LOST JOBS, MORE IMPORTS; UNINTENDED CONSEQUENCES OF HIGHER STEEL TARIFFS (PART II)

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WEDNESDAY, SEPTEMBER 25, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:05 a.m. in Room 2360, Rayburn House Office Building, Hon. Donald Manzullo, Chairman, presiding.

Chairman MANZULLO. We will call this meeting of the Small Business Committee hearing to order. What I said two months ago is still true today. The higher steel tariffs imposed for a noble purpose have been devastating America's steel user manufacturers.

Some in the steel industry are doing better. We all want a strong and vibrant steel industry, but there are 59 jobs in the steel consumer sector for every one job in the steel producing sector in America.

I am going to waive the reading of my opening statement here because I understand we are going to have about three votes coming up at 10:30, but I just want to take 20 seconds to point out to you the headline that appeared in the Rockford, Illinois newspaper, Sunday, July 21st—"Bush tariffs backfire on local steel users."

[The information may be found in the appendix on page 115.]

Chairman MANZULLO. What started out as something well-intended has turned into a monstrosity. I talked to a gentleman in my office from National Metalwares just 20 minutes ago. He has lost three contracts to the Chinese because he could no longer be competitive because of price gouging by the U.S. steel manufacturers.

Another person in my office knows of a firm that is trolling China for $750 million worth of production. It is all going offshore. It is because of the tariffs on the steel.

I will now yield to our ranking minority member, Ms. Velazquez.

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

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Today, we are continuing our examination of the impact the Bush Administration's steel tariff has had on American small businesses. It remains no surprise to anyone here that the core of American heavy industry is weak, and that our steel producers are in trouble.

Burdened with crippling legacy costs and facing foreign competitors who dump their steel here for valuable dollars, the President simply has to protect American steel to give the industry time to consolidate and grow stronger.

The immediate effect of the tariffs has been to shore up this critical component of our economy while saving thousands of jobs. There has been some evidence that the tariff spiked steel prices for some small manufacturers, despite the fact that steel costs remain at historic levels—low.

Now a few months later, I believe that the conclusion made then that this tariff has both positively and negatively impacted small businesses is just as true now as it was then. I will say again that this issue, like any other issue we deal with on this Committee, is complex and contains no easy answers or solutions.

It is true that some small businesses were harmed by increased tariffs, but others have thrived. In a diversified production base some companies have done well and others need some help. This is not a black and white issue. These industries are, indeed, hurting. I realize that these tariffs are having a negative effect, but since we are concerned with all small businesses, I hope we can work together to find solutions to the challenges that face them.

For example, the markets have fallen. Consumer confidence is down, and unemployment remains a present danger. The economy is affecting all businesses—small and large alike. Small businesses face a variety of challenges. Finding solutions to the tariffs problems will be good, but some will find them a way to contain health care costs.

Steel costs has spiked by about 40 percent since the tariff was imposed. This is, indeed, shocking even though steel prices remain below historical levels, but health care costs have increased even more—10 percent on average each year during the past decade. These price hikes burden both steel-dependent companies and those entirely unrelated to the steel industry.

Nearly 40 percent of Americans without health insurance work for small businesses. If we could cut this cost, we will more than make up for the increase in steel prices that small manufacturers face and help cover more Americans in the process. The issue we are addressing today is a difficult and complex one. I do not doubt that some small businesses have been harmed by the increase in steel tariffs, though some have benefited.

I look forward to addressing the challenges that all small businesses in America face, and I look forward to working with my friends on both sides to find solutions to them. Thank you, Mr. Chairman.

Chairman MANZULLO. I yield the time it would have taken for my opening statement to Mr. Toomey, and then we will go directly to Mr. Aldonas' testimony.

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

Mr. Chairman, as you know, I am a passionate believer in free markets and free trade. I have voted to reduce trade barriers and expand trade at every opportunity from the trade promotion authority to free trade agreements with Jordan, bilateral trade agreement with Vietnam and permanent normal trade relations with China.

In fact, last year I held a Small Business Subcommittee hearing on Trade Promotion Authority and its impact on small business exports and farmers; and we heard from a number of witnesses the benefits of free trade and the opportunities it presents for small businesses, farmers and workers. I would like to thank Under Secretary Aldonas for participating in that hearing, and I welcome him back today.

I am convinced when people have more freedom to exchange the goods and services they produce, including with people in other countries, all parties benefit. Unfortunately, though, Mr. Chairman, the world's steel market is not a free market. The President's temporary safeguards under Section 201 of our nation's trade laws will allow the steel industry the time needed to carry out further investments and restructuring.

More importantly, it will give foreign governments and foreign steel producers an incentive to reduce their inefficient, subsidized excess capacity, which is really at the bottom of this problem. I am very sympathetic to the problems that small businesses are facing, and I want to be helpful in any way possible to ensure that small businesses in America are able to acquire the necessary steel products to operate their businesses.

First and foremost, we are here to work with you to address the very legitimate concerns you are going to raise today.

Having said that, Mr. Chairman, I must say I think our fire is being unfairly aimed at the domestic steel industry. It is not the domestic industry or the modest price recovery that is now occurring that is at the root of this problem. The problem, as the president has correctly identified, is foreign over capacity.

The truth is that steel prices, prior to the President's steel program, were at a 20-year low. This is the result of a massive, worldwide over capacity in steel production, which was caused by foreign government policies, such as subsidization and protection in their home markets. The flood of steel imports that has resulted has cost thousands of jobs, dozens of bankrupt companies and the devastation of entire towns and communities.

The President understood this problem, and that's why he initiated a three-part plan to address the steel crisis. This plan calls for negotiations to eliminate foreign market distortions; negotiations to eliminate foreign over capacity and investigation of the effects of steel imports on the domestic market under Section 201 of our trade laws.

After the most intensive investigation in its history, the International Trade Commission ruled in a unanimous six to nothing vote that imports were the primary cause of the serious injury to the domestic steel industry. It is essential that we keep in mind that the effects of low-price imports are not just low-priced steel for consuming industries, but by undercutting the U.S. market with imports, foreign producers have put our domestic steel industry at risk.

The President announced Section 201 tariffs in March 2002 to help remedy this situation. Now I know that tariffs can cause harm. I believe they should only be used as an absolutely last alternative when all other remedies have failed, but such exactly was the case regarding foreign subsidized steel by March 2002 when the president decided that it was the only remaining viable option.

The bottom line, I believe, is this. Only when they know that we are willing to retaliate with tariffs, can we realistically expect foreign governments who heavily subsidize their steel productions to reduce those subsidies and this massive distortion of the global steel market.

Steel prices are beginning to return to normal levels, but prices are only now reaching the level of average steel prices over the last 20 years. At this point, the process must be given time as prices recover and the industry has an opportunity to restructure.

The President also included a release valve under his Section 201 program. The product exclusion process was instituted to allow certain steel imports to enter the United States market duty free. The domestic industry has worked with the administration and its customer——

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

Chairman MANZULLO. Pat, how are you doing on time? I really want to get to the Under Secretary before the bells go off in 15 minutes.

Mr. TOOMEY. Well, I appreciate that, Mr. Chairman. I will just wrap up then, very quickly.

Chairman MANZULLO. Let's do it very quickly.

Mr. TOOMEY. And simply make the point that many products are not included and not covered in the tariffs. There have been many exceptions, and I believe it is in everyone's interest—steel mills and customers—that there be a healthy domestic steel industry. I think this tariff decision puts us on that road. I thank the Chairman.

Chairman MANZULLO. Thank you very much.

Our first witness on this panel is the Honorable Grant Aldonas, who is the Under Secretary of the International Trade Administration. I look forward to your testimony, Mr. Secretary.

Mr. ALDONAS. Thank you, Mr. Chairman.

Chairman MANZULLO. Can you pull the mike closer? Thank you.

Mr. ALDONAS. Absolutely. The first thing I would like to do is request that I submit my written statement, Mr. Chairman.

Chairman MANZULLO. The entire statement will be submitted to the record. We are advised, Mr. Secretary, that even though you have to leave, you have members of your staff that will be sitting here, listening to the entire testimony from the second panel.

Mr. ALDONAS. Absolutely.

Chairman MANZULLO. I appreciate that. Thank you.

STATEMENT OF GRANT D. ALDONAS, UNDER SECRETARY FOR INTERNATIONAL TRADE, INTERNATIONAL TRADE ADMINISTRATION (ITA), DEPARTMENT OF COMMERCE

Mr. ALDONAS. Thank you, Mr. Chairman, Congresswoman Velázquez and members of the Committee for inviting me to testify today.

I want to thank you, Mr. Chairman, for holding the hearing. Under your leadership, as you have worked together, the Committee has proved to be a consistent advocate for American small business; particularly, the many firms that represent the heart of U.S. manufacturing.

One of the many points in which I know we agree is the need to expand export markets and level the playing field for our small-and medium-sized manufacturers. Trade offers substantial benefits to American small businesses. It is in our best interest to enable them to pursue free trade as small- and medium-sized enterprises make up 97 percent of all American exporters.

I am sure that you and I also agree on the fact that we need to rebuild trust in our trade policy, which frankly has been broken over the last decade—specifically, trust between Congress and the Executive Branch and between government and the people that our policies are intended to serve.

In the President's view we can only expect the American people to support an aggressive, forward-looking trade agenda if we can assure them that we will look out for their interest at the negotiation table. I am here to affirm that we are.

There is understandably a need for a strong administration position on behalf of U.S. manufacturers, but I have to emphasize that steel lies at the heart of our manufacturing industry. The recent safeguard measure on steel imports illustrates one of the examples of the administration's commitment to work on behalf of the American public.

What I want to do is really put the president's decision in context. The president's efforts on steel are rooted in an effort to restore market conditions to the steel industry, which has been beset for decades with government distortions. Our steel companies face significant challenges. Most notably, they must compete with state-owned and state-subsidized steel producers.

I think one single statistic is always helpful to bear in mind when you talk about the level of distortion in the steel trade globally. Before the last 15 years of privatizations, governments owned 75 percent of the steel industry worldwide. That was the market in which our producers had to compete.

Sadly, after 15 years of privatization, government still owned 25 percent of the industry worldwide, which is entirely insulated from market competition. That's the challenge that our guys have to compete with in a global market where, frankly, our duties are low. The barriers to trade are low in our market as they aren't in other markets. That's why we oftentimes become a dumping ground for steel.

While critics of the president's action have often charged that the domestic steel industry is plagued by problems of its own making, the industry has actually proved to be very innovative over the last several decades. In fact, generally, critics of the steel policy have a tendency of think about the U.S. steel industry as being monolithic in that is made up solely of integrated firms with 70-year old technology. Frankly, nothing could be farther from the truth.

Fifty percent of our steel production now comes from minimills using the latest electric arc furnace technology—the most efficient producers in the world. Many of what were previously integrated firms have moved in a direction of hanging on to their finishing facilities and now import slab from abroad as a way of reducing their unit costs.

The integrated firms have, in fact, moved up the value chain into niches where they can sustain their existing cost structure and still turn a profit, but really does depend on the playing field being level at the end of the day, and ensuring that the competition in the marketplace is fair.

Toward that end, the president put forward a long-term solution to the problems that plague global steel trade. While the emphasize of the hearing today is on the safeguard measure under Section 201, I want to emphasize that the first steps the President took—for a President who is often accused of unilateralism—was for the first time to bring all the steel-producing countries of the world together to take a step toward eliminating excess capacity and then establishing new rules, new disciplines on government intervention in the market so we don't continue this cycle of government intervention in the marketplace and then a U.S. response under our trade laws.

In the long run the administration has sought a solution to a more stable steel market and will benefit both producers and users alike by providing greater certainty. In the short term, however, we continue to monitor the impact of the safeguard measure on U.S. businesses; particularly, steel-consuming industries.

We did act within the framework of the Section 201, including the president's initial determination, as Congressman Toomey has already alluded to, to provide relief where needed without overburdening consumers. The president established a process to exclude products that are not sufficiently available from domestic sources.

We were very hard on the U.S. steel industry, as they will tell you, in that process trying to ensure that they could provide proof that products were, in fact, manufactured in commercial quantities and available before we would deny an exclusion request. 727 such requests have been granted, and each year which the safeguard is in effect, additional products can be considered for exclusion.

In addition, we will continue to meet with the steel-consuming industries to work on individual problems. In fact Secretary Evans and I will be meeting with small businesses from Ohio, Indiana, Pennsylvania, Illinois and Minnesota later today.

I have to say also that the domestic steel industry has actually been very helpful and responsive where we have faced individual situations and pointed out where, for example, the service supply centers were jacking up prices and there was a way by selling direct to address the problems that consumers faced in the marketplace.

Many of the exclusions that we granted, in fact, went to small businesses. I am just going to cite three examples—the Industrial Nut Corporation, a small family-run company in Sandusky, Ohio was granted an exclusion for large hexagon bars that are used as an input in precision machine nuts; Grasche, USA, a small company with 38 employees in North Carolina received an exclusion for cold rolled sheet for saw bodies; Stamco Industries of Euclid, Ohio is a small business supplier in the automotive industry and received an exclusion for hot rolled steel.

The President has asked us to continue to monitor the impact of the steel safeguard. I'm sure the steel industry would agree the President has made clear that there is no free ride in the Section 201 process. We have consistently asked the steel industry to provide us with their plans for adjustment; how they would use the breathing space that the three years under the safeguard will provide and they have responded.

We are engaged now, after a September 5th deadline, and a series of meeting with steel companies individually to review those plans, and to mark progress in terms of their adjustment. And I have to say, having looked at the latest news, that there is an awful lot of adjustment that has already taken place.

I think what you're seeing in the marketplace right now is that, not only have firms gone through bankruptcy and reemerged, stripped of some of their previous excess capacity; but you are finding that a lot of companies are diversifying how they produce their steel in a way that will make them leaner and more efficient when the safeguard ends.

In the meantime, though, the administration is still committed to enforcing the U.S. trade laws. We want to use them as a catalyst. The president has reinforced for us, as Secretary Evans does almost on a daily basis that our goal is not simply to prosecute investigations under the trade laws, but to try and resolve the underlying trade disputes that often give rise to these trade cases.

In other words, I think the action under Section 201 is a catalyst to move the whole process forward on a multilateral front, and we will continue to use that pressure going forward so we can achieve an outcome that is good for both steel producers and users in the marketplace. Thank you, Mr. Chairman.

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

Chairman MANZULLO. Thank you, Mr. Secretary.

Congressman Phelps had a short opening statement that he wanted to read. I will yield to you, David, for that purpose.

Mr. PHELPS. Thank you, Mr. Chairman. I certainly want to thank you for holding this hearing, as well as the ranking member. It's very important that we talk about this matter.

In my congressional district in Central Southern Illinois, the effects of illegal steel dumping have been devastating. I have to admit to you I don't relish the idea of looking the steel worker in the eye and seeing the fear that is demonstrated—the uncertainty of tomorrow.

Many of their widows have been left with lack of health care provisions. Many of them that have been forced to retire or have retired are facing these devastating situations in their lives.

Of the 31 companies that have filed for bankruptcy, four of those in Illinois have been included in that. Over 5,000 steel workers have lost their jobs in Illinois—in Central and Southern Illinois. This is unacceptable. When you look at the 19th District, 27 counties, the largest geographic district east of the Mississippi, I can tell you these trade policies have done nothing but kill us.

I can take you up and down the landscape of downstate Illinois and demonstrate how we've closed shop after shop.

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

Chairman MANZULLO. How are you coming with your opening statement? I want to get on with asking questions of the Under Secretary before we head to votes.

Mr. PHELPS. We know that the Section 201 steel tariffs imposed by President Bush were helpful and I applaud his efforts and I firmly believe they have been effective; but even with this elevation of prices that we are experiencing now at the June 2002 levels, I want to point out this is not inflation. It is the beginning of a market recovery.

So we cannot afford to let our investment slide and our steel industry to go to waste. The tariffs are a strong step in the direction of economic recovery. Hopefully, the exemptions that were imposed will not be as great as we threatened to be. But we hope that the potential for the steel industry will recover, and it can if we cooperate and enforce our present laws. Mr. Chairman, thank you.

Chairman MANZULLO. What is your time frame, Mr. Secretary?

Mr. ALDONAS. I am here as long as you want me here, Mr. Chairman.

Chairman MANZULLO. We have got three votes that are going to take at least 30 to 40 minutes. Are you okay on time?

Mr. ALDONAS. I will go and get a cup of coffee.

Chairman MANZULLO. We will take five minutes now and see how far we can get ourselves. Will that be all right?

Mr. ALDONAS. Sure. Absolutely.

Chairman MANZULLO. My question is about the next round of exclusion requests. Why that can't start immediately? Why it has to wait until November until the meetings begin with decisions expected in March?

Mr. ALDONAS. Frankly, it is to provide a little certainty to the market. So traditionally, what has been done in safeguard actions is we've established an annual process.

So we will provide a set of exclusions. What we will do is we will take a look on an annual basis and see what has happened under those exclusions as well as see where there are other demands in the marketplace.

But in some respects, the goal of the safeguard is to ensure that our steel industry does have some breathing space, and what I really mean by that, Mr. Chairman, is access to capital. And until the capital markets are certain about the underlying economic conditions, it is a little difficult for them to make investments. So you've seen a lot of fluctuation up until we close the exclusion process.

I think things are leveling out at this points. So once the market sees the ground rules are set for a period of time, then I think it's easier for the companies to get the capital they're going to need to make the adjustments. We will open the process up again in November.

Chairman MANZULLO. What is bothering me about the exclusionary process, and I will be quite frank, is that the decisions to exclude are as political as the decision to impose the tariff in the first place.

In fact, in the last round of exclusions, it was the U.S. steel companies that got half the exclusions and they, themselves, wanted cheap imported foreign steel, so they could take and slice that up and sell it back to the steel users—many of whom are here today—at 30 to 40 percent price increases.

Why were the U.S. steel manufacturers—the ones who complained about importing of steel—granted half the exclusions to import the very steel whose prices they said were wrong and which lead to the 201 situation in the first place?

Mr. ALDONAS. First, I need to take exception, Mr. Chairman, with the impression that this was political. I know that the press; particularly, in the Wall Street Journal and a number of other places, described the exclusion process either, A, as being bending over backwards for domestic political constituencies or alternatively, bending over backwards for our foreign trading partners. It was neither.

Now the President set out a basic standard, which was we were going to grant exclusions where steel was not available in particular grades with particular chemistry in reasonably commercial quantities.

The problem that the steel industry themselves face is there is actually no merchant market for slab any in the United States. So if you are going to get slab to realign your plant, either you are chipping away at your own inventory, which would have made sense over time.

But if you are caught short, and you want to do the realign and we want to continue the adjustment process in the steel industry in our view it made sense to grant them exclusion for slab from abroad. That was consistent with the original exceptions that the President granted for slab at the outset.

What we have seen, frankly, is a higher demand for slab than we expected as a part of that process. So I would have a tendency to view what we did for the steel industry at the tail end of the exclusion process something that was consistent with the President's initial action in terms of providing that exclusion for slab because there is simply no merchant market for that in United States.

Chairman MANZULLO. The argument also would then apply to the steel users. They ended up being second-class to the steel producers. They wanted the very same thing. They wanted the bread and butter of steel so they could make their products. So the administration discriminated against the producers in favor of the manufacturers. Don't you think that is inconsistent?

Mr. ALDONAS. I don't see it that way, Mr. Chairman. Apart because what we really did press very hard on was whether or not a product was produced in the United States, and I have gone through the Midwest recently, what I think—a lot of the small businesses that I talked with would agree is that the steel that they use is garden variety steel that is manufactured in the United States.

From the steel industry's perspective, with respect to slab, there is no merchant market for slab in the United States. The only source is abroad.

Chairman MANZULLO. That brings up another point. Mastercoil Spring in McHenry, Illinois filed for an exclusion and the response from Sumiden was an objection. Maybe the Attorney General should be involved in this. Because lo and behold, after the exclusion was denied, Sumedin sent this memo to Mastercoil.

[The information may be found in the appendix on pages 146–150.]

Chairman MANZULLO It says "Currently Sumiden does not have production capacity to produce 100 percent of requirements. We would have to provide delivery information on an order by order basis." And the price of coil was 33 percent more; this, to me, is what it means to have political exclusions.

The steel companies came in. Their statements were accepted as gospel. No one could go beyond the face of them. You didn't give the steel users the opportunity to challenge them.

The whole system of exclusions were skewered and bent in favor of the objectors. And now we come back here, and my question to you is, when we have obvious fraud that took place on the part of Sumiden Wire Products Corporation out of Dixon, Tennessee, with a memo coming after these exclusions were denied, do you have the authority to go back——

Mr. ALDONAS. Sure.

Chairman MANZULLO [continuing]. And to take a look at those exclusions?

Mr. ALDONAS. What I have asked the——

Chairman MANZULLO. Do they have to wait until March?

Mr. ALDONAS. No. I mean, this is one of those incidents where, which I have said to a number of the users that I've met with—is where there is real evidence that the objection was not one that was based in fact, we will want to take a hard look at that.

We didn't design this system to impose a dead weight loss on our consuming industries. So where they had a legitimate claim, we wanted to grant the exclusion where something wasn't being produced in the United States of that type or grade. So where there are instances where there was an objection registered, and in fact, that objection didn't prove to be accurate. I don't wand the legal finding to it.

Chairman MANZULLO. They lied.

Mr. ALDONAS. In those instances, I think we want to go back and take a look at them. What I have done is invite the users, when they have those situations, to get in touch with us directly because I do want——

Chairman MANZULLO. A bunch of them are going to see you later on this afternoon.

Mr. ALDONAS. I know that, Mr. Chairman. I do want to say, though, in defense of the folks who—my colleagues at the Commerce Department—they did an extraordinary job. You can appreciate that in a process like the exclusion process. You will get a lot of pressure from both the steel consumers and the steel producers.

These guys played it right down the middle. They understood what the standard was that the President had announced, and they pressed very hard. Is it possible in instances we didn't go far enough? Sure. Absolutely. And we want to take a look at them.

Chairman MANZULLO. We have go vote. We are going to stand adjourned and appreciate your indulgence. Thank you.

[Whereupon, at 10:37 a.m., the meeting was adjourned to reconvene at 11:15 a.m.]

Chairman MANZULLO. If all of you could please have a seat there, if you can find one, the hearing will be back in session.

I have one more question, Mr. Secretary, and then we can finish up here. We also have another constituent, Arnold Engineering, in Marengo, Illinois. They import ARNOKROME–5C material and we have the same problem there. They have a 30 percent tariff and are liable for another 8.47 percent antidumping duty on some very sophisticated material that is not made in the United States. They missed the May 20th deadline to file their exclusion request.

These go on by the hundreds. I guess what I am asking you is probably the impossible, but we have to have a mechanism to process these new requests. Give me some guidance on how, either our office or somebody in your office that we can get these in. They are all urgent, but could you give me some guidance on this, Mr. Secretary?

Mr. ALDONAS. Well, certainly on the ones that we talked about before, Mr. Chairman, about situations where we are arguably—were mislead by a steel company's objection or they misfired in terms of the objection they registered, we want to hear about those because those are things we should address.

They were in time. They made their application. Something that if the facts were not as we understood them, that is something that we ought to revisit. On the others, particularly, with respect to dumping, where the product is—in fact, there is an exclusion process, as I understand it, under the dumping laws as well. That is something where it would be a question of either talking with me or Faryar Shirzad, who is the Assistant Secretary for Import Administration.

But as I have consistently said, Mr. Chairman, I think that consumers should use me as a voice in the process, and that I want to hear from them. When the President and the Secretary have talked about the need for an initiative with respect to manufacturing, we want to make sure we honor the fact that steel is at the core of that because I think that's the core of our manufacturing industry. But that certainly isn't to the exclusion of everybody else who at the Commerce Department we represent.

Chairman MANZULLO. I appreciate your openness. Ms. Velázquez?

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. I thank you, Under Secretary Aldonas. After listening to Chairman Manzullo's complaints about whole exclusion process, how would you answer, or what type of comment can you make regarding those steel manufacturers who claim that the exclusion process is biased and unfair?

Mr. ALDONAS. I just want to clarify, Congresswoman, when you say steel manufacturers, do you mean the steel producers are saying that it's bias and unfair, or the steel consumers?

Ms. VELÁZQUEZ. Consumers.

Mr. ALDONAS. Consumers? The President laid out in his decision on March 5th, the standard which we would apply throughout the process. We were guided strictly by the President's standard, and that was if a product was not available in commercial quantities in the United States, we were going to grant the exclusion.

I think our steel producers would vouch for the fact that we pressed very hard whenever they came in with an objection. I think there is instances, which the Chairman has alluded to, where we may not have pressed hard enough; but we really did press very hard to insist that we had evidence that they—not only they were going to produce it, and it wasn't just a question of saying they there capable of producing it; but I think actually produce it in the time frame that was relevant from the point of view of the consuming industry.

So the fact that they could say, look, we can be up and running in two-and-a-half years, and that means we can produce the steel. That wasn't good enough for us. We had to say can you produce it now and can you satisfy the needs of the consumer? Otherwise, as far as we are concerned, the product is not made in the United States in all practical terms.

So the bias in the system was one to use only the standard applied by the President, but to lean very heavily on the steel guys to say we really have to understand whether you can produce this way now in a way that is relevant, commercially, from the point of the consumer.

Ms. VELÁZQUEZ. How can you explain how the steel tariffs are part of the administration's three-year program to assist the steel industry?

Mr. ALDONAS. Congresswoman, it's a good question. Traditionally, what you are trying to do with one of these safeguards is you create a price wedge between what had been the pricing situation and what would be something more nearly historical market conditions. The 30-percent tariff was designed to do that. I have to say steel prices, while they are up in some categories, and up significantly in some categories, overall they haven't actually recovered to the historical levels even with the 30-percent tariff.

In fact, looking forward toward the end of the year, steel prices in the spot market are already softening again because of softer demand and increasing imports, despite the tariffs.

But the point was to make sure that you drove that price wedge in there so that the capital markets would see that there was a little more profitability on behalf of the steel companies and that they could go to the capital markets and look for opportunities for them to try and, either retrofit their existing plant to become more competitive or engage in mergers and acquisitions or consolidations that would make them leaner and more efficient.

Ms. VELÁZQUEZ. Mr. Aldonas, the Consuming Industries Trade Action Coalition is recommending that the administration get rid of the tariffs. Can you share your comments on that?

Mr. ALDONAS. Well, in my view, the tariffs the President put in place haven't yet served their purpose. And I look at that two ways. One, we haven't yet seen the kind of adjustment in our own industry that the breathing space is designed to encourage. It's happening, but it's not complete. So I think it is going to take some more time for that process to play out.

The other thing is to the extent that tariffs serve as leverage with respect to our trading partners. We have accomplished a lot in the OECD negotiations, but we are nowhere near our goal. I think that we have to stay the course in terms of trying to ensure that other trading partners come around because, really, the solution to this problem in the steel industry is not the 201. Our own steel industry will tell you that.

Until we get to the root cause of the problem, we haven't really solved it. We will continue in this cycle that we go through every 10 years, which nobody has an interest in doing. I was reminded at the break that the steel industry in Paris at the most recent round of talks stood up and were unanimous about wanting to go forward with market reforms. It was only when the governments came to the table in the meetings later that we started to have trouble.

So what I heard from industry across the board was an understanding that there is going to have to be adjustment in all countries in terms with coming to grips with the problem. We have a little bit more difficult time when we get the governments in the room to talk about that stuff.

Ms. VELÁZQUEZ. You mentioned before that access to capital was an important issue. Can you please expand on that?

Mr. ALDONAS. Sure. Well, first, let me say that access to capital isn't the only issue. The market has been working with brutal efficiency in terms of driving adjustment through the industry with 34 bankruptcies and an awful lot of plant closures, but with more capital available, for example, it allows an integrated company to realign plants that will make them efficient going forward.

It allows companies to engage in acquisition strategies that would consolidate capacity so that what is left in the U.S. market is the most efficient production. It would also allow investment of research and development, which would allow all U.S. companies to move up the value chain and earn a higher rate of return.

Ms. VELÁZQUEZ. Mr. Aldonas, are you aware that the administration, through the SBA loan programs, that these programs have been cut—the funding has been cut?

Mr. ALDONAS. I am aware of that.

Ms. VELÁZQUEZ. Would you approach the President and economic advisor, Mr. Lindsey to tell that at this time is the wrong approach?

Mr. ALDONAS. Certainly, in terms of my own experience with my good friend Hector Barreto and all the work that SBA does, anything we can do to reinforce the SBA, but I will have to look into that.

Ms. VELÁZQUEZ. Yes. The administrator, believe me, he has done, and he is trying to do everything he can because, he as a businessman, understands the need for access to capital; and how this loans programs through SBA played an important role. So 40 percent of most loans in this country that are provided to small business come through SBA. So it is not Mr. Barreto. It is Mr. Lindsey and it is the President.

Mr. ALDONAS. No, all I was commenting on is the fact that I think Hector is doing a wonderful job. I know that on the export side, Hector and I have collaborated a lot. He is somebody who you can have a lot of confidence in, but I am happy to take the message back. I will raise it with Secretary Evans this afternoon.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Chairman MANZULLO. Congresswoman Tubbs-Jones.

Ms. TUBBS-JONES. Thank you, Mr. Chairman. Good morning. Just in case people don't know, I hail from the great city of Cleveland, the home of LTV Steel. The home of many small steel manufacturing companies, and we have gone through a significant loss of jobs and restructuring and reworking with regard to the steel industry. I have offered several pieces of legislation trying to address the issue of legacy costs on behalf of the steel industry.

I wonder, Mr. Aldonas, what is your position on legacy costs and how do we pay for the legacy of great people who have worked in the steel industry forever and ever and ever and deserve to have some type of retirement program that would cover their health care costs?

[Ms. Tubbs-Jones's statement may be found in the appendix.]

Mr. ALDONAS. Well, my instinct is always to say what is available already. And when we look hard at the legacy cost question, what we found was—and let me break it down. With those folks who were over 65 and already retired, the Pension Benefit Guarantee Corporation would take up 97 percent of their pension.

They would have Medicare, Medicaid and low cost insurance programs, Medigap, available to them from the government. And then, with the folks who were 45 to 65, who—I think it's reasonable to say they should still find work elsewhere during that period of their lives as you and I are going to have to do.

To the extent that you could help them in the interim with their health care costs, it is pretty clear that under the Department of Labor's National Emergency Grants, you could make block grants to communities to try and address that particular issue.

So in fact, when we looked at it from the point of view of the administration, it looked like there was a panoply of programs available from the U.S. government that could actually help address that without having to provide additional money from the Congress.

The other point I think is fair to say is that——

Ms. TUBBS-JONES. Let me stop right here for a minute. Are you saying there are programs that could, in fact, cover those costs in communities like the City of Cleveland, but that's a "could." That is not that you're committing—that the administration is committing dollars for that purpose, correct?

Mr. ALDONAS. No. What we have said is we are interesting in trying to work with communities on that.

Ms. TUBBS-JONES. No, go back.

Mr. ALDONAS. What you asked me, Congresswoman, was what was——

Ms. TUBBS-JONES. Will you answer my question, sir? The question—answer my question. The question is that you could do that. You are not committed to doing that, have you, sir?

Mr. ALDONAS. The question you asked me was whether——

Ms. TUBBS-JONES. No, answer that question. You could do it, could you not, sir? Excuse me, Mr. Chairman, I am going to be kind.

Chairman MANZULLO. I would instruct you to let the witness answer the question.

Ms. TUBBS-JONES. But he doesn't want to answer the question, but you could, correct?

Chairman MANZULLO. Give him the opportunity to do so, please.

Ms. TUBBS-JONES. Mr. Chairman, thank you.

Mr. ALDONAS. But we have not had anyone take us up on that, and this was a subject of a great deal of discussion at the time the President took the action under 201.

Ms. TUBBS-JONES. You haven't had anyone come to you and say, okay, that the legacy costs are significant and we're applying to you to take over those legacy costs through those programs, is that correct?

Mr. ALDONAS. What we have had is a number of companies that have come and said to the Pension Benefit Guarantee Corporation that we want you to take over the pension costs. That has taken place. In fact, the PBGC has actually been proactive in many instances in removing the legacy costs from certain companies since they act in some sense as a steward of the pension program. So that action has taken place.

I was actually discussing more narrowly the point about the Labor Department programs, and in that case I don't purport to speak for the Labor Department. I know that the programs are available, and that it was clear to many of the folks we were talking to, including the steel workers unions, that those were possibilities.

I don't know whether any community has actually come forward and asked for national emergency capital.

Ms. TUBBS-JONES. Before you said no one had asked, did you not, sir, in your answers?

Mr. ALDONAS. To the best of my recollection, no one has asked for that——

Ms. TUBBS-JONES. You can represent that?

Mr. ALDONAS. I just did.

Ms. TUBBS-JONES. But you are not speaking for the Department of Labor?

Mr. ALDONAS. No.

Ms. TUBBS-JONES. Let me ask another question, okay? If you will allow me.

Mr. ALDONAS. Yes.

Ms. TUBBS-JONES. In addition to legacy costs, there are small businesses who believe that, as a result of the tariffs being imposed, that their businesses are suffering. When you look at tariffs, is there a way in which small business can be successful or benefit as well as the larger steel industry can benefit? And if so, what is that balance or twix-between that we can weigh in to do so?

Mr. ALDONAS. I think the answer is it depends on their pricing power in the marketplace. Small businesses that are stuck between a service supply center, which is not a steel producer, but acts a middleman who is jacking up prices on the one hand; and they buy in very small quantities, isn't going to have any market power with respect to their supplier.

On the other hand, they are not likely to have a lot of market power with respect to the upstream industry—the auto industry, for example, to whom they sell. They are going to be caught in a vise. Where small business have more a market nitch where their product is more unique and things like that, and they have the pricing power, I think they can pass the price on.

A point to make is that prices are already starting to abate in the steel industry. So if you look forward to the fourth quarter, you can already see spot prices starting to soften, which I hope, which in addition to exclusions will provide some relief to small businesses.

Ms. TUBBS-JONES. I don't want to presume that small business is jacking the prices as you have said. I am sure there are some small businesses who have succeeded out——

Mr. ALDONAS. That is not what I said, Congresswoman. What I said was service supply centers who are middlemen between the steel producers and the small businesses where the consuming industries are reading the market and driving the prices up higher than that which steel producers are selling in the marketplace.

Ms. TUBBS-JONES. You know what, I don't want to take my time to read back what you said, but I know that you said that small businesses are jacking up prices.

Mr. ALDONAS. I did not.

Ms. TUBBS-JONES. Let me finish, and just let me finish.

Chairman MANZULLO. You are out of time here.

Ms. TUBBS-JONES. I am out time. So let me complete with this, sir. I don't want to presume that there are small businesses across this country who are not doing the job that they think are—they are not true business people who are engaging in conduct that would be inappropriate. So I am going to be there fighting on their behalf, sir.

Mr. ALDONAS. Wonderful.

Chairman MANZULLO. I guess as the Chairman, I have the last comment. Thank you, Mr. Secretary. We have in our book of steel correspondence, Mr. Secretary, letters from steel manufacturing users, accompanied with letters from the steel suppliers, and the steel suppliers, the middle men are attaching letters coming directly from the steel manufacturers.

One of them is Bethlehem Steel. I would just like to mention names because I like to hold people accountable. I really would challenge the statement that the so-called middle men, or the steel suppliers, are responsible for gouging. The steel companies call it profit recovery.

I have written to the Attorney General. He has not had the kindness to answer my letter yet asking for an investigation for collusion, and anti-trust, monolopolistic type of practices.

[The information may be found in appendix on pages 97–98.]

Chairman MANZULLO. It has not happened. I can show you. In fact, you have the latest steel correspondence book, I would you track in there exactly the fact that it is the steel manufacturers themselves break a contract with the steel suppliers, saying, sorry, we are breaking the contract and the steel suppliers have to pass that bad news on to the steel users.

You had a comment?

Ms. VELÁZQUEZ. You just mentioned that the Attorney General didn't respond. He hasn't responded?

Chairman MANZULLO. No, he has not responded.

Ms. VELÁZQUEZ. So maybe we need to subpoena him.

Chairman MANZULLO. Well, let me take that under consideration.

[NOTE FOR THE RECORD: The Justice Department responded on October 3, 2002. See page 98.]

Chairman MANZULLO.Mr. Secretary, I want to thank you for your indulgence, and to thank you for being here. I thank you also for the willingness to work with us on those exclusions that obviously fell through the cracks.

Mr. ALDONAS. Thank you for the opportunity.

Chairman MANZULLO. Thank you, again. You are excused.

[Recess.]

Chairman MANZULLO. We have the second panel here. Congressman Nick Smith, would you like to introduce your constituent. Your statement will be made a part of the record.

Mr. SMITH. Thank you, Mr. Chairman, thank you. I do welcome Christine Dowding from Dowding Industries here.

Just let me briefly say that the high tariffs in Michigan and many other parts are having the result of losing jobs and driving business out. Just for the statistics, for every one person working in the steel-producing industry, there is 57 people working in the steel-using industry.

The economist in Michigan suggest that we are going to lose 6 to 10 jobs for every 1 job we save in steel-producing. With that, it's my honor to introduce Chris Dowding, president of Dowding Industries and Dowding Industries is a 36-year-old family-owned stamping business that employs about 140 workers in my district. I am very proud to have Chris here today.

I might add that many of the steel-using industries have come to me. They would like to be added to the 700-odd exemptions that the administration has already made on giving exemptions for some of the steel for particular industries that causes great distortion.

I have a Fortune 500 company that is threatening to move out. This is one company that is under duress because of the problems of the tariffs. I applaud the Committee for holding this hearing and certainly welcome Chris Dowding, who is the president of Dowding Industries. So thank you.

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

Chairman MANZULLO. We appreciate your participation. Congressman Hobson, you also have a constituent that is here today.

Mr. HOBSON. Thank you, Mr. Chairman. First of all, let me say to you, Mr. Chairman and members of this Committee, I really appreciate all the hearings you have had relating to small business. As you know, we have had a couple of other areas where we have worked together to try to improve things for small business, and I really appreciate the proactive stance you have taken, not just for this hearing, but with a couple of other issues that we have taken on and your championship of that.

I, today, want to introduce my constituent Jennifer John Friel, President of Midwest Fabricating in Amanda, Ohio. I have toured this facility and seen first-hand how hard it has been for this company to operate in these uncertain times. Midwest is representative of other small businesses that drive my state's economy.

Most are family-owned and operated, and I think there are a couple in this room besides Midwest, and they are vital to our local communities just like a lot of other small businesses. I am a small businessman by background myself.

Nick Smith was talking about the business as it affects Michigan, and the steel-consuming businesses, such as Midwest have 20 employees in the State of Ohio for every 1 that is a steel-production job. So we have a lot of people that are involved in the manufacturing side of this.

But the interesting thing about this is that Midwest is incurring a lot of problems because of these tariffs, and hasn't purchased any imported steel. This is occurring not only there, but other people in this room from our district are having the same problem.

I think the tariffs were well-intended, but I think they are creating new problems without solving the old one. If they were designed to save our nation's steel producers, who is going to rescue Midwest and other companies as they suffer from these tariffs?

The other thing I would like to say, and I can't say this for Midwest, but I have seen those letters that you referred to before where people just broke the contract and they just said if you want you, you are going to pay it. We don't care what agreements we made before. That's the deal. I think that's a terrible way to do business in our society. I don't think it should be stood for. With that, at this point, introduce Jennifer to all of you.

She runs a wonderful company in Fairfield County, Ohio. She has a couple of locations there. Thank you for allowing these people to come in and tell their stories.

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

Chairman MANZULLO. Thank you for participating. You are both welcome to sit on the panel as long as you can, and we will go from there.

Our first witness is Jon Jenson, President of the Consuming Industries Trade Action Coalition. We look forward to your testimony.

Mr. HOBSON. He is from Ohio, also; but he is not from my district or Stephanie's.

Chairman MANZULLO. Okay. That's great.

STATEMENT OF JON JENSON, CAE, VICE CHAIRMAN & PRESIDENT, CONSUMING INDUSTRIES TRADE ACTION COALITION (CITAC), INDEPENDENCE, OH

Mr. JENSON. Mr. Chairman, the Section 201 tariffs are reeking havoc in the steel market for downstream manufacturers, despite what you are hearing today. Skyrocketing prices, uncertain supply due to allocations and lengthening lead times, broken contracts and growing quality problems are forcing steel users to the brink of disaster.

We urge the administration to end this tax on steel-using industries as soon as possible.

We thank you for your leadership and your continued attention to the steel issue. Many of the witnesses at the Committee's July 23rd hearing testified to the damage done by the steel tariffs. As you will hear from the witnesses today, the situation has not gotten any better. In fact, it's gotten much worse.

The exodus of business to offshore manufacturers who can obtain steel at globally competitive prices is accelerating. Particularly alarming are shocking indications that more, new designs for parts and components for future products are being shopped overseas. Once this business leaves this country, it is not likely to return.

Furthermore, the ripple effect of the tariffs impacts the companies that supply steel-using manufacturers such as service centers, machine tool builders, welders, finishers, platers, assemblers and others. The list of well-documented reasons for ending the steel tariffs is more compelling than ever.

First, the tariffs are doing far more harm than good to our economy at a time when we can ill afford it. Second, they do not address the cause of the steel industry's problem, which is the non-competitiveness of certain integrated producers due to relatively high costs and operating inefficiencies.

Third, they threaten relationships with our trading partners. Fourth, they interrupt critical steel imports that are absolutely essential since we must depend on imports to supply 20 to 25 percent of our domestic demand. Fifth, they restrict fairly as well as unfairly traded steel for which antidumping and countervailing duty laws exist and are widely used.

Sixth, ironically, the tariffs inhibit and delay realization of the very goal for which they were imposed—the rationalization, restructuring and consolidation of non-competitive U.S. steel capacity. How much damage must be done and how many U.S. jobs have to be lost before the administration recognizes that the steel tariffs was a mistake and must be lifted?

Exclusions are not the answer. The exclusion process, the only mechanism for providing relief for steel users is a blunt instrument ill-suited for the micromanagement of the international steel market. It's a flawed process, inadequate, ineffective, inherently unfair and manipulated to the disadvantage of the steel user.

The steel companies would have you believe a lot of things, among them that the exclusion process gutted the Section 201 safeguard remedies. That's not the case. Steel tariffs still covers 75 percent of the tonnage potentially subject to the tariff—about 9 million tons per year.

Furthermore, about half of the excluded tonnage is semi-finished steel for the sole use of U.S. steel companies themselves. Clearly, the domestic steel industry has no basis to complain, and the exclusion process was seriously flawed.

Steel producers manipulated the process by representing that they were ready, willing and able to supply specific products when that was not, in fact, the case. The process was neither transparent nor fair. Those applying for exclusions had little opportunity to rebut objections raised by the steel producers.

In many cases tonnage limitations on granted exclusions were simply inadequate. Further, the process is fundamentally dysfunctional because the benefit from any exclusion goes to those companies that import the product first. There is no guarantee that the companies that actually file for the exclusions will receive any benefit from the exclusions at all.

The bottom line is that even after all these and other problems are resolved, the product exclusion process cannot solve all of the dislocations caused by the steel tariffs because many companies use domestic steel and are not eligible for product exclusions.

The only solution is early review and repeal of these tariffs. Between 1995 and 2001, steel-using manufacturers, mostly small businesses, added 1,255,000 new jobs to the economy according to the Bureau of Labor Statistics. Today, they employ 13 million

Americans compared to less than 200,000 in steel-producing industries.

Chairman MANZULLO. How are you doing on time?

Mr. JENSON. One paragraph.

Chairman MANZULLO. One paragraph? Make it short.

Mr. JENSON. It is, indeed, ironic that such an important generator of economic growth is being punished by our steel trade policy. Here is that paragraph.

Efforts to reduce the world's excess capacity of non-competitive steel production are laudable, but are proceeding at a snail's pace—maybe we will see results some day. Steel-using manufacturers who are struggling now for their survival should not be held hostage to this process. They can't want until some day. The tariffs must be lifted now regardless of the progress of the OECD negotiations. Thank you.

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

Chairman MANZULLO. Thank you for your testimony. We are going to have Mr. Mark Kennedy introduce his constituent, and then we are going to go to Mr. Hobson's constituent for the next testimony. That is Jennifer Friel.

Mr. Kennedy.

Mr. KENNEDY. I thank you much, Mr. Chairman, and thank you and the Committee for bringing up this very important topic.

I think when you look at the steel tariffs that were put in place six months ago, they were meant to help a few; but as we are hearing today, they have hurt many. We oftentimes hear the big companies story on this, but understanding how this effects small job-producing companies in our districts is absolutely, critically important.

I have seen this over and over, but probably no case where it is more real than in the case that we bring before you today in Wilson Tool, a manufacturer in Hugo, Minnesota outside White Bear Lake. We have with us, Mr. Brian Robinson, the president of manufacturing of this company. I have been there. I have seen the exclusion that they should have received, and we're putting 40 jobs at risk.

We are putting export jobs at risk when we are competing against foreign manufacturers and we impose a cost on our steel fabricators that is higher than their export competitors are facing. We are really putting out own economic vitality at risk.

So I am very pleased to have Mr. Robinson with us here today, and just to show how this is impacting Minnesota, we are also very pleased to have Erick Ajax from Minnesota here as well. It is a very important issue, and I applaud you for bringing this issue up.

Chairman MANZULLO. Thank you for your participation.

Our next witness is Jennifer Johns Friel. We look forward to your testimony.

STATEMENT OF JENNIFER JOHNS FRIEL, PRESIDENT, MIDWEST FABRICATING CO., AMANDA, OH

Ms. FRIEL. Thank you for inviting me to participate in this hearing. My name is Jennifer Johns Friel, as the Congressman said. I'm president of Midwest Fabricating Company. Midwest is a leader in the cold-forming of steel wire into special fasteners and rods for automotive, lawn and garden applications as well as a magnitude of components for various industrial and consumer products, including appliance, highway and housing construction.

Midwest Fabricating is a family-owned corporation. We were started in 1945, headquartered in Amanda, Ohio. We also have operating divisions in Lancaster, Ohio and in Santa Fe Springs, California. We have approximately 260 families that rely on Midwest for their employment.

My company has been adversely effected by the Section 201 tariffs on steel, even though we only buy from North American producers. We process an average of 20 million pounds of material each year, which happens to be industrial quality rod.

The steel tariffs have prompted our suppliers to dramatically increase the pricing of this material, and more importantly, extend the lead times from a historic 4 to 6 weeks to upward of 12 to 14 weeks.

The 201 remedies have caused tremendous dislocation in the market that have seriously affected my ability to get the steel I need at a reasonable price. It is very difficult to operate under these conditions. Our customers will not consider price increases; do not give us firm schedules 12 to 14 weeks in advance; and therefore, we are not certain that today we are even buying the materials that we need to supply them in the future.

Here is an example of the problem that we are facing. Our steel supplier pushed back a quoted lead time an additional three weeks. Since we owed parts to an assembly line that could not wait three weeks for parts, we had to purchase material on the spot market from a supplier that we consider to be substandard.

Half of the material we purchased turned out to be defective, resulting in contaminated material throughout out supply chain. The sorting, evaluation and containment costs that were associated with this one order caused us to lose a substantial amount of money.

Obviously, we don't want to, and more importantly, cannot afford to, continue to repeat situations like this. It is very difficult to run a business when you don't have any assurance that you will be able to obtain the raw material you need. While we are doing everything that we possibly can to obtain the steel we need, we are very concerned that a lack of steel will mean that we will not be able to supply particular orders.

The pricing and delivery environment that has developed in wake of this Section 201 decision is also of concern to our customers. After the steel tariffs were put into effect, one of our longstanding customers placed a huge order with a Canadian supplier instead of with us because the customer was concerned that we would not be able to get the steel we needed. Now this order was worth $5 million a year over an eight-year span. We are a $25 million company. It is a significant order to us and the people who work with us.

It will be very difficult to replace this business. This particular part will have a life span of eight years, as I said. It will not come up for redesign for another eight years. So even if these tariffs are not taken away today, I am still going to be suffering way after the three years, if they last that long, because of what has happened with the 201 decision right now.

The steel tariffs have clearly harmed many downstream consuming industries. The impact, I think, is spreading far beyond what could have been anticipated into businesses such as mine. We are clearly an unintended consequence. Please help me and the people who work with me by taking action to help lift these tariffs as soon as possible. I thank you.

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

Chairman MANZULLO. Thank you for your testimony. Our next witness is Erick Ajax from E.J. Ajax and Sons, Inc. They are metal stampers out of Fridley, Minnesota. We look forward to your testimony.

STATEMENT OF ERICK AJAX, VICE PRESIDENT, E.J. AJAX AND SONS, INC., FRIDLEY, MN

Mr. AJAX. Thank you very much, Mr. Chairman, for inviting me to testify today. I am vice president of E.J. Ajax and Sons, and we primarily produce hinges and other steel parts that are used in the appliance industry known as the light good industries, and also electrical enclosures that we sell worldwide.

E.J. Ajax has made a concerted effort in the last 10 years to be internationally competitive. In the last decade we have made sizable investments in the professional development and training of each and every one of our employees. For the last five years, every employee in our company—from the janitor to the president—has average 200 hours a year of professional development and job-related education so that we can compete in the world market.

We put every nickel of our profit for the last decade—the last two decades back into our machinery and equipment and paying our taxes. We have been able to reduce our total cost of labor from over 15 percent to down under 9 percent.

Chairman MANZULLO. Why don't you take a sip of water there. We won't charge you for the time.

Mr. AJAX. Thank you, Mr. Chairman. So these efforts are really successful in helping us compete all over the world. We have, up until recently, been able to export more than a third of the steel hinges and parts. But I have to say that the 201 tariffs have made it very difficult for us to sell domestically, yet abroad.

We primarily buy hot rolled and cold rolled steel and galvanized from service centers. This is the plain manila material that we have helped our customers engineer into their product, and we estimate that 70 to 80 percent of this steel is purchased from domestic sources and always has been.

However, since the imposition of the 201 steel tariffs, our raw material lead times have gone from days to months. Most of our long-term contracts were also broken within weeks of President Bush's proclamation of imposing the steel tariffs.

We have been forced into the spot market in many cases, and this uncertainty as to supply makes it very, very difficult for us to continue to do business. In addition, the steel tariffs have increased our costs from between 30 and 60 percent. Keep in mind that the steel that we use in the hinges that sell to the world market represent 50 percent—50—of our total costs.

Since the vast majority of our customers are unwilling to accept the prices increases, they have turned to the world market. We have been successful in passing a small, and I emphasize a small, portion of our price increases onto our customers. They have clearly told us that we are shopping those parts so that we can remain competitive in the world marketplace.

Several of our customers have already began to purchase parts from the other countries, and some of them are seriously considering moving more and more of their manufacturing out of the United States. We have lost several Fortune 500 companies out of the Minneapolis area in the last 12 months and more are on the way.

One of our largest customers just told me yesterday that a family of parts that we sell to them was recently quoted with three Chinese sources at a 50 to 70 percent savings over what we are currently charging for the part. That is a sizable contract that is really is about 10 percent of our total sales.

Since the steel imports were imposed on March 5th, we have had to lay off a total of 20 percent of our work force. You talk about having to look someone in the eye—we have a small family business and this is very, very difficult. I can attribute that 20 percent directly to the 201 steel tariffs, and there is the prospect of more to come.

On behalf of the employees of E.J. Ajax, and the other 13 million employees that consume steel, we urge you to lift these tariffs as soon as possible. Thank you very much, Mr. Chairman.

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

Chairman MANZULLO. Thank you for your compelling testimony. Our next witness is Jay Carlson from G&R Manufacturing, Inc. in Naugatuck, Connecticut.

Mr. CARLSON. Naugatuck, Connecticut. That is correct.

Chairman MANZULLO. Is Congressman Nancy Johnson your member?

Mr. CARLSON. She is but she is not able to be here.

Chairman MANZULLO. I understand. We look forward to your testimony.

STATEMENT OF JAY CARLSON, PRESIDENT, G&R MANUFACTURING, NAUGATUCK, CT

Mr. CARLSON. I thank you for inviting me to testify this morning. My name is Jay Carlson, and I am president of G&R Manufacturing. But I have got to be honest with you——

Chairman MANZULLO. Jay, could you put the mike closer to your mouth when testifying? Thank you.

Mr. CARLSON. I have got to be honest. I feel like I am preaching to the choir here because, as I see it, anybody who should be listening to our testimony this morning has already left the room. So that's actually a little bit disheartening.

G&R Manufacturing is located in Naugatuck, Connecticut. The company began operations in 1972; primarily, as a metal stamping house. We have grown into a full-service turn key manufacturing facility. G&R Manufacturing provides everything from basic stampings, progressive stampings, transfer press eyelets as well as intricate multi-component assemblies. We currently employ 40 workers.

G&R requires 550 tons of steel each year. We buy our steel domestically through service centers. The steel tariffs imposed by the present in March have reduced the availability of steel in the market to the point that our supply of steel is not reliable.

Our service centers have been put on allocation. As a result, we have experienced sever shortages of certain steel grades as well as unacceptable increases in lead times for others. Lead times have increased from 4 to 6 weeks to 16 weeks or more. The increased lead times have places some of our automotive customers in potential lying down situations.

In order to avoid this situation, we have had to pay extra of expedited shipping and obtain our steel from alternative sources. This has increased our costs significantly and it could potentially jeopardize the quality of our products. The alternative sources that we have to utilize are not necessarily the best quality, but they are our only alternative.

In addition, we have to face steel price increases of 40 to 60 percent. This translates into additional costs for my company of $100,000 to $200,000 a year. G&R is a small business and cannot absorb these costs, nor do we have the power to pass these higher costs onto our customers. We are already competing in a global market that is a rather uneven playing field in terms of labor, health and environmental costs.

The steel tariffs have tipped the scales even further by making my steel costs substantially greater than those of my foreign competitors. On top of all that, our foreign competitors are able to import their product to this country duty-free. As a result, G&R Manufacturing, like many other small- and mid-size companies has a difficult time competing and finds it difficult to stay in business.

I can tell you that G&R Manufacturing's experience is not unique. As a founding member of the Manufacturer Leadership Group of Connecticut, which consist of 180 small businesses in the Waterbury, Connecticut area, I know that the tariffs have had a ripple effect. As U.S. steel-consuming industries lose business, so do the companies that supply those industries—such as service centers, finishers, platers and assemblers. The situation is only getting worse.

The steel 201 tariffs need to be lifted as soon as possible. We operate on tight margins and a very competitive market. The hardship of these tariffs, and our inability to pass on any price increases, will costs not only jobs, but will also affect G&R Manufacturing's ability to survive. Thank you again for letting me testify this morning.

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

Chairman MANZULLO. Thank for your testimony. Our next witness is Christine Dowding. Could you bring the mike closer to you and bring it down just a little bit there. That's fine. Thank you. We look forward to your testimony.

STATEMENT OF CHRISTINE DOWDING, PRESIDENT, DOWDING INDUSTRIES, EATON RAPIDS, MI

Ms. DOWDING. Thank you, Mr. Chairman. Good morning, it is, indeed, an honor to appear before this Committee. My name is Chris Dowding.

As Mr. Smith stated, I am the president of Dowding Industries with locations in Eaton Rapids and Springport, Michigan. I am the second generation of our family business that my father started in 1965. We are a steel user employing about 150 employees.

We purchase nearly $7 million worth of steel that is turned into products for the diesel and automotive markets. Our customers are such companies as Cummins, Caterpillar, TRW and Borg Warner.

The Section 201 steel tariff is having a devastating effect on my business. While we as steel users want producers to be stateside, I, as a small business, now feel like I am David facing the immense statute of Goliath.

As a small business, we do not want steel producers as our foe. We want to join with our fellow Americans and find solutions to help the ailing steel industries. Solutions that do not put American steel users at risk of extinction. Solutions that do not pit 59 user jobs against 1 producing job. We need to join forces with a solution that does not put us at odds with each other. We are in business together here.

There are enough economic constraints facing American companies against global third world competition as has already been addressed here today, such as the rising insurance health care costs. Let's not sustain another. We understand that President Bush has closed his door to this issue, and in the light of the terrorism facing America, I understand the priority.

However, President Bush, we pray you will open your door and hear the voice of the small businessman in America. I am fighting for the survival of not only my company, but the survival of my industry, for small businesses all over America. The heart of America is small businesses. I am fighting for the long-term jobs of my employees, not the next election vote. My concern is how do we get the message to President Bush.

My father frequently reminds me that God has blessed our company when I am feeling like we don't feel so blessed, based on the current conditions. We worked hard to make good business decisions as some of our counterparts have stated here today. A second generation trying to pass on my father's dream. I graduated from Northwestern University in 1990 with a Masters degree in Management. We have made a commitment to come out of every recession better than when we went in. We have invested in our people through two training grants with our local community college. We have purchased the latest technology in the world in both laser and machine cutting.

We have purchased rundown factories and invested nearly half a million dollars in their renovations. We have survived the economic downturn of the heavy-duty truck market, and we had to lay off 130 people. I had to look at those people in the face and it is horrible. We came out of it and we have survived, and we still employ 150 people.

My father's dream has been to develop our community and provide jobs for Americans, not move our company abroad. However, due to the steel tariffs, we have begun conversations with a Mexico-based company.

Please understand this was not in my five-year goals or objectives that we established just last year. However, if this is what it takes to keep my family business ongoing, we will pursue it versus the alternative, which is the elimination of it. We are seeing an average of 16 to 20 percent increases in material prices, and I have that here and I am willing to submit it—as much as 66 percent on some of the items to the tune of $50,000 per month cost impact.

On an annualized basis, this equals more than three times what my company has made, entirely, in the last two years. As if piece price wasn't enough alone, we are now faced with longer lead times, premium charges, charges due to unavailable material. As a small business user, we buy steel through service centers. Before the tariffs were imposed, our lead time on material was two to four weeks. It is now as much as six months and delivery and quality are unreliable.

We recently had a promise, and we were told, I'm sorry, we can't deliver that after all. I am running out of time, so I've got to skip to the end.

Our customers demand 3 to 5 percent cost reductions. They will not allow us to increase our prices. They are making us be competitive with Taiwan, Vietnam and Mexico; and if we can't match the price, we lose the work.

It is an un-level playing field for the small business users, and why does anybody think a small business user can play in it any better than the big steel industry.

Mr. Chairman, we are asking for an opportunity to stay in business and remain competitive in the global market. Without a reliable, competitive supply, Dowding cannot be a successful small business. I am confident there is another solution to help the ailing steel industry without victimizing small business USA and their employees.

President Bush, let's talk. Thank you, Mr. Chairman, for this opportunity.

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

Chairman MANZULLO. Thank you for your enthusiasm and sincerity. Our next witness is Brian Robinson from—is it really Ham Lake?

Mr. ROBINSON. I am from Ham Lake, yes. The company is in Hugo.

Chairman MANZULLO. Okay, I just never heard of Ham Lake before. There are a thousand lakes in Minnesota and they stopped counting. I know the story. Brian, we look forward to your testimony.

STATEMENT OF BRIAN ROBINSON, PRESIDENT OF MANUFACTURING, WILSON TOOL INTERNATIONAL, WHITE BEAR LAKE, MN

Mr. ROBINSON. Thank you, Mr. Chairman. My name is Brian Robinson, and I am the president of Wilson Tool International.

Wilson Tool of White Bear Lake, Minnesota is a 36-year-old, privately owned corporation that is the world's largest independent manufacturer of punch press and press brake tooling. Wilson currently has 470 employees. In October of 2000 we employed 770 employees.

The total reduction of over 280 employees has taken place since that time due to the current economic down turn and its devastating impact on the manufacturing sector. As I sit here today, I currently have 40 more jobs at risk due specifically to the tariffs.

I am here to tell you that the steel exclusion process did not work. It has unintended consequences for further job losses in the manufacturing sector. Wilson Tool has applied as early as October 2001 for an exclusion on cold rolled steel products engineered into special shapes, also known as profiles.

Wilson applied for this exclusion because we were unable to purchase these profiles from a domestic source. Indeed, we were assigned an official "N" number to the exclusion request, and reasonably assumed that our exclusion request was accepted and would be considered.

Accordingly, profile shapes remain subject to the 30 percent tariffs. It does not make any sense to impose a tariff on a product that is not made in the United States. It does not help any domestic company and it simply increases our costs and makes it more difficult for us to compete in the marketplace.

Wilson Tool has always had a commitment to buy steel products from domestic sources whenever possible. While Wilson currently purchases 85 percent of its steel from domestic sources, Wilson has had to import these profiles because we have been unable to purchase this material from a domestic source.

When Wilson Tool first developed a need for these profiles, we actively solicited bids from all U.S. steel manufacturers capable of producing the profiles. Wilson required 29 separate profiles with varying sizes and quantity limitations ranging from 1 U.S. ton to a maximum of 21 U.S. tons per profile per year. Only one domestic company submitted a bid, and it did not meet the requirements and quantities or scope.

Accordingly, Wilson has had to resort to foreign producers and accept the bid of Boehler-Uddenholm of Austria. Wilson Tools has worked with Boehler over the course of the last two years and spent tens of thousands of dollars to develop the profiles to our specs. This development process was lengthy in part because of all the products needed to be certified and to go through extensive quality control.

Again, Wilson has always made a commitment to purchase steel from the domestic source; but when we cannot purchase the steel we need from the domestic source, we do not understand why we should have to pay Section 201 tariffs. It makes no sense. If the exclusion process of the tariffs remain, it definitely needs to be more transparent to the smaller business.

In closing, I have come to Washington to testify because there is something inherently flawed with the process of obtaining an exclusion to the Section 201 tariff.

When small business must engage lobbyists to represent them or to be compelled to travel to Washington in order to advocate their right to be heard, or when a tariff is imposed on domestic manufacturers for importation of raw steel product only to have their foreign competition import the same steel product produced from the same foreign mill as a finished product without a tariff, then we have a problem.

It is obvious that the exclusion process does not work. Therefore, the tariffs do not work; and they have caused unintended consequences to the manufacturing sectors. Thank you.

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

Chairman MANZULLO. Thank you. Our last witness is Bob Jones, who is director of Marketing, Sheet Mill Group. Oh, Bob Johns. I am sorry. Somebody correct his name tag there.

Mr. JOHNS. It's handwritten.

Chairman MANZULLO. Johns—J-O-H-N-S?

Mr. JOHNS. That's correct.

Chairman MANZULLO. I am sorry. Bob Johns, who is the Director of Marketing of Sheet Products of Nucor Corporation. We look forward to your testimony. We are going to correct your name plate right now.

Mr. JOHNS. I feel like the fire ant at the picnic here.

Chairman MANZULLO. You are doing fine. You might want to pull the mike closer to you. Thank you.

STATEMENT OF BOB JOHNS, DIRECTOR OF MARKETING, SHEET MILL GROUP, NUCOR CORPORATION, CHARLOTTE, NC

Mr. JOHNS. I am Bob Johns of Nucor Corporation. We are a steel mill, obviously. Perhaps one of the reasons we are here is that we put a slightly different view of the 201 decision than a lot of people, and we have been known for plain talk.

We put it in the context of the need for free and fair trade. And to us, fair trade means trade according to international rules agreed upon by the United States and over 100 of its trading partners, not lawless chaos.

Our trading partners have violated the antidumping and countervailing duty laws with respect to steel so pervasively that enforcement of our trade laws is virtually impossible. As a result of blatant violation of international trade rules, the domestic steel industry was undergoing unprecedented hardships.

The updated number of the number of bankruptcies—our count is 35 as of a week and a half ago. Roughly 15 million tons of capacity was shut down, either temporarily or permanently. I might add, it was fairly suddenly. Even companies like Nucor, which is the most efficient steel producer in the world, were finding it difficult in our own home market.

Clearly, something is dysfunctional with the world steel market. As the result of the presence of imports sold in the United States in violation of international rules, steel prices were, as Treasury Secretary O'Neil put it just a few days ago, fictitiously low. I think that it is worth repeating—fictitiously low.

The 201 relief has had a beneficial effect on three classes of small businesses not invited to today's hearing—small steel producers, companies supplying goods and services to the steel industry and steel users who depend on a reliable source of domestic steel and don't have a problem. There are literally hundreds of these countries in all parts of the United States.

There is a representative of one of these companies here today, Doug Ruggles of Martin Supply Company. His operation nearest us is in Decatur, Alabama. Mr. Ruggles, who supports the 201 decision, had hoped to testify before you today, but unfortunately, he was not invited as he does not oppose the 201 relief.

The Committee has not heard from any of the other hundreds of small companies like Martin that supply the steel industry. I would hope the Committee would hold a hearing that would be inclusive of those small businesses supporting the 201 decision at some point.

Some steel consumers have blamed the 201 for rising costs, increased import competition, and even the movement of production overseas. If you look at their claims, you will see that many of these problems emerged well before the president acted. The over valued dollar and the sluggishness of the U.S. economy have had a much greater effect than any 201 relief.

At the same time, the economy data do not indicate that 201 relief has caused either rising prices or increased unemployment in the general economy. Steel prices have risen throughout the world—and this is kind of an update for people that make charts.

In China, for example—and this is as of last week—transaction prices now for hot rolled coil are higher than they are in the United States. If foreign manufacturers have any advantages in steel costs, those advantages are more than offset by the higher productivity of American workers and the costs of moving merchandise to the United States.

As for the exclusion process, I can attest that it was not only exhaustive, but exhausting probably for all parties involved. The U.S. government granted over one-half of the exclusions requested. As a result, by our count, about 5.5 million tons remain covered by the 201 remedy. Let me qualify that by saying its finished product.

The supply issue is old news. Supply is balanced in most products, and becoming balanced rapidly in others and prices have stabilized at low levels by historic measures. The shortage and price message is no longer connected to reality in the products that Nucor makes.

The president's decision to provide relief under 201 has had an immediate and positive effect on hundreds of small businesses across the United States. I implore you to ask Doug Ruggles. By ensuring that the U.S. steel industry can continue to supply its customers' needs, it will benefit the thousands of small businesses using steel as well as those supplying the steel industry and its workers for years into the future. We do thank you for the opportunity to express our views.

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

Chairman MANZULLO. Well, thank you. We corrected your name plate. It is extremely important. I appreciate your testimony.

We have another vote coming up here very shortly. Mr. Johns, do you know how much, if any, Nucor has increased the price of your steel in the past six months or so? Do you have those figures?

Mr. JOHNS. We don't have a general figure. It really depends on the individual product line. Where there is no relief afforded by the 201 there have been zero price increases, in fact, decreases.

Chairman MANZULLO. You have had zero price increase——

Mr. JOHNS. On some products. Do you know anything about Nucor's breadth of products?

Chairman MANZULLO. I know that you are a mini-mill, and I know that you are located in Charlotte, North Carolina.

Has anybody here bought Nucor steel?

Ms. FRIEL. Yes. Actually, we were getting quotes from Nucor January 1st, $16.20 a hundredweight. We got a quotation last week $19.65 a hundredweight, which is a 21 percent increase from Nucor.

Chairman MANZULLO. For what type of steel?

Ms. FRIEL. It was cold rolled bar.

Chairman MANZULLO. Would you want to comment on that, Mr. Johns?

Mr. JOHNS. I can't comment on cold drawn bar because that is a downstream product for us. I would have to look into that. I represent the flat roll division, and we are predominately involved in the hot rolled, cold rolled and coated products.

Chairman MANZULLO. So the product to which she testified is an increased step after it leaves your hands. Is that what you are saying?

Mr. JOHNS. It's a downstream product for our division.

Chairman MANZULLO. For Nucor?

Mr. JOHNS. For Nucor now. I certainly would like to look into that, but what I would also suggest is when we see the term "price increase," and we see it all the time, I think it needs to be put into context because I look at all these wonderful charts around the room and I see they start at a 20-year low created by illegal dumping, and the price was compelled by illegal dumping.

When you make that the start and say increase versus what the price was in 1982, 1989, 1996, 1997, I would suggest that we have had a restoration as oppose to increases.

Chairman MANZULLO. But you know 201 doesn't deal with dumping. It deals with surges.

Mr. JOHNS. I understand that.

Chairman MANZULLO. There has been no finding that the foreign products that were shipped here were at predatory prices or that the companies shipping them had been subsidized by the government. That element is not here. You had used it in your testimony.

Mr. JOHNS. No, I would take you back to the genesis of the 201. I also stated the pervasive nature of the violation of U.S. trade law had resulted in—by the time the President looked at this issue, there were about 200 active antidumping orders in place—proven violations of U.S. trade law—another 50 pending. If you put yourself in our shoes, you are looking at product and country switching that had no end to it.

Chairman MANZULLO. My question here is these witnesses here——

Mr. JOHNS. If you will allow me to finish the comment.

Chairman MANZULLO. I am sorry, go ahead.

Mr. JOHNS. When you are dealing with that pervasive nature of violation of U.S. trade law, the only mechanism you have is the safeguard mechanism provided by the 201.

Chairman MANZULLO. You could have enforcement of the dumping laws.

Mr. JOHNS. It's a two-year process from the beginning to relief.

Chairman MANZULLO. That is correct, but it is also the fairest because you can end up with retroactive tariffs.

Mr. JOHNS. Very seldom.

Chairman MANZULLO. If it is done right, you can, and you can stop the practice.

Mr. JOHNS. It does not normally fall back.

Chairman MANZULLO. But we have got people here who have testified to the fact that they have had price increases. Mr. Carlson testified that he had price increases of 40 to 50 percent. Who is responsible for that?

Mr. JOHNS. I will go back to the point I made before.

Chairman MANZULLO. But a TV costs less now than they did 10 years ago. How far are you going to go back and say they were at an all-time low. I don't think that is a valid argument. You keep going back to where it was in the good old days.

Mr. JOHNS. No, this is not the good old days. We are talking about a 20-year average.

Chairman MANZULLO. I don't know of any industry that says, well, these prices are not where they were years ago. Granted, it's the farming industry, and everybody knows what happened there. That is totally subsidized and there is a huge problem going on there, but I just don't see your point. What you have here is these people are desperate.

If they go out of business, you won't have a market to sell to. That is the point they are trying to make, is eventually, one by one, they are going to get picked off. They are going to get closed down by the Chinese people. In fact, at the opening of this hearing, National Metalwares lost three contracts to the Chinese.

If they take any more hits, they are going to be out of business. And as this has a domino effect, because you won't have anybody to sell steel to. That's what they are concerned about. There is a balance in here that's missing.

Mr. JOHNS. There is a balance clearly missing, and that is, you're hitting on the fundamental issues that we ought to be addressing, which are currency manipulation—the value of the U.S. dollar and trade practices by our so-called trading partners.

Chairman MANZULLO. We continue to work on that, but unfortunately, the administration is in favor of a strong dollar. We are just having a very difficult time. Where are those letters from the steel manufacturers? Jesco Industries here is a steel user out of Litchfield, Michigan. Some of their suppliers increased their prices dramatically. Some up to 50 percent.

Here is a letter from Crawford Steel Company. This says "Due to the Section 103 decided by the government to warrant a 30 percent tariff on flat rolled imports, we have been forced to raise prices across the board on your sizes. Prices from the domestic mills have increased from $200.10 a ton to anywhere from $300 to $350 a ton as an unprocessed ban."

[The information may be found in appendix page 153.]

Chairman MANZULLO. Buhrke Industries out of Arlington Heights, Illinois employs 120 people, and they got a letter from their intermediary, which is Viking Materials, and they attached to it a letter from Bethlehem Steel that says the following purchase orders will be increased $4.50 effective June 1st.

[The information may be found in appendix pages 156–161.]

Chairman MANZULLO. They take existing purchasing orders—existing contracts and unilaterally raised prices. Has Nucor raised the prices on existing contracts?

Mr. JOHNS. Nucor has honored its commitments on the agreements that we have with customers.

Chairman MANZULLO. Good for you. That is why we don't have any letters in here complaining about Nucor.

Mr. JOHNS. I know you were looking for one.

Chairman MANZULLO. You bet. We were. I appreciate the fact that we don't have any evidence here on Nucor doing any gouging. We do have other companies that are involved in it.

Mr. Johns, I want to thank you for the fact that there are no letters in here with Nucor. I thought I ought to let you know this. The purpose of this hearing, and the reason that you are outnumbered up there, is the fact that these people have not had a voice. Your industry has been welcomed into the White House.

Your industry has had a lot of friends on Capitol Hill going around talking about this. The steel users have been scratching around trying to bring together a bunch of little people. They are little people, and it's very difficult to bring together hundreds, if not thousands, of small manufacturers compared to a relatively small number of steel manufacturers.

So the only forum that they have been afforded is the Small Business Committee, which we call the Committee of last resort. When nobody else will listen to the little guys. That's why we have so many people that represent that perspective as opposed to yours.

But I just want to tell you I appreciate your testimony. I appreciate your honesty and appreciate your integrity.

Mr. JOHNS. I would encourage you to talk to Doug Ruggles about the other side of the small business.

Chairman MANZULLO. I can understand it. We have also talked to them.

I have got to go vote to take part in this continuing process of democracy. I really look forward to working with all of you again. Mr. Johns, my door is open to you, also. This Committee is adjourned.

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

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States

House of Representatives

107th Congress

Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-0315

REMARKS OF CHAIRMAN DONALD A. MANZULLO
"LOST JOBS, MORE IMPORTS: UNINTENDED CONSEQUENCES OF HIGHER STEEL TARIFFS (PART II)"

September 25, 2002 10:00AM Room 2360 Rayburn HOB

What I said two months ago is even truer today. The higher steel tariffs – imposed for a noble purpose – are devastating American small steel-using manufacturers. No doubt that some in the steel industry are doing better. We all want a strong and vibrant steel industry. But when there are 59 jobs in the steel-consuming sector for every 1 job in the steel-producing sector and America is projected to lose eight manufacturing jobs for every steel job protected by the tariff, I cannot help but conclude that the overwhelming majority of small manufacturers and their workers are hurting from arbitrary price hikes and supply shortages. They are losing their global competitiveness, as foreign companies are able to sell finished goods made with steel bought at world market prices in the US, undercutting American small manufacturers. That's why I titled this hearing "Lost Jobs, More Imports" because many small steel-using manufacturers are laying off workers and more finished goods are entering this country from abroad thanks to the higher steel tariffs. There's got to be a better way to solve the problems facing the steel industry.

Many have mistakenly thought that the exclusion process would take care of this problem. However, for most steel-using manufacturers, the exclusion process was irrelevant. While the 30 percent duty was imposed on imported flat-rolled steel, this price increase – plus more – was passed along to steel-using manufacturers who have always bought American steel. This steel is not subject to the exclusion process. Thus, we need to terminate the steel tariffs at a minimum by the mid-point review. Our small manufacturers cannot hang on for three years.

Despite the weaknesses in the exclusion process, some further relief can be achieved here. Hundreds of small companies were unaware of the May 20th deadline for filing exclusion requests, including the 50 employee firm of Arnold Engineering in Marengo, Illinois. They don't have the luxury of reading the *Federal Register* everyday. However, making them wait until next March for an exclusion decision could drive companies like Arnold Engineering to close. To add insult to injury, Arnold learned two weeks ago that they are now subject to an additional 8.47 percent anti-dumping duty on top of the 30 percent tariff even though no American steel producer makes the customized magnetic steel product Arnold needs to manufacture anti-theft tags used in retail stores. I urge the Administration to speed up the exclusion process so that decisions can be reached by Christmas. Wouldn't that be a great gift to give our small manufacturers and their employees!

During this exclusion process, it is also imperative that it becomes more open and transparent. Steel-users must have the opportunity to respond to the steel-producing objectors. Steel-producers must not hide behind some brief statement that they can produce a certain product and then not sell it to the steel-user seeking the exclusion request.

Mastercoil Spring of McHenry, Illinois has been diligently following up with the two steel producers who objected to their stainless steel wire exclusion request – Sumiden Wire Products and Industrial Alloys. Sumiden got back to Mastercoil last Friday with a quote ranging from 30 to 36 percent higher than the price they are paying now for their product, even though the tariff imposed on imported stainless steel wire was only eight percent. If Mastercoil accepted these prices, they could not remain in business for very long. Plus, Sumiden would not guarantee timely delivery of product to Mastercoil because Sumiden is operating at full capacity. In effect, Mastercoil would have to take a number and wait at the end of the line. This runs counter to Sumiden's objection in which they said, "Sumiden can supply all of Mastercoil's demand for this product." At least Sumiden finally got back to Mastercoil. Industrial Alloys has yet to respond. All this has caused Mastercoil last week to decide to purchase an Italian spring manufacturing company to keep its global competitiveness, not only in the European market but also domestically.

Similar stories are appearing across the nation, including the situation facing David Pritchard of A.J. Rose in Ohio who testified before this committee last July and Brian Robinson of Wilson Tool in Minnesota who is testifying before us today. The Commerce Department and the U.S. Trade Representative's office <u>must</u> dig into these exclusion requests more to make sure that steel producers are not hiding behind a smoke screen of misleading statements that are not substantiated by the facts.

There have been tremendous unintended consequences of these steel tariffs on small steel-using manufacturers. This policy is obviously doing more harm than good. We cannot afford to lose any more jobs in America. American steel-using manufacturers are in crisis right now. Many of them will not be around next year if this tariff policy remains unchanged. At an absolute minimum, the Administration needs to move up the start of the second round of exclusion requests. And, I strongly urge the President to rescind these tariffs as soon as possible.

Mr. Toomey

Small Business Committee Hearing
September 25, 2002

- I am a passionate believer in free markets and free trade. I have voted to reduce trade barriers and expand trade at every opportunity: Trade Promotion Authority (TPA), Free Trade Agreement with Jordan, Bilateral Trade Agreement with Vietnam, and Permanent Trade Relations with China (PNTR).

- In fact, last year I held a Small Business Subcommittee hearing on Trade Promotion Authority and its impact on small business exporters and farmers. We heard from the witnesses that free trade is good for American small businesses, farmers, and workers. Trade Promotion Authority will energize efforts to remove artificial trade barriers, expand U.S. trade, and provide a real boost to entrepreneurs, our economy, and job creation. I would like to thank Undersecretary Grant Aldonas for participating in that hearing and I welcome him back today.

- I am convinced when people have more freedom to exchange the goods and services they produce, including with people in other countries, all parties benefit.

- Unfortunately, the world steel market is not a free market. The President's temporary safeguards under Section 201 of our nation's trade laws will allow the steel industry the time needed to carry out further investments and restructuring. More importantly, it will give foreign governments and foreign steel producers an incentive to reduce their inefficient, SUBSIDIZED excess capacity, which is at the bottom of this problem.

- I am very sympathetic about the problems you are facing. I would like to be helpful in any way possible to ensure that our small businesses are able to acquire the necessary steel products to operate their businesses. First and foremost, we are here to work with you to address your very legitimate concerns.

- Having said that, Mr. Chairman, I must say that I think our fire is being unfairly aimed at the domestic steel industry. It is not the domestic industry, or the modest price recovery that is now occurring, that is at the root of this problem. The problem -- as the President has correctly identified -- is foreign overcapacity.

- The truth is that steel prices prior to the President's steel program were at a 20-year low. This is the result of massive worldwide over-capacity in steel production, which was caused by foreign government policies such as subsidization and home market protection.

- The flood of steel imports has resulted in thousands of lost jobs, dozens of bankrupt companies and the devastation of entire towns and communities.

- The President understood this problem and that is why he initiated a three-part plan to address the steel crisis. This plan calls for negotiations to eliminate foreign market distortions, negotiations to eliminate foreign overcapacity and an investigation of the affects of steel imports on the domestic market under section 201 of our trade laws.

- After the most intensive investigation in its history, the International Trade Commission ruled in a unanimous 6-0 vote that imports were the primary cause of the serious injury to the domestic steel industry.

- It is essential that we keep in mind that the effects of low-price imports are not just low-priced steel for consuming industries. By undercutting the U.S. market with imports, the foreign producers have put our domestic steel industry at risk.

- The President announced Section 201 tariffs in March 2002 to help remedy this situation. Tariffs ~~do~~ CAN cause harm and should only be used as an absolutely last alternative when all other remedies have failed. Such was the case regarding foreign subsidized steel by March 02 when the President decided this was the only remaining option.

BOTTOM LINE:

- Only when they know that we are willing to retaliate with tariffs, can we realistically expect foreign governments who heavily subsidize their domestic steel production, to reduce those subsidies and this massive distortion of the global steel market.

- Steel prices are beginning to return to normal levels -- prices are only now reaching the level of average steel prices over the last 20 years. At this point, the process must be given time as prices recover and the industry has an opportunity to restructure.

- The President also included a release valve under his 201 program. The product exclusion process was instituted to allow certain steel imports to enter the U.S. market duty-free. The domestic industry has worked with the Administration and its customers and has only objected to the exclusion of those products that it could produce and supply to its customers. Nevertheless, the Administration granted 97 exclusion requests over the objection of the domestic industry.

- It is important to note that most imported steel products are not covered by the Section 201 tariffs as a result of the Administration's country and product exclusions. In addition, steel imports have been returning to the U.S. market and are increasing in recent months. The fact is steel imports in 2002 are higher than in 2001.

- Further, while domestic steel prices have increased, so have steel prices around the world. As a result, foreign competition in industries that use steel as an input also are facing higher prices.

- Nevertheless, I understand that there are businesses that have been affected by the 201 remedy. I would like to be helpful in dealing with these concerns. I will work to make sure steel is available to any small business that feels it has been unable to acquire sufficient amounts of steel.

- With that said, businesses that consume steel must have known that these RECENT, low prices were unsustainable. I am not criticizing the business practices of any company in particular. I am simply pointing out that when steel prices are at a 20-year low, and approach SOMETIMES BELOW production costs, this should be seized as an opportunity to enhance profitability, but should not be relied upon as a market certainty when it was inevitable that prices would recover.

- It is in everyone's interest -- steel mill and customer -- that there be a healthy domestic steel industry. It is important to our industrial security, or economic security and our national security. Again, to the extent that there are adverse consequences related to the steel industry's recovery, I am happy to assist in any way that I can.

Mr. Phelps 21

I would like to start by thanking the Chairman and the Ranking member for holding this hearing.

In my Congressional district, central and southern Illinois, the effects of illegal steel dumping have been devastating. I have been to many steel rallies and have heard the stories firsthand. Nationwide, 31 steel companies have filed for bankruptcy. Four of these companies were located in Illinois. These bankruptcies caused over 5,000 steelworkers to lose their job in Illinois alone. In addition to being unemployed, many are without health insurance and other basic benefits steel employment supplied.

The Section 201 steel tariffs, imposed by President Bush, were designed to protect the domestic steel industry and I firmly believe they are effective. Before their implementation, steel prices were at a twenty year low. These below-cost levels were unsustainable. Since the tariffs were initiated, the prices for hot-rolled steel, cold-rolled steel and galvanized sheets have all risen. Even with this elevation, prices are still only at the June 2000 levels. This is not inflation, it is the beginning of a market recovery that will allow the steel industry to make an adequate profit.

A four year tariff allows U.S. steel companies to recover and generate revenue. The domestic steel industry invested billions of dollars in upgrading and modernizing its facilities, and as a result, is one of most productive makers of high quality steel in the world. We can not afford to let this investment in our steel industry go to waste. The tariffs a are strong step in the direction of economic recovery, which will utilize our maximum potential.

Thank you again to the Chairman and Ranking Member. I look forward to hearing more about this issue which is of great importance to the steel industry in Illinois and across America.

Stephanie Tubbs Jones 37

COMMITTEE ON
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WORKFORCE, EMPOWERMENT, AND GOVERNMENT PROGRAMS

COMMITTEE ON
STANDARDS OF OFFICIAL CONDUCT

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Chairman Manzullo, Ranking Member Valazquez, Colleagues, and Guests;

I am not a stranger to the issues affecting the domestic steel industry and the small businesses that depend on steel products in their manufacturing processes. I am a member of the Executive Committee of the Congressional Steel Caucus. I am an original cosponsor of the Steel Revitalization Act, H.R. 808 and several other bills in Congress relating to steel. As the representative of Ohio's 11th Congressional District, which includes parts of Cleveland and its outlying communities, I am confronted with the issues and problems of the steel industry every time I return to my District. Cleveland is the home to what was once LTV Steel, until fairly recently a powerful steel enterprise that is now restructuring itself in a bankruptcy overhaul. Cleveland is also the home to hundreds of smaller shops and manufacturing facilities who use steel products and whose existence translates to thousands of jobs.

Like many people, I am troubled by the difficulties facing the steel industry because I know how much working people depend upon it to help them create and maintain stable families and communities. Since I have been in office, I have worked closely with Congressional leaders and local constituents to develop solutions to the steel woes. As everyone here knows, that is not a one-time effort. Instead, it requires us to be constantly alert to changing economic conditions and trends, closely monitor the policies of Congress and the Administration, and constantly re-evaluate and re-interpret our policies toward the steel industry.

We are here to talk specifically about the unintended consequences increased steel tariffs have had on American manufacturers. I have a vision of seeing the domestic steel industry and the small businesses that use steel in their production activities both thriving under a fair and responsible steel policy. Some would say that this goal is unrealistic, that for every winner, there will necessarily have to be some losers. I don't buy into that mindset, and I am sure many of my colleagues feel as I do.

Whenever I come into a hearing, I have the interests of the businesses, particularly the small and entrepreneurial businesses, in my District at the forefront of my thoughts. Today is no different. Hearings such as this one are not always pleasant. Hard questions are asked, and hard answers need to be given. Too many people and families depend upon a strong steel industry for us to fail in our efforts here.

I have been looking forward to hearing my colleagues and the panelists assembled here ask those hard questions and give those hard answers that will shed light on addressing some of the woes the steel industry faces and give insights into how we can work to ensure that in focusing on the big picture--namely, ensuring a strong domestic steel industry, we maintain an eye on the small picture as well--and by that I mean ensuring that those whose livelihoods depend on the steel industry are, and will continue to be, able to maintain their economic dignity.

Distinguished guests, I thank you for *your* time. Mr. Chairman, I thank you for *my* time

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Statement for the Record
Rep. Nick Smith
Submitted to the Committee on Small Business
September 25, 2002

President Bush approved the new tariffs on steel imports, I think to help give the steel industry and our American steelworkers a chance to make changes so that they might compete in the long term. I suspect the President, who as a young man did physical work in the oil fields, wanted to give a chance to save some of the jobs of the people that do the hard physical work in the steel industry.

However, the high tariff restrictions on steel imports have turned out to be a mistake with a potential of losing more jobs than they save. The price of steel in the United States has risen since March by 30 to 50 percent. In addition to the large price increases, there has been a reduction in the amount of steel available. This has made it impossible for many steel-consuming industries to find sufficient supplies of steel. Domestic steel producers have in many cases reneged on long-term contracts now that the steel prices have leaped, with the result that the consuming industries have been forced to pay higher than agreed-on prices or have been forced into the volatile spot market for steel.

The President's action turns against what he's said on free trade and on taxes. First, by definition "free" trade implies trade that is unencumbered by demands of third parties. When government imposes tariffs on products, it reduces the ease with which they cross borders. Second, tariffs are just taxes by another name. Steel tariffs raise the cost of buying products that contain steel -- cars, and refrigerators, for instance – just as raising the sales tax on these products would.

The new Bush tariff is expected to hike the cost of steel products by 6 to 8 percent in its first 12 months – and Michigan citizens will be hit hardest. Here's why: One of the most basic propositions of economics is the inverse relationship between price and quantity demanded. When the price of some good – steel, in this case – rises, less of it will be demanded. The result? Fewer sales of products containing steel and fewer jobs for people who make finished goods with steel.

This has harmed American workers in a number of ways. First, some American producers lose out because they are now competing with foreign companies that have access to cheaper steel. Their products become relatively more expensive because the steel in them costs our American producers more.

Second, many American firms have had trouble securing supplies of steel sufficient in quantity to keep that factory operating. I have had layoffs in my district because plants have closed for lack of steel.

3 — Third, it gives American firms a powerful incentive to move production out of the United States to foreign plants where steel is available at the lower world market price. This is so that they can compete, so that they can survive as a company.

Economists Joseph Francois and Laura Baughman, working on behalf of the Consuming Industries Trade Action Coalition, have estimated the impact of the Bush tariffs on the American economy in terms of their economic benefits and costs. For instance, they found:

* Every state in the union will suffer net job losses as a result of the tariffs;

* Ironically, the biggest job losses will occur in "steel belt" states such as Pennsylvania and Michigan.

2 * For every steel job "saved" as a result of the tariff, eight jobs will be lost in all sectors of the economy;

* The steel producing industry would save between 4,400 and 8,900 jobs at a cost of between $439,485 to $451,509 per steel job saved;

* Higher prices for steel products and related inefficiencies would decrease U.S. national income from between $500 million and $1.4 billion at a time when policy-makers are talking about ways to improve the U.S. economy.

Michigan, in particular, will suffer from the negative consequences of tariffs. Francois and Baughman also found that

* Michigan will lose more jobs in steel-related industries than every state in the union, save California.

* Under the most conservative scenario, Michigan will lose almost five jobs in steel consuming industries for every job that is saved in Michigan's steel producing industry.

There are 57 workers employed in steel-using companies for every one worker in the steel-making industry. Steel-using industries account for more than 13 percent of gross domestic product, while the steel industry accounts for about one half of 1 percent. Thus, the steel tariff has threatened many more jobs than it has protected.

The Bush administration has recognized some of the distress that the steel tariffs are causing. It has issued rulings that exclude 727 products from the tariff. And, of course, this has set off a frenzy of lobbying as some of the steel-using companies angle for exemptions. This causes distortions not only in the price of domestic and foreign producers but between competing domestic producers as well.

The timing of the decision to impose the tariff could also be questioned. Steel imports into the United States, however, had been declining. Steel imports, after reaching a high of 4 million tons in August 1998, had declined by 36 percent to 2.6 million tons in November 2001. Moreover, the market share of foreign steel producers has fallen from 28 percent in 1998 to 21 percent in 2001. This made the imposition of the tariff less pressing.

It has been argued that the real threat to most of the domestic steel industry isn't foreign steel at all. Steel is manufactured in the United States at mini-mills and integrated steel mills. It is the integrated mills that are having the greatest difficulty in making a profit right now. Mini-mills are much more efficient at producing steel than integrated steel mill and have a 25-percent cost advantage over producing steel than integrated mills. As a result of their cost advantage, mini-mills have increased their market share from 10 percent in the 1970s to about 50 percent today. Over the same time period, the share of imports in the United States market has increased by only 10 percent. Therefore, the real threats to the integrated steel mills are not imports, but the mini-mills.

Finally, the steel tariff encourages retaliation from our trading partners. The European Commission is now threatening retaliatory tariffs of 100 percent on a 22-page list of goods ranging from rice to grapefruit to shoes, brassieres, nuts, bib overalls, billiard tables, ballpoint pens, et cetera. The Japanese are also drawing up their steel payback list. Steel-exporting Russia has already retaliated by fencing out U.S. chicken. Hopefully that is going to be resolved.

We can ask if the tariff has done that much for the steel industry. Over the past 30 years, the Federal Government has been implementing policies to keep the steel industry in business despite its inefficiencies. These policies include voluntary quotas, antidumping, countervailing duty measures. Some of the companies have moved up and are now competitive, but much of the industry, instead of resulting in a stronger manufacturing efficiency, these policies have allowed companies to continue with production methods and labor contracts that keep it perpetually at the risk of dissolution.

Standard and Poor, for example, did not seem optimistic with the President's decision and responded to the tariffs by refusing to raise the industry's credit ratings.

The steel tariff has turned out to be a mistake that is harming many industries both in my State of Michigan and across the country. It is having the result of losing American jobs. We need to repeal this kind of tariff restriction to allow our steel-using companies to be competitive. We need to start reviewing the kind of overzealous regulations and overzealous taxation that we have put on our steel industry and we need to assist in research and technology to help allow them to be more competitive in an international market.

Dave Hobson — 49

Remarks for Rep. Dave Hobson
Introduction of Jennifer Johns Friel
before House Small Business Committee

MR. CHAIRMAN, and Members of the Committee, I appreciate the opportunity to be here today to introduce my constituent, Jennifer Johns Friel (pronounced- FREEL), president of Mid West Fabricating in Amanda, Ohio.

I have toured this facility, and seen firsthand how hard it has been for this company to operate in these uncertain times for manufacturing.

Mid West is representative of the small businesses that drive my state's economy. Most are family owned and operated, just like Mid West. And they are vital to their local communities, just like Mid West. In fact, **steel consuming** businesses such as Mid West employee 20 people in the State of Ohio for every 1 steel producing job.

I urge the Committee to consider this fact as you listen to Mrs. Friel's testimony.

The problems Mrs. Friel's business is encountering because of these steel tariffs---though Mid West **does not** purchase imported steel---are occurring throughout my district and across the state.

Mr. Chairman, while these tariffs were well-intentioned, I feel we are simply creating a new problem without solving an old one. If these steel tariffs were designed to save our nation's steel producers, who will rescue Mid West, and the local jobs they create, from these tariffs?

Thank you, Mr. Chairman, and I am pleased to introduce Mrs. Jennifer Johns Friel.

Committee on Small Business

U.S. House of Representatives
Washington, D.C.

Statement of U.S. Representative Peter J. Visclosky
September 25, 2002

Mr. Chairman, Mrs. Velazquez, and members of the House Committee on Small Business, while I would have preferred to speak today, I appreciate the opportunity to submit this statement today to discuss the affects of the Section 201 decision on manufacturers.

I firmly believe the concerns of manufacturers with regard to the affects of the Section 201 tariffs on steel prices are unfounded. Unfairly traded imports have pushed steel prices to a twenty year low, representing unrealistic pricing levels that cannot be maintained without potentially destroying our domestic steel industry. The modest price increases experienced since the implementation of the Section 201 tariff measures represent a normalization of steel prices, not an inflation of steel prices. The United States cannot afford sacrificing its domestic source of steel in order to maintain artificially low steel prices. Attached is a chart comparing the price of steel from June of 1997 to June of 2002, which will show a price decline of up to 22 percent.

Around the world, excess capacity is now approaching 300 million tons a year – around double the figure for U.S. demand as a whole. The steel industries of other nations have not made the difficult restructuring decisions that our industry has done. Instead, in too many countries, inefficient capacity has been propped up by outright subsidies, or has been shielded behind anti-competitive trade barriers, both formal and informal. This massive excess capacity results in enormous quantities of unfairly traded imports that have seriously injured our domestic industry. And it is responsible for driving down prices so low that even the most efficient producers simply cannot survive.

Within the last five years, more than fifty cases before the Commission and the Department of Commerce have resulted in findings that illegally dumped and subsidized imports have injured our steel industry. The sheer magnitude of these unfair practices has had its effect on the domestic industry. The 34 steel companies that have gone bankrupt over that same time period produce the very same products that have been found to be exported illegally to the United States. And even those steelmakers that have managed to avoid bankruptcy have been hit with enormous losses. This is unacceptable, and the government of the United States must act to protect our industry, our companies, and our workers from these abuses.

In case after case, these unfairly traded imports have been proven to cause injury to our domestic steel industry. The antidumping and countervailing duties imposed to counter these illegal and unfair imports must remain in place. But as long as the amount of foreign excess capacity remains so enormous, there are always new sources of low-priced foreign steel ready to step up and take the place of imports that are under unfair trade orders. And a surge of imports in one product, such as hot-rolled steel, will result in a shift of production to related products, such as cold-rolled or corrosion-resistant steel, that in turn drives down those prices as well.

Together with the President's other multilateral steel initiatives, Section 201 relief was necessary to respond to this ongoing structural distortion in the world steel market and to ensure that the domestic steel industry can compete on a level playing field. In past Section 201 cases, the Commission had found serious injury and recommended relief for U.S. industries ranging from mushrooms to motorcycles, from wheat gluten to lamb meat, from footwear to line pipe. Surely our steel industry, which has endured so much devastation from unfairly traded imports, and which contributes so much to our national economy and our national defense, deserved no less.

Finally, I must express my disappointment with the imbalance of this hearing. I am concerned the hearing today fails to allow both sides of this issue to adequately express their positions. Only one representative has been allowed to speak on the second panel to present a point of view in agreement with President Bush's decision to implement tariffs. Additionally, today's hearing is the second consecutive hearing that does not provided parity on this important issue. Many Members of Congress, Steelworkers, representatives from the domestic steel industry, and leaders from communities across our country which have been found by the International Trade Commission to be seriously injured would have been happy to speak here today. I hope that future hearings will be evenly representative of both sides.

STEEL PRICES

Product	June 2002	March 2002	January 2002	June 2001	June 1997	Jan-02 to Jun-02	Jun-01 to Jun-02	Jun-97 to Jun-02
Hot Rolled Steel	340	260	220	240	350	55%	42%	-3%
Cold Rolled	435	370	320	340	480	36%	28%	-9%
Hot Rolled Plate	320	250	250	297	410	28%	8%	-22%
Cold Finished Bar, SBQ	460	440	415	440	489	11%	5%	-6%
	Dollars per Ton					% Increase		

Source: Purchasing Magazine Transaction Price Service.

Statement by Congressman Jerry F. Costello
Committee on Small Business
Hearing on the Consequences of Higher Steel Tariffs
September 25, 2002

Mr. Chairman and Mr. Ranking Member, thank you for the opportunity to testify today at this hearing on the consequences of higher steel tariffs.

Since 1997, over 31 steel companies have filed for bankruptcy, with over 33,000 steel workers having lost their jobs. The impact of these steel companies closing can be felt in communities across the nation, including communities in my Congressional District, where one company has closed because of bankruptcy and one other is operating while reorganizing in bankruptcy.

The United States has become the dumping ground for the world's excess steel products. The dumped foreign steel is then sold at prices below the cost of production, and is a significant factor in the current near-crisis status of the American steel industry.

Earlier this year, the Administration recognized that this illegally dumped steel was a problem and placed tariffs on many steel products. As a result, there has been a marked improvement in the U.S. Steel industry. Prices are recovering, domestic mills are increasing production and inventories are healthy. It is in everyone's interest - steel mill, steelworker, supplier and customer - that there be a healthy domestic steel industry. It is important to economic and national security. The tariffs should remain in place for the full three years and the exemptions, which have been granted by the administration, should be limited.

Mr. Chairman, these tariffs have been instrumental to the limited recovery of the domestic steel industry that we have seen to this point. The tariffs have limited the unfair trade practices that have been plaguing the industry in the last five years. It is imperative that they remain in place and that no further exemptions are granted.

House Small Business Committee Hearing Statement
Rep. Dennis J. Kucinich

Mr. Chairman, thank you for the opportunity to submit this statement.

Today the story of the American steel industry is quite familiar: 26 companies in bankruptcy, 27,000 jobs lost, hundreds of thousands of retirees at risk of losing their health care coverage and a great deal of their pensions.

The cause of this crisis is clear. Since the onset of the Asian economic crisis is 1998, the U.S. has been bombarded with cheap imported steel, encompassing an array of product areas. Particularly troublesome have been the steel products importers have illegally dumped in the U.S. at prices well below the cost of production.

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 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 and in March 2001.

The effect of the 201-tariff program has meant everything to the steel industry. In my hometown of Cleveland, it helped us find a new owner to keep our steel mills running.

Nationally, steel prices are beginning to return to normal levels – prices are now reaching the level of average steel prices over the last 20 years. An analyst from the Washington Post was even quoted that the tariffs have help boost America's manufacturing output.

However, there is still much work to be done in order to protect the steel industry. Steel imports have declined but remain approximately 25 percent of the market. Spot steel prices are up sharply, but are projected to decline steadily throughout 2003 and 2004, and domestic steel shipments are below 2001 levels and about 1 million tons per month less than 2000 levels.

Unfortunately, the 201-tariff exclusion process has not helped matters. In all, 727 product exclusions out of the 1300 requested were granted. As a result, more than 25 percent of all foreign steel imports originally covered by the tariffs have been excluded. Many of these exclusions were granted over the objection of domestic producers who can and do have the capacity to produce the merchandise under consideration. The Administration even went out its way to exempt NAFTA countries. In short, selectively imposed tariffs are simply not enough to keep the American steel industry alive.

We must protect American steelworkers. The United States cannot stand by and watch while thousands and thousands of workers who helped build this nation are left unable to take care of themselves and their families. They need the security of health care, protected pensions, and the peace of mind in knowing that their government is on their side, protecting their jobs from illegally dumped imports. Fair and effective tariffs which help to stem the tide of imports is a start, but we must do a better job. It is my hope we will.

Prepared Testimony of Under Secretary of Commerce for International Trade Grant D. Aldonas Before the House Committee on Small Business

September 25, 2002

Thank you, Chairman Manzullo, Congresswoman Velazquez, and Members of the Committee for inviting me to testify before the Small Business Committee. Mr. Chairman, I want to thank you for holding this hearing. Under your leadership, the Committee has proved a consistent advocate for American small businesses, particularly the many firms that represent the heart of American manufacturing.

One of the many points on which I know we agree is the need to expand export markets and level the playing field for our small and medium-sized manufacturers. Critics of international trade often claim that trade agreements are for the large multinationals. We know that trade agreements, in fact, offer substantial benefits to American small businesses. The reason is plain. While larger companies have the option of investing behind (and often taking advantage of) foreign trade barriers, smaller American companies generally have only one option – exporting.

Mr. Chairman, as you have often indicated to me, an effective trade policy will also help those many American small businesses that provide the majority of American jobs and sustain our economy through constant innovation and investment. You have been particularly innovative in developing market-opening initiatives on behalf of the small businesses that make up 97 percent of all American exporters.

At the same time, in the course of the recent congressional debate over Trade Promotion Authority (TPA), you and many of the Committee members emphasized the need to rebuild cooperation between Congress and the Executive Branch over our trade policy, and between the government and the people who our trade policy is designed to serve.

In fact, perhaps the single most important step the President has taken in terms of trade policy is not the passage of TPA or the launch of a new round of multilateral trade negotiations in the World Trade Organization. The single most important step the President has taken is his effort, along with that of Secretary Evans and Ambassador Zoellick, to restore the trust that must prevail over trade policy if we are to secure the benefits of the world trading system for American workers, manufacturers, and farmers.

The blunt truth is that we can only expect the American people to support an aggressive, forward-looking trade agenda if we can assure them – and you as their elected representatives – that we will look out for their interests at the negotiating table. We must be willing to confront and challenge the trade barriers and other challenges facing our workers and firms in the international marketplace and we must ensure that the rules of the game are clear and that the players follow the rules.

STEEL IMPORTS HAVE INJURED DOMESTIC STEEL FIRMS AND WORKERS

The steel industry worldwide is one of the most distorted in the global marketplace. Today, the industry confronts the legacy of 50 years of government intervention. A single statistic tells the story. Prior to the last decade of privatizations, governments owned 75 percent of the steel industry worldwide. Despite the intervening progress, governments still retain ownership of 25 percent of the industry.

Since the President initiated action under section 201 of the Trade Act of 1974, I have heard critics of the action claim that the U.S. steel industry is the source of its own problems. The front pages and editorials – which often seem to be one and the same when it comes to criticizing the President's action on steel – seem to suggest that the U.S. steel industry is a monolithic entity made up of nothing but old, uncompetitive integrated mills that must plead for protection in order to stay in business.

What that ignores, of course, is the strong record of adjustment and innovation that has characterized some firms in the U.S. industry over the last 20 years. Half of U.S. steel is produced in new "minimills" with the latest electric arc furnace technology, which exhibits some of the highest efficiency of any steel manufacturers in the world. In the other half of the steel companies, particularly on the West Coast, we have seen firms adjust their production to take advantage of synergies found in combining their finishing operations with foreign firms who export slab to the U.S. market. And, within the existing integrated sector, we have seen firms steadily drive up the value chain to find more profitable niche markets that require quality products that only those integrated firms can produce with current steel-making technology.

That is not a record of wholescale failure or mismanagement, as steel's critics often suggest. It is a record of substantial adjustment and reformation in response to the pressures of the market and competition from the foreign firms that benefit from the assistance and intervention of their government in the marketplace. In fact, foreign government intervention in the steel industry has contributed to a 200 million ton glut of excess capacity in the industry globally. The net effect of that glut has been a death spiral in prices, sharp declines in capacity utilization, declining employment, and a negative return on capital that now inhibits integrated steel firms from adjusting further.

PRESIDENT BUSH'S AGENDA ON STEEL

President Bush confronted this situation upon taking office. To address the fundamental problems affecting the industry, the President proposed a three-point plan. This includes WTO consistent temporary safeguard measures – to provide breathing room for our industry while it adjusts to import competition – as well as international talks to eliminate excess inefficient global capacity and market-distorting practices, such as subsidies, that have led to current conditions. While our trading partners often prefer to label American trade policy on steel as unilateralist, no one should suggest that the President's approach to the steel crisis was anything other than an attempt to develop a multilateral approach.

Indeed, the first action the President took was to invite all of the steel-producing nations to the negotiating table to develop a common solution. He sought one that would address the immediate problem of excess capacity in the marketplace and then create new disciplines on government intervention in the market to ensure that we would not repeat the cycle that has dogged the industry for many years – that of foreign intervention in the market on behalf of their industry which, in turn, invited a U.S. response under its trade laws.

I had the privilege of representing the President and our country in those negotiations. I am pleased to report that the countries participating in these discussions have forecasted to the elimination of 128 million tons of excess capacity over the next three years. On the discipline subsidies and market distortions, the President has put forward what can be described safely as the most forward-leaning proposal ever to eliminate government intervention in the steel industry, one that could well set a model for the trading system generally.

Our efforts to find a multilateral solution to the industry's problems are consistent with the direction we have received from both the President and Secretary Evans. Our goal is to cut to the root of trade problems, rather than simply conducting investigations under U.S. trade laws. What the President's approach emphasized was the need to find a lasting solution – one that restores market conditions – to the global steel trade.

At the time he launched his multilateral initiative, the President also laid down a marker for our trading partners. He initiated an investigation under section 201 to determine whether the U.S. industry had been seriously injured by reasons of imports stemming from the global glut of excess capacity. Simultaneously, the President has launched an effort to solve one of the underlying problems in the industry – global overcapacity in steel, much of which was financed by government intervention over the last 40 years.

<u>THE SAFEGUARD REMEDY WAS DESIGNED TO ADDRESS INJURIES LIKE THOSE TO THE U.S. STEEL INDUSTRY</u>

In evaluating the action taken under section 201, it is important to remember that the relief provided by the U.S. safeguard law and the WTO safeguard agreement was designed to respond to those very conditions that the U.S. industry now faces. The International Trade Commission (ITC) conducted a thorough investigation into whether the U.S. steel industry has been injured by imports flooding the U.S. market. They found that imports had surged, U.S. producers had sustained injuries, and effects were still being felt throughout the industry. And they recommended that temporary tariffs be imposed on imported steel.

After much deliberation, the President decided that while the Administration worked to address the underlying problems of global overcapacity and market distortions, he would accept the recommendation of the ITC and provide temporary relief to American steel companies and workers in the form of short-term tariff increases on some steel imports. In fact, one of the reasons that the President took this step was his belief that a viable U.S. steel industry is beneficial to the long-term success of U.S. steel users and the U.S. economy.

Perhaps most importantly, I want to assure you, Mr. Chairman, and the members of the Committee, the President's action was not taken without consideration of the downstream effects of imposing the tariffs. We understood that there would be repercussions from the imposition of the tariffs. And, while we could not know the precise effects, it was also clear that the imposition of the tariffs was likely to have the greatest impact on those downstream manufacturers that lacked the market power either to exact lower prices from their steel suppliers or the ability to pass on any price increases to their customers. Thus, while some small firms may have been harmed by the steel price increases, this problem is in part a result of the global steel problem.

Prices have risen for a number of reasons. One reason is industry restructuring that has begun to occur, such as the closing of LTV steel. Industry restructuring was an intended and expected reaction to the 201 tariffs. This is critical for the long-term health and survival of the overall U.S. steel industry, which is equally critical to the long-term health and viability of U.S. steel users. In addition, the U.S. market has exhibited strong consumer demand for cars, appliances, and other goods that use steel. This increased consumer demand, coupled with an increase in consumer spending due to the President's tax cut and a general improvement in the economy, had an impact on prices.

While there have been some short-term adjustments in steel-prices, the steel market seems to be stabilizing and spot prices appear to be leveling for the fall and winter season. Long-term contract prices are currently being negotiated. With this I believe the impact on small businesses, which are most susceptible to changes in spot markets, will stabilize as the market levels.

OUR APPROACH HAS THE LEAST MARKET-DISTORTING EFFECT, WHILE STILL PROVIDING THE NECESSARY RELIEF INTENDED BY OUR TRADE LAWS.

In order to meet the President's objective of providing relief where needed without overburdening steel consumers, the President directed the Department of Commerce and the Office of the United States Trade Representative to establish an ongoing process to exclude products that are not sufficiently available from domestic sources. In addition, as part of his decision to enact the steel safeguard, the President excluded imports from our free trade partners, including Canada, Mexico, Israel, and Jordan, and most developing countries.

Since March 5th, the Administration reviewed over 2,500 requests for exclusions. We carefully considered all information submitted by interested parties and met with all parties that wanted to discuss concerns. This was a difficult and technical process, requiring the analysis of an enormous amount of information regarding U.S. consumers' product needs and U.S. steel producers' production capabilities. Commerce and USTR only granted exclusions to those products that are not sufficiently available from U.S. producers at the quality required and would not undermine the effectiveness of the safeguard on steel products.

In total, Commerce and the USTR excluded 727 products from the steel safeguard measures. The 2001 import volume of the excluded products was approximately 3.2 million metric tons, or approximately 25% of the total 2001 import volume of products subject to the 201 relief (13.1 million metric tons).

MANY OF THE EXCLUSION REQUESTS BENEFITTED SMALL BUSINESSES

Many of the 727 exclusions granted were requested by, or on behalf of, small businesses. For example, Industrial Nut Corporation, a small family-run company in Sandusky, Ohio, was granted an exclusion for large hexagon bars used as input in precision machined nuts. Grasche, USA, a small company that employs 38 people in Hickory, North Carolina received an exclusion for cold-rolled sheet for saw bodies. Hedstrom Corporation, with over 500 employees in Bedford, Pennsylvania, manufactures swing sets, trampolines and spring horses. The company was granted an exclusion on the galvanized sheet it uses in its finished products. Stamco Industries of Euclid, Ohio is a small business that supplies the automotive industry. It received an exclusion on the hot-rolled steel used to make its automotive parts.

Although we have concluded our review of this year's requests, U.S. steel consumers, importers, and foreign producers will have another opportunity to a submit requests in November 2002 for consideration by March 2003. We will announce in March of each year in which the safeguard is in effect any additional products to be excluded from the safeguard.

We are mindful of the effect that the safeguard action has on steel consumers, and over the last ten months, I have met with numerous representatives of steel consuming companies to discuss their concerns regarding the safeguard remedy and the exclusion process. In fact, the Secretary and I will be meeting with a number of small manufacturers today, including companies from Ohio [A.J. Rose Manufacturing], Indiana [Batesville Tool & Die], Pennsylvania [New Standard Corporation and Oberg Industries], and Illinois [Parkview Metal Products].

THE ADMINISTRATION HAS AND WILL CONTINUE TO MONITOR ECONOMIC CONDITIONS AND RESTRUCTURING EFFORTS BY THE U.S. STEEL INDUSTRY

The purpose of the safeguard law is to give the U.S. industry the breathing room it needs to adjust to import competition. The President has made it clear that there is no "free ride" for the steel industry, and has retained the right to modify or terminate the safeguard measure, as appropriate, after conducting a mid-term review of the measures next year. The Administration is also closely monitoring economic conditions and the steps taken by the U.S. steel industry to restructure and increase competitiveness. We have already seen some changes in the steel industry – inefficient capacity is coming off-line through bankruptcies, consolidations, and mergers.

We have asked for regular reports from the U.S. steel industry on their progress with restructuring in response to the section 201 remedies imposed by the President. We will evaluate these reports, along with other economic indicators, to monitor their overall efforts at restructuring. We will also meet with individual companies to discuss their own efforts, as well as broader restructuring plans for the industry as a whole. Furthermore, I have met personally with many manufacturers and steel consuming industries to monitor the downstream impact of the safeguard measures. For example, I recently attended the AMT (Association for

Manufacturing Technology) Trade Fair in Chicago, where I met with numerous manufacturers of machine tools. I also met with several steel users in Minnesota. I will continue to conduct such meetings.

As this process continues, we will update Congress on developments and issues related to the steel safeguard measures. I am pleased to participate in this consultative relationship today, and I look forward to working with you and members of the Committee as we continue to consider the issues involved.

THE PRESIDENT'S STEEL POLICY HAS FORCED STEEL-PRODUCING COUNTRIES TO SIT DOWN AT THE NEGOTIATING TABLE TO ADDRESS OVERCAPACITY

The second element of President Bush's three-part initiative is to work with other steel-producing countries to facilitate the market-based reduction of inefficient excess capacity in the global steel industry. In a landmark agreement last September, thirty-nine countries agreed that overcapacity was a global problem in the steel trade, and each participating government pledged to evaluate its own industry to identify and address excess capacity. As a result of these self-assessments, in April, countries reported projected capacity closures of up to 128 million metric tons by the end of 2005.

While we have made substantial progress in addressing overcapacity, there is still much work to be done. We are encouraging participating countries to take a closer and more realistic look at their steel industries and how they will respond to future market forces. We have established a framework for countries to semi-annually submit updated capacity forecasts and reports on their respective steel industries. These forecasts and reports will then be subject to a vigorous peer-review process, ensuring the accuracy of the information. As countries submit more complete reports, we will update the snap shot of the steel industry worldwide and each country's steelmaking capacity forecast. This information is crucial and will allow us to better understand and address the problem of excess capacity.

WE HAVE AN AMBITIOUS AND COMPREHENSIVE PROPOSAL TO ADDRESS OTHER MARKET-DISTORTING PRACTICES

The third element of the President's steel initiative focuses on the market-distorting practices that have led to current conditions in the industry. Our work at the OECD has generated broad support for enhancing disciplines on subsidies and other market-distorting practices. Participating countries agreed that government intervention in steel has hampered the efficient functioning of the market and that the problem of overcapacity will likely recur without effective market disciplines.

Earlier this month, Assistant Secretary of Commerce for Import Administration Faryar Shirzad chaired the most recent meeting of the Disciplines Study Group. He made significant progress in building international consensus on the nature of the problems and the most effective solutions. The United States tabled an ambitious and comprehensive proposal to address the market-distorting practices that plague the international steel market and contribute to the perpetuation of uneconomic steel production capacity.

Our proposal also addresses anti-competitive conduct, tariffs, non-tariff barriers to trade in steel, and other measures that distort markets and impede the elimination of excess, inefficient steelmaking capacity worldwide – or which lead inappropriately to the creation or expansion of such capacity. Our suggestions received significant interest and support, although much more ground needs to be covered before we arrive at a clear international consensus on the identity and priority of the issues to be tackled. We will be making full use of the coming months to reach out to our trading partners to shape that consensus in time for the next High Level meeting in the OECD process in the latter half of December.

THE ADMINISTRATION HAS MADE EVERY EFFORT TO FACE THIS CHALLENGE WITH A BALANCED APPROACH

I want to underscore the President's commitment to restoring market forces to the global steel trade. In the long run, a more stable steel market will benefit both producers and users alike. To reach this goal, we must eliminate the underlying conditions that led to the problems in the first place. This Administration will use the trade laws as a catalyst to pursue solutions to address those underlying conditions.

Again, Mr. Chairman, I want to thank you for holding this hearing. I appreciate frequent consultation with Congress as this dialogue ensures that all voices are heard and considered as we undertake future action in this matter.

I look forward to your questions.

Consuming Industries
Trade Action Coalition

Testimony of Jon Jenson, President of Consuming Industries Trade Action Coalition

House Small Business Committee

"Lost Jobs, More Imports, the Unintended Consequences of the Steel Tariffs"

September 25, 2002

Mr. Chairman. My name is Jon Jenson. I am President of Consuming Industries Trade Action Coalition (CITAC). CITAC is a growing coalition of companies and trade associations representing the interests of American consuming industries in the trade policymaking process. CITAC's mission is to promote trade policies in which U.S. consuming industries and their workers have access to global markets for raw materials and other imports that enhance the international competitiveness of U.S. firms.

CITAC's top priority is the repeal of the steel tariffs that are wreaking havoc in the steel market for downstream manufacturers. Skyrocketing prices, uncertain supply due to allocations and lengthening lead-times, broken contracts and growing quality problems are forcing steel users to the brink of disaster. We strongly urge the Bush Administration to review the economic impacts and unintended consequences of the Section 201 tariffs as soon as possible and act to end this tax on steel-using industries.

Mr. Chairman, thank you for your leadership and continued attention to this steel issue. Many of the witnesses at the Committee's July 23rd Hearing testified that, as a result of the steel tariffs, they were running out of steel, had become uncompetitive in the international market, were losing business to foreign manufacturers, and were uncertain as to how much longer their business would be able to survive. As you will hear from the witnesses today, the situation has not gotten any better—in fact, it has gotten much worse.

The exodus of business to offshore manufacturers who can obtain steel at globally competitive prices is accelerating. (Recent reports reveal that the price of hot-rolled sheet, for example, is 32 percent lower in Europe, and 34 percent lower in Asia, making the U.S. an island of high steel prices.) Particularly alarming are indications that more new product designs for parts and components for future products are being shipped overseas. Once this business leaves the country it is not likely to return.

Furthermore, the steel tariffs 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, and assemblers.

The list of well-documented reasons for ending the steel tariffs is growing in its clarity and urgency:

(1) The tariffs are doing far more harm than good to our economy, at a time when we can ill-afford it.

(2) They do not address the root cause of the steel industry's problem, which is the non-competitiveness of certain integrated

producers due to relatively high costs and operating inefficiencies.

(3) They threaten relationships with our trading partners.

(4) They interrupt critical steel imports that are absolutely essential, since we must depend on imports to supply 20 to 25 percent of our domestic demand.

(5) They restrict fairly as well as unfairly traded steel, for which AD/CVD laws exist.

(6) They inhibit and delay realization of the goal for which they were imposed – the rationalization, restructuring and consolidation of non-competitive U.S. steel capacity.

One might reasonably ask: What good are the steel tariffs doing? They have made the U.S. an island of high steel prices, causing steel-using manufacturers to export their business opportunities, their growth potential and their workers' jobs to offshore manufacturers, while bringing windfall profits to competitive U.S. steel producers, sustaining non-competitive domestic steel capacity, and encouraging investors to re-open still more non-competitive capacity.

How much damage must be done, and how many U.S. jobs have to be lost before the Administration recognizes that the steel tariffs were a mistake and must be lifted?

Exclusions Have Not Solved The Problems Of Consuming Industries

The exclusion process is the only mechanism currently in place that offers any potential for relief to steel using manufacturers. The Administration has just completed round one of the exclusion process. This has been a very disappointing exercise.

While the exclusion process was presumably established to provide some relief to steel-using manufacturers from the steel tariffs, the needs of steel consumers have not appeared to be of paramount consideration. The process is a blunt instrument ill-suited for the micro-management of the international steel market. It is a flawed process – inadequate, ineffective, inherently unfair, and manipulated – to the disadvantage of the steel user. Exclusions clearly did not provide relief to all steel-using manufacturers that were deserving of relief or that truly needed it.

The steel companies would have you believe that the exclusion process gutted the Section 201 safeguard remedies. That is not the case. Steel tariffs still cover 75% of the products potentially subject to the tariffs. Furthermore, approximately 1.5 million tons, or half of the total volume of excluded products, was granted for the sole use of U.S. steel companies. These exclusions were for slabs and flat-rolled products to be further processed by U.S. steel companies into finished steel products. The remaining exclusions were for products for which there were no objections from the domestic industry and/or domestic producers could not meet the needs of the end-user. Many of these exclusions are subject to volume caps less than the amounts imported in 2001 – which make them less than fully effective for the steel user. Clearly the domestic steel industry has no basis to complain. The steel tariffs continue to cover roughly 9 million tons of steel a year. The exclusions clearly did not go far enough. The exclusion process clearly did not–and cannot–address the fundamental problems faced by the U.S. Steel consuming industry as a result of the steel tariffs.

As will be evident in the testimony today, not only did the exclusion process not solve the fundamental dislocations caused by the steel tariffs, but no amount of tinkering with the exclusion process could solve these problems. The steel tariffs have not only caused dislocations with respect to imported steel, they have also caused severe dislocations with respect to domestic steel. Obviously, the exclusion process does not address the latter situation.

The Exclusion Process Cannot Help Those Consuming Industries That Rely On Domestic Steel

As a number of witnesses in the July 23rd hearing testified, and as a number of witnesses today will testify, the negative consequences of the steel tariffs have been felt by those companies that rely on domestic steel, as well as those companies that rely on imported steel. American steel consumers must compete globally. Restraints on steel imports deal those steel-using manufacturers a serious blow, regardless of where they purchase their steel, through:

(1) increased raw material costs (prices have risen between 40-75% over the last eight months);

(2) delays (some steel users say that only 50 percent of deliveries are on time -- delays can force costly shutdown of operations and create critical uncertainties for small business owners);

(3) shortages created by domestic steel mills putting users on allocation;

(4) inability to pass price increases on to customers (steel users can't change their contracts with customers even if the steel mills have broken contracts with them to raise prices);

(5) greater competition from abroad for the steel-containing products they make. Steel-using competitors abroad have access to world-priced steel, allowing them to export a less expensive end product to the U.S.; and

(6) lack of choice in the market. Steel users choose their inputs based on processing characteristics, availability, price and other variables. With restrictions, they have no choice but to buy whatever they can get at whatever price it is offered.

The exclusion process does nothing to help those companies that purchase their steel domestically. The only means to address their problems is to lift the tariffs as soon as possible.

Problems With The Exclusion Process

Furthermore, even though the relief provided by the exclusion process was severely limited, there were many flaws even with that process.

- Steel producers manipulated the product exclusion process

Steel producers manipulated the product exclusion process by representing that they were ready, willing, and able to supply the products that were the subject of product exclusion requests when that was not, in fact, the case.

- The process was neither transparent nor fair

There was inadequate opportunity for those applying for exclusions to rebut objections raised. The Administration rejected unsolicited rebuttals to objections that were filed. Even when the Commerce Department did solicit a response in a particular case, the domestic steel producers' unwarranted claims for proprietary treatment of their objections made it extremely difficult for product exclusion requestors to fully address any objections that had been raised.

- Tonnage limitations on exclusions are unfair.

In many cases, tonnage limitations on granted exclusions were simply inadequate. Part of this was due to the fact that the Administration actively discouraged companies from filing duplicative exclusion requests. Therefore, there was no information on the record as to what tonnage might be necessary to address shortages or unavailability of steel in the U.S. market as a whole. Also, because the benefit from any exclusion goes to those companies that import the product first, there is no guarantee that the companies that actually filed for the exclusions will receive the benefit from any exclusions granted.

- Companies cannot wait until March 2003 to obtain further exclusions

Under the current scheme, companies that apply for exclusions in November will not be able to receive any relief until March 2003. Many small businesses may simply not be able to wait that period of time to obtain needed relief—they may go out of business first. The President already modified the March Proclamation to authorize exclusions after July. There is no reason that the President couldn't provide for the granting of exclusions on an on-going basis.

This is only a short summary of the litany of problems with the product exclusion process. The bottom line is that even if these problems are resolved, the product exclusion process cannot solve all of the dislocations caused by the steel tariffs because many companies that have suffered from the tariffs are not eligible for product exclusions. Indeed, as a number of the witnesses today will testify, although they rely on domestic steel, they have experienced significant shortage problems and pricing difficulties that jeopardize their very survival.

The Tariffs Should Be Rescinded As Soon As Possible

Thus, the only solution to the "unintended consequences" that the steel tariffs have inflicted on U.S. steel consumers is early review and repeal of these tariffs. This is CITAC's top priority and we hope it is the top priority of members of this Committee.

Efforts to reduce the world excess capacity of non-competitive steel production are laudable, but are proceeding at a snail's pace. Steel using manufacturers who are struggling now for their survival should not be held hostage to this process. The tariffs must be lifted now, regardless of the progress of the OECD steel negotiations.

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 13 million Americans compared to about 200,000 in steel-producing industries. Many are small businesses, which have been the engine of growth for the American economy. Steel-using industries provide good jobs and are invaluable contributors to their communities. It is indeed ironic that such an important generator of economic growth is being punished by our steel trade policy.

The U.S. steel industry has enjoyed 30 years of protectionism and import restrictions, yet certain producers still cannot compete globally. Continuous trade restrictions are hurting U.S. steel-consuming industries and threatening the U.S. economy. The tariffs need to be lifted as soon as possible.

Again, Mr. Chairman, thank you for the opportunity to testify here today.

MID WEST
FABRICATING CO.

TESTIMONY OF

JENNIFER JOHNS FRIEL
MID WEST FABRICATING COMPANY

HEARING BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESSES

"Lost Jobs, More Imports, the Unintended Consequences of the Steel Tariffs"

SEPTEMBER 25, 2002

Thank you for inviting me to participate in this hearing. My name is Jennifer Johns Friel. I am President of Mid West Fabricating Company. Mid West Fabricating is a leader in the cold forming of steel wire into special fasteners and rods for automotive and lawn and garden customers, as well as a magnitude of components for various industrial and consumer products including appliance, highway and housing construction. Mid West Fabricating Company is a family owned corporation that was started in 1945. We are headquartered in Amanda, Ohio, but we also have plants in Lancaster Ohio, and Santa Fe Springs, California. We have approximately 260 families that rely on Mid West for their employment.

My company has been adversely affected by the Section 201 tariffs on steel even though we only buy from North American steel producers. We process an average of 20 million pounds of steel each year. The bulk of that steel is Industrial Quality Rod, a lower quality steel. The steel tariffs have prompted our suppliers to dramatically increase the pricing of this material, and extend the delivery times from historic four to

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six week lead times to upwards of 12 and even 14 weeks. The 201 remedies have caused tremendous dislocations in the market that have affected my ability to get the steel I need at a reasonable price. It is very difficult for my company to operate under these conditions. Our customers will not consider price increases, do not give us firm schedules 12 to 14 weeks in advance and therefore we are not certain that we are purchasing enough material to meet their future demands.

Here is one example of the problems we are facing as a direct result of the steel remedies. Our steel supplier pushed back a quoted lead-time an additional three weeks. Since we owed parts to an assembly line that could not wait an additional three weeks for parts, we were forced to purchase material on the spot market from a supplier we consider to be sub-standard. Half of the material we purchased turned out to be defective, resulting in contaminated material throughout our supply chain. Sorting, evaluation and containment costs associated with this event caused us to lose substantial money on this shipment. Obviously we don't want to, and can't afford to, repeat this situation.

It is very difficult to run a business when you have no assurance that you will be able to obtain the raw material you need. While we are doing everything we can to obtain the steel we need, we are concerned that lack of steel will mean that we are not able to supply particular orders.

The pricing and delivery environment that has developed in the wake of the Section 201 decision is also of concern to our customers. After the steel tariffs were put into effect, one of our long-standing customers placed a huge order with a Canadian supplier, instead of with us, because the customer was concerned that we would not be able to get the steel we needed. The order that we lost was worth five million dollars per year for eight years. We are a twenty-five million dollar company. This order would have been very important to us, and the people who work for us. It will be very difficult to recover this lost business. This particular part will have a life span of approximately eight years. We will not have a chance to recapture that business until the next redesign – eight more years. Therefore, the steel tariffs will continue to have a negative impact on our business long after the tariffs are lifted.

The steel tariffs have clearly harmed many downstream consuming industries. The negative impact is spreading far beyond what could have been anticipated--even into small businesses such as mine. Please help me, and the people who work with me, by lifting these tariffs as soon as possible.

Thank you.

EJ AJAX & SONS, Inc.

World Class Metalstampings

7773 Ranchers Rd, Fridley MN 55432

TESTIMONY OF ERICK AJAX

BEFORE THE

HOUSE COMMITTEE ON SMALL BUSINESS

"LOST JOBS, MORE IMPORTS, THE UNINTENDED CONSEQUENCES OF HIGHER STEEL TARIFFS"

SEPTEMBER 25, 2002

Mr. Chairman, thank you for inviting me to testify today about the unintended consequences of higher steel tariffs. My name is Erick Ajax. I am the Vice President of EJ Ajax and Sons, Inc., in Fridley, Minnesota. We primarily produce hinges and other steel parts that are used in appliances and electrical enclosures worldwide.

EJ Ajax has made a concerted effort to be internationally competitive. In the past 10 years, we made sizeable investments in employee training and productivity equipment that reduced our labor costs from 15% to 9% of total costs. These efforts were successful and allowed EJ Ajax to service a wide range of companies located all over the world. Until recently EJ Ajax exported almost a third of our metal stampings. The Section 201 steel tariffs have, however, undermined our competitiveness. They have made it difficult for us to continue to sell parts domestically, let alone abroad.

We buy hot-rolled, cold-rolled and galvanized steel from service centers. We estimate that seventy to eighty percent of the steel we use is from domestic sources.

Since the imposition of the Steel Tariffs, raw material lead times have gone from days to months. Most of our long-term contracts were broken within weeks of the President's Proclamation imposing the Steel Tariffs. We have been forced into the spot market. This uncertainty as to supply makes it very difficult to continue to do business.

In addition, the steel tariffs have also increased our costs. Our steel prices have increased 30 to 60 percent. Since steel represents close to 50% of our costs, these increases have had a significant impact on our bottom line--particularly since we have not been able to pass the vast majority of these increased costs to our customers. Where we have been successful passing a small portion of our steel tariff increases on to our customers this has forced them to turn to global market for competitive bids so that they can stay competitive in the world market.

As a result of the steel tariffs, we are simply no longer able to compete in the international market. In eight short months several of our customers have already begun to purchase their parts from other countries, and some are seriously considering moving more of their manufacturing out of the United States where companies are not saddled with unpredictable and dramatic increases in material costs or late deliveries. Indeed, one of our larger clients recently informed us that our price for a family of parts was 50 - 70% more than the bid of three of our international competitors. Clearly we are in danger of losing this business. This is a sizeable contract that constitutes almost 10% of our annual sales.

Since the steel tariffs were imposed on March 5th, we have had to lay off 20% of our workforce. This was unbelievably difficult for us. Our employees are a huge part of our small family business, and we have always sought to provide all EJ Ajax employees with a safe, positive working environment.

Thus, because of the steel tariffs, all of our investments in productivity and employee training and professional development have basically been for naught, we have had to lay-off 20% of our work force, and our entire business is threatened. The very business that three generations of my family has spent almost six decades building. On behalf of the employees at E.J. Ajax and Sons and the other 13 million Americans that consume steel in manufacturing, we urge you to lift these tariffs as soon as possible. Thank you.

G&R MANUFACTURING
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TESTIMONY OF

JAY CARLSON
G&R MANUFACTURING, INC.

HEARING BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESSES

"LOST JOBS, MORE IMPORTS, THE UNINTENDED
CONSEQUENCES OF THE STEEL TARIFFS"

SEPTEMBER 25, 2002

Good morning. Thank you very much for inviting me to testify about the consequences the Steel 201 tariffs have had on my company. My name is Jay Carlson and I am President of G&R Manufacturing.

G&R Manufacturing is located in Naugatuck, Connecticut. The Company began operations in 1972 primarily as a metal stamping house and we have grown into a full-service "turn-key" manufacturing facility. G&R Manufacturing provides everything from basic stampings, progressive stampings, transfer press eyelets as well as intricate multi-component assemblies. We currently employ 40 workers.

G&R Manufacturing requires 550 tons of steel each year. We buy our steel domestically through service centers. The steel tariffs imposed by the President in March have reduced the availability of steel in the market to the point that our supply of steel is not reliable. Our service centers have been put on allocation. As a result, we have experienced severe shortages of certain steel grades, as well as unacceptable increases in lead times for others. Lead times have increased from 4-6 weeks to 16 weeks or more.

These increased lead times have placed some of our automotive customers in potential line-down situations. In order to avoid this situation, we have had to pay extra for expedited shipping and obtain our steel from alternative sources. This has increased our costs significantly and it could potentially jeopardize the quality of our products. The alternative sources that we have to utilize are not necessarily the best quality but they are our only alternative.

In addition, we have to face steel price increases of 40-60%. This translates into additional costs for us of $100,000 to $200,000 a year. G&R Manufacturing is a small business and can not absorb these costs. Nor do we have the power to pass these higher costs on to our customers. We are already competing in a global market that is a rather uneven playing field in terms of labor, health, and environmental costs. The steel tariffs have tipped the scales even further by making my steel costs substantially greater than those of my foreign competitors. On top of all of that, our foreign competitors are able to import their product to this country duty free. As a result, GR Manufacturing like many other small and mid size companies has a difficult time competing and finds it difficult to stay in business.

I can tell you that GR Manufacturing's experience is not unique. As a founding member of the Manufacturer Leadership Group of Connecticut, which consists of 180 small businesses in the Waterbury Connecticut area, I know that the tariffs have had a ripple effect. As U.S. steel consuming industries lose business, so do the companies that supply those industries, such as service centers, finishers, platers and assemblers. The situation is only getting worse.

The steel 201 tariffs need to be lifted as soon as possible. We operate on tight margins in a very competitive market. The hardship of these tariffs and our inability to pass on any price increases will cost not only jobs, but will also affect G&R Manufacturing's ability to survive.

Thank you very much for this opportunity to testify.

DOWDING
Industries, Inc.

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TESTIMONY OF CHRIS DOWDING
BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESS

"LOST JOBS, MORE IMPORTS, THE UNINTENDED CONSEQUENCES OF THE STEEL TARIFFS"

SEPTEMBER 25, 2002

Good morning. It is indeed an honor to appear before this committee. My name is Chris Dowding. I am the President of Dowding Industries, Inc., with locations in Eaton Rapids and Springport Michigan. I am second generation of our family's business, which my father started in 1965. We are a steel "user", employing 150 employees. We purchase nearly 7 million dollars worth of steel that is turned into products for the diesel and automotive markets. Our customers include such companies as Cummins, Caterpillar, TRW and Borg Warner.

The Section 201 steel tariff is having a devastating effect on my business. While we as steel "users" want steel "producers" to be state side. I, as a small business now feel like I am David, facing the immense stature of Goliath. As a small business, we do not want the steel producers as our foe. We want to join with our fellow Americans and find solutions to help support the ailing steel foundries. Solutions that do not put the American steel "users" at risk of extinction. Solutions that do not pit 59 steel "user" jobs against 1 steel "producing" job. We need to join forces with a solution that does not put us at odds against one another.

There are enough economic constraints facing American companies against global third world competition, such as rising health care costs of 25-30% per year..... Lets NOT sustain, yet another.

We understand that President Bush has his door closed to this issue and in light of the terrorism facing America, I understand the priority. However, President Bush, we pray that you will open your door and hear the voice of the small business steel "user". I am fighting for the survival of not only my company, but the survival of my industry, for businesses all over America. I am fighting for the long-term jobs of my employees, not the next election vote. And, my concern is, how do we get this message directly to President Bush?

God has blessed my father's business and we have worked hard at trying to make good business decisions and investments. As second generation trying to pass on my father's dreams, I graduated from Northwestern University in 1990 with a Masters in Management. We have made a commitment to come out of every recession better than when we went in. We invested in our people through two training grants with our local community college. We have purchased the latest technology in the world, in both laser and machine cutting. We have purchased run-down factories and invested nearly a half million dollars in their renovations. We have survived the economic downturn in the Heavy Truck industry and we were "NOT" one of the ones on the auction block in 2000-2001. My father's dream has been to develop our community and provide jobs for Americans, not move our company abroad. However, due to the steel tariff, we have begun conversations with a Mexico based company. Please understand, this is not in our five-year objectives or goals. However, if that is what it takes to keep our family business on-going, we will pursue it, verses the alternative, which is the elimination of it.

We are seeing an average of 16 to 20% increases in material prices, (with some as high as 66%) or a $50,000.00 per month cost impact. On an annualized basis, this equals more than three times my entire company's profits for either of the last two years, 2000 and 2001. As if piece price wasn't enough alone, we are faced with longer lead-time, premium charges and line down costs due to unavailable material. As a small "user" business, we buy steel through service centers. Before the tariffs were imposed our lead-times on steel use to be two to four **weeks.** Current lead-times are as much as four to six **months** and deliveries and quality are unreliable. Recently, a written promise date by our steel supplier was later denied with an, "I'm sorry, we can't do that after all". Upon notifying my customer, we were threatened with "line down charges" which range in the hundreds of thousands of dollars. The only way we were able to avert these charges was by paying a $16,000 premium for expedited delivery of "foreign material". Dowding Industries can not pass these type charges, or material price increases on to our customers, nor can we afford to pay such increases. In fact, our customers demand a 3-5 percent cost reduction each year. We are caught in a pricing squeeze. When we can not give our customers the cost reduction they demand, they go elsewhere. We are being forced to have competitive prices for products produced in Vietnam, Taiwan and Mexico, or lose the business. We are all aware of the un-level playing field when pitted against third world countries, now add steel prices. And I ask, how is the small "user" company supposed to have the ability to play in this arena, any more than the steel producers?

The steel tariffs have brought us to the point that we are now seriously considering moving some of our production to Mexico. We cannot continue to operate when our profit is eroded to a point it doesn't justify the business any longer. This could mean the loss of 150 jobs in Mid-Michigan. That impact extended to our suppliers and their employees is enormous.

Mr. Chairman, all we're asking for is an opportunity to stay in business and remain competitive in this global economy. Without a reliable, competitive supply of steel, Dowding cannot be a successful small business. I am confident there is another solution to help the ailing steel industry without victimizing the small businesses and their employees. President Bush, lets talk!

Thank you, Mr. Chairman for this opportunity to present my views.

WILSON TOOL

Innovation Engineered for Performance

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TESTIMONY OF

BRIAN ROBINSON
WILSON TOOL INTERNATIONAL INC

HEARING BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESSES

"Lost Jobs, More Imports, the Unintended Consequences of the Steel Tariffs"

SEPTEMBER 25, 2002

Good morning. Thank you for inviting me to testify today about the Steel 201 tariffs. My name is Brian Robinson and I am President of Manufacturing, Wilson Tool International. Wilson Tool International, Inc. of White Bear Lake, Minnesota is a 36-year old privately owned corporation that is the world's largest independent manufacturer of turret punch press and press brake tooling. Wilson currently has 470 employees. In October 2001 we employed 770 people. The total reduction of over 285 employees has taken place since that time due to the economic downturn and its devastating impact on the manufacturer sector.

I am here to tell you that the Administration's Steel Section 201 exclusion process did not work, it was unfair and it has dire consequences for further job losses in the manufacturing sector. Wilson Tool applied, as early as October 2001, for an exclusion on AISI 4150 cold rolled steel products engineered into special shapes (profiles). Wilson applied for this exclusion because we were unable to purchase these profiles from domestic sources. Not only did the Administration after six (6) letters from Wilson Tool, three (3) from two Congressmen, plus the submission of the Exclusion Questionnaire, not grant Wilson Tool's exclusion, the Administration never even posted our exclusion—that is the Administration never considered our exclusion request and did not provide the domestic industry any opportunity to comment on it. What is worse, the Administration never even told us that they were not going to act on our exclusion request. Indeed, when the Administration assigned an official "N" number to our exclusion request, by the way that was the only acknowledgement and contact we had from the Administration during this long, extensive effort, we reasonably assumed that our exclusion request was accepted and would be considered.

Accordingly, profile shapes in 4150 steel grade remain subject to the steel section 201 action and Wilson Tool is currently subject to 30% percent tariffs on these imported profiles from Austria. It does not make any sense to impose a tariff on a product that is not made in the United States—it does not help any domestic company —-it simply increases Wilson Tool's costs unnecessarily and makes it more difficult for us to compete in the market place.

Wilson Tool is currently the largest single independent purchaser of cold worked tool steel stock in the United States. Wilson Tool has always had a commitment to buy steel products from domestic sources whenever possible. While Wilson currently purchases 80-85% of its steel from domestic sources, Wilson has had to import these profiles because Wilson has been unable to purchase this material from domestic sources.

When Wilson Tool first developed a need for these profiles a couple of years ago, Wilson Tool actively solicited bids from all U.S. steel manufacturers capable of producing the U.S. grade 4150 profiles. Wilson required 29 separate profiles with varying sizes and quantity limitations ranging from 1 U.S. ton to a maximum of 21 U.S. tons per profile per year. Only one domestic company submitted a bid and it did not meet the requirements in quantities or scope.

Accordingly, Wilson had to resort to foreign producers and accepted the bid of Boehler-Uddeholm AG Ybbstal Profile of Austria. Wilson Tool has worked with Boehler over the course of the last two years, and spent tens of thousands of dollars to develop the profiles to our specifications. This development process was so lengthy in part because all of the products need to be certified and go through extensive quality control testing. Thus, even if domestic producers could produce some of the profiles we needed, it would not be feasible to purchase from them as we would have to go through the certification process multiple times.

Wilson Tool has always made a commitment to purchase steel from domestic sources, but when Wilson cannot purchase the steel we need from domestic source, we do not understand why we should have to pay Section 201 tariffs on that steel. It makes no sense. We are also very frustrated that our exclusion request was in effect denied without any opportunity for us to make our case. The exclusion process needs to be more transparent and accessible to small businesses such as Wilson Tool.

In closing, I have come to Washington to testify because there is something inherently flawed with the process imposed by the Administration for obtaining an exclusion to the Section 201 Steel Tariff when our exclusion request is totally ignored and we are not even told why, and even our elected Congressional representatives and their staff members are denied any acknowledgement to their inquiries, much less provided information regarding their constituent's issue; when small businesses must engage lobbyists to represent them or be compelled to travel to Washington in order to advocate their right to be heard; when a tariff is imposed on domestic manufacturers for importation of a raw steel product only to have their foreign competition import the same steel product produced at the same foreign mill as a finished product without a tariff, then we have a serious problem.

Thank you for providing me with an opportunity to testify today.

HOUSE SMALL BUSINESS COMMITTEE

TESTIMONY OF ROBERT JOHNS
DIRECTOR OF MARKETING, SHEET PRODUCTS, NUCOR CORP.

SEPTEMBER 25, 2002

Introduction

Mr. Chairman and members of the Committee, I would like to thank you on behalf of Nucor Corp. for the opportunity to present this testimony before you today. My name is Bob Johns, and I am Director of Marketing for Nucor's Sheet Mill Group. Nucor is the largest producer of steel in the United States, and also the largest recycler. According to *World Steel Dynamics*, we are the most efficient, lowest cost steel producer in the world. I am proud to say that we pioneered many of the most important technological breakthroughs in the industry over the last two decades.

Yet even we have not been able to earn our cost of capital. If Nucor, with all its competitive advantages, still faces these problems, then something is clearly wrong with the U.S. steel market. The problem is that foreign steel producers have been able to freely sell illegally dumped and subsidized steel in the United States, and that this country's trade laws have been ineffective in preventing this illegal behavior. We believe that the President's decision under Section 201 is the first step in reversing this process.

Summary

I would like to address several points today regarding the President's 201 decision and small business:

- The President acted after the U.S. steel industry had been badly damaged by years of illegally traded imports, imports which the antidumping and countervailing duty laws had been unable to stop.

- The 201 relief has directly benefited hundreds of small businesses throughout the United States that supply the domestic steel industry with goods and services.
- By giving the domestic steel industry the opportunity to rationalize and consolidate itself, the President's 201 decision will prevent dislocations in the market, to the benefit of steel users.
- Since the President's decision, prices for flat-rolled products have only returned to their normal levels from historic 20-year lows, while prices for many long products remain far below their historic levels.
- Steel prices have risen around the world, so that U.S. steel users are not suffering a competitive disadvantage by the return of some prices to historic levels.
- The exclusion process was exhaustive, and resulted in the removal of 201 temporary tariffs from 25% of the imports that would otherwise have been subject to them.

The President's 201 Decision

In March 2002, President Bush made the bold decision to provide relief to the domestic steel industry under Section 201. His decision reflected the fact that the U.S. steel industry was in dire straits. The reason was simple; by the end of 2001, steel prices had dropped to artificially low levels. These price levels reflected massive imports of steel that was being sold at less than fair value ("dumped") or that had received subsidies from foreign governments.

The U.S. industry has often been criticized for its frequent resort to the unfair trade laws in an attempt to counter these imports. The bald fact is that, despite literally hundreds of findings by the U.S. Department of Commerce that imported steel had been dumped or subsidized, and by the U.S. International Trade Commission that these imports had injured the U.S. industry, imports continued to flow into the United States. The domestic industry could have continued on its previous course, and filed still more dumping and countervailing duty cases. President Bush, however, concluded that this course would not provide any meaningful or timely legal remedy for the industry. To the contrary, the trade laws alone had proven ineffective in maintaining or restoring legal trade to the U.S. steel market.

Instead, President Bush decided to strike at the root of the problem. He formulated a comprehensive steel strategy:

1. Impose a temporary "time out" under Section 201 on unfairly traded steel imports that have devastated the U.S. steel industry and its workers;

2. Launch international negotiations to eliminate global excess capacity; and

3. Conduct negotiations to address market-distorting subsidies and anticompetitive practices.

The President realized, correctly, that other countries would negotiate only if they saw that they could not use the U.S. market as a dumping ground for their excess production. Instead of continuing an ad hoc strategy based on individual trade cases, the President decided to use relief under Section 201 to achieve these objectives. This was the right decision.

The President's 201 Decision and U.S. Steel Consumers

Nucor firmly believes that the President's 201 decision was very much in the best interests of businesses in the United States that use steel. The reason is simple. Without 201 relief, the United States was likely to lose a substantial part of its steel-making capacity. Thirty steel producers have entered bankruptcy over the last few years. This includes some of the biggest and best known steel companies, such as Bethlehem, LTV, and National. Absent the temporary protection provided by the 201, more companies were going to fail.

While this flood of foreign steel would appear to be good for consumers in the short run, in the long run, it would be disastrous for them. As U.S. producers shut down, the supply of steel in the United States falls. This is exactly what happened when LTV stopped production in December 2001. When LTV took about six million tons of capacity out of production, the market was disrupted. When LTV closed down, these customers found out why they need a healthy domestic industry in order to maintain sources of supply.

The President's decision to provide relief to the domestic steel industry will help avoid similar situations in the future. Many steel consumers have recognized this, and publicly stated their support for the President's action. They realize that, as users of steel, it is in their own best interest to have a healthy domestic industry. 201 relief will not keep inefficient producers in the market. It will give the U.S. industry the breathing space it needs to consolidate in a manner that will minimize the ill effects on steel consumers such as occurred after LTV's sudden shut-down.

201 Relief and Prices

We have been hearing a great deal about how the 201 relief has resulted in "arbitrary" price increases for various steel products. The evidence does not bear these claims out. In December 2001, when the International Trade Commission made its recommendation for relief to the President, steel prices were near or at 20-year lows. These prices were not sustainable.

Secretary O'Neill recently made exactly this point. To quote:

> I think it is implicit that people down the value chain understand that it's not possible for them to count on general taxpayers subsidizing their suppliers so that they can have a false notion of what the real cost, the total cost, of capital is to provide a semi-finished product coming downstream

> toward more value added. Let me tell you I am not in favor of maintaining low prices if we do it by collecting money from the general taxpayer and providing subsidies to keep a non-performing industry operating at the fictitious low prices so that people downstream can be happy. I want to cover all the cost of capital so I am not living in some fool's paradise and expanding the non-profit {sector}.

The extent of price movements has been greatly overstated. The President's 201 decision imposed tariffs of up to 30% on a range of products. With some exceptions, price restorations have generally been less than 30%. Foreign producers and importers are willing to absorb part of the duties if that is necessary to sell steel here. This is a further demonstration that the United States has become *the* market where the rest of the world sells its excess production.

Another reason reported price "increases" are erroneous is that many producers sell a significant portion of their production under long-term contracts. These contracts, which are normally for one year, tend to lock in low prices. These contracts are not reserved for large customers; to the contrary, Nucor and other domestic producers have contracts with customers of all sizes. Contract customers continue to pay low prices for their steel, even if spot prices rise.

Of course, some customers chose over the last few years to take advantage of the low prices on the spot market. Now that spot prices have risen for many products, they are complaining about "arbitrary price increases." They made a deliberate decision to take their chances on spot prices, and are seeing the flip side when legal trade is restored. We certainly did not hear them complaining when spot prices were at "fictitious" low levels as a result of a flood of illegally-traded imports.

To some extent, customers themselves were responsible for some of the instability in the market over the past few months. As spot prices returned to normal levels, many customers doubled up on orders, placing orders both with domestic mills and importers to ensure that they had supply. They would then cancel the domestic order once the imports were on the water. This gave the appearance of a spike in demand, and served to push prices upward, when in fact overall demand for steel has been falling this year.

Flat rolled steel prices have stabilized, and are even falling for some products, including hot-rolled sheet. Some steel distributors are reporting large inventories and declining orders, a condition that contradicts claims of shortages. Lead times from mills are decreasing, and mills are actively soliciting orders. For many products, such as construction-related long products, prices never recovered, and mills have been scurrying for orders.

The Trade Case Alternative

The President's 201 decision did not require any finding that imports have been unfairly traded, *i.e.*, dumped or subsidized. The fact is, though, as the U.S. Department of Commerce has found in a huge number of investigations, a significant portion of steel imports are unfairly traded. Instead of supporting the 201 process, the domestic steel industry certainly could have filed a string of antidumping and countervailing duty cases covering a broad range of products. This could have resulted in average duties well above 30%. In a series of recent antidumping investigations of cold-rolled steel, for example, the Department of Commerce found an average dumping margin of 57%. The 201 remedy has had a smaller impact on domestic steel consumers than a massive new round of antidumping and countervailing duty cases would have had.

The Macroeconomic Effects of the 201 Relief

If the 201 relief has had the catastrophic effects described by some, these effects have not shown up in any of the U.S. government's economic statistics. Inflation and unemployment remain solidly under control. The largest domestic consumers of steel, the automotive companies, are reporting strong sales; indeed, General Motors, Ford and DaimlerChrysler all recorded double digit increases in sales compared to 2001.

The Impact of the President's Decision on Small Businesses Supplying the Industry

While the subject of this hearing is the effect of the 201 on small business, the other testimony has focused solely on steel consumers. The Committee has not heard from the thousands of small businesses that supply goods and services to the steel industry. Many of these small businesses have literally been saved by the 201 relief. Over 500 of them have demonstrated this by publicly declaring their support for the President's action. In considering the impact of the 201 relief on small business, the Committee should keep in mind these companies as well.

A representative of one such company is with me today. Mr. Doug Ruggles is the owner of Martin Supply Co., a provider of industrial products and services located in Sheffield, Alabama. Martin was founded in 1934, in the heart of the Great Depression, by Mr. Ruggles's grandfather. Until recently, Martin's largest customer was LTV's Trico Steel. In 2000, though, Trico was forced to shut down because of illegally traded imports. Martin had invested a great deal of money in inventory for Trico, and has been struggling to recover. Now, because of the relief provided by the President's 201 decision, Mr. Ruggles and his company are finding new customers, including Nucor-Decatur.

As Mr. Ruggles told me, "for the first time since March 2000, when Trico closed, we have hope in the future."

Mr. Ruggles had hoped to tell his story before the Committee today. Unfortunately, although the Committee scheduled five witnesses from small businesses that claim to have been *hurt* by the President's 201 decision, it could not find five minutes to hear from Mr. Ruggles, whose small business has been *helped* by the 201. He is here with me today, and is available to tell his story.

201 Relief and Import Competition

Some have claimed that steel users have been placed at a competitive disadvantage, because their foreign competitors can purchase steel more cheaply. These claims are exaggerated and even untrue. Steel prices have been increasing around the world, including in Europe, Japan and China. In some cases, the magnitude of the increases has been as great as, or even greater than, the increases in the United States. Steel traders tell us, for example, that prices in China for hot-rolled coil, a key input into many manufactured products, are higher than in the United States.

One industry in particular that has supposedly suffered from the 201 relief is the steel drum industry. Yet imports of steel drums have been, and remain, negligible, and 90% of the imports come from Canada. Canadian steel prices are the same as in the United States. Indeed, the economics of the industry are such that steel drum producers themselves have said that they generally sell their products within 200 miles of their plant. While spot prices for the cold-rolled steel used to manufacture steel drums have begun to return to historic levels, producers who have long-term contracts continue to pay artificially low prices for their steel. Given these facts, the reports of the looming death of the domestic steel drum industry have been greatly exaggerated, if not totally fabricated.

A number of small businesses opposing the President's 201 decision have made statements in hearings such as this that are directly contradicted by their other public statements. In many cases, they have blamed the 201 relief for problems with their businesses that began long before the President announced his decision. We would be happy to supply the Committee with several such examples.

The Exclusion Process

I would like to conclude with a few words about the exclusion process. As soon as he announced his 201 relief, President Bush also announced a procedure by which domestic steel consumers could seek to exclude products that are not being produced in the United States in sufficient quantities. So far, the government has considered more than 700 individual requests, *and has granted more than half of them*. As a result, approximately 25% of the imports that would otherwise have been subject to the 201 temporary tariffs have been excluded from them. When the exclusions are combined with the exemptions for imports from NAFTA and developing countries and other exemptions, the temporary 201 tariffs reach only about one-quarter of U.S. steel imports.

The exclusion process was both exhaustive and fair, perhaps to a fault. We know – we had to fill in many, many voluminous questionnaires required of U.S. producers who make products for which exclusions were requested. The scale of the exclusions granted provides still further proof that the process was more than fair.

In considering exclusion requests, though, the government was confronted with companies clearly trying to "game" the system, by submitting multiple requests for the same product, for example. Other companies requested exclusions that were incredibly broad, such as for "all rebar." Given these practices, we think that, if anything, the U.S. government was too lenient in granting exclusions.

The exclusion process has had a demonstrably negative impact on another category of small businesses – small steel producers. Several small producers, such as Steel of West Virginia, Kentucky Electric Steel, and Gautier, have watched as any remedy they would have received from the temporary 201 duties was stripped away by the exclusion process. In many cases, the U.S. government granted exclusions even though at least one U.S. producer made the product concerned in commercial quantities. As a consequence, these companies may have to decrease production and lay off workers. These workers certainly deserve the same consideration being shown the workers in steel consuming industries.

Conclusion

The President's 201 relief has had a positive effect on small businesses in the United States. The vast majority of steel-consuming companies have adapted to the changes in the market. These changes will enable the domestic steel industry to rationalize and consolidate, and will ensure that small businesses in the United States that depend upon steel will continue to have a reliable source of supply. The President's decision will also ensure that the thousands of small businesses supplying the domestic steel industry will have customers in the future.

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

July 23, 2002

The Honorable John Ashcroft
Attorney General
Department of Justice
950 Pennsylvania Avenue, NW
Washington, DC 20530

Dear Mr. Attorney General:

I am writing to bring to your attention my serious concerns about possible anticompetitive behavior in the U.S. steel market today as a result of the recent Section 201 steel tariffs. Many small manufacturers across the nation, including several of my constituents, have complained that domestic steel producers have dramatically increased steel prices in the last several months—in many cases, by more than 50 percent. I realize that some price increases were expected and anticipated as a result of the steel 201 tariff remedy, but the magnitude of price increases reported seems excessive and suggests that U.S. steel producers may be engaging in unlawful anticompetitive activity. I urge you to conduct an investigation to determine whether that is the case.

I understand that, during the Section 201 proceeding, the Justice Department was concerned that steel import restrictions might have an unacceptable anticompetitive effect on a domestic steel industry that is in the process of rationalizing and consolidating production, and that the Justice Department conducted an investigation to evaluate these concerns. It now appears that these concerns were well founded, and I urge the Justice Department to reopen this investigation. The Section 201 tariffs appear to have reduced domestic competition, as evidenced by the level of recent steel price increases.

Accordingly, I respectfully request that the Justice Department investigate the recent pricing behavior of the domestic steel industry. This is a matter of some urgency to the nation's small manufacturers whose businesses may not be able to survive much longer in light of these excessive domestic steel price increases.

Sincerely yours,

Donald A. Manzullo
Chairman

U. S. Department of Justice

Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

October 3, 2002

The Honorable Donald A. Manzullo
Chairman, Committee on Small Business
U.S. House of Representatives
Washington, DC 20530

Dear Mr. Chairman:

Thank you for your letter of July 23, 2002, raising concerns regarding potential anticompetitive behavior in the U.S. steel market and requesting that the Justice Department investigate. Although it would be inappropriate for the Department to make specific comments regarding its investigations, I can advise you that the Antitrust Division does monitor the steel industry for indicators of anticompetitive conduct, including conduct that has an impact on prices. Most recently, the Division began an investigation of ongoing merger and acquisition activity in the domestic steel industry. As part of this ongoing merger review process, the staff actively monitors pricing trends and their impact on customers.

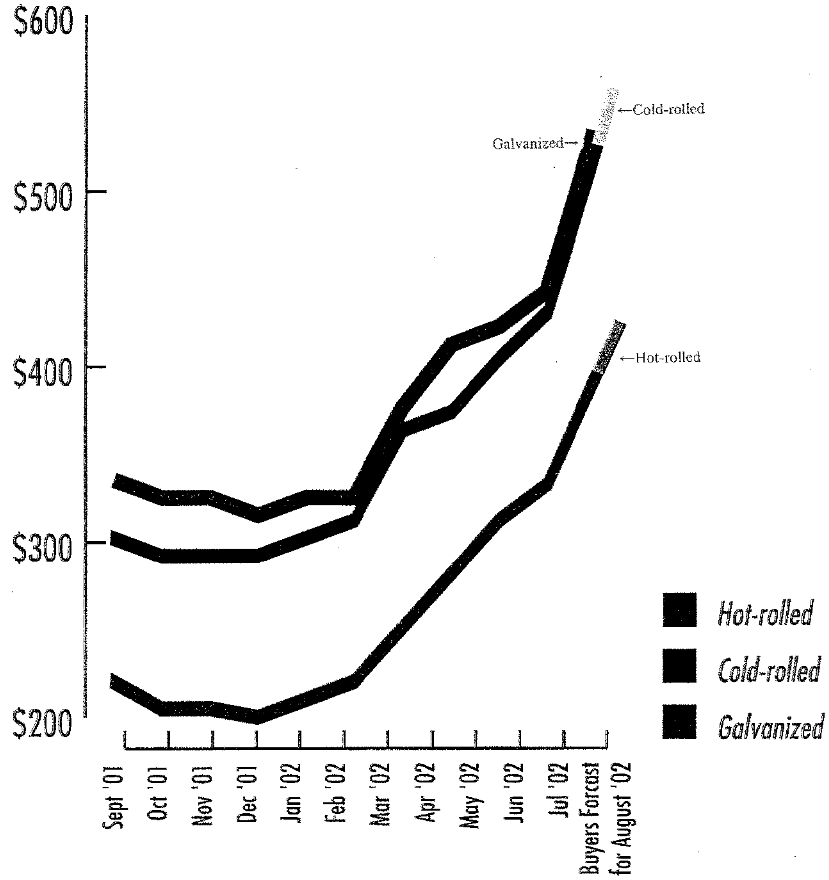
If any of the small manufacturers referenced in your letter, or others in the steel industry, have evidence of anticompetitive conduct related to the recent price increases, they should provide it to us. If the Antitrust Division's review reveals activity in violation of the antitrust laws, the Division will take appropriate enforcement action.

Thank you for writing to us on this important issue. If we may be of further assistance on this or any other matter, please do not hesitate to contact this office.

Sincerely,

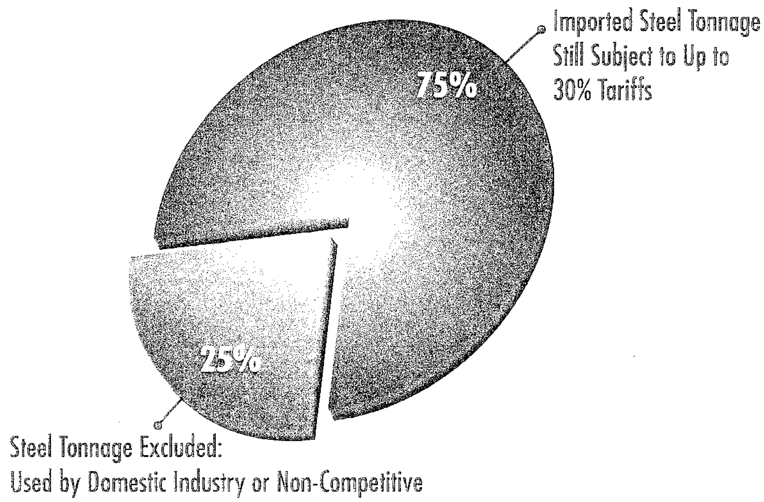
Daniel J. Bryant
Assistant Attorney General

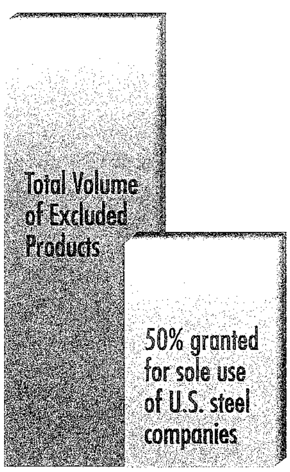
Purchasing Magazine Transaction Prices
Spot Market — $/ST



Source: obtained by subscription from Purchasing Magazine, MetalsQ2.xlw, worksheets SHRS (hot-rolled), SCRS (cold-rolled), and SGAS (galvanized). Jul '02 and Buyers' Forecast for Aug '02 obtained from Purchasing.com.

Steel Exclusions





Tariff Exclusions Provide No Relief Because...

- 1.5 million tons (50% of the total volume of excluded products) of slab and flat-rolled products used solely by U.S. steel companies were excluded.

- The other 1.5 million tons of steel excluded was for products with no objections from the domestic industry and/or for products not made in the U.S.

- Tonnage limits create shortages and a rush to purchase limited imports.

- Tariffs of up to 30% still cover 75% of steel products.

Source: Consuming Industries Trade Action Coalition, based on data received from the United States Trade Representative's office

E & E MANUFACTURING
800 Industrial Dr. • Plymouth Twp. • MI • 48170

Written Testimony of
Wes Smith
E&E Manufacturing Co, Inc.

THE UNINTENDED CONSEQUENCES OF INCREASED STEEL TARIFFS ON AMERICAN MANUFACTURERS

Submitted to the
House Committee on Small Business

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. 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 by 42.4 percent, which amounts to $350,000.00.

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 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 have 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 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 off-shore sources, such as China.

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 off-shore for this product.

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 products from off-shore sources, where 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.

As you can see, the price increases and supply constraint resulting from the Steel 201 tariffs have had a significant impact on our company. Unintended or not, the consequences of the increase steel tariffs have been significantly detrimental to us.

E and E Manufacturing

Ordered Gauge	Width +/- .010 unless noted	MATERIAL SPEC	ESTIMATED MONTHLY WT	100/wt PRICE a/o Jan 2002	Monthly Cost 1st half	100/wt PRICE a/o 7/1/2002	Monthly Cost 2nd half	Additional Monthly Cost During 2nd half of 2002	Percent Increase
.048/.052	2.4000	1050SS	5,000	$34.25	$1,712.50	$41.25	$2,062.50	$350.00	20.4%
.048/.052	3.3000	1050SS	6,000	$34.25	$2,055.00	$41.25	$2,475.00	$420.00	20.4%
.048/.052	4.7500	1050SS	7,500	$34.25	$2,568.75	$41.25	$3,093.75	$525.00	20.4%
.053/.057	4.1250	SAE J1392 050 XLF HR	5,000	$20.00	$1,000.00	$28.95	$1,447.50	$447.50	44.8%
.053/.061	1.7500	1010 CR	1,500	$20.00	$300.00	$28.95	$434.25	$134.25	44.8%
.054/.064	2.7000	1008 / 1010 CR	1,000	$20.00	$200.00	$28.95	$289.50	$89.50	44.8%
.054/.064	8.0000	1008/1010 p o akdq CR	4,000	$20.00	$800.00	$28.95	$1,158.00	$358.00	44.8%
.059/.066	4.7500	1008/1010 HD Galv GM6185 70G 70GU	23,000	$21.95	$5,048.50	$28.95	$6,658.50	$1,610.00	31.9%
.059/.070	5.5000	HRCQ ASTM A569 .05-.13 C, .30 Mn min	6,000	$16.95	$1,017.00	$26.95	$1,617.00	$600.00	59.0%
.059/.070	16.8500	HRCQ ASTM A569 .05-.13 C, .30 Mn min	50,000	$16.75	$8,375.00	$25.25	$12,625.00	$4,250.00	50.7%
.072/.084	6.2000	1008/1010 SAE	28,000	$15.95	$4,466.00	$22.95	$6,426.00	$1,960.00	43.9%
.074/.083	7.0000	? ASTM A622 type B HRDS ?	17,000	$17.95	$3,051.50	$22.95	$3,901.50	$850.00	27.9%
.074/.084	5.8000	ASTM A622 Type B HRDS	7,000	$17.95	$1,256.50	$22.95	$1,606.50	$350.00	27.9%
.074/.082	7.2500	sae J1392 050 xlf	4,000	$16.75	$670.00	$23.25	$930.00	$260.00	38.8%
.074/.082	35.0000	sae J1392 050 xlf	65,000	$16.75	$10,887.50	$23.25	$15,112.50	$4,225.00	38.8%
.074/.082	29.2000	sae J1392 050 xlf	32,000	$16.75	$5,360.00	$23.25	$7,440.00	$2,080.00	38.8%
.074/.082	17.0000	sae J1392 050 xlf	25,000	$16.75	$4,187.50	$23.25	$5,812.50	$1,625.00	38.8%
.074/.082	17.8800	sae J1392 050 xlf	32,000	$16.75	$5,360.00	$23.25	$7,440.00	$2,080.00	38.8%
.074/.082	10.0000	sae J1392 050 xlf	8,000	$16.75	$1,340.00	$23.25	$1,860.00	$520.00	38.8%
.078/.084	2.0600	1010 DQ	1,000	$15.75	$157.50	$24.45	$244.50	$87.00	55.2%
.078/.088	3.9380	HRCQ ASTM A569 .05-.13 C, .30 Mn min	1,300	$15.75	$204.75	$24.45	$317.85	$113.10	55.2%
.078/.086	20.9500	sae J1392 050 xlk	22,000	$16.75	$3,685.00	$23.45	$5,159.00	$1,474.00	40.0%
.079/.089	2.2800	1010	3,000	$15.75	$472.50	$24.45	$733.50	$261.00	55.2%
.079/.089	2.9100	1010	5,000	$15.75	$787.50	$24.45	$1,222.50	$435.00	55.2%
.079/.089	5.5000	MS66 HR DQAK RBMAX.65 C.04/07	32,000	$16.60	$5,312.00	$22.45	$7,184.00	$1,872.00	35.2%
.079/.086	11.7000	1008/1010 70g 70gu	40,000	$21.95	$8,780.00	$28.95	$11,580.00	$2,800.00	31.9%
.079/.089	14.1250	1008/1010 AKDQ .05 min C RB max 65	14,000	$15.75	$2,205.00	$24.45	$3,423.00	$1,218.00	55.2%
.079/.089	15.0000	1008/1010 AKDQ .05 min C RB 50-65	18,000	$15.75	$2,835.00	$24.45	$4,401.00	$1,566.00	55.2%
.079/.087	18.3000	SAE J1392 050 XLK	22,000	$16.74	$3,682.80	$22.95	$5,049.00	$1,366.20	37.1%

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Ordered Gauge	Width +/- .010 unless noted	MATERIAL SPEC	ESTIMATED MONTHLY WT	100/wt PRICE a/o Jan 2002	Monthly Cost 1st half	100/wt PRICE a/o 7/1/2002	Monthly Cost 2nd half	Additional Monthly Cost During 2nd half of 2002	Percent Increase
.079/.085	20.3750	050 XLF HSLA	25,000	$16.25	$4,062.50	$22.95	$5,737.50	$1,675.00	41.2%
.079/.088	21.1000	SAE J 1392 050 XLK	45,000	$20.75	$9,337.50	$25.25	$11,362.50	$2,025.00	21.7%
.082/.093	10.8750	050 X F HRPO	1,500	$16.50	$247.50	$24.45	$366.75	$119.25	48.2%
.087/.094	7.1250	1008/1010 AKDQ	14,000	$16.25	$2,275.00	$23.75	$3,325.00	$1,050.00	46.2%
.090/.110	8.8500	MS-264-035 SO	20,000	$17.95	$3,590.00	$22.95	$4,590.00	$1,000.00	27.9%
.091/.097	2.6200	1008/1010	7,000	$15.75	$1,102.50	$24.45	$1,711.50	$609.00	55.2%
.094/.102	11.5000	SAE J1392 050 XK HRS	250,000	$16.20	$40,500.00	$22.95	$57,375.00	$16,875.00	41.7%
.094/.102	10.6250	1008/1010 AKDQ	9,000	$15.30	$1,377.00	$23.95	$2,155.50	$778.50	56.5%
.094/.104	11.2500	1008/1010 AKDQ	18,000	$15.30	$2,754.00	$21.95	$3,951.00	$1,197.00	43.5%
.097/.101	18.2000	ASTM A1011 Grade CS ? .05-.13% C., .3-.6% Mn	4,000	$15.95	$638.00	$21.45	$858.00	$220.00	34.5%
.097/.110	18.6100	SAE 1010	4,000	$14.50	$580.00	$23.50	$940.00	$360.00	62.1%
.098/.110	1.7500	RCQ ASTM A569 .05-.13 C, .30 Mn min	2,000	$14.50	$290.00	$24.95	$499.00	$209.00	72.1%
.098/.108	2.1000	950 XF	2,000	$19.00	$380.00	$22.95	$459.00	$79.00	20.8%
.098/.108	4.7500	MS66 HR DQAK RBMAX.65 C.04/07	8,000	$15.95	$1,276.00	$21.45	$1,716.00	$440.00	34.5%
.098/.110	22.2500	SAE 1010 HRPO	1,500	$15.75	$236.25	$24.45	$366.75	$130.50	55.2%
.099/.110	13.8750	SAE J1392 050 XK HRS	260,000	$15.95	$41,470.00	$22.95	$59,670.00	$18,200.00	43.9%
.099/.106	31.0000	050 XLF HSLA	169,000	$16.50	$27,885.00	$22.95	$38,785.50	$10,900.50	39.1%
.101/.109	4.7600	945 XF	16,000	$14.75	$2,360.00	$23.95	$3,832.00	$1,472.00	62.4%
.101/.108	8.8750	1010	19,000	$14.50	$2,755.00	$23.50	$4,465.00	$1,710.00	62.1%
.101/.108	9.5600	1010	6,000	$14.50	$870.00	$23.50	$1,410.00	$540.00	62.1%
.102/.110	4.0000	1008 AKDQ	3,000	$16.25	$487.50	$21.95	$658.50	$171.00	35.1%
.1024/.1063	12.7500	SAE J403-1010 CR	7,000	$21.95	$1,536.50	$26.85	$1,879.50	$343.00	22.3%
.105/.110	3.8400	J1392 050 XLF	17,000	$16.95	$2,881.50	$22.95	$3,901.50	$1,020.00	35.4%
.106/.113	27.0000	050 XLF HSLA	325,000	$16.20	$52,650.00	$22.95	$74,587.50	$21,937.50	41.7%
.110/.118	8.2500	1008/1010 AKDQ	16,000	$16.25	$2,600.00	$23.75	$3,800.00	$1,200.00	46.2%
.110/.126	5.6250	SAE J1392 050 XLF	1,500	$14.75	$221.25	$24.50	$367.50	$146.25	66.1%
.110/.126	7.0000	SAE J1392 050 XLF	23,000	$14.75	$3,392.50	$24.50	$5,635.00	$2,242.50	66.1%
.110/.122	11.7500	SAE J1392 050 XLF	50,000	$16.49	$8,245.00	$22.95	$11,475.00	$3,230.00	39.2%
.110/.126	14.0000	SAE J1392 050 XLF	32,000	$16.49	$5,276.80	$22.95	$7,344.00	$2,067.20	39.2%

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.110/.118	16.1250	SAE J1392 050 XLK	45,000	$15.95	$7,177.50	$21.95	$9,877.50	$2,700.00	37.6%
.110/.118	17.8750	SAE J1392 050 XLK	64,000	$15.95	$10,208.00	$21.95	$14,048.00	$3,840.00	37.6%
Ordered Gauge	Width +/- .010 unless noted	MATERIAL SPEC	ESTIMATED MONTHLY WT	100/wt PRICE a/o Jan 2002	Monthly Cost 1st half	100/wt PRICE a/o 7/1/2002	Monthly Cost 2nd half	Additional Monthly Cost During 2nd half of 2002	Percent Increase
.113/.123	6.4000	J-1392-050 XLK 13 % max C	16,000	$16.95	$2,712.00	$22.95	$3,672.00	$960.00	35.4%
.114/.122	11.0000	SAE J1392 050-XLF	18,000	$16.10	$2,898.00	$22.85	$4,113.00	$1,215.00	41.9%
.114/.122	11.3700	SAE J1392 050-XLF	20,000	$16.10	$3,220.00	$22.85	$4,570.00	$1,350.00	41.9%
.114/.122	13.1500	SAE J1392 050-XLF	40,000	$16.10	$6,440.00	$22.85	$9,140.00	$2,700.00	41.9%
.114/.122	17.0000	SAE J1392 050-XLF HRS	30,000	$16.10	$4,830.00	$22.95	$6,885.00	$2,055.00	42.5%
.115/.125	8.2500	1008/1010 AKDQ .05 MIN C	55,000	$14.00	$7,700.00	$24.45	$13,447.50	$5,747.50	74.6%
.115/.125	8.7500	1008/1010 AKDQ .05 MIN C	50,000	$14.00	$7,000.00	$23.50	$11,750.00	$4,750.00	67.9%
.115/.125	8.8000	1008/1010 AKDQ .05 MIN C	130,000	$14.75	$19,175.00	$20.95	$27,235.00	$8,060.00	42.0%
.115/.125	8.8750	1008/1010 AKDQ .05 MIN C	80,000	$14.00	$11,200.00	$23.50	$18,800.00	$7,600.00	67.9%
.115/.125	12.1250	1008/1010 AKDQ .05 MIN C	260,000	$14.75	$38,350.00	$20.95	$54,470.00	$16,120.00	42.0%
.116/.122	5.5000	050 XLK HSLA	48,000	$16.10	$7,728.00	$22.95	$11,016.00	$3,288.00	42.5%
.118/.134	2.2200	1008/1010	50,000	$14.95	$7,475.00	$24.45	$12,225.00	$4,750.00	63.5%
.118/.126	4.3500	1008/1010 HRS	2,400	$15.75	$378.00	$24.45	$586.80	$208.80	55.2%
.118/.126	7.2500	1008/1010 akdq .02 min c	65,000	$15.25	$9,912.50	$21.95	$14,267.50	$4,355.00	43.9%
.118/.126	10.7500	1008/1010 akdq .05 min C RB 53-68	65,000	$14.00	$9,100.00	$23.50	$15,275.00	$6,175.00	67.9%
.118/.126	11.2120	1008/1010 AKDQ .05 min C rb 53-68	60,000	$14.75	$8,850.00	$20.95	$12,570.00	$3,720.00	42.0%
.118/.125	11.5000	1008/1010	150,000	$15.45	$23,175.00	$21.65	$32,475.00	$9,300.00	40.1%
.118/.128	3.6300	MS 6000 44A GAL akdq	20,000	$22.95	$4,590.00	$26.95	$5,790.00	$1,200.00	26.1%
.118/.126	5.3500	HSLA MS264-035 SO	1,300	$16.25	$211.25	$22.95	$298.35	$87.10	41.2%
.118/.126	6.7900	HSLA MS264-035 SO	1,500	$16.25	$243.75	$22.95	$344.25	$100.50	41.2%
.118/.134	6.4680	MS 264 035 sk	25,000	$14.75	$3,687.50	$23.95	$5,987.50	$2,300.00	62.4%
.118/.133	5.0000	HSLA MS264-035	2,500	$16.25	$406.25	$22.95	$573.75	$167.50	41.2%
.118/.133	11.7500	HSLA MS264-035	22,000	$16.25	$3,575.00	$22.95	$5,049.00	$1,474.00	41.2%
.118/.125	6.2500	050 XLF H S S 0.3 min MN CQ	30,000	$16.25	$4,875.00	$22.95	$6,885.00	$2,010.00	41.2%
.118/.125	6.6000	050 XLF HSS 0.3 min MN CQ	30,000	$16.25	$4,875.00	$22.95	$6,885.00	$2,010.00	41.2%
.120/.126	4.6800	1008/1010 HRS	1,300	$15.75	$204.75	$24.45	$317.85	$113.10	55.2%
.124/.134	3.0000	1008/1010 .05 MIN CARBON	3,000	$15.75	$472.50	$24.45	$733.50	$261.00	55.2%

E and E Manufacturing

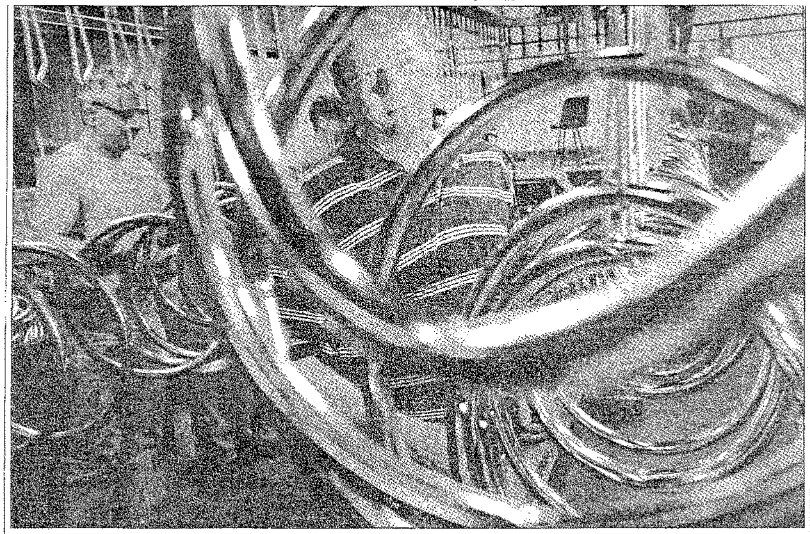
.126/.136	3.5820	1008/1010 (A1011)	11,000	$14.75	$1,622.50	$24.45	$2,689.50	$1,067.00	65.8%
.129/.139	2.0600	1010	2,000	$15.75	$315.00	$24.45	$489.00	$174.00	55.2%
.129/.139	4.0000	1010	2,000	$15.75	$315.00	$24.45	$489.00	$174.00	55.2%
Ordered Gauge	Width +/- .010 unless noted	MATERIAL SPEC	ESTIMATED MONTHLY WT	100/wt PRICE a/o Jan 2002	Monthly Cost 1st half	100/wt PRICE a/o 7/1/2002	Monthly Cost 2nd half	Additional Monthly Cost During 2nd half of 2002	Percent Increase
.132/.143	5.5000	SAE J1392-050-XLK	3,000	$16.95	$508.50	$22.95	$688.50	$180.00	35.4%
.135/.151	1.7500	1010	1,000	$15.75	$157.50	$24.45	$244.50	$87.00	55.2%
.136/.146	2.2000	1008/1010	1,000	$15.75	$157.50	$24.45	$244.50	$87.00	55.2%
.136/.149	2.6500	1008/1010 AKDQ .05 MIN C	95,000	$15.00	$14,250.00	$24.45	$23,227.50	$8,977.50	63.0%
.149/.165	13.3120	MS 264-035 SO	80,000	$16.45	$13,160.00	$22.95	$18,360.00	$5,200.00	39.5%
.154/.161	3.2500	SAE J1392-050-XLF	4,000	$16.25	$650.00	$22.95	$918.00	$268.00	41.2%
.154/.161	18.0000	HSLA 050 XLF	35,000	$16.25	$5,687.50	$22.95	$8,032.50	$2,345.00	41.2%
.156/.171	1.7500	1010	12,000	$15.75	$1,890.00	$24.45	$2,934.00	$1,044.00	55.2%
.156/.171	2.5000	1010	130,000	$15.25	$19,825.00	$24.45	$31,785.00	$11,960.00	60.3%
.157/.165	7.2500	SAE J1392 050 XK	45,000	$15.95	$7,177.50	$22.95	$10,327.50	$3,150.00	43.9%
.188/.204	4.0150	1008/1010 akdq .05 min C RB 55-70	3,000	$16.45	$493.50	$22.95	$688.50	$195.00	39.5%
.197/.207	2.1200	1010	3,500	$16.25	$568.75	$22.95	$803.25	$234.50	41.2%
.197/.207	2.5600	1008/1010 TO meet 36.2 Kn Min. Proof load per GM510-m	35,000	$16.25	$5,687.50	$21.95	$7,682.50	$1,995.00	35.1%
.197/.207	2.6700	1008/1010 TO meet 36.2 Kn Min. Proof load per GM510-m	5,000	$16.25	$812.50	$21.95	$1,097.50	$285.00	35.1%
.197/.207	2.7000	1008/1010 TO meet 36.2 Kn Min. Proof load per GM510-m	1,000	$16.25	$162.50	$21.95	$219.50	$57.00	35.1%
.197/.207	3.1000	1008/1010 TO meet 36.2 Kn Min. Proof load per GM510-m	300,000	$16.24	$48,720.00	$21.95	$65,850.00	$17,130.00	35.2%
.197/.209	11.5000	GM6218M mpa XLF HRPO	310,000	$17.00	$52,700.00	$22.65	$70,215.00	$17,515.00	33.2%
.200/.207	2.2000	1008/1010 TO meet 36.2 Kn Min. Proof load per GM510-m	15,000	$16.45	$2,467.50	$21.95	$3,292.50	$825.00	33.4%
.206/.218	2.7000	1010	5,000	$16.95	$847.50	$22.95	$1,147.50	$300.00	35.4%
.207/.217	6.5000	1008/1010 .05 MIN CARBON	28,000	$16.45	$4,606.00	$21.95	$6,146.00	$1,540.00	33.4%
.213/.224	3.6900	1010	12,000	$14.95	$1,794.00	$23.50	$2,820.00	$1,026.00	57.2%
.213/.224	4.1300	1010	38,000	$14.95	$5,681.00	$23.50	$8,930.00	$3,249.00	57.2%
.213/.224	4.2500	1010	23,000	$14.95	$3,438.50	$23.50	$5,405.00	$1,966.50	57.2%
.215/.233	2.2000	1008/1010	17,000	$15.45	$2,626.50	$22.25	$3,782.50	$1,156.00	44.0%
.215/.234	4.5000	1008/1010	25,000	$15.45	$3,862.50	$21.95	$5,487.50	$1,625.00	42.1%
.217/.231	2.5000	1010	11,000	$16.45	$1,809.50	$23.95	$2,634.50	$825.00	45.6%

E and E Manufacturing

.217/.227	5.0000	SAE 1010	1,000	$16.45	$164.50	$24.65	$246.50	$82.00	49.8%
.222/.232	2.1200	1008/1010 TO meet 19.9 Kn Min. Proof load per GM510-m	110,000	$17.25	$18,975.00	$23.65	$26,015.00	$7,040.00	37.1%
.228/.250	0.7870	1008/1010 EDGE ROLLED	4,000	$26.95	$1,078.00	$37.25	$1,490.00	$412.00	38.2%
.236/.252	1.9300	1008/1010 .05 MIN CARBON	2,000	$16.50	$330.00	$26.95	$539.00	$209.00	63.3%
Ordered Gauge	Width +/- .010 unless noted	MATERIAL SPEC	ESTIMATED MONTHLY WT	100/wt PRICE a/o Jan 2002	Monthly Cost 1st half	100/wt PRICE a/o 7/1/2002	Monthly Cost 2nd half	Additional Monthly Cost During 2nd half of 2002	Percent Increase
.236/.248	2.3600	1008/1010 .05 MIN CARBON	20,000	$15.95	$3,190.00	$22.25	$4,450.00	$1,260.00	39.5%
.236/.257	3.1300	1008/1010 .05 MIN CARBON	3,000	$20.00	$600.00	$22.25	$667.50	$67.50	11.3%
.236/.252	2.5000	050 XLF HSLA	125,000	$16.45	$20,562.50	$23.65	$29,562.50	$9,000.00	43.8%
.240/.260	2.7000	1010	11,000	$16.25	$1,787.50	$23.65	$2,601.50	$814.00	45.5%
.266/.284	2.6200	1008/1010 AKDQ .05 MIN C	150,000	$15.99	$23,985.00	$22.95	$34,425.00	$10,440.00	43.5%
.268/.282	2.5000	SAE 1008/1010	3,500	$19.00	$665.00	$22.95	$803.25	$138.25	20.8%
.276/.300	4.7500	1008/1010	20,000	$17.05	$3,410.00	$22.95	$4,590.00	$1,180.00	34.6%
.295/.310	2.5000	050 XK .13 Max C HSLA	50,000	$16.95	$8,475.00	$23.65	$11,825.00	$3,350.00	39.5%
.295/.310	2.7500	950 XK HSLA FB 16-7J	25,000	$16.94	$4,235.00	$23.65	$5,912.50	$1,677.50	39.6%
.295/.310	3.5000	950 XK HSLA FB 16-7J	16,000	$16.93	$2,708.80	$23.65	$3,784.00	$1,075.20	39.7%
.295/.311	3.0000	GM6218M Grade 340 HSLA	15,000	$16.95	$2,542.50	$23.65	$3,547.50	$1,005.00	39.5%
.354/.372	2.4500	MS-264-50 (slit TOL. +/- .020)	54,000	$19.95	$10,773.00	$26.95	$14,553.00	$3,780.00	35.1%
.354/.370	3.4500	GM6218M Grade 340 HSLA	15,000	$21.99	$3,298.50	$25.95	$3,892.50	$594.00	18.0%
			5,102,800.00 Monthly usage in pounds		$828,499.15 Jan 2002 Cost		$1,179,752.35 July 2002 Cost	$351,253.20 Added Cost 2nd half 2002	42.4% Avg. %
	Proprietary products that are price sensitive to foreign competition		1,586,000.00		$263,207.55		$375,726.50	$112,518.95	42.7%

Chicago Tribune

SECTION 3 BUSINESS TUESDAY SEPTEMBER 10, 2002



Tribune photos by John Kringas

National Metalwares chief Gary Hill inspects steel tubing the Aurora-based company makes for home and office products. Hill said some of his customers have turned to offshore suppliers as the tariffs imposed by the Bush administration raised his steel costs.

Steel tariffs taking a toll

U.S. businesses say they are unintended victims of Bush policy

By Melita Marie Garza
Tribune staff reporter

Three years ago, Chuck Kuhn and his business partner, Paul Kasperski, mortgaged their homes, secured a Small Business Administration loan and rehabbed an abandoned factory in Aurora with sweat equity.

The result is Great Lakes Tubular Products Inc., a firm that makes steel components for suppliers to General Motors Corp., Ford Motor Co. and Harley-Davidson Inc., among others.

Their business plan seemed promising. The firm grew from just Kuhn and Kasperski to 15 employees, with sales averaging about $325,000 a month, said Kuhn, Great Lakes president.

But never did Kuhn imagine that his small, steadily growing business would take a wallop from President Bush, whose decision to impose steel tariffs in March tremendously increased Great Lakes' costs.

"It's been a nightmare," said Kuhn, a lifelong Republican. "Our raw materials have gone up 40 percent to 50 percent. And supplies are tight, so we can't always get the quantities that we need, when we need them.

"We've had to send our workers home at least eight or nine days in the last four months because shipments have not ar-

Welded steel tubing manufactured by National Metalwares ends up being used in chairs, desks and lawn and garden equipment.

rived."

Although the firm hasn't laid off any workers due to the tariffs, it has canceled plans for starting a second shift. Kuhn is meeting this week with members from House Speaker Dennis Hastert's staff to discuss the situation.

As small and medium-size U.S. steel-consuming businesses protest the increasing toll Bush's steel tariffs are taking on their businesses, Commerce Department officials announced Monday that they plan to call for the elimination of all steel subsidies internationally.

The Commerce Department's plan, to be presented at a meeting of the Organization for Economic Cooperation and Development in Paris this week, is a prelude to negotiations that are to take place in December, a Commerce Department spokesman said.

However, the administration's proposal does not directly address the concerns of hundreds of users of domestic steel products—like Great Lakes—that believe their businesses are being sacrificed to save long-ailing domestic steel producers.

The tariffs—widely viewed as an election-year political move by Bush—range from 8 percent to 30 percent, with the highest tariff increase applying to flat steel products and hot and cold "bar" steel products. Slab steel also is subject to the 30 percent tariff, but only after countries ship 5.4 million tons.

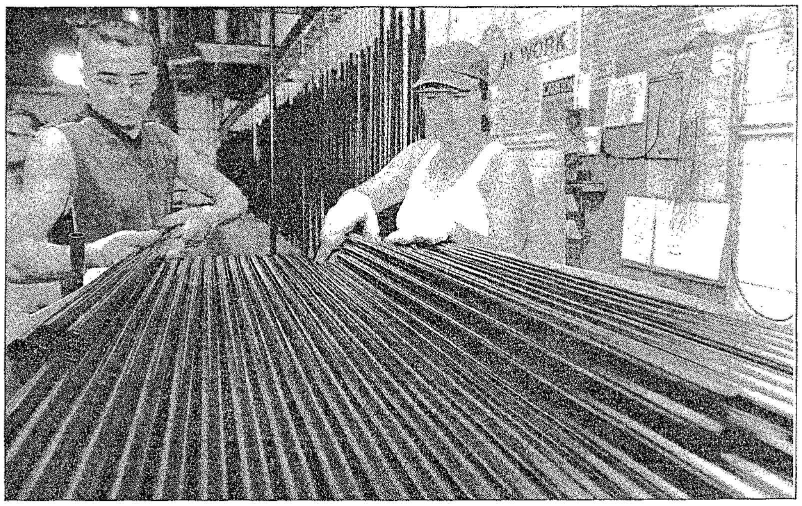
Encumbered by high-cost health and pension benefits for retirees, production inefficiencies and overcapacity, the U.S. steel industry has been struggling for years to remain competitive. The issues are not new; nearly every president has grappled with the problem for the past 40 years.

The tariffs have been severely criticized by other steel-producing nations, leading the administration to announce several rounds of exemptions for certain steel products. So far, roughly a quarter of the 13.1 million metric tons of imported steel covered by the tariff has been exempted.

Even before the Bush administration imposed the Section 201 steel tariffs, U.S. steel prices were rising, in part because the closure of LTV Corp. last December took a chunk of steel production off the market.

"I don't think the 201 tariffs will preserve the long-term viability of the steel industry," said Gary Hill, president and chief

PLEASE SEE **STEEL,** PAGE 4



Tribune photo by John Kringas

Workers at National Metalwares stack steel tubing. CEO Gary Hill complains that tariffs imposed on foreign steel are raising his costs and putting his business at an economic disadvantage.

STEEL: Tariffs added to aid U.S. steelmakers

CONTINUED FROM PAGE 1

executive of National Metalwares LP in Aurora. National Metalwares, a 56-year-old company, has 282 employees and makes steel tubing products.

"I think what is being overlooked in this equation is that a good deal of the customer base of the steel industry is being put at risk," said Hill, who has seen some clients move to cheaper offshore suppliers. "It's going to put all of us at a competitive disadvantage to our direct competition offshore."

The steel tariffs, which are to last three years, were an effort by the Bush administration to give the steel industry a reprieve until it could right itself financially.

As part of the deal, steel companies were required to file restructuring plans around Sept. 5 to demonstrate to the administration that they were using the three-year time period to rebuild their businesses.

Tariff war stories

At a meeting in Chicago last week at McCormick Place, a group of executives from steel-consuming industries besieged Grant Aldonas, the U.S. undersecretary for international trade, with stories about how the tariffs were damaging their businesses.

Richard Wilkey, president of Fisher Barton Inc., Watertown, Wis., said his business, which makes lawn mower blades, is struggling as a result of the tariffs.

"Frankly, the steel industry has been at the trough for 40 years," Wilkey said. "This is nothing more than a tax on the steel consumers."

Ed Farrer, purchasing manager for Olson International Ltd., a metal stamping firm in Lombard, said his firm is paying between 30 percent and 50 percent more for raw materials since March. "We have requested raw materials and goods shipped via premium freight in order to keep our customers supplied with product."

Fear of closures

Some executives said they thought a number of companies would go out of business before the three years of tariffs expire. Others placed hope in the administration's 18-month review of the tariffs, saying that they hoped they could influence the administration to end the tariffs sooner.

Aldonas pointed out that the steel producers also were a vital part of American manufacturing. Still, he told the steel-consuming businesses, "I am getting the message loud and clear."

THE WALL STREET JOURNAL.

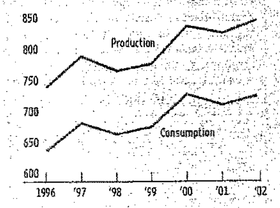
FRIDAY, SEPTEMBER 13, 2002 - VOL. CCXL NO. 53 - ★★★★ $1.00

Steel Blues

President Bush's efforts to help the steel industry haven't reduced global overcapacity.

Supply booms...

World-wide steel consumption and production, in millions of tons

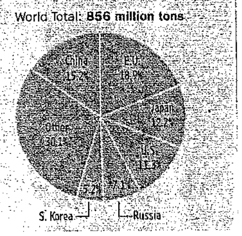


Source: Organization for Economic Cooperation and Development

On the global stage

Share of estimated steel production in 2002

World Total: **856 million tons**



Errant Shot?

So Far, Steel Tariffs Do Little Of What President Envisioned

Nations Cut Neither Subsidies Nor Capacity, and Industry In U.S. Remains Inefficient

Political Gains Seem Transient

A GLOBAL JOURNAL REPORT

By Neil King Jr. in Washington and Robert Guy Matthews in Paris

Nels Leutwiler has often voted Republican. Then this March President Bush imposed sweeping tariffs on steel imports. When the GOP hit him up last month for a $1,000 contribution, the chief of Parkview Metal Products Inc., an auto-parts maker, sent a note instead.

"I don't have any money to contribute because of the exorbitant cost of steel as a result of the Bush tariffs," he wrote. He says the tariffs added more than $200,000 in costs per month for his company, which is based in Chicago and has factories in Illinois, New Mexico, Texas and Mexico.

Mr. Bush's tariffs were key to his campaign to end the international steel wars. The administration hoped they would give U.S. steelmakers time to modernize, bolster Republican candidates in vote-rich patches of the heartland, and give the U.S. a club to use in continuing efforts to cut global steel overcapacity and curtail foreign steel subsidies.

Six months later, the gambit has backfired on nearly every front.

Steel prices are up more sharply than Bush advisers anticipated. Lured by the higher prices, mills around the world are producing more steel today than they were two years ago, worsening the global glut. Brazil produced 36% more steel in July than in July 2001. Production in Russia, the EU and Japan is up about 3% in a year.

U.S. trade partners are angrier than Mr. Bush's foreign policy advisers expected. And users of steel are more vociferous than his business advisers anticipated, prompting the administration to carve exceptions to the tariffs. These, in turn, have angered the steel-state legislators and union members whom Mr. Bush's political advisers were courting.

The Bush strategy's shortcomings were painfully evident yesterday in Paris, where officials of 39 steel-producing countries proved once again unable to find a way to do what all agree is needed: Close some mills somewhere. There simply is no consensus on what constitutes the "inefficient steel capacity" that they generally agree should be shuttered, said T.H. Chen, vice president of China Steel Corp. Each country thinks another nation should be the one to close a mill.

Steel Barriers

More than 30 years of presidential aid to the steel industry

- **1968** Johnson imposes "voluntary" restraints on imports of steel from Japan, Europe
- **1977** Carter approves minimum price for steel imports
- **1984** Reagan imposes "voluntary" restraints on major Asian and European steel producers
- **1989** Bush extends restraints, launches global effort to cut government subsidies
- **1994** Clinton allows voluntary restraints to lapse
- **2002** George W. Bush imposes three-year tariffs on wide range of steel imports

Criticism for Bush

Although most participants were too diplomatic to criticize the U.S., a few said what was clearly on many minds. "Mr. Bush has been hypocritical," said D. Singh, joint secretary for India's ministry of steel. "It is difficult to explain or understand how one argues for free markets and have safeguards at the same time."

Continued consultation remains important to the government officials, lawyers and steel-industry executives who gather periodically to ponder the steel glut. They agreed to meet again in December.

The tariffs Mr. Bush imposed range from 8% to 30% on a wide range of products and are supposed to phase out by March 2005. Bush aides call them a legitimate way to help a troubled domestic industry that's suffering because foreign governments subsidize their steelmakers. The administration also defends the tariffs as a way to buy U.S. steelmakers time to become more efficient and competitive—the same arguments that presidents since Lyndon Johnson have made when they moved to limit steel imports. The Bush aides say six months isn't long enough to judge the strategy's success.

Had Mr. Bush not imposed tariffs, the aides also argue, Congress might have passed even more stringent remedies. They say Mr. Bush had to prove himself a tough enforcer of trade laws to win support for goals such as broad free-trade pacts.

"We live in a world that isn't always about living on a free-trade basis," says Grant Aldonas, undersecretary for international trade at the Commerce Department. "It's about moving the process in the right direction. And I truly believe that this action has done that."

The administration has scored one victory since March, persuading Congress to give Mr. Bush authority—denied to Bill

Please Turn to Page A12, Column 5

Goals for Steel Tariffs Are Elusive

Continued From First Page

Clinton—to negotiate new trade agreements that Congress can only approve or reject, not amend. But even that triumph is clouded, Washington trade analysts say, because the steel tariffs have ignited foreign protectionism in agriculture and textiles that is endangering the larger free-trade ambitions. "With steel, Bush unleashed the hounds, and he may not be able to put them back," says Gary Hufbauer of the Institute of International Economics, a Washington think tank.

Meanwhile, the domestic political payoff from the tariffs isn't apparent. The price rises have drawn the wrath of U.S. manufacturers, who represent a bigger slice of the economy than steelmakers. Over three decades, federal efforts to protect steelmakers from imports have cost steel users $120 billion, Mr. Hufbauer calculated in a study he did last year.

Steel consumers used to be a disparate group with little might in Washington. But in the past six months, they've hired public-relations firms, staged protests and offered Mr. Bush tales of financial hardship. These led the administration to carve exceptions to the tariffs. As a result, about 25% of the 13 million tons of imports originally hit by the duties now are exempt. Executives of auto-industry suppliers, particularly hard hit by tariffs, plan to descend on Washington Oct. 1 to pressure the administration to end the tariffs.

The exclusions are depleting the goodwill Mr. Bush initially won from steelworkers. In March, the rank-and-file were clamoring to invite the president and cabinet members to visit mills, says United Steelworkers President Leo Gerard. Now, he says, the line he hears most from workers is, "Hey, I thought these guys were on our side." He adds, "Many of our members even talk of betrayal."

Price Action

The tariffs pushed U.S. prices higher, because the foreign steel on which tariffs were imposed stopped coming in, restricting supply. This shortfall—more than U.S. producers could quickly make up—caused U.S. prices to leap. The U.S. price for hot-rolled steel, a basic item that bears a 30% tariff, has jumped to around $350 a ton from $210 late last year. Because it usually isn't possible to substitute anything else for steel, at least not on short notice, the higher prices didn't damp demand.

The U.S tariffs left foreign producers with steel they had to sell elsewhere. Foreign countries, fearing this steel would flood into their markets, imposed import restrictions of their own. Those caused steel prices to rise for these countries' own producers, just as prices had risen for U.S. producers. These higher prices spurred more production, worsening the glut.

Meanwhile, the higher U.S. prices still haven't produced profits for most of the old-line American steel companies. Bethlehem Steel Corp. and National Steel Corp., for instance, are still losing money, and that limits their financial ability to modernize and get more efficient.

Giant U.S. Steel Corp. does expect to be profitable this year, however—for the first time since 1999. Its chief executive, Thomas Usher, likens the tariffs to a belated tourniquet: "For those who still have some blood left, this will help. For those who don't, it's another story."

In discussions with Commerce Secretary Donald Evans and other U.S. officials, steel chiefs say their strengthened companies now are making plans to consolidate and recruit new outside investors, moves they say would be impossible if not for the tariffs. But so far, the tariff wall appears to have been discouraging sorely needed consolidation, by giving the weakest players just enough maneuvering room so they can resist takeover pressure.

Meanwhile, the higher prices the tariffs have caused on many key steel products are coaxing more capacity on line. Shuttered mills such as Acme Metals Inc., Trico Steel Co. and Qualitech Steel SBQ LLC are slated to resume operations this year, and weak mills such as Bethlehem are more likely to hang on. The same thing is happening abroad.

In Paris this week, as in the past, delegates from outside the U.S. argued that high-cost producers should be expected to close. Many of these are in the U.S. But U.S. and a few other steelmaking countries counter that, when all factors are considered, the U.S. plants aren't the problem. They say some low-cost producers, including those in Russia and Eastern Europe, are low-cost only because they are permitted to pollute more heavily.

Some struggling national economies see steel as vital. Bulgaria's chief of industry policy, Andrey Breshkov, says steel jobs are critical to his country, where the unemployment rate is 20%. Bulgaria's three major steel companies export 80% of their production, mainly to the European Union.

Today in Paris, the steel-making countries are to grapple with how to end steel subsidies, a step all agree ought to be taken. The controversy involves defining the term. Subsidies can mean tax breaks or loans from a government. Or they could mean governments' past decisions to relieve steelmakers of costs—such as retiree health bills—they otherwise have to bear.

One thing that seems to unite foreign steelmakers is dismay about the Bush tariffs. It has far exceeded the muted response to Ronald Reagan's steel-protection measures in the early 1980s. One reason is that his "voluntary restraint agreements" were less onerous. Another is that national economies are more interconnected now. Nearly a dozen nations have filed actions against the U.S. at the World Trade Organization, arguing that the Bush decision violates WTO rules.

Bush aides say they were surprised at the uproar, but pronounce it more bark than bite. The tariffs have acted as a sort of catalyst by making countries realize that only by cutting production and ending subsidies will the world avoid similar upheaval, Mr. Aldonas contends.

Bush administration officials in Paris say much hard work remains to convince other countries that the U.S. tariffs and global capacity cuts aren't contradictory. They've expressed relief that there's still some consensus that world-wide capacity needs to shrink somehow.

Minimills and Legacy Costs

But not all of the U.S. steel industry's problems are made abroad. No more than about 30% of U.S. steel consumption last year was accounted for by imports. Another big problem for old-line companies is the rise of U.S. minimills, which make steel from melted scrap instead of from scratch. Minimills such as Nucor Corp. are far more competitive than the industry's former giants, not only because melting scrap is cheaper but also because minimills are generally nonunion.

The beleaguered industry isn't likely to see much consolidation until it resolves the issue of "legacy costs"—the $13 billion promised to retirees by union contracts in the past. Big steel companies resist taking over a weak player because doing so means absorbing its legacy costs, too. Many executives say consolidation won't proceed unless the U.S. assumes some of these costs, a move Congress has so far resisted.

So the industry appears doomed to the peak-and-valley cycle that has plagued it for decades. Prices are up now but could ease if production continues to increase. "What we could see is another pricing death-spiral that would bring more pain and suffering," says Peter Marcus, managing partner of World Steel Dynamics, a consulting firm.

The only long-term hope, he says, is for the industry to develop an ironclad early-warning system. Then, when demand begins to slip, mills around the world would scale back production in unison. "And the chance for that happening," he adds, "is about nil."

A2 MONDAY, SEPTEMBER 23, 2002 THE WALL STREET JOURNAL.

Steel Union Seeks Changes in Pacts

Firms Under Chapter 11 Are Asked for New Terms To Protect Jobs, Benefits

By Robert Guy Matthews

PITTSBURGH—Worried that its members will lose crucial retirement, health and pension benefits if steel companies are forced to liquidate, the United Steelworkers of America is calling on the most troubled steelmakers to reopen labor pacts and negotiate new terms, which it believes will help companies operate more profitably and protect workers' jobs.

The union's proposal, drafted following a meeting of union officers Friday, will be sent this week to companies operating under Chapter 11 bankruptcy-court protection, including **Bethlehem Steel Corp.**, **National Steel Corp.** and **Wheeling-Pittsburgh Corp.** While these steelmakers all have agreed they need new labor terms, the union's offer wouldn't significantly reduce their biggest burden—legacy costs, which include retiree health-care and pension obligations. Instead, the proposal calls for the companies to relinquish more power to the workers, saying rank-and-file employees can help the companies save money, which then can be used to pay the legacy costs. Moreover, it also calls for the companies to cut management staffs and the number of corporate lawyers, while preserving union members' wages and benefits.

"We are tired of waiting for management to get its act together. We are open to start a dialogue," said Leo Gerard, president of the USWA. The union feels it can't afford to let companies such as Bethlehem, National and Wheeling-Pittsburgh simply go out of business. Thousands of the union's current members and steel-company retirees were left jobless and lost benefits when LTV Corp., the fourth-largest steelmaker at the time, ceased operations almost a year ago.

Tracking the Economy, page C15

"We welcome the union's call to launch innovative new bargaining initiatives," said Bethlehem Steel Chairman Robert S. Miller. However, Mr. Miller noted that regardless of what the union proposes, the company still can't pay its $5 billion of retiree health and benefits costs and continue operating.

Ailing steelmakers are anxious to either dump or severely downscale the costs of maintaining retirees' health care and pensions.

The union is just as adamant about retaining those benefits. **U.S. Steel Corp.**, the country's largest steelmaker, said it would be unwilling to take on any of its ailing competitors' retiree costs, stymieing much-needed consolidation in the industry.

In its proposed bargaining agreement, the union says it has the know-how to get plants to operate more efficiently by letting workers operate with less influence and encumbrances from management.

The union also warned that it isn't going to "fix" these steelmakers only to have them sold, and wants management assurances that union members will be part of the companies' future.

This isn't the first time the union has offered to step in and help steelmakers. Nine months ago, the union offered what it called a "comprehensive program for an industry consolidation that would save jobs, protect retirees and preserve steelmaking." That proposal met with no meaningful response from the companies.

The USWA says it will take its ideas to the Bush administration next week in hopes of gaining some government muscle to help the union persuade the steel companies to implement its plans.

Many U.S. steelmakers have suffered losses for years because of increased foreign competition and the high cost of maintaining retiree benefits. President Bush in March imposed three-year tariffs on foreign-made steel to allow the domestic industry time to consolidate and become more efficient.

Sunday Register Star

SUNDAY, July 21, 2002 NEWSPAPER OF THE ROCK RIVER VALLEY rrstar.com Rockford, Illinois $1.50

STEEL SHAKEOUT: AN INDUSTRY UNDER ATTACK

“You're (President Bush) costing us American jobs. Americans are getting laid off because of what you are doing.”

— **Don Metz** of Metz Tool on the steel tariffs imposed four months ago by the Bush administration

Bush tariffs backfire on local steel users

■ Heavy toll in a short time

More than 34 U.S. steel companies have gone bankrupt since late 1997. In an effort to turn the tide, President Bush has imposed tariffs on steel imports, but experts question whether the industry can be saved.

■ Small manufacturers struggle

Bush's tariffs have added to the woes of small manufacturers in the Rockford area who already face threats from intense foreign competition and a lackluster economy.

END OF AN ERA

To small manufacturers, some of whom inherited machine shops from their fathers and grandfathers, the business represents a job and a heritage. Now, as dozens of companies go bankrupt, these people say their lifestyle is under attack.

MIXED BLESSING

Although the steel tariffs have taken a toll on tool-and-die manufacturers, other Rockford companies say they have seen few adverse effects.

Holly McQueen/Rockford Register Star

Crane operator Joe Perry moves a coil of steel onto a press at Rockford Toolcraft. The steel will be turned into parts for a Dell computer product.

IN WASHINGTON

Rep. Don Manzullo, chairman of the U.S. House Committee on Small Business, has scheduled hearings on the tariffs Tuesday. He hopes to persuade the administration to rescind the taxes.

INSIDE

- Heritage Mold Inc. is one example of dozens of area manufacturers trying to survive. **1F**
- How a tool-and-die firm made life better for Matthew Metz, a victim of Duchenne's muscular dystrophy. **1F**

rrstar.com

- Find out how the steel industry has deteriorated.
- Track bankruptcies of U.S. steel companies.
- What are tariffs and how do they affect manufacturers?
- Link to Tuesday's live broadcast of hearings at the U.S. House Committee on Small Business.

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SUNDAY
Business

SUNDAY, July 21, 2002 | Rockford Register Star • rrstar.com | F

STEEL SHAKEOUT: AN INDUSTRY UNDER ATTACK

“ They can't stay afloat for another 17 months before the tariffs end. ”

— **Rep. Don Manzullo**, who will hold hearings Tuesday on how the Bush administration's steel tariffs affect small manufacturers

Tariffs strangle area shops

Already-fragile manufacturing base damaged, threatened

By SASHA TALCOTT
Rockford Register Star

At twilight, a street lamp shines on a can of lukewarm iced tea outside Heritage Mold Inc., the only sign of life in the Rockford toolmaker's weedy parking lot.

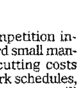
Two years ago, the shop on Forest View Road brimmed with activity as men worked 60 hours a week, second shifts and overtime. Now, with a 32-hour workweek and the number of employees reduced almost by half, Heritage Mold joins dozens of Rockford-area manufacturers trying to survive in a business climate where the rules never again will be the same.

For small manufacturers such as Heritage Mold, President Bush's tariffs on imported steel expose a painful contradiction: Designed to bail out America's steel mills and keep jobs at home, the tariffs also deal a harsh blow to many shops that rely on steel. Steel prices have soared 20 percent to 40 percent in the four months since the tariffs took effect, and Rockford manufacturers report shortages in supply as well. Steel that once took weeks to order now takes months — if manufacturers can get it at all.

If the high cost of steel forces businesses to raise prices, manufacturers fear that their customers will take their work elsewhere — to companies in China, Malaysia or Japan, which can produce many of the same products at a fraction of the cost.

As global competition intensifies, Rockford small manufacturers are cutting costs and reducing work schedules, hoping that the economy will rebound.

So far, layoffs have been light, but manufacturers said that will change if orders remain stagnant for too long.



Lloyd Falconer

"The shakeout is already going on," said Lloyd Falconer, secretary-treasurer of Seward Screw Products Inc. in Seward. "It's really coming to a head now. The competition is fierce. You either grow or you die. No one can stand still, or a train will hit you."

Local manufacturers also say they are fighting to preserve something far more fundamental than gears, machinery and profits: They refuse to give up their optimistic, utilitarian American way of life.

Don Metz

"The saddest truth is, off the backs of your grandfather and my grandfather is how we built this country," said Don Metz, president of Metz Tool & Die in Rockford.

"Now that economy is not being passed down to future generations. I'm still optimistic about where we're going to go, but the bottom line is that the steel tariff does not help."

Rep. Don Manzullo, R-Egan, will hold hearings Tuesday on how the tariffs affect small manufacturers.

Manzullo, chairman of the House Committee on Small Business, already has brought two Rockford tool-and-die manufacturers to Washington to speak to Congress and lobby the Bush administration to rescind the tariffs. The congressman has received a three-inch stack of letters from people nationwide protesting the tariffs.

He campaigned successfully to get tool steel, used by many Rockford shops, exempted from the tariffs.

"These things have hurt the very fragile manufacturing base we have in Rockford," Manzullo said. "All of the wrong stars are lined up against them. These people can't stay afloat for another 17 months before the tariffs end."

Saving steel

When President Bush issued an executive order in March to tax foreign steel, he spoke mostly of hope, compassion and the need to save American jobs.

In the past four years, more than 30 American steel companies have declared bankruptcy, throwing more than 45,000 people out of work. The bankruptcy of Northwestern Steel and Wire Co. 18 months ago sent shockwaves through the community of Sterling and left more than 1,500 people jobless.

Steel companies blamed the decline of the industry on a glut of cheap foreign steel that flooded the marketplace. The industry appealed to Washington for protection, and it received relief in the form of wide-ranging taxes on steel imports.

The tariffs, which range from 8 percent to 30 percent, last for three years — enough time, steel mills argue, for them to consolidate business and adapt to global competition.

But the protectionism evoked an outcry from American steel-using industries and foreign countries, which contend the tariffs violate the rules of international trade.

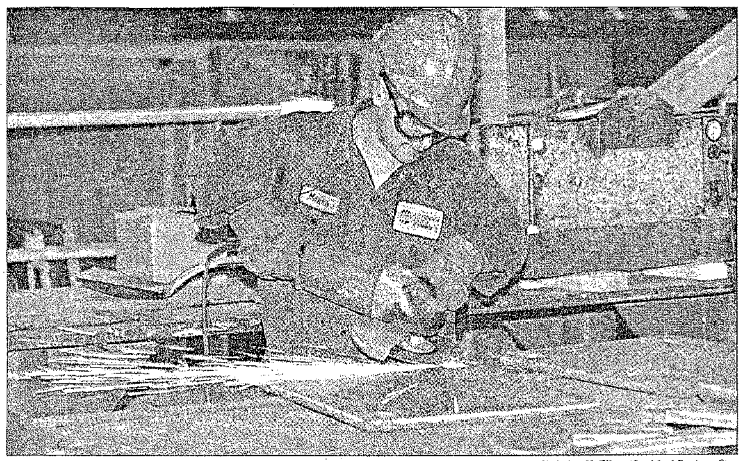
In Rockford and across the country, steel users argued that bailing out large steel mills placed small businesses in a stranglehold and forced them to absorb unfair cost increases.

"I wish President Bush were sitting here with you and me right now so he could see the problem," said Don Metz of Metz Tool. He would tell Bush: "You're costing us American jobs. Americans are getting laid off because of what you're doing."

Aaron Schavey, policy analyst at the Heritage Foundation, a conservative Washington, D.C., think tank, estimated that for every job saved in the steel industry, eight will be lost in industries that use steel.

"Users of steel have been hammered by it," Schavey said. "You're hurting far more people than you're helping."

But some Rockford manufacturers said they are willing to



Christina N. Elbers/Rockford Register Star

Nicholas Dominguez, a parts-finisher at Liebovich Brothers Steel & Aluminum Co. in Rockford, cleans parts after they were flame-cut. For such small manufacturers, President Bush's tariffs on imported steel have dealt a harsh blow. Many area shops are cutting costs and reducing work schedules, hoping that the economy will rebound.

pay higher prices if it prevents America from becoming dependent on foreign steel.

Jerry Busse

Jerry Busse, president of Rockford Toolcraft, said national defense should take priority over his own business interests. In the past four months, Busse said, the domestic steel he buys has increased from 17 cents a pound to 20 cents — a figure that adds up quickly when Rockford Toolcraft uses 175,000 pounds of steel a day.

> "A lot of these Rockford shops are hanging on by a thread. It's very slow. They're dead in the water."
>
> — **Jack Wilcox,** an engineering manager for Heritage Mold Inc. of Rockford

Still, he said steel is cheaper than when he started the die-and-stamping business 25 years ago, costing "less than you'd pay for rocks." The Rockford company employs about 140 people and has made parts for DaimlerChrysler and Ingersoll-Rand Co.

"Everyone is looking at it in a very selfish manner," Busse said. "It's unpatriotic. All of these crybabies should pay more for steel if it's going to help save our industry. I'm all for that."

Impact on workers

For workers, too, the string of manufacturing woes creates an environment of constant uncertainty: They see friends and colleagues laid off from jobs, and they know they could be next.

Marcelino Fajardo, production manager at Cherokee Industries in Hampshire, works nine hours a day, and soon might scale back to eight.

He notices the difference in his paycheck, which now is far smaller than when he put in back-to-back shifts of up to 20 hours a day.

Sales at the 20-employee company sank from $3 million to $2 million last year, and the company reduced its work force by one-third.

"Everyone is worried about being laid off," said Fajardo, who emigrated from Mexico in 1976. "We just don't have enough work for everyone. I can see that the orders are not there."

Two months ago, A-American Machine owner Mark Keller called his workers together for a painful announcement: The company's profits had slumped and orders were barely trickling in. He would lay off four of his 20 employees, and trim the workweek to 32 hours until things got going again.

Keller, a straightforward man who fondly refers to employees as "my guys," said the decision was painful but necessary.

Mark Keller

"It was very emotional," he said. "It affected each and every one of us. It hurts."

For those who remain, the reduced workweek means some small sacrifices, but employees still worry they could be next in the unemployment line.

Shawn Van Barriger, a mill operator at A-American, said smaller paychecks mean he will give up his hobby of carving poker tables out of wood, cut back on eating out and eliminate vacations in Wisconsin.

Machinist Warren Weerda said he likely will not be able to attend another NASCAR race until business picks up again.

Sales at A-American dipped to $1 million this year from $1.4 million last year, Keller said. The company's steel costs have jumped 20 percent since Bush imposed the tariffs. After manufacturing orders sagged more than 70 percent, Keller said A-American will shift its focus to other enterprises.

The company now maintains newspaper printing presses. It also bought a line of hand tools and a food-packaging machine.

Instead of manufacturing parts to order, A-American will specialize in repairing and replacing parts for customers.

"We'll survive," Keller said. "We're just going to have to adapt. We'll play by different rules and make money where it's available. If it means we'll have to change fields or restructure, we'll do it."

As sales of foreign steel slowed in response to higher prices, local small manufacturers report that American steel has become more difficult to obtain.

Randy Gay of Action Tool said it takes up to two months to order steel. Before March, it took five weeks. At the same time, he said, the price he pays for that steel increased between 40 percent and 50 percent.

Tariffs strangle, threaten area manufacturers

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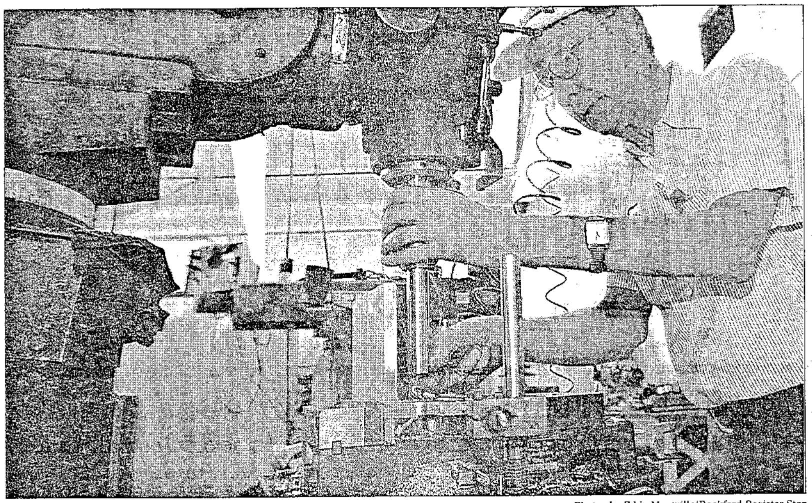


Photos by Eddy Montville/Rockford Register Star

Machinist Warren Weerda does milling work at A-American Machine and Assembly in Rockford. Two months ago, A-American owner Mark Keller laid off four of 20 employees and trimmed the workweek to 32 hours because of slumping orders and profits.

When a customer recently placed an order, Action Tool had to scour local steel distributors to meet it. Gay said the company ended up buying part of the steel from one distributor and part from another — and that Action Tool was lucky to get the steel at all.

"This could put us right out of the ball game," Gay said. "It could snowball into something the president never expected."

Steel artists

Though struggling, the tool-and-die industry still employs some of the region's most highly skilled and highest-paid blue-collar workers.

Most tool-and-die makers undergo years of education and training, including formal apprenticeship programs with manufacturers. The U.S. Bureau of Labor Statistics estimates that Rockford tool-and-die workers earn nearly $21 an hour, which does not include overtime pay that workers reaped when the economy was strong.

The Rock River Valley is home to about 70 tool-and-die shops and hundreds of other companies that use steel. Beyond making parts, many in the tool-and-die industry view themselves as creators and innovators as much as manufacturers.

In the office of his Rockford shop, Don Metz has covered a countertop with AstroTurf. On it he placed miniature statues of famous American baseball players made by Metz Tool for Major League Baseball more than a decade ago.

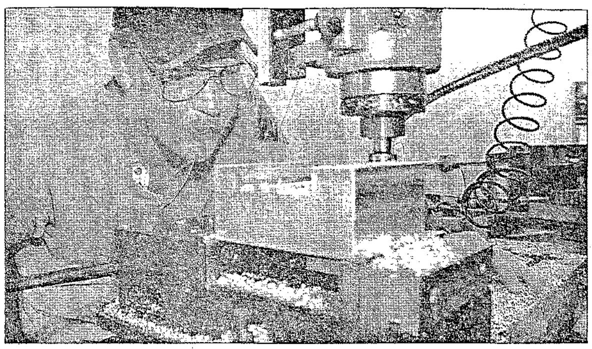
He said Metz Tool fashioned its identity around pioneering new products, hoping to ward off foreign competition. The 30-person company designs specialty molds, faucet heads and other custom metal parts.

"We are artists who sculpt in steel," Metz told the U.S. House Committee on Small Business when he testified in April.

"Everything that is mass-produced, from the plastic rattle you shake as a baby to the hardware that decorates your casket when you are laid to rest, comes from our industry."

Today, many in the industry link tool-and-die manufacturing with down-home American values in the face of a market impossibly stacked against them.

In Seward, a tiny town of 300 people in western Winnebago County, the post office shares space with the general store, across the street from a kindergarten classroom. Seward Screw is next door to a meatpacking plant and a soybean field, a mile or so down the road from a barn painted with an American flag.



Machinist Shawn Van Barriger works at A-American Machine and Assembly in Rockford. Sales dipped to $1 million this year from $1.4 million last year. Meanwhile, the company's steel costs have jumped 20 percent since President Bush imposed the tariffs. The company maintains newspaper printing presses, including those owned by the Rockford Register Star and the Chicago Sun-Times.

Seward Screw is by far the town's largest employer, drawing 125 workers from all over the region.

Business remains strong — thanks, in part, to Seward Screw's largest customer, Harley-Davidson.

> "Everything that is mass-produced, from the plastic rattle you shake as a baby to the hardware that decorates your casket when you are laid to rest, comes from our industry."
>
> — **Tool-and-die maker Don Metz** to the U.S. House Committee on Small Business

parts for Harley's Milwaukee plant.

Still, Seward Screw's Falconer said planning for orders has become far more difficult since Bush imposed the tariffs. It now takes up to five months to order steel, where it once took six weeks.

The company also makes gear blanks and electrical fittings, but not screws.

"We're a can-do, nuts-and-bolts kind of town," Falconer said. "That's just who we are. The heart and soul of the Rockford area is the heart and soul of America. We have a lot of common sense and a real lot of practical knowledge of how to get things done."

Threats from abroad

Although Bush's steel tariffs have pummeled local manufacturers, the tariffs are just one in a series of problems they face.

Intense competition from foreign companies and high labor costs put pressure on local shops, and manufacturers saw orders slump when the dot-com bubble burst two years ago.

Many Rockford shops tell the same tale: Once-loyal customers are flocking to Chinese manufacturers, which are freed from the demands of unions or environmental controls.

Customers often force small manufacturers to make the painful decision to either accept impossibly low prices or forfeit the job altogether.

"We're expected to compete against countries where workers earn $20 a week and live in cardboard boxes," said A-American's Keller. "We're not going to compete. I'm not going to ask my guys to live in a cardboard box."

At Heritage Mold, foreman Tim Barkdoll said that every day he sees the empty benches of five men who no longer work in the shop.

Buckling under the company's reduced work schedule, two men left for other jobs. One died, and two were laid off near Christmas. None was replaced.

"Morale has been bad," said Todd Friberg, a tool maker who has worked at Heritage Mold for seven years. "It's just depressing. The shop is quiet. The machines aren't running. We're just scraping by."

Heritage relies mostly on tool steel, which is exempt from the steel tariffs. The exemption helped, owner Bennett Franzen said, but not nearly as much as if Heritage could match the low prices of its global competitors.

In the past two years, sales have shriveled to $700,000 from $2 million, a "devastating" decline that Franzen blames on global competition, a sagging economy and Sept. 11 attacks.

Franzen, who scaled back to a 32-hour workweek, said he sees small signs that orders are picking up.

But foreman Barkdoll said that the slight increase has yet to register in the shop. With the reduced schedule, he said, he no longer can afford to buy a used car for his 16-year-old daughter.

"This is the first time I've not been able to say, 'Hey, it's going to get better,' " Barkdoll said. "It hasn't happened. We're still down."

For now, most Rockford tool and die manufacturers are playing a waiting game.

"A lot of these Rockford shops are hanging on by a thread," said Jack Wilcox, an engineering manager for Heritage Mold. "It's very slow. They're dead in the water."

Bush administration's tariffs a compromise

Steel tariffs imposed by President Bush four months ago cover a wide range of materials and countries.


President Bush

Critics have accused Bush of putting the tariffs in place to win votes in steel-producing states such as Pennsylvania; but in many ways, the tariffs represent a compromise.

For example, the administration exempted from the taxes a variety of the metal called tool steel, which about one-third of Rockford small manufacturers use.

The steel industry had lobbied the government to impose 40 percent tariffs and to assume responsibility for the health and pension funds of thousands of aging steelworkers nationwide. Those legacy costs total about $12 billion, steel companies estimate.

The administration refused to do that, saying it would set a bad precedent for other industries.

Robert Crandall, senior fellow of economic studies at the Brookings Institution, said no amount of tariffs or bailouts could save large old-line steel mills.

Worrying about their demise is "like worrying about the disappearance of the manual typewriter industry," he said.

While old-line steel mills stagger, a new type of American mill is taking market share away from the industry leaders. Called "mini-mills," these leaner competitors make steel from scrap metal and have significantly lower labor costs.

Steel-tariff opponents argue that mini-mills are the real threat to the old-line facilities and that government should let market forces wipe out inefficient steel companies.

"It makes (Bush) look like a fool in the eyes of the world," said Crandall, who has studied the issue on behalf of steel-using companies. "It has subjected him to such enormous ridicule. Really, it'd be much cheaper to pay off all the people in the steel industry who have lost their jobs and ship them all off to Florida."

In Rockford, many small manufacturers said they likely would support bailing out old-line steel mills if the tariffs were guaranteed to work.

But Lloyd Falconer, secretary-treasurer of Seward Screw Products Inc. in Seward, said America's steel mills might be a lost cause.

"They're operating in the 19th century," he said.

"They never made it to the 20th. They're going to walk to their own drummer and the customer be damned."

— *Sasha Talcott*

Local steel shops feel the strain

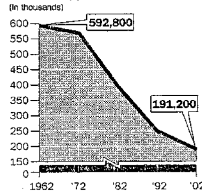
They're some of the highest-paid and most skilled blue-collar workers in America. So why are local manufacturers fighting for their lives?

- **Foreign competition:** Many companies in developing countries pay workers less and are not subject to environmental regulations. They can make cheaper products and undercut U.S. manufacturers.
- **Recession:** Manufacturers are one of the best barometers of economic health. They generally are the first to experience slowing orders and also the first to see the economy pick up. Some say they see no end to the economic slump.
- **Steel tariffs:** In March, President Bush imposed taxes of 8 percent to 30 percent on imported steel. Shielded from foreign competition, domestic steel companies raised their prices as well. Overall, the price of steel has increased 20 percent to 40 percent since the tariffs were imposed, according to the Heritage Foundation in Washington.
- **Strong U.S. dollar:** Weak foreign currencies and a strong U.S. dollar make it easier for U.S. companies to import products but more difficult for manufacturers to sell their products abroad.

Steel companies blame imports for job losses, but critics doubtful

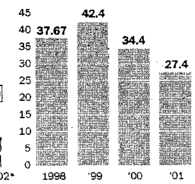
Steel companies and unions say a surge of unfairly priced imports is killing U.S. steel mill jobs. But imports fell in recent years and the American industry simply cannot compete with modern, cutting-edge plants in Europe, Asia and South America, critics say.

U.S. steel blast furnace, pipe and tube industry jobs
(In thousands)

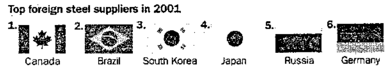


*Premilinary figure.

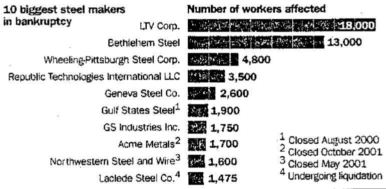
U.S. steel imports
(In millions of metric tons)



Top foreign steel suppliers in 2001



10 biggest steel makers in bankruptcy — **Number of workers affected**



[1] Closed August 2000
[2] Closed October 2001
[3] Closed May 2001
[4] Undergoing liquidation

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- **View pictures** of Rockford's steel industry.
- **By the turn** of the century, Andrew Carnegie was the world's richest man, and he made much of his money through steel. Find out how the steel industry has deteriorated.
- **Track the bankruptcies** of American steel companies by region.
- **What are the steel tariffs** and how do they affect Rockford manufacturers?
- **Learn quick facts** about the steel crisis.
- **Find out** which steel products are affected by the tariffs.
- **Read a Rockford** manufacturer's testimony in Congress.
- **Link to Tuesday's live broadcast** of U.S. House Committee on Small Business hearings.

Some shops not hurt by steel tariffs — yet

By SASHA TALCOTT
Rockford Register Star

As rising steel costs make it tough for many small Rockford manufacturers to stay afloat, other companies say tariffs that have forced steel prices upward have had mixed effects.

Liebovich Bros. Inc. is the largest local player in Rockford's steel industry, shipping 700 tons of steel daily. When President Bush announced the tariffs four months ago, the value of the company's inventory of 20,000 tons of steel increased immediately.

Although profits are down and the company is not hiring, Liebovich recently expanded its Rockford distribution plant to anticipate an economic upswing.

At Liebovich's 500,000-square-foot distribution center on a muggy June afternoon, workers wearing blue hard hats with U.S. flag decals maneuvered overhead cranes to hoist bars of steel, cut them to order and sort them by an intricate color-coding system.

The company buys steel from mills and cuts it to the specifications of heavy-metal users, saving their customers the cost and hassle of cutting metal themselves.

Larry Liebovich, executive vice president, said that the company has had trouble maintaining a steady supply as steel mills have failed. So, he said, the tariffs will bring much-needed stability to the industry.

"Our prices were way too low," Liebovich said. "I knew the problems were coming a long time ago. It was just a matter of which recession was going to get them."

Although the value of Liebovich's inventory increased, he worries that the tariffs will not be enough to bail out besieged steel mills.

Conversely, he said, he's concerned that his customers may be squeezed out of business by overseas competition if the price of steel rises too high.

To anticipate these scenarios, Liebovich will sell its inventory as quickly as possible. It also is preparing to pick up the slack from any competitors who go bankrupt.

Liebovich recently expanded its operation by 125,000 square feet, linking its train tracks with its storage center.

In the midst of that expansion, however, a red sign in Liebovich's entryway cautions visitors, "Employee applications not being taken at this time."

> **"** It's very vulnerable, but we don't lose money. We don't print red ink around here. **"**
>
> — **Larry Liebovich** about how his company has been affected by steel tariffs

Although the company's fortunes generally parallel the ups and downs of the steel mills, Liebovich said, it has managed to stay above water even as other mills have gone under.

"It's very vulnerable, but we don't lose money," he said. "We don't print red ink around here."

A-1 Wire, which makes stainless steel and nickel alloy wire, is another Rockford company that has experienced few negative effects from the steel tariffs.

In the past four months, A-1 Wire saw overall cost of stainless steel jump by about $1 million, but the company passed much of that price increase on to customers, said controller Tony Coldagelli.

The 75-person company uses about 10 million pounds of steel a year, much of it imported.

After Bush imposed the steel tariffs, A-1 stopped importing steel from Korea and Taiwan but still buys steel from India, which is not covered by the tariffs.

Still, Coldagelli expects the taxes to take a toll in the long run.

Like Liebovich, Coldagelli said he fears A-1 could suffer if manufacturers and tool-and-die makers that buy A-1 Wire's products struggle.

"It's a wash for us," he said. "Business is better this year, but our customers will have more trouble competing in the future."

Christina N. Elbers/Rockford Register Star

Tom Ditzler, a crane material handler at Liebovich Bros. Inc. in Rockford, unhooks the crane from a large piece of steel while preparing it for transport. Liebovich is the largest local player in Rockford's steel industry, shipping 700 tons of steel daily.

Rockford tool and die shop supported family, disabled son in living full lives

By SASHA TALCOTT
Rockford Register Star

At age 16, Matthew Metz's heart stopped beating.

Years earlier, he lost his ability to reach up and give his mother a hug or to jump off the couch and grab a Coke from the fridge.

He could not get in and out of bed on his own. Unruly shoelaces eluded his faltering fingers. He would never catch a foul ball at the White Sox games he loved to attend.

Diagnosed with Duchenne's muscular dystrophy at 5, using a wheelchair by 8, dead by 16, Matthew Metz lived a life few would envy.

"We had one daughter who was a Division I basketball player and another child, just as big of a sports fan, who was in a wheelchair," said Matt's father, Don Metz, who is president of Metz Tool & Die in Rockford. "Matt never got to go from first to third on a base hit or shoot a jump shot. Those things were taken from him."

But for 16 years, the Metz family tool-and-die business helped make it just a little easier for Matt to deal with his day-to-day struggles.

When Matt's shoulders cramped his child-sized wheelchair, his grandfather fashioned a "big man" chair to hold him more comfortably.

On trips to Disneyland, White Sox games or weekend basketball tournaments, the family drove a van outfitted with a special seat and a wheelchair lift. Their home had an elevator so Matt could venture outside by himself.

"I'd never wish muscular dystrophy on anyone, but it changes you, it teaches you, it humbles you in a way you never imagined," Metz said. "You begin to appreciate the business. You appreciate manufacturing. I'm proud of the things we build here."

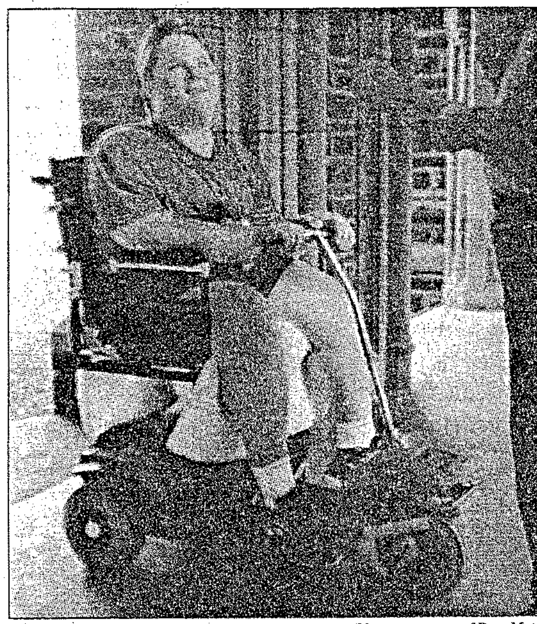

Photo courtesy of Don Metz

Matthew Metz visited Duke University as a 12-year-old. His wheelchair was designed by grandfather Jim Metz of Metz Tool & Die in Rockford. It included safety features and extra room.

In April, Metz told the story of his son to the U.S. House Committee on Small Business while testifying about the struggles of Rockford's small manufacturers. He said his use of the tool-and-die business to help Matt demonstrates the need to protect small manufacturers and preserve an American way of life.

Metz told Congress that when he agonized over how to make Matt's bed more comfortable, his son turned to him and said, "Don't worry about it, Dad. Grandpa (Jim Metz) is a mold maker. They can make anything."

The family went on long road trips to watch Matt's sister play in basketball tournaments. They wheeled a folding hospital bed with them to keep Matt comfortable in hotels.

"We went all over the Midwest, and we'd take the bed with us," said Matt's sister, Jennifer, who is pursuing a doctoral degree in sports psychology at the University of Illinois. "After you've gone into the Chicago Hyatt with a hospital bed, you learn not to get embarrassed easily."

Although Matt died eight years ago, Jennifer and her father said it forever changed the way they view the family business.

"It made all of our lives easier," Jennifer said.

"There was a definite faith in 'you could take it to the shop and dad or grandpa could figure it out.' If my dad or grandpa couldn't figure it out, we always knew someone who could."

PAGE A16 / *THURSDAY, AUGUST 15, 2002* — The Washington Times

Commentary

PETE DU PONT

Paying a price for steel tariffs

Steel prices have risen by 30 percent to 50 percent since President Bush announced the imposition of special tariffs on steel imports in March. Steel consumers — firms that process steel for specific applications and manufacturers who use steel to make machines, equipment and consumer products — report supply shortages, lost contracts and production cutbacks.

Mr. Bush was relentlessly lobbied by domestic steelmakers and the United Steelworkers of America to impose the tariffs — which range from 8 percent to 30 percent on various forms of steel — in order to shield domestic industry from foreign competition and save American jobs.

But as demonstrated in an aptly named hearing before the House Small Business Committee on the "Unintended Consequences of Increased Steel Tariffs on American Manufacturers," the tariffs are making U.S. manufacturers less competitive in world markets and threaten the loss of manufacturing jobs — including those of members of the United Steelworkers of America.

While employment in the steel mills has been shrinking for decades, between 1995 and 2001 steel-consuming employers added 1.2 million jobs. Workers in steel-consuming industries outnumber workers employed in the steel industry by more than 55 to 1.

Among those testifying was Lester Trilla of Trilla Steel Drum of Chicago, Ill., a family-owned business that employs 70 people and manufactures 55 gallon steel drums used to transport hazardous materials. Mr. Trilla can't find imported steel of the necessary quality, and the domestic steel it must buy has increased by more than 54 percent since the imposition of the steel tariffs. That equates to around a 20 percent increase in the cost of a drum.

Another family-owned company that testified, A.J. Rose, makes after-market auto parts and employs 250 members of the steel workers' union. Robert Herrman, a machine technician at Rose, asked the committee: "So why do the steel mills deserve to stay in business more than A.J. Rose? And why are jobs at steel mills more important than the 250 jobs of the union associates who work at A.J. Rose?"

Cold Metal Products of Swickley, Pa., employs more than 400 workers and manufactures strip steel used for precision automotive parts and other goods. Its production workers are members of the United Steelworkers. The price of the steel it processes has risen 30 percent, suppliers are rationing steel and deliveries run late half the time. According to John Grove, head of procurement, one of its longstanding customers, Stanley Tool, is now purchasing lower-cost products from England and plans to buy additional products from China.

Finally, Merle Emery, of G.R. Spring & Stamping, reported that the company lost a longstanding contract to a Canadian company that now pays steel prices 30 percent lower than U.S. steel users pay.

Economist Laura Baughman, who has studied the steel industry for 20 years, testified that 8 times as many jobs will be lost in steel-consuming businesses as may be saved among steel producers. She predicts job losses in the middle range of projections in a study she coauthored with economist Joseph Francois for the Consuming Industries Trade Action Coalition, a group of steel consumers.

Miss Baughman and Mr. Francois estimated that 5,000 to 9,000 steel industry jobs might be saved by the tariffs, but cost around 36,000 to 74,000 other jobs — including 15,000 to 30,000 jobs in manufacturing. They estimate the economic loss of each job saved in the steel industry at more than $400,000.

Although economists predicted negative consequences from the tariffs, they were surprised at how quickly markets reacted. In a few weeks, for example, hot-rolled steel prices rose to about $300 a ton, compared to $210 late last year, and prices for some other types of steel have risen by 50 percent from a year ago.

Steel users also reacted quickly, seeking relief from the tariffs. The Office of the U.S. Trade Representative was swamped by more than 1,000 requests for exemptions by April 12, and extended the period for processing the applications until Aug. 31. By the end of July, the trade office had granted tariff waivers covering 261 steel-product categories accounting for about 6 percent of imported steel products, and just under 800 exclusion requests were waiting.

Other countries were also quick to react, and the European Union, which threatens retaliatory tariffs on such U.S. imports as Florida orange juice, textiles, frozen vegetables and paper products, is negotiating exemptions for steel especially important to EU countries.

Intended or not, the consequences of the steel tariffs will be borne by workers, retirees, investors and consumers. The cost won't be as high as the notorious Smoot-Hawley Tariff Act that helped spark a 50 percent plunge in U.S. trade in 1930, but they set a dangerous precedent for other industries clamoring for protection.

Finally, the tariffs undermine President Bush's arguments for increased global trade, with limits on subsidies and tariffs worldwide. However, we can hope other countries will learn an unintended lesson from the steel tariff debacle: that protectionism is the economic equivalent of shooting yourself in the foot.

Pete du Pont, former governor of Delaware, is the policy chairman of the National Center for Policy Analysis.

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October 4, 2002

The Honorable Donald Manzullo
House Small Business Committee
2361 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Manzullo:

In response to the issue of fraudulent and misleading domestic mill objections, raised by yourself at the House Small Business Committee Hearing on September 25, Commerce Under Secretary Grant D. Aldonas invited product exclusion requestors to bring any such evidence to his attention, and further assured the Chairman that the companies whose exclusions were denied based on unsubstantiated objections should not have to wait until March 2003 for reconsideration.

During a meeting on June 27, I discussed the possible approval of Nesco's exclusion request, designated X-214, with Mr. Aldonas. He suggested that Nesco should first request quotes (RFQ) for the steel it needs, per Nesco's specification requirements, from the two steel companies that objected to Nesco's exclusion request. In a letter dated July 22, I informed Mr. Aldonas that U.S. Steel offered to provide only 300 tons per month of steel that was allegedly "functionally equivalent" to Nesco's specifications (20% of the steel Nesco requires) effective for October shipment. Up to that time, Bethlehem Steel failed to respond to Nesco's RFQ. This positioned Nesco to run out of steel by mid-October, and out of business.

Nesco received its first response to its RFQ from Bethlehem Steel on August 13, in which Bethlehem offered to provide 1,000 tons per month (66% of Nesco's requirements) with availability beginning November 1. Nesco contacted Bethlehem on August 14 and asked for confirmation that Bethlehem could provide steel meeting Nesco's specification requirements. A phone conversation on August 23 revealed Bethlehem's uncertainty regarding its ability to meet Nesco's product specification requirements. Nesco was told that its product specifications were being considered by the mill to determine if Bethlehem would be able to meet Nesco's requirements. Nesco notified Bethlehem on September 13 that it had not heard from Bethlehem yet regarding whether it could provide Nesco with the steel it needs. Finally, on September 19, Bethlehem confirmed to Nesco that its mill is unable to meet Nesco's product specifications.

In its objection to Nesco's exclusion request for "cold-rolled, extra-clean, lamination/pin-hole free steel," Bethlehem stated that it currently produces the "exact product to the exact specifications as described in exclusion requestor's questionnaire" and currently has the "capability to produce this exact product to the exact specifications as described in exclusion requestor's questionnaire." Bethlehem also stated it would take "0 months" to begin supplying commercial quantities of this product because "this product is currently produced and supplied." Additionally, Bethlehem stated that it currently retains inventory of this exact product, and answered "none" to the question; "what factors limit the amount of this product you could supply to potential customers."

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The accompanying attachments will attest to the following:

1) Bethlehem's delayed response to Nesco's RFQ effectively prevented it from being used as evidence before the August 31st deadline for granting exclusions.
2) Bethlehem now confirms it does not currently produce the exact product, as represented in its objection, and furthermore, it is unable to produce the exact product as specified in Nesco's product exclusion request.
3) Bethlehem now confirms that it is unable to supply any steel to Nesco in "0 months," as represented in its objection, but rather has a lead-time of four months.
4) Bethlehem will not guarantee its product to be free of pinholes and laminations. The mill will work to Nesco's Rockwell hardness range, but will not guarantee other items, even those outside of Nesco's specification range, for such critical variables as chemistry requirements, yield strength, tensile strength, elongation minimum, and standard thickness tolerance. In addition to adverse repercussions on Nesco's production efficiency and yield, using cold-rolled steel with the above characteristics would disqualify Nesco from meeting some of its customer minimum standard requirements.
5) Nesco requires an electrolytic cleaning system due to customer cleanliness requirements. Bethlehem does not have this system and failed to address whether they can meet Nesco's cleanliness standard with the system they use.

The preceding information and accompanying documentation confirms that Bethlehem Steel submitted inaccurate and misleading information to the Commerce Department, which was used in the Department's consideration and ultimate denial of Nesco's product exclusion request.

Congressman Manzullo, I urgently need your help! Neither US Steel nor Bethlehem Steel are able to supply Nesco with the requested steel it needs, which both mills objected to, and Bethlehem Steel now admits it cannot meet Nesco's product specification requirements. Reconsideration and approval of Nesco's exclusion request in the very near future is paramount to Nesco's future success.

I respectfully request your support by writing a letter to the Commerce Department and asking Under Secretary Aldonas to reconsider and approve Nesco's request for exclusion, designated X-214, because of the untimely, inaccurate and misleading information contained in the objections filed by domestic mills.

The 65 employees of Nesco and I thank you for your support and immediate attention to this decisive matter.

With best regards,

Dale M. Cann
President

Attachments

NESCO
CONTAINER CORPORATION

ISO 9002
RAB 10175 / NACB 8355

October 4, 2002

The Honorable Grant Aldonas
Under Secretary for International Trade
U.S. Department of Commerce
1401 Constitution Ave. NW, Rm. 3850
Washington, D.C. 20230

Dear Mr. Under Secretary:

This is in response to your invitation at the September 25th hearing before the Committee on Small Business to companies whose product exclusion requests were denied on the basis of potentially misleading objections by the domestic industry.

I was very grateful to learn that your office will review tariff-exclusion requests denied as the result of misleading information supplied by domestic steel producers. Nesco's experience with the product exclusion process has been the same situation Chairman Manzullo described to you at the hearing – domestic mills objected to Nesco's product exclusion request (X-214 for "cold-rolled, extra-clean, lamination/pin-hole free steel"), claiming that they produce and could supply the requested material within the time frame and quantity required. When Nesco contacted them about potential orders, they made clear that the quantity and type of steel that they would supply could not meet Nesco's requirements, in stark contradiction to their representations to the government. In the end, after over eight months of extensive work on our product exclusion request, testimony before the Trade Policy Steering Committee, and numerous visits to Washington D.C. to visit with Department officials and Members of Congress, Nesco received a devastating decision on its product exclusion request.

U.S. Steel and Bethlehem Steel filed objections to Nesco's product exclusion request: Bethlehem Steel claimed to produce the exact product described in exclusion request X-214 and U.S. Steel claimed to produce a "functionally interchangeable equivalent" to the product described in exclusion request X-214. Both companies claimed to produce these materials in "commercially available quantities." Their claims, however, are not true. This was apparent to Nesco based on its past experiences with these companies and has become even more clear now that they have finally responded to Nesco's requests for quotes. Neither company has agreed to supply a product conforming to Nesco's specifications.

When I met with you on June 27, 2002 as a part of a meeting with Lewis Leibowitz and the Consuming Industries Trade Action Coalition (CITAC), you suggested that Nesco request quotes from the two steel companies that objected to Exclusion Request X-214. Nesco sent quote requests on July 1, 2002 to both U.S. Steel and Bethlehem Steel, asking for current pricing and status of availability for product tonnages and delivery dates for cold-rolled steel meeting

Nesco's specification requirements (Please see **Attachment 1:** Request For Quote sent to U.S. Steel and Bethlehem Steel).

First, U.S. Steel concedes that it does not make the requested product. Although it claims that its product is functionally equivalent, Nesco's past experience with U.S. Steel demonstrates that this is not the case. Furthermore, U.S. Steel offered to provide up to only 20% of the steel Nesco requires to stay in business. Specifically, U.S. Steel stated that it could only supply 300 tons of cold-rolled steel per month, well under the 1500 tons required by Nesco. (Please see **Attachment 2:** E-mail response from U.S. Steel).

Second, when it finally responded to Nesco's request for bid on September 19, Bethlehem imposed so many qualifications on its ability to produce the product that it is clear that Bethlehem does not produce a product meeting Nesco's required specifications, as it represented in its objection. Specifically:

1) Bethlehem now confirms that it is unable to supply any steel to Nesco in "0 months," as represented in its objection, but rather has a lead-time of four months.
2) Bethlehem will not guarantee its product to be free of pinholes and laminations. The mill will work to Nesco's Rockwell hardness range, but will not guarantee other items, even those outside of Nesco's specification range, for such critical variables as chemistry requirements, yield strength, tensile strength, elongation minimum, and standard thickness tolerance. In addition to adverse repercussions on Nesco's production efficiency and yield, using cold-rolled steel with the above characteristics would disqualify Nesco from meeting some of its customer minimum standard requirements.
3) Nesco requires an electrolytic cleaning system due to customer cleanliness requirements. Bethlehem does not have this system and failed to address whether they can meet Nesco's cleanliness standard with the system they use.

(Please see **Attachment 3:** E-mail from Bethlehem Steel (Sep. 19, 2002) (emphasis added)) Bethlehem has effectively gutted Nesco's request – the product that Bethlehem has offered to Nesco in no way resembles the "exact product as described" in Exclusion Request X-214 (Please see **Attachment 4:** Analysis of Bethlehem Steel's Exceptions), and is unacceptable by Nesco to produce its steel drums.

Third, Bethlehem Steel did not fully respond to Nesco's request for bid until September 19, 2002. (Please see **Attachment 3:** Summary of Communications between Bethlehem Steel and Nesco, 2002) Because of this delay, the Department did not have an opportunity to take Bethlehem's response into consideration.

In summary, Exclusion Request X-214 should be granted, as the requested product is not produced by the objecting mills, the product is fundamental to Nesco's efficient production of steel drums, and there is no substitute product for Nesco's specialized application of manufacturing new steel drums. Nesco has always and continues to pay a premium for its imported steel. Nesco has made this decision to use imported product in order to avoid the substantial increases in processing costs, breakdowns in machines and excessive scrap and

The Honorable Grant Aldonas
October 2002
Page 3

significant added production costs that it experienced with domestic steel. Most significantly, granting this request will not undermine the purpose of the safeguards remedy, as Nesco's imports do not displace any sales that would otherwise be made by domestic mills – it is clear now that the domestic mills that objected have no basis for objecting.

Thank you again for your consideration of Nesco's request. It is essential for Nesco's continued success. If you have any questions, please let me know.

Sincerely,

Dale M. Cann
President

cc: Senator Kit Bond, Member of Congress
Senator Jean Carnahan, Member of Congress
Congressman Donald Manzullo, Member of Congress
Congressman Todd Akin, Member of Congress
Lewis Leibowitz, Esq., Hogan & Hartson LLP

NESCO CONTAINER CORPORATION

ISO 9002 RAB 10175 / NACB 8355

Attachment 1

July 1, 2002

Mr. James D. Wolf
Sales Representative
Bethlehem Steel Corporation
11820 Tesson Ferry Road
Suite 204
St. Louis, MO 63128

Telephone: (314) 842-0329
Fax: (314) 842-2940

Dear Mr. Wolf,

I respectfully request your company to provide Nesco with current pricing information for "cold-rolled extra clean, lamination/pin-hole-free steel." If possible, we would like the quote to reflect both FOB and delivered pricing. Also, please supply us with the status of availability for product tonnages and delivery dates as well.

Because Nesco has not purchased steel from your company within the last 18-24 months, I would like to wire transfer funds to you for material we may purchase from your company. We will be purchasing steel on a weekly basis. This should expedite the process of getting us back into your system.

The accompanying attachment contains the specifications for the steel Nesco requires. After reviewing our specification requirements, please advise us of any condition that your company may be unable to meet. This will allow us to evaluate whether changes can be made to our present specification requirements in qualifying your product for Nesco use.

Because of our qualification process and given our near-term requirements for steel deliveries, a response by July 8, 2002, would be greatly appreciated.

With best regards,

Dale M. Cann
President
Fax: (636) 326-3619

Attachment: Nesco Specifications

2391 Cassens Drive Fenton, Missouri 63026-2502 (800) 966-3786 (636) 343-7300 (636) 326-2891 FAX
www.nescocontainer.com

NESCO
CONTAINER CORPORATION

ISO 9002
RAB 10175 / NACB 8355

July 1, 2002

Mr. Jeff J. Bush
Manager-National Accounts
U.S. Steel Group
600 Grant Street
Pittsburgh, PA 15219-2749

Telephone: (412) 433-2090
Fax: (412) 433-4273

Dear Mr. Bush,

I respectfully request your company to provide Nesco with current pricing information for "cold-rolled extra clean, lamination/pin-hole-free steel." If possible, we would like the quote to reflect both FOB and delivered pricing. Also, please supply us with the status of availability for product tonnages and delivery dates as well.

Because Nesco has not purchased steel from your company within the last 18-24 months, I would like to wire transfer funds to you for material we may purchase from your company. We will be purchasing steel on a weekly basis. This should expedite the process of getting us back into your system.

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Because of our qualification process and given our near-term requirements for steel deliveries, a response by July 8, 2002, would be greatly appreciated.

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Dale M. Cann
President
Fax: (636) 326-3619

Attachment: Nesco Specifications

2391 Cassens Drive Fenton, Missouri 63026-2502 (800) 966-3786 (636) 343-7300 (636) 326-2891 FAX

NESCO CONTAINER CORPORATION - FENTON PLANT

MATERIAL SPECIFICATIONS	7/23/96	MS 01
SUBJECT: Cold Rolled High Carbon Steel	1 of 4	5/21/02

1.0 SCOPE: This specification covers cold rolled extra clean, lamination / pin-hole free carbon steel (Class 1 material) in coil, cut sheets or blank forms that is used in the production of steel containers.

2.0 Applicable Documents:

A) ASTM Standard A 568 - General requirements for Carbon steel.
B) ASTM Standard A 366 / M9 Commercial steel Type B or AISI-SAE 1006 or 1008

3.0 CHEMISTRY REQUIREMENTS:

A) Body stock:	Carbon	0.02 to 0.06	
B) Head/Bottom Stock:	Carbon	0.02 to 0.06	
C) All Stock:	Manganese	0.2-.35	Max.
	Phosphorus	0.02	Max.
	Sulfur	0.025	Max.
	Silicon	0.030	Max.
	Tin	0.020	Max.
D) Sum of copper, nickel, & chrome		0.20	Max.
E) Columbium, Vanadium, Titanium		Trace Only	
F) Aluminum		0.02 to 0.07 Max.	

4.0 DE-OXIDATION REQUIREMENT:

Continuously cast steel (CON CAST) aluminum killed is preferred: mechanically capped; aluminum killed steel produced as ingots is permitted. However, once the purchaser and seller agree on de-oxidation practice, no substitution or intermixing of de-oxidation practices will be permitted without authorization by Quality and Purchasing.

NESCO CONTROLLED DOCUMENT

NESCO CONTAINER CORPORATION - FENTON PLANT

MATERIAL SPECIFICATIONS	7/23/96	MS 01
SUBJECT: Cold Rolled High Carbon Steel	2 of 4	5/21/02

5.0 MECHANICAL PROPERTY:

A) Rockwell Hardness: 35 to 55 on B Scale
B) Elongation: Minimum 39 % in 2 inches
C) Flatness: 3/8 inch
D) Yield Strength: 25 – 32 KSI
E) Tensile Strength: 43 – 49 KSI
F) Metal Gauge Thickness (- 0 + 1 %)

Body Stock

16 gauge	.0508 Minimum
18 gauge	.0398 Minimum
19 gauge	.0362 Minimum
20 gauge	.0287 Minimum
	.0323 Minimum

Head/Bottom Stock

16 gauge	.0508 Minimum
18 gauge	.0437 Minimum (1.2mm)
	.0398 Minimum (1.1mm)
19 gauge	.0362 Minimum
20 gauge	.0323 Minimum

G) Matte Finish – Ra 30-60 micro-inches
Peaks per in. 100 minimum
H) Width Tolerance: Minimum specified by P.O.
Mill Edge

6.0 SURFACE CLEANLINESS:

A) Continuous annealed steel is preferred; batch (BOX) annealing is acceptable providing the material can meet steel surface condition requirements.
B) Electrolytic cleaning line preferred. Steel surface must be free of carbon, smut, or other contamination that would interfere in the adhesion of organic coatings and paints with an extra clean surface, measuring at "1" for carbonaceous material on the surface using the scotch tape test, or (C) below.
C) ESB - M2117A (Ford Motor Company Spec.) of 0.20 mg/ft2 maximum of carbonaceous material on the surface of the steel.

NESCO CONTROLLED DOCUMENT

NESCO CONTAINER CORPORATION - FENTON PLANT

MATERIAL SPECIFICATIONS	7/23/96	MS 01
SUBJECT: Cold Rolled High Carbon Steel	3 of 4	5/21/02

7.0 OILING PRACTICE

A) Dry = Electrostatically applied DOS oil preferred. No oil surface contamination. This steel may be used as is, and would undergo no cleaning process (steel may not be washed or phosphate treated). This steel has organic linings and exterior enamels applied to the surface.
B) Oiled = Lightly oiled – 100 mg/sq. ft. max. Electrostatically applied DOS oil preferred (Quaker 61 Aus approved). Oiled steel is cleaned and treated in a iron phosphate system prior to coating/painting and assembly.
C) Kosher = In consideration of the dietary restrictions of certain religious groups, post-anneal applied oils (for wet temper rolling or for rust inhibiting) will not contain animal fats or derivatives. Suppliers will be expected to certify that no such oils have been used in the process after annealing of the steel.

8.0 COIL DIMENSION AND WEIGHTS:

A) The inside diameter (I.D.) will be 20 - 24 inches for a coiled stock.
B) The weight of any one coil shall not weigh more than 24,000 lbs.

9.0 YIELDS:

Steel is purchased on theoretical minimum weight (TMW) or actual yield; tolerance is 1% over ordered thickness.

10.0 PACKAGING:

A) Coils will be paper wrapped with vapor barrier materials; supplier standard, unless otherwise specified by the purchaser. I.D. protectors required.

NESCO CONTROLLED DOCUMENT

NESCO CONTAINER CORPORATION - FENTON PLANT

MATERIAL SPECIFICATIONS	7/23/96	MS 01
SUBJECT: Cold Rolled High Carbon Steel	4 of 4	5/21/02

11.0 SHIPPING:

A) Coils will be shrouded and tarpaulin covered on flatbed trailer or covered gondola car, as designated by purchaser. Coils must be loaded eye to the rear for unloading. Coil position, pallet or blocking must permit the use of an overhead crane with a "C" hook for removing coils from the trailer. Must use chain protectors on truck.

12.0 MARKINGS - None permitted - omit all branding and no welds.

13.0 INTENDED USE

A) Steel purchased under this specification will be used in the manufacture of steel shipping containers used in domestic and international shipment of regulated and non-regulated materials. Finished containers must be able to pass rigid performance testing for UN certification (Drop test, hydrostatic, vibration, and compression tests)

14.0 QUALITY ASSURANCE

A) Steel suppliers will be expected to certify their compliance with the requirements of this specification.

CHANGE HISTORY

DATE	DESCRIPTION OF CHANGE
11/22/96	Section 5.0 B Changed Head/Bottom Stock Metal Thickness to meet D.O.T. Standards for Drum Reconditioners.
05/15/01	Revise specification to match LLC specs. Sections 3.0, 5.0 & 7.0
04/18/02	Updated section 3.0A & B, 5.0A & B, 8.0A & 9.0 to meet current practice
05/21/02	Revised specification to match current ordering practice

Document Approval	Effective Date: 7/23/96	Revision: 5/21/02

iso0001

NESCO CONTROLLED DOCUMENT

Attachment 2

E-mail Response from U.S. Steel to Nesco's Request for Quote

----- Original Message -----
From: <RTHoelke@uss.com>
To: <dalec@nescocontainer.com>
Cc: <JJBush@uss.com>; <dwhitaker@uss.com>
Sent: Monday, July 15, 2002 9:36 AM
Subject: USS Quote

Dale,

Per your letter to Jeff Bush dated July 1, 2002, US Steel is able to offer the following quote for your CR requirements:

$24.75/cwt FOB mill plus all applicable width/thickness extras
Effective for October shipment 300 ton per month
All orders are subject to US Steel Treasury Approval

If you have any questions, please give me a call at 412-358-0306 (office) or 412-889-7377 (cell).

Thanks,

Bob Hoelke

Attachment 3

Summary of Communications between Bethlehem Steel and Nesco, 2002

July 1, 2002:	Nesco sent its request for quote to Bethlehem Steel on July 1, 2002, specifically asking for a reply by July 8, 2002.
July 8, 2002	Bethlehem Steel did not contact Nesco.
August 13, 2002	After business hours on August 13, 2002, the evening before the final meeting Nesco's counsel had scheduled with the Department of Commerce, Nesco received an e-mail from Bethlehem Steel's salesman, apologizing for the delay in responding. This e-mail offered "up to 1000 tons per month beginning in November 2002," but did not directly address Nesco's requested specification.
August 14, 2002	Nesco's steel purchaser immediately responded to the e-mail, asking them to confirm that Bethlehem can meet all of Nesco's relevant specifications.
	Bethlehem Steel promised to call with a response the following day.
	Bethlehem Steel did not contact Nesco.
August 23, 2002	Bethlehem Steel called Nesco and conveyed that it (1) is unsure whether it can meet Nesco specification requirements, (2) is sending Nesco's specification requirements to its mill for determination, and (3) promised to deliver a response by Monday, August 26, 2002.
August 26, 2002	Bethlehem Steel did not contact Nesco.
September 13, 2002	Nesco's steel purchaser notifies Bethlehem Steel that Nesco has not heard from them yet.
September 19, 2002	As discussed above, Bethlehem finally responded to Nesco's Request For Quote.

E-mail Messages between Bethlehem Steel and Nesco, 2002

[*E-mail message one*]
----- Original Message -----
From: "Dale Cann" <dalec@nescocontainer.com>
To: "John Vogt" <johnvogt@nescocontainer.com>
Sent: Wednesday, August 14, 2002 8:22 AM
Subject: Fw: Col Rolled

----- Original Message -----
From: "James Wolf" <james.wolf@bethsteel.com>
To: <dalec@nescocontainer.com>
Sent: Tuesday, August 13, 2002 5:38 PM
Subject: FW: Col Rolled

Dale, I think I sent this to the wrong mail box. Hopefully you will get it this time.

-----Original Message-----
From: James D. Wolf [mailto:jdwolf@bethsteel.com]
Sent: Friday, August 09, 2002 8:19 AM
To: dcann@nescocontainer.com
Subject: Col Rolled

Dale, sorry for the delay in getting you this quotation. Things have been happening which may just give us some additional tonnage and I did not want to respond until I knew for certain. We have had some production problems in the Burns Harbor cold mill but those should be behind us soon. With that in mind, I believe we would be able to supply you with up to 1000 tons per month beginning in November, 2002. Since we have not been a supplier in quite some time, I believe it prudent to start small with a couple of "trial" orders to make sure the product we provide will perform up to your expectations.

We would propose the following:
Cold Rolled Class 1, Commercial Steel Type B, Continuous Cast, Continuous Annealed, Dry, 24,000# max coil weight.
Base Price: $26.50 CWT.
All published extras to apply
F.O.B. mill, Burns Harbor, In. or Chicago, Il.
Prices would be firm for all orders accepted and promised for shipment 11/01/02 thru 3/31/03.
Initially, payment would be made via wire transfer. It would be out intention to work toward standard payment terms of 30-3/4-10.

Again, I apologize for the delay in answering your quotation. However, I believe the delay was justified.

James D. Wolf
Bethlehem Steel Corporation
8/9/02

[*E-mail message two*]
----- Original Message -----
From: John Vogt
To: james.wolf@bethsteel.com
Cc: Dale Cann
Sent: Wednesday, August 14, 2002 1:47 PM
Subject: cold rollled steel

Good Afternoon Jim,
Dale Cann forwarded your e-mail to me to respond. Thank you for replying to our July 1 request for a quotation on steel that meets our requirements. As Dale indicated in our July 1 request, gauge control and surface cleanliness are essential characteristics for us. Due to our past history with you, we are frankly worried that Bethlehem will not be able to meet these requirements. I am concerned that Bethlehem will have a problem meeting our gauge control and surface cleanliness sections of our specification. I agree with you that it would be prudent to start off with trial orders to be certain that Bethlehem can meet Nesco's Steel Specification. However, before discussing a trial order for this material, Nesco would appreciate your confirmation that Bethlehem will meet our specifications, including gauge tolerances and cleanliness of the steel.

Since we last purchased steel from Bethlehem, Nesco has had the opportunity to use Korean steel. We have experienced tremendous cost saving advantages because of their gauge tolerance and the cleanliness of their steel. The benefits of this steel greatly exceeded the difference in acquisition cost. But due to trade restrictions, this steel may not be available to us.

Nesco would expect the same quality of material from Bethlehem that we have become accustomed to receiving from Korea. Our ability to make steel drums depends on consistency of quality of steel. Therefore, we need Bethlehem's confirmation that the steel will meet all of our relevant specifications. We would expect Bethlehem to credit us for any verifiable expenses that we would incur due to Bethlehem's inability to meet our specification. We do not believe it should cost Nesco if Bethlehem's products do not meet our requirements.

I would appreciate your confirmation of these points so we can move forward to a trial order.
Thanks, John Vogt

[*E-mail message three*]
-----Original Message-----
From: John Vogt [mailto:johnvogt@nescocontainer.com]
Sent: Friday, September 13, 2002 2:33 PM
To: james.wolf@bethsteel.com
Cc: Dale Cann
Subject: steel orders

Hi Jim,

I have not heard anything from you since we last talked on August 23rd. At that time you told me that Bethlehem might not be able to meet Nesco's Steel Specification. You said that you had forwarded our steel specification to the mill and that you expected a reply back from them on Monday, August 26th.

Has the mill given you an answer yet and if Bethlehem can meet our steel specification what is your lead time.

thank you

John H. Vogt

[*E-mail message four*]
-----Original Message-----
From: James Wolf
To: John Vogt
Sent: Thursday, September 19, 2002 10:08 AM
Subject: RE: steel orders

John, I finally received the mill's response to your inquiry. Their comments are as follows:

1.0 - Mill will not guarantee that the product will be free of pinholes and laminations since it is supplied as a coil product, but would stand behind the product if either were detected during processing or testing at your plant.

3.0 - Chemistry requirements are acceptable with the exception of Mn. Mill would supply Mn to a range of 0.15 - 0.25%.

4.0 - Material would be supplied as aluminum killed, continuously cast product.

5.0 - Mill will work to the requested hardness range, as is typical for container manufacturers. Mill will not guarantee the yield strength, tensile strength or elongation.

Mill will work to 1/2 standard thickness tolerances and would not guarantee the -0, +1% requested tolerance. This tolerance is not considered attainable by any producer on a regular basis.

6.0 - Material will be supplied as continuous anneal which employs a non-electrolytic cleaning system out of Burns Harbor and potentially a hydrogen batch anneal if produced at other Bethlehem facilities.

7.0 - Mill will utilize Quaker ELG-1 oil which is the same base product as 61AUS, but with increased rust prevention.

9.0 - Mill will not guarantee 1% maximum over ordered thickness, but will work to enhance yields via interaction with your technical and operations staff.

Please look this over and give me a call with any questions. I will be in the office tomorrow and Monday but then I'll be gone for the next 2 weeks.

Attachment 4

Analysis of Bethlehem Steel's Exceptions to Nesco's Requirements

Bethlehem Exceptions (described in Bethlehem's response to Nesco's RFQ Sept. 19)	Nesco's Requirements (described in Exclusion Request X-214)
1.0 - Mill will not guarantee that the product will be free of pinholes and laminations since it is supplied as a coil product, but would stand behind the product if either were detected during processing or testing at your plant.	Nesco requires cold-rolled steel coils that are free from laminations. Laminations are surface defects, including "pin-holes" which can form in steel during the milling process. Such pinholes can be detected if liquid is poured into a steel drum manufactured from such laminated steel, and the liquid spouts out through the pinhole. If steel has laminations, Nesco cannot use it to manufacture new steel drums. Nesco employs an ambient air tester for state-of-the art, advanced leak detection, and will not allow any drum that has a leak to leave its facility. As discussed above, Nesco's customers fill their new steel drums with a variety of materials, many of which are liquid or semi-solid, some of which are hazardous or sensitive, and most of which must be shipped or trucked some distance, or stored for some period of time. Nesco must use steel that is reliably free of laminations, which the domestic mills cannot provide, but Dongbu can
3.0 - Chemistry requirements are acceptable with the exception of Mn. Mill would supply Mn to a range of 0.15 - 0.25%.	Nesco's range is 0.20 – 0.35% maximum.
4.0 - Material would be supplied as aluminum killed, continuously cast product.	This is acceptable to Nesco.
5.0 - Mill will work to the requested hardness range, as is typical for container manufacturers. Mill will not guarantee the yield strength, tensile strength or elongation.	By strictly controlling the chemical composition of the steel, as well as the utilization of their superior cold reduction equipment, Dongbu can hold the Rockwell B scale hardness readings to a 5-point spread. Domestic producers offer steel that is within ASTM tolerances (15 point tolerance on the Rockwell scale), but the steel used by Nesco for the manufacture of new steel drums is much more sophisticated than standard commercial quality cold-rolled. The hardness consistency has been a major factor in the dramatic decreases in downtime and scrap for Nesco. Rockwell range is expressed in a low and high number range of 15 numbers with a central tendency, or target at the middle of this range. Within the domestic industry, it is well known and accepted, and experience has shown, that tolerances can and will fluctuate within the entire spectrum of the fifteen-point spread among different coils within the same steel shipment. This presents a serious problem for Nesco. Such tolerance variations from coil to coil from the same steel shipment requires Nesco to stop production and re-calibrate manufacturing equipment from coil to coil to minimize product and

Bethlehem Exceptions (described in Bethlehem's response to Nesco's RFQ Sept. 19)	Nesco's Requirements (described in Exclusion Request X-214)
	equipment failure. The Rockwell range for all coils within a Dongbu steel shipment consistently and reliably falls within a five-point spread, 2-3 points plus-or-minus of the central tendency, or target point. Rockwell range variations from coil to coil for Dongbu steel shipments are within manufacturing tolerance ranges that allow continuous manufacturing from coil to coil without the need to stop production to re-calibrate equipment. This reduces manufacturing downtime, increases manufacturing performance, and improves product quality and service performance.
Mill will work to 1/2 standard thickness tolerances and would not guarantee the -0, +1% requested tolerance. This tolerance is not considered attainable by any producer on a regular basis.	Nesco requires a high degree of gauge control. A steel coil that is not uniform in gauge results in problems with forming and welding drums, equipment breakdowns and downtime spent repairing and recalibrating the equipment. For instance, steel that is not uniform in gauge, i.e., thicker in some parts and narrower in others, can "blow holes" as it is run through the weld wheels, resulting in a defective weld. The weld wheels are a set of copper wheels, about ¾-inch wide, that roll against each other with an electric current running through them to heat the edges of a steel sheet to form a weld line. The two edges that are to be welded together must be smooth. Any indentation or unevenness in the edges will "blow a hole" at the point of the weld. This is a critical stage in the manufacture of a steel drum, as the two edges are welded into a cylinder, forming the body of the drum. A defective weld along this weld line results in a virtually unusable drum –a drum with a hole along its side cannot be used to store or ship liquid or semi-solid products without hazard to the product or the environment. After the part is welded, the drum must be "formed." Hoops are formed over the body of the drum and each end of the drum body must be curved so that a top and bottom can be set. The chemistry and tolerance must be consistent so that the forming equipment does not have to be continually readjusted for varying widths and chemistries. Unreliable gauge control means that drums can be misformed. For the machinery to make reliable and consistent steel drums, the gauge must be reliably within tight tolerances. If a drum is misformed because of uneven gauge or inconsistent chemistry in a coil or as between two coils, the production line must be shut down, the "bad piece" removed, and the equipment readjusted to account for the different gauge or chemistry. This results in a higher cost and less efficient production. The incidence of such equipment downtime was unacceptably high when Nesco used domestically produced cold-rolled steel and only improved when

Bethlehem Exceptions (described in Bethlehem's response to Nesco's RFQ Sept. 19)	Nesco's Requirements (described in Exclusion Request X-214)
	Nesco began using cold-rolled steel from Dongbu. In fact, Nesco conducted a study of its "down-time" over two 4-month periods of time in 2000 and 2001. In 2000, when Nesco exclusively used domestically produced steel, it had 21.9 hours of equipment downtime at the welder. During the same 4-month period in 2001, when Nesco exclusively used steel from Dongbu, Nesco had 1.1 hours of downtime. The dramatic reduction in downtime is attributed to the superior tolerance, gauge control and chemistry consistency of the steel purchased from Dongbu. Indeed, Nesco pays a premium for this superior quality. Dongbu is capable of controlling the gauge to within approximately one-thousandth of an inch because they use superior equipment consisting of a 6-stand, one-pass cold mill that is capable of 120-percent cold reduction in one pass. In addition, Dongbu uses the highest quality hot bands as its raw material, which is the principle reason it is able to deliver steel with a consistent chemistry, which is so critical to both the quality and safety of Nesco's finished product. In Nesco's experience, domestic steel producers fail to produce steel coils with a uniform gauge control.
6.0 - Material will be supplied as continuous anneal which employs a non-electrolytic cleaning system out of Burns Harbor and potentially a hydrogen batch anneal if produced at other Bethlehem facilities.	Nesco requires a cleaner surface than domestic suppliers generally can provide. In the milling process, oils, smut, and carbon are present, and may be rolled into the finished steel product. This is usually addressed with the use of a cleaning line, in which a person stands by the raw slab and washes carbon and oils off of a steel slab before it is rolled. Nesco's supplier consistently provides cold-rolled steel that is "1" on a cleanliness test (on a scale of 1 – 5, in which "1" is the cleanest). Most domestic and other offshore suppliers have a "3" or "4" on this test, which is unsatisfactory performance for the following reasons. Steel drum customers need clean, dry steel drums. Certain food products are stored and shipped in unlined drums manufactured by Nesco. Impurities in the steel can contaminate the food product that they come into contact with. In addition, because many chemical products, acid- or water-based, will attack the steel and cause it to rust or corrode, many of Nesco's customers require that the steel drums be lined. If the steel is not clean, however, the lining will not adhere to the steel. If the steel is greasy or dirty, there will be no bond. In addition, because of the sensitive nature of certain materials, like pharmaceutical alcohol, some of Nesco's customers will test the drums, and reject them if they fail cleanliness tests. For this reason, Nesco requires that all steel for drums meet its strict surface cleanliness requirements. Indeed, one of Nesco's customers requires Nesco to perform an alcohol rinse test to

Bethlehem Exceptions (described in Bethlehem's response to Nesco's RFQ Sept. 19)	Nesco's Requirements (described in Exclusion Request X-214)
	measure the interior cleanliness of the drum and ensure that the drums meet its particular requirements for cleanliness. This test, which is required for every load shipped to this customer, involves "rinsing" the interior of a drum with one gallon of denatured alcohol, and subsequently assessing the contamination level of the drum interior by filtering the alcohol through a 50 micro filter. The filter is then placed on a slide and examined for contamination. This slide must be sent to the customer along with a certificate of analysis and the bill of lading. Nesco's supplier Dongbu accomplishes this requisite cleanliness level because of their state-of-the-art equipment, which was installed in 1998, and includes an electrolytic cleaning line and a continuous annealing process. When Nesco used domestically-produced steel, each steel coil was run through the shell-washer bypass process by which the steel was cleaned with soap, water, and chemicals to ensure that the steel surface was clean enough to apply the interior and exterior lining required by certain customers, described above. Using Dongbu steel, Nesco can now skip the entire "cleaning step" process in the production of certain accounts with exterior coatings and no difference in the product quality. This new capability of Nesco, facilitated by its use of cold-rolled extra-clean, lamination/pin-hole-free steel from Dongbu, has led to an increase in business for Nesco. Nesco now has contracts with customers who require that its steel drums be comprised of steel that has *not* been washed. These customers ship and store a raw, concentrated sealer material, which cannot come into contact with any odors, chemicals, or fluids due to the chemical reaction it can cause. Nesco is now able to cater to a class of customer, previously unattainable by Nesco.
7.0 - Mill will utilize Quaker ELG-1 oil which is the same base product as 61AUS, but with increased rust prevention.	Electrostatically-applied DOS oiling is essential for Nesco's production because it protects the steel, but it is applied in a fine, uniform manner that allows Nesco to treat it as "dry," clean material. The DOS oiling process used by Dongbu is not used by domestic mills, but is an essential requirement for Nesco's steel needs. The oil is first atomized in the chamber by air atomization nozzles. The oil mist that has been atomized is then carried by controlled air in proportion to both surfaces of the steel after passing an ionizer electrode. In this process, coarse oil mist is filtered out mechanically and electrically, and only microscopic charged oil is deposited electrostatically on the surface of the steel.
9.0 - Mill will not guarantee 1% maximum over ordered thickness, but will work to enhance yields via interaction with your technical and	Nesco's past experience with Bethlehem was 6 ½% (7 ½% - 1%) over TMW. "TMW" is the theoretical minimum weight of steel. It is computed by taking the length x width x thickness x density of the steel coil. Nesco

Bethlehem Exceptions (described in Bethlehem's response to Nesco's RFQ Sept. 19)	Nesco's Requirements (described in Exclusion Request X-214)
operations staff.	requires the steel mills to maintain a maximum of one percent variance of TMW on their shipments. The significance of TMW represents the total amount of pieces that can be produced from a coil. Anything less than TMW results in additional cost becat ise of exces steel in the final product. (Please see Att achment 5 Bethlehem Actual Units vs. TMW Units)

Attachment 5

The following chart shows that steel used by Nesco and supplied by Bethlehem Steel was running 7.5% over TMW during an analysis performed in 1994 and 1995. The same analysis performed on steel recently used by Nesco and supplied by Dongbu resulted in an average of less than 1.0% over TMW.

The analysis shows that Nesco used 711 tons of steel to produce 64,686 units. Based on TMW, Nesco should have produced 69,507 units, a loss of 4,821 units. Comparing Dongbu (1% TMW) to Bethlehem (7.5% TMW), Nesco loses 6.5% on all steel consumed from Bethlehem as opposed to Dongbu. Based on a 40 pound TMW drum, a Dongbu steel drum will weigh 40.4 lbs and the Bethlehem Steel drum will weigh 43.0 lbs, resulting in a 2.6 lb loss for each drum produced using Bethlehem Steel material.

Bethlehem Actual Units vs. TMW Units

Gauge	Width	Weight/Lbs	TMW Weight/Lbs	Units / TMW	Actual Units	% Over TMW
0.0220	34.625	48,130	7.47	6,443	5,872	.0973
0.0220	44.3125	112,720	7.66	14,715	13,529	.0877
0.0280	47.75	48,510	12.12	4,002	3,728	.0736
0.0320	35.75	315,930	22.93	13,778	12,847	.0725
0.0320	36.5	98,970	23.41	4,228	3,939	.0733
0.0420	35.75	533,630	30.1	17,729	16,627	.0663
0.0420	36.5	264,633	30.73	8,612	8,144	.0574
TOTALS:		**1,422,523**		**69,507**	**64,686**	**.0745**

MASTERCOIL SPRING

4010 Albany • McHenry, IL 60050 • Tel: (815) 344-0051 • Fax: (815) 344-0071

September 23, 2002

Mr. Philip Eskeland
Committee on Small Business
U.S. House of Representatives
2361 Rayburn Building
Washington, D.C. 20515

Dear Phil,

We have now received the first formal response to the inquiries that we placed with the two objectors to our exclusion request.

This response is from Sumiden and the prices quoted are in the area of 33% higher than we are currently paying. This company is well aware of the current pricing in the market. They know that we are unable to pay these prices and remain competitive in our market. What this says to us is that they are really uninterested in the business since they didn't even make an attempt to quote a reasonable price. In addition, they have indicated that they have insufficient capacity to produce 100% of our requirements and "would have to provide delivery information on an order-by-order basis." This runs counter to their claim in their objection to our exclusion request. Under 11 (vi), they state that, "Sumiden can supply all of Mastercoil's demand for this product."

It certainly appears to us that the objection was filed with false and/or misleading information and that they have no real interest in participating in this market.

Please let me know if you have any questions.

Sincerely,

Richard Piwonka

Richard Piwonka
Director of Sales and Marketing

+6154463197

Sep-20-2002 14:26 From-SUMIDEN WIRE PRODUCTS +6154463197 T-127 P.001/002 F-818

710 Marshall Stuart Drive
Dickson, TN
(615) 446-3199 x-104
(615) 446-3197 fax
billmc@sumidenwire.com

Sumiden Wire Products Corp

To:	Dick Powonka/Mastercoil Spring	Fax:	(815) 344-0071
From:	Bill McClenathan	Date:	9/20/02 ~~08/09/02~~
Re:	Quote	Pages:	2
CC:	Jeff F.		

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

Dick,

Thank you for your letter of August the 28th requesting quote for stainless T302 spring wire for aerosol application.

Prices are as follows:

Product: T302 Stainless Spring Wire X 30" Reel ASTM A-313-98

Size	Price
0.030"	$2.20/lb.
0.034"	$2.20/lb.
0.0317"	$2.22/lb.
0.032"	$2.22/lb.
0.024"	$2.59/lb.
0.020"	$2.80/lb.
0.027"	$2.36/lb.

FOB Delivered (truckload quantities 30,000lb.) Net 30 days

Currently SWPC does not have production capacity to produce 100% of requirements

We would have to provide delivery information on an order-by-order basis.

Also, as we discussed SCOA (Sumitomo Corporation of America) would require financial information to establish credit line.

Information needed:

1) Certified Financial Documents
2) Bank Information
3) Three sizable and supportive trade references or irrevocable letter of credit.

I know this is a sensitive subject but SCOA insists this information be provided.

Please advise any questions.

Best Regards,

Bill McClenathan

MASTERCOIL SPRING

4010 Albany • McHenry, IL 60050 • Tel: (815) 344-0051 • Fax: (815) 344-0071

September 20, 2002

The Honorable Donald Manzullo
U.S. House of Representatives
2361 Rayburn Building
Washington, D.C. 20515

Dear Congressman Manzullo,

I wanted to be sure you received the information contained in the following press release.

September 19, 2002

Mr. Don Musielak, COO of Mastercoil Spring Company announced today that he has reached an agreement, in principal, to purchase Mollificio Astigiano, an Italian Spring manufacturing company.

Mr. Musielak made this announcement at an employee meeting that was held on September 19, 2002. He explained to the employees that he was taking this step in order to respond to the ongoing threat of imported springs. Mastercoil has seen cheaper springs from Europe begin to erode its market position. The recent steel tariffs have only exacerbated the problem. By purchasing an established company in Europe, Mastercoil will be able to not only be competitive in the European market, but become more competitive in the domestic market. This move will help Mastercoil to solidify its position with major customers and gain new ones. The addition of another manufacturing facility will greatly enhance their flexibility and their ability to respond to customer requirements.

Mollificio Astigiano offers Mastercoil the opportunity to attack additional market segments, both foreign and domestic, due to the types of machinery they have as well as the products they produce. Mr. Musielak pointed out that he was doing this for the "long term health" of Mastercoil. The anticipation is that this will add strength to the current operations and will ultimately provide additional jobs in the McHenry facility.

Mastercoil Spring is a major producer of springs for the packaging industry which includes aerosol, pump and trigger spray devices. In addition, Mastercoil produces precision springs for a variety of other industries.

This information was provided to The Northwest Herald and a small portion of it appeared in the September 20, 2002, edition.

We were already investigating such a move prior to the imposition of the 201 tariffs, but the advent of the tariffs certainly "forced the issue". The lower price of stainless steel wire in Europe, coupled with governmental assistance to spring manufacturers gives them the ability to sell at lower prices in Europe and in the U.S. The tariffs have only helped to make the European manufacturers even more competitive. If the administration continues with its ill-conceived tariffs, it will only serve to drive more manufacturing jobs from this country. As stated above, we hope that this will assist us in entering new markets which can then provide new jobs here at home, as well. To do this, we will have to have access to raw material that priced competitively in the world market. We cannot hope to compete with artificially high steel prices.

I spoke last week with a customer who uses a large number of springs which are assembled into a product for commercial buildings. He said that his company has always prided itself on making their own product and using domestic sources. Unfortunately, they are now being forced to look to Asia and will, within 6 months, be buying at least 50% from Asia and within a year at least 90%. They can buy the completed assembly, packaged and shipped to their door for less than they can buy the raw material in the U.S. These items are made from steel! Somebody within the government had better wake up to the fact that our manufacturing base is being eroded faster and faster. It is a World economy and the sooner everyone realizes this, the better!

We continue to support your efforts on behalf of Small Business and the steel consuming companies. Please let us know if we can provide any additional information.

Sincerely,

Richard Piwonka

Richard Piwonka
Director of Sales and Marketing

Cc: Mr. Phil Eskeland

GROUP ARNOLD
300 North Street, Marengo, IL 60152
Michael D. Nelson, General Manager – ROLLED PRODUCTS DIVISION
TEL: 815-568-2207 FAX: 815-568-2477
mnelson@grouparnold.com

To: COMMITTEE ON SMALL BUSINESS
Attention: Phil Eskeland
This is page: 1 of: 1

Fax: 202-225-3587
Date: September 16, 2002
Telephone: 202-225-5821

Confidentiality Notice:
The documents accompanying this transmission contain confidential information intended for a specific individual or purpose. The information is private, and is legally protected by law. If you are not the intended recipient, please call immediately. You are hereby notified that any disclosure, copying, distribution, or use of the contents of this transmission, or the taking of any action in reliance thereon, is strictly prohibited.

REGARDING: COMMITTEE ON SMALL BUSINESS / TARIFF HEARING / SEPTEMBER 25, 2002.

Dear Phil:

Thank you for your time on Friday, September 13, and for allowing me the opportunity to share with you the latest issue facing our imported Arnokrome-5C material. As I explained on Friday, in addition to the 30% tariff, we are now liable for an 8.47% anti-dumping duty (referencing 19 CFR 351.402 ANTI-DUMPING AND COUNTERVAILING DUTIES).

Thank you for directing me to Bryan Davis at Congressman Manzullo's Rockford Office. I spoke with Bryan on Friday, September 13 and today, September 16, I faxed all of the pertinent details concerning this anti-dumping duty issue to his attention. Bryan has committed to looking at the information and he will try to provide some direction on how to proceed or whom we should be contacting.

Best Regards,

Michael D. Nelson
General Manager
ROLLED PRODUCTS DIVISION
GROUP ARNOLD

Copy: Dennis Shea: SPS TECHNOLOGIES 215-517-2032

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– Since 1932 –

Telephone: 1-517-542-2903
Fax #: 1-517-542-2501
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Web Site: www.JescoOnline.com

May 5, 2002

Honorable Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: (202) 225-3587

Dear Congressman Manzullo:

I am writing on behalf of my company, Jesco Industries, Inc.
We are located in Litchfield, Michigan and we employ 65 workers. **We need your help !**

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not reliable. Our suppliers are increasing their prices drastically, some up to 50% (see attached letters). The President could not have expected that prices would rise so fast or that the ability of companies like mine to obtain steel would virtually disappear. I have no assurance of steel supplies past June of this year.

My business is in danger if I cannot get steel. My customers will not pay the increased prices that I am being charged for steel. Unless things change rapidly, my company will lose business to foreign competition that now has a build-in cost advantage, thanks to the actions of our own government.

We are a small business. We need the steel that we buy to be priced by the market, not by the government.

Please ask the President to help us get the steel that we need to stay in business in the USA.

Thank you.

Sincerely,

Bonny K DesJardin

Bonny K. DesJardin
President

attachments (2)

BKD:ae

9:36AM CRAWFORD STEEL NO.898 P.2/3

(773) 376-6969

CRAWFORD STEEL COMPANY

HOT ROLLED · PICKLED · COLD ROLLED · GALVANIZED · VITREOUS ENAMEL · TERNE PLATE · STRIP · SHEET · SHEARING

Tuesday, June 04, 2002

Anita Evers
Jesco Industries
950 Anderson Road
Litchfield, MI 49252

Dear Anita:

Due to the section 103 decided by the government to warrant a 30% tariff on flat rolled imports, we have been forced to raise pricing across the board on all your sizes. Pricing from the domestic mills have increased from $210 a ton to anywhere from $300- $350 a ton as an unprocessed band. Not only has pricing become irrational in a short period, but there is a shortage in material like never before. No imports are on the way to the states and unless the government comes off there section 103 stand there is no telling where domestic manufacturing is headed. We don't set pricing at Crawford. We are forced at this time to follow the lead of the domestic mills because they are the only option to have steel rolled. At this time your pricing has increased $60.00 a ton. There is plenty of steel world wide. If the government didn't intervene with free trade none of this would have been necessary.

Sincerely,

Howard Friedma

Jun-06-2002 09:13am From-MUNCY CORPORATION +9378647637 T-583 P.001/002 F-989

MUNCY CORPORATION

2601 Enon Road
Enon, Ohio 45323
(937) 864-7305
(937) 864-7637 Fax

June 6, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Attn: Philip D. Eskeland
Fax: 202-225-3587

Dear Congressman Manzullo:

I am writing on behalf of my company, **the Muncy Corporation.** We are located in Enon, Ohio and we employ 95 workers. Our production workers are members of the I.A.M. union. We need your help.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not reliable. We have received price increases of **25%** and have been warned that the supplies are very limited and unreliable. We had an agreement to hold the price of the steel for all of 2002. However, the supplier won't honor the agreement because of the tariff. The supplier says that they are absorbing another 15% so the real cost increase is **40%.** The President cannot have expected that prices would rise so fast or that the ability of companies like mine to obtain steel would virtually disappear. I have no assurance of steel supplies past **August** of this year.

My business is in danger if I cannot get steel. My customers will not pay the increased prices I am being charged for steel. 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. **To help fight the problem and remain in business, I am starting to purchase foreign steel components instead of making them myself. This of course is ridiculous. Because of our government's action, I am laying off American workers and buying foreign steel products.**

We are a small business. We need the steel we buy to be priced by the market, not by the government.

Please ask the President to help us get the steel we need to stay in business in the USA.

Thank you.

Sincerely,

Wayne Brumfield

Wayne Brumfield

President and Owner

Muncy Corporation is committed to the implementation of continuous process control and improvement that exceeds the needs of our customers and to provide a product with the highest quality at a reasonable cost, with 100% on-time deliveries.

Jun-06-2002 06:13am From-MUNCY CORPORATION +9378647637 T-583 P.002/002 F-899

MIAMI VALLEY STEEL SERVICE INC.
P.O. Box 1191 • 201 Fox Dr. • Piqua, Ohio 45356
Phone (937) 773-7127 • Fax (937) 773-1615

April 12, 2002

Terry Cooney
Muncy Corporation
2601 Enon Road
Enon, OH 45323

Dear Terry:

Confirming our conversation of this week, due to the domestic mills restriction of supply and tariffs on foreign steel, we are increasing our prices to you effective on shipments as of 6-1-02.

The increase is as follows:

6-1-02	15 %
7-1-02	10 %

Terry, pricing from the mills has increased 40% and is continuing to rise. Our mill sources say we will not have an uninterrupted supply of steel, but it will be at market prices.

Call me with any questions.

Sincerely,

John Scott
John Scott
VP Sales

JS/vk

We had an agreement to hold the price of steel for all of 2002.
Wayne Bramfield
Muncy Corp.

BUHRKE Industries, Inc.

Hi-Volume Precision Metal Stampings ■ Precious Metal Contact Welding ■ Mechanical Assemblies ■ Metal Stamping Dies in Steel and Carbide

June 5, 2002

Hon. Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, D.C. 20515-1316

Att'n: Philip D. Eskeland
Fax: 202-225-3587

Dear Congressman Manzullo:

I am writing on behalf of my company, Buhrke Industries, Inc. We are located in Arlington Heights, Illinois and we employ 120 workers. We need your help.

The steel tariffs imposed by the President in March have increased the price and reduced the availability of steel to the point that our supply of steel is not reliable. Attached are sample letters from vendors and steel suppliers that verify placement of our vendors on allocation and price increases, etc. The President cannot have expected that prices would rise so fast or that the ability of companies like mine to obtain steel would virtually disappear. I have no assurance of steel supplies past September this year.

My business is in danger if I cannot get steel. My customers will not pay the increased prices I am being charged for steel. 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.

We are a small business. We need the steel we buy to be priced by the market, not by the government. We cannot afford to come to Washington to buy steel.

Please ask the President to help us get the steel we need to stay in business in the USA.

Thank you.

Sincerely,

Michael F. Chester
Michael F. Chester
President

MFC:jnf
Attach.

Corporate Headquarters: 511 West Algonquin Road, Arlington Heights, Illinois 60005-4499 Tel (847) 981-7550
Office Fax (847) 981-0772 Customer Service Fax (847) 290-1504 E-Mail: BUHRHE19@MAIL.IDT.NET

Southern Facility: 2446 Pine Lake Trail, Arab, Alabama 35016
Tel 1(800) 661-9502 Fax (205) 586-3615

HARRIS STEEL™

April 11, 2002

To Our Valued Customers:

Tough market conditions and unprecedented times are changing how we evaluate and review the market. Pricing, lead-times, product availability, and mill philosophies are changing daily.

Pricing has been extreme in many cases. Dramatic increases reported in the market are on all products and include changes in base prices, extras, quantities and those items on programs as well (increases up to $120/ ton being reported). It is not unusual for the mills to change pricing posture two or three times on the same segment of business or timeframe of delivery. The mills are looking to regain profitability, and with many in chapter 11 or with heavy sustained losses in 2001, they are looking to reverse their plight as opposed to accept the alternative. Three key components in the domestic market that have accelerated the shift of orders to the domestic doorsteps are the closure of LTV, the closure of Acme Steel and the Section 201 rulings. The shift in capacity has fueled the pricing schemes we are facing from the domestic mills. With a 30% tariff on imported finished goods, offshore material has been held in check and domestics have become overbooked.

The shift to domestic doorsteps has caused confusion at the mill level, and they have all extended lead-times. The mills are operating at full capacity and are not used to such a frantic pace. The sorting out and juggling of orders has just begun, and their order book continues to grow as the market clamors for available steel. Days, weeks, and months have been closed out for material delivery, and in many cases eliminated any reaction time from customers. Lead-times have doubled from 8-10 weeks to 16-20 weeks. The potential for further concern looms large as the market evolves.

As the mills begin to sort out their order book, product availability is becoming strained. Profitable and high production efficient orders take priority, and the mills have not been shy in turning orders back that currently do not fit their plan. Allocation allotments and restricted supply are part of daily conversation with them. Some mills are electing to discontinue product lines entirely as they attempt to clean house of the unwanted business they have kept from the previous market. Increasing tonnage levels with them is not currently a given. Due to the aforementioned variables, many requests have to be negotiated.

April 11, 2002
page 2

The mills are running towards profitability as quick as they believe they can get there. Certainly those mills that are in chapter 11 (Bethlehem, National, etc.) see it as the obvious path they need to follow to regain positive revenue growth. Those that have sustained huge losses in 2001 (USS, National, Beth, Rouge, AK Steel) and are looking to avoid chapter 11 in 2002 are also bent on regaining positive revenue. While LTV and Acme Steel face huge start up costs just to reopen the doors before the first ton of steel would be made, their future is still up in the air.

The future will be challenging. We have to address the market as it has been forced upon us. We will keep you informed as to the changing landscape and will do everything we can to maintain a supply of steel and a win-win relationship for all of us. The first step is to recognize the music has changed, and in order to make the next best decision for our companies, we have to acknowledge that fact. In working together, we can develop plans that will work, but they have to be put together based on the market of today, not the one from last year.

Thank you for your patronage and the opportunity to be part of your future.

Sincerely,

HARRIS STEEL COMPANY

Thomas G. Eliasek

Thomas G. Eliasek
President

HARRIS STEEL™

April 24, 2002

Mrs. Judy Sears
BUHRKE INDUSTRIES

Fax: 847-290-1504

Dear Judy:

Over the past several months, I have tried to keep you up-to-date with regards to the quickly changing market conditions we are all experiencing. As a result of several plant closures, in addition to a lower import levels, it has been extremely challenging to maintain a consistent source of supply. All service centers and OEM's are on allocation with every domestic mill. Even though pricing is considered very important, it has taken a back seat over availability of metal.

As you know, pricing has escalated to enormous proportions overnight, putting both service centers and OEM's at the mercy of the steel mills. Although not every supplier has put pricing in writing, our costs for third quarter will be well over 30% of what our pricing was at the beginning of the year. As an industry, steel service centers are not fortunate enough to enjoy profit margins in excess of 30%.

Obviously, this has created quite a challenge in our industry's intent towards pricing commitments. All of our contracts with our customers have been amended to accommodate these unprecedented market conditions. Because of this, it is necessary to review our pricing arrangements as established in our three-year agreement.

It is important to note that your business is important to Harris Steel and me. The decision to revise pricing has been difficult. However, in this business environment, it is a decision that it is necessary to make. I am optimistic that we will work through what appears to be some challenging times ahead and continue to grow the relationship between our companies for years to come.

Sincerely,

Larry J. Vena
Sales Representative

cc: John Coia

HARRIS STEEL COMPANY • 1223 SOUTH 55TH COURT, CICERO, ILLINOIS 60804-1297

VIKING MATERIALS INC.

May 3, 2002

Dear Valued Customer

Steel is in short supply and prices are skyrocketing!

Within the last several months we have seen the demise of several domestic producers including LTV, Acme and Geneva Steel. On top of this, the 30% tariffs imposed in the Government's 201 ruling of late March, have virtually frozen imports out of the market.

The remaining domestic suppliers are taking full advantage of the current situation. We have been given price increases that will total as much as $200 per ton by the third quarter with further increases likely to follow. In a number of cases mills have reneged on agreed upon prices in the second quarter and basically taken a "take it or leave it" attitude.

We are writing to inform you of the severity of the situation. We know how disruptive these increases can be to your business and how difficult it is to recoup these additional costs.

We will keep you informed as this market situation evolves.

Please call your sales representative with questions.

Bill Olson
Director of Sales - Chicago

Mike Allen
Sales Manager - Minneapolis

3225 COMO AVENUE S.E., MINNEAPOLIS, MN 55414 • (612) 617-5800 • FAX (612) 623-9070

MAY. 2.2002 11:15AM BSC GEN MGRS OFC NO.461 P.1/1

Bethlehem Steel Corporation

P. O. Box 248
Chesterton, IN 46304

PHONE: 219-787-7430
800-543-2127

May 2, 2002

Viking Materials, Inc.
Attention: Mr. John Applegate
3434 Powell Street
Franklin Park, IL 60131

Dear John,

The following purchase orders will be increased $4.50 effective June 1, 2002 and the price will remain unchanged through August 30, 2002.

The purchase order numbers are:

100399	100300
100419	100308
100423	100477
100342	100459
100436	100423
100420	100437
100394	

If you have any questions regarding this increase, please don't hesitate to contact me.

Sincerely,

BETHLEHEM STEEL CORPORATION

Louis G. Bower
Sr. Account Manager

LGB/dsh

Jun-05-2002 02:57pm From-AJROSE + T-717 P.001/006 F-599

A.J. ROSE MANUFACTURING CO.

Established 1922

MOVING METALS IN INNOVATIVE WAYS

June 5, 2002

Honorable Donald A. Manzullo
U.S. House of Representatives
409 Cannon House Office Building
Washington, DC 20515-1316

Attn: Philip D. Eskeland
FAX: 202-225-3587

Dear Congressman Manzullo:

I am writing to request you help with regard to the 30% tariff on imported steel imposed by President Bush on March 11, 2002.

We are asking for this exemption on behalf of the 400 associates of A. J. Rose Manufacturing Company, headquartered in Avon, Ohio and our other plant in Cleveland, Ohio. Of the 400 associates, 270 are members of the United States Steel Workers' Local # 735. We have been in business since 1922 and are a third-generation, family-owned, domestic company. We specialize in manufacturing tight tolerance metal stampings, air bag components and spun-formed products for the automotive market, OE and aftermarket. Over 90% of these are engine components running at very high RPM's, therefore, there is high liability associated with these parts. We have been 100% dependent on using Corus (previously Hoogövens) hot-rolled material since 1976. They, along with Imports International / Chesterfield Steel, our U.S. processor and ultimate supplier, have collectively assisted us in engineering unique steels to make our products. We have been able to grow and add jobs because we manufacture products that no one or a limited few can do. Corus and Imports International / Chesterfield Steel have been an integral and necessary part of our growth of supplying hot-rolled material with guaranteed (to make the part) tight tolerances and unique characteristics that cannot be duplicated by other mills. Many mills and service centers have looked at our products and declined to quote. In supplying the U. S. auto market, we have been unable to participate in hot-rolled steel "procurement programs". In those "programs", the automakers partner with the U. S. mills to generate enough volume to negotiate cheaper pricing for a large number of their suppliers. Auto companies have been unsuccessful in finding any U. S. mill to supply us steel that meets the specifications that we need to make their parts. I have attached examples of each of the above-mentioned situations (see Exhibit I and Exhibit II).

CORPORATE HEADQUARTERS
AVON PLANT
38000 CHESTER ROAD
AVON, OHIO 44011
440/934-7700

WWW.AJROSE.COM

CLEVELAND PLANT
3115 WEST 38th STREET
CLEVELAND, OHIO 44109
440/934-7700

Letter to Congressman Manzullo
June 5, 2002
Page 2

I am also attaching a letter (Exhibit III) we just received from one of our major customers advising us they will be resourcing 11 of our current jobs overseas due to a savings of 38% to 42% on finished parts they will import from Brazil and Asia.

This constant threat to our business is very real and will only accelerate if we are forced to pay such a premium for the steel we need to run our business. The hardship of this tariff and our constant inability to pass on any price increases to the automotive companies will cost not only jobs, but also most certainly, affect A. J. Rose Manufacturing Company's ability to survive.

If you require additional information, please call me at (440) 934-7700.

Thanking you in advance for your help in this matter as time is of the essence!

Sincerely,

H. John Warnkey
EVP & Chief Operating Officer

HJW/bap
Attachments

Jun-05-2002 02:57pm From-AJROSE + T-717 P.003/006 F-589

File

Exhibit I

LTV Steel

May 21, 2001

Mr. Robert S. Nemeth, Jr.
A. J. ROSE MANUFACTURING COMPANY
38000 Chester Road
Avon, Ohio 44011

Dear Bob:

This is in response to your request and confirming our phone conversation regarding LTV's capability of meeting your requirements.

The upgrade to the 84" Hot Strip Mill (HSM) to achieve greatly improved thickness control was planned to occur in stages. A number of stages have been completed to date, but all stages in 2001 and 2002 have been postponed due to our financial situation. The installation of the hydraulic screwdowns is not scheduled to be completed until the 2nd quarter of 2003. When the installation is complete, we expect to be able to greatly minimize thickness variations due to reheat furnace skid marks.

It is impossible that the financial situation will change and some earlier installation of the new equipment is possible. However, we will not be capable of holding the desired minimum thickness variation until after that equipment is installed.

We appreciate your interest in our company and trust that our companies can do business in the future.

Sincerely,

LTV STEEL COMPANY, INC.

Peter W. Eklund

Peter W. Eklund
Account Manager

cc: J. K. Mahaney

LTV Steel Company. 36 Brandywine Drive, Hudson 44236
Phone: 330-342-8542 Fax: 330-528-0357

Jun-05-2002 02:57pm From-AJROSE + T-717 P.004/006 F-589

May 12 '93 9:09 0000 SANFAX725 SERIES TEL PAGE 01

5-12-93
Post-It™ brand fax transmittal memo 7671 # of pages ▸ 1

To Bob Nemath	From Karen Vuono
Co. A. J. Rose	Co. U.S. Steel
Dept.	Phone # 800-521-4270
Fax # 216-631-8291	Fax #

U. S. Steel
Central Area Sales
201 West Big Beaver F
Suite 1400
Troy, MI 48084-4169
313 740 5000
800 521 4270 (Out of S
800 482 6192 (Within Michigan)

G. M. - Procurement Program

July 6, 1992 faxed 2:10

Ms. Kathryn West
General Motors corporation
3044 W. Grand Boulevard
Detroit, MI 48202

Exhibit II

Dear Kathryn:

After completion of the A. J. Rose metallurgical review, the primary area of concern remains the requested gauge tolerance. As you are aware, U. S. Steel's agreement with General Motors guarantees three-quarter and aims for one-half standard on hot rolled product. In certain instances, the mill will guarantee one-half standard on some hot roll parts. In this case, the customer is requesting one-quarter standard tolerance on a hot rolled product and U. S. Steel is unable to furnish the requested gauge restriction.

In order to address this issue, we recommend supplying a trial of cold rolled product in place of the hot rolled material with a guarantee of one-half and an aim of one-quarter standard gauge. The trial may require A. J. Rose to make adjustments to their current processing.

This change in product line would obviously result in a change in price.

We do not recommend updating the contract by converting all the parts to cold roll until a trial is complete. If this trial is not successful, it is our recommendation to leave the parts with the current supplier.

If you should have any additional questions concerning this information, please feel free to call.

Sincerely,

Karen L. Vuono
Sales Representative

GMC009

cc: J. J. Kutka

U. S. Steel Group
A division of USX Corporation

All sales are subject to the conditions set forth on the reverse side of this sheet

Jun-05-2002 02:57pm From-AJROSE + T-717 P.005/006 F-589

Cummins Inc.
Box 3005
Columbus, Indiana
47202-3005

MAR 13 2002

March 5, 2002

Exhibit III

Dear M. Nejman;

I am writing this letter to address the competitive threat that was presented to A.J. Rose in October 2001, on the spun pulleys you currently produce for Cummins. This threat is very real and currently represents a saving of 38 – 42 % on all components produced by A.J. Rose. With this type of savings available to our customers it is impossible to walk away from this opportunity.

However, the information presented by A.J. Rose as being a strong supplier to Cummins is duly noted. It is our impression that the savings offered by A.J. Rose through design and innovation is an asset worth maintaining a strong relationship with. We strongly associate A.J. Rose with one of our best suppliers generating new opportunities for both our organizations to benefit from. With this in mind we are proposing a solution that allows Cummins to maintain our relationship with A.J. Rose and to also develop this opportunity.

We will be resourcing the following eleven components. We have done our best to select components suggested by A.J. Rose and those components that represent the greatest opportunity for savings without dramatically impacting the total Cummins' spend at A.J. Rose.

The parts to be resourced will be 3943660, 3943661, 3943978, 3883324, 3914494, 3914461, 3926858, 3926859, 3926855, 3046203, and 3680190.

In generating this list of parts for resourcing, the plan presented to Cummins' management includes savings proposed by A.J. Rose in the mix. However, we do recognize that this will be a reduction in total business for A.J. Rose and as a result, you may elect to withdraw the proposed savings. If this is your decision we are able to maintain the same savings ratio by moving part numbers 3914463, 3073676, 3943591, and 3958680 to the new supplier, in addition to the eleven parts listed above.

Phone: 812-377-5000
Facsimile: 812-377-3334

It is our hope to maintain the relationship we have with A.J. Rose moving forward. Today we are seeing pricing opportunities as much as 30 - 33% from Brazil and 38 – 42 % from Asia for spun components. It is our intention in providing you these ratios to not be overbearing but to allow A.J. Rose to understand the current market place and to provide a means whereby you are able to develop continued strategies to compete.

The timing for the movement of these parts is still pending. I will be providing this information to you in the near future.

Sincerely,

Eric D. Barnett
Sourcing Manager
Iron Machining Team
Cummins, Inc.

A.J. ROSE MANUFACTURING CO.
Established 1922

MOVING METALS IN INNOVATIVE WAYS

August 30, 2002

The Honorable Donald A. Manzullo, Chairman
House Small Business Committee
U.S. House of Representatives
2631 Rayburn Building
Washington, D C 20515

Dear Chairman Manzullo:

Thank you again for providing me the opportunity to testify at the July 23rd hearing on the "Unintended Consequences of Increased Steel Tariffs on American Manufacturers." The purpose of this letter is to supplement my testimony regarding attempts that A. J. Rose has made to purchase the steel that was the subject of our product exclusion requests from domestic sources, and to bring you up to date on the disposition of those product exclusion requests.

At the hearing, Congresswoman Velazquez asked me for details as to efforts I had made to purchase the material that is the subject of the exclusion requests from domestic sources. I was not able to provide many details at that time because A. J. Rose does not purchase steel directly from steel producers -- rather, A. J. Rose purchases steel through its steel processor, Chesterfield Steel. As discussed below and in detail in Appendix A to this letter, Chesterfield has made repeated efforts over the last several months to purchase steel for A. J. Rose from U.S. steel producers, but these efforts have been unsuccessful. Notwithstanding their clear inability to supply my company's needs, domestic steel producers filed objections to all of A. J. Rose's product exclusion requests.

A. J. Rose filed product exclusion requests for seven products. These were designated as product exclusion requests N-330.01--.07. Chesterfield, our steel processor/supplier also filed exclusion requests on our behalf with respect to four of these products (exclusion requests N-374.01, N-374.02, N-374.04, & N-374.07). Only two of these exclusion requests were ultimately granted. (Chesterfield's exclusion requests nos. N-374.01 and N-374.07 corresponding to A. J. Rose's exclusion requests N-330.01 and N-330.03).

Unfortunately, the exclusions that were granted were subject to quantitative limitations that are far below our annual requirements. We do not know the basis for these quantitative limits. We received no relief with respect to our five other product exclusion requests.

As my testimony before the Committee indicates, A. J. Rose specializes in manufacturing tight tolerance metal stampings, air bag components, and spun-formed products for the automotive market, OEM and aftermarket. Over 90 percent of our products are components used in motor vehicles, running at very high RPM's. Needless to say, the need to produce safe and reliable products is of the utmost importance. Therefore, it is critical that we use hot-rolled material with the guaranteed tight tolerances and unique characteristics we need. Unfortunately, U.S. producers are currently unable, or unwilling to produce products meeting these requirements.

As detailed in Appendix A, hereto, Chesterfield, our steel processor/supplier has made numerous efforts to obtain the steel we need from domestic sources. The domestic industry has either been unable or unwilling to provide the exact specifications we need. The hot-rolled steel claimed by the domestic industry to be interchangeable is not interchangeable and does not meet A. J. Rose's requirements, or the requirements of our customers.

The bottom line is that there seems to be little or no correlation between what the U.S. domestic producers have claimed they can do in their objections to our product exclusion requests and what they are willing to commit to when contacted by customers.

At the hearing, Mr. Chairman, you generously offered to act as a broker with domestic producers to help us obtain the steel we need. We would like to take you up on this generous offer. Attached, in Appendix B, are specifications for the steel we need. We would be happy to buy our steel from domestic sources, provided they can meet our demanding specifications.

We are very frustrated with the exclusion process. While we realize that we were among the "lucky ones" in that we received exclusions on two of our products, this may, in fact, be a hollow victory. Not only are the quantitative limitations significantly below our annual needs, but under the current system, there is no guarantee that we will ever benefit from this relief—rather the benefit of the

Letter to The Honorable Donald A. Manzullo, Chairman
House Small Business Committee
August 30, 2002
Page 3

exclusions will simply flow to the first companies that happen to import the specific product. Anyone can make use of these exclusions.

Clearly, a great deal of improvement is needed in the exclusion process. However, our firm belief is that the early termination of the tariffs on steel is the best solution for small business in America.

Thank you, Mr. Chairman, for your interest in, and support of, small businesses that are suffering from the unintended consequences of the Steel Section 201 tariffs.

Respectfully submitted,

David Pritchard
President and CEO
A. J. Rose Manufacturing Co.

Attachments

APPENDIX A

EFFORTS MADE TO OBTAIN STEEL FOR A. J. ROSE FROM U.S. SOURCES

N 330.01

- Bethlehem: Our steel processor contacted Bethlehem in July of 2002 to request a quote on the exact specification. Bethlehem responded that it cannot meet the specifications.
- AK Steel: Our steel processor, Chesterfield, contacted AK Steel in July. AK responded saying it does not make a non-earing product and that it cannot make the grade requested.
- US Steel: Our steel processor, Chesterfield, contacted USS in July asking for a quote on our specifications and we were advised that the chemistry is too restrictive to melt to, that at best they could only ½ standard ASTM tolerances, and even with that to expect additional yield losses. The further stated they did not make a non-earing hot roll. This directly contradicts their objections.
- Rouge: Our steel processor, Chesterfield, contacted Rouge in May and July and was told that Rouge will not guarantee to make the part, that its gauge tolerances would be guaranteed to ½ standard only (unacceptable for our processing), that it would have to be allowed deviations in the chemistry, and that it would not quote a non-earing product.
- National: Our steel processor, Chesterfield, contacted National in April to request a quote on this product and we were informed that National does not have excess capacity to take on additional business. We were given the same answer in response to an inquiry in July.
- Nucor: Scrap-based mini-mills are not capable of producing the restricted chemical composition requested and specified. Still, once we found that Nucor claimed it could make the product, Chesterfield repeatedly contacted the local Nucor representative and has received no response.

These efforts are listed by A. J. Rose's product exclusion request numbers. We have limited our discussion to products that were also the subject of product exclusion requests filed by Chesterfield Steel. For a description of these products, see Appendix B.

- Weirton: Our steel processor, Chesterfield, contacted Weirton in May to ask for a quote on this specification. We were told that Weirton is limited in sizes, that chemistry restrictions and tolerances not only cannot be guaranteed but must be waived, that they cannot do a tension leveled item and that they are limited in grades and there is no availability they can supply.

N-330.03

- Bethlehem: Our steel processor, Chesterfield, contacted Bethlehem in July and August about this product and were told that they cannot guarantee to make the part, cannot meet the thickness restrictions and cannot provide non-earing steel.

- U.S. Steel: Our steel processor, Chesterfield, contacted U.S. Steel to obtain a price quote on this specification and was told in April that U.S. steel could not produce the material to the required chemistry dimensions. This directly contradicts the assertion made by U.S. Steel in its questionnaire responses that they make the exact product, and has the capability to make the product, in the full range of sizes and to the exact specifications as requested and that they have the exact product in inventory.

- Rouge: Our steel processor, Chesterfield, contacted Rouge in May and July and was told that Rouge will not guarantee to make the part, that its gauge tolerances would be guaranteed to ½ standard only (unacceptable for our customers), that it would have to be allowed deviations in the chemistry, and that it would not quote a non-earing product.

- National: Our steel processor, Chesterfield, contacted National in April to request a quote on this product and we were informed that National does not have excess capacity to take on additional business. Chesterfield was given the same answer in response to an inquiry in July.

- WCI: WCI admits it does not produce, and does not have the capability to produce, the exact product requested. The product claimed by WCI to be interchangeable is not acceptable for deep draw for the end-use applications of our customers.

- Nucor: Scrap-based mini-mills are not capable of producing the restricted chemical composition requested and specified. Still, once we found that Nucor claimed it could make the product, we repeatedly contacted our local Nucor representative and have received no response.

N-330.04

- Bethlehem: Our steel processor, Chesterfield, contacted Bethlehem in July of 2002 to request a quote on the exact specification. Bethlehem responded that it cannot meet the specifications.
- Rouge: Our steel processor, Chesterfield, contacted Rouge in May to obtain a price quote on this specification and was told that they cannot guarantee the part, that gauge tolerances would be guaranteed to ½ standard only (unacceptable for our process tooling), that they could only aim to "minimize" earing, and that deviations would be required for certain chemical restrictions.
- National: Our steel processor, Chesterfield, contacted National in April to ask for a quote on this specification. We were told that National has no excess capacity to take on additional business. We were given the same answer in response to an inquiry in July.
- Nucor: Scrap-based mini-mills are not capable of producing the restricted chemical composition requested and specified. Still, once we found that Nucor claimed it could make the product, we repeatedly contacted our local Nucor representative and have received no response.
- Weirton: Our steel processor, Chesterfield, contacted Weirton in May to ask for a quote on this specification. We were told that Weirton is limited in sizes, that chemistry restrictions and tolerances not only cannot be guaranteed but must be waived, that they cannot provide a tension leveled product and that they are limited in grades they can supply. Weirton has also told us that it cannot provide non-earing steel.

N330.07

- Bethlehem: Our steel processor, Chesterfield, contacted Bethlehem in July and was told that they cannot make the requested chemistry at any of their facilities.
- AK Steel: Our steel processor, Chesterfield, contacted AK Steel in July to obtain a quote on this specification and was told that AK Steel cannot provide the grade requested.
- US Steel: Our steel processor, Chesterfield, contacted U.S. Steel in July and was told that they cannot produce the requested item.

- Rouge: Our steel processor, Chesterfield, contacted Rouge in May to obtain a price quote on this specification and was told that they cannot guarantee the part, that gauge tolerances would be guaranteed to ½ standard only (unacceptable for A. J. Rose process tooling), that they could only aim to "minimize" earing, and that deviations would be required for certain chemical restrictions.
- National: Our steel processor, Chesterfield, contacted National in April to ask for a quote on this specification. We were told that National has no excess capacity to take on additional business. We were given the same answer in response to an inquiry in July.
- Weirton: Our steel processor, Chesterfield, contacted Weirton in May to ask for a quote on this specification. We were told that Weirton is limited in sizes, that chemistry restrictions and tolerances not only cannot be guaranteed but must be waived, that they cannot do a tension leveled item and that they are limited in grades they can supply.
- Nucor: Our steel processor, Chesterfield, contacted Nucor in July to obtain a quote on this specification and was told that Nucor does not produce the requested grade.

APPENDIX B

PRODUCT DESCRIPTIONS FOR A. J. ROSE'S EXCLUSION REQUESTS

EXCLUSION REQUEST N-330.01 – ASTM A1011 DS GRADE WITH NON-EARING PROPERTIES

Hot rolled or hot rolled pickled and oiled tension leveled flat rolled steel coils, guaranteed to make the part and with surface requirements capable of being painted or plated for exposed applications in the as received condition.

Tonnage Required

11,509 metric tons

Product Description

ASTM A1011 DS Type A with the following chemistry in percent by weight: carbon .025/.064 (aim .045); manganese .175/.274 (aim .220); phosphorus .017 max.; sulfur .020 max.; silicon .024 max.; aluminum .025/.060 (aim .045); nitrogen .0025/.0050 (aim .0033); copper .040 max.; tin. 010 max.; chromium .040 max..; nickel .040 max.; molybdenum .010 max.; columbium .005 max.; vanadium .005 max.; boron .0005 max.; titanium .005 max.; and in the following gauges:

Applicable Gauges

.060" –0/+.005
.069" –0/+.007
.072" –0/+.005
.075"–0/+.007
.084" –0/+.005
.098" –0/+.008
.0985" – 0/+.007
.102"–0/+.007
.121" –0/+.005
.1211" –0/+.005
.123" –0/+.005
.128" –0+.008
.167" –0/+.007
.207" –0/+.009

EXCLUSION REQUEST N-330.02 – SAE J1392 070XLF MODIFIED

This is a special hot rolled, high strength, low alloy product used to make deep drawn pressure vessel components for automotive air bags.

Tonnage Required

78 metric tons

Product Description

Hot rolled pickled and oiled flat rolled steel coils guaranteed to make the part. Surface is equal to exposed. Thickness tolerance is less than one half of standard thickness tolerance (ASTM 568).

Inclusion shape control by a calcium treatment with the following chemistry in percent by weight.

Carbon 0.080 - .0100 (aim 0.100), manganese 1.370 – 1.500 (aim 1.440), phosphorus 0.020 max., sulfur 0.005 max., silicon 0.080 – 0.120 (aim 0.100), aluminum 0.015 – 0.055 (aim 0.030), nitrogen 0.0030 – 0.0060, copper 0.040 max., tin 0.010 max., chromium 0.040 max., nickel 0.040 max., molybdenum 0.010 max., columbium 0.040 – 0.050 (aim 0.045), vanadium 0.005 max., boron 0.0008 max., titanium 0.005 max., RB 88 MIN.

Applicable Gauges

.141" + .008"

EXCLUSION REQUEST N-330.03 – SAE J1392 050XLF

This is a special hot rolled, high strength, low alloy product used to make flow formed automotive components.

Tonnage Required

850 metric tons / 960 US tons

Product Description

Hot rolled flat rolled steel coils guaranteed to make the part. Surface after pickling is equal to exposed. Thickness tolerance is one half of standard thickness tolerance (ASTM 635).

Inclusion shape control by a calcium treatment with the following chemistry in percent by weight.

Carbon 0.045 - 0.094 (aim 0.070), manganese 0.445 – 0.554 (aim 0.500), phosphorus 0.020 max., sulfur 0.005 max., silicon 0.030 max.; aluminum 0.015 – 0.055 (aim 0.030), nitrogen 0.0050 max.; copper 0.040 max., tin 0.010 max., chromium 0.040 max., nickel 0.040 max., molybdenum 0.010 max., columbium 0.020 – 0.030 (aim 0.025), vanadium 0.005 max., boron 0.0005 max., titanium 0.005 max.

Applicable Gauges

.310" 0/+.012"

EXCLUSION REQUEST 330.04 – ASTM A1011 CS GRADE WITH NON-EARING PROPERTIES

Hot rolled or hot rolled pickled and oiled tension leveled flat rolled steel coils, guaranteed to make the part and with surface requirements capable of being painted or plated for exposed applications in the as received condition.

Tonnage Required

11,509 metric tons

Product Description

ASTM A1011 CS Type A with the following chemistry in percent by weight: carbon .025/.070; manganese .175/.274 (aim .220); phosphorus .017 max.; sulfur .020 max.; silicon .024 max.; aluminum .025/.060 (aim .045); nitrogen .0025/.0050 (aim .0033); copper .040 max.; tin. 010 max.; chromium .040 max..; nickel .040 max.; molybdenum .010 max.; columbium .005 max.; vanadium .005 max.; boron .0005 max.; titanium .005 max.; and in the following gauges:

Applicable Gauges

.244" –0+.012
.236" –0/+.012
.310" –0/+.012
.361" –0/+.018

EXCLUSION REQUEST N330.05 – SAE J1392 060XLF MODIFIED

This is a special hot rolled, high strength, low alloy product used to make deep drawn pressure vessel components for automotive air bags.

Tonnage Required

335 metric tons

Product Description

Hot rolled pickled and oiled flat rolled steel coils guaranteed to make the part. Surface is equal to exposed. Thickness tolerance is less than one half of standard thickness tolerance (ASTM 568).

Inclusion shape control by a calcium treatment with the following chemistry in percent by weight.

Carbon 0.070 - .0110 (aim .090), manganese 0.175 – 0.274 (aim 0.220), phosphorus 0.017 max., sulfur 0.020 max., silicon 0.024 max., aluminum 0.025 – 0.060 (aim 0.045), nitrogen 0.0025 – 0.0050 (aim 0.0033), copper 0.040 max., tin 0.010 max., chromium 0.040 max., nickel 0.040 max., molybdenum 0.010 max., columbium 0.005 max., vanadium 0.005 max., boron 0.0005 max., titanium 0.0005 max., RB 84 MIN.

Applicable Gauges

.134" + .008"
.1411" + .008"

EXCLUSION REQUEST N330.06 – SAE J1392 040XLK

This is a special hot rolled, high strength, low alloy product used to make flow formed automotive components.

Tonnage Required

107 metric tons

Product Description

Hot rolled pickled and oiled flat rolled steel coils guaranteed to make the part. Surface is equal to exposed. Thickness tolerance is less than one half of standard thickness tolerance (ASTM 568).

Inclusion shape control by a calcium treatment with the following chemistry in percent by weight.

Carbon 0.070 - .0110 (aim .090), manganese 0.175 – 0.274 (aim 0.220), phosphorus 0.017 max., sulfur 0.020 max., silicon 0.024 max., aluminum 0.025 – 0.060 (aim 0.045), nitrogen 0.0025 – 0.0050 (aim 0.0033), copper 0.040 max., tin 0.010 max., chromium 0.040 max., nickel 0.040 max., molybdenum 0.010 max., columbium 0.005 max., vanadium 0.005 max., boron 0.0005 max., titanium 0.0005 max., RB 84 MIN.

Applicable Gauges

.134" +.008"
.141" +.008"

EXCLUSION REQUEST N330.07 – ASTM A1011 CS TYPE B MODIFIED

This is a special hot rolled product used in the manufacture of flow formed automotive components.

Tonnage Required

173 metric tons

Product Description

Hot rolled or hot rolled pickled and oiled flat rolled steel coils guaranteed to make the part. Surface is equal to exposed, or easily picked (HR) to equal exposed. Thickness tolerance is one half or less than standard thickness tolerance (ASTM A568).

Chemical composition in percent by weight: carbon 0.080 - 0.100 (aim 0.090), manganese 0.300 – 0.400 (aim 0.350), phosphorus 0.020 max., silicon 0.030 max.; aluminum 0.025 – 0.064 (aim 0.035), nitrogen 0.0050 max.; copper 0.070 max., tin 0.024 max., chromium 0.060 max., nickel 0.060 max., molybdenum 0.015 max., columbium 0.005 max.; vanadium 0.005 max., boron 0.0005 max., titanium 0.005 max.

Applicable Gauges

.310" -0/+.012"

SEWARD SCREW PRODUCTS INC.

16377 THIRD STREET • PO BOX 86
SEWARD, IL 61077

June 11, 2002

The Honorable Don Evans
Secretary of Commerce
Department of Commerce
14th Street and Constitution Avenue,N.W.
Washington, DC 20230

Re: The unintended consequences of the 201 Steel Tariffs

Dear Mr. Secretary,

Thank you for the opportunity to present some observations and consequences of the recently imposed steel tariffs.

Seward Screw Products, Inc. is a job shop that sells turned metal parts to Original Equipment Manufacturers and tier one suppliers. Our family owned company was founded in 1954, and has experienced several business cycles. Currently we employ 120 people.

Carbon steel bars, tubing and stainless steel bars constitute approximately 90% of our raw material requirements. Lately we have noticed increases between 1 % and 40% on those purchases. The majority of the products that we purchase have increased in cost between 3.6% and 7% and it is predicted will continue to rise to 10% or more yet this year.

Raw material cost represents between 25% and 40% of the price of our products. Thus we would need to raise our prices from 1% to 3% just to stay even currently.

Our customers will not tolerate any price increases, because they have been unable to raise their prices. We also have some customers who expect between 5% and 8% reductions in their costs every year.

In addition to this dilemma, the steel producers have recently become very arrogant. Lead times have been lengthened, and availability of specialty items severely restricted. My discussions with distributors, brokers, and cold finishing companies confirm these statements.

To make matters worse, small manufacturers that recently experienced 10% to 40% downturns in their business, are either going out of business or have no profits to reinvest in newer technology. Foreign competition has been devastating, and by adding the burden of a policy that discriminates against them, definitely sends the wrong message to those struggling businesses, as well as the rest of the business community and governments throughout the world.

Unfortunately, small businesses that disappear do not make headline news. They are a very important part of the United States manufacturing base, and that base is eroding at an alarming rate.

PHONE: 815-247-8411 • FAX: 815-247-8443

Automobile, truck, farm implement and appliance manufacturers are already planning higher prices to offset the cost increases of flat stock. Contracts that have expired are not being renewed, and some contracts are being rescinded by the steel mills.

In retaliation for the tariffs the American farmer is among the first to suffer. American exports are being targeted by our trading partners, which upsets the dynamics of our free enterprise system.

Inflationary pressures will trigger an increase in interest rates, further dampening recovery.

All Americans will pay for this event very soon.

We hope that the 201 Steel tariffs will be rescinded soon before the situation escalates into a trade war, and the whole world suffers.

Thank you for your time and consideration.

Yours truly,

Lloyd E. Falconer

Lloyd E. Falconer
Secretary-Treasurer

Baron
DRAWN STEEL & WIRE

1420 BARON STEEL AVENUE · TOLEDO, OHIO 43607 · (419) 531-5525 · Fax (419) 537-0754
8455 RONDA DRIVE · CANTON, MICHIGAN 48187 · (734) 455-3322 · Fax (734) 455-3615
7505 BARON DRIVE · CANTON, MICHIGAN 48187 · (734) 354-8100 · Fax (734) 354-8111

May 17, 2002

To our valued customers:

Due to continued raw material price increases and the effects of the Section 201 ruling, Baron Drawn Steel Corporation must increase our prices as follows:

Effective June 1, 2002:

All shapes	
1215 Billet Cast	\$1.25/cwt
1215 Bloom Cast	\$1.75/cwt
All other Carbon	\$1.25/cwt
Alloy	\$1.25/cwt
Leaded	\$1.50/cwt

If you have any questions please call me.

Regards,

Dave Gilbert
Sales Manager

Office and Plant:
2800 South 61st Court
Cicero, Illinois 60804-3091
(708) 863-8000
(800) 323-2750

Corey
STEEL COMPANY

Mailing Address:
P.O. Box 5137
Chicago, Illinois 60680-5137
Facsimile:
(708) 863-1288

May 9, 2002

TO OUR VALUED CUSTOMERS:

Due to a recent raw material increase, we are increasing our prices on cold finished steel bars effective June 1, 2002 by $1.25 cwt. The grades affected by this increase are C-12L14 and all non-leaded carbon and alloy steel bars.

If you have any questions concerning this, please contact your local Corey representative.

Yours truly,

Raymond V. Nadolny

Raymond V. Nadolny
Vice President-Sales

RVN/mlb

the ROCKFORD CO.

July 18, 2002

Congressman Donald Manzullo
415 S. Mulford Road
Rockford, IL 61108

Dear Congressman Manzullo:

I am writing to express our company's dissatisfaction with President Bush's decision to tariff imported steel. We are a Rockford manufacturer that produces steel parts for a variety of industries. Through June of this year, we were able to purchase coil steel for $21.00 per one hundred pounds. Due to the President's decision, our new steel price effective July 1st is now $31.62 per one hundred pounds. That's a 50%+ increase in our cost of raw material!

We purchase approximately one million pounds of steel per year, so although we are shopping to reduce our costs, we aren't large enough to strong-arm our steel vendors. Consequently, this price increase comes right off our bottom line. Another result of this tariff is that we are even less competitive versus other vendors outside the U.S.

In addition, we wanted to convey just how difficult it is becoming to remain a viable manufacturer in America. One year ago, we sold a particular part for 9.2 cents each. Today, we must sell the same part for 4.7 cents each in order to keep the work from going to Mexico. Our competitor in Mexico is paying his labor force 60 cents per hour. We have worked hard in the past few years to reduce costs, become more lean, and re-organize to meet such challenges, but we can only make so many cuts without affecting our company's ability to perform.

Last week, we participated in a round table discussion with Chuck Sweeney of The Register Star, along with several other Rockford area manufacturers. Their stories are the same as ours. Despite being self-employed businessmen, many in the room were questioning their ability to support President Bush in the next election given the results of his tariff decision. I'm concerned that frustrated Republicans may stay home in the upcoming election due to what is perceived as the increasingly anti-business climate in Washington. Following are copies of two recent invoices for steel, showing our price increase. We would appreciate your thoughtful consideration of this matter.

Sincerely,
Bret Rogers

Bret Rogers, Sales Director

JUL-19-2002 07:56 P.03

Coilplus-Illinois, Inc.

~~2001 Coi~~lplus Dr. Plainfield, IL 60544
(815)-436-3999 Fax (815)-436-3299

ORIGINAL 1

Please refer to invoice number or return invoice copy when remitting

Invoice Number 229446

SHIP TO	BILL TO	Please Mail Payment To:
THE ROCKFORD COMPANY 1827 BROADWAY ROCKFORD IL 61104-0000	THE ROCKFORD COMPANY 1827 BROADWAY ROCKFORD IL 61104	COILPLUS ILLINOIS, INC. 135 S. Lasalle St. #2984 Chicago, IL 60674-2984

Customer Number	Sls Number	Shipped Date	Shipped Via	Invoice Date
17195005	A11	7/09/02	APS TRANSPORTATION	7/09/02

Bill of Lading # 20020709005 | FOB Delivery | Freight Prepaid

Cust PO# / WO #		Description		Quantity	Unit Price	Amount
P.O.# 2443		PART# 10				
SKD# 741806	CR	.0440X02.125XC	5 PC	4330 LB	31.6200 / CW	1,369.15
SKD# 741810	CR	.0440X02.125XC	5 PC	4310 LB	31.6200 / CW	1,362.82
SKD# 741813	CR	.0440X02.125XC	3 PC	2555 LB	31.6200 / CW	807.89
SKD# 741815	CR	.0440X02.125XC	3 PC	2525 LB	31.6200 / CW	798.41
SKD# 742623	CR	.0440X02.125XC	4 PC	3080 LB	31.6200 / CW	973.90
SKD# 742625	CR	.0440X02.125XC	4 PC	3070 LB	31.6200 / CW	970.73
P.O.# 9334		PART# 0443437				
SKD# 742619	CR	.0440X03.437XC	4 PC	4985 LB	31.6200 / CW	1,576.26
SKD# 742626	CR	.0440X03.437XC	4 PC	4770 LB	31.6200 / CW	1,508.27
P.O.# 9334		PART# 2				
SKD# 742656	CR	.0390X02.500XC	4 PC	3980 LB	31.6200 / CW	1,258.48
SKD# 742668	CR	.0390X02.500XC	4 PC	3990 LB	31.6200 / CW	1,261.64
SKD# 742682	CR	.0390X02.500XC	4 PC	3980 LB	31.6200 / CW	1,258.48
SKD# 742685	CR	.0390X02.500XC	5 PC	4970 LB	31.6200 / CW	1,571.51
P.O.# 9334 ADD		PART# 13				
SKD# 743277	CR	.0440X01.937XC	PC	2995 LB	31.6200 / CW	947.02
SKD# 743279	CR	.0440X01.937XC	4 PC	2970 LB	31.6200 / CW	939.11
				==========		
				52510 LB		

RECEIVED JUL 17 2002

Payment Terms	Due Date	If payment is made by 7/09/02			Total payment due after 7/09/02
NET 30 DAYS	8/08/02	Pay by 7/09/02	Deduct	Pay 16603.67	16,603.67

Seller warrants that the material will meet the specifications shown on the face hereof, that the Seller will convey good title thereto and that the material when shipped shall be free of defects in material and workmanship. In no event shall Seller be liable for any labor claims or any other special direct, indirect, incidental, or consequential damages to anyone. All claims for any alleged shortage, damaged material, or defect, or for any alleged failure of the material to meet any specification, warranty or term of this contract must be made within 30 days of receipt of the material.

JUL-19-2002 07:56 P.02

Coilplus-Illinois, Inc.
2001 Coilplus Dr. Plainfield, IL 60544
(815)-436-3999 Fax (815)-436-3299

ORIGINAL

Please refer to invoice number or return invoice copy when remitting

Invoice Number 228410

SHIP TO	BILL TO	Please Mail Payment To :
THE ROCKFORD COMPANY 1827 BROADWAY ROCKFORD IL 61104-0000	THE ROCKFORD COMPANY 1827 BROADWAY ROCKFORD IL 61104	COILPLUS ILLINOIS, INC. 135 S. Lasalle St. #2984 Chicago, IL 60674-2984

Customer Number	Sls Number	Shipped Date	Shipped Via	Invoice Date
17195005	A11	6/05/02	APS TRANSPORTATION	6/05/02

Bill of Lading # 20020605012 | FOB Delivery | Freight Prepaid

Cust PO# / WO #		Description		Quantity	Unit Price	Amount
P.O.# 9256		PART# 2				
SKD# 738138	CR	.0390X02.500XC	4 PC	5000 LB	21.0000 / CW	1,050.00
SKD# 738139	CR	.0390X02.500XC	4 PC	5000 LB	21.0000 / CW	1,050.00
SKD# 738140	CR	.0390X02.500XC	4 PC	5010 LB	21.0000 / CW	1,052.10
SKD# 738141	CR	.0390X02.500XC	4 PC	5000 LB	21.0000 / CW	1,050.00
SKD# 738142	CR	.0390X02.500XC	4 PC	4805 LB	21.0000 / CW	1,009.05
SKD# 738143	CR	.0390X02.500XC	4 PC	4640 LB	21.0000 / CW	974.40
SKD# 738144	CR	.0390X02.500XC	4 PC	4670 LB	21.0000 / CW	980.70
SKD# 738145	CR	.0390X02.500XC	4 PC	4680 LB	21.0000 / CW	982.80
SKD# 738146	CR	.0390X02.500XC	4 PC	4660 LB	21.0000 / CW	978.60
				========== 43465 LB		

RECEIVED
JUN 10 2002

Payment Terms	Due Date	If payment is made by 6/05/02			Total payment due after 6/05/02
NET 30 DAYS	7/05/02	Pay by 6/05/02	Deduct	Pay 9127.65	9,127.65

Seller warrants that the material will meet the specifications shown on the face hereof, that the Seller will convey good title thereto and that the material when shipped shall be free of defects in material and workmanship. In no event shall Seller be liable for any labor claims or any other special direct, indirect, incidental, or consequential damages to anyone. All claims for any alleged shortage, damaged material, or defect, or for any alleged failure of the material to meet any specification, warranty or term of this contract must be made within 30 days of receipt of the material.

Bethlehem Steel Corporation

SUITE 550
1667 K STREET, N.W.
WASHINGTON, DC 20006

MAURICE E. CARINO, JR.
VICE PRESIDENT
FEDERAL GOVERNMENT AFFAIRS

PHONE: (202) 775-6211
FAX: (202) 775-6221

October 4, 2002

The Honorable Donald A. Manzullo
Chairman
House Small Business Committee
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Manzullo:

During at least two Small Business Committee hearings, on July 23 and September 25 of this year, you publicly criticized the Bethlehem Steel Corporation from the chair. You have accused Bethlehem of reneging on contracts, price gouging and profiteering in the context of the safeguard remedy ordered by President Bush on March 3, 2002. I ask that this letter be made a part of the record of both hearings, so that anyone relying on those records to guide future actions or policy decisions will not be misled by your statements.

Following the September 25th hearing, I met with the Committee's deputy staff director, Phil Eskeland, to obtain any information that would cause you to make such serious and degrading accusations. Mr. Eskeland provided me with a series of letters. One was from Bethlehem to a service center announcing a price increase on existing orders.

The price increase was requested because of unscheduled shutdowns of the two blast furnaces (iron making facilities) at our Burns Harbor plant. These shutdowns resulted in an iron shortage of approximately 215,000 tons. Bethlehem was forced to buy slabs on a rush basis in the open market. A significant price premium was paid to obtain a number of the slabs. This added expense was the reason price increases were required. The customers receiving these increases were not required to take any of the tonnage but instead were free to purchase from other suppliers without any penalties. Bethlehem was not price gouging, but instead was trying to recover unanticipated cost increases.

With regard to profiteering, Bethlehem is still not making a profit. Our second quarter report showed a loss of $82 million. We anticipate an improvement in our third quarter results but still expect to be operating in the red. Attached is a chart that shows Bethlehem's profits as compared to the 20 year average for hot rolled steel. Hot rolled prices are quite representative of the steel market in general. The average includes both spot and contract prices. You will note that it is only when prices are well above the 20 year average that profits can be made. The average hot rolled price today is still below the 20 year average – further proof that price gouging and profiteering is not taking place. You can also see from the chart that steel was being sold at unsustainably low prices prior to the President taking action under the trade safeguard laws. Approximately 35 steel companies went into bankruptcy during this period, resulting in the loss of more than 50,000 jobs.

Mr. Chairman, you blame the President for the price increases that have occurred in the steel market because of the import tariffs he imposed. Yes, the tariffs have helped to restore prices as was intended by the President's action. It was not, however, the only factor causing price increases. One major factor you have failed to recognize is that price increases were also caused by reductions in supply when a number of steel companies went out of business because of the onslaught of imports. Millions of tons of domestic capacity shut down. Had the President not acted, there is no doubt that other steel companies would have been forced out of business, resulting in further supply shortfalls and additional price increases.

I hope this information helps you, the Committee, and anyone reviewing the record of the hearings to make an accurate assessment of the situation, on which any appropriate action or sound policy decision must depend. Again, I request that you include this letter as part of the record for both hearings in which your criticisms were made and your allegations leveled.

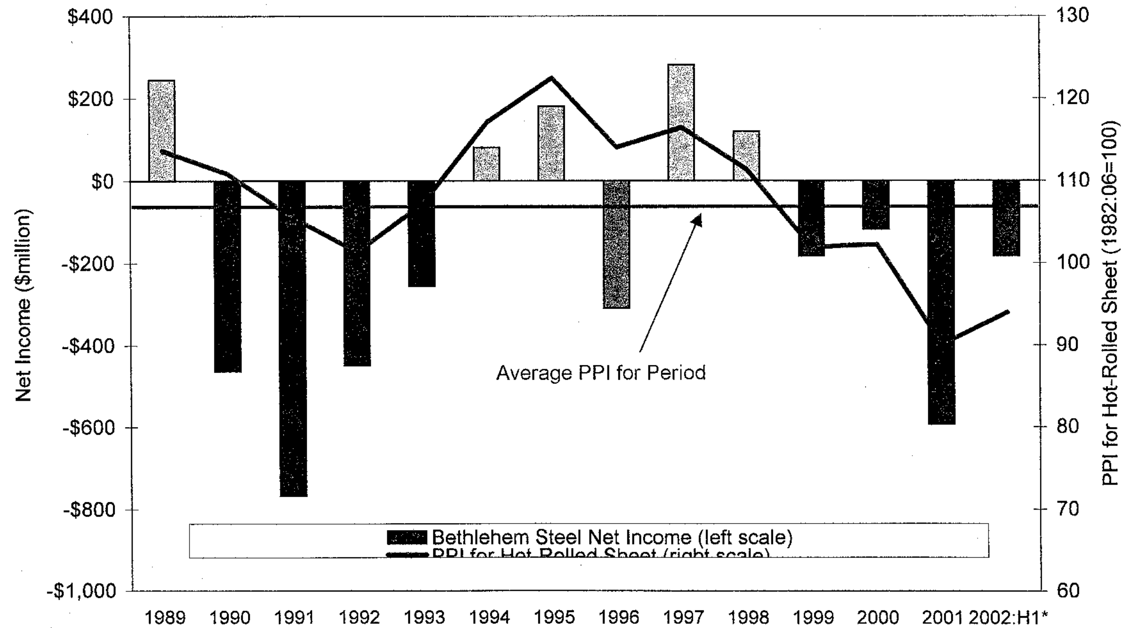
If you would like additional information, I will be more than happy to furnish it.

Sincerely,

Maurice E Carr

Enclosures

Bethlehem Steel Net Income and Hot-Rolled Sheet Prices 1989 to 2002



*2002 data for first half only.
Source: U.S. Bureau of Labor Statistics, series PCU3312#311 and Bethlehem Steel.

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

SMALL BUSINESS COMMITTEE MAJORITY STAFF RESPONSE TO BETHLEHEM STEEL CORPORATION SUBMISSION FOR THE RECORD

October 4, 2002

On September 27, 2002, Maurice Carino, Jr., Vice President of Federal Government Affairs of the Bethlehem Steel Corporation met with the Deputy Staff Director and Policy Director of the Small Business Committee of the House of Representatives, Phil Eskeland. At that time, Mr. Eskeland provided Mr. Carino with a series of letters documenting instances of where small steel-using manufacturers were complaining of price increases from steel companies, and Bethlehem Steel in particular. Many of these letters are contained in the appendix section of the July 23, 2002 hearing record (Hearing Report #107-66). Most are general in nature because many of these small companies fear documenting their allegations because of possible retaliation from the larger steel companies.

In his October 4th response, Mr. Carino answered just one of the instances cited by one of the letters submitted for the July 23rd hearing record. However, the response illustrates the points made by Chairman Donald Manzullo. It appears from the description in Mr. Carino's letter that Bethlehem Steel was forced to pay a higher price for slab on the open market because of a shortage of supply due to unscheduled shutdowns of two blast furnaces at Bethlehem Steel's Burns Harbor plant. However, unlike many of the small steel-using manufacturers who have testified or submitted statements before the Committee, Bethlehem Steel was able to pass this price increase along to their customers. Mr. Carino's response is silent on the allegation by small steel-using manufacturers that contracts were broken to pass along this price increase. Unfortunately, many steel consumers cannot unilaterally pass along price increases. Because many small steel-using companies have entered into long-term contracts with their customers, most are unable to "recover unanticipated cost increases" from the higher steel prices. In fact, these small manufacturers are forced to absorb these steel price increases and then offer further price reductions on their final product to their larger customers while also trying to remain competitive against foreign producers who do not have to pay higher prices for steel.

Finally, it should be noted that about 1.5 million tons, or half of the total volume of the exclusion requests from the steel temporary safeguards granted by the U.S. government, was awarded for the sole use of U.S. steel companies. These exclusions were for slabs (the product made at the Burns Harbor plant) and flat-rolled products to be further processed by U.S. steel companies into finished steel products. However, many exclusion requests by small steel-using companies were not granted based on, in some cases, misrepresentations by some U.S. steel producers that they could supply the particular steel product subject to the exclusion request in sufficient quantities to meet demand (i.e., the problem facing Mastercoil Spring of McHenry, IL referenced in the Chairman's opening statement).

Hopefully, this information will provide further clarification for the hearing record. The Committee also awaits the response of Bethlehem Steel and other steel companies to the other allegations of broken contracts, price gouging, and their actions during the exclusion process.