UNITED STATES
INTERNATIONAL TRADE COMMISSION

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In the Matter of:                )
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STEEL: MONITORING DEVELOPMENTS   )  Investigation No.:
IN THE DOMESTIC INDUSTRY         )  TA-204-9
(CARBON AND ALLOY LONG           )
PRODUCTS)                        )
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Thursday,
July 24, 2003

Room No. 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to notice, at 9:31 a.m., before the Commissioners of the United States International Trade Commission, the Honorable DEANNA TANNER OKUN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

DEANNA TANNER OKUN, CHAIRMAN
JENNIFER A. HILLMAN, VICE CHAIRMAN
MARCIA E. MILLER, COMMISSIONER
STEPHEN KOPLAN, COMMISSIONER

APPEARANCES: (cont'd.)

Staff:

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WILLIAM R. BISHOP, STAFF ASSISTANT
LETITIA D. THORNE, LEGAL DOCUMENTS ASSISTANT
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BONNIE NOREEN, SUPERVISORY INVESTIGATOR
FRED FISCHER, INVESTIGATOR
ELIZABETH HAINES, INVESTIGATOR
HARRY LENCHITZ, INDUSTRY ANALYST
NORM VAN TOAI, INDUSTRY ANALYST
MARY PEDERSEN, ACCOUNTANT
WILLIAM GEARHART, ATTORNEY

Congressional Appearances:

THE HONORABLE ARLEN SPECTER, United States Senator, State of Pennsylvania
THE HONORABLE MIKE DEWINE, United States Senator, State of Ohio
THE HONORABLE BLANCHE L. LINCOLN, United States Senator, State of Arkansas
THE HONORABLE LINDSEY O. GRAHAM, United States Senator, State of South Carolina
THE HONORABLE JOHN M. SPRATT, JR., U.S. Congressman, 5th District, State of South Carolina
THE HONORABLE PETER J. VISCLOSKY, U.S. Congressman, 1st District, State of Indiana
THE HONORABLE DANNY K. DAVIS, U.S. Congressman, 7th District, State of Illinois
THE HONORABLE JOE WILSON, U.S. Congressman, 2nd District, State of South Carolina

State Appearance:

THE HONORABLE ANDRE BAUER, Lieutenant Governor, State of South Carolina

APPEARANCES: (cont'd.)

PANEL ONE - DOMESTIC INDUSTRY:

On behalf of United States Steel Corporation:

THOMAS J. USHER, Chairman and Chief Executive Officer, United States Steel Corporation

ALAN WOLFF, Esquire
ROBERT LIGHTHIZER, Esquire
Dewey Ballantine, LLP
Washington, D.C.

On behalf of Long Producers Coalition:

BOB JOHNS, Director, Marketing, Nucor Corporation
DANIEL R. DIMICCO, Vice Chairman, President and Chief Executive Officer, Nucor Corporation
CLYDE SELIG, Steel Group President and Chief Operating Officer, CMC Steel Group
JON RUTH, President North Star Steel
JAMES T. THIELENS, JR., Vice President, Republic Engineered Products
JIM FRITSCH, Vice President, Strategic Planning, CMC Steel Group
ROBERT MUHLHAN, Vice President, Material Procurement, Gerdau Ameristeel Corporation
MICHAEL K. HAIDET, Senior Government Affairs Specialist, Trade, The Timken Company
SETH KAPLAN, Vice President, Charles River Associates

CHARLES O. VERRILL, JR., Esquire
ALAN H. PRICE, Esquire
TIMOTHY C. BRIGHTBILL, Esquire
Wiley, Rein & Fielding, LLP
Washington, D.C.

On behalf of Cold Finished Steel Bar Institute:

PAUL J. DARLING, II, President and CEO, The Corey Steel Company

DUANE W. LAYTON, Esquire
King & Spalding
Washington, D.C.

APPEARANCES: (cont'd.)

On behalf of Ispat Inland, Inc.:

JOSEPH ALVARADO, Vice President Commercial, Ispat North America
NICHOLAS BOYAN, Manager, Marketing and Customer Service, Ispat Inland, Inc.

DAVID M. SCHWARTZ, Esquire
MARK L. PARSON, Esquire
MURRAY J. BELMAN, Esquire
Thompson Coburn
Washington, D.C.

PANEL TWO - FOREIGN RESPONDENTS:

On behalf of Corus Group, PLC:

JEFF HOYE, President, Corus America, Inc.

RICHARD O. CUNNINGHAM, Esquire
TINA POTUTO KIMBLE, Esquire
Steptoe & Johnson
Washington, D.C.

On behalf of European Confederation of Iron and Steel Industries:

CHARLES H. BLUM, U.S. Representative, European Confederation of Iron and Steel Industries
CHRISTIAN MARI, Director of External Relations, European Confederation of Iron and Steel Industries

APPEARANCES: (cont'd.)

PANEL THREE - CONSUMER INTEREST:

On behalf of Metaldyne Corporation:

DOUGLAS GRIMM, Vice President, Precision Forming Division, Metaldyne Corporation
BOB CARR, Director of Steel & Energy Purchasing, Metaldyne Corporation
KURT RUECKE, Director, Corporate Communications, Metaldyne Corporation

SANFORD B. RING, Esquire
Dykema Gossett
Washington, D.C.

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P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN OKUN: Good morning. On behalf of the United States International Trade Commission, I welcome you to the fourth and last in a series of Commission hearings on Investigation No. TA-204-9 involving Steel: Monitoring Developments in the Domestic Industry. The subject of today's hearing is Certain Carbon and Alloy Long Products.

The Commission instituted this investigation for the purpose of preparing the report to the President and the Congress required by Section 204(a)(2) of the Trade Act of 1974 on the results of its monitoring of developments with respect to the domestic steel industry, including the progress and specific efforts made by workers and firms in the domestic industry to make a positive adjustment to import competition since the President imposed tariffs and tariff rate quotas on imports of certain steel products effective March 20, 2002.

An extended version of my opening statement is available at the Secretary's desk, which reflects additional information that I provided at Tuesday's hearing. In light of the substantial overlap in witnesses and counsel today, I've shortened my remarks.

I do want to note, as I did at Tuesday's hearing, that in my capacity of Chairman I approved the request permitting Mr. Thomas Usher, Chairman and CEO of U.S. Steel Corporation, to testify today rather than on July 22 because he was to attend a previously scheduled U.S. Steel Corporation board meeting.

While I realize that this creates a distraction from the subject of today's hearing, I believe it was appropriate to accommodate this request because Mr. Usher, as head of the largest integrated steel producer in the United States, is, in my view, the witness best positioned to answer questions about the adjustment efforts of his company. I trust that the other accommodations I made for witnesses and counsel minimized the inconvenience.

The calendar for this hearing is available at the Secretary's desk. Parties who participated in the prehearing conference are aware of time allocations. Others should see the Secretary.

As all written material will be entered in full into the record, it need not be read to us at this time. All witnesses must be sworn in by the Secretary before presenting testimony. Please give copies of the prepared statements or other documents to the Secretary as soon as they are available.

Transcript order forms are available at the Secretary's desk and also in the wall rack outside the Secretary's office. If you will be submitting documents that contain information that you wish to be treated as confidential business information, your requests should comply with Commission Rule 201.6.

Finally, before we begin, I would like to cover some logistical matters. First, several Members of Congress are expected to testify throughout the day. Because of their schedules, we will likely have to interrupt the proceedings to accommodate testimony. We will try to minimize any disruption.

Second, depending on whether we can keep to this morning's schedule, the Commission intends to recess for lunch sometime after 1:00 p.m., the time that I anticipate completing Panel One testimony and questions.

The Secretary has informed me that Mr. DiMicco of Nucor Corporation has an emergency and must leave by 11:30 a.m., although that means we may not have the opportunity to question him. I understand Mr. Jones will be here from his company to answer questions, and we hope that we have the opportunity to hear his direct testimony, and we have also had a chance to question Mr. DiMicco directly already.

Third, while I do not anticipate going into the late evening as we did on Tuesday night, the hearing likely will run into the late afternoon, so I urge witnesses to plan accordingly.

Madam Secretary, are there any other preliminary matters?

MS. ABBOTT: Yes, Madam Chairman. Bob Johns, Director of Marketing, Nucor Corporation, is added to the calendar with your permission to Panel One.

CHAIRMAN OKUN: Without objection.

Will you please announce our first congressional witness?

MS. ABBOTT: The Honorable Mike DeWine, United States Senator, State of Ohio.

CHAIRMAN OKUN: Good morning, Senator DeWine.

SEN. DEWINE: Good morning. Madam Chairman, members of the Commission, distinguished guests, thank you for allowing me to testify today on the Commission's Monitoring Developments in the Domestic Steel Industry hearing. I appreciate the opportunity to testify on behalf of our nation's steel industry.

As the Commission prepares its formal report to the President and Congress on the impact of the President's steel 201 action, I believe the testimony and facts presented to the Commission clearly will show that the industry and its workers have taken action to adjust to import competition. But, their work is not yet complete, and world excess steel capacity still remains a threat.

I also believe there exists no legal or factual basis to end the 201 tariffs at this time. Therefore, I urge the Commission to insist that the 201 tariffs be maintained for the full three years as originally intended.

The 201 tariffs have been particularly effective because they have provided the steel industry with something very important, and that is time. Time to recover, time to rebuild, and time to invest in their facilities. The industry and their workers are using their time very wisely. They are restructuring. They are consolidating. They are making investments to improve productivity.

The domestic steel producers and workers have invested more than $3.6 billion to date. Here are some important facts for all of us to consider. In Cleveland, a new steel company has gone into business, the International Steel Group, ISG.

This company has restarted LTV Steel Corporation's facilities in Cleveland and Warren, Ohio, and has hired more than 1,500 employees. The company has spent nearly $2 billion to acquire not only LTV's facilities, but also the ACME Steel Company, which ceased operations in 2001, leaving more than 1,700 workers without a job, and also the Bethlehem Steel Corporation, which filed for bankruptcy in 2001.

Second, Nucor Corporation has invested more than $760 million to acquire several troubled steel operations. This will result in significant cost savings in various product lines, including flat, bar and wire products.

Third, U.S. Steel Group has invested more than $1 billion to acquire the assets of the National Steel Corporation, making the company the fifth largest steel producing company in the entire world.

Finally, the steelworkers have also used the relief period to make major changes in their operations through new company labor agreements, which include efforts to address in part problems of the retirees who have lost their health care. These agreements will dramatically reduce fixed costs, implement more profit sharing plans and create more incentives for workers to improve productivity.

While all these positive developments, the industry needs more time to fully recover and prepare for import competition. The steel industry cannot be expected to do this in just 18 short months. In fact, the duration of the tariff program was intended to last for three years.

Prior to 2002, America's steel industry was on the verge of complete bankruptcy. From 1998 to 2000, steel imports surged to their highest levels in U.S. history. In 1998, more than 41 million tons of steel found their way to the U.S. market. This was an 83 percent increase over the 23 million net ton average for the previous eight years.

While in 1999 some claim that the steel import crisis was over, they were soon reminded how volatile the situation really was. In the year 2000, 37.8 million tons of steel flooded the U.S. market. This was almost as high as the record 1998 import levels.

There is no question that foreign steel remains a threat. The Administration estimates that there is approximately 200 million metric tons or more of worldwide excess steelmaking capacity. According to the Commission's own findings, China's share of world steel production grew from 10 percent in 1991 to 20 percent in 2002. China's capacity is exploding with crude steel production increasing by more than 30 million metric tons.

Ultimately I believe that there is little legal basis to end the 201 tariffs. U.S. trade law gives the President the authority to modify or terminate Section 201 relief when the domestic industry has not made adequate efforts to adjust to import competition or when changed circumstances warrant such action. Neither one of these facts exist.

As I discussed already, the industry has taken enormous steps, and also market conditions do remain depressed. For example, hot-rolled steel prices have fallen more than $100 per ton since last summer. This is only $50 a ton above the low prices of 2001.

Let me conclude by thanking the many steelworkers throughout our nation, especially in Ohio, which is one of the largest steel producing and processing states in America. In Ohio, we have more than 289 companies operating in 62 of our 88 counties, employing approximately 25,000 workers.

Our nation has been blessed to have the

finest, most dedicated and highly productive steelworkers in the world. They have sacrificed so much for their companies, their communities and the United States. I want to thank them. I want to thank their families.

I believe that the President's decision to implement a three year program of steel tariffs under Section 201 of the Trade Act of 1974 was the right decision. I believed this when I personally discussed the matter with the President, and I still believe it today. I urge that the 201 tariffs be maintained for the full three years as originally intended.

I thank the Commission for its attention and serious consideration of my testimony. Thank you very much.

CHAIRMAN OKUN: Thank you very much, Senator. I appreciate your appearance here today.

MS. ABBOTT: The Honorable Lindsey O. Graham, United States Senator, State of South Carolina.

CHAIRMAN OKUN: Welcome, Senator Graham

SEN. GRAHAM: Thank you, Madam Chairman and Members of the Commission. I'll talk a bit about South Carolina's steel industry and the desire to continue the tariff, but there's another capacity I would like to speak about, and that's my membership as a Member of the Armed Services Committee.

As you prepare your report to the Administration, I think it's important that we look at the overall impact of what would happen to this country if we keep undermining the ability to have a steel industry. From a national security perspective, I think that would be devastating.

The companies in South Carolina and throughout the country are plowing billions of dollars into new technology to remain competitive, but China's market share has gone from 10 percent to 20 percent in 10 years. It disturbs me greatly that China, a Communist dictatorship, is engaging in business practices to double their market share that we wouldn't allow here.

Somebody needs to look at the overall impact of that, and I think it falls on the shoulders of this Commission to issue a report that talks about the national security implications of overseas foreign competition undermining the American steel industry and what would happen to the American security interests if that's allowed to continue.

There are four plants in South Carolina, several thousand workers, so I'm hearing that capacity, as every other political person would be, trying to stand up for their industry, but there's a national consideration that has to be made here from the national security side of the aisle, and I hope the Commission will look into that.

The thousands of workers in South Carolina have good jobs, good benefits. The steel industry in South Carolina is a coveted job to have if you can get one. When President Bush decided to impose temporary trade protections under Section 201 of the trade law, I supported him wholeheartedly. It was a brave and courageous thing to do, but it was necessary.

Without that action, we were slowly, but surely -- not really slowly; quickly losing the ability to produce steel in this country. He has given our company three years' reprieve from really unfair trade practices by foreign competitors, and within that three-year period we hope to get back on the ground; that the investments made in technology, the investments made in people will pay off and allow us to be competitive.

Nucor Steel in Berkley, South Carolina, possesses some of the most technologically advanced equipment in the world and can produce one ton of steel with only a half hour of labor. For anybody to say that this is a dinosaur industry, that the steel industry is not trying to retool and modernize and just taking profits and not putting money back into the plant, they need to come to Nucor Steel.

That is not true. They're investing billions of dollars. But, having done that, they cannot survive unless we give them a chance to get some market share back and stop unfair overseas competition at least for the full three-year period.

While only four years old and an annual production rate of two and a half tons of sheet steel, the mill is having to already install additional technology to retain its competitive edge and serve the southeast expanding automobile industry. We have a huge automobile industry emerging in the southeast.

Without the implementation of trade duties, Nucor-Berkley would have been unable to undertake these investments to refurbish their mills. Without these protections, you would be crazy to invest billions of dollars in the American steel industry because what's coming your way from overseas you just can't compete with no matter how smart you are, no matter how dedicated your workers are. You just can't survive.

This three-year reprieve that President Bush has pushed is essential to maintain it, so as you prepare your report I know you've heard both sides of the story, but in South Carolina Georgetown Steel has laid off thousands of workers. They're investing millions of dollars in their plant, but at the end of the day the overseas competition has just almost sunk the company. They've had to go into bankruptcy. They're trying to get out of bankruptcy. These are great jobs for South Carolinians, great jobs for Americans, and they've being lost in an unfair way.

If our steel companies can't compete on a level playing field, that's capitalism. This is not capitalism. They're not competing against capitalism. They're competing against Communist dictatorship subsidizing a steel industry in other countries producing capacity beyond what the market will bear.

We're not talking about capitalism being the result of the demise of the American steel industry. We're talking about unfair trade practices. I do hope this Commission will recommend to the President and stand up strongly and let him know that the 201 sanctions, the three year period, is necessary, that we're a year in, and we're seeing positive results, but let's don't abandon now.

Let's give these companies the full period to get back on their feet. Beyond that, we're going to have to look at what will happen down the road.

I really appreciate the opportunity to appear before the Commission. I've got a written statement, but basically I'm going to leave this hearing to go to another trade hearing about manipulation of Chinese currency that's putting the textile industry out of business.

I don't expect any American company to not have to compete fairly. I expect the American Government to stand up for American companies that are being unfairly traded.

Thank you very much for having me, and I appreciate your work on behalf of our country.

CHAIRMAN OKUN: Thank you, Senator Graham. Your written statement will also be included in the record.

MS. ABBOTT: The Honorable Peter J. Visclosky, United States Congressman, 1st District, State of Indiana.

CHAIRMAN OKUN: Welcome back.

MR. VISCLOSKY: Madam Chair, Thank you very much. I thank the Commission on the final day of hearings.

You have my prepared statement that is

submitted for the record. Today, since this is now the fourth time I've testified before you, I would conclude, given all of the factual and legal basis that will be put before you today to humanize this picture again from my perspective.

My father is 87 years old, will be 88 in December, and 40 years ago this year he served as mayor of Gary. Eighty-eight years ago, in 1915, the year my father was born, Carl Sandburg wrote a poem about the mayor of Gary. I'd like to read just a portion of Sandburg's poetry.

I saw workmen wearing leather shoes scuffed with fire and cinders and pitted with little holes from running molten steel, and some had bunches of specialized muscles around their shoulderblades, hard as pig iron, muscles on their forearms were sheet steel, and they looked to me like men who had been somewhere.

Some steelworkers in those mills over the last 100 years have bled. Some of those steelworkers have lost their lives making steel in northwest Indiana and across the United States. They've made steel to build the great buildings, bridges and cities that are monuments to American progress and ingenuity.

They made the steel for the armaments, the ships and the tanks to prevail in World War I and to save the great democracies of the world in World War II. They survived the Great Depression. They created the most vital, the most free country in the world. I do not want to see the freedom and prosperity they struggled, sweat and fought for stripped from them a century later.

The steelworkers Sandburg referred to in 1915 were men of strength and character. We, all of us in government, should exhibit the same strength and character today to insure that future generations have the same opportunities forged in the mills of America across the last century.

I ask on behalf of the people who spent their lives making steel that you consider favorably the maintenance of Section 201 safeguards for their full term. I also want to deeply thank the Commission today for its time and for your past courtesy in always allowing me to testify.

Most of all, I want to thank you for your dedication to serving our country and for your commitment to insuring that America's involvement in international trade is always fair, always balanced and always beneficial. I do thank you very much.

CHAIRMAN OKUN: Thank you. It's been a

pleasure having you here.

MS. ABBOTT: The Honorable Danny K. Davis, United States Congressman, 7th District, State of Illinois.

CHAIRMAN OKUN: Welcome, Congressman Davis.

MR. DAVIS: Thank you very much, Madam Chairman. Let me thank you for the opportunity to appear here before the International Trade Commission.

I know you've already heard some well-informed testimony. However, the issue of Section 201 relief for the steel industry is so important not only to my district, but to the nation, that it deserves the five days of hearings scheduled, and more if necessary.

In March of last year, with solid bipartisan support, President Bush put in place a three-year program under the provisions of Section 201 of the Trade Act of 1974. Last November, Commerce Secretary Evans reiterated that tariff would remain in place for the planned three years as part of a comprehensive initiative to address the underlying market distortions and problems in the steel industry.

I am one who strongly believes that our steel industry can and should be saved, that the living standards of both workers and retirees in the industry can be protected, that the many industries which depend on steel should not be left without a strong domestic production capability, and that our national defense should not be totally dependent on foreign steel.

I've been hardened by the billions of dollars of investment owners have been making in newly consolidated operations, the trimming of excess management and the involvement of workers and unions from a redesigned shop floor and up. Productivity is up, steel prices have fallen steadily since last summer and are well below the 20 year average. Flat-rolled steel prices abroad have risen much faster than prices of U.S. producers. Steel supply remains strong with inventories 18 percent higher than one year ago.

I think it is fair to say that we as a nation are making good progress in rebuilding our steel industry. The question before us now is are we to continue down the road to recovery and security, or are we to abandon those successes and leave the newly reborn and still fragile industry to fall prey to depressed market conditions, international dumping and world excess capacity.

There's overwhelming evidence that both the short- and long-term cost of cutting short the three-year commitment to recovery would be much greater than any short-term gain from importing foreign steel at below production cost, which brings us to the question of the Section 332 investigation, which calculates no such real life cost/benefit analysis. Unlike the Section 204 midterm review, which includes the total impact on the economy, the Section 332 investigation takes only the narrowest, most isolated view of alleged consumer effects.

Madam Secretary, our economy is struggling. We're in a manufacturing crisis, one which has continued to deepen since March of 1998. Before 2000, the U.S. manufacturing sector was the smallest among the major industrialized economies in relative terms. I don't know if an economy can continue to sustain itself without a viable manufacturing core. I do know that even if it can't survive, it would not be as healthy, as dynamic, as stable, productive, as secure and as vigorous as an economy with a thriving manufacturing core.

I do know that a healthy, competitive and productive steel industry is key to a healthy, competitive and productive manufacturing sector. I know that jobs and such factors are critical to the economic well-being of an economy such as ours, which is largely powered by consumers.

Madam Secretary, I thank you and the members of the Commission for all the work that you're doing to try and make sure that we do in fact have a viable steel economy that will greatly impact the economy of our nation and stability of the world. I thank you for the opportunity to testify.

CHAIRMAN OKUN: Thank you very much for your testimony.

MR. DAVIS: Thank you.

MS. ABBOTT: The Honorable Blanche L. Lincoln, United States Senator, State of Arkansas.

CHAIRMAN OKUN: Welcome back, Senator Lincoln.

SEN. LINCOLN: Good morning. I'm afraid the Commission is going to get tired of me. I'm down here so regularly. It's a pleasure to be with you this morning, and I thank you all.

Madam Chairman, this investigation is potentially I think one of the most important the Commission has ever conducted. The President will rely heavily on your report in deciding whether to continue temporary relief for the domestic steel industry. Your conclusions could have an enormous effect upon the future of the American steel industry and certainly the economic future of my home state in Arkansas.

My family has been in northeastern Arkansas for seven generations now. Eastern Arkansas is in many ways the picture book image of the south. People work hard, but economic opportunities have become limited. The Arkansas delta has been losing population as our children have not found opportunities to stay, and those who have remained are reaching their golden years.

In 1987, a new industry and a new opportunity presented itself in the northeastern corner of Arkansas. In that year, Nucor Corporation began construction of a steel mill in Mississippi County. In the 16 years since, Mississippi County now is not only the largest row crop county in the country, but it is also the single largest steel producing county in the United States.

I'd like to note that with producers of flat-rolled products, long products, pipe and tube, Mississippi County represents the entire U.S. steel industry in one consecutive place.

As the daughter of the east Arkansas delta and then as a U.S. representative for the 1st Congressional District of Arkansas and finally now as a Senator of that great state, I've had the opportunity to observe firsthand the stunning impact the steel industry has had on our great State of Arkansas.

The industry has generated thousands of high paying, good jobs with good benefits not just at the mills themselves, but in dozens of companies supplying the mills and dozens more that are buying steel from them. Our brightest young people no longer have to move away to find exciting and rewarding careers. They can stay at home in Arkansas and have the prosperous and productive lives that they deserve.

The changes have rippled throughout our communities. Better jobs mean more tax revenues for local governments, a chance to devote these new resources to improving our schools and giving our counties and towns a chance to provide services they could not afford before.

I continued to follow developments in the steel industry closely after I was elected to the United States Senate in 1998. I saw with alarm that imports of steel were growing rapidly at an unusually low price. My constituents inside the steel industry told me that even though they had some of the most modern of equipment and the most productive workers in the world, they could not compete with dumped and subsidized imports that were being sold at unfairly low prices.

Because we realize the importance of a domestic steel industry to the economic health of our entire nation as a whole, I and many of my colleagues on the Senate Finance Committee urged the President to request an investigation of steel imports under Section 201.

It was clear to us that to be internationally competitive the U.S. steel industry was going to have to undergo dramatic consolidation and restructuring. Our belief was that import relief for a limited period would give our domestic steel industry the chance to start this process with some hope of success.

The question you are investigating today is whether the industry has used this opportunity wisely. In my opinion, the evidence is unmistakable and unequivocable that it has. The industry has consolidated. It has restructured. It has lowered its cost. It has taken enormous strides towards further establishing itself as the most productive steel industry in the world.

Since March of 2002, the American steel

industry has worked hard to do all that has been asked of it. It would have been impossible, however, for the industry to do everything it needed to do within such a short period of time. Sixteen months is long enough to start the process, but not enough to complete that entire process.

I believe that after examining all the evidence you will report, I hope, to the President that the Section 201 relief is working as intended, that the domestic steel industry is using this period of temporary reevaluation to undertake the fundamental changes that it needs to and that allowing the relief to continue for its full three-year term will give the industry the time it needs to complete that entire process.

Thank you, Madam Chairman. I appreciate you and the Commission, your deliberation and certainly your attention to this issue and, more importantly, your hospitality to me each time I visit.

CHAIRMAN OKUN: Thank you, Senator Lincoln. I appreciate you being here today.

SEN. LINCOLN: Thank you.

CHAIRMAN OKUN: Madam Secretary, I understand that we can now turn to the parties' opening statements.

MS. ABBOTT: That is correct, Madam Chairman.

Opening statements on behalf of the domestic industry will be made by Alan H. Price, Wiley, Rein & Fielding.

MR. PRICE: Good morning.

CHAIRMAN OKUN: Good morning.

MR. PRICE: How are you this morning? I am Alan Price, counsel for the Long Products Producers Coalition, whose members produce more than 12.5 million tons of hot-rolled bar, cold-finished bar and rebar, the long products subject to 201 relief.

On Tuesday, you heard testimony on how the domestic flat-rolled steel industry has used 201 relief to remake itself. You heard about the unprecedented restructuring and consolidation. You heard about moderate price and import relief, and you heard about a job that is not yet half finished.

Today, from the long products sector you will hear a very similar story. The industry has embarked on restructuring and consolidation that is nearly as dramatic as the flat-rolled industry, and, just as with flat-rolled, the process is not yet complete.

However, on Tuesday, the Respondents wrongly claimed that mini mills had no problem and that they did not need relief. Today, mini mills will continue to set the record straight. Mini mill producers need relief, and they are using the relief in a valuable and proactive manner.

First, there has been substantial consolidation and restructuring among long products producers. Republic Engineered Producers restructured and emerged from bankruptcy, saving 2,400 jobs and preserving the largest source of special bar quality supply to consumers such as the auto parts manufacturers.

Nucor has completed the purchase of Birmingham Steel and North Star Steel's Kingman, Arizona, rebar facility. The consolidation of Coe Steel with Ameristeel has been consummated. But, as we discussed Tuesday, completing the acquisition is only the first step, and it will take 18 to 24 months to achieve the cost savings from these acquisitions.

Long product producers have relied on a three-year program in making commitments to their bankers and owners, and maintaining the remedy is critical to further industry consolidation and reorganization.

Other forms of adjustment are also underway.

Many producers have made substantial new investments to further improve efficiency and competitiveness. The productivity improvements, which are apparent from the prehearing report, will benefit consumers and the U.S. economy as a whole. Productivity improvements will continue with three years of relief.

The 201 program is providing some price and volume benefits. Prices have increased, but only moderately. While consumption of these long products has declined or remained flat, the domestic producers recaptured critical market share from imports covered by the remedy.

For producers of hot-rolled bar, cold-finished bar, the increased prices and volumes have produced improved financial results that are essential to fund industry consolidation and adjustment. The rebar producers, in contrast, have suffered operating losses despite increased volume due to weak demand for non-residential construction and higher raw material costs. Only in recent months have these producers been able to begin passing increased cost to their customers in the form of modest price increases.

Clearly, 201 relief has not been a windfall. It has not saved everyone. Bayou Steel and Slater Steel have filed for bankruptcy, and Kentucky Electric

Steel shut down in February, but relief is providing the needed impetus for restructuring to make the long products industry more competitive at its conclusion.

The people who said 201 relief would achieve nothing are wrong. Now the people who say that nothing is left to be done are wrong. The record will show the beginning of recovery for the industry. Long products producers are taking advantage of this relief and are following through on their three-year commitment to the Administration. The relief must continue.

Thank you.

CHAIRMAN OKUN: Thank you.

MS. ABBOTT: Opening remarks on behalf of the Respondents will be made by Richard O. Cunningham, Steptoe & Johnson.

CHAIRMAN OKUN: Welcome back, Mr. Cunningham.

MR. CUNNINGHAM: Good morning, members of the Commission.

As you listen to Respondents' presentation today, I urge you to keep your scriptures open to the gospel according to Daniel R. DiMicco. You heard Mr. DiMicco testify on Tuesday that in the process of restructuring these steel industries some mills are going to have to close, and some companies will not survive the restructuring process, and he emphasized that's okay.

In Mr. DiMicco's typical soft-spoken way, I submit that he understated the point. Especially in the bar sector it's not just okay for uneconomic mills to fail to survive. It is essential that they be permanently closed, and whether they are permanently closed, I submit to you, in this product category is the sine qua non, the touchstone of effective adjustment.

In this sector, there is and has long been a structural problem. There are a substantial number of companies that are and traditionally have been efficient, profitable competitors, and then there are a number of less efficient, consistent money losing mills and companies.

The continued existence of these weak operations, operations that desperately seek sales volume and cash flow to avoid closure of mills and corporate bankruptcies, acts as a severe depressant on market prices and weakens the profitability and competitiveness of the industry as a whole.

That structural problem has two major significances for your inquiry as to the progress of restructuring in the long products field. First, it explains what must be puzzling to you as you look at the statistical data. The 201 tariffs have sharply, and I emphasize sharply, reduced imports from covered sources.

While there has been some increase from uncovered sources here, unlike the situation in flat products, total imports are also sharply down. Moreover, demand has been pretty good, as you can see by comparing apparent domestic consumption in the year after the President's order with apparent domestic consumption in the preceding year and as you will see in the charts that Petitioners will be presenting today.

Despite imports being doing and demand being good, prices have barely budged, and the beneficial effects on the U.S. industry profits have been pretty small, as the domestic mills themselves acknowledge in their brief and as you heard Mr. Price say today. Why is that? The problem is that excess capacity has not been reduced overall. Your statistics show that it has continued to increase.

The weaker producers closed some facilities, but others have reopened previously closed facilities. Accordingly, the weaker competitors are still clawing for sales, offering low prices that largely vitiate the effects of relief. This failure to reduce capacity, indeed it has increased, raises a serious question about the meaningfulness of the overall industry's adjustment.

The second significance is that the failure to close some uneconomic facilities and, even worse, the reopening of other weak facilities is directly relevant to your assessment of whether developments have occurred that impair the effectiveness of the relief.

Moreover, it seems clear that the tariffs themselves are inhibiting the necessary reduction of capacity and on the basis on which investors are being sold on the prospect of reopening what are essentially uneconomic facilities.

We will analyze today the progress of adjustment. We will have a good deal of complimentary things to say about industry cost reductions and about consolidation of companies, but we will direct your attention repeatedly to the issue that we, in agreement with Mr. DiMicco, submit is the test by which successful adjustment in the bar sector must ultimately be judged. That is, will the uneconomic facilities, the ones that are the millstones dragging down this industry, be closed.

Thank you.

CHAIRMAN OKUN: Thank you. Madam Secretary, can we please havet the first panel come forward and be seated?

MS. ABBOTT: The first panel representing the domestic industry, all witnesses have been sworn, Madam Chairman.

(Witnesses sworn.)

CHAIRMAN OKUN: All right, it looks like everything is almost ready here. You may proceed.

MR. PRICE: Good morning. Thank you again, Madam Chairwoman.

The President's program is working. The long products industry is consolidating, the industry is rationalizing capacity, the industry is increasing productivity and lowering costs. Although demand declined, imports sell more.

In a very short amount of time truly radical reorganization is occurring. Nucor purchased Birmingham Steel and North Star Steel's borrow rod mill in Kingman, Arizona. CoSteel and Ameristeel merged.

In addition, Steel Dynamics purchased the assets of Qualitech and announced plans to convert it from an SBQ products facility to a merchant bar and shapes and reenforcing bar products facility.

Finally, Republic Engineer Products emerged from bankruptcy in 2002 as a restructured but downsized producer. All of this was because of the 201.

There has also been substantial capacity rationalization in this industry. Republic Technologies removed over one million tons of hot bar capacity, and over 150,000 tons of cold-finished bar capacity. North Star Steel-Kingman rebar facility remains closed under Nucor's ownership. Under Nucor's ownership Birmingham's Fuller Memphis facility and Joliet rolling mill are closed. Kentucky Electric at this time remains closed. Calumet has closed.

Although the specific data are confidential, the pre-hearing staff report demonstrates that in the post-201 period U.S. steel bar producers are increasing production per hour and per employee; lowering per unit cost for both direct an indirect labor; lowering per unit factory overhead costs; lowering per unit interest expenses; expanding their product ranges and introducing new products, and improving product quality.

What makes this restructuring all the more remarkable is that it has occurred during a period when automotive demand is essentially flat and now down, and nonresidential construction has declined significantly.

A critical reason why the restructuring has been possible is that the President's program has had an important effect on imports. As shown in the chart, hot-rolled bar imports from covered countries declined from 708,000 tons to only 480,000 tons in the year after 201 relief was imposed. Cold-finished bar imports from covered countries fell even faster, declining by nearly 50 percent in the year after 201 relief went into effect, and for rebar the decline was even more dramatic for covered imports, and was only partially offset by rebar imports from uncovered countries.

And now I'd like to introduce our first witness, Mr. Dan DiMicco.

MR. DIMICCO: Good morning, Madam Chairperson and Commissioners.

I am Dan DiMicco, President and CEO of Nucor Corporation. I am back. This time without Leo. And I do appreciate the Commission's flexibility with respect to my schedule today. It looks like it's going to work out at this point in time, but I do appreciate it. Thank you.

On Tuesday, I talked to you about the revolution that is taking place in the steel industry and the efforts of our industry in keeping its commitments to the President, and it's not just among flat products producers, and certainly not just among integrated mills. It is occurring within the whole industry. Long products and minimills are no exception.

Nucor is the largest producer of long steel mill products in the United States, and we are among the largest in all three product lines covered by the 201 -- hot-rolled bar, cold-finished bar and rebar.

The long products industry has aggressively used the first 16 months of 201 relief to begin the process of consolidation and restructuring. Already we have had notable successes at Nucor as Nucor has made two substantial acquisitions since the relief went into effect.

December of 2002, Nucor acquired certain assets of the bankrupt Birmingham Steel Corporation, keeping 1800 people employed and two million tons of highly efficient hot-rolled bar capacity and rebar capacity in production. The problems facing Birmingham were not efficiency-related. The operating mills we acquired are excellent mills, and performing well today. This acquisition greatly enhanced our product mix and geographic range. It should be noted, however, that there is another 1.5 million tons of former Birmingham capacity that has not been brought back.

In March 2003, Nucor acquired the Kingman, Arizona rebar and rod mill of North Star Steel. This facility had an annual melting capacity of 650,000 tons, although it has not been making steel for some time. This was a new facility involving state-of-the-art equipment.

The restructuring process is still very much underway. Now that we have made these acquisitions we are in the process of optimizing integration. The case of the former Birmingham facilities, we are aggressively implementing new management systems, developing on-line ordering capabilities, coordinating sales, marketing and production, and making a variety of other changes.

The Kingman, Arizona facility was in a shutdown state when we purchased it from North Star and we are currently evaluating this plant for restart. Continuation of 201 relief is important because it is a key factor that will allow us to make the necessary investment.

These are just a few examples of ongoing adjustments on long products, and you will hear many more today. All of this happened since the 201, because of the 201.

The long products producers and the minimills were seriously injured by import surges just like the rest of the steel industry. The long products producers and the minimills need continuing relief for this consolidation to continue, just as much as the integrated flat-rolled industry does.

Nucor is also making substantial capital investments at each of its bar mills. Details are available in our questionnaire response. I can confirm that we are planning investments ranging from 10 million to 100 million at our bar mills in New York, Nebraska, Texas and South Carolina. These upgrades are critical to our operations in order to maintain the quality of our facilities and to expand our presence in important market areas such as automotive SBQ bar and cold-finished products.

But 201 relief is essential in order for us to fully find these investments, particularly at a time when Nucor, despite it's world class competitiveness, is not earning its cost of capital.

There has never been global criticism of the U.S. minimill sector relative to efficiency and cost.

The foreign respondents say we are already competitive with imports, and in many respects we are. But when an undisputed world class component of the industry reaches a point where trade action is required just to allow us to reinvest, it becomes painfully clear how broken the world trading system for steel is.

Finally, I know that you heard a lot of complaints from steel consumer last month about pricing and unavailability. But on the long product side we have hard data showing that the effects of the remedies have been very moderate. The President's program has reduced import levels somewhat and allowed some modest price increases to date, but there was never any kind of price spike because there were never any abrupt shutdown in the market we saw with LTV on the flat-rolled side.

In short, the President's program did what it was intended to do: give us some temporary import relief and price relief as we create an environment of restructuring and reinvestment. The industry and Nucor are doing our part to live up to our commitment to the President, and we are confident the President will do the right thing and allow the full three years and fully enforce the 201.

Thank you very much.

CHAIRMAN OKUN: Thank you.

MR. PRICE: I would now like to introduce Mr. Bob Muhlhan from Gerdau Ameristeel Corporation

MR MUHLHAN: Good morning. I'm Bob Muhlhan of Gerdau Ameristeel Corporation. We are now the second largest minimill producer in North America with 12 mills producing rebar, hot-rolled bar, light shapes, cold-finished bar, and other products.

There have been a lot of claims that only integrated producers need 201 relief, and that the minimill sector of the domestic industry doesn't need to restructure or consolidate. I would like to correct these inaccurate claims based upon our own firsthand experience.

Gerdau Ameristeel is a prime example of the restructuring underway in the industry, and the resultant benefit to the U.S. economy. The President asked us to act and we are acting.

Following implementation of the 201 remedy last year our company was formed from a combination of CoSteel and the North American operations of Gerdau SA. We combined these operations in order to become stronger and more efficient. We have expanded our product lines, our geographic reach, and our mill capabilities. We expect at least $35 million in efficiency gains from the consolidation, and a materially stronger competitive position.

We have reduced our employee head count and at the same time increased shipments to cover our share of the volume of imports reduced by the safeguard measures. We have not only improved our labor productivity, but have continued to improve the value of our offering to customers. The overall result is a significantly stronger company than the predecessor entities.

The President's program facilitated that effort by bringing some stability to the market and addressing destructive price declines that had been caused by successive import surges. The 201 relief provided volume and price benefits even though many countries were excluded and even though rebar had only a 15 percent initial tariff rate.

Imports of covered products dropped significantly, especially rebar, and we were able to regain some market share despite declining demand.

But because prices rose only moderately for hot-rolled bar and light shapes, and even less for rebar, the increase in volume was much more important to us than the increase in price.

We have also used the first 16 months of relief to refinance our debt, although the process was difficult and expensive. Our lenders whose business is correctly assessing risk still judge that the steel industry is not yet out of the woods. Last month we closed on a public offering of $405 million of senior unsecured notes, and 350 million in senior secured notes. We will use the proceeds to pay down existing debt, extend the maturities, and provide a more permanent capital base.

This major debt restructuring will make us a stronger company. But the benefit of this positive step to strengthen Gerdau Ameristeel will be limited by the high interest rate of 10 and three-eights percent that was charged on the unsecured notes. With the prime rate at only four percent, it's obvious that U.S. capital markets continue to regard the steel industry as extremely risky. They are concerned that the safeguard measures could be terminated prematurely, which would be unmitigated bad news for the financial prospects of the domestic industry.

We too are concerned because our restructuring efforts are still underway. Gerdau

Ameristeel is continuing to make material improvements to its facilities and its business. We are upgrading our equipment. We are training our employees. We are improving our business and commercial systems to achieve world class processes and services to our customers.

Some of our plans for the next year and a half under the safeguard program were set out in detail in our confidential pre-hearing brief.

We will continue to work to rationalize our business, to lower the unit costs of our products, and to meet import competition with a renewed and stronger company. That's what the President asked for, and we will deliver it. But our time line is and has been a three-year time line, and the remaining months are a critical to us as those that have passed.

Those who say that restructuring is solely an integrated mill issue don't speak to the facts. Those who claim that industry consolidation is already over and done with ignore the realities of an industry in transition. We at Gerdau Ameristeel know that restructuring and consolidation continues and must continue if the domestic industry to achieve the ability to compete in world markets. We are a part of that work in progress today.

Thank you.

CHAIRMAN OKUN: Thank you.

MR. PRICE: I would now like to introduce Mr. Ted Thielens of Republic Engineered products.

MR. THIELENS: Good morning. I am Ted Thielens, Vice President of Marketing for Republic.

In many respects the very existence of our company is a result of the 201 Section relief. Faced with increased import competition and rapidly falling steel prices, Republic Technologies International was forced into Chapter 11 bankruptcy in April of 2001. The company was the largest U.S. supplier of special bar quality or SBQ, hot-rolled and cold-finished bar, and the complete shutdown of the Republic mills would have been devastating to the automotive, auto parts and capital equipment industries.

Following the President's proclamation, our company bought selected assets of Republic Technologies in August 2002, eliminating over one million tons of capacity, but saving 2400 jobs and assuring that there would be sufficient supply of high quality, price competitive SBQ steel in the United States.

The 201 remedy was essential to our decision. We chose those parts of Republic

Technologies that we believe could continue to be competitive, and we have already invested nearly $30 million in capital improvements that will keep those facilities state-of-the-art.

We believe that buying Republic's assets was a prudent investment because the steel safeguard measures had brought stability to the market. SBQ prices came back from their 20-year lows of the previous year, and the domestic industry was able to recapture some market share that had been given up to covered countries.

We did not get as much relief as we had hoped because many countries and products were excluded from coverage, but still the impact of the measures was positive and very much appreciated.

There is no doubt in any of our minds that without the measures we would not have been able to save as many jobs and mills of Republic as we did, and we may not have been able to save any at all.

I believe it is important to note that after the implementation of the 201 remedy and rationalization of our company in 2002, Republic honored our contractual obligations to our customers in terms of both pricing and availability.

We did this in spite of significantly better market opportunities that we could have pursued. Republic has ultimately increased our overall sales price very modestly over the past 18 months, barely recovering increased costs we have paid for raw materials and energy.

We believe that the U.S. market prices for SBQ products are in fact competitive on a worldwide basis as evidenced by the continued expansion of the automotive transplants from Japan, Europe, and most recently, Korea. These companies are not only assembling vehicles in North America, but are also expanding production of parts and components that utilize SBQ products manufactured in the United States.

Republic Engineered Products is less than a year old, and still struggling to generate an acceptable level of profitability in order to assure a long-term source of domestic SBQ supply. We need more time to adjust to import competition as we transform our company from the bankrupt Republic Technologies to the new Republic Engineered Products.

A viable domestic SBQ industry will benefit our customers far more than a disruptive return to a flood of imports that might finally push Republic out of production altogether. The loss of capacity then would truly be felt by the automotive industry and the consuming public.

Republic is an example of what Section 201 is supposed to achieve. It won't eliminate imports or unfair competition from other countries. However, it does provide the most important element for the future of this company and its workers the right to complete.

I hope that the Commission's report reflects these facts. Thank you.

CHAIRMAN OKUN: Thank you.

MR. PRICE: Thank you. I would now like to introduce Mr. Clyde Selig.

MR. SELIG: Madam Chairman, Commissioner, I am Clyde Selig, President and CEO of the CMC Steel Group, which is a part of Commercial Metals Company.

In 1947, my brother, Marv Selig, founded Structural Metals, Inc. in Seguin, Texas. This mill, known as SMI Texas, is the basis of the four SMI minimills that make a variety of long products.

We have been in business a long time, and we have seen the entire range of business conditions. We sell rebar to our own rebar fabricating shops and to independent fabricators and distributors. You heard from two of our rebar fabricators in the Section 332 hearing last month.

This is no doubt that the safeguard measures have helped the domestic rebar industry as a whole and CMC Steel in particular. We are doing what the President asked us to do, to try to consolidate and restructure the industry.

CMC has been an active participant in the consolidation and restructuring efforts that have taken place in the steel industry since the implementation of the safeguard measures. We have been actively pursuing opportunities to consolidate, and have been carefully examining possible candidates.

We have not yet consummated any steel mill consolidation, but it is not for the lack of trying. Our goal is to proceed with restructuring while at the same time maintaining shareholder value.

The steel safeguard measures have also had a significant effect on rebar imports. In the face of falling demand, we have been able to keep our shipments of rebar relatively steady. After the President adopted the 201 relief, imports from the covered countries declined considerable. As a result, the U.S. rebar industry was able to increase its market share despite declining demand.

There is no doubt that imports of rebar from covered countries would come flooding back if the relief were terminated prematurely. Our cash flow would suffer. Our banks would lose what little willingness they have to lend steel producers money for reinvestment, and this is true even though CMC is one of four U.S. steel companies whose senior debt is currently rated as investment grade. Our planned capital investments would suffer in the face of lower volume and lower prices for the rebar that we did sell.

Steel mills wear out quickly if they are not updated regularly. To maintain productivity, it's important that we continue to make improvements such as installing new casters and other new equipment. To improve steel quality, we should be adding vacuum degasers in some of our plants. We have developed new corrosion-resistant products, but we need continued working capital in order to continue this R&D effort.

Even with the benefit of safeguard measures, we have been unable to increase prices as much as our scrap and energy costs have increased. As a result, our profits have fallen very significantly even with the 201 relief, and we would hate to imagine what this position would have been without the safeguards. This has made it more difficult for our planned adjustments to import competition.

We have a number of capital investments planned, but we have postponed letting out many of the contracts until business conditions improve. We continue to implement a number of improvements in our manufacturing process, and have cut back somewhat unemployment and we have definitely improved productivity during this period.

We have also reduced our bonuses, our contributions, and our employee expenses in line with our lower earnings. But there is much more we wouild like to do that we cannot do if the safeguard measures are terminated prematurely.

It is therefore essential that the safeguard measures continue in place for the full three years. The next 18 months are crucial for our company and for our industry. We are hopeful that the economy will begin to turn around sometime next year, and the building activity will pick up again. We would then have the volume and the price stability to justify our future expansion and our planned investments. As a stronger company, we would be in a much better position to face the import competition from abroad.

Please allow us to complete the job. Thank you.

CHAIRMAN OKUN: Thank you.

MR. PRICE: I would now like to introduce Mr. Jon Ruth.

MR. RUTH: Good morning. I'm Jon Ruth, President of North Star Steel, which is the third largest minimill recyler in the United States.

We make a wide variety of steel long products, including hot-rolled bar and rebar. We produce special bar quality or SBQ round bar at our facilities in Michigan and Minnesota, and SBQ flat bar at our Iowa plant.

I would like to first comment on the President's Section 201 program and then talk more specifically about the automotive SBQ market.

Enormous changes, especially in terms of the industry structure, have taken place in the global steel market. There is no question that the President's 201 program is playing an important role in helping spearhead industry consolidation in the United States. That's why North Star Steel is using the three-year adjustment to reevaluate our business structure, invest in our facilities, and take steps towards consolidation.

In short, we want to be part of the solution, not part of the program.

For example, we have sold our rebar facility in Kingman, Arizona, and our seamless pipe plant in Youngstown, Ohio, and we are evaluating divesting in some of our other steel mills as well.

Contrary to some claims, consolidation is not yet complete. We need the full three-year period of relief to make greater headway towards restructuring. After that, we hope the steel industry will not have to look to Washington to define its business plan. In fact, should this Commission recommend altering or shortening the President's three-year commitment, the Commission only gives the steel industry an excuse to come back and ask for more 201 assistance since the first program fell short.

I would like to shift now to talk briefly about the automotive SBQ markets which is important to North Star and other domestic producers.

The Commission heard a great deal of testimony in June from the auto parts manufacturers, and I know we will hear more from these businesses later today. I would to give you North Star's perspective and respond to several of the claims made by these companies.

First, with the exception of the escalators built into our contracts, our average SBQ prices did not increase until January of 2003. These price increases also were single digit increases, and their impact on our P&L has been modest at most.

Hot-rolled bar import volumes decreased only four percent in the 12 months after the 201 when compared to the prior 12 months, so the consumers certainly had adequate supply of imported product.

In the same period, hot-rolled bar import pricing increased by only three percent on a cost, insurance, freight and duty-paid basis. Again, hardly a debilitating increase for the consumer.

Where applicable, it seems that the cost of the 201 tariffs was largely absorbed by the foreign producer and not by the U.S. Consumer.

Additionally, it's important for the Commission to recognize that North Star has been able to supply all of our customers. We have not broken any supply contracts and we don't intend to. None of our customers were ever on allocation. Just as importantly, we have honored both the letter and the spirit of our agreements. In fact, North Star, like other SBQ producers, is still not operating at full capacity.

Finally, I would like to respond to the accusation that the Section 201 program has caused auto parts manufacturers to move offshore.

We are equally concerned with the decrease in the U.S. manufacturing base, but this decrease is symptomatic of a broad range of economic factors in a wide variety of industries. Long-term strategic decision to relocate facilities offshore take into consideration complex, competitive, and market factors, and they certainly are not made on the basis of a short-term 201 tariff decision.

Automotive transplants, such as Toyoto and Honda, continue to increase vehicle production in North America, and it appears their strategies include local sourcing of raw materials and parts in North America. None of these companies are known to overpay for their components and steel requirements.

In closing, I want to reiterate that North Star supports the Section 201 program running its course, and we look forward to continuing to provide high quality steel and service to our customers in North America.

Thank you.

CHAIRMAN OKUN: Thank you.

MR. PRICE: I would now like to introduce Mr. Michael Heidet.

MR. HEIDET: Good morning. I am Michael Heidet of the Timken Company.

We produce both hot-rolled and cold-finished bar for a wide variety of demanding applications in many industries, including automotive. Timken not only produces and markets special bar quality steel, we also purchase it around the world for our production of anti-friction bearings. We are therefore quite aware of SBQ prices in the United States compared to other regions.

It is our experience that SBQ prices in the United States are not the highest in the world as some other consumers have claimed. Rather, we know that the current prices are similar around the world, including in Europe and Asia.

Since 201 relief was imposed, these SBQ prices have risen at a slower rate here than elsewhere, so U.S. relative competitiveness has improved as a result.

Timken has benefitted from the 201 program, mostly in terms of a greater volume of steel shipped. Imports of hot and cold-finished bar from covered countries declined after the 201 went into effect, and we and other domestic companies were able to replace that volume from our under-used capacity. This additional volume, along with substantial productivity gains, improved our bottom line for 2002.

We have not, however, seen much improvement in price. The best that can be said is that at least the death spiral of price declines has been arrested, and we were able to recover some, but not all, of the steep cost increases we have since faced in raw materials and energy.

Given the sluggish economy that has lowered demand overall, we attribute this price trend to the positive effects of the safeguard measures. This trend, however, is a far cry from the huge price increases that some steel consumers claim to have experienced.

U.S. SBQ producers have not enjoyed record profits recently as some have claimed. Timken certainly has not, and I cannot think of any of our competitors that have. This should be documented in the data the Commission has collected from the producers' questionnaires.

The 201 relief has reversed a collective decline in our financial fortunes, but it has not yet brought about the sort of profitability that would give lenders or investors long-term confidence. Rather, the 201 is a work in progress.

There have been some reductions of inefficient capacity here in the U.S. More consolidation actually will occur, which is exactly what the President's 201 program was designed to encourage. Meanwhile, Timken and other surviving domestic producers are expanding capabilities in SBQ and aggressively seeking new automotive and industrial applications. We are going through the qualification process on a variety of new products. We have available capacity today, and we are not alone. This is business that we want and need.

Timken has aggressively invested in capital equipment improvements to ensure the high quality of our products and to allow us to pursue these new, ever-more demanding products. We can meet the requirements of our customers, but we need to continuously upgrade our plants to be able to do so. Many of these improvements are on the drawing board, and we have supplied the Commission confidential data on our future investment plans.

These multimillion dollar investments can only be continued if market conditions make it possible to do so. This is why the minimills and the long products producers, which are already efficient and productive, need the full three years of 201 relief. Given trends both here and globally a premature end to the 201 would certainly result in a new wave of imports at a very vulnerable time.

While there have been reductions on efficient capacity in the United States, there remains significant over-capacity in the rest of the world, and the incentives to resurge into the largest single market in the world are too great to pass up.

Please do not cut the relief short. Thank you.

CHAIRMAN OKUN: Thank you.

And madam Secretary, I understand at this point we would like to take a break in this panel's presentation to hear from a member of Congress.

MS. ABBOTT: That is correct, Madam Chairman.

The Honorable Joe Wilson, United States Congressman, 2nd District, State of South Carolina.

CHAIRMAN OKUN: Welcome, Congressman Wilson.

If you can just press the button there to turn your microphone one.

CONGRESSMAN WILSON: Excellent.

CHAIRMAN OKUN: Thank you.

CONGRESSMAN WILSON: Thank you. Madam Chairman, Madame Vice Chairman, Commissioners, it is a real honor to be with you today.

I am pleased to appear along with South

Carolina Lieutenant Governor Andre Bower on behalf of SMI Steel of Casey, South Carolina, and Nucor Steel of Swansea, South Carolina, and other steel companies and workers throughout the United States industry.

Sixteen months ago the President implemented a trade remedy for the American steel industry to provide relief from an onslaught of low priced steel imports, much of which was found to be dumped and subsidized in violation of international trade rules.

I am honored to join my colleagues today in support of the President's action and to urge that it be continued for the full three-year period.

Under the President's plan the industry was given temporary trade relief, but it is no free ride. Instead, the industry and its workers were tasked with the job of consolidating, restructuring, and reinvesting to become more efficient.

A year and a half later it is clear that the industry and its workers are meeting the President's challenge, but the job is not complete. The industry needs the full three years to fulfill the President's mandate.

I understand that industry conditions are improving under the Section 201 remedy, but the long products producers are still vulnerable. This is evidence by SMI Steel in the district I represent.

Several years ago Commercial Metals, the parent company of SMI Steel, purchased the Owings Steel Company in Casey, South Carolina. CMC invested $125 million to build a new state-of-the-art rolling mill to produce rebar and merchant bar for the construction industry. The investment saved hundreds of existing jobs and created new one while also increasing efficiency and productivity.

SMI Steel currently employs nearly 400 hard-working South Carolinians who have visited with personally on tours to the plant when I served in the state senate and now as a member of Congress.

Since then, demand has been down because of a fall off in construction. With the President's 201 remedy in place, rebar imports from covered countries have declined, allowing the United States industry to recapture some market share. As a result, SMI Steel has been able to keep shipments relatively steady despite declining demand.

As you have already heard from Mr. Clyde Selig, President of CMC Steel Group, while the industry has had modest price relief, these increases have not kept pace with rising scrap and energy costs. Now is not the time to pull the plug on the U.S.

industry recovery.

I have no doubt that if relief is terminated prematurely imports of rebar and other long products will come flooding back to the market, and the industry will be right back where it was two years ago, facing more bankruptcies, shutdowns, and layoffs.

I have personally visited Nucor and SMI facilities in the district that I represent, and I met with their employees. I have seen firsthand how the steel 201 remedy has positively affected jobs and the local economy in South Carolina.

Now is not the time to back away from undue pressure from the World Trade Organization and other foreign interests. The President's program is working. We must stay the course.

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

CHAIRMAN OKUN: Thank you, Congressmen. Let me check with my colleagues if there are any questions.

Again thank you for your testimony here today, and we will have your written statement for the record as well.

CONGRESSMAN WILSON: Thank you. Again, it's been a honor to be with you this morning.

CHAIRMAN OKUN: Thank you.

Mr. Price, we can now return to you.

MR. PRICE: Okay. I would now like to introduce Mr. Seth Kaplan.

MR. KAPLAN: Good morning. I am Seth Kaplan of Charles River Associates, and I would like to discuss briefly the effects of the remedy on the domestic hot bar and light shapes industry, and then discuss certain aspects of the staff remember that is going to come out of this, and information I think should be included in the report.

The first slide shows that that condition of the industry with respect to prices has improved, and we have measured this improvement in several says.

By the way, the axes have been stripped so that no confidential information has been revealed. In the post-hearing report, we will discuss the APO numbers. These numbers are indicative.

Prices did rise, but more importantly, given the declining trend in prices due to the import surge over the period of the 201 investigation and now in the period of relief, prices has risen even more against the trend. Covered import prices rose even more than domestic prices as we would expect, so we have seen relief, but moderate relief.

The next slide looks at what's happened to shipments, and shipments have been facing a downward trend too because of the effects of imports, but now we are at least back to trend.

The next slide looks at market share and the market share of the U.S. industry has increased, and the increase of consumption over the last year, the lion's share accrued to the domestic industry, and they therefore increased their demand somewhat.

The relief has been effective in lowering significantly the amount of covered imports, but in the bar and light shape industry this has almost been offset by the increase in non-covered imports as the staff report shows.

I think this is partly the reason why the increase in shipments and prices has not been a great as it could have been, but nonetheless the remedy has been effective.

The next slide looks at productivity, and I think this is critical to the analysis of the effects of the remedy on the industry.

The remedy was put in place for restructuring purposes. The remedy was put in place to allow consolidation. The remedy was put in place to allow new investments, and where this shows up is in industry productivity.

Productivity has been increasing over the last six and seven, eight years as normal investments have been made. What happened due to the imports is the investment in the industry diminished significantly as the imports continued to surge, and you will notice back several years ago productivity was below trend.

It caught up to trend in 2001, and you will notice after the remedy took place there was a leaps in productivity, exactly the type of action that was anticipated and promised by the industry, and asked for by the President, and indicative of what will happen should the relief continue for the next 18 months.

And I think this is the most important chart. In many of the segments, in flat and in long, this is what the remedy is about. The remedy is about increasing productivity which means lowering costs. That is not only important for the industry but it's also important for consumers as well. At the end of the day consumers benefit from lower costs producers as it's reflected in prices as their costs fall.

So this is not a net gain for producers and a net loss for consumers. This is a net gain over the life of these investments for the U.S. economy, and net economic welfare, and I think that is just critical to understand.

The next slide shows what has happened to operating income. It has increased. We expect that it will, if demand increases recovery will increase again.

Finally, the last several slides look at the effect of the remedy. We have held the line against the five-year trends, and the improvements are attributable to the remedy. Restructuring and investment has occurred as has been discussed in detail by the industry witnesses.

These are yet three examples of where restructuring and consolidation and investment has occurred.

The last slide talks for the need for continuation. I am only summarizing here the testimony of the witnesses that new and continued investment is contingent upon continuation of the remedy, and the successful completion of the restructuring and adjustment and integration of the purchased facilities are also contingent.

I think where this could show up in the staff report is in the section on the 332 which asks about the net economic welfare effects of the remedy. Standard economic analysis would show that there would be producer gains, consumer losses, and tariff revenues. In our calculations we show that this was about a wash because there are positive terms of trade effects for the United States.

But what is so important about the President's remedy, his suggestions, and what the industry has done is the productivity increases that have occurred and that will occur only if the remedy continues.

And so when the analysis is done by the staff to look at the net economic effects of this remedy the base case, the front and center case that you start from should be based upon the productivity increases that will accrue if the remedy continues.

And the evidence is overwhelming. They have occurred from the first part of the remedy as the witnesses testified before the case started, as were predicted, as were asked for, and as they are testifying now, and then the report would show that if the productivity increases occur as were promised and consistent with the ones that have already occurred the net economic welfare change to the United States is a benefit. It benefits producers. It benefits consumers. And I think it's important that that is the base case that is presented in the report to the President.

Thank you.

MR. PRICE: Thank you. That ends the presentation of the long products producers coalition. Please let the record reflect that Mr. DiMicco has now left, and we would now like to introduce Mr. Duane Layton and Mr. Paul Darling of the Cold Finished Bar Institute.

MR. DARLING: Madam Chairman, and members of the Commission, my name is Paul Darling. I am the President and Chief Executive Officer of the Corey Steel Company.

On behalf of our employees, I want to thank you for the thoroughness of your approach to the Section 201 investigation and this review.

We make cold-finished steel bars. This product plays a critical role in the U.S. economy and its national security. These precision engineered steels are found in everything from airplanes and missiles to refrigerators and cars. Indeed, anything that moves probably contains one or more parts made from cold-finished steel bar.

The record of this and the prior 201

proceedings provides a revealing picture of the domestic cold-finished steel bar industry. Before the Section 201 tariff was imposed, our industry was plainly hemorrhaging. Since then the bleeding has slowed.

As EUROFER notes in its pre-hearing brief, some indicators of the industry's health have improved. In my opinion, though, that improvement has been slight and simply proves that imports were a major part of the industry's problem in the first place. To some extent the tariff is working as it was intended.

If you compare the first year of 201 relief with the prior year, total imports of cold-finished steel bar declined 21 percent. However, this improvement has to be viewed in the context of the industry's overall health.

The 12-month period after the tariff took effect was one of the worst years in the industry's history. Let me explain.

First, domestic prices of cold-finished steel bar remained weak. During the various pricing initiatives, we have had an opportunity to compare current average selling prices to those quoted in the past. It is depressing to note that our current competitive prices are below those for January of 1989. Prices are so low today that most, if not all, producers must erode their asset base just to stay in business.

In other words, we simply are not producing revenues adequate to offset the depreciation of our plant and equipment.

Second, domestic demand remains weak. As the Institute explained in its pre-hearing brief, our industry is being hit from both sides. On one side we have dumped imports of manufactured finished parts and assemblies from Asia that are slowly wiping out our customer base. On the other side we have imports of cold-finished steel bar that are grabbing an increasing share of a declining U.S. market.

Third, Corey and many other domestic cold-finished steel bar producers were caught in a price squeeze shortly after the tariff was imposed. For the year ended March 31, 2002, approximately 70 percent of our selling price was for the purchase of our raw material, hot-rolled bar.

For the year ended March 31, 2003, the cost of hot-rolled bar increased by approximately five percent. If prices for cold-finished steel bar increased by the same amount, we would have been fine.

But with demand as weak as it is, and low priced imports continuing to influence the market, Corey, and I suspect others, only saw a six-tenths of one percent increase in cold-finished steel bar prices during this period.

Fourth, the effectiveness of the tariff has been undermined by certain product exclusions. For example, the administration improvidently, in my opinion, granted an exclusion for 45,000 tons of leaded hot-rolled bar. That product is hardly in short supply, and news reports strongly suggest that it was granted in response to a personal request by Prime Minister Blair to President Bush.

Whatever its genesis, it had no merit under the guidelines supposedly applicable to exclusion requests, and it simply permitted some U.S. cold-finished steel bar producers to price their products as if the 201 tariff did not exist.

Thus, it is critically important to the domestic cold-finished steel bar industry that the tariff remain in place for the full three-year period.

Yes, there has been some improvement in the industry's performance. Yes, even in these hard times there has been some adjustment by the industry to import competition. But more must be done to achieve the objectives of the President's program. The industry needs this breathing room so it can modernize and adjust so that when the tariffs are lifted, and hopefully the economy recovers, we have a domestic cold-finished steel bar industry that can satisfy demand.

As what we are doing at the Corey Steel Company, we have invested heavily over the last two years in order to become one of the most efficient and technologically advanced cold-finished steel bar operations in the world. We have built an entirely new facility that will, when it becomes fully operational, produce a better quality product a lot more efficiently.

But getting to this point has not been easy. In November of 2001, we had to shut down our third shift. We have also had to cut every non-essential expense, including the company Christmas party, a tradition at Corey for decades.

Finally, I would like to conclude my remarks today by making two points.

First, we have become aware of attempts by some foreign producers to understate the quantity and effect of their cold-finished steel bar exports to the U.S. based upon the United States original of their hot-rolled bar feedstock.

The Commission has determined, however, that cold-finished steel bar is a discrete like product. Therefore, imports of cold-finished steel bar must be evaluated without regard to the origin of the feedstock.

Second, I remind you, as I did during the 201 investigation, of the close relationship between cold-finished steel bar and its principal input, hot-rolled bar. Foreign producers will not hesitate to process their hot-rolled bar abroad and flood the United States with cold-finished steel bar. That is precisely what happened to us back in the 1980s when the voluntary restraint agreement with the European Community placed tougher restrictions on hot-rolled bar imports than it did on cold-finished steel bar.

Madam Chairman, that concludes my statement. I would be more than happy to respond to any of your questions. Thank you.

CHAIRMAN OKUN: Thank you.

If you can just make sure your microphone is on and pull it a little closer.

MR. ALVARADO: Good morning. My name is Joe Alvarado, and I am Commercial Vice President of long products for Ispat North America.

I am here today to address the effects of the President's Section 201 program and to discuss our serious concerns about the program's implementation.

The last time we addressed to you the domestic hot-rolled bar industry was in financial turmoil. Surging low priced imports had reeked havoc on domestic producers for several years, and losses were at an all-time high.

Thankfully, both you and the President hear our pleas and instituted a Section 201 relief program. As a result, the death spiral of prices and rampant bankruptcies were halted, at least temporarily, for some segments of the industry. We are grateful for those efforts on our behalf.

The Section 201 relief has permitted the hot-rolled bar industry as a whole to increase its sales, prices and profits only slightly. Domestic producers, including Ispat Inland, were able to institute modest and long overdue price increase almost immediately after relief became effective.

Unfortunately, a combination of product and country exclusions and circumvention of the remedy by major foreign producers has severely undermined relief for several product lines; for example, leaded bar and other high value engineered steels.

As EUROFER admits in its pre-hearing brief, hot-rolled bar imports continue to dominate high value products. Well over half of these specialty bar imports enter the United States tariff-free under country exclusions, and many more are priced below pre-relief levels even with the declining U.S. dollar and a 30 percent tariff.

Compounding these problems, the administration granted a 45,000 ton exclusion to Corus, a British leaded bar producer. Largely as a result of this exclusion, imports of British leaded bar increased over 15 percent during the first year of 201 relief.

This trend continues. They are up over 32 percent on a calendar year basis through May of 2003.

Leaded bar imports from Germany, Spain and Argentina also increased dramatically during the first year of relief: 28 percent for Germany, 118 percent for Spain, and 213 percent for Argentina.

Argentina's increase is likely due to the developing country exclusion for its exports, but the increases for Germany and Spain are more puzzling given the tariff and the 11 percent depreciation of the dollar against the euro during the first year of relief.

According to the Commerce Department, per unit values for British, Germany, and Spanish hot-rolled bar and coil imports actually decreased in the past year. Foreign producers and their principal U.S. customers would have you believe that leaded bar imports remain high because they are better quality. That is false.

Ispat Inland has for many decades been a worldwide industry leader in developing and supplying high end quality bar products. In fact, we have satisfactorily supplied many U.S. customers with the very products covered by product exclusions.

The real reason that imports continue to be high is price. Foreign suppliers have done everything in their power to remain price competitive during the 201 relief period, including seeking exclusions for products widely available from domestic producers, and reducing their prices to offset the Section 201 tariff.

My company is a recognized pioneer in the leaded bar industry, and we have made many important investments to maintain our edge. However, the President's program will not be effective unless it curbs low priced imports.

Given the ready capacity and capabilities of domestic hot-rolled bar producers, the administration must stop granting product exclusions for hot-rolled bar, and reevaluate those currently in place. The President should also revoke developing country exclusions for Argentina and Turkey, whose exports have surged above the program's threshold, a three percent share of total imports.

MR. ALVARADO: Since the 201 tariffs were intended to increase import prices, the commission should investigate whether foreign producers are thwarting that goal by paying the tariffs for themselves or aggressively underpricing to maintain market share.

The success as well as the integrity of the President's Section 201 relief program depends on addressing these issues.

At Ispat Inland, we have not yet reached a level of profitability that enables us to make significant new investments. We have, nonetheless, taken a number of measures to improve efficiency, including revamping our marketing and product development efforts.

We are also employing our global resource base to become a more cost effective and competitive producer. For example, we are now importing billets from our European sister companies. We recognize that U.S. producers must exploit their technological advantage in high end products to remain competitive and we are still moving in that direction, despite continuing fierce competition from low priced imports.

We have developed several projects to further improve our competitiveness, but these will remain on the shelf until we can fund them.

The 201 relief program is not perfect, but the flaw is in its implementation, not its purpose. The program should be given a full three years to achieve its goals. The economic devastation of the U.S. steel industry by imports did not occur overnight and neither will the recovery.

U.S. hot rolled bar producers are aware that the President's Section 201 program may be our only opportunity to reconstitute ourselves and we intend to make the most of it.

We thank you for your continued support and your recognition of the vital role that this industry plays in the economic future of our nation.

Thank you very much.

CHAIRMAN OKUN: Thank you.

MR. PRICE: Thank you.

I'd now like to introduce Mr. Thomas Usher.

MR. USHER: Chairperson Okun, commissioners, good morning. I am Tom Usher, the Chairman and CEO of United States Steel Corporation. I would like to begin by thanking the commission for affording me the opportunity to testify today. I could not appear on Tuesday due to an avoidable conflict and I very much appreciate your courtesy and indulgence, as well as that of the other witnesses here today in allowing me to testify this morning.

These are truly historic times in the American steel industry. In a space of only a few years, we have gone from perhaps the gravest crisis and most disastrous conditions witnessed in the industry to a period of stable, if unspectacular, market conditions that have fostered some of the most dramatic and far reaching restructuring steps in the history of this industry.

Thanks in large part to the actions taken by this commission and the President, there is a real sense that this can work and that we can put this industry back on its feet and in turn secure the jobs and future of thousands of people and communities across the nation.

When I last testified before you in the Section 210 proceedings, I told you that if given the chance this industry was poised to undertake remarkable changes. My certainty on that score came not from any requirement of the law or any challenge from the administration, rather, I knew firsthand the critical investments and opportunities that made sense for our companies, our workers and our shareholders, initiatives that would have been taken in a properly functioning market but that simply could not be pursued or justified in the devastated conditions left behind by the import crisis.

This industry didn't need to be given a reason to restructure or remake itself, it needed only the opportunity.

We are now only part of the way through an adjustment process that will, if allowed to continue, change the face of this industry for decades to come. With more than $3 billion invested in little over a year to consolidate and restructure, we are seeing the creation of companies with the size, scope and synergies to compete successfully in the global marketplace and to provide their customers in this market with a secure, long-term source of supply of the highest quality products at competitive prices.

In the case of U.S. Steel, the acquisition of National Steel's assets is projected to result in productivity gains of 20 percent or more and cost savings in excess of $200 million per year. These same productivity gains at U.S. Steel plants will result in an additional $200 million a year in savings.

With innovative new work rules applicable to both our existing and acquired facilities, we will produce more steel at a substantially lower cost. We will see enormous savings from the integration of National's assets as production runs are optimized, overhead is reduced and steel for our customers as well as feedstock for our mills is sourced from the most advantageous facilities.

I am amazed when I hear the arguments that the consolidation we are seeing would have occurred without the Section 201 relief. It is never explained how acquisitions could have been financed or capital raised, much less how any investment in the industry could have been justified with market conditions the way they were before this commission and the President took action.

With companies losing a million dollars a day or more, as they did during the depths of the crisis, there was no opportunity to undertake significant investments. Your focus had to be, as this industry's was, on survival.

While the effect of the relief on prices and imports has been modest, its role has been absolutely critical in, first, stopping the hemorrhaging in the industry and, second, providing desperately needed stability to the market.

Since March of 2002, I have met with numerous investors in connection with two equity offerings, a debt offering, and numerous investor conferences. At each of these meetings, the breathing space and market stability provided by the Section 201 remedy was seen as a key factor in driving the consolidation and rationalization in the industry.

There is no question in my mind that this relief was critical in allowing the industry to access the capital markets on viable terms and will remain critical as companies continue to look at value and efficiency enhancing projects in the future.

To suggest that the restructuring being undertaken by this industry could possibly be completed in 18 months is ridiculous. Acquiring a $1 billion company like National requires an enormous amount of time and effort. You have to plan and assess the acquisition, perform due diligence, work with your bankers and lawyers, prepare bid documents, participate in the bankruptcy process. You have to raise funds, submit bids, respond to regulatory and antitrust issues, negotiate with the union, and, finally, hopefully, close the deal.

And that only gets you to the point of legally owning the assets, not taking of the steps needed to integrate and operate them effectively.

Keep in mind that after all this work, we have now owned National Steel's assets for all of two months.

And you just don't throw a switch to integrate the assets of companies like National or Bethlehem or LTV. Integrating systems and personnel and facilities requires enormous additional work and many of the most important tasks will take months to complete. We have to qualify mills to serve new customers and train employees to undertake new roles permitted under our new collective bargaining agreement with the union.

A new flood of imports would be devastating to these efforts. Idle plants would prevent synergies associated with these facilities from materializing. New losses would be crippling at a time when the industry has barely begun to dig out from the last import crisis and has only started to generate the cash flow needed for new capital expenditures. The prospects for additional consolidation and acquisitions within the industry would all but disappear.

The President's steel program is a success story in the making. It is allowing for an orderly, human restructuring of an industry that is in many ways the backbone of our industrial base and critical to our national security. Allowing this adjustment to proceed is not only essential to the long-term future of this industry but was the very reason the safeguard relief was provided. It is simply unimaginable that we would turn our back on this program now and undercut the efforts of those who have worked so hard to fulfil the promise offered by the Section 201 relief.

I can tell you with the sincerest conviction that the men and women of our company and across this industry are literally doing everything in their power to make this program work. The hours put in, the intensity of the work has been remarkable as we take a top to bottom look at the company to make sure we are not overlooking an opportunity to reduce costs, pursue a needed upgrade or find a creative way to better serve a customer.

This has involved incredibly difficult decisions, particularly as we work together with the union to decide how we can go forward with the leanest, most competitive operations possible. But we have pursued these efforts with a single minded determination and commitment because we know that we have to if we are to secure the future of our companies and our employees.

I have seen the firsthand frustration and disappointments experienced in this industry during the import crisis and I have seen the enthusiasm and hope with which our employees have set about the task of strengthening and remaking our company and this industry. I am convinced that this effort can succeed and I know that the men and women in this industry deserve the chance to get this done.

Thank you.

CHAIRMAN OKUN: Thank you.

MR. PRICE: Thank you.

That concludes our testimony.

CHAIRMAN OKUN: Before we begin our question, I understand that Lieutenant Government Bauer is here and available to testify.

MS. ABBOTT: That is correct, Madam Chairman.

The Honorable Andrew Bauer, Lieutenant Governor, State of South Carolina.

CHAIRMAN OKUN: Who will be with us in just a moment.

Actually, while we're waiting for him to appear, let me go ahead and thank this panel of witnesses very much for your testimony here and in particular thank the many members of the industry who have traveled to be with us today. I think your testimony and your willingness to answer questions is extremely important to the commission as we complete our report. We want to make sure we have that thank you before we begin questioning.

I now see that the lieutenant governor is available.

Welcome.

MR. BAUER: Welcome, Madam Chairwoman. Thank you for giving me a few minutes of your time.

Distinguished guests, commissioners, I thank you for allowing me the opportunity to address you on views that I think are very important to the health and prosperity of the State of South Carolina and also our nation.

Steel manufacturing is one of the most vital industries fueling the South Carolina economy today.

South Carolina is home to a number of steel Corporations: SMI Steel, Georgetown Steel, and four of Nucor's corporate flagship operations which are located in Darlington, Swansea, and Florence.

It's difficult for me to overstate the importance of the steel industry and the effect it has on local and state government in South Carolina. For example, each year, South Carolina's operations recycle more than 3.1 million tons of steel, steel that otherwise would further strain our state's already overburdened landfills.

Nucor has also created more than 1800 jobs in the state of South Carolina and invested more than a billion dollars. The average employee in the state of South Carolina for Nucor makes almost $60,000 a year and that's an enormous salary in the state of South Carolina. This is precisely the type of business we seek to attract in South Carolina and we work even harder to try to keep them.

Nucor has made many sizeable reinvestment to provide its South Carolina operations with the latest technologies, to increase capacity for all of its products, including semi-finished steel. For example, recent expenditures in our Berkeley County mill include the addition of a vacuum degasser, which has significantly elevated its raw steel production, allowing it to meet the high end demands of South Carolina automakers.

The core steel making technology I feel is critical to eliminating dependence on foreign steel in the face of a national emergency. Thus, the inclusion of semi-finished steel in the 201 remedy is an essential component of U.S. self-reliance and homeland security.

It's unlikely that these steel recyclers will be able to continue to provide the breadth and depth of professional avenues, resources and benefits to the citizens of South Carolina should the Section 201 protections implemented by President Bush be repealed. These measures provide a very important tool essential to the promotion and preservation of an industry that has done so much to strengthen the careers, the communities and the environment in South Carolina.

These measures have helped cultivate a business climate in which a competitive domestic steel industry can flourish to the long term benefit of the taxpayers nationwide. Failure to retain these safeguards will likely have drastic consequences, not only for South Carolina and its economy, but for dozens of states and thousands of workers that depend on this for their livelihood.

The President and this commission did the right thing a year and a half ago by bringing meaningful import relief to the U.S. steel industry and its workers. We have begun down the correct path and I would encourage staying the course for the full three-year duration. Therefore, on behalf of the people of South Carolina, I would ask that you confirm your previous decision by recommending to Congress and to President Bush that Section 201 protections be allowed to work as efficiently and effectively as they have to date.

I thank you very much for your time.

CHAIRMAN OKUN: Thank you for that testimony. I will begin the questioning this morning. Before I do, if I can just ask the witnesses in response to questions today to please restate their name and affiliation to help out our court reporter and also because there are several tables of you and we can't see everyone's name plates in front of you.

I guess we've reached this point where we've had prior days of hearings, many very excellent briefs and a fair amount of exchange during questioning in trying to determine what our statutory responsibility is and so I think as that process is worked through it has helped clarify for me, at least, some of the important points that I want to make sure that are included in this report.

So my first request is going to be one that I've made for prior panels and I think with the exception of Mr. Layton, counsel to the Corey Steel Company, I believe all the counsel have had the opportunity to respond to this, but for the benefit of the industry witnesses I am going to make the request again and that is one of the important points of this monitoring report is to look at, if you will, promises made, promises kept, what the companies said they would do with their adjustment plans if 201 relief was granted and whether they have been able to keep those promises and then, of course, the corollary thing, if you were not able to implement adjustment efforts, why not and to put that in the context of the economic conditions that were present during the period.

So the request I have is you have presented a lot of information, much of it through questionnaires that appear in what is currently Appendix D and Appendix F of the staff report. And to the extent possible, I have asked counsel to work with all of you and the companies to try to provide information in a public manner as much as possible so that we can identify again the adjustment efforts that you felt were most important, what you've been able to do and to provide it in that type of format. So I would just repeat that, I don't think I need to hear from anyone unless Mr. Layton has anything in particular --

He's shaking his head no, so I will look forward to your assistance in doing that.

But let me continue on and now go back to the producers because I think a lot of what you have testified to today, of course, goes along with what you believe your most important adjustment efforts have been and I just want to make sure that I understand a couple of things about it.

One is, I think actually Mr. Kaplan, in your presentation, you had said you thought one of the most important things about the remedy was increased productivity and the lowering of costs and that was also in the overall presentation. And I wanted to get from producers, if you can tell me, kind of what of the efforts that you've undertaken thus far, I mean, what have been the keys for you and is it something other than -- we've also heard a great deal about consolidation, I should say, so I want to hear from the producers again, just if you could identify for me what do you think are the most important adjustments effort you made to adjust to import competition and how we factor that in or how we look at it.

I'll start up here on the front row and just work our way back.

Mr. Usher, let's start with you.

MR. USHER: Thank you. I would say a number of factors are working towards our competitive restructuring. One certainly is the labor agreement which we've negotiated with the union. This had a significant impact of reducing about 20 percent of the workforce, the represented workforce at both the National plants that we acquired and also the U.S. Steel plants that we had. And this is a significant number of people who will come out of the workforce.

There is a cost of training the remaining workers to be able to continue to do the job under their new responsibilities, but it will have a significant improvement.

Secondly, we have for the non-represented workers, we're in the process of reducing them about 20 percent. We reduced about 20 percent of our executive staff about two months ago and we're in the process over the next month of reducing 20 percent of the non-represented people at our plants.

The acquisition has allowed us to have much greater efficiency in the running of our facilities, that we can get longer runs, better productivity and, again, costs down.

And at the end of the day when you integrate all of these together, we are talking about improvements to our cost position in excess of $40 per ton, which is a significant decrease from the cost position we had prior to the restructuring. So all of these things are very positive things and improving our cost position.

CHAIRMAN OKUN: Okay.

Mr. Muhlhan?

MR. MUHLHAN: Consolidation of our company combining what had been Ameristeel and Costeel, primarily --

CHAIRMAN OKUN: Could you bring your microphone a little bit closer? I'm having a hard time hearing you.

MR. MUHLHAN: Yes. Consolidation in our case allowed us to reduce a lot of distribution costs because we were able to serve customers from facilities that were a bit closer to them and hence lower cost to supply. It widened our product mix, which was something that we had indicated in our plan was what we felt was important to improving the future of our company. And it also enabled us to move very rapidly to simplify for many of our customers their ability to do one stop shopping, which I think is also going to give us a much better commercial position than anyone outside of the domestic industry can duplicate.

CHAIRMAN OKUN: Thank you.

Mr. Selig?

MR. SELIG: Yes. We have implemented several cost savings measures. The number one item was ordering and we're in the process of installing a larger high voltage transformer in our South Carolina plant, which not only will improve productivity but will also reduce costs because it will consume less electrodes.

We've also made significant investments in our shredders, both in Lexington, South Carolina and in Seguine, Texas. The shredder, of course, is a recycling device that prepares automobiles primarily but other ferrous scraps for processing within the electric furnace. It also tends to recover non-ferrous as well, which clearly reduces cost and improves our productivity.

In our Alabama plant, we have upgraded and are in the process of upgrading our caster significantly by installing electromagnetic stirring in the molds, replacing oscillators and other devices so as to bring it to a state-of-the-art condition.

We're also doing R&D work, developing stainless clad reinforcing bar, which would be an advance in the market and give us a more competitive position.

Throughout the company, we've improved our handling facilities so as to reduce the amount of manhours it takes to handle the steel from the time it comes in as scrap until the time it goes out as finished product.

Additionally, we've worked hard on our administrative programs, trying to utilize computers better and more efficiently, and have made significant investments in our computer systems.

CHAIRMAN OKUN: Thank you.

Mr. Thielens?

MR. THIELENS: Republic has made tremendous improvements in our productivity over the last approximately 12 to 18 months. This has included the closure of inefficient facilities and, has been mentioned, we've eliminated over a million tons of unneeded capacity.

We have also significantly reduced both our salaried and hourly workforce and entered into a new competitive labor agreement with the steelworkers that included significant changes to work rules and incentive plans.

I would say in round numbers we're probably shipping approximately 25 percent less steel today than we were historically, but doing that with over 50 percent fewer employees, so that would be the significant change that we've gone through.

In addition, we have invested approximately $30 million in our business since it was acquired in August of last year, primarily to upgrade a facility and our Lorraine plant to replace an inefficient facility in Masson, Ohio, which has now been closed. So we feel that we're operating the best equipment that is available and we're doing that with much improved productivity.

CHAIRMAN OKUN: Mr. Ruth?

MR. RUTH: I think that the 201 has done several things for us. It's allowed us to regain our market share. We have reduced our employee costs approximately 8 percent the first six months of this year on average. And also it's changed the psychology of the marketplace. IT's allowed us to focus on consolidation and it's done it in a way that's provided a stable environment for those talks to take place. And I think that's been very helpful.

CHAIRMAN OKUN: Okay.

Mr. Darling?

MR. DARLING: I don't know where to begin sometimes. We are in the process of completing an entirely new manufacturing center and I think that it's important for me to try to convey to you what that really means for us is that in the past, we had been required to install machinery and equipment in a highly condensed fashion. In other words, we ended up putting 11 pounds of sugar in a 10-pound bag.

The new manufacturing center gave us the ability to expand our operations in such a way that we could effectively perform corrective as well as ongoing maintenance for machinery and equipment, thus reducing the cost of maintenance.

We enhanced our flexibility in being able to respond to the needs of our customers. We improved environmental systems, heating, ventilating, lighting.

We installed all new electrical distribution systems and generating capability. As a result, we were able to consolidate our energy systems in such a way that we achieved a cost reduction on energy.

Machinery and equipment, as a result of the design and installation of new machinery and equipment, we have been able to enhance every single attribute of quality applicable to the product that we produce, cold finished steel bar.

Our throughput has been increased, our efficiency has been dramatically improved and we have been able to achieve a reduction in the stress that was imparted to our machinery and equipment in the past, thus extending the economic life of that machinery and equipment, thus reducing unit costs applicable to the production of the product.

Basically, what we have been able to do is to fulfill the commitments that we have been making to our employees and our shareholders and our customer base and that is to more effectively compete with product being brought in from offshore and to broaden the range of the scope of the products that we're able to bring to the marketplace, all for the benefit of the customer that we have committed to.

CHAIRMAN OKUN: Okay. Thank you.

My red light has come on, but with the indulgence of my colleagues, I am going to just get a response from Mr. Haidet from the Timken Company.

MR. HAIDET: Thank you. We at the Timken Company have made significant productivity and efficiency gains through numerous continuous improvement programs. These have as well given us better asset utilization, despite the market conditions.

CHAIRMAN OKUN: Okay.

Mr. Alvarado?

MR. ALVARADO: There are three projects that I can comment on. One was completion of a DRIC system which would allow us to introduce virgin metallics into our electric furnace manufacturing and production process.

Concurrent with that, we are completing the installation of a harmonic filtering system and electric furnace billet caster which will improve efficiency and productivity.

And not included in Alan's slide but another element of some of the consolidation or rationalization has been the idling of our large diameter bar mill at the Indian Harbor Works and the movement of some of that product to our other bar rolling mill, thereby improving efficiency and productivity there as well.

I believe my colleague also mentioned on

Tuesday, Steve Rogers, the overall impact of the realignment of the 7 blast furnace for Inland Steel Company of which we're a part and we share financially, so there's an impact there on us as well, though not as direct as it is on the flat side of the business.

CHAIRMAN OKUN: Okay.

And then, finally, Mr. Johns from Nucor?

MR. JOHNS: Yes. We've, as you've seen in the questionnaires, we've made significant capital investments, hard equipment investments of a major nature, the biggest being, of course, the total revamp of our Texas melt shop. We've improved finishing areas in several of the mills and those simply get you the improved efficiency to do more with less in the facility itself and upgrade quality.

One of the more interesting things that we've gone through, of course, is the integration of the Birmingham organization into Nucor via that acquisition. In the process of acquiring Birmingham, we went through a rather significant systems evaluation and we were basically able to integrate their entire Birmingham corporate functions, whether it be accounting, financial, scheduling, et cetera, with virtually no increase in personnel at our corporate office, nor at any plant location, so we essentially replaced that with existing Nucor people, a tremendous drop in overhead.

We're working through the same process with the consolidation of the commercial end of it and the sales and customer service end of it. The synergies of some better ideas that Birmingham had have been integrated back into Nucor. Those have been very important.

One of the big factors that we have, Nucor has undergone -- you'll see it in the press quite a bit -- that we have not laid off an employee since the company began. We would like to keep that thing intact, but one of the things that the increased volume opportunities have had is we're doing more volume with the same number of people and that's had a tremendous impact on our productivity.

CHAIRMAN OKUN: Okay. I appreciate all those answers and I will remember for my colleagues' sake that when I want to go down that third round of questions, I will remember that I went over on this one, so I'll restrain myself.

Vice Chairman Hillman?

VICE CHAIRMAN HILLMAN: Thank you very much.

I, too, would join the chairman in thanking you all very much for being here. The information provided in your questionnaire responses, in your briefs, and in your testimony this morning is extremely helpful and I think for almost all of you, it is a welcome back to the commission. We appreciate your taking the time once again to be with us this morning.

I want to pick up a little bit where the chairman's question was on this issue of promises made, promises kept. Clearly, the statute requires that when we look at this we do so in the context of the economic conditions that were prevailing in the market and I guess that's where I want to start, with a little bit of an understanding from all of you on what your expectations of the economic conditions would be in the face of 201 relief, as opposed to what they've actually turned out to be.

I think clearly on the flat side, I think, looking at the numbers, there's some degree of surprise that imports did not in fact come down. Not only not just not from covered, but from uncovered sources as well. If we look at the totality of imports, they're actually up in the face of 201 duties.

And if we look at what happened on the price side, while we saw a big price spike up, prices are coming down very close to where they were in 2001, a little bit of a different story on long.

So I'm trying to make sure I understand from your perspective how these economic conditions have factored into your ability or lack of ability to carry out your adjustment plans.

Mr. Usher, if I could start with you on this issue of helping me understand it, I'll give you a quote from the hearing that you missed, one of the counsel on the other side commented that all of the industry has said what the 201 did is brought us stability and one of the counsel for the respondents said what stability, imports are still up and prices came up and back down, what do you mean the 201 has brought stability? They're saying there is no stability in the market.

How do you see this issue of the economic conditions and how they've played?

MR. USHER: I mean, obviously, the economic conditions are not what we would have hoped. We had expectation that the economy would have improved, I thought that in the second half of '01, I thought it in the second half of '02, and I'm thinking it in the second half of '03, I'm hoping it's the second half of

'04 maybe. But I guess I would say -- I would dispute that characterization because at the time the 201 hearings were held and commission and the President acted, there was a great fear that this thing would continue down this path that it was on and prices have gotten to historic lows, imports were high, but there was really no prospect in the future that there would be any type of stabilizing, that the hemorrhaging wouldn't stop, it could even get worse.

And in that sense, from an investor standpoint, the capital market standpoint and the company's standpoint, the ability to make adjustments whether through acquisitions or capital spending was very, very difficult because we didn't see what the future held.

One of the real benefits of the 201 hearing and so forth was I think, number one, it demonstrated to the rest of the world that the United States was serious about not having an industry be ravaged by all these imports but, secondly, it did create a sense of stability in the sense that the expectation would be given the same kind of a market this thing wouldn't continue to deteriorate at the rate that had been happening in the fourth quarter of '01. So I think it was very positive from that standpoint.

There were a lot of other factors that were taking place in terms of LTV going out of business, things happening in the world market and so forth, so a lot of these things happened, but the 201, I think, was a watershed mark in the sense that it provided some stability and also set somewhat of a floor, it wasn't going to get any lower than that.

Now, as you mentioned, Vice Chairman, prices did spike for a while, but they came back relatively quickly and a lot of the spiking, I think, was overreaction on the part of some customers who went out and over inventories and so forth.

I think it was very positive, obviously, I think we would have done more in terms of capital spending if the economy was a little stronger and we had more money to spend, but in the same sense, when you're buying a major facility like National Steel, we have to really reevaluate all of our capital plans in light of what we now have and what business we get, what customers we have and so forth. So many of the projects that we had are still very active projects, projects we are pursuing in some cases or very close to pursuing. So I would say as the economy would improve we would expect to do more, but do not underestimate the importance that 201 had in righting the ship, I would say.

VICE CHAIRMAN HILLMAN: I appreciate that answer.

Again, in response to the questions the chairman asked, it would be helpful for us, I think, to understand -- you mentioned if the economy were improved, any details on sort of what market conditions would it take in terms of either demand levels or price levels to be able to finish out some of those things. I mean, how much of an improvement do you think you think you need?

MR. USHER: Well, again, it's somewhat complex because it depends on individual markets. Some markets have been relatively strong. Auto and appliances have been fairly good. Construction and many of the capital intensive type of industries, shipbuilding, railroad car building and so forth, these have been weaker. But certainly economic recovery back in the 2.5, 3, 3.5 range would certainly get us back to, I think, a much more robust economy and we would see demand for steel increase.

VICE CHAIRMAN HILLMAN: Okay. So you're basically describing the kind of principal thing holding this back is demand, as opposed to the current price levels.

MR. USHER: Correct.

VICE CHAIRMAN HILLMAN: Okay. Fair enough.

If I move on to the long side, there, at least, I would say that the import trends looked a little bit more like what one would expect in light of the 201, an overall pulling out to some modest degree of the total level of imports. But the price rises, I think, were below what most people might have thought was going to happen. You do not -- it does not appear to me to have seen anything resembling a spike, you just saw some slow, steady, slight, moderate, however you want to describe it, increases in price.

So for the folks on the long side, and I'm trying to understand, were there economic conditions that you had expected or hoped for that would have made more of your adjustment plans possible?

VICE CHAIRMAN HILLMAN: Mr. Muhlhan?

MR. MUHLHAN: I'd like to start with that one. I guess this is kind of a case of we told you so. When we came in originally for the 201 in the long product area we believed that we needed materially higher tariffs during the 201 period than ultimately were imposed.

Like the flat-rolled producers, we anticipated an economy that was going to be quite a bit stronger than it turned out I think particularly in terms of construction activity and industrial activity, which is so important to this sector, so even though we got a benefit from the 201 program, the hurdle still wasn't quite as high as it needed to be to keep imports, and particularly uncovered imports, out of the long products market in an environment where total demand, final demand, continued to decline.

The price impacts probably looked at in the context of the testimony that we made in the original 201 were awfully close to what we had anticipated. We had asked in Rebar, for instance, for a 30 percent tariff. In fact, I think we had asked for 40 percent tariffs, and I think our modeling had anticipated price increases that actually were quite modest.

In retrospect, the way things turned out those numbers may have been close to correct had we had the kind of economy that was anticipated. I don't think what we got out of the program was a lot different from what we expected, and perhaps because we thought we were going to need more leverage in the form of higher tariffs, we may have gotten a little more than we really expected when the tariffs were first announced.

VICE CHAIRMAN HILLMAN: Do others have a different view or other things to add on this?

Go ahead, Mr. Alvarado.

MR. ALVARADO: Yes. I made some comments in my testimony about the surprise with which we look at certain segments of the market. I think when one looks at the overall long product segment, one can be misled into what the appropriate conclusion might be.

I commented specifically on leaded bars, free machining steels in particular. I mentioned that despite a tariff of 30 percent and an appreciation of the euro by 11 percent year on year, year-to-date numbers on a calendar year basis for free machining steels are up in total imports by 18 percent overall. I cited British imports specifically.

Prices have only improved by six percent, so one has to conclude that with a 30 percent tariff it wasn't enough. Clearly there's some either circumvention or other price mechanisms that are allowing people to remain competitive in this market.

VICE CHAIRMAN HILLMAN: Okay. Given that the yellow light is on, I do have some questions about these exclusions and how they work that I want to hear from, but I'll come back to that in the next round. Thank you.

CHAIRMAN OKUN: Commissioner Miller?

COMMISSIONER MILLER: Thank you, Madam Chairman, and let me join in thanking all of the witnesses for being here again today to help us understand what has happened in the time since the President's import relief has taken effect.

I think over the course of doing this is now the fourth one of these hearings, we're getting better and better in figuring out what we want to talk about and what we want to hear about, so I think the questions that have been asked by my colleagues immediately prior regarding the adjustment efforts and the context of the demand conditions and how those have impacted the adjustment efforts of the companies has really --

You know, at least for me, I've come to see that as really what we're trying to learn, what we're trying to get mostly out of these hearings, and they're sort of central to the analysis that we're asked to do under the statute.

Because of that, I just want to make sure if anybody else, any other companies want to comment about demand conditions and the impact of the economic conditions on their ability to take the steps that they have or have not taken in the last 15 months or whatever. I'd like them to have the opportunity to do so.

Mr. Selig?

MR. SELIG: Yes. It's been said, Commissioner Miller, but just to sum it up, I think that the issue is fairly clear that in the long products the imports dropped off significantly, but the demand did not pick up.

Those of us who were running at less than full schedules picked up our schedules, and certainly we've produced more steel, but we didn't make more money because the demand was not increased. The situation was such that immediately before the 201 our mills, the mills that were making long products, were scheduled less than after the 201, but in spite of the volume there was no additional profit. That's the key.

Certainly like Mr. Usher, we're still looking for the upturn in the economy. The construction industry, both commercial construction and industrial construction, has been very much off during this period, and we look for it to pick up as well.

COMMISSIONER MILLER: Okay.

MR. SELIG: I might also add that it pleases me greatly to see that the Commissioners understand the difference between the flat-rolled industry and the long products industry.

COMMISSIONER MILLER: We've done it enough times at this point that we're finally beginning to get it.

Mr. Thielens?

MR. THIELENS: Yes. I'd like to add that I think the 201 created the environment for us that allowed us to restructure our company. If there had not been the perception in the market that there might be an improvement, I don't think we would have been able to get either the investors or the banking community to support that.

I think our biggest disappointment in the outcome of the 201 is that there has still been a significant flow of SDQ products into the U.S., and where it's coming from, companies or countries that are covered seem to be absorbing the tariff, or more disturbing is there seems to be a lot of switching going on, so countries that had not supplied material are now doing so.

Even most recently if you look at 2003 numbers and compare 2003 May year to date, levels of imports are up for hot-rolled bar and domestic shipments are down, so you've actually got imports commanding an even larger share of apparent domestic consumption in 2003 versus 2002. I could only imagine what it would have been like without the implementation of 201.

COMMISSIONER MILLER: Mr. Haidet, I know that you had your hand up, and I know that in your initial testimony you talked about the impact of the declines of demand on your ability to implement your adjustment measures, I believe. I think I recall that.

MR. HAIDET: That is correct.

COMMISSIONER MILLER: Yes.

MR. HAIDET: I just wanted to add briefly that there is no doubt that we at Timken have had to delay and slow our capital expenditures on the steel side because of the economy, and particularly the manufacturing economy.

We strive and struggle to achieve our cost of capital and too often fail in that, but that is what drives our investment decision, and the current market outlook has given us pause.

COMMISSIONER MILLER: I appreciate that because I think it is part of our mandate to look at, you know, company specific promises and then what has actually happened and if there's a reason to understand why.

Let's see. Who is that back there? Mr. Darling, did you have your hand up?

MR. DARLING: Yes. With regard to cold-finished steel bar, I think that it is important that we take a look at the marketplace prior to the implementation of the remedies, the 201 remedies, and afterwards.

If we go back a few years, we can make a reasonable assumption that apparent domestic consumption was balanced rather carefully and almost equally with domestic capacity. Now, as people brought on new machinery and new equipment, admittedly a lot of the old production lines and equipment were not scrapped, but, nevertheless, realizable capacity was very precariously balanced with consumption.

What we witnessed was a steady increase in terms of imports. They continued to achieve a penetration of the domestic marketplace, and that was a direct result of their being able to bring in product that was essentially dumped within the United States, manufactured within subsidized mills.

As a result of this, it tended to increase the intensity of pricing pressure within the United

States because of the fact that capacity was so carefully balanced with consumption, and people tended to respond to this pricing pressure by lowering their prices in order to maintain market share and to achieve that same broad productive base across which they were spreading their cost.

When the customer base realized this, what they did is that they used the imported price as a fulcrum with which to leverage the domestic industry. Consequently, the prices went down farther and farther, and the domestic industry was unable to achieve a restoration.

What the 201 did was to bring about an abrogation of that import penetration to a certain extent by reducing imports by approximately 21 percent, so what in effect we saw here was a reduction of the hemorrhaging within the industry.

We sort of got a respite here. We got a breather, but we did not bring about a total remediation of the problems with which the industry is confronted because we still have reasonably high import penetration. We still have the issue of precarious balance between utilization of capacity and demand. I don't think that we're going to see any improvement unless we see a significant improvement in the economy and unless we are able to bring about an abrogation of the trade distorting practices that we see.

I want to make one comment about future investment, and that is the majority of the mills that have been making investment in new machinery equipment have been harvesting the gains from that investment, and they have been passing those gains along to their customer base, and they are having a difficult time in achieving any type of a return on that investment.

I would suggest to you that many of these companies are not going to be able to justify future capital investment on the basis of improved efficiencies or throughput. They're going to have to see pricing improvements in order to justify these investments to their shareholders and to the investment community.

Thank you.

COMMISSIONER MILLER: Okay. I appreciate that.

I would just want to give Mr. Johns an opportunity for Nucor. We heard from Mr. DiMicco in response to this question on Tuesday with respect to flat products, but I don't know if you want to add anything with respect to long products and the impact of demand conditions on any adjustment plans you had.

MR. JOHNS: I think the record will indicate that Nucor has been able to execute by and large everything that we said we were going to do. In that regard, it's certainly not without a stretch within our company.

Nucor has had a very fortunate position versus some other companies in that our capital costs tend to be lower. Even though we were weakened by the import surge and the pricing activities that went along with that, we were able to get capital at a lower cost than most. That's been a plus, so that's helped us.

One of the things is we also have a want-to-do list. You know, there's things over and above that we would want to do that are outside what we said we were going to do in the questionnaire. Some of those are a result of the acquisition. Some of it are a result of what we're finding. We made an investment at one plant. We'd like to transfer it to another, and we're finding, you know, we have to do that a little bit more slowly based on conditions as we see it.

I'd like to underscore something that Joe Alvarado said and a couple of the other folks have said. During this entire period of time, you know, we're talking about the recycling end of this business primarily, and the Lieutenant Governor's comments kind of sparked the thought in my mind that global metallics are part of what we have to deal with, and global metallics costs were fairly volatile during this period of time where we're seeing only slight price increases in this country.

The price increases were barely an offset to changes in global metallics and energy costs. Contributing to the price suppression, of course, was the uncovered and excluded products.

Having been in this business for a lot of years, hopefully I look younger than the years, but my experience in this tells me that had we not had the 201 it would have been a total disaster. In this segment of the industry, and I think the train wreck was narrowly averted or we could have had something that was very similar to what had happened in the flat-rolled side of the industry.

I think the combination of these events, both global and some of the unexpected things that occurred with the economy and with the exclusion process I think were a deterrent to people meeting their investment goals. There's a very real problem, but I think those goals that were met were herculean, given the conditions. I think the industry has done a heck of a job in trying to restructure.

COMMISSIONER MILLER: Okay. I appreciate that. I do have other questions, but I'll save them for the next round. Thank you.

CHAIRMAN OKUN: And before I turn to Commissioner Koplan, I see that Congressman Spratt has arrived. We will take his testimony before we begin the questioning.

MS. ABBOTT: The Honorable John M. Spratt, Jr. United States Congressman, 5th District, State of South Carolina.

CHAIRMAN OKUN: Go ahead.

MR. SPRATT: Chairman Okun, Vice Chairperson Hillman, I can't help recall, but the last time I was here you were seated just there, but in a different capacity. You were the Deputy USTR for Textiles, and we were here to have a hearing about the implementation of the Uruguay Round and in particular how it affected the textile industry.

Since that time -- it was 10 years ago -- one by one the titans of the textile industry have disappeared. Trade has taken its toll, a very severe toll. Burlington, the largest in the business, went into Chapter 11 and came back out. West Point Pepperell, Springs closed two plants last week, Spartan Mills. Do you remember the Montgomerys? They're all gone.

I certainly don't want to come back here in the same circumstances for the steel industry. We're fortunate to have a steel industry in South Carolina, much to the surprise of many, but Nucor, for example, has a substantial presence in our state. They provide excellent jobs. In any event, the steel industry is absolutely fundamental to any modern economy, and particularly the economy of the United States of America.

On behalf of the people of South Carolina, I want to thank you for the opportunity to testify and for the accommodation you've made to let me testify at this point in time.

A year and a half ago, the President imposed a temporary trade remedy to correct surges of steel imports that were causing serious injury to our steel industry and its workers. I can tell you, having represented Nucor for many years, they were seldom on my doorstep, like many in the textile industry, asking for import relief. They were traditional supporters of free trade, and when Nucor with its record comes to me and tells me they've got a problem, I listen. I know they're not just asking for protection. They've got a problem.

This Commission now has a task, having proposed 201, of reporting to the President on the results of the program. Is the remedy working? Is the industry taking the steps that are necessary to restructure and adjust to import competition? I believe the steel 201 program is working based upon what I've seen. I believe that it is leading the U.S. steel industry to restructure as a necessary element of it.

For that reasons, I believe that this program should be continued for its full term, and I strongly support the President's swift appeal of the WTO ruling against the Section 201 program. Since Section 201 went into effect, steel prices have recovered modestly, steel supply has become robust, and the steel industry has begun some substantial consolidation and restructuring, which is necessary and long overdue.

This recovery means more business for firms like Nucor Steel South Carolina, Nucor's cold finish, SNI Steel South Carolina and others and for steel producers in similar communities across the United

States. The steel industry has made long strides during this period of relative respite, this period of relief, by lowering cost and by increasing the productivity, which has got to help in the long run.

The 201 remedy has one and a half years to run, and I believe the end result, if it's allowed, will be even greater availability of high-quality, reasonably-priced steel produced in state-of-the-art mills all across America. This will not only benefit our consumers, but steel using firms as well.

I do have steel users, steel consumers, in my district, lots of them. I've been careful to follow the steel prices and availability while the 201 program has been in effect. With steel consumers in mind, I appreciate the exclusions. I think you were very wise in the granting of exclusions to the Section 201 program for products that were not available domestically. I supported all the exclusions filed by users in my district.

I do understand that there have been temporary price hikes -- steel consumers have brought this to my attention -- and shortages arising from events that preceded the President's action. For example, LTV's sudden closure in December of 2001 I'm told removed over six million tons of steelmaking capacity from the market and left customers scrambling for alternate supplies.

In March 2002, the President announced his plan regarding import relief. As a result, ISG Resources, Inc., was able to purchase the assets of LTC, and formerly idle facilities have reopened with an improved cross structure. The end objective of this program is being served. This wouldn't have been possible without a new and unprecedented labor agreement that included substantial concessions from the steelworkers who are here today.

As domestic supply grew and imports from non-covered developing countries increased, prices stabilized and began to move down. I understand that temporary shortages in price spikes that were experienced early in 2002 had been resolved due in large part to the way in which the 201 program worked.

Many manufacturing industries in the United States use steel as an essential input for their products. In fact, it's impossible to have a modern manufacturing base or healthy sector without having a strong steel industry. The two are mutually incompatible. You've got to have steel to have a modern economy, and no major industrial nation has been able to grow and prosper without the ability to produce steel.

As I said, I have both steel producers and steel users in my district. On balance, I believe the Section 201 program has been right and fair. It has worked the way we want it to work, and I urge you to allow the steel industry to stay the course. If the 201 remedy is prematurely terminated, the investment dollars permitting further consolidation and improvements in technology will surely be terminated prematurely too.

The industry is on the cusp, the verge of meeting the President's challenge to restructure and insure its long-term competitiveness. I urge the Commission to allow the steel industry the time it needs to fulfill this mandate.

Thank you very much for this opportunity to testify.

CHAIRMAN OKUN: And thank you very much for appearing here today.

Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Madam Chairman.

I'd like to begin, if I could, as a followup to the Chairman's opening question. At each of the three preceding 204 hearings I have said that I view each of these hearings as a critical part of the process for us to gather information on the effectiveness of what you have done thus far to facilitate a positive adjustment to import competition and for you to identify what remains left to be done if the relief continues.

In other words, beginning with your adjustment plan submitted to USTR in support of your request for relief, I need to have on the record as much available relevant information as possible to identify exactly what each of you has accomplished since March 20, 2002, whether each of you are on schedule, if not, why not, and what else remains for each of you to do during the balance of the relief period.

I realize that your questionnaire responses, your prehearing briefs, your direct presentations and your answers to questions posed by my colleagues thus far today address these issues to a significant degree with respect to the long products industry, but I would appreciate to the extent possible in this public forum your adding to the process by addressing your answers to those questions to the specific long product sectors, that is hot-rolled bar, cold-finished bar and steel concrete reinforcing bar, rebar.

I note that when we cast our votes in the 201, we had separate votes on each of those sectors. I also note that our confidential staff report contains detailed, confidential, company specific summaries in certain of our appendices. I'm referring to Appendices D, E and F, of such information as you have already provided Commission staff. Counsel has access to those summaries. I'm interested in what more you can provide both now and, if necessary, as business confidential information in the post-hearing.

I note, Mr. Usher, that when we had our flat hearing I posed this question, and you had present on your behalf at that time Mr. Dorrance, your vice chairman, and Steve Szymanski, but I'd like to hear from the panel if I could in response anything now and, of course, anything more for the post-hearing.

I'll start with the Long Products Coalition.

MR. MUHLHAN: We wondered whether you'd ask this question and thought about how much we could disclose publicly given the nature of an awful lot of the content of the plans that we submitted.

COMMISSIONER KOPLAN: Sure, but, as the Chairman said, as much as we can get into the public forum is appreciated.

MR. MUHLHAN: I can state generically in

Gerdau Ameristeel's case that a lot of what our plan talked about was the need to participate in consolidation, the need to extend our product offerings and broaden our range, and we have done that in this consolidation step that we've been a part of.

We also talked about improving our work force and investing in equipment that would lower our cost. We will provide some public information regarding specific steps that we've taken that can be disclosed and probably have been disclosed reading between the lines of some of our public reporting.

We also should probably speak to some of the things that we didn't do. We talked about expanding our business in some product lines that turned out not to have fared as well either for economic reasons or because there were too many country exclusions or what have you, and we will provide some comment that's public on those elements as well.

COMMISSIONER KOPLAN: What you just raised about exclusions is exactly the kind of thing I'm talking about; if you can be specific as to which exclusions, how much quantity might have been involved. As I say, as much detailed information in that regard as possible.

Mr. Selig?

By the way, thank you for that, Mr. Muhlhan.

MR. SELIG: Commissioner Koplan, I think I was quite complete in what we've done.

With respect to what we haven't done yet, I talked about the caster in our South Carolina plant or in our Alabama plant that we've totally rebuilt, but we had also hoped to be able to replace the caster in Sagine, which is significantly older. We haven't been able to justify that expenditure at this time. It is our hope that whether it's business conditions or whatever that we will be able to improve our margins so that we could justify that expense.

Additionally, it was our hope that we could upgrade the products in which we competed, and to do that would require a vacuum degasser, which we've also put off because of business conditions. Those are primarily the items that we have not done yet that we said we would do.

Of course, it is our hope that if the 201 does continue that in the next 18 months we will be able to proceed on those projects.

COMMISSIONER KOPLAN: Thank you, Mr. Selig.

Mr. Thielens, I saw you reaching for your microphone.

MR. THIELENS: As I previously stated, we have completed our rationalization of the company. Really that was completed by December of last year. While we've been fortunate to spend approximately $30 million, we could easily have doubled that amount. That investment was spent primarily on our large mill, our new, large mill in Lorraine, but we have other facilities from melting, rolling and finishing where we need to spend additional capital.

At the present time, we would not be able to justify any additional spending given the current market environment that we're facing.

COMMISSIONER KOPLAN: Thank you.

Mr. Haidet?

MR. HAIDET: Yes. Yes. There's no doubt that although we've made significant productivity gains and made some new product introductions and we continue our research and development efforts, there's no doubt that we're not on schedule in that we've had to delay and postpone some capital expenditures as a result of the current financial outlook. That's both a function of the economy, and I think country exclusions play into that as well.

COMMISSIONER KOPLAN: Thank you.

Mr. Johns?

MR. JOHNS: I think we've done most of what we've said on the questionnaires. I think the one thing that we still have open that we are trying to come to grips with that offers some significant potential is what I'm going to call product optimization across our bar mills.

This is in the follow-up to the acquisition of the Birmingham facilities, and by product optimization I mean determining which mills make which products to consolidate products at given mills to get better runs, more operating efficiencies out of that with a minimal disruption or hopefully no disruption to customer service.

It's a rather complex issue, and we're right in the middle of that right now.

COMMISSIONER KOPLAN: Thank you.

Mr. Ruth?

MR. RUTH: Just so I can be more specific for the record, and I'll break out each of our mills. We have put in new rolling mill drivers at our St. Paul facility, and we're in the process of a caster upgrade there that's a two or three phase project. We've completed the first phase of that.

We've installed new burners in our reheat furnace at our Iowa facility, and that creates some energy efficiencies for us. We're also upgrading the casting machine in our Iowa facility, and we've installed oxygen and carbon injectors on our furnace there. We're also installing a straightener in our Kentucky facility.

There are a couple things we haven't done, and one of them is due to the economy, and that's a bundler in St. Paul that the justification just can't be made toward today. The second is a processing line for our Michigan facility, and there the issue is a little bit different.

As we enter discussions about some of our steel assets and their possible sale, it's not clear yet that we will receive the value of those investments in any sale that may or may not take place, so we have to be cognizant of that. That has held up some of those decisions.

COMMISSIONER KOPLAN: Thank you very much.

Mr. Darling?

MR. DARLING: When you first posed this question, Commissioner, one of the things I was thinking about is that we've had the good fortune to listen to Nucor, Republic and Timken. These companies represent a rather significant portion of the cold-finished steel bar industry, so I decided to look at the balance of the industry.

The balance of the industry for the most part is characterized by privately held firms. Inasmuch as I have not had an opportunity or I will never have an opportunity to look at their submissions, I could not speak on their behalf, but let me try to respond to your question on behalf of Corey.

We have delayed projects, and essentially the projects that we have delayed are those where we felt that we had a little bit more time within which to respond to the demand for the change. As an example, our office is 130 years old. We need a new office. The existing facility is deteriorating. We need to bring about a change there because the capital investment necessary with which to repair the existing facility is about equal to the cost of a new facility, but we have delayed that.

We have delayed some projects in the area of information technology because we feel that the cost of the project is about equal to the return, and as a result we have elected to delay that to a more appropriate time wherein the anticipated return would be greater.

There is, however, one area that we have not delayed and we have sort of changed here, and that is in the training and the development of our personnel. We are training our people to mine information technology systems and databases so that they can more effectively respond to the internal demands for improved efficiency and improved information, as well as to respond to the demands of our customers.

You sort of go down this path looking at issues of trade-off. You know, when can you defer the expense? You know, do you have enough time? How much of an impact is that going to have on your operations versus the bigger expenditures, the more important ones, that are going to achieve significant reductions in cost?

I hope I have responded to your question, Commissioner.

COMMISSIONER KOPLAN: Thank you.

CHAIRMAN OKUN: Go ahead.

COMMISSIONER KOPLAN: And that's Mr. Alvarado. I don't want to miss you.

MR. ALVARADO: Thank you. Commissioner I think the best way to answer your question is to refer to a comment that was made earlier in testimony or in response to a question about normal wear and tear requiring significant expenditures and repair and maintenance and that's true for all of us. But I believe you'd rather that we concentrate on the commitments that were made as part of the initial --

COMMISSIONER KOPLAN: That's right.

MR. ALVARADO: And for that, I would prefer that we review the promises or the plans that were made and we'll respond to that. If we can make some of that more public, then we shall.

COMMISSIONER KOPLAN: Thank you very much.

And I thank each of you for your responses and I look forward to what else we get in the post-hearing from you.

Thank you, Madam Chairman.

CHAIRMAN OKUN: Thank you.

One of the other issues that we were asked to look at is the adjustment of workers to import competition and one of the observations I guess that was made on Tuesday perhaps was that in the flat where you had the integrated versus the mini mills and you had the need for more changes for the integrated mills than you did for the mini mills and then today in your response to what efforts industry has made there's been, I think, more focus on the efforts of the industry and not as much focus on workers or labor, although I did hear a few things. So I wanted to go back on a couple of those.

One, Mr. Thielens, for Republic Engineered Products, you had mentioned that there had been a renegotiated labor agreement. Is there anything you can share with us here in terms of what changes were made in that labor agreement that helps adjust to import competition, anything you can point to in particular?

MR. THIELENS: Thank you. I think that the new labor agreement with Republic entered into really has become the model which has been used both by ISG and probably to some degree by U.S. Steel and that we were able to eliminate some of the historic burdens that we had in terms of guaranteed work weeks and also cleared up some of the legacy costs that we had been burdened with, as well as a number of work rules that were significantly reduced and incentive plans. We had literally hundreds of incentive plans at our plants which have now been eliminated and consolidated into single plans that pay for quality tons that are shipped through our operations.

So while we did not adjust or reduce the hourly wages, we were able to do things in these areas that were acceptable to the union that made us much more productive and also able to respond to changing market conditions.

CHAIRMAN OKUN: And one of the other provisions that was mentioned in the ISG and other labor agreements was, I guess, in terms of what the executives -- either reduced positions or reduced pay. Is that part of your labor agreement?

MR. THIELENS: That was not specifically part of the agreement, although we've already reduced our salaried force by well over 50 percent over the past year and a half with a much larger percentage than we have through the hourly ranks, particularly when you look at operating facilities. Most of the reductions that have taken place have been because we've closed operations versus made significant reduction to the employment at ongoing operations.

CHAIRMAN OKUN: Okay. Is there any other producer from the long products area who has anything specific with regard to workers' adjustments during this period?

Mr. Price?

MR. PRICE: Would Mr. Johns like to comment about the changes in the employment plans or the payment plans for the employees at the old Birmingham mills versus the Nucor pay structure, incentive structure that was put in place?

MR. JOHNS: There's not a whole lot of

change in terms of the hourly employees' situation. Birmingham at the time we acquired it had been operated substantially by some former Nucor employees who had, if you will, Nucor-ized many of those operations. We have made some changes to the incentive plans that were in existence, those tend to be productivity improvement type incentive plans and there is no exception. We experienced that with the Auburn Steel acquisition that was made before the 201 where we started to set records shortly after incentive plans were instituted, so we've seen some of the Nucor incentive plans work.

With regards to those people who were separated due to the acquisition, that primarily involved management and administrative type people, and a severance assistance package was negotiated with those individuals.

CHAIRMAN OKUN: Okay. I appreciate those comments.

Mr. Usher, I guess I would like to also have your remarks. One of the things that we asked the producers on Tuesday was their evaluation of the plans and I guess what in particular about the new agreement would you point to as helping adjust to import competitiveness?

MR. USHER: I think you heard a lot of this on Tuesday, but I would just add basically we're going to produce the same amount of steel with four people where we had five, so one out of every five people will leave and we'll produce the same amount of steel.

In addition to that, there were major changes made in the health care programs, both for active and retired employees and in the pension plans for new employees. The National Steel employees that came over, plus any new employees that we would hire.

So I'd say the biggest kicker we're going to get is from the re-manning, the elimination of jurisdictional areas within the plant, the use of operator mechanics, all these types of things, but there will be additional savings as a result of the healthcare improvements and pension improvements.

CHAIRMAN OKUN: Okay. And then one part of the labor agreement that pointed to by respondents is one that I guess they would characterize as not helping adjust to import competition were continued restraints on investment -- I think it's referred to as the investment provisions and we now, I think, have a couple of these agreements to look at, but I wondered if you could comment at all on whether any of the restraints of the waiver agreement with regard to how a company invests or I think it also relates to blast furnaces, whether you have any comment on that.

MR. USHER: Yes, I would say -- and I can't speak to other agreements, but with respect to the U.S. Steel agreement, for example, we have no limitations on any of our investments outside the United States. Investments within the United States, these were relatively easily agreements in the sense that they had to make sense, they had to be able to demonstrate that a return could be earned on the project, the same types of criteria that I would take to my board anyway.

In terms of blast furnace commitments, again, if business conditions do not warrant it, blast furnaces can be shut down for periods of weak business. If we cannot generate money, blast furnaces can be permanently shut down. They're all part of our agreement.

CHAIRMAN OKUN: Okay. I appreciate those comments.

Let me now turn, then to another issued raised by Mr. Cunningham in his opening remarks this morning which is if we're looking at what's particularly the long products, I think he referred to this as being an industry where there are good ones or bad ones, so I guess I won't go down the weaker sisters that he thought needed to go, and I wondered if I could have the long products producers comment more specifically on capacity, capacity reductions and how you evaluate that. And I know that this was touched on in your opening, but I guess I just want to pose the question as it was posed this morning by Mr. Cunningham and talk a little bit about capacity and what you see taken out, what remains to be taken out, if you think it does.

I'm looking at you, Mr. Muhlhan, because you have the front row but you may not be the person --

Mr. Selig?

MR. SELIG: Let me try. The only thing I might point out with respect to the testimony that you're referring to --

CHAIRMAN OKUN: And could you move your microphone a little closer so we can hear you better?

MR. SELIG: Sure. The only thing I might point out with respect to the testimony that you're referring to is that the situation is considerably different in the long products industry than it is in the flat rolled industry. Although there are a few weak sisters, one of who did shut down this past year, the Kentucky Electric Company, there are relatively few really inefficient long products mills. There are a couple that are in bankruptcy, perhaps due more to market conditions than to the inefficient capacity issue. So I think that, in my opinion, there are not that many weak sisters.

The question of supply/demand and, of course, as you've already pointed out, we've already responded, the reduction in foreign steel was picked up by the increase just in operating mills, not necessarily new mills.

I might also say with respect to the effectiveness of the 201, some of you may remember that the last time I was here I brought with me a reinforcing bar that I picked up at a job site in San Antonio, Texas from Moldova. I might tell you that we looked for some Moldova rebar and although there is some foreign steel there, there is none from Moldova.

CHAIRMAN OKUN: Okay. Well, I see my yellow light has come on.

Mr. Price?

MR. PRICE: Yes. I'd just like to respond to one thing. Mr. Cunningham made this exact same argument in the original 201 investigation and then he argued that essentially because there were weak sisters and strong sisters you should deny relief in the first place. The commission obviously rejected that argument and looked at the industry as a whole.

Secondly, there have been significant capacity adjustments in this industry.

And, third, I might point out if there is a weak sister in the supply of SBQ bar products producers in the world and where capacity rationalization might be due today it's actually with Corus in the U.K.

Thank you.

CHAIRMAN OKUN: Well, I think I'm going to have some other specific questions with regard to some of the other companies that are out there, but I will have a chance on that third round.

Vice Chairman Hillman?

VICE CHAIRMAN HILLMAN: Thank you.

Well, I always seem to want to piggyback on what the chairman has asked because I think the testimony is very clear and everybody would agree, including the respondents' counsel that there has been very significant consolidation. To the extent, on the other hand, that we've heard sort of criticism or a sense of things is that yes, it's been long on consolidation but short on rationalization, by which they mean closure. And it raises two issues.

One is the issue of the actual money that's come into the industry. Again, a criticism coming from the other side is, yes, a lot of money's been pumped in, but it's all been money to purchase bankrupt assets, it has not been substantial capital expenditures, sort of new capital investments in more efficient technology.

I would say the argument is stronger on the flat side, that if we look at our total numbers for actual capital expenditures, they are down considerably from the time prior to the relief. That's not true on the long side, but I'm wanting a little bit of a sense of what do we make of this consolidation versus rationalization, both on the expenditure side as well as on this issue of capacity?

Because, again, if we look at our numbers in toto for both flat and long, they would actually show a slight increase in capacity across all products that we're looking at. And yet, you know, as I listen to the testimony, I've heard lots of descriptions of capacity coming out of the industry, so I'm wanting some little bit of a check from the industry of whether you think our numbers are right, that on balance, in toto, there has been a slight increase in the capacity produced, the broad range of flat products that we looked at and these three long products and any comments that you want to make on this issue of the value of rationalization as opposed to consolidation.

And I don't know whether you want to start, Mr. Usher, on the flat side.

MR. USHER: I have to look at your numbers in detail to tell you how good I think they are and give you at least my perspective on that, but I would say it's sort of a two-stage process and I'll use U.S. Steel and National as an example.

Even though we have done a fair amount of capital spending, our focus here has been on the acquisition of National and, as I said, we have now had the operation of National for about two months and we are now, I think, for example, between the two company's assets, we now have 16 galvanizing lines. Our opportunity now to focus capital investment and decide which of thee will run and which won't run, we have a whole new perspective on how we look at this than how we looked at this thing when we were just U.S. Steel.

So I think it's sort of a two-stage process. One is that you have to take the time to do the acquisition and get that behind you and then the second phase of this is the rationalization where those facilities that aren't as competitive as other ones will tend to drop out.

So I think, you know, that is something that you'll be seeing over the next year or two as we get experience with these facilities.

The second thing I would say, I would not want you to lose sight of the fact, though, that in the renegotiation of the labor contract, in the consolidation and the acquisition, the goal has been to make our costs vis-a-vis the costs of other producers in the world very world competitive, especially for delivery of production the United States market. And when you take a look at the substantial improvement we have had on the cost curve and will have as we integrate these together, our idea is not to get out of the business, our idea is to make it cost competitive on a world scale basis so that our cost can beat anybody's in the world on product delivered into the United States.

So while there may not be shutdowns, I think the key is to look at have you become cost competitive with the best in the world and I would contend with the new cost position we have for product delivered in the United States we are.

VICE CHAIRMAN HILLMAN: Okay. I very much appreciate that answer.

On the long side, are there -- again, is there a sense from industry perspective on this issue of consolidation versus rationalization and whether there's been an appropriate balance between the two and on this issue of money spent for acquisition as opposed to real capital investment in improving the productivity of a facility?

MR. MUHLHAN: I think you have to be careful how you define weak sisters. A year and a half ago, two years ago, Birmingham Steel was a weak sister. Now, a lot of the productive capacity of Birmingham is part of Nucor and that weak sister has gone away and the next guy in line has ended up getting that name.

Our consolidation with Costeel probably avoided what would have been a much more troublesome future for the Costeel facilities and, as a result of the consolidation, we can now focus on trying to improve the manner of operation of the productive capacity that was there.

I think the numbers can tend to blur what's really going on in the business. I don't think the issue is necessarily capacity as much as it is output. When you have companies that struggle to stay in business, have high overheads, have uncompetitive amounts of administrative and managerial costs, they have to run their equipment as hard as they can, get as many units as they can, and hope to get them into the market to cover a bit of their costs.

I think what you're going to see coming out of these consolidations is a lot more business like management of capacity and a lot of cost reduction in administrative areas, some of which has been spoken to today. So you've got costs that are reduced because you don't need duplication of effort in running that capacity and you've effectively got a much more efficient system because that capacity now doesn't have to run out of desperation, but rather runs when there's the opportunity to make a profit and otherwise is idled on the margin.

We're not operating our facilities nearly as hard as the individual companies who ran them before our consolidation tended to run them on average and it's because we're matching that capacity to market.

VICE CHAIRMAN HILLMAN: I appreciate that answer. That was very helpful.

Mr. Fritsch in the back?

MR. FRITSCH: Yes. Commissiomer, some thoughts are sometimes very helpful in sorting these things out. After listening to the testimony today, I think Republic Engineered Steel indicated they rationalized a million tons of long product capacity. We also heard that Northstar's T.S. Kingman facility was shut down, which has 500,000 tons of rolling capacity, 650,000 tons of melt capacity.

We also have Calumet Steel that shut down, 200,000 tons of capacity. We also have Kentucky Electric which has shut down during this period, 400,000 tons of capacity.

If I add that up, that's approximately 2.5 million tons of capacity that's come out, and no new mills being built. So when we talk about the capacity increasing or decreasing, I think overall from a macro viewpoint, in long products there has been significant rationalization.

Now, to the point of capital investment, we do know that Qualitech Steel is coming back and they've spent $70 million in new investment to switch that mill from SBQ toward merchant products. It's not on stream yet, but will be coming back on, so there's some pluses and minuses, but in general there's been significant rationalization of long product capacity in the United States.

The second comment I would make is what we call capacity creep. When you put a new caster in, generally you put in new technology, more efficient, higher technology equipment which has a productivity ticker to it. So each time you invest and restructuring investment is going on, you end up with just a little bit more capacity each time.

As Mr. Muhlhan testified, though, the capacity creep is only good if there is a market demand to utilize that capacity. So while theoretical capacity has increased with demand being soft and imports still being a major issue in some product lines, the utilization of that capacity has not really occurred.

VICE CHAIRMAN HILLMAN: I appreciate that. That was a very helpful answer.

Mr. Campbell, before I go to you, Mr. Johns, since Nucor was one of the consolidators, if you will, on long product, I wondered if you had anything to add. I clearly heard your testimony earlier in response to a question that among the things that you were able to do was to in essence utilize Nucor management, no new folks managing the Birmingham facility. Are there other things that you would point to on this issue of consolidation as opposed to rationalization which best leads to a more efficient industry?

MR. JOHNS: The efficiency that we've gained I've spoken to and I think Jim Fritsch very eloquently stated what you expect out of changes. I think the one thing we left off the list there was Memphis and that has not restarted either.

The capacity curtailment in this sector of the business, if you look at as a percentage of the total demand or total capacity of the sector, is quite significant, so to suggest that there has not been rationalization is extremely inaccurate.

By the same token, any time you go through an optimization program, as Jim said, any time you go through any new investment, you're going to get some productivity improvement. And I think Seth addressed that in his initial statements, that one of the very desired outcomes, and Tom Usher hit on it, too, is a far more efficient, effective steel industry that might not have to run at 100 percent capacity to meet normal demand.

What you're talking about is an industry that is slowly but surely -- maybe more quickly than we think -- becoming highly efficient.

I reject the notion of weak sisters. I think Bob Muhlhan was very accurate in his statement that in this particular sector of the business, there are very few. The problems within this sector that resulted in bankruptcies and what have you were more of a residual problem of debt colliding with a horrible import and market situation, as opposed to operating efficiency.

What we found in the Birmingham situation is that those plants are highly efficient, highly effective, a couple of them are as good as any Nucor mill we had and the others could easily be brought up to the same scale as Nucor mills.

VICE CHAIRMAN HILLMAN: I appreciate those answers and I will have to come back to you, Dr. Kaplan, because the red light has come on.

Thank you.

CHAIRMAN OKUN: Commissioner Miller?

COMMISSIONER MILLER: Thank you, Madam Chairman.

There's been a lot more very interesting testimony and I appreciate in particular your comments about the efforts that workers have made to assist in this adjustment effort because, Mr. Usher and Mr. Thielens, your comments in response to the chairman I appreciate in particular. We did talk about it a fair amount at the flat hearing and I won't go back to it, but I think it's an important part of our record, so I appreciate those comments.

I wanted to diverge from those specifics for a moment. I found Mr. DiMicco's comments earlier about -- he specifically talked about or mentioned that the more moderate price increases that this sector has generally seen, the long products sector, he distinguished it from the situation in flat where, as we've noted, you had greater price swings.

Mr. Usher, I'm obviously coming back to you here. I think Vice Chairman Hillman came back to it a little bit or in response to a question from her you talked about the other factors that you thought were contributing to those price swings.

Simply because Mr. DiMicco's comments sort of caught my attention as we look at these two sectors and because of the many complaints we have heard and did hear in this proceeding as well as the 332 proceeding from customers about what's caused these more volatile price swings in the flat area, I guess I Wanted to let you elaborate a little bit more because you mentioned LTV and I think you said other things going on in the world market, but then you talked about your customer reactions, over inventory, I think is what you referred to.

Let me just get you to elaborate a little bit more about what you really think was going on or has gone on since the President's action with respect to pricing in flat products.

MR. USHER: I think you have to sort of have what was the mind set of a lot of those people who were buying in the spot market.

Now, just to put it in perspective, many of the people that we deal with are long-term contract customers, so this really didn't have an impact on them. These are the people, service centers and converters and so forth, that are generally buying in the spot market. And they saw in the fall of 2001 that prices had fallen to levels they hadn't seen in years, they were pleased with that, I'm sure, and were hoping that they would stay down there, and then a number of things came to pass: the demise of LTV which took somewhere in the neighborhood of 7 to 8 million tons out of the market, the Section 201 hearings were going on, the President came out. And all of a sudden there was a realization that the availability of steel at the kind of prices they had seen in the fourth quarter of '01 and the first quarter of '02 might not be there. And prices were starting up.

And you can go back at any other cycle -- and these cycles of prices going up and down are not unique to this, they've happened over the years, and there tends to be always a run up in price relatively quick because a shortage mentality exists in people's minds. Whether there's a shortage or not doesn't really matter, it's the mentality they have, and they go out and the president grabs the purchasing guy and says make sure we have steel, I don't want to shut down. And the guy goes out and buys steel.

You look at the numbers, this thing ran up for about four months, to July, and then just as quick as it ran up, it ran back down. And during that time, what happened?

Well, ISG was going to restart LTV, they restarted one blast furnace, then two blast furnaces, so the steel that was taken out of the system came back into the system. Imports did not dry up, like some people felt they might. There were a number of exclusions granted and steel kept coming into the country.

So this I would characterize much more as a hiccup in the system. It took about six months to sort of work its way through, but prices right after the July peak started coming back down and by the end of '02 and into '03, they were not quite as low as they were in '01, but they had come back still well below 20-year levels.

So, you know, you've had other factors that took place, the market in China got hot this year and all of these things have to be considered. But a lot of what happened in the beginning of '02 was a combination of LTV going out and people overreacting worrying whether they were going to be able to get steel and it turned out not to really be a problem.

COMMISSIONER MILLER: That's very helpful. Is there something structurally about flat that's different from long or -- you're not in long, but --

MR. USHER: I'm not in long, so I really can't comment about the differences, but --

COMMISSIONER MILLER: You're in tubular, though, as well, so --

MR. USHER: Yes, but our tubular is really driven by oil country activity much more than construction. I think, you know, one of the things probably that might different, I would say the flat products are more attuned to general economic activity in construction, where in the case of flat there were some markets that were still relatively strong, even in a period of weak industrial demand in the United

States. Automotive production stayed fairly strong, house construction and the appliances, which are very closely correlated with them, stayed relatively strong, so you had some pockets of strength within the flat rolled that you may not have had in the bar products.

COMMISSIONER MILLER: Okay. All right. That's helpful.

What about the service center issue? Are long products -- I can't recall whether long products are traded as much or sold as much through the service centers.

I see Mr. Johns --

MR. JOHNS: I'd like to maybe not address that specific question, but follow up to Tom.

COMMISSIONER MILLER: Sure.

MR. JOHNS: You just didn't have the spike in domestic capacity being removed from the market in long products. We're in both.

COMMISSIONER MILLER: Right. Right.

MR. JOHNS: Obviously, when you take 7 or 8 million tons out by the LTV event suddenly, which was accompanied by other events immediately before and after, you know, you look at Acme and things like that, Trico was part of LTV but operated as a separate company, you had all of that happening all at one time. That condition did not exist in long products at all, so the buyer mentality on the service center side wasn't there, nor the buyer mentality on the user side. There was no panic buy on long products. And I think Tom was very accurate in saying what happened in flat rolled was the view that there was -- it was a shortage mentality and the view that I've got to get mine and I've got to get it now and that put a lot of pressure on what appeared to be demand that wasn't and later on we find that it became an inventory glut that we worked through later in the year that was also a contributor to declining prices on flat rolled.

COMMISSIONER MILLER: Okay.

Yes, Mr. Layton, correct?

MR. LAYTON: Yes, Duane Layton with King & Spalding. In terms of the service centers, they do play a key role in the distribution of cold finished steel bar and as the Cold Finished Steel Bar Institute discussed in their pre-hearing brief, those service centers not only buy and sell the domestic production, but they also are trading in the imported goods. And, as we discussed in the brief, they act as sort of the hub of a wheel and they transmit those lower prices that even though it may be a relatively small amount of tonnage coming in from overseas, if it's coming in at a low price, those service centers are privy to those prices, they are negotiating with the domestic suppliers, and they leverage those lower import prices to command lower prices out of the domestic producers.

COMMISSIONER MILLER: So that's the same in long or flat. I'm just trying to really understand if the LTV closure is sort of the key -- that capacity closure is the key difference here.

I see lots of hands up.

Mr. Kaplan?

MR. KAPLAN: We did a statistical study on exactly this question and found that with respect to the blended contract and spot prices, at the peak, over half of it was due to the closure of LTV and the capacity closures. And by the end, it came down to about a little more than a year out prices were about 10 percent higher, which I recall now after seeing Mr. Usher again is what we talked about about 18 months ago as what we thought would happen a year out, without anticipating LTV. So it left, caused a spike, came back on, and we wound up about where we expected.

COMMISSIONER MILLER: Okay.

Mr. Price?

MR. PRICE: Yes, Thank you. One of the

things we talked about, someone in the 332, is how the President's program really did a tremendous job in the long product industry of preventing that type of catastrophic closure. There was one producer that we've talked about that was really on the verge of a catastrophic closure and it would have been catastrophic in the same way because they provided safety critical parts to the automotive industry, an SBQ supplier, and that capacity simply would not have been replaceable in the short term without the same type of damaging effects that would have occurred to the consumers.

And as we look now after we get done looking at the tip sheet and all the effects of the tip sheet and the 332 and so much of the testimony, we now see companies like Delphi coming forward and saying, well, you know, a lot of what we said was a bit exaggerated and overstated and really the contracts were there and things were maintained.

So one of the great benefits of this whole program has really been to the consumers of the United States by maintaining that source of supply.

COMMISSIONER MILLER: I appreciate all your answer. Thank you very much.

CHAIRMAN OKUN: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Madam Chairman.

Mr. Johns, if I could raise this with you, we've been hearing about Nucor's purchase of the Kingman facility and there was an article that appeared in the American Metal Markets on July 18th entitled "Nucor Pursuing a Restart for Idle Kingman Mill." Can you tell me what effect, if any, the safeguard relief had on your decision to make that purchase?

I note that in the article Michael Parrish, Executive Vice President of Nucor Bar Mills, is quoted as saying that the first option is to run it, but cites logistical issues such as getting scrap into the northern Arizona facility and equipment issues such as an inefficient shaft furnace and a reheat furnace that's too small.

Understandably, he refused to comment on the possible cost involved of refurbishing and restarting Kingman, but he does say that you have no set deadline for the completion of your evaluation of Kingman.

To the extent that you can comment in this public forum, if you could tell me what effect, if any, continuation of the safeguard relief will have on Kingman. In your pre-hearing brief, you state that if the relief is terminated, it's questionable whether Nucor will ever open the facility and I note that when Mr. DiMicco testified today he made a similar statement, but I'm wondering if you could tie that together for me.

MR. JOHNS: I think that would be speculative at this point, to try to tie a date to a restart on that facility and the 201. It really depends on what the demands are in the region that the mill serves, the business environment. It's a great rolling mill and option two comes into play if the economic conditions aren't right to restart.

C$OMMISSIONER KOPLAN: Thank you very much for that.

CHAIRMAN OKUN: Mr. Usher, in response to a question from the Chairman I believe indicated that US Steel doesn't have any limitation of foreign investments in its agreement with the steelworkers. I'm correct that I think you said that?

MR. USHER: That is correct.

COMMISSIONER KOPLAN: Thank you. Then you also said that you couldn't speak for the lawn products.

MR. USHER: No. I said I couldn't speak for the arrangements --

COMMISSIONER KOPLAN: Right.
MR. USHER: -- at ISG or other people had.
COMMISSIONER KOPLAN: Oh, okay.
I'd like to hear from the lawn product producers in terms of foreign investments that have or have not I mean I don't know whether they have been going on but since the relief went into effect and how the 201 might have impacted on decisions to do that. In other words are some of the monies gained as a result of 201 relief being used to make investments abroad as well? If you could start by responding I could start with you, Mr. Muhlhan.
MR. MUHLHAN: I guess the CoSteel or AmeriSteel consolidation technically involves some foreign investment and that some of the mills consolidated are also Canadian mills. We've made no investments, other investments, outside of the United States and our view is with respect to lawn products it's very much like that expressed by this Commission in the original 201 findings. This to us appears to be all one market and this consolidation fits together for that reason.
COMMISSIONER KOPLAN: Okay. Can you expand on that in the post-hearing to some extent?
MR. MUHLMAN: Sure.

COMMISSIONER KOPLAN: Thank you.

Mr. Johns?

MR. JOHNS: The foreign investments that Nucor made are primarily involved in the flat rolled side with high quality metallics to our flat roll facilities, i.e., the CVRD announcement for pig iron in South America in the high smelt project.

COMMISSIONER KOPLAN: When was that?

MR. JOHNS: High smelt.

COMMISSIONER KOPLAN: Yes. I say when was that?

MR. JOHNS: That was a recent joint -- it's just starting. It's what's called the green pig project. It's a project to produce pig iron in Brazil.

COMMISSIONER KOPLAN: Thank you.

Mr. Selig?

MR. SELIG: As probably has been known the commercial metals company which is a parent of that company --

COMMISSIONER KOPLAN: Could you move that microphone just a little closer?

MR. SELIG: The commercial metals company which is a parent of our company has recently made an investment in Poland. However first of all with response to your question of whether it was profits as a result of the 201 hearing or the 201 safeguard that resulted in this and I've already commented on the fact that profits were down during this period. The Polish investment was made by another division of our company, the marketing and trading division, which is also wholly-owned subsidiary of the Commercial Metals Company.

That company is headquartered in Zug, Switzerland and is operated in Europe over a long period of years and their investment in the Polish mill is consistent with previous investments made long before the 201 safeguard. The marketing and distribution division headquartered in Zug has had investments in the Czech Republic for some years and the Polish investment is kind of in conjunction with that. There's no connection to the 201 safeguard in our opinion.

COMMISSIONER KOPLAN: Thank you. I guess part of what I'm trying to understand is what effect, you know, such investments would have on global capacity as I hear what you all have to say.

Mr. Ruth?

MR. RUTH: North Star has no investments, foreign investments, and the 201 wouldn't have an impact on those decisions.

COMMISSIONER KOPLAN: Thank you.

Mr. Thielens?

MR. THIELENS: The Republic does operate a cold finished bar facility in Canada but the 201 has had no impact on our interest or desire to invest overseas.

COMMISSIONER KOPLAN: Thank you.

Mr. Haidet?

MR. HAIDET: Yes. Timken only produces subject bars here in the United States. We do have a tube making facility in the UK that predates the 201 and any investments in that facility post-201 have been minimal.

COMMISSIONER KOPLAN: Thank you.

Mr. Darling?

MR. DARLING: The Corey Steel Company has no foreign investments and there is no foreign investment within the Corey Steel Company.

CHAIRMAN OKUN: Thank you.

Mr. Alvarado?

MR. ALVARADO: Ispat Inland itself has made no investment in foreign operations in any way, shape or form. I guess I need to be careful in qualifying that Ispat Inland is part of the larger global L&M

group which has made substantial investments mostly in privatization but that's been done on Mr. Mattel's account as a private investment unrelated to the publicly held company which Ispat Inland is a part.

COMMISSIONER KOPLAN: Thank you.

Have I covered everybody?

(No response.)

COMMISSIONER KOPLAN: Good. Thank you all very much for those responses.

Let me turn to the Cold Finished Steel Bar Institute. On page six of your prehearing brief you note that in six instances the president excluded certain sizes and grades of cold finished steel bar over your objections to the effect that those requests covered products that the domestic industry was ready, willing and able to supply. Can you provide me now with the specifics concerning the products covered the share of covered imports they accounted for and for the post-hearing if you could provide the Commission with any documentation that you might have submitted to the administration when arguing against inclusion of those particular products.

MR. LAYTON: Commissioner, we'll have to provide that information in the post-hearing brief.

COMMISSIONER KOPLAN: Oh. For the record if you could just identify yourself?

MR. LAYTON: Duane Layton with King & Spalding.

COMMISSIONER KOPLAN: Thank you.

This is for Ispat. On page 15 of your prehearing brief you state that, "High import levels alone have a negative effect on domestic prices and this effect is exacerbated by the fact that product exclusion exports enter the United States duty-free." But however as long as excluded products are being exported to the United States from covered countries they would still be subject to existing duties. I'm wondering if you meant to include such exports from covered countries in that statement that you made?

MR. ALVARADO: I'm sorry. Could you repeat the question again? I'm not sure I followed you.

COMMISSIONER KOPLAN: Okay. This is the quote from the brief.

MR. ALVARADO: Yes.

COMMISSIONER KOPLAN: "High import levels alone have a negative effect on domestic prices and this effect is exacerbated by the fact that product exclusion exports enter the United States duty-free." What I'm saying is if product exclusions from the 201 relief are coming in from a covered country as opposed to an exempted country those products would still be subject to existing duties. Do you follow me? Aside from the 204 relief and --

MR. ALVARADO: Yes. I'm not aware of any duties that apply in the absence of the 201 to those imported products.

COMMISSIONER KOPLAN: Mr. Belman, do you want to jump in on this?

MR. ALVARADO: Yes.

MR. BELMAN: The products under consideration are zero duty under the WTO agreements, the Uruguay round agreements.

COMMISSIONER KOPLAN: Okay. Thank you for that.

MR. PRICE: Except for rebar by and large in this product line there are no dumping duties in these product lines.

COMMISSIONER KOPLAN: All right.

I see my red light has come on. Thank you, Madame Chairman.

CHAIRMAN OKUN: With regard to the capacity question I think that the answers that you gave I believe it was to Vice Chairman Hillman went a long way down what I was trying to understand about capacity in this industry. There were just a couple of follow-up questions called in Europe that I wanted to ask on that which is whether anyone in the industry can provide information on the current status of LaClede Steel which I understand was purchased by Alton Steel?

MR. FRITSCH: Commissioner, all we know about that is that a private investment group with state funds has been successful in acquiring the assets anad are trying to put together plans to restart the facility but on a much smaller scale than it did originally operate on. Whether they'll be successful or not remains to be seen.

CHAIRMAN OKUN: Okay. What was in the terms of the capacity do you have -- I mean maybe you could do this post-hearing. You probably don't have this. If you have available any more information about that --

MR. FRITSCH: Sure. As I recall just off the top of my head LaClede was about 400,000 to 500,000 tons per year of production capacity.

CHAIRMAN OKUN: In which product line?

MR. FRITSCH: SBQ primarily.

CHAIRMAN OKUN: In SBQ. Okay.

MR. FRITSCH: Right.

CHAIRMAN OKUN: Okay. Okay.

I believe -- oh, I'm sorry. Yes, Mr. Wolff?

MR. WOLFF: Yes. I would just add on the question of capacity overall slide nine from the flat rolled products presentation was a slide that went to the entire capacity in the industry. According to AISI data there was about 20 million tons that came out and 10 million came back in. So about ten million tons of steel out and I think the reason the Commission data does not show the dip in capacity of that magnitude if at all is because of survivor bias namely those who didn't fill out questionnaires are not included in the earlier data.

CHAIRMAN OKUN: Okay. Well, I mean that was where I was going with this which is to ask counsel as we go through here to try to help us understand in all the product lines, you know, if there is survivor bias to try to help us to identify it so we can understand where the difference is between the capacity reductions and rationalization you've talked about and what the staff report shows right now. So that would really be the key I think on that.

Milton Steel, are you aware of that?

MR. PRICE: I believe they're out of production right now.

CHAIRMAN OKUN: Mr. Ruth?

MR. RUTH: Well, it's a former North Star facility many years ago and as far as I know today that facility is closed and not operating.

CHAIRMAN OKUN: Okay. Okay.

I think someone else had commented on Bayou Steel which I understand is in bankruptcy.

MR. PRICE: They are operating.

CHAIRMAN OKUN: They're operating. Okay. Okay. That's helpful but again I mean I think the major point is to go through and help us understand the capacity numbers. I think that would be very helpful.

There have been a number of things or I've heard a number of comments about SBQ capacity, Qualitech which I think I heard testimony about going to be reopened as a merchant, bar and rebar operation and I'm just trying to understand in terms of, you know, again with relation to import competitiveness what that means in this industry where if I understand the characterization it was more SBQ was going out and merchant bar coming in although in my mind I seem to recall merchant bar being where you had the most import competition. So I wondered if anyone in the industry who produces this could help me understand what's going on in the industry with regard to SBQ?

Mr. Alvarado?

MR. ALVARADO: Let me take a shot at that. I don't think that there's the pressure is on SBQ and the pressure is on merchant and rebar are no different and that's why it's a little bit difficult when one looks at the data to not want to segmentize it to some degree. In trying to capture some of the data that was being to the plant closure Memphis was a melt shop intended for SBQ. Not mentioned was CSC facility which is an SBQ facility.

Georgetown, a wire rod and bar facility that was shut down prior to the closure but as I look at this we're not looking so much at merchant and rebar facilities being idle as they are wire rod and SBQ. So the thing to understand however is that a lot of products can be made whether it's SBQ or merchant rounds on the same facilities depending on what demand is like and what the quality expectations are of the particular end user.

In the aggregate in looking at the capacity figures using a total demand of a long parts of about 25 million tons I've added up about 4.5 to 4.7 million tons of vital capacity. That's a substantial decline in overall productive capacity and I don't think we've captured everything here and that's using some of the figures used by Nucor for Memphis as well as Republic's one million tons. So it's not a unique problem.

I think there are different competitive factors affecting each of the product segments and why we tried to help differentiate and define some of those issues and taking it one step further even within the SBQ segment. I've concentrated a great deal on hot rolled leaded steels which also has a significant impact on the entire cold finished bar industry in the United States. So it takes that section of the data and product to truly understand it and I hope that's helped a little bit.

CHAIRMAN OKUN: It is helpful and, you know, I think anything else that you could provide in post-hearing to help us understand just in terms of what it means in terms of where the capacity is going out and then in terms of import competition but, Mr. Alvarado, your last point about lead bar had reminded me that in terms of the economic conditions that the industry's operating under during this period that it sounds like we need to do a fairly thorough job of breaking out the raw material costs and how they're impacting the different both hot rolled, cold rolled and rebar.

I wondered I heard some of you talk about in your testimony in terms of, you know, where you saw costs increase. Some of you I know mentioned energy but I wondered if I could have a little more discussion just in terms of raw material costs and, Mr. Alvarado --

MR. ALVARADO: Yes. If I may comment on that. Bob Johns' already made the point that metallics increased dramatically and many mill operators and most of us are electric furnace operators and are very dependent on scrap as a metallic base or alternatively pig iron or HBI and from the beginning of this year until about May or at least through the June-July period pig iron itself had increased in the range of conservatively $60 to $75 a ton. HBI and DRI and like quantities and scrap also has risen dramatically.

Add to that natural gas prices which have escalated quite significantly over the course of this last year and it adds up to a devastating impact on cost that's difficult to recover no matter how efficient we might become. I think everyone's looking at a much more biased or higher cost structure than we saw a year ago but perhaps some of the others can comment on that as well.

CHAIRMAN OKUN: Mr. Ruth?

MR. RUTH: In the case of North Star I can tell you that our raw material cost scrap averaged over all of our facilities have increased approximately 32 percent.

CHAIRMAN OKUN: Okay.

Yes, Mr. Thielens?

MR. THIELENS: Republic's also encouraged a significant increase in scrap I would say some percentage levels to what Mr. Ruth said. Also in SBQ produced generally alloy steels can contain alloying elements and in particular nickel and mali have increased significantly this year for the production of alloy steel and also earlier in this year significant increase in the cost of natural gas had an impact on all of our operations from melting, reheating and rolling through thermal treatment of our products.

CHAIRMAN OKUN: Okay.

Any of the other producers want to comment on --

MR. FRITSCH: Yes.

CHAIRMAN OKUN: Yes, Mr. Fritsch?

MR. FRITSCH: I wanted, Commissioner, to come back to your comment about SBQ and Qualitech coming up in this merchant mill. One of the characteristics of the high demand in SBQ market is that customers have very demanding qualification requirements and it takes a great deal of time. The public information of Qualitech was that it went bankrupt even though it was brand new state-of-the-art technology because they could not penetrate the SBQ customer base and get qualified in a timely manner. So the cash flow just killed them.

With Qualitech coming back when you look at their going into merchant products which don't have as demanding a qualification period the cash flow would come back much quicker from an investment of that nature and that may be the driving force of why people are going into merchant and rebar as opposed to SBQ with some of the revitalization that are taking place.

CHAIRMAN OKUN: Okay. That's very helpful. I see my yellow light is on and I said for my third round I will try to cut it short so I will turn to Vice Chairman Hillman.

VICE CHAIRMAN HILLMAN: Thank you. I hope just a couple of quick follow-ups. One is on this broader issue of exclusions. A number of you have touched on it and you've responded to Commissioner Koplan but I'm just wanting everybody if you can and it would probably be best done in a post-hearing brief to give me a sense of what are the most important exclusions from your perspective in terms of what is causing you to feel like the imports are not coming down to the extent that you would have thought?

Is it the country exclusions in the developing countries, the NAFTA and the other free trade agreement countries, or is it product-specific exclusions and if so kind of which are the top two or three that are most important to each of your companies?

Mr. Usher had already indicated that from your perspective that you would be providing a response in a post-hearing. Again I'm just trying to get a handle on how significant these exclusions really are to you and in particular which exclusions are the most important? Okay. Then I guess my second question goes just quickly if I can have any comment on we've heard a number of particularly the members of Congress commenting on the OECD talks and obviously the OECD talks were originally trying to get at both an agreement to reduce or eliminate subsidies as well as an agreement to take out capacity. I'm wanting a sense from any of you that are following of what your sense of either the industry or the market's expectation is as to whether or not an agreement would be reached and how significant it would be on either the subsidy side or the over capacity side?

Mr. Usher, do you want to --

MR. USHER: We have followed this closely and I guess I would say that I think most of the efforts to date at the OECD have been really directed towards the subsidy issue as opposed to the over capacity issue and I would say they have made good progress. I think the industry feels that it has to be a fairly comprehensive agreement that all the major steel players in the world need to be participants in it for it to have any kind of teeth.

But there have been I think some progress made on different types of subsidies and I think the industry as a whole and I'm speaking not just for the U.S. industry but through the IISI would say that basically almost all subsidies should not be permitted. There are some still debate on some R&D subsidies, on some environmental subsidies and some debate on developing countries subsidies but for the most part I think the industry, the world steel industry, is very negative on the subsidies and I think of course this is being negotiated on a government-to-government basis but I think they're making some progress. It is a very complex thing. I do not expect to see anything come out in the next several months but I think they made good progress and I think there will be continuing discussion on this over the next 12 months.

VICE CHAIRMAN HILLMAN: Okay. But you're sense is there's not a market expectation that something significant would happen that --

MR. USHER: No. I think the market feels that this is a good thing, it's something that will help discipline the industry but nothing major is expected in the short term.

VICE CHAIRMAN HILLMAN: Okay.

So, Mr. Wolff, you had your hand up or, I'm sorry, Mr. Johns? Go ahead.

MR. JOHNS: Nucor has followed this fairly closely as well and while some progress has been made quite frankly we think that 201 basically brought everyone to the table it was the lever to do it. In the absence of a 201 we're not so sure some people will stay at the table and while some progress has been made we are very concerned that the public positions taken by China, India, Brazil, etcetera, on the special treatment for developing so-called developing countries when we're dealing with developed industries. So we have our doubts.

VICE CHAIRMAN HILLMAN: Mr. Wolff?

MR. WOLFF: Yes. On the subsidy side the only thing I would add to what Mr. Usher and Mr. Johns said is that it's not at all clear who will be signing up of the major developing countries and China so that is a big unknown and I agree that there would be no short-term impact on the capacity talks. They are just an exchange of information. There is no intent that there be any agreement that is reached with respect to capacity in this intergovernmental forum and the impact is really highly questionable.

VICE CHAIRMAN HILLMAN: Mr. Layton?

MR. LAYTON: Duane Layton, King & Spalding. I'd reiterate what Mr. Wolff said about the concern that at least the cold finished steel bar industry has about this effort every bearing any fruit not the least of which is the concern that China will not sign up. But another concern and I know the stainless steel industry talking to counsel is concerned about this is that India for example seems to be pushing this idea of an exemption for subsidies received by producers whose different measurements are being kicked around but net sales are below $100 million or something like that. Well, when it comes to cold finished steel bar at least in this country it tends to be produced by in many cases smaller companies and this industry's concerned that such an exemption, you know, might remove disciplines from a lot of foreign cold finish steel bar producers.

VICE CHAIRMAN HILLMAN: Okay. Appreciate that.

Mr. Usher, you had your hand up as well?

MR. USHER: I just would like to echo what Mr. Johns said that I've been engaged in this thing for 15 years at the senior level and these kind of discussions about trying to do something in this area have fallen on deaf ears around the world until the 201 action took place and I cannot overstate how significant it was as getting these other people around the world to try to address some of these problems of fact that the 201 action took place. I just don't want you to not appreciate that.

VICE CHAIRMAN HILLMAN: No. I appreciate that addition. One last question. In reading the testimony of the folks that we're going to hear this afternoon there is clear, you know, testimony in terms of allegations of shortages and difficulty getting SBQ bar and given that we have all of you here I wondered if you wanted -- I wanted to give you the opportunity to comment on whether you think again whether customers have been put on allocation, whether there have been any shortages in supply for customers of SBQ?

Go ahead, Mr. Thielens?

MR. THIELENS: I'd like to comment that we did have some issues back in the third quarter of last year due really to the restructuring of our company but as we had worked through those by the fourth quarter we had adequate supply of all products. Now we continue to have adequate supply of all products today across our full spectrum and in fact our Canton melt shop facility has been closed for five weeks due to lack of demand. So we have more than enough production across our full range of products.

VICE CHAIRMAN HILLMAN: Okay. This difficulty in terms of product would have been what time frame?

MR. THIELENS: It took place in the mid to late third quarter as we were going through the restructuring of our company and we actually though did continue to operate some of the facilities of Republic Technologies for longer than our business plan originally anticipated in order to meet the production requirements of our customers prior to shutting those down by December of last year.

VICE CHAIRMAN HILLMAN: Okay.

Do any of the other SBQ producers want to comment? Mr. Alvarado?

MR. ALVARADO: Yes. We're a producer of SBQ bars as well and my comment would be that with the exception of what Ted has just mentioned as production-related and partly I think a function of some consolidation of operations that SBQ bar has been readily available to anyone and I said it in my testimony it's a function of price. I think what we're dealing with here is price issue not an availability issue and understand that because there are other issues at play here and John alluded to this earlier we're all concerned about manufacturing and manufacturing competitiveness and when our customers are forced to compete with imported parts in supplying their end user customers at prices that are less than the cost of the seal itself in the United States it creates a huge competitive problem. So recognize the squeeze that those customers are under but availability is not an issue at all.

VICE CHAIRMAN HILLMAN: Okay.

Mr. Haidet, you had had your hand up.

MR. HAIDET: Yes. Similar for Timken. Throughout this period we had no shortages, no allocations, and have lessened our lead times. We are currently operating at only 70 to 80 percent capacity depending on product line.

VICE CHAIRMAN HILLMAN: Okay.

Mr. Ruth?

MR. RUTH: North Star as well has had no supply issues at all.

VICE CHAIRMAN HILLMAN: Okay. All right.

Sorry, Mr. Johns?

Mr. JOHNS: We produce SBQ primarily at our Norfolk, Nebraska facility. We had a minor production outage at the tail end of last year as we were replacing mill stands and we were looking for orders before we did it and we were looking for orders after it was done.

VICE CHAIRMAN HILLMAN: Okay. Appreciate those answers. I think with that I have no further questions but would want to thank you all very much for your answers.

CHAIRMAN OKUN: Commissioner Miller?

COMMISSIONER MILLER: Thank you, Madame Chairman. I'm not going to do a third round of questioning. There have been many good rounds of questioning and I appreciate all of you being here today, being willing to answer our questions. It's been very helpful. Thank you.

CHAIRMAN OKUN: Commissioner Koplan?

COMMISSIONER KOPLAN: I thought I might be the first to say that but you beat me to it. Thank you all very much. It's been extremely informative and I have no further questions.

CHAIRMAN OKUN: With that the pressure's on. I will leave this question and won't --

COMMISSIONER KOPLAN: It's in your hands now.

CHAIRMAN OKUN: Actually I can stop here.

Does staff have questions for this panel?

MS. HANES: Elizabeth Hanes, Office of Investigations. Staff has no questions.

CHAIRMAN OKUN: Do those in opposition to continue the relief have questions for this panel? I see hands waving in the back for Mr. Cunningham that they do not. So again I want to thank all of these witnesses very much for your testimony, for all of the answers you've given us and for the information you'll continue to provide as we prepare this report.

I also think this is an excellent time to take a lunch break and we will take a lunch break until 2:30. I will remind everyone that the room is not secure so please take any confidential business information with you and with that we will see everyone back at 2:30.

(Whereupon, at 1:26 p.m. the hearing was adjourned until 2:30 p.m. this same day, Thursday, July 24, 2003.)

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A F T E R N O O N   S E S S I O N

(2:30 p.m)

CHAIRMAN OKUN: Good afternoon. This hearing of the United States International Trade Commission will please come back to order.

Madam Secretary, I see that our second panel is seated. Have all the witnesses been sworn?

MS. ABBOTT: Yes, Madam Chairman.

(Witnesses sworn.)

CHAIRMAN OKUN: Very well. You may proceed.

MR. CUNNINGHAM: Thank you, Madam Chairman. I'm Dick Cunningham, Steptoe & Johnson, counsel to the Corus Group.

With me is Tina Potuto Kimpel of my firm and a noted alum of this fine organization, and Jeffrey Hoye of Corus America, who testified yesterday and who, I might add, I would hope you noted gave a description of market trends and price trends in the flat-rolled industry that was substantially identical to what you heard today from both the U.S. Steel and the Nucor representatives. Also here today are Mr. Charles Blum of International Advisory Services and Mr. Christian Mari of EUROFER.

We will begin with Mr. Blum giving you what in our view are the fundamental issues in this long products proceeding. I will then turn to Mr. Hoye, who will give you a discussion of the events in this market during the period of relief from the standpoint of a participant who's been active in the long products market for both hot-rolled bar and cold-finished bar.

Finally, to the extent we have a little time left, I will comment on some of the issues that were posed by the panel this morning.

Let me turn this over to Mr. Blum.

MR. BLUM: Thank you, Dick.

Good afternoon, Chairman Okun and Commissioners. Thanks for yet another opportunity to appear in these proceedings. I won't bother to reintroduce myself or Mr. Mari. We are here on behalf of EUROFER, which represents the European producers of long products, including such companies as Arcelor, Celsa, Corus, the Ispat Group, Lucchini, the Riva Group and many others.

Unlike the United States, Europe no longer has separate trade associations for integrated and electric arc furnace producers. In July of last year, citing the disappearance of their former differences, the European Independent Steelworkers Association, the so-called Mini Mill Association of Europe, and EUROFER announced the integration of their activities in the long products sector. As a result, EUROFER now represents virtually 100 percent of all the steel production of the EU.

The development reflects the importance of long products in our industry. For the past several years, long products deliveries -- shipments they're called in Europe have been about 57 million net tons per year. Last year, European exports of long products -- this is excluding cold-finished bar because we do not have those data -- exceed two million tons, and imports of the same products exceeded three million tons. Thus, the success of our long products producers is vitally important to the overall health of the European steel industry.

Today, we would like to address three sets of issues. First, the differences in adjustment issues between the U.S. mini mills and U.S. integrated companies; second, the progress made thus far by U.S. long products industries in adjusting to import competition, including steps taken and steps not taken; and, third, a very brief description of the ongoing adjustment process in the European Union long products industries.

Over the past 40 years, mini mills or

electric arc furnace producers have come to dominate the U.S. production of carbon long products. They have earned major shares in rebar, hot-rolled bar, cold-finished bar, wire rod, structurals and, more recently and in a much more limited way, flat-rolled markets.

By their own description, U.S. mini mills are highly efficient. The Steel Manufacturers Association says on its website: "Productivity in the American steel industry presently averages over three man hours per ton of steel produced. Many of the mini mills produce steel at less than one man hour per ton, some even below a half man hour per ton."

This efficiency is not the sum total of what makes them formidable competitors. Compared to their integrated producer competitors, electric arc producers have a number of other significant advantages.

First, the cost of entry to the industry is low. A modern EAF plant can be built far more quickly and far more cheaply than an integrated mill. The significantly lower capital cost requirements also result in lower fixed costs.

EAF producers have greater flexibility in terms of siting their mills, allowing them to establish dominant positions in geographic markets and to remain closer to customers and end users.

Third, whether or not unionized, EAF mills tend to have more flexibility in deploying and motivating their work force. They have greater control over compensation costs, relying more on incentive pay, defined benefit pensions and less costly health care systems than the integrated companies. In addition, as newer companies they have a much higher ratio of active to retired workers than do the integrated producers.

Finally, although this list is not exhaustive, finally they have had more success in keeping their prices related to their variable costs, especially scrap, and I make this a relative statement. You heard some comments about that this morning.

It is also more feasible for EAFs to adjust their production to reduce demand than for integrated mills to do, and you heard some comments about that this morning. Generally speaking, where integrated producers and so-called mini mills compete, it is the latter that leads market price development.

As a result, electric arc furnace producers tend to be more profitable than integrated producers over the course of the business cycle. They tend to have lower capital cost requirements, and they tend to avoid the crippling burden of legacy costs.

At the same time, unlike the integrated producers, there are no huge productivity gains, say on the scale that ISG achieves with the former LTV work, waiting to be achieved in the mini mills. The statement that you heard to the contrary here related to Republic Technologies, not to a mini mill.

Thus, it is no surprise that mini mills have had great success in winning market share from the integrated producers when they compete head to head. They have compelling competitive advantages, yet those very factors that make them so competitive with integrated mills are at the heart of the mini mills' own adjustment problem in the long products industries.

In a number of flat-rolled products, the mini mills enjoy substantial cost advantages compared to their integrated producers. However, now that they have essentially displaced those integrated producers from the long products markets based on those advantages, competition in those products takes place among the companies that share the same structural and competitive advantages.

In this context, intense competition centers on the production of commodity grades sold largely on the basis of price rather than quality. As a result, their susceptibility to overcapacity is substantial. The low operating rates for the last three years bear this out.

Our conclusion then is that a positive adjustment in the long products industries would seem to require three major steps, quite different in nature and different in emphasis than the integrated producers.

First, there is substantial room for cost cutting so that higher cost producers -- this is all relative -- whether integrated or EAF producers, can be brought into line with their strongest competitors in the industry. Second, there is a need for significant consolidation to reduce the hypercompetitiveness problem. Third, timely and permanent closure of uneconomic capacity is needed to avoid distressed discounting, especially in times of slackening demand.

We'll comment very briefly on cost cutting. It's already been testified to by the industry itself. Many steps are listed in Table F-2. We won't bother to enumerate any of those, but we would say that there are strong indications that such efforts are already paying off. In particular, we would call the Commission's attention to the data in the prehearing staff report on employment and productivity.

While increasing production in all three products, these industries were able to reduce employment and reduce hours worked. The result is a strong gain in productivity, and what's striking about this, of course, is that these gains were made by an industry that already claimed to be and I think by any measure was an efficient industry. They have made themselves even more efficient, and they have lowered their cost for years to come.

Turning now to consolidation, about which there have been a number of statements made today, when we talk about consolidation we mean very specifically, as I think some of you do, mergers and acquisitions that reduce the number of competitors regardless of their impact directly on overall capacity.

Consolidation has been happening in these industries really to a significant degree. Established long product producers have spent in just recent months during this period of relief more than $700 million to acquire assets from others.

You've heard already a lot of description of the deals. I won't go through the details, but, as you know, Nucor acquired its major hot-rolled bar competition, Birmingham Steel, out of Chapter 11. There's about two million tons of bar and rod capacity, and the purchase was on the order of $615 million.

Steel Dynamics outbid Nucor to buy Qualitech, an SBQ producer that's being converted now by SDI and will restart sometime later this year. They bought something on the order of 500,000 to 600,000 tons at a price of $45 million. Of course, these are just the acquisition costs that I'm talking about, not the start-up costs.

BVV Acquisition pulled off a merger between a former Republic cold-finished bar and Pittsburgh Tool Steel to form Keystone Profile. They are producing a wide range of precision cold-drawn products with high tolerances. Republic sold off a 60,000 ton a year cold-finished plant in Cartersville, Georgia, for $7 million to Gerdau Ameristeel.

In rebar, Nucor acquired the assets of North Star's Kingman, Arizona, plant. That's also been discussed. That is an interesting plant because it has a melting capacity of 650,000 tons and the ability to shift production between rebar and wire rod with a rolling capacity of about 500,000 tons per year.

Nucor, as far as I can determine, still has not announced whether it will restart this mill, much less when, but from the market, as quoted in other *American Metal Markets* stories besides the one that Commissioner Koplan cited, the market comments go like this:

One unidentified mill executive told *American Metal Markets* if they started up again, they're just going to end up competing with themselves. In fact, other unnamed sources said in the same article that Nucor's decision to keep Kingman closed probably resulted in Nucor recouping some of the $35 million that it paid for the facility in the first place.

I really want to emphasize this point, though. There was some implication this morning that some Respondents, and I don't know; they were not identified, but I want to state for the record that as far as EUROFER goes we have no second thoughts about the value of consolidation.

Consolidation is worth paying for. It brings real results. In fact, we were the ones who insisted on the table that was presented on Tuesday that shows you the $4.5 billion of refinancing used largely for consolidation purposes.

It is a positive benefit to the industry and not just a one-time benefit. It brings you a stream of benefits into the future because it eliminates some of this hypercompetitiveness within the industry and within these industries. It also makes the consolidated companies larger, which should, everything else being equal, enhance their financial strength and their ability to raise capital, a long run benefit.

Finally, consolidation allows companies to concentrate production on the most efficient mills. When there is slack, they can decide where to produce what, and that way they can achieve optimal results even when demand is softening. Consolidation is a real benefit, and it is worth paying for.

That brings me to the central issue as we see it for these industries, and that is the issue of closures. When we talk about closures, we mean, as we think the President did, the permanent closure of uneconomic capacity.

There are a lot of examples. You heard a long list today. I'm not going to go through all of them because you've heard them. You know about the

Laclede's closure after yet another Chapter 11 and yet another transfer of its pension funds to the PBGC. This time they had intended to dissolve.

There's been a reference made to Ispat Inland's closure of an inefficient bar mill. You've heard about Calumet, an SBQ producer, planning for Chapter 7 and ceasing operations in March of last year.

You heard about the closures by Republic Technologies International as it formed Republic Engineered as it emerged -- I may have got that one backwards; I'm sorry -- in its reduction of cold-finished plants from 12 down to three. These are the kinds of things we are talking about.

Then, in February of this year, Kentucky Electric, another SBQ producer, entered Chapter 11 and proceeded to shut down its facilities, including a large rolling mill with a capacity of 330,000 tons.

Now, we know about closures. Whenever I talk about them I try to make it clear. We do not wish in any way to understate the pain that is involved for the workers and communities involved. It is clear to us, however, that these closures are too few and too temporary to be of any decisive importance.

The President got it right in his March 5 memo to the relevant Cabinet officers when he asked for and said he would base his decision on, among other things, permanent capacity closures, the permanent closure of uneconomic capacity. However, the experience in these industries shows you, I believe, that closures tend not to be permanent.

The low barriers to entry to this market are also low barriers to re-entry into this industry. Rather than being retired, a lot of the less competitive capacity is merely recycled with the benefit of reduced capital costs. Let me give you four examples. I wish Mr. Frisch were here right now because it might be news to him, some of this.

Laclede Steel in Alton, Illinois, has been sold. This is Laclede after three Chapter 11s, I believe, and what looked like a permanent closure. It has been sold to a group called Alton Steel for $1 million and is being resurrected. Alton intends to bring back thereby 300,000 tons of SBQ production.

Calumet Steel, whose assets were put up for auction in October of last year, was purchased for $2.6 million by a group out of Chicago who wished to restart the mill and are trying to get a loan from the Illinois Department of Commerce and Economic

Opportunity. If they succeed, 150,000 tons of capacity would come back into the market.

In June, Slater Steel of Canada bought the Lemont, Illinois, mill of bankrupt Auburn Steel for $7 million and tried to restart it as a high-end bar producer. The primary efforts there include an 18 stand continuous bar mill, two electric arc furnaces, a three strand caster. This facility had been idle since February of 2001. Slater had intended to have it up and running in the fourth quarter of 2002, but, as you all know, I think it has in the meantime entered Chapter 11, and there is some doubt as to exactly how this will proceed.

Then we had Kentucky Electric, which I think was on Mr. Frisch's closure list. There is a group called the KES -- that would be for Kentucky Electric Steel -- Acquisition Company which has signed an agreement to purchase the assets of Kentucky Electric for just under $3 million. KES intends to restart the production of the mill, bringing back some more special bar quality steel and other products.

Within the span of a few months, four separate efforts have been made to reopen closed capacity. In all, some 1.3 million tons of capacity is poised to re-enter markets despite the low profitability of the three industries involved, despite the low capacity utilization, despite all the problems that you heard described this morning.

These steps have not been welcomed by the Steel Manufacturers Association. In fact, the SMA's president, who is not here, unfortunately, to hear himself quoted, denounced these market distorting moves as nuts.

He said that injecting artificial life through loans to inefficient, bankrupt U.S. steel producers is totally inconsistent with the federal objective of eliminating subsidies, and they argue that these loans will never be repaid. History shows you, he said, that these will not be repair. All they do is prolong the inevitable, permanent shutdown of inefficient, obsolete capacities. In making this point, we're in good company.

How could this happen? If it's so obvious, so many people agree, why does this happen? What market signals do these investors see that others are missing? It seems to us that the answer is pretty simple. The bankruptcy process in the United States permits, and one might even argue encourages, the recycling of assets at drastically reduced capital cost. Sometimes, but not always, as in the Calumet case, government subsidies compound the problem. That's really what Mr. Danechek was complaining about.

If you look at the four cases together that I've just mentioned, they involve, as I say, 1,280,000 tons of capacity. The total acquisition cost, which is again not the start up cost, but what it cost the investors to get control of the assets, came to $13,598,414. That is an average of $10.62 per ton of capacity.

In other words, if you'll help me out by looking at Appendix 1 at the very back. The lower part of the table deals with that. If you'll compare that to the upper part, which are the costs of Nucor buying Birmingham's assets, SDI buying Qualitech, Gerdau going after the cold-finished bar plant of Republic and Nucor buying the Kingman, Arizona, plant form North Star, you'll see that the recycled, as we call these -- some people want to call them resurrected -- plants come to almost 40 percent of the tonnage of the four consolidators, but the purchase price is in fact less than two percent.

At those orders of magnitude, and that's the difference between almost $11 per ton for the recycled stuff versus more than $225 per ton for the consolidated material. There's obviously a clear, competitive problem here for the people who did it the old-fashioned way, the people who put hard money to buy working assets and try to continue them, upgrade them and make them truly internationally competitive.

They're facing a big problem here because of the insanely low price of recycling this capacity in the United States. The upshot is that these efforts to resurrect capacity, no matter how understandable from the point of view of the community, the workers involved, even the investors because they don't need to make a whole lot of money back to recoup their investment, and no matter how rational it might be for them the result is to limit the prospects for the companies who put good money into state-of-the-art facilities.

As we've tried to make clear through all of these proceedings, we do not object to the reopening of capacity, but it must be done on the basis of long-run competitive advantage, not on some temporary capital cost advantage. We do not object to the development of internationally competitive capacity in excess of the needs of the national market.

By finding profitable sales opportunities around the world, as well as at home, internationally competitive producers can maintain higher operating rates, earn adequate profits and achieve a real return on investments, but we do join with the SMA in protesting the parade of commercially unjustifiable reopenings of troubled capacity simply because it can be done cheaply. Such short-run calculations undermine the legitimate adjustment efforts of others and perpetuate rather than resolve the industry's competitive problems.

Just a brief word on the EU before I conclude. In the EU, the long products producers have had to face some of the very same problems as their American competitors. We've had periods of weak demand, overcapacity and overvalued currencies. We've had to adapt in many of the same ways as are being tried here. Subsidies have been ended as a matter of law.

Once state-owned mills have been privatized. The EU industry is now far more consolidated with Ispat, Riva and Arbed, which is a part of Arcelor these days, playing some of the key roles in amalgamating parts of the industry. Our larger companies have gotten larger. Most of them operate in more than one member state. A few of them produce outside of the EU as well, and many of them are diversified producers of a wide range of steel producers, not just one or two long products.

As part of this proceeding, traditional BOF production has been replaced with modern, electric arc furnace production in countries such as France, Luxembourg and Portugal. Most important, a substantial amount of older, less efficient capacity has been closed permanently in France, Ireland, Italy, Luxembourg, Portugal and the U.K.

Thanks to the extent of the consolidation and the timely closure of uneconomic capacity, bankruptcies have been significantly limited in the EU long products sector. As a result, the opportunities to recycle troubled capacity have been greatly reduced.

Overall, we have a more competitive industry than before because we rely more on market forces to sort out the winners and the losers and to allocate capital to the most productive uses. It may not always have been this way, but it is now, and the change has been good for us. Thus, our assessment of the U.S. industry is not ideological. It is totally pragmatic. We know from our own experience what works and what doesn't.

On that basis, I'd like to conclude with the following points. Returning to the analytical scheme that we proposed in the EUROFER preparing brief and we've tried to elaborate on in the previous hearings in these proceedings, we would make three points:

First, positive adjustment can take many forms, including consolidation, new investment and a wide range of cost-cutting measures and the permanent closure of uneconomic capacity. That is, a positive adjustment step. There are many examples of positive adjustment in the already competitive long products industries of the United States. The most significant for the long run is likely to be the significant consolidation that has already been accomplished. It may not be finished, but there's a lot already accomplished.

Second, efforts to maintain or reopen capacity that is not fundamentally competitive on a long-run basis is a negative adjustment. Not only is it doomed to fail in the end, but in the meantime it will depress the results of competitors who have invested real money and deserve a real return. Negative adjustment undoes positive adjustment.

Finally, only competition can serve as the crucible for competitiveness. At some point, more relief becomes counterproductive to the very purposes for which it is instituted. As these cases show, much has been accomplished in a short time. What remains to be done, the biggest job that remains to be done, is closures, and that is not likely to be facilitated by restrictions on imports. Just to the contrary. For the sake of the long products industry as a whole, we believe the President should conclude that it is time to end these measures.

Thank you very much, Commissioners.

CHAIRMAN OKUN: Thank you.

MR. CUNNINGHAM: Let's turn now to Jeff Hoye.

MR. HOYE: Good afternoon. I'm Jeff Hoye, president of Corus America, Inc. I'm here to talk with you about conditions in the hot-rolled and cold-finished bar market from the standpoint of one who participates in those markets on a daily basis.

My company does not produce rebar, so I cannot address that market. While I can discuss most aspects of the hot-rolled and cold-finished markets, you should be aware that my company's particular focus is on the higher value, specialized bar products, especially in the hot-rolled market. This is in keeping with Corus' general business strategy to provide niche products to the U.S. market. Corus does not sell any merchant quality hot-rolled bar in the

U.S. market.

I am afraid that I have to disagree with some of the testimony that was presented this morning by the domestic bar producers. As far as I can see, the Section 201 tariffs are not in any significant way bringing about solutions to the problems of the U.S. hot-rolled and cold-finished bar industries. The following points, it seems to me, explain why tariffs just aren't working.

First, you substantially reduce the impact of the tariffs on commodity bar products by excluding Canada and Mexico. The figures in your public staff report show that the tariffs were applied to less than 40 percent of the hot-rolled and cold-finished bar imports.

Second, prices never went up much in the year following the 201 proclamation despite the fact that imports were down significantly and despite the fact that this was a period of pretty strong demand until quite recently, driven primarily by the automotive industry.

Third, while I obviously do not have access to U.S. companies' financial data, what I read in the trade press and hear in the market suggests that their profitability has not been helped much by the tariff.

That seems to be confirmed by the public versions of their brief, which use words like modest improvement and beneficial, though less positive than the effects of the tariffs on the flat-rolled operations.

As an active participant in the hot-rolled and cold-finished bar markets, I can tell you that the reason import restrictions haven't helped much is that imports really weren't the problem. Instead, the industry has two fundamental structural defects that are not being cured.

One defect is chronic overcapacity. The industries, both hot-rolled and cold-finished, have struggled with aggregate capacity far higher than U.S. total consumption. Periodically, one company or another will shut down some capacity, even go out of business, but the reduction in capacity will be offset by a new plant opened by another company or by a formerly closed plant being reopened, which is what, you know, Mr. Blum just addressed in his testimony.

The Commission has the figures, but I would be willing to bet that the U.S. total capacity is higher today for both hot-rolled and cold-finished bar than it was when the President ordered the 201 relief. What's worse, there is every indication that we're on the verge of some pretty substantial additions to capacity in the form of resurrections or previously closed plants coming back into operation, which were noted in Mr. Price's slide presentation this morning.

The Laclede mill in Alton, Illinois, being reopened as Alton Steel with 300,000 tons of SBQ capacity; Calumet Steel also in Illinois trying to get state subsidies to start up again, another 150,000 tons of capacity. New investors are purchasing the assets of Kentucky Electric that will bring on over 300,000 tons of SBQ bar capacity, and Slater Steel attempting to restart the old Auburn Steel facility, which went into bankruptcy in February and projected to bring on as much as another 500,000 tons of capacity.

The Commission should look hard at these developments. Any adjustment in the bar sector will be frustrated if anything like this magnitude of capacity is added to supply in the market. My guess is that all of these projects are being sold to the investors on the basis that the 201 import restrictions make it economic to reopen mills that would otherwise have no chance of achieving profitability.

The restarting of inefficient mills would also worsen the second structural defect in the bar market; that is, the constant pressure on price from weak companies whose first concern is cash and not profit. These companies definitely need sales volume to keep open mill operations and even to prevent corporate bankruptcy. Accordingly, they persistently offer below market prices that force down the market price level.

Does it seem odd to you that strengthening demand plus reduced import levels does not produce a substantial rise in prices? Well, this is your answer. The constant pressure of low prices offered by marginally basically uneconomic competitors keeps prices from rising and deprives the well-run companies of the benefit that they should be getting from their adjustment efforts. I suspect that Mr. DiMicco would not disagree with me on that comment.

I realize that the Commission will take what I say coming from someone who has a vested interest in getting rid of these tariffs, but I think the facts speak for themselves. The bar industry won't benefit from investment or corporate consolidations until and unless the weak, uneconomic mills are closed and stay closed. These tariffs are obviously hurting that process and not helping it.

I would now like to turn for a few moments to a specialized product, that of free machining steel that is of particular importance to Corus and that is not adequately available from U.S. producers. This category deserves a separate discussion because Ispat Inland has complained in its prehearing brief and also in its testimony today that the imports of leaded bar, a type of free machining steel, have prevented 201 relief from helping their company.

Those imports are in significant part Corus Imports, and we obtained a 45,000 ton exclusion for 12-L-14 leaded bar. Free machining bar is used in applications such as auto parts that require a machineable steel that can be cut into various shapes. It is sold to primarily from our side the independent cold-finished bar producers who transform it and resell it to the producers of auto parts.

Free machining steel must be capable of being machined while maintaining its strength and not cracking. There are different elements that can be added to the steel in order to give it its machinability, including lead, tellurium and bismuth. Free machining bar is so distinct from other types of hot-rolled bar that it actually enters the United States under its own HTS number.

Within the free machining category, there are important differences in the quality that arises from differences in the production process. First, these bars can either be direct billet cast or bloom cast. Bloom casting is a superior production process because it allows for consistent quality in the bar and throughout the production chain. Larger blooms provide for larger reduction ratios, and this also results in higher quality product.

Second, as mentioned above, different elements can be added to produce remachining bar. Leaded bars are the preferred product for high quality applications because they yield the best machinability, although their production involves environmental concerns.

Corus produces free machining bar to all of the highest quality specifications. It bloom casts using large-sized blooms, and it can produce leaded bar in addition to free machine grade with other chemistries. Further, Corus tests its free machining bar for inclusions and leaded product to make sure that there are no lead stringers.

We believe that no other company in the world can equal our consistently high quality free machining bar product. Other customers continually confirm that this belief is well founded.

It is also important to note that this is for Corus largely a custom design business. We work with our customers to develop free machining bar products that meet their specific needs. We are not aware of any other producers that provide customers with our level of quality and service.

As a result, our customers have come to depend upon Corus' product for their needs. There are a number of product specifications where the downstream user has actually designated Corus by name as the required supplier directly to the specification.

As to other free machining imports from Spain and Argentina, they do not make bloom cast products, whereas German producers do manufacture bloom casts. The overwhelming majority of this German product comes from the German sister company of Ispat Inland. Corus' main competition in the United States comes from Republic and from Ispat Inland, the only two producers that can bloom cast their own free machining bar.

Republic is the only U.S. producer that can bloom leaded bars. It has had some major problems in recent years and is in the process of having just reemerged from bankruptcy. Even as Republic has emerged from bankruptcy, however, uncertainty continues as labor problems recently caused them to shut down their blast furnace for three weeks.

Purchasers of such high quality products as free machining bar, especially bloom cast free machining bar, cannot withstand instability and uncertainty from suppliers.

Finally, both U.S. producers have had quite serious on-time delivery problems, particularly as to the high end, lower volume products as free machining steels. We heard that confirmed by Ted Thielens in his testimony this morning.

MR. HOYE: As I noted earlier, the demand for hot-rolled bar after 201 came into effect and free machining bar was no exception. Ispat and Republic are not as committed to the free machining bar market as Corus is. Their focus is primarily on the tier one automotive suppliers. As a result, Ispat and Republic have focused during the time of peak of demand on orders for products other than free machining bar and left many customers, especially the independent producers or drawers, to supply them as needed.

By mid summer 2002, the order books of both Ispat and Republic were filled through the end of the calendar year. This explains the increase in imports of free machining bar after the 201 duties came into effect. Imports were needed to fill the gap left by a domestic industry.

Incidentally, I find it ironic that Ispat is the company complaining about increased leaded bar imports. The fact is they themselves have been importing this product from their German affiliate and using the same 201 exclusion that they complain so much about that actually Corus was the one that achieved and they've taken advantage of it.

Moreover, their U.S. leaded bar production is entirely dependent on imported European semi-finished material.

I also want to say something about pricing for free machining steels and other SBQ bar. It is very, very clear that imports do not lead the pricing of these products. You have to remember that Ispat and Republic supply the overwhelming majority of free machining bar in the market. We follow their price leads, not vice versa. When demand is slack, and today that is beginning to become the case again, Ispat and Republic cut price to fill capacity.

We are hearing from our customers now that the two U.S. producers are offering free machining bar at what we consider to be exceptionally low prices.

Fortunately, Corus is somewhat insulated from this price pressure because we offer specialized, often custom designed, products on a contract basis. As a consequence, Corus' price has remained relatively consistent throughout the period following the imposition of the 201 duties.

As in other areas of the bar market, the 201 tariffs have done little to help the U.S. industry with respect to free machining steels. For much of the time since the tariffs were in effect, overall bar demand was relatively high and the domestic industry neglected the free machining sector. This hurt the U.S. producers because customers have long term relationships with their suppliers of free machining bar. Producers must qualify their bar with each customer, putting it through extensive testing. Once the customer obtains test certification and approval acknowledging that the particular supplier's product meets all their qualifications, that customer does not want to discover that their supplier will be unfaithful in periods of strong market demand.

Corus, unlike the U.S. mills, has stuck with its customers, all of whom we have served for many years. We have shown our customers that we are consistent supplier at a time when the U.S. mills have not been, but the 201 tariffs have penalized us severely, and unjustly in my opinion.

In conclusion, I feel I have to make a personal comment and I am really offended to hear Ispat complain about a 45,000 ton leaded bar exclusion. To complain about 45,000 tons with an available market of 800,000 tons is absolutely absurd. It is particularly absurd when the complaining company was not able or willing to supply free machining steels as needed by U.S. customers until recently and is now supplying at sharply reduced prices while erroneously blaming imaginary low priced imports.

And such a complaint is positively bizarre when Ispat Inland itself is importing leaded bar from Germany under the same exclusion.

With all respect to the President and this commission, a 201 tariff that produces that kind of injustice ought to be terminated, especially when tariffs are not bringing about any meaningful solution to the U.S. bar industry's problem.

Thank you.

MR. CUNNINGHAM: Could I have a time check? Nine minutes?

MS. ABBOTT: Yes.

MR. CUNNINGHAM: Wonderful.

Let me just make a few comments on some of the things that were said earlier today. One of the things that struck me is how many things we and the U.S. industry agree on.

We agree prices haven't risen much, we agree imports have been knocked down substantially, we agree profitability hasn't improved much, and you heard company after company say that they won't adjust further without a significant improvement in the economy and a significant increase in prices.

And that last point, of course, is particularly important. What these companies are very clearly and explicitly saying is that (a) for whatever reason, the import relief has not turned out to be sufficient to justify those companies bringing their adjustment plans to fruition and (b) what they need to go forward with adjustment is not anything to do with imports, rather, it's an improvement in the economy that will raise prices.

Now, the U.S. producers and we also pretty much agree that these companies are doing rational things and, at least for some companies, they're benefiting significantly from these efforts. But I want to make two comments.

First, please note the differences among these companies' reports as to their adjustment plans and how far they've been able to take them. Nucor told you we've done just about everything we said we'd do. Most of the others said we've been unable to do a lot of our planned adjustment because of economic conditions. This distinction is consistent with and confirmation of what we have been telling you here. There are strong companies in this market and there are weak companies in this market, companies that have more trouble. It's the weak ones that are having trouble going through with their adjustment plans, just as they are having trouble competing with the marketplace.

Now, the second comment I want to make is about productivity gains, Mr. Kaplan's most important chart, as he described it. And I want to emphasize this is not a criticism, it's not a denial that these companies are achieving gains, but the commission does need to perform a relatively simple test to differentiate between two forms of productivity gain. On the one hand, there are the gains that come from investments and/or from a reduced workforce. Those represent real adjustment.

On the other hand, there are the gains that occur simply because of higher production volume and therefore higher utilization, owing to the volume shifted from imports to domestic production. In a 201 context, those gains aren't true adjustment. The whole premise here is that these high tariffs have artificially reduced covered imports temporarily. Therefore, to the extent that artificial reductio of import volume produces an increase in U.S. producers' volume, and that's exactly what has happened here, that increase in U.S. producers' volume is temporary, it's supposed to be temporary under this scheme.

So that component of productivity gain is not something that should be expected to endure after the end of the 201 measures and therefore the commission should factor it out, which you can easily mathematically do.

Now, let me turn to the major area we don't agree on, namely whether there is a continuing, perhaps even worsening excess capacity problem that's a major reason that the relief has had less than the desired effect.

I want to begin with the overall capacity data in the staff report, the data that show capacity to be increasing and to be substantially higher than apparent domestic consumption.

Mr. Wolf tried to attribute that to survivor bias, but he is demonstrably wrong. What you have in the staff report is the aggregate of all the companies who reported, that includes all of the companies who testified here today, including those who testified to substantial capacity closures.

Whatever closures they made, those companies reported that their aggregate capacity was higher in 2002-2003 than in 2001-2002. Moreover, the capacity of these reporting companies, which is not the total universe, substantially exceeds apparent domestic consumption in 2002-2003. If there is capacity out there unreported by other companies, and of course there is, that just makes the aggregate excess capacity greater.

And, of course, as you have just heard, we have several facilities representing a very substantial amount of further capacity that are in the process of coming back into production. The effect of continued tariffs must be to make such resurrections more likely.

In sum, I think the record is clear that this industry cannot adjust without a solution of the over capacity problem and any such solution is hindered, not helped, by the continuation of the current form of relief.

Now, finally, I want to do two or three -- maybe one or two minutes in an effort to clarify our Tuesday dialogue on the nature of the commission's task. And in doing so, I want to clearly separate two issues. One is whether you must or should provide advice or a recommendation.

My position on that, and I think it's the right one, is you can do so if you want to do so, but you are not required to do so.

A totally separate issue, and the more important one, is whether and to what extent your factual analysis should address facts relevant to the effectiveness of relief.

You have great discretion as to what you have to cover or what you can cover in your factual analysis. The responsible approach, I submit, is to provide the President with facts relevant to those issues that the President has made clear that he wants to address or that he is required by statute to address.

Let's take the statutory requirement first and it's the one we talked about yesterday, it's in that second subclause requiring the President to modify the relief if he finds that there is an impairment of the effectiveness of the relief by changed economic circumstances.

In both the long products and the flat products, you have clearly had changed circumstances that are argued by parties to have -- and not just by us, by the U.S. industry -- to have diminished the effectiveness of the relief. In each case, you had substantial new capacity come on stream after the order was issued. In each category, you also had an expected improvement in market conditions that failed to materialize.

I submit to you that you have to put in your report the facts necessary for the President to assess whether the relief was effective and whether that effectiveness was impaired by those developments and I'll come to what I think you ought to put in in just one second.

Let's move to what I think is good practice, what you should do because the President has said that he is going to consider. In this case, the President's stated clearly in his March 5, 2002 presidential memo on steel that in his consideration of whether to reduce, modify or terminate relief he "shall" -- that means he's going to do it -- consider the factors set forth in Section 203(a)(2) of the act. Section 203(a)(2) very clearly in two ways is specific that the effectiveness of the relief is one of the issues to be considered. Look at items 4 and 10 of that subsection.

So what should you be doing in regard to this? Whereas in flat rolled, import restrictions have not prevented imports from rising and imports haven't had much effect on prices, your report should set that forth for the President for him to draw whatever conclusions he should do. Whereas in long products, imports have been greatly reduced but that reduction has had no significant impact on prices or not a very substantial impact on U.S. producers' operating results, you should set forth those facts in the report and let the President make what he will of that. That's what we urge you to do.

That concludes our presentation.

CHAIRMAN OKUN: Thank you.

Before we begin our questioning, let me say welcome back and thank you again for your testimony here today and for your willingness to answer questions. We very much appreciate it.

We will begin our questioning this afternoon with Vice Chairman Hillman.

COMMISSIONER HILLMAN: Thank you.

I join the chairman in also welcoming you back. We appreciate your patience in sticking with us throughout this process.

Let me start with making sure I draw the right conclusions from your testimony because I'm not quite if I didn't hear something a little bit different in terms of the, if you will, bottom line conclusion from Blum as opposed to Mr. Hoye, and that is the fundamental question of whether -- kind of on a yes or no basis, you would say that the domestic long products industry producing, again, the hot bar, cold finished bar and rebar, as a whole has made a positive adjustment to import competition over the course of this last 18 months. Flat out yes or no.

Mr. Blum?

MR. BLUM: Let me defer to my client.

VICE CHAIRMAN HILLMAN: Mr. Mari, go ahead.

MR. MARI: Thank you. Excuse me. Yes. Christian Mari from Eurofer. We have two different things. The first thing is what is in the statute and the statute simply requests that you find whether or not the domestic industry has taken steps in the correct direction during the period of relief and we certainly agree that this has taken place.

Then there is a second question that is not, I would say, so directly written in the statute and in

Europe we would call this the test of durable viability of the company. For us, this is the kind of adjustment that should take place and should ensure that a company or an industry following such adjustment would be durably viable. And durably viable means capable of confronting international competition, as well as domestic competition, in the long run that is at least over an economic cycle.

In short, that is the position we have. We do not disagree on the fact that steps in right direction have been taken by the domestic industry, we disagree that those steps are sufficient to give this industry overall long-term viability.

VICE CHAIRMAN HILLMAN: Mr. Blum?

I'll let Mr. Blum answer as well.

MR. BLUM: Just to add very quickly two points. Mr. Mari's answer I think is given in the context of the point that we tried to develop on Tuesday at some length which is that adjustment has to be -- if you're going to be competitive for the long run, adjustment must be a continuous process. It doesn't come to some end at the end of a relief program, that's a sure recipe for failure. So I think that may help a little bit, if that wasn't crystal clear.

And the second point I am hoping to recall. I may have to take a pass and get back to you. I'm sorry.

VICE CHAIRMAN HILLMAN: Okay. All right.

Mr. Hoye?

MR. HOYE: I would say that some progress has been made, progress has begun, but it's not yet completed, it's not yet finished, but also I think that it's been so consistently easy to blame imports for domestic problems and specifically this over capacity issue which can plague a lot of different countries, not just the United States. But I guess that's pretty much how I would address that.

MR. CUNNINGHAM: I would just add that it's a little unfair to ask that to a businessman because it's a legal question in a sense and it's also unfair to ask it to a lawyer because it's a businessman's question. But having said all of that, I would say this. I don't think anybody here is criticizing the efforts of those companies or calling them non-productive and I certainly would not do so.

However, in telling the President whether the companies -- whether the industry as a whole as opposed to individual companies is making a positive adjustment, it seems to me what you need to focus on is are they on a track which if carried to fruition is going to get them to a competitiveness such that they won't need import relief after that. I mean, that's what this is all about.

I think the answer to that, unfortunately, has to be no here and the reason that it's no is that as Charlie said, bringing on uneconomic capacity, which is what is in the process of occurring now, negates adjustment efforts. That's the problem here. And the concern that we have about this industry being on the track is not that they're not investing -- the strong companies, the efficient companies are not investing their money right, it is that people are bringing back on stream the uneconomic capacity which as to the industry as a whole, as to the market as a whole, is going to undermine all of the best efforts of the companies that are doing the right thing.

Most of the companies in this industry didn't really need to do much adjustment, they were pretty competitive. The ones that do need to adjust, some of them have gone out and are coming back and you're going to have the same problems that they've had before, which is the continued excess capacity and excess capacity in significant part of an uneconomic nature which is going to lead to the intensive price competition of go after the sales volume not the profits basis that is going to keep this industry from being competitive. That's our concern here.

And so I think the relief needs to be thought through, is this the right type of relief, is any type of relief the right type of relief, can a relief be crafted that doesn't encourage bringing back on this uneconomic capacity. Frankly, I think it can, but I'm not the President and, no offense, nor are you, so it's not our job to do that at the moment.

VICE CHAIRMAN HILLMAN: All right.

Mr. Blum, did you want to add anything?

MR. BLUM: Well, you know, in all these years of palling around with Mr. Cunningham, I've learned a little of the law and he's learned to read my mind, so I have nothing to add at this point. Thanks.

VICE CHAIRMAN HILLMAN: Okay. Now, you obviously heard our questions to the industry this morning. I have been very concerned that we do provide the appropriate context in terms of the economic conditions in the market. I hear your answers to this question in terms of whether the industry has made an adjustment. It is both the issue of the adjustment as well as this general notion of here's what they said they were going to do, here's what they've done.

It's the here's what they've done that I want to make sure we are fair in putting into its appropriate context.

Both of you have touched on in your testimony some of those issues, but I don't know whether there was anything else you wanted to say in terms of both demand conditions and price conditions, either in the U.S. or more broadly, in Europe or other places, that you think needs to be taken into the context of what were the economic conditions prevailing in the market that would have affected the issue of a company's ability to go ahead with planned adjustment?

I realize this was to some degree touched on, but I really am trying to get your sense of whether there were certain unexpected economic conditions that have made it harder or arguably more favorable ones that have made it easier to make this adjustment?

MR. HOYE: I'll try to take a stab at that. I think that if you look at one of the key drivers of demand, it's been the automotive sector, primarily, for special bar quality products. And when you look at the record production that the United States is seeing in its automotive industry over the past several years, what used to be a benchmark of 15 million units a year has risen to 17 million, almost 18 million units a year, so the bar industry has benefitted from that demand.

That seems to be slowing down. The automotive industry has mortgaged its future a bit with zero percent financing and with now incentives on top of that to attract sales and one of the things that we see happening in industry right now is that General Motors is going to be negotiating with the United Autoworkers union as of September 14th, is when their contract expires, so there's been a build up of finished inventory, finished cars in the system anticipating a work slowdown or possibly a work stoppage. So we've seen production cuts in automotive build schedules.

We anticipate that to continue through the balance of this year and this is for the industry, this isn't looking at it just as an importer, and as a result demand, even though the economy is expected to improve in the second half, we expect that the bar business will slow down in the second half of this year because if there isn't a strike, they have to absorb that inventory that's in the system, and if there is a strike then they will absorb the inventory in the system. So in a way, the automotive industry finds itself in a very similar situation as the steel industry and the airline industry with regard to their unions and their benefit costs, their legacy costs, their pension costs, their post-retirement healthcare costs, et cetera. So I think it's going to be a difficult time for the steel industry going forward.

VICE CHAIRMAN HILLMAN: Mr. Blum?

MR. BLUM: I would add -- as I have read that language and I would be happy to be corrected by a bona fide attorney, if you found that an industry had been prevented from doing the things that it knew that it had to do because economic conditions were so poor, I think that language would be clearly operative. At the other end of the spectrum, you have if times were so good, demand was so buoyant that anybody could get money to do anything they wanted to, I think clearly you would be at just the opposite end. At that point, it would be very hard to sort out the effects of anything and I think, as we know from experience, we've seen this many times, when I more or less came in, the aftermath of 1974 when everyone assumed the steel market was going to expand really exponentially forever and over investment was the rule all around the world, everybody made bad decisions and we paid the price for years and years to come. So thank goodness we've been spared that problem.

I think where we're at is somewhere in between. Demand is not terribly good, it's not terribly poor either. And that, I think, has helped to rationalize the allocation of capital. People are able, as we saw the numbers today that Nucor used, for example, the numbers on Tuesday were very impressive, there's a lot of money that's been raised, it's been used, we think, for the most part very productively and therefore I don't know that the economic conditions have really been a large hindrance.

Had we been in a boom time, you would have a really hard job, I think, to sort out the adequacy of the adjustment efforts.

Thank you.

VICE CHAIRMAN HILLMAN: I appreciate those answers.

Thank you.

CHAIRMAN OKUN: Commissioner Miller?

COMMISSIONER MILLER: Thank you, Madam Chairman, and thank you to all of you for being back today. We appreciate it.

Mr. Hoye, you did give us a very succinct sort of descriptio of market dynamics in the flat products area two days and Mr. Cunningham referenced it in his opening statement. I wanted to give you the opportunity to do the same thing with respect to bar. Is that what I just heard in response to Vice Chairman Hillman? You were kind of looking forward a bit more.

MR. HOYE: No, I was giving a forward view.

COMMISSIONER MILLER: Right. Exactly. Okay.

MR. HOYE: I think if you go through that same time period, and it's a little bit harder to assess on long products, but effectively you did see prices go up right around the time the 201 order was in place, the remedies were in place, but, again, I think that was driven by demand. Going back to my comment about the fact that we follow the domestic price in the market, we actually led a price increase at that period of time, going back to the first -- probably the second quarter of 2002, and none of the domestic producers followed. So we raised our prices and effectively -- you know, were not as successful in achieving that market price. So it's a bit of a risk. So what happens is that price settled back down and, again, it's driven primarily by what you see in the automotive sector, because that is the primary driver for price.

What has ended up happening is that the price has settled back down, there's been a slight increases of maybe 5 percent, maybe a little bit less than that, over that period of time and it's been very stable. The price has been very stable in the market. And they referenced that in the testimony you heard this morning, that it wasn't the over anticipation of short supply that you saw in the flat rolled industry and, as a result, you didn't see -- because bar is probably sold more to the end users than, say, flat rolled which is primarily -- say 45 percent of it goes through distribution, it's more balanced, I think, with production and, as a result, we've seen a consistent stable price in the market which has just now begun to trend downward because of demand.

MR. CUNNINGHAM: Understand that when Mr. Hoye or I talk, we're talking about hot rolled and cold finished bar. We don't know nothing about rebar, which is governed by the construction industry movements and that sort of thing. So you shouldn't take anything he said as applying to rebar.

COMMISSIONER MILLER: Okay. Okay.

MR. HOYE: Yes. WE're at the very top end of the market.

COMMISSIONER MILLER: Right. Right. And I know you described yourself as a custom design sort of business.

MR. HOYE: Right.

COMMISSIONER MILLER: And I know that would affect your view of the market. But just following on that same discussion we had this morning, and what you're saying, what you said about flat, where you are also participating in that market, it sounds like you're not disagreeing with sort of what was happening in terms of the psychology of the market partly driven by LTV and the capacity issues?

MR. HOYE: Well, you didn't see the withdrawal of capacity in the market that we were in, the sectors that we operate in, so therefore you did not see the spike in price. I think what I referenced and I think the question that the commission asked of the domestic producers, specifically Republic, this morning was in reference to what was their disruptive factor. They were going through a refinancing, a bankruptcy, a temporary closure, they had some production problems. Ispat closed down a bar mill. Those were very disruptive in the market as a result and they were not so disruptive that it altered the price, at a time when imports actually came down.

COMMISSIONER MILLER: Okay. Thank you.

Mr. Blum, you've been shaking your head in agreement to a certain extent. Do you want to add anything?

MR. BLUM: No, I was shaking my head in agreement because I agree. Thank you.

COMMISSIONER MILLER: You agree. Okay. All right. Thank you.

Mr. Blum, I wanted to go back to ask you a little bit about -- in your testimony, and part of what we've been hearing on the domestic side, the theme to a certain extent is bigger is better, consolidation is good for the industry and you had a good bit about that in your testimony, talking about the benefits of it. I guess I wanted to ask you to elaborate a little bit on what it is about steel that sort of promotes this bigger is better. I mean, in some industries, we've started to see the opposite, the smaller companies are more nimble and more able to respond, but you're saying in steel bigger is better, that's the European experience, essentially is what you're telling me.

So tell me a little bit more why.

MR. BLUM: Okay. Well, Mr. Mari might wish to elaborate on this further, but I would say in just a couple of words what is it about steel that makes big better? I would say autos, appliance and iron ore. We are supplied by people much bigger than we. We sell to people, the high end products are sold to people much bigger than we. And for a very long time now, there's been a fundamental mismatch at the bargaining table.

You might remember on Tuesday I referred to the contract prices for automotive sheet in the United States and how at the time of the U.S. mills' greatest need the auto companies were able to get a price reduction at the end of 2001 for the 2002 contract year. It's a mismatch and that is, I think, the fundamental reason why so many people feel the need to consolidate. I think that's especially applicable to the integrated producers of sheet.

The way we've addressed it here, and I think I can -- the U.S. mini mill factor is an extraordinary case in the world, I think, because you have so many, so competitive companies, well more than a dozen when you get to wire rod, rebar, hot rolled bar. They are extremely good and they're trying to make the same product and they can compete with each other essentially -- there are some elements of service, obviously, but essentially they do it as a matter of price.

As a result, when the pie starts to shrink, the competition gets hyper intense and one benefit of consolidation in such an industry is that you can avoid some of the most disastrous forms of price competition, especially when the market is coming down and, in fact, as it rebounds. And I think if you look at the history in Europe, we've suffered the same sort of price declines as the Americans. For example, in 1998, a lag of three to six months later, you see the same trajectory in Europe. The difference was the rebound in Europe was much sharper than it was in the United States. In fact, the rebound in the United States was very flat after 1998. In Europe, it was a matter of just a few months, in part, because of the kind of discipline over production and price that larger companies can exercise.

MR. CUNNINGHAM: Could I add to that?

I'm sorry, you go ahead, Christian.

COMMISSIONER MILLER: Mr. Mari?

MR. MARI: But for this, I think if you take into consideration that we are living in an environment that is every day more and more competitive, I think the problem for a company or for an industry as a whole is not to reach competitiveness at a certain moment. The problem for an industry or for a company is to permanently maintain or increase its competitiveness.

And what does this mean?

It means, for example, we've mentioned this in the flat rolled testimony concerning Thysson Krupp Stahl. Following the merger between Thysson and Krupp, the merged company closed -- fully closed -- a plant, a town plant, in Dotmund, that represented something like 5 million tons of capacity, with all the finishing capacity behind that in hot rolled coil, cold rolling, galvanizing and so on.

I would like to submit that some companies here would be extremely happy to use those facilities because they were not uneconomic facilities, they were not too old, they were not bad at all. It was possible to work with them in good conditions.

But what was the issue?

The issue for our company is permanently to lower the breakeven point and one of the ways you do this is by concentrating production on the best facilities in order to optimize your profitability.

The question is that when you merge you create possibilities to concentrate production on the best facilities to optimize your results in time, not only one year, and mergers and concentrations provide this possibility, but you have not when you have a lot of many different companies that operate each on some side.

MR. CUNNINGHAM: Commissioner Miller, one other thing. This is Dick Cunningham. Remember that in both -- this is like tin mill in one sense, that the industry here is up against a set of customers, its dominant customers which are themselves under tremendous price pressure. These are very hard customers to exact price increases from. As a consequence, a fragmented industry, particularly one where there are some small companies, less efficient companies that are really intent on getting the volume and are willing to cut prices to do so, that's an industry where you are at a real bargaining disadvantage with the type of customers you have in the hot rolled and cold finished bar and in tin mill.

COMMISSIONER MILLER: Thank you. I appreciate your answers.

CHAIRMAN OKUN: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Madam Chairman.

Nice to see you all again. I think we ought to just leave those name plates there permanently.

MR. CUNNINGHAM: We have to stop meeting like this, people will talk.

COMMISSIONER KOPLAN: I think we can both figure out a way to do that.

I'm glad to hear that you do agree that we are not required to give the President advice, but that, as you say, we have the discretion to do so.

MR. CUNNINGHAM: That is in fact my view. Yes.

COMMISSIONER KOPLAN: Thank you. Now, you sent me back to the statute and -- I'm sorry to do this, but I have to walk through this with you.

MR. CUNNINGHAM: Sure.

COMMISSIONER KOPLAN: Okay. You have said, all of you, I believe, that the industry has demonstrated that they have taken positive steps since the relief went into effect, but that they also need to be able to demonstrate at this juncture that if they get the balance of the time that the President allotted to them that they can demonstrate that by the end of that period they will have reached a point where they no longer need import relief. I believe you said that in your direct presentation.

MR. CUNNINGHAM: That --

COMMISSIONER KOPLAN: Is that a correct paraphrase?

MR. CUNNINGHAM: I said that's the concept of the statute.

COMMISSIONER KOPLAN: That's the concept.

MR. CUNNINGHAM: Yes. And I think when you read the words have they have taken positive steps, I guess I would read into that a positive step must be something along a road that's well designed to get to that point.

COMMISSIONER KOPLAN: Okay. That sends me to 203(e).

MR. CUNNINGHAM: Okay. Perhaps you could read 203(e) to me, sir.

COMMISSIONER KOPLAN: I was hoping you'd ask. Let me see -- I just happen to have it with me. "The President," and I'm looking at (b), "may extend the effective period of any action under this section if he determines (1) the action continues to be necessary to prevent a remedy of a serious injury and (2) that there is evidence that the domestic industry is making a positive adjustment to import competition."

Then it goes on to say if those things up here and then he can actually extend the effective period of any action under this section up to an aggregate of not to exceed eight years.

Now, I'm not saying that that's what's going to happen here, but what I'm saying is it doesn't sound to me in reading (e) as though they have to be at a point where he would look at it and say 18 months into it I don't think that they complete it all in the next 18 months.

It seems to me that if the positive action is being taken, adjustment is being taken and he feels there's still a need to go further, he's got the authority to take this all the way up to a period of eight years. Nobody has talked about that.

MR. CUNNINGHAM: I don't dispute that.

COMMISSIONER KOPLAN: Okay.

MR. CUNNINGHAM: I don't dispute that, appalling thought that it is, but what I would say to you, though, is the issue that is before us now is as to this particular industry here, as to the long products industry, is whether the path that they are on now is calculated to get them there -- put aside the time period, put aside the time period for just a moment.

The concern we have is that all the positive efficiency producing steps in the world can be undercut by the continuation and, indeed, it looks to me now increase of excessive capacity which includes a substantial component of uneconomic producers. And I guess what we would say is if there is not -- if we're not on a path that looks as if it has a reasonable likelihood of getting rid of that uneconomic capacity and that desperate competition by uneconomic firms, then we can't say the industry is taking positive steps.

Now, let me just say one more thing on that, if I may, and that is that it strikes me that this does not necessarily have to do so much with termination of the relief as with modification of the relief, but that, as I say, is something that is beyond what we do here. What we do is we lay out the facts to tell the President that are things going in the right direction or are they not and that's what we're trying to give you our best advice on.

COMMISSIONER KOPLAN: And our task, as I listen to what you said we need to be doing, you heard what I asked the domestic industry to do this morning. In my first question, I asked them to identify exactly what each of them has done since March 20, 2002, whether or not they're on schedule, if not, why not, and what else remains for each of them to do during the balance of the relief period. That is how I view the task I have.

MR. CUNNINGHAM: I think that's very constructive and it's a very effective way to proceed. I think you need to keep in mind that this will not only enable you to make a judgment as to each individual company as to whether it is doing everything it can to become efficient and competitive, but because you will have all of the companies there, you will be able to see whether there are some companies that are going to remain in a situation where their state will undercut the best intentioned and best implemented efforts of the other companies and that's what I'd like to see you to try to -- because after all, you do have to make an analysis for the President as to an industry and an industry is not just the sum of the companies' efforts, it's the Gestalt effect of the companies. In other words, you don't just add them all up --

COMMISSIONER KOPLAN: The effect that those have on the total industry.

MR. CUNNINGHAM: You see how they interact together as well as looking at them individually and adding them up.

COMMISSIONER KOPLAN: Yes. And that brings me to my next question. Thank you.

I assume based on our experience up to today you know this one's coming and that's the old appendices question.

MR. CUNNINGHAM: Right.

COMMISSIONER KOPLAN: But I'll shorten it. Not your task, but the question itself. As a follow-up to the arguments you've made during your direct presentation, I'm going to make the same request as I did of you for flat products the day before yesterday and that is Appendix E of the commission's pre-hearing report sets forth the comments of U.S. producers of long products regarding the significance of the President's Section 203 relief on their operations and the comments are company specific. Those are pages E-17 to E-24. In that appendix, a significant number of domestic producers describe capital investments, these are just examples, modernization plans they intend to implement, R&D investments that have been made or will soon be made, and similarly Appendix F at pages F-17 to F-27 lists the comments of U.S. producers on their efforts to compete more effectively in the U.S. market. On pages E-3 and E-4 of those appendices is the criteria that the commission expected them to apply in putting that information together.

All of the information on those pages contain confidential business information to which counsel has access and I would like you to address and critique that information for me as specifically as you can in your post-hearing submission.

MR. CUNNINGHAM: We will do so. I might say that we may supplement that by taking a look also at some of their questionnaire responses and by looking at some of the hearing testimony today.

COMMISSIONER KOPLAN: Absolutely.

MR. CUNNINGHAM: And I say it today and in the other hearing as well, I say that because more on Tuesday than today I heard some things talked about that I have never heard, I never saw in any of the written stuff, particularly on tin mill, and so we'll want to talk about that, too.

COMMISSIONER KOPLAN: And I'm asking for post-hearing because the total record is available to you.

MR. CUNNINGHAM: Correct.

COMMISSIONER KOPLAN: And I expect that you can refer to anything in the record that you choose to to get to the point that I need.

Thank you very much.

CHAIRMAN OKUN: I have to say having spent a lot of quality time with you and having looked at that statute and the legislative history and read the briefs and listened to this, I am not going to ask any other questions about anybody's interpretations.

No, not that I don't have any questions, but I'm not going to go back to the statute. Again, I do want to say and, of course, not all the counsel are here, but I do think it's been very helpful, the briefs and the dialogue we've had, because I think it really forced the commission to take a very hard look at what our role is and I think that is a good thing, so I think that it was time well spent, but I'm done with it now.

I am just going to move to a couple more specific to the long products industry, the types of issues that you raised and go back a little bit on this capacity, the need for closures in this industry and not having those as a negative adjustment.

And one thing that I was struck by this morning in listening to Mr. Muhlhan was him saying -- and I think I see it when I'm looking -- and, Mr. Blum, this is your Appendix 1 which talks about consolidation versus recycling, and I was struck by Mr. Muhlhan this morning saying kind of his defense of what goes on with capacity, saying, you know, look, when a good company like a Nucor or Gerdeau absorbs someone or consolidates in this sense, they can take a bad company and it can end up being better and so, you know, we don't know exactly how that's all going to shake out, or I thought that was what they were saying, they have consolidated, the rationalization flows out of that.

With the other ones that are listed on the recycle list and kind of the point you were making of look how much cheaper it is to bring this capacity on, I'm just curious just thinking about how this industry works if that's true. I mean, in other words, if Nucor didn't decide that it was worth going after these guys, doesn't that mean that they've made a judgment that they've bought these companies they think they're going to do better with, and I don't know if it's geography, I don't know if it's plants, you all, I think, know this industry better than I do, but I guess that was the question I wanted to pose to you, which is is this the most relevant thing to look at as opposed to look what these companies who have continued to make competitive investments, as you've described it, look at what they've done as opposed to what's on this recycle chart.

I guess I'll go to Mr. Blum first, but, Mr. Hoye, if there's anything, you know this market as well.

And Mr. Mari as well.

MR. BLUM: Sure. I'm not sure I exactly know the question that you want us to address, but let me take this stab and if it's not right, I'll do it again.

Obviously, there's a big difference between an asset that lots of established people wish to have. There was some very spirited competition for LTV, even for National, even for Bethlehem with their well known problems. There was a lot of potential that lots of people all around the world, including some of our members, came to take a look at every one of those plants. That's one case.

At the other end, you have a plant that's failed three times. It has no known advantage, not location, not equipment, nothing. It has no customers, it's been closed down, it has no customer base, it's got nothing at all. The only reason anyone would be interested in it is that you can get it for $1 million.

Now, could somebody conceivably buy it for $1 million, put in a few hundred million dollars and have a state-of-the-art facility? Quite possibly. That's quite possible.

And someone could take a sure shot kind of a prospect and turn it into a failure. There are lots of new investments around the world that don't work, people that actually are no longer in this proceeding but were at the beginning. There was some new investment in the United States, supposedly state-of-the-art and it turned out actually -- those things happen, too. You don't know. That's the whole point of the competition.

So I don't think you can do anything strictly mathematical with those numbers. Will anyone go into those mills? We don't know. But I would say as a matter of principle it's very clear from our point of view, if somebody wanted to come and put in enough money to make that competitive for the long run and felt they could make a profit doing that, they are certainly welcome to try.

Our point is fundamentally, and this is really a further answer to Commissioner Koplan's question, is that the problem is the distortion of the signals to the investors. If it's true that, as Mr. DiMicco has testified, Mr. Ross has very eloquently testified and he's got a billion reasons why he may be right. He was able to raise a lot of money, he said he needed to the 201 to get it. I'm not going to dispute him because he did it, okay? But if that's true, then how much easier it is to raise a million dollars to buy this little mill out there where you've got the backing of the local population and people are desperate to go back to work -- if the 201 helps the big decisions, it certainly helps the little decisions, too, and the problem with the little decisions is they tend to be made strictly on a very short run cost basis and I think that's where you get into trouble.

Thank you.

CHAIRMAN OKUN: Mr. Mari or Mr. Hoye?

MR. HOYE: The only thing I would add is that the object of business is to make a profit and it's just how you decide to invest your money to achieve that. One way to do it is to invest in U.S. Treasuries at no risk and you can do that for a minimum return. Somebody thinks that by spending a million dollars they can make a profit that exceeds and gives them a return on investment that's worth taking that risk, but in doing so, they also can create a disturbance in the market force that makes it harder for everybody else and boils down to it, it's the competency of the management of the companies that make them successful and if you look at Nucor, they've got a tremendously competent management and they make the right decisions that fit the strategy for their business and their business has been to buy Northstar Steel in Kingman, Arizona, to take a competitor out of the market; to buy Trico Steel because they've been able to get a very low cost of entry into the market and give them a better return for their expertise. But it doesn't mean that every single asset that's for sale is going to be a good return on investment, nor really should it be allowed to continue, in my opinion.

CHAIRMAN OKUN: Mr. Mari?

MR. MARI: Yes. I think also if we take an overall industry approach, it's certainly clear that speculative investments of the kind Mr. Hoye was referring to, that is, you make a bet, you invest a small amount of money and you will get over one year, two years, not even three years, a magnificent return and then the company will just fall back into Chapter 11 or 7 because the life of the investment cannot be longer if you don't invest a lot more in it and this is not within the speculative mind.

And the point is not to buy something very cheap and come back to the market with it. The point is if you do this with a speculative intention, this is something that is disastrous for the overall market. And I think that's the point we wanted to make in our testimony today.

CHAIRMAN OKUN: Okay. I appreciate those comments and I guess this is probably best to counsel. With regard to the capacity I heard what you said about, you know, whether these numbers do not, do or not reflect, you know, whether we have adequate capacity numbers that are representative based on what we heard this morning from the companies that for purposes of post-hearing that you also do as I asked counsel from this morning's panel to take a look at these and give us your analysis of that so that we can take a hard look at the capacity numbers and try our best to understand those.

And then, Mr. Hoye, this is probably best put to you which is one of the things that I was trying to explore this morning and I'm still not sure I have a very good sense about is, you know, does it matter if it's SBQ, closures and more people going into merchant bar or not in terms of adjusting to competitiveness, if you have any sense of your perspective on that?

MR. HOYE: I think that Joe Alvarado touched on the fact that a lot of these mills have the capability of producing a variety of grades on the same equipment. So if the merchant bar market is strong as a mini-mill you technically are competitive and you can shift more of your product mix of your production into the merchant markets.

As the SBQ market picks up you could, you know, shift your production into that.

So what you've got is a variability of production that allows a tremendous flexibility I think as a producer to go into these different markets. And, you know, typically when the buy American clauses take effect with construction of American highways what you find is rebar becomes a very attractive market. And we've seen, which is typically the lowest end of the market becomes very much attractive for these mini-mills that are pricing a product even higher than what's the middle market in terms of merchant quality because of pure demand.

So there's a great flexibility of all these producers to be able to play in each one of those markets.

MR. CUNNINGHAM: And you saw that phenomenon shifting demand, shifting the producers' attention, method producers attention away from the free machining, a narrower limited volume market down toward the lower grade SBQ and maybe even the merchant when the early months of the relief came to pass.

CHAIRMAN OKUN: Okay, thank you very much for those comments.

Vice Chairman Hillman.

VICE CHAIRMAN HILLMAN: I have just a couple quick follow-up questions.

Mr. Blum, if I first step back and try to make sure I'm understanding the overall thrust of your testimony I guess I'm hearing or maybe it's that I'm wanting to understand whether there's an agreement on, what we heard this morning is yes, there are some weak sisters, I think was the term that was used, in this industry but far fewer in the long products sector than in flat or some of the sectors that we're looking at I think was how it was described this morning.

And I guess I'm taking the gist of your testimony in terms of explaining the whole transition and why electric arc furnace technology and companies tend to be more competitive from a whole series of both cost and capital standpoints. Your sense is that you would agree with that.

And yet the ability of these recycling

companies, if you will, to come back into the market is somewhere more pernicious than the degree of capacity among the weak sisters in the flat or tubular or other sectors. Is that fair?

MR. BLUM: Well, I don't want to comment on tubular at all because we haven't participated in that, I haven't looked at the numbers, I couldn't do it.

But thinking about the other three in which we have participated, in one way or another you have the same problem. I think just to think quickly, stainless you have a traditionally strong producer that has made some modest investments and regained profitability. The companies that have always struggled are still struggling. And now you're mixing in a brand new competitor at least for bars and rods, a big one, that's going to make it tougher for them.

So there's you've got a closure problem for sure.

In the flat rolled despite the very I think Mr. Lighthizer called it breathtaking changes in the integrated sector it's clear, I mean big things have changed. There are four or five companies that continue to struggle. And because of their location, their size, their product mix they're having a lot of difficulty finding an adequate answer. A lot of people, well, as one of the CEOs commented the other day, we took a look around and we found that all the good partners are gone. That's part of it, they've been losing out on the race. Other people have been partnering up and they didn't.

So there you also have the problem. And here you have it too. I think the difference in the mini -- there are a number of differences. What we tried to stress today is that because of the size and the capital that's involved and because really they're scrap based so that location, there's so many more options for location, in the mini-mill sector, and they dominate these long products, it's just a lot easier to get in or get back into the game.

So I think that may be one reason why you see, you know, this phenomenon. It's very imminent here. It is maybe not quite so imminent but we've seen it over the last four or five years in the flat rolled sector, for example. Geneva Steel, you know, struggled again and again and again. Gulf States the same thing again and again and again. They may be closed now, they may not be closed. There are still efforts being made right now to try to reopen them.

So I think it's a fairly common problem. It may be a little different here because of the really very modest capital requirements to get back in the game.

VICE CHAIRMAN HILLMAN: Okay. But let me just make sure I --

MR. CUNNINGHAM: Could I add just a point to supplement that?

VICE CHAIRMAN HILLMAN: Sure.

MR. HOYE: He has sort of a different take, a little bit different take. I mean just looking at, and I'm doing sort of a back of the envelope calculation in terms of capacity and market size. When you look at the flat rolled markets roughly 60 million tons. And when you look at what was identified as the struggling integrateds it was roughly 14 percent of the market of that 60 million tons with four companies. There was Rouge, Weirton, Wheeling-Pittsburgh and WCI.

When you look at the chart on Appendix 1, Joe Alvarado mentioned this morning that the long product market is roughly a 25 million ton market and you could see that those four companies' purchased capacity is roughly 1.3 million tons, so approximately 5 percent roughly of the market. So there is in each market I think inefficient capacities. I mean and that would be true I think of almost any industry.

But I mean I think it is, you know, there is a low cost of entry especially when you've got recycled assets that can go so cheaply.

And going back to Commissioner Miller's question about bigger is better, it's a very fragmented market and it's a commodity product. And when you look at what the aluminum industry did when Paul O'Neill worked for Alcoa I mean he spearheaded a consolidation in the aluminum industry that brought back pricing power and sustained profitability.

It would be wonderful to see that happen in the steel industry so that everybody could have sustained profits. But it's so fragmented that it's virtually impossible to achieve. And that's what the OECD is trying to do. And you heard today that basically all they're looking at is the subsidy side, they're not looking at the capacity side.

So this problem will not go away.

VICE CHAIRMAN HILLMAN: But just if I take your numbers you are agreeing that if you will the percentage of inefficient capacity or the number of weak sisters or whatever we're going to use as a term for this is lesser in the long products than it is in flat?

MR. HOYE: Right. I mean effectively the flat market is half the total steel market in the United States. So, yes, I mean if 14 percent of 60 million is still, you know, 5 percent of 25 million, it's more significant in the flat market then.

MR. CUNNINGHAM: But the ease of going in and out is greater in long products. And the phenomenon of companies that are going to go bankrupt and then get brought back, small companies go bankrupt and get brought back at low costs on a speculative basis is more prevalent here than in the flat rolled market.

VICE CHAIRMAN HILLMAN: Okay. Then the second point that I'm just trying to make sure I understand -- Oh, Mr. Mari?

MR. MARI: Yes, excuse me to interrupt, Commissioner.

I'd just like to add a point to what Dick Cunningham has said. There's also a difference in the long products market with respect to the flat products markets here in the U.S. and that is that there is far more excess production capacity with respect to the dimension of the domestic market in long than in flat. And this makes the question much more difficult to resolve.

VICE CHAIRMAN HILLMAN: Okay. I mean I think your point is getting at the second piece of this which is whether there is something in your view about the long product market that makes this lesser degree of inefficient capacity have somehow a more pernicious effect on prices or competitiveness or the adjustment efforts of the good guys, if you will.

Pretty much what I was hearing you say is, yes, there has been all this positive adjustment by the highly competitive companies and virtually all of it will be negated by the efforts of the recyclers, as you term them, coming back in the market, which does suggest to me what you're telling me is a much smaller volume of production out of inefficient facilities has a greater effect in this market than we might see in flat.

And I just want to make sure I'm hearing that right or whether you think that's really not the point that you're making.

MR. CUNNINGHAM: I think that's right but let me -- this is Dick Cunningham -- but let me add one other thing to it.

There is also a somewhat different demand side phenomenon here too that makes it more pernicious to have this sort of pricing pressure. It is a function that as you step back from it of weakening the U.S., the producing industry's pricing power. And that's always a function you have to view relative to the power of the buying industry. And remember I can't talk about rebar, I really think rebar is different. And I don't know how it's different but, whatever.

Anyway, the hot rolled and cold finished you're dealing essentially with the auto industry and you're dealing with a real tough pricing situation. And so a lesser degree of disruption, disruptive forces can be more, and that way for like tin mills, you need to have, you need to gain pricing power on the producing side and this industry is not gaining it. That's essentially the problem.

VICE CHAIRMAN HILLMAN: Mr. Blum?

MR. BLUM: Yeah. I'm still thinking about this more pernicious concept because I honestly never really thought about it that way. I mean what we've been struggling with, and that's why we wrote the first general brief trying to deal with, you know, the adjustment process itself, every industry obviously has its own dynamics. They have their own problems, they're going to have their own solutions. And I think the meaning of the -- naturally you would expect

I think that the mix of adjustment problems and therefore the mix of adjustment solutions will be different from one to the other.

One general comment, even though we've tried often to point out that distinguishing or dividing, you know, the industry into mini-mill and integrated camps doesn't make a lot of sense for a lot of purposes anymore, but generally speaking on that basis the mini-mills are much more modern, much more efficient than the others. And yet you heard Mr. DiMicco complain that he couldn't recoup his cost of capital.

So in the sense that they have more recent investments and, you know, fairly large investments their inability to raise, you know, to return, to get a return on capital is a big issue. And I think our advice is look for the answer in the domestic industry's operating rates. They simply maintain too much capacity.

Now, they have a choice, this is part of this process here, if they are truly internationally competitive they should be looking at the world as their market not just the United States or North America. You have to make an investment in that. Mr. Hoye knows all about that, that Corus and other non-

American companies have, and a few Americans although not always in steel product but in some downstream products likes like Timken, they distribute product all around the world. You have to invest in that, you have to work at that, you have to develop customer relations.

Once you do that your ability to ride through the cycle is greatly strengthened. One of the difficulties I think that the domestic industry has right now is when demand is relatively soft they don't have very many options. And if they are competitive, and I believe many of them are and are getting better, I think that's demonstrably try, one of the things they should do and haven't really attempted in many cases is to develop an export function that will allow them greater options when demand here isn't so robust.

VICE CHAIRMAN HILLMAN: I appreciate those answers. Thank you.

CHAIRMAN OKUN: Commissioner Miller.

COMMISSIONER MILLER: Madam Chairman, you will probably be happy to know since I figure this would be at least my fourth opportunity to question the representatives of Corus and at least my sixth opportunity to question the representatives of EUROFER that I'm not going to.

Thank you for all of your testimony. It has been very interesting.

CHAIRMAN OKUN: Commissioner Koplan.

COMMISSIONER KOPLAN: Once again she's taken the lead. I don't have any additional questions. I do want to thank you very much for your responses to the questions that I did ask.

While I have the microphone, just as a housekeeping matter and because I see Mr. Burrough in the room, this morning I asked a question with regard to long products that are excluded from the 201 relief and I referenced that if they are being exported from countries that are covered by the relief they would be subject to already existing duties. And the answer that was given to me was that there are no duties on those products.

I'm advised by staff, counsel, that if you refer to the chapter on long products that in Chapter 1 on pages 2 and 3 there is a list of HTS statistical reporting numbers, 55 sets are on that list starting with the 7213 running through 7216 I believe and then picking up with 7227 and 7228. Staff advises me that there are duties on each of those categories, small, but with regard to each of the categories on those two pages duties are in fact still in existence.

So I just wanted to put that on the record. And with that I have nothing further.

CHAIRMAN OKUN: I have no further questions.

Let me turn to staff to see if staff have questions of this panel?

MS. NOREEN: Bonnie Noreen of the Office of Investigations. Staff has no questions.

CHAIRMAN OKUN: Do counsel for petitioners have questions? Mr. Verrill, Mr. Price, you're shaking your head no.

Well, then we want to again thank you very much for your testimony, for all the answers you've given and for your continued cooperation post-hearing with providing further information. And we will just take a moment here to change to Panel Three.

(Pause.)

(Panel Three sworn en banc.)

CHAIRMAN OKUN: Is this panel ready to proceed?

MR. CARR: Yes, we are.

CHAIRMAN OKUN: Very well.

And let me ask the Secretary whether all the witnesses have been sworn?

MS. ABBOTT: Madam Chairman, all witnesses have been sworn.

CHAIRMAN OKUN: Thank you very much. You may proceed.

MR. GRIMM: Thank you.

Madam Chairman, Commissioners, my name is Doug Grimm, Vice President and General Manager of Metaldyne's forging operations based in Plymouth, Michigan. We are here today to talk about what the industry has done to the adjust to the important competition.

Within the automotive SBQ industry the answer is simply: nothing. Because there is no competition. In 2001, pre-Section 201, major automotive SBQ users imported approximately 40,000 tons or 2 percent of the total hot bar imports that year. In light of this we're not here to debate as purchasers as we did in the 332 investigations but there is some spillover effect in the 204, as you are aware.

Finally, before I begin my presentation I need to clarify a misnomer. If companies like Metaldyne are not being adversely affected by the 201 as alleged earlier this morning then why have we been as vocal as we have? And why are we here today?

With that as my introduction let me explain Metaldyne's situation. Next slide, please.

Headquartered in Plymouth, Michigan, a suburb of Detroit with annual revenues of $2.4 billion we have 11,000 employees and over 100 facilities in 13 countries. With this manufacturing footprint we demonstrate every day that we're globally competitive.

Next slide, please.

We produce what's known as safety-critical components. We make products such as constant velocity joints, disk brake caliper pins, connecting rods for the engine, clutch components, gears and shafts for transmission, engine and chassis applications. We're the non-sexy stuff of the vehicle.

Why is there no real import competition? It's because of the barriers to entry. Let me explain.

First, the product lifecycle of our customer base and what we support such as transmissions and engines, these typically have 10 to 15 year lives. Once you get on a particular engine or transmission that you obviously are in a very good competitive position but it does block out the competition a lot of times.

Why is this? Typically it's because of the engineering validation. And in the automotive sector you hear of the terms that you may have heard of called PPAP or production part approval process. And when you go through engineering validation, especially with safety critical components it typically can take one to five years to get those components and materials validated for that application.

The third barrier to entry are quality systems such as QS-9000 which is now becoming an automotive global standard called TS-16949. This is a global standard that supplies must meet in order to supply the auto industry in Europe, North America and Asia.

In summary, the life of engines and transmissions coupled with stringent engineering and quality requirements separate automotive SBQ from other long products.

Next slide, please.

Next, when we look at our employees by state we are concentrated in steel producing states. On this graph 73 percent of our employees are located in the same region as the steel mills that the president is protecting. A majority of Metaldyne's employees are union employees, including United Steelworkers.

As I visit our own manufacturing facilities and discuss steel tariffs I cannot explain why a

United Steelworker job in Minerva, Ohio near Canton are not as important as a job at a steel mill in Lorain, Ohio or even in Canton, Ohio. I cannot explain it, nor should I have to.

Finally, and let me be clear, I'm not eliminating the Christmas party, as mentioned earlier this morning by one of the people that testified, I am cutting jobs and it's a major input -- and the steel tariffs are a major input to these decisions.

Next slide, please.

As I mentioned earlier, Metaldyne's global manufacturing footprint and our diverse customer base exemplifies our competitiveness. We supply such companies as Honda, Nissan, BMW, Toyota, Peugeot, Botz. We need a competitive supply base as well but the 201 tariff has created a "squeeze play" on us automotive suppliers like Metaldyne. We are losing business due to SBQ steel price increases. Major customers such as General Motors, Ford, Daimler Chrysler have publicly stated that they are increasing supply out of low cost countries such as China. The 201 has been a catalyst to this action in our product line. We cannot let it continue.

With regard to Metaldyne's steel usage we purchase 380,000 tons of SBQ steel annually.

Historically we have purchased 98 percent of our steel domestically. Since the 201 ruling, however, we are aggressively pursuing non-USA suppliers. Also since the 201 ruling we are aggressively pursuing component parts versus raw steel.

As I said previously, the 201 was the catalyst for this action and it continues to pick up steam with automobile suppliers and manufactures, and this means jobs.

So what is automotive SBQ steel? Special bar quality steel is highly specialized. Our automotive customers specify SBQ for safety-critical components, as I mentioned earlier. Automotive SBQ is not a commodity, it's an engineered product with specific chemistries for a particular manufacturing process. In one particular grade we may have as many as 25 chemistries for a particular grade to support our manufacturing process.

Finally, there are very few suppliers of automotive SBQ steel in North America. I have listed them here: Timken, Republic Engineered Products, Chartered Steel and Wire, North Star Steel, Mac Steel and Ispat. Interestingly, two of these companies have decided not to join the long products coalition. They know the issues and it's not the imports.

Next slide, please.

The automotive SBQ users, which you may already know we had formed a coalition during the exclusion process, are Delphi, Metaldyne, American Axle, Dana Corporation, ArvinMeritor and Vispion, to name a few. These fine companies ship safety-critical products to every automotive manufacturer in the world. We are and must remain globally competitive.

The next slide is very interesting. When you look at automotive SBQ steel capacity since January 2000 it has decreased nearly 30 percent while auto production has stayed pretty much in the 16, 17 million unit range during the same time period

Going back to January 2000 we've heard the Qualitech mill brought up quite a bit today, closed in March of 2000. Copperweld Steel in January 2001. Koppel exited the SBQ bar business in May of 2001. Laclede closing in July. Ispat Inland closing their 21-inch mill in November of 2001. And Republic closing its 12-inch mill in August of 2002.

As you can see, this all happened prior to the 201 impact.

Moving to the next slide. When you look at capacity of the five million tons that are left essentially versus what's really available this is a key factor. The point on this slide is that we need to be careful when analyzing this data due to business strategies such as Timken's where a majority of their capacity is used for in-house production of bearings and it's not available to the outside marketplace. When you look at this slide from our estimation and market intelligence available capacity could be as low as 2 to 3 million tons.

Next slide, please.

Let me discuss our steel suppliers many of who were here today. Metaldyne's steel suppliers are very well run, profitable companies. Two of Metaldyne's primary steel suppliers from our information posted record profits last year. These suppliers were also profitable in 2001 before the implementation of the tariffs. The exception was Republic Engineered Products or Republic Technology International at that time which emerged from Chapter 11 reorganization as you know in 2002 following their announcement in March 2001, a full year before the 201 implementation.

Now, what's interesting is Metaldyne and others helped Republic through the process. We knew they were in trouble. We met with Joe Lipinski and Ted Feelins who was here today on a daily basis, weekly basis as necessary. We supported them through the process. We kept the business within, even though they were in financial difficulty and at times putting us in jeopardy with supply with our customers, because we knew the impact of Republic going down was very detrimental to the industry.

Government protectionism didn't help the situation. The private sector, led by companies such as Metaldyne and the management team at Republic fixed their issue. And I congratulate Joe Lipinski and Ted Feelins on their success.

Next slide, please.

Our suppliers since the 201 program which this investigation is about this is what they've done from our viewpoint. Metaldyne and others have experienced a 10 percent price increased on aggregate in 2003 which is significant in an industry that will change suppliers over a 5 percent swing in costs.

We have had up to 50 percent price increases on specific items or jobs as we call them. Also, we have actually seen a significant change in customer service. While prices have gone up my quality and delivery from a performance standpoint, not allocation, from a performance standpoint has deteriorated and is the worst for the past two years.

Finally, they did form a long products coalition for the six suppliers that we deal with, as you know we're here today. And as I said, I'm not sure what they formed a coalition over because there are no imports that they're trying to stop.

With regards to 2004 our negotiations are just beginning and the president's decision at the midterm review in September coupled with our offshore sourcing strategy announced after the 201 introduction will drive our 2004 steel prices up or down and further restructuring of our steel using plants at Metaldyne. At this point we anticipate that going up again. And this means U.S. jobs at Metaldyne.

To summarize, this segment of the industry has already rationalized its capacity before the implementation of the tariff and is successful. Metaldyne and other automotive users are helping with the process as exemplified by the Republic situation. In the end, steel suppliers are reaping the benefits of Section 201 tariffs at our expense.

Why does this segment of the industry automotive SBQ need protectionism? They don't.

Given the above I respectfully ask the Commission that the Commission's report to the president provide data on automotive SBQ products so that he can knowledgeably terminate the tariffs on automotive SBQ.

I thank you for the opportunity to speak with you here today.

CHAIRMAN OKUN: Thank you. Is there other testimony or does that complete it?

MR. RING: That is the extent of the testimony, Madam Chairman.

CHAIRMAN OKUN: Okay. Well thank you then, Mr. Grimm, for that testimony and for being here today and for your willingness to answer questions. We much appreciate it.

Commissioner Miller will start our questioning this afternoon.

COMMISSIONER MILLER: Thank you, Madam Chairman. And thank you to the panel as well for being here and presenting your testimony.

Mr. Grimm, I want to make sure I understand some of what I was hearing from you in terms of price, what you attribute in terms of price effects to the Section 201 remedy. Do you, does Metaldyne, I assume you all purchase mostly under contract. Describe for me if you could just your purchasing form and arrangement.

MR. GRIMM: The process?

COMMISSIONER MILLER: Yes, please.

MR. GRIMM: Typically it's yearly contracts. And typically it depends, but typically on a calendar year. And it could be one, two, three, four, five years contracts. Typically on automotive you do not do what's known as spot buys.

COMMISSIONER MILLER: Okay. Okay, so now given that fact how did the price increases that you've described here come about subsequent to the 201 acts. I mean I guess I need to understand the time frame a little bit.

MR. GRIMM: Time frame.

COMMISSIONER MILLER: Were there contract negotiations that led to these price increases?

MR. GRIMM: Yes. In other words, contract expired. Our price increase hit in January 1 of 2003. People tried to break contracts prior to that but we were able to avoid that. Republic did break a contract because of their Chapter 11 bankruptcy so they did break a long-term contract with us.

So it was our negotiations for 2003 and beyond where we had contracts expiring at the end of 2002 and then the increase happened following the 201 implementation of March of 2002.

COMMISSIONER MILLER: Okay. And the problem that you're describing is mostly with respect to price as opposed to availability issues; is that right? I mean, you know, I see your one chart that seeks to add some sense to the 201 program. And that chart at least speaks to price issues.

You in your testimony talk about availability issues as well. I sort of listened to that and I thought I guess you don't agree with the former panel that believed there ought to be more closures in the industry?

MR. CARR: Can I answer that question?

COMMISSIONER MILLER: Sure. Mr. Carr.

Pull the microphone a little closer if you would.

MR. CARR: Yes. Let me answer. I read two questions into what you said.

COMMISSIONER MILLER: And you're right, there were two questions.

MR. CARR: The first one though, the increase hit us effective January of 2003, this year. The tariffs went into place the end of March 20, 2002.

COMMISSIONER MILLER: Right.

MR. CARR: So our contracts were intact until the end of that year. They were all except one on an annual contract. We had one two year contract that wasn't -- that frankly carried over to 2003.

COMMISSIONER MILLER: Okay.

MR. CARR: The contract that we had with RTI when they reorganized under REP they elected to void that contract out. And we took a substantial hit when they did that. And that was in November of 2002.

And then for the calendar year of 2003 we took another increase from them. Thus some of the 50 percent increases were from that organization.

COMMISSIONER MILLER: Okay.

MR. CARR: If Ted were still here, you know, he and I and his counterpart there had negotiated those contracts.

COMMISSIONER MILLER: Okay.

MR. CARR: I think that answered the first question that you had.

The second one again was?

COMMISSIONER MILLER: About availability.

MR. CARR: Availability. One of the things that I would like to point out to the Commissioners here is that there is a distinct differential in subsets of SBQ bar. And that's one where we, and only Mr. Ruth really alluded to that in his testimony when he said automotive SBQ.

SBQ, you know they're a very large segment.

As we showed you the capacities, and I think Mr. Cunningham testified to that, they do have the ability to go from one product to the other. They can make rod, they can make re-rod on these mills. They can address their tonnages to various markets. The heavy truck markets, the off-highway markets, the warehouse and the cold drawn we heard from. That's your total capacity that is shown on those charts.

The available capacity for automotive SBQ is substantially less than that and that is because there we go through these PPAP trials and they are engineered steel and we're not allowed to make a change. And when a steel mill takes that they take it for the life of the part. And it's a very costly expense, as much as $700,000 a part to go through retesting. So it's not something you easily do. And thus the efforts we made with REP. Because when REP was re-formed they closed because they didn't buy all of the assets of RTI.

COMMISSIONER MILLER: Okay.

MR. CARR: The 12-inch mill in Lorain was not purchased. That sat idle. They opted to use the 13-inch mill in Lackawanna. They opted to close the 18-inch mill in Maslin.

So there area number of assets they didn't buy. And when they came back as REP they were totally different with substantially less, as Ted testified to, capacity, roughly down from 2.5 million to 1.5 million tons.

So when we look at that marketplace and where it's going, you know, the conversation I had with all three of them in the back, and I've been in this market a long time, I know them all very, very well and they're very, very good people to do business with, but it is misleading and I asked them why do you need a 201 tariff? I had 20 -- I at the anniversary filing sent in 20 requests mainly for offshore customers that we're working with like Zedeff, Gatrad, Jackco. And I asked for those exemptions because there were no qualified sources in the United States for that.

And to a T the long product coalition had denied my request and the Commission accepted that, when in fact not one of them were qualified and some of them never would have the ability. As I told Mr. Ruth, we built Northstar into a SBQ mill. In 1991 they didn't do any tons. I was with NASCO at that time and gave them their first order. They now do 100,000 tons with us. I think we know their operation pretty well.

And when I look at that operation and they tell me that I can't, you know, they can make a zed upgrade but they don't even have the equipment, you know, in that mill to do it, the Commission's believes that, that upsets me. And I don't think that the 201 really applies to our product line. And I have never seen a clear distinction between automotive SBQ and SBQ. It is a subset of that. And I think it ought to be recognized as that.

And we would certainly ask the president when he reviews that to exclude that and certainly hope that the Commission would help us do that.

COMMISSIONER MILLER: Okay, I have to correct the record because the Commission did not consider exemptions, so to the extent that those decisions were made they were made in the administration through a very difficult process, I know, and I'm very glad we didn't have to do it honestly.

But your comment there, maybe I want to make sure I understand, do you consume far beyond SBQ bar or beyond what you're describing as automotive SBQ?

MR. CARR: We buy entirely automotive SBQ.

COMMISSIONER MILLER: Okay.

MR. CARR: That's the sole product that we buy as a company.

COMMISSIONER MILLER: Okay.

MR. CARR: And we buy it in two forms. We buy it in a cut length form that would be anywhere from 20 to 40 feet long. We also buy it in a coiled form where it's round coil up to a maximum of an inch and nine-sixteenths. And that would be in anywhere from four to six thousand pound coils.

COMMISSIONER MILLER: Okay.

MR. CARR: One of the other things we do is just recently, as Doug reminded me, we spun a company called Trimass out of the Metaldyne organization. And we do that's mainly fastener and towing equipment and they do make some cylinders, large cylinder tanks for acetylene and propane down in Texas. We do help them with that buy. That would not be an automotive SBQ, that would be a rod product.

COMMISSIONER MILLER: Okay. I have no further questions at this point. I appreciate your answers though, they were very helpful.

CHAIRMAN OKUN: Commissioner Koplan.

COMMISSIONER KOPLAN: Thank you, Madam Chairman. And thank you, Mr. Grimm and Mr. Carr, for your testimony.

You mentioned Mr. Ruth. Mr. Ruth in talking about the automotive sector this morning said, and I believe he said complex decisions are involved as to whether to go offshore for long range reasons and are not based on a short-term 201 decision.

Do you want to comment on that?

MR. CARR: That's -- and I guess I would take exception to that because as Mr. Ruth knows when the price increases were put in place we as a company were not able to pass those along to any of our customer base. That came directly, in effect their financial problems became Metaldyne's financial problems. And our president Mr. Lumiet who has spoken in the past on our behalf commissioned each of his purchasing people to do whatever they could do to try and offset that.

We dispatched people to probably 12 different countries looking for steel products and many of them exempt. Ossocelic in Turkey came up today in Turkey, OEMK in Russia which is not exempt but is a depressed financial company and we've been able to from them.

But I went down personally in one of Doug's plants, took a complete subset of the product, the side gear and the pinion, we went down to Customs in Detroit and I asked them where the SIC code steel changes to forging. And he says every customer that I visited in trying to pass this through was sending groups of people to the Far East, to India to take our products and shop them over there because there were no restrictions on forgings coming into this country.

The Commission told me or the inspectors told that it wasn't binding but they all felt, and this is a six operation part, that once we put a hole, if you will a doughnut in that steel it became a forging. Anything prior to that it was still steel. Keep in mind, we had nothing, it's always just steel, it's just shaped different.

We filed in New York for a binding ruling on that and received it as forgings. I bring those parts in from Korea today, I bring them in from Japan, just as our customers bring our finished products in.

So when Mr. Ruth says that I guess my position is I wish he could sit with me a little bit and look at the low margins of this auto business when we have to pass that through. We're doing everything we can do to close those operations down, move those to Japan and Korea and probably will have the lowest cost side gears and pinion gears in the United States because we're really shipping our jobs, you know, over to Korea and Japan.

COMMISSIONER KOPLAN: Thank you for that response.

Let me ask you this. You heard Commissioner Miller say we the Commission did not deal with product exclusions in the 201. My understanding is there is another opportunity in November to revisit the issue of product exclusions. Do you all intend to do that?

MR. CARR: Absolutely

COMMISSIONER KOPLAN: To the administration.

MR. CARR: I filed three times. This will be the third time that I filed for a BLF product because there's only one in the United States and that happens to be the REP bloom caster. That's a BLF bloom caster. There are none others in the United States. They happen to have two, ones electric, ones a BLF.

One in Canada which is Stelco. This will be the third time I applied because there are certain -- we're a cold former and we need reductions in our steel. And there are times that we need to start our products from something that's got a 12 by 140 square inches or greater. And that is where I got a 50, actually it was a 47.75 percent increase from Republic.

I wish Ted was here to hear it. I know he left. But I'm sure he'll hear this.

You know, that is the price increase that I received on that product. I have asked for relief on that. I can go overseas and buy that. It just so happens in this case Stelco can't make the size. They have a maximum bar size of 2 7/16 so they can't make the bar that I need to buy so I can't use them.

So I'm forced to go to Republic or else go to another country and pay the duties. And in some cases we can bring that in under the price that they quoted us.

MR. RING: Commissioner, Sandy Ring. Just for the record, it would be our position that the president certainly at the midterm could terminate or modify the tariff with regard to automotive grade SBQ. Under the same circumstances that the product could be excluded via at process and administered by the Customs Service is in our view no reason why the president couldn't change the tariff regime or terminate the tariff with regard to automotive grade SBQ.

COMMISSIONER KOPLAN: I appreciate what you're saying. I was simply referring to the procedural avenue that's available under the law to revisit in November with them. There is a separate avenue.

MR. RING: I think Mr. Carr would hope that he doesn't have to go through that in November.

MR. GRIMM: I think we, how many exclusions, I think we've submitted 25 exclusions and how many got approved?

MR. CARR: The first time we submitted six and got five approved. The second time we submitted 20 and got none approved.

MR. RING: But for what volume?

MR. GRIMM: And the volume of steel that ended up being approved is like 3 percent of what we have.

MR. CARR: It's almost all our zed F chemistry and our CIF chemistry from Japan. These are new customers. And what we're attempting to do is buy from their approved sources until we can work with our domestic sources to get them approved. That's really how we intended to use these.

The one exception to that was the one I mentioned, the BLF bloom caster was one where I was going to replace actually U.S. We buy nothing offshore.

COMMISSIONER KOPLAN: Thank you. I have nothing further.

CHAIRMAN OKUN: Thank you again for your testimony and for your answers to your questions.

Just in terms of the economic environment during this period as it relates to the steel industry that we're evaluating at this point, you're looking at a fairly specialized, in other words not the like product that we made the finding on but this auto SBQ. But can you comment on one of the things that we discussed with the other panel was just what demand was doing during this period? And one of the things I think that was cited was that autos have remained fairly strong and the slides that they showed had the rates for auto and light trucks.

So I wondered if you could comment on, you know, for the industry that you're in whether you could talk a little bit more about what the demand was over the period.

MR. GRIMM: Well, it was pretty -- over the past four or five years I believe auto production has been between 16 million and 17 million units. And Metaldyne we're on 95 percent of the vehicles in the United States. So, you know, we pretty much go with the ups and downs of the cycle in the automotive industry.

So the demand was fairly steady. And I

think you heard that this morning and this afternoon with Corus. So volume is not too bad. I mean nobody can complain about volume. The only thing you can complain about is if you're in the wrong, with the wrong customer base because GM and Ford and Daimler Chrysler tend to be losing market share while Hyundai, Toyota, Honda tend to be gaining market share, the imports.

So overall though volume is pretty stable.

CHAIRMAN OKUN: Okay. And then just more specifically you talked a little bit about, you know, where you see offshore movement. And I'm just trying to understand again for what we're talking about here over this period has there been movement offshore?

MR. GRIMM: On steel?

CHAIRMAN OKUN: On steel for the product that -- No. Okay.

MR. GRIMM: No, I mean, no, we've been buying domestic steel. We've been trying to go offshore. And we talked about the engineering validation. And Commissioner Koplan mentioned before about Mr. Ruth's statement about future pricing as a tariff for the short term, well, you know when we get awarded a program today for the 2008 model year I'm committing to my pricing four or five years out. I need to know what my steel costs are and then I've got to build in some inflation factor or some econometric model that I can feel comfortable that this is what I'm going to be selling for in 2008.

Okay. So I need to have a real good idea of where my raw material prices are and my component prices are and where I think I'll be buying that steel, for example. So am I going to be getting it from Ossocelic out of Turkey or am I going to be getting it out of Republic. And historically we've been getting it out of the U.S. supply base.

The problem now is instead of having one, two, three, four, five year contracts in place that I can plan for my new business I don't have those now. The steel suppliers want to do basically yearly contracts because they know they have pricing power. They have government protection to prevent us from going outside the United States and they're saying, here, you have to deal with this because your customers have this engineering validation process, as I mentioned earlier, that prevents those changes.

So that's the -- there's a ceiling here that the tariff has provided. And on SBQ bar it was 30 percent last year, it's 24 percent this year. They've got a ceiling there that they can bump up against on pricing. So it provided a safety net for them.

And they all essentially came in besides Republic with very similar pricing on increases, which is unusual. And they all stopped ship on me on the same day back on January 13, which is unusual, or three of them. So there's a lot of concerns we've had as we went through our previous negotiations.

CHAIRMAN OKUN: Okay. And then, Mr. Carr, I think you may have answered one of the other questions I had which had to do with Canada and whether you were able to get any of the product, the specific product that you're talking about from Canada. And I think you at least described at least a portion I guess of auto SBQ that's not available from Stelco. But is that, is there other product that is available?

MR. CARR: Well, we're trying to use them. And we're working with Ispat, Sidbap Dosco that's located in Montreal. Other than that it's either flat rolled which is not one of our product lines or SBQ, our merchant quality bar that really isn't automotive approved. That's the Slater, you know, they were validated I think on cam shafts I think at one time and that was the only part that I'm aware of that they were, never any of our parts.

And I'd just like to make clear one thing, our president, Ken Lumiet, who has testified earlier and spoke when he said 40 -- we have bought steel from the companies that I mentioned, Brazil, from Turkey and from Russia in the way of sample steel. Should we get those approved that would be equivalent to roughly 78,000 tons of parts.

So when we talk about 40 percent of our steel going offshore that's what we, that's what we mean. We would eventually get that to 90,000. But that's a long, lengthy process, as Doug had pointed out. And it would take a much longer time.

But we have received sample steel from those companies, have them in our plants, are making prototype parts, running them through destruction and bringing them to the automotive with a complete layout and PPAP to try and get those changed.

CHAIRMAN OKUN: Okay. And then for the suppliers of the automotive SBQ still in North America, and you listed them there, help me out within terms of, you know, again their adjustment during this period. And I heard Mr. Grimm say that they haven't in your mind taken the steps that they would need to. Help me a little more to try to understand, why wouldn't they see you as or this segment I guess as a, you know, someone who has used the domestic skill, you're still there, the automotive companies are still there, I'm trying to understand what the dynamics would be that would make them want to do something else other than supply you or try to keep you as a customer happy?

MR. GRIMM: Oh, they want to keep us happy. But they, you know, they've -- if you're a shareholder of Quanex which owns Mac Steel and you see banner headlines that read steel tariffs you would sit there and say, okay, I should be getting my dividend because prices should go up. And the pressure from shareholders on these companies is tremendous, as we all know.

And so they got to go in for price increases. A lot of these presidents down deep knew this was going to be a major issue. Nobody likes to be here today, customers and suppliers, you know, testifying in front of the International Trade Commission. It does not make for good business relations. It's very awkward. And but they have to do it because their shareholders are pushing them because they read there are steel tariffs out there. And steel tariffs should mean higher prices. And higher prices should mean profits. And profits should mean dividends.

So that's the dilemma we're in. And that's what they're doing in a lot of these companies, they're expecting to get the higher prices. And that's why they're doing that. And we're in a squeeze play with our customer base.

MR. RING: Chairman, if I could, the SPQ sector, the automotive SPQ sector had not done anything to adjust. The point was there really wasn't a lot of imports to adjust to. Those, again, perhaps two percent of hot bar imports we're estimating the automotive grade SPQ. So that's not suggesting they haven't done the right thing. There just wasn't anything to do.

CHAIRMAN OKUN: I understand what you're saying. I think perhaps the answer in response to Commissioner Miller which is is it availability or price, it's more the price side that you focus on as opposed to these companies aren't necessarily getting out of automotive SPQ, is that --

MR. GRIMM: Yeah, they're not getting out. I think they would all say it's a business they're going to be in because there is strong demand when you're building 16-17 million vehicles. It's a business they want to be in. It is a price/cost issue. Republic was the problem and that got fixed towards the end of, prior to the 201.

MR. GRIMM: Can I add --

CHAIRMAN OKUN: Yes, Mr. --

MR. GRIMM: There's just been a lack of competition by the 201 in that there are several approved automotive suppliers in Europe and Japan that are supplying those industries. GMH in Germany is one that we were fully planning on buying from. That always kept our prices in line here. As soon as the 201 went into effect they then have, presently today, a 24 percent increase, so that wiped out almost all of those companies. The ones we're dealing with today are ones that are either not approved or they're in exempt countries where we're attempting to bring them in. So that's why they want that.

They have to deal with six people, and if you break that down by the products we save six companies, but Charter Steel only makes a coiled product. When you take a cut length round and two of them we've heard rumors are merging, we'd be dealing with three companies, four companies, for that product. If we can't open up our international shores to keep that in check, we're in dire trouble. Because like I said, in Canada you have two, and Mexico is prohibitive. We have two suppliers there but it costs them $100 a ton to bring steel from Sedenor Outlax in Mexico to Detroit.

CHAIRMAN OKUN: Thank you very much. I see my red light's come on.

Vice Chairman Hillman?

VICE CHAIRMAN HILLMAN: Thank you. This comes at the end of a very long day I think for you. I very much appreciate your time and your patience to spend the entire day listening both to the testimony on this side as well as appearing, so many thanks.

Just a couple of questions. One, just so I make sure I understand it, these contracts that you describe, Mr. Grimm, in response to Commissioner Miller, they're absolutely fixed in terms of both price and quantity? Or are there clauses within them that would allow the prices to be adjusted depending on market conditions?

MR. GRIMM: No, typically they're fixed on price and there's an estimated quantity built in. In other words, automotive schedules typically don't go from 17 million vehicles in one year down to 14 in another year and back up to 20 million vehicles the following year, so there's been some stability in the automotive marketplace. So typically we're looking for firm pricing and that's a year, two years, three years, four years, and historically, and like what we do with our customers, there's productivity price decreases built into the contracts typically with suppliers to us and to our customers to bring costs down.

What's happened in the steel, in SPQ, prices now are going up when everybody else is going down. On the vehicle.

So it is firm pricing for a year or two years or three years, and then it's no firm quantities typically.

VICE CHAIRMAN HILLMAN: And then when you renegotiate, is there a spot market for SPQ automotive products, or is it pretty much everybody buys it on a contract basis?

MR. GRIMM: I'd say everybody buys it on a contract basis. American Axel, Dana, there's no spot markets on it.

VICE CHAIRMAN HILLMAN: Do prices for automotive SPQ move in relation to other SPQ prices? Or is it it's own market?

MR. CARR: Typically it's a supply and demand -- the product is a commodity. It doesn't go in reverse of what the rest of the market's doing. So if SPQ goes up, you can pretty well chart -- When it goes up one year you're going to go up. How much, it just depends.

For instance, flat roll went up in 2003. We didn't go up as much. We, being the automotive SPQ did not go up as much as the flat roll did.

VICE CHAIRMAN HILLMAN: My last question was the issue of, again the industry, and obvious for us the trick is we have to look at the industry as a whole. In this industry we can look at hot, the hot bar industry separate from the cold finished bar industry separate from rebar. It's not clear to me under the law that we can go much more precisely than that.

But even if we were to look at these companies that you've listed as the U.S. producers of automotive SPQ. I just want to make sure that if I step back and look at these companies, obviously we have some information on the confidential record in terms of any adjustment steps that each one of them may or may not have taken to become more competitive. But obviously the big one here is Republic -- the big one in terms of significant change.

I just want to make sure I'm understanding that in your view has Republic become in its new form a more competitive supplier of product to you?

MR. CARR: My answer to that would be no. My prices are a lot higher. They broke a contract and then gave us another increase.

VICE CHAIRMAN HILLMAN: Do you have any sense of whether they are themselves a more efficient producer? Have they done anything that you're aware of in terms of lowering their costs?

MR. CARR: They've had a labor contract that Ted mentioned that apparently has had some positive effect. They've closed down some facilities, I'm sure that's had a positive effect on them. I would hope they're healthier than they were before. Their two owners had to put in money recently, I think. They're owned by KPS and the Hunt family in Dallas, and those two have put in some money here recently. They published a 10K that wasn't all that attractive which we watch pretty close.

So how attractive are they and how healthy are they? They're still probably the weakest link of the group when you look at that group of companies.

VICE CHAIRMAN HILLMAN: Would you say any of them have made any other changes at all to their production of automotive SPQ?

MR. CARR: That's a good point. Yes, Mac Steel who is not on the Commission is probably the most profitable, owned by Quanex, has made considerable investments through the years. Now they have about a

770,000 ton capacity.

Northstar, Monroe Plant, has made a number of investments over the years.

Tempken Corporation put in a new rolling mill just a few year ago.

ISPAT on the other hand, was filmed in a movie with several other customers in 1996 asking for a vacuum degasser and they still don't have it. So that's seven years later, and that's considered a minimal investment to a steel mill. You're talking about $15 million. Yet without a vacuum degasser they can't make any of the steels that I applied for exemption on, yet they took exception to all of them without having the ability to make them.

MR. RUECKE: To build on that point real quick, most of what Mr. Carr just described are improvements that were made prior to the 201, and when Doug Grimm got up and said what have they done since the 201, and said nothing. The comment that we're making here is this is a healthy industry that had consolidated itself before the 201 and they did not need the safeguard initiative. That's our point.

VICE CHAIRMAN HILLMAN: I understand. I'm having a little trouble squaring that with everything that has happened with Republic after the 201, but I understand the point Mr. Carr is making on that.

Mr. Grimm, did you want to add something on this issue of, again, just looking at these companies from your perspective, whether there's been any changes that would have made them --

MR. GRIMM: No, Republic laid out their plan to us a year before the 201. The management team there was moving down that path. We supported it. Other customers such as American Axel supported it because us and American Axel were their largest customers. They knew they needed us through that process. So that plan was happening with or without the 201.

We went through that with them, and the reason it took maybe a little longer is he had to work out his union contract and also work out the pension issue.

So once again, the 201 was irrelevant to Republic. Timing wise, yes, they came out in August of 2002, out of Chapter 11, but that was after a year and a half, so that plan was laid in place long before 201.

MR. RING: Madame Vice Chairman, if I could just quickly.

In some sense perhaps there should have been 34 or 35 products that the Commission looked at initially. The 34th being SPQ and the 35th being automotive grade SPQ which candidly, I think we bear some fault for not --

VICE CHAIRMAN HILLMAN: Mr. Ring, if you can A, make sure that microphone is on, and pull it a little bit closer.

MR. RING: How's that?

VICE CHAIRMAN HILLMAN: Much better.

MR. RING: In fact there should have been additional products in the underlying 201 and that -- This is not a niche product. It's not like some other unique flat rolled steels of which there is total production in the U.S. of 30,000 or 40,000 tons a year. There's about three million tons of automotive grade SPQ capacity produced and consumed in the U.S.. It's truly highly engineered, but a commodity product nonetheless. And at this juncture, recognizing that you are, if you will, stuck to some degree with the product groupings that you have, we would nonetheless respectfully request that among producers of which there are five or six, and among consumers of which there are perhaps seven or ten, that it would not take a lot of additional effort to supplement the questionnaires that have been submitted to date to either break out or allocate trends and performance among SPQ and specifically automotive grade SPQ.

We do believe that this is a product, not looking to relitigate something that happened two years ago, but this really is a product that never should have been included in the tariffs initially.

VICE CHAIRMAN HILLMAN: Well, that last comment does sound like a bit of relitigation, but if I could ask you, as I read the statute our report is to report on the adjustment efforts made by "the" domestic industry producing "the" like products that were determined in the original 201. As I read that, in terms of long products it means that we are producing a report that speaks to three industries -- a hot bar industry, a cold finished bar industry and a rebar industry. As the statute lays it out, that's what we're supposed to do.

This issue came up a little bit the other day in flat in terms of whether there is any ability even in flat, we defined one industry that makes flat, plate, hot rolled, cold rolled, coated -- all as one industry. But I guess I would ask you the same question in the post-hearing. If you think there is anything in the legislative history or how you would read the statute that would suggest to the Commission that we can at this point start saying well, we're going to divide the industry up differently than it was done in our 201 decision, I'd invite you to do that. Because I think the statute itself very clearly defines us as issuing a report on "the" industry producing "the" like product as it came out of our decision and the President's proclamation.

With that, I think I have no further questions.

CHAIRMAN OKUN: Commissioner Miller?

COMMISSIONER MILLER: I appreciate all the testimony of the panel. I have no further questions for you. Thank you.

CHAIRMAN OKUN: Commissioner Koplan?

COMMISSIONER KOPLAN: Just one very brief point.

Mr. Ring, in looking at the slides that Metaldyne put up on the board there, on page six the one that's headed The SPQ Story, the third point is SPQ is not a commodity. It's an engineered product. So that sounds a bit different than what you just said.

MR. RING: It's not a commodity-grade product, it's a highly engineered steel. But I guess my point was I think the Commission tends to look at niche products as having a certain limited amount of production and consumption in the marketplace, and here we're talking several million tons. So it is a commodity in that sense in that it's a highly produced and consumed product. It's not a commodity as in a certain grade, but it's a commodity in my view in terms of the volume of production and supply and demand.

COMMISSIONER KOPLAN: Is that what you were saying, Mr. Grimm? I didn't understand it that way when you testified.

MR. GRIMM: A lot of people define commodity differently. Aluminum is a commodity, I think everybody would agree. Steel and typically flat rolled, people would say that's a commodity. It means highly traded and typically if you're buying from one supplier versus another it's the same process, the same steel, and it can be used in that application accordingly. Wood the same way.

When you get into an SPQ-type product I can't just switch from one to another. Therefore, to me, it's not a commodity as I buy it. Because I can't just go from Mac Steel to Northstar to Oselchelik today, tomorrow, the next day, given my customers' requirements, given my manufacturing requirements. So to me that's an engineered product.

I think a lot of people in industry, anything that's steel gets lumped into steel. It's a commodity. So I think it's a little bit of a misnomer. To us, it's not a commodity to our customers. It's not a commodity. It's an engineered product.

COMMISSIONER KOPLAN: Thank you for clarifying that.

MR. GRIMM: Thank you.

COMMISSIONER KOPLAN: I have nothing further.

CHAIRMAN OKUN: I have no further questions for this panel. My colleagues have no further questions.

I'll ask staff if they have questions for this panel.

MS. NOREEN: Bonnie Noreen with the Office of Investigations.

I'd just like to ask you, you've given six producers --

CHAIRMAN OKUN: Ms. Noreen, if you can speak up a little bit. We can't hear you very well.

MS. NOREEN: You've given six producers of the SPQ steel in North America and Charter is one of them. Charter is the only one you don't have over on your other page where you give the capacity.

MR. GRIMM: They have, and maybe Bob you can answer this, because they have melting and --

MR. CARR: Charter Steel's the one that we omitted from there. Charter is a company that up until just a couple of years ago it really wasn't included in this group. Charter makes just rounds and coil. They have a melting facility that can make up to 250,000 tons in Sockville, Wisconsin. They recently bought the American Steel and Wire facility which is just a rolling facility in Cleveland, and they can buy billets and reroll them from there. They are buying from Osaminus and even some domestic sources.

That's why we didn't have them on the chart, but they truly are an SPQ supplier. And that's why we don't have Nucor on here. Nucor's not on here because they are not an automotive-approved company. With all their vast plants and tonnages, I've met with Mr. DiMicco, Doug and I did recently. We're trying to get them there but they're not there today.

MS. NOREEN: Thank you.

The staff has no more questions.

CHAIRMAN OKUN: Do counsel for those in support of -- No. I see both Mr. Price and Mr. Verrill shaking their head no.

Again, I want to thank very much this panel for being here, for answering our questions, and for the information you've provided and will continue to provide.

Let me go through the time remaining before we turn to closing here.

The Domestic Industry has a total of 13 minutes which includes five for closing; and Respondents have a total of 12 minutes which includes five for closing. We do have Senator Specter here to testify, so this panel, we want to thank you again. You can go ahead and step away and we'll let Senator Specter testify and then we'll turn to the closing statements.

MS. ABBOTT: The Honorable Arlen Specter, United States Senator, State of Pennsylvania.

CHAIRMAN OKUN: Good afternoon, Senator. Welcome.

SENATOR SPECTER: May it please this distinguished Commission.

It's always a pleasure to come back here, like practicing law which we have a fair amount of in the Senate, but I always come early in the morning. You have a better crowd than late in the afternoon. I would have been here early this morning, I see you have a very long list of witnesses, but the President traveled to Philadelphia today, and Senator Santorem and I joined him and we are trying to finish up a $29 billion appropriation bill on homeland security. I just offered an amendment to increase funding by $250 million for the high risk areas, and it was a 48 to 48 tie. I asked Senator Cochran why he didn't move the table, because if he had it would have been 48 to 48 and he would have lost. But he didn't move the table and it was 48 to 48 and I lost.

So it's a busy day but I see you've had a busy day and I commend you for the very hard work you do. I've taken a look at your witness list, and it's prodigious to listen to all of these people.

This issue about continuing the tariffs for the full three year period is really of great importance to the country and great importance to my state. This decision was not arrived at lightly. Most members of the Commission had gone for a four year period, and I respect your reevaluation, and the issue on the tariffs generally has been a very very tough matter.

We first had exposure to the President when he made a trip to western Pennsylvania shortly after he was elected and then Governor Ridge and Senator Santorem and Congresswoman Melissa Hart and I had the President captive for about 40 minutes on car ride. We passed all the steel mills that were shut down. We told him what was happening to the steel industry. That was in the very formative stage of his presidency. He was very very much concerned about the dumping and subsidies which violate U.S. trade laws and international trade laws. That was the start of the activity from the Department of Commerce, and from Secretary of Commerce Don Evans, and from the work of this very distinguished Commission. So we had the three year period.

I submit to you that it is very important to stay the course. You have seen the results with the consolidation in the steel industry which would not have been possible had these tariffs not been put into effect. My written statement which has been submitted details the labor contracts which have been reworked. Very very substantial concessions have been made by labor, very very substantial investments, $3.6 billion.

US Steel is an example. It projects a savings of $200 million per year and increased productivity of 20 percent in the first two years. And ISG expects to reduce the number of man hours to produce a ton of steel to less than one. ISG has a new manager. He's testified before the Judiciary Committee on antitrust. A very very impressive guy with a green eye shade. He wasn't wearing his green eye shade when he came in but he has one. He's got very heavily sharpened pencils and lots of concerns.

I was at Luken Steel not too long in Coatesville and a great concern about what is happening. We've tried to buttress them in a number of ways with tax credits, 65 percent for health benefits from the Pension Guaranty Benefit Corporation, and there are a lot of moving parts to this equation, but a very very important part is the maintenance of the three year period.

There is a mechanism in place, as you well know, on exclusions. There have been 1,022 exclusions granted through the end of March where people have been able to come forward and make a showing that the tariffs hurt more than they helped so that there is a case of need to have an exclusion. That I think is the safety valve which is present to balance out the economic consequences.

There's obviously a great deal more that could be said and I think you have probably heard it. We're going to submit for the record a resolution passed by the General Assembly of Pennsylvania unanimously. A lot of real concern about what is happening with the steel industry.

The national defense issue is highlighted in my statement and I won't repeat a great deal of it here. To note one point, during the Iraq war a Swiss company would not ship crystals necessary for the production of our precision-guided weapons. MicroCrystal of Gretchen, Switzerland refused to supply a contract in accordance with their obligations because the Swiss government wouldn't give approval. Finally after a lot of problems the Swiss government finally relented.

But that's an indication as to where you stand on the politics of international affairs. If the Swiss government doesn't like what the United States is doing, there's a contract, and they won't fulfill their contract which underscores the need to have a steel industry so you don't have to depend upon unwilling allies when we make a national determination that that's what our interests require and we rely on contracts and they breach.

I have a letter from the Governor of Pennsylvania. He's in the middle of budget negotiations and could not come, but I can vouch for the Governor because I gave him his first job out of law school. Made him an Assistant DA and I made him Chief of the Homicide Division. Gave him a lot of big cases to try, made him famous. Now he's the Governor and I get blamed by the Republicans and credited by the Democrats so it all washes out.

I'll make this letter available, but I'll just cite a couple of provisions here.

When he talks about the stability of our infrastructure, the highways, railroads, shipping and defense and the impact on the foreign products, the stress that it causes us, the negative consequences to local governments as well, and each time a steelworker is laid off it results in reduction of tax revenues. Great problems. And he goes through in some detail the problems which are caused to the Commonwealth of Pennsylvania. So you have gained a letter and lost a witness.

Thank you very much.

CHAIRMAN OKUN: Thank you, Senator. The letter, the resolution you reference, and your written statement will all be included in our record.

I thank you for your appearance here this afternoon.

SENATOR SPECTER: Thank you. It's very nice to be here.

CHAIRMAN OKUN: Madame Secretary, we can now turn to rebuttal and closing remarks.

MS. ABBOTT: Closing remarks for the Domestic Industry will be by Charles O. Verrill, Jr., Wiley, Rein & Fielding.

MR. VERRILL: Good afternoon. I am Chuck Verrill from Wiley, Rein & Fielding and I'm here to present the closing remarks for the Domestic Industry. I know you've had a long day so I will not use all 13 minutes.

What I want to do is to sum up what I think are the more important points that demonstrate why the domestic long products industry has kept its end of the bargain as a result of the adoption of the remedy approximately 18 months ago.

Tuesday afternoon Commissioner Miller stressed that this proceeding is meant to "make sure that the industry was doing what it said it was going to do, keep their feet to the fire, make sure they're doing their side, have been meeting their side of the bargain." That's in the transcript at page 366.

I submit to you that the domestic long products industry and its workers have been meeting their side of the bargain to the extent possible given the limitations of the remedy and general economic conditions.

I say meeting because the industry promised to adjust over three years and we are only halfway to the goal line. So what is the half time score?

Mr. Hoye, of course, this afternoon told you that the domestic long products industry is making progress, that progress has begun but it is not yet completed.

One side of that progress is the increased productivity that the industry has realized. Mr. Bloom gave us some very important facts on that particular point. He said the industry's efforts are "already paying off". He said there was a "strong gain in productivity" due to those efforts.

This is a crucial measure of a positive adjustment to import competition and reflects the industry's efforts to keep their end of the bargain.

As Seth Kaplan testified this afternoon, the efforts to adjust through the increases in productivity during the 18 months that the remedy has been in effect will be enhanced by additional efforts during the succeeding 18 months, and that those impressive productivity gains will significantly enhance the industry's ability to compete with imports.

In addition, the record and the testimony today abounds with examples of specific company efforts to keep up their end of the bargain.

When the remedy was first imposed Republic Engineered Products was on the verge of going out of business. The remedy, the President's end of the bargain, made it possible to avert closure, to avert the kind of spike in prices that you had when LTV closed on the flat side. The remedy made it possible for Republic to negotiate a trend-setting labor agreement and to obtain the financing necessary to restructure and remain in business.

There has also been a significant amount of closure of inefficient facilities. When Nucor acquired Birmingham Steel, Nucor decided not to bring back into operation approximately 1.5 million tons of capacity. Republic, as part of its restructuring program, reduced significantly the amount of capacity for the production of special quality bars.

Now we agree that the industry has not done everything it promised, but the industry never promised to complete the adjustment in 18 months. Plans were made, investments were put in motion, labor negotiations were initiated, all based on the President's offer of three years of relief.

Indeed it would seem to me totally unrealistic to expect positive adjustment to be completed in just 18 months. You heard from Mr. Usher today how difficult it is to complete all of the work that is necessary to bring together a fusion of two companies like USX and National. It can't be done overnight. It has to be done taking into account the myriad of complexities of merging two companies of that size.

Also you heard today that some plans have been delayed during the first 18 months due to economic conditions, and in some cases because of the fact that the remedy was not as comprehensive as we would have hoped.

But this is not a reason to revoke the remedy. It is a compelling reason why the remedy should be continued for another 18 months, taking into account both the need to continue and fulfill the steps that have been taken so far, and also to do those things that have not yet been done.

This afternoon Mr. Bloom conceded productivity and consolidation gains by the long products industry since the remedy was imposed. He argued, however, that extension of the remedy would be counterproductive because of the possibility that four relatively insignificant mills might be recycled.

Now these facilities have not been opened. Nobody knows if they will be for sure. They account for only 1.2 million tons. That, however, is the recycling that Mr. Bloom and Mr. Cunningham said would be counterproductive, would make all of these other gains that we've seen in productivity minimized because those four possibilities might occur.

Now in the most optimistic scenario the tonnage which these four possibilities Mr. Bloom mentioned in his testimony should they come back would be so small in comparison to the production of the long products industry that they could not possibly undermine the relief or undermine the very significant efforts to increase productivity, to increase the amount of consolidation that has gone on in the industry, and which has, as I think the testimony makes clear, has resulted in very positive steps toward becoming more competitive, towards adjusting the import competition, and toward accomplishing our side of the bargain that was made when the President announced the remedy 18 months ago. So we believe the Commission should evaluate this, should give a report to the President which would enable him to decide to continue the remedy through the full 18 month period.

Thank you very much.

CHAIRMAN OKUN: Thank you.

MS. ABBOTT: Closing remarks on behalf of the Respondents will be made by Richard O. Cunningham, Steptoe & Johnson.

MR. CUNNINGHAM: We've spent a lot of time talking about what the task of the Commission is and I'm not going to do that but I want to talk for a moment about what my task is and what Chuck's task is. As I listened to Chuck it sounded like the kind of closing statement you hear in a normal antidumping or 201 initial investigation, the kind of thing that's an advocacy piece that says all right, I want you to give the President a report that's going to get him to do what my side wants him to do.

That's not why we're here at this point in the game. Rules have changed because of a decision that you and the President reached before. We're now in a game of what's the best way to save, make sure that it adjusts, save the U.S. steel industry.

For me to present arguments to you that are in effect boy, I want you to take into account the interests of the foreign producers and that sort of thing, that's not what I'm here to do. What we've been trying to do for Eurofare, for Chorus, is to look at the nature of the relief, look at how it's acting, how it's operating, and try to point out to you where we think you should focus in the important job that now remains ahead of all of us which is to make what are going to be I think some difficult decisions, for the President to make some difficult decisions. They're difficult because as we all know he's going to be under some pressure because of the WTO decision, there are political pressures. But what he really needs is the facts.

One of the reasons that I've been so stressing that the Commission should give him the facts necessary to decide how the relief has been and has not been effective -- not that I want you to opine on that, but to give him the underlying facts necessary to deal with it -- is for precisely the reasons that Mr. Verrill says. No one should criticize the great majority of the U.S. producers for what they have been doing. I mean we really have seen historic actions by this industry and I think even more so by its union and its workers and its retirees. I don't want ever to be portrayed as having come here and said those bozos screwed it up, they haven't been acting responsibly. I don't think anybody should say that because it's just not true.

The issues here are if the President modifies relief, if he extends relief, or if he terminates relief, will that, any of those options, best effectuate what everybody wants to do which is to bring about the successful adjustment of the U.S. industry.

We're here and we point at portions of this industry and we say, and there are not many like this.

Tin mill is the only area where I can even think there's a plausible argument, on the part that I've seen, where we say wait a minute, what you now see is that very clearly the import problems were not really import problems. It was something else because you've done a lot with imports but there's no change, and the industry really isn't doing an awful lot. We say that not to criticize the industry but to say the President needs to know the facts as to how the relief is operating, how it's affecting imports, and how the industry has rationally responded to that.

When we have a situation as in the flat rolled area where imports have gone up and there hasn't been much effect on prices, the President needs to know that. And in addition to knowing all of the really very good things that the industry has done.

Why does he need to know that? Because the President not only has to decide whether the industry is adjusting, but he needs to deal with the argument that it's necessary, it's important, it's useful to keep the relief in effect, either modified or unmodified, to facilitate the future action that needs to be done.

He's going to be under pressure to say I'm going to comply with the WTO determination and get rid of the relief. If he determines that the relief is really important to get the final phases of adjustment done, then that's a powerful factor weighing against compliance with the WTO.

But what do we have in some of these cases? And flat rolled is in part that way. When companies come up and say yes, I've got more to do. I've been doing it. I've been doing what I should do conscientiously, but I've got more that needs to be done. Fine. Okay. But then they say, and I have to have the import relief continuing to do that.

If the import relief has not reduced the volume of imports or substantially affected prices, is that a very strong argument? The argument they present is ah, but if you remove the relief there will be a flood of new imports.

I suggest that's a fact that you need to give the President the information to evaluate. I would argue that in areas where the imports are coming particularly from Europe as they are in the bar category, for example, there's much less reason to be concerned about a flood of imports if you terminate the relief than there was a year and a half ago. Why? Largely because the exchange rate has changed so significantly. I'm not asking you to make a conclusion that way. I'm saying that you need to give the President the facts.

In the bar situation where the subject imports have been dramatically reduced by the relief, and yet you don't have a significant price effect or operating results effect, I suggest that the President needs to understand how the economics of the industry are operating. That's why we've spent so much time talking about the intra-industry competition and the capacity problem in the industry. We may be right about that, we may not be right about that, but the President needs to know the facts.

Your job is to lay out the facts. What we've tried to do here is to be a heck of a lot less advocacy-oriented than we are in a lot of other contexts. What we've tried to do is put the facts before you.

I have a lot of confidence in this Commission. You do a really good job with the facts. Sometimes I hate your decisions, but I have real confidence that you're about as good as you get in this town in putting together a factual report that will enable the President of the United States to make an informed decision. I may get mad at his decision, but our job I think now is finished.

I don't want to stand here and be an advocate as to what you do other than to say do it really thoroughly, cover the industry's efforts thoroughly, and you should be quite laudatory of that in most cases. Cover the way in which imports, prices, and market forces have behaved and do that thoroughly. Then let the President do his job.

Thank you.

CHAIRMAN OKUN: Thank you.

Post-hearing briefs, statements responsive to questions and requests of the Commission, corrections to the transcript must be filed by August 1, 2003.

With no other business to come before the Commission, these hearings are done.

(Whereupon the hearing was concluded at 5:42 p.m.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Steel: Monitoring Developments in the Domestic Industry

INVESTIGATION NO.: TA-204-9

HEARING DATE: July 24, 2003

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 7/24/03

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Gabriel Rosenstein
Signature of Court Reporter