
1002	.079/.089	14,1250	1008/1010 AKDQ .05 min C RB max 65	17,000	$15.75	$2,677.50	$20.50	$3,485.00	$20.50	$3,485.00	$24.45	$4,156.50	$19.95	$3,391.50
1040	.079/.089	15,0000	1008/1010 AKDQ .05 min C RB max 50-65	23,000	$15.75	$3,622.50	$20.50	$4,715.00	$20.50	$4,715.00	$24.45	$5,623.50	$19.95	$4,588.50
1116	.079/.087	18,3000	SAE J133392 050 XLK	32,000	$16.74	$5,356.80	$20.50	$6,704.00	$22.95	$7,344.00	$23.95	$7,664.00	$21.00	$6,720.00
1045	.079/.085	20,3750	050 XLF HSLA	19,000	$16.25	$3,087.50	$20.95	$3,980.50	$22.95	$4,360.50	$23.95	$4,550.50	$20.95	$3,980.50
1317A	.079/.088	21,1000	SAE J 1392 050 XLK	55,000	$20.75	$11,412.50	$20.75	$11,412.50	$25.25	$13,887.50	$25.25	$13,887.50	$20.95	$11,412.50
0867	.082/.093	10,8750	050 X F HRPO	3,000	$16.50	$495.00	$22.50	$675.00	$23.75	$712.50	$25.50	$765.00	$21.00	$630.00
1308	.087/.094	7,1250	1008/1010 AKDQ	20,000	$16.25	$3,250.00	$16.25	$3,250.00	$23.75	$4,750.00	$23.75	$4,750.00	$20.00	$4,000.00
0890	.091/.097	2,6200	1008/1010	9,000	$15.75	$1,417.50	$20.50	$1,845.00	$20.50	$1,845.00	$24.45	$2,200.50	$20.00	$1,800.00
1239	.094/.102	11,5000	SAE J1392 050 XK HRS	200,000	$16.20	$32,400.00	$19.95	$39,900.00	$22.95	$45,900.00	$22.95	$45,900.50	$20.25	$40,500.00
1044	.094/.102	10,6250	1008/1010 AKDQ	7,000	$15.30	$1,071.00	$19.95	$1,396.50	$23.95	$1,676.50	$24.95	$1,746.50	$20.45	$1,431.50
0923	.094/.104	11,2500	1008/1010 AKDQ	18,000	$15.30	$2,754.00	$19.95	$3,591.00	$21.95	$3,951.00	$22.95	$4,131.00	$20.30	$3,654.00
1292	.097/.101	18,2000	ASTM A1011 Grade CS ? .05-.13% C., .3-.6% Mn	9,000	$15.95	$1,435.50	$15.95	$1,435.50	$15.95	$1,435.50	$21.95	$1,975.50	$20.00	$1,800.00
0871	.097/.110	18,6100	SAE 1010	7,500	$14.50	$1,087.50	$21.50	$1,612.50	$22.50	$1,687.50	$23.50	$1,762.50	$20.00	$1,500.00
1113	.098/.110	1.7500	RCQ ASTM A569 .05-.13 C, .30 Mn min	1,700	$14.50	$246.50	$29.95	$509.15	$27.50	$467.50	$24.95	$424.15	$20.00	$340.00
937	.098/.108	2.1000	950 XF	2,500	$19.00	$475.00	$21.95	$548.75	$23.95	$598.75	$23.95	$598.75	$20.45	$511.25
0865	.098/.110	22.2500	SAE 1010 HRPO	3,500	$15.75	$551.25	$20.50	$717.50	$20.50	$717.50	$24.45	$855.75	$20.00	$700.00
1238	.099/.110	13.8750	SAE J1392 050 XK HRS	215,000	$15.95	$34,292.50	$19.95	$42,892.50	$22.95	$49,342.50	$22.95	$49,342.50	$20.25	$43,537.50
1121	.099/.106	31.0000	050 XLF HSLA	140,000	$16.50	$23,100.00	$19.95	$27,930.00	$22.95	$32,130.00	$22.95	$32,130.00	$20.37	$28,518.00
0856	.101/.109	4.7600	945 XF	20,000	$14.75	$2,950.00	$19.50	$3,900.00	$21.75	$4,350.00	$23.95	$4,790.00	$20.50	$4,100.00
0855	.101/.108	8.8750	1010	22,000	$14.50	$3,190.00	$19.50	$4,290.00	$21.50	$4,730.00	$23.50	$5,170.00	$20.00	$4,400.00
0858	.101/.108	9.5600	1010	10,000	$14.50	$1,450.00	$19.50	$1,950.00	$21.50	$2,150.00	$23.50	$2,350.00	$20.00	$2,000.00
0893	.102/.110	4.0000	1008 AKDQ	10,000	$16.25	$1,625.00	$18.95	$1,895.00	$22.95	$2,295.00	$22.95	$2,295.00	$20.00	$2,000.00
	.1024/													

1167	.1063	12.7500	SAE J403-1010 CR	10,000	$21.95	$2,195.00	$24.95	$2,495.00	$27.80	$2,780.00	$27.80	$2,780.00	$21.05	$2,105.00
1000A	.105/.110	3.8400	J1392 050 XLF	18,000	$16.95	$3,051.00	$19.95	$3,591.00	$23.95	$4,311.00	$23.95	$4,311.00	$20.25	$3,645.00
1122	.106/.113	27.0000	050 XLF HSLA	350,000	$16.20	$56,700.00	$19.95	$69,825.00	$22.95	$80,325.00	$22.95	$80,325.00	$20.00	$70,000.00
1310	.110/.118	8.2500	1008/1010 AKDQ	30,000	$16.25	$4,875.00	$16.25	$4,875.00	$23.75	$7,125.00	$23.75	$7,125.00	$20.00	$6,000.00
1173	.110/.126	5.6250	SAE J1392 050 XLF	1,400	$14.75	$206.50	$21.50	$301.00	$23.00	$322.00	$24.50	$343.00	$20.50	$287.00
1200	.110/.126	7.0000	SAE J1392 050 XLF	22,000	$14.75	$3,245.00	$21.50	$4,730.00	$23.00	$5,060.00	$24.50	$5,390.00	$20.50	$4,510.00
1108	.110/.122	11.7500	SAE J1392 050 XLF	46,000	$16.49	$7,585.40	$19.95	$9,177.00	$22.95	$10,557.00	$23.95	$11,017.00	$21.00	$9,660.00
1204	.110/.126	14.0000	SAE J1392 050 XLF	30,000	$16.49	$4,947.00	$19.95	$5,985.00	$22.95	$6,885.00	$23.95	$7,185.00	$21.00	$6,300.00
1087A	.113/.123	6.4000	J-1392-050 XLK 13% max C	22,000	$16.95	$3,729.00	$19.95	$4,389.00	$23.95	$5,269.00	$23.95	$5,269.00	$20.50	$4,510.00
1261	.114/.122	11.0000	SAE J1392 050 XLF	22,000	$16.10	$3,542.00	$19.95	$4,389.00	$23.85	$5,247.00	$23.85	$5,247.00	$20.25	$4,455.00
1254	.114/.122	11.3700	SAE J1392 050 XLF	30,000	$16.10	$4,830.00	$19.95	$5,985.00	$23.85	$7,155.00	$23.85	$7,155.00	$20.25	$6,075.00
1255	.114/.122	13.1500	SAE J1392 050 XLF	55,000	$16.10	$8,855.00	$19.95	$10,972.50	$23.85	$13,117.50	$23.85	$13,117.50	$20.25	$11,137.50
1180	.114/.122	17.0000	SAE J1392 050-XLF HRS	35,000	$16.10	$5,635.00	$19.95	$6,982.50	$22.95	$8,032.50	$23.95	$8,382.50	$20.95	$7,332.50
0917	.115/.125	8.2500	1008/1010 AKDQ .05 MIN C	65,000	$14.00	$9,100.00	$20.50	$13,325.00	$20.50	$13,325.00	$24.45	$15,892.50	$19.75	$12,837.50
0920	.115/.125	8.7500	1008/1010 AKDQ .05 MIN C	35,000	$14.00	$4,900.00	$19.50	$6,825.00	$21.50	$7,525.00	$23.50	$8,225.00	$19.75	$6,912.50
0916	.115/.125	8.8750	1008/1010 AKDQ .05 MIN C	65,000	$14.00	$9,100.00	$19.50	$12,675.00	$21.50	$13,975.00	$23.50	$15,275.00	$19.75	$12,837.50
1112	.116/.122	5.5000	050 XLK HSLA	68,000	$16.10	$10,948.00	$19.95	$13,566.00	$22.95	$15,606.00	$23.95	$16,286.00	$20.60	$14,008.00
0707	.118/.134	2.2200	1008/1010	33,000	$14.95	$4,933.50	$20.50	$6,765.00	$20.50	$6,765.00	$24.45	$8,068.50	$19.95	$6,583.50
1027	.118/.126	7.2500	1008/1010 akdq .02 min c	52,000	$15.25	$7,930.00	$18.95	$9,854.00	$21.95	$11,414.00	$22.95	$11,934.00	$19.95	$10,374.00
1080	.118/.126	10.7500	1008/1010 akdq .05 min C RB 53-68	85,000	$14.00	$11,900.00	$19.50	$16,575.00	$21.50	$18,275.00	$23.50	$19,975.00	$19.95	$16,957.50
1079	.118/.126	11.2120	1008/1010 AKDQ .05 min C rb 53-68	75,000	$14.75	$11,062.50	$14.75	$11,062.50	$14.75	$11,062.50	$21.45	$16,087.50	$19.75	$14,812.50
1090A	.118/.125	11.5000	1008/1010	115,000	$15.45	$17,767.50	$18.95	$21,792.50	$22.55	$25,932.50	$22.00	$25,300.00	$19.85	$22,827.50
1035	.118/.128	3.6300	MS 6000 44A GAL akdq	20,000	$22.95	$4,590.00	$26.95	$5,390.00	$29.60	$5,920.00	$29.60	$5,920.00	$27.00	$5,400.00
1055	.118/.134	6.4680	MS 264 035 sk	25,000	$14.75	$3,687.50	$19.50	$4,875.00	$21.75	$5,437.50	$23.95	$5,987.50	$19.95	$4,987.50
1193	.118/.133	5.0000	HLSA MS264-035	4,000	$16.25	$650.00	$19.95	$798.00	$23.95	$958.00	$23.95	$958.00	$20.95	$838.00
1191	.118/.133	11.7500	HLSA MS264-035	35,000	$16.25	$5,687.00	$19.95	$6,982.50	$23.95	$8,382.50	$23.95	$8,382.50	$20.95	$7,332.50
1115	.118/.125	6.2500	050 XLF H S S 0.3 min MN CQ	30,000	$16.25	$4,875.00	$19.95	$5,985.00	$22.95	$6,885.00	$23.95	$7,185.00	$20.50	$6,150.00
1128	.118/.125	6.6000	050 XLF HSS 0.3 min MN CQ	30,000	$16.25	$4,875.00	$19.95	$5,985.00	$22.95	$6,885.00	$23.95	$7,185.00	$20.50	$6,150.00
1004	.124/.134	3.0000	1008/1010 .05 MIN CARBON	1,700	$15.75	$267.75	$20.50	$348.50	$20.50	$348.50	$24.45	$415.65	$20.00	$340.00
1294	.126/.136	3.5820	1008/1010 (A1011)	8,000	$14.75	$1,180.00	$14.75	$1,180.00	$14.75	$1,180.00	$21.95	$1,756.00	$20.00	$1,600.00

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This package represents E&E Manufacturing direct buy, non-customer supplied material only.

P/N	Ordered Gauge	Width +/−.010 unless noted	MATERIAL SPEC	ESTI-MATED MONTHLY	Jan–02 Price	Monthly Cost	Apr–02 Price	Monthly Cost	Jul–02 Price	Monthly Cost	Oct–02 Price	Monthly Cost	Jan–03 Price	Monthly Cost
0846	.129/.139	2.0600	1010	2,000	$15.75	$315.00	$20.50	$410.00	$24.45	$410.00	$24.45	$489.00	$20.00	$400.00
0624	.129/.139	3.0000	1010	200	$15.75	$31.50	$20.50	$41.00	$20.50	$41.00	$24.45	$48.90	$20.00	$40.00
0295	.129/.139	4.0000	1010	1,000	$15.75	$157.50	$20.50	$205.00	$20.50	$205.00	$24.45	$244.50	$20.00	$200.00
1197	.132/.143	5.5000	SAE J1392-050-XLK	9,000	$16.95	$1,525.50	$20.45	$1,840.50	$23.95	$2,155.50	$23.95	$1,155.50	$21.00	$1,890.00
0734	.135/.151	1.7500	1010	4,000	$15.75	$630.00	$20.50	$820.00	$20.50	$820.00	$24.45	$978.00	$20.50	$820.00
0999	.136/.146	2.2000	1008/1010	1,000	$15.75	$157.50	$20.50	$205.00	$20.50	$205.00	$24.45	$244.50	$20.00	$200.00
0739	.136/.149	2.6500	1008/1010 AKDQ .05 MIN C	110,000	$15.00	$16,500.00	$20.50	$22,550.00	$20.50	$22,550.00	$24.45	$26,895.00	$20.00	$22,000.00
1235	.149/.165	13.3120	MS 264-035 SO	95,000	$16.45	$15,627.50	$19.95	$18,952.50	$23.95	$22,752.50	$23.95	$22,752.50	$20.50	$19,475.00
1164A	.154/.161	3.2500	SAE J1392-050-XLF	5,000	$16.25	$812.50	$19.95	$997.50	$23.95	$1,197.50	$23.95	$1,197.50	$20.50	$1,025.00
1179	.154/.161	18.0000	HSLA 050 XLF	25,000	$16.25	$4,062.50	$19.95	$4,987.50	$22.95	$5,737.50	$23.95	$5,987.50	$20.50	$5,187.50
0876	.156/.171	1.7500	1010	22,000	$15.75	$3,465.00	$20.50	$4,510.00	$20.50	$4,510.00	$24.45	$5,379.00	$19.85	$4,367.00
0678	.156/.171	2.5000	1010	160,000	$15.25	$24,400.00	$20.50	$32,800.00	$20.50	$32,800.00	$24.45	$39,120.00	$19.85	$31,760.00
1094A	.157/.165	7.2500	SAE J1392 050 XK	45,000	$15.95	$7,177.50	$19.95	$8,977.50	$23.95	$10,777.50	$23.95	$10,777.50	$20.50	$9,225.00
0833	.188/.204	4.0150	1008/1010 akdq .05 min C RB 55-70	3,000	$16.45	$493.50	$20.95	$628.50	$23.95	$718.50	$23.95	$718.50	$20.95	$628.50
0796	.189/.207	3.5000	1010	700	$16.25	$113.75	$18.50	$129.50	$29.00	$203.00	$29.00	$203.00	$20.95	$146.65
1322	.196/.206	4.2500	SAE 1008/1010	15,000	$18.00	$2,700.00	$20.50	$3,075.00	$20.50	$3,075.00	$23.00	$3,450.00	$20.00	$3,000.00
0989	.197/.207	2.1200	1010	9,000	$16.25	$1,462.50	$22.45	$2,020.50	$23.95	$2,155.50	$23.95	$2,155.50	$20.95	$1,885.50
0803	.197/.207	2.5600	1008/1010 TO meet 36.2 Kn Min Proof load per GM510-m	30,000	$16.25	$4,875.00	$18.95	$5,685.00	$22.95	$6,885.00	$22.95	$6,885.00	$20.95	$6,285.00
0722	.197/.207	2.7000	1008/1010 TO meet 36.2 Kn Min Proof load per GM510-m	1,300	$16.25	$211.25	$19.95	$259.35	$22.95	$298.35	$22.95	$298.35	$21.45	$278.85
0574	.197/.207	3.1000	1008/1010 TO meet 36.2 Kn Min Proof load per GM510-m	280,000	$16.24	$45,472.00	$18.95	$53,060.00	$22.95	$64,260.00	$22.95	$64,260.00	$21.45	$60,060.00
1195	.197/.209	11.5000	GM6218M mpa XLF HRPO	330,000	$17.00	$56,100.00	$19.95	$65,835.00	$22.65	$74,745.00	$23.65	$78,045.00	$21.50	$70,950.00
0899A	.200/.207	2.2000	1008/1010 TO meet 36.2 Kn Min Proof load per GM510-m	23,000	$16.45	$3,783.50	$18.95	$4,358.50	$22.95	$5,278.50	$22.95	$5,278.50	$21.45	$4,933.50
0494	.206/.218	2.7000	1010	7,000	$16.95	$1,186.50	$22.45	$1,571.50	$23.95	$1,675.50	$23.95	$1,676.50	$20.95	$1,466.50
1138	.207/.217	6.5000	1008/1010 .05 MIN CARBON	32,000	$16.45	$5,264.00	$18.95	$6,064.00	$22.95	$7,344.00	$22.95	$7,344.00	$20.45	$6,544.00

0972	.213/.224	3.6900	1010	12,000	$14.95	$1,794.00	$21.50	$2,580.00	$22.50	$2,700.00	$23.50	$2,820.00	$20.95	$2,514.00
0971	.213/.224	4.1300	1010	30,000	$14.95	$4,485.00	$21.50	$6,450.00	$22.50	$6,750.00	$23.50	$7,050.00	$20.95	$6,285.00
0973	.213/.224	4.2500	1010	24,000	$14.95	$3,588.00	$21.50	$5,160.00	$22.50	$5,400.00	$23.50	$5,640.00	$20.95	$5,028.00
1076	.215/.233	3.1000	1008/1010	80,000	$15.45	$12,360.00	$19.95	$15,960.00	$23.25	$18,600.00	$23.25	$18,600.00	$20.45	$16,360.00
1296	.215/.234	4.5000	1008/1010	45,000	$15.45	$6,952.50	$18.95	$8,527.50	$22.95	$10,327.50	$22.95	$10,327.50	$20.45	$9,202.50
0695	.217/.231	2.5000	1010	14,000	$16.45	$2,303.00	$22.50	$3,150.00	$23.95	$3,353.00	$23.95	$3,353.00	$20.95	$2,933.00
1194	.217/.227	5.0000	SAE 1010	16,000	$16.45	$2,632.00	$22.50	$3,600.00	$25.25	$4,040.00	$25.25	$4,040.00	$20.95	$3,352.00
1014	.222/.232	2.1200	1008/1010 TO meet 19.9 Kn Min Proof load per GM510-m	95,000	$17.25	$16,387.50	$21.45	$20,377.50	$24.95	$23,702.50	$24.95	$23,702.50	$21.95	$20,852.50
0625	.228/.250	0.7870	1008/1010 EDGE ROLLED	3,000	$26.95	$808.50	$36.95	$1,108.50	$37.95	$1,138.50	$37.95	$1,138.50	$37.65	$1,129.50
0773	.236/.252	1.9300	1008/1010 .05 MIN CARBON	1,000	$16.50	$165.00	$25.95	$259.50	$26.95	$269.50	$26.95	$269.50	$21.45	$214.50
0689A	.236/.248	2.3600	1008/1010 .05 MIN CARBON	20,000	$15.95	$3,190.00	$19.95	$3,990.00	$23.25	$4,650.00	$23.25	$4,650.00	$20.95	$4,190.00
0623	.236/.257	3.1300	1008/1010 .05 MIN CARBON	3,000	$20.00	$600.00	$22.95	$688.50	$23.25	$697.50	$23.25	$697.50	$20.95	$628.50
1043A	.236/.252	2.5000	050 XLF HSLA	140,000	$16.45	$23,030.00	$19.95	$27,930.00	$23.10	$32,340.00	$23.10	$32,340.00	$21.95	$30,730.00
0601	.240/.260	2.7000	1010	12,000	$16.25	$1,950.00	$22.95	$2,754.00	$24.65	$2,958.00	$24.65	$2,958.00	$21.95	$2,634.00
0984A	.246/.256	3.1000	1008/1010 .05 min C	1,000	$17.00	$170.00	$19.95	$199.50	$24.65	$246.50	$24.65	$246.50	$22.50	$225.00
0949	.248/.262	1.1800	1008/1010	1,000	$17.00	$170.00	$19.95	$199.50	$24.65	$246.50	$24.65	$246.50	$22.95	$229.50
0572	.266/.284	2.6200	1008/1010 AKDQ .05 MIN C	200,000	$15.99	$31,980.00	$20.45	$40,900.00	$23.95	$47,900.00	$23.95	$47,900.00	$21.95	$43,900.00
155	.268/.282	2.5000	SAE 1008/1010	2,000	$19.00	$380.00	$20.45	$409.00	$23.95	$479.00	$23.95	$479.00	$21.95	$439.00
0948	.276/.300	4,7500	1008/1010	22,000	$17.05	$3,751.00	$20.45	$4,499.00	$23.95	$5,269.00	$23.95	$5,269.00	$21.95	$4,829.00
1104	.295/.310	2,5000	1050 XK 13 Max C HSLA	60,000	$16.95	$10,170.00	$21.45	$12,870.00	$24.65	$14,790.00	$24.65	$14,790.00	$21.95	$13,170.00
0993	.295/.310	2,7500	950 XK HSLA FB 16-7J	30,000	$16.94	$5,082.00	$21.45	$6,435.00	$24.65	$7,395.00	$24.65	$7,395.00	$21.95	$6,585.00
0995	.295/.310	3,5000	950 XK HSLA FB 16-7J	20,000	$16.93	$3,386.00	$21.45	$4,290.00	$24.65	$4,930.00	$24.65	$4,930.00	$21.95	$4,390.00
1247a	.295/.311	3,0000	GM6218M Grade 340 HSLA	25,000	$16.95	$4,237.50	$21.45	$5,362.50	$24.65	$6,162.50	$24.65	$6,162.50	$21.95	$5,487.50
1069	.307/.323	3,4450	1008/1010	1,000	$18.00	$180.00	$22.00	$220.00	$24.65	$246.50	$24.65	$246.50	$22.95	$229.50
0810	.331/.350	2,7500	1010 AKDQ	1,000	$21.25	$212.50	$23.95	$239.50	$27.60	$276.00	$27.60	$276.00	$22.95	$229.50
0885	.354/.372	2,4500	MS-264-50 (slit TOL +/−.020)	60,000	$19.95	$11,970.00	$19.95	$11,970.00	$26.95	$16,170.00	$26.95	$16,170.00	$24.20	$14,520.00
1248	.354/.370	3,4500	GM6218M Grade 340 HSLA	33,000	$21.99	$7,256.70	$23.95	$7,903.50	$26.95	$8,893.50	$26.95	$8,893.50	$22.45	$7,408.50
			Monthly Total for the given quarter	3,917,800		$805,152		$987,149		$1,131,011		$1,173,209		$1,030,823
			Comparison from	Jan–02			$181,997	23%	$325,859	40%	$368,057	46%	$225,672	28%
			Comparison from	Apr–02					$143,862	15%	$186,060	19%	$43,675	4%
			Comparison from	Jul–02							$42,198	4%	−$100,187	−9%

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P/N	Ordered Gauge	Width +/−.010 unless noted	MATERIAL SPEC	ESTI-MATED MONTHLY	Jan–02 Price	Monthly Cost	Apr–02 Price	Monthly Cost	Jul–02 Price	Monthly Cost	Oct–02 Price	Monthly Cost	Jan–03 Price	Monthly Cost
			Comparison from	Oct–02									−$142,386	−12%
		Proprietary products that are price sensitive to foreign competition		1,867,800		$309,340.20		$381,128.85		$436,549.35		$452,520.95		$402,376.25

12 Months Had Prices Stayed at Q1 2002 **$9,661,820**

Actual 12 Months From 4/1/02 to 3/31/03 **$12,966,575**

Total Cost Impact From 4/1/02 to 3/31/03 **$3,304,755**

Percentage of Cost Impact **34%**

E&E Manufacturing direct-buy, non-customer supplied material only

Chairman CRANE. Thank you. Now it is time for questions. Let me remind my colleagues up here that we will limit that to 5 minutes per Member and that includes the answers from our witnesses here who are testifying. So, if their time is eaten into by the questions, you have got to depend upon written responses at some point.

I would start out with Mr. Taylor. You mentioned in your testimony that your company has purchased three factories in China and that material costs, not labor costs, are your primary motivation for moving production to China.

Do you believe the section 201 tariffs have accelerated the transfer of manufacturing jobs to China?

Mr. TAYLOR. Yes, Mr. Chairman, I believe the section 201 tariffs have accelerated and are now in the process of further accelerating job losses. If the section 201 action is not reversed, this process will continue. The jobs that we have lost so far will not be the only jobs that are lost. In fact, I am afraid it is just the tip of the iceberg.

The economics of our situation, and I think it is very similar in a lot of products that are made from steel, 30 to 50 percent of the cost of our products, primarily the fastener products, are steel costs. Labor is less than 10 percent. In fact, in most of them, 6 to 7 percent of the cost of the product. Fasteners, in particular, are very highly automated components in today's world.

So, raw materials drive what we do to an ever greater extent. We do business in Taiwan and China extensively, as well as Europe and South America. We know that the cost of raw materials, particularly cold-headed quality wire that we use for fasteners, is approximately one-third less in China and Asia, and particularly in Taiwan, than it is here in the United States.

That one-third on 30 to 50 percent of the total costs, you can see a quick calculation of 10 to 15 percent of the total cost of the product driven by that raw material difference. Whereas regarding labor, if I had free labor, it would not be that great.

Yes, the cost of raw materials is driving us to China. Our customers have refused to pay price increases. They have told us if you do not take it to China, we will take it to China, around you.

We choose to at least retain the distribution portion of the business and we are forced to take business to China that otherwise would not go if we could have competitive, world competitive, raw materials.

Chairman CRANE. Thank you. Several of you have expressed your support for a strong, profitable, and viable steel industry. The steel industry argues that the best way to achieve that is by protecting it from imports while it restructures. Do you believe the section 201 tariffs have helped or hindered industry restructuring, and why? Please, anyone that wants to respond, please do.

Mr. LEULIETTE. Mr. Chairman, I believe that any time you have an artificial ingredient into the equation which precludes you from head-to-head competition, you sometimes will not step up to some of the changes that are necessary. In the SBQ area where we are focused, a couple of those mills had already restructured. We are very profitable and very competitive. All they have used the tariffs for is to have record profits at our expense.

The U.S. auto industry, the supplier industry, has never been protected by tariffs. The supplier industry has not, and we have grown to be competitive.

Over 35 of my competitors have gone bankrupt in the last 2 years. It is a very unfortunate action and an unfortunate situation, but it is part of the evolution and the restructuring of the competitive automotive supplier industry, some industries hire and some restructure. We have not seen a significant reinvestment on the part of our suppliers during this section 201 period.

Chairman CRANE. Anyone else want to comment on that question?

Mr. SMITH. Mr. Chairman, we commissioned a study by a local college, Hillsdale College in Michigan. We did a cash flow analysis based on the steel section 201 tariffs in terms of whether steel prices had spiked in the fourth quarter of last year.

Based on the cash flow projection, it was determined—we did not see where any significant cash was being generated where that moneys could be reinvested into plant and equipment. In other words, the steel section 201 tariffs have pretty much just forestalled the inevitable. We see that at the end of the 3 years, unless there has been significant improvement in terms of operational efficiencies, serious reinvestment into plant and equipment, that the only thing that we will have done within that 3-year period is decimate a significant portion of the economy, which is the steel-consuming industries.

We think that there are alternatives that could have been looked at. There are alternatives that could have really helped those that really needed it, the integrated mills. Unfortunately, those that have benefited from it the most have been the mini-mills.

Chairman CRANE. Hillsdale College is one of my alma matters. I got my bachelor's degree at Hillsdale.

One final question for any of you. Can you tell me how many people are affected by these tariffs in your company? Has this change in your overall competitive position resulted in any reductions in your work force or in a slowdown of hiring?

Mr. PRITCHARD. Mr. Chairman, we are fairly small, I guess, by many standards. As I said, we have about 370 associates working within the business now. Within the last 12 months we have had to lay off 33 of those people. They were not just hourly workers, they were managers, engineers, all the way up to a top position of plant manager. It was truly an economic hardship situation that forced us into this.

There is probably no harder thing that I have had to do in my professional career than to look at people that I have worked with for many years, and I had to tell them that we can not longer afford to have their position filled.

This goes along with a lot of the slowdown issues that have been brought about within our organization by the increased cost and the degrading of our competitive position within the industry.

Chairman CRANE. Anyone else want to comment?

Mr. LEULIETTE. As I said in my testimony, Mr. Chairman, we have announced today 600 layoffs will occur in Metaldyne in the next 60 days. About 400 of those are directly related to either the product moving offshore because we cannot get the steel and be competitive here because of steel, or because of lost business that we have not been able to maintain because it has been resourced offshore. That is 400 jobs in 60 days, and it is just the tip of the iceberg.

Chairman CRANE. Mr. Levin?

Mr. LEVIN. Thank you, and welcome to all of you. I think it is important that we hear from you. Our colleagues are busy on other activities. We will try to convey the word to them.

All of you have talked about the critical importance of manufacturing. I will not say sorry for the buzzer because I do not have anything to do with it.

You have all talked very, very powerfully about the importance of the manufacturing base of this country and I think all of you know, or some of you, how strongly I feel about its maintenance.

What we have here, though, is a conflict if not a clash among different parts of the manufacturing base of this country.

By the way, when you talk about labor and it is not such an important part of your operation, there is a labor ingredient in the supply in the materials and China has an immense advantage over us when it comes to that.

I am sorry, in a way, that the panels are structured so that we do not have part of the next panel up with you and part of you up with the next panel to have some kind of a contrast here. You come from different size companies and some of you, especially Mr. Leuliette, I have had the privilege of knowing for a good number of years. He comes, I guess, from the largest of the companies represented here. So, let me just say a word to someone who is kind of, I think, middle-sized, and just talk for a few minutes with Mr. Taylor.

Two things. On page 3, you say I would suggest that after more than 30 years of almost continuous protection there are structural problems in the steel industry that would be better solved by market forces than by continued government action.

Part of the problem in the steel industry is that there is government action in many countries involved in steel production. You do not have a free market. You have immense subsidization, and that was very much reflected in the influx of steel here in 1997 and 1998. A lot of it came, Russian steel was is heavily subsidized. It was not free market produced steel. The same was true, to some extent, in Korea or Brazil, almost everywhere.

So, the simple formulation of free market versus government does not quite fit the dilemma here.

So, let me just also, you referred to a study that was undertaken by the association. Let me just read to you, maybe you have seen it, the critique of the Financial Times on your study. The study showed 200,000 jobs lost in the industries from December 2001 to December 2002. Two hundred thousand due to higher steel prices. Here is what it said. It opposed the tariff actions. It said what the study also failed to mention was that all the jobs lost in 2002 actually occurred in January 2002, 2 months before the tariffs were imposed, and when steel prices were near historic lows.

Then it quotes Gary Huffbauer, who also opposed the tariffs, saying the claim of 200,000 jobs lost is way out of bounds. He estimated 5,000 to 10,000 jobs have been lost.

I think it is higher than that. You have indicated that by your testimony. One thing we need to accomplish here today, and after this, is to try to dig out what the facts really are. To then find a way, if we can, to reconcile how we maintain the manufacturing base.

Is steel not part of the manufacturing base of the country? Would any of you be satisfied if all the steel or 75 percent of the steel used in the United States came from outside this country? Would any of you? None of you? Thank you.

Chairman CRANE. Thank you. Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman, and I am going to keep my remarks brief.

This panel is a group of business leaders who have gone through what a lot of manufacturers have in this economy, and I tend to sympathize with them. I would like to sharpen their testimony on a couple of specific points to maybe address my curiosity or speak to the credibility of the conclusion I am hearing here. Mr. Leuliette, I hope I am not mispronouncing that.

Mr. LEULIETTE. Leuliette.

Mr. ENGLISH. What were Metaldyne's most recent financial results as set forth in its most recent annual report? Are you not significantly more profitable than the vast majority of the steel industry that you have characterized as taking record profits at your expense?

Mr. LEULIETTE. We are privately held, and if you notice on a per-share basis we had a loss last year.

Mr. ENGLISH. I thought you had a profit of $114 million last year with an operating margin of over 6 percent. That is not accurate?

Mr. LEULIETTE. That is not accurate. If I may, sir. I do not attest that we are not a profitable company. We strive to be profitable.

Mr. ENGLISH. Metaldyne estimates that the higher steel prices would reduce profitability by $5 million, which my estimate was that that represented less than 0.3 percent of your sales last year. Is that also inaccurate?

Mr. LEULIETTE. We had said publicly that we thought that with our customers that we were going to be able to recover a large percentage of that. That turned out not to be the case, which is why the layoffs are occurring today.

Mr. ENGLISH. Mr. Trilla, before the last few years did you not mostly purchase your steel from U.S. steel companies? If so, why did you not have any failures of your coatings back before you began using imported steel? My recollection is that beginning in March 2001 imports of cold-rolled steel from Korea surged. Their cost, insurance, and freight price was only $299 a ton, far less than the domestic price at the time. Is it not really low price that drove your decision, rather than quality?

Mr. TRILLA. No, sir. We have traditionally bought, at Trilla Steel Drum, 80 percent domestic steel. I am sitting in Chicago, I have steel mills all over, and they are wonderful suppliers.

As the quality issues started to develop, we found that buying steel from Korea, it would reduce our costs in laundering the steel, having to clean it. It gave us a better adhesion. Our lined drum business went up better than 100 percent. We were rewarded with that.

Mr. ENGLISH. Very good. When Trilla Drum and several other drum manufacturers apply to the U.S. Department of Justice Antitrust Division to establish a "joint selling and purchasing company" you asserted that "because of the high cost of shipping steel drums a manufacturer, in most cases, can only efficiently compete for sales within a 100 to 200 mile radius of its plant."

You are now complaining that your customers have switched to imports which would entail, as I understand it, very high shipping costs. How can imports of steel drum compete in the United States if your statement to the Antitrust Division is true?

Mr. TRILLA. I am sorry for not being clear on that issue. You are correct.

The import drums that I am talking about are not being imported into the United States. My customers are feeling now, they are producing in Michigan, Illinois, Iowa, and so forth, and shipping bulk back to Singapore, South America, Brazil, back to Amsterdam in large tankers and buying their drums and filling their drums in these further ports and then shipping them back, the product drum, back here to the United States.

Mr. ENGLISH. I appreciate your clarification.

Mr. Taylor, I read your testimony. You conceded up front that, I believe, over 90 percent of the steel that you have been using is excluded from the President's policy. You went on to say that 40 percent of steel-consuming companies are moving production offshore. You attribute it to the single cost of steel prices without reference to rising health care costs, non-border adjustable tax system, the liability issue and the downstream dumping issue that Mr. Nixon mentioned, and currency differentials.

Is this not putting an extraordinary burden on the factor of one input, which you have testified increased your costs by 7 percent?

Mr. TAYLOR. We buy predominately wire rod. Wire rod was under a Clinton Administration action prior to the section 201 action, was not involved in the action. Wire rod was, prior to the Administration's action, more expensive in the United States, approximately 25 percent lower cost in the Asian countries. It is now about one-third lower cost in Asia versus the United States.

There has been an overall elevation in the price of all steel products, an umbrella created by the tariff action. I happen to believe personally that that is because the steel companies that can, are raising prices and that they can, to some extent, choose to produce wire rod or bar, various products, depending on whether they are covered by a tariff.

Mr. ENGLISH. We will get into that it on the next panel. Mr. Chairman, thank you for your patience.

Chairman CRANE. Absolutely. Mr. Houghton?

Mr. HOUGHTON. This is a tough issue. It is tough for you, tough for the steel companies. It is tough for us because we have got to try to figure out how to create the atmosphere which is better business conditions for you and the steel companies.

So, you can get drowned in figures. For example, I have figures here which said that steel imports in 2002 actually increased 8 percent compared to 2001, despite the tariffs. Also, imports on all sheet products were 10 percent higher from March to November 2002.

So, you can say well, that is a factor that you ought to take into consideration, but does it help the issue? How can we keep companies like yourselves healthy and yet, at the same time, not lose the steel industry?

I know what it is like personally to be in an industry where there were uneconomic conditions from foreign sources driving me out of business. I know that in the process of trying to fight that that some of our customers were hurt.

We were going out of business, not because we wanted to, not because we did not have the best technology, the best price, the best costs, the best service, but there were other factors working against us.

So, how do you put these two things in balance? What would you say, you gentlemen, if you were the head of a steel company? How would you react to this?

Mr. LEULIETTE. Let me say sir, that our customers did not give us that choice. Our customers said very simply that the American consumer was unwilling to pay a premium for U.S. steel. As a result of that, they could not pay us a premium for the components we sold the auto industry. They give us a very simple statement, become globally competitive or lose your business.

For decades, that has been the dogma and the premise from which we have operated from.

Mr. HOUGHTON. So, you would say to the U.S. steel companies if the economic conditions were such, too bad guys, that is just your tough luck and you have got to move abroad the way we have?

Mr. LEULIETTE. In some cases, two of our major steel suppliers were U.S.-based, very competitive, and very profitable. They had addressed their issues long before the tariff came into play.

Mr. HOUGHTON. I see. So, the ones that are not doing well, irrespective of the tariffs, are the ones that really have not cleaned up their own house?

Mr. LEULIETTE. Well, I do not know their total operations but I would say that some of them have legacy issues. There is no question about it, this is a difficult issue, as you stated.

The problem is that we are moving the steel industry's problem to the steel users, as opposed to addressing the problem. We have moved it because we cannot move it through.

As one of my colleagues said before, we cannot take the price problem that is generated here and pass it on down the line. It is stopped at our level and we are squeezed.

Mr. HOUGHTON. We are in a war now and we need all the strategic materials and production capacity that we can get. If you were economic czar of the United States, what would you tell the steel companies?

Mr. SMITH. I would like to have a comment on that, if I could.

The issue, I think, is that alternatives have not been explored, not seriously, in terms of how can we help the steel industry to become a viable economic power in the United States that it once was. Outside the fact that the steel industry has been the most heavily subsidized industry since the sixties, still nothing has really been done outside of just simply taxing steel.

Mr. HOUGHTON. That is an opinion, not a fact.

Mr. SMITH. I think it is factual.

In terms of, the fact that an alternative has not been explored, one of the things that we actually proposed and it was not highly receptive, was that perhaps some other type of loan guarantee that the steel industry could use to modernize their facilities, to make sure at the end of the 3-year cycle, that they can compete globally. We need a strong U.S. steel industry. We recognize that. We support that.

We are just simply asking that the pain that the steel industry has been suffering is not simply transferred and then multiplied by factor of 10 or 20 to the steel-consuming industries, because, in terms of the small to medium-sized manufactures who are the backbone and have been the economic engine that has driven us to prosperity in the nineties, are the ones that get hit the hardest because we are least able to—we do not have a big stick. We do not have the purchasing power that the big guys have.

Mr. HOUGHTON. Could I just interrupt a minute, because my time is running out. I appreciate, you are doing a great job for your companies and I know you have got extraordinary economic pressures on you, but so does the steel industry. I really think this thing lends itself to far greater discussion. Thank you, Mr. Chairman. Thank you gentleman.

Chairman CRANE. Thank you. Mr. Cardin?

Mr. CARDIN. Thank you, Mr. Chairman.

I want to follow up a little bit on Mr. Houghton's point because I think he really laid it out well. We talk statistics, but there is a face to this. Yesterday in Baltimore, a staff person of mine attended a meeting with 3,000 Bethlehem Steel workers whose health benefits will be terminated on March 31, 2003 and are now faced with decisions on how to cover themselves for circumstances that they may not be able to find health insurance to cover.

I mention that because there is a real cost to what we are doing here. Mr. Smith, you indicated that there had not been alternatives suggested. We went through a voluntary restraint policy where U.S. steel companies reduced their capacity substantially. We were misled, I think, by the international community, and today we have overcapacity. I think we would all agree on that, but the overcapacity is not in the United States.

So, I guess I really want to follow up on Mr. Houghton's point because I am not sure exactly you have answered that question. We had a steel policy, and obviously it didn't work because our steel companies are now in bankruptcy. We can't produce enough steel for our own needs. We have to import steel.

I am curious as to whether you think the anti-dumping and countervailing duty laws in the United States are right or wrong. Do you think we should have protection against dumped steel in the United States? Do you think we should have protection against the United States being attacked because of the overproduction of steel internationally? Do you think it is important that we have domestically produced steel in the United States?

Mr. PRITCHARD. Sir, I would like to respond to that. Certainly I think everybody on this panel who lives and breathes with steel each day in their businesses wants this steel industry strong in this country. I know we do in Cleveland, and I am sure it is the same with the others.

You are right, there has got to be a solution to this problem somewhere. I don't know that I—well, I am sure I am not bright enough to come up with that answer. I think it will take many more minds working on this than we have in our company to provide a suitable solution. I think what we can say is that it is evident to this group and to our segment of the food chain in the steel industry that the tariffs are not working. I think it was best put when we talk about the 3,000 steel industry folks that are going to be losing their benefits; that is tragic. It is very difficult to accept for any——

Mr. CARDIN. I think we all acknowledge that the imposition of a tariff represents a failure. I think we all would acknowledge that. None of us wants tariffs imposed. What we want to do is get fair competition, and we don't want to see products come into this country that are illegally subsidized.

Mr. PRITCHARD. Right.

Mr. CARDIN. That is what we are trying to prevent. So, you can say lift the tariffs and close the U.S. steel companies, and that is certainly one solution. That will reduce capacity. That will get you cheaper steel, at least in the short run. It will cost this country a capacity that I think is important for not only national defense, but also as far as our economic base is concerned. That is not the answer either.

Mr. PRITCHARD. Well, sir, because the tariffs have probably weakened at least our segment of the economy more than any single thing that has happened in the last decade or more. With the jobs issue, one of the associates—a union associate, a United Steelworker associate within our business, as part of our United Steelworkers Union that represents them, said before the House Committee on Small Business something that hit me right between the eyes. He said, "Why is my job less important than someone making the steel?"

Mr. CARDIN. Every job is important. I guess it would be better if we would have had more active help from you years ago to strengthen our anti-dumping laws so that we didn't have to reach the point that we have reached today. Believe me, the steel companies, the steel manufacturers in this country are not making out well under the current circumstance. They are in bankruptcy. They are having to do extraordinary things. This is not the ideal—this is not the solution for them. I am just disappointed we didn't have more sensitivity to this issue earlier so we wouldn't be faced with the type of crisis that we have today in steel manufacturing. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Mr. Jefferson?

Mr. JEFFERSON. Thank you, Mr. Chairman. My timing is apparently excellent.

I heard the testimony of the first panel and the start of your testimony this morning, and I think on both sides there are good-faith concerns and there are real concerns that this panel, this Congress, the President has to take into account as we go forward trying to make the best decision for all concerned.

I know that the decision that was made doesn't have anything to do with the anti-dumping or countervailing laws. It is a separate issue; this Section 201 resolution question is a separate issue. It has a narrow focus, and I guess it is about injury in a particular sector. What you are saying today is that there have been some perhaps unintended consequences that flowed from that decision to assist industry that flowed into where you are. Our challenge, it seems to me, is to try to figure—and it wouldn't have been so bad, I guess, if the prices hadn't risen so much.

If you had taken a Section 201 action and the price had been somewhat moderated, the price increases had been moderated, you wouldn't have felt the pain you feel now in your own industry as consumers of steel. That is fair to say, I think. Our job, it seems to me, is to try and figure how we deal with the small companies that are the price takers in this business, that can't pass it on to somebody else, that themselves are laying off people and creating problems in their own industry and their own business, and at the same time trying to find a way to deal with the realistic issues on the steel side.

Now, there are lots of issues which we can do without condemning anybody about it. Section 201 doesn't deal with the legacy questions, which are major issues to restructuring. The President's 2002 decision asked for the steel industry to restructure itself, and many of them are trying to do that. The legacy issues and the benefit questions are hard problems as they are trying these restructurings.

Nothing in Section 201 addresses those questions. Nothing in the President's decision addresses those. Nothing we have talked about today addresses those questions. Until they are addressed, this restructuring that is the hope of this Section 201 process won't take place, and the unintended consequences you guys are facing will continue to be problems for you.

So, I would just ask you this: When you say that you want to see some help for the domestic steel industry, but you at the same time want to make sure that it doesn't drive you out of business and create job losses or dislocations that are unfair and disproportionate in your industries—I have kind of given my idea of what may be some broad ways to deal with it, but what do—can anyone tell me how they see these two things being reconciled without us taking a position that you are right, they are wrong, or they are right and you are wrong? What is the best way that we can suggest to the President as he reviews this decision to deal with this question of these apparently competing sides here, but that might have some way to be reconciled? What is the recommendation on that?

We have heard what you said. I think that what you have said is exactly right. These things have happened to ports, to businesses, and no one saw it coming, at least not to the extent they have. Now it is time to fix them so we can work on both sides. How can we do that and reconcile both these questions?

Mr. TAYLOR. Well, I personally believe in free trade. I think in the long run that is the best thing for our society. It forces the right things to happen, and over the long run, those countries that are subsidizing their industries will pay a price. It would have been better, frankly, if we would have just granted direct subsidy to the industry or made loans to the steel industry, generally the large integrated producers, rather than to provide a blanket across most of the industry of a higher price. It would have been better spent because it wouldn't have forced the steel-consuming jobs out of the country. I don't agree that that is right, but it would have been better. It would have been a lesser evil.

Mr. JEFFERSON. Would it have been better also to do quotas instead of the tariffs that end up with taxes on?

Mr. TAYLOR. My experience with quotas is that it creates shortages and dislocations, and it might even be worse because then you can't even get the product to produce. It is isolated dislocations that provide no other remedy.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Mr. Becerra?

Mr. BECERRA. Thank you, Mr. Chairman. To the panel, thank you very much for your testimony. I apologize in advance that I was not able to attend when you were providing your remarks, and so you will forgive me if I ask a question that you may have already responded to, and if so, please just let me know. I will try to keep my questions brief, Mr. Chairman, and hope that if they have not been answered, that anyone from the panel would be willing to offer remarks.

I would like to know if any of you have had to move any of your production facilities abroad since the imposition of the Section 201 tariffs.

Mr. TAYLOR. Yes, we have. Going into the tariff period, we purchased about 5 percent of our production value outside of the country. In 1 year, that has now moved to 10 percent; in other words, it has doubled. It will probably double or triple again in the next year or two if the tariffs remain in place, and a proportional number of jobs will, therefore, be exported for our company if the tariffs remain in place.

Mr. BECERRA. So, that doubling or the 5-percent increase in the production being done abroad, is that due solely to the tariffs?

Mr. TAYLOR. The movement from 5 percent to 10 percent in the past year is due primarily to tariffs, not solely.

Mr. BECERRA. Not solely. How big a factor were the tariffs, if you are saying primarily?

Mr. TAYLOR. They were by far the largest single factor.

Mr. BECERRA. Okay. Can you tell us to where that production was moved?

Mr. TAYLOR. Most of it to Taiwan and to mainland China.

Mr. BECERRA. Can you tell us what the tax rates, the labor costs, your capital costs and other raw materials might be in Thailand versus—did you say Thailand?

Mr. TAYLOR. Taiwan.

Mr. BECERRA. Taiwan.

Mr. TAYLOR. And mainland China.

Mr. BECERRA. Okay. In Taiwan and mainland China, can you give us a comparison of your different costs, labor, taxes, capital, other raw materials?

Mr. TAYLOR. Labor is less than 10 percent of our total cost in the United States. Of course, it is lower in Taiwan. It is about 40 percent of the cost of labor in the United States. In mainland China, you might as well call it free. Labor is very, very low.

Mr. BECERRA. Taxes?

Mr. TAYLOR. Taxes and other things are roughly comparable, all things in. The biggest single factor in our cost base in most of the products we make, the cost is 30 to 50 percent raw material, and in those that are made from steel, which is the majority, 30 to 50 percent is steel. So, the steel cost issue is the largest of all the cost issues?

Mr. BECERRA. Anyone else?

Mr. LEULIETTE. As I said, I think in my testimony, we are moving in two ways. First of all, we are moving our steel buy offshore to non-tariff countries. We are moving enough of our steel buy that it represents half of a mill as being resourced offshore in the next 12 months.

Second, we have started to move our componentry to, first of all, Korea; that will be followed with Mexico in about 8 months. So, it is a process that is continuing.

Mr. BECERRA. Anyone else? If we were to remove the Section 201 tariffs, would you return that production here and the purchase?

Mr. LEULIETTE. Some of the jobs that have gone are gone for good. We have made commitments. We put capital in place. I think the issue with Section 201 is not to bring jobs back but to stop the outflow of jobs.

Mr. BECERRA. If you are to stop the outflow and it is because of Section 201, if Section 201 is gone, then we would presume that those jobs would either remain or come back.

Mr. LEULIETTE. If we stop Section 201, there will not be a continual migration of jobs, but with just having invested tens of millions of dollars in new facilities in these countries, we are not going to lock them up, walk away, and come back here. We have trained people. We have put new facilities in place. It is a long-term investment.

In this particular business, those are 10-, 20-year commitments. They are not 6-month commitments.

Mr. BECERRA. Same thing, Mr. Taylor?

Mr. TAYLOR. Absolutely.

Mr. BECERRA. So, that production that is left probably would not return even if Section 201 were removed.

Mr. TAYLOR. That is right. Once it is gone, it is very unlikely that it would come back. There would have to be some major dislocation. You have to understand there has to be a significant cost differential—I would place that in the vicinity of 8 or 10 percent—to cause a company to want to go through the trouble and the pain of moving facilities. Often it causes quality problems, delivery disruptions. You don't do that lightly, but once you have done it, now you need another barrier to go back. The way I see it, it is unlikely, barring some major disruption, that that increment would be created.

Mr. BECERRA. I thank you.

Mr. TAYLOR. They are not coming back.

Mr. BECERRA. I thank you for the testimony, although I will mention that it sounds like you are making long-term decisions while Section 201 is meant to be a short-term relief. So, I would be concerned that you might be mixing apples and oranges here, because it seems like you are trying to make long-term decisions, which every company must do to meet its bottom line, whereas Section 201 is trying to address a short-term problem. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. I would just like to add something very briefly. I wonder whether we are not talking about the wrong issue. Section 201 has come and it will go. You will still have the basic pressures. I think the pressures on your industry, on the steel industry, are going to be such that if we don't think through what it is to have this precious asset we have, which is our market, then we are all going down the drain.

Chairman CRANE. Let me express appreciation to all of you for your appearance and your testimony and your patience in letting us take that break of 1 hour and 20 minutes.

I just got a New York Times release here, and a couple of our witnesses in the next panel are quoted from their testimony before us at the Subcommittee on Trade meeting. I didn't realize they had already spoken. Apparently they are not going to appear in the next panel.

At any rate, the focus of the article, though, is about how the United States said Wednesday it would appeal a preliminary WTO ruling against steep steel tariffs imposed last year by President Bush and that the trade body's final ruling was not changed. So, I thought I would just give you the latest update with regard to where we stand with the WTO.

With that, I want to again express appreciation to all of you, and we will adjourn this panel and I will call the next panel to the Committee.

All right. Our next panel is Mr. Dan DiMicco, President, Chief Executive Officer, and Vice Chairman of Nucor Corporation; Mr. Andrew Sharkey, President and Chief Executive Officer, American Iron and Steel Institute (AISI); Leo Gerard, International President, the United Steelworkers of America; Charles Connors, President, Chief Executive Officer, and Chairman of Magneco/Metrel, Addison, Illinois; and Peter Dooner, President, Wheatland Tube, Collingswood, New Jersey.

Before you folks start your testimony, let me ask you to please try and keep your oral presentations to 5 minutes, and the little light in front of you will give you a high sign as to where you are. Any written testimony that you have will be made a part of the permanent record.

With that, Mr. DiMicco, you proceed first.

STATEMENT OF DAN DIMICCO, PRESIDENT, CHIEF EXECUTIVE OFFICER, AND VICE CHAIRMAN, NUCOR CORPORATION, CHARLOTTE, NORTH CAROLINA

Mr. DIMICCO. Thank you, Mr. Chairman. Good morning. I am Dan DiMicco, President and Chief Executive Officer of Nucor Corporation, the largest steel producer in America, and the Nation's largest recycler. I appreciate this opportunity to testify.

The President's remedy has had a beneficial impact on three classes of businesses: steel producers, companies supplying goods and services to the steel industry, and steel users who depend on a reliable source of domestic steel supply. There are literally thousands of these companies in all parts of the United States.

The President is addressing the big picture: a crisis that threatened the steel industry and its supplier and customer base. The President's steel decision must be put in context. Our trading partners had repeatedly violated the anti-dumping and countervailing duty laws with respect to steel so pervasively that enforcement of our trade laws was virtually impossible. As a result of the blatant violation of international trade rules, the domestic steel industry was undergoing unprecedented hardships. Even companies like Nucor, which some analysts believe is the most efficient steel producer in the world, were finding it difficult to compete in our own home market. Clearly, something was dysfunctional with the world steel market.

The President got it right with his three-part initiative. The first two parts address the root causes of the import surge: global excess capacity and government subsidies. The last part provides temporary, limited breathing room for the U.S. industry from imports. This breathing room is no free ride. It is conditional on the industry spending billions to reorganize, restructure, and make itself even more globally competitive. The industry accepted this 3-year contract and is carrying out its obligation. We are consolidating, restructuring, cutting costs, and improving productivity. We are bringing back capacity that is economically competitive on a global basis. Our suppliers are benefiting. Each of our plants supports dozens if not hundreds of small businesses throughout the United States.

For example, the U.S. transportation infrastructure moves 2 tons of raw material for every 1 ton of steel produced. Trucks, rail, barge, ports—we use them all. Yet this Subcommittee requested a section 332 study by the ITC without one mention of the beneficial impact of the President's remedy on suppliers and the transportation industry.

I am surprised to see the Port of New Orleans here today opposing the President's program because the U.S. steel industry is one of their major customers. The U.S. industry brings substantially more raw materials through the port system in the State of Louisiana than do steel importers—fact. Moreover, steel imports into Louisiana are up 26 percent, not down, since the President's action. That is according to the port's own statistics. Their complaint of lost revenue is simply because they are losing business to more efficient up-river ports.

The entire decline in steel imports last year to the Port of Houston was caused by a sharp fall-off in oil country tubular goods, a steel product not even covered by the President's program. By the way, neither is wire rod that you heard about a few minutes ago.

Steel users have also benefited. First, according to the Bureau of Labor Statistics data, the American consumer is paying less for a car and refrigerator since the President acted. As former Secretary

O'Neill put it last year, steel prices were fictitiously low. Indeed, they were unsustainable. A huge share of the U.S. industry was on the brink of being shuttered permanently. This would have devastated domestic customers who rely on that supply. The President's program has brought back some needed shuttered capacity, but it is returning with a new, internationally competitive cost structure. This is good for steel consumers.

Today steel consumers are paying lower prices for steel than they would have without the remedy. Prices are rising faster outside the United States. As a result, the international competitiveness of U.S. manufacturers who use steel has increased, not decreased, in the last several months.

Just as our customers need a strong domestic steel industry, we need strong customers. There are many real problems facing American manufacturers. In particular, American industry is being devastated by currency manipulation by China and other governments. All U.S. manufacturers, and for that matter our entire economic recovery, is being severely damaged by these currency manipulations. In 1985, President Reagan dispatched U.S. Treasury Secretary Baker to effect an end to the grossly overvalued dollar through negotiations with the G–7 nations. The result became known as the Plaza Accord. It was this action, together with the Reagan tax cuts, that laid the foundation for economic recovery.

A $41 to $45 billion monthly trade deficit is not only extreme, it is obscene. The currency manipulations are hurting everyone appearing before you today. This is the real culprit, not steel pricing, which is at historic lows at this time.

Finally, I would like to address one critical point, and that is the systematic action by foreign diplomats who run the WTO to strike down virtually every single American law that is challenged, whether it is the Foreign Sales Corporation or trade law enforcement actions. Unless Congress addresses the WTO abuse of power and infringement on U.S. sovereignty, our international rules-based trading system will disintegrate.

The President did the right thing in enforcing the safeguard law. The program is working. The President made a 3-year commitment to the industry, and the industry is carrying out its obligation. The President deserves all of our support. Thank you.

[The prepared statement of Mr. DiMicco follows:]

Statement of Dan DiMicco, President, Chief Executive Officer, and Vice-Chairman, Nucor Corporation, Charlotte, North Carolina

Introduction

Mr. Chairman and Members of the Committee, my name is Dan DiMicco. I am the President, CEO, and Vice Chairman of Nucor Corporation. I am here today to state my unequivocal support for the President's steel program. The program has been good for the U.S. steel industry, U.S. steel consumers, and the U.S. economy.

The Origins of the President's Program

Nucor is the best example of why President Bush implemented his steel program. With facilities in fourteen States, Nucor is the largest producer of steel in the United States, and the largest recycler. We are viewed by some industry analysts as the most efficient producer of steel in the world.

Yet, as efficient as we are, by 2001 Nucor was unable to earn its cost of capital. The reason was that a flood of illegally traded imports had driven steel prices in the United States to twenty-year lows. The Department of Commerce found in literally hundreds of cases that foreign steel had been dumped or subsidized. The

International Trade Commission found in many of these cases that dumped or subsidized imports had injured the U.S. steel industry. Yet as soon as one source of steel became subject to an anti-dumping or countervailing duty order, importers found another low-priced source of supply.

As a consequence of this flood of illegally traded imports, steel prices hit rock bottom. When prices are so low that the best company in an industry cannot justify spending money on its core business, something is wrong. President Bush correctly realized that there was a fundamental problem, and that a forceful response under the trade laws was necessary.

The Multilateral Steel Initiative

That response was President Bush's Multilateral Steel Initiative. It is important to remember that the Section 201 remedy was only one of the three components of the President's program. The other two were international negotiations to close permanently inefficient and unnecessary steel making capacity around the world, and international agreement to end government subsidies and anti-competitive practices in the steel industry.

Negotiations among the steel making countries are yielding real progress towards these vital goals. Were it not for the President's decision to impose some temporary duties, this progress would not have occurred. Any assessment of the effect of the President's Multilateral Steel Initiative must include the impact it has had on the global situation.

The Initiative and the U.S. Steel Industry

When President Bush announced his decision to provide temporary import relief under Section 201, he made it clear that his decision was not simply a gift to the domestic steel industry. The President emphasized that "[t]he U.S. steel industry must use the temporary help today's action provides to restructure and ensure its long-term competitiveness." The President's decision reflected an implicit contract between the Administration and the industry. In return for a "breathing space" from import competition, the domestic steel industry promised to undertake real consolidation and restructuring.

In doing so, the U.S. steel industry is incurring massive costs and accepting substantial risks. Consolidation and restructuring require investment. Nucor, for example, has taken on some $600 million in debt in connection with its acquisition of the assets of Trico Steel and Birmingham Steel. For a company that has always funded new investments primarily from retained earnings, a decision to borrow like this represents a real departure. Yet we decided that the opportunities the President's program has created justify the risk.

Major changes are occurring within the domestic steel industry, as producers consolidate and as inefficient capacity goes out of production. The industry has billions of dollars at risk. Buying the assets of another company isn't the difficult part; the difficulty comes with integrating its operations into yours. That takes time.

President Bush promised three years of import relief. That was part of the contract. If those who have benefited from dumped and subsidized steel succeed in terminating the President's program early, the opportunity we have to restructure the U.S. steel industry will be lost. There would be devastating effects not just on the U.S. industry, but on the thousands of businesses that supply the industry with inputs, the thousands of small transportation companies that move two tons of raw materials for every one ton of steel produced in the United States—and the thousands of customers that depend on us for steel.

The President's Steel Program and the U.S. Economy

The President's program is only one component of a larger policy to preserve and expand the manufacturing base of the United States. Many manufacturing industries in the United States use steel as a vital input into their products. It is impossible to have a healthy manufacturing sector without a strong steel industry.

The President's program has created thousands of jobs in the steel industry itself. A perfect example of how the President's program has worked is that of the former Trico Steel mill in Decatur, Alabama. Although Trico was one of the most modern mills in the world, it had been unable to compete with the wave of dumped and subsidized imports of hot-rolled steel that flooded the U.S. market. The company declared bankruptcy, and stopped production in March 2000.

Nucor purchased the assets of Trico Steel in July 2002. Nucor restarted production there in September 2002, months ahead of schedule. This investment and reopening of efficient, low-cost U.S. capacity is a direct result of the President's steel program. We have brought several hundred high-paying jobs to an economically depressed area. And, Mr. Chairman, because Nucor reopened this plant, customers throughout the South are now able to get the hot-rolled coils they need for their businesses. Indeed, in January we decided to add another crew. Over 7,000 people applied for 60 positions. In his State of the Union address, President Bush spoke of the need for "more employers to put up the sign that says 'Help Wanted.'" We did—and 7,000 Alabamans came knocking on our door, eager to work.

The President's program has also affected an important segment of the economy—companies supplying the steel industry. You will hear today from Mr. Chuck Connors about the very positive impact of the President's steel program on his business. Nucor buys from literally hundreds of small businesses. When we produce more steel, as we did in 2002, we buy more from our suppliers. University researchers using Department of Commerce methodology have calculated that every new job in one of our mills creates *eight* jobs in other industries. This means that, when we added 60 workers at Decatur, nearly 500 more jobs were created up- and downstream.

Another example of the positive impact of the President's program on suppliers is the Port of New Orleans. In 2002, imports of steel through New Orleans were about 4 million tons. But that same year, the U.S. steel industry imported 6 million tons of raw materials through the Port of New Orleans—such as steel scrap, pig iron, and ferroalloys—an increase of over 7% from 2001. This increase is directly attributable to the increased domestic production made possible by the President's steel program. Ironically, however, the Port of New Orleans has been a vocal critic of the President's program.

The benefits of these raw material imports did not stop at New Orleans. Most of these materials moved up the Mississippi River, to Nucor mills in fact. In this way, they created jobs and produced income for workers throughout the Mississippi transportation system. When the U.S. steel industry is healthy and thriving, America moves.

The President's Program and Steel Consumers

Perhaps the biggest beneficiaries of the President's steel program have been steel consumers. The President's program averted a crisis for steel consuming industries in 2002 and 2003, a crisis that could have driven hundreds of companies out of business and cost thousands of workers their jobs. Because it is enabling the domestic steel industry to reduce costs, the President's program will continue to benefit steel consumers far into the future.

Let me explain. By 2001, steel prices had hit 20-year lows. Over 30 steel producers had declared bankruptcy, and many of them had stopped production. In December 2001, LTV, once the third-largest producer of steel in the United States, suddenly announced that it was ceasing operations. Almost overnight, over six million tons of steel making capacity went out of production.

The impact of LTV's closure was immediate. Customers that had depended upon LTV suddenly found themselves scrambling to find alternative sources of supply. Prices for flat-rolled products like hot-rolled and cold-rolled sheet began to rise rapidly, and occasional shortages appeared. Steel consumers were in a state of shock.

On March 5, 2002, the President announced his decision regarding import relief. Since then, the U.S. steel industry has undergone a tremendous amount of consolidation and restructuring, a process that has really only just begun. Production reopened at LTV, Trico, and other mills. As domestic supply increased, and imports from non-covered developing countries increased, prices stabilized and then began to move back down. Because of the President's program, the shortages and price spikes that came in early 2002 are a thing of the past.

Consolidation and restructuring are not ends in themselves. The key question is whether the domestic steel industry will be able to lower its costs and increase productivity. The evidence so far is that it is doing so. One analyst has stated that, a year ago, about 12% of flat products such as hot-rolled and cold-rolled sheet were being produced in "low cost" facilities. After only one year, that percentage is rising to 45%. Studies by World Steel Dynamics, perhaps the leading authority on productivity in the industry, show that U.S. mills are now among the most productive in the world. The greatest beneficiaries of this change will be steel consuming industries in the United States.

This improvement was possible because of the President's steel program. Without the program, investors would not have been willing to take on the debt and accept the risks that consolidation and restructuring require. LTV, Acme and Trico would have remained closed, and their eight million tons of capacity idle. Both Bethlehem and National, both of which are currently in bankruptcy, would probably have cut back production, and might well have stopped operations completely. The same is true of Birmingham. Instead of eight million tons of capacity closing temporarily, the domestic industry could have seen over twenty-five million tons of capacity—over 20% of the U.S. total—go out of production.

The impact on steel consumers would have been devastating. Prices would have skyrocketed, and some steel-using industries would have found that they could not obtain the steel they needed at any price. The President's program kept prices from climbing higher than they would have in the absence of relief.

The True Impact of the President's Program

Critics of the President's program have recited a litany of ill effects for which they blame the President's 201 decision. The shortages and price increases they cite are old news. These situations have long since been rectified by the President's steel program.

Some users claim that they have been unable to get the steel they need because of the 201 duties. Yet, the 201 duties do not keep any steel from entering the United States. Duties can only affect price, not availability.

Changes in steel prices mimic a pendulum, swinging from extreme to extreme. By the end of 2001, prices were at the far end of the swing, as they reached their lowest levels in twenty years. Much of the testimony you may hear today is nothing more than complaints that prices did not stay there. Just as a pendulum cannot arrest its motion at the end of its swing, this was an economic impossibility. Precisely because prices had fallen so far, many producers were forced to cease production. The critics of the President's policy would seek to repeal that most basic law of economics—that if supply falls, and demand remains steady, prices must rise. Any company that was depending upon the continuation of prices at record lows for an indefinite period was trusting a fatally flawed business model.

According to the Bureau of Labor Statistics, the price for primary steel products rose by only 10.8% from January 2002 to January 2003. The big automotive producers agreed to a price increase averaging 7% for their steel purchases, spread over a three-year period. Even after this partial price restoration, prices in January 2003 were at or near their 20-year averages. Transaction prices on flat rolled and other products were well below those averages. The President's steel program essentially put a minimal floor on prices. By encouraging the reopening of shuttered production that could be operated efficiently, it also effectively put a ceiling on them.

In terms of international competitiveness for manufacturers who use steel, what matters most is not absolute price levels, but relative price levels. Steel prices have been rising faster outside the United States than in it. Prices are so attractive outside the United States that U.S. steel producers have begun to export significant quantities of steel. The United States now has some of the lowest steel prices in the world, especially for hot-rolled sheet, probably the single most widely used steel product. The international competitiveness of U.S. manufacturers who use steel has increased over the last year.

The President's program did not stop steel imports. To the contrary, steel imports were 8.4% *higher* in 2002 than in 2001. Imports of hot-rolled sheet increased by 56% from 2001 to 2002, while imports of coated sheet rose by 34%. This increase should not be surprising; most countries were exempted from the 201 duties, as were many major products. Over 700 individual products were excluded in response to requests by steel users. By our latest estimates, the 201 duties apply to only about 20% of all steel imports.

These import figures rebut one particular criticism of the President's program—that it has hurt America's ports. One frequently cited example is the Port of New Orleans. According to the Port itself, imports of steel products through New Orleans were 25.7% greater in 2002 than in 2001 and represented its number one cargo. The increase was not limited to semi-finished products, as imports of finished products were nearly 13% greater in 2002 than in 2001. Much of this increase was from developing countries excluded from the 201 relief. And the Port of New Orleans recently stated that it expects continued growth.

Critics of the President's steel program have used bogus economic studies to claim that the program has cost hundreds of thousands of jobs in steel consuming industries. But in fact, the Bureau of Labor Statistics shows that employment in these industries increased after the President's decision in March 2002, by over 52,000 jobs. Had the President not acted, many, if not most, of the jobs in steel consuming industries would have moved offshore with steel production.

Other Factors Affecting Steel-Using Industries

A number of factors have had a much greater impact on steel consumers than the President's program. These were largely factors that affected all manufacturing industries. This emphasizes the need for a common agenda by manufacturers to address these problems.

The most obvious factor affecting steel users in 2002 was the recession. The recession was not especially deep, but it did affect many companies significantly. The recovery has so far been rather weak, so that some companies are still hurting.

A second important factor, one about which I have spoken frequently, is the strong dollar. A dollar that is too strong hurts U.S. manufacturers by making their exports expensive and imports cheap. Some foreign countries, especially China, are purposefully manipulating their currencies to overvalue the dollar. The National Association of Manufacturers calculates that this has cost the U.S. economy two million jobs. If manufacturing companies are looking for a cause of their problems, the excessive strength of the dollar, not the President's steel program, is the real culprit. All manufacturers need to work together in urging our leaders to address this problem.

Finally, some steel consumers in 2002 suffered the consequences of their own buying decisions. Companies that use substantial amounts of steel have two choices: they can purchase steel under long-term contracts, or they can speculate on the spot market. Some steel users made conscious decisions to gamble on the spot market as their primary source of steel, so that they could take advantage of the extraordinarily low prices that were prevalent in 2001, due to widespread violations of our trade laws. Of course, when prices on the spot market began to rise, they had to pay more for their steel. Nucor's contract customers, on the other hand, were protected from price increases; Nucor did not break any customer contracts in 2002, even though we were selling much of our steel under contracts at prices far below what we could have received on the spot market.

Conclusion

The U.S. steel industries has made tremendous progress in consolidation and restructuring in the year since President Bush announced his decision. *We have kept our side of the bargain.* Our work is not finished, though. The industry must resume investment in new technology and equipment. By one estimate, the domestic steel industry will need to invest up to nine billion dollars over the next three years just to maintain its current level of competitiveness. Investors will be unwilling to make these investments if they believe that prices will return to the unsustainable levels of 2001, or that the U.S. steel market will be exposed to new tidal waves of dumped and subsidized imports.

The best way to facilitate consolidation, restructuring and investment is to ensure that the President's program remains in place for its full three-year period. The U.S. steel industry will suffer if this process does not continue. The companies in the United States that depend upon steel to make their products will also suffer. The health of the manufacturing sector depends upon the existence of a healthy domestic steel industry. The President's steel initiative has done a remarkable job of helping our industry regain its health. The President's plan is working for steel producers, their suppliers *and* their customers. It deserves your support.

Chairman CRANE. Thank you. Our next witness is Mr. Sharkey.

STATEMENT OF ANDREW SHARKEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN IRON AND STEEL INSTITUTE

Mr. SHARKEY. Thank you, Mr. Chairman.

When President Bush announced his three-part steel program in June 2001—first, to initiate a Section 201 investigation; second, to pursue international discussions to reduce world steel overcapacity; and, third, to engage in international negotiations to eliminate market-distorting practices in the steel sector—it constituted recognition at the highest level of our government that the steel crisis conditions in 2001 in the United States and worldwide were not sustainable, not for steel producers and, over the long term, not for our customers who want and need steel to make their products.

It was not just that the U.S. steel market had become the world's steel dumping ground. Because of massive global overcapacity in steel and a whole host of resulting trade and market-distorting practices, there was no free trade in steel anywhere. Normal market forces were not working in the case of steel anywhere.

So, when 40 governments met at the Subcabinet level at the Organization of Economic Cooperation and Development (OECD) in September 2001 to discuss the world steel crisis, all agreed that a key characteristic of the steel crisis was artificial, non-sustainable price depression. Simply put, the prices for most steel products by late 2001 were at 20-year lows and well below the cost of production for any steel producer, whether here or abroad, regardless of how efficient they were.

Viewed against this background, the President's international steel initiative is a pro-free trade policy because it is designed to restore market forces to the global steel sector. In much the same way, the President's Section 201 remedy represents a pro-competitive policy. It is designed to provide our steel industry with a temporary breathing space from injurious import surges so that we can again attract the investment capital we need to consolidate, restructure, and improve our competitiveness.

Our written statement describes why the President's Section 201 remedy was a last resort and why the President was right. It explains, factually, how the President's remedy is working precisely as intended and why it is serving the national interest, not just by strengthening steel, but also by creating long-term benefits for our suppliers, our customers, our economy, and our national security.

In the short time remaining, I will focus on three key points.

First, the President's Section 201 tariff remedy has allowed a competitive, but fragmented, American steel industry to restructure and consolidate—a goal virtually everyone agreed was needed. At the 1-year anniversary point of the remedy a couple of weeks ago, it is fair to say that this is the most significant restructuring in decades for America's steel industry, and the President's tariffs have played a key role in facilitating this monumental change. Grant Aldonas, Under Secretary for International Trade at the U.S. Department of Commerce, was recently quoted as saying that he is "absolutely" convinced the President's tariffs have helped the U.S. steel industry to restructure. According to Under Secretary Aldonas, the President's Section 201 remedy has set the stage for the steel industry "to come back with a roar in the United States" instead of continuing the "death spiral" it was in before the President imposed his tariffs.

Second, while our government negotiators still have a long way to go, the President's Section 201 tariff remedy has encouraged real progress in the international talks to address the root causes of the U.S. and global steel crisis.

Third, and in conclusion, the U.S. steel industry, the financial community, and the President himself (and his trade negotiators) all need the Section 201 tariffs to continue for the intended, full 3-year duration.

U.S. steel companies who have incurred increased financial risk relative to planned or recent mergers, acquisitions, and investments need the tariffs to continue so they can complete the job of restructuring and consolidating.

The financial community needs to know that this period of relative steel import stability will continue so they can have at least some assurance that we will have the breathing space and time we need to put their money to effective use.

Our government negotiators need the Section 201 tariffs as a continued "stick" to keep our trading partners at the negotiating table so they can achieve as much progress as possible in the ongoing multilateral talks.

The AISI very much appreciates this opportunity to testify on the positive impact of the President's steel tariffs and the need for them to continue in the national interest. I thank you, Mr. Chairman.

[The prepared statement of Mr. Sharkey follows:]

Statement of Andrew Sharkey, President and Chief Executive Officer, American Iron and Steel Institute

The American Iron and Steel Institute (AISI), on behalf of its U.S. members who together account for approximately two-thirds of the raw steel produced annually in the United States, welcomes this opportunity to provide written comments for the record to the Subcommittee on Trade of the House Committee on Ways and Means in connection with the Subcommittee's March 26, 2003 hearing regarding the impact of the Section 201 safeguard action on certain steel products. Our comments will focus on:

1. The positive, intended effects—on domestic steel producers, steel industry suppliers, steel-consuming industries, the U.S. economy and America's national security—of the President's 201 tariffs; and
2. The very significant adjustment efforts taking place within America's steel industry, and the key role of the President's tariffs in facilitating this adjustment.

The Darkest Days

Before we address the impact of the steel Section 201 remedy to date, it is useful to recall why this was the first Presidentially-initiated 201 investigation in 16 years. President Bush initiated this action as a last resort. It followed (1) more than 200 separate government determinations, over a period of several years, that foreign steel had been traded illegally in the U.S. market at prices that violate international rules and U.S. laws and (2) immediately pertinent to the President's decision, the single greatest surge of dumped, subsidized and disruptive steel imports in U.S. history.

In many respects, 2001 and the immediate months leading up to the Section 201 announcement on March 5, 2002 were the darkest days in the long and proud history of the steel industry in the United States.

- Prices for most steel products were at artificial, non-sustainable 20-year lows, well below anyone's cost of production—globally.
- Even some of the most efficient U.S. steel companies were hemorrhaging cash.
- 35 domestic steel companies had declared bankruptcy in less than five years.
- This rash of bankruptcies affected 53 million tons of U.S. steelmaking, or roughly 45 percent of total U.S. capacity.
- National Steel filed for bankruptcy just a day before the President's announcement.
- Nearly 19 million tons of U.S. steel capacity was idled, and domestic crude steel production dropped 18 percent between December 2000 and December 2001.
- We were well on our way to over 50,000 unemployed steel industry workers.
- There was a huge negative ripple effect of financial losses and lost jobs, affecting hundreds of suppliers of raw materials and related services, including numerous small businesses and steel-centric communities, in many parts of the country.
- Tens of thousands of U.S. steel industry employees and retirees were losing their pensions and medical benefits due to bankruptcies.
- This highly capital-intensive industry was essentially shut out of the capital markets (debt or equity), with bankrupt companies struggling even to secure debtor-in-possession (DIP) financing.
- Even the lowest cost, best-managed U.S. steel companies were drowning under the impact of a tidal wave of dumped and subsidized imports.
- Notwithstanding all of this—and even after an exhaustive, independent 8-month investigation by the International Trade Commission (ITC) and its unan-

imous rulings of serious import injury—it was far from certain that the President would impose effective Section 201 trade relief and, if so, in time to prevent a wholesale collapse of America's steel industry.

The President's Steel Program: Its Objectives, Critics and Results

The President's Steel Program, first announced in June of 2001, had three interrelated parts: (1) a self-initiated Section 201 investigation to examine the role played by increased imports in the U.S. steel crisis; (2) international discussions to reduce excess and inefficient global steel capacity; and (3) international negotiations to eliminate government subsidies and other market-distorting practices in the global steel sector. This bold Presidential initiative was put forth to address the root causes of the U.S. and global steel crisis and—if warranted by the 201 investigation—to grant the seriously injured domestic industry an opportunity to catch its breath, make necessary adjustments and otherwise enhance its ability to compete in the post-safeguard world.

The Objectives

As the President correctly recognized, market forces were not working in the case of steel. Instead of free trade in steel, there was a 50-year history of foreign government intervention in the steel sector. There was a dysfunctional world steel market characterized by massive foreign government subsidies to steel, pervasive private anticompetitive practices among foreign steel mills, tightly restricted foreign steel markets—and over 200 million tons of global excess steel capacity in search of markets at virtually any price.

It was against this background that:

- In September 2001, 40 governments met at the OECD to declare that, with world steel prices at unsustainable, below-cost levels, there was a world steel crisis; and
- On March 5, 2002, President Bush announced his 201 remedy decision to impose temporary and declining tariffs, for 3 years and a day, on some steel imports from some foreign countries for the dual purpose of (1) providing a period of time for the U.S. steel industry to recover and restructure and (2) encouraging our trading partners to engage in serious international discussions on the structural problems that continue to exist in the steel sector outside U.S. borders.

The President's Section 201 decision was not everything the U.S. steel industry had hoped for. Among other things, the 201 remedy exempted, at the start, some 100 developing countries, and it included a complex product exclusion process, which has so far resulted in more than 1,000 product exclusions. Still, this was a courageous initiative on the part of the President.

- Internationally, it was a pro-free trade policy, designed to restore market forces to the global steel sector.
- Domestically, it was pro-competitive policy, designed to provide our steel industry with a temporary breathing space from injurious import surges, so that we could again attract the investment capital needed to consolidate, restructure and improve our competitiveness—to the long-term benefit of U.S. steel consuming industries, the U.S. economy and U.S. national security.

The Critics

The President's 201 remedy was a reasonable, necessary and modest response to a crisis of unprecedented proportions facing one of our Nation's most critical industries. The President based his 201 decision on fact, common sense and unanimous ITC rulings. If there ever was a situation crying out for a safeguard, this was it, and the President enforced the law. Nevertheless, almost immediately, the President's action sparked a firestorm of outrage from expected quarters—from many of our trading partners, foreign steel producers, steel importers, steel trading companies, trade law opponents and some steel-consuming industries. The 201 opponents have three main goals:

- to secure, in the short-term, exemptions from the tariffs (by country or product);
- to use the Midterm Review (section 204) process to pressure the Administration into early termination of the 201 remedy after 18 months; and
- to use the steel 201 issue as part of a larger campaign to weaken U.S. trade laws.

As defined by the steel 201 critics, the major (false) themes of what has become a well-organized, well-funded campaign are these:

- America's major trading partners (e.g., the EU) will retaliate against U.S. exports.
- Steel-consuming industries in the U.S. will be faced with acute steel shortages, spiraling steel prices, an inability to pass these increases through to their customers and a growing competitive disadvantage vis-à-vis their offshore competition—who will continue to have access to cheap steel in their home markets.
- The cost of the 201 remedy to U.S. steel-consuming industries, the U.S. consumer and the overall U.S. economy will far exceed any benefit to domestic steel producers.
- Nothing will happen on steel restructuring during the so-called breathing period, and the industry will be back at the trough again just as soon as the program ends.

The Results

As it turns out, at the one-year anniversary of the President's steel tariffs, the results resemble the President's forward-looking vision far more than the doomsday scenario painted by his critics.

<u>No Foreign Government Retaliation</u>

While it is highly questionable whether the foreign government threats were ever actionable or relevant in the first place, the generous product exclusions granted by the Administration blunted the threatened retaliatory moves by U.S trading partners.

<u>Imports Flowing Freely</u>

Given the extensive country and product exclusions, steel products covered by the 201 tariffs represent less than 20 percent of total steel imports, and less than 5 percent of the U.S. steel market. Not only have imports not been shut out of the U.S. market, but also total 2002 steel imports, at 32.5 million tons, were up 9 percent from 2001 in spite of the President's tariffs—and this in the face of a very soft metalworking economy. Imports of many finished steel products, including those with a then-30 percent tariff, were also up substantially in 2002 (after the tariffs were put in place) compared to the year before.

<u>Competitive Gains for U.S. Steel-Using Industries</u>

The temporary market tightening experienced in the first half of 2002 was due to many factors—including in particular, to the sudden removal of 6–8 million tons of domestic steel capacity in late-2001. Had the President not acted, still more domestic capacity would have shut down, causing higher prices. What has happened is that U.S. flat-rolled steel prices, after a brief spike in the "spot" market in the first 7–8 months of 2002 (where they were restored to roughly their 20-year averages), have since fallen substantially from their peaks of last July–August. It is important to note that the only supply-related steel price spike occurred where significant U.S. capacity was idled—and only while it was idled. This significant downturn in U.S. spot prices since the summer has occurred precisely as idled U.S. capacity has been reorganized at a lower cost and come back on stream, thanks in large part to the President's 201 remedy. Meanwhile, steel prices have continued to increase offshore—and steel prices have increased much more abroad than they have here during the 201 period. Thus, U.S. steel users have actually gained competitive advantage since the President imposed his 201 remedy. Today, the prices for most flat rolled steel products are higher in Europe, Asia and other major steel-consuming regions than they are in the United States.

<u>Marginal Effect on U.S. Consumers</u>

Steel represents less than 0.2 percent of the U.S. economy, so the 201 tariffs could not have a major effect on the economy or result in a significant loss of U.S. jobs. Claims that U.S. consumers would pay significantly higher prices for new vehicles or appliances because of steel prices are also false. Steel represents a tiny percentage of the total cost of most end-use products, and BLS/PPI data indicate that steel price fluctuations in 2002 had little effect on most final consumers of steel-intensive products. In fact, the wholesale price of new vehicles, auto parts and household appliances actually fell 2.2, 0.7 and 1.0 percent, respectively, last year.

Most Significant U.S. Steel Industry Restructuring in Decades

Consolidation and restructuring of U.S. steel facilities are well underway in both the electric arc furnace (or "mini mill") and integrated sectors. The American steel industry is strengthening itself, and addressing its structural problems. It is investing in state-of-the-art technologies, and is beginning to access the capital markets again to do just that. It is rationalizing and—consistent with the primary objective of the President's 201 remedy—it is becoming even more internationally competitive. The U.S. integrated steel sector, which many had given up for dead, is improving dramatically its cost structure through the infusion of new capital, lower capital costs per ton of capacity, painful restructuring of legacy costs through asset-only sales and the negotiation of new labor contracts that promise significant improvements in flexibility and productivity. With some industry observers now talking about a "radical change in the industry's cost curve," users of steel will ultimately benefit from this improved steel industry cost structure and increased investment—in the form of lower priced, higher quality steel.

Ongoing Progress to Attack Root Causes of U.S. and World Steel Crisis

Our trading partners have come to the table. International discussions at the OECD on steel overcapacity are proceeding and have been useful, and governments have initiated serious negotiations on an agreement to eliminate steel subsidies worldwide.

Enhanced U.S. National Security

It is useful to note, with regard to "Operation Iraqi Freedom," that the list of steel-supplying nations in the "Coalition of the Willing" is substantially shorter than the one contemplated by those who have said—in error—that the U.S. can get all the war-time steel it needs, on a priority basis, from its "allies." As America's "Steel Wave" proceeds toward Baghdad, we are reminded once again of what President Bush stated on August 26, 2001: "If you're worried about the security of the country and you become over-reliant upon foreign sources of steel, it can easily affect the capacity of our military to be well supplied. Steel is an important job issue. It's also an important national security issue. And that is why we took the actions in this Administration." The President's steel tariffs, by supporting the long-term development of a stronger, more viable domestic steel industry, are improving the national security of the United States.

Serving the National Interest

The President's Steel Program, including the 201 tariff remedy, is serving the national interest. As the President stated when he imposed his steel tariffs, this remedy is in the national interest of the United States, because it will "facilitate [steel] industry restructuring without unduly burdening U.S. steel consumers or the country as whole."

Having Intended Consequences

The reality is the President's steel tariffs are working as intended and their effects on steel consumers have been modest. To summarize:

- U.S. steel prices have recovered from the unsustainable historic lows seen in late-2001. However, since the summer, there has been a "Buyer's Market" for steel according to *Purchasing Magazine*, and U.S. steel prices have fallen substantially.
- U.S. steel prices today are at the low end worldwide, and U.S. steel users have improved their position against foreign competitors since the imposition of the 201.
- There is no shortage of steel in the U.S. market today, and both domestic and imported steel products continue to be readily available.

Healthy suppliers need healthy customers, and healthy customers need healthy suppliers. We know this better than most. AISI and its U.S. members have been world leaders for decades in forging close, day-to-day working partnerships between steel producers, engineers and customers. Unfortunately, our market development efforts and our critical steel-customer partnerships also suffered damage as a result of the U.S. steel crisis. The steel 201 is not a "steel wins, customers lose," zero-sum game. Steel is a very capital-intensive business, and it is only through ongoing investment in new plant, equipment and technology that steel companies can increase productivity, lower costs and improve quality, to the long-term benefit of their customers.

A Promising Start, But Unfinished Business

A key purpose of the steel 201 tariffs is to create a sustained period of import stability, so that we can get back to planning for the future. This is happening, and it is working. However, these things take time. No one envisioned this to be a 12 or 18-month process. After a 50-year legacy of foreign government intervention in steel, the President's Steel Program granted a 3-year period of declining U.S. tariffs. The President' Program has made a promising start, but it needs to continue for the full 3 years intended so that (1) U.S. steel companies can complete their current restructuring plans and (2) U.S. negotiators can address, as much as possible, the root causes of the U.S. and global steel crisis. The bottom line is simply this: the financial community, the U.S. steel industry and the President himself (in terms of the success of his international steel initiative) all need the tariffs to continue for the full 3 years intended.

Domestically

Prior to the 201, virtually all agreed that the U.S. steel industry needed to consolidate and restructure. This process has begun in earnest. While this restructuring is a work-in-progress, America's steel producers are doing what it takes to keep their promise to the Congress and the Administration. They are using the 3-year period of relief to rationalize, reduce their cost structure, improve their competitiveness and become even stronger suppliers to customers. Industry observers agree: this unprecedented restructuring would not have occurred without the President's steel tariff remedy in place. Domestic steel companies, however, are incurring increased financial risk relative to recent or planned mergers, acquisitions and investments—and this is occurring at a time when U.S. steel prices remain below historic 20-year averages, and there are significant increases in the cost of steelmaking inputs. While our steel industry has enhanced its global competitiveness over the past year, it has made itself more vulnerable in the absence of the 201 remedy continuing for the full 3 years. The Administration cannot turn its back on the monumental change it has facilitated in the U.S. steel sector. These things take time, and our industry's sources of capital also need some assurance that we will have the time we need to put their money to effective use.

Internationally

Thanks to the 201 and the Administration's determination not to allow the United States to remain the World's Steel Dumping Ground, the international talks to address the root causes of the U.S. and global steel crisis are showing real signs of progress. There is, however, a long way to go. We need the 201 tariffs to continue for the full 3 years intended so that our government negotiators can achieve further progress in the ongoing multilateral efforts to reduce inefficient and excess global steel capacity and eliminate steel market-distorting practices worldwide.

The Distortions of the 201 Critics

Unfortunately, at a time when this remedy is just beginning to work, it is under strong and constant attack by interests long opposed to the 201. These interests have not hesitated to use false and misleading information to describe conditions in the U.S. steel market in the aftermath of the President's decision to impose 201 relief. Much of the misleading information suggests that the 201 is having severe and negative effects on U.S. steel-using industries and consumers. A key purveyor of this false claim about the President's steel tariffs is the Consuming Industries Trade Action Coalition (CITAC).

As but one example, CITAC recently released a study showing an alleged loss of 200,000 steel-consuming jobs as a result of the President's Steel Program. Almost as soon as this CITAC study was released, an article in the *Financial Times* ("The Devil's in the Details," 2/10/03) concluded that, with this study, CITAC "hit a new low" in the tradition of misused statistics in the world of Washington lobbying. The article noted that, two days after the study's release, the authors altered their report to adjust the total number of steel-consuming jobs lost over the last year—saying that actually referenced lost jobs occurred over the last two years, a time period that included the full year before Section 201 duties were put in place. The article went on:

> ***What the study also failed to mention was that all the jobs lost in 2002 actually occurred in January 2002,* two months before *the tariffs were im-***

posed and when steel prices were* near historic lows. *Between January and December 2002, total employment in industries that buy steel* grew *by about 228,000 jobs, despite higher steel prices. *(emphasis added).*

What the House Ways and Means Trade Subcommittee needs to know is that the CITAC study's *own numbers* show that U.S. steel-consuming jobs went up, not down, after the 201 was put in place—and that job losses in consuming industries correlated with low steel prices, not high steel prices. This is why even an economist who opposes the steel tariffs told the *Financial Times* that CITAC's claim is "way out of bounds."

These are just a few of the problems with this latest CITAC study. There are many other ways in which CITAC's most recent claims are rebutted by the facts. This, however, is not the first time that CITAC has been caught issuing deceptive information. CITAC's studies have been flawed from the beginning. Its short-term goal is to dismantle the President's steel tariffs. Its long-term goal is to weaken the trade laws passed by Congress—and used by all domestic manufacturers. Its ultimate aim is to provide increased, if not unfettered, access in the U.S. market to dumped, subsidized and illegally traded imports. Since CITAC knows that the Congress supports effective trade laws, it is forced to use misinformation about the President's steel tariffs.

Unfortunately, this constant repetition of incorrect information by CITAC and the other 201 opponents could leave some Members of Congress, as well as the general public, with the impression that the President's steel tariffs are not working as intended—when they are. It is important that the Subcommittee understand what is going on here.

The steel consumers who benefited from the unsustainable and artificially low steel prices that existed in the 1998–2001 period would like to turn the clock back. This is understandable. However, had U.S. steel prices continued at the unrealistic and severely depressed levels of late-2001, we would no longer have a steel industry in the United States. Prices had to go up. This was not a sustainable situation for steel—and it was also not in the long-term interest of any U.S. manufacturer that relies on steel and wants to keep steel-containing products as a key part of its product mix in the future. Illegal trade is not an acceptable practice or answer to competitiveness challenges, and it is not appropriate for one sector to gain from illegal trade at the expense of another.

CITAC and the other 201 critics remain fixated on a past period of rising spot steel prices during a time (December 2001–August 2002) when a lot of U.S. steel capacity was shuttered due to the import crisis. Many CITAC members assume a false, one-to-one relationship between higher steel costs (since late-2001) and the President's steel tariffs. During the 201 period, U.S. steel prices have gone up, gone down or hardly moved at all (depending on the product).

CITAC and the other 201 critics would like you to believe that the President's steel tariffs are causing significant financial and job losses in U.S. steel-using industries, increased imports and decreased exports of steel-containing products and, worst of all, decisions to relocate facilities to China and other countries where steel is supposedly cheaper. The fact is: the President's steel tariffs and U.S. steel prices cannot be causing U.S. job losses, because (1) steel prices are higher outside the United States than they are here and (2) steel prices abroad have risen much faster than they have in the U.S. since the President imposed his tariffs. Jobs may be moving to China because of lower wages or managed exchange rates, but not because of steel prices. No one would move facilities to China because of steel prices. Today, U.S. steel producers are exporting large amounts of steel to China where, until recently, steel prices were at a 10-year high.

One of the most frequently cited "unintended consequences" of the President's steel tariffs, according to CITAC and the other 201 critics, is the alleged damage done to the Port of New Orleans and to other U.S. ports from lower steel imports. As it turns out, when we examine the facts, it is difficult to see that there has been any damage. First, U.S. steelmaking inputs in the Port of New Orleans (such as pig iron, ferroalloys and scrap) are even greater, on a tonnage basis, than steel imports. Second, steel imports in the Port of New Orleans actually increased by 27 percent in 2002; they were the number one cargo in the Port last year; and the Port Authority expects to see continued growth in steel imports according to its own recent press release.

The facts do not seem to matter to CITAC and many of the 201 critics. They use incorrect figures to urge business groups to oppose the President's tariffs—and they use anecdotes, distortions and generalized allegations of undocumented harm to consumers to urge Congressmen to support H. Con. Res. 23, the "Knollenberg Resolution." It would promote an inappropriate, unnecessary change in the congressionally mandated procedures relating to the ITC Midterm Review of the President's steel 201 remedy.

The Real Problems in Manufacturing

Perhaps the worst part of the Big Lie perpetrated by the steel 201 critics is that, instead of stressing the need to work together to address the real problems of U.S. manufacturing, the critics have chosen to divert the focus and ignore the facts, make the President's steel tariffs a scapegoat and pit one segment of U.S. manufacturing against another. AISI and its U.S. members reject this way of thinking.

Manufacturing is at a crossroads in this country, and it has nothing to do with steel prices or the President's steel tariffs. Manufacturing lags the rest of the U.S. economy. Its recovery from the recent recession has been slow. More than 2 million U.S. manufacturing jobs have been lost since the beginning of 2000. There are many factors responsible for our manufacturing recession, from the value of the dollar, to slow demand to high health care costs. American manufacturing continues at a distinct disadvantage in global competition—due to:

- the lack of a pro-investment, pro-competitive tax system;
- rising costs associated with U.S. Government regulations, runaway litigation and employee health insurance;
- inadequate capital and workforce skill deficiencies, which make it difficult to achieve sustained, high productivity growth; and
- market-distorting foreign trade practices—including closed markets, dumping, subsidies, private anticompetitive behavior and managed currencies, e.g., in China, whose currency is estimated to be undervalued by as much as 40 percent.

We therefore urgently need a pro-manufacturing policy agenda in our country, and much of it involves reform of key laws (e.g., on tax, trade and benefits) that fall within the jurisdiction of the House Ways and Means Committee. Accordingly, AISI would welcome an opportunity to participate in another hearing on how current law renders American manufacturing substantially less competitive than it might otherwise be.

AISI greatly appreciates this opportunity to testify before the House Ways and Means Trade Subcommittee on the positive impact of the President's steel tariffs. It is an opportunity that was denied to us at extremely one-sided hearings held last year by the House Small Business Committee.

To help ensure a full and balanced understanding of the steel 201 issue in connection with the March 26, 2003 Trade Subcommittee hearing, AISI is providing a packet of additional information under separate cover to all Members of the Subcommittee.

Metaldyne and the Steel 201 Tariffs: What One Steel 201 Opponent Isn't Telling You

The Consuming Industries Trade Action Coalition (CITAC), the Motor Equipment Manufacturers Association (MEMA) and other groups opposed to the steel 201 have claimed that President Bush's decision to impose temporary import duties on imports of some steel products from some countries has severe economic impact. These claims are false. One of the most vigorous steel 201 opponents has been the Metaldyne Corporation. It turns out that, when we look at Metaldyne's own filings with the Securities and Exchange Commission, official import statistics and basic economic texts, we find a very different story. Here is what one steel 201 opponent isn't telling you.

The 201 relief did not cause a shortage of domestic special bar quality ("SBQ") steel. Metaldyne explained in its 2002 10–K that "[u]nder supply contracts for special bar quality steel, we had established prices at which we purchased most of our steel requirements through 2002." [1] These contracts guarantee Metaldyne's supply of SBQ steel. Significantly, Metaldyne's 2002 10–K does not make any mention of steel shortages in 2002.

Metaldyne's claims of shortages are also contradicted by an official filing made by the "SBQ Coalition," of which it is a member, with the U.S. Government. In that filing, the Coalition stated that its members "do not have an identifiable shortfall"

[1] Metaldyne 2002 10–K at 26.

of supply in 2003.[2] Metaldyne's 2002 10–K does not indicate that Metaldyne has any concerns about the availability of SBQ steel in 2003.

Metaldyne has not been hammered by rising steel prices. In its 2002 10–K, Metaldyne stated that its steel purchases in 2002 were covered by long-term contracts. These contracts protected Metaldyne against the modest price increases for SBQ steel that occurred in 2002. Indeed, Mr. Timothy Leuliette, the President and CEO of Metaldyne, stated in testimony to Congress that, since the inception of the 201 tariffs, "we have experienced 5–10% increases in our SBQ material cost in aggregate. . . ." [3]

The SBQ steel price increases of which Metaldyne has so vigorously complained certainly do not appear to have had much of an effect on its profitability. In 2002, Metaldyne earned a gross profit of $299.1 million on sales of $1,793.35 million, a profit rate of 25.3%. It earned an operating profit of $114.09 million, or 9.7%.[4] In fact, Metaldyne's operating profits in 2002 were 62% higher than in 2001. In contrast, General Motors, one of Metaldyne's largest customers, earned an operating profit in 2002 of only 2.78%. Another major customer, DaimlerChrysler, had an operating margin of only 1.51%. Despite Metaldyne's complaints about the pricing pressures its customers place upon it, Metaldyne is earning much better operating profits than its customers.

According to Metaldyne, higher prices for SBQ steel will have only a minor impact on its financial performance in 2003. Metaldyne stated in its 2002 10–K that "we expect the effect of the steel price increases to have an approximate $5 million negative impact on our 2003 profitability." [5] In 2002, Metaldyne's total cost of sales was $1.494 billion.[6] An increase in costs of $5 million because of higher steel prices would represent an increase of only 0.3% in Metaldyne's costs.

One thing Metaldyne has not admitted is that prices at the end of 2001 and the beginning of 2002 were the lowest they had been since 1987. The price increases that Metaldyne is seeing in 2003 are the first price increases some of Metaldyne's steel suppliers have received since 1993! Indeed, SBQ steel prices now are basically what they were in 1993.

Metaldyne is not moving production offshore because of higher steel prices in the United States. Relocating production to another country is expensive. It is not something that companies do because the price of one of their raw materials has increased by 5–10% per ton, allegedly because of the impact of *temporary* import duties. This is especially true for a product like SBQ steel, whose price can fluctuate by 5% or more from month to month.

Metaldyne has in fact explained why it is investing overseas, and it has nothing to do with steel prices:

> *Global expansion is an important component of our growth strategy since a significant portion of the global market for engineered metal parts is outside of North America. Furthermore, as OEMs continue to consolidate their supply base, they are seeking global suppliers that can provide seamless product delivery across geographic product regions.*[7]

Metaldyne is moving workers and production to Asia because Asian automotive producers are substantial customers of Metaldyne's, and Metaldyne prefers to serve them from facilities located in the region. "About one-third of Metaldyne's current growth, aside from acquisitions, is with Asian carmakers." [8] Indeed, the demands of automotive producers for just-in-time delivery practically require that parts suppliers be located relatively close to their customers. Metaldyne is investing offshore, not because it can buy steel more cheaply outside the United States, but because that is where its customers are.

Chairman CRANE. Thank you, Mr. Sharkey. Mr. Gerard?

[2] Letter from SBQ Coalition to Mr. Richard Weible and Mr. Andrew Stephens, dated March 7, 2003, at 1.
[3] Statement of Timothy D. Leuliette, House Committee on Ways and Means, dated March 26, 2003, at 1.
[4] Metaldyne 2002 10–K at 35.
[5] Metaldyne 2002 10–K at 6.
[6] Metaldyne 2002 10–K at 35.
[7] Metaldyne 2002 10–K at 4.
[8] James Treece, *Metaldyne Looks to Asia-Pacific for Growth*, Automotive News (October 7, 2002).

STATEMENT OF LEO W. GERARD, INTERNATIONAL PRESIDENT, UNITED STEELWORKERS OF AMERICA

Mr. GERARD. Mr. Chairman, let me just say that, counter to the last panel, I am here representing people as well as the industry. This is not just some theoretical of what might happen. In fact, in the back of the room, we have a few dozen steelworkers who are here on their own time, at their own expense, so that this Committee will know that this is really about people as much as it is about the industry, and I would like them to stand.

This is a representative body of steelworkers from steel facilities that are what I call within driving distance. They represent some of the 54,000 people who have already lost their job in the steel industry, some of the additional 85,000 people who have lost their job in that supplies the steel industry, and more than anything, they are representing the quarter of a million American citizens who, because of the 37 bankruptcies in the steel industry from 2000 until now have lost their health care, some of which are 80, 90, 70 years old, some of which worked 30 or 40 years in those plants, the men and women who fought America's wars, the men and women that made the steel that built the World Trade Center, built the Golden Gate Bridge, and built America's icons.

This is not some theoretical event. The reality, when you come to steel prices, counter to the whining of the last panel—and I am more than happy to defend that statement in the question period—steel prices fell to under $210 a ton, brought about by a systematic 30-year assault on America's steel industry in a report commissioned by the Department of Commerce, supported by the previous Administration and this administration, that said that steel and trade has been subjected to 30 years of market-distorting subsidies.

In the 3 years prior to the implementation of the Section 201, the industry and the union jointly filed 130-plus violations of American trade law and were successful in one degree or another in those cases. Companies who believe that their business plan has to include steel prices that are subsidized by illegal activity are, in fact, supporting at least civil illegal activity, if not criminal. If you talk to the 250,000 people who are losing their health care, I am sure they would say that is at least morally criminal if not civilly criminal.

I want to just briefly say a few words about some of the stuff that was said about job losses. With all due respect to the Chief Executive Officers that were here, anybody who says that since the Section 201 was initiated they went to China, did an investigation, did a due diligence, bought the equipment, set up the equipment, bought the land, and moved their plant to China in that year I suspect ought to be called before their shareholders because they didn't do the right kind of due diligence. If they went to China in the last few months, they were planning it prior to this Section 201, and we ought not to be fooled by that, and you might not want to be fooled by that either.

Let me just say I was heartened to hear from the initial panel of congressional leaders as well as some of the earlier panel talk about the absolute devastation of America's manufacturing base. We have lost in the last 2 years closer to 3 million direct manufacturing jobs, and for anyone who sits before this Committee or any other Committee to try and attribute that to a declining tariff of 3 years' duration that is already now moving into its second phase of decline is perpetrating an illusion.

Let me recommend strongly to this Committee, the steel industry is not the problem in the manufacturing base of this country. I would highly recommend that this Committee hold hearings on escalating health care cost that is driving millions of Americans and millions of retirees out of the health care system, that you hold hearings on the overvalued dollar and the manipulation of currency by our trading partners, that you hold hearings on price gouging in the energy sector, that you hold hearings on child labor, that you hold hearings on the lack of legal environmental integrity amongst our trading partners. I am prepared to pay as a citizen to have clean air and clean water, but I don't think they should get a break because they don't.

Let me last sum up by saying—and I commend a number of you that asked these questions in your question period. Today America's steel industry has one armor plate manufacturer left. That armor plate built the USS Enterprise and the carriers that are in the Gulf. Today America's steel industry doesn't make the structural steel to rebuild the World Trade Center. Today, if we wanted to have a high-speed rail system, we can't produce the high-quality high-speed rail. We would have to build new mills. Today, if we wanted to have an energy policy that could produce large-diameter thick pipe, we couldn't produce that unless we built new mills. Those mills have been destroyed by 30 years of systematic illegal activity documented in a commission report supported by both Administrations.

This is not the time to be inflicting further damage on the steel industry and creating more of those workers who gave their lives to this industry and this country that lose their jobs, lose their health care, and, yes, some of them are going to lose their homes. They are going to have to choose between their home and their health care. In the richest, freest country on Earth, that should not be happening. Thank you.

[The prepared statement of Mr. Gerard follows:]

Statement of Leo W. Gerard, International President, United Steelworkers of America

Mr. Chairman, Ranking Member Rangel, and distinguished Members of the Ways and Means Committee, thank you for your invitation to appear before you today to testify concerning the necessity of continuing the Section 201 relief for America's steel industry that was put into place last year by President Bush.

There are some who now call upon the President and Congress to relax or retreat from the 201 tariffs that were imposed in March 2002. They claim that the impact of the 201 tariffs upon steel users and consumers has been devastating to them. But a closer look at the facts reveals that their claims are as unsubstantiated as is their call for us to abandon the 201 remedy.

Let us remember how we have come to this crossroads.

From 1997 to 2002, America's domestic steel industry was literally under attack from foreign producers, aided and abetted by foreign governments through subsidies and other market manipulations. Their weapon was millions of tons of foreign steel, much of it illegally dumped into our domestic market. At a time of growing global steel capacity, many of these same countries were actually adding additional capacity—not for domestic consumption in their own countries, but for export into the United States. While many foreign governments continued to support their steel industries, our government sat by and watched as the American steel industry endured the most vicious assault in our history.

The consequences of this assault have been disastrous for our steelworkers and for the American steel industry. Thirty-seven companies have been forced into bankruptcy and 54,000 steelworkers have lost their jobs. Thousands of steelworkers have seen their work hours reduced. Since 1998, The PBGC has announced its intent to initiate distress terminations of the defined benefit pension plans of 14 steel companies, involving nearly 240,000 participants and nearly seven billion dollars in unfunded guaranteed pension benefits. And now, in the cruelest blow of all, nearly 200,000 steelworker retirees, widows and their dependants have lost health care benefits.

In June 2001, at the request of the President, the U.S. International Trade Commission (USITC) undertook one of the most exhaustive Section 201 investigations in the agency's history. After hearing and reviewing the testimony of literally hundreds of witnesses (both for and against the 201 remedy), after reviewing reams of economic data on imports, exports, and prices for dozens of individual steel products, the USITC made a unanimous determination that our steel industry had suffered serious injury as a result of the surge of imports and voted unanimously to recommend a remedy.

In March, 2002, President Bush imposed three years of declining tariffs ranging from 8 to 30 percent on imports of 13 finished steel products, and a three-year increasing tariff rate quota on imports of slab, an important type of semi-finished steel product.

The President's safeguard tariff remedy excluded many products and nations from coverage. The President granted 727 exclusions of nearly 1,300 requested by steel consumers and importers, after extensive investigation by the Department of Commerce and the Office of the United States Trade Representative. The President's 201 remedy **excluded** steel imports from four partners in free trade agreements with the U.S. (Canada, Mexico, Israel, and Jordan) and 99 developing nations.

The Union and the industry estimate that these exclusions amounted to 15 million net tons in 2002. As a result, only about 7% of total apparent domestic steel consumption was covered by the tariffs in 2002.

The Department of Commerce and the Office of the United States Trade Representative announced the exclusion of an additional 295 steel products from the steel safeguard remedy. Industry sources estimate that these additional exclusions will affect another 400,000 tons of steel products.

It is important to note that imports of steel in the product categories covered by the tariffs actually increased by 11% in 2002, from 22.6 million net tons in 2001 to 25.1 million net tons in 2002. Let me say that again. Steel imports in categories subject to the safeguard tariffs actually increased in 2002. Thus, steel consumers and importers can make no credible argument that the safeguard tariffs injured consumers or prevented manufacturers from obtaining necessary raw materials.

What has happened since the President's 201 decision?

The American steel industry is in the midst of the biggest consolidation in the history of the industry. Since the President's 201 decision was announced only a year ago, numerous companies have been moving to merge or have been put up for sale. Steel prices, which had plummeted to historic lows, have begun to stabilize. Layoffs have ceased and the number of companies entering bankruptcy has now slowed.

- Bethlehem Steel has been sold to International Steel Group (ISG) in a deal that could bring Bethlehem out of bankruptcy and creates the Nation's largest steelmaker.
- Earlier this year, ISG acquired LTV Steel and Acme Steel (which had ceased operations). Wilbur Ross, Chairman of W.L. Ross, which purchased LTV, identified "strong relief under Section 201" as one of the reasons he believes ISG will be successful.
- U.S. Steel and AK Steel are both vying to acquire National Steel.
- In May 2002, Nucor moved to acquire Birmingham Steel's assets for $615 million. The deal was completed in December 2002.
- In July 2002, Nucor also purchased the assets of Trico Steel in Decatur, Alabama.

But this consolidation has led to further heartache for tens of thousands of steelworkers and their families. Some of the distressed companies, such as Bethlehem Steel and others, have moved to terminate health care benefits for their retirees. For a 75-year-old retired steelworker who has numerous prescription medications, or has been hospitalized, the loss of their health care benefits is quite literally a life-threatening event. For a retired steelworker who faces cancer and is wondering how he will pay for doctors and chemotherapy treatments, the loss of health insurance is a life-threatening event.

The USWA is conducting an outreach effort to the 95,000 retirees and dependants from Bethlehem Steel, including many salaried retirees, who will lose their health care benefits on March 31, 2003. We have received enormous cooperation from the various State Departments of Aging, Veterans' Administration and Centers for Medicare and Medicaid Services. However, the reality is that there are no attractive options available for most of these retirees. I would invite the critics of the safeguard tariffs to visit Johnstown, PA or Lackawanna, NY to tell these retirees that no further assistance to the steel industry is needed.

The USWA is working hard to ensure that the Health Insurance Tax Credit (HITC) provision in the Trade Adjustment Assistance Act is made available to the greatest number of steelworkers who lose their health insurance coverage. However, in order to make the program meaningful, we will need the cooperation of the Bush Administration and the State governors. In Pennsylvania, Governor Rendell has put the full weight of his administration behind the effort to develop a State-based health care plan that will qualify for the HITC. Unfortunately, no other States are as far along.

We realize that the crisis facing steelworkers and our retirees who are losing their health care is only a small piece of a much bigger problem. Some 41 million Americans have no health insurance at all. More are losing their insurance every day. Many of our seniors who need prescription drugs to stay alive are being forced to choose between buying their medication and eating. In a country as wealthy as America, this is a choice no one should have to make. The Congress has a responsibility to respond forcefully to this crisis. We call upon you to pass H.R. 1199, the Dingell-Rangel Medicare Prescription Drug bill. This measure provides a meaningful prescription drug benefit for seniors through the existing Medicare program. It does not push seniors into HMOs to get their prescription drugs. It does not give them discount cards whose value is wiped out by the 15 to 18 percent annual increases in the cost of prescription drugs. For only $25 a month, seniors would have 80 percent of their drug costs picked up by the government with seniors picking up the remaining 20 percent. No gimmicks, no gaps, no excuses.

We also call again upon the Congress as we have for many years now, to pass national goal that no American should go without the health care they need.

Other companies are moving to terminate or renegotiate their defined-benefit pension plans with profound financial consequences for thousands of steelworkers and retirees. In some instances, the Pension Benefit Guaranty Corporation (PBGC) has moved on its own to terminate certain pension plans, resulting in the denial of early retirement benefits to many steelworker retirees.

As a condition of granting the 201 relief to the steel industry, the Administration insisted upon consolidation. It is now happening, but at a tremendous cost to our steelworkers and retirees. They have borne and continue to bear more burdens than anyone can imagine for the failure of our own government over many years to effectively enforce our trade laws.

I want to close by adding that it is simply inconceivable to me that anyone could now suggest, just a year after they were imposed, that the Section 201 remedy granted by the President should now be curtailed or eliminated. In this regard, it has not gone unnoticed that many of those who argue for the elimination of the 201 remedy have employed shockingly phony arguments.

For example, a recently released study by the Consuming Industries Trade Action Coalition ("CITAC") purported to show job losses in steel-consuming industries as a result of higher steel prices. But upon review, CITAC's arguments fell apart. The *Financial Times* concluded that CITAC "hit a new low" with the release of the study, referencing multiple factual inaccuracies, surreptitious revision of data, and misleading conclusions. Gary Hufbauer, an economist with the Institute for International Economics, which opposes Section 201 relief, called CITAC's claim of 200,000 lost jobs "way out of bounds."

The CITAC study claimed "200,000 Americans lost their jobs to higher steel prices during 2002." As the *Financial Times* noted, however, CITAC's own figures show that employment in steel consuming industries actually *increased* by 229,000 from March 2002—when relief was implemented—to the end of the year.

Some steel users opposed to continuing the 201 relief say that they are now paying more for steel products than they did in 1998 or 1999. The fact is that domestic steel prices are still below their 20-year average. Indeed, while there was a temporary price increase that occurred at the outset of the tariff program—chiefly due to the loss of 20 million tons of domestic capacity in late 2001—steel prices in the U.S. have significantly declined since August of 2002. And to the extent steel prices have risen in the U.S. from the untenably low prices of 1998 and 1999, they have risen less and risen more slowly than steel prices around the world during this period. U.S. steel consumers do not suffer a competitive disadvantage compared to their steel-consuming competitors around the world. U.S. steel consumers continue to have ready access to steel that is priced low, both historically and in relation to what consumers are paying around the world.

In any event, the truth is that for most manufacturers of steel-containing products, steel represents only a small portion of their total costs. For automobile and appliance manufacturers, there is no evidence of added cost to the end consumers attributable to the 201 remedy. In fact, many automobile manufactures are offering zero-percent financing on new cars as an incentive to get customers into their showrooms.

A recent study by Dr. Peter Morici from the University of Maryland, titled, "An Assessment of Steel Import Relief Under Section 201 After One Year," finds that "steel users have **not** been harmed by the President's (201 remedy), nor have consumers seen rising prices because of it. The program does not appear to have had a significant effect on producer prices." Furthermore, Dr. Morici states that "continuation of the temporary 201 tariffs through 2005, and application of the provisions of the President's program that protect against surges of imports from uncovered countries, will be necessary to ensure the U.S. industry has a 'breathing space' long enough to allow it to complete the process of consolidation, rationalization, and modernization that it has begun."

Critics of the tariffs ignore the real problem in steel facing this country. The problem is not too little steel available at too high a price. To the contrary, the real problem is that worldwide, there is too much steel being produced, and this has led to years of dumping of steel by foreign producers in violation of U.S. laws and international agreements. The steel tariffs imposed last year have broken this cycle of dumping and price suppression. With prices stabilized the domestic industry has begun the difficult but necessary job of consolidation and restructuring. This is critical if the domestic steel industry is to achieve long-term health and competitiveness. And at the end of the day, U.S. steel consumers will benefit from having a strong, viable, domestic steel industry to supply them with their needs. U.S. steel consumers should be rooting for the U.S. steel industry, not seeking repeal of the 201 relief that is so critical to the survival of the industry.

In my opinion, it would be a tragic mistake if the 201 remedy were to be curtailed or revoked prematurely. Please do not let that happen. Too many steelworkers and too many of our retirees have already paid too high a price to solve a steel crisis created abroad and ignored for too long by our own government. Stand firmly behind the President's 201 remedy for the full term. Thank you.

Chairman CRANE. Thank you. Mr. Connors?

STATEMENT OF CHARLES W. CONNORS, CHIEF EXECUTIVE OFFICER, MAGNECO/METREL, ADDISON, ILLINOIS

Mr. CONNORS. Thank you, Mr. Chairman. My name is Chuck Connors. My company is Magneco/Metrel, located in Addison, Illinois, with manufacturing facilities in Gary, Indiana, and Columbiana County, Ohio. We are a producer of refractories and a supplier to the steel industry, and I appreciate that the word "supplier" has come up a couple times here. Sometimes this argument seems to be one where the consumers, who usually get the last word in any business, like to act like it is only between the steel company and the person who buys steel. There is a chain of supply that goes back to mines and railroads and things that have been mentioned here that is at least as big as the chain of supply that goes on after the steel is manufactured.

Refractories are high-temperature ceramics that are necessary in just about everything that you encounter in your life if it has been made in a plant that made steam or treated anything above a thousand degrees or handled acid. About 80 to 85 percent of all the refractories made are consumed by the steel industry. The steel industry is the driver.

Magneco/Metrel has 143 employees and about 330 people who are dependents of employees who receive our health care. Approximately 80 percent of our sales go to the iron and steel industry.

Our company lost about $2.5 million—well, greater than $2.5 million in the last 2 to 3 years due to bankruptcies, both Chapter 7 and Chapter 11, which we feel will never be recouped, on product that we sold to the steel industry companies that went bankrupt. They went bankrupt because they were selling their products at below cost, and the windfall that was appreciated by the people who bought those products was made up by Magneco/Metrel by not getting paid.

We have about 300 suppliers for our company. Given those numbers for just one medium-sized downstream company in the steel industry, you can see there is a network of thousands and thousands of small businesses whose ability to thrive depends on the continued strength of the domestic steel industry.

In terms of using transportation and import systems, the Port of New Orleans was referred to. Our company brings in about 30,000 tons of raw materials through the Port of New Orleans, and we export about 10,000 of those tons in the form of finished product to Europe and Latin America. We can only continue if the tariffs remain in effect for the full 3 years. Having lost the money that we lost, we are under tight scrutiny from our bank, and we can't continue—we could not absorb another bankruptcy. There has not been a bankruptcy affecting us since the tariffs went into effect.

Prior to the President's program announcement, to give you an example with the write-offs, in 1 year, in 2001, our small company had a loss of $2 million on about $32 million in sales. In January and February 2002, we lost $300,000. After the tariffs went into effect, in the remaining 10 months of the year we made $1.2 million. Our employees went from 135 employees to 143 employees.

When the President initiated the steel program, he did so recognizing that our domestic steel industry was in crisis and the roots of the crisis laid outside of the United States. His three-part program was designed to address the underlying causes: global excess capacity, closed markets, subsidies, cartels, and other private anticompetitive behavior that would not be tolerated in this country if it was done by one domestic corporation against another.

After 1 year, the program is working. It is critical to my company and to thousands of small businesses throughout the country whose viability depends on having a healthy, independent, and strong American steel industry, that the President's remedy not be undermined, and that it remain in effect for the full 3-year term as the President intended. Thank you.

[The prepared statement of Mr. Connors follows:]

Statement of Charles W. Connors, President, Chief Executive Officer, Magneco/Metrel, Addison, Illinois

Thank you, Mr. Chairman. I appreciate the opportunity to testify today, as a representative of small business, regarding the impact of steel Section 201 relief on U.S. manufacturing. This is a critical issue to my company and to thousands of small businesses throughout the country whose viability depends on having a healthy, independent and strong American steel industry.

Magneco/Metrel is located in Addison, Illinois with manufacturing facilities in Northern Indiana and Eastern Ohio. As a producer of refractories that are used in steelmaking furnaces, we are both a steel industry supplier and a customer. My company has 143 employees and we also provide health care and other benefits to a total of 330 people, including employee dependents.

We purchase approximately $300,000 of steel molds annually, with more than half of the total value coming from Lake County, Indiana. Over the past 12 years, we have spent approximately $6,000,000 (or $500,000 per year) on equipment for use with our products. The equipment includes mixers, pumps, gunning machines, backhoes and fork trucks. We maintain a fleet of 30 cars, small trucks and medium size trucks, as well as four semi trucks with trailers. All of this equipment is manufactured in the United States. In total, Magneco/Metrel has approximately 300 suppliers, the vast majority of which are small businesses. Given those numbers for just one downstream company in the steel industry, you can see that there is a network of thousands and thousands of small businesses whose ability to thrive depends on the continued strength of the domestic steel industry. That will only happen if the President's steel remedy is maintained for the full three years intended and thus allows the industry to continue to strengthen itself from within and complete the restructuring and consolidation that is already underway as a result of the 201 safeguard.

In the case of Magneco/Metrel, we had 2002 sales of $39.5 million. That was an increase of 16.3 percent over 2001. Our annual purchases from the steel industry are about $300,000, mostly lightweight plate, which is 100 percent domestically produced. Our sales breakdown was about 85 percent to the iron and steel industry in 2001 and 80 percent to the iron and steel industry in 2002. In addition, about 30 percent of our 2002 sales were exported, divided equally between Europe and Latin America, with our biggest customer being Mexico. These sales are all of unique and proprietary products, which have been developed and proven in world class iron and steel plants in the United States. Without healthy and competitive American iron and steel plants, we would have no export sales.

During the height of the steel crisis, severe human and economic devastation was done to steel-related small businesses from one end of our country to the other by repeated surges of illegally traded and injurious steel imports. As the toll of steel company bankruptcies mounted, hundreds of small business suppliers to the steel industry were left reeling. For those suppliers who had all or most of their business with a Chapter 7 steel company, the end result was usually the bankruptcy of that small business supplier.

Prior to the President's program announcement one year ago, Magneco/Metrel had a net loss of approximately $300,000 for January and February of 2002. Following a loss in 2001 of $2 million, one more month with that rate of loss would have put us out of business. After the President's timely announcement, the situation reversed and the year ended with a net income of approximately $1.2 million. From 135 employees a year ago today, we have 143 employees today. There have been no substantial bankruptcy filings that affected Magneco/Metrel since the President's program announcement.

When the President initiated his steel program, he did so recognizing that our domestic steel industry—including steel producers, suppliers and customers—was in crisis, and that the roots of the crisis lie outside of the United States. His three-part program was designed to address these underlying causes—global excess capacity, closed markets, subsidies, cartels and other private anti-competitive behavior that could not be tolerated in this country.

After one year, the President's program is working. The steel industry is starting to turn the corner and for the first time in many years, we feel a sense of hope for the future of our industry. The previous situation before the President launched his steel program was, in terms of steel pricing, not sustainable for the steel industry. It was also not in the long-term interest of any U.S. manufacturer who relies on steel and wants to keep steel-containing products as a key part of its product mix in the future.

It is interesting to note that the price spike that occurred early in 2002 was due not to the initiation of the steel tariffs, but rather, it was the result of the steel crisis itself. After LTV Steel in Ohio closed its doors, along with a number of other smaller steel producers who ceased operations, there was a sudden but brief period when 18 to 20 million tons of capacity was removed from the market. However, as consolidation intensified, mills were re-started and capacity came back online. The price stabilized and has, in fact, declined to where the price of steel in the United States now is generally below what it is in most markets around the world. There is adequate supply readily available without lags in delivery. It is my belief that without the President's program, the crisis would have worsened, more capacity would have been shut down and prices would be at a much higher level than is the case today.

The President's program is working. Since it was initiated, we have seen the most dramatic consolidation and restructuring to occur in this industry in decades. This will not be completed overnight. Much of the progress and investment underway will require the President's program to remain in place for its full intended duration for the deep roots of this, the worst crisis in the history of America's steel industry, to be fully addressed and remedied. It is of serious concern to my company, and to many other small businesses that depend on a domestic steel industry, that the President's remedy not be undermined and that it remains in effect for the full three-year term as the President intended. Thank you.

Chairman CRANE. Thank you. Mr. Dooner?

STATEMENT OF PETER DOONER, PRESIDENT, WHEATLAND TUBE COMPANY, COLLINGSWOOD, NEW JERSEY, ON BEHALF OF THE COMMITTEE ON PIPE AND TUBE IMPORTS 201 COALITION

Mr. DOONER. Thank you, Chairman Crane, Congressman English, and the Subcommittee. I am here as the President of Wheatland Tube Company. Wheatland has been a leader in the consolidation of the welded pipe and tube industry in the United States. Wheatland is a 126-year-old private, family owned company. Last year, we acquired Sawhill Tubular, formerly a division of A.K. Steel. Today we have two major pipe mills in western Pennsylvania in the town of Wheatland and Sharon. We also have another major pipe mill in nearby Warren, Ohio, along with mills in Little Rock, Arkansas, and Chicago, Illinois. We have nipple plants in Texas and Ohio which go by the name of Seminole Tubular Products; overall, 2,000 workers, of which approximately 1,000 work in western Pennsylvania in Congressman English's district.

Unfortunately, we recently announced the closure of the old Sawhill Tubular cold drawn mill, which is also located in Wheatland. This will result in the loss of 125 jobs.

I am not only here today on behalf of Wheatland Tube Company. I also represent the Committee on Pipe and Tube Imports (CPTI) 201 Coalition, a coalition formed by the CPTI, a trade association. The CPTI is comprised of 33 welded pipe and tube producers, collectively with 20,000 workers and consumes 8 million tons of flat-rolled steel annually.

Today, I wish to make three important points on the impact of the Section 201 relief on the welded pipe and tube group.

Number one, the Section 201 relief provided for first year tariffs of 30 percent on flat-rolled products, but only 15 percent tariffs on pipe and tube. This has put my industry and my company in a cost-price squeeze. Manufacturers of welded pipe and tube have approximately 65 percent of their total cost derived from steel. So, you have heard some of the other panelists say 30 and 50 percent. We are probably the highest. This has hurt our efforts to consolidate. As many of you know, we are now in the second year. We are now being protected by 12 percent tariffs for certain countries.

My second point, many foreign pipe and tube producers have simply been able to absorb the 15-percent tariffs, and their shipments to the United States have increased. Korea and Thailand would be two examples, along with a massive surge in pipe nipples from China.

In addition, uncovered, developing, and excluded countries such as Turkey have increased their share of our market of welded pipe and tube. The results of these increased shipments in the face of weak demand have resulted in layoffs at both the hourly and salaried level at Wheatland and at my CPTI counterparts.

Finally, my third point, Wheatland Tube and all of the CPTI producers who are welded pipe and tube producers, will benefit in the long run from the breathing space which was given to the flat-rolled industry by the Section 201 relief. In a short span of 6 months in late 2001 and early 2002, four flat-rolled producers shut down. Three of these have since been reopened. Nucor and ISG have consolidated three of these four. We believe that without the Section 201 action we could have possibly lost these producers and several other very important regional flat-rolled producers, such as Weirton, Wheeling-Pittsburgh, and Warren Consolidated.

We believe that by the end of the Section 201 relief, we will have a higher quality, more competitive industry to supply the welded pipe and tube group. That ends my testimony. Thank you.

[The prepared statement of Mr. Dooner follows:]

Statement of Peter Dooner, President, Wheatland Tube Company, Collingswood, New Jersey, on behalf of the Commitee on Pipe and Tube Imports 201 Coalition

These written comments are submitted by the CPTI 201 Coalition for the official Committee record with regard to the Section 201 Steel Safeguard hearing. To supplement the Coalition's testimony provided on March 26, 2003 the written testimony elaborates on three main points made to the Committee about the impact of the 201 relief on the welded pipe and tube industry. The differential relief of 30% tariffs on flat rolled products and 15% tariffs on welded pipe and tube products has caused a cost price squeeze on the domestic industry which is particularly evident in the latter part of 2002 and early 2003. Unlike the flat rolled industry in which three of the four flat-rolled mills shut down during the time period between President Bush's June 2001 Section 201 request and the beginning of 201 relief in March 2002, none of the pipe and tube mills shut down since November 2001 have been reopened by new buyers.

In November 2001, Laclede Steel shut down its operations including continuous weld pipe mills located in East Alton, IL and Fairless, Pennsylvania. These mills had a combined capacity of 450,000 tons annually of welded pipe and tube. While there has been a recent announcement of a purchase and plant reopening of the Laclede melt shop in East Alton, Illinois to produce special bar quality products, this new owner has no plans to reopen the pipe mills. In addition, Geneva Steel shut down a 150,000 ton pipe mill producing welded pipe up to 16 inches in outside diameter. Maverick Tube announced the closure of the former LTV tubular mill in Youngstown, Ohio with 170,000 tons of capacity to produce welded pipe and tube up to 16 inches outside diameter. This plant is being shut down at the present time. In addition, Excalibur Tube Company went into Chapter 7 liquidation in early 2002. Their mills had an estimated total capacity of 150,000 tons. Olympic Steel Tube shut down its operations in mid 2002 and had an estimated 100,000 tons of capacity. Thus, over a million tons of capacity has been removed from the U.S. pipe and tube market in the past 18 months. (See attached chart.)

The industry has also seen two major consolidation and restructuring efforts. First, in April 2002 Wheatland Tube acquired the Sawhill Tubular division of AK Steel. In December 2002 Maverick Tube acquired the LTV Tubular division from the bankruptcy court and LTV.

Overall, imports of welded tubular products other then OCTG which is the pipe and tube product category that received 201 relief, declined by approximately 10% in 2002 compared to 2001. However, we believe that due to the significant downturn in non-residential construction which is the primary driver of demand for welded tubular products other than OCTG, that import market share of these products actually increased after the imposition of 201 relief. The reason for this increase in import market share even after 201 relief is that imports of pipe and tube subject to 201 duties from certain countries did not decline after the imposition of relief and that imports of pipe and tube from some excluded developing countries have surged.

For example, as seen on the attached charts, imports of welded pipe and tube from Thailand increased in 2002 after the imposition of the 15% tariffs. The reason for this is that the Thai producers limited the amount of 201 duties they had to pay by reducing the customs value of their exports to the United States. This is truly incredible given the sharp rise in steel costs in Asia that occurred in 2002. We believe there is no rational commercial reason that would allow producers in Thailand to reduce reported customs values by $50 per ton in order to reduce 201 duties paid during a period of higher steel prices and pipe and tube prices in Asia, and for that matter higher steel prices and pipe and tube prices in the U.S. market during 2002.

The same is true of pipe nipples from China, a product produced by Wheatland's Seminole Tubular Division, and other members of the CPTI. Pipe nipples obtained 201 relief in the pipe fittings category of an additional 12% tariff. However, as seen in the attached chart, after the imposition of 201 relief, pipe nipple imports from China actually increased by more than 50% despite the imposition of the 12% Section 201 tariffs. Thus, the nipple industry has continued to experience a serious injury even after receiving 201 relief.

The biggest problem for the pipe and tube industry has been the tremendous import surge in imports from excluded countries since the period of 201 relief was granted. In particular, imports of welded pipe and tube other than OCTG from India and Turkey have surged incredibly. As demonstrated on the attached chart, imports form India and Turkey, which each accounted for below 3% of total imports of welded pipe and tube in 1996 and 1997 each accounted for more than 4% of imports in 2002. On a monthly basis, imports from India and Turkey increased from 2–3,000 tons a month in 2000 to almost 10,000 tons a month from each country in the 9 months of 2002 after 201 relief was granted. Incredibly, there were 28,000 tons of welded pipe and tube other than Oil Country Tubular Goods (OCTG) imports from India in January 2003 and 17,000 tons of imports from Turkey in January 2003. Imports from just these two excluded countries accounted for 22% of total welded pipe and tube imports subject to the 201 remedy in January. The welded pipe and tube industry has seen relief under the 201 program seriously undermined by these rapid import surges. The CPTI 201 coalition filed a petition in September 2002 with Secretary Evans and Ambassador Zoellick requesting action against these import surges from Turkey and India. No action to impose 201 duties against imports from these countries has been taken.

As a consumer of 800,000 tons of flat rolled steel annually, and as a part of a trade association whose members consume approximately 8 million tons of flat-rolled steel annually, Wheatland and the CPTI 201 Coalition support Administration efforts to preserve and revitalize an efficient flat rolled steel industry in the United States. Prior to the imposition of 201 relief, the U.S. had witnessed the permanent closure of Gulf States Steel of Gadsden, Alabama, and the closure of all of the LTV steel mills, Trico, Geneva Steel and Acme Steel. Since the imposition of 201 relief all of these mills except Geneva have reopened. In addition, significant suppliers of steel to Wheatland and other CPTI members such as Wheeling Pittsburgh, Bethlehem Steel and National Steel were in Chapter 11 bankruptcy and in peril of being closed down and liquidated. Many other flat rolled steel producers including Weirton Steel, Rouge Steel and WCI Steel were facing serious financial pressures and were in danger of bankruptcy. The steel 201 program has now produced significant consolidation, restructuring and reinvestment in the flat-rolled steel industry. Wheatland Tube and other CPTI members believe that the long term health of the pipe and tube industry will require healthy, efficient, and world class cost competitive flat-rolled steel producers in the United States. Wheatland and the CPTI do not wish to be dependent upon foreign steel in the future to supply steel to pipe and tube mills. But for the imposition of 201 relief, it is quite likely that after the closure of domestic mills there would have been surges of imported flat-rolled steel to furnish the U.S. market instead of the reopening of domestic supply. We are pleased that domestic steel mills have been reopened and are hopeful that new management and new labor agreements with the USW will result in the reinvigoration of the domestic steel industry.

Welded Tubular Products Other Than OCTG, 1998–2002

Quantity in short tons

Country	1998	1999	2000	2001	2002
Subtotal of subject countries	1,173,186	1,005,130	1,191,156	1,492,826	1,002,153
Subtotal of non-subject countries	1,088,310	1,110,727	1,436,078	1,345,919	1,530,672
Total of all countries	2,261,495	2,115,857	2,627,235	2,838,746	2,532,825

Welded Tubular Products Other Than OCTG, 1998–2002

Import Share (%)

Country	1998	1999	2000	2001	2002
Subtotal of subject countries	51.88%	47.50%	45.34%	52.59%	39.57%
Subtotal of non-subject countries	48.12%	52.50%	54.66%	47.41%	60.43%
Total of all countries	100.00%	100.00%	100.00%	100.00%	100.00%

Welded Tubular Products Other Than OCTG

Post 201 Import Surges

Country	2001 (Short Tons)	2001 Import Share (%)	2002 (Short Tons)	2002 Import Share (%)	01 2003 (Short Tons)	01 2003 Import Share (%)
India	38,321	1.35%	106,790	4.22%	28,428	13.96%
Turkey	41,937	1.48%	102,828	4.06%	17,219	8.46%

Welded Tubular Products Other Than OCTG

Post 201 Import Surges

Country	2001–2002 Volume Change (%)	2001–2002 Value Change (%)
India	178.67%	165.74%
Turkey	145.20%	129.87%

Welded Tubular Products Other Than OCTG, 2001–2002

Quantity in short tons

Country	2001	2002
Thailand	62,487	89,171

Welded Tubular Products Other Than OCTG, 2001–2002

Quantity in short tons

Country	2001	2002
Thailand	62,487	89,171

Steel Pipe Nipples, 1996–2002

Quantity in short tons

Country	1996	1997	1998	1999	2000	2001	2002
China	294	316	1,161	1,532	2,249	4,256	7,681

Consolidation and Capacity Shutdowns in Welded Pipe and Tube

Consolidation

Wheatland—Sawhill	April 2002
Maverick—LTV Tubular	December 2002

Capacity Reductions (tons)—since November 2001

Laclede	450,000
Geneva	150,000
LTV Youngstown	170,000
Excalibur	150,000
Olympic Steel Tube	100,000
Total:	1,020,000

Chairman CRANE. Thank you, and I would like to address my first question to Mr. DiMicco.

Mr. DiMicco, it is my understanding that Nucor has received certain State and local incentives to build modern steel-making facilities. Part of the President's steel initiative involves multilateral negotiations to eliminate market-distorting subsidies. Do you believe State and local subsidies should be included in the OECD discipline on subsidies to the steel sector? Some would say that if a plan can't be built without subsidies, it shouldn't be built. How would you respond?

Mr. DIMICCO. First off, the State tax issues referred to that Nucor has taken advantage of have not been subsidies. They only do anything if you actually make a profit.

Second, we are against all subsidies, and we would be very happy to not be in a position to take advantage of those quite legal incentives that exist in States until the rest of the world gets its act together with respect to doing away with subsidies everywhere.

[Additional information follows:]

As I stated at the hearing, we do not believe that Nucor receives any subsidies within the meaning of the WTO Agreement on Subsidies and Countervailing Measures. Any economic development incentives Nucor receives from State and local governments are nonspecific and generally available to any company in the United States.

Unfortunately, the foreign steel lobby has perpetuated the myth that a small amount of generally available incentives somehow equate to the massive government intervention provided to the non-U.S. steel industry by foreign governments. There is no comparison.

Chairman CRANE. This is to all of you out there. I don't know whether you heard the New York Times quote earlier about the WTO ruling against our steep steel tariffs, and it has been suggested that the threat of European Union (EU) retaliation is not real. While retaliation prior to an adverse WTO ruling was avoided through exclusions, the EU has already published a retaliation list of $557 million worth of tariffs ranging from 8 to 30 percent that would automatically go into effect 5 days after an adverse WTO ruling.

Do you think that retaliation is something that Congress and the Administration should consider when deciding the best course of action following the mid-term review? I put that to all of you.

Mr. Gerard.

Mr. GERARD. Let me be the first to respond. I am sure that it is well-documented in this room and other rooms that are in these buildings, the steelworker position on the WTO. It is interesting that America is losing almost every case that goes before it, and it is undermining our very ability to set laws for America.

I would hope that the House and the Senate, as well as the Administration, would fight as hard for the American steel industry as it did for bananas. We grow no bananas in America, and we went to the wall to defend whoever sells them. The steel industry is a vital, integral part of America's manufacturing base, and dare I say, today, a strong, viable steel industry is a national security issue.

When I talk about national security, I am not just talking about ships, and tanks and guns. I am talking about roads, and bridges, and computers, and all of the infrastructure that you need to have a modern economy that can keep itself safe and secure.

We, from the beginning, were convinced that the European-based secret bureaucracy of the WTO would rule against us. We have opposed the WTO from the beginning, and we will continue to oppose it, but we will not stop defending the steel industry and our members' jobs.

Mr. DIMICCO. Mr. Chairman, Dan DiMicco.

First of all, I never respond very well to blackmail and threats from people for enforcing our laws. The Europeans have these laws on the books. They file trade cases every bit as much as we do. They file them against the Russians, they file them against the Ukrainians, the Turks, the Indians, you name it. This is a practice that is globally there to ensure that trading takes place in a free, fair, and responsible manner. For any entity—European or otherwise—to come out and threaten that because we enforce our trade laws through a due process system, not by just a knee-jerk reaction, they are going to retaliate? I find that a bunch of hot air.

Number two, I would be very concerned if I were them because last time I checked, we had a $45-billion-a-month trade deficit. That means we are buying $45 billion a month more goods from overseas than they are buying from us. It seems to me, talking about killing the goose that lays the golden egg, I see it as an idle threat, and I don't think our President should pay any attention to it.

Chairman CRANE. Much has been said about global overcapacity in the world steel market. At the same time, I understand that U.S. firms have increased steel production capacity since the Section 201 safeguard went into effect last year.

Couldn't it be argued that the current problems in the steel industry are caused, in part, by the addition of new production capacity in the United States?

Mr. SHARKEY. I will take a crack at that.

I think, to place this question in perspective, the United States is the only major steel-producing country in the world that does not produce enough steel to meet its needs, and so it is not a case of adding capacity to export, which is the pattern around the world. It is capacity that is not built for their home market, it is capacity that is built for export, and it gets exported into the biggest, most open market in the world, which is here. I think that is the critical point with this particular question.

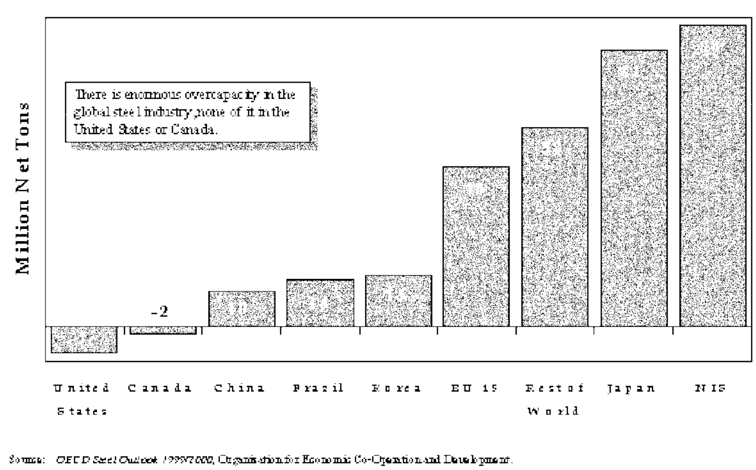
Second, the capacity that is being brought back on stream is very low-cost capacity. Fundamental restructuring has taken place. Steelworkers have been an important part of that. It has gone on in the electric arc furnace sector as well. This is low-cost capacity that is coming back. This is not surplus, inefficient capacity.

Mr. GERARD. I would just add or support what Andy said, that in a number of product lines, America has been driven out of those product lines by the 30 years of market-distorting practices, and I refer to some of them. Of major industrial democracies, America is the only major industrial democracy that does not produce enough steel to meet its domestic demand.

During the Section 201 hearings, we created a chart that was based on steel consumption by a major country, producing country and steel demand—excuse me—steel demand by producing country and steel production. In almost every one of those countries, they produced somewhere between 117 up to 210 percent of what their own domestic demand was, and I would be more than happy, if you are interested, to make that available to the Committee.

[The chart follows:]

Global Steelmaking Overcapacity



Source: OECD Steel Outlook 1999/2000, Organisation for Economic Co-Operation and Development.

Note: Data for 1999. Overcapacity defined as crude steelmaking capacity, adjusted to reflect yield loss, less apparent consumption. Newly Independent States (NIS): Federation of Russia, Ukraine, Belarus, Kazakhstan, Uzbekistan, Azerbaijan, Moldova, and Georgia. EU 15: Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, U.K. and Sweden.

Chairman CRANE. Please do.

Mr. CONNORS. Could I add a little something to that? If we are looking at it as a consumer-driven reason to have a steel industry, why do all of these other countries make the numbers that we just heard here way more than they consume? They make more than they can consume as a national policy because they recognize the economic impact on not just the steel companies in their country, but on the entire supply infrastructure pyramid that supports those companies. They get a supply infrastructure that supports, in some cases, 210 percent of their needs and export 110 percent of it, but keep all that supply impact at home.

Mr. DIMICCO. Mr. Chairman, one final point. The capacity that is coming back is actually going to be a benefit to consumers in this country because it is coming back at globally competitive cost structures, and that is a good thing.

The second thing I would like to say is the overcapacity issue is not a U.S. issue. The overcapacity issue is a global issue, and it really has its roots back to the collapse of the Soviet Union, where they had several hundred million tons of steelmaking capacity and after the collapse, they only had about 30 million tons of consumption, and that is where this whole thing started, and it just kept building through the nineties, and it culminated in the late nineties with the collapse in Asia of the Asian economies.

This has got a long history, but the problem is not rooted here in the United States. We cannot supply our own needs. How in the heck could we have an overcapacity issue here? That is not the problem.

Chairman CRANE. Thank you. Mr. Levin?

Mr. LEVIN. Thank you. There has been reference to the WTO decision. We are now just getting some of the details that are supposed to be confidential. It is a preliminary report, and I would hope that another look would be taken at it.

I supported a WTO dispute settlement system with finality, and I still do, but what is happening with the WTO is I think they are undermining their credibility surely as to safeguard measures. We negotiated safeguard measures into the WTO. In the 12 cases involving safeguards, the panels have overthrown use of the safeguard mechanism in every single case.

So, I think it isn't our use of safeguard mechanisms that is on trial, it is mainly the WTO implementation, and I think that is what is more on trial.

Let me also say, in terms of excess capacity, there has to be a much more vigorous effort by this administration and everybody else to deal with global overcapacity. If we simply put our house in order here, and the international house is not put in order, it isn't going to work.

Let me then ask about putting our house in order because I don't think it is understood very well what steps have been taken these last 18 months, say, to restructure, and all of you have been involved in it in one way or another.

So, somebody graphically describe, in a minute or two, that is all we have, what has been going on here, the restructuring? It has been considerable. What has it meant? Don't divulge your negotiating strategy, but just describe for everybody what has been happening. Who wants to address that?

Mr. DIMICCO. Dan DiMicco from Nucor.

Before you can have any major restructuring, rationalization and major competitiveness issue effected, you have to go through a process of consolidation first. It is the natural course of events in a market economy, and that takes time, and people are not going to consolidate; i.e., go and buy other companies if there is not a payoff down the road.

The Section 201 lent hope, a ray of hope, that there would be a payoff, and a number of companies and organizations, including Leo's organization, have taken some bold moves to——

Mr. LEVIN. Like what? Just describe the adjective.

Mr. DIMICCO. Well, first off, I would like Leo, in a second, to comment about what has been going on, on the integrated side because he is more familiar with that.

Even on the mini-mill side, of which Nucor has been a part for 35 years, where it is considered to have a very efficient type of steelmaking process and culture, we still have a lot of inefficiencies that we need to take out of our operations and out of our mini-mill sector. So, ourselves and Gerdau Ameristeel have been consolidating the industry on the long-product side. Nucor has acquired Birmingham Steel, Auburn Steel, just this past week Kingman from North Star Steel, we have acquired TRICO, which was a flat-rolled plant. The other ones were all long-product plants.

By doing this, we were able to improve our cost structures from an operating standpoint, a geographical coverage standpoint in servicing the customers, and also from a purchasing standpoint in pooling our purchasing.

Mr. LEVIN. Mr. Gerard, let me just interject, you mentioned Mr. Gerard. So, what has been going on? Describe it.

Mr. GERARD. I guess I want to do this very cautiously because I think——

Mr. LEVIN. I understand that, but just give——

Mr. GERARD. We have to be very careful that we are not demanding a restructuring, and a reorganization and a consolidation that happens on the backs of workers.

Mr. LEVIN. Right.

Mr. GERARD. Right now what has happened is—I made a point of introducing some folks—a quarter of a million Americans have lost their health care in the steel industry. What has happened is that we have managed to find an investor ISG. We have brought LTV Steel back on stream. We have reorganized the workplace. We have taken out all kinds of layers of management. We have completely organized the lines of progression. We have put all new work practices in place. We did all of the new rules. We negotiated a new pension plan after it was terminated by the Pension Benefit Guaranty Corporation (PBGC). We have negotiated new health care benefits after they were terminated by the bankruptcy court.

The ISG has purchased Bethlehem, just closed a few weeks ago, a week ago. We are in bargaining, as we speak, with that. U.S. Steel is attempting to buy National Steel, as A.K. is. They are in a bit of a competitive environment to try and get a collective agreement, and someone is going to try to save National Steel. Acme

Steel has been brought back by ISG under new rules, new consolidation.

The problem, up until now, with all due respect to everybody in the room, is that consolidation has been done on the backs of our retirees and our folks who have lost their pensions and their health care benefits.

If you really wanted to help the consolidation, the PBGC would not have preemptively terminated the pension plans because by preemptively terminating the pension plans, the PBGC has made it doubly hard to consolidate. The cost of delayering the work force now falls on the purchaser, and the rules of the game have been changed in midstream.

Let me just say that in the consolidation process, to even have the review that you are asking for of the Section 201 makes the ability to consolidate the industry in the integrated industry that much harder because you have got to go get the money out of the marketplace. The ISG is going to do an initial public offering.

If there was a pulling of the Section 201, the market would respond. U.S. Steel and A.K. are going to have to find a way to absorb National, whoever wins it. The market is going to respond, and if you pull the Section 201, just the fact that you are doing this hearing is affecting that marketplace.

Mr. LEVIN. Thank you.

Chairman CRANE. Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman, and let me just say I am very appreciative of the way you have handled this hearing. Let me say I am just becoming aware of the WTO decision that has been handed down, and I am absolutely outraged. The WTO is apparently not content merely to micro-manage our tax system. They are also trying to dismantle America's trade laws and change the rules in mid-stream. This is an essay in Yankee bashing, and I am sick of it, and I can tell you we, in the Steel Caucus, are sick of it, and we are not going to put up with any more of it.

Now, Mr. DiMicco, I was motivated by something that was said by the prior panel. Mr. Smith testified that your industry is the most highly subsidized in America, the most highly subsidized, I presume, more so than sugar, cotton, peanuts, ethanol or wheat. Aside from local economic development assistance, which I presume every one of that previous panel had access to, what subsidies do you get, Mr. DiMicco?

Mr. DIMICCO. Zero.

Mr. ENGLISH. Zero? Donut?

Mr. DIMICCO. Zero, donut, nada.

Mr. ENGLISH. Mr. Dooner, you are a great employer in western Pennsylvania, and I am sorry one of your plants is no longer in my district, but certainly your employees still are. You have been lean, you have been hungry, you received far less benefit from the President's trade policy as a pipe and tube company than other producers have. May I ask you what subsidies do you get?

Mr. DOONER. Zero.

Mr. ENGLISH. Donut?

Mr. DOONER. Yes, sir.

Mr. ENGLISH. Your competitors, do they get subsidies?

Mr. DOONER. I don't know of any.

Mr. ENGLISH. Very good. Let me move on to a couple of other questions. Mr. DiMicco, how much have you increased your prices during the first year of the President's remedy and what are the current pricing trends?

Mr. DIMICCO. You have to look at different product lines. We will talk about flat rolled, being the one that has been most impacted by the marketplace and potentially by the Section 201.

Just prior to January 1, 2002, LTV Steel announced that they were shutting down in their previous quarter. That shutdown created a shortage of steel and a change in the pricing dynamics of the marketplace. Prices started going up effective January 1, 2002, not based upon a Section 201 tariff, which had not even been put in place or ruled on yet. It wasn't going to go into place until March, a couple months later.

The major pricing dynamics that took place in flat rolled had to do with a change in the balance of supply and demand brought about by the LTV Steel closing. At that point in time, a pricing dynamic materialized, where pricing, over the period of the next 6 to 9 months, went up and peaked, in terms of actual transactions for hot band, from $200 a ton to maybe $350 a ton.

Since LTV Steel has brought back on their additional capacity, that pricing has now softened back to $300 a ton or in that neighborhood. So, we have gone through that type of move. The only reason why it has not gone back to $200 a ton is because the Section 201 has effectively stopped the illegal trading activity that was going on, except in a very few cases where there were some surges coming from developing countries that we are asking the USTR to address today.

Mr. ENGLISH. So, your products haven't experienced the price surge that you heard described during the last two panels.

Mr. DIMICCO. There was a price surge initially, but not due to the Section 201, and it has since moderated and come back down because of the balance of supply and demand, and it is——

Mr. ENGLISH. You have not heard of in your product lines, 30- to 50-percent price increases?

Mr. DIMICCO. Well, first of all, the price went down by 50 percent, from $400 a ton to $200 a ton, and so what we have achieved is a partial restoration of already historically low pricing. I would like to know what people did with the money they made when the price of steel went from $400 to $200 while they were still experiencing their higher contract prices with their customers.

Mr. ENGLISH. So would I. Mr. Sharkey, what would be the consequences of terminating the remedy before the full 3 years?

Mr. SHARKEY. Can I make just one quick comment on Dan's?

Mr. ENGLISH. Yes.

Mr. SHARKEY. One other thing we need to keep in perspective here is that a substantial amount of steel that is bought in this country is bought on contract. It is not necessarily bought on the spot market, and so a lot of the customers, last year in 2002, who had negotiated annual contracts, negotiated those contracts late in 2001, and Nucor and other steel producers, with very, very few exceptions, honored those contracts throughout 2002.

So, the increases that you are hearing about were primarily from buyers buying from a service center market, buying on the spot market, who tend to have much more volatility in their pricing.

Mr. ENGLISH. Before my time is up, early termination of the policy, your anticipation of the consequences?

Mr. SHARKEY. Early termination, I would simply support what Leo Gerard said. It will have a significant impact on the capital markets. That is critical to the restructuring of the industry. This industry is fragile right now. There has been some improvement, but early termination would basically send the signal that it is going to go back to the way it was before.

Mr. ENGLISH. Thank you all, and thank you, Mr. Chairman.

Chairman CRANE. Mr. Cardin?

Mr. CARDIN. Thank you very much, Mr. Chairman.

Mr. Gerard, I was struck by your comment about the relocation of companies by the last panel, which I think you are stating the obvious. You don't make those decisions in a few months, so I think that point is very well-taken, and I would like to get a response from the last panel, and maybe we will have a chance to do that by inviting a written response.

I also share your concerns that we have restructured on the backs of our steel retirees. Again, I would invite Members of this Committee to join me at some of the meetings that we are having with Bethlehem Steel retirees and listen to their stories because I do think it is a broken commitment by our Nation to the steelworkers, and it goes back many, many years, when we talked about working to reduce capacity in this country and gave at least an implicit assurance to our workers that they would be protected and, in fact, they are not.

I would just like to get your response on the language we use here about restructuring. I understand the politics of restructuring. We have to show the world that we are doing things differently here, but we are doing things differently here, and we have for the last several decades. Whereas, the rest of the world has not, the steel producers have not.

You have mentioned several times that we don't produce enough steel for our own needs, that we have reduced capacity. You haven't, I think, emphasized enough the type of investments that we have made in steel in modernization over the last couple decades to become a very cost-effective, efficient operation.

So, I understand the politics of talking about restructuring, and we have to do that as part of our international discussions, but I wish you all would talk a little bit more about what we have already done, not in the last 18 months, but we have done in the last 15 to 20 years, because there has been dramatic changes in the steel industry in the United States, which has not been matched by our partners, and I would invite your comments.

Mr. GERARD. Not to give another history lesson, but we have been driven out of a lot of product lines in this country over the last 30 years by what the U.S. Department of Commerce reports as 30 years of systemic, market-distorting practices by "our trading partners," and I went through a small list of what we can't produce any more, but that list is much, much greater.

During the 15 years prior to the imposition of the Section 201, the domestic steel industry invested $60 billion—with a "B"—in ongoing modernization. One of the first mills to close in this last round of steel crisis, brought about, as Mr. DiMicco said, by those collapses of those other global economies.

One of the first mills to close was Gulf State Steel in Alabama. Gulf State Steel was able to produce steel at a rate of man-hours per ton lower than 300 million tons of the global overcapacity that existed outside of the United States. For example, Russian mills were producing 2 million tons, with 22,000 workers, 16 man-hours per ton. Yet they were selling steel in this country at $100 a ton lower than we could.

We can't compete. It is immoral to ask us to compete with that. So, that the steel industry has been continuously investing in a modernization program, and we understand that that investment in the modernization can mean only one of two things: You are either going to produce the same amount of steel with less people or you are going to produce more steel with the same amount of people.

We have not been able to produce more steel with the same amount of people because we have been systematically targeted, product line by product line, and once we have been driven out of that market, they move to another one. That is why we filed 130 dumping complaints, and we won them all, but that is why nothing changed and why we went to a Section 201.

Now, the end result is I think it would be tremendously appropriate for this Committee to hold a hearing on what is happening to the quarter of a million citizens who have lost their health care as a result of illegal trade activity. I think it would be totally appropriate for this Committee to hold a hearing on what the overvalued dollar is doing to not only the steel industry, but the manufacturing industry's ability to compete in the world.

At some point, we have got to quit being the world's "patsies" for some kind of ideological stuff that does not exist. Free trade does not exist unless it is fair trade, and no one can demonstrate any of our trading partners that are abusing us that are trading fairly with us.

Mr. CARDIN. Let me thank all of you for your testimony. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Mr. Becerra? Oh, I am sorry. I missed someone.

Mr. BECERRA. Mr. Chairman, I will yield to Mr. Houghton from New York if he is next.

Mr. HOUGHTON. No, no, go ahead.

Mr. BECERRA. No, go right ahead, Mr. Houghton.

Mr. HOUGHTON. Age takes its place.

[Laughter.]

Mr. BECERRA. I was going to say beauty, but either one.

Mr. HOUGHTON. Age before beauty, is that it?

Well, first of all, thank you very much for being here. You give really a balanced position and, again, I am sorry that there was not a little dialog or debate between the users and the producers.

Mr. DiMicco, nice to see you. You have a plant in our district. I have got just a couple of questions, and then I would like to ask a broader question. First of all, you have never been involved in a trade dispute discussion like this—why now? Then, second, wouldn't you be doing what you are doing even without the Section 201 tariffs?

Mr. DIMICCO. To answer your first question, for over 35 years, Nucor was not a company that would get involved in trade issues. Typically, our rationale behind that had more to do with the way our operations continued to grow through new technologies. We have become known as an innovator in the steel industry, not just in the United States, but globally. We have reduced the cost to produce steel by 50 percent over the last 35 years.

However, things got so bad with the illegal trading activities that were taking place, the fact that our laws were being blatantly ignored that even Nucor couldn't sit on the sidelines any more. Companies as efficient, worldwide recognized as efficient as Nucor, could no longer earn their cost of capital.

Companies like Nucor, who reinvested in new technologies like thin slab casting, and today in cast strip, casting sheet steel directly from liquid, could no longer earn their cost of capital and reinvest in those technologies because of the blatant disregard for our trade laws.

When people start ignoring our laws and breaking the law, it is our right, as citizens and businesspeople, in this economy of ours, to stand up and ask our government to enforce those laws, and that is all we did. That is all we were asking for, and it was so bad that even Nucor could not ignore it any more.

As far as what we would be doing today in the way of consolidation, Nucor has taken a very active role in restructuring and consolidating the industry on the long product side, on the mini-mill side, we would not be doing it today without the Section 201. You cannot invest a dollar into something you can't get your cost of capital out of, and it would not be happening, and it certainly would not be happening on the integrated side either. Thank you.

[The information follows:]

Congress should also correct the flaws in our trade laws that actually lead to import surges and repetitive dumping. Today, we can spend a year or more prosecuting a dumping case only to see imports increase from new, non-covered sources. This "country/product switching" scheme is repeated over and over again. As noted above, we also need to close a loophole that allows "duty absorption," in which the target of a successful trade case simply absorbs the duties and continues dumping. And we need an effective import licensing program to provide early warning of import surges. These flaws and others in the trade laws are addressed in legislation introduced in the 107th Congress by Rep. English, Levin, Houghton, and Cardin, H.R. 1988, and by Rep. Berry, H.R. 3571. They should be supported by this Subcommittee.

Further, as I indicated in my testimony, this Administration should pursue a sounder dollar. At the least, the United States should send the message that we expect our trading partners in the Far East to stop the widespread and deliberate currency manipulations. Every sector of our economy, from agriculture to manufacturing to services, is hurt by currency manipulation by China and other governments. For example, China has pegged its currency against the dollar at a rate that is estimated to be 40 percent lower than its actual value. This is a massive subsidy that is causing a huge trade deficit with China. Every day, U.S. jobs are going to China because of this advantage. While the Chinese economy grew at 17% last quarter, our economy is sputtering. Our economic recovery is being thwarted by the currency management policies of China and others. This situation demands our government's action.

Mr. HOUGHTON. Thank you. Well, I can't speak for anybody else, but I think a lot of us will try to keep the Section 201 as it is and not shorten it, and also we will try to put some rules, and some understanding, and some manners in the WTO decision, which is wrong, but I want to look over the next hill.

As Bill Kleinfetter knows so well, I have said many times, if we are not careful, we are going to become a country and a warehouse for goods we can't afford to buy. So, the question is, after Section 201, what happens? Where do we go? How do we protect ourselves? How do we protect this market of ours? This is a temporary deal, as you know, and we will get over this WTO ruling in some way, but long term we are constantly going to be barraged by people who use their own economic system to undercut ours, and therefore get a share of the market, which ultimately we won't be able to afford. Tell us what we should do.

Mr. GERARD. I guess it may lead us into an ideological discussion because——

Mr. HOUGHTON. Well, we don't have time for that.

[Laughter.]

Mr. GERARD. My comment would be to reiterate the comment I made at the end of my last comment, and that is that America can't throw open its markets without having a series of rules that demand unfair trade. Make the point one more time. America is the only industrial democracy in the world where the ability of a retiree to have health care is directly related to the ability of his employer to stay in business.

Mr. HOUGHTON. Can I just interrupt a minute? So, what you are saying is that we are going to have a series of Section 201 or 301, super 301 cases; that is the inevitable course of our trade?

Mr. GERARD. I think what will happen in steel, and God only hope I am wrong, is that no matter how low we can drive the price of steel domestically by the efficiencies we are putting in place, unless we have a series of rules, pick the Russian mill that I just talked about, they are not trading in steel here for competitive reasons; they are trading in steel here to bring dollars home, and they are using their steel industry as an employment industry.

Mr. HOUGHTON. I am not worried about Russia. I am worried about us.

Mr. GERARD. My argument about that is that unless we have a series of defensible rules, they will continue to dump into this market.

Mr. HOUGHTON. The 301 or Section 201 are not sufficient; is that right?

Mr. GERARD. I don't think they will be sufficient in 5 years because the next downturn in their economy, they are going to dump into ours.

Mr. HOUGHTON. Could I just ask one thing, Mr. Chairman? Maybe you could tell us what you think the rule structure ought to be. Thank you.

Mr. GERARD. I will be glad to send you some written stuff.

[The information follows:]

1. A Strong Rules-Based Trading System is Essential

First and foremost, defensible trade rules require the maintenance of the system of rules-based international trade established by the GATT and WTO agreements on anti-dumping, subsidies and countervailing measures, and safeguards, in particular. This rules-based system must be strengthened, not weakened.

Over the course of many multilateral negotiating rounds since the beginning of the GATT in 1947, tariffs on goods have been reduced substantially. The lowering of tariffs, however, intensifies the need for effective trade rules that can address unfair trade practices.

The promise of trade liberalization can only be achieved through a rules-based system that promotes fair trade. Indeed, a healthy and vigorous rules-based system will promote increased trade because it will create a trading environment that establishes the "rules of the road" for all players and maximizes benefits for all. However, without the availability of trade remedy mechanisms, such as anti-dumping, antisubsidy, and safeguard laws, to address market distortions, trade liberalization will fail. As Ambassador Zoellick has noted, "{g}iven America's relative openness, strong, effective trade laws against unfair practices are crucial toward maintaining domestic support for trade." USTR, President's 2002 Trade Policy Agenda, April 2002, at 7.

2. Proposals for Reform/Improvement of International Trade Rules

The Committee to Support U.S. Trade Laws (CSUSTL), of which the USWA is a member, is an organization comprised of American companies, trade associations, agricultural producers, labor organizations, and law firms. CSUSTL supports the efforts of the U.S. Government to strengthen international disciplines and U.S. laws against unfair trade and to counter efforts to weaken U.S. trade laws. CSUSTL believes that strong and effective laws against unfair trade are critical to the survival of competitive U.S. industries and actively promotes reform of U.S. trade laws to make them more effective. To this end, CSUSTL has formulated proposals for the improvement and reform of the rules-based system. In particular, CSUSTL has identified numerous examples of trade distorting practices of foreign governments that need to be addressed to assure that the usefulness and effectiveness of the rules-based trading system is not undermined. Such trade distorting practices include

1. employment-based industrial policies that result in maintenance of vast overcapacity in steel, agriculture, textiles, and other industries,
2. the buildup of strategic industries by foreign governments (e.g., steel, semiconductors, agriculture, aerospace and technology),
3. closed home markets, and
4. export targeting that results in excess capacity and export flooding to maintain an employment base.

In an effort to improve the rules-based system, CSUSTL has compiled a Priority Issues list that identifies twenty-two issues of prime importance to ensuring that the American business and agricultural communities and their workers are beneficiaries of trade rules, instead of victims of trade distortions. CSUSTL also proposes corrective actions with respect to each issue. The 22 Priority Issues are:

- WTO dispute settlement in trade relief actions;
- prohibited subsidies;
- alternative causes of injury;
- Continued Dumping and Subsidy Offset Act (CDSOA);
- privatization;
- elimination of injury test;
- effective action against fill-in countries;
- presumption of injury for repeat offenders;
- sunset reviews;
- circumvention based on upstream dumping;
- circumvention based on input products;
- de minimis thresholds;
- new shipper reviews;
- indirect subsidies;
- access to trade remedies by farmers and ranchers producing perishable, seasonal and cyclical products;
- zeroing;
- calculation of all other rates;
- negligibility thresholds;
- standing;
- verification;
- facts available;
- adjustments.

The full text of CSUSTL's proposals for reform and improvement of international trade rules may be found at: www.rulesbasedtrade.org/cms/fileadmin/user_upload/Proposals_for_Reform_CSUSTL_01.pdf. For further information, the Subcommittee may consult CSUSTL's website: www.rulesbasedtrade.org.

3. The Problem of Structural Excess Capacity in the Context of International Trade Rules

In Mr. Gerard's testimony, his reference to the "Russian mill" example was a reference to the problem of global excess capacity in steel, and how in many countries (e.g., Russia) market signals do not operate properly, but rather, governments interfere in the market and maintain steel excess production, among other reasons, as a means of providing employment for their citizens. The result, of course, is that too much steel is produced worldwide, and that steel, needing to find a market, is likely to be dumped in the most open market available, the United States. Structural excess capacity and production has been a persistent problem, not just in the steel sector, but in other sectors as well. Because excess capacity is the result of governments and companies ignoring market signals, the trade rules in place at present, such as the anti-dumping laws, antisubsidy laws, and safeguard laws, are not completely effective in dealing with this trade distortion. This is the case because, while the existing WTO trade rules address individual member rights and obligations, they are not fully capable of addressing multilateral problems needing multilateral solutions.

Also, because the problem of structural excess capacity is global, without multilateral rules individual nations cannot adequately address the problem through the use of trade remedies alone, although many have tried. Almost every steel producing nation with trade remedy laws has conducted anti-dumping, antisubsidy, and/or safeguard investigations concerning steel products, with some countries conducting dozens or even hundreds of investigations. The sheer number of these investigations, however, demonstrates that the underlying root causes of global excess capacity have not been corrected. It is time to reconsider the problem of structural excess capacity and to formulate new multilateral rules and disciplines to correct this chronic problem.

Indeed, with respect to steel, one of the goals of the President's 3-part steel program has been to finally address and fix the root causes of global excess capacity in the steel sector. As Undersecretary of Commerce for International Trade Grant Aldonas has said: "The time has come to find a lasting solution—one that restores market conditions to the steel trade globally. We must find a way to get rid of the government interference and underlying distortions in the market that have produced the global glut in the first place." Testimony before the Senate Finance Committee, February 13, 2002. Thus, one part of the President's steel program (another part being the President's request for the Section 201 investigation) is focused on working to address the problem of global excess capacity through multilateral negotiations with other steel-producing countries. In addition, the President, in the third prong of the steel program, is trying, through the OECD, to correct market distorting practices through enhancing disciplines on steel subsidies and other distorting practices. Undersecretary Aldonas has noted that "the problem of overcapacity will likely recur without effective market disciplines." Id.

In sum, given the persistent problem of global excess capacity in the steel sector as well as others, it is apparent that, in addition to the existing trade remedy measures, multilaterally agreed rules are called for in order to efficiently address the distortions in trade flows that result when actions of governments distort market signals. The current efforts of the OECD steel negotiations are a start, and, from that basis, countries should work to achieve a multilateral agreement that adds effective rules aimed at eliminating inefficient excess capacity.

With respect to the problem of, and ways to address, structural excess capacity in the context of a rules-based trading system, I note for your consideration two publications authored by Terence P. Stewart, of the Law Office of Stewart and Stewart in Washington DC (Mr. Stewart has acted as the USWA's special counsel in a number of international trade matters, including the Section 201 investigation on steel). Both of the following publications address the problem of structural excess capacity, using the steel sector as an example.

- Rules in a Rules-Based WTO: Key to Growth; The Challenges Ahead (Transnational Publishers 2002).
- Opportunities in the WTO for Increased Liberalization of Goods: Making Sure the Rules Work For All and That Special Needs Are Addressed, 24 Fordham International Law Journal 652 (Nov.–Dec. 2000).

(Electronic versions of these publications are attached).

With respect to Russia, I would note that, one condition that contributes to excess production of steel and other products is the artificially low prices of natural resource inputs in Russia. Even despite continuing concerns about Russia's regulation of "natural monopoly" prices (e.g., natural gas, oil, electricity, transport services, and so forth.), both the EU and the U.S. have now recognized Russia as a market economy. In the case of the EU, the EU apparently insisted that Russia agree to raise natural gas prices closer to world levels before the EU would agree to give Russia market economy status. And, in their revised anti-dumping law, the EU added a provision that addresses unrepresentative costs of production. It states that if costs associated with production and sale of the product under investigation are not reasonably reflected in the records of the party concerned, then the costs shall be adjusted based on costs of other producers or exporters or on an other reasonable basis including information from other representative markets. Council Regulation (EC) No. 1972/2002 of 5 November 2002, OJ L 305/1, 7.11.2002, p.2 (http://europa.eu.int/eur-lex/pri/en/oj/dat/2002/l_305/l_30520021107en000100 03.pdf).

The U.S. decision to recognize Russia as a market economy notes that "despite repeated double-digit annual percentage increases, most regulated prices, particularly those for gas and electricity (43 percent of the generation of which is gas-based), remain well below world-market levels and may not even cover the cost of production. Thus, . . . regulated energy prices in Russia remain a significant distortion in the economy, as they encourage the wasteful use (mis-allocation) of Russia's energy resources and slow the adoption of more efficient production methods." Department of Commerce, Decision Memorandum re Inquiry into the Status of the Russian Federation as a Non-Market Economy Country Under the U.S. Antidumping Law, June 6, 2002 (emphasis added) (available at http://ia.ita.doc.gov/download/russia-nme-status/russia-nme-decision-final.htm). The Decision Memorandum, however, does not indicate how, in the context of future antidumping proceedings involving imported products from Russia, the Department of Commerce intends to account for the "significant distortion" of regulated prices that are below the cost of production. This will be a persistent problem as long as Russia continues to regulate the prices of natural gas, electricity, oil and other resources and keeps them below world market levels.

4. The Problem of Misaligned Currencies

Another persistent problem that creates trade distortions in international trade is misaligned currencies. Currency misalignment can be characterized by undervaluation or over-valuation, either of which can significantly affect the rules-based trading system, because misalignment results in misallocation of economic resources and undermines stability. Undervalued currencies, in particular, can produce false market signals—making it appear that industries in the country with an undervalued currency are more competitive than they actually are, leading to overexpansion of production and export flooding by particular products.

Moreover, the existing trade rules are not adequate to address the problems caused by misaligned currencies. Indeed, where countries do resort to using WTO trade rules to address floods of injurious imports, currency misalignment can affect dumping margin calculations by producing distorted or inaccurate margins.

Of late, China has been singled out as a country with an undervalued currency that has had substantial negative effects on trade. Economists have observed that China manipulates its currency through large and persistent central bank purchases of dollars and other foreign currencies, resulting in the RMB being undervalued by about 40 percent. The effect of this undervaluation is that the U.S. trade deficit is about $100 billion larger than it would otherwise be, which translates into one million fewer U.S. jobs in manufacturing. See Chinese Currency Manipulation and the U.S. Trade Deficit, Statement Before the U.S.-China Economic and Security Review Commission by Ernest H. Preeg, Senior Fellow in Trade and Productivity, Manufacturers Alliance/MAPI, September 25, 2003, (available at http://www.mapi.net/filepost/PreegTestimonySep2503.pdf). The current concern about China's undervalued currency and its effects on U.S. manufacturing and increased imports has led to a number of proposals presently introduced in Congress to address this problem. One example is the recent bill (S. 1586) introduced by Senator Schumer (see http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&doc id=f:s1586is.txt.pdf).

S. 1586 notes that:

1. China's currency is artificially pegged below its market value by 15–40 percent, or an average of 27.5 percent;
2. the undervaluation of the yuan makes exports from China less expensive for foreign consumers and foreign products more expensive for Chinese consumers,

which effectively result is a subsidy to China's exports and a virtual tariff on foreign imports;
3. China's undervalued currency and the U.S. trade deficit with China is contributing to significant U.S. job losses and harming U.S. businesses;
4. China has intervened in the foreign exchange markets to hold the value of the yuan within an artificial trading range; and
5. China's undervalued currency and intervention in the value of its currency violates the spirit and letter of the world trading system.

To address this problem, S. 1586 would "impose a rate of duty of 27.5 percent ad valorem on any article that is the growth, product, or manufacture of the People's Republic of China, imported directly or indirectly into the United States" unless the President certifies to Congress that China is no longer manipulating its exchange rate and that its currency is valued in accordance with accepted market-based trading policies.

The example of S. 1586 shows that the existing WTO Agreements on antidumping, subsidies and countervailing measures, and safeguards, while designed to address injurious or increased imports, are not designed to correct the effects of currency misalignments, even though that problem may cause or exacerbate injurious or increased imports. The problem of currency misalignment, like that of global excess capacity, should be addressed on a multilateral level with the aim of adding effective rules to the rules-based system that will prevent and eliminate the injurious trade distortions caused by currency misalignment.

For further review of this issue, I would direct your attention to the Stewart publications noted above, as they also address the problem of currency misalignment.

[The attachments are being retained in the Committee files:]

Mr. HOUGHTON. Thank you.

Chairman CRANE. Mr. Becerra?

Mr. BECERRA. Thank you, Mr. Chairman. I am wondering if anyone on the panel would like to venture to give us an estimate of what this means to the average American, the average family out there, in terms of cost to him or her or to a family. So, Section 201 is a tariff, it is a cost. It means that we can't have a steel product brought into this country at a cheaper price, and some would say that we should always let in whatever is cheapest come in so that we could have it at the best price so American consumers can save as much as possible so their pocketbook isn't hit.

I am wondering if you can give me a sense of how much Americans are having to pay in extra cost as a result of Section 201 so we can see if it is really something Americans would be willing to absorb, given that you otherwise lose, and Mr. Gerard said 275,000 people with their health care. I think if Americans had a chance to see what the consequences are of letting an industry die in America, that they might be willing to absorb the additional cost that they may have to pay for the automobile or for the dishwasher because it has steel in it.

How much are we talking about the American family having to pay in extra cost to preserve an industry that is facing dramatic increases in imports that are, for the most part, being produced because of major subsidies by those foreign countries where those imports are produced?

Mr. SHARKEY. Sir, I can't give you a macro number, but maybe I can give you a specific example that might be helpful. In a typical four-passenger sedan that, on average, costs $25,000 to $26,000 a year, there is $700 worth of steel.

Mr. BECERRA. That is it.

Mr. SHARKEY. Seven hundred dollars worth of steel. There is more health care in the car than there is steel.

Mr. BECERRA. A Section 201 action over the last few years——

Mr. SHARKEY. A Section 201 action, even if you assumed that it raised the price of that automobile $100, which we think is high——

Mr. BECERRA. That would be one-seventh, or it would be about 14 percent.

Mr. SHARKEY. Correct.

Mr. BECERRA. That would seem very high that the Section 201 action would have increased the price of that steel for that auto manufacturer that much.

Mr. SHARKEY. What we know is that, basically, the price of automobiles fell last year, and so if you look at the producer price index for most steel-containing products, they actually declined. My point is it is really pretty minimal.

Mr. BECERRA. You don't buy a new car every year.

Mr. SHARKEY. No, I don't anyway.

Mr. DIMICCO. Dan DiMicco. A new car, if I could?

Mr. BECERRA. Go ahead.

Mr. DIMICCO. The real cost to the American consumer will be the continuing loss of manufacturing jobs in this country, high-paying jobs.

Mr. BECERRA. Mr. DiMicco, I know that. I am trying to, because most Americans aren't going to be told, as much as they might be concerned about their fellow Americans losing a job, at the end of the day they are going to be told, "Do you want to pay X amount more for that car, for that dishwasher, for that whatever it might be?"

I am trying to get a sense, if Americans knew what the additional cost would be to help fellow Americans retain a job and help fellow Americans retain an industry that has been part of America for time and memorial, I am wondering, if we could give them a sense, they might be willing to say, "Okay, wait a minute. Let us have the Section 201. We are willing to do this because we understand that if we don't we have that loss for Americans of those jobs."

If you could give me a sense, I am trying to quantify, as difficult as that might be, and Mr. Sharkey tried to do that.

Mr. CONNORS. Could I jump in and show off my math skills?

Mr. BECERRA. Let me see if Mr. DiMicco wanted to answer, and I know Mr. Gerard wanted to say something, and then, of course, Mr. Connors, you can chime in as well.

Mr. DIMICCO. My point to you would be this: The average American consumer doesn't give a hill of beans about the Section 201.

Mr. BECERRA. Right, they don't know about it.

Mr. DIMICCO. They don't know about it because it is not impacting their pocketbook, it is not impacting their bottom line.

Mr. BECERRA. The argument is made——

Mr. DIMICCO. There are other macros things that are, and I know you don't want to talk about them right now, but that is something we need to talk about.

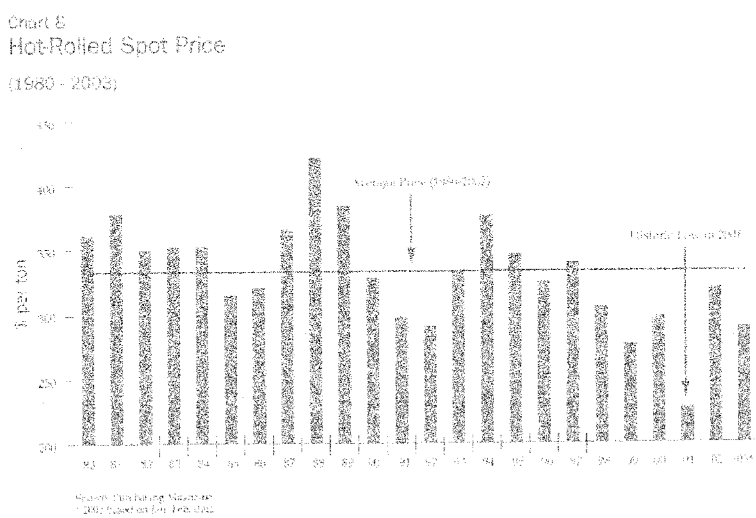
Mr. BECERRA. It is not that I don't want to, it is just that what I am trying to get a sense is, is that the argument is being made to the American public we have to have the most competitive products come to America, and right now people will say that the most competitive markets we can get in America on steel come from abroad. What I am trying to say is can we explain to the American public what they are sacrificing to get those cheaper products?

Mr. DIMICCO. As more and more people lose their jobs while you follow that logic, more and more Americans are going to be concerned about just getting the cheapest thing instead of getting something that is balanced.

Mr. BECERRA. They won't have the jobs to pay for them afterward, either. Mr. Gerard and Mr. Connors?

Mr. GERARD. I will be really brief. I was holding this up, and you can probably see the red lines. There is the bottom of the crisis in steel. That was the price. This line is the 20-year average price of steel, and there is the price of steel today. So, when I say there is a lot of whining going on, on the last panel, this is a fact. This isn't just me.

[The chart follows:]



Mr. BECERRA. So, prices are still lower than they were or the average——

Mr. GERARD. Prices are lower than the 20-year average. To quote Dan, I want to know what they did with all of the money when the prices went down.

Last, the average increased cost of a refrigerator, to give you a specific, if the full implementation of the tariff was passed on, and it is never all fully passed on, is $4.

Mr. BECERRA. Mr. Chairman, I know my time has run out, but Mr. Connors did want to answer.

Mr. CONNORS. Well, 260 million people in the United States, 130 million tons of steel. That is one-half a ton per person. A $100 increase in the price of a ton of steel is a dollar a week.

Mr. BECERRA. Thank you.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. I want to ask about what is going on with restructuring in the industry. The whole point of the Section 201 action was to I suppose achieve some efficiencies in the industry through restructuring, which is one way. There may be other ways, but what has happened with respect to that?

I have seen varying reports on it, but is there any progress being made? If so, specifically what is it in, and is it all going to be done, and how long is it going to take to get this done? On the mini-mill side and the big companies.

Mr. DIMICCO. The restructuring that is going on is of an order of magnitude never seen before in the United States and very seldom seen anywhere in the world. There are massive reorganizations taking place, both on the integrated and minimal side. The fragmented industry is becoming significantly less fragmented. Costs are going down by not 2 or 3 percent, by 20 or 30 percent, and this process has to continue—it just takes time to get through to its completion.

The first thing you do is you go through a process of consolidating. The ISG buys Bethlehem. It takes a year to get that done. Then you have to go in, and you have to organize, you have to get your systems working together. You look at what operations should be kept going or shut down, if any. You look at what kind of money you have to reinvest to take advantage of that consolidation to its fullest.

That is why this is not something that can be dealt with in a 6-month period, a 1-year period or a 2-year period, and 3 years may not be enough to get us all the way there, but shortening it certainly makes it even more difficult, if not impossible. That is why the full 3 years is needed.

The second thing I want to emphasize here is that these people were breaking the laws, and this Section 201 that has been put in place is to deal with the fact they were breaking the laws repeatedly. Even though it is not required by the Section 201 to prove that they were breaking the law, they were so good at breaking it and getting around our trade laws that the safeguard measure was put in place. The WTO maintenance safeguard measure, a rule of law in the WTO for that very purpose, and we put it in place to stop the illegal activity that was going on because that was the only way we could do it.

I will let Leo talk some more about the consolidation on his side.

Mr. GERARD. The consolidation in the integrated side is more profound than it has been since the birth of the industry, I guess. My concern, quite frankly, is that the consolidation is going on, on the backs of our retirees, both through the termination of the pensions, as a result of the preemptive action by the PBGC, and the fact that the bankruptcy courts, as was reported earlier, the bankruptcy courts just yesterday terminated the health care provisions of 90,000 Bethlehem retirees.

I think that the Committee on Ways and Means could do the country a real service by holding hearings on the termination of pensions and on the loss of health care by a quarter-million Americans and judging what that has done to America's competitiveness.

Mr. JEFFERSON. Is a major part of the issue here that impedes restructuring or whatever, is it the issue of this legacy cost?

Mr. GERARD. This is a catch-22 for the industry and for our members.

Mr. JEFFERSON. If that is true, does Section 201 really have enough coverage to address that issue?

Mr. GERARD. No, and let me come at it another way. When I talked about the $60 billion that had been invested in modernization in the last 15 years, and if you do the series of steel crises, the industry went through a series of modernizations, and rationalizations and closing any fishing facilities to get productivity up, and that resulted in a lot of plant closures resulted in a lot of retirees. It resulted in a lot of cost to the employer.

The Section 201 provided a breathing space, but it didn't take anybody out of bankruptcy. No company that went into Chapter 11 bankruptcy, as of yet, has come out on its own.

Mr. JEFFERSON. Let me switch gears here because Mr. DiMicco said some things about the Port of New Orleans coming in. When I first heard him start speaking, and of course that is my port and my city, and they, of course, are complaining to me about the loss of jobs, the loss of business at the port, and your report is quite different from their report.

The panel before talked about the prices, but they talked about prices spiking up considerably. I saw the 20-year average that you had there, but there has been a spike-up in it, and they complain of something they call it as egregious as price gouging. Of course, you deny that on your end of it.

I read this report that somebody did about the Port of New Orleans, but it contradicts what our folks are saying. I will have some questions about that when our people get up there, but how can we have such contradictory reports about what is happening in the Port of New Orleans without our folks haven't been talked to. They tell me that no one has talked to them. They make their reports to me about what is going on, and yet you make a different representation.

Mr. DIMICCO. Well, some people misrepresent the facts, some people don't.

Mr. JEFFERSON. Are you claiming the Port of New Orleans is misrepresenting the facts?

Mr. DIMICCO. I am saying that you can make numbers say anything you want, and I know that the numbers that we put in there are from the Port of New Orleans' own numbers, and the State of Louisiana's own numbers and not something we made up.

The other thing I would like to say is there is a big difference between price gouging and price restoration. Remember, the price dropped 50 percent before prices went back up again. They never went back up to the original levels prior to the illegal trading. This is not an issue of price gouging, as some people earlier proclaimed. It is an issue of a price restoration from illegally traded goods that destroyed the pricing structure.

Mr. JEFFERSON. We will try to get the records straight when the Port of New Orleans shows up in a few minutes.

Chairman CRANE. Mr. Neal?

Mr. NEAL. Thank you very much, Mr. Chairman. I want to thank the panelists as well.

Mr. Gerard, that testimony you delivered, with such great passion and emotion, that could have been a speech delivered at the Democratic Caucus 2 days before a trade vote. The issues you raised have bedeviled most of us on this side of the aisle largely because in the seats where you are sitting we often hear from professors, economists, business executives, and even editorial writers. Do you know what happens when these trade agreements go into effect? Not one of them ever loses their job. Not one of them loses their pension benefits. None of them ever lose their health care, and they walk out of here holding the same job that they held when they walked in.

I have had this argument with the previous Administration, and I have had this argument with the current Administration, and like many on our side have been schizophrenic with free trade, voted for some of the agreements; opposed others.

How do you, as panelists, respond to the often esoteric argument offered here that these relocations and these adjustments are nothing more than the free market at work?

Mr. GERARD. I will be very blunt. These are not agreements that are managed. In fact, if you tell me that workers in America need to compete with China based on China's rules not our rules, I am going to tell you we are out of business. That is not a free market in China. It is a totalitarian regime that uses child labor, slave labor, has no environmental rights, manipulates currencies. I love that Russia's trying to move to a democratic free-market system, but don't tell me that making 2 million tons of steel with 22,000 workers and selling that steel in America at any price that you can has anything to do with the free market. Pick the country in the world. The fact of the matter is that we are for fair trade. Given a fair set of rules, our Members can compete with anybody in the world. American manufacturing workers can compete with anybody in the world, given a fair set of rules.

Right now the playing field isn't level. That is why we are losing—that is why we are losing more than 2.5 million manufacturing jobs to date. That is why we have got a trade deficit that is $45 billion a month. That is unsustainable. I am told—I'm not an economist, but I am told that that trade deficit is going to grow. You heard these people sitting here who have told you and you and you that the jobs they moved to China they aren't bringing back.

When they start moving the tube mills to China, what are we going to do when we need tubes and pipe to make gas lines? When they move all the auto parts to China, what are we going to do when we want to build the cars and they decide they aren't going to ship?

Mr. NEAL. Mr. DiMicco, as shy as you have been, do you want to say something?

Mr. SHARKEY. I would like to make just a quick comment, if I could. I think this line of questioning, and I go back to Congressman Houghton as well, this really focuses on the real issue that is at stake here. The Section 201 will come and go. What unites this panel and the panel before is that we all are part of this broader manufacturing crisis. I don't know of a single metalworking industry that doesn't have the same issues with China, as we participate in those discussions.

What we really need to be about here is figuring out how we are going to continue to make things in this country. We need a strong manufacturing policy. We need public policies that support it from a tax and regulatory standpoint. That is what unites us all here. We are fighting over this issue today, but we have a lot more in common than we have in conflict. That is where our focus really needs to be in the long term.

The National Association of Manufacturers (NAM) is trying to work on this issue. We are all Members of NAM. I think that is where our energy really needs to be invested. That is the longer term issue.

Mr. DIMICCO. I would like to first apologize for my shyness. I would suggest to you, on a big-picture issue, our world-trading system is broke. It doesn't work. The fact there was a Section 201 needed at all or even looked at is evidence of that. The fact that no safeguard measures have been upheld by the WTO is proof of that. The fundamental distortion is this. There is no freedom in this world that we believe in, particularly in this country, that doesn't come with a set of rules, that doesn't come with a set of responsibilities, and doesn't imply fairness and legal behavior.

The world has distorted the concept of free trade. I am afraid some of the Members of Congress have also distorted the concept of free trade. Free trade means responsibility, responsible trade, rules-based trade that people adhere to. Our system is broke, folks. If we don't fix it, we are going to have some serious global consequences.

Mr. NEAL. Thank you all. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Before we wrap up here, just one final question. Mr. DiMicco, you mentioned you haven't received any subsidies other than local development incentives. I was curious what types of local incentives have you received and how much?

Mr. DIMICCO. I don't have those numbers on the tip of my tongue, but I can get those to you. They are basically incentives that have to do with hiring employees in the area, you might have training incentives, you might have some State and use tax incentives, sales tax incentives, and some income tax forgiveness based upon bringing high-paying jobs into the area. I would add that's available to any company in the United States, not just Nucor or any steel company. I would also mention to you that globally those things are also available at the local levels around the world, and are not the subject of the global anti-subsidy negotiations that we're talking about, where governments give wholesale forgiveness of billions of dollars in debt and give away facilities for nothing to people just so they can keep other people employed.

Chairman CRANE. Have you received any money from the Byrd amendment disbursements?

Mr. DIMICCO. I think we might have gotten $100,000. You can take that and put it someplace else, too if we could be assured of free trade.

[Additional information follows:]

Nucor received total distributions of $1,004.45 in 2001 and $291,366.89 in 2002 under the Continued Dumping and Subsidy Offset Act of 2000, also known as the "Byrd amendment." As I stated at the hearing, we would gladly give up the Byrd moneys if the illegal trade activity stopped. Antidumping duties continue to be collected under dumping orders precisely because the antidumping and countervailing duty laws continue to be violated.

One of the reasons that Byrd moneys exist is that U.S. trade law allows dumping duties to be absorbed by the foreign producer or exporter. Without duty absorption, foreign producers would either correct pricing in their home market, or they would have to sell at full prices in the U.S. During an administrative review, the antidumping margin would be reduced to zero. We would much rather that this be the situation than to collect Byrd money due to the perpetuation of the unfair trade practices. Many of our trading partners, including Europe, require that the dumping duty be passed on to the customer.

There is no intellectually justifiable reason to continue the practice of tolerating duty absorption, which undermines the ability of dumping laws to correct distortions in markets. We support an amendment to the trade law contained in Rep. Berry's bill in the 107th Congress, H.R. 3571, which reflects European practice.

Mr. GERARD. We will take it for health care.

Chairman CRANE. Well, thank you all for your testimony. With that, this panel is adjourned.

We will now call up our final panel. Charles Bradford, President, Bradford Research, New York; David Schulingkamp, Chairman, Board of Commissioners, Port of New Orleans; James Campbell, President, International Longshoreman's Association (ILA) Local No. 3000, New Orleans; Walter Niemand, Board Member, Texas Free Trade Coalition, Houston, Texas; Laurie Moncrief, President, Schmald Tool & Die, Burton, Michigan; and James Jones, Vice President, Dixie Industrial Finishing, Tucker, Georgia.

If our next panel will please take seats. All right, we are ready to proceed. Mr. Bradford, you will be kicking off. Let me remind everyone to try and keep your oral testimony to 5 minutes or less, and any additional testimony will be made a part of the permanent record. We will include it. With that, Mr. Bradford, you go first.

STATEMENT OF CHARLES A. BRADFORD, PRESIDENT AND CHIEF FILE CLERK, BRADFORD RESEARCH, NEW YORK, NEW YORK

Mr. BRADFORD. Thank you, Mr. Chairman for the invitation to speak today. I am President and Chief File Clerk of Bradford Research. We are an independent investment research firm specializing on the metals. I have been a metals analyst for 38 years. I thought today it might make some sense to try to hone in on what are the problems of the steel industry, which people have mentioned, and how do we go at it to try to solve the problems.

Mr. Levin, I think, got it very right before when we said we have to have the correct information. First of all, our understanding and our view of the problem, which we have said for many years, has been the strong dollar. Unfortunately, the strong dollar is good for the economy but lousy for basic industry.

Second, excess capacity. Everybody has talked about it but, in effect, no one has done much about it. There has been a consolidation in Europe, there has been a consolidation in Japan, and they have taken out capacity. The consolidations in this country have added capacity. In fact, capacity has been added during the Section 201. That is not solving the problem.

There have been some other comments made that I think are interesting. Mr. Danicek in his prepared remarks—I don't think he was here to give them—talked about how the mini-mills have grown to where they are now 50 percent of the industry capacity, from 15 percent. Well, guess whose capacity that was aimed at? That was the integrateds that they took capacity away from.

Mr. DiMicco just said that Nucor reduced their costs by 50 percent over the last 35 years. That is pretty impressive, but guess again. That went to the customer and was a very serious problem for the integrated companies who also did a pretty good job at reducing costs. They deal with very large customers, and the customers took advantage of them.

Last year, as an example, contract steel prices went down despite the Section 201. It was only spot prices which Nucor primarily benefited from, as did Steel Dynamics and other mini-mills that got the benefits of the higher prices. DiMicco again got it right when he said it was the sudden closure of LTV Steel that panicked the customers, who double-ordered and ran up pricing. When they realized LTV Steel was coming back on again, prices retraced half of the gain. It was a 100-percent gain. It is now a 50-percent gain.

High costs. We have some of the highest-cost steel mills in the world. We talk a lot about averages, and I am as guilty as anybody, but the fact of the matter is there are some very low-cost mills, like Steel Dynamics and Nucor, and there are some very high-cost mills. I was shaken up I guess a couple of months ago when I realized that Wheeling-Pittsburgh had a blast furnace from 1905. That is the one they want to replace with an electric furnace. I know of a couple of rolling mills in this country, big, hot strip mills—the key to a plant—that date to the thirties. Yet there are other plants that are absolutely first-rate.

I personally believe that foreign steel has been largely scapegoated. There isn't any 10-cent-an-hour wage rates in the major countries that supply steel to the United States. The biggest supplier is Canada. Next biggest has wage rates that are not too far from Canada. China with relatively small tonnage, less than 800,000 tons last year out of 30 million metric, does have low wages, but the big one is Canada. Japan is also relatively small in tons. Japanese wages, by the way, are $75,000 per man per year. Korea is $35,000 per man per year. Not 10 cents.

I think we have to understand where the problem is. There are some very efficient steel companies in the United States, and there have been some very inefficient. We cannot have the inefficient running the industry. This is a situation where you have comparative advantage. If you were to start off with a piece of plain paper today, you would not build an integrated steel mill in the United States, but you would build mini-mills. That is where the growth has been. I think they are as responsible as anybody for the problems of the integrated mills. They have gained 35 percent market share. The imports are 20 percent of the market.

I think I am getting close to being out of time, but I think poor data is one of the big problems. The industry is smaller than they think they are, they double-count imports. If somebody imports a slab, it counts as a slab, then it counts again as hot roll. Or U.S.

Steel imports hot roll for California; when they cold it, it becomes cold roll. Counted twice. I welcome your questions.

[The prepared statement of Mr. Bradford follows:]

Statement of Charles A. Bradford, President and Chief File Clerk, Bradford Research, New York, New York

The Steel Industry

What are the problems in the steel industry?

a. Excess world capacity
   i. Subsidies to build new plants in U.S.
   ii. High cost plants should be closed

b. Strong dollar over the last several years
   i. Dollar has weakened recently and U.S. mills are now exporting

c. Rapid capacity expansions by flat rolled mini-mills during the 1990's

d. Poor economic analysis—
   i. Industry is actually a lot smaller than it believes
   ii. Double counting of imports with the domestic steelmakers the largest buyer of foreign steel

e. Weak managements
   i. Some with 17th and 18th century mercantilist ideas

f. Section 201 impact
   i. Did it help the price of steel recover last year?
   ii. Did it hurt domestic steel users?
   iii. Any help in solving underlying industry problems?
      a. Domestic capacity increased more than 10% after the Section 201 put into place and steel prices fell sharply as plants reopened

g. Subsidies
   i. Loan guarantee program
      a. The one steelmaker that received a loan guarantee (Geneva) closed up 10 months later. Someone did a poor job of due diligence.
   ii. States and local governments
      a. Capacity built in the 1990's by mini-mills all had State and local "incentives."

h. Value of the dollar
   i. Strong dollar the real cause of the industry's problems
   ii. Recent dollar weakness very helpful.

i. Steel and the national defense
   i. Department of Defense says 0.3% of domestic steel ends up being used by the DOD

j. Which plants should close to eliminate the excess capacity around the world?
   i. Second Chapter 11s filing shouldn't be allowed
   ii. High cost plants should be closed

k. Just how many steelmakers actually filed for bankruptcy protection during the last few years? Thirty-five seems to be the number that we see in print the most.
   i. Almost one-half of those on the USWA list of 35 *never* were steelmakers
   ii. All the steelmakers on the list were either startups (3) that made poor equipment choices or USWA organized operations (at least partially)

l. The domestic steelmakers need foreign steelmaking equipment and technology

m. Consolidation
   i. Didn't happen after 201 announced
   ii. Did occur once the USWA and ISG announced an agreement that recognized major cost savings
   iii. Most legacy costs related to retirees eliminated

Key issues

In the interest of time, the comments below will not cover all the items mentioned in the above outline since some are self explanatory.

Nearly all observers of the steel industry believe that worldwide excess capacity is the largest problem that the industry faces. We differ as to how much excess capacity exists. Without a solution to this problem, any industry rebound is likely to be short lived, such as was the case last year. We know that the strength of the dollar caused serious harm to not just the domestic steelmakers, but also many of their customers. Recent weakness has been helpful, but we are unable to predict whether or not this will continue. We have never been very good at predicting the value of the dollar. A weaker dollar makes foreign goods more expensive. Thus the focus today, as we understand it, is to see whether or not the Section 201 program has made the domestic steel industry's situation better or not. In addition, the impact of the Section 201 on the steel user is being investigated.

In some ways the downfall of the domestic steel industry began in 1959 when a 116 day strike by the United Steelworkers of America led to the introduction of foreign steel into the U.S. Until that strike, foreign steel was regarded as inferior to the product of the domestic steelmakers, but was found to be actually superior in many ways, such as gauge control and flatness. Foreign steelmakers developed relationships with domestic steel users that continue to this day. Nearly all studies that we have seen from reputable analysts show the average domestic steelmaker to have much higher costs than many of their foreign competitors and much higher costs than their domestic mini-mill competitors. Some of this has been due to the strong dollar, some due to lower raw material costs elsewhere and a lot due to much newer and more efficient equipment outside the U.S. It should be pointed out that the domestic steelmakers have made major progress during the last decade to lower costs and to improve the quality of their product, but these gains have all either been offset by the strong dollar or have flowed to their major customers. The domestic steelmakers have not earned their cost of capital during the last *few* decades. They have thus been self liquidating.

At the same time, newly developed German technology was accepted by U.S. mini-mills with one-fifth the capital cost per ton and much lower operating expenses than that of the old line integrated steelmakers. In addition, the new producers were non-union, thus no legacy obligations. These companies were able to benefit from various state and local government incentives and more than 20 million tons of new capacity was built. With limited market growth, steel prices fell sharply in line with the lower costs of the new producers. These mini-mills were also very aggressive in pricing their products, with Nucor, for example, apparently believing that their order book should be entirely filled before anyone else gets any business since they are the low cost producer.

The domestic steel industry through the *American Iron and Steel Institute* has for years double counted imports of semi-finished steel, but recently began to correct its data for imported slabs. Unfortunately, some industry leaders still refuse to recognize that the mills themselves are the largest importer of foreign steel and when these slabs and hot-rolled coils are processed in the U.S., they are reported as a domestic shipment. Some industry leaders still double count, which leads to a mistaken impression that the industry is much larger than reality. The latest *Department of Labor* data covering steel employment shows only 187,600 total steel industry employment or 0.1% of total nonfarm payrolls. This compares to 511,900 steel industry employment in 1980 or 0.5% of total nonfarm payrolls. It is also interesting to us that the United Steelworkers of America union appears to represent 90% of the steel production employees, who account for about one-half of the domestic steel delivered. The decrease in employment is the result of improved productivity in the domestic industry and the new flat rolled mini-mills that use few people in their mills.

In regard to steel usage by the *Department of Defense*, a particularly important issue at this time, the DOD has publicly stated that their usage of steel amounts to 0.3% of domestic steel deliveries and they do not generally buy imported steel. I personally think that it is incredible that certain steel leaders seem to believe that they know better than the *Department of Defense* and usually claim major steel usage by the DOD. Maybe the steel industry/union leaders believe that we are still building Liberty ships.

But the real questions that you want to focus on today involve the Section 201 steel tariffs and industry consolidation. Have these two situations helped or harmed the steel industry and its customers? We believe that the Section 201 tariffs have led to increased steelmaking capacity of more than 10% from February 2002 (the month before Section 201 was invoked) through February 2003. Thus the improved steel pricing during the first half of 2002 reversed and U.S. Steel recently forecast that it would report a loss for its first quarter of 2003. By the way, last year U.S. Steel's Slovakian subsidiary reported an operating profit of $110 million with an average steel price of $276 per ton while U.S. Steel domestic flat rolled steel operations had an operating loss of $31 million despite a much higher average selling price ($410/ton). This is with U.S. Steel's accounting in Slovakia and no subsidies according to them.

We believe that the real reason what flat rolled steel prices increased last year was the closure of steelmaking capacity in 2001. It is interesting to us that only some steel prices increased despite other products also "benefiting" from high tariffs. The product lines that did show much higher prices are also the products where capacity was sharply reduced. When much of this capacity was reopened, steel prices fell sharply. We thus believe that the Section 201 tariffs did not directly lead to higher steel prices during the first half of 2002.

Another part of the President's program to aid the steel industry was a plea for consolidation. Here again, we doubt that the Section 201 tariffs aided the consolidation of the industry, something that we applaud. Except for some mini-mill mergers, nothing happened among the large integrated steelmakers until the International Steel Group and the United Steelworkers union agreed to a labor contract that essentially eliminated most of the legacy liabilities for retiree health care and early pensions. Once that was announced a number of proposed steel mill acquisitions were proposed. We are concerned because in each of the cases announced so far, no capacity is to be closed, a major benefit we had hope would come of the industry consolidating. There have been statements about cost savings from some of the mergers, but as we analyze it, the savings come from an ISG like labor contract. There are also substantial risks from consolidations such as computer systems that can not communicate, corporate cultures that clash and management compensations that increases to whoever has the highest level of compensation. We like consolidation because we are hopeful that the price negotiations between the large steelmakers and their largest customers would be more balanced. For the last decade, the "big" three automakers have used their market clout to have their will with the nine major steelmakers. It seems to us that the contract negotiations would be more balanced with three buyers negotiating with three or four steelmakers.

What about the steel users? Clearly some steel prices doubled and this couldn't have been good news for the steel users. Many steel users have to compete with foreign competitors who were able to buy their steel at very low prices until steel prices reversed last summer as the dollar weakened and China boomed. We believe that it is more interesting to look at steel prices over time and we have found that spot hot-rolled coil prices during the last decade averaged $347.61 in the U.S., but only $307.41 in Europe and $291.49 in Asia. Thus manufacturers using steel in areas outside the U.S. have a large advantage compared to their U.S. competitors, if steel is a large portion of their cost of production.

Automobiles, often discussed since about one-half the weight of a car is steel, are an interesting subject. We understand that the steel cost in a car is only 5% of the total cost. These companies also did not pay the surging flat rolled steel prices last year because they buy under contracts, often multi-year, which had been signed before steel prices rose. However, there are a lot of suppliers to the automobile companies who we understand had to pay the higher spot prices, but whom had sold fixed priced products to the automakers. These companies were squeezed badly. We have read in the trade press that a number of these companies moved production overseas. The higher steel prices in the U.S. over time harmed the steel using customers of the steelmakers and thus steel demand grew slowly. This has been a trend over many years and partially explains why steel shipment growth has been very slow in the U.S. The situation of Corus (formers British Steel) is very similar to that of the U.S. steelmakers with the strong pound decimating steel consuming industries in Britain and making the U.K. plants of Corus noncompetitive compared to its Continental European plants.

To us it is fascinating to hear some of the statements of the steelmakers/union leaders and how inconsistent they are. For example, ISG is now operating the LTV plants with one-third less people. How then could the company have been competitive as it had claimed? The USWA now seems to recognize that there are substantially too many steelworkers in many of the integrated plants. In some cases, electricians were called in on overtime to change a light bulb. Nonunion mini-mills don't operate this way. U.S. Steel now has the clear evidence that the low costs apparently achieved by Central European steelmakers are for real and not due to subsidies since they are achieving very low costs at USSK, their Slovakian mill. Another company's CEO in discussing a foreign joint venture stated that they were building the plant overseas because construction costs were much lower.

Now the steelmakers are exporting steel because the weaker dollar made it feasible. When the dollar was strong, foreign steel exporters were benefiting from a weaker local currency and thus were exporting. However, the U.S. steelmakers claimed dumping. Many of these cases, however, were overturned on appeal, something that gets little press coverage. Some steelmakers claim that all they are seeking is the enforcement of U.S. trade laws, but whenever the WTO rules against them, they act as if the U.S. never signed the WTO treaty, making it the law of the land.

One steelmaker, whose management has been particularly aggressive in demanding trade protection, now wants a government guaranteed loan to fund new steelmaking facilities to replace a blast furnace dating from 1905. Funny how the age of some of this company's facilities were never mentioned before when they were claiming to be viable "if it just wasn't for those unfair foreign steel makers shipping low prices steel into the U.S." They also claimed how solvent they would be when they were reorganized after their first bankruptcy. Now, after their second bankruptcy they was a government guarantee so they can build an electric furnace not apparently understanding that EAFs alone do not make a mini-mill or a successful steelmaker. They even defaulted on a previous U.S. Government loan. In fact, a number of mini-mills filed for bankruptcy during the last couple of years. These were all USWA companies, which is a much more common thread dividing success from failure. In fact, two steelmakers are still using hot strip mills from the 1930's and claiming how competitive they are. Give me a break.

What did cause the industry problem in 2001?

Domestic steel deliveries fell about 9.3% in 2001 compared to 2000. Imports fell 20.8%, but one large producer increased its market share by 25% and had average flat-rolled steel prices $150 per ton below that of U.S. Steel and $40 per ton below that of Steel Dynamics. These numbers alone say a lot about what/who was the problem. Of course, this company blamed imports.

What caused the excessive capacity and how can it be fixed?

State and local "incentives" were obtained by each of the new mini-mills in the U.S., which we believe had the largest impact on the health of the old line integrated steelmakers. This is still continuing with Minnesota currently offering major sums to get a steel mini-mill built in that State. The situation at foreign mills is more difficult to generalize. Clearly some foreign mills benefited from governments building infrastructure, such as ports, and other benefits. Other situations that we have information about show the mills actually channeling money to politicians, in effect a reverse subsidy. We know of some situations where large amounts of debt were used to build new steel mills with nearly no equity. However, inflation accounting in some countries allowed equity to be generated as inflation raised the value of the steel mill, but not the debt. In other cases, mills have gone bankrupt and have been purchased at low prices. ISG is a major beneficiary of this.

We suggest that the real elimination of subsidies would be a good first step, maybe even with some repayments as often required in Europe. No company should be allowed to file for Chapter 11 protection more than once. Clearly when they were reorganized they filed with the court a business plan that claimed that they would be solvent. Obviously their analysis was faulty otherwise they would not have bankrupt again. Why believe them the second time when their analysis was so faulty the first time? Maybe there should be some provision to cushion the plant closings by payments to the employees that lost their jobs, but only if the steel mill stayed closed, as was done in Europe.

Clearly the high cost steel plants are the one that should be closed. Comments by some the steel mill managements that since we are importers of steel others should close capacity is nonsense, in our opinion. The fact that the U.S. imports steel should not be a factor unless oil imports are also to be controlled, etc. In fact, this type of analysis smacks of 17th century mercantilism. Modern economics suggest that the plants with a comparative advantage (lowest cost) should be allowed to prosper. Unfortunately, average steelmaking costs in the U.S. are quite high, although there are some very competitive plants in the U.S. Local subsidies, such as by West Virginia, Ohio and Pennsylvania may have "saved" local plants, but facilities in other nearby States were negatively impacted and eventually went bankrupt. There was no consideration of the macro impact before local authorities offered funds to save jobs. This is a zero sum game. None of these programs added to steel usage.

Consolidation

Mergers and acquisitions without plant closures are not helpful to the industry. Some costs can be taken out and the companies thus get somewhat more competitive, but the industry as a whole is not helped since the excess capacity remains. Statistics about mergers and acquisitions also show that most do not achieve what is expected at the time of the combination.

During the 38 years that I have been covering the steel industry, I have seen a lot of companies acquired by "financial types" and nearly all have failed. Mergers among the major steelmakers have also usually failed, with computer systems not able to communicate with each other and corporate cultures clashing.

Conclusion

Don't stand in the way of plant closures. Eliminate incentives for companies to build new plants. If the business plan can't be financed conventionally, the plant shouldn't be built. No loan guarantees, no State and local subsidies. How can we complain about foreign subsidies when we are guilty ourselves?

There needs to be serious consideration of the impact of programs to help the steel industry on their customers. There may be 40 employees in customer plants for each steelworker job.

Measures of industry injury should focus less on steel industry averages and more on the successful companies. If one or two companies have been able to compete, but a number of others have not, the fact that some are successful should be proof that maybe imports are not the problem. Maybe there are other factors since some companies were successful.

Chairman CRANE. Thank you. Mr. Schulingkamp.

STATEMENT OF DAVID P. SCHULINGKAMP, CHAIRMAN, BOARD OF COMMISSIONERS, PORT OF NEW ORLEANS, NEW ORLEANS, LOUISIANA

Mr. SCHULINGKAMP. Good afternoon, Chairman Crane. My name is David Schulingkamp and I am Chairman of the Board of Commissioners of the Port of New Orleans. I am pleased and honored to appear before you and the other Members of the Subcommittee.

The Port of New Orleans is one of the busiest U.S. ports for steel product imports. For better or worse, over 40 percent of the port's revenue is derived from steel trade. As far as we are concerned, free trade is the engine that powers our growth, that powers our development, not only in the Port of New Orleans but in the ports throughout our region and throughout the country. It is in that light that we remain very concerned about the additional duties imposed under Section 201 on fairly traded steel products.

Mr. Chairman, over a year ago you met with myself and other port and maritime and labor leaders in the effort to preserve the economic and employment opportunities provided by the import steel trade. You, Congressmen McCrery and Jefferson and others in the Congress realized that many U.S. companies and their employees, including those in the port and maritime industries, would pay the price for protected restrictions on fairly traded steel.

The Port of New Orleans was indeed adversely affected by Section 201 tariffs on steel. Port estimates show that the imposition of tariffs and other restrictions on steel imports has resulted in a direct loss to the port of over $1.6 million in calendar year 2002 alone. Actual steel tonnage crossing the docks at the port decreased from 1.9 million tons in 2001 to 1.36 million in 2002, a reduction of over 550,000 tons of steel handled at the port terminal facilities.

This reduction in steel handled by facilities at the port is directly related to a commensurate and dramatic reduction in the number of hours worked by our longshoremen, our union labor who handle the unloading of steel cargo shipments. Our review and discussions with the local ILA officials indicate that the members have suffered a reduction over the past year of approximately 25 percent in the hours associated with the handling of general cargo, the majority of which involve steel shipments. Similarly, terminal operators, truckers, stevedores, customs house brokers, and so forth within the Port of New Orleans have been adversely affected by the protectionist tariffs under Section 201.

In addition to the problems experienced by the Port of New Orleans, I know well from our work with other port customers that there has been an increase in the price of both domestic and imported steel products, and much of that is directly attributable to Section 201. Such price increases have caused significant loss of jobs in manufacturing sectors, as we heard from the second panel today, and transfer business activities to overseas.

Mr. Chairman, the Administration just last week announced an additional 295 exclusions from Section 201 tariffs imposed on imported steel products of almost a year ago. This is a small step in the right direction. The Administration should be strongly encouraged to favorably consider future exclusions and requests to provide relief to the U.S. port and maritime industries and to domestic consumers of such products.

Furthermore, I strongly support your efforts and those of Chairman Thomas of the Committee on Ways and Means requesting the ITC to closely examine the impact of the tariffs on steel-consuming industries and on industries which rely on steel imports, including the American port industry.

Thank you, Mr. Chairman, for standing up for free trade and listening to the travails of the port and maritime industry.

[The prepared statement of Mr. Schulingkamp follows:]

Statement of David P. Schulingkamp, Chairman, Board of Commissioners, Port of New Orleans, New Orleans, Louisiana

Good Morning, Chairman Crane and Members of the Subcommittee. My name is David P. Schulingkamp and I am Chairman of the Board of Commissioners of the Port of New Orleans. I am honored to appear before you today to discuss the difficulties encountered by the imposition of Section 201 tariffs on imported steel products.

The Port of New Orleans is one of the busiest U.S. ports for steel product imports. Over 40 percent of the Port's revenue is derived from that steel trade alone. Free trade is the engine that powers the economy of our Nation, and the steel trade itself is of the utmost importance to the business health of the New Orleans region. It is in that light that I remain perplexed that protectionist measures were imposed under Section 201 on fairly-traded steel products.

Mr. Chairman, over a year ago you met with me and other port, maritime industry and labor leaders in the effort to preserve the economic and employment opportunities provided by the import steel trade. You, Congressman Jefferson, and others in the Congress realized that many U.S. companies and their employees, including those in the port and maritime industries, would pay the price for protectionist restrictions on fairly-traded steel.

The Port of New Orleans was indeed adversely affected by the Section 201 tariffs on the steel trade. Port estimates show that the imposition of tariffs and other restrictions on steel imports has resulted in a revenue loss to the Port of approximately $1,600,000 in calendar year 2002 alone. Actual steel tonnage crossing the docks at the Port decreased from 1,925,000 tons in 2001 to 1,361,000 in 2002, a reduction of over 564,000 tons of steel handled at Port terminal facilities.

This reduction in steel handled by facilities at the Port of New Orleans is directly related to a commensurate and dramatic reduction in the number of hours worked by longshoremen who handle the unloading of steel cargo shipments. Our review shows that local International Longshoremen's Association members have suffered a reduction over the past year of approximately 25 percent in the hours associated with the handling of general cargo, the majority of which involves steel shipments. Similarly, terminal operators, truckers, stevedores, and customhouse brokers within the Port of New Orleans have been adversely affected by the protectionist tariffs under Section 201.

In addition to the problems experienced by the Port of New Orleans, I also know from my work with Port customers that there has been a dramatic increase in the price of both domestic and imported steel products that is directly attributable to the Section 201 tariffs. Such price increases have caused a significant loss of jobs in manufacturing sectors, and in many cases, the transfer of business manufacturing activities to overseas companies.

Mr. Chairman, the Administration just last week announced an additional 295 exclusions from the Section 201 tariffs imposed on imported steel products almost a year ago. This is a small step in the right direction to eliminate the Section 201 steel tariffs entirely. The Administration should be strongly encouraged to continue to favorably consider future exclusion requests to provide relief to the U.S. port and maritime industries and to domestic consumers of such products. Furthermore, I strongly support your efforts and those of Chairman Thomas of the Ways and Means Committee requesting that the U.S. International Trade Commission closely examine the impact of the tariffs on steel consuming industries and on industries which rely on steel imports, including the American port industry, in its mid-term review of the Section 201 safeguard measures.

Thank you, Mr. Chairman, for standing up for free and open trade to the benefit of the port and maritime communities. I look forward to responding to any questions that you or other Subcommittee Members may have.

Chairman CRANE. Thank you, Mr. Schulingkamp. Mr. Campbell.

STATEMENT OF JAMES O. CAMPBELL, PRESIDENT, INTERNATIONAL LONGSHOREMEN'S ASSOCIATION LOCAL NO. 3000, NEW ORLEANS, LOUISIANA

Mr. CAMPBELL. Good afternoon.

Chairman CRANE. You might pull that mike over a little more in front of you there.

Mr. CAMPBELL. Good afternoon, Mr. Chairman, the Committee. First, may I ask you to bear with me. I have a sinus infection.

My name is James Campbell, President of the ILA's Local 3000 Union, New Orleans, Louisiana. I am honored to appear before you today to present our views of ILA Local 3000 concerning the impact of Section 201 tariffs imposed over a year ago on steel products.

I represent more than 800 working men and women who provide labor required to load and unload cargo vessels engaged in international trade that call at the Port of New Orleans. Our ILA members provide a skilled labor force at a competitive price by the companies in the port which depend on the longshore service. I am proud of our work force. I am proud of our workers, especially our steel gang. They are the most productive in the business.

More than a year ago, I joined other port, maritime, and labor leaders from across the Nation and this country and met with this Committee in expressing our regard in response to the tariffs under Section 201 and the quotas that would restrict the imported steel trade. I stated then and I continue to believe today that the economic health of the Port of New Orleans and the related employment opportunities for the Members directly depends upon the preservation of fairly traded import steel through the New Orleans region.

My concerns over a year ago were well-founded. The imposition of Section 201 tariffs on various imported steel products has had a negative impact on ILA Local No. 3000 workers in the Port of New Orleans. Since the imposition of the Section 201 tariffs, our workers have experienced a decline in the volume of work in handling steel products at the docks. The numbers of hours worked for steel cargo by members has declined 25 percent from 2001 to 2002.

During the last year, Section 201 tariffs directly affected steel imported into the Port of New Orleans from countries that traditionally have been our largest trading partners, namely Japan, Korea, Brazil. Steel imports from Japan and Korea declined approximately 35 percent in the Port of New Orleans from 2001 to 2002. This represented a loss of 232,165 tons of steel. The steel from Brazil is 50 percent, a loss of 150,000 tons. Overall, the Section 201 tariffs reduced the steel handled by ILA workers in the docks by approximately 564,000 tons and their works hours have been reduced accordingly.

The livelihood of our working men and women in the Port of New Orleans would greatly improve by the elimination of Section 201 restrictions on imported steel products. The international trade in steel and other products is vital to the economy of the Port of New Orleans and its region. We strongly favor the immediate elimination of Section 201 tariffs in order to preserve the longshoremen of ILA Local No. 3000 jobs and opportunities and provide fairly traded steel products.

Thank you for the opportunity.

[The prepared statement of Mr. Campbell follows:]

Statement of James O. Campbell, President, International Longshoremen's Association Local No. 3000, New Orleans, Louisiana

Good morning Mr. Chairman and Members of this Trade Subcommittee. My name is James Campbell, and I am the President of the International Longshoremen's Association (ILA) Local No. 3000 in New Orleans, Louisiana. I am honored to appear before you today to present the views of ILA Local No. 3000 concerning the impacts of the Section 201 tariffs imposed over a year ago on steel products.

I represent more than 800 working men and women who provide the labor required to load and unload cargo vessels engaged in international trade that call on the Port of New Orleans. Our ILA members provide a skilled labor force at a competitive price for the companies at the Port who depend upon our longshore services. I am proud of our workers, and especially our "steel gangs," who are the most productive in the business.

More than one year ago, I joined other port, maritime and labor leaders from across the nation to meet with the U.S. Trade Representative in Washington to express our concerns regarding proposed Section 201 tariffs and quotas that would restrict the import steel trade. I stated then, and continue to believe today, that the economic health of the Port of New Orleans and the related employment opportunities for our members are directly dependent upon the preservation of fairly-traded import steel products through the New Orleans region.

My concerns over a year ago were well-founded. The imposition of the Section 201 tariffs on various imported steel products has had a negative impact on ILA Local No. 3000 workers in the Port of New Orleans. Since the imposition of those Section 201 tariffs, our workers have experienced a decline in the volume of work in handling steel products at the docks. The number of hours worked for steel cargo by our members has declined by 25 percent from 2001 to 2002.

During the last year, the Section 201 tariffs directly affected steel imports into the Port of New Orleans from countries that traditionally have been our largest trading partners, namely Japan, Korea, and Brazil. Steel imports from Japan and Korea declined approximately 35 percent in the Port of New Orleans from 2001 to 2002. This represented a loss of 232,165 tons of steel. Steel from Brazil decreased 50 percent, a loss of 150,000 tons. Overall, the Section 201 tariffs reduced the steel handled by ILA workers at Port docks by approximately 564,000 tons, and their workhours have been reduced accordingly.

The livelihood of the working men and women in the Port of New Orleans would be greatly improved by the elimination of the Section 201 restrictions on imported steel products. International trade in steel and other products is vital to the economy of the New Orleans region. We strongly favor the immediate elimination of the

Section 201 tariffs in order to preserve for the longshoremen of ILA Local No. 3000 those job opportunities that are provided by fairly-traded steel products.

Mr. Chairman, thank you for the opportunity to testify today, and I look forward to responding to any questions from you or Members of the Subcommittee.

Chairman CRANE. Thank you, Mr. Campbell. Mr. Niemand.

STATEMENT OF WALTER A. NIEMAND, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WEST GULF MARITIME ASSOCIATION, AND BOARD MEMBER, TEXAS FREE TRADE COALITION, HOUSTON, TEXAS

Mr. NIEMAND. Thank you, Chairman Crane. I know everyone has had a long day, and I have submitted some written comments into the record. I don't see any reason to go through them specifically.

I have brought some additional material that was prepared by the Texas Free Trade Coalition, and I will leave copies here for the Chairman and also for Committee Members. Also, I am not going to take the time to go through all of that material today. If there are any questions, please feel free to ask and we will try to provide the answers.

I am President and Chief Executive Officer of the West Gulf Maritime Association. It is a group of maritime employers, their carriers, terminal operators, stevedores, and agents, most of whom are small businesses to medium-size businesses. Section 201 has adversely affected all of our member companies. We have joined in an unusual coalition, if you will, with Texas Free Trade, joining with ports and also union and non-union employers, really, to try to address the adverse effects on the maritime industry itself in the State of Texas and more specifically in the Port of Houston.

The companies that we represent employ approximately 10,000 individuals per year throughout the State of Texas and Lake Charles, Louisiana. These are middle-class jobs where we have union employment that provide full benefits of retirement, medical both for active works and retirees. The member companies that we represent, several are minority-owned. They also create middle-class jobs not only for the unionized employees, but the people who work in their work force in offices and other related feeding services for our industry.

The problem that we have seen is really reflected in this booklet, which we have called "The Bible of Pain." What we have seen is major reductions from our members from anywhere to 40 to 70 percent of their regular work force. In the longshore industry, many of the people employed are employed on a casual basis through union halls and hiring centers. In the Port of Houston alone, we lost 34,000 man-hours of highly skilled, highly paid work because of Section 201, or at least right after it was introduced. That equated to $1.29 million in lost pay to individuals that we employ, and that is only half the work force because half of the work force that handles these commodities is not represented by organized labor.

Historically in our industry we have a 6-percent increase, $6 for every $1 spent on the waterfront. So, the actual loss to the Houston economy with the loss of steel tonnage in Houston alone was $7.8

million. The Port of Houston is the number one water-commerce port in the United States. Their own statistics show they lost 184 full-time positions within the organization, they lost $13.5 million in revenue, and they lost 430 tons of steel since the introduction of Section 201.

I don't believe that the lost to the maritime industry is the end of the comments concerning this act, because it has adversely affected a lot of other industries in the State of Texas. A lot of the steel vessels that came in would deliver steel; they would have to go back empty. They, in turn, were very efficient ways of moving farm products and other goods, U.S. goods, to foreign markets. Since Section 201 has been enacted, there has not been sufficient capacity to carry a lot of the farm products at competitive prices from Texas and the United States to foreign markets.

The problems that we've seen I think justify the section 332 investigation. We believe that the number of jobs lost in the economy by Section 201 is going to far outweigh the number of jobs protected. We feel that the steel industry deserves protection. It is an important part of our economy. They have some basic problems, and they have to do with their costs, the number of people working, the number of people supported. We feel that some relief there would be far more meaningful, and basically it would leave us to have free trade, a level playing field in our minds, and we would encourage the Committee—we appreciate the Subcommittee's efforts concerning this matter. We would be glad to participate in the investigation and provide information.

Thank you for the invitation and time.

[The prepared statement of Mr. Niemand follows:]

Statement of Walter A. Niemand, President and Chief Executive Officer, West Gulf Maritime Association, and Board Member, Texas Free Trade Coalition, Houston, Texas

I would like to thank the Chairman and the Subcommittee on Trade for this opportunity to speak to you about this important issue. Most importantly, thank you for your willingness to consider the downstream effects that the Section 201 duties have had on the U.S. industry.

The Texas Free Trade Coalition consists of over 30 members, who employ over 18,000 people, which was formed because of the loss of jobs and income to families due to a constant and recurring barrage of protectionist legislation. FREE TRADE IS AMERICAN JOBS! The impacts of Section 201 duties not only affected the steel consuming industries, but also the companies which service the international steel trade.

The Section 201 duties on steel that were instituted one year ago galvanized a hugely diverse cross section of steel consumers, as well as groups like ours, that transport, handle, check and simply depend on a free and world competitive flow of steel into this country.

An important function of our coalition is to educate all levels of decisionmakers, including local, State and Federal lawmakers. Please allow me to provide a summary of how our members have been negatively impacted as a result of the Section 201 duties.

- The Port of Houston, one of the top revenue generators in the entire State of Texas, much less the city of Houston, has been negatively impacted. As a direct result of the Section 201 tariffs on steel, the country's largest steel port has experienced the following:
  - 185 direct jobs lost.
  - $13.5 million dollars loss of business revenue.
  - 430,000 tons of lost steel imports.
- West Gulf Maritime Association (WGMA) which, among many other responsibilities, serves as the payroll agent for the union employees of the ILA, tracked a reduction of 34,000 man hours, between Fiscal Year 2001 and 2002, specifi-

cally related to steel jobs. At an average wage of $38 (includes fringe benefits), the reduction of man hours equates to $1,290,000 dollars that workers were unable to take home to their families.

- Inbesa America, Inc., the largest non-union steel handling terminal in Texas, has experienced a 40% reduction in steel receipts. Consequently, the work force has been cut 40%. Furthermore, the reduction in steel imports has resulted in non-union employees taking home $1,440,000 dollars less.
- Cooper T. Smith Terminals, the largest union based steel receiver and top 10 receiver of all import cargos in the U.S. Gulf, has had to lay-off four highly experienced and long term crane operators (50% reduction), as well as two gear room personnel. The downsizing trend is an ongoing process.
- Shippers Stevedoring Company is the second largest stevedore and port terminal operating in Houston. It has invested over $20 million in receipt upgrades and expansion. As a result of the Section 201 duties it had to reduce work force by over 100 people (from 160 down to 50). Also, there has been a 70% reduction in man hours worked since January 1, 2002, when the 201 "waiting period" started.
- Gulf Stream Marine Stevedores business relies 50% on the importation of steel. Since the inception of Section 201 duties, 15 full time employees and 80 union longshoremen have been laid off.
- Capt. I.S. Derrick Independent Ship and Cargo Surveyors, Inc. is a leading cargo surveyor in the U.S. Gulf. Capt. I.S. Derrick's business relies 85% on surveying imported steel. This company, prior to imposition of Section 201 duties, had never laid-off employees for 39 years.
- The ILA Local 1351, which provides a hiring hall for port day labor jobs, had a loss of 25% man-hours that can be directly related to steel 201.
- All Trans Port Trucking, Inc. has experienced the worst year in the 10-year history of their company in terms of volume and income. All Tran is a minority owned company that has lost 50% of its volume base. All Trans had to release 10 of its 35 employees (30%) because of fewer steel vessels arriving at Port of Houston.
- Chaparral Stevedoring Company, Inc., a stevedoring company with over 36 years presence in the U.S. Gulf, has drastically reduced hours and wages for their longshoremen, truckers and warehousemen.
- Coastal Cargo of Texas, which provides terminal and stevedoring services, experienced a 35% decline in their steel business since Section 201 went into effect.

The company chronicles, listed above, are but a few of those compiled in our "Bible of Pain," which has shown a direct correlation to job, revenue and tax losses within Harris and surrounding counties in the State of Texas.

Mr. Chairman, in summary, the imposition of this "subsidy to domestic steel producers" has and will continue to cause loss of American jobs and is not an effective solution to the travails of the domestic steel manufacturers. Bottom line, President Bush well knows that "There is no right way to do the wrong thing"—and Section 201 duties is "THE WRONG THING!"

Thank you for allowing me to appear before you today.

Chairman CRANE. Thank you, Mr. Niemand. Now, Ms. Moncrief, I think you testified while we were at lunch.

Ms. MONCRIEF. Probably.

Chairman CRANE. No, I am kidding you about the newspaper article. Did you see it yet?

Ms. MONCRIEF. No.

Chairman CRANE. Well, they quoted you and your testimony before the Committee. It was filed at 1:09 p.m., and we had just gotten back here after breaking for a little over an hour. We are interested, those of us on the panel here are interested in hearing your testimony.

STATEMENT OF LAURIE MONCRIEF, BOARD MEMBER, COALITION FOR THE ADVANCEMENT OF MICHIGAN TOOLING INDUSTRIES, AND PRESIDENT, SCHMALD TOOL & DIE, FLINT, MICHIGAN

Ms. MONCRIEF. Thank you. Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify before you today. I am sorry you had to read it in the paper first, though.

I am testifying on behalf of my business and the employees specifically in the tooling sector generally. I am the President of Schmald Tool & Die, located just outside of Flint, Michigan. Founded in 1948, we are a third-generation family-owned business. We design and build stamping dies, injection molds, and do special machining. Today we employ 31 workers, down from 45 just a year and a half ago.

In addition to serving as President of Schmald Tool & Die, I am also co-founder and Board Member of the Coalition for the Advancement of Michigan Tooling Industries. It is heartening to be invited to testify today. I am somewhat surprised that as an owner of a small, 31-employee company, there is room for me at a congressional hearing which includes the likes of AISI President Andrew Sharkey, Nucor Chief Executive Officer Dan DiMicco, and United Steelworkers of America President Leo Gerard.

I hope the Subcommittee will receive and treat my testimony with the same urgency and credibility accorded the steel representatives. In this regard, I am compelled to say to the steel guys, I am all for a healthy and vibrant steel industry. You are important to our national security and economic vitality. I buy domestic steel to make my dies and molds and most of my customers stamp domestic steel in their shops. My business probably cannot live without a domestic steel industry. However, right now, I can't live with it. The steel tariffs threaten the long-term viability of my company and 31 families in Flint, Michigan. While the intent of the tariffs may be good, the impact is mostly wrong.

Depending upon how the sector is defined, there are approximately 1,300 tooling shops providing 40,000-plus direct jobs in the State of Michigan. Michigan accounts for roughly 25 percent of the tooling sector nationally. Other tooling-intensive States include Pennsylvania, Illinois, Ohio, and Indiana. Our industry provides tools, dies, and industrial molds for a wide array of industries including automotive, defense, aerospace, medical, and residential consumer goods, to name a few. Anyone who truly knows the manufacturing supply chain will tell you that without tooling there really cannot be any manufacturing. Tool makers are the backbone in metal bending and forming.

As a die maker, the impact of the tariffs has been indirect, but very real and dramatic. At an alarming rate, our customers are significantly reducing their stamping of sheet metal and are turning to importing semi-finished and finished products which are not subject to the tariff. Based on the statements of earlier witnesses, it is painfully obvious that this is an accelerating trend, one that bodes ill for a wide array of manufacturing sectors, including tool and die makers.

With regard to the tooling sector, the impact of the tariff was not a surprise. Six months ago, upon a request from the Committee on

Ways and Means, the ITC released a fact-finding study on the tool and die and industrial mold sector. I would encourage you to review this ITC study. The study identified many problems already plaguing the tooling sector, but important to note is that the ITC determined that the steel tariffs would be yet another additional burden.

Please permit me to quote two brief excerpts. According to industrial officials, higher sheet prices have adversely affected the price of domestic stamped parts, causing companies to seek out foreign stamped-parts sources, thereby reducing demand for domestic tooling. Discussions with officials of U.S. firms involved in the production of stamped parts confirm that the effect that the program has had on sheet steel pricing and availability in the U.S. market has caused them to start investigating a relocation of stamping operations offshore.

Later in the ITC report, they were more explicit and ominous. Delphi, the world's largest parts supplier, has announced it has already begun to place contracts for some new steel-intensive parts and products with overseas manufacturing as a result of cost increases related to rising steel prices. Although the additional duties are staged and will expire after 3 years, it is unclear whether any stamping production that actually moves from the United States will return at the end of the program.

Mr. Chairman, I know my time is about to expire. I wish to thank you again for inviting me to this hearing, as well as Chairman Thomas for requesting the ITC to study the impact of these tariffs, and Congressman Knollenberg for his leadership on the issue.

I would like to leave this Subcommittee with one Orwellian thought. We in the manufacturing supply chain are all equal, except some seem to be more equal than others, at the expense of others. This needs to change. Thank you.

[The prepared statement of Ms. Moncrief follows:]

Statement of Laurie Moncrief, Board Member, Coalition for the Advancement of Michigan Tooling Industries, and President, Schmald Tool & Die, Flint, Michigan

I am the President of Schmald Tool & Die, located just outside Flint, Michigan. Schmald Tool & Die is a third-generation; six decade-old, family-owned and operated tool and die shop. We design and build stamping dies and injection molds for a wide array of industries, including: automotive; defense; aerospace; and residential consumer goods. Today, we employ approximately 31 workers, down from 45 just a year and a half ago. My company is one of approximately 1,100 tool and die companies providing 31,000 jobs in the State of Michigan. Nationwide our industry employs nearly 129,000 workers. These numbers are significantly reduced in the last couple of years.

As a die maker, the impact of the tariffs has been indirect, but very real and dramatic. At an alarming rate, our customers are significantly reducing their stamping of sheet metal and are turning to importing semi-finished and finished products, which are not subject to the tariffs. We anticipate that this activity will only accelerate in the near future.

Tool making companies such as Schmald truly are the backbone of manufacturing. Tooling is, in its simplest sense, the means of production. "Special" tooling, such as dies and molds, is custom designed and made to manufacture specific products, generally in quantity, and to the desired levels of uniformity, accuracy, interchangeability, and quality.

Why is tooling and machining important to the United States? The broad industrial group known as tool and die includes mold making (molds produce plastic parts), die cast dies (die casting means forming aluminum parts), forging dies (used to form iron and other metal pieces), stamping and trim dies (tools that stamp parts out of metal sheets), tools and fixtures (used to hold pieces in place to perform additional manufacturing steps), precision machining (forming objects by cutting to specifications within .001″) and many other manufacturing specialties. These industries build the tools that are used as the building blocks of manufacturing. All mass manufactured objects begin at the hands of a tool and die maker.

Unfortunately, the demise of U.S. manufacturing and therefore the tool and die industry is accelerating at an alarming rate. Unlike typical business downturns of the past when manufacturers simply cut back and waited for recovery, in the current downturn manufacturers are rapidly relocating outside the U.S. and large numbers of small and mid-sized U.S. manufacturers are closing down permanently due to foreign competition. The resulting loss of family sustaining blue-collar jobs is undermining the U.S. middleclass and devastating rural communities where manufacturing is essential to the local economy.

Many have argued that manufacturing is just facing a down cycle and will rebound. However, I wonder that any increase in domestic steel costs relative to steel costs in foreign markets provides an added incentive for customers to move production overseas. For example, Delphi, the world's largest automotive parts maker, has announced that it has already begun to place contracts for some new steel-intensive parts and products with overseas manufacturers as a result of costs increases related to rising steel prices. Although the additional duties are staged and will expire after 3 years, it is unclear whether any stamping production that actually moves from the U.S. would return at the end of the program.

The International Trade Commission (ITC) has recently completed its (332–435) investigation on the conditions in the U.S. Tool, Die and Mold industry and submitted their report to the House Ways and Means Committee. The study paints a very bleak picture of the tool and die industry and the future of the U.S. economy. The industry is currently facing a problem with overcapacity. The overcapacity has been created in part because American companies are closing their U.S. manufacturing plants and moving offshore in search of fewer government regulations, lower taxes and cheaper labor. The steel tariffs have only made a bad situation worse.

ITC pg 3–16. Of greater concern for die producers were the effects of tariffs and increased prices on sheet steel used by their stamping customers. According to industry officials, higher sheet steel prices have adversely affected the price of domestic stamped parts, causing companies to seek out foreign stamped-parts sources, thereby reducing domestic demand for stamping dies. Discussions with officials of U.S. firms involved in the production of stamped parts confirm that the effect the program has had on sheet steel pricing and availability in the U.S. market has caused them to start investigating the relocation of stamping operations offshore.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. The tooling industry is poised to collapse under the additional weight of the steel safeguard tariffs.

What will happen to this country if things continue to go poorly for the manufacturing sector? The U.S.'s economic strength has been based on its manufacturing capability. In order for these companies to continue to improve and grow they have relied on innovations in manufacturing that are brought on by the tooling and machining industry. If we are to continue to grow economically we need innovative American companies. For every manufacturing job lost we see ripple effects throughout the economy. However, as the market continues to falter for the industry, fewer companies are open and thus a large percentage of the creativity and innovations are lost.

The broader U.S. economy is suffering as well because manufacturing does more than any other sector to stimulate the economy. The average income of $44,700 for an employee and the consequent spending power of manufacturing workers is higher than that of any other sector and, due to its high multiplier effect, manufacturing directly or indirectly generates more jobs than any other sector. The manufacturing sector and the non-manufacturing industries that are directly linked to manufacturing, account for 45 percent of U.S. GDP and 41 percent of national employment. In fact, a study done by Penn State University showed that when a manufacturing company cut 155 jobs, the total direct, indirect and induced effect on the community for employment saw an additional loss of 227 jobs; total economic output lost $19,758,655; sales of goods and services fell $8,212,764; personal income dropped $3,330,358; and local payroll taxes fell $3,330. But as we see the closure of business, many of the new jobs created by small manufacturers in recent years are being permanently lost.

In summary, the U.S. tool, die, mold and precision machining industries as well as general manufacturing are in serious trouble. The causes and solutions are broad and complex. I encourage the Subcommittee to hold future hearings to examine the findings of the International Trade Commission's 332 investigation into the Tool, Die and Mold industry. Also, the Committee should pay close attention to the ITC's 332 investigation into the impact of the President's imposition of the tariffs of certain steel on consuming industries to help steer future actions. You as our elected officials have a huge job, but in order for them to keep our economy growing and our Nation safe we need your support for the tooling and machining industry.

Chairman CRANE. Mr. Jones?

STATEMENT OF JAMES M. "JIM" JONES, VICE PRESIDENT, DIXIE INDUSTRIAL FINISHING COMPANY, TUCKER, GEORGIA, AND PRESIDENT, GEORGIA INDUSTRY ASSOCIATION, ON BEHALF OF THE NATIONAL ASSOCIATION OF METAL FINISHERS, ORLANDO, FLORIDA, THE METAL FINISHING SUPPLIERS ASSOCIATION, AND THE AMERICAN ELECTROPLATERS & SURFACE FINISHERS SOCIETY, ORLANDO, FLORIDA

Mr. JONES. Mr. Chairman, Members of the Committee, I am Jim Jones, Vice President of Dixie Industrial Finishing Company. We are located in Tucker, Georgia, and have 85 employees. For 43 years, we have supplied metal finishing services on steel and other metals to a range of industries, including automotive, aerospace, construction, lawn and garden, heavy equipment, electronic cabinetry and a host of others.

I am testifying today on behalf of the National Association of Metal Finishers, the Suppliers of the Metal Finishing Industry, the American Electroplaters and Surface Finishing Suppliers, and I am also the current President of the Georgia Industry Association, who has established an existing industry task force on saving jobs and growing our manufacturing base.

My reason for being here today is jobs. Leaders in our industry are commenting this year that the metal finishing is possibly experiencing the worst period we have seen in the past 40 years. Some in our industry tell us they have seen declines by as much as 60 percent and others are closing their doors. One metal finishing company in the Atlanta area operating for over 100 years is now completely out of business as of this year.

Our own company has 25 fewer employees since the beginning of last year. Our experience is typical of the industry as a whole, though not as drastic as some. We believe that one of the major reasons for this is the downstream or ripple effect of the Section 201 steel trade action on key segments of the U.S. manufacturing base. This effect is now becoming painfully clear to industries like the metal finishing. Our economic livelihood depends on the health of our customers, the steel-consuming industries. When our customers suffer, we suffer.

Like numerous other industries, we play a significant value-added role in the steel manufacturing supply chain. We make most of the things Americans come in contact with every day work better, look better and last longer. We apply a range of coatings onto literally millions of different types of fabricated steel, castings, stampings, forgings and wire. Steel products account for an estimated 60 percent of finished goods by volume, and our role in corrosion protection alone in the United States provides about a $200 billion economic benefit.

As others have testified here today, material costs for steel are increasing significantly, and the steel consumers face extremely difficult times. Once the business of a domestic steel-consuming industry disappears, another piece of the metal finishing market disappears, and seldom does it return.

In fact, not only are metal finishing firms seeing a dropoff in business from their steel-consuming customers, many finishers are taking price reductions from customers just to keep the work they have. The dynamics have become very destructive. Essentially, the steel consumer that is fabricating a part is faced with uncontrollably higher materials cost, but he must find a way to lower the overall cost of his product.

What are his options? One is to make up for his higher raw material costs by extracting a lower price for his metal finishing services. Another, if he can, is to simply source the manufacturing and the finishing out of country.

This puts in motion a second problem: Most finishing firms are quite small, and therefore are true price-takers in this market, so they end up competing against one another just to get the business in the door, even if they have to lose money in the short term. Thus, the steel tariffs have both shrunk domestic demand and have increased downward pricing pressures for metal finishing services. These combined effects have had a significant negative impact on the U.S. metal finishing industry.

While my industry clearly recognizes there is a combination of factors responsible for our financial pain, tariffs on steel have played a significant role in compounding and accelerating the problem.

We thank the Committee for the opportunity to appear today and request that the ITC conduct a section 332 investigation to consider the impact of the steel tariffs on the U.S. economy. We hope that in the context of that investigation, the ITC will include consideration on the impact that the steel tariffs have had on the U.S. metal finishing industry. Thank you.

[The prepared statement of Mr. Jones follows:]

Statement of James M. "Jim" Jones, Vice President, Dixie Industrial Finishing Company, Tucker, Georgia, and President, Georgia Industry Association, on behalf of the National Association of Metal Finishers, Orlando, Florida, the Metal Finishing Suppliers Association, and the American Electroplaters & Surface Finishers Society, Orlando, Florida

Good morning, Mr. Chairman and Members of the Subcommittee. I am Jim Jones, Vice President of Dixie Industrial Finishing Company. We are located in Tucker, Georgia, and have 85 employees. For 43 years, we have supplied metal finishing services on steel and other metals to a range of industries, including automotive, aerospace, construction, lawn and garden, heavy equipment, electronic cabinetry, and a host of others.

I am testifying today on behalf of the National Association of Metal Finishers (NAMF), the leading industry trade association for the metal finishing industry, as well as its sister organizations, the Metal Finishing Suppliers Association (MFSA) and the American Electroplaters and Surface Finishers Society (AESF). I am also the current President of the Georgia Industry Association, which has established an existing industry task force focusing on saving jobs and growing our current manufacturing base.

My reason for being here today is simple. Leaders in our industry are commenting this year that metal finishing is possibly experiencing the worst period we have seen in the past 40 years. Some in our industry tell us they have seen declines by as much as 60 percent, and others are closing their doors. One metal finishing company in the Atlanta area operating for over 100 years is now completely out of business as of this past year. Our own company has 25 fewer employees since the beginning of last year. Our experience is typical of the industry as a whole, though not as drastic as some.

We believe that one of the major reasons for this is the downstream, or "ripple effect," of the 201 steel trade action on key segments of the U.S. manufacturing base. This effect is now becoming painfully clear to industries like metal finishing. Our economic livelihood depends on the health of our customers—the steel consuming industries. It's basic economics—when our customers suffer, we suffer.

Like numerous other industries, we play a significant value-added role in the steel manufacturing supply chain. We make most of the things Americans come in contact with every day work better, look better and last longer. We apply a range of coatings onto literally millions of different types of fabricated steel, castings, stampings, forgings, and wire. Steel products account for an estimated 60 percent of finished goods by volume, and our role in corrosion protection alone in the U.S. provides about a $200 billion annual economic benefit.

As others have testified here today, materials costs for steel are increasing significantly, and the steel consumers face extremely difficult times. Once the business of the domestic steel consuming industries disappears, another piece of the metal finishing market disappears, and seldom does it ever return.

In fact, not only are finishing firms seeing a drop-off in business from their steel-consuming customers, many finishers are taking price reductions from customers just to keep the work they have. The dynamics have become very destructive. Essentially, the steel consumer that is fabricating a part is faced with uncontrollably higher materials costs, but he must find a way to lower the overall cost of his product. What are his options? One is to make up for his higher raw material costs by extracting a lower price for his metal finishing service. Another, if he can, is to simply source the manufacturing—and the finishing—out of country.

This puts in motion a second problem. Most finishing firms are quite small and therefore are true "price takers" in this market, so they end up competing against one another just to get business in the door, even if they have to lose money in the short term.

Thus, the steel tariffs have both shrunk domestic demand and have increased downward pricing pressures for metal finishing services. These combined effects have had a significant negative impact on the U.S. metal finishing industry.

Many who follow the chronology of the Nation's economic plight recognize that the current downturn for manufacturing began in the 2nd quarter of 2000. While my industry clearly recognizes there is a combination of factors responsible for our financial pain, tariffs on steel have played a significant role in compounding and accelerating the problem.

We thank the Committee for requesting that the ITC conduct a section 332 investigation to consider the impact of the steel tariffs on the U.S. economy. We hope that in the context of that investigation the ITC will include consideration of the impact that the steel tariffs have had on U.S. metal finishers.

Thank you for this opportunity to appear before you today.

Chairman CRANE. Thank you. Ms. Moncrief, some of the testimony has focused on the number of jobs lost in your industry that are attributable to higher steel tariffs. Of course, this discussion today is about these jobs versus steel jobs. Can you comment on how you feel about the government making decisions that cut jobs in your business in order to save jobs in another business?

Ms. MONCRIEF. Yes. I mean, I am not following the question. Are you asking me a question about that?

Chairman CRANE. Yes.

Ms. MONCRIEF. My steel prices are not affected, but my customers' steel prices are affected. Our industry is facing the exact same thing that the steel industry is facing: high health costs, high utilities, high taxes, Occupational Safety and Health Administration, the whole 9 yards. So, we are facing the same things, as well as foreign competition. China is a dollar an hour compared to us in our industry, and so we are facing the exact same things the steel industry is facing, but the steel tariff has been destructive to our customer base who now can't compete, is moving overseas, and when they move that business overseas, they buy the tooling overseas. Did that answer the question?

Chairman CRANE. Mr. Jones, do you want to comment on that?

Mr. JONES. I would agree with Ms. Moncrief. When the tool and die go overseas, the stamped parts go overseas, the finished product goes overseas, the finishing of the electroplating, normally, the packaging, then we just have an importation and a distribution. We have then lost many, many jobs in the steel-consuming sector, and it goes beyond tools, dies, and stampings.

Chairman CRANE. Mr. Bradford, in your written testimony, you state that reputable analysts show the average domestic-integrated steelmaker has much higher costs than its foreign competitors, as well as its domestic mini-mill counterparts. What do you think are the long-term prospects for integrated mills who have recently restructured, such as the ISG?

Mr. BRADFORD. It is actually a quite different and difficult problem, because if you were to pick a place to build a steel mill, integrated, you would go to Brazil, you would go to South Africa, places that have cheap iron ore. Their waste iron ore is higher than what we mine in the United States, and that is a major cost. This is not a favorable place. Frankly, I know that President Bush has been against the Kyoto Protocol, something I applaud, that would wipe out the integrated steel industry because the integrated steel companies emit three times more carbon dioxide than the minimills do.

I saw a study done by one of the integrated companies, so you have to take it with a little bit of a grain of salt, that suggested that there would have to be a tax of $25 per ton of carbon dioxide emitted, which would be $75 per ton of steel for an integrated, $25 for a mini-mill. That is not sustainable.

Actually, the restructuring of LTV Steel with ISG, principally the labor contract, is what I think led to the consolidation of the industry. You didn't have any of the integrated companies consolidating or talking about until that labor contract was signed or at least agreed to. Why? It eliminated a lot of the legacy liabilities that the integrated steel companies were afraid of taking over. Nucor did make a couple acquisitions, but they were adding to capacity. The real big changes came with that ISG labor contract. It makes a big difference.

Consolidation may not be the panacea that people say it is. I think the most respected steelmaker in the United States in the last couple generations was a guy by the name of Tom Graham, who the union has called a smiling barracuda, but who ran U.S. Steel's steel-making operations and took it from rivers of red ink to quite substantial profits.

He has recently put out a paper—actually, maybe it is a year and a half ago—claiming that, first of all, computer systems will not be able to communicate with each other. If you have the same largest customer, you may lose some business. Management salaries may be different at the two companies that merge, and you would end up with the higher one. They had a whole long list of reasons against consolidation.

I am personally in favor of consolidation because I think we have had an unbalanced playing field, with three big customers beating up on nine suppliers. If there were three big automobile companies against three or four steel companies, there wouldn't have been continuous steel price declines for the last decade. So, I would like to see consolidation from a commercial standpoint. I am not an operating guy, so I am the wrong guy to talk about in that regard, but Graham I think was the best operator that I have ever seen, and he was against consolidation.

Chairman CRANE. Mr. Schulingkamp, I appreciate the cooperation and communication with your Washington representation. What is the overall effect on the New Orleans' economy or the change in make-up of steel imports as a result of Section 201?

Mr. SCHULINGKAMP. Well, as I have testified, we have lost over a half million tons of cargo that was passing over our docks in 2001 from 2002, and you have to put that in the context of in 1998 we had almost 8 billion tons of cargo coming. As Mr. Gerard testified correctly, largely due to the efforts of the successful dumping and countervailing duty complaints which he won, that had been reduced to about 2.8 million tons in 2001, even before Section 201 was enacted.

So, the effects on the economy, my colleague, Mr. Campbell, I think has already testified about direct jobs. The Port of New Orleans has lost revenue, but our tenants, who are the stevedores and the terminal operators, the barge lines, the handlers, the truckers, all of those people involved in steel, including, by the way, the Admiralty Bar in New Orleans, who handles cargo claims, their business is down significantly because of lost steel.

Chairman CRANE. Mr. Levin.

Mr. LEVIN. Thank you, and welcome. Mr. Bradford, it seems like it was a day ago, but it was just, what, about 45 minutes ago, you testified about the surge that occurred, and I just went back quickly with the help of staff. I don't have the exact figures, and I am going partly also from my memory, but when you look at the surge in 1998, I think the bulk of it came from Russia, Japan, Brazil and Korea, and they are not 10-cents-an-hour economies, steel producers, but they are heavily subsidized, and also the wages are much, much lower. In Russia, they weren't paying people anything. So, I think to simply dismiss it is really a mistake.

The surge, in substantial measure, came as a result of excess capacity, with a good portion of that capacity coming from economies that heavily subsidize their steel production. That is part of the problem.

Mr. BRADFORD. I didn't refer, frankly, to 1998. I was talking about 2002 figures. I would agree with you that there was a——

Mr. LEVIN. Okay, but the surge occurred, that is when the surge occurred. It started, it really hit us in 1998.

Let me just ask, so I am clear, in terms of the port, and, Mr. Jefferson, my pal, will go into this further, are steel shipments up or down this year and last year from 2001?

Mr. SCHULINGKAMP. Yes, the amount of steel, and I think the statistics come from the Customs Department, that have come in through the Customs Port District of New Orleans have increased. However, what has gone over the docks and has happened within the physical limits of the port has gone down. Moreover——

Mr. LEVIN. Explain that.

Mr. SCHULINGKAMP. The Customs Port District runs beyond the physical limits of the Port of New Orleans. Additionally, a big part of the increase which came was a result of two main products. One is steel slabs, which of course were imported for the domestic steel industry, which was I think favorably treated under Section 201. While we welcomed that business, that business has an economic value much less than the other types of steel that were more prevalent prior to Section 201.

For example, to unload slabs, that cost can be less than $2, $1.75, or $1.85 a ton. The cost for handling coils runs in the neighborhood of $6 to $8. Additionally, of course, Mr. Levin, the further handling of that cargo through the docks creates further value. So, we are not complaining about the business that came; we are just distinguishing it and saying that it actually resulted in a net economic loss.

Mr. LEVIN. That helps. Ms. Moncrief, let me just say a word. The irony is the machine tool and tool and die business has been in trouble for years. I come from near you, and I have seen the decline. The irony is that those who don't like the steel tariffs, by and large, here are also those who opposed any action to help the tool and die or the machine tool industry. Those who felt that there had to be something done about the steel industry after the surge in 1998, including myself, have been those who have urged there be some attention to the health of the tool and die industry.

As I understand it, if you look at the causation factors, the price of steel over the last 6, 7, or 8 years, hasn't been the major source of decline, right? Canada, as I understand it, there is an influx from Canada, where there is some heavy subsidization of your competitors.

So, I think if you put them on a scale, you have to look far beyond the price of steel, in terms of the decline of your industry in our State in the last 10 years; isn't that true?

Ms. MONCRIEF. Yes, I do agree with that. As I said in my statement, and in accordance with the ITC study, there are other problems in our industry. Actually, those other problems are very similar to what the steel unions or the steel mills are facing.

Mr. LEVIN. Right.

Ms. MONCRIEF. We are facing the same things they are, but the steel tariff added to our problems.

Mr. LEVIN. I finish by I think saying what you were saying. You are in the same boat with them on most factors, and you have picked out one where you have conflict, but the rest of the time you are facing some of the competitive factors that they are.

Ms. MONCRIEF. Yes, that is exactly true. I totally agree with the statement that something needs to be done with—it needs to be a fair playing field.

Mr. LEVIN. Right.

Ms. MONCRIEF. The tooling, we are facing the exact same thing with the dumping, and Canada, and the dollar, and everything is the exact same.

Mr. LEVIN. Okay, thanks.

Ms. MONCRIEF. We don't have a tariff, and I don't think it is the answer because then it is just going to push it onto somebody else.

Mr. LEVIN. Thanks.

Chairman CRANE. Mr. English.

Mr. ENGLISH. Thank you. I would like to follow up on that, Ms. Moncrief. The gentleman from Michigan, as always, is extremely knowledgeable on points of trade policy. You had mentioned the section 332 study, which I happen to have right here. My role in this was that I had requested that the Committee move forward with it and, as a result, we have a better picture of the tool and die industry than just about any industry in the manufacturing sector in crisis today. You are picking on one factor which I think, as a stamping operation, particularly affects you.

Having actually read this report and having reviewed it, what I have found is that raw materials, as a cost share, only make up typically 19 percent on the average within tool and die. Also, the concerns of tool and die producers who testified before the ITC were in this order: One, competition from low-cost imports; two, shift of production by U.S. customers to foreign production locations; three, high U.S. labor costs, health care costs, insurance costs, and then the market forces of the slow economy.

My concern with the testimony I have heard today is we have had almost a single-minded focus on one factor that has been changed, but as a practical matter, doesn't this report suggest that the problems with tool and die are not only hardly limited to the steel pricing, but more to the point, for most tool and die producers, steel price fluctuations have been a very minor factor; is that not the case?

Ms. MONCRIEF. Yes. As I stated earlier, we buy domestic steel, and actually tool steel is exempt from the tariff—both.

Mr. ENGLISH. Absolutely, and I think there was a reason for that exemption.

Ms. MONCRIEF. Yes, there is.

Mr. ENGLISH. The other point is I took the liberty of reading your testimony before the section 332, and at the time you testified before the ITC, you didn't cite steel as one of your concerns. What has changed your mind since then?

Ms. MONCRIEF. Well, as in my statement, and the ITC's investigation, Delphi is a very big customer of ours. Automotive——

Mr. ENGLISH. I understand they are a substantial customer of yours, but at the time you were testifying, in your verbal testimony, you didn't cite the pricing of steel as a problem, did you?

Ms. MONCRIEF. Well, at that time, our customers were not relocating at the rate they are currently. Business has gone down significantly even since that hearing.

Mr. ENGLISH. I understand that, but obviously the crisis in the tool and die industry, which some on Capitol Hill are wholly attributing to the price of steel, is something that pre-dates the steel policy, and for most tool and die manufacturers this has really been only a marginal factor.

In fact, when you testified before the ITC, weren't you seeking remedies that were similar to what the steel industry has been seeking?

Ms. MONCRIEF. As a matter of fact, I don't think, again, the tariff is the answer. Remedies may be one thing. We never pinpointed any specific remedies, nor did I choose any specific remedy in my testimony.

Mr. ENGLISH. Well, we are delighted to have you here because I know, from my tool and die guys, that you are highly regarded in the industry, and it is a real privilege to have someone here of your stature.

Now, quickly, while I have time left, Mr. Bradford, do you agree that the U.S. steel industry has undergone extensive consolidation and restructuring in the last year? Based on this, do you agree that the industry is using its remedy period to adjust to import competition, as the President has requested?

Mr. BRADFORD. Actually, there hasn't been much consolidation yet, other than by Nucor. There are proposals by U.S. Steel to acquire National, A.K. to acquire National, ISG to acquire Bethlehem.

Mr. ENGLISH. Don't those take a long time in the pipeline?

Mr. BRADFORD. Oh, they do. They do. They absolutely do.

Mr. ENGLISH. Now, spot prices for flat products have fallen 25 percent or more from their peaks in July 2002. An article, on March 24, 2003, in American Metal Market, states that an attempted price increase on sheet products, one that was sought in order to offset scrap-price increases fell flat. Would you agree, then, that the price trends continue to point downward?

Mr. BRADFORD. I would say they are more stable, but certainly the price increases did not go into effect.

Mr. ENGLISH. Final question. According to World Steel Dynamics, hot-rolled sheet prices in the United States are now lower than those in many other countries, including our buddies in France, Germany, China and the United Kingdom. Doesn't this confirm that the President's Section 201 program is not creating unusually high price levels for steel consumers in the United States?

Mr. BRADFORD. I am not so sure, frankly, that it is the Section 201 or the weaker dollar, but clearly you are correct that prices today are very, very close all around the world except for Korea where prices are the lowest in the world. There is a gap in China, until recently, and now the Chinese have shut off the market. I just hope, frankly, that the U.S. mills who have shipped a lot to China will get paid.

Mr. ENGLISH. A ray of light. Thank you very much.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

I would like to take the special privilege of welcoming these two distinguished men from my home city of New Orleans, Mr. Schulingkamp and Mr. Campbell, who represent different sides of the street there—one management and one labor—but who are together on this issue because of the effect of it. It crosses both in quite significant ways, and I am very privileged to have you in front of our Committee, and welcome, and I have enjoyed your testimony.

Mr. Levin cleared up an issue for me from the last round of testimony from I think Mr. DiMicco, who said I guess what is true; that you can prove anything with figures if you decide how you want to argue them. The fact of it is that, as you point out, as slab and other products were not subject to the tariff, they have increased as they have moved through the port, but, nonetheless, the cost of handling them has been quite less than for the higher priced goods, and so it explains a great deal about what happened there, when you talk about increases in activity and loss of money at the same time.

I want to ask one question before I ask anything be cleared up on that. I don't often quote the *Times Picayune*, my newspaper. I don't always agree with it, but it says something here that a policy, speaking of the President's Section 201 tariff policy, that requires 1,022 exemptions, so much tinkering, it says, in such a short period of time, clearly, is a bad one.

Have you ever seen a Section 201 action put in place or any other action that has required this many exceptions to try to make it right? Would you conclude that, as our newspaper, anyone here, that if you have to do that much tinkering to it, it couldn't be a good policy to start with, huh?

Mr. BRADFORD. Are you asking me?

Mr. JEFFERSON. Yes, or anyone.

Mr. BRADFORD. I am not a trade expert, but I have talked to the people involved with those exemptions, and the steel business is not as homogeneous as people think it is. There are a lot of very specialty products that aren't made in this country.

Mr. Gerard talked about rail. There are no producers of really high-quality rail in this country. There will be in a couple weeks. There is a brand new mill about to start up, but there hasn't been any, so that has been imported, and it is not part of Section 201 anyway.

Mr. JEFFERSON. If you put together a Section 201 policy that requires 1,022 exemptions in less than 18 months—in 12 months or so—that is a sign of a pretty bad policy, at least one that was not well thought-out, don't you think or a shortsighted one?

Mr. BRADFORD. Let me give you a couple thoughts you might find interesting. Of all of the products covered by the Section 201, the only ones that really ran up in price were flat-rolled steel. Rebar prices didn't go up, even though they had a 15-percent tariff; merchant bars had 30-percent, they didn't go up; plate had 30-percent, it didn't go up. The difference was the closure of LTV Steel, the sudden closure panicked their customers, and they not only rushed out to find new suppliers, they double ordered. By last summer they ended up with excess inventory.

It wasn't, I don't think, the Section 201 that did it, and I don't think the Section 201 also did the consolidation, but the fear of the coming Section 201 did contribute. It was the industry that asked for the Section 201. I don't think the President would have done it on his own, but I don't know the man, so I don't want to put words in his mouth.

Mr. JEFFERSON. Dave. Mr. Schulingkamp.

Mr. SCHULINGKAMP. Well, I think that your illustration just shows how difficult it is for government to attempt to interfere and impose broad policies in the economic arena. We heard from so many witnesses today about the downstream effects in a variety of industries, and if they all came in and asked for intervention by the executive or congressional branch, I think that we would find a situation where we would have confusion and more distortions of the market.

Mr. JEFFERSON. Mr. Campbell, you represent not just the Port of New Orleans, but there are workers all over this country who have been affected in the same way. How large is this coalition that you and Mr. Schulingkamp represented, and others here, with respect to those who have come together to fight against these tariffs who represent ports, and labor unions, seafarers and longshoremen, across the——

Mr. CAMPBELL. It is really growing, but may I correct something here? When we get talking about the Port of New Orleans and the increase of steel, we are talking about steel slabs and rail rods which is up. It represents 25 percent of the steel in the Port of New Orleans, and that is up 26 percent from what it was the year before.

So, somewhere we might have got some misreading here, but overall, steel is up slightly, but we are talking about the steel that affects our work force here in the Port of New Orleans.

I sympathize with my other steel mill brothers because each and every one of us has the same amount of salt in our sweat, blood and tears. I feel their pain, and I hear their cry. The reason why I can say that, because I represent the people in the Port of New Orleans that is being unemployed with the Section 201 tariffs on steel. I represent the people that are part-time employed now because of the Section 201 on steel.

We got to talking about loss of health care, I have got people that are not going to have health care, no kind of care, not even funds to purchase groceries during the week because of jobs lost.

So, I understand. I understand a whole lot more than some of us think that we understand, but we are talking about the effect that the Section 201 imposes on the worker and especially the maritime industry in the United States.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman, and thank you all for your testimony today.

I would like to follow up on a question that I asked of the last panel with regard to consumer prices, not the steel-consuming industries, but to the end consumer folks out in America, the 280 million Americans.

We were told that to impose these Section 201 tariffs would ultimately lead to higher prices for consumers, and my understanding is that, over the last 6 or 7 months that have seen these tariffs in place, that consumer prices on products that contain substantial amount of steel, that those prices have not gone up; in fact, in many cases, they have gone down.

Now, I know there are a lot of factors involved here. We have got a slowing of the economy. We have got other factors that could be involved as well, but can you give me your sense of what the impact has been of the tariff to the American consumer? To date, I don't think we have seen a lot of increases in prices of products that contain a substantial amount of steel.

Mr. BRADFORD. If you want to overly generalize, there are really two kinds of steel consumers in the United States. There are those that are capital related—heavy construction, machinery and that type—and there are the consumer goods. Now, the consumer goods tend to be sheet steel products made by automobile, appliance and companies of that type. They did not have to pay higher prices last year.

Those contracts, as someone had said earlier, were signed either in late 2001 or, in some cases, 3 years earlier, and those prices went down 2 to 3 percent last year, despite the spot price going up in hot-rolled coils 100 percent. The hot-rolled coils going into the construction market to people who are putting up factory buildings, which is not a good market these days. It goes into a number of the heavier goods. The automobile companies have protected themselves.

The people that got hurt were the guys in the middle who were supplying auto parts, didn't have the contract pricing, but had to pay the spot price. Those are the people that got caught, and it was a timing issue.

Mr. BECERRA. To go further into that point, and I think that my friend from Pennsylvania, Mr. English, got into this a bit as well, it appears that the actual price of hot-rolled steel is actually less in America than it is with many of our competitors abroad.

So, again, the question comes back, how are we providing the steel-consuming industry or placing them at a disadvantage, placing our steel-consuming industries at a disadvantage, if the price of, in this case, hot-rolled steel is actually less in America than it is in many of the countries that compete with us?

Mr. BRADFORD. I do a lot of work in Asia and Europe, and the prices right now are very, very close. You have got to convert to metric tons, but if you take the U.S. price, which is about $300 a ton, as someone said, that is $330 metric.

Mr. BECERRA. Right.

Mr. BRADFORD. The Japanese charge the Korean re-rollers $300. That is a big market. The Korean price is $275 per net ton.

Mr. BECERRA. Then, maybe the information we have is incorrect.

Mr. BRADFORD. That is close.

Mr. BECERRA. I am looking at a chart that says—and the source is CRU International, Limited, this is from some of the steel publications—that the price out of Japan is closer to $360 a metric ton versus the U.S. price at about $325/$330 a metric ton.

[The chart follows:]

Mr. BRADFORD. Well, the $350/$360 is a list price to some markets, but I know, specifically, to the re-rollers in Korea, which is a very big market, it is $300.

Mr. BECERRA. Now, you are getting into some specific niche areas, and it would be difficult to make the comparisons.

Mr. BRADFORD. A lot of people have list prices, and they are not the real prices.

Mr. BECERRA. Let me make one other——

Mr. BRADFORD. There was some going into China, by the way, at $400, now down to less than $300.

Mr. BECERRA. Ms. Moncrief, I think we all appreciate your testimony because too often we see industries showing signs of illness, and by the time we try to address the problem, it is too late, and we see the industry die away. Perhaps that is one of the reasons why, for many of us, Section 201 is so important. This is too important an industry to let it die away.

Tool and die, I don't think anyone wants to see that die away because we know how important it is. The jobs that you offer are critical to a lot of folks and helping families retain a status within the middle class, and so I think a lot of us want to hear very closely what you say.

I think one of the difficulties I have is that, when you take a look at the price of steel over the last 10 or 20 years, it is actually much lower today than it has been in the past. So, if you are suffering right now, compared to the prices of 5, 6, or 7 years ago when they were twice as high, I am not sure what your status was then, how you were surviving then, but right now the prices are certainly lower than they were well before, they are obviously higher than they were a year ago perhaps, but given the trends, it is a much lower price.

So, I am wondering how you relate that to your current prices and relate that to your last 10 years of prices, and I think you said you have been around since 1948.

Ms. MONCRIEF. Yes, I have not, personally, been around, thank you, since 1948.

[Laughter.]

Mr. BECERRA. Absolutely not.

Ms. MONCRIEF. I think that was a slam.

Mr. BECERRA. Absolutely not. Please let me make sure that that is clear for the record, that 1948 you were still someone's imagination and beautiful thought, okay.

[Laughter.]

Ms. MONCRIEF. Again, tool steel is exempt from the tariff. So, the steel prices, and the increase in the steel prices, are not affecting me directly. What I get from my customers, the Delphis, the Chamberlains, the large corporations are telling us, "Our sales are way down, our manufacturing is way down, steel prices are up, and we are moving to China. So, thanks, we don't need any more tools." That is what we are hearing.

Mr. BECERRA. Thank you. Thank you, Mr. Chairman.

Chairman CRANE. Thank you all.

Well, that concludes our hearing, and the record will be open until the close of business on April 9, 2003, but let me again express appreciation to all of you for your participation. It is vitally important for us in the decision-making process, and this input today has been valuable.

So, with that, we will adjourn.

[Whereupon, at 4:22 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Advance Transformer Company
Rosemont, Illinois 60018
April 4, 2003

Honorable Phil Crane
Chair, Subcommittee on Trade
Committee on Ways and Means
House of Representatives
Washington, DC 20515

Dear Chairman Crane:

Please accept this letter as testimony for the record in lieu of a personal appearance at the hearing held on March 26th on the topic of the "Impact of the Section 201 Safeguard Action on Certain Products." I submit this testimony as Chief Executive Officer of Advance Transformer Company, a division of Philips Electronics.

Advance Transformer Company, headquartered in Rosemont, Illinois is the market leader in manufacturing and sales of electronic and electromagnetic ballasts for fluorescent and High Intensity Discharge lamps. Advance employs 400 people in its Rosemont headquarters, and operates three U.S. factories employing 450 in Boscobel, WI, 175 in Monroe, WI and 20 in Chicago. Advance also operates manufacturing facilities in Mexico and is a sister company to other Philips Electronics ballast businesses that manufacture in Asia, Europe and South America. North American sales approximate $500 million annually.

The 201 tariffs have severely harmed Advance Transformer Company. The tariffs have caused severe disruptions in steel supplies, double digit increases in steel prices, and substantial market share losses to our competitors, who manufacture nearly all of their products outside of the United States.

<u>The 201 tariffs created severe supply disruption</u>.

Advance purchases 60,000 tons of steel annually, nearly all of which is purchased from multiple domestic steel producers. Advance typically negotiates annual contracts with these suppliers that cover a calendar year. The terms of the contracts set prices and expectations for quantities to be delivered and other performance standards. Historically, this arrangement has been beneficial, and only rarely has any supplier missed a delivery date. All this changed dramatically beginning July 2002. Two of our suppliers, including our largest, routinely missed scheduled deliveries of substantial quantities of steel. In some weeks, less than 70% of steel ordered was received (see attachment). This disruption continued until the end of the year, when Advance began purchasing steel at the higher prices that went into effect in 2003.

I believe that the 201 Action created such a substantial increase in demand for domestic steel, that our suppliers could not meet it all. Rather than deliver steel to Advance at a price negotiated prior to the 201 Action, these manufacturers chose to sell to those who would pay the price commanded in a protected market.

<u>The 201 has led to substantial steel price increases which in turn have been the direct cause of substantial lost business for Advance</u>.

Steel represents 30% of material costs for electromagnetic ballasts. Our steel contracts beginning January 2003 carried an average price increase exceeding 10%. In turn, Advance increased its prices to customers and immediately experienced a drop of 18% in its electromagnetic ballast sales. This occurred because our competitors manufacture nearly all their product outside the U.S. Already they enjoy substantially lower labor costs than Advance. They now have the additional benefit of purchasing steel at lower prices, undistorted by the 201 tariffs.

<u>The 201 puts at risk the 600 manufacturing jobs in Advance's three United States factories</u>.

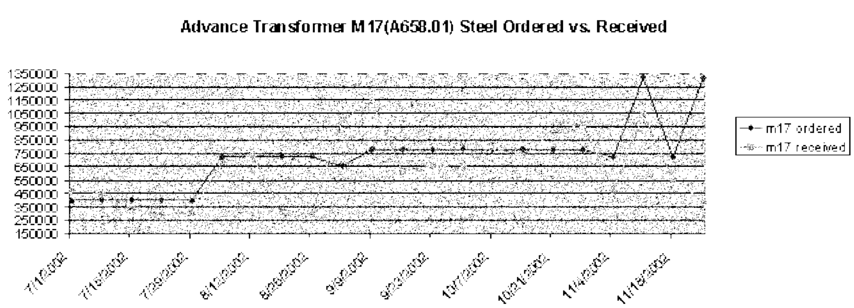
Advance is the market leader in its product line because it successfully responds and adjusts to marketplace demands and challenges. An 18% loss in market share is not an acceptable situation when a remedy is available, as it is in our case. Advance must be able to obtain steel at globally competitive prices, and can do so by relocating its U.S. manufacturing to existing Philips facilities in Central or South America, Asia or Europe. Advance can import to the U.S. finished products made in most of those locations with no tariff. Doing so will allow us to be price competitive and recapture lost business.

<u>Congress should urge the International Trade Administration to consider the effect of the tariffs on steel consumers</u>.

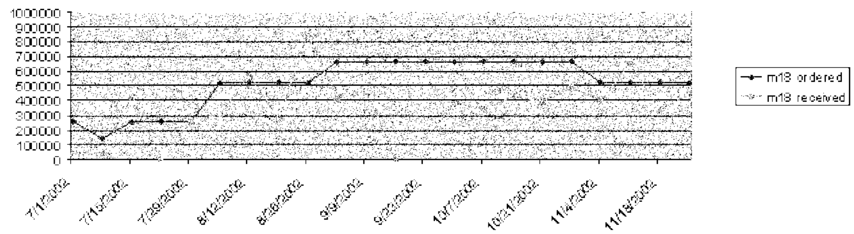
The ITC will issue its legally mandated report on the effects of the 201 on steel producers by September 22nd. This report can and should include a thorough analysis of the tariff's effects on steel consuming industries. It is my fervent hope that the President will, upon reviewing the report, eliminate the 201 tariffs and end this distortion of the marketplace.

Thank you for your consideration of our views.

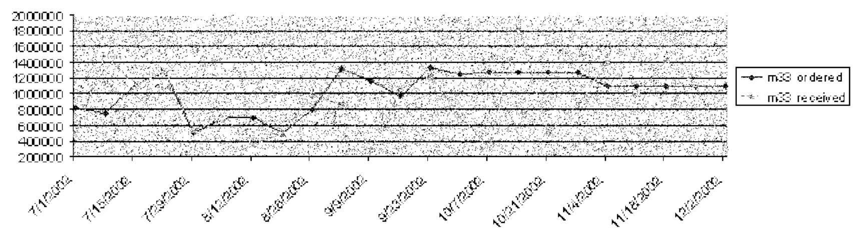
Brian Dundon
President and CEO



Advance Transformer M18(A658.02) Steel Ordered vs. Received



Advance Transformer M33(A658.03) Steel Ordered vs. Received



AllTrans Port Services, Inc.
Galena Park, Texas 77547
March 26, 2003

Chairman Philip Crane
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Re: Written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

Dear Chairman Crane and Subcommittee Members:

I am writing to inform you of the impact that the 201 investigation and resulting tariffs have had on my businesses. I am one of few known woman-owned businesses functioning within the Port of Houston as a material handler and transloader. I have an additional company that is a local steel transporter. My company has been in the material handling business since 1993 and had previously enjoyed steady growth.

Being located within the Port of Houston we see economic impact in the economy almost immediately, usually within 2–3 weeks of the actual event. Since the announcement of the 201 investigation and the terrorist attacks, both within approximately one (1) week of each other in 2001, we saw a huge drop in shipping orders.

While we tried to hold on to our best people, the two companies had to release approximately 29% of our staffs between the period of September 2001–June 2002, when we began to see new orders for July due to the tariff reductions on specific products such as carbon steel pipe, structural steel beams, abrasion resistant plate and forty plus categories of specialty metals. Wages decreased accordingly and wage increases were frozen. As for me, I have not been able to take a paycheck since September 2001. As you can imagine, this has not been easy, and has resulted in my having to liquidate investments for money to live on. I had hoped to have these investments for retirement.

As for additional investments, no new or replacement steel handling equipment (forklifts, cranes, etc.) could be purchased nor could any new steel hauling equipment be bought.

Even though we have drastically cut our expenses, we have been unable to achieve profitability quarter-to-quarter or for the year on either company. Once the 201 tariffs were lifted on carbon steel pipe, structural steel beams, abrasion resistant plate and forty plus categories of specialty metals, we actually thought for a while we might break even due to our careful scrutiny and reduction of expenses. There are however some fixed costs of doing business and the replacement of inventories on these items by steel consumers was short-lived; thus revenue losses have continued into the 1st quarter of 2003.

Steel consuming industries must receive their products via truck or rail and therefore neither transportation nor rail shipments can be ignored as major components to be considered in the impact of steel consumption.

Since the inception of the 201 tariffs, we have seen some increase of rail movements of domestic steel plate to steel consumers. Unfortunately, the loss of import steel shipments, moving by rail and truck has not come close to being replaced by shipment of domestic products.

While I completely understand the focus of this hearing is the impact of Section 201 regarding small and large steel consuming businesses, safeguards for U.S. steel producers and testimony of economic and financial analysts in the steel industry, indicators in transportation movements via truck and rail cannot be ignored as additional industries feeling the negative impact that the Section 201 has had on the economy.

As difficult as business has been since the announcement of the 201 investigation and the placement of high tariffs on steel imports, the negative economic impact of the 201 tariffs is "snowballing." With the general public opinion of economic uncertainty, fueled by terrorism and the necessity of war, the result is compounding the lack of consumer confidence.

Mr. Chairman, let me close by simply saying that over the past two (2) weeks, I have seen two (2) of my competitors sell out to larger firms. There are relatively few of us material handlers and distributors remaining in the Port of Houston, and if business remains at it's current level of orders and revenue, many more businesses may fall to a single larger firm within the Port, who is seeking a monopoly. I believe that the result of allowing one company to monopolize this business within the Port would be disastrous.

Small businesses are the "heartbeat" of our Nation. If the 201 tariffs are allowed to continue until 2005 with no tariff relief, during these complex economic times, the small business in this industry will become a thing of the past. I respectfully request that the Congress and the President remove all import tariff restrictions for the duration of the armed conflict with Iraq, as a measure of relief of the wide-reaching economic negative impact created by the tariffs. Once the war has ended, new hearings could be conducted regarding the 201 which are inclusive of not only domestic steel, but steel consumers and manufacturing, transportation, rail, handling and distribution industries.

If I can provide additional information I am happy to provide my companies' historical data. Thank you for your attention in this important matter.

Donna V. Rains
President

American Axle & Manufacturing, Inc.
Rochester Hills, Michigan 48309
April 10, 2003

House Ways and Means Committee:

On behalf of American Axle and Manufacturing, Inc. I am pleased to hear that this Committee has agreed to hear witness accounts on the unintended consequences and impact that the steel tariffs are having on steel consumers. American Axle and Manufacturing is headquartered in Detroit, MI and operates numerous plants in Michigan, Ohio and New York and also has operations in the UK, Mexico and Brazil. American Axle employs over 12,000 people in these plants with the overwhelming majority employed in the U.S.

We are the largest consumer of hot-rolled SBQ bar in the country and a member of the SBQ Bar Coalition. We purchase approximately 350,000–400,000 tons of SBQ bar annually. This is currently 100% supplied by steel mills in the U.S. and Canada. Therefore, you can see that we strongly support the need for a viable domestic steel industry. That said, we have serious concerns regarding the impact of the steel tariffs on our business.

We are a major tier one and tier two supplier to the automotive industry in this country. The effects of the tariffs have impacted us dramatically on not only the steel we buy directly but also on tubing for axles as well as propeller shafts (made from flat rolled product and rolled and welded into tubes), stampings (produced from flat rolled product and stamped into brackets etc. for welding to the tubes), and fasteners. Many of these component parts are produced by small businesses that have been seriously hurt by the higher steel costs imposed by domestic mills. These increases are directly tied to the steel safeguard program. As I am sure you will hear from others, these higher costs cannot be passed on to the customers and must be absorbed by the steel consumer. Many of the increases experienced have been in the area of 30% or more.

American Axle has several issues related to the imposed steel tariffs. First of all, the SBQ steel bar industry represents a very small portion of domestic steel production. The largest SBQ bar consumers, i.e. members of the SBQ Coalition, have historically purchased approximately 95% of their needs in North America. Hence, one could argue that these producers had not been injured by off-shore steel suppliers. Secondly, it is important to note that not all SBQ bar produced either domestically or internationally meets the stringent quality requirements of the automotive industry. Many steel suppliers who produce SBQ bar in this country, some of whom objected to the coalitions' exclusion requests as well as those of individual companies in the coalition, cannot meet these requirements and are not today approved for these items, many of which are safety critical.

The SBQ bar industry in this country, able to meet these very tight quality requirements, is much smaller than publicized. American Axle suffered extreme shortages throughout the fall and into late last year. In some cases, we were forced to ship steel via air freight in order to meet production requirements and keep our plants running. Even today, we are being told in some cases that our requirements cannot be met and the amount of steel we can purchase is being limited. As a result of these type of difficulties, American Axle believes we must be able to purchase internationally in order to protect our customers and in fact our very existence.

The automotive industry in this country will not allow any downtime due to parts shortages or price increases. If we are not able to supply parts due to material shortages and stay competitive globally, our customers have the ability and in fact are buying parts anywhere in the world, in order to satisfy their production requirements. This very situation makes it vital for us to be able to compete internationally. Our competitors overseas are now at a competitive advantage due to steel costs. As a result, American Axle is in a position in which we must look at options of sourcing parts off-shore or manufacturing off-shore to meet competitive pressures. This will no doubt lead to a loss of jobs in this country.

The exclusion requests American Axle submitted represented less than 5% of our total steel requirements, leaving 95% to be purchased in North America and 99% of that in the U.S. We are only attempting to supplement current supply and maintain our competitiveness. As stated earlier we strongly support our domestic steel industry, however, we want to survive as well.

Sincerely,

Jim Thompson
Commodity Manager-Direct Material Procurement

Statement of William A. Sullivan, American Micro Steel, Inc., Watertown, Connecticut

On March 26, 2003, Puerto Rico Resident Commissioner Anibal Acevedo-Vila presented testimony before this Subcommittee in support of relief for a Puerto Rico enterprise from a trade ruling. As the President of a company soon to make a major investment in Puerto Rico, I congratulate the Resident Commissioner for his initiative in taking the lead to support an important Puerto Rico company. The encouragement received from the government of Puerto Rico has been a major factor in the decision of American Micro Steel to invest in Puerto Rico. The willingness of the Resident Commissioner to bring the issue before this Subcommittee is further evidence of the commitment of the government of Puerto Rico to support local business ventures and reinforces our belief that Puerto Rico is a good place to do business.

In this instance, American Micro Steel has a somewhat different perspective on the impact of Section 201 tariffs on Puerto Rico and I would like to share that perspective with the Subcommittee.

American Micro Steel, Inc. (AMS) was organized under the laws of Puerto Rico after a five-year review of steel market opportunities in the Caribbean. In the course of the review, AMS has studied both the gross demand for rebar in Puerto Rico and the distribution system for rebar in Puerto Rico. In terms of market size, AMS has found the data available from the *Junta de Planificacion, Programa de Planificacion Economica v Social subprograma de Analisis Economico* (the Puerto Rico Planning Office) to be the most reliable and that is the source of the import numbers used in this testimony.

Rebar is used exclusively in the construction industry. Before it is used, it is cut and bent to engineering specifications either in the field by the contractor or in one of three major or two or three minor "fabricating" shops. Fabricators differ from main-line manufacturers in two significant respects. First, they are "job shops" cutting and bending to the customer's order rather than producing a standard "product." Second, the economics of the business make the import of pre-fabricated rebar impractical. This is extremely important. The traditional manufacturer of a steel *widget* can logically argue that an import tariff on raw steel can lead to domestically made steel *widgets* being displaced by imported steel *widgets*. The facts may or may not support the manufacturer's claim, but it has a logical basis. That is not the case for fabricated rebar for two reasons. First, no fabricated rebar is being imported into Puerto Rico and second, if it were, it would be subject to the same tariff.

Were there credible evidence of a shortage of rebar in Puerto Rico resulting from Section 201 tariffs, AMS would be the first to support relief, however no such evidence has been presented. Indeed, during the first year of Section 201 tariffs (2002) imports of rebar into Puerto Rico reached a record high.[1] It seems to AMS that it is significant that only a single importer/fabricator has come forward to seek relief from the Section 201 tariff. The other major importers and fabricators, the Island's construction companies and the Associated General Contractors have not sought relief and the Puerto Rico Housing Department has stated that Section 201 is not creating any problems for the Puerto Rico housing industry.[2]

One of the inherent risks of an import-dependent business is the danger of becoming overly dependent upon a single source. While there are many exporters of rebar to Puerto Rico, from the tenor of the testimony, one suspects that the company for whom the Resident Commissioner seeks relief has become dependent upon a Venezuelan supplier. With privatization of a significant amount of capacity, dumping of steel products on their domestic market and a challenging domestic economy, the problem faced by Venezuelan steel exporters goes far beyond Section 201 duties.

The lack of any showing of widespread concern within the Puerto Rico housing or construction industry, of course, is not determinative. In reviewing the testimony of the Resident Commissioner, AMS has identified five premises with which it cannot concur.

1. Puerto Rico must rely (for rebar) on imports from (its) neighbors in the region.[3]

REBAR IMPORTS IN TONS

Country	2000	2001	2002	TOTALS	
Brazil	6,449	23,059	14,068	43,576	5.0%
Dominican Republic	0	0	37,393	37,393	4.3%
Mexico	39,733	10,805	23,984	74,522	8.5%
Trinidad & Tobago	331	6,742	0	7,073	0.8%
USA	14,374	3,737	9,333	27,444	3.1%
Venezuela	7,767	44,952	27,534	80,253	9.2%
Region Total	68,654	89,295	112,312	270,261	
Region Market Share	24.0%	31.2%	37.2%	30.9%	
Non Region Total	217,762	196,972	189,410	604,144	
Non Region Market Share	76.0%	68.8%	62.8%	69.1%	
Grand Total	286,416	286,267	301,722	874,405	

[1] The Puerto Rico Planning Board data reports imports of 286,416 tons in the year 2000, 286,267 tons in 2001 and 301,722 in 2002.

[2] "For the moment, I don't think it will have a negative effect." Quote attributed to Puerto Rico Housing Department Deputy Secretary at page 38 of the April 1, 2003, *San Juan Star*, in an article titled Conflicting reports on the impact of steel tariff increase.

[3] Testimony of Resident Commissioner Anibal Acevedo-Villa, paragraph 2. "However, in certain cases, for reasons of geography and cost, we must rely on imports from our neighbors in the region."

The preceding chart, based upon Puerto Rico Planning Office data shows that for the years 2000, 2001 and 2002, the region (defined as the Americas plus the Caribbean) never supplied as much as one-third of the rebar imported into Puerto Rico. Interestingly, the region's share ***increased*** (in terms of both total tons and market share) ***after*** the Section 201 duties were imposed.

Equally interesting is the fact that of the countries exporting a total of over 50,000 tons to Puerto Rico in the last three years for which data is available, five were far removed from the "region"—Turkey, Moldova, Korea, Latvia and Japan. From the region, only Mexico and Venezuela made the list and, as the following chart illustrates, the shipments from these countries was far from consistent even over a short three-year period. The evidence suggests that Puerto Rico importers aggressively work the spot market for the lowest available price. Price, not geography has driven the market.

COUNTRY	2000	2001	2002	TOTAL
Turkey	22,688	49,719	79,787	152,194
Venezuela	7,767	44,952	27,534	80,253
Mexico	39,733	10,805	23,984	74,522
Latvia	15,616	31,178	26,751	73,545
Korea	62,488	10,090	0	72,578
Japan	26,521	0	39,532	66,053
Moldova	58,434	0	0	58,434

2. Section 201 measures have had a very negative effect on Puerto Rico's ability to source rebar from traditional and highly efficient foreign suppliers.[4]

The reported data suggests that part of Puerto Rico's rebar supply problem has been that it *lacks* "traditional suppliers." Again looking at the years 2000 through 2002, twenty different countries exported to Puerto Rico. Eleven different countries placed within the top 5 exporters to Puerto Rico during those three years. Rather than being served primarily by a cadre of dependable "traditional" suppliers, the data indicates that Puerto Rico has been primarily supplied by a shifting band of predatory "dumpers." In the year 2000, sixty-three percent of the rebar imported into Puerto Rico came from countries that have since been found guilty of dumping.[5] This would seem to place in doubt the conclusion that Puerto Rico has traditionally been served by "efficient producers."

3. Section 201 measures have added $2,000 to $3,000 to the cost of a low-income home.[6]

One can only suspect that this contention reflects a misplaced decimal point. A $2,000 to $3,000 increase resulting from a 12% tariff would require the use of between $16,666 and $25,000 of rebar in each house.[7] The *San Juan Star* reports that a low-income home in Puerto Rico is defined as a home selling for $70,000 or less.[8] To increase the cost by $2,000 to $3,000, rebar would need to represent between 23% and 25% of the total cost of the home.

Even at a base price of $350 per ton, that translates to between 41 and 71 tons of rebar per unit. Assuming #4 bar (½″ diameter) that tonnage amounts to between 137.725 and 212,575 running feet of rebar per unit.[9] That simply isn't possible.

4. Venezuela used to be a primary supplier (of rebar) to Puerto Rico.[10]

The maximum Venezuelan market share in the years 2000, 2001 and 2002 was 16% (in 2001). In the year 2000 (when there were no Section 201 tariffs) the Venezuelan market share was 3%. While 2002 imports from Venezuela were 17,000 tons below 2001 levels, they were nearly 20,000 tons *above* the 2000 imports. While Ven-

[4] Testimony of Resident Commissioner Anibal Acevedo-Villa, paragraph 5. "The Steel 201 measures implemented last year have had a very negative effect on Puerto Rico's ability to source rebar from traditional and highly efficient foreign suppliers."

[5] Moldova, Indonesia, Korea, Latvia, Turkey, Belarus and the Ukraine.

[6] Testimony of Resident Commissioner Anibal Acevedo-Villa, paragraph 5. "They (Steel 201 measures) are adding $2,000 to $3,000 to the cost of a low-income home."

[7] 12%X=2000, X=2000/.12, X = 16.666 12%X = 3000, X=3,000/.12, X=25,000.

[8] *San Juan Star*, April 1, 2003, in an article titled Conflicting reports on the impact of steel tariff increase.

[9] #4 bar weighs .668 lbs/ft. 46 tons = 46 × 2000 lbs = 92,000 lbs. 92,000 lbs/.668 lbs per ft = 137,725 feet 71 tons = 71 × 2000 lbs = 142,000 lbs. 142,000 lbs/.668 lbs per ft = 212,575 feet.

[10] Testimony of Resident Commissioner Anibal Acevedo-Villa, paragraph 10. "Venezuela used to be a primary supplier to Puerto Rico."

ezuela has from time to time been a major exporter to Puerto Rico, it stretches credulity to call it a *primary* supplier.

5. Section 201 has limited foreign sources creating unnecessary shortages and windfalls to foreign mills.[11]

This argument seems contradictory on its face. To create a shortage, foreign mills would need to stop exporting to Puerto Rico—but if they stopped exporting one cannot perceive how they could at the same time enjoy a "windfall." "Without sales there can be no "windfall."

The testimony suggests that the only alternative to Venezuelan rebar is U.S. rebar while at the same time noting that the U.S. has never been a major supplier of rebar to Puerto Rico. In fact there are a multitude of options to replace Venezuelan rebar if the 12% tariff has driven them from the market.

In 2000 there were 14 countries exporting to Puerto Rico, in 2001 there were 16 and in 2002 (after Section 201 sanctions) there were 12. It was not Section 201 that forced countries out of the market, however, it was anti-dumping duties. Moldova, Indonesia, Korea, Belarus and the Ukraine exited the Puerto Rico market as a result of anti-dumping duties. Interestingly enough, since the 201 sanctions, the Dominican Republic has *entered* the Puerto Rico market and more than made up for a decline in Venezuelan exports. If one looks at the sum of imports from Venezuela and the Dominican Republic, the total *increased by 20,000 tons* after Section 201 remedies.[12]

AMS has no doubt that the company for which the Resident Commissioner seeks relief has been disadvantaged by Section 201 tariff. The damage, however, is to one company whose primary supplier has decided that Section 201 makes the Puerto Rico market less attractive. It is the unfortunate nature of an import dependent industry that whenever there is a shift in trade patterns, someone is disadvantaged. It is also reality that shifting trade patterns are inevitable. The world steel industry is in flux. A chronic problem of non-economic export dependent capacity is finally being addressed. The United States steel industry has been given minimal protection for a minimal time to reorganize itself. Without government fiat it is doing so with no little pain to its investors, managers and workers.

Importers, with little regard to quality or loyalty grew fat in the days of government subsidized dumping. Those days are coming to an end. Those who grew fat on dumping will now grow lean. They have no room to complain.

Rebar fabricators, whether in Ohio or Puerto Rico are an integral part of the *American* steel industry and are not exempt from the commitment of the industry to restructure for the new century.

AMS urges the Committee to resist special pleading that will inevitably erode the program the President has launched and inevitably undermine the tremendous effort being made by the American steel industry to reinvent itself—to the ultimate benefit of the steel consumer and the whole nation.

Statement of Larry Yost, ArvinMeritor, Inc., Troy, Michigan

This written testimony is submitted on behalf of ArvinMeritor, Inc., in connection with the March 26, 2003, hearing conducted by the House Ways and Means Subcommittee on Trade. The purpose of this hearing was to examine the impact of the President's Section 201 safeguard action on the U.S. steel consuming industries, the domestic steel producers, and the U.S. economy.

ArvinMeritor thanks Chairman Crane and the Members of the Subcommittee for the opportunity to present this testimony. ArvinMeritor is a premier, Tier One automotive supplier offering the world's largest Original Equipment Manufacturers ("OEMs") a broad range of integrated systems, modules and components. We serve the passenger car and commercial truck and trailer markets, as well as their related aftermarkets. ArvinMeritor has 32,000 employees among more than 150 facilities in 27 countries. ArvinMeritor's 2002 sales were $6.8 billion, of which 62 percent were in North America, 30 percent were in Europe, and 8 percent elsewhere in the world. Our products include air and emission, aperture (door and roof), and undercarriage systems and components for light vehicle OEMs, complete drivetrain systems for

[11] Testimony of Resident Commissioner Anibal Acevedo-Villa, paragraph 13. "Section 201 has limited foreign sources of smaller-sized rebar into Puerto Rico, creating unnecessary shortages and a windfall to the foreign mills lucky enough to win what might be described as the '201 lottery.'"

[12] The combined imports from Venezuela and the Dominican Republic totaled 7,767 tons in 2000; 44,952 tons in 2001 and 64,927 tons in 2002.

heavy and medium duty trucks and trailers and their related aftermarkets, as well as ride control, exhaust, and filters for light vehicle aftermarket.

A key common denominator of the above-mentioned products is that each has significant steel content. In 2002, ArvinMeritor purchased more than 1 million tons of steel globally. In excess of 95 percent of the steel consumed by ArvinMeritor in the United States in 2002 was sourced from North American steel mills. With virtually all of our steel coming from North American sources, a healthy and competitive domestic steel industry is vital to our U.S. and North American operations. Toward this end, ArvinMeritor endorses the President's efforts to reduce global overcapacity and market-distorting government subsidies.

The President's additional action of proclaiming safeguard tariffs on a broad range of steel products, however, is having unexpected, but nonetheless tremendously damaging, impact on a wide cross section of steel using industries and companies, including automotive suppliers such as ArvinMeritor. In our case, since the tariffs were proclaimed, we have been subject to price increases ranging from 7 to 15 percent on long-term contracts, and up to 40 percent or more on spot market purchases. Additionally, and perhaps more significantly, we are increasingly faced with supply uncertainty. For example, U.S. capacity to produce special bar quality steel ("SBQ")—one of the steels we consume in great quantities—is approximately 30 percent lower today than just a few years ago.

As those on the Subcommittee who are familiar with the auto sector are aware, suppliers *cannot* pass on raw material or other price increases to OEM customers—particularly "artificial" price increases that are inconsistent with global market conditions. Indeed, in our industry, OEM customers expect annual price decreases from their suppliers. While "cost down" formulas differ from OEM to OEM and from component to component, it is not uncommon for the expected price reductions to equal 20 percent or more over a four or five year period. In other words, if an OEM customer purchased a particular part from ArvinMeritor for 100 dollars in the year 2000, this year, 2003, that OEM expects the exact same part for 80 dollars. While this is a difficult challenge in a perfect world, it is nearly impossible when the price of the input steel has increased 40 percent. Profit margins are simply too thin to absorb the safeguard tariffs.

With regard to steel prices, ArvinMeritor would like to address a misperception that may exist among the Subcommittee Members. Although we cannot pass our increased raw material costs on to our customers, the OEMs, in the event we could, the ultimate cost to the consumer would be quite substantial. The domestic steel industry often suggests that the safeguard tariffs might increase the cost of an average car by 65 dollars or so. However, that figure is misleading as it is derived from the amount of steel purchased directly by the OEMs and does not include parts purchased by the OEMs.

But again, it is not just price that is a problem, it is availability. While ArvinMeritor managed to put under contract sufficient quantities of steel for 2003, it was at great expense. And going forward, we do not know whether these sources will continue to supply. Particularly for SBQ steel, certainty of North American supply is tenuous.

Indeed, the tariffs do not just threaten our bottom line, they severely jeopardize our industry's competitive position in the U.S. automotive supply chain. Foreign companies that were never before competitive for our U.S.-based customers, suddenly can compete for lucrative, long-term contracts, because their automotive parts are produced with globally priced steel.

On behalf of our shareholders and our global employee base, we are responding to the tariffs aggressively and proactively. For example:

- We are purchasing semi-finished and finished products from both related and unrelated offshore suppliers, whose steel costs are far lower than that which ArvinMeritor must pay in the United States.
- We are developing steel suppliers among producers in exempt, non-NAFTA countries.
- We have begun downsizing U.S. operations as a result of these other actions.

In other words, to protect our shareholders and our enterprise-wide operations, we must export manufacturing jobs and import components. And, this is really just the beginning. Resourcing decisions will accelerate this calendar year, especially in view of the Administration's rejection of the vast majority of exclusion requests filed by the automotive supplier sector.

We are heartened by the fact that more policymakers are beginning to understand the impact of the tariffs on the steel consumers like ArvinMeritor. In the House of Representatives, 72 Members have cosponsored Congressman Knollenberg's resolution (House Concurrent Resolution 23), which calls upon the Administration to review the impact of steel tariffs on consuming industries, as well as the steel industry. In addition, Chairman Thomas recently requested the International Trade Commission to conduct a "section 332" investigation of the impact of the steel tariffs on consuming industries. This study is to be conducted in conjunction with the statutory mid-term review of the impact of the steel tariffs on the steel industry. And in just the past few days, Senators Bond, Dodd, Landrieu, Hagel, and Fitzgerald, introduced in the Senate a companion measure to Congressman Knollenberg's resolution. Taken together, the Knollenberg and Bond resolutions and Chairman Thomas' request, represent reasoned, measured approaches on this issue and are an important step in the process.

Thank you for the opportunity to submit testimony as the Subcommittee investigates the array of consequences associated with the proclamation of steel safeguard tariffs in March of 2002.

Statement of Association of Cold-Rolled Strip Steel Producers

On behalf of the Association of Cold-Rolled Strip Steel Producers ("Association"), we submit this statement regarding the impact of the Section 201 safeguard action. The Association is composed of twelve domestic producers of cold-rolled carbon steel flat products: Blair Strip Steel Company, Duferco Farrell Corporation, Gilbraltar Group of Companies, Greer Steel Company, Rome Strip Steel Company, Samuel-Whittar, Inc., Steel Technologies Inc. ("Steel Technologies"), Stripco Inc., Theis Precision Steel Corp. ("Theis"), Thomas Steel Strip Corp., Thompson Steel Company, Inc., and Worthington Steel.

The Association participated in the Section 201 safeguard action. As set forth below, the members of the Association have already benefited from the relief provided by the Section 201 safeguard action and very much need this relief to continue for the full term of the Section 201 safeguard action.

A. The Relief Provided by the Section 201 Safeguard Action Has Had a Positive Effect on the Members of the Association

The relief provided by the Section 201 safeguard action has had a positive effect on the members of the Association. It has, among other things, provided the members the opportunity to evaluate and recoup business lost due to low import prices and has allowed the members to find ways to regain market competitiveness.

Since the relief has been instituted, the members of the Association have received many more inquiries, as well as orders, for their cold-rolled products. For example, Theis has seen many customers, who in the past purchased cold-rolled products produced mainly overseas, inquire, and order Theis' cold-rolled products. Accordingly, Theis, like other members of the Association, has been able to increase its sales volume. This increased sales volume provided by the Section 201 relief has, in turn, enabled the members to maintain their present workforce and avoid layoffs that would otherwise have occurred. Members of the Association, like Theis, have invested in productivity system improvements in order to be able to compete successfully in the future.

The Section 201 relief has also had the desired effect of stabilizing the overall price of the members' cold-rolled products in the marketplace. The historic and severely damaging price deflation that resulted from the enormous flood of imported steel prior to the Section 201 safeguard action has subsided, bringing relative stability to the marketplace.

In short, the Section 201 safeguard action has been effective and essential for the members of the Association. They have begun to reverse the trend of layoffs and plant shutdowns and have begun to rebuild the cold-rolled strip segment of the American flat-rolled steel industry with increased hiring and capital investment.

Unfortunately, however, the positive effect of the Section 201 relief has been dampened by the granting of product exclusion requests. Product exclusion requests have been granted in extraordinary numbers and have been granted for products that members of the Association clearly produce in the United States. In the initial round of product exclusion requests, the government received more than 1,300 product exclusion requests. The government granted 727 of these requests, accounting for about 3.2 million metric tons (out of 13.0 million metric tons), or approximately 25%, of foreign steel initially subject to the safeguard action. In the second (anniversary) round of product exclusion requests, the government received 661 product exclusion requests. The government granted 295 of these requests, accounting for an additional 400,000 metric tons (out of 4.0 million metric tons of requested exclusions).

The granting of product exclusion requests has damaged the profitability of the members of the Association. Foreign competitive cold-rolled products granted exclusion are no longer subject to Section 201 relief, and as such, are allowed into the U.S. market without any tariffs and at lower prices. Members have, in turn, had to reduce their prices to remain competitive. This has been an especially pronounced problem with respect to some of the niche, high value-added products that the members of the Association produce.

B. The Relief Provided by the Section 201 Safeguard Action Has Had a Positive Effect on Members of the Association's Efforts to Restructure

As a microcosm and subset of the larger flat rolled steel industry, members of the Association have begun to restructure as a result of the Section 201 safeguard action. In their efforts to reduce fixed costs, some members of the Association have changed their corporate structure to become more competitive. For example, Theis now has one manager for sales and operations, whereas prior to the Section 201 safeguard action, there were two. In addition, Theis' reporting structure is more focused and streamlined to solve problems and to create new opportunities more quickly.

The Section 201 relief has also resulted in consolidation. While one member (Cold Metal Products) has been forced to go out of business, the consolidation of that former member's more modern assets into a current member (Steel Technologies) and the shutdown of the former member's older, non-competitive plants has begun to reduce excess capacity and build a healthier industry that is better able to compete on a global playing field. In addition, the members of the Association have benefited from International Steel Group's ("ISG's") restarting of production at Acme, as ISG is able to provide raw input material—*i.e.*, hot-rolled steel—at competitive prices to members of the Association due to its lower fixed cost structure and leaner startup costs.

While the need continues to restructure in the broad steel industry, in general, and for producers of strip steel, in particular, the members of the Association have already begun to improve productivity and increase global competitiveness through the restructuring that has already occurred.

C. The Relief Provided by the Section 201 Safeguard Action Must Continue for its Full-Term

The benefits of the Section 201 safeguard action have only just begun to provide the "safeguard" environment necessary to restructure, to encourage financial investment, and to move the strategic focus of the members of the Association from survival to development and growth. Just as consolidation and investment efforts by ISG and Bethlehem, U.S. Steel and National, and Nucor and others have recently begun at the sheet mill level, so, too, have the consolidation and investment efforts by Steel Technologies and Cold Metal, and Blair Strip Steel and others at the strip mill level. The benefits of this restructuring are not yet in place. More time—the complete three-year program outlined by the President—will be necessary to encourage long-term spending and hiring and investment among the members of the Association.

In addition, the Section 201 safeguard action should proceed to its full term because the actions that members of the Association are implementing to become more productive are gradually recognized over time, and the effects of the Section 201 relief take time to manifest themselves. For example, the new orders that members of the Association now are receiving as trials and early production orders would likely be canceled if the Section 201 relief were now terminated. The time granted by the Section 201 safeguard action allows the members to recover some of the volume lost over the years to foreign imports. Further, inventories of imported products are slowly being depleted, and only now are U.S. consumers searching domestically for a new supply.

Moreover, continuing the Section 201 relief for its full term would not be detrimental as the product exclusion mechanism provides for companies that are truly unable to find a supply of their needed steel products in the United States an avenue to have such products exempted from Section 201 relief. Exclusion requests that have been granted have already reduced the coverage of the Section 201 relief by over twenty-five percent in terms of volume.

* * * *

Based upon the foregoing, the relief provided by the Section 201 safeguard action has already benefited members of the Association. However, the members of the Association need this relief to continue for the full term of the Section 201 safeguard action.

Association of International Automobile Manufacturers, Inc.
Arlington, Virginia 22209
April 9, 2003

The Honorable Philip Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

RE: Written statement for 3–26–03 hearing entitled "The Impact of the Section 201 Safeguard Action on Certain Steel Products."

Dear Mr. Chairman:

The Association of International Automobile Manufacturers (AIAM) is pleased to submit this written statement for the record in conjunction with the March 26th Trade Subcommittee hearing on "The Impact of the Section 201 Safeguard Action on Certain Steel Products."

AIAM member companies procure more than 95% of the steel consumed in their U.S. operations from domestic sources. AIAM therefore supports a strong, profitable and viable U.S. steel industry. As steel consumers, however, AIAM companies believe that the U.S. auto industry must also have access to fairly priced steel products from U.S. and global sources to remain competitive.

Background

AIAM is a trade association representing 15 international motor vehicle manufacturers who account for 40 percent of all passenger cars and 20 percent of all light trucks sold annually in the United States. AIAM members have invested over $26 billion in U.S.-based production facilities, have a combined domestic production capacity of 2.8 million vehicles, directly employ 75,000 Americans, and generate an additional 500,000 U.S. jobs in dealerships and supplier industries nationwide. AIAM members include Aston Martin, Ferrari, Honda, Hyundai, Isuzu, Kia, Maserati, Mitsubishi, Nissan, Peugeot, Renault, Saab, Subaru, Suzuki and Toyota. AIAM also represents original equipment suppliers and other automotive-related trade associations.

Importance of Auto Industry

The domestic auto industry has been an integral and important component of the health of the U.S. economy. Commerce Secretary Don Evans recently stated, "The auto industry has been a driving force behind the economic recovery since the [terrorist] attacks on America." New vehicle sales account for roughly one-fifth of all retail sales in the United States.

Health of Auto Industry

Economic uncertainty and other factors have led many auto analysts to forecast a decline in overall auto sales during 2003. In addition, the unintended consequences associated with the President's Section 201 steel program have and will continue to harm the auto industry. Specifically, the industry is concerned with the impact of this decision on steel prices and steel supplies.

Steel Prices

Within weeks of the President's decision to place tariffs on imported steel in March 2002, companies without long-term contracts faced price hikes as high as 50%. Prices for steel needed for automobile production surged to $300 a ton from approximately $200 prior to the imposition of tariffs. Toyota has estimated that this increase will add as much as $100 to the cost of every vehicle it produces in North America.

Additionally, Honda Motor Company was compelled to take extraordinary measures in the aftermath of the tariff decision and airship more than 2,000 tons of steel from Japan to its production facilities in the United States. This move became necessary when a key U.S. supplier of high-grade steel demanded an immediate 30 percent price increase.

Finally, while many auto companies have had long-term contracts with U.S.-based steel suppliers, these contracts are beginning to expire, and steel makers are demanding price increases ranging as high as 15%. These increases are likely to extend into 2004 as well.

Steel Supply

According to recent analysis, AK Steel is one of only three integrated steel companies in North America with the financial health to reliably supply the large quantity of coated steel critical to the auto industry. Last year, bankruptcies forced eight flat-rolled steel mills to close. Four of those mills are resuming production, but annual production capacity suffered a net loss of 10 million tons. AIAM fears that the U.S. steel industry could continue to deteriorate in early 2003, leading to further reductions in domestic supplies and higher prices.

In the end, steel tariffs are threatening the very industry that the U.S. Commerce Secretary and many economists have cited as an integral part of our Nation's economic recovery.

Steel Consumers as a Whole

According to the Consuming Industries Trade Action Coalition (CITAC), there are at least 50 U.S. manufacturing jobs in steel consuming industries for every one job in the steel making industry. To protect one steel producing job, therefore, places 50 other jobs at risk.

A recent economic study commissioned by CITAC found that 200,000 steel consuming jobs were lost between December 2001 and December 2002 due to higher steel prices. This loss represents more jobs than the entire steel producing industry employs nationwide—about 180,000. These lost jobs represented approximately $4 billion in lost wages over ten months. Every State lost employment as a result of the higher steel costs.

It is important to note that another segment of the automotive industry that has been adversely impacted by the Section 201 tariffs is the automotive supplier industry, because they too are major steel consumers. Many of these companies have experienced steel prices increase between 5 to 30 percent. Such price increases have had serious consequences for parts suppliers and in many cases have seriously harmed their ability to remain globally competitive.

Conclusion

AIAM members remain concerned about the unintended consequences of the steel tariffs, particularly the adverse impact on the industry of higher prices, supply shortages, and unreliable deliveries. These unintended results should be considered as the Administration conducts its upcoming mid-point review of the program.

AIAM supports House Concurrent Resolution 23, sponsored by Representative Joseph Knollenberg and supported by over 60 of his colleagues from both parties. Consistent with this resolution, AIAM supports an examination of the impact of the Section 201 tariffs on U.S. steel consumers by the International Trade Commission (ITC). Such information is crucial to any determination regarding whether to continue or modify this safeguards program.

AIAM also supports the section 332 investigation by the ITC recently requested by House Ways and Means Committee Chairman William Thomas. This investigation also focuses on the impact of the Steel Safeguard program on steel consuming industries in the United States.

Thank you for the opportunity to submit these comments. We appreciate your assistance and interest in the impact of the steel tariffs on the U.S. auto industry. Should you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,

Timothy MacCarthy
President and CEO

Statement of Automotive Trade Policy Council

On behalf of its member companies—DaimlerChrysler Corporation, Ford Motor Company and General Motors Corporation—the Automotive Trade Policy Council (ATPC) submits the following statement for the record:

The Automotive Trade Policy Council recognizes that both a strong domestic steel industry and a strong domestic manufacturing base are vital to the U.S. economy. In that light, ATPC has and continues to urge Congressional support of H. Con. Res. 23 (sponsored by Congressman Knollenberg), which is a constructive and meaningful attempt to broaden the mid-term review of the temporary steel safeguards on steel to include the impact on domestic steel consuming industries. ATPC supports the resolution's request that the International Trade Commission initiate a process to monitor and review the ongoing impact of temporary steel safeguards on steel consuming industries, including the U.S. automotive supplier industry. ATPC also supports Chairman Thomas' recent request for the ITC to hold a section 332 hearing on the impact of Section 201 steel safeguards on steel consuming industries, which include the U.S. automotive sector.

The U.S. automotive supplier industry is presently facing considerable challenges as a result of the Steel Safeguard Program implemented in March 2002, as well as shifts in domestic steel capacity that occurred around the same timeframe. Over that period, American manufacturers of vehicles and automotive parts, components and systems have witnessed sudden changes in the price of domestic steel. If this situation is left unresolved, along with the shift in domestic steel capacity, it could have the possibility of disrupting automotive production by ATPC member companies across the United States. Last year, ATPC member companies purchased over $500 billion in automotive components and supplies from Tier I, II and III automotive supplier companies.

The U.S. auto industry serves as leading purchasers of steel within the broader U.S. automotive sector. ATPC member companies consume roughly 13% of all steel in the United States annually. Further, the U.S. automotive and auto supplier industry purchase the majority (over 95%) of its steel from U.S. domestic mills. This dependence has left the industry vulnerable to price adjustments and supply disruptions. Although several suppliers have filed for product exclusion requests under the guidelines of the Safeguard Program, this particular avenue of relief does not address the scope of the industry's dilemma.

Statement of The Honorable Marion Berry, a Representative in Congress from the State of Arkansas

Mr. Chairman, much has been written and said in the way of dire predictions about this program and its consequences on American industry and jobs. Well, a year has passed now since the President imposed his program and we can look at the actual experience of the program, its actual effects, not just on predictions, some of which strained the imagination. From what I am hearing, I expect that the record will show that the President's steel program is working well. We are rebuilding our steel industry, to make it healthy and competitive in world markets in the long run.

No other Member in this body will be happier to see the President's program succeed than I will because my district produces more steel than any other district in this Nation. I saw the devastating effects of the flood of foreign steel imports, not only on the plants and their workers, but also on the surrounding economy. Across the country, about 50,000 American steel workers and iron ore miners lost their jobs as a consequence of these imports. Even the most efficient American technology and 21st century management cannot hope to compete with steel imports that are subsidized by foreign governments or dumped on our shores at prices that are less than the cost of production.

While my district is very steel intensive, I remind my colleagues that downstream manufacturing in the United States cannot exist without a healthy and strong *domestic* supply of steel. That includes our defense industries. There are manufacturing companies that tried to play the foreign spot market for steel. Things looked good for them when spot prices were down. But the inevitable volatility of spot prices can, and does, catch up with them. Even U.S. companies who buy foreign steel on long-term contracts don't have the flexibility available to companies who buy steel from domestic sources. It's nice to be able to pick up the phone, give a change order, and expect in short order to see a truck roll up with the steel you really need. And of course, the domestic steel companies depend on downstream manufacturing in the U.S. for the core of their business. This mutual reliance has been the base of manufacturing in the U.S. for more than a century. So all of us have a stake in the success of the President's program.

After a year of the President's program, we see several thousand steel workers have now returned to work. The President is also pursuing multilateral negotiations at the Organization for Economic Cooperation and Development to reduce global excess steel making capacity and to eliminate subsidies in the global steel sector. Those negotiations are essential if we are to fix the underlying problem that caused so much misery for American steel workers and their employers. The negotiators would not be making progress without the Safeguard remedy—it's what brought our trading partners to the negotiating table.

The President's program is designed to phase out over three years. That was the prescribed remedy for the domestic steel industry and the world steel industry. Some are suggesting now that we should cut the program short because mills are reopening, workers are being rehired, and a recovery is clearly beginning. Well, I was trained as a pharmacist. I learned very early in that career that if a medicine is working, you don't stop taking it just because you feel a little better. You administer the full regimen of prescribed doses, and that is what the President should do with his steel program.

I also learned early on in my life as a farmer, that our ability to produce a bountiful supply of food is a paramount to our national security. Our domestic steel industry works on this same principle. We must maintain a strong steel industry in this country, our national security depends on it.

Statement of Thomas Reardon, BIFMA International, Grand Rapids, Michigan

On March 5, 2002 President Bush announced that he would impose tariffs of up to 30% on imports of selected steel products. Cold-rolled steel is the single largest raw material used by many in the office furniture industry and is subject to the maximum 30% tariff. Regrettably, this tariff action has had an immediate and increasingly dramatic detrimental effect on an already reeling U.S. office furniture industry.

U.S. office furniture manufacturers are in the midst of a business climate never before experienced. Office furniture shipments in calendar year 2002 were down over 33% from their peak in 2000. The industry has laid off more than an estimated 20,000 workers and closed several production facilities over the past two years. Now the furniture industry is experiencing dramatic cost increases and potential supply problems in an economic environment where it is virtually impossible to recover these increases.

Price increases of 25% to 85% on raw material have been reported. Steel price contracts are being broken, and reports of supply interruptions and material shortages are increasing. Material shortages are the combined result of U.S. anti-dumping duties that range from 5% to 125%, the imposition of tariffs and U.S. steel mill closures.

In this global economy, an increasingly occurring response to tariffs is the sourcing of component parts offshore. Higher prices and material shortages are forcing manufacturers to source steel components from foreign suppliers who have a cheaper raw material source. This inevitable action will cause further harm to the U.S. economy and U.S. workers. In fact, some furniture component suppliers have already indicated that they are now sourcing component parts offshore rather than producing the components domestically. These instances will surely increase in the months ahead unless quick action is taken.

Another very likely possibility is the further erosion of U.S. market share for U.S. furniture manufacturers. U.S. office furniture imports already exceed U.S. exports by 5 to 1. The steel tariff situation will only serve to make U.S. products less price competitive and further open our market to offshore competition.

Certainly, the Administration could not have foreseen the drastic impact (i.e. cost increases, supply interruptions, profitability, jobs, taxes, market share, etc.) that steel tariffs would have on U.S. steel consuming industries. The U.S. office furniture industry implores our legislature and the Administration to grant immediate relief from the detrimental impact that the steel tariffs have had on an already depressed industry. The office furniture industry respectfully requests a significant reduction in the tariff rates and/or an accelerated phase out in order to halt the loss of additional jobs in the U.S. office furniture industry.

U.S. House of Representatives
Washington, DC 20515
April 8, 2003

Chairman Phil Crane
Trade Subcommittee
House Committee on Ways and Means
1104 Longworth Building
Washington, DC 20515

Dear Chairman Crane:

I would like to submit the following study to be made part of the record for the House Trade Subcommittee hearing on March 26, 2003 regarding the Impact of the Section 201 Safeguard Action on Certain Steel Products.

The study, *The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002*, was done at the request of the Consuming Industries Trade Action Coalition (CITAC) Foundation to illustrate the impact of higher steel costs on American steel-consuming industries. The tariffs, combined with other challenges present in the marketplace at the time and in the months that followed, boosted steel costs to the detriment of American companies that use steel to produce goods in the United States. Thank you for your attention to this request.

Sincerely,

Dave Camp
Member of Congress

Attachment

The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002

The Cause

On March 5, 2002, President Bush imposed tariffs on imports of many steel products into the United States for three years and one day. The duties became effective March 20, 2002.[1] They affect a wide range of steel products used by American manufacturers to produce steel-containing products in the United States, which in turn are sold to U.S. and international customers.

Steel Products Subject to Import Tariffs, March 20, 2002–March 19, 2003

Plate	30.0%
Hot-rolled sheet	30.0
Cold-rolled sheet	30.0
Coated sheet	30.0
Tin mill products	30.0
Hot-rolled bar	30.0
Cold-finished bar	30.0
Rebar	15.0
Certain welded tubular product	15.0
Carbon and alloy fittings and flanges	13.0
Stainless steel bar	15.0
Stainless steel rod	15.0
Stainless steel wire	8.0
Slab	A quota of 5.4 million short tons, plus a tariff of 30.0% for shipments in excess of quota

Source: Office of the U.S. Trade Representative, "Background Information," March 5, 2002.

The Effect

To understand the impact of the steel tariffs on steel consumers, it is helpful first to understand the dynamics of U.S. steel-consuming industries. Steel-consuming industries in the United States span a broad range of manufacturing sectors, including fabricated metal products, machinery and equipment, and transportation equipment and parts. Companies in these sectors often produce parts, components and

[1] *See* Proclamation 7529, 67 Fed. Reg. No. 45 (March 7, 2002); Department of the Treasury, Customs Service, "Payment of Duties on Certain Steel Products," *Federal Register*, Vol. 67, No. 54, March 20, 2002.

subassemblies to very exacting customer specifications (such as original equipment manufacturers or aftermarket suppliers of parts and components for automobiles and appliances). But steel consumers also include chemical manufacturers, who use steel products extensively to store and transport the products they manufacture; petroleum refiners and their contractors, who use steel pipe and oil field equipment to drill for and transport petroleum and natural gas; tire manufacturers, which put steel belts and beads in tires for safety and durability; and nonresidential construction companies, which use a variety of steel products to build office buildings, bridges, and roads. All these industries need to purchase steel and steel-containing products readily at internationally competitive prices or lose business. The ability to do so is crucial to the economic health of these sectors.[2] This analysis focuses on the impact of higher steel prices on these industries.

The vast majority of steel-consuming manufacturers are small businesses. In fact, 98 percent of all the 193,000 U.S. firms in steel-consuming sectors employ less than 500 workers, according to the Small Business Administration.[3]

Thus, most significantly, the majority of these companies are generally described as "price takers." This means that they have little or no influence over the prices at which they can sell the products they make. They are simply too small to be able to demand that their customers pay more for the products they sell because their input costs, for example, have gone up.[4] Indeed, the prices of key products made by steel consumers have been dropping significantly over recent years. Charts below show that producer prices for metal cans today are 7.6 percent lower than they were in January 1996, motor vehicle parts prices are 3.4 percent lower, and machinery and equipment prices are 3.8 percent lower. Steel consumers have been reducing prices in recent years because of intense competitive pressures; and they are in no position to exact higher prices from their customers now because their steel costs have soared.

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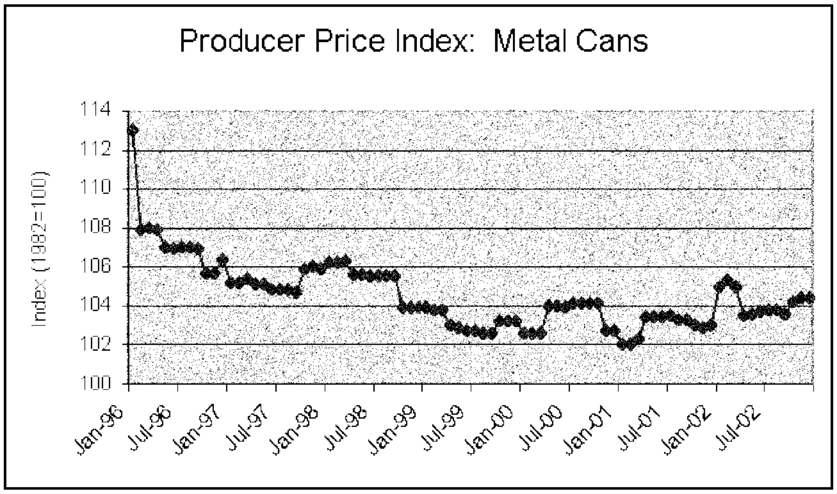
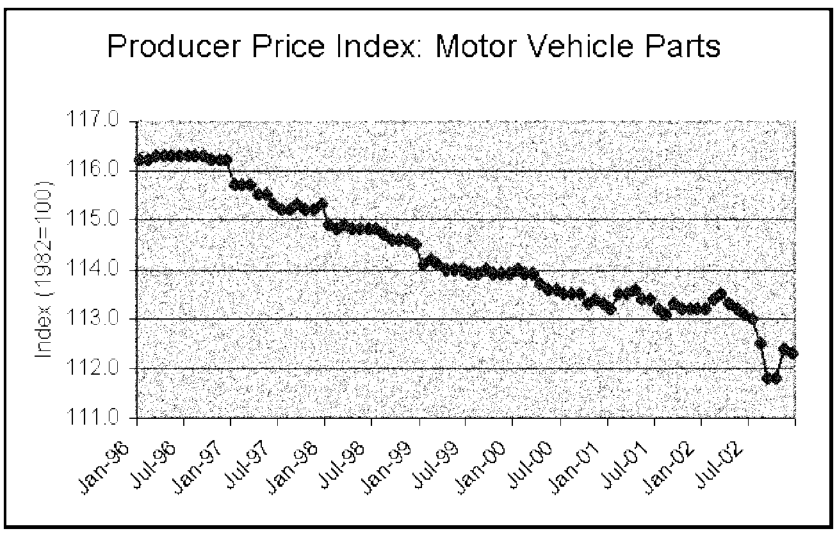
[2] Our definitions of steel consumers are conservative. The narrow definition includes manufacturers and workers in the metal manufacturing sector (Standard Industrial Classification Code 34), machinery manufacturing (SIC code 35) and motor vehicle equipment and parts (SIC 37). The broader definition includes manufacturers in the following sectors: fabricated metal products (SIC 34); industrial machinery and equipment (SIC 35); electric distribution equipment (SIC 361); electrical industrial apparatus (SIC 362); household appliances (SIC 363); electric lighting and wiring equipment (SIC 364); transportation equipment (SIC 37); chemicals and related products (SIC 28); tires (SIC 301); petroleum refining (SIC 291), and nonresidential construction (SIC 15–17 minus SIC 152). These other sectors should be included in any definition of steel consumers because they use important quantities of steel as inputs to production. For example, according to 1998 input-output tables, steel products represent 5.8 percent of the nonpetroleum intermediate inputs in the petroleum sector, 18.0 percent in the new construction sector, and 5.0 percent in the industrial and other chemicals sector. See Table 2, "The Use of Commodities by Industries, 1998," Mark A. Planting and Peter D. Kuhbach, "Annual Input-Output Accounts of the U.S. Economy, 1998," *Survey of Current Business*, December 2001, page 62.

[3] Small Business Administration, Office of Advocacy, www.sba.gov/advo/stats/us99_n6.pdf.

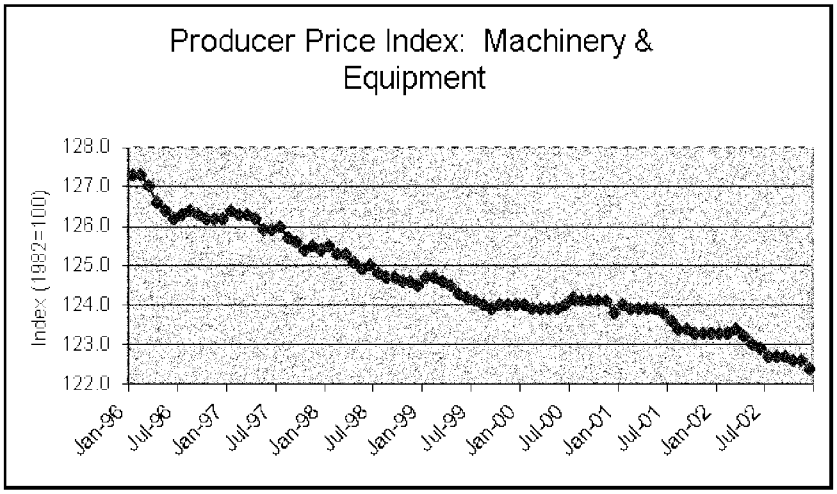
[4] Even U.S. automobile producers are becoming "price takers" in today's marketplace. Car purchasers have become accustomed to zero-percent financing, cash-back discounts, and other incentives that eat into auto-producer profits. There is very little leeway for auto makers to increase prices, despite material cost increases. Over the last four quarters for which data are available (fourth quarter of 2001 through third quarter of 2002), companies in the motor vehicles and equipment sector lost a total of $36.1 billion (U.S. Department of Commerce, *Survey of Current Business*, "Table 6.16C, Corporate Profits by Industry Group," January 2003). *See*, for example, Sholnn Freeman, "Clearing the Lot: Detroit Rolls Out Best Deals Yet," *The Wall Street Journal*, December 24, 2003 ("I've never seen it like this. It is truly a buyers' market," says Ronald Thomas, a Cadillac sales manager in New Orleans. "The competition is very fierce."); Jeremy Grant, "Car chiefs expect recovery in two years," *Financial Times*, January 2, 2003 ("The global automotive industry is not expected to return to the record levels of profitability seen three years ago until at least 2005, according to a survey released today by KPMG, the auditing and consulting group").



Source: U.S. Department of Labor, Bureau of Labor Statistics.



Source: U.S. Department of Labor, Bureau of Labor Statistics.



Source: U.S. Department of Labor, Bureau of Labor Statistics.

It is also important to note that other events were affecting steel markets immediately before and after the Section 201 steel tariff remedies were imposed. In early 2002, steel supplies were beginning to tighten. Several million tons of steel-making capacity had shut down over recent years, with significant amounts at LTV Steel, one of the largest U.S. producers, leaving the market in the last half of 2001, most notably in December 2001. Total U.S. steel shipments dropped from 8.6 million tons in October 2001, to just 6.9 million in December 2001.[5] International Steel Group ultimately purchased LTV and other failing steel companies, and brought some of that production back on line, but it did not start resupplying the market in any significant manner until May 2002. So during the first quarter of the year steel producers began to push for higher prices and they had the market power of steel shortages to force through some price increases.[6]

In addition, a host of antidumping and countervailing duties went into effect at the end of 2001, raising steel costs. Antidumping and countervailing duties were imposed on imports of hot-rolled carbon steel flat products imported from 11 countries between September and December 2001, boosting costs—or eliminating foreign supply—of this important product. Antidumping or countervailing duties were imposed on imports of stainless steel bar from five countries in March 2002 with the same consequences. These duties were imposed in addition to the steel tariffs. Ultimately unsuccessful investigations were launched against imports of oil country tubular goods and cold-rolled carbon sheet, disrupting supplies and prices of these products during the course of the investigations.

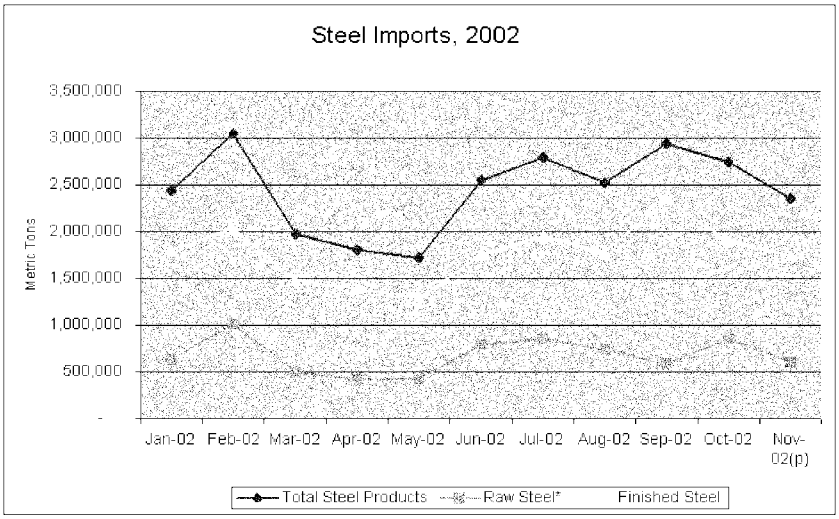
The steel supply shortage problem deepened because of uncertainty associated with the tariffs. Importers stopped ordering steel in January waiting to see what the President would decide. Thus, product that would have been entering the market in March, April and May was absent. Import supply did not recover to the benefit of steel consumers until September (and it has since fallen off again). Steel consumers scrambled to order steel from U.S. producers, many of whom would not or could not supply them with needed product, and spot prices for steel soared.[7] Domestic steel supplies were so tight that in May 2002 U.S. producers supplied over 90 percent of the market, when 80–85 percent is more typical.[8]

[5] American Iron and Steel Institute (AISI), "Steel Industry Data," www.steel.org/stats.

[6] Tom Stundza, "Steel Flash Report: No End to Confusion About Pricing," *Purchasing Magazine Online*, 2/28/2002.

[7] In April, it was reported that some U.S. steelmakers were rationing sheet steel to their customers because their main steelmaking plants were near capacity and their rolling mills were fully booked through June. Tom Stundza, "Steel Flash Report: Short-Term Spot Prices Will Continue to Escalate," *Purchasing Magazine Online*, 4/30/2002.

[8] Derived from AISI data, www.steel.org/stats.



* "Raw Steel" includes ingots, steel for castings, blooms, billets and slab—products imported for use by the steel industry.
Source: U.S. Department of Commerce.

The results: shortages and very high prices, particularly last summer and fall. Steel transaction (spot) prices—more than half of major carbon and stainless steel producers purchase steel on the spot market[9]—began to accelerate in March, reaching a peak in July and August. According to price tracking data from *Purchasing Magazine*, hot-rolled sheet transaction prices were 81.8 percent higher in July 2002 than in January 2002; cold-rolled sheet prices were 69.4 percent higher, and hot-dipped galvanized prices 62.1 percent higher. These are key products, used to make products ranging from cars to lawn-mower blades. Increases in the prices of steel sold directly by steel manufacturers (the so-called "producer price index") to their customers also showed strong increases over the period. In December 2002, the producer price index for hot-rolled steel was 27 percent above the index recorded in December 2001, and the index for cold-rolled steel was 19 percent higher over the same period.[10]

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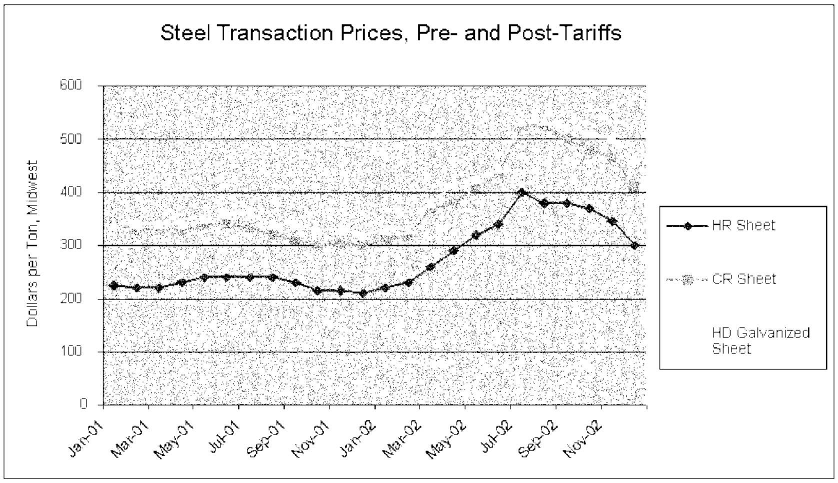
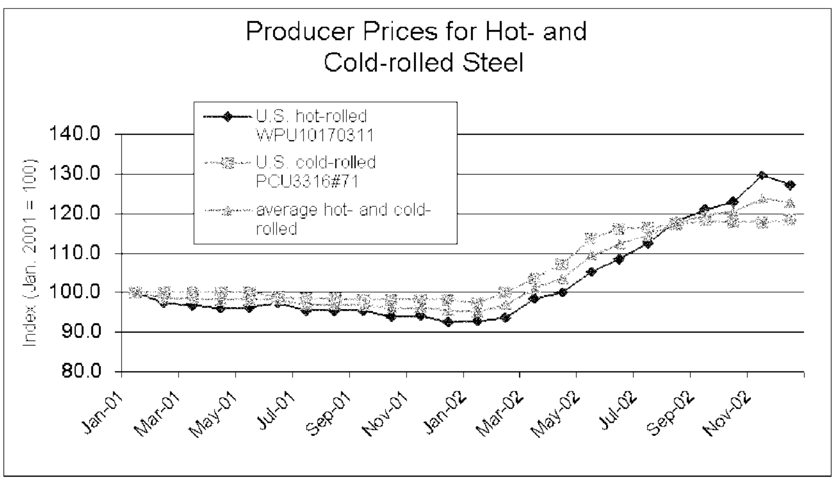
[9] Steel Service Center Institute, "Statement of The Steel Service Center Institute Before the Congressional Steel Caucus," March 21, 2001, found at Internet address http://www.ssci.org/final_caucus.adp, cited in International Trade Commission, op.cit., OVERVIEW–53.

[10] In light of pressures to cut end-product prices noted earlier, the steel industry's effort to suggest that recent increases in the cost of steel are unimpressive because steel prices today are still lower than they were in the mid-1990s is hardly persuasive. (See, for example, Peter Morici, "The Impact of Steel Import Relief on U.S. and World Steel Prices: A Survey of Some Counterintuitive Results," July 2002, www.steel.org.) It matters little what steel costs were six to 10 years ago. What matters is what steel-containing products can be sold for today and how U.S. steel costs compare to those abroad (see next page).

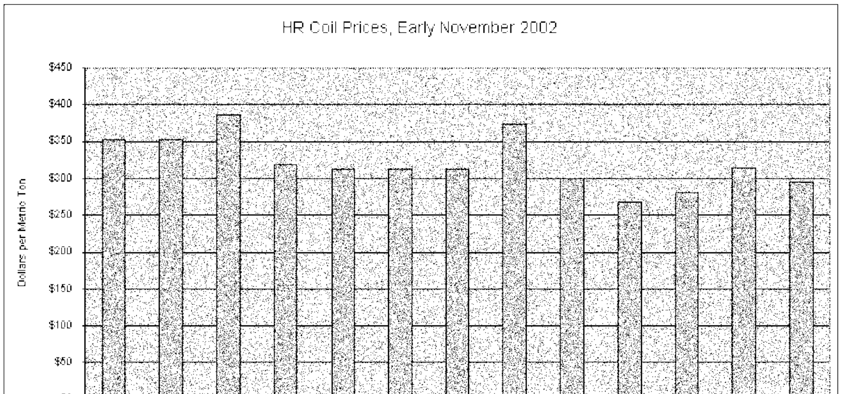


Source: Purchasing Magazine, Flash Reports, various issues.



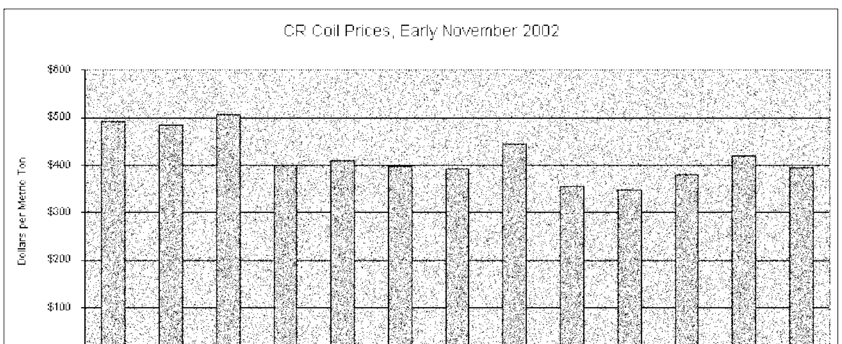
Source: Bureau of Labor Statistics.

On top of a domestic competitive squeeze, steel consumers faced an international squeeze as well. U.S. steel market prices were generally higher than steel prices paid by competitors abroad (the only major exception was the price of steel in the United Kingdom, see charts), so foreign producers of steel-containing products maintain a cost advantage over U.S. producers of steel-containing products. The result: customers began to shift orders for steel-containing products from U.S. manufacturers to foreign manufacturers.



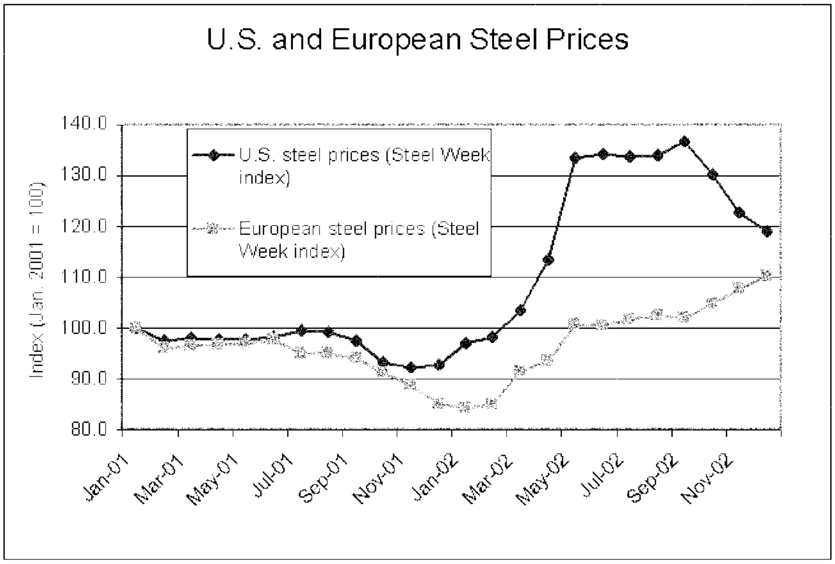
	US-Midwest	US-Gulf	US-West Coast	Germany	France	Italy	Spain	UK Transaction	EU Export	Russia Export	Japan Export	Far East, Non-CIS	Far East-CIS
HR Coil	$353	$353	$386	$319	$313	$313	$313	$373	$300	$268	$280	$315	$295

Source: CRU Monitor.



	US-Midwest	US-Gulf	US-West Coast	Germany	France	Italy	Spain	UK Transaction	EU Export	Russia Export	Japan Export	Far East, Non-CIS	Far East-CIS
CR Coil	$491	$485	$507	$399	$410	$397	$392	$444	$355	$348	$380	$420	$395

Source: CRU Monitor.



Source: CRUspi (Steel Week Online), January 2003.

Quantifying the Unintended Consequences

Thus, American steel consumers have borne heavy costs from higher steel prices caused by shortages, tariffs and trade remedy duties. Some customers of steel consumers moved sourcing offshore as U.S. producers of steel-containing products became less reliable and more expensive, due to steel supply problems. Other customers refused to accept higher prices from their suppliers and forced them to absorb the higher steel costs, which put many in a precarious financial condition. The worry of many proved true: that the high prices would cancel or delay the manufacturing recovery that had begun to show signs of finally materializing.[11]

Steel Consumers' Corporate Profits Evaporated

(Billions of Dollars)

			Seasonally Adjusted at Annual Rates 2001			2002	
	2000	2001	III	IV	I	II	III
Primary metals industries *	$1.0	$ −1.6	$ −0.1	$ −2.2	$0.5	$0.3	$1.3
Steel consumers **	27.4	−1.0	−3.1	−14.2	−11.5	−1.5	−2.0

Largely, steel producers.
Narrowly defined as fabricated metals producers, industrial machinery and equipment manufacturers, and motor vehicle and equipment manufacturers.
Source: U.S. Department of Commerce, *Survey of Current Business*, "Table 6.16C, Corporate Profits by Industry Group," January 2003.

Eventually steel-consuming manufacturers lost business due to the high steel prices. And while it was delayed as long as possible, some steel consumers were forced to lay off workers. The continuing recession also cost jobs. Over the last two years, total employment in steel-consuming sectors dropped by about 915,000 jobs. In just the last year (2002), 224,400 jobs were lost in the metal manufacturing, ma-

[11] A March 2002 *Purchasing Magazine* survey on the business environment found that 71 percent of metals buyers thought business was the same or better than the month before, leading the publication to conclude that "the metalworking recession appears to be over." Tom Stundza, "Steel Flash Report: Spot Prices Exploded in March," *Purchasing Magazine Online*, 3/29/2002. However, by June the same publication was reporting that metalworking growth had slipped for two consecutive months. Tom Stundza, "Steel Flash Report: 'Steel Has Become a Major Headache,' Say Buyers," *Purchasing Magazine Online*, 6/28/2002.

chinery and equipment manufacturing and transportation equipment and parts manufacturing sectors alone.[12]

How many of these job losses are attributable to high steel prices?

This is not an easy question to answer. To explore the apparent linkages over the 2001–2002 period between steel prices and downstream employment, we employed a straightforward log-linear regression model.[13] (We used a variety of combinations of price and employment data to maximize the reliability of the results.) Our methodology and results are detailed in Annex A. Briefly, we disaggregated the impact on steel-consuming sector employment of general conditions in the manufacturing sector (i.e., the recession), and steel price changes.[14] The results give an estimate of the recent sensitivity of employment in steel-consuming industries to price changes in steel.

Despite the fact that the tariffs and other factors raising prices have not been in place long, some simple relationships are apparent in the data, no matter which data sets are used. To gauge these relationships, we used the estimated steel price elasticity of employment (the value a_2 in Annex Tables A–1 and A–2) to calculate the apparent impact of steel price increases on downstream employment. If we take December 2001 as a "benchmark" for steel prices, then higher steel costs reduced steel-consuming sector employment in December 2002 by roughly 200,000 (of that, 50,000 jobs were lost to higher steel costs in the metal manufacturing, machinery and equipment and transportation equipment and parts sectors). Steel-consumers have lost more jobs to higher steel costs than the total number employed by steel producers in December 2002 (187,500).

These lost jobs represent about $4 billion in lost wages from February–November 2002, assuming workers found new jobs within four weeks.[15]

Charts 1 and 2 show actual employment relative to what employment would have been in the absence of increases in steel prices on a monthly basis.

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[12] Bureau of Labor Statistics, Covered Employment and Statistics Survey, total employment, not seasonally adjusted.

[13] Regression analysis is a standard and widely-accepted technique for quantifying relationships between data (like economic price and quantity data). It involves finding the equation that best fits a set of data points. This "best-fit" estimate is then used to measure quantitative relationships within the data. In other words, we look for an equation that generates as closely as possible the actual data sets examined, in this case employment and general economic conditions. "Log linear" regression analysis involves evaluating the relationships between data in natural logs. It is a standard approach in economics because the resulting coefficients can be interpreted as "elasticities" that measure relative sensitivities—in this case, the sensitivity between steel prices and employment levels. A good "fit" means that the equation soundly predicts actual data within the sample. In the present case, model "F-statistics" tell us that we are more than 99 percent certain that the relationships modeled are significant, and over 95 percent certain that the negative relationship we identify with respect to steel prices is significant (based on a one-sided "t-test"). See the Annex for more detail.

[14] We present here results based on a composite price index, representing the average of PPI price data for hot-rolled and cold-rolled steel. Almost identical results hold for alternative steel price indexes (other BLS series, and CRUspi index data).

[15] We multiplied the number of job losses for a given month by the average monthly wage for steel consumers during that month, and then summed the results from February 2002 (the first year of price-related job losses) through November 2002 (the last year wage data for all these relevant SICs are available). Unpublished Bureau of Labor Statistics data indicate that in 2001 (the most recent year for which data are available) manufacturing workers went a median 4.4 weeks without work. Data are from the Bureau of Labor Statistics, National Employment, Hours and Earnings Database, and Table A–3 of this study (in Annex).

Chart 1

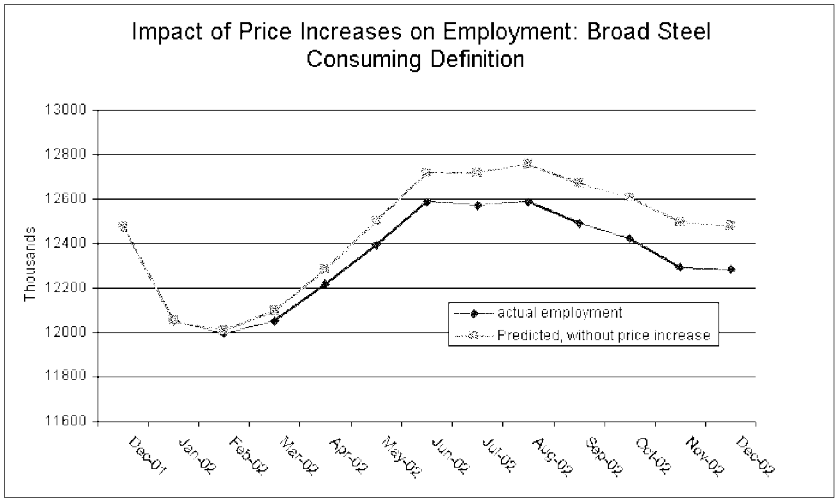
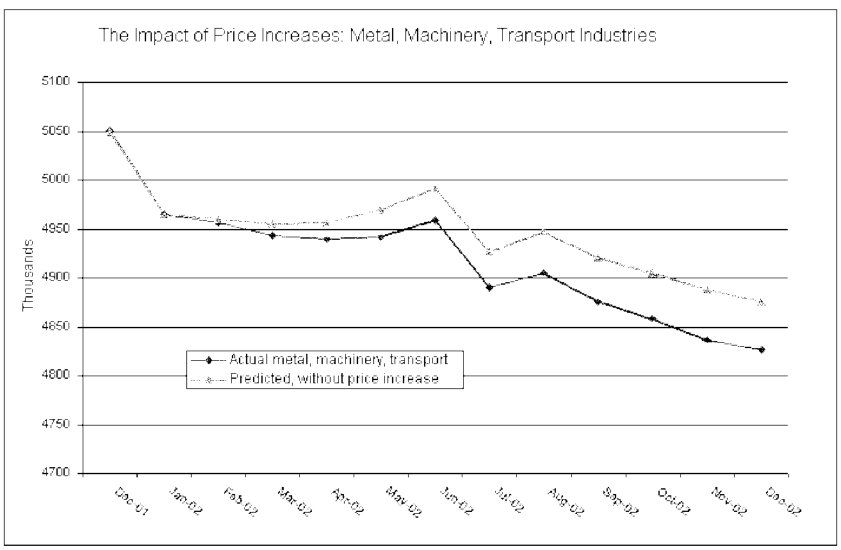


Chart 2



State Impacts

Statewide employment effects were estimated on the basis of national effects and the State distribution of employment by sector. Every State lost jobs due to higher steel costs. The States experiencing the greatest employment losses in steel consuming-industries resulting from higher steel prices include California (19,392 jobs), Texas (15,826 jobs), Ohio (10,553 jobs), Michigan (9,829 jobs), Illinois (9,621 jobs), New York (8,901 jobs), Pennsylvania (8,402 jobs) and Florida (8,370) jobs. Sixteen States lost at least 4,500 steel-consuming jobs each over the course of 2002.

Employment Effects by State

(Number of jobs)

State	Fabricated Metals, Machinery, and Transport Equipment SIC: 34, 35, 37	Other Steel Consuming SIC: 15(less152), 16, 17, 291, 301, 331, 361, 362, 364	Total Steel Consuming SIC: 15(less152), 16, 17, 291, 301, 331, 34, 35, 37, 361, 362, 364
Alabama	−731	−2,459	−3,190
Alaska	−6	−284	−290
Arizona	−632	−3,023	−3,655
Arkansas	−522	−1,279	−1,800
California	−4,628	−14,764	−19,392
Colorado	−516	−3,009	−3,524
Connecticut	−1,011	−1,820	−2,831
Delaware	−86	−833	−919
Florida	−1,140	−7,230	−8,370
Georgia	−1,032	−4,335	−5,367
Hawaii	−9	−388	−397
Idaho	−144	−679	−824
Illinois	−2,760	−6,861	−9,621
Indiana	−2,419	−3,624	−6,043
Iowa	−732	−1,551	−2,283
Kansas	−821	−1,363	−2,184
Kentucky	−991	−2,085	−3,076
Louisiana	−496	−3,157	−3,653
Maine	−167	−531	−698
Maryland	−341	−2,999	−3,339
Massachusetts	−1,031	−2,843	−3,874
Michigan	−5,127	−4,703	−9,829
Minnesota	−1,157	−2,451	−3,607
Mississippi	−487	−1,472	−1,960
Missouri	−1,192	−3,332	−4,524
Montana	−34	−327	−361
Nebraska	−268	−915	−1,183
Nevada	−74	−1,575	−1,649
New Hampshire	−259	−534	−793
New Jersey	−677	−4,560	−5,237
New Mexico	−59	−779	−838
New York	−1,660	−7,241	−8,901
North Carolina	−1,293	−5,540	−6,833
North Dakota	−88	−314	−403
Ohio	−3,855	−6,699	−10,553
Oklahoma	−666	−1,397	−2,064
Oregon	−507	−1,564	−2,071
Pennsylvania	−2,163	−6,239	−8,402
Rhode Island	−148	−384	−532

Employment Effects by State—Continued

(Number of jobs)

State	Fabricated Metals, Machinery, and Transport Equipment SIC: 34, 35, 37	Other Steel Consuming SIC: 15(less152), 16, 17, 291, 301, 331, 361, 362, 364	Total Steel Consuming SIC: 15(less152), 16, 17, 291, 301, 331, 34, 35, 37, 361, 362, 364
South Carolina	−774	−2,677	−3,451
South Dakota	−170	−300	−470
Tennessee	−1,389	−3,474	−4,863
Texas	−2,937	−12,889	−15,826
Utah	−338	−1,396	−1,734
Vermont	−92	−261	−353
Virginia	−789	−4,250	−5,038
Washington	−1,269	−2,761	−4,030
West Virginia	−138	−839	−977
Wisconsin	−1,910	−3,062	−4,971
Wyoming	−20	−351	−371
TOTAL	−49,753	−147,401	−197,153

Starting basis is Statewide employment levels as reported by U.S. Bureau of Labor Statistics.

Conclusion

Clearly, higher steel costs hit American manufacturers of products using steel quickly after the tariffs were imposed, and with force. Because *their* customers for the most part have sufficient market power to refuse to accept price increases from steel-consuming manufacturers, steel consumers had to look for other ways to pay for higher-priced steel. Some absorbed the higher costs out of profit margins; others had insufficient profits to fund the higher costs. Some simply lost customers to foreign competitors. Many had to lay off workers.

Unfortunately, insufficient data exist at this time to measure the precise role steel tariffs played in causing such significant price increases, relative to the other factors that pushed steel prices up. But this much is certain: tariffs clearly played a leading role. As noted, steel tariffs caused shortages of imported product and put U.S. manufacturers of steel-containing products at a disadvantage relative to their foreign competitors. In the absence of the tariffs, the damage to steel consuming employment would have been significantly less than it was in 2002.

Annex A: The Employment Models

Overview

We estimated the impact of steel price increases using a combination of producer price and employment data. Obviously, the remedies have not been in place long, and relevant data are quite limited in availability. Even so, some simple relationships are apparent in the data. Using a simple log-linear regression model, we have explored the apparent reduced-form linkages between employment in two definitions of steel-consuming industries, general conditions in the manufacturing sector, and steel price changes.

Data

Price data are taken directly from the U.S. Bureau of Labor Statistics published producer price index (PPI) price series for steel. We constructed an average of the PPI for cold-rolled steel (series: PCU3316#71) and hot-rolled steel (series: PCU3312#311). Employment data, on an SIC basis for the total number of workers, not seasonally adjusted, are also from the U.S. Bureau of Labor Statistics. Our narrow definition of steel-consuming industries includes SIC 34, 35, and 37 (metal fabrication, machinery, and transport equipment). Our broader definition includes SIC 15 (less 152), 16, 17, 28, 291, 301, 34, 35, 361, 362, 363, 364, and 37. We use monthly data from January 2000 through December 2002.

Method

For both our narrow and broad steel-consuming employment series, we regressed the log of employment on the log of overall manufacturing employment and the log of steel prices.

(1) $\ln(E) = \alpha_0 + \alpha_1 \bullet \ln(M) + \alpha_2 \ln(PPI) + \varepsilon$

In equation (1), E is downstream employment, M is our indicator of overall manufacturing employment (less the most steel-intensive sectors), and PPI is our steel price index. Manufacturing employment M serves to capture combined effects related to the general health and related trends of the overall manufacturing sector. The a_2 term measures the reduced-form sensitivity (elasticity) of employment to changes in the price for steel.

Results

We estimated equation (1) using ordinary least squares (OLS). The overall fit is actually quite good, as summarized in Charts A–1 and A–2 and also in Tables A–1 and A–2 below. For the narrow definition of steel-consuming industries (metal manufacturing, machinery and equipment and transportation equipment and parts), 98 percent of total variation in employment over the 2000–2002 period (measured by the model R-squared) is accounted for. For the broader definition, 82 percent of the variation in employment is accounted for over the same 2000–2002 period covered by our data. (Seasonal dummies are also included, though not shown in the table.)

In our narrow downstream sector, a 10 percent increase in steel prices yields a 0.41 percent drop in employment. For the broader sector, a 10 percent increase in steel prices yields a 0.64 percent drop in employment. To estimate employment effects of recent price increases, we use the a_2 coefficients to calculate the implied difference in employment if steel prices had stayed at December 2001 levels throughout 2002. Once we have an estimate of the change on $ln(E)$ due to steel price changes, we estimated a notional level of employment $\tilde{E}$ which equals actual employment plus any notional change in employment following from restoring steel prices to December 2001 levels.

For example, formally, we calculate the change in employment from price increases between December 2001 and December 2002 in natural logs, $\Delta\ln(\tilde{E})$, as follows:

(2) $\Delta\ln(\tilde{E}) = \alpha_2[\ln(PPI_{\text{Dec2001}}) - \ln(PPI_{\text{Dec2002}})]$

Chart A–1

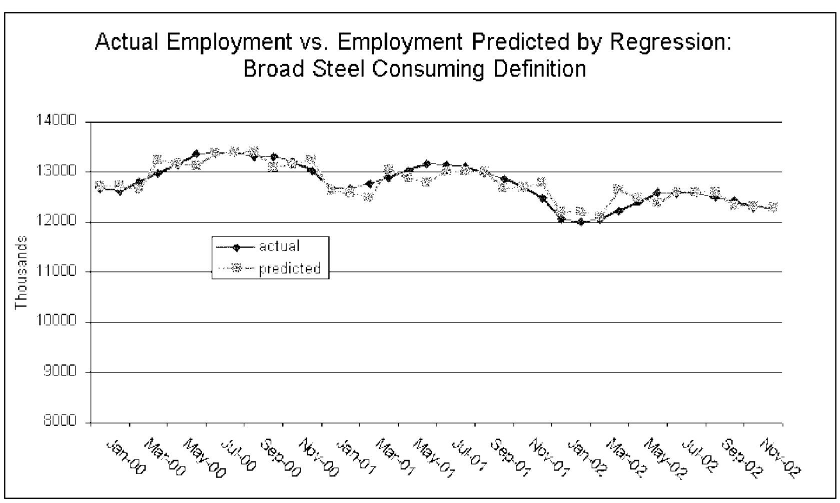


Chart A–2

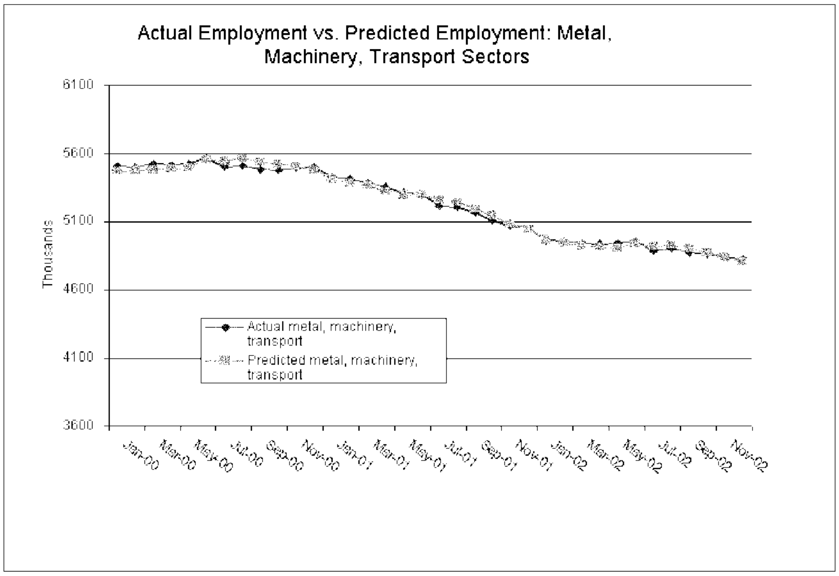


Table A–1 Narrow Definition of Steel-Consuming Industries

Independent Variable	Coefficients	Standard Error	t-statistic	Significance*
α_0 : Constant	−2.8806	0.2722	−10.583	3.8E–12
α_1 : Change in General Conditions Index	1.2337	0.0259	47.506	5.8E–32
α_2 : Change in Steel Prices Index	−0.0414	0.0138	−2.998	2.5E–03

Number of observations: 36
Adjusted R^2: 0.98
F-statistic: 1328.6
F-significance: 2.9E–32
Durbin-Watson statistic: 2.11
* based on one-tailed test for price index

Table A–2 Broad Definition of Steel-Consuming Industries

Independent Variable	Coefficients	Standard Error	t-statistic	Significance*
α_0 : Constant	7.5674	0.3325	22.759	1.8E–20
α_1 : Change in General Conditions Index	0.2577	0.0295	8.737	9.6E–10
α_2 : Change in Steel Prices Index	−0.0643	0.0356	−1.807	4.0E–02

Number of observations: 36
Adjusted R^2: 0.79
F-statistic: 26.7
F-significance: 3.3E–10
Durbin-Watson statistic: 1.82
* based on one-tailed test for price index

Table A–3 The Monthly Impact of Price Increases: Relative to December 2001, Not Adjusted for Seasonal Variations

	Broad Definition of Steel-Consuming Industries (Thousands)			Narrow Definition of Steel-Consuming Industries (Thousands)		
	A Actual Employment	B Estimated Total Employment without Price Increases	C Estimated Impact of Price Increases	D Actual Employment	E Estimated Total Employment without Price Increases	F Estimated Impact of Price Increases
Dec–01	12475	12475	0	5051	5051	0
Jan–02	12053	12050	3	4965	4965	1
Feb–02	11997	12009	−12	4957	4960	−3
Mar–02	12052	12097	−44	4944	4956	−12
Apr–02	12218	12283	−65	4940	4956	−17
May–02	12393	12503	−110	4942	4970	−28
Jun–02	12587	12720	−133	4959	4993	−34
Jul–02	12571	12718	−147	4890	4927	−37
Aug–02	12588	12756	−168	4906	4948	−42
Sep–02	12492	12672	−180	4876	4921	−45
Oct–02	12424	12608	−184	4859	4905	−46
Nov–02	(p) 12292	12494	−202	4837	4888	−51
Dec–02	(p, e) 12281	12478	−197	4827	4876	−50

p = preliminary
e = partly estimated

$B = \exp(\ln(A) + \alpha_2(\ln(PPI_{steel,DEC01}) - \ln(PPI_{steel})))$

$C = A - B$

$E = \exp(\ln(D) + \alpha_2(\ln(PPI_{steel,DEC01}) - \ln(PPI_{steel}0)))$

$F = D - E$

Note that for column B, the value of a_2 is taken from Table A–1. Note that for column E, the value of a_2 is taken from Table A–2.

Statement of Michael L. Shor, Carpenter Technology Corporation, Reading, Pennsylvania

My name is Michael L. Shor, and I am the Senior Vice President of Carpenter Technology Corporation's Specialty Alloy Operations. Carpenter Technology Corporation is a major U.S. producer of specialty metals and other high-performance materials, including stainless steel bar, stainless steel rod and stainless steel wire.

I am submitting this statement on behalf of Carpenter and the other domestic producers of stainless steel bar, rod, and wire. Our company and our industry have been hurt by imports, leading to lay-offs, job eliminations and historically low volumes. The Industry desperately needed a relief package to position itself to compete head-to-head with imports upon the expiration of a relief program.

When the President ordered relief to our industry, we were very hopeful that the relief would allow the domestic industry to accomplish three important goals.

First, the domestic industry must be able to increase its sales volume and recapture the market share it has lost to imports. Increasing sales volumes will enable us to run our mills more efficiently, by permitting a more widespread absorption of the significant fixed costs associated with our industry. With respect to Carpenter, an increased sales volume will permit us to take full advantage of the investments totaling more than $500 million dollars that we have made in facilities, equipment and acquisitions over the past five years.

Second, we need to restore prices to levels that allow a fair return on our investments for our stainless steel products. We are very conscious, however, of the impact that price changes may have on our customers. We recognize that our ability to increase sales volumes is linked directly to our customers' willingness to purchase our products. Our goal is to produce and market stainless steel long products in a way that maximizes our customers' ability to grow and excel in the markets in which they operate. It should be noted, that in stark contrast with the carbon steel industry, our stainless steel prices since the 201 was enacted have actually decreased due to a combination of poor business conditions, over-supply, reduction of inventory and the massive exclusions involved with the first round of the 201.

Finally, the domestic industry must return to profitability in order to generate the returns required to continue to invest in the people and equipment that will keep domestic producers competitive in the future.

The Section 201 import relief program has started to help the stainless industry, but we have not yet seen the full benefits that we still hope we can realize by the end of a full-term relief program.

For example, even with the Section 201 program, we still see negative pricing trends and capacity utilization that is even lower than it was during the time of the Section 201 investigation. While import penetration of stainless bar and rod decreased marginally, imports still control more than 42% of the stainless bar market and 65% of stainless rod market in the United States.

However, I can assure you that the conditions in our industry today would be even worse had we not received the relief. We need to continue the relief if we are to have any chance of reaching the three goals I just outlined.

We also have been very mindful of our customers' needs throughout this time. We have worked with our customers and have agreed to product exclusions where they are appropriate. We have accommodated customers by agreeing to increased import volumes for certain products. We also have had to object to certain exclusion requests, however, where the requests simply had no merit—because Carpenter and other industry members already can or have produced these products.

For example, one of our most important products is high-performance machining bar. Despite our strenuous opposition to exclusion requests, and our demonstration to the Administration that we produce large quantities of these exact products on a daily basis, the government granted very generous exclusions. At the same time, the investment in equipment we made to produce even more of these products, is under utilized. These exclusions directly benefit two of our biggest foreign competitors. This surprised and hurt Carpenter driving us to our first operating loss in 114 years of business. To date, we have been forced to eliminate 1,300 salaried and manufacturing positions. This has seriously undermined the relief we need.

Century Metal Products, Inc.
Lowell, Massachusetts 01851
April 7, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Re: 3–26–03 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

I am writing on behalf of my company, Century Metal Products, Inc. We are located in Lowell, MA and we employ 20 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. We have seen a 15–20% increase in the cost of raw material.

As a result of the tariffs and the slowing economy, my company has had to lay off 20% of our employees. Unless things change rapidly, my company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Jeremy D. Field
President

Statement of Consuming Industries Trade Action Coalition

The Consuming Industries Trade Action Coalition Steel Task Force (CITAC STF) is a coalition of companies and associations—many of them small businesses—that rely on open channels of trade to be competitive in their U.S. manufacturing, transportation, construction, retailing, energy production and other activities. CITAC STF commends the Subcommittee for conducting this hearing and for finally allowing steel consuming industries to be heard concerning the impact of the steel 201 remedies on our businesses and workers.

CITAC STF also commends the Ways and Means Committee for requesting that the ITC initiate a Section 332 investigation to institute a fact-finding investigation of the current competitive conditions facing the steel consuming industries in the United States with respect to the steel safeguards measures and to foreign competitors not subject to such measures. This investigation is critically important to steel consumers. The steel safeguard remedies have had a profound and negative effect on steel consumers since their imposition in March 2002. Steel-using manufacturers have lost numerous orders and many thousands of jobs to offshore competitors. These unintended effects are clearly relevant in the President's determination whether the safeguard remedies should last another 18 months at further cost to steel consuming industries. The Mid-Point Review provides the opportunity for a full analysis. The 332 study, which will be presented to the President in the same document as the mid-point review report, must provide that information.

Since the hearing on March 26, 2003, the International Trade Commission (ITC) has formally initiated the 332 investigation on the impact of the steel remedies on steel consumers. CITAC STF urges the Committee to assure that the 332 investigation and the Mid-Point Review of the safeguard remedies are integrated and complement each other, as was the Committee's intention.

The Safeguard Measures Should Be Terminated as Soon as Possible

CITAC STF's top priority is the termination of the steel safeguard measures because they are wreaking havoc in the markets for downstream steel-using manufacturers. Skyrocketing prices, uncertain supply due to allocations and lengthening lead-times, broken contracts and growing quality problems are forcing many steel users to the brink of disaster. These unintended consequences are not only disastrous for steel users but for steel producers as well. We hope that the Bush Administration will act to end this destructive tax on American steel-using industries as soon as possible.

At the March 26 hearing, several steel producer witnesses suggested that the steel industry's survival is essential in this time of war. While we agree that it is in everyone's interests to have a strong U.S. steel industry, any concerns about defense are misplaced. The Defense Department's usage of domestic steel only amounts to 0.3% of domestic steel delivery and the Department of Defense generally does not buy imported steel. The steel safeguard measures are completely irrelevant to national defense.

The tariffs should be ended at the Mid-Point Review for the following reasons:

1. The tariffs are doing far more harm to steel consumers than any benefit to steel producers could justify.
2. The economic downturn since March 2002 has vastly magnified the injury to steel using manufacturers.
3. Price increases during 2002, which have abated only moderately in 2003, are far beyond any predicted level of price increases. These prices have seriously damaged the international competitiveness of American manufacturers that use steel.
4. The steel safeguards threaten trading relationships. When the WTO case is over this fall, a loss in the WTO could result in retaliation against exports of U.S. products of $1 billion or more.
5. The safeguards can do no more than they have already done to realize the goal for which they were imposed—the rationalization, restructuring and consolidation of non-competitive U.S. steel capacity.
6. The safeguards do not address the root causes of the steel industry's problems, which is the non-competitiveness of certain integrated producers due to relatively high costs and operating inefficiencies.
7. The safeguards interrupt critical steel imports that are absolutely essential, since we must depend on imports to supply 20 to 25 percent of our domestic demand. Exclusions have not permitted sufficient quantities of the steel American manufacturers need.

<u>More Jobs Have Been Lost From The Tariffs Than Have Been "Saved"</u>

A particularly onerous consequence of the tariffs is the threat to U.S. jobs—many of which are union jobs—in steel-consuming sectors. Steel-using jobs vastly outnumber steel-producing jobs in *every* state. Nationally, the ratio is 59 to 1. Already, jobs are being lost as business leaves the country. As the damage mounts, studies show that eight steel-using jobs will be lost for every steel-producing job "saved," even in the short run. We believe that steel-using jobs are no less important than steel-producing jobs.A recent economic analysis published by the CITAC Foundation, Inc. concluded that about 200,000 jobs were lost in steel consuming industries due to higher prices. The steel safeguard measures caused the price increases in large part.

The CITAC Foundation study evaluated job effects in steel consuming industries both narrowly and broadly defined. In the steel consuming industries, narrowly defined, about 50,000 jobs were lost in 2002 from higher steel prices. In steel consuming industries, broadly defined, some 200,000 jobs were lost in 2002. The CITAC study's numbers indicate that serious damage was done to downstream industries from steel price increases and the safeguard tariffs.[1]

Between 1995 and 2001, steel-using manufacturers added 1,255,000 new jobs to the economy, according to the Bureau of Labor Statistics (while jobs in the manufacturing sector as a whole actually declined by 829,000). Today, steel-using manufacturing employ nearly 13 million Americans, compared to less than 200,000 jobs in steel-production. Many steel users are small businesses, which have been and remain the engine of growth for the American economy. Steel-using industries provide good jobs and are invaluable contributors to their communities. Furthermore, the steel safeguards have had a ripple effect. As U.S. steel-consuming industries suffer, so do the companies that supply those industries, such as service centers, finishers, platers, assemblers and port workers. We urge the Committee to find policy options that assist industries throughout the economy, rather than imposing tariffs, which only transfer pain from producing to consuming industries.

<u>The Steel Safeguards Have Made U.S. Steel Consumers Uncompetitive</u>

Steel consumers are in trouble because of price hikes and other dislocations in the U.S. that have resulted in a severe competitive disadvantage for steel consumers compared to their overseas competitors. While some of these price increases have moderated in the last few months, as indicated on the attached chart, the United States remains at the high end of the world's steel price markets. As a result, U.S. manufacturers that use steel are operating under a competitive disadvantage compared with their foreign counterparts. It is not important to compare prices to the levels in the past; it *is* important to compare U.S. prices to overseas prices to competitors.

Accurate international pricing data is a key component of sound policy making. Unfortunately, data in this area is very incomplete. For example, a chart published by the American Iron and Steel Institute in January provided an incomplete and misleading picture of the situation faced by steel consumers in the United States. The AISI chart was misleading in the following respects:

- AISI only posted prices for hot-rolled steel and excluded cold-rolled and galvanized steel—the latter products are more important to steel consumers than hot-rolled. When all three flat-rolled products are included in the calculations, and countries such as Russia and Japan are added (Russia, for example, is the world's largest steel exporter, although trade restrictions keep much Russian steel from the U.S. market), the U.S. is shown to have higher prices than in most markets.
- AISI failed to include prices on the West Coast of the U.S., where a large portion of steel users manufacture products, and where prices are substantially higher than in the Midwest or Gulf Coast.
- AISI failed to note that prices in most world markets are stated in "C&F" or "delivered" terms, while U.S. prices are listed in "FOB mill" terms. This means that world market prices are based on the steel cost plus freight charges, while the U.S. prices are based on the price of steel at the factory gate, with no freight charges added in. AISI, in making a comparison using the FOB mill prices for the U.S., therefore understates U.S. prices.

[1] The study used a commonly employed regression analysis to develop these estimates of job losses. No other analysis exists of the jobs effects of the steel safeguard measures. Clearly a government-sponsored analysis is long overdue.

The attached CITAC STF information corrects these problems and gives a more accurate picture of global market prices. The price differential between steel in the U.S. and foreign markets has led to a dramatic increase of imports of value-added products made from steel, as well as shifts in production of these value-added products offshore. These production shifts have occurred very rapidly in response to the steel safeguards. As Timothy Taylor testified before this Subcommittee, in our globally competitive economy, production changes happen far more rapidly than they did 30 years ago. Thus, if the tariffs remain in effect for another year and a half, even more U.S. steel-consuming jobs will be lost. Once these jobs are lost, they are lost forever.[2]

In recent Senate Steel Caucus testimony, steel producers repeated their refrain about pricing. It is important to note that their attempts to rebut the hard evidence of competitive disadvantage for steel consumers are entirely wrong. For example:

- US Steel Claims: Prices have risen faster abroad than in the United States.
  - The Facts: Even if true, what matters is whether prices are lower abroad than in the U.S. for comparable steel products. They are lower abroad, and domestic producers do not argue the contrary.
- US Steel Claims: Steel tariffs are not responsible for US manufacturers moving offshore.
  - The Facts: Because prices abroad are lower than in the U.S., our steel consuming manufacturers are at a competitive disadvantage. Jobs are being lost every day because prices in the U.S. are higher than they would be without the tariffs.
- US Steel Claims: Steel consumers have not been denied important steel imports, because imports are higher for flat-rolled steel than they were in 2001.
  - The Facts: Steel consumers need certain grades and specifications of steel. Many cannot get them due to the safeguard measures. Exclusions do not fill the gap. Aggregate import levels do not change this fact. Indeed, a major reason for increased imports of "flat-rolled" steel is the slabs and hot bands that are used by the steel companies themselves. Even steel companies, therefore, are steel-using manufacturers.
- US Steel Claims: Inventory levels of flat-rolled steel were higher at the end of 2002 than the end of 2001, meaning that there were not shortages of steel.
  - The Facts: Increasing inventory levels from one year to the next do not reveal whether companies suffered from steel shortages during 2002. In fact, many companies did suffer supply disruptions, and these continue.
- US Steel Claims: Steel consumers aren't hurt by price increases, because prices have come down from levels of last summer and fall.
  - The Facts: Price levels in mid—to late 2002 had risen 50–70 percent for flat rolled products from January 2002 levels. Steel users could not absorb these increases. Jobs lost overseas, plus the general economic downturn, led to a decline in demand, and prices moderated. But prices are still well above 2001 levels, continuing to hurt steel users.
- US Steel Claims: 201 tariffs are not hurting manufacturing because the ISM Index has gone up 10 of the 12 months since the steel tariffs were put in place.
  - The Facts: US Steel apparently is unaware of the serious plight of US manufacturing. The ISM Index in March 2003 is at its lowest level in nearly two years. The steel tariffs are contributing to the malaise in US manufacturing.

Price "Restoration" Is Not a Measure of Success

U.S. steel producers have persistently tried to portray the damage of steel tariffs to steel-using manufacturers as either non-existent or a "payback" for "unsustainably" low steel prices in the past.

The underlying premise of the steel producers' argument is that higher steel prices somehow help steel consumers, and that, in any event, the dramatic steel price increases currently being visited on steel users are somehow justifiable because prices are only at or below their 20/22 year "historical averages." CITAC STF rejects the notion that the "fairness" of prices should be measured by their 20- or 22-year averages. This is an obviously meaningless benchmark. Televisions, computers cars, auto parts and many other products have been declining in price for years. Productivity improvements and technological innovation enable companies in many industries to reduce costs and, in competitive markets, end product prices.

[2] Obviously, the steel safeguard measures are one of several factors affecting U.S. manufacturers. We believe the evidence indicates that it is an important factor and one that the U.S. government is truly able to control. It has made a bad situation much worse and will continue doing so as long as it remains in effect.

Steel is no different from other industries in this respect. Nor have the steel producers made any connection between 20-year average prices and "sustainable" prices.

Steel users are largely unable to pass along price increases to their customers. Several witnesses made this point on March 26. The squeeze of sharply rising steel prices against product prices that are not changeable puts steel using manufacturers at risk of destruction. The steel safeguards, imposed by our own government, have sharply aggravated this problem.

Steel as a production input should be priced by the market. In the United States, the price must be comparable to prices charged in other world markets. Higher prices will damage American manufacturers that use steel by driving business offshore. This is precisely what is currently happening in the U.S.

The steel producer witnesses on March 26 largely ignored the fact that the safeguards inevitably hurt their customers. They cannot be successful by imposing punishing price increases on their own customers. The safeguard measures therefore are doomed to fail in their goal of making the U.S. industry internationally competitive. They are driving steel purchasers, and steel purchasing offshore—never to return. While some may argue that long-term decisions are not based on a three-year tariff program, our observation is exactly the opposite. Thus, the longer the steel safeguard measures remain in effect, the more damage will be done to consuming industries.

Exclusions Have Not Solved the Problems of Consuming Industries

While exclusions have benefited some steel consumers, the exclusion process has not solved a primary concern of small- and medium-sized steel-consuming businesses in the U.S.—reliable and competitively priced steel.

The exclusion process has many shortcomings. The tariffs had an impact on all steel, both imported and domestic. Steel consumers buying 100 percent of their steel from U.S. producers also experienced price hikes, shortages and long lead times. Exclusions do nothing to help these steel consumers. Also, exclusions do not benefit steel consumers that buy steel from service centers. Finally, the process is complex—some steel consumers cannot afford to apply for exclusions that are at best uncertain.

Thus, the exclusion process cannot be viewed as a substitute for resolving the challenges the steel safeguards pose for steel consumers. Steel consumers who are continuing to suffer from prices and supply shortages from the steel tariffs should not have to come to Washington to buy steel.

The Safeguard Measures Have Served Their Purpose

Since the steel safeguard remedies were put into effect, the following significant changes have occurred:

- The U.S. steel industry has initiated significant consolidation and restructuring.
- The "legacy" costs of several bankrupt companies have been reduced or eliminated.
- The Administration has made significant progress in its multilateral steel initiatives (especially defining subsidies).

To the extent these changes are a function of the tariffs (a doubtful proposition, since the consolidation and restructuring were poised to happen in any event), the tariffs have achieved a considerable measure of success. Little purpose would be served, however, by keeping the tariffs in place for another 18 months. Mergers and acquisitions without plant closures are not helpful to the industry since the excess capacity remains. To the extent that the tariffs allow uncompetitive plants to come back on-line and produce longer, the tariffs are, in fact, counterproductive to the long-term health of the steel industry.

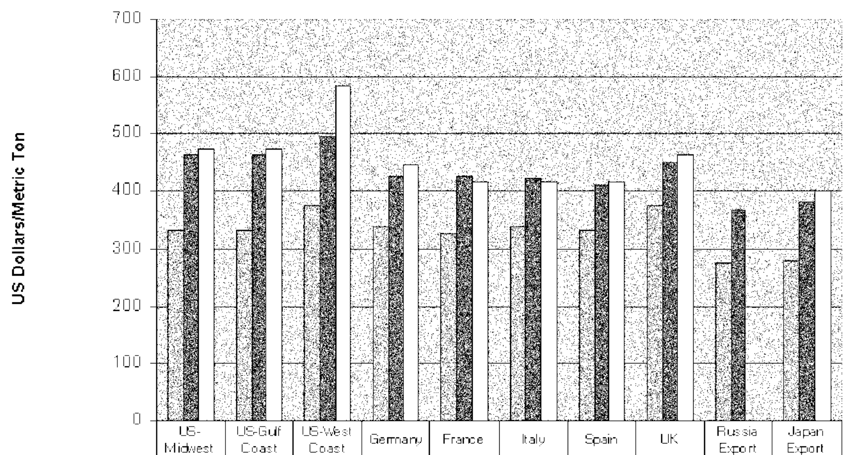
Efforts to reduce the world excess capacity of non-competitive steel production are laudable (assuming governments of the world can define what is "excess" capacity). However, steel using manufacturers who are struggling now for their survival should not be held hostage to this process. The steel negotiations have proceeded to the point where they can clearly proceed without the "stick" of the tariffs—especially when the tariffs have caused such harm to the economy as a whole.

Conclusion

The Section 201 steel tariffs are clearly causing far more harm than benefit to the U.S. economy. Thousands of American small businesses are threatened, and the threat is worsening. All available data support this conclusion. Yet until now, there has been no government analysis of the impact of the steel tariffs on steel consumers. We applaud the Committee's role in initiating such a study. We now urge the Committee to monitor the progress of the study and the statutory Mid-Point Review of the steel safeguard measures to assure that the ITC and the President give full consideration to the effects of this program on the entire economy.

CITAC STF stands ready to work with the Committee toward these ends. We thank you for the opportunity to include our views in the record.

U.S. Steel Prices vs. International Prices
Early January 2003



	US-Midwest	US-Gulf Coast	US-West Coast	Germany	France	Italy	Spain	UK	Russia Export	Japan Export
Hot-Rolled Coil	331	331	375	338	327	338	332	377	275	280
Cold-Rolled Coil	463	463	496	427	427	422	411	449	368	380
Galvanized Coil	474	474	584	448	417	417	417	465		400

SOURCE: CRU Monitor, January 2003

Statement of The Honorable Jerry F. Costello, a Representative in Congress from the State of Illinois

Thank you, Mr. Chairman, for holding this hearing and allowing me to testify on the impacts of the Section 201 agreement on the domestic steel industry.

President Bush's decision last year to impose temporary tariff relief on behalf of the domestic steel industry has allowed for substantial recovery of the domestic steel industry.

Since 1998, our domestic steel industry has been in crisis, with the worst year coming in 2001. The fundamental cause of this crisis was massive foreign overcapacity, which had caused the United States to become the dumping ground for world excess steel products. As a result of this, 35 steel companies have filed for bankruptcy, and over 50,000 American steel workers have lost their jobs.

In my home state of Illinois, the crisis has resulted in four steel companies filing for bankruptcy, including Laclede Steel and the parent company for Granite City Steel, which are in the Congressional District I represent. Approximately 5,000 steel workers have lost their jobs in Illinois alone.

In 2000, I joined my colleagues on the Congressional Steel Caucus in urging the President to implement a Section 201 investigation by the International Trade Commission to determine if our domestic markets had been harmed by illegal dumping. I also testified before the ITC to express my concerns regarding the steel crisis. The ITC ruled unanimously that the steel industry had indeed been harmed.

While the ITC's decision was welcome, it didn't guarantee relief for the domestic steel industry. That decision was left to the President to determine what type of remedy should be afforded to the industry. I was pleased that the President decided to impose the tariffs, rather than quotas, which would not have been as helpful to the industry.

In the past year, we have seen the positive results of the President's decision to impose tariffs. The steel industry is beginning to show signs of recovery. Prices are stabilizing and steel companies are returning to profitability. The industry is restructuring and consolidating. All of this has happened without hampering the availability of competitively priced steel products. In fact, steel imports were higher in 2002 than they were in 2001.

However, for the industry to continue its recovery, it is imperative that as the Section 201 tariff measures are reviewed, they remain fully enforced for at least three years as ordered by the President, and that exemptions to the tariffs are limited.

I urge my colleagues to join me in supporting our domestic steel industry by supporting the existing tariffs on foreign steel. This support will allow for the continued recovery of this nation's domestic steel industry.

Thank you, Mr. Chairman.

Statement of Dana Corporation, Toledo, Ohio

Dana is one of the world's largest suppliers of products and systems for the automotive commercial and off-highway vehicle manufacturers and their related aftermarkets. The company was founded in 1904, and is headquartered in Toledo, Ohio. Dana employs approximately 40,000 people in the United States and 60,000 throughout the world.

Dana believes that it consumes approximately 1% of the total volume of steel consumed in the U.S. per year. Of this amount, Dana estimates that roughly 95% is sourced from United States sources. Dana, therefore, has a major interest in the United States steel industry.

The Section 201 safeguard action has created very real hardships for Dana, compromising its ability to realize an adequate return on its investments, and in some instances, forcing Dana to utilize foreign manufacturing options for some of its products that would otherwise have been produced in the United States.

Overview

The vehicular supply industry has been under intense domestic and international pressure in recent years. During this time, Dana has undertaken the most aggressive restructuring effort in the company's history. This has been a very difficult and painful process, but it has been necessary in order for Dana to remain viable and competitive in the global marketplace. Consequently, Dana is particularly sensitive to the difficult decisions that must be made by the United States steel industry as it undertakes changes that may be necessary for it to adjust to international competition. While Dana appreciates the difficulty of the restructuring efforts undertaken by the U.S. steel industry, Dana does not support the imposition of safeguard duties, and the corresponding increase in the price of steel.

Dana must buy steel. Dana's customers are unwilling to accept price increases that reflect Dana's increased costs. Consequently, Dana and similarly situated companies have borne nearly the entire burden of the steel industry's restructuring efforts. This is an unfair burden on Dana, its employees, and its shareholders, and compromises Dana's ability to compete in the global marketplace.

The Scissors Effect

Dana operates in a global marketplace. Today's global vehicular manufacturers can, and will, source their parts from any supplier, foreign or domestic, that can reliably deliver quality merchandise at the lowest cost. Therefore, Dana must ensure that its pricing is in line with its competitors around the world. When confronted with uncontrollable rising prices from either its domestic steel suppliers, or its domestic component suppliers, Dana is caught in a dangerous "scissors effect" which diminishes Dana's ability to compete with its global competitors.

As noted, Dana's customers have been unwilling to accept any price increases from Dana in response to its higher steel costs. This reflects the difficulties that the automotive industry is undergoing. Indeed, manufacturers have been offering zero interest rate loans and similar incentives to spur new car sales to counter the current difficult economic environment. In fact, there has already been testimony before this subcommittee indicating that wholesale prices for motor vehicles actually fell by 2.2% last year. This demonstrates the constant pressure on the automotive manufacturers to contain costs. In light of this pressure, the automotive manufacturers simply will not accept price increases from its suppliers.

Imported automotive components, modules, and assemblies not subject to the safeguard duties add to the economic pressure encountered by the U.S. automotive suppliers. Vehicular components manufactured off-shore typically enter the United States at either very low duty, or duty free. Thus, foreign suppliers have ready access to the United States market while U.S. suppliers must compete with one hand tied behind their back. This is true even where the foreign manufacturers use the same foreign steel in their production that Dana may use in its production. This creates the highly inequitable situation where Dana must pay increased material costs for the identical material to produce the identical component in the United States.

While Dana's customers require that it maintain, if not lower, its prices, it is now also subject to cost increases as direct result of the safeguard duties that it cannot refuse. For products such as automotive stampings, where 80% of the cost of the product is attributable to the cost of sheet steel, the safeguard duties have led to huge increases in Dana's costs. Dana cannot refuse to pay its steel suppliers these higher costs without risking cutoff of supply. Similarly, where Dana subcontracts elements of production to smaller subcontractors, those companies are typically not in position to bargain with their steel suppliers, and are not financially able to bear the rising cost if Dana refuses to accept the increase. Thus, Dana must either absorb the increased price from its subcontractors, or refuse to accept it, and likely drive these companies out of business.

Dana's Response to the "Scissors Effect"

In response to this situation, Dana has been forced to go to offshore sources to supply components when it is no longer possible for the current suppliers to compete. For instance, Dana's Commercial Vehicle Systems division has awarded 90% of its new steel containing component supply subcontracts to offshore producers. This is an unprecedented volume of component supply contracts to be sourced offshore, and includes components that had been manufactured in the United States for a majority of the last century. Similarly, Dana's Automotive Systems Group has already begun to purchase some steel containing components from overseas, switching away from suppliers that use U.S. steel content. Dana's Automotive Systems Group is expected to triple its offshore purchases of finished steel components in the near future.

It is important to note that the "scissors effect" is not only a tremendous burden on Dana and companies like Dana, but it is also inequitable. Dana has been undergoing a significant restructuring to ensure that the company puts itself in as good a position as possible to compete in its market. There has been no governmental or other outside subsidization of this activity. Instead, the burden of Dana's restructuring has fallen on Dana its employees, and shareholders. Now a disproportionate amount of the steel industry's efforts to restructure are also falling on Dana and companies like Dana. This additional burden is simply not fair.

Domestic Disruptions to Dana's Production

At the same time that Dana is facing the "scissors effect" described above, it has experienced serious operational disruptions in its United States manufacturing plants as a result of long lead times for steel orders, and the inability, in many cases, of the domestic steel producers to react to changing customer schedules. Since the imposition of the steel duties, Dana has experienced more production interruptions than at any other time in the company's history. The ripple effect of this is tremendous. In several instances, while Dana waited for its suppliers to replenish their steel inventories, Dana's production was disrupted, while suppliers were forced to close their facilities until steel could be procured. In these instances, idled workers are typically not paid.

In order to try to minimize these sorts of disruptions in both Dana's production, and the production of its customers, Dana has been forced to more than double its raw steel inventory investment. This action is very costly. First, the necessity of maintaining this volume of inventory has had serious negative effects on both Dana's operating cash flow and working capital. Also, Dana's ability to purchase new, more efficient manufacturing equipment and invest in research and development is significantly decreased.

Conclusion

As Dana seeks to maintain its global competitiveness and profitability, it cannot stand idly by in the face of rising costs that cannot be passed on to its customers, disruptions in its production capabilities, and the enormous costs of inventory maintenance. Dana has no choice but to explore shifting more manufacturing abroad and importing finished components. By the time the tariffs expire according to the present three year schedule, it is likely Dana will have already shifted significant production overseas to minimize the impact of the safeguard tariffs on its operations. Such unavoidable production shifts will result in Dana purchasing correspondingly less United States made steel. This will also result in the tremendous disruption and dislocation of both Dana employees, and employees of Dana's U.S. based suppliers.

For the reasons stated above, Dana believes that the steel safeguard duties are having tremendous unintended negative consequences, and are bad for both the domestic consumers of steel, and domestic producers of steel.

Statement of Emergency Committee for American Trade

Chairman Crane, Representative Levin, Members of the Trade Subcommittee of the House Ways and Means Committee, the Emergency Committee for American Trade (ECAT) is an association of the chief executives of major American companies. Three decades ago, at a difficult and challenging time in U.S. trade policy, David Rockefeller and other prominent U.S. business leaders founded ECAT to promote U.S. economic growth through opening doors to U.S. trade and investment. Today, ECAT's members include many of America's largest global companies. We represent all of the principal sectors of the U.S. economy, including manufacturing, finance, agriculture, and services. Our companies have annual sales of nearly $2 trillion, and employ over 5 million people.

ECAT wants to express our appreciation for the Ways and Means Committee's bipartisan leadership on trade and for the Subcommittee's decision to hold a hearing on the impact of U.S. steel safeguard tariffs on America's steel-consuming industries. For decades, this Committee has been at the forefront of efforts to liberalize U.S. trade and build a strong, open, rules-based global trading system through the GATT and the WTO. The Committee can be justly proud of the many accomplishments of U.S. trade policy, including the Tokyo Round Agreement, the Uruguay Round Agreements, the North America Free Trade Agreement, Permanent Normal Trade Relations with China, and the GATT/WTO system itself.

The U.S. integrated steel industry is *not* alone in facing global competition. In the 1980s, at a time when many experts believed that the United States was in the midst of a precipitous economic decline, the Ways and Means Committee challenged America's major companies to rebuild U.S. economic leadership. Our ECAT companies worked with this Committee to meet this challenge. We embraced innovation and change; adopted best practices from around the world; pioneered six sigma quality controls; invested in innovative products and technologies; and accepted the unrelenting discipline required to compete and win in the global marketplace. Today, the United States is again recognized as a global leader in manufacturing, finance, agriculture, and services, and the U.S. economy is viewed as the world's key economic engine. American companies succeeded in meeting these challenges by embracing competition, innovation, and globalization, *not* protectionism.

These are not easy times. American manufacturing and agriculture are in the midst of a prolonged economic downturn. Sales are flat, even at leading U.S. companies. America's consumers are worried. In February 2003, over 50,000 U.S. factory jobs vanished. The European and Japanese economies are also struggling, and may require long-term structural reforms. As a result, overseas demand for U.S. products is likely to be uncertain for some time. Even the best U.S. companies face intensifying global competition, and the looming threat of price deflation in some overseas markets.

Despite these challenging times, we at ECAT are confident that once a sustained global economic recovery takes hold, America's leading businesses will again prosper, creating good high-paying jobs and renewed U.S. growth, *if* the United States continues to adhere to sound economic principles, such as our traditional support for open trade and investment policies in the United States and around the world.

Mr. Chairman, the long-running debacle of steel protectionism underscores that trade protection for one sector of the U.S. economy can have serious consequences for other industries and for tens of thousands of American manufacturing workers, who are hammered by the unintended consequences of government intervention. The steel industry has benefited from various forms of trade restrictions for over 30 years. Such protection has accomplished little, since the integrated steel industry is facing problems other than imports: most notably, the sustained market share gains by U.S. mini-mills and massive and economically unsustainable pension and health care obligations owed to retirees from commitments that were made decades ago.

The bottom line is: a sustained U.S. economic recovery requires a healthy U.S. manufacturing sector, and a healthy American manufacturing sector requires a timely end to steel protectionism.

ECAT's member companies produce some of America's best-known industrial products—construction equipment, electric motors, tools, household appliances, food processing machinery, and automobiles. Our factories go head-to-head with competitors from around the world. There are over 3.1 million workers employed in America's steel-consuming industries, compared to just under 200,000 in the integrated steel industry, over half of whom are employed by highly efficient and competitive U.S. mini-mills.

The U.S. steel industry cannot prosper if protectionist steel tariffs continue to undermine America's vital manufacturing base and drive its key customers offshore. Our members include some of America's best-known companies. These companies are also huge steel purchasers and among the American steel industry's best customers. The overwhelming majority of steel purchases by many ECAT companies have traditionally come from domestic mills. Our members have longstanding supply relationships with many American integrated steel producers. We know that the steel industry wants the best for their workers and shareholders, just as we do for ours.

However, the current trade protection for the steel industry poses a real and imminent threat to the rest of American manufacturing and to tens of thousands of high-wage, highly-skilled American workers whose jobs are now at risk.

Last year, U.S. steel tariffs were increased by 30 percent on many categories of imports under Section 201 of the Trade Act of 1974, as amended. Despite repeated assurances to the contrary, the results of steel protectionism have been devastating for some of America's major industrial companies.

The prices of some key steel products—inputs that are vital to the competitiveness of American steel-consuming industries—quickly skyrocketed by nearly 45 percent. While prices have since declined somewhat subsequently, U.S. steel-consuming manufacturers continue to pay much more for their steel and steel components than competitors in Europe, Japan, Brazil, Asia, Russia, and Latin America. The result has been an increase in imports of many steel-intensive products.

Because of widespread shortages, U.S. steel producers put even longstanding loyal U.S. customers on "allocation." While large steel purchasers were supposed to be insulated from the 30 percent tariffs by their 3-year supply contracts, this expectation also proved wrong. Quickly after the adoption of the 30 percent safeguard tariffs, pricing and on-time delivery came under pressure. U.S. steel producers tore up many existing contracts and insisted on hefty price increases. Supplies of many key grade and gauge combinations became difficult to obtain from U.S. producers, even under the clear terms of written supply agreements. We believe that the primary reason was that U.S. steel producers diverted steel into the higher-priced spot market in order to reap a quick, short-term profit.

If the price of one of its key input goes up, a U.S. manufacturing company must cut costs elsewhere to remain competitive. If prices for our U.S.-manufactured products are not competitive, our European, Canadian, Japanese, Chinese, and Brazilian companies will win our customers. In many cases, such "adjustments" mean laying off loyal, hard-working U.S. employees, negotiating further cost reductions with our key U.S. suppliers, and when we have no absolutely other choice, moving production and sourcing offshore to an overseas plant which has access to cheaper steel.

ECAT companies have some leverage because of our size and large steel needs in dealing with U.S. steel mills, but we are also concerned about our network of small parts and component suppliers. Every large U.S. manufacturing company depends on hundreds of small, often family-owned businesses to supply parts and components. We have worked with these small U.S. suppliers for many years. We trust them to supply high-quality inputs for American industrial products. These relationships are vital to our competitiveness and quality, and cannot easily be replaced. Without a network of trusted suppliers, we cannot meet our commitment to build high-quality cars, construction equipment, appliances, and farm machinery that meets our customers' needs at a price they can afford. Today, because of protectionist Section 201 tariffs, many small U.S. steel fabricators and U.S. auto parts companies are being ravaged by price-increases and widespread shortages triggered by safeguard tariffs. Because small U.S. companies typically lack the leverage and finances to negotiate long-term supply contracts, they are at the mercy of the steel spot market, where prices fluctuate rapidly.

ECAT is deeply concerned that America's steel predicament could worsen shortly. There are reports that the United States may have lost a key WTO ruling regarding the Section 201 steel safeguard, and copies of the draft ruling are circulating on the Internet. This outcome would not come as any surprise. Experts have long pointed out that the GATT/WTO safeguard rules were designed for situations where increasing imports are causing serious injury, but the U.S. International Trade Commission found serious injury even though imports of flat-rolled steel products *declined* during the period of investigation. The remedy chosen by the Administration also went well beyond even the recommendation by the Commission majority of a 20 percent tariff. It should come as no surprise if the WTO were to approach the U.S. safeguard with a high degree of skepticism.

If the United States were to lose a WTO ruling, we must either comply by lifting the safeguard tariffs, or face potential WTO-sanctioned retaliation against billions of dollars of America's leading industrial and agricultural exports. This would be a disaster for America's trade. In effect, the United States would be required to sacrifice our most globally-competitive export industries—manufacturing, high-technology, and agriculture—in order to continue to protect an industry which does not compete significantly in foreign markets.

We believe that there's got to be a better way. ECAT has the following preliminary recommendations:

First, a key objective of the Section 201 safeguard tariffs was to support a fundamental restructuring of bankrupt integrated steel companies. It is clear that this process is already well underway, and that this process, moreover, is primarily being driven by the hard realities of the bankruptcy process. Because the finances of the integrated producers are no longer sustainable, the industry is finally making the tough decisions that were avoided for decades, such as closing antiquated mills, seeking to reduce its massive pension and health care liabilities, cutting costs, and seeking to compete globally, as opposed to focusing exclusively on supplying the U.S. market. These difficult steps, which were implemented by other American manufacturers twenty years ago, should eventually make the industry leaner, more efficient, and more globally competitive.

A continuation or expansion of government protection will undermine, not advance, the restructuring process by encouraging the reopening of bankrupt mills, expanding excess U.S. capacity, driving down prices, discouraging cost-cutting and needed efficiencies, and encouraging the industry to continue to focusing on lobbying the government for additional protection, as opposed to getting its economic house in order. We, therefore, seek the elimination of these tariffs as soon as possible.

Second, we applaud the strong leadership from Chairman Thomas and Representative Knollenburg in requesting the U.S. International Trade Commission (ITC) to investigate the impact of steel tariffs on America's steel-consuming manufacturing industries. The failure of our trade laws to take account of the downstream costs of trade protectionism for other American manufacturers is a slap in the face to tens of thousands of U.S. companies and U.S. workers, whose jobs are on the line. We urge the ITC to thoroughly review the impact of steel tariffs on steel-consuming American industries as part of the Section 332 investigation requested by the Ways and Means Committee, and the President to take these concerns into account as part of his Mid-Point review of the steel import safeguards under Section 204 of the Trade Act of 1974.

Third, we support Chairman Crane's recommendation that the Administration work with steel-consuming manufacturers to address the burdens imposed by the Section 201 safeguard tariffs. While we appreciate the Administration's willingness to consider product exclusions when key steel inputs are not available from U.S. producers, this process is not a substitute for an end to steel protectionism. Instead of product exclusions, a far better approach would be to include America's steel-consuming manufacturing industries in the decision-making process.

Finally, we believe that the best way to support a restructuring of the integrated industry would be to explore innovative approaches to assisting dislocated workers and retirees. It is becoming increasingly clear that the benefits of steel protection for workers and retirees are illusory. Given their unsustainable financial circumstances, bankrupt integrated steel producers have little choice but to reduce current employment and shed massive unfunded pension and health care obligations. While the restructuring process will lead to the consolidation of the integrated steel sector into a handful of globally-competitive and financially viable producers that can compete with the U.S. mini-mills, the beneficiaries will be astute investors and turn-around specialists, not steel workers or retirees. Protectionism won't bring these jobs back or restore lost benefits. We believe that more innovative approaches than protectionism need to be developed to promote the long-term restructuring of these industries, while providing needed assistance to their workers and retirees. Congress undertook just such an innovative approach in the Trade Act of 2002 with respect to the major reforms to the Trade Adjustment Assistance programs. It can and should be done again here.

Last year, in a speech to factory workers in Moline, Illinois, the President said: "Fearful people want to build walls around American. Confident people want to tear them down. . .I'm confident we need to open up markets, not close them." We agree.

In these difficult and uncertain times, the world needs strong U.S. leadership on trade, not protectionism. Because of this Committee's leadership on free trade and free markets, the U.S. economy is the most open, prosperous, innovative, and dynamic in the world. We urge the United States and other steel-producing nations to intensify their efforts in the OECD to reduce excess global steel capacity and refrain from a dangerous protectionist spiral. We urge the Administration and the Congress to redouble U.S. efforts to open markets, strengthen the rules-based global trading system, and bring the benefits of free trade and open markets to millions of people around the world. Such leadership requires a new approach to U.S. steel policy.

Statement of Energizer Battery Company, St. Louis, Missouri

I. Background

On March 5, 2002, pursuant to § 203 of the Trade Act of 1974, President Bush announced a series of trade measures to protect the U.S. steel industry against competition from foreign steel imports. As a result of the ensuing International Trade Commission ("ITC") investigation, additional import duties were imposed upon steel products—ranging from 8 percent to 30 percent on nine broadly defined categories of steel. The additional duties against imported steel took effect on March 20, 2002. The duty rates are scheduled to decrease until phased out after three years and one day (March of 2005).

While the Administration's plan to protect the domestic steel industry excluded free trade agreement partners from the remedy as well as certain developing countries, the bulk of imported steel products are covered by the additional 201 steel import taxes. Because the steel products covered by the 201 duties are so broadly defined by the 201 investigation and because the products of countries with specialized and unique steel production capacities are included in the 201 penalties, many domestically unavailable steel products upon which U.S. steel consumers rely were included in the Section 201 case.

The overly broad scope of the 201 steel duties has negatively impacted U.S. steel consumers—resulting in economic and employment burdens for U.S. manufacturers and their employees. While the USTR has granted product exclusions to those steel consumers who have the wherewithal and the resources to seek an exclusion for products that the domestic steel industry does not or cannot produce, the domestic steel industry has opposed many of these exclusion requests with inflated or unsubstantiated claims that they can or do produce some of the products for which exclusions have been requested.

In accordance with section 204 of the Trade Act of 1974, the International Trade Commission is scheduled to release a mid-term review of the safeguard measures by September 20, 2003. The Commission must admit that the United States' domestic manufacturing community, which relies upon access to a global free market for steel, has been injured by the 201 case's overly broad inclusion of products that the domestic steel industry does not or will not produce.

The ITC's determination that imported steel constituted a primary cause of serious injury to the domestic steel industry failed in two respects. First, the ITC failed adequately to include product exclusions in its decision. Second, the ITC decision failed to consider whether other causes of injury to the domestic steel industry i.e. massive legacy costs, caused more of the steel industry's current status than imported steel products.

Unfair trade practices by foreign steel producers have been assertively investigated and neutralized through the application of antidumping and countervailing duties for decades. The purpose of those duties is to level the playing field so that foreign steel products received no market advantage and domestic producers suffered no corresponding disadvantage from the unfair practices. The 201 investigation, by its nature, admits that domestic steel requires help despite the lack of unfair trading practices. However, the ITC investigation focused on the depth of injury that the domestic steel industry has suffered, not its actual causes nor the likely costs of 201 duties to the greater United States economy.

Energizer supports a healthy domestic steel industry and would welcome a domestic producer's entry into a niche steel market, known as Battery Quality Hot Band. However, in the spirit of free trade, open competition, and healthy U.S. manufacturing bases, the ITC's mid-term review should admit that the Section 201 steel remedy applied tariffs to steel products that were too broadly defined. In accordance with that conclusion, the Subcommittee on Trade should recommend that the remedy be more narrowly tailored so as not to unduly burden U.S. consumers of steel products.

Because no domestic steel mill produces the steel product upon which domestic battery producers rely, a product exclusion was solicited. Certain members of the domestic steel incorrectly based an opposition to the exclusion request upon an unsupported claim that a domestic producer makes the product. No one has approached Energizer with product and, when Energizer requested product sample in 1994, the domestic product failed the same quality specifications that steel imported from the Netherlands has consistently satisfied. In spite of the domestic industry's lack of interest in making the product, the USTR and Department of Commerce refused to grant an exclusion for Battery Quality Hot Band, but, instead, granted a tariff rate quota that allows for exclusion from 201 duties for the first 25,000 metric tons of product to enter on an annual basis.

II. Effects of the Section 201 Steel Action Against Domestic Battery Producers

Steel used in battery can production must satisfy out-of-the-ordinary product purity and quality requirements. Domestic battery producers rely upon a specialized steel product known as Battery Quality Hot Band ("BQHB"). BQHB is an extremely pure steel product that is essential to making battery cans.

Battery cans are the cylindrical, steel tubes that most consumers recognize as giving a battery its recognizable shape. More importantly, the use of BQHB in the manufacture of battery cans is crucial for product safety, quality, and reliability. Battery cans are functional parts of batteries that not only play a role in the distribution of energy, but also protect users from injury that could be caused by the release of substances contained within the batter can. Use of inferior materials may result in increased battery rupture and leakage.

BQHB is not available from domestic steel producers.

Energizer's understanding of battery production is second to none. Energizer produces more than 6 billion primary batteries annually and has been producing and selling alkaline batteries in the United States since the mid 60's. In fact, the inventor of alkaline batteries, Lou Urry, still works for Energizer. Of the 6 billion batteries produced annually, all alkaline batteries (or approximately 4 billion) utilize BQHB steel for indispensable reasons generally described as safety and quality reasons.

Battery cans are pressure vessels which interact, directly and indirectly, with caustic substances contained within the battery. This interaction along with the physical stresses that battery cans endure, such as being dropped and naturally existing within a corrosive environment, requires hot-rolled steel that is extremely pure, clean, and workable. We believe that our standards have allowed Energizer's brand names, "Eveready" and "Energizer," to become synonymous throughout the world with quality, reliability and safety.

Energizer's research shows that no U.S. domestic producer has the combination of capability and interest to produce battery-quality steel. In 1994, Energizer conducted domestic sourcing and testing investigations. Our testing showed that the use of domestic hot-rolled steel for battery-can manufacture significantly increased the incidence of battery failure and leakage.

Leakage of potassium hydroxide, which is contained in all alkaline batteries, has, in the past, resulted in severe, acid-like burns to those who have come into contact with it.

Battery leakage can cause human contact with dangerous battery substances. For example, small children may not be aware that battery leakage should not be ingested or placed in contact with one's eyes. Additionally, battery leakage or ruptures may also damage the devices into which the batteries are incorporated, making them inoperable. Given the extreme range of use of Energizer batteries, quality issues easily overlap with safety issues. For example, emergency devices may be battery powered. Battery failure due to poor quality battery can material could also create a safety concern.

Consumers of specialized steel products that are not available domestically have been placed in the unenviable position of bearing the substantial costs of the 201 case for products that do not injure the domestic steel producers because the domestic industry lacks the interest or the ability to produce these products. The cost to the U.S. battery production industry has been great, there are no corresponding benefits to domestic steel producers.

a) The Section 201 Duties Have Been Applied Too Broadly

As stated above, there is no domestic source of BQHB. Energizer has tested domestic product. It has failed to pass the same tests that certain, high-quality, foreign products pass. The product specifications are not arbitrary. They are directly correlated to battery quality and safety.

Section 201 duties are not imposed in retaliation for unfair trade practices. They are extreme measures that our WTO trading partners have challenged before international dispute resolution bodies. Our international obligation is to impose these extreme measures in a targeted manor that avoids unnecessary damage to other industries (both foreign and domestic) where the intended beneficiaries, U.S. steel producers, receive no benefit.

U.S. steel producers cannot and do not benefit from 201 steel categories that are so broadly defined that they include products like BQHB. It is the responsibility of the U.S. steel producers and the duty of the ITC to narrowly tailor Section 201 duties to avoid collateral damage to U.S. steel consumers. The ITC's mid-term review must refine the scope of the 201 duties to completely exclude BQHB.

b) The Costs of the Section 201 Steel Duties to Domestic Battery Manufacturers have Outweighed any Corresponding Benefits to the Steel Producers

Section 201 duties have made U.S. steel the most expensive steel. The duties have artificially inflated prices in the United States to levels far exceeding the global steel market's free trade prices. However, Energizer and most domestic battery producers are American companies that must compete in the global arena.

The 201 duties have created an uneven playing field where domestic battery producers must pay exaggerated prices for raw materials, but their foreign competitors do not. A review of the testimony provided before the Subcommittee by those who support the 201 duties repeat two points. First, the 201 case is part of a larger steel initiative that seeks to remove distortions from global steel markets by removing excess global capacity. Second, the initiative sought to effect this by increasing steel prices, and domestic steel prices have increased. The failure of 201 steel duties is evidenced by the interplay of these two governing objectives.

While the initiative seeks to remove global market distortions by artificially inflating domestic prices, there is neither testimony nor indication that global steel markets outside of the United States have been proportionately impacted by the 201 duties. There is no evidence that excess foreign capacity is diminishing or that it will diminish during the next two years. Continuing along the present course will increase costs for domestic producers without significantly impacting the March 2005 global steel production capacity. While the present duties have failed to promote the desired impact, given the testimony about the negative impact on the U.S. economy, increasing them is out of the question.

The increased costs to domestic steel consumers, caused by the 201 environment, disproportionately decreases the competitiveness of manufacturers without any real proof that domestic steel will be able to compete in the global market. Free trade decisions in the present recessed economy have been complicated by strong dollars, escalating health cares costs, and foreign competition. They have been distorted by 201 duties directly and indirectly. The direct price increases are readily apparent. The indirect distortions of 201 have damaged long term relationships with reports of broken supply contracts, supply shortages, allocations.

The costs of producing batteries domestically have increased even with the granting of a tariff rate quota for some quantities of BQHB. The costs of acquiring exclusions are substantial. TRQ's tend to inspire "races to the port," where buyers abandon established, rational supply schedules and attempt to lock-in all purchases at or near the time when the tariff quota first opens. This decreases a company's market responsiveness throughout the year and escalates inventory costs. The dollar costs to domestic battery producers exceed the large percentage increases that would apply to over quota steel. The indirect costs are substantial, as well.

c) Foreign Battery Producers Have Benefited from the Section 201 Duties against Battery Quality Hot Band, Not the Domestic Steel Industry.

Only one group has benefited from the 201 process that sought to impose up to 30% duties on BQHB, then required a lengthy exclusion petition process, and finally resulted in a tariff rate quota. Foreign battery producers have benefited. No one else.

Domestic steel producers do not make or sell BQHB. The domestic mills do not receive additional sales or revenue for 201 steel products they do not sell. Domestic battery producers have endured upward pricing pressure despite the tariff rate quota exclusion for limited quantities of BQHB. Foreign battery producers have access to BQHB without paying 201 duties. Foreign battery production is not a novel idea or in its infancy. It is a well-established industry that is perfectly situated to enjoy the competitive advantage that the 201 duties have handed to it.

While domestic battery producers have incentive to remain in the United States because batteries marked "Made in the USA" are perceived to enjoy a marginal competitive advantage in certain domestic markets, the corresponding disadvantage would disappear if the production of high-quality batteries were moved to foreign locations. It is Energizer's opinion that all major domestic battery producers already have foreign production facilities. A shift to foreign battery production could occur rapidly—much more rapidly than a return to domestic production.

III. Conclusion

The Section 201 duties have disproportionately damaged domestic battery producers when compared to the negligible benefits to the domestic steel industry, if any. The 201 duties have not been well targeted or responsibly applied. Energizer supports a stronger domestic steel industry and notes that the costs discussed above are harmful, but unintentional. The 201 duties are not producing a stronger domestic steel industry that would be significantly more competitive in the global steel market of March 2005. It is damaging U.S. manufacturers who depend upon access to globally competitive steel markets. Foreign competitors, more than anyone else are benefiting from the increased costs that American manufacturers have endured.

U.S. steel producers have cited consolidation as a major effect of the 201 case. The merits of consolidation are highly debatable in a society that champions anti-trust laws and believes in free competition. Legacy costs, such as unfunded pension funds, are probably more significant causes of the current steel industry's status. Section 201 duties are inappropriate solutions to these causes. Antidumping and countervailing duty investigations are more appropriate to help the domestic steel industry protect itself from unfair trade.

The domestic steel industry has benefited from a long history of antidumping and countervailing duties. If the industry failed to compete in that leveled playing field, the 201 duties will also fail. The 201 duties have been more damaging to other sectors of our economy than AD or CVD's. They have done more harm than good.

Statement of Ramzi Hermiz, Federal-Mogul Corporation, Southfield, Michigan

Mr. Chairman and members of the Subcommittee, on behalf of Federal-Mogul Corporation I would like to thank you for the opportunity to submit these comments regarding the impact of the Section 201 steel tariffs on our company.

Federal-Mogul Corporation is a $5.5 billion global supplier of automotive components and sub-systems serving the world's original equipment vehicle manufacturers and the aftermarket. Headquartered in Southfield, Michigan, Federal-Mogul was founded in Detroit in 1899 and today employs 47,000 people at 130 manufacturing plants in 24 countries. Federal-Mogul employs 20,000 people at 40 manufacturing plants in 21 U.S. states*, including Michigan, Pennsylvania, Ohio, Illinois and Indiana.*

Familiar Federal-Mogul brands servicing the aftermarket include Champion® spark plugs, Anco® windshield wipers, Moog® chassis components, Fel-Pro® automotive gaskets, Sealed Power® engine components and Wagner® brake and lighting products. The majority of parts manufactured by Federal-Mogul are produced from steel. These parts include automotive sealing gaskets, engine bearings, brakes, rings and liners, and chassis components.

Federal-Mogul consumes approximately 300,000 tons annually in direct steel purchases or $135 million. We consume another $512 million annually in indirect steel purchases from stampings, castings, forgings and other steel-related component parts. Approximately 80 percent of the steel Federal-Mogul consumes globally is purchased from domestic steel suppliers and over 96 percent of Federal-Mogul's domestic consumption is purchased from domestic sources. Federal-Mogul supports a strong and profitable steel industry. It is obvious from the above that our global operations depend on it.

Since the advent of the Section 201 steel tariffs, Federal-Mogul has experienced significant price increases on direct steel purchases as well as for indirect purchases in the steel-related components it buys. Federal-Mogul's firm pricing contracts have been broken by many of its steel suppliers in favor of higher pricing. Approximately 90 percent of Federal-Mogul's major steel supply contracts were broken, shortly after the implementation of the Section 201 in March of 2002. As a result, we have seen price increases as high as 30 percent. On some manufactured products, such as brake friction components, the raw material portion represents 50 percent of the total cost of the product. A 30 percent steel price increase therefore represents a 15 percent direct price impact in the total cost of these products. Our customers will not and have not accepted any price increases related to steel. On the contrary, they expect year-over-year decreases in the price of our products. Needless to say, this results in an extremely challenging situation requiring drastic measures to resolve.

Federal-Mogul, like all other OEM automotive suppliers, relies on consistent and competitive production supply to survive and compete in a global marketplace. Our customers, vehicle manufacturers, Tier-1 automotive suppliers and aftermarket distributors, demand high-quality products at competitive prices and in most instances, just-in-time delivery. We pride ourselves on meeting those challenges. Yet, over the past year, as a direct result of the steel tariffs, we have experienced an interrupted supply of steel that has jeopardized our ability to serve our customers. On several occasions we have drawn close to shutting down a vehicle manufacturer's production line as a direct result of a steel shortage. We find this unacceptable. In some instances we have incurred significant and unrecoverable production costs to maintain a consistent production supply to our customers. Due to the reduced volumes of steel available over the past several months, Federal-Mogul has been forced, on a number of occasions, to pursue additional capacity on the spot market at significantly higher prices—in some instances at a premium of 100 percent.

In this environment of rising steel prices, Federal-Mogul has pursued and will continue to pursue a number of strategies, drastic in some cases, aimed at mitigating these price increases. Federal-Mogul, unlike the majority of small domestic automotive supplier businesses, can produce identical products and systems at our sister plants in Mexico, Europe, Eastern Europe and Asia. This manufacturing flexibility affords us the opportunity to shift production overseas, thereby avoiding tariffs by importing Federal-Mogul produced finished goods into the U.S., manufactured from steel that is more globally competitive. In many cases we are also able to supply to OEM customers who have increased their manufacturing capability in these established regions.

We are also aggressively pursuing alternative sources for steel. Recently we returned from a trip to Eastern Europe to pursue steel suppliers in a region consisting of countries that are exempt from the Section 201 steel tariffs. We have been quoted prices from suppliers in this region that remain extremely competitive to pre-Section 201 market pricing.

Both of the actions briefly described above will ultimately result in the loss of manufacturing jobs in the U.S., including steel industry jobs. The current policy has had serious unintended consequences on the automotive supplier industry as well as other steel-consuming industries in the U.S. Consideration must be given to a policy that seeks to strengthen not only the steel industry but the manufacturing industry as a whole. The current Section 201 is not accomplishing this. It is simply transferring this burden from one industry to another that quite frankly cannot absorb the impact.

Federal-Mogul Corporation, along with the Motor and Equipment Manufacturers Association (MEMA) strongly supports House Concurrent Resolution 23, introduced by Congressman Joe Knollenberg (R–MI) on January 29, 2003 and supported by 73 Republican and Democratic co-sponsors. Federal-Mogul would also like to thank the House Ways & Means Trade Subcommittee for its decision to request a 332 investigation on behalf of the U.S. steel consuming industry. The 332 "fact finding" investigation will result in the much-needed assessment and evaluation of the impact the Section 201 has had on the steel consuming industry.

Finally, on behalf of Federal-Mogul, I would like to thank Chairman Philip Crane of the House Ways & Means Trade Subcommittee for the opportunity to express our views on the Section 201 steel tariffs. Please feel free to contact me with any questions or comments.

Gross-Given Manufacturing Co.
Saint Paul, Minnesota 55107
April 1, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Chairman Crane:

I am writing on behalf of my company, Gross-Given Manufacturing Co. We are located in St Paul, Minnesota and we employ 300 workers producing glassfront snack-vending equipment. Our production workers are members of local 1042 CWA/IUE. I am writing to you to request your help.

The steel tariffs imposed by the President last March were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale. Instead, they have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers.

Gross-Given Manufacturing Co. processes 8 million pounds of steel annually. Since the implementation of the steel tariffs, we have experienced a 30% increase in our steel costs and longer delivery times, which required us to increase our steel inventories by 20%. We have also experienced lower quality steel, which increases our setup times and our scrap rates. Due to foreign competition in our markets, we are unable to pass these costs on to our customers. Thus, we find ourselves struggling to stay competitive. We not only lack the capital to reinvest into the business for future growth; we are forced to look overseas for cost saving solutions.

Unless things change very soon, Gross-Given Manufacturing Co. will continue to lose market share to foreign competition that now has a built in cost advantage. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel using economy.

Thank you for your consideration.

Sincerely,

Jack Flynn
Vice President-Manufacturing

Guarantee Specialties, Inc.
Cleveland, Ohio 44108
March 25, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Guarantee Specialties, Inc. and its Garvin Division. We employ 33 people in Cleveland, Ohio and 25 people in Adamsville, PA. Our production workers are members of UAW locals 70 and 204. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. Some of our lead times have increased by 50%, we have had numerous rejections of material for quality specifications and recently have had a supplier tell us that they will no longer be able to supply a raw material that we use for one of our higher volume parts. Attrition has prevented layoffs, but the fact of the matter is that we now employ fewer regular, full-time people than we did and make no use of temporary help when we used to use as many as 12 temporary workers per day between our two plants.

As a result of the tariffs, my company has incurred expenses that have forced us to lose some or all profitability from various products. We have lost one customer and are considered to be in bad standing with another. Unless things change rapidly, my company will lose more business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Frank R. Makar,
Materials Manager

Hearth, Patio & Barbecue Association
Arlington, Virginia 22209
April 3, 2003

The Honorable Philip M. Crane, Chairman
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Re: Statement for the Record—"The Impact of Section 201 Safeguard Action on Certain Steel Products" Hearing, March 26, 2003

Dear Chairman Crane:

On behalf of our more than 2,400 members, representing manufacturers, distributors, and retailers of fireplaces, woodstoves, and barbecue grills, I appreciate the opportunity to provide our comments on the impact of the Section 201 tariffs on certain steel products to the Subcommittee on Trade. I commend you for your decision to hold this important hearing on such a crucial issue.

Our members represent a diversity of interests that cover all aspects of the hearth, patio, and barbecue industries. Combined, the industries together generate $9 billion worth of economic activity in the United States. Most of our members are small and medium-sized manufacturers or specialty retailers. Because of the relative size of our members' businesses, it is critical that they be afforded a level playing field with respect to production, distribution, and sale of product in the United States. The Section 201 steel tariffs directly affect our members' market share, both in price and quality, against larger U.S. companies and offshore competition. Our American members are not large enough to absorb the costs of trade protection for steel producers in the United States, nor are they fairly placed to compete against foreign companies who can purchase globally-priced steel while they are forced to pay a premium.

Since implementation of the Section 201 steel tariffs, our hearth manufacturers are paying higher prices (approximately 20%) for the steel used to manufacture fireboxes and our propane tank manufacturers are forced to compete with Korean manufacturers who can purchase steel cheaper and import finished product into the U.S. tariff-free. I urge the Subcommittee to consider that protecting the U.S. domestic steel industry at the expense of its customers, i.e., steel consumers like our members, is a significant hardship on small and medium-sized manufacturers and retailers and these grave effects should be examined carefully before the Section 201 midterm review in September 2003.

Steel tariff proponents argue that foreign steel producers are heavily subsidized by their governments and have been dumping cheaper steel into the U.S. for years, specifically leading to the crises faced in the last few years. But, to respond to this alleged subsidization with protective tariffs for the U.S. steel industry cannot be the solution to controlling foreign governments' policies with respect to their own industrial output. If anything, the United States' support of the tariffs will generate even further ire among the WTO and our trading partners and in these unstable economic and political times, that is *not* the vulnerable position the U.S. should be in.

More than 70 of your colleagues are currently supporting House Concurrent Resolution 23—The Knollenberg Resolution—primarily because they realize that a balanced, complete review of the tariffs with respect to both producers and consumers of steel is fair and warranted. To argue that an additional 18 months of tariff protection for the U.S. steel industry will cure all the problems they've encountered with legacy costs and lack of global competitiveness is flatly unreasonable. Furthermore, industries like ours, who comprise mostly small and medium-sized manufacturers and businesses, depend on the ability to get reasonably-priced materials for production, distribution, and sale in order to remain viable and stay in business.

The impact of the Section 201 steel tariffs on smaller steel-consuming industries like ours needs to be carefully examined and reviewed in full by the International Trade Commission (ITC) at its midterm review in September. I urge the Subcommittee on Trade to encourage the ITC to consider the unintended and negative impacts of the tariffs on consumers of steel. The Section 201 steel tariffs' detriment to consumers far outweighs its benefit to the domestic steel industry and a prompt removal of the tariffs before they expire is both justified and economically defensible.

Thank you for the opportunity to comment on this important issue.

Respectfully,

Carter Keithley
President & CEO

Hedstrom Corporation
Bedford, Pennsylvania 15522
March 31, 2003

Honorable Phillip M. Crane, Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Crane:

Hedstrom Corporation is a manufacturer of gym sets and trampolines sold through mass merchants for resale to consumers. We are one of the largest employers in Bedford County, Pennsylvania. And, believe we are a very important party of the local economy. The imposition of 201 duties has been crippling to our business. In 2002 we incurred a cost increase of over $1.8 million compared with our cost for steel in 2001. For the first Quarter of 2003 alone we will incur a cost increase of over $1.1 million over the prior year. We have worked hard to find alternate domestic sources for steel, but have suffered these dramatic increases despite those efforts.

In addition to our strenuous efforts to source steel at the best prices possible, we have invested heavily in our business to improve efficiencies and reduce costs. We believe we are a low cost manufacturer and can be competitive against foreign manufacturers, except for our steel costs resulting from the 201 duties. As you can imagine, increases of this magnitude are threatening our continued ability to manufacture our products domestically. We are not able to pass these cost increases along to our mass merchant retailers. For example, Wal-Mart, our largest customer, purchased 50,000 trampolines from China last fall and is considering another 100,000 Chinese trampolines this coming fall, at a lower price than ours.

Sincerely,

Craig S. Marton
Vice President & General Manager

Statement of Eric Arroyo, Henry Technologies, Inc., Woodstock, Illinois

Thank you for the opportunity to submit this testimony to the House Ways and Means Committee regarding the impact of the Section 201 tariffs on steel consumers, especially on small to medium companies.

My name is Eric Arroyo and I am Vice President and General Manager of Henry Technologies, Incorporated. Henry Technologies manufactures components used in commercial and industrial refrigeration and air conditioning systems. Henry Technologies has been privately held since its inception in 1914 and employs about 350 in the United States, Canada and the United Kingdom. Our plant in Melrose, IL employs 150 workers.

We are a Tier 1 and Tier 2 supplier, providing our customers, as well as our customers' customers, with components used to manufacture air conditioning and refrigeration equipment. Henry Technologies sells to leading companies such as Carrier Corporation, Trane and York International, and also supplies replacement parts to wholesalers and exporters. The material content of our product is significant and encompasses various materials with steel as the primary metal used in the form of castings and tubing as well as machined components. Due to the variety of product manufactured and our relative size in the industry, it is difficult to offset the effect of major industry price increases for material.

Since the imposition of tariffs, our average cost has risen 10–20% for a representative sample of our affected purchases. With the industry softness as well as competition from larger companies, we have had to absorb 90% of the increased costs. The impact on our profitability has been significant for those products—with a dollar for dollar reduction in profits for each dollar increase in cost we cannot offset.

To compensate for the increased cost of steel, we have reduced spending, including employment in the United States. It is difficult to reduce costs further without seriously impacting our ability to compete.

The steel tariffs also caused a temporary shortage of some of the steel products we purchase. This resulted in late deliveries from suppliers and increased cost on our part to compensate with overtime in production and, in some cases, premium freight costs to deliver our products.

There are foreign competitors, particularly from Mexico, who pose a continuing threat to our market position. If we are forced to increase prices, because additional cost reduction is not possible, we most certainly will suffer serious loss of market share to those foreign competitors. This will impact our ability to continue to produce those products in the United States. In addition, we supply over 33% of the finished goods sold by our UK company into Europe. These additional costs will cause loss of market share in what has been a strong market for our U.S. produced products.

Continuation of these tariffs will force us to seriously consider off-shore production with its negative impact on our U.S. employment and our contribution to the local economy.

It is critical that these tariffs be removed as soon as possible. Our situation cannot be unique. Significant United States manufacturing capability of small to medium-sized companies utilizing steel affected by the tariffs is at stake. We need relief from this artificial cost.

Thank you.

Hi-Craft Products
Gardena, California 90248
April 10, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Re: Steel Tariff

Dear Congressman Crane,

I am writing on behalf of my company, Hi-Craft Metal Products. We are located in Gardena, California, and employ 20 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. As a supplier, our profit margins have been slashed in order maintain our customer base. Our customers simply will not share in the expense of these material cost increases.

As a result of the tariffs, my company has been late on orders, lost contracts to foreign suppliers, and been forced to lay off 5 employees. Unless things change rapidly, my company will continue to experience these devastating problems. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Bill Gerich
President

Illinois Tool Works Inc.
Glenview, Illinois 60025
April 11, 2003

Mr. Chairman and Members of the Committee:

If you leave with no other impressions from our comments today, let it be:

1. **Steel is not steel is not steel;**
2. **Market dynamics have changed inalterably; and**
3. **The tariffs are a manufacturing issue not just a steel producer issue.**

Mr. Chairman, in meetings here in the District, you have referenced to the decisions the US sheep industry were forced to make when lamb produced in Australia could be delivered to American kitchens cheaper than could be produced here at home. That example, Mr. Chairman, is appropriate when comparing commodities; but does not apply to all types of products.

ITW produces value-added proprietary products for which specific requirements are generated for the entire production process, including raw materials. That means we must be able to source raw materials of specific and consistent quality at a globally competitive price. We must also contend with rapidly changing market dynamics, even for our proprietary value-added products, which has changed inalterably from those which existed even one year ago. Yet, domestic steel producers would have Congress and the Administration believe that they operate in a "closed system" and that the government can virtually stop all competitive imports by imposing tariffs and duties with little or no impact on their customers or other sectors of the economy. They are dead wrong.

Steel is not steel is not steel

The process by which the International Trade Commission investigates claims by domestic steel producers is constrained somewhat by our system of identifying products and materials, regardless of where from around the globe they are made. This system, Harmonized Tariff Schedule of the US (HTSUS), makes a credible effort, via a ten digit designator, to segregate what appear to be "like" products. But within the context of this discussion, it fails.

While a Fortune 200 Company with global revenues of $9.5 billion, ITW operates nearly 400 separate operational units here in the United States as entrepreneurial enterprises run by dedicated men and women based in 145 congressional districts. For ITW, the tariffs and complementary duties cost our individual business units over $6 million net of accepted price increases in 2002 and this number is expected to increase by $3 million in 2003. While price, an ongoing lightning rod of this debate, is important to ITW, we are even more concerned about the issues of chemistry and quality.

When one examines the President's Proclamation, you will count dozens of HTS codes as being subject to the tariffs. Even when taken to their tenth digit, the HTS codes are still only categories of products not descriptions. An examination of the exclusion requests will provide the committee with true material descriptions. The list of exclusions for cold rolled and hot rolled steel, in our opinion, are so numerous because American industry has, over the past decade, continued to achieve significantly higher levels of productivity by refining the chemistry and quality requirements of their raw materials and sourcing those materials from suppliers who choose to provide them, regardless of their geographic location. In many cases, these requirements alone increased the cost of the material; but these costs were offset by the savings derived from dispensing with some end of line inspection processes and far fewer defective parts. Domestic steel suppliers, as evidenced by their testimony, would have you believe that there are minor differences in steel and that their customers are simply fickle and are buying on price alone. For many companies that use "vanilla-type" steel for their products, price can be the most critical determinant in their sourcing efforts; but many, many fabricators will cite chemistry and quality as the most critical purchasing criteria.

Every ITW manager lives by the 80/20 Rule. That is, 20% of our customers generate 80% of our revenue; or 20% of our products generate 80% of our revenue. We will turn away or find an alternative source for a customer when their business declines below the 80/20 point. We accept a steel supplier's decision to not produce or even bid on an order for a steel chemistry that does fit their 80/20. We are outraged, however, when that same company(ies) turn(s) around and seek(s) protective tariffs or duties on products they either choose not to make or have been unable to demonstrate an ability to produce to our and our customers' satisfaction.

For example, the domestic steel wire rod industry brought a dumping/countervailing duty case against several offshore producers of wire rod. The HTSUS does not distinguish clearly between industrial quality (IQ) and cold heading quality (CHQ) wire rod. CHQ wire rod is used in the production of many, many safety related components for the automotive industry, for example, and is often specified by the OEM customer. In fact, ITW may be one of the largest domestic consumers of CHQ in the United States. All of ITW's recent sourcing of CHQ has been foreign (including Canada) because the two domestic producers chose not to meet our chemistry, quality and/or servicing requirements.

The domestic fastener industry asked the International Trade Commission (ITC) during a public hearing (since purchasers have no standing in a dumping case) to find CHQ wire rod to be a similar like product. We cited the fact that neither of the two domestic mills, Charter and Republic, which produce CHQ were parties to the petition before the ITC because they knew they already could not meet domestic demand. Nonetheless, petitioners claimed a Texas-based company, North Star Steel, had recently announced its CHQ wire rod production and was prepared to take orders in the rear of the Commission's chambers. Since that claim was made, Republic Steel has announced plans to focus its operations on steel bar, limiting, we suspect, its likelihood to produce CHQ wire rod and North Star still does not produce the chemistry, quality or quantity we require of CHQ wire rod. Hence, the domestic industry manipulated the market for its own benefit and to the detriment of its customer base.

ITW is also one of America's largest consumers of stainless steel sheet, a product not subject to the President's tariffs. For decades, we have purchased virtually all our raw material from domestic mills. However, soon after the imposition of the tariffs, we found that domestic mills began shifting production and attention to products directly benefited by the tariffs. Customers of products produced by domestic mills, which did not fit their new profit equation, were informed that contracts would not be honored and we saw quality degenerate because they shipped virtually everything they produced. ITW's business units that consume stainless steel sheet found that nearly 30% of deliveries fell below contracted quality requirements forcing our plants to slow production and extend delivery times to our customers.

Overall, where offshore suppliers refused to ship steel because of the tariffs, we moved our purchases to the spot market and saw our productivity decline, in some cases by over 30%. This meant that we had to implement manual inspections, early tool replacement and other heretofore abandoned practices which do little but increase the cost of production—on top of the tariff enriched steel prices.

However, where our chemistry and quality requirements could be met only by off shore producers, we continue to purchase offshore, regardless of the cost; but these costs are not recoverable from our customers.

Market dynamics have changed inalterably

Mr. Chairman, for nearly forty years, the domestic steel industry has sought and, for the most part, received decisions from the ITC that imposed duties and tariffs on many different types of steel products. The purpose of these suits and subsequent decisions was to provide the petitioners the opportunity to modernize, consolidate and become profitable and globally competitive despite challenging market conditions.

Productivity gains achieved by steel consumers over the last decade, we now realize, were only a warm-up for the pressure Original Equipment Manufactures (OEMs) now impose on their supply chains. Suppliers are now expected to create the products/materials and processes that enable OEMs to lower their costs. Not only are suppliers not allowed to pass along price increases, they are expected to cut their prices every year. On top of these pressures, the nation's largest auto producers, General Motors and Ford Motor Company have announced their intention to lower costs further by sourcing over $10 billion in components in China. The inference is that if, as a supplier, you want to continue in that role, you will establish operations in China. Lurking behind this inference is the reality that the single largest cost driver for many suppliers is raw material savings.

Mr. Chairman, ITW had planned to open a manufacturing plant in China for the sole purpose of serving the growing (Chinese) domestic automobile industry. This business model has worked for ITW for decades. Now, through the interaction of our government and the domestic steel industry we find several of our American operations unable to procure reliable sources of globally competitive steel. Concurrently, we are challenged constantly by automotive and other OEM's absolute unwillingness to accept any increase in end-product pricing, especially when they can import the end products duty free. Hence, no matter how we try to keep production in the United States, the aforementioned facility in China will be designed to produce finished products for export to the United States—to the detriment of our employees in Illinois, Michigan, Ohio, Wisconsin and several other states.

The tariffs are a manufacturing issue not just a steel producer issue

Last year, the National Association of Manufacturers was faced with a plethora of its members who urged the Organization to change its decade old policy with regard to steel. At the same time, steel producing members urged the NAM to refrain from becoming embroiled in this debate since, in their opinion, it was a "single sector" issue.

Nonetheless, after many hours of testimony from representatives of some 100 members and associated trade associations and some additional sixteen hours of intense negotiations and wordsmithing, participants from steel producing and steel consuming interests, together with the assistance of NAM staff, forged a consensus document that was adopted by the full NAM Board of Directors on February 8, 2003.

This new NAM Policy contains the following statements:

- "Changes in the steel market affect multiple sectors in the US economy, including agriculture, construction, plastics, appliances, electrical equipment, automotive, aerospace and defense equipment."
- "A vigorous debate within the NAM has helped to illuminate the competitive difficulties of both the steel producing and steel consuming sectors of the US economy."
- "Subsequently, . . . Many steel consuming firms have found that, due to the lack of pricing power, this caused business and financial losses and employment reductions."
- "The NAM believes that the needs of steel producers and consumers should be taken into consideration in formulating international policy on steel. The NAM supports . . . the timely phase out of Section 201 measures . . . ."
- ". . . the NAM recommends that the President appoint a blue ribbon . . panel . . . to analyze the competitive challenges faced by all manufacturers . . . . **AND** the analysis should include input from manufacturers that produce raw and semi finished products in the United States as well as those who import such products . . . to make finished goods in domestic plants."
- "The [Blue Ribbon Panel] report should be completed by July 2003 so that it can lay the foundation for actions in the course of the year."
- ". . . the NAM recommends that the President instruct the International Trade Commission to gather evidence on the impact of the Section 201 steel tariffs on **both** steel producing and steel consuming industries and to report its findings no later than July 31, 2003; . . . ."

In the end, Mr. Chairman, I reiterate the three points articulated at the outset of our comments—**steel is not steel is not steel; the market dynamics of the 21st century does not resemble even those of the last decade of the 20th century; and the tariffs effect a broad segment of US manufacturing not just steel producers.** The consequences of the domestic mills' decisions over the last four decades, which have caused them to seek and secure repeated market protection from the government, should not be borne by their customers who have worked diligently to change with the times.

American consumers of raw material, of any kind, have only a marginal statutory voice in trade law and practice. We appreciate your effort to provide us a venue where we can speak publicly on this matter. We encourage you further to address the inequities of trade law that limit severely the role of purchasers in trade actions.

Respectfully,

Michael J. Lynch
Director, Public Affairs

Indianapolis Metal Spinning Co., Inc.
Indianapolis, Indiana 46214
March 25, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Indianapolis Metal Spinning Co., Inc. We are located in Indianapolis, IN and we employ 13 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers.

As a result of the tariffs, my company has my customers are moving away from me to oversea companies. Unless things change rapidly, my company and other companies like me will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

James C. Kaufman

KMS, Inc.
West Columbia, South Carolina 29170
April 2, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Re: 3–26–03 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

I am writing on behalf of my company, KMS, Inc. We are located in West Columbia, South Carolina and we employ 75 workers. We urgently need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, lower profit margins, longer delivery times, shortages, allocations and lower quality for steel consumers. As a direct result of these tariffs, many of our competitors have been forced to close their doors.

As a result of the tariffs, my company has lost contracts to foreign suppliers and has been forced to cut salaries just to stay in business. Unless things change rapidly, my company will lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Jeffrey S. Dickson
C.O.B.

Larson Tool & Stamping Co.
Attleboro, Massachsetts 02703
April 8, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Re: 3–26–03 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

I am writing on behalf of my company, Larson Tool & Stamping Co. We are located in Attleboro, Massachusetts and we employ 85 workers. We need your help.

The steel tariffs imposed by the President in March, 2002, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers.

We use a blend of foreign and domestic steel, but for quality reasons have historically relied heavily on foreign material for the production of fire extinguisher cylinders that must undergo rigorous safety testing procedures. The imposition of tariffs resulted in price increases of 25–30% and, for a time, elimination of the foreign mill as a source. We were forced to order solely from the domestic mills and deal with the quality problems that ensued. Not only did we have higher priced metal, but also the added expense of higher scrap and reduced productivity. This goes against every effort that my employees and I put forth on a daily basis to help ensure the success and financial health of this company.

As a businessman I am willing to compete in the global economy, but disparities in labor and transportation factors alone, for example, make competing hard enough without the government imposing additional roadblocks. My company this year has lost $500,000 in annual sales to a company in France, and lost a bid on $1,500,000 worth of business to a company in South Africa.

If the tariffs remain in place for another two years, I am sure there will be other lost orders, lost profit, lost investment and lost growth. The tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Sincerely,

Daniel G. Larson
President

Lincoln Electric Company
Cleveland, Ohio 44117
April 9, 2003

Honorable Phil Crane
Chairman
House of Ways and Means Trade Subcommittee
Washington, D.C. 20500

Re: Foreign Steel Tariffs

Dear Mr. Crane:

I wish to add the voices of the 2,800 Lincoln Electric employees in northeast Ohio to those concerned that well-intentioned efforts to protect our nation's steel industry have had a detrimental impact on our own industry. Lincoln Electric is the only American owned producer of certain welding wires used in the defense industry (submarine and tanks). Our plant in Mentor, Ohio is the largest welding wire facility in the world.

We join the National Electrical Manufacturers Association and National Association of Manufacturers in urging the termination of Section 201 foreign steel tariffs. These tariffs have negatively affected Lincoln Electric, the world's leading designer, developer and manufacturer of arc welding products, and are contributing to major job losses.

We sell welding products to fabricators of steel. Our customers have suffered injury due to these tariffs which impose unacceptable cost increases. The result is that fabricators are leaving our shores in droves.

The raw materials price increases that followed last year's implementation of the tariffs have also negatively affected our cost structure and put us at a distinct disadvantage relative to our competitors. While we must incur higher costs to source steel from outside the United States, our competitors can ship their welding consumables into our country without penalty because their products are viewed as "finished goods."

We reiterate the position of NEMA and the electrical industry that the U.S. government must take seriously the statutory language of Section 201, which requires that any remedy adopted by the President must "provide greater economic and social benefits than costs." Unfortunately, the additional tariffs placed on imported steel last March have done much more harm than good for our industry and for electrical manufacturing. Many more jobs have been lost in consuming industries than have been protected in the steel industry by the steel tariffs, and the trend is going in the wrong direction very rapidly.

I am certain that the International Trade Commission would confirm the negative impact on U.S. steel-consuming industries. Therefore, I urge you to look beyond the steel industry and consider the wide-ranging implications of the Section 201 foreign steel tariffs. It is not too late to remove the restrictions and allow U.S. manufacturers to compete fairly in the global economy on an equal footing.

Sincerely,

John M. Stropki, Jr.
Executive Vice President
President, North America

LMC Industries, Inc.
Arnold, Missouri 63010
March 22, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, ***LMC Industries, Inc.*** We are located in ***Arnold Missouri*** and we employ ***300*** associates. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in ***dramatically higher prices (as much as 30%), longer delivery times (some have doubled), and lower quality.***

As a result of the tariffs, ***my company has lost contracts to foreign suppliers totaling 12%. We had to lay off 18 employees as result of this loss. Other customers are looking at China and will move business soon if we cannot compete.*** Unless things change rapidly, my company will ***continue to lose business*** to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Keith A. Suellentrop
Chief Financial Officer

Statement of Doug Ruggles, Martin Supply Co., Sheffield, Alabama

Introduction

My name is Doug Ruggles, and I am the owner and vice president of Martin Supply Co. My company, like hundreds of other small businesses across the United States that supply goods and services to the steel industry, had been badly hurt by the flood of illegally traded steel imports prior to the imposition of the President's steel 201 remedy. Without a healthy domestic steel industry, small businesses like ours cannot survive. The President's decision to provide relief to the domestic steel industry has benefited us directly.

I understand the Committee requested a study of the impact of 201 relief on steel users. Unfortunately, companies that service and supply the steel industry are not covered under the request. The President's program is helping hundreds of small businesses around the United States. Not only is there a direct benefit to companies like mine, but Martin sources materials and supplies for use in steel mills from hundreds of vendors nationwide.

About Martin Supply Co.

Martin Supply Co. is a supplier of industrial products and services based in Sheffield, Alabama. The company was founded by my grandfather in 1934, in the depths of the Great Depression, to provide industrial and maintenance supplies to local industry. The company has expanded to 16 branches and 200 employees. We offer a range of products and services to manufacturing companies. With the exception of raw materials, the company provides its customers with the supplies and services needed to operate a factory.

Martin and the Alabama Steel Industry

When LTV's Trico Steel began production in 1996, Martin Supply saw a unique opportunity to expand its operations. Trico quickly became Martin's largest customer in the material management area, with Martin's sales to Trico totaling as much as $15 million per year. Because Trico was such a promising customer, Martin was willing to invest in the resources needed to serve Trico, including the accumulation of $3 million in inventory. Three million dollars may not sound like very much, but for a small company like Martin it was a very substantial investment.

In 1998, though, Trico began to suffer declining sales, largely because of competition from unfairly traded imports. These imports had a dramatic negative effect on domestic steel prices and sales, as we saw almost daily in our dealings with Trico. Finally, on Thursday, March 22, 2000, at 5:05 p.m., Trico shut its doors. It is no accident that I remember the precise date and time, because my company's future hung in the balance. We all wondered how we would survive the closure of Trico.

We survived, but it was not easy. Unfortunately, we had to lay off the 14 employees who worked full-time on our contract with Trico. Much of the inventory we had accumulated was geared specifically to steel mills. Despite scouring the globe, we were only able to find buyers for about 10% of it. Our ability to borrow was devastated. By the end of 2000, we had run through all the company's cash, and were trying to come up with some plan to revive our company's fortunes.

The Impact of the President's 201 Decision

Things started looking up in 2001, when Nucor Corp. announced an offer to buy Trico's assets and recommence production as Nucor-Decatur. We immediately contacted them to see if we could provide Nucor with the same sorts of products and services we had provided to Trico—and received a positive response. For the first time since Trico shut down in 2000, there was excitement and optimism in our community.

We became even more hopeful a year ago, when President Bush announced his decision to provide meaningful relief to the domestic steel industry under Section 201.

I believe our optimism was well-founded. Because of the stability the President's decision has brought to the U.S. steel market, Nucor got the mill up and running in record time. As a result, steel workers in Decatur went back to work—and employees at small businesses throughout the community went with them. Martin has hired twelve additional employees to service the Nucor-Decatur mill.

The President's decision has helped Martin directly. Because of Nucor's decision to restart production at Decatur so quickly, we have begun selling the inventory of mill supplies we had accumulated, and started a new relationship with a valuable customer we hope will last for many years.

Remembering The Supply Side

In assessing the impact of the President's 201 decision on the U.S. economy, I think it is very important that the Committee take into account the beneficial impact that decision has had on small businesses like ours that supply the U.S. steel industry, and its employees, with goods and services. The President's decision has literally been the difference between life and death for hundreds of small businesses across the country. The President's decision has helped put the domestic steel industry back on its feet—and that action has helped hundreds of small businesses across the United States, including ours.

Statement of Mastercoil Spring Company, McHenry, Illinois

The Mastercoil Spring Company is a medium size spring maker with sales in excess of $12,000,000. Mastercoil is a major producer of springs for the aerosol pump and trigger spray industry and consumes approximately 3,000,000 pounds of stainless wire per year. The majority of this wire is less than .039" in diameter.

When we began in this business, we purchased wire domestically, but as our business grew, the requirements for the wire became more stringent. We found that, by using Sandvik Steel wire from Sweden, we reduced our internal rejects and improved our running speeds. This was over 10 years ago and our ***primary reason for switching to a Foreign source was the quality, which was not available domestically***. In the ensuing 10 years, we tried repeatedly to purchase this material domestically, but we were unable to find any supplier with the same commitment to our market that we had in Sandvik. Recently, another source, KOS of Korea has presented us with comparable quality and pricing and a commitment to our market. We have had little or no active interest by domestic producers during this same period. Domestic producers are interested when business is slow in other areas, but lose interest quickly when other, more profitable, products are available. This is a high volume, low margin product for us and it is the same for the wire producer. Unfortunately, domestic wire drawers expect it to be a high volume, high margin product.

It is a bit disingenuous for these domestic producers to now object to our request for an exclusion by claiming that they can produce the product in the quality and the quantity we require when they have shown no such interest in the past.

We would like to have a level playing field so that our competition, which is primarily European, has no advantage due to the wire price. Prior to the tariffs, the price of stainless wire in Europe was approximately 25% less than the United States. With the addition of the 8% tariff, we are now at a 33% disadvantage. We have been able to maintain our market share by reducing internal costs and taking a lower profit margin than we should. This has now reached the point where we can no longer do this by internal cost cutting. The wire cost represents approximately 65% of the final selling price and any upward trend is devastating unless it is felt by all producers. Since our major competitors in the world market are all located in Europe, we must view their costs as being the ones to follow. Unfortunately, the domestic wire producers have lived in a protected vacuum for so long that they have failed to keep pace with the reality of the world market.

Sumiden states in their Objection that we buy wire at 35% below domestic pricing. This is incorrect. What we told them was that their prices were 35% higher than we were currently paying. We are buying wire from the domestic production units of Sandvik Steel and KOS at these prices. Secondly, Sumiden claims we want to buy at less than our competitors. For all intents and purposes, we have no domestic competition at our major accounts. There are two other producers of these springs in the US and they produce for their own internal consumption and do not sell on the outside. No one else buys this size wire in these quantities in the United States, period. In addition, I was told that they were really uninterested in this volume of business even at the higher prices they quoted. When they say that they informed us that they could not immediately supply our requirements, it is, quite simply, not true. What they said was, "SWPC does not have production capacity to produce 100% of requirements. We would have to provide delivery information on an order-by-order basis." Sumiden knows how this market operates and that we that have a need for them to maintain inventories and production schedules based on our estimates. Our current suppliers are willing to do so and if they want to play the game, they will have to do so, also. In addition, they are requiring sensitive information not required by our current vendors as well as payment terms that are totally unacceptable. What this means is that they have no real interest in this market or in our business unless we are willing to conform to their way of doing business.

The objection by Industrial Alloys is more of the same. Only after we contacted them subsequent to the tariffs did they show any interest. In the past, they had refused to even respond to our inquiries. When they did respond, it was with significantly higher prices and had a "take it or leave it" attitude. One would think that, if they were truly interested, they would come to us and sit down and discuss the situation to see if there were any way to negotiate. They did not. More to the point, they have studiously resisted responding to our subsequent inquiry and only made an effort to contact us after we filed the second exclusion request. Their actions speak louder than words and by their inaction; they show their lack of interest in our business. I'm sure that if we were to show an interest in buying at their inflated pricing, they would happily drop other business in favor of this very profitable business.

Quite simply put, both objectors have offered pricing which is, in our opinion, at a level that appears to be price gouging. Our current sources sell to our market at prices that are 20 to 35% less than the objectors pricing. They understand that our market is different than the general spring wire market and treat it accordingly. Treating different markets with different pricing is a well accepted practice both legally and practically. Unfortunately, these objectors appear to be unaware of this.

These two companies have filed their objections not because of any real interest in our business or this market, but rather as a means to punish us for even daring to buy from their competitors. The fact that our two suppliers produce this product in the US at the same pricing would seem to indicate that they are better at it than the two objectors. If we were to pay the pricing that they ask, we would be out of business very quickly. At that point, the domestic market would have disappeared and all the springs would be produced offshore. The objectors appear either unable or unwilling to understand the dynamics of the market.

Both Objectors have filed objections which are filled with the same half-truths and innuendo as they had in their objections to our original filing. For instance, Industrial Alloys says that, "This is a relatively common product for which Industrial Alloys or most other domestic spring wire producers could supply trial shipments within a few weeks. Under these conditions, the approval process should be between one and three months." If they truly believe this, then they are completely unfamiliar with this market segment and the requirements of our customers. Both objectors have listed numerous customers to whom they "say" that they sell the *exact* product. Since we are unable to see the names of these customers, we cannot refute them specifically. We can say, however, that none of these customers would buy the *exact* product that we do. The reason I can say this is that none of them deal with our customers. We were able to show this in a response to the Trade Commission, but nothing was done. It appears that the mere presence of an objection, whether valid or not, is sufficient for the Trade Commission to uphold the tariff and fail to grant the exclusion.

We should not be penalized in the world market because US wire producers have failed to keep pace with the rest of the world. This is the same thing that has happened with the US steel industry, in general, and the resulting loss of jobs in the steel consuming industries is tragic.

We have taken steps to ensure our continued presence in this market. We have recently purchased an Italian spring making company so that we can be competitive in the European market. At present we still hope that this will be an addition to our current operations rather than taking away from them. However, if the tariffs continue and the disparity of costs between Europe and the United States continues, we may well see additional jobs produced in Europe to be sent back to the USA. This is the real danger for the economy, that the tariffs will force production out of the country, but will not result in any meaningful improvements in the domestic steel industry. By the continued protection of this industry, they are encouraged to maintain the status quo, rather than accepting that they need to make changes.

Matenaer Corporation
West Bend, Wisconsin 53090
March 26, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Matenaer Corporation. We are located in West Bend, Wisconsin and we employ 55 workers.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. Every grade of steel we purchase has become much more expensive. For example the cost of high carbon strip steel, the second most common type we require has increased by 40–70%. Often, we can not even obtain certain grades because of shortages. We are then forced to cancel the order from our customer. The customer then finds an offshore producer who can obtain the steel. Believe me, that work is never coming back!

As a result of the tariffs, my company has lost millions of dollars of work to offshore suppliers. I never thought I would say this, but our next expansion will be offshore—hiring foreign workers, not American workers. Unless things change rapidly, my company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further increases in unemployment and damage to the economy.

Thank you for your consideration.

Sincerely,

Warren Stringer, Jr.
President

Statement of G.J. Bliss, Sr., Metal-Matic, Inc., Minneapolis, Minnesota

Background

Metal-Matic, Inc. is a Minneapolis-based manufacturer of carbon and alloy welded tubular products. Established in 1951, it now operates from three facilities: two in Minneapolis and one in Bedford Park, Illinois. With over 600 employees at these locations, the company manufactures welded steel tubes serving customers in the automotive, defense, furniture, appliance, construction, and agriculture equipment industries, among others. Each of these products is carefully crafted to one of various specifications, including DIN 2393, ASTM A513, SAE J356 and J525, and other proprietary customer specifications. Each one is individually engineered and custom made by Metal-Matic, Inc. to meet specific performance and durability criteria required in various applications by its customers, including the automobile industry. Considerable resources are invested into the development of each product including development of modified steel grades with our flat rolled steel suppliers. Metal-Matic, Inc. has a well-earned reputation for quality and ability to meet its customers' product demands, specifications and delivery requirements.

The mounting turmoil in the domestic steel industry has created a serious operating hardship for the entire domestic steel tube manufacturing industry. Metal-Matic, Inc. is especially vulnerable to these difficulties because as steel producers disappear from the landscape it becomes increasingly difficult to find producers willing to provide steel to the very demanding specifications (i.e. uniform mechanical properties, modified chemistries, free of non metallic inclusions) needed to reliably perform in the end use.

In addition, upheaval in global markets adds to the inability of U.S. manufacturers to purchase raw materials at a price even close to prices available to their European competition.

See Fig. 1: "2 year steel price trend"

Simply put, European manufacturers can produce and ship most steel tubing to U.S. customers cheaper than domestic producers, such as Metal-Matic, Inc. Prior to the exemption granted to a European competitor, Rothrist Tube (Switzerland), Inc. ("Rothrist"), domestic manufacturers, most notably Metal-Matic, Inc. the leading manufacturer of these exempted products, were in a serious competitive disadvantage. Now the future is even more bleak. If Rothrist is able to further undercut domestic tube prices and Metal-Matic, Inc.'s market share shrinks it will have dire consequences on its ability to purchase custom alloys from steel producers, perhaps at any price. Therefore, Metal-Matic, Inc. and domestic steel producers will suffer additional loss of business.

Overview of the Current Situation

In November of 2001 a request for an exemption from Section 201 was filed on behalf of Rothrist. Section 201 was established by the United States Government as a safeguard measure on steel products. Section 203, the regulation under which the exemption was sought, was established to protect U.S. customers unable to obtain the required products domestically and also fully meet the standard of not undermining the steel safeguard's relief.

Three product exemptions were granted to Rothrist in the action of the USTR of August 22, 2002. Those products now excluded from Section 201 are:

1. Welded drawn over mandrel tubes for swaged or straight prop shafts—X–162.2
2. Welded drawn over mandrel tubes for shock absorbers—X–162.3
3. Welded drawn over mandrel tubes for gas springs—X–162.4

Metal-Matic Inc.'s Objection

Metal-Matic, Inc. maintains that the above exemptions were granted in error. At the most basic level U.S. customers are able, and do, obtain the required products necessary to meet their product or inventory needs. Further Metal-Matic, Inc. maintains that this action provides Rothrist and other European companies with a competitive advantage, and directly undermines the relief intended by the Section 201 safeguards.

The document filed on behalf of Rothrist has several gross errors and omissions. In the public version provided by USTR dated November 13, 2001, Rothrist states that "The U.S. tube industry does not produce like or competitive products and where it does, production is limited . . .." (exh. 1). In fact Metal-Matic, Inc. and other domestic competitors manufacture these products serving the same customers as Rothrist as a matter of regular course. Metal-Matic, Inc. can and will document, when requested, its customer base and would request documentation from Rothrist or the USTR of any customers for whom we have been unable to meet the needs in these product areas, in terms of specifications or supply.

Rothrist infers that its sales of precision tubes demand a quality not otherwise available (page 3, Ibid.). These products are available and provided by Metal-Matic, Inc., again on a regular basis, meeting specifications and supply demands. Rothrist also asserts that its price is generally higher on the majority of the tubes than similar U.S. products. Rothrist makes this assertion several times, but see exh. 2 for one example. While it is interesting to note that Rothrist acknowledges the production of similar tubes in the U.S., but claims to charge higher prices than U.S. producers charge, Metal-Matic, Inc. has data from our customers which indicates otherwise. Metal-Matic, Inc. will provide this data upon request. Metal-Matic, Inc. does not export gas spring or shock absorber tubes to Europe, even though we are acknowledged by our customers to be a quality supplier (exh. 3). Stabilus is the largest gas spring manufacturer in the world and the U.S. We do not supply Stabilus of Germany. This is certainly evidence that our prices are not competitive in Europe.

The comments made in the U.S. industry's document, while true for the various affiliates it represents, is grossly incomplete as it might apply to Metal-Matic, Inc. because the exempted products have been, and continue to be a significant part of Metal-Matic, Inc.'s business. In addition, Metal-Matic, Inc. has the capacity, and has in fact supplied *all* the domestic demand for gas spring tubing, including the demand for Mexico.

In addition to the Rothrist exemptions, we believe exemptions have been granted to Sumitomo for welded, square SCM 815 alloy steel tubes for TV picture tube frames. There is also an exemption N–458, for drawn-over mandrel steel tubing for gas springs. Metal-Matic, Inc. can and does manufacture both these products, from domestic produced steel.

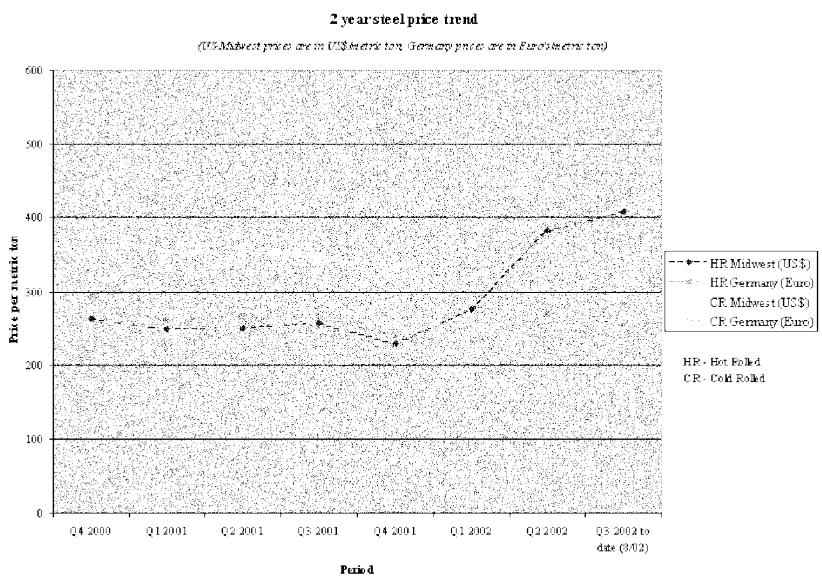
In summary, the increased tariff, while protecting the U.S. steel producing industry, has caused prices to increase to users (including Metal-Matic, Inc.). We must attempt to recoup these increased costs, but to grant exemptions to our foreign competitors, who for a number of years (strong dollar and cheap foreign steel, plus help from their governments?) have been underselling us by 20–30%, could cause our company to fail.

Metal-Matic has already lost $20 million in orders since the exemption was granted to Rothrist, and this has involved our largest volume, most efficiently produced goods. In addition, productivity in the facilities has dropped 3 to 5 percent since 2000. It should have increased during that period by 5 percent as a result of substantial equipment changes but has been badly hurt by foreign under pricing and other developments in the industry. As a result, employment in our facilities has already been reduced about 10 percent since 2000.

Metal-Matic Inc.'s Request

Metal-Matic, Inc. accordingly has requested that the Administration reconsider the exemptions granted to Rothrist. To paraphrase the trade act of 1974 itself, the company believes that the current exemption is damaging to the short—and long-term economic and social costs relative to the short—and long-term economic and social benefits. Specifically, if unchecked we believe that this action, coupled with the continued uncertainty in the steel industry, will have a dire impact on the company, its 600 employees and several hundred customers.

Your help in this matter is greatly appreciated.



I. OVERVIEW

Pursuant to the Office of the United States Trade Representative, Trade Policy Staff Committee Notice for *Public Comments on Potential Action Under Section 203 of the Trade Act of 1974 With Regard to Imports of Certain Steel*,[1] on behalf of Rothrist Tube (Switzerland) Inc. ("Rothrist"), we request exclusion of the following products from any remedy imposed on imports of carbon and alloy welded tubular products (other than oil country tubular goods):

- **Tubes for assembled camshafts**: HTS subheadings 7306.30.5015 and 7306.50.5030;
- **Tubes for swaged or straight propshafts**: HTS subheadings 7306.30.1000, 7306.30.5015, 7306.50.1000 and 7306.50.5030;
- **Tubes for shock absorbers**: HTS subheading 7306.30.5015;
- **Tubes for gas springs**: HTS subheadings 7306.30.1000 and 7306.30.5015;
- **Tubes for steering cylinders**: HTS subheading 7306.30.5015;
- **Tubes for half shafts**: HTS subheadings 7306.30.5015 and 7306.50.5030; and
- **Other precision drawn over mandrel steel tubes**: HTS subheadings 7306.30.5015 and 7306.50.5030.[2]

Each of these products are classified under DIN 2393C, but individually engineered and custom made by Rothrist to meet specific performance and durability criteria required in various applications by the U.S. automotive industry. A very small percentage of Rothrist's tubes are used by the furniture finishing industry where high-quality standards need to be met.

As described below, the U.S. tube industry does not produce like or competitive products and, where it does, production is limited and foreign supply is crucial to meet domestic demand. During the Commission's October 1, 2001 injury hearing and the November 8, 2001 remedy hearing on Welded Tubular Products Other Than OCTG, none of the U.S. producers testified that precision and high-end DOM welded tubes were causing or threatening to cause serious injury. In fact, the only reference to precision tubes during the hearings was made by a U.S. steel service center representative who testified that:

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1 66 Fed. Reg., 54321 (October 26, 2001).

2 Rothrist previously submitted exclusion requests for these specific products on October 17 in response to the International Trade Commission's ("Commission") Exclusion Request Data Sheet, as well as in an October 29 pre-hearing brief on remedy to the Commission. A public version of Rothrist's pre-hearing brief, including relevant Exhibits, was submitted to the TPSC via e-mail on October 30.

Product	[• •]
Typical Tube Size	• Diameter: between 15 mm and 30 mm • Wall thickness: between 1.0 mm and 2.5 mm

2. **Harmonized Tariff Schedule And DIN Classification**

This merchandise is classified under HTS subheading 7306.30.1000 and 7306.30.5015. The DIN Standard for this product is DIN 2393C.

3. **Basis For Exclusion**

We believe that the U.S. tube industry produces only a small quantity of like or directly competitive products and that, where it does, production is limited and foreign supply is necessary to supplement domestic demand. It is highly unlikely that importing the above described product in any quantities would cause the U.S. tube industry serious injury or threat thereof.

4. **Domestic Production And Market Conditions**

Rothrist believes that one other U.S. tube producer, [ ], offers a similar product, but at lower prices. Other U.S. tube producers may offer similar products, but they often do not meet the same high quality standards for the size ranges that the U.S. gas springs industry has come to rely on and expect from Rothrist. Rothrist's exports to the United States are detailed in Exhibit 1. EXH. 2

E. **Tubes for Steering Cylinders**

1. **Product Description**

Certain DOM welded steel tubes are used by the U.S. automotive industry to produce high performance hydraulic steering cylinders. Rothrist's tubes allow steering cylinder manufacturers to cut costs because of: (i) excellent ID surface and perfect circularity eliminating expensive honing (*i.e.*, reworking the inner side of the tube with a special cutting tool that is pushed through the tube in order to machine the ID surface and to make sure the ID is absolutely round); and (ii) very low reject rates of finished products. Rothrist manufactures its tubes for steering cylinders to meet the following chemical, physical and mechanical specifications:

Material characteristics • St 37.2	• High strength steel • Very high repeatibility, no inclusions and consistent material

EXH. 3

STABILUS

9/10/02

MJT
RAB
WTA
GAL
JTH

August 15, 2002

John Anderson, Q.C. Mgr.
Metal Matic, Inc.
629 Second St. S.E.
Minneapolis, MN 55414
(800) 328-5494

Supplier Rating 1st Quarter 2002 – A

Evaluation Element	Attained Points This Qtr	Last Qtr Score	Trend From Last Qtr.
1. Delivered Quality (Max. 50 points)	50	50	0
2. Quality of Operation (Max. 20 points)	20	20	0
3. System - audit (Max. 30 points)	30	30	0
Score Total (Max. 100)	100	100	0
Performance Trend			+ = Positive - = Negative 0 = Unchanged

Your ranking is "A", "B", or "C", per the table that follows. **If you are a "B" or "C" supplier, you must submit a corrective action plan to Stabilus on how you will achieve an "A" ranking. The plan must be received before the beginning of the next rating quarter. The corrective action plan should be sent to the Stabilus Supplier Quality Department, to the attention of Jeff Brewer. The address for correspondence is: Stabilus 1201 Tulip Drive, Gastonia, NC 28052.**

Rank	Points	Definition
A	96-100	Acceptable, No Actions Required
B	90-95	Not Meeting Requirements, Corrective Action Required
C	Less than 90	Unacceptable Performance, Major Corrective Actions Required

Unweighted actual PPM score for this quarter parts delivered vs rejected: 0

Comments: ____________________

Best Regards,

Stabilus

Director of Quality

Technical Buyer

Supplier: Metal-Matic, Inc. Assessment Period:

Assessment of Quality of Supplier Operation

Assessment Criteria	Evaluating Department Weight (%)	Evaluation: Logistics	Engineering	Supplier Quality	Total Points (1)	Total Points Divided By Depts (2)	Factor	(2) Factor
1. Quality of Communication								
Clear, precise expression		100		100	200	100	0.12	12.00
Reaction time appropriate to task		100		100	200	100	0.09	9.00
Active support (personal visits, calls, written information)		100		100	200	100	0.09	9.00
2. Quality of "just in time" delivery								
Adherence to quantity (oversupply, undersupply consequences)				100	100	100	0.16	16.00
Adherence to schedule		100			100	100	0.16	16.00
Flexibility under unusual circumstances		100			100	100	0.08	8.00
3. General Quality consciousness								
General readiness to provide service and support of overall activities by TOP MANAGEMENT				100	100	100	0.12	12.00
Positive quality development planning ("Philosophy of Supplier")				100	100	100	0.06	6.00
General readiness to provide technical and developmental support, also specialized expertise (cooperative collaboration, e.g. on problems or joint searches for solutions, utilization of a timely and effective system such as FEM, mold flow calculation, etc.)		100			100	100	0.06	6.00
Quality of agreed upon verifications / certifications / production sample inspection reports (completeness / correctness of timing /				100	100	100	0.06	6.00

Comments:
Logistics

Engineering

Supplier
Quality

Percentage of total results for "quality capability" = 20%
Formula points achieved / 100 * 20 = 20.0 Points

MiTek Industries, Inc.
Chesterfield, Missouri 63017
April 9, 2003

Chairman Philip M. Crane
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Subject: The Impact of the Section 201 Safeguard Action on Certain Steel Products

As a steel consumer, MiTek Industries, Inc. has suffered both business and financial losses resulting from the Section 201 steel tariffs imposed by the Bush Administration in 2002. Unless these tariffs are removed, many unintended, adverse conditions will continue. The losses to MiTek Industries, Inc. include:

- Our steel costs increased over 27% from March 2002 through December 2002, of which less than 6% was recovered during 2002 because MiTek Industries, Inc. honored all pre-existing customer pricing contracts. As a note, all of our steel suppliers broke agreements during 2002.
- MiTek Industries, Inc. has historically purchased material from both U.S. and foreign suppliers to meet steel requirements, diversify our supply base, and obtain the most competitively priced steel available to us. Since enactment of Section 201, foreign sources are hesitant to supply any pricing and will not commit to any tonnages even after pricing is agreed upon.
- During the 3rd and 4th quarters of 2002, MiTek Industries, Inc. realized a supply shortage as we were put on allocation with some of our steel suppliers and could not obtain foreign material. Our customers were negatively impacted, as we could not provide finished goods to meet their timing requirements. To minimize this effect from reduced tonnages and late deliveries, we were forced to either pay excessive freight charges to ship product from another MiTek facility, or purchase more costly material on the spot market. MiTek spent over $200,000 to transfer steel intra-company to ensure operations were not impacted by steel shortages.
- However, we were not able to cancel any purchase orders with mills behind on delivery, so we received highly priced, unneeded material at yearend and into 2003. The inventory carrying costs on this higher priced steel, which we are unable to pass through to our customers, exceeds $150,000 minimum.
- The majority of MiTek Industries, Inc. products are used for residential building structures. The costs of higher steel and late deliveries are impacting not only our company, but also our customers—the truss manufacturers, and the end consumer—the American home buyer.

MiTek Industries, Inc. is in favor of the early termination of the Section 201 tariffs. While MiTek Industries, Inc. believes that industry consolidation is required within the steel market, we do not believe the consumer should bear the cost of this process. We are evaluating every aspect of our business looking for efficiency improvement opportunities in an attempt to offset our ever-rising costs. We applaud those steel producers who are actively doing the same. However, we believe other steel producers are using the Section 201 tariffs as a crutch to artificially inflate pricing to compensate for their inefficiencies. The free market supports natural selection, which ensures survival of the fittest. The Section 201 tariffs are prolonging this process, with significant cost to all parties involved.

Respectfully submitted,

Thomas J. Manenti
Executive Vice President

Mitsubishi Motors North America, Inc.
Normal, Illinois 61761
April 9, 2003

The Honorable Philip Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
1104 Longworth House Office Building
Washington, D.C. 20515–6354

RE: Written Statement for 3–26–03 hearing entitled, "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Mr. Chairman:

Mitsubishi Motors North America, Inc. ("MMNA") appreciates this opportunity to present its views to the Trade Subcommittee of the House Ways and Means Committee on the impact of the Section 201 safeguard duties imposed on certain steel products. From the perspective of MMNA, the provision of safeguard relief to the U.S. steel industry has had an extremely undesirable affect on the cost of steel, on its availability, and on its quality. This is so even though MMNA has adopted a policy of obtaining all of its steel from U.S. sources whenever possible, and imports steel only when it is not available from U.S. sources.

Since March 20, 2002 when the safeguard duties became effective, Mitsubishi Motors has seen a significant increase in the cost of the U.S. produced steel it purchases. These price increases have not been negotiated, but unilaterally imposed at times, despite the existence of supply contracts (which have been deliberately breached by the U.S steel companies). Essentially, MMNA was told that if it wanted steel, it would have to agree to these unilateral price increases, some for periods that far exceed normal contract terms and exceed the Section 201 safeguard timeframe.

MMNA's experience in purchasing steel for its resale program mirrors its experience in purchasing steel for in-house use. For example, in March, 2002, hot rolled steel sold at approximately $370.00 per ton. On April 15 of that year a price increase of $25.00 per ton was announced, followed by increases of another $25.00 per ton on May 1, 2002 and another $20.00 per ton on June 1, 2002. In six weeks, the price of hot rolled steel increased by $70.00 per ton (almost 19%). Then, on August 1, 2002, another increase of $60.00 per ton was announced, resulting in a $130.00 per ton (35%) increase in the price of hot rolled steel in three and one-half months.

The situation with respect to cold rolled steel and coated steel was similar. Before the imposition of the safeguard import duties, cold rolled steel sold for approximately $440 per ton, and coated steel sold at approximately $540 per ton. On April 15, seven months after the safeguard duties were imposed on imported steel products, a price increase of $80 per ton was announce for both products, followed by a second increase of $70 per ton on July 1. Thus, over a two and one-half month period, the cost of cold rolled steel increased 34%, while the cost of coated steel increased 28%.

The unilateral price increases imposed by U.S. steel companies for steel purchased for MMNA in-house and resale program use resulted in cost increases of nearly $14 million in 2002–2003.

Since 1994, Mitsubishi Motors has purchased virtually all of its steel from U.S. sources. In May of 2002, however, MMNA was forced to seek a small amount of specialty steel from a foreign supplier due to its unavailability from U.S. sources. Our experience with this imported steel mirrored our experience with domestic steel. It was originally quoted $988.00 per ton in May 2002. By September, the steel was subject to three separate price increases, raising the price to $1,214.00 per ton—an increase of about 23%. The safeguards appear to have resulted in price inflation globally.

However, it is not just the price increases that adversely affect Mitsubishi Motors. It is also the fact that supply contracts are not being honored by either U.S. or foreign suppliers. For example, it is not uncommon that steel which is under contract to MMNA be sold to a third party if that party is willing to pay a higher price. The resulting uncertainty in supply (and price) leads at times to an inability to source steel, or to source it in a timely fashion, resulting in production delays.

Further, because of the difficulty of getting steel from suppliers, steel that at one time would have been rejected for not conforming to customer requirements has had to be purchased and refined in-house (resulting in additional costs) so as not to compromise the quality of the finished product. Thus, MMNA, a company that has made a conscious decision to source steel from U.S. suppliers, finds itself in a position where it is paying higher and higher prices for steel which at times is of a quality that would not have been accepted in the pre-safeguard period. Additionally, the supply of product has become uncertain, and contracts are routinely ignored, with customers having to accept unilaterally imposed price increases, or face the prospect of having steel already contracted for sold to other customers.

From the perspective of Mitsubishi Motors, the safeguard relief provided to the U.S. steel industry has proven to be an incredibly disruptive force in the steel marketplace. It appears that U.S. steel companies, instead of using this relief period to adjust to import competition, are using it as an opportunity to make as much money as possible during the period that these additional tariffs are imposed on imported product, and even beyond. This surely was not the intent behind the safeguard remedy.

MMNA appreciates the opportunity to present its view on the impact of the steel tariffs on our company to the House Ways and Means Trade Subcommittee. Should the Subcommittee or its members have any questions concerning these comments, please do not hesitate to contact me at (309) 888–8210.

Sincerely,

Gary Shultz
Vice President and General Counsel

Statement of The Honorable Alan B. Mollohan, a Representative in Congress from the State of West Virginia

Mr. Chairman and Members of the Subcommittee: My Congressional District is home to both Weirton Steel Corporation and Wheeling Pittsburgh Steel—respectively the nation's seventh and eighth largest integrated steel producers. Steel mill related employment—in the mills, at suppliers, transportation companies, customers located close to the mills, and jobs in the service sectors—are the livelihood of my district.

I commend the President for taking the important first step in defense of the steel industry with the Section 201 tariff program. The tariffs have provided Weirton Steel and Wheeling Pitt with a much needed "time-out" from years of surging steel imports.

Of particular importance to these companies was the tariff set on Tin Mill Products, or TMP for short. Weirton is the nation's second largest TMP producer, with approximately 25 percent of the domestic TMP market, accounting for nearly 50 percent of its annual revenues. Wheeling has a subsidiary across the Ohio River, Ohio Coatings, which produces TMP and utilizes a significant portion of Wheeling's production.

Both Weirton and Wheeling have used the first year of the program to restructure their companies. Though these restructurings cost jobs, they will hopefully result in the continued steelmaking in the Ohio Valley, which has now gone on for a century. Weirton trimmed its work force, reduced its debt by $115 million dollars, and lowered its interest costs by $25 million dollars each year for the next three years. Because of the relief the tariffs provided, this comprehensive restructuring prevented the company from filing for bankruptcy.

Wheeling, which has been in Chapter 11 for two years, trimmed its workforce, reduced costs significantly, and just obtained loan financing which will allow it to emerge from bankruptcy and install a state of the art electric furnace.

There is no question that, without the respite provided by the tariff program, these companies would not have been able to engage in their restructuring plans, more steel companies would have filed for Chapter 11, and I believe some of the bankrupt steelmakers may have liquidated by now.

Upon delivering the tariff program, President Bush made it clear he expected the domestic steel industry to use the program's three-year duration to rebuild itself through consolidations, acquisitions and restructurings. One year into the program, the industry has made good use of the time, and progress is being made towards the Administration's expectations.

It is unfortunate that a World Trade Organization panel recently ruled against the U.S. 201 case. We know the Administration plans to appeal the WTO ruling. However, we know we cannot take anything for granted. Given the massive problems in the U.S. manufacturing sector and repeated WTO rulings against the U.S., I urge the Ways and Means Committee to hold hearings on the harm to the U.S. trade deficit and employment caused by the WTO.

I now want to switch to an issue that is deeply disturbing—one I and others believe must be expeditiously addressed.

When the tariff program began, the Administration exempted certain "developing countries" from the process. As the tariff program unfolded, we began to notice a growing trend.

While steel imports from nations saddled with the tariffs decreased, many of the exempted developing countries have taken, and continue to take, advantage of the void in the domestic marketplace by increasing their steel shipments to the U.S. As a result, producers in developing countries are the benefactors from the 201 relief instead of the domestic steel industry.

The tariff program is working. However, the rise in imports from the exempted countries is chiseling away at its effectiveness. The U.S. industry is not benefiting from the full force of the program because of growing imports from the developing nations.

For this reason, I encourage the Ways and Means Committee to urge the Administration to reconsider its position on these particular countries and include them in the tariff program. At the onset of the tariff program, the Administration indicated it would monitor the developing nations' import rates to determine whether or not significant increases were taking place. We know now that increases have occurred and action should be taken. The attached chart demonstrates the surge in imports from these developing countries.

Clearly, these import surges must be stopped. Again, I ask that you help us address and resolve this issue with the Administration. The Appropriations Committee is addressing its concerns on these enforcement issues with Ambassador Zoellick and Secretary Evans.

My District is also home to many steel consumers, large and small. I know that many steel consumers testified at your hearing on the harm to consumers of the 201 program. I believe their testimony was misguided. First, without the program, the steel companies in my District and many other producers would have gone out of business, forcing U.S. consumers to be dependant on imported steel instead of having local suppliers. Second, while steel prices initially increased as a result of the tariffs, though they never reached the pre-crisis levels of 1996, they have since receded and are well below ten-year averages. Steel consumers cannot base their business models on access to steel at unsustainably low prices that will force their suppliers out of business.

I am very sensitive to the competitive pressures on steel consumers. I believe many of these pressures come from our unfair trading relationship with China. Your Committee has primary jurisdiction over trade and I urge you to address China trade issues, in particular, our continued tolerance of the Chinese government fixing their currency at an undervalued rate.

Thank you for this opportunity to present testimony in this hearing.

Flat-rolled Products excluded Tin Mill

Imports Surge For 2001 Thru 01 2003

Country	2001 (ST)	2001 Import Share (%)	2002 (ST)	2002 Import Share (%)	01 2003 (ST)	01 2003 Import Share (%)
Turkey	329,520	2.22%	456,661	2.49%	66,898	4.63%
India	107,362	0.72%	419,418	2.29%	51,574	3.62%
Egypt	42,600	0.29%	202,071	1.10%	60,699	4.26%
Romania	76,064	0.51%	155,172	0.85%	64,724	4.55%
All Other Excluded Developing Countries	909,616	6.12%	1,320,892	7.21%	159,680	11.22%
All Excluded Developing Countries	1,465,162	9.86%	2,554,214	13.93%	402,575	28.28%

Statement of Christopher M. Bates, Motor & Equipment Manufacturers Association, Research Triangle Park, North Carolina

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 Section 201 tariffs on certain steel products to the House Ways & Means Trade Subcommittee. This hearing marks a critical landmark for our member companies, both large and small, and the 2.2 million individuals that they employ in the United States. Automotive suppliers serve as one of the country's leading steel consuming sectors, with an overwhelming 95 percent of that consumption stemming from U.S. steel producers. We thank Chairman Philip M. Crane and the members of the Subcommittee 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. Combined, MEMA serves and represents more than 700 companies. 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 West Virginia, as well as Michigan. The average vehicle sold in the U.S. contains more than 1,810 pounds of steel parts and, with the evolution of the automotive industry over the past few years, suppliers have assumed a far greater percentage of the industry's overall steel purchases and heavy manufacturing. Combined with the supplier industry's present lack of pricing power in the global automotive market, our sector has faced significant financial and competitive ramifications due to the Section 201 steel tariffs.

MEMA's principle argument in addressing the steel safeguard program and the related tariffs is that difficult economic times require sound economic policies. The current policy has had serious, albeit unintended, consequences on the automotive supplier industry, as well as other steel consuming industries in the United States. This additional pressure and financial instability comes at a time when the manufacturing sector of this nation is already in a weakened state. According to the Bureau of Labor Statistics, the United States has lost 1.8 million manufacturing jobs in the last two years. This nation now registers only 16.5 million factory jobs—the lowest number in 40 years. Given this set of circumstances, an analysis of the consequences of the steel tariffs on steel consuming manufacturers becomes of even greater importance. The Administration must seek to collect and analyze this data in order to properly assess the interaction between the nation's economic health and the steel safeguard program. Consequently, MEMA strongly recommends that the Administration commence the collection of this information in order to ensure its integration with the formal mid-term review in September 2003. From our perspective, government and industry must cooperate to craft a preferable alternative for all manufacturers in the United States.

The Section 201 steel tariffs sparked a rapid and dramatic escalation in the price of the domestic steel products utilized by automotive suppliers in the United States. Suppliers of all sizes have incurred significant financial loss as a result of this shift, but the impact on small and medium sized automotive suppliers, who possess the least bargaining power against large steel producers, has been far more damaging. Upon the implementation of the tariffs in March 2002, many domestic steel producers and distributors simply disregarded existing supply contracts. Automotive suppliers remain among the leading customers of the domestic steel industry; thus, many of our companies had long standing relationships with mills, mini-mills and service centers in the United States. They did not anticipate the nullification or amendment of their existing contracts and were not in the financial position to suddenly absorb sharp price increases.

Despite the general expectation that steel prices would rise in the United States following the announcement of the tariffs, the automotive supplier industry has witnessed price peaks far beyond the predicted levels. A survey of our members, taken in December 2002, revealed the following range of price increases pursuant to the President's announcement in March 2002:

Hot Rolled Sheet	+18 % to 65%
Cold Rolled Sheet	+10% to 65%
Galvanized	+35% to 43%
Welded Tube	+28% to 30%
Tin Plate	+30%
AKDQ	+36%
Bar Stock	+15% to 77%

MEMA gathered data from 17 select automotive parts suppliers to assess the financial and business impact of the steel tariffs on the industry. Our survey of this sample set of 17 companies indicated losses in 2002 of **$122 million** directly attributable to higher steel prices. Our sample set of only 17 automotive suppliers projected a staggering cumulative cost **of $224 million in 2003** due to increased steel prices alone. This small sample points to far greater financial and employment loss and diminished competitiveness throughout the American automotive industry, as well as other steel-consuming sectors. Recent reports indicate that certain domestic steel producers intend to institute additional price increases of up to 10 percent in order to recoup their production costs. These demands will be placed on top of the steel industry's present pricing structure for auto suppliers; a burden that our industry cannot sustain.

Price increases, however, are only one of the mechanisms by which the Section 201 tariffs have caused disruption and dislocation in our industry. After the tariffs took effect, many steel producers and distributors placed their automotive supplier customers on allocation and failed, or refused, to make timely deliveries. Among the same sample set of automotive suppliers lead times (the period of time necessary for a steel mill or distributor to make delivery on a shipment) increased from approximately 8 to 12 weeks before the tariffs took effect to approximately 16 to 20 weeks. Losses due to longer lead times and delivery problems arising from the steel tariffs in 2002 totaled $12 million among the sample set of 17 automotive suppliers. It is now clear that the supply and delivery problems present in 2002 are not a temporary or transitional distortion and will, unfortunately, continue to affect our industry throughout 2003. 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, triggered by the tariffs, have disrupted production schedules, budgets and in some cases prevented our companies from fulfilling promises made to their customers. Many automotive suppliers have been forced to idle production lines and send employees home over the past 13 months due to missed steel shipments. This irrevocably damages the supplier and its employee base.

The Section 201 steel tariffs were imposed upon the sometime supplier industry at a time when the industry is already facing a number of considerable challenges. Many of these challenges mirror those of the domestic steel industry: global overcapacity in the automotive industry, loss of domestic market share over the past decades, rising foreign competition, and unfair trade practices by which other nations support their domestic automotive industries or block the imports of U.S.-manufactured vehicles and automotive parts. U.S. automotive suppliers are further facing strict cost reduction mandates from their customers. Failure to meet the targets can often disqualify a supplier from winning future business with a particular automaker and result in the loss of current business. 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 further damaged our competitive position in relation to foreign auto parts manufacturers in the U.S. market and in overseas markets. Since March 2002, automotive suppliers have witnessed a shift in their customers' purchases from U.S. to foreign sources of automotive parts and components in order to reduce their exposure to the uncertainty created by the Section 201 steel tariffs. Based on our experience in 2002, it is clear that imports of intermediate and finished products, and the related job losses from that shift of sourcing, will continue to grow. High steel safeguard tariffs are presently forcing large tier-1 automotive suppliers to begin manufacturing or buying components or complete assemblies, that they previously made or purchased in America, from overseas. This development threatens a substantial number of U.S. jobs and the viability of smaller U.S. tier-2 and tier-3 automotive suppliers who make such products. Other companies are responding to the pressure of high steel tariffs by slowing production lines or considering the permanent relocation of manufacturing facilities to other countries. If these product lines, and the associated manufacturing plants, are moved to overseas locations, it is highly unlikely that they will ever return to the United States. The loss of jobs will be a permanent scar from the steel safeguard program.

Automotive suppliers, representing each tier of the industry, have sought relief under the Administration's steel exclusion process. Obtaining exclusions, however, has proved to be an expensive and complex legal and regulatory process, essentially out of reach for many small and even medium sized automotive suppliers. Other automotive suppliers who could not obtain the necessary raw materials from their U.S. sources sought exclusions, but failed to secure any relief due to opposing claims from the U.S. steel industry. Overall, the exclusion process has provided little relief to steel consumers in our industry and is not a remedy to the supply problems arising from the tariffs now faced by our industry.

The impact of the steel safeguard program and the Section 201 tariffs on all stakeholders in the United States—including steel consumers—must be considered and factored into the formal mid-term review. The current policy is costing America jobs and profits in steel consuming sectors and its damage will continue far beyond the next few years. Although the tariffs are presently scheduled to phase out in 2005, automotive suppliers are losing business that is set into place several years in advance; thus, we will continue to suffer financial and business losses far beyond that point. The cost to our competitive stance in the global industry exceeds even those calculations, as it will be irrevocable.

Protecting jobs in the domestic steel industry at the cost of high-paying manufacturing jobs in the automotive sector is not a sound policy nor is it a desired long-term result. From the standpoint of the United States' long-term economic and trade policies, we do not view this issue purely in terms of comparative job losses and business losses between steel makers and steel consumers. That is not our intent. Rather, we seek to demonstrate the factual claims concerning the impact on our companies and to highlight the potential damage to the U.S. manufacturing sector as a whole if the Administration does not address this immediate crisis.

The automotive supplier industry, and the Administration, cannot simply wait until the tariffs have diminished American competitiveness and employment in our industry and other steel consuming sectors. An examination of the tariffs' effects on steel consumers must occur before any additional steps are taken to determine the viability of or the requisite for the steel safeguard program. MEMA has worked in conjunction with other interested parties over the past years to boost awareness of the challenges faced by U.S. manufacturers and to demonstrate the need for American companies to be able to procure raw materials, including steel, at global, competitive prices.

Congress is now facing a critical opportunity to examine the consequences of the Section 201 steel tariffs and to assess the effect of the tariffs on both steel producers and steel consumers. Automotive suppliers, together with appliance manufacturers, toolmakers, stampers, maritime manufacturers, and many other steel consuming industries strongly support House Concurrent Resolution 23. Introduced by Congressman Joe Knollenberg of Michigan on January 29, this Resolution has drawn the support of 69 Republican and Democratic cosponsors. Many of these lawmakers represent both steel producing and steel consuming constituents, yet they all recognize the need to expand the scope of the Section 201 steel tariffs mid-term review to ensure that the costs and benefits to steel producers and steel consumers can be assessed together. We urge all members of the House to support this critical Resolution.

MEMA also expresses its appreciation to the Trade Subcommittee and the full House Ways & Means Committee for its decision to request a 332 investigation on behalf of U.S. steel consuming industries. The Committee's formal petition to the International Trade Commission, requesting the completion of a section 332 "fact finding" investigation to assess and evaluate the impact of the Section 201 steel tariffs on steel consuming industries, will provide a voice for our companies and the many other manufacturers that use steel across the country.

The House Ways & Means document further requests that the International Trade Commission consolidate its section 332 "steel consumers" investigation and its Midterm Review (section 204) into a single document for President Bush's review in September 2003. On behalf of its member companies, MEMA applauds the Committee's intent to ensure that the two reports are presented simultaneously and, thus, provide a complete economic assessment of the tariffs and their related impact.

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 hardships caused by the Section 201 steel tariffs have placed thousands of American jobs at risk and may significantly erode the ability of our industry to contribute to our nation's economic recovery and remain a viable U.S. manufacturing sector.

MEMA thanks Chairman Philip Crane of the House Ways & Means Trade Subcommittee for this hearing and for the opportunity to express its views on this critical issue. Several of our member companies will provide testimony at today's forum. Their stories serve as the best means to communicate our industry's present concerns. We thank you for their ability to participate as witnesses on the steel consumers panel. MEMA would be pleased to be of any assistance we can to the Trade Subcommittee as you continue your work in this important area. Please feel free to contact MEMA's Washington, DC office with any additional questions.

M.S. Willett, Inc.
Cockeysville, Maryland 21030
April 3, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington D.C. 20515

RE: 3–26–2003 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

I am writing on behalf of my employer, M. S. Willett, Inc. Willett is a metalforming company and we manufacture parts for our customers from steel. We are located in Cockeysville, MD and we employ 110 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer deliver times, shortages, allocations and lower quality for steel consumers.

As a result of the tariffs, Willett is facing the loss of major contracts, layoffs of workers and is being pressured to move overseas. Unless things change rapidly, Willett will lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

David R. Sandy
Vice President Support Services

Muncy Corporation
Enon, Ohio 45323
April 4, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Re: 3–26–03 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

I am writing on behalf of my company, the Muncy Corporation. We are located in Enon, Ohio and we employ 85 workers. Our production workers are members of International Association of Machinists and Aerospace Workers AFL–CIO union. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. Shortly after the tariff was imposed our steel prices went up by 30%. They have now gone down somewhat but are still over 25% above pre tariff levels.

As a result of the tariffs, the Muncy Corporation is loosing business to Canada and other foreign countries that can import parts with-out paying these duties. We have had no new stamping contracts since the tariff was imposed and we have lost several contracts that we had. Our stamping department is now operating at less than25% capacity.

Unless things change rapidly, my company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Wayne Brumfield
President

Statement of National Electrical Manufacturers Association, Rosslyn, Virginia

The National Electrical Manufacturers Association (NEMA) strongly urges the Administration to end its Section 201 foreign steel tariffs—tariffs that the World Trade Organization (WTO) have now declared illegal. Despite the many exemptions granted since the safeguard program was launched a year ago, we firmly believe that protectionist steel tariffs such as these do not help the domestic steel industry become more globally competitive, and are costing far more jobs in consuming industries than might be saved among domestic steel producers. Especially in today's economy, NEMA member companies are letting us know that they cannot pass the higher prices of steel inputs—due to the tariffs and the pricing decisions of protected U.S. steel companies—along to their customers.

As a first step, we would very much like to see the International Trade Commission conduct a study of the tariffs' effects that takes the concerns of steel consumers into consideration. This would comprise an important part of a mid-term review of the "safeguard" remedy put in place by the President in March 2002—a review that would hopefully lead to the tariffs' termination. In this respect, NEMA prefers the Administration's initiative to bring together global steel producers under the auspices of the OECD to negotiate real and enforceable limits on excess steel production capacity.

NEMA is the largest trade association representing the interests of U.S. electrical industry manufacturers. Its mission is to improve the competitiveness of member companies by providing high quality services that impact positively on standards, government regulation and market economics. Our more than 400 member companies manufacture products used in the generation, transmission, distribution, control, and use of electricity. These products, by and large unregulated, are used in utility, industrial, commercial, institutional and residential installations. The Association's Medical Products Division represents manufacturers of medical diagnostic imaging equipment including MRT, C–T, X-ray, ultrasound and nuclear products. Domestic shipments of electrical products within the NEMA scope exceed $100 billion.

In closing, the electrical industry asks the U.S. Government to take seriously the statutory language of Section 201—which requires that any remedy adopted by the President must "provide greater economic and social benefits than costs." Based on what our members are telling us about the damage these tariffs are causing them, NEMA believes that the current safeguard policy clearly fails to meet these criteria.

Thank you for your consideration of these remarks.

Statement of Nels R. Leutwiler, Parkview Metal Products, Chicago, Illinois

Parkview Metal Products is a second generation, family owned business that was founded in Chicago in 1950. Originally located in the shadow of Wrigley Field, hence the name Parkview, the Company produces precision metal stampings and assemblies for the automotive and consumer electronics industries. Parkview's customer base includes companies such as: Motorola, Bose, Visteon, Delphi, and Sony.

Parkview operates five manufacturing plants in North America, located in Illinois, Texas, New Mexico, and Tijuana, Mexico, with sales in 2002 of $58 million.

Doing business in the intensely competitive automotive and consumer electronics industries, Parkview has seen its profit margins shrink in recent years, as our customers have demanded yearly price decreases, while our costs for labor, insurance, taxes and technology have steadily increased. Our customers are mandating expensive investments in quality certifications such as ISO/QS, just in time manufacturing, electronic data transfer, etc., while stretching out their payment terms.

Steel comprises roughly fifty percent of the cost of what we produce and sell. The competitive steel pricing and stable steel supplies we have experienced in the past several years were the only factor keeping many metal stampers such as Parkview afloat and profitable.

However, when the tariffs were imposed last year, the days of a stable and reliable steel supply abruptly ended. Although Parkview purchases almost all of its steel domestically-and all of it under twelve month pricing agreements-the imposition of the tariffs resulted in almost immediate, and dramatic, increases in price and reductions in supply. While the LTV shutdown around this time contributed to the problem, the lack of steel had more to do with the fact that the supply of foreign steel had dried up due to the looming threat, and subsequent imposition, of the tariffs.

Our steel prices, despite our "agreements," shot up 30 percent or more. When we couldn't obtain steel from our suppliers-who had committed to have an adequate supply on hand throughout the year as a component of our agreement, we were forced onto the open market, where we paid as much as 60 percent more per pound for steel.

In addition, as supplies got tight and deliveries became highly unreliable, Parkview was forced to constantly reschedule production to conform to the sporadic arrival of our steel. Parkview operated every weekend last summer, not because our production volumes warranted it, but because we were living hand to mouth on steel, and our customers were living hand to mouth on our parts. Parkview also incurred significant costs in premium freight, both to get raw material in, and to get finished parts to our customers in time to keep their production lines operating. Our steel suppliers assumed none of the liability for these costs.

For the most part, Parkview had to absorb these increased costs, as most of our customers were adamant that they would not agree to pay more for their parts. The net result was virtually a break even year for Parkview in 2002, on $58 million in sales! In one instance, we forced a customer to accept a price increase, to cover our 40 percent increase in steel costs on a very high steel content part. The customer has since retooled that project elsewhere, with the resulting loss of $2 million in revenue for Parkview.

The loss of that program, plus other work for our Chicago plant, has resulted in a 50 percent reduction in business volume for our Chicago plant in 2003. Parkview has begun the painful restructuring required in response to that reduction in work, laying off roughly one fourth of the Chicago workforce on March 20.

Serving the consumer electronics and personal computer industries, Parkview Metal Products is acutely aware of the threat China and other low cost countries pose to manufacturing in the United States. Parkview tooled up and built the metal components for Michael Dell's first personal computer. At one time Parkview listed Dell, Compaq, and Tandy Computers as our top three accounts. Virtually all personal computer manufacturing has left the U.S.: it is now leaving Mexico and settling into China and India.

Parkview for fifty three years was a major supplier to RCA (now Thomson Consumer Electronics). In fact, we built a 107,000 square foot plant in Las Cruces, New Mexico, primarily to serve Thomson. The manufacture of DVD players and many of the other products we produced components for has now moved to China. Parkview is scrambling desperately to find customers to backfill in Las Cruces for that lost work.

Automotive components are now Parkview's leading market segment, but we see our major first tier customers, and the big three auto makers pushing to source more and more work in China.

We obviously have an enormous disadvantage to China and much of the rest of the world in terms of labor costs. Regulatory costs and customary employee benefit costs further add to our higher costs. The tariff-driven 30 to 40 percent increase in the price of steel, our primary raw material, has greatly increased our competitive disadvantage, and has greatly increased the motivation on the part of major OEMs in this country to resource products-not just metal parts, the entire end products-overseas.

This results in the loss of jobs, not just in the metal consuming industries, but in all the ancillary support industries: equipment dealers, painters and platers, plastic injection molders, die casters, packaging suppliers, logistics providers, etc. These steel prices, plus customer price pressures, the recession, and other cost pressures, are driving countless metalformers, tool and die shops, and other related companies, out of business at an alarming rate. A week no longer goes by that I don't receive a handful of auction notices for companies in the Chicago area, and throughout the country, that are being foreclosed upon, or closing voluntarily.

The tool and die industry, once a foolproof source of high paying jobs in the metals trades, has absolutely crashed. Where the Chicago Tribune used to have two columns of tool and diemakers wanted ads every Sunday for decades, a typical Sunday Chicago paper over the past twelve months has had one or two ads total!

The Precision Metalforming Association's membership used to consistently identify the lack of skilled employees as the number one threat to the industry. This has now been replaced by high steel prices and the threat posed by China as the major challenges to the industry.

There is much talk of how the higher steel prices are not an issue, as they have just returned to historic levels from 10 or 20 years ago. The problem is that Parkview's prices it receives from our customers are significantly lower than 20 years ago. We cannot offer globally competitive product, while paying non-competitive steel prices.

Furthermore, the steel makers claim prices are now moderating. While our steel prices, effective April 1, are down roughly ten percent, this is not even close to the pre-tariff prices. We can't even get pricing beyond the third quarter of this year, as there is still too much tariff-driven uncertainty in steel supplies and the resultant prices.

Please urge the President to eliminate the tariffs at the mid-term review this September. Parkview Metal Products' 350 U.S. jobs depend upon it.

Perfection Spring & Stamping Corp.
Mount Prospect, Illinois 60056
April 8, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of our company, Perfection Spring & Stamping Corp. We are located in Mt. Prospect, Illinois and we employ 103. Many of our production workers are members of the Manufacturing, Production, & Service Workers Union Local No. 24, AFL–CIO. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. Steel prices have increased from an average price per pound of.307# to.37# or 19% since March 2002. The delivery and overall product quality has eroded as well. It is common to receive quotes of 8–10 weeks for material delivery and various material defects are common. Domestic steel mills no longer offer many engineered materials i.e. AKDQ R/B hardness 40 maximum or tight gauge tolerances. This has forced the metal consuming industries to make due with run of the mill material, that has a higher profit margin for the steel producers.

Because of the tariffs, our company has lost contracts to foreign suppliers (especially China). We have had increased pressure to move to Mexico and China by our customers and have had to lay off 40 employees! Unless things change rapidly, our company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

David J. Kahn,
President

Port of Milwaukee
Milwaukee, Wisconsin 53207
April 09, 2003

The Honorable Philip M. Crane
Chairman
House Ways and Means Subcommittee, Trade
233 Cannon House Office Building
Washington, DC 20515–1308

Re: House Ways and Means Subcommittee Hearing Section 201 Steel Tariffs and Quotas

Dear Congressman Crane:

In announcing the above referenced hearing held on March 26, you stated, "the past year has shown us that the steel safeguard action has had wide-ranging effects on steel consuming industries and the US economy. . .[and] we will examine just how much of an impact that action has had on jobs in industries that are key participants in the American economy." The purpose of this letter is to bring to your attention the dramatic negative impact that Section 201 steel tariffs and quotas have had on the maritime and transportation industries in the Great Lakes region and the Port of Milwaukee.

The Sec. 201 action has for the past year and a half caused a dramatic decline in steel cargoes handled at Milwaukee having fallen 55%. Longshore, terminal and trucking work hours have declined proportionately, as have business revenues and resultant local and federal tax receipts.

We respectfully request that you include the Martin Study in the record of the March 26, 2003, House Ways and Means Trade Subcommittee Hearing. We would further request that the Subcommittee Report urge the ITC to conduct a Section 332 investigation on the impact of the Section 201 safeguard action on the maritime transportation system as well as steel consuming industries.

We thank you for your support and look forward to working with you to ensure that the economic and employment opportunities generated by the U.S. port, maritime and transportation industries, are given full consideration by the ITC during the Section 201 mid-term review process.

Please feel free to contact me at 414–286–8132 should you have any questions regarding this request.

Sincerely,

Eric C. Reinelt
Marketing Manager

Precision Metalforming Association
Independence, Ohio 44131
April 8, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Ways & Means Committee
Washington, DC 20515

Re: 3–26–03 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

The Precision Metalforming Association (PMA) respectfully submits the following comments in regard to the March 26, 2003 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products."

PMA is the voice of America's $41-billion metalforming industry of North America—the industry that creates precision metal products using stamping, fabricating and other value-added processes. The metalforming industry, which employs approximately 380,000 workers in the United States, gives utility to sheet metal by shaping it using tooling in machines. PMA members include metal stampers, fabricators, spinners, slide formers, and roll formers, as well as suppliers of equipment, materials and services to the industry.

Since the Section 201 steel tariffs were imposed by President Bush last March, PMA member companies and the entire steel-consuming industry have been suffering and the impact has been severe. Our members have experienced extreme steel price increases, lengthened delivery times, steel shortages and allocations, loss of business to foreign competitors and layoffs.

The tariffs, which were intended to aid the domestic steel industry, are threatening the viability of American steel-consuming manufacturers that rely on access to fairly priced steel in order to be competitive in the global market. Since the tariffs were imposed, PMA members have reported raw material price hikes between 20–50 percent. The assumption was that the tariffs would not hurt steel-consuming companies, as they should be able to pass these price increases along to their customers, who could pass the cost on to their ultimate consumers or absorb it themselves. However, this does not work in reality. Steel consumers have been unsuccessful in trying to pass the price increases along to their customers. Some have threatened to take their business overseas if our members do not absorb the increased cost. In many cases, our members' customers require annual cost decreases of 5 to 15 percent. Steel-using manufacturers cannot absorb such high steel prices as steel represents 35 to 60 percent of their cost of sales and profitability averages only 4.5 to 6 percent before taxes.

Therefore, these conditions make it impossible for U.S. steel consumers to compete globally. As a result, our members are laying off workers, some have been forced to close their doors and others are considering moving their businesses offshore. A January 2003 survey found that 68 percent of PMA manufacturing member companies lost business to foreign competition in 2002. Unless things change, we expect even more of our members to lose business to foreign competition, which now has a built-in cost advantage because of the tariffs.

These import restrictions need to be removed at the earliest possible opportunity to prevent further damage to the steel-using economy. The tariffs are not saving the steel industry; they are killing the steel industry's customer base.

Thank you for the opportunity to voice our concerns on this matter.

Sincerely,

Christopher E. Howell, CAE
Director of Government & Public Affairs

Statement of The Honorable Ralph Regula, a Representative in Congress from the State of Ohio

Mr. Chairman and Members of the Subcommittee, I thank you for the opportunity to testify regarding the positive impact that the President's Section 201 Safeguard action has had on the domestic steel industry.

The President took decisive action in March of 2002 to provide the U.S. steel industry with some breathing room from the onslaught of low-priced imports that had reached an all-time high in 1998. This surge of imports drove over 35 domestic steel producers to seek bankruptcy protection and led to numerous permanent closures.

I would argue that the President's steel program is having the intended effect of allowing the domestic steel industry time to consolidate, restructure and become more competitive. There are those who argue that the President's program has led to price spikes and significant job loss in the steel consuming community. I would argue that the President's program allows for exemptions from the tariffs if products cannot be produced in the U.S. and there are no functional substitutes.

This process has been effective by allowing a total of 1,022 steel products to be exempted from the tariffs.

I would also like to commend to you a recent study by Dr. Peter Morici of the University of Maryland who has studied the impact of the Section 201 program after one year. I ask that this study be placed in the record. According to this study, steel prices did rise in the first half of 2002, but then tapered off and actually fell from the high in July by about 25 percent at the end of 2002.

When the President implemented the Section 201 tariffs, domestic steel prices were at a 20-year low. These prices were unsustainable and led to the many bankruptcies we witnessed. They also led to the idling of nearly 20 million tons of steel-making capacity in the U.S. Prices did rise in 2002 due to the loss of steel-making capacity and because the tariffs slowed the rate of imports into the U.S. However, the price increase during the first half of 2002 tapered off by about 25 percent by December of 2002.

As a result of the stability created by the steel tariffs, new investors have come into the market and purchased the assets of shutdown plants and restarted them in a lower-cost and more efficient manner. There are several examples in Northeast Ohio, including selected assets of the bankrupt LTV Corporation being bought and restarted by International Steel Group (ISG). The addition of substantial capacity, which is being brought on at relatively low cost, has again brought down domestic steel prices.

The consolidation and restructuring of the domestic steel industry has not been without pain to many steelworkers and their families. As a result of the restructuring, pension obligations of many bankrupt facilities have been shifted to the Pension Benefit Guarantee Corporation (PBGC). Many workers who were expecting pension benefits before the age of 62 now find themselves without those pension benefits and without health benefits. As selected assets of these bankrupt companies are being purchased and restarted, it does mean jobs for some and not for others.

The President's 201 program has created the environment that has encouraged consolidation of the U.S. steel industry. This consolidation has led to the closing of inefficient capacity and the restarting of efficient plants at much lower costs. This will lead to an overall lower cost U.S. steel industry which will be beneficial to all who use domestic steel in their manufacturing and production processes. However, I would caution that this restructuring is costly and will take time to complete and pay for. Therefore, the premature ending of the President's 201 program could once again push the industry in the wrong direction. I have urged the President and his cabinet members to keep the declining three-year tariffs in place for the entire three-year duration that was announced last March.

During these difficult times when the U.S. is at war, I do not believe that we as a nation would like to become more dependent on foreign steel. We need a healthy basic steel industry to ensure that we can meet our defense needs. A stable basic steel industry is also necessary to ensure that there is a steady supply of steel for all steel users in this country. I would urge the Subcommittee not to take any action to prematurely end the President's 201 steel import relief program. I thank you for the opportunity to appear before the Subcommittee.

[Attachment is being retained in Committee files.]

Res Manufacturing Company
Milwaukee, Wisconsin 53223
March 21, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Res Manufacturing Company. We are located in Milwaukee, Wisconsin and we employ 50 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. During this period we have experienced our purchased steel prices increase by at least 30%. Since raw material costs are the major cost driver of our business we have suffered severe erosion of our profitability.

As a result of the tariffs, my company has seen numerous customers' resource to offshore suppliers. In addition several have announced plans to relocate their manufacturing operations outside the US. Unless things change rapidly, my company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Dr. John Ormerod
President

Free Trade in Steel Coalition
Philadelphia, Pennsylvania 19106
April 3, 2003

The Honorable Philip M. Crane
Chairman
House Ways and Means Subcommittee, Trade
233 Cannon House Office Building
Washington, D.C. 20515–1308

RE: House Ways and Means Subcommittee Hearing Sec. 201 Steel Tariffs and Quotas

Dear Congressman Crane:

In announcing the above referenced hearing held on March 26, you stated, "the past year has shown US that the steel safeguard action has had wide-ranging effects on steel consuming industries and the US economy . . . [and] we will examine just how much of an impact that action has had on jobs in industries that are key participants in the American economy." The purpose of this letter is to bring to your attention the dramatic impact that these tariffs and quotas have had on the maritime and transportation industries.

The Free Trade in Steel Coalition (FTSC) is compromised of port authorities, port terminal operators, long-shore labor unions, and other U.S. port and transportation industry organizations who operate in the Ports of New Orleans, Los Angeles/Long Beach, Houston, Philadelphia/Camden/Wilmington, the Great Lakes port region, and other ports throughout the U.S. Attached to this letter is a listing of current coalition members.

As we enter the International Trade Commission (ITC) Section 201 mid-term review process, significant attention has been paid, and rightly so, to the adverse impact these tariffs and quotas have had on the downstream steel consuming industries. A recent study commissioned by The Consuming Industries Trade Action Coalition (CITAC) entitled, *The Unintended Consequences of US Steel Import Tariffs: A Quantification of the Impact During 2002* demonstrated that over 200,000 manufacturing and related jobs have been lost since the imposition of these tariffs and quotas on March 5, 2002.

However, it must be pointed out that jobs in the maritime and transportation industries are also at risk as a result of this 201 action. A recently completed study by Martin Associates, *The Economic Impact of Imported Iron and Steel Mill Products on the Nation's Marine Transportation System* (Martin Study), concludes that more than 38,000 direct, induced and indirect jobs for U.S. residents were dependent in 2000 upon the handling of imported steel products. Furthermore, this level of economic activity generated $1.7 billion of direct business revenue, $1.7 billion in wages and salaries, and $576.3 million of federal, state and local tax revenues.

We respectfully request that you include the Martin Study in the record of the March 26, 2003, House Ways and Means Trade Subcommittee Hearing. We would further request that the Subcommittee Report urge the ITC to conduct a Section 332 investigation on the impact of the Section 201 safeguard action on the maritime transportation system as well as steel consuming industries.

We thank you for your support and look forward to working with you to ensure that the economic and employment opportunities generated by the U.S. port, maritime and transportation industries, are given full consideration by the ITC during the Section 201 mid-term review process.

Please feel free to contact me at 215–925–2615 should you have any questions regarding this request.

Sincerely,

Dennis Rochford
Coordinator

Membership List

- American TransPort—Paulsboro, NJ
- Associated Branch Pilots of New Orleans
- Astro Holdings, Inc.—Philadelphia, PA
- BARTHCO International
- Board of Commissioners, Port of New Orleans
- California United Terminals, Inc.—Long Beach, CA
- Ceres Terminals Incorporated—Chicago, IL
- Champion Service Inc.
- Christina Service Company—New Castle, DE
- Cooper T. Smith Stevedores and Terminal Operators—Houston, TX
- Corporation of Professional Great Lakes Pilots
- D & M Transportation Services, Inc.—Bellmawr, NJ
- Delaware River Stevedores, Inc.
- Detroit Marine Terminals
- Embarcadero Systems Corporation—Alameda, CA
- EmEsCo Marine Terminal—Chicago, IL
- Federal Marine Terminals—Portage, IN
- GS Profiles—Norcross, GA
- Holt Cargo Systems, Inc.—Gloucester, NJ
- Illinois International Port at Chicago International Federation of Professional Tech Engineers, Local 18—Audubon, NJ
- International Freight Forwarders and Customs Brokers of New Orleans
- Jacobsen Pilot Service—Port of Long Beach, CA
- Lakes Pilot Association, Inc.—Port Huron, MI
- Logistec USA Inc.—New Haven, CT
- Marine Terminals—Oakland, California
- Maritime Association of the Port of New York and New Jersey
- Maritime Exchange for the Delaware River and Bay
- National Association of Maritime Organizations—Norfolk, VA
- Nicholson Terminal and Dock Company—River Rouge, LAP & O Ports New Orleans

- Pan Ocean Shipping Co., Ltd.
- Pasha Stevedoring and Terminals—Port of Los Angeles, CA
- Philadelphia Customs Brokers & Forwarders Association
- Pilots' Association for the Bay and River Delaware
- Port of Detroit Operators Association
- Port of Milwaukee
- Port of New Orleans
- Port of Wilmington, Delaware
- Ports of Philadelphia Maritime Society
- Ports of the Delaware River Marine Trade Association
- Reserve Marine Terminals—Chicago, IL
- Shipping Federation of Canada
- South Jersey Port Corporation
- Stevedoring Services of America—Savannah, GA
- Tampa Port Authority
- Teamsters Local Union No. 500 of Philadelphia, Camden and Vicinity
- Terminal Shipping Co., Inc.—Philadelphia, PA and Baltimore, MD
- The Holt Group, Inc.—Philadelphia, PA
- United States Great Lakes Shipping Association
- West Gulf Maritime Association—Houston, TX
- WFC Associates—Crofton, MD
- WWP Maritime Specialists—Glen Eagle, PA

As of February 2003

Maritime Exchange for the Delaware River Bay
April 3, 2003

The Honorable Philip M. Crane
Chairman
House Ways and Means Subcommittee, Trade
233 Cannon House Office Building
Washington, D.C. 20515–1308

RE: House Ways and Means Subcommittee Hearing Sec. 201 Steel Tariffs and Quotas

Dear Congressman Crane:

In announcing the above referenced hearing held on March 26, you stated, "the past year has shown US that the steel safeguard action has had wide-ranging effects on steel consuming industries and the US economy . . . [and] we will examine just how much of an impact that action has had on jobs in industries that are key participants in the American economy." The purpose of this letter is to bring to your attention the dramatic impact that these tariffs and quotas have had on the maritime and transportation industries.

The Maritime Exchange for the Delaware River and Bay, compromised of approximately 300 members, is a non-profit trade association representing the ports and related businesses in Philadelphia, Pennsylvania, Camden, New Jersey and Wilmington, Delaware.

As we enter the International Trade Commission (ITC) Section 201 mid-term review process, significant attention has been paid, and rightly so, to the adverse impact these tariffs and quotas have had on the downstream steel consuming industries. A recent study commissioned by The Consuming Industries Trade Action Coalition (CITAC) entitled, *The Unintended Consequences of US Steel Import Tariffs: A Quantification of the Impact During 2002* demonstrated that over 200,000 manufacturing and related jobs have been lost since the imposition of these tariffs and quotas on March 5, 2002.

However, it must be pointed out that jobs in the maritime and transportation industries are also at risk as a result of this 201 action. A recently completed study by Martin Associates, *The Economic Impact of Imported Iron and Steel Mill Products on the Nation's Marine Transportation System* (Martin Study), concludes that more than 38,000 direct, induced and indirect jobs for U.S. residents were dependent in 2000 upon the handling of imported steel products. Furthermore, this level of economic activity generated $1.7 billion of direct business revenue, $1.7 billion in wages and salaries, and $576.3 million of federal, state and local tax revenues.

Specific to the Delaware River and Bay regional port complex, the Martin Study concluded that 4,400 jobs were dependent upon the handling of imported steel in

2000, and that this level of economic activity generated $303 million in business revenues, $175 million in wages and salaries, and $70 million in federal, state and local taxes.

We respectfully request that you include the Martin Study in the record of the March 26, 2003, House Ways and Means Trade Subcommittee Hearing. We would further request that the Subcommittee Report urge the ITC to conduct a Section 332 investigation on the impact of the Section 201 safeguard action on the maritime transportation system as well as steel consuming industries.

We thank you for your support and look forward to working with you to ensure that the economic and employment opportunities generated by the U.S. port, maritime and transportation industries, are given full consideration by the ITC during the Section 201 mid-term review process.

Please feel free to contact me if you have any questions regarding this request.

Sincerely,

Dennis Rochford
President

Executive Summary

The Martin Economic Study on Imported Steel and Port Jobs

October 25, 2001

In 2000, 36.4 million net tons of iron and steel mill products were imported into the United States. Five port regions in the United States handled 70% of the iron and steel imports. These port ranges are:

- Port of New Orleans Customs District
- Port of Houston Customs District
- Port of Los Angeles Customs District including the Port of Long Beach
- Philadelphia Customs District including the ports of Philadelphia, Camden (NJ), and Wilmington (DE).
- U.S. Great Lakes Port Region including the U.S. customs districts of Chicago, Detroit, Cleveland, Milwaukee and Duluth.

The imported iron and steel products handled at the individual ports in these five port regions created the following economic impacts to the U.S. economy in the year 2000:

- ***More than 27,000 direct, induced and indirect jobs for U.S. residents were created by the handling of the imported iron and steel products at the five port regions of entry.*** Of these 27,148 total jobs, 11,676 jobs are classified as direct jobs. As the result of local purchases for goods and services by these direct job-holders, another 8,239 induced jobs were created. Because the firms providing the maritime services also make local purchases for goods and services, 7,233 indirect jobs were also generated.
- ***$1.2 billionof direct, induced and indirect wages and salaries were created as the result of the import of the iron and steel products at the five port regions.*** Of the $1.2 billion, those 11,676 directly employed received $465.7 million of wages and salaries, for an average salary of about $39,900. As the result of the re-spending of the direct income, another $528.4 million of induced wages and consumption expenditures were created. The 7,233 indirect jobholders received $181.5 million of indirect wages and salaries.
- ***$1.1 billion of direct business revenue was created by the import of the 23 million tons of imported iron and steel products at ports in the five port regions.*** This revenue was created as the result of providing port services and truck, rail and barge distribution services. This revenue does not include the local purchases supporting the indirect jobs nor the value of the iron and steel imports.
- ***Local, state and federal governments received $403.4 million of tax revenue.*** Of the total, $285 million was received by the federal government as the result of the 23 million tons of imported iron and steel products via the five port regions under study.

It is to be noted that the five port regions under study handled 70% of the total steel imported into the United States in 2000. Since these port regions handle the majority of the steel imports, it is possible to use these impacts to estimate the economic impact of the total amount of iron and steel products imported in the United

States in the year 2000. Assuming that the remaining 30% of the steel imported is handled and distributed in a similar manner as the 70% under study, the total economic impact of the 36.4 million net tons of iron and steel products imported into the United States in 2000 is estimated at:

- ***38,800 direct, induced and indirect jobs***
- ***$1.7 billion of direct, induced and indirect wages and salaries***
- ***$1.6 billion of direct business revenue to those providing the port and inland transpiration services to move the imported iron and steel products***
- ***$576.3 million of federal, state and local tax revenues, of which $407 million is federal tax revenue.***

As demonstrated, the import of iron and steel products provides a substantial contribution to the economies in which the importing ports are located, as well as to the national economy. Reductions in the import levels of iron and steel products will have a direct adverse impact on these local economies, as well as to the national economy. Based on the 38,800 direct, induced and indirect jobs supported by the 36.4 million tons of iron and steel products imported through our nation's marine transportation system, it can be concluded that for every 1 million tons of steel diverted from the nation's port system, nearly 1,100 jobs will be lost in the U.S. economy.

Summary of Economic Impacts of Imported Iron and Steel Products In the Five Key Port Regions 2000

	DELAWARE RIVER	HOUSTON	NEW ORLEANS	GREAT LAKES	LOS ANGELES	TOTAL
JOBS						
Direct	1,916	3,208	3,663	858	2,031	11,676
Induced	1,270	2,394	2,459	581	1,535	8,239
Indirect	1,224	1,854	2,496	522	1,137	7,233
Total Jobs	4,410	7,456	8,618	1,961	4,703	27,148
PERSONAL INCOME (MILLIONS)						
Direct	$76.5	$132.5	$120.6	$33.7	$102.4	$465.7
Induced/consumption	$76.3	$163.9	$141.9	$39.5	$106.8	$528.4
Indirect	$22.0	$48.5	$65.3	$16.0	$29.7	$181.5
Total Personal Income	$174.8	$344.9	$327.8	$89.3	$238.9	$1,175.7
BUSINESS REVENUE (MILLIONS)						
	$303.3	$228.8	$312.0	$116.7	$140.3	$1,101.1
TAXES (MILLIONS)						
State and Local	$21.3	$31.0	$33.8	$8.9	$23.4	$118.4
Federal	$48.7	$81.4	$77.4	$21.1	$56.4	$285.0
Total Taxes	$70.0	$112.4	$111.2	$30.0	$79.8	$403.4

Statement of The Honorable Tim Ryan, a Representative in Congress from the State of Ohio

When President Bush initiated the steel relief program under Section 201 of the Trade Act at the behest of tens of thousands of steel workers throughout the country, he gave that industry a chance to regain its footing in the face of unprecedented and illegal foreign steel imports. This action followed a detailed and comprehensive investigation by the United States International Trade Commission (ITC) to determine whether the industry had been harmed by a surge of foreign steel imports. The ITC determination was unanimous: U. S. steel companies were being devastated by surging imports of foreign steel and measures should be imposed to protect the industry.

In the 17th District of Ohio, I have seen first-hand the effects of illegal foreign steel dumping. Thousands of jobs were lost when CSC Inc. in Warren, OH was put out of business in the midst of a declining steel market; a nearby LTV facility was saved from bankruptcy only by the private dollars of a few anonymous individuals. I have seen families lose their breadwinners, cash-strapped local governments lose their tax base, school districts lose revenues, and communities lose hope.

The Section 201 steel relief program is a crucial lifeline for an industry fighting admirably to survive. These measures *must* be continued for the full three years of the program. The Section 201 tariffs have enabled the industry to make substantial progress that, if allowed to continue, can ensure the long-term health of the U. S. steel industry, provide good jobs for hard-working Americans, stabilize steel prices, and protect our country's national security interests.

Even though steel imports covered by the Section 201 tariffs account for only 5% of domestic consumption, studies have shown that since the measures took effect, there has been increased investment in the modernization of facilities—making the steel industry more competitive with overseas manufactures, increased consolidation and increased restructuring. We have also seen steel prices begin to stabilize. In fact, steel prices are now rising faster overseas than they are in the United States—making our steel industry much more competitive on the global market.

Despite the tariffs enabling substantial gains for an industry almost lost, there are those who are urging the withdrawal of this essential lifeline. Some domestic interest groups have cried foul over the tariffs, arguing that they have been harmed by increased steel prices—despite studies showing the tariffs' effects on steel consumers to be negligible. Our so-called trading partners have even threatened sanctions against the U.S. unless the tariffs are rescinded.

On March 26, 2003, a tribunal at the secretive, undemocratic, and unaccountable World Trade Organization (WTO) ruled the tariffs illegal—setting the stage for trade sanctions against the United States. This decision was not surprising since the WTO dispute settlement panels have struck down every safeguard measure to come before them.

Congress and President Bush cannot allow our country to be bullied by the same international community which shares the blame for causing the problem. On behalf of every hard working man and woman throughout the 17th Congressional District and our nation, I submit that the tariffs *are* working, and I urge the President and Congress to stay the course.

Statement of Makoto Takahashi, Sharp Manufacturing Company of America, Memphis, Tennessee

I am pleased that Sharp Manufacturing Company of America (SMCA) has been provided the opportunity to present a statement in connection with steel tariff relief.

Section 201 tariffs have had a dramatic impact on the price and availability of steel in the market and have resulted in a substantial and harmful impact on steel users, such as our company.

SMCA's roots in producing microwave ovens in Memphis, Tennessee go back to 1979. Currently, SMCA employs approximately 600 workers who are represented by the International Brotherhood of Electrical Workers (IBEW), Local 474.

SMCA is the only remaining consumer microwave oven manufacturer in the United States. It strongly prefers to remain in Memphis, continuing to employ U.S. workers and sustain its contribution to the local, state and national economies.

Unfortunately, SMCA is a relatively small user of steel and does not have the leverage to directly negotiate for more competitive prices with steel mills. SMCA's yearly purchase of all steel is approximately 12,850 tons, of which 3,000 tons is painted product and 2,550 tons is Electro-Galvanized steel (EG). Other steel consumption consists of 3,750 tons of Galvanneal, and 2,300 tons of Galvanized. This steel is purchased from service centers and sometimes through trading companies which in turn deal with the service centers. Thus, SMCA's ability to source competitively priced steel is constrained under normal market conditions.

SMCA used the product exclusion process in an attempt to reduce the damaging effects of the tariffs. Despite obtaining an exclusion for one type of steel it uses, it is evident that it will only provide SMCA with very limited relief. The basic problem remains—tariffs have made it impossible to compete on a global basis with our foreign competitors who manufacture microwave ovens using cheaper foreign steel and are not subject to these tariffs.

In fact, due to the increased price of domestic steel precipitated by Section 201 tariffs, SMCA has begun importing microwave oven stamped metal door assemblies from foreign sources. The importation of door assemblies eliminates the need of slitting and blanking by U.S. service centers, the stamping and painting at SMCA's inhouse facility, and the purchase of all other raw materials that support this operation. This affected not only the loss of jobs at SMCA but the loss of jobs at our suppliers.

The tariffs have increased the cost of manufacturing microwave ovens at SMCA. Rather than experiencing a gradual and/or steady increase, it was immediate and substantial. Moreover, unlike 90% of our competitors who import their microwave ovens into the U.S. and are not subject to the tariffs, SMCA cannot absorb or pass these costs on to its customers. Unless further relief is granted through the elimination of these tariffs, SMCA may have no other choice but to join the parade of other microwave oven manufacturers who have left the U.S. for China, Korea, etc. Clearly, that was not the intent of Section 201 tariffs. As one of my manufacturing colleagues noted before this committee last week, "Steel tariffs are the wrong medicine for a sick industry."

In conclusion, this committee should understand that it is SMCA's intention to survive in this industry. Our roots are firmly grounded in this community. Our objective is to stay in Memphis and to expand microwave operations. SMCA does not intend to abandon the United States as so many of our competitors have done. Unfortunately, without immediate relief from the steel tariffs, SMCA might not be able to accomplish this objective!

Thank you for providing SMCA the opportunity to submit this statement.

Spring Engineering and Manufacturing Company
Canton, Michigan 48187
March 24, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Spring Engineering and Manufacturing Corporation. We are located in Canton, Michigan and we employ 90 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. Since March of 2002 original raw material prices have increased 15–28%. Our customers have refused to accept any price increases, some must absorb the entire cost of the tariffs.

As a result of the tariffs, my company has not been able to compete on new work because of the increased costs of steel in our pricing. Unless things change rapidly, my company will lose continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Tim Tindall
President

Statement of Steel Manufacturers Association

Subject of this Hearing

U.S. electric furnace steel producers, i.e. the mini-mills, fully support the continuation of the Administration's program under Section 201, providing safeguard relief for the remaining eighteen months of the full three year period accorded to the domestic steel industry. The 201 relief has already resulted in widespread industry rationalization and consolidation. However, further capital investment is required by domestic steel companies to implement cost reductions, to improve quality, and to expand markets. This will require the additional eighteen months of relief, originally drafted in the 201 program.

The 201 relief already accorded has partially ameliorated the import crisis that decimated the entire U.S. industry between 1998 and 2001. Importers, however, continue to seek sources of imports from countries excluded from the 201 relief. Most of these new country sources have excess steel-making capacity. Imports, therefore, are continuing to enter the U.S. market at high levels. Surging imports from non-covered countries, unless contained, will undermine 201 relief for the domestic industry and, accordingly, further steps should be taken to reduce them.

For the longer term, U.S. mini-mills actively support a key component of the President's program, namely to achieve an international steel agreement eliminating subsidies to steel companies so that excess, uneconomic, steelmaking capacity is permanently retired world wide, eliminating the overhang of excess capacity on world steel demand.

The Steel Manufacturers Association

We are the trade group representing the North American mini-mills, scrap based electric arc furnace (EAF) steel producers—companies that produce more than half of U.S. steel output. We have 39 company members with 119 North American steelmaking plants, widely spread across the continent. In the last 30 years, our share of the U.S. steel production has risen extraordinarily, from about 15% to approximately 50.8% of U.S. raw steel production in 2002 which, overall, totaled 101.6 million tons in 2002. Electric arc furnace steel producers now account for the preponderant share of U.S. steel production, and our share will continue to grow. The SMA represents nearly 100% of the structural producers, wire rod producers, re-bar producers, mini-mill plate producers, mini-mill hot rolled producers, and a high percentage of SBQ producers.

Reasons for Our Growth

We have achieved growth through performance. A significant number of our minimill plants have the highest productivity (man-hours per ton of steel produced) in the world, some as low as six tenths of a man-hour per ton. On average, our minimill, scrap-based productivity is double that of ore-based integrated steel producers. Most of the developing countries seldom exceed the unit labor cost performance of U.S. mini-mills, due to our high world standard of productivity. Moreover, our energy consumption per ton of steel produced is only about one third that of integrated ore-based steel makers, worldwide.

Our Markets and Trade Issues

In year 2002, the U.S. steel market totaled approximately 117 million net tons of finished steel products. The U.S. steel industry shipped approximately 99.5 million tons of finished steel in 2002. We exported 6 million tons and had imports of finished steel products of 23.5 million tons. Please note from the data presented in Table I on the next page that finished steel imports have declined little since the year 2000, when measured as a percentage or share of the U.S. market. They have ranged between 20.1% and 22.3% of the market.

Table I

Year 2002, 2001, & 2000 Selected Steel Industry Data

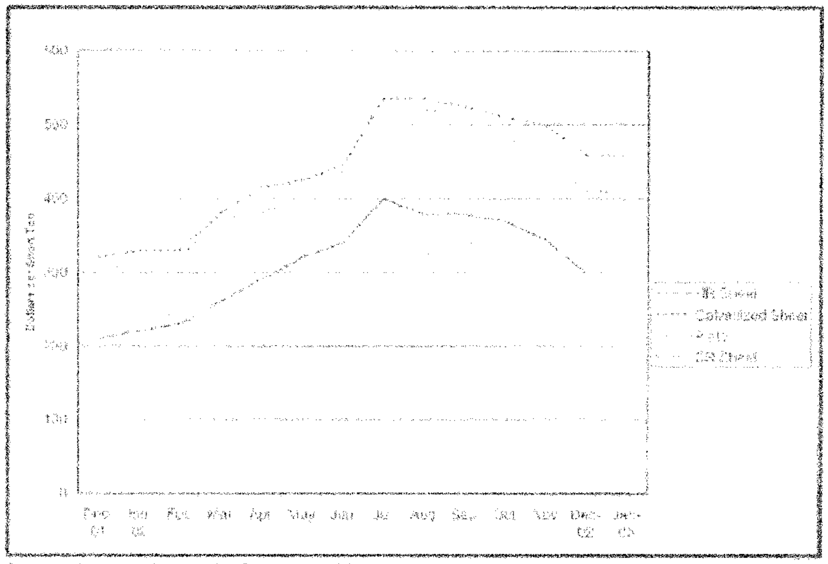
Production	2002	2001	2000
Pig Iron Production	44.2	46.444	52.787
Raw Steel (total)	101.6	99.321	112.241
Basic Oxygen Production Process	50.0	52.204	59.485
% of Total	49.2	....	....
Electric Arc Furnace Production	51.6	47.116	52.756
% of Total	50.8	....	....
Continuous cast (incl. above)	98.8	96.502	108.175
Rate of Capability Utilization (%)	86.0	79.2	86.1
Mill Shipments			
Total steel mill products	99.5	98,940	109,050
Carbon Alloy	92.6 4.8	92,314 4,789	101,544 5,380
Stainless	1.9	1,837	2,126
Exports (000 N.T.)	6	6,144	6,529
Imports (000 N.T.)	32.5	30,080	37,957
Carbon	27.6	25,273	32,291
Alloy	4.8	3,873	4,487
Stainless	.95	934	1,179
Trade in Steel Mill Products			
Imports excluding semi-finished	23.5	23,640	29,401
APPARENT STEEL SUPPLY EXCLUDING SEMI-FINISHED IMPORTS (000 NET TONS)	117.0	116,436	131,922
Imports excluding semi-finished as % apparent supply	20.1	20.3	22.3

Data in the table above for the year 2002 were estimated for the full year, based on 11 months of actual data through November, 2002. Note that the U.S. market for steel (apparent steel supply) declined 11.3% in 2002 from the year 2000 level, while the steel imports' share of apparent consumption declined from 22.3% to 20.1% of the market, a 9.8% decline in the market share of imports, compared to the 11.3% decline in the market itself. The 201 program, therefore, has had little negative impact on the access of imports to the US market.

Industry Restructuring and Consolidation—Effects on Prices

A far more important impact on the domestic steel supply have been permanent and temporary shutdowns of domestic plants by U.S. steel producers, some exiting the business permanently, while others filing for Chapter 11 reorganization. Approximately 15 million tons of flat-rolled capacity (20% of the existing domestic capacity base at the start of 2000) was closed in the 18 months from September 2000 to December 2001. This was the major cause of any diminution of supply and temporary price increases which occurred in flat rolled prices after March 2002, when the 201 safeguard program was implemented. Due to restructuring and consolidations, we expect three quarters of this lost supply will be back on line by the middle of 2003. Moreover, as the chart below (Chart I) demonstrates, flat rolled product prices have declined 20% to 25% from their temporary surge level in mid-2002, caused by domestic capacity shutdowns, not as we have said, lack of access to imports.

Chart I—Flat Product Spot Prices, December 2001—January 2003

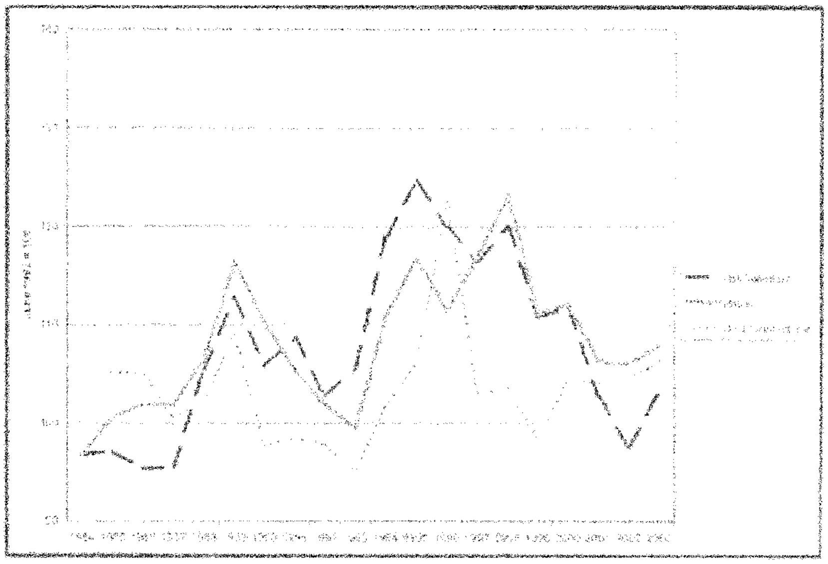


Source: Steel Flash Reports, Purchasing Magazine

On the long products side, almost all of which are supplied by the electric furnace mini-mills, there have been significant capacity closures on order of eight million tons of melting and rolling facilities. A significant number of these mills have been purchased, and with new streamlined financial structures and more competitive labor agreements, are coming back on line. In addition, there have been significant acquisitions of long product companies by other mini-mills, as the drive toward consolidation under the 201 program continues.

However, as the following chart demonstrates (Chart II), Department of Labor, Bureau of Labor Statistics data show that very little price relief accrued to long products producers on the long products below that are subject to the 201 import duties.

Chart II—Long Product PPIs, January 1984—2003



Source: Bureau of Labor Statistics, U.S. Department of Labor, *Producer Price Index Revision — Current Series*, PCU3312 # 422, 425, 6, Blast furnaces and steel mills (2003).

Comments on Misrepresentations

We believe it is important to correct the record with respect to spurious comments made by the CITAC and other sources regarding the alleged effects of 201 duties on steel users. First of all, one can see from our first table, there has been very little reduction in the supply of steel in the American economy resulting from 201 duties. Secondly, claims of loss of competitiveness because domestic steel prices could not be maintained at twenty year lows are patently absurd. Did those complaining steel consumers suddenly become competitive due to the collapse of steel prices in 1998—2001 resulting from a deluge of imports? Hardly! U.S. steel prices are now below those in other major countries. Are U.S. consumers, thus, more competitive now than their foreign competitors? The answer is "NO." The facts are that the overvalued U.S. dollar has been and should be their prime concern, not the de-minimus effects of 201 import duties on a minor fraction of U.S. steel consumption.

We would also like to correct the erroneous impression CITAC representatives have given publicly that the steel import duties have resulted in stupendous job losses. We believe the article set forth below from the *London Financial Times* (February 10, 2003) is a factual rebuttal of their arguments.

Financial Times Article—February 10, 2003

The Devil's in the Details

Benjamin Disraeli's famous disctum never resonates more truly than in the world of Washington lobbyists. "There are three kinds of lies," the British Prime Minister once said. "Lies, damned lies, and statistics."

But the lobbying group representing U.S. steel users hit a new low with the release of a study claiming that roughly 200,000 U.S. jobs had been lost as a result f the U.S. decision to impose tariffs on steel imports.

The study, conducted for the Consuming Industries Trade Action Coalition, last week claimed that 922,300 jobs had been lost in industries that used steel between December 2001 and December 2002. The one-year loss was attributed to the Bureau of Labor Statistics. Out of that figure, CITAC estimated that 200,000 of those losses were due to higher steel prices brought on by the tariffs.

Two days after the release, CITAC went back and altered the study on its website, claiming now that 915,000 jobs had been lost *over two years*—not one—yet still citing the BLS. It did not revise the claim of 200,000 jobs lost to the tariffs.

One of the authors, Laura Baughman, says the initial mistake was a type. "I assure you it was not misleading," she told Observer.

What the study also failed to mention was that all the jobs lost in 2002 actually occurred in January 2002, two months before tariffs were imposed and when steel prices were near historic lows. Between January and December 2002, total employment in industries that buy steel grew by about 228,000 jobs, despite higher steel prices.

Gary Hufbauer, an economist with the Institute for International Economics which opposes the steel tariffs, calls the claim of 200,000 jobs lost "way out of bounds", He estimates that perhaps 5,000 to 10,000 jobs have been lost.

Mr. Hufbauer attributes the "mistake" to the proliferation of economic studies by lobbying groups that put "a huge premium on splash results"—even if that means distorting the analysis to get attention. "You would hope that the standards would be higher." Evidently not.

Reversal of U.S. Trade and Current Account Deficits Require A Strong US Manufacturing Base

But U.S. steel producers **and** consumers do have a legitimate trade complaint. U.S. mini-mills have become increasingly concerned over the U.S. trade and current account deficits, each approaching $500 billion annually. They are largely attributable to the massive annual deficits the U.S. is incurring in manufactured goods . . . not services, in which the U.S. is achieving a modest surplus. The negative merchandise trade balance is severely impacting the entire U.S. manufacturing sector.

No country in the world has run trade and current account deficits of the magnitude of the U.S. Fed Chairman Alan Greenspan has repeatedly warned that the rapid growth of imports compared to the modest increase in exports cannot go on forever. Further expansion in the current account deficit cannot be sustained. The deficit is now at a level that leaves the economy vulnerable to a collapse in the value of the dollar rather than a needed further gradual reduction of the dollar. A collapse would trigger a jump in inflation leading to more extended recession. The Federal Reserve, to restore stability, would have to push up interest rates rapidly, cutting off increased production and consumption. Other major industrial countries and key developing countries are running trade and current account balance surpluses, largely due to their trade surpluses with the United States. They become outraged when their trade with the U.S. is limited, in any way, including a justifiable WTO-consistent 201 safeguard action, as in the case of steel. They completely fail to understand their own over-dependence on the U.S. market, due to their own sluggish internal growth rates. In response to a modest U.S. safeguard action on steel they demand compensation from the trade overburdened U.S., the world's engine for export growth.

The rest of the world should be aware that pushing the limits of unfettered over-dependent access to the U.S. market, when there are legitimate trade disruption issues, such as steel, of concern to the world's most open market, and then demanding compensation due to U.S. action on a problem they created, is unacceptable. This approach ultimately could lead to world closure, not the trade expansion regime, which the world needs. U.S. trading partners should reflect on the U.S. trade and current account deficits demonstrating the openness of the U.S. market to the rest of the world. A first step would be to press for an exchange rate policy for the U.S. dollar, that further gradually adjusts it downward to compensate for its continuing overvaluation, which is limiting the export capability of U.S. manufactured goods, while simultaneously encouraging imports.

In addition, the Congress and the Executive Branch should review the U.S. business tax code to get it more in line with the rest of the world, whose indirect tax codes foster exports and impede imports.

Mr. Chairman, thank you for this opportunity to present our views.

Steel Truss & Component Association
Madison, Wisconsin 53719
April 10, 2003

The Honorable Philip M. Crane
Chairman-Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

RE: Steel Tariff Issue

Dear Mr. Chairman:

Manufacturers of steel structural building components are conducting business within all communities of the U.S., using the most efficient, economical resources for construction available. This industry includes the Steel Truss and Component Association (STCA).

STCA is a national trade organization representing the interests of structural component manufacturers across the U.S. Their products include trusses and wall panels that are engineered structural components assembled from light gauge steel and screws, that create structural building systems. We purchase more than **200 million dollars worth of light gauge, galvanized steel each year.**

The current 30% steel tariff that was imposed in May of 2003 has adversely added cost to our economic structure, making others in our market more competitive. It has reduced jobs, an estimated 200,000 American jobs industry-wide, representing approximately $4 billion in lost wages. More American workers lost their jobs in 2002 to higher steel prices than the total number employed by the U.S. steel industry itself, according to Trade Partnership Worldwide, LLC.

STCA supports free trade and is opposed to artificial restrictions on steel imports. STCA supports all actions that will result in systemic changes to the manner in which the steel market functions so that steel is priced in an open and competitive way, without governmentally imposed restrictions.

It is alarming that our government is still considering drastic protectionist measures. These present poorly conceived and highly political trade and economic policies that harm construction affordability and affects pricing of steel products for millions of consumers and workers in steel-dependent industries at a time when the economy is struggling to regain its footing. This action threatens to delay or impede the nation's economic recovery.

If you have any questions, or need further information, please feel free to contact either Keith Kinser at 502/241–9456 or Kirk Grundahl at 608/217–3713.

Thank you for your time and consideration of this important issue.

Sincerely,

Keith Kinser
STCA President

Kirk Grundahl
STCA Executive Director

Stripmatic Products Inc.
Cleveland, Ohio 44113
March 21, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, D.C. 20515

Dear Congressman Crane:

I am the President of Stripmatic Products Inc. We are a small metal stamping company located near downtown Cleveland, Ohio.

I am writing to you on behalf of the 27 remaining employees of our 56 year old company. We are concerned about our company's ability to remain competitive in a global marketplace where our own government has penalized us with exorbitant steel import tariffs.

The steel tariffs imposed last March that were intended to rescue our domestic steel producers have actually served to severely weaken the steel industry's customer base. The action has raised steel prices by more than 40% on spot buys, created supply shortages on many grades of steel and has resulted in more than five times the normal level of quality problems with steel than before tariffs.

Steel has been difficult to source. We paid over 40% higher prices on post-tariff steel spot buys and about 20% higher cost for our long run blanket orders since the tariffs were active. At times, we couldn't even get steel prices quoted from our suppliers because there were such availability problems.

As a result of the steel tariffs we have lost three of our top five jobs and are currently looking at importing our own parts from China, which will greatly impact the number of jobs we offer and the type of skill level that we currently employ.

Please help give our company a fair chance to compete; help our country avoid losing its manufacturing base to Asia by supporting an immediate halt to steel import tariffs.

Sincerely,

William J. Adler, Jr.
President

Su-dan Company, Inc.
Rochester Hills, Michigan 48309
March 21, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Ways and Means
Washington, D.C. 20515

Dear Congressman Crane:

I am writing on behalf of my metal stamping company The Su-dan Company, Inc. We have manufacturing plants located in the States of Michigan and South Carolina and employee over two hundred people.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in higher prices, longer delivery times and reduced quality for steel consumers. Our steel prices rose by an average of twenty-seven percent as we scrambled just to get steel product on our manufacturing floor in a timely manor as delivery times increased.

As a result of the tariffs, my company recently lost a major contract where our competition was going to the supply the manufactured parts for our cost of raw materials alone. Our foreign competition clearly had a material cost advantage. Our profitability is completely absorbed by the higher steel prices that we have not been able to pass on to our customers. Unless things change our company will continue to loose business to foreign competition thanks to the actions of our government. I believe the tariffs should be removed before further damage is done to my company and the steel-users.

Thank you for you consideration.

Sincerely,

Dennis Keat
President

Tella Tool & Manufacturing Co.
Lombard, Illinois 60148
April 4, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Re: 3–26–03 hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

Dear Congressman Crane:

I am writing on behalf of my company, Tella Tool & Mfg. Co. We are located in Lombard, Illinois and we employ 100 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. In April 2002 Tella Tool & Mfg. employed over 160 people and as you can see from above we are now down over 40 %. The SOLE purpose for the drastic layoff of employees is directly related to Section 201 steel tariffs. Between April 2002 and April 2003 we have paid an average cost increase of 50% for steel products, this increase is comparable to material costs for the same time period one year prior, needles to say our profits are gone and so is the tax revenue paid to our local and federal government.

As a result of the tariffs, my company has lost our competitive edge in a global marketplace. Our products are used in Automobiles, Appliances, Aerospace and Defense products, all industries in which our customers REFUSE to allow price increases. Unless things change rapidly, my company will lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Louis C. Mautone
Vice President

Tottser Tool and Manufacturing
Huntingdon Valley, Pennsylvania 19006
March 22, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington DC 20515

Dear Congressman Crane:

I am a second generation owner of two manufacturing facilities in the Philadelphia area. I employ 65 workers. We now celebrate our 45 year anniversary and the steel tariffs have put my company in jeopardy of surviving. There is no relief from my customers for the additional costs which have escalated up to 40 % in some materials. Not only have the steel tariffs increased our cost of material drastically, they have also created shortages in steel and longer delivery times.

As a result of the tariffs, my company has lost several contracts and we stand to lose several more to foreign competition that now has a built in cost advantage, thanks to the actions of our own government. **These tariffs must be removed to save not only my company but many other small and large manufacturing concerns.**

Thank you for your consideration on such an important matter.

Sincerely,

Linda Reichart Macht
President/CEO

Tro Manufacturing Co., Inc.
Franklin Park, Illinois 60131
March 21, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Tro Manufacturing. We are located in Franklin Park, Illinois, just west of Chicago and we are a 39 year old small family business with 48 Employees. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers.

The above is boiler plate, but it is accurate. Tro is a Tier 2 Automotive supplier, meaning we sell to the companies who sell to the Big 3. Our primary products are Safety critical metal stampings for Vacuum Brake booster manufacturers.

We recently lost a multi million dollar package that we have been quoting for the past year. This work is going to an overseas metal stamper with a satellite factory in Mexico. We could not come close to their prices, our raw material content alone was as much as they were quoting for the finished part.

If this was one job for a new customer it would be one thing, but this is a family of parts for a customer we have supplied very competitively for over 25 years. There has never been this much price pressure, and Raw material costs are a huge component. There is a very real possibility that a good portion of our current work will be moved offshore as well, which will have the end result of another US manufacturing business shutting it's doors.

Unless things change rapidly, my company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Scott D. Sanda
General Manager

Tucker Industries
Bensalem, Pennsylvania 19020
April 3, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

RE: 3–26–03 Hearing titled "The Impact of the Section 201 Safeguard Action on Certain Steel Products"

I am writing on behalf of my company, Tucker Industries. We are located in Bensalem, PA., and we presently employ sixty-five people. We're having a tough financial time this year, mainly because of the steel tariffs, we lost four jobs to China, our industry in general is in trouble. We were trying to make it back to normal after

9/11, but dumping the steel tariff on our industry dramatically set us back. Trying to keep our head above water is a constant struggle, what with Mexico, Taiwan, etc. And now with the most formidable competitor, which is supported by their government—the Chinese. I have nothing against the Chinese, I like Chinese food, Yau Ming is a great Chinese basketball player for Houston, however, with the steel tariffs and no restrictions, they are overwhelming us with their imports.

I agree the steel companies should be protected, but not on the back of the metal stamping companies. If you want to support the U.S. steel companies, and I believe they should have some protection to preserve our steel base, put it in the fuel tax, let everyone support it.

To preserve a manufacturing base in this country the steel tariffs must go.

We appreciate your help in making a bad situation better.

Thank you,

Herbert Tucker

Volkert Precision Technologies, Inc.
Queens Village, New York 11429
March 21, 2003

Dear Congressman Crane:

I am writing on behalf of my company, Volkert Precision Technologies Inc. We are located in Queens Village, NY a suburb of New York City. We employ 46 workers in this depressed manufacturing economy. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become more competitive on a global scale. They have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers. Quite frankly the steel tariffs have resulted in increases across the board for small users like Volkert as the tariff has given mills and service centers a license to raise prices regardless of their own experience relative to cost. As small consumers we do not know the origin of most of the material we consume from distributors and rerollers, we are at their mercy and naturally they all claim that the tariff issue is increasing their cost. It is true I am sure in many cases but an excuse to raise prices in many as well.

My company has lost over $2 million of sales to Chinese competition over the last 3 years. China and other foreign competition has an even greater competitive advantage as a result of the steel tariffs. I understand the motivations of our government but see the tariffs as a Band-Aid on a hemorrhaging wound. The US steel industry problem is greater than the tariffs can fix and the tariffs are negatively affecting so many other manufacturing entities that their overall effect is extremely counter productive. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel using economy.

Thank you for your consideration.

Sincerely,

K. J. Heim

Walker Corporation
Ontario, California 91761
March 24, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Walker Corporation. We are located in Ontario, California, and we employ 140 workers.

The steel tariffs imposed by the president last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to restructure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortage allocations and lower quality for steel consumers. My Company is in danger if we cannot get steel. Our steel suppliers are demanding 20–40% increase. Our customers will not pay the increased prices we are being charged for steel. Some of our suppliers are indicating they cannot guarantee the amount of steel we need to make product requirements.

As a result of the tariffs, my company has lost contracts to foreign suppliers, has been pressured to move overseas, and had to layoff several employees. Unless things change rapidly, my company will continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Michael R. Bermudez
Director of Operations

Audrey King
Human Resources Manager

Winzeler Stamping Company
Montpelier, Ohio 43543
March 25, 2003

The Honorable Phil Crane
Chairman, Trade Subcommittee
House Committee on Ways and Means
Washington, DC 20515

Dear Congressman Crane:

I am writing on behalf of my company, Winzeler Stamping Company. We are located in Montpelier, Ohio and we employ 180 workers. We need your help.

The steel tariffs imposed by the President last March, which were intended to provide the domestic steel industry with protection from imports and an opportunity to re-structure in order to become competitive on a global scale, have unfortunately resulted in dramatically higher prices, longer delivery times, shortages, allocations and lower quality for steel consumers.

As a result of the tariffs, my company has had to resort to some layoffs and cutting of hours, etc. Unless things change rapidly, my company will lose business and continue to lose business to foreign competition that now has a built-in cost advantage, thanks to the actions of our own government. I believe these tariffs should be removed at the earliest possible time to prevent further damage to the steel-using economy.

Thank you for your consideration.

Sincerely,

Michael D. Winzeler
President/CEO

Wood Truss Council of America
Madison, Wisconsin 53719
April 10, 2003

The Honorable Philip M. Crane
Chairman-Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

RE: Steel Tariff Issue

Dear Mr. Chairman:

Manufacturers of structural building components are conducting business within all communities of the U.S., using the most efficient, economical resources for construction available. This industry includes the Wood Truss Council of America (WTCA) and the Structural Component Distributors Association (SCDA).

WTCA is a national trade organization representing the interests of wood structural component manufacturers across the U.S. SCDA represents the interests of companies that distribute structural components such as engineered wood products. There are more than 2,200 structural building component manufacturing locations in the U.S. Our industry manufactures products worth more than $9 billion annually in sales. These products include trusses and wall panels that are engineered structural components assembled from wood members and metal plates, including all of the hardware required in the field for installation. We purchase more than **350 million dollars worth of light gauge, galvanized steel** each year.

The current 30% steel tariff that was imposed in May of 2003 has resulted in many adverse effects, shifting our industry's cost-structure and making other markets more competitive. It has reduced jobs, an estimated 200,000 American jobs industry wide, representing approximately $4 billion in lost wages. More American workers lost their jobs in 2002 due to higher steel prices than the total number employed by the U.S. Steel industry itself, according to Trade Partnership Worldwide, LLC.

WTCA and SCDA support free trade and are opposed to artificial restrictions on steel imports. These organizations support all actions that will result in systemic changes to the manner in which the steel market functions so that steel is priced in an open and competitive way, without governmentally imposed restrictions.

It is alarming that our government is still considering drastic protectionist measures. These poorly conceived and highly political trade and economic policies harm housing affordability and affect pricing of steel products for millions of consumers and workers in steel-dependent industries, at a time when the economy is struggling to regain its footing. Tariffs and quotas on steel imports serve only to drive up the cost of steel for our industry's metal connector plate and hanger suppliers. In turn, the increase in cost ultimately is passed down to the structural building component manufacturers, who must pass the increased cost to their customer and eventually to the ultimate buyer. This action threatens to delay or impede the nation's economic recovery.

It is essential to address and alleviate the unintended consequences of this tariff on steel that results in another significant disadvantage for the U.S. structural building component industry. This comes in addition to the current softwood lumber tariff, and exacerbating the problem of U.S. component manufacturer competitiveness as a result of the current and ongoing softwood lumber dispute. We are the only industry that we are aware of, where both raw materials that are used to produce our products are subject to a tariff.

If you have any questions or need further information, feel free to contact either Scott Arquilla at 708/774–9500 or Kirk Grundahl at 608/217–3713.

Thank you for your time and consideration of this important issue.

Sincerely,

Scott Arquilla
WTCA President

Kirk Grundahl
WTCA Executive Director

Ryan J. Dexter
SCDA Executive Director

Statement of Zapp USA

These comments are submitted on behalf of Stahlwerk Ergste Westig GmbH, d/b/a Zapp USA ("Zapp"), for the record of the hearing on the Impact of the Section 201 Safeguard Action on Certain Steel Products. Zapp opposes the steel safeguard action.

Zapp is a German producer and exporter of a variety of high-grade precision stainless steel and cold-rolled flat products such as stainless steel round bar and profile bar used for medical implant applications, stainless steel bar used for automotive applications such as solenoids, and cold-rolled carbon steel strip used for cutting blades. Zapp is also a U.S. consumer of high-grade stainless steel and cold-rolled flat products, such as stainless steel wire rod that is used in automotive and aerospace applications. Zapp has production facilities in the United States in Massachusetts and South Carolina.

The steel tariffs imposed under Section 201 have had a negative impact on Zapp's domestic operations that use imported steel, as well as on the operations of Zapp's domestic customers for the imported steel Zapp produces and supplies, by increasing the cost of these products. Moreover, the tariffs are having a negative effect on the U.S. economy generally by unnecessarily imposing additional costs on the ultimate U.S. consumers of these products. Zapp has sought and obtained exclusions from the tariffs for some of its products. However, some are still subject to the additional tariffs. Zapp does not believe that there is any justification for maintaining tariffs on these remaining products. The tariffs will not assist the domestic industry to adjust to import competition because they neither encourage purchases from the domestic supplier nor discourage imports of allegedly competing products.

For example, Zapp produces stainless steel medical bar and profiles for export to the United States for implant applications, such as bone screws and plates. Zapp's domestic competition for the stainless steel medical bar and profile products is Carpenter Technology Corporation. Zapp's participation in the U.S. market has grown in recent years due to the dissatisfaction of its customer base with Carpenter as a supplier, including as a result of Carpenter's mill minimum production quantities, long lead times, unwillingness to keep customer specific inventory and overall poor service. Stainless steel profiles have recently received an exclusion from the tariffs, subject to a quantity cap, but medical implant bar and profile bar in excess of the cap are still subject to the additional duty. Carpenter does not currently produce profiles at all, and its production of medical bar is subject to the service and availability limitations described above. Thus, when customers require this critical product for the medical needs of U.S. patients, they must look to foreign sources, such as Zapp, for supply. Carpenter chooses not to supply this material as needed by its customers, even with the additional tariffs, so imposing these measures on Zapp and its U.S. customers does not serve the goals of the safeguard measures. The consumers will seek out Zapp regardless, with the additional cost being absorbed by the ultimate customers, that is, the implant patients, or by their insurance companies.

In the case of the stainless bar Zapp provides to the automotive industry for use in the production of solenoids, Zapp's customer had problems with the quality of the product Carpenter supplied, causing the temporary shutdown of the customer's entire production operation. The customer sought out Zapp as an emergency supplier and continued using Zapp as a secondary source even after Carpenter resolved its quality issues and was restored as the principal supplier. However, Zapp was unable to obtain an exclusion from the tariffs for that part of the customer's needs that it will supply even after the customer made clear that it would not purchase its entire supply from Carpenter. The added costs of the tariffs in that case will simply get passed along to the ultimate consumer.

Zapp is also a purchaser of high-grade precision stainless steel wire rod used for automotive and superconductor applications. The chemistry of the wire rod needed by Zapp for its U.S. production imparts specific properties on the finished products. Zapp has approved a limited number of sources for its wire rod needs because these sources have developed processes that produce a consistent product, which allows ZAPP to maximize its production capabilities and provide customers with a specialized product that outperforms previous materials. Zapp will not switch to a domestic supplier that cannot meet these product specifications simply because the imported materials now cost more. Thus, the tariffs in this case also will not assist the domestic industry to adjust to the import competition. They will only increase the cost to the ultimate purchaser of the products Zapp produces in the United States.

Domestic opposition to the exclusion requests that Zapp and its suppliers and customers submitted to the U.S. Trade Representative and the Department of Commerce should not have been sufficient to support denial of those requests if the domestic industry would not or could not supply the needed products. In each case in which Zapp was involved, there were legitimate reasons for purchasing from the foreign supplier, including lack of domestic supply, and service or quality problems with the domestic supplier. In these cases, the imposition of tariffs will not serve to shift sales to the domestic industry nor curtail imports. The tariffs will simply result in added costs, which will be passed on to the ultimate purchasers to their detriment and that of the U.S. economy as a whole. If the tariffs do not, in fact, provide import relief to the domestic industry, they should be eliminated.

Zapp appreciates the efforts of the House Committee on Ways and Means Subcommittee on Trade to examine the impact of the President's steel tariffs on steel consuming industries and the U.S. economy as a whole. Zapp believes that, in most cases, the tariffs are serving no purpose and urges the Subcommittee to take action, where appropriate, to seek removal of the safeguards. Zapp would be pleased to provide the Subcommittee with any additional information or explanation needed for its investigation.