Consuming Industries
Trade Action Coalition

Testimony of Jon Jenson

Good morning. My name is Jon Jenson. I am Vice Chairman and President of the Consuming Industries Trade Action Coalition (CITAC). CITAC is an organization that advocates the interests of consuming industries in the United States. CITAC, through its Steel Task Force, has worked very hard to bring the attention of policy makers to the plight of steel consuming industries, especially as a result of the steel safeguard measures in force since last year.

I. Introduction.

In March, the House Ways and Means Committee requested a study of the effect of steel safeguard measures on steel consuming industries, resulting in this hearing. We strongly support this 332 study, which is critical for American manufacturers. We hope it will help many manufacturers and their workers, who otherwise would lose their businesses and jobs. The ITC study unfortunately comes too late for some.

As you will see, the structure of America's steel consuming industries is very diverse. More than 100,000 businesses in America use steel in manufacturing. For many, steel is a major portion of their manufacturing cost (40-70 percent for many metal fabricators). But no matter how great a percentage steel costs are to steel users, competitiveness in purchasing of steel is not a negligible part of the business. Competitiveness in the modern business world requires that every cost be kept to an absolute minimum. Reducing costs means relying on the best steel, delivered on time and with consistent quality tailored for the particular user.

In their presentations today, steel consumers will make four basic points:

- The steel safeguard measures have hurt steel consuming manufacturers. Steel price increases are still making our manufacturers uncompetitive with their foreign competition.

- Under any set of circumstances, steel consumers are worse off with the safeguard measures than they would be without them.

- Continuation of the tariffs after September 2003 would continue and likely intensify the damage to steel users.

- The steel industry's problems cannot be solved on the backs of steel consumers.

II. CITAC Comments on Questions Raised by the Ways and Means Committee

The Ways and Means Committee request included five specific questions. The Commission is called upon to address each question:

1. Changes in employment, wages, profitability, sales, productivity, and capital investment of steel consuming industries.

CITAC has done as much as anyone to outline the damage to the financial well being of steel consuming industries arising from the steel safeguard measures and rising steel prices. We have produced two studies on steel already, in December 2001 and February 2003. A third analysis has been prepared for this proceeding and will be presented by one of its authors, Laura Baughman.

There is no doubt that the steel safeguard measures have caused downstream damage. This is not surprising. There is no free lunch. Trade restrictions generally cause significantly more economic harm than good. The steel safeguard measures validate the general rule.

Also without doubt, American steel using manufacturers have faced a number of other problems over the last two years. The economy experienced a recession; demand for manufactured products continues to be depressed; import competition in finished products is intense.

American steel using manufacturers do not expect a quiet life of easy profits. However, they were stunned that their own government placed disabling restrictions in the path of their success and, in some cases, survival.

2. **An examination of the reported effects of the safeguard remedies on factors such as steel prices paid by consuming industries, steel shortages/availability, the ability of steel consumers to obtain required products or quality specifications, lead times and delivery times, contract abrogation, sourcing of finished parts from overseas by customers of steel consumers, and the relocation or shift of U.S. downstream production to foreign plants or facilities.**

You will hear in detail from a variety of sectors, how high U.S. steel prices and lower steel availability is placing U.S. steel-using manufacturers under a competitive disadvantage compared with their foreign counterparts, at every price level. As long as prices in the U.S. remain artificially high and steel availability is artificially reduced, this disadvantage will persist, shifting more wealth and more jobs outside the United States. Once lost, these jobs are not likely to return after the steel tariffs are removed.

You will also hear how contracts for steel supply were abrogated when prices were rising. Many steel consumers are small businesses that cannot pass on their cost increases to powerful customers. Many more steel users had to pay huge price increases at a time of steel scarcity. Some are still working down that high-priced inventory.

Steel producers generally do not know steel consumers. Some steel users buy mill direct, but most, especially small steel users, buy through service centers. Steel producers do not meet or deal with steel consuming manufacturers for the most part. The lack of communication from end users may have given some steel producers the impression that their customers are not complaining. Just listen.

3. **The impact of international competitive factors, such as relative differences in steel costs to foreign steel consuming industries, on steel consumers' exports and imports of steel-containing products.**

The Commission will no doubt hear steel producers note the reduction in steel spot market prices in the last few months. Steel consumers have consistently noted that the important international steel comparison is to prices paid by competitors in other countries for the same products. U.S. producers cannot easily make up a cost disadvantage on steel.

CITAC STF has prepared reports on global steel prices based on the information available to us. The most recent was attached to our pre-hearing brief. We believe these prices to be as reliable as we can find; the analysis shows that the United States remains one of the highest-priced markets for steel in the world, especially for cold-rolled and corrosion resistant flat steel and especially on the West Coast.

We also have less formal sources that tend to confirm that the United States market has high prices by global standards, even though the prices are lower than they were six months ago (and certainly they are lower than the steel producers would like).

It does not matter whether steel prices are lower than they were in 1982, or lower than their average over the last 20 or 22 years. What matters to consumers is whether steel prices are at a level that will allow return on investment and recovery of costs on the sale of the products manufactured. No steel consumer depends on buying "unfairly" priced steel as a part of his or her business plan. Steel consumers depend on prices that they can achieve in the marketplace.

If steel users are at a competitive disadvantage, which appears to be the case at present, then they will suffer at the hands of their lower-cost international competitors. This is happening now; and we believe that the tariffs, imposed on American manufacturers by their own government, bear a substantial share of responsibility for that.

4. **An examination of any shifts in steel consuming patterns in the United States, i.e., how much steel was purchased from domestic steel producers by U.S. steel consuming industries before the safeguard action, and how has this sourcing changed following the implementation of the tariffs.**

The most important shift in steel consuming patterns since March of last year is down. Manufacturing with steel is down, and steel using jobs are down, year on year. This is due, in part, to the steel safeguard measures.

The safeguard measures are contributing to a loss of steel consuming manufacturing jobs in the United States. Imports of steel products have been replaced by imports of downstream products. The measures are also causing shifts away from developed country imports and toward developing countries, and from finished steel products to semi-finished products (e.g., slabs). The latter are rapidly increasing their share of the U.S. market. This is not necessarily a bad thing—the point is that the U.S. steel measures have unintended consequences that do not necessarily benefit U.S. steel producers.

5. **A discussion of the likely impact on employment, profitability, capital investment, and international competitiveness of steel-consuming industries of (1) continuation of the steel tariffs for the period September 2003 – March 2005 and (2) termination of the tariffs effective September 20, 2003.**

We look forward to the Commission's report on these economic indicators. Our own CITAC analysis indicates that continuation of the tariffs to March 2005 would cause significant additional employment and economic welfare losses. Laura Baughman will share with you the latest analysis.

The conclusions of the CITAC analysis are not surprising. High tariffs cause job losses at home that dwarf the gain to the protected industry. Therefore, the tariffs are a drain on the economy. We should not tolerate them longer than necessary.

The harm from the safeguard measures will continue as long as they are in effect, and beyond. The benefits to steel producers will continue to diminish, as the steel users that survive the price and availability shocks make arrangements to maintain their competitiveness. The consolidation of the integrated portion of the industry has largely taken place. New investment is not likely to increase because of another 18 months of tariffs. In short, the negative impact on consumers from continuing these measures will be far greater than the positive impact on steel producers.

III. Conclusion.

Steel users need and want a vibrant and competitive steel supply base. CITAC does not oppose the prosperity of the steel industry. We need to think of ways to foster prosperity and open markets without forcing steel consumers out of business by paying for steel they cannot afford. We are also very concerned that further protection is just what the steel industry does not need in its effort to become globally competitive.

CITAC very much appreciates the opportunity to participate in this proceeding.