



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

**THE UNINTENDED CONSEQUENCES OF INCREASED STEEL TARIFFS  
ON AMERICAN MANUFACTURERS**

**June 19, 2003**

My name is Wes Smith, and I am the President and owner of E&E Manufacturing Co. I appreciate the opportunity to submit this testimony to bring attention to the fact that the Steel 201 tariffs have had a dramatic impact on the price and availability of steel in the market, and have resulted in a significant and negative impact on our company.

E&E is located in Plymouth, Michigan, and is a world-class leader in metal joining technology. It meets the needs of its world-class automotive customers by manufacturing heavy gauge stamped metal fasteners, progressive die metal stampings, and high value added assemblies. E&E was founded in 1963, and provides meaningful employment to over 250 dedicated employees. Steel comprises 40 percent of our total cost of producing these products. In some cases, our customers supply the steel we need for production.

For our own raw steel needs, we generally have relied upon six-month and annual contracts with steel warehouses that obtain their supply from domestic mills, with 75 percent of our requirements met by one major supplier. Our relationship with this supplier has been positive and constructive, but the day after the Steel 201 tariffs were imposed last March, this supplier broke its contract with E&E and imposed a significant price increase on our products. What is ironic about this incident is that this supplier obtains a majority of its product from a mini-mill,



not an integrated mill; the mini-mills have not been subjected to the legacy costs that the integrated mills have had to suffer. Our analysis of our raw material purchases illustrates the significant effect the Section 201 steel tariffs have had on the pricing and availability of steel, as well as a drop in our revenue since the imposition of these tariffs. From February, 2002 through April, 2003, our steel costs have increased an average of 34 percent, which amounts to \$3.3 million.

Aside from pricing, a continued reliable supply of steel is of great concern to us. The lack of available steel has brought us close to shutting down our Original Equipment Manufacturer (OEM) and Tier One customers (large multinational customers that supply directly to the automotive companies). Because of late deliveries caused by capacity limitations that the steel mills have had since the imposition of steel tariffs, we have had to absorb \$250,000 in increased inventory and expedited freight costs in order to get our shipments in time, so that we can deliver the final product to our customers on time. We also have had to spot buy material at a significantly higher cost because our suppliers have failed to deliver steel we have ordered. We have been forced to find alternative suppliers for our steel, which has resulted in an additional \$200,000 in quality- and production-related costs, including unscheduled overtime costs, increased changeover costs and shorter production runs.

The consequences of the Steel 201 tariffs have already impacted E&E in a dramatic way. Nearly half of our stamped fastener product is supplied to an OEM, which has bought its requirements from E&E since the 1970's. This account comprises a third of our sales. It involves a proprietary product that is now subject to a reverse auction process, whereby the contract is auctioned off on a yearly basis. In February, 2002, E&E had to negotiate a significant price decrease to keep this business, because our customer has made it clear that it has the increasing option of purchasing its requirements from low-cost offshore sources, such as China. We



applied to the USTR for exclusions on this product, and found out March 21, 2003 that our request was denied. We negotiated another significant decrease (over \$400,000) for 2003.

Immediately after making the initial concession – at a loss of a half-million dollars in revenue – the Steel 201 tariffs were imposed, and the price spikes I described earlier hit us. At this point, it is absolutely out of the question for E&E to approach this customer to renegotiate our selling price in a way that would cover the increased costs of our raw materials. The customer has made it abundantly clear that it will exercise its option to take its business offshore for this product. In addition, another of our largest customers told us that when the tariffs were imposed, they reforecast their budgets for the end of last year and were so upset by the numbers they saw, that they instructed their Purchasing Department to price all steel components currently produced to Asian sources.

I fear that this illustrates the flaw in the reasoning underlying the Steel 201 tariffs. The assumption was that the small businesses, the steel-consuming industries in this country, wouldn't get hurt by the Steel 201 tariffs. We should be able to pass this cost on to our customers, who would pass the cost on to their ultimate consumers or absorb the cost themselves. But this doesn't work in reality, as my example proves. If a components manufacturer like E&E tries to pass these significant increases on to its customers, those customers will procure their inputs from offshore sources, where the cost of production is cheaper for a lot of reasons, including a raw material cost unfettered by significant additional tariffs. Our customers tell us that in this economy, we need to compete globally. We cannot, however, compete under the best of circumstances when our raw material costs are artificially inflated as a result of the Steel 201 tariffs. We have lost other opportunities for new products that we have designed, and there is increased pressure placed on *our* customers from *their* customers to buy all their smaller



components offshore. We are willing to meet the challenge of competing with the Asians, however, we cannot do that with our hands tied behind our backs by having our government tax our largest input by 30%. With our inputs subject to significant price increases, as well as foreign semi-finished products not being subject to the steel tariffs, E&E is experiencing a severe competitive disadvantage.

Smaller manufacturers rely on their larger customers for work, however, the tariffs have been a catalyst for these customers to source more work overseas, which threatens our very existence. Of approximately 355,000 manufacturing locations nationwide, 90% have less than 100 employees, and don't have either the wherewithal or desire to move their operations offshore to countries such as China. Our larger customers have options. They can bypass the tariffs by bringing in semi-finished components from offshore sources, which is causing epidemic job loss (34 straight months) in the manufacturing community, with the small and medium manufacturers being hit the hardest.

It's not that China is building a significant number of cars, however, they are building the components -- components that used to be built in the United States. They are building them there because the cost to build these components is too high to build these components in the United States -- the steel tariffs are a significant reason they are no longer built here. Every time a Tier One supplier moves offshore it jeopardizes the jobs of hundreds of employees who work for small and medium sized enterprises - the backbone of our economy providing millions of American jobs.

The steel producer is going to China because his direct customers are moving there. They are not hiding this fact as Executive Vice President of Operations at U.S. Steel Corp John Goodish recently said, "You have to go where your customer is." One reason they are moving there is increased cost of steel due to



tariffs. While these Tier One companies have the luxury of moving offshore, the small and medium manufacturers do not and neither do their employees. If steel is a catalyst for sending jobs overseas, one way the government can provide an incentive to prevent these companies from going overseas, thereby saving thousands of jobs, would be to remove the steel tariffs.

I consider myself a “Will Rogers economist”, and I think it is interesting to note that the U.S. has had a number of false starts to the economic recovery. They have sputtered out, however, due, in large part, to the fact that one of the largest and most significant employment sectors (manufacturing) has been in an economic depression with the loss of over 2 million jobs in the past 2 years. It is also interesting to note that there is a country in this global economy that has been able to increase their economic prosperity by double-digits. That country is China. They are basing their increase on manufacturing, with the largest direct foreign investment equaling hundreds of millions of dollars that has fueled a U.S. trade deficit in manufactured goods of approximately \$100 million per year for the past several years.

Working with Plante & Moran, LLC, a regional consulting firm, and using industry models that have been in existence for over a decade, we reviewed 13 manufacturing sectors representing 3 million jobs nationally (documentation appended). A debt-to-equity ratio of 3-1 was determined to be the threshold whereby a company’s access to cash is cut off. Based on this data, it is certain that manufacturing jobs (1.5 million by 2005) will be lost or in serious jeopardy as a direct result of the price increases incurred from the steel tariffs.

As you can see, the price increases and short supply resulting from the Steel 201 tariffs have had a significant impact on our company and customer base. Unintended or not, the consequences of the increased steel tariffs have been

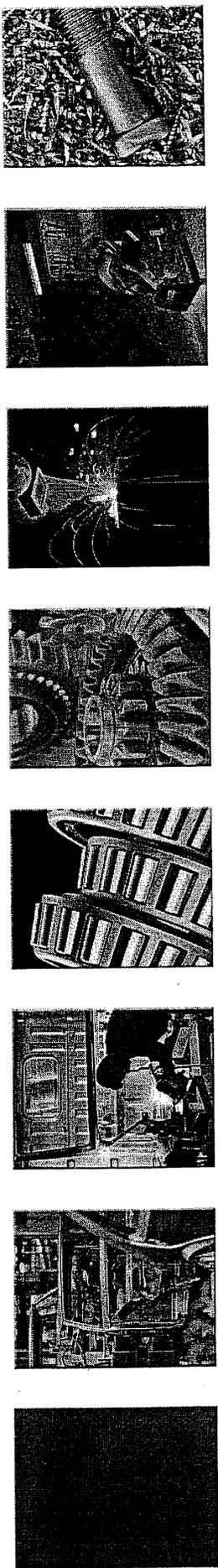


significantly detrimental to our company's ability to protect and grow meaningful manufacturing jobs.

From a personal standpoint, it has been very discouraging. The suddenness and size of the price increases seemed to fall on us out of the sky; it was not a gradual or predictable experience that you would expect from the result of bankruptcies of the steel industry. Also, there has not been a cohesive effort by all industry participants (producers, consumers, and government) to find an appropriate solution to secure the health of the domestic steel industry. Their losses have been transferred to the small and medium manufacturers who have been least able to cope with them. Quite frankly, the steel tariffs are the wrong medicine for a sick industry.



# Estimated Impact of Steel Tariffs on Manufacturing Employment



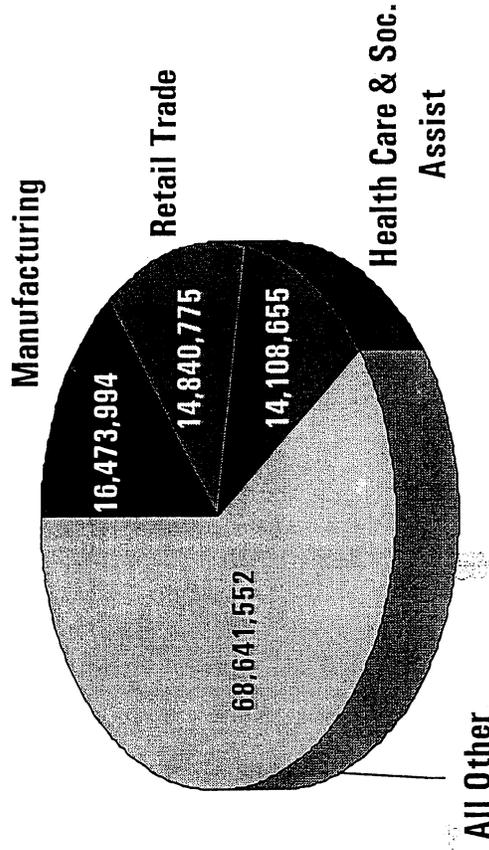
# **Executive Summary**

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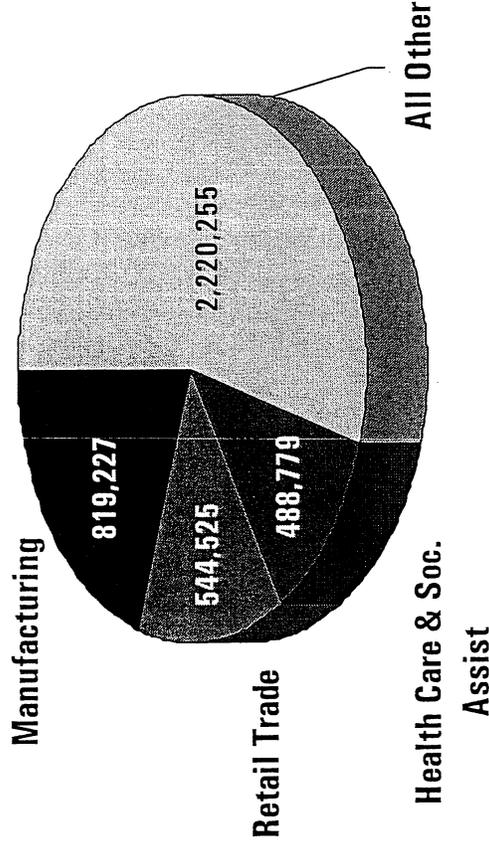
⌚ Potentially nearly 1.5 million jobs lost in the U.S. by 2005 from adverse impact of steel tariffs

# Manufacturing Employment is Important to the United States & Michigan

**Manufacturing is the largest employment sector in U.S.**

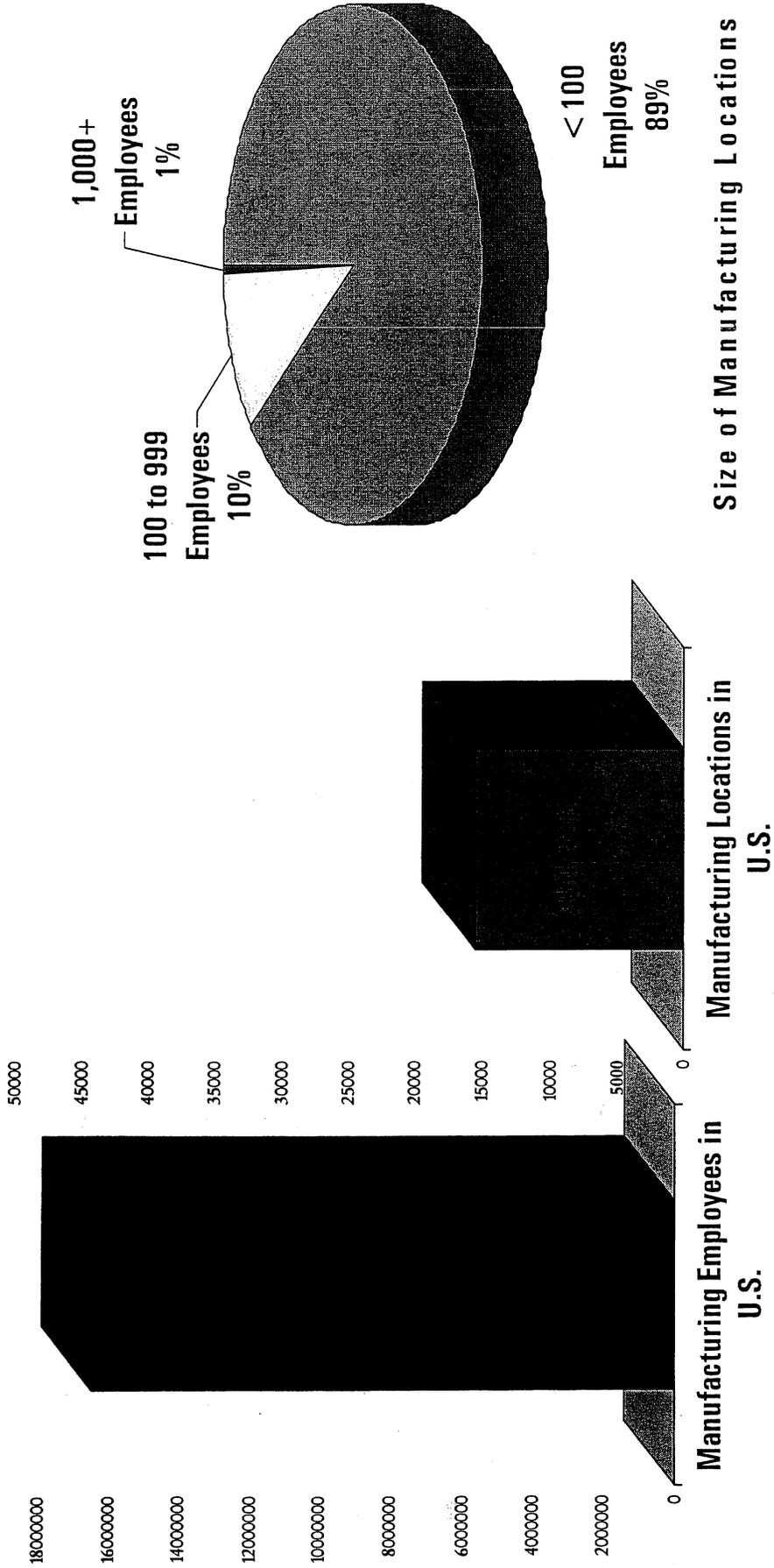


**Manufacturing is the largest employment sector in Michigan**



Source: US Dept. of Commerce, Economics & Statistics Administration, County Business Patterns 2000

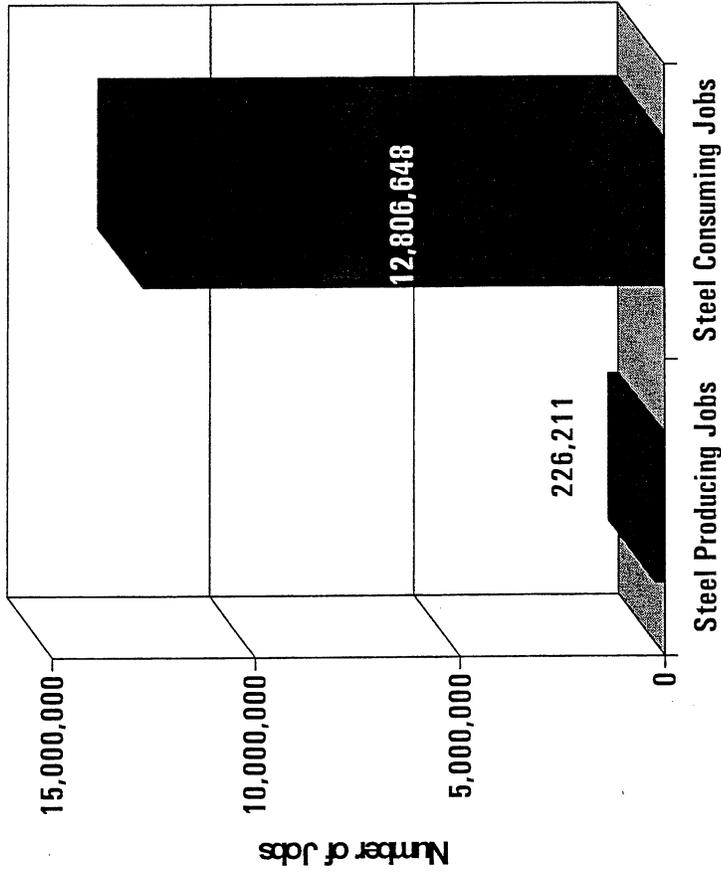
# Nearly 90% of Manufacturing Employees Work for Small to Medium Manufacturers



Source: US Dept. of Labor, Bureau of Labor Statistics

# CITAC Estimated Steel-consuming Employment Outnumbered Steel-production Employment 57 to 1

Steel consuming employment out-numbers steel producing employment 57 to 1 in U.S.

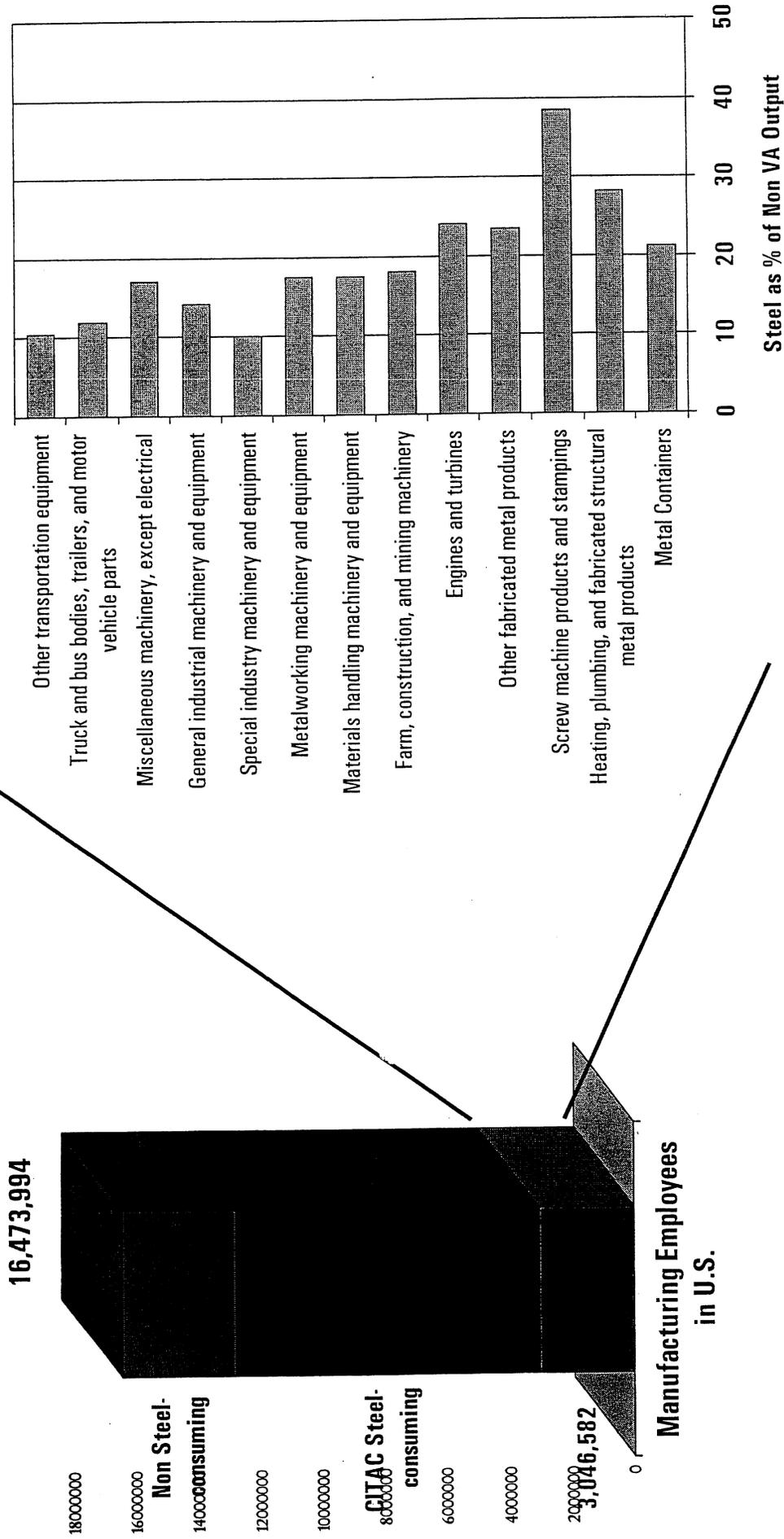


Source: The Trade Partnership, derived from data provided by the U.S. Department of Labor, Bureau of Labor Statistics, 1999.



# One-fourth of the Steel-consuming Jobs Heavily Depend Upon Steel as a Raw Material

**Manufacturing Sectors Where Steel as a percent of Non VA Output is >10%**

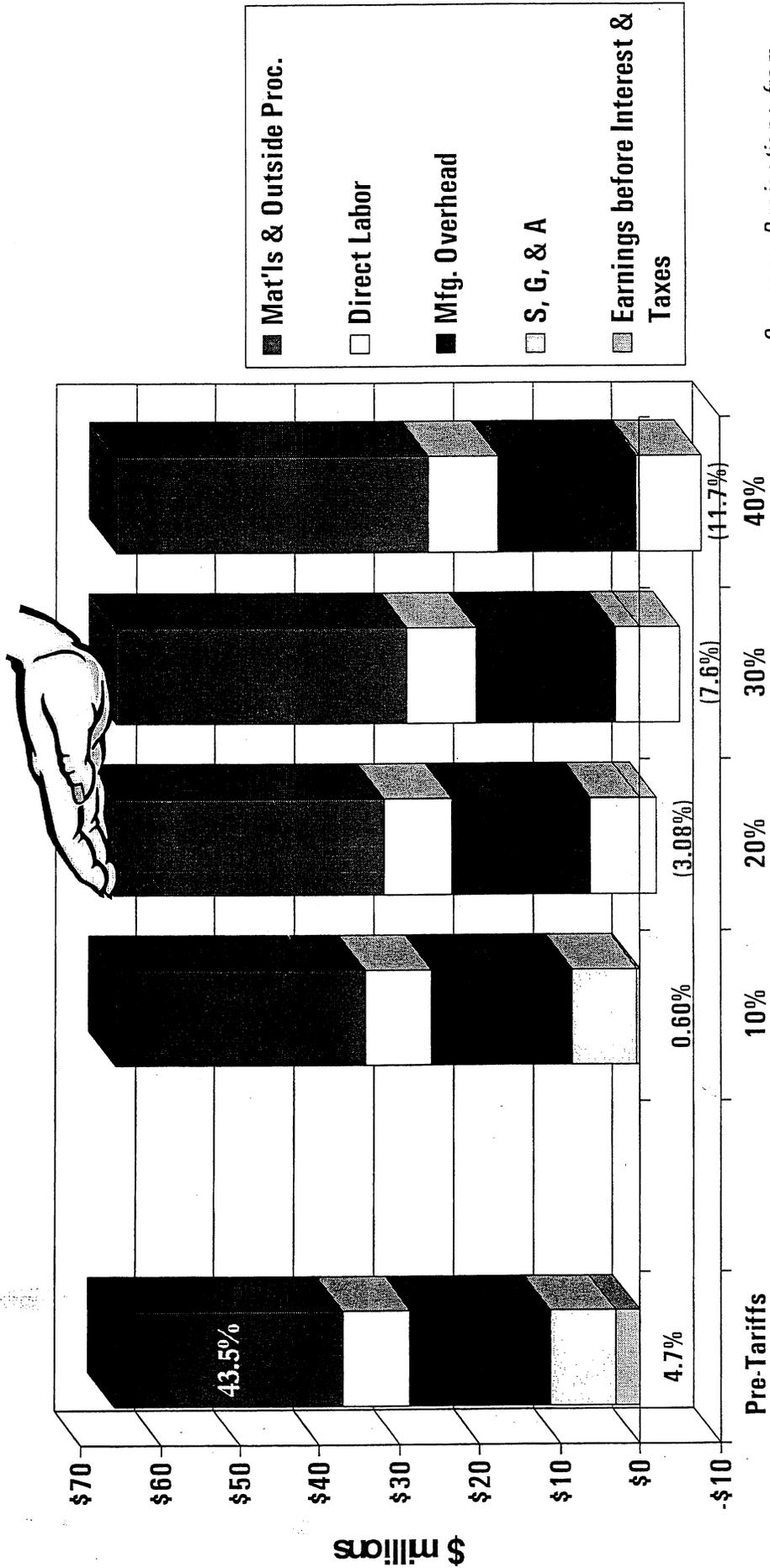


Source: Annual Input-Output Accounts of the U.S. Economy, 1998, Commodity by Industry Direct Requirements, US Dept of Commerce, Bureau of Economic Analysis



# Steel Price Increases Seriously Jeopardize the Health of These Manufacturers Dependent on Steel

Customers holding or pushing down prices while material costs increase pushes manufacturers into unsustainable losses



Source: Projections from Plante & Moran 2001 Survey data

% Material Price Increase (as seen by Plante & Moran)

# Customers Respond By Accelerating the Importation of Finished Parts

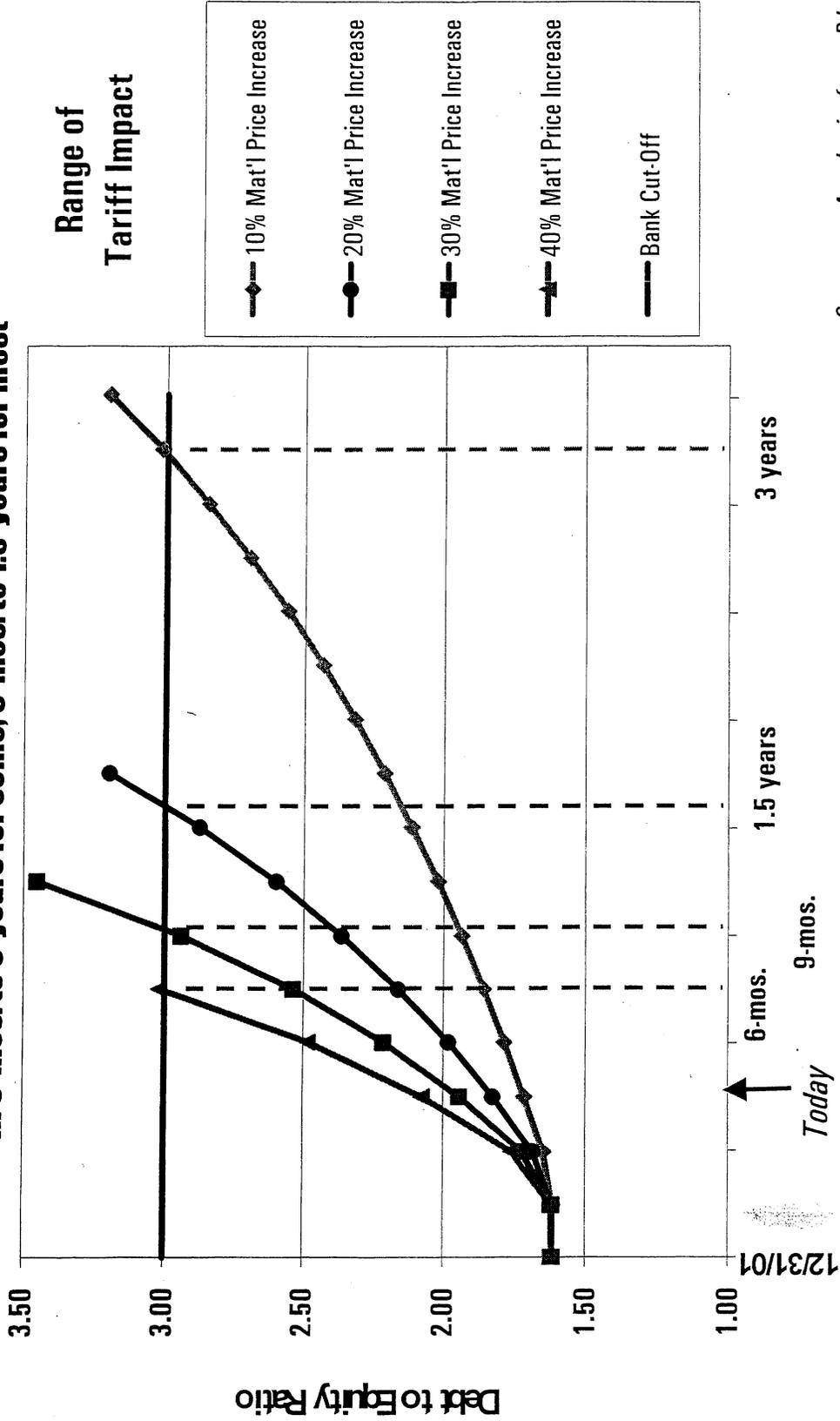
Rather than passing on domestic steel price increases to consumers, customers are accelerating efforts to identify non-domestic sources for finished goods, e.g.,

- ☐ China
- ☐ Korea
- ☐ Mexico
- ☐ Indonesia
- ☐ Etc.

...to purchase steel as a finished good without the tariff

# In Time, Banks will Turn-off the Access to Capital and Close the Doors of these Small Manufacturers

Operations funded by equity & debt until debt is too high for banks in 6-mos. to 3-years for some, 9-mos. to 1.5-years for most

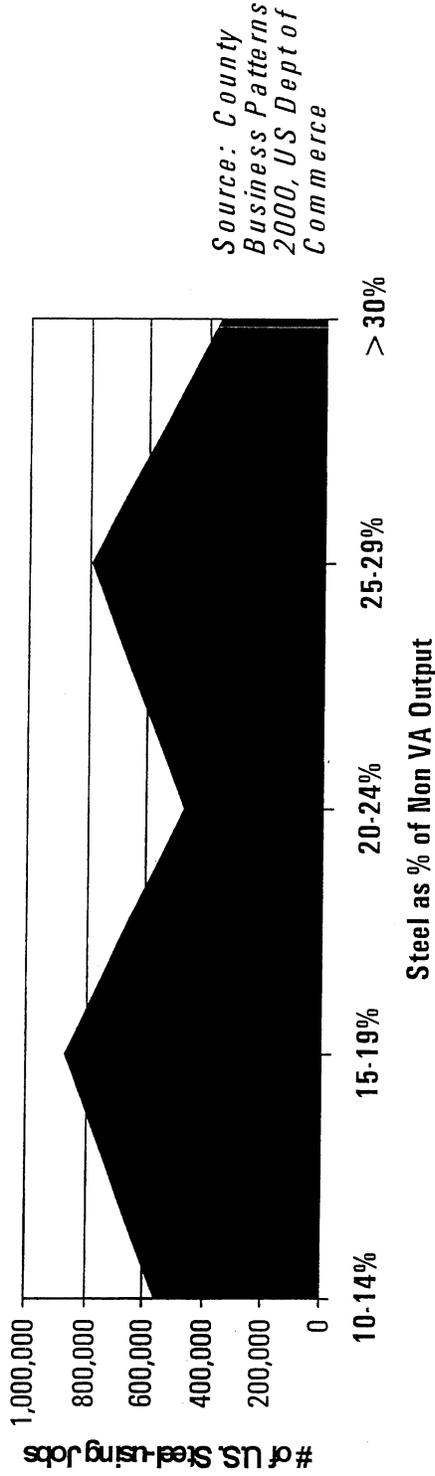


Source: Analysis from Plante & Moran 2001 Survey data

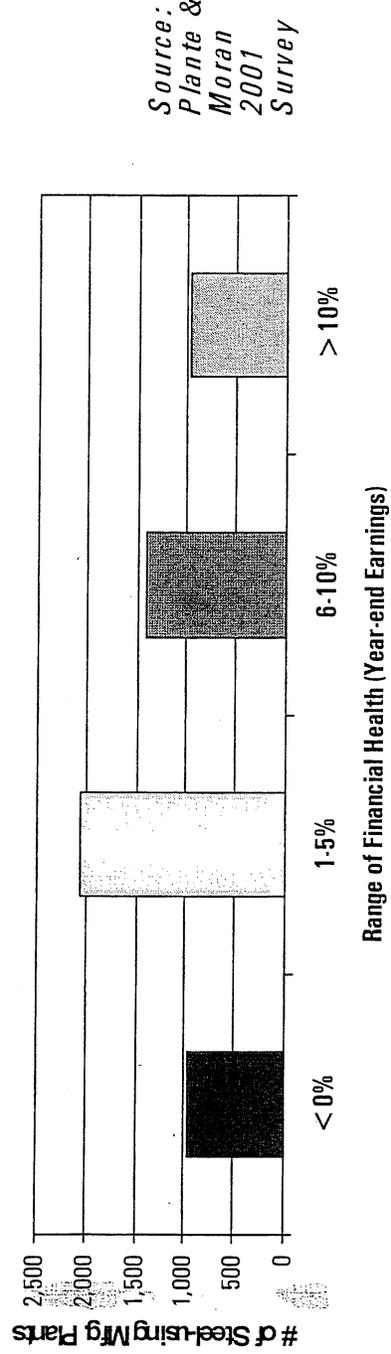
Timeline Until Steel-Users become Un-bankable

# Estimating the Potential Job Loss Derives from the Distribution of Jobs by the Degree of Material Impact

The number of jobs v. the level of steel content



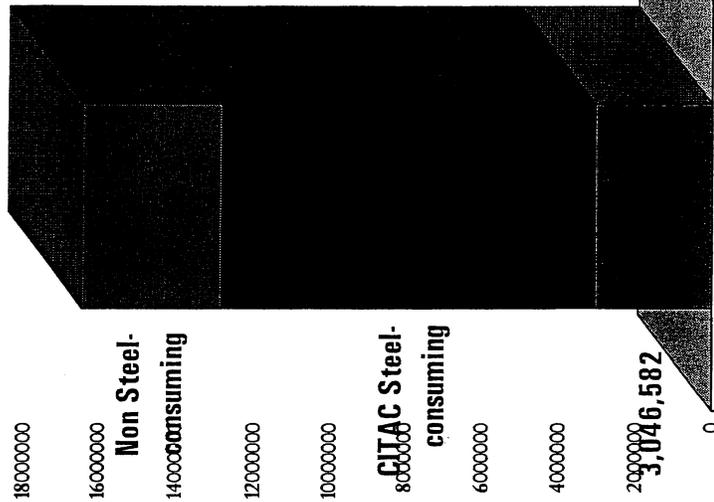
Distribution of the Health of Steel-using Plants before Material Price Increases



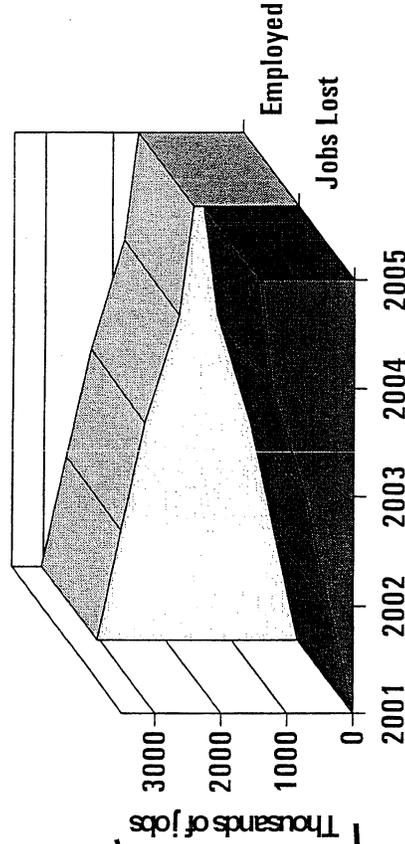
# As Private Businesses are Closed, Jobs will be lost in the U.S.

Estimated job loss in the U.S. manufacturing sectors with steel as >10% of Non VA Output could reach nearly 1.5 million by 2005

16,473,994



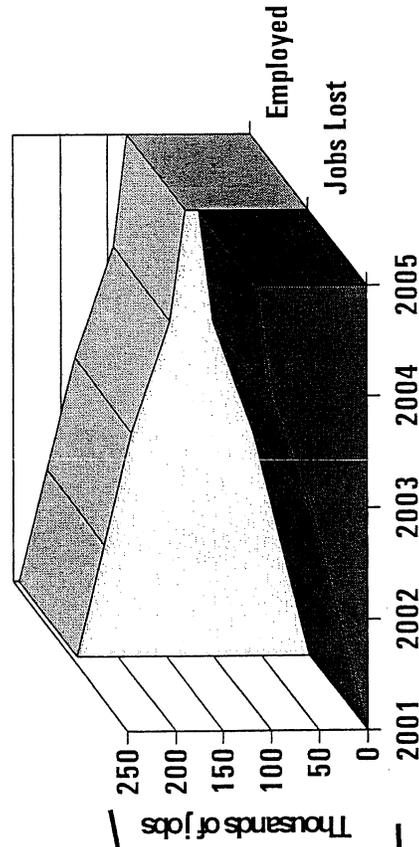
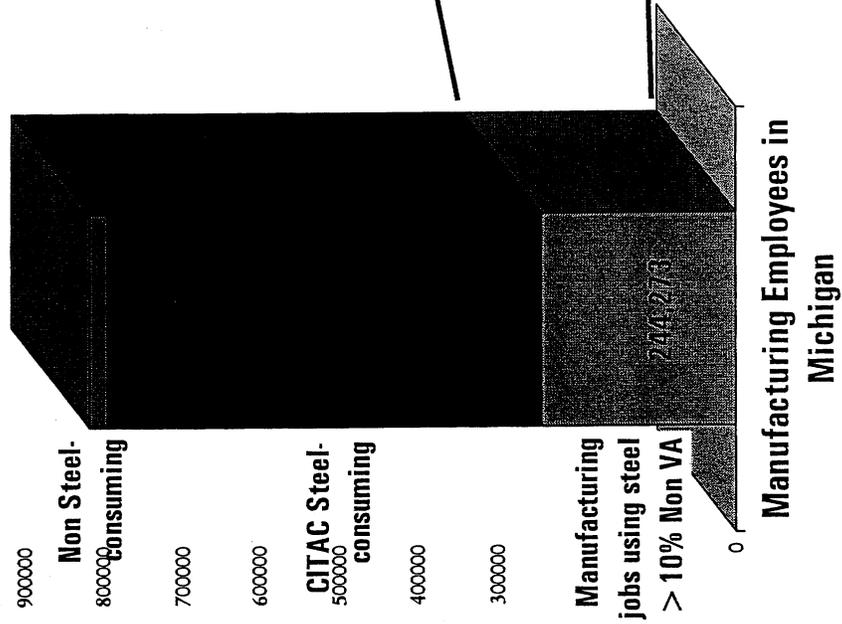
Manufacturing Employees in U.S.



Source: Projection from Cash Flow Analysis of Plante & Moran 2001 Survey

# As Private Businesses are Closed, Jobs will be lost in Michigan

**Estimated job loss in Michigan  
manufacturing sectors with steel as >10%  
Non VA Output could reach nearly 115,000 by  
2005**



Source: Projection from Cash Flow Analysis of  
Plante & Moran 2001 Survey