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Statement by Tom Naramore, Senior Vice President Global Sourcing
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at the U.S. International Trade Commission hearing on
"Steel-Consuming Industries: Competitive Conditions with Respect to Steel Safeguard Measures"
June 19, 2003

Acuity Brands Lighting Group is the largest manufacturer of lighting equipment in the world. Our headquarters are located just outside of Atlanta Georgia and have over 8,000 employees, with 24 manufacturing facilities in the U.S., Canada, Mexico and Europe.

We appreciate the ITC's role through this investigation in assessing the total impact of the "Section 201" on all industries affected by the tariffs. We are here today to provide input that illustrates that these safeguard measures have had a severe impact on our business and our industry as a result of increased material prices and unreliable availability of domestic steel. We recommend an immediate repeal of the steel trade restrictions.

Steel consuming industries, many of which were under economic stress already, have absorbed the cost increases caused by the "201" tariffs resulting in worsening financial performance and U.S. job losses. Higher prices and unreliable deliveries of domestic steel have hurt these companies' operations. We are convinced that the net effect on the economy, our industry and U.S. employment is more negative than the gain in the steel producing industry.

The Lighting Industry

(Cost) The lighting industry is under tremendous pricing pressure. Most of our products are sold through the commercial and industrial channels of the construction industry, and as such are subjected to quoting, bidding, and negotiating processes. These processes serve to continuously drive down pricing for lighting products. Over the last 5 years, our prices have eroded over 10%. Margins were already depressed prior to "Section 201". In our industry, profits before tax are single digit in a good year and even worse in a recession. Survival is about improving total operating costs in our plant operations, purchased materials, and fixed overhead fast enough to stay ahead of selling price erosion. We have taken aggressive measures to focus on this goal; however, "Section 201" has presented a severe setback to lowering our total operating cost, since we are unable to pass this cost on to our customers. For lighting products, steel is the primary raw material, and the number 2 purchased category overall. Steel comprises over 15% of the overall product cost. The U.S. Department of Labor's Producer Price Index (PPI) showed that cold-rolled flat steel increased 28% last year. Considering this, the impact resulting from the "Section 201" tariffs equates to a 4% increase in total product cost. In an industry where the best companies fight for single digit profits before tax, the results are devastating. Under these cost pressures we have *to* press even harder to (1) seek *alternate* sources for lower cost steel, and (2) accelerate our pursuit of lower total *product* cost by seeking pricing relief from our suppliers (at a time when they are also paying more for steel), moving more work outside of the U.S., expanding operations in Mexico, and sourcing more products and materials from Low Cost Countries, especially China.

(Service) **Since lighting installation is one of the last steps on a typical construction job, delivery and service are critical to our customers and to our success. The steel service center who processed the steel coils for our largest domestic steel supplier, going into our largest plant, went completely out of business in March of this year, limiting our supply mix. Secondly, the primary steel service centers supporting two other plants were put on limited allocation due to lack of available steel. All of our steel pricing agreements with the mills and service centers were broken, as well as some supply commitments, forcing us to scramble to find alternate suppliers to service our customers at a higher cost. We have also increased our purchases of Mexican steel by 50% this year, directly as a result of Sect. 201.**

(*Future Implications*)

Our company must compete globally and steel is a major cost element. The bottom line is that in an environment where our selling prices are dropping, compounded by increases in our primary material costs (esp. steel) and fixed operating costs, we must accelerate our pursuit of lower total costs. As we explore global steel availability and global lighting costs, our entire industry (our suppliers, our competitors, and even our customers) will see more jobs leaving the U.S. Last year our third largest competitor, Lighting Corporation of America, declared Chapter 11 and was sold. Some of our larger component suppliers, such as our number 4 ballast company, ESI, declared Chapter 11 and closed their doors. Both companies used significant amounts of steel in their products. We and our competitors have announced further plant closings; we have moved more production to Mexico and expanded our operations there. We and our competitors have put sourcing offices in China, to source more finished products and materials there.

The real question before us is "to what degree are the Section 201 tariffs hurting US manufacturing companies and accelerating the exit of jobs from the entire US manufacturing base?" These tariffs didn't create the trend, but they clearly are accelerating it, as evidenced by the shrinkage of manufacturing jobs, while the GDP of offshore manufacturing is growing dramatically (China over 8%, even during this recession). It would appear that the relatively small and shrinking base of US manufacturing, now down to 17% of our nation's economy, may not lead the nation out of recession as it has in the past!

I urge you to carefully consider the testimonies from steel consuming industries and recommend an immediate repeal of the steel trade restrictions.