1776 K Street, N.W.
Washington, D.C. 20006
Timothy C. Brightbilll
202.719.3138
tbrightbill@wrf.com

June 28, 2004

PUBLIC DOCUMENT

BY HAND DELIVERY

Ronald Lorentzen, Acting Director
Office of Policy
Import Administration
U.S. Department of Commerce
Room 3713
14th Street and Constitution Ave., NW
Washington, D.C. 20230

Re: <u>Comments on Unfair Trade Practices Task Force</u>

Dear Acting Director Lorentzen:

On behalf of the Emergency Steel Scrap Coalition, a coalition consisting of a diverse group of steel scrap consumers and steel users, including construction companies, parts makers, forgers, foundries, and others, we hereby submit these comments on the work of the Unfair Trade Practices Task Force pursuant to the request of the U.S. Department of Commerce.

Pursuant to the Department's request, we hereby submit an original and six copies of these comments. In addition, in accordance with the Department's recommendation, we are also submitting an electronic version of these comments on CD-ROM.

I. INTRODUCTION

On May 27, 2004, the Department of Commerce requested comments from the public regarding the work of the Unfair Trade Practices Task Force and, specifically, to help identify the initial priorities of the Task Force by identifying the unfair trade practices that are of the greatest concern to the U.S. manufacturing sector.[1] These comments on the work and priorities of the recently established Unfair Trade Practices Task Force are being submitted on behalf of the Emergency Steel Scrap Coalition. The Coalition is comprised of a diverse group of steel scrap consumers and steel users, including construction companies, parts makers, forgers, foundries, and many others. The Coalition was formed in early 2004 to address the rapid surge in steel scrap prices that are being caused by the unfair trade practices of U.S. trading partners.

The imposition of duties and other barriers or prohibitions on the export of steel scrap from countries such as Russia, Ukraine, and Korea directly injure the members of the Coalition and other steel consumers and the elimination of these limitations on the export of steel scrap should be one of the highest priorities of the Unfair Trade Practices Task Force. The U.S. Government must promptly address restrictions on free trade in scrap and other steel-making raw materials, as well as other foreign government market interventions that unfairly advantage their manufacturing industries relative to U.S. producers. Otherwise, the Coalition believes that the U.S. Government will need to take action – unilaterally if necessary – to impose temporary controls on U.S. exports of steel scrap, and to challenge and eliminate trade barriers and subsidies abroad.

II. THE UNITED STATES SHOULD URGE OTHER NATIONS TO ELIMINATE EXPORT DUTIES AND OTHER RESTRICTIONS ON EXPORTS OF STEEL SCRAP

---

[1] *Request for public comment – Unfair Trade Practices Task Force*, 69 Fed. Reg. 30,285 (May 27, 2004)("Request").

Over the past year or so, steel prices have skyrocketed as steel scrap exports from the U.S. have surged. Even as U.S. steel scrap exports have surged, our trading partners like Russia, the Ukraine, and Korea have instituted duties on steel scrap exports to the detriment of U.S. steel producers and steel consumers. As noted by the U.S. Trade Representative in the 2004 Report on Trade Barriers:

> Ukraine imposed an export duty of 30 euros per metric ton on ferrous steel scrap during the second quarter of 2002. This export duty has contributed to a decline in scrap export from Ukraine, at a time when global demand and prices for steel scrap are rising. The export tax provides an artificial advantage to Ukrainian steel producers by increasing domestic steel scrap supply, providing producers with an unfair advantage in Ukraine and in third markets. Moreover, it constricts global supplies of a key steel input, which has the effect of raising prices of steel scrap for otherwise competitive producers elsewhere, including those in the United States.[2]

Russia, at one time, the largest exporter of steel scrap in the world similarly limits exports of steel scrap in order to confer an unfair advantage on Russian steel producers:

> Russia maintains export taxes on a variety of products. In May 1999, Russia imposed an export tariff on ferrous steel scrap of 15 percent (amounting to not less than 15 euros per metric ton). Additional certification requirements on ferrous steel scrap exports were adopted in 2001. At the time the export tariff was imposed, Russia was the world's largest steel scrap exporter. Russian exports of steel scrap have since declined significantly, at a time when world steel demand and prices have been increasing. The export tax provides an artificial advantage to Russian steel producers by increasing domestic steel scrap supply, providing producers with an unfair advantage in Russia and in third markets. Moreover, it constricts global supplies of a key steel input, which has the effect of raising prices of steel scrap for otherwise competitive producers elsewhere, including those in the United States.[3]

---

[2] United States Trade Representative, *2004 National Trade Estimate Report on Foreign Trade Barriers* – Ukraine at 476, 480 (Apr. 1, 2004).

[3] ***Id.*** – Russia at 406, 416-17.

Numerous other nations, including Korea, Egypt, and Taiwan, have also implemented controls or taxes on exports of steel scrap, further disadvantaging U.S. producers.[4] In all more than 10 million tons of scrap exports are affected by these trade barriers. The European Union's response to these restrictions on scrap steel exports from Russia and the Ukraine was to unilaterally establish import quotas for finished steel product imports from Russia and the Ukraine. As a result of the EU's actions, a relatively greater volume of finished steel products is sold in direct competition with U.S. producers both in the U.S. market and in other export markets. U.S. manufacturers are thereby doubly disadvantaged by the restrictions on scrap steel exports by countries like Russia and the Ukraine.

For additional information and analysis on the scrap emergency that is confronting the U.S. manufacturing sector, please visit our website at http://www.scrapemergency.com/. The testimony of Robert J. Stevens, CEO, Impact Forge Inc., Columbus, Indiana, and President of the Emergency Steel Scrap Coalition before the U.S. House of Representatives, Committee on Small Business on March 10, 2004, is attached to this submission for the Department's convenience.

The Emergency Steel Scrap Coalition therefore recommends that the U.S. Government require countries like Russia, the Ukraine, and Korea immediately drop duties and other barriers to exports of steel scrap in order to maintain unfettered access to the U.S. market. Failing that, the U.S. Government should not hesitate to limit scrap exports from the United States, as permitted by U.S. law and the WTO. The Emergency Steel Scrap Coalition has pre-filed a petition for monitoring and temporary controls on steel scrap exports. Should other countries not remove their own trade barriers, the U.S. Government should not hesitate to investigate this

---

[4] Song Eui-dal, *Gov't to Impose Export Restrictions on Scrap Iron, Steel Bars*, The Chosun Ilbo (Mar. 3, 2004) *available at* http://english.chosun.com/w21data/html/news/200403/200403030010.html.

petition on an expedited basis, to take other appropriate action against countries that maintain barriers to exports of steel scrap.

III. OTHER PRIORITIES

Although we emphasize the importance of the steel scrap issue, the Unfair Trade Practices Task Force will need to address a variety of other serious trade barriers and unfair trade practices affecting U.S. manufacturers. U.S. manufacturers are forced to compete directly and indirectly with government-owned and/or subsidized steel mills such as in China, India, and Russia and the customers that purchase from these mills. Even as other countries insist that U.S. steel producers reduce capacity, they provide easy access to credit at preferential interest rates. China has manipulated access to raw material markets such as coke, a product necessary for integrated steel mills. Government-owned and/or subsidized energy and freight markets also provide unfair advantages to foreign steel producers and other manufacturers. In addition, many Coalition members believe that the U.S. Government has permitted its trading partners to unfairly manipulate currency values injuring the U.S. manufacturing sector for far too long. The U.S. Government should address the issue of currency manipulation at the highest levels of government with our trading partners.

V. CONCLUSION

As discussed above, outside of the United States, direct government intervention to benefit foreign manufacturers is adversely affecting U.S. manufacturers and the elimination of such government benefits should be among the highest priorities of the Unfair Trade Practices Task Force. The Unfair Trade Practices Task Force is a welcome start to resolving the problems that have been adversely affecting the U.S. manufacturing sector in recent years. The Emergency Steel Scrap Coalition strongly urges the Task Force to quickly and decisively deal with the problems of duties and other restrictions on exports of steel scrap specifically and, more generally, with foreign government market interventions to benefit their manufacturing industries at the expense of U.S. producers and employees.

Please contact the undersigned if you have any questions regarding this submission.

Respectfully submitted,

Alan H. Price
Timothy C. Brightbill

Counsel to Emergency Steel Scrap Coalition

TESTIMONY OF ROBERT J. STEVENS

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

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

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

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

A. The Problem

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

B. The Causes

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

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

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

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

C. Who Are Affected

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

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

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

January, February and March, we expect the steel scrap surcharges starting next quarter, to be approximately DOUBLE or $20,000 per day.

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

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

D. The Solution

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

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

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

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

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

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