



McDermott Incorporated

Bruce N. Hatton
Vice President & General Manager

Washington Operations

1820 N. Fort Myer Drive
Suite 804
Arlington, Virginia 22209
Phone (703) 351-6300
Fax: (703) 351-6417

June 7, 2002

Hearing Clerks
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: HR 1067 and HR 1141

Dear Hearing Clerks:

McDermott Incorporated is strongly opposed to the adoption of HR 1067 and HR 1141 which propose to suspend (HR 1067) or eliminate (HR 1141) tariffs on certain steam or other vapor generating boilers used in nuclear facilities and classified under the Harmonized Tariff Schedule of the United States (HTSUS) Subheading 8402.11. We have lost the last four orders to overseas manufacturers in France and Spain. We have already had to layoff nearly 50 workers in April. Thus, the implications of suspending the tariff to the only North American manufacturer and our U.S. supplier base are substantial.

McDermott is a leading energy services and manufacturing company providing engineering, procurement and manufacturing of equipment and project management for customers involved in the production of energy and in other industries. Babcock & Wilcox (B&W) is an Ohio headquartered subsidiary of McDermott that manufactures power generation systems, including steam or other vapor generating boilers used in nuclear facilities. B&W's North American facilities are located in Barberton, Ohio; Cambridge, Ontario, Canada; Ebensburg, Pennsylvania; Lancaster, Ohio; Melville, Saskatchewan, Canada; St Petersburg, Florida; West Palm Beach, Florida; and West Point, Mississippi.

High cost of duty loss to the Treasury exceeds Committee no-budget impact criteria.

Suspension of the 5.2 percent duties through 2005 as expressed in HR 1067, or permanent elimination of the duties through changing the HTS sub-heading, as expressed in HR 1141, on certain steam or other vapor generating boilers that are used in nuclear facilities, would

result in substantial loss of revenue to the U.S. Treasury. In addition both HR 1067 and HR 1141 are retroactive to the beginning of 2000.

Per the US International Trade Commission Memoranda to the House Ways and Means Committee of July 2, 2001 customs revenue loss is estimated as follows:

Period	Import Value	Customs Revenue Loss
2000-2002	\$351,600,000	\$17,420,919
2003-2005	\$246,000,000	\$12,800,000
After 2005	\$750,000,000	\$39,000,000 (applies to HR 1141 only)

Overseas manufacturers do not need a duty suspension to compete in the U.S.

In accordance with the U.S. International Trade Commission data above, dutiable imports into the U.S. of nuclear boilers in 2000-2002 are estimated at \$351 million. All U.S. utility orders in 2000, 2001 and to date in 2002 have been contracted with overseas manufacturers. These units have been or are being manufactured in France, Italy, Spain and Korea.

These were all ordered by U.S. utilities with the U.S. tariff in effect. Clearly a suspension of the tariff serves no competitive purpose and is not necessary.

Enclosure 1 provides a listing of dutiable imports into the United States in 2000-2005. All of these have been ordered from overseas manufacturers and in some cases already imported. We have also included a list of nuclear plants expected to replace their boilers during the 2006-2010 timeframe (see Enclosure 2).

To further document these orders, enclosures 3 and 4 are trade press announcements of significant orders to Korea's Hanjung for 2 nuclear boilers (\$50 million) and one to Ansaldo of Italy for L 100 billion for 2 nuclear boilers (roughly \$57 million in 1998). Steam generators are the industry term for nuclear boilers.

Nuclear boiler contracts are often awarded on a supply, remove and install basis. The company awarded the overall contract then contracts with a nuclear boiler manufacturer for the supply of the equipment. The contract price for the overall contract, including removal and installation, is often public knowledge. While the price for just the equipment is often not made public, there are only a few major models of nuclear boilers in the U.S. and by knowing the pricing of nuclear boilers at another plant with the same basic model of boilers, one can closely approximate the pricing of nuclear boilers at a plant where the pricing of the boilers is not publicly known. We have used our extensive knowledge of nuclear boiler models at specific plants to complete the pricing shown in enclosures 1 and 2.

Nuclear boilers are critical pieces of equipment in nuclear power plants and are designed and manufactured to exacting standards. Facilities that manufacture nuclear boilers are required to possess an N-stamp qualification. N-stamps are issued by the American Society of Mechanical Engineers and conform to Nuclear Regulatory Commission (NRC)

criteria. Qualification for an N-stamp includes a rigorous quality assurance program and a very high level of expertise and quality.

Both bills are retroactive

Both HR 1067 and HR 1141 also seek to liquidate or reliquidate duties retroactive to January 1, 2000. Per the U.S. International Trade Commission Memorandum to the Committee in July 2001, the revenue loss of this retroactive provision would exceed \$17 million if the law were enacted at the end of 2002.

Current U.S. production by U.S. suppliers is threatened by a tariff suspension.

B&W's production of nuclear boilers utilizes a substantial U.S. supplier base. Temporary duty suspension or permanent duty elimination would have an adverse economic impact on these U.S. suppliers to Babcock & Wilcox. The principal suppliers are located in California, Connecticut, Maine, North Carolina, Ohio, Pennsylvania, Texas, Virginia and West Virginia. To the best of our knowledge, with only one exception, these U.S. suppliers only supply to B&W in respect of our nuclear boiler products. Overseas competitors of B&W have their own well-established foreign supplier networks or regional trading blocs. As the duty suspension or elimination contemplated in HR 1067 or HR 1141 would make B&W's nuclear boilers less competitive, then this could have a direct adverse impact on our U.S. suppliers.

Maintaining the normal tariff directly impacts our facilities in Mississippi

B&W must allocate production between its North American boiler manufacturing facilities in Canada and in the U.S. in Mississippi. As B&W loses nuclear boiler orders for its Ontario facility, B&W would be forced to move fossil fuel steam generator production from the U.S. to Canada to maintain the viability of the facility, jeopardizing high paying manufacturing jobs in the United States. The Canadian facility in Ontario manufactures both nuclear and fossil-fueled boilers.

Suspending the tariff threatens future U.S. manufacturing by B&W.

B&W's ability in the future to manufacture boilers for nuclear use in the United States will depend on how future orders develop and the duty of HTSUS Subheading 8402.11 remaining at 5.2 %. We have performed significant nuclear boiler manufacturing work in McDermott's facilities in the U.S. (component fabrication, component installation, heavy assembly, final inspection and testing). We conduct virtually all of our research and development in the United States. Our North American manufacturing requires significant procurement of U.S. sourced materials and engineering equipment. We also undertake extensive manufacturing of boilers for non-nuclear use in the United States. As recently as 1997, we manufactured some large nuclear boiler components for a U.S. utility in the Mt. Vernon, Indiana plant that is owned by a McDermott entity.

Tariff suspension is a one-way giveaway to the EU and Korea and encourages job migration.

While HR 1067 and HR 1141 propose to suspend or eliminate the U.S. duty on certain products classified under HTSUS Subheading 8402.11, U.S. competitors such as the European Union and Korea (a significant supplier) both maintain duties on this product --

2.7 percent and 8.0 percent, respectively. The continued existence of duties in the EU and Korea coupled with the concomitant elimination of duties on U.S. imports would undermine the intent of NAFTA and encourage the migration of production from North America to countries outside the region.

Babcock & Wilcox has substantial capacity for potential new orders

Erroneous statements concerning B&W's capacity have been made which we wish to correct. We are not at or near manufacturing capacity at the present time; nor have we been so at any time since 1995. In fact, we are in urgent need of new orders. We have lost the last four orders to overseas competitors from France and Korea. The last order to B&W was in 1999. We have already had to layoff nearly 50 workers in April.

In our shops, a steam generator typically spends about two years in the heavy vessel shop and then a year in the clean room for final assembly. We have enough capacity to have 20 to 25 steam generators in these two phases of production at one time (we have accommodated up to 50 steam generators in these two phases of production at one time). We currently have 8 steam generators in production, all in the clean room and none in the heavy vessel shop. Two steam generators will ship in July of this year. The other six will ship in 2003 and 2004. We can comfortably accommodate production of 12 steam generators per year in our clean room facility (i.e., 12 completed and shipped per year) with timely delivery. Obviously our facilities are not at or near capacity.

In conclusion, the suspension or elimination of the 5.2 percent duty on certain boilers classified under HTSUS Subheading 8402.11 would adversely affect McDermott Incorporated and its subsidiary Babcock & Wilcox. It would be costly to the U.S. government, is unnecessary as a competitive incentive, is not being matched in foreign markets and would be detrimental to a U.S. company and its numerous and committed U.S. suppliers. For the reasons stated above, McDermott Incorporated and B&W oppose HR 1067 and HR 1141 and request that these comments be given formal consideration.

Sincerely,

(Original signed by Bruce N. Hatton)

Bruce N. Hatton

Enclosures (4)

cc: The Honorable Grant Aldonas, Undersecretary of Commerce, International Trade Administration

ENCLOSURE 1

**Nuclear Steam Generator Imports
January 2000 through December 2002**

Nuclear Plant	Utility	Comments	Approx Dutiable Value	Duty
Farley 1, Ala	Southern Nuclear Operating Co	Feb 2000 from Spain	\$31m	\$1.6m
ANO 2, Ark	Entergy Nuclear South	Jul 2000 from Spain	\$55m	\$2.9,
Farley 2, Ala	Southern Nuclear Operating Co	Dec 2000 from Spain	\$31m	\$1.5m
Kewanee, Wis	Nuclear Management Company	2001 from Italy	\$30m	\$1.5m
South Texas 2, Tex	STP Nuclear Operating Co.	2002 from Spain	\$80m	\$3.9m
Sequoyah 1, Tenn	TVA Nuclear	2002 from Korea	\$40m	\$2.0m

**Nuclear Steam Generator Imports
January 2003 through December 2005**

Nuclear Plant	Utility	Comments	Approx Dutiable Value	Duty
Palo Verde 2, Ariz	Arizona Nuclear Power Project	2003 from Italy	\$80m	\$3.9m
Prairie Island 1, Minn	Nuclear Management Company	2004 from Spain	\$25m	\$1.3m
Watts Bar, Tenn	TVA	2005 or 2006	\$60m	\$3.1m

ENCLOSURE 2

Nuclear Steam Generator Imports January 2006 through December 2010

Nuclear Plant	Utility	Comments	Approx Dutiable Value	Duty
ANO 1, Ark	Entergy Nuclear South	2006 from France	\$60m	\$3.1m
Callaway, Mo	AmerenUE	2006 from France	\$65m	\$3.4m
Salem 2, N.J.	Public Service Electric & Gas Co.	2006	\$55m	\$2.9m
Palo Verde 1&3, Ariz	Arizona Nuclear Power Project	2006 & 2007	\$160m	\$8.3m
St Lucie 2, Fla	Florida Power & Light	2006	\$60m	\$3.1m
Fort Calhoun, Neb	Omaha Public Power District	2006	\$60m	\$3.1m
Beaver Valley 1, Pa	FirstEnergy Nuclear Operating Co.	2007	\$50m	\$2.6m
TMI 1, Pa	Amergen	2007	\$60m	\$3.1m
Prairie Island 2, Minn	Nuclear Management Co	2006 or 2007	\$25m	\$1.3m
Diablo Canyon 1&2, Calif	Pacific Gas & Electric Co.	2007	\$80m	\$4.2m
Comanche Peak 1, Tex	TXU Electric	2007	\$60m	\$3.1m
Sequoyah 2, Tenn	TVA Nuclear	2007	\$50m	\$2.6m
San Onofre 2&3, Calif	Southern California Edison Co.	2008	\$130m	\$6.8m
Waterford 3, La	Entergy Nuclear South	2008 or 2009	\$65m	\$3.4m
Crystal River, Fla	Florida Power Corp.	2009	\$60m	\$3.1m
Davis Besse, Ohio	FirstEnergy Nuclear Operating Co.	2009	\$60m	\$3.1m

ENCLOSURE 3

KOREA'S HANJUNG WINS CONTRACT FOR SEQUOYAH STEAM GENERATORS

Nucleonics Week September 16, 1999; Pg 4; Vol.40,
No. 37 Journal Code: N UC ISSN: 0048-105X
Word Count: 227

Byline:
Tom Harrison,
Washington

Text:

South Korea's Hanjung Co., LTD. will supply four steam generators to the Tennessee Valley Authority's (TVA) Sequoyah - 1 for \$50million, the company's first U.S. nuclear power plant contract.

TVA said the steam generators will be replaced no earlier than 2003, and possibly as late as 2005, depending on the performance of the current generators. Sequoyah - 1 began operations in 1981. TVA said it currently does not plan to replace Sequoyah - 2's steam generators. In 1994, TVA planned to replace the steam generators in 2012 at Sequoyah - 1 and 2013 at Sequoyah - 2 (NW, 25 Aug.'94, 3).

Hanjung is the subcontractor on the project for ABB Combustion Engineering, which will do some engineering and design work, said Donghwan Kim, vice president of Hanjung America Corp. He said the steam generators will be manufactured in Korea. Hanjung is Korea's NSSS vendor. Kepco's growing nuclear capacity is based on ABB CE's System 80 technology. Hanjung also is preparing a bid to supply two steam generators to Northern States Power's Prairie Island in conjunction with ABB (see next story).

Hanjung, also known as Korea Heavy Industries & Construction Co. LTD., began looking at the U.S. as a potential market several years ago (NW, 7 Nov. 196, 7). Kim said the company plans to pursue more U.S. steam generator work, again collaborating with ABB CE, but gave no details.

Copyright 1999 The McGraw-Hill Companies, Inc.

Company Names (DIALOG Generated): ABB Combustion Engineering; Hanjung America Corp; Hanjung Co Ltd; Korea Heavy Industries & Construction Co. Ltd; Northern States Power

McGraw-Hill Publications (Dialog8 File 624)(c)2000 McGraw-Hill Co, Inc. All rights reserved

ENCLOSURE 4

6578408/9

06578408

Ansaldo: 100 miliardi per centrale Usa

US: L 100BN CONTRACT TO ANSALDO

II Sole 24 Ore(ISO) 29 Jan 1998 p.

Language: ITALIAN

The US company Arizona Public Services has awarded a L 100bn contract to the Italian company Ansaldo for the project and supply of two steam generators. The generators will be installed in the Palo Verde-based nuclear station (Arizona).

Company: ANSALDO; ARIZONA PUBLIC SERVICES

Product: Turbines (3511); Electric Power Generating Equip (3617);

Event: Capital Expenditure (43); Use of Materials & Supplies (46); Contracts & Orders (61);

Country: Italy (41TA); United States (IUSA);

Gale Group Globalbases(TM) (DialogS File 583) (c) 2000 The Gale Group All rights reserved.

Exchange rate in 1998: 1770L/US\$

L100bn = US\$57million

July 7, 2000 Note:

Subsequent to this January 29, 1998 press report, the contract and therefore the steam generators were increased in size in order to achieve an increase in megawatts. Our enclosure 1 figure of \$80 Million reflects this increase.