

Because we manufacture complex, close tolerance components, we need material with restricted tolerances and metallurgical extras. We purchase very little material produced to standard steel mill specifications. This makes it difficult for us to switch sources or substitute less expensive or different grades of materials. This became a hardship for us last year after the steel tariffs went into effect as I will explain in more detail later in this report.

STEEL TARIFFS:

Before President Bush imposed the Section 201 steel tariffs in March 2002, we began planning a strategy to work with our suppliers, the steel service centers, that purchase steel in master coils from the steel mills. We were particularly concerned with those items that were sourced with foreign mills as we thought there would be shortages, or delays in receiving material. We asked our service center suppliers to purchase and stock material in advance of the tariffs.

As soon as the tariffs were implemented in March 2002, our domestic steel mills immediately began increasing prices. We were kept informed by our service center suppliers of increased pricing and of substantial increases in lead times. Everyone was trying to stockpile material at the old lower prices and shortages, or delays, became common. Lead times for some materials doubled almost immediately.

PRICING EXAMPLES:

Fortunately for Trans-Matic, most of our suppliers maintained pricing established in purchasing agreements until the end of June 2002. Two of our service centers indicated they were losing money in an effort to maintain prices through the contract period.

Let me be more specific by offering an example. In March of 2002, the base price for low carbon steel in coils from the mill to Alkar (a service center) was .1675 per pound. In July, it was .26 per pound. The normal value added by a service center is .06-.08 per pound. This includes freight from the mill to the service center, slitting the material to

width, analyzing the material, quality documentation, packaging, warehousing and shipping to our facilities.

In January 2002, our cost from the service center was .2275 per pound. July 1 our cost was .30 per pound, an increase of .0725 per pound, or 32% more for the same material prior to the steel tariffs. This was a disaster for our company. Even though we speculated and brought material in ahead of the price increases, the net impact was an increase of approximately \$450,000 in the last six months of 2002 for steel purchases.

In the first quarter of 2003, the more expensive raw material that we began purchasing in the later part of 2002, began washing through our profit and loss statements. We have an excellent cost reporting system at Trans-Matic. We can identify the exact cost increase for each job. We have about 500 active jobs, but not all our jobs require low carbon steel. We use other materials such as stainless steel, aluminum and brass in addition to low carbon steel. Nevertheless, our total raw material cost for a dollar of sales went from .2175 to .2467, or an increase of 2.92 percent of our total sales. This was entirely due to increased steel prices after the tariffs went into effect.

Let me put it in more specific terms. In 2002, we made about 7.8 cents on a dollar of sales. The 2.92 percent increase in raw material cost absorbed 32% of our total profit in this period compared to last year. This is after we were successful in passing through increased material prices to about 60% of our customers.

NET EFFECT:

What this means is simply this: to stay even with our profitability from last year, we would have to increase all of our prices 2.92 percent, or 3 percent to round it up. This would be economic suicide in the industries we service.

More specifically, if we raised prices on only the parts using steel, the price increases would range from 6-10 percent. This is not feasible.

In OEM automotive and with a few, but not all, of our customers annual price improvements (reductions) in the range of 2-5 percent are demanded and expected. Because of steel tariffs and increased steel pricing, our business will sustain about \$1 million in additional raw material expense in 2003.

COMPETITIVE POSITION:

This does not convey the total losses we are sustaining. We are also losing new business opportunities because we may not be competitive with foreign competitors. Last summer we lost two new, very high volume, attractive jobs with Borg Warner. These were new components used in engine timing devices. Borg Warner selected a Canadian competitor for these jobs. We suspect, but we don't honestly know, exactly what happened. We believe Borg Warner went to a Canadian firm because of the publicity about higher steel cost and chaotic steel market in the U.S. The jobs were material intensive, and it was logical for them to avoid U.S. suppliers because of the difficulties.

Another unique example that we can verify is that we tooled automotive engine components for NGK, a prominent Japanese automotive supplier in West Virginia. The same components were produced by K&S, a Japanese competitor of ours with a U.S. operation located in West Virginia. NGK needed two suppliers.

When the Section 201 steel tariffs went into effect, K&S packed up the tooling from the West Virginia operation and sent it back to Japan where they produce the parts with Japanese material purchased at free market prices. They ship the parts made from Japanese steel back to NGK in the U.S. and avoid paying tariffs on the steel. We have lost this business in 2003.

CONCLUSION:

The 201 steel tariffs are having a significant negative impact on our current profitability. In cases where we have been successful passing through the higher cost of steel to our customers, we are concerned about their ability to sell their products competitively in a free international marketplace.

We experienced extended lead times and difficulties with supplying some steel materials during 2002, but Trans-Matic never shut down a customer for lack of material.

Nevertheless, Trans-Matic and our suppliers had to absorb the additional cost of storing excess amounts of steel inventory to keep our machines in production and our customers in business.

We are very concerned about our competitive position as a U.S. company. Steel tariffs make a significant difference in our material cost. We are also concerned that steel tariffs are an expense our customers cannot afford. Some of our customers have foreign operations where they have lower labor rates. They now have the added incentive to move more production abroad to avoid higher raw material costs due to steel tariffs. Once the work is tooled up and in production, it rarely moves back to the U.S. Steel tariffs are a serious problem for steel consumers like Trans-Matic.

One final consideration, the exemptions for steel tariffs helped save our company from a total disaster. Without exemptions, we would have had severe material shortages of steel material with restricted tolerances and unique metallurgical characteristics that are required to produce complex, closer tolerance components. Exemptions are not an adequate solution compared to a free market, but they served a valid purpose during this critical period.

We urge the Commission to advise the President to reverse the 201 steel tariffs at mid-term so that the market for steel can be an open, competitive, international free market. Steel is a basic international commodity. The free market pricing mechanism will find a point of equilibrium that will clear the market if the price is right. The stronger firms will survive and the weak will perish. We want a strong domestic steel industry. We are confident that we have good domestic steel mills that can be world class competitive.

With a weaker U.S. dollar, foreign steel companies will have difficulty selling steel in the U.S. at the same prices they used a few years ago when they sold unusually large volumes of material in the U.S.

Thank you for allowing us to testify at this hearing. If additional information is required, we will be pleased to provide it promptly at your request.

Sincerely,



Patrick A. Thompson

Chief Executive Officer