Testimony of Congressman Vernon J. Ehlers
Before the United States International Trade Commission
Hearing on Steel-Consuming Industries: Competitive Conditions with Respect to Steel Safeguard Measures
June 19, 2003

Madam Chairwoman, Members of the Commission, thank you for holding a hearing on this important issue. I appreciate the opportunity speak to you on behalf of my constituents who have been badly hurt by the Administration's decision to place tariffs on imported steel.

The manufacturing sector as a whole is hurting. My district, in particular, has been dramatically hurt by the Administration's decision. West Michigan is home to the world's best office furniture manufacturers as well as thousands of small manufacturers that provide critical parts both for the furniture and the automotive industries. These industries are voracious consumers of raw steel, and the Administration's decision has increased their manufacturing costs when the recession was at its height and they could least afford them. When you take a more holistic view of the challenges these manufacturers face, from low wages in China to rising health care costs, you quickly reach the conclusion that rising material costs coupled with other challenges are undermining their competitiveness.

Today, Members of Congress are providing spirited testimony on both sides of this issue as they debate various statistics about how many jobs were lost or created by this decision, and how the cost of different types of steel has changed. But basic economics tells us that, over the short or long term, a tariff will deter imports of steel, thereby giving domestic manufacturers tremendous pricing power. It only stands to reason that they will use this pricing power to drive prices up over time.

As the Commission carefully reviews all the data, do not lose sight of the proverbial forest through the trees. The federal government should pursue an open, equitable and rational trade policy that will bolster domestic competitiveness as a whole. Placing tariffs on a raw material without placing equal tariffs on the imported finished products that use that raw material does not meet this policy goal and just does not make sense. One of my constituents, who runs a company called Wolverine Coil Spring, Co. recently testified to Congress, "I am not a trade expert, but when U.S. steel tariffs make it less expensive for my customers to manufacture outside the U.S. and import a finished assembly, Wolverine has lost another opportunity."

When you view a typical supply chain to see what pressures small manufacturers face, you reach the exact same conclusion as my constituent. Original Equipment Manufacturers, known in the industry as OEMs, are on the top of that chain, and everything that flows up to OEMs comes from different tiers, each of which represents a step in the supply chain. Small manufacturers are the backbone of these tiers. In highly competitive industries, such as the automotive industry, OEMs turn to the tier right below them and ask for contracts that provide built-in, year-over-year cost reductions in the parts they supply. That tier, in turn, requires the same concessions from the tier below it. As you can see, any impact driving up manufacturing costs cannot be absorbed in a supply chain that demands cost reduction.

So where will the OEM turn if its tiers try to pass on increasing raw material costs? Clearly, the answer is overseas, where they can import the same product without a tariff. This is an ironic twist to this policy as this factor will ultimately lower domestic demand, thereby lowering steel prices and creating the opposite effect of the tariffs' intended one. Of course the associated damage will be done as our domestic manufacturing base will have contracted. I have been told that the adverse impact of these tariffs may be as large as seven jobs lost in the steel parts manufacturing industry for every job saved in the steel manufacturing industry.

There is another factor that the Commission should consider when reviewing the impact this decision has had on our manufacturing industry. I recently held a hearing in the Subcommittee I chair (the Environment, Technology, and Standards Subcommittee) reviewing manufacturing research and development issues. We received testimony stating that sustained domestic manufacturing depends on innovation and that, as our domestic production moves overseas, so does that research and development as sociated with those industries. This is a truly disturbing trend, as innovation has always been a key component in our domestic economy.

I have always supported free trade and am not suggesting that the Administration should impose a whole new set of tariffs on imports. However, the commission must ask itself: What trade policy are we pursing in order to make our domestic manufacturing industry, as a whole, more competitive in the global market place?

Employing a policy that is clearly intended to drive up domestic prices for steel, which, in turn, drives manufacturing overseas does not meet that goal. Losing domestic intellectual capital and innovation that manufacturing R&D provides does not meet that goal. Clearly, continuing to pursue a 30 percent tariff on imported steel does not meet that goal either. I urge the Administration to rescind these tariffs. I believe if the Administration carefully reviews the effects its decision has had on our entire domestic manufacturing industry, it will reach the same conclusions that I have.