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Testimony
Congressman Mark Steven Kirk
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Madame Chairwoman and Members of the Commission: Thank you for allowing me to testify on the steel tariffs imposed in March 2002. Over the past year, my office has been contacted by companies in my district and throughout the Chicagoland area which have been adversely effected by these tariffs. My district consists of the northern and northwestern suburbs of Chicago, home to a number of small manufacturing companies. These companies are mainly mom and pop shops of a few dozen to a few hundred employees. While they are small in numbers, the products they produces and the jobs they provide are vital to the region and the economy. Some companies in my district will be testifying later. Let me quickly highlight three of these companies and the difficulties they have faced in the last year.

The first company, Perfection Spring & Stamping Corporation in Mount Prospect, Illinois is a family owned business started in 1955. They are a custom manufacturer of close tolerance metal springs, stampings, wireforms and assemblies utilized in the automotive, consumer electronics and appliance industries.

Pre- tariff, Perfection Spring & Stamping Corporation had 135 full-time and 35 temporary employees. Today, they have 89 full-time employees and 12 temporary ones. Thirty-four percent of the permanent staff have been laid off. Perfection has seen costs of purchased High Carbon Steel rise by 9%, Low Carbon Steel by 30% and Coated Steel by 30%. This has resulted in its profits decreasing 65% for this fiscal year.

Delivery times have increased from 2 to 4 weeks to 8 to 12 weeks. Perfection, therefore must carry hundred of thousands of dollars in inventory in stock rather than re-investing that money. The quality of the raw material has also dropped drastically over the past year. Because of the questionable steel surfaces, once the product is manufactured, it must be re-inspected for quality, also adding to overall costs for Perfection Spring & Stamping Corporation.

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The second example is Mercury Products Corporation in Schaumburg, Illinois, founded in 1946. They provide precise stamped metal components and welded assemblies primarily to the transportation industries. They have three locations in Illinois, Michigan, and Ontario, Canada.

Currently, Mercury Products has 273 U.S. employees. In April 2003, they were forced to layoff 13.5% of the workforce, 40 employees. Additionally, wages have been frozen and a freeze on new hiring has been instituted.

The cost of the steel Mercury Products consumes has risen dramatically as a result of the steel tariffs. Cold-rolled steel has increased between 41% to 48%; Galvanized steel increased 41%; and Hot-rolled steel increased 31% increase.

The steel tariffs have caused a "second wave" recession for companies such as Mercury Products, which were already facing tough economic times. The full impact of the steel tariffs did not hit corporate bottom lines until the summer of 2002 when the pre-steel tariff inventories were fully liquidated and inventory had to be replaced with higher cost steel.

The third example, MacLean-Fogg Company, founded in 1925 and based in Mundelein, Illinois, produces fasteners and component parts for the automotive, transportation and telecommunications markets. They employ 2000 employees in 24 facilities in eight states and six countries. Due to the steel tariffs, it is estimated they are losing between $500,000 and $1 million a year. They have laid off 25 people in Illinois this year and expect additional lay-offs before the end of the year.

MacLean-Fogg has experienced steel price increases averaging 7% on most of its purchased steel items made from steel alloy wire rod from both U.S. and overseas sources and a 15% increase in their stainless steel wire.

Faced with increasing raw material costs, and with no ability to recover those costs from their customers MacLean-Fogg has found it necessary to buy or build factories outside of the United States. They have purchased three factories in China recently in order to have access to competitively priced raw materials. Many of these products, fasteners included, have such low labor costs that labor is not the critical factor. In the fastener product lines labor is less than 10% of the cost but steel is 30-50% of cost. Since the steel used by MacLean-Fogg is 33% cheaper in Asia, increasingly they are buying and manufacturing in Asia because of raw material costs, not labor.

A MacLean-Fogg plant in Richmond, Illinois is in jeopardy of closing and moving its operations overseas. This plant, which employs 19 people, is a highly productive nut manufacturing plant.

The steel for the plant costs $.32-$.36 per pound today. These nuts can be bought in Asia, complete and delivered to Chicago for $.44 per pound, but the same steel which costs $.32-$.36 per pound in the U.S. costs .$20-$.25 per pound in Taiwan and China. As a result, these 19 highly skilled people, may well lose their jobs if the tariffs remain in place.

These are stories from just three companies I have heard from over the past year. Countless others have contacted me, including Precise Machine Company in Arlington Heights, American Metal Fibers Inc. in Lake Bluff, Simmons Engineering Corp., V-S Industries, Inc., and Taubensee Steel & Wire Co., all in Wheeling. The higher cost of steel has dramatically cut steel consuming companies profit margins, causing these companies to reduce their labor workforce and/ or move overseas. MacLean-Fogg's story of increasingly looking to move production overseas is not unique. Contracts are being lost to foreign suppliers because American manufactures cannot compete. While the domestic steel industry has its needs, burdening important segments of our economy to provide needed relief in another is simply not the solution. The steel industry may initially benefit from these tariffs however, if the steel industry loses its domestic customer base, in the long term, the entire U.S. economy will suffer.