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United States International Trade Commission

Steel-Consuming Industries: Competitive Conditions with Respect to Steel Safeguard Measures

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My name is William Gaskin, President of the Precision Metalforming Association (PMA), the full-service trade association representing the metalforming industry in North America – the industry that creates precision metal components and products using stamping, fabricating, roll forming, spinning, slide forming and other value-added processes. Our nearly 1,300 member companies include contract metalforming companies, end product manufacturers using metalforming technologies to make their products, as well as suppliers of equipment, materials and services to the metalforming industry. PMA members supply virtually every manufacturing sector, including automotive, truck, medical equipment, agriculture/off-highway, lawn and garden, telecommunications, toys, defense/ordnance, consumer products, office/business machine and industrial/consumer hardware markets. Metalforming companies are primary users of hot rolled and cold rolled steel, accounting for a large percentage of total flat-rolled sales in the U.S. steel-consuming market.

PMA has several critical concerns about the 201 steel tariffs and believes that they should be ended at the first possible opportunity, at the mid-point review.

- Steel tariffs have had a devastating impact on a large segment of the metalforming industry and other steel consuming companies since their imposition in March 2002, costing tens of thousands of jobs and jeopardizing the existence of hundreds if not thousands of small and medium sized manufacturers.

- Steel tariffs unnecessarily intervened in the market-based solution to the record-low prices for hot and cold rolled steel that occurred in late 2001. Imposition of the tariffs helped spawn a feeding frenzy of further price hikes and such extreme dislocations of supply that many companies suffered canceled orders and broken contracts for steel, allocations of supply, and frequent quality problems with raw material when it was finally delivered.

- In a recent survey, 72 percent of member companies reported that price, availability and quality of raw materials had been a problem for their company throughout 2002. While spot market prices for flat rolled steel have declined over the past few months, the dislocation and instability in the U.S. steel market created by 201 steel tariffs are far from over and will continue to impact steel-consuming companies for years to come.

- Profitability of companies in the metalforming sector has declined precipitously and an entire segment of the industry is threatened. Average profitability reported in PMA's most recent Business Analysis Survey was 1.6 percent, compared with long-time average profitability of 4.5 to 6.0 percent; and nearly 40 percent of PMA member companies reported that they were not profitable, compared with 18 to 20 percent historical averages.

- A PMA member survey conducted in January 2003 revealed that 68 percent of companies had lost work to foreign competitors in the past year. More than 40 of the 152 participating companies specifically identified China as the new location of work they had previously performed. Many decision-making timetables were accelerated during 2002, resulting in decisions by OEMs to begin relocating jobs using steel subject to tariffs to Canada, Mexico and Asia in order to stabilize raw material costs. It is unlikely that this work will ever return to U.S. manufacturers.

- Steel prices and availability must be globally competitive if steel-consuming companies are to compete successfully in the world market. Right now, they are not competing successfully and the tariffs bear a large share of responsibility.

- Steel producers have repeatedly stated that the 201 steel tariffs only seek to help "restore prices" to historical levels, an irrelevant concept which has no more merit than if PMA argued that its member companies should be entitled to restore prices that they charge customers for component parts to "historical levels." In fact, most steel-consuming companies must LOWER their prices each year to retain business. With steel comprising 30 to 60 percent of the cost of sales, steel-consuming companies are caught between higher steel prices and requirements for reduced prices to customers, with the inevitable result that they will increasingly cease to exist.

- 201 steel tariffs have done far more harm than good to the American economy. Some 200,000 steel-using manufacturers' jobs were lost last year due to higher steel prices, to which the tariffs and other trade restraints contributed significantly. More steel consumer workers were unemployed in 2002 as a result of higher steel prices than the total number of workers employed by the U.S. steel industry. Thousands of additional jobs will be lost over the next several years as work moves offshore.

Most metalforming companies are small businesses, which were the engine of growth for the American economy in the years preceding the manufacturing recession of late 2000 and 2001. Steel-using industries provide good jobs and are invaluable contributors to their communities. You have already heard from many of these companies during this hearing and you will hear from many more, later in this panel. Between 1995 and 2001, steel-consuming manufacturers added some 1,255,000 new jobs to the economy, according to the Bureau of Labor Statistics, while jobs in the manufacturing sector as a whole declined by 829,000. Today, steel-consuming manufacturers still employ over 12 million Americans, even after the devastating loss of an estimated 200,000 jobs by steel-using manufacturers in 2002 due to higher steel prices. This compares to the 160,000 to 200,000 jobs remaining in the steel-producing industry. Steel tariffs have favored retention of a small number of jobs in steel-producing companies, at the expense of a large number of jobs in steel-consuming companies.

Even the steel-producing industry did not anticipate the impact that the 201 steel tariffs would have on steel-consuming companies. In its publication, *"A Perspective on Steel Prices and Section 201 Relief: Why a Strong and Effective Steel Tariff Remedy Will Not Cause Harm to Steel Customers"*, the US steel industry projected that U.S. tariffs of 40-50 percent would have only a modest impact on steel-consuming companies, stating: "the resulting U.S. steel price increases would be reasonable and non-disruptive – at most 10 percent – due to world steel overcapacity and intense global competition . . .". The same publication also referenced statements from steel manufacturers made during the 201 hearings in January 2002, as follows: "U.S. steel producers are projecting price increases of . . . 2-8 percent for finished flat rolled . . ."!

The "unintended consequences" of the 201 steel tariffs, as they became known during U.S. House Small Business Committee Hearings conducted by Chairman Manzullo in September 2002, have indeed been serious and substantial. Price increases of 30, 40 even 70 percent during the period April to September 2002 were documented repeatedly in statements before Congressional Committees. The often-cited reports on spot-pricing by Purchasing Magazine support that the serious disruption in the steel marketplace has been far more dramatic than anticipated – even by the steel industry. The aftermath of the ill-advised steel tariffs will be felt by many companies for a very long time.

Over the past 18 months, but most notably since the 201 steel tariffs were imposed in March 2002, the metalforming industry has been severely impacted by the consequences of an artificially disrupted steel market. Higher prices due to the steel tariffs have been cited repeatedly as a cause of bankruptcy or closure for steel-consuming companies. One recent example was reported in the Cleveland Plain Dealer, on April 30, 2003, when Midland Steel Products Co., a supplier of heavy-duty truck frames closed its doors, ending the remaining 170 jobs from the 450 UAW hourly workers who were employed at Midland in March 2002. Among the reasons cited for the closure, was "high domestic steel prices caused by tariffs on imported steel." Most closures of small and medium sized manufacturers do not receive coverage in the local paper, however the job losses have been severe and loss of business relationships with suppliers are no less real even though they are not featured in the news media.

As a result of the steel tariffs, many PMA members have become uncompetitive in global markets and are losing business to foreign manufacturers and left uncertain about how much longer their own business will be able to survive. The steel tariffs have helped make a bad economy for all metalforming companies unsustainable for many. At least 25 PMA member companies have closed their doors and resigned from the Association since the steel tariffs were imposed in March 2002. And there are countless others who have laid off up to 50% or more of their workforce, just to stay in business. As you will hear from the other steel-consuming witnesses during the hearings today, the decisions which have been made over the past year will be causing damage among steel-consuming companies for years to come.

The exodus of business to offshore manufacturers who can obtain steel at globally competitive prices is accelerating. PMA was delighted when Federal Reserve Chairman Alan Greenspan recently joined the chorus of those citing the 201 sanctions as one reason American steel consumers are moving their production overseas, stating, "Artificially increasing the price of steel in the United States has and will induce steel users to move out from under steel tariffs." PMA members will tell you that he is right, and once this business leaves the country, it is not likely to return. Furthermore, the steel tariffs have had a ripple effect. As U.S. steel-consuming industries suffer, so do the companies that supply those industries, such as service centers, finishers, metal treating companies, assemblers and manufacturers of capital equipment.

Last week, the Wall Street Journal carried a small article citing a decision by Honda Motor Co. to transfer production of its new Inspire sedan from Ohio to a plant in Saitama, Japan to "improve efficiency." PMA members in the U.S., who had been told by Honda that they would supply parts for the Inspire sedan, will no longer make the expected parts and related jobs will be lost. While other specific reasons for Honda's decision were not cited in the article, it does lead me to recall that Honda received significant attention during the height of the post-tariff dislocation in the steel market for airlifting steel from Japan to their U.S. facilities by chartering 747 aircraft at the reported cost of $300,000 per plane. It seems more than plausible that the need to airlift steel on 747 aircraft may well be related to Honda's decision on the Inspire.

The reasons for ending the steel tariffs are clear:

(1) More jobs have been lost from the safeguard measures than have been "saved." Steel-using jobs vastly outnumber steel-producing jobs in *every* state. Nationally, the ratio is 59 to 1. Jobs are being lost as customers of steel consumers source their projects offshore. As the damage mounts, pre-tariff studies which had indicated that eight steel-using jobs will be lost in the United States for every steel-producing job "saved," have become true. The question we continue to ask, is: "Why are steel-consuming industry jobs less important than steel-producing jobs?"

(2) Steel tariffs have made U.S. steel consumers uncompetitive in global markets. The dramatic disruption of the U.S. steel market caused by the safeguard measures has

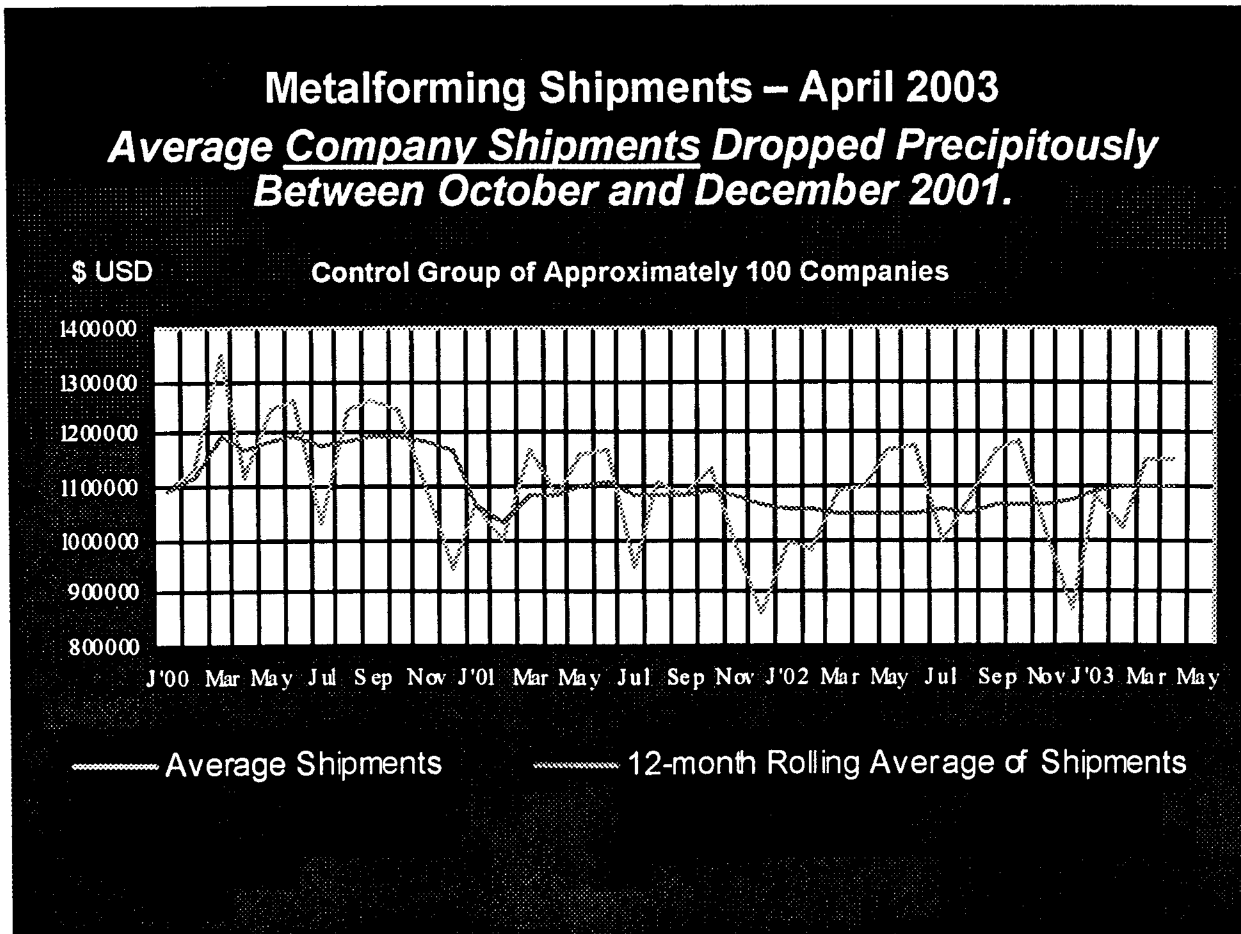
hurt steel consumers substantially. The effects of massive tariff increases have worked to transfer money from steel consumers to domestic and foreign steel producers, as well as to the United States Treasury, a tax increase of several billion dollars at a time when the manufacturing economy needs to be stimulated, not held back from growth.

(3) The steel tariffs, if, as believed by some, indeed had a purpose to serve, have surely served this purpose and should be ended. Steel producers have restructured substantially and the ongoing damage being caused among steel-consuming manufacturers is clearly greater than any benefit that could be gained by keeping the tariffs in place. The mid-point review requires the President to determine whether there have been "changed economic circumstances" that diminish the effectiveness of the safeguard measures. PMA believes that compelling changes have occurred.

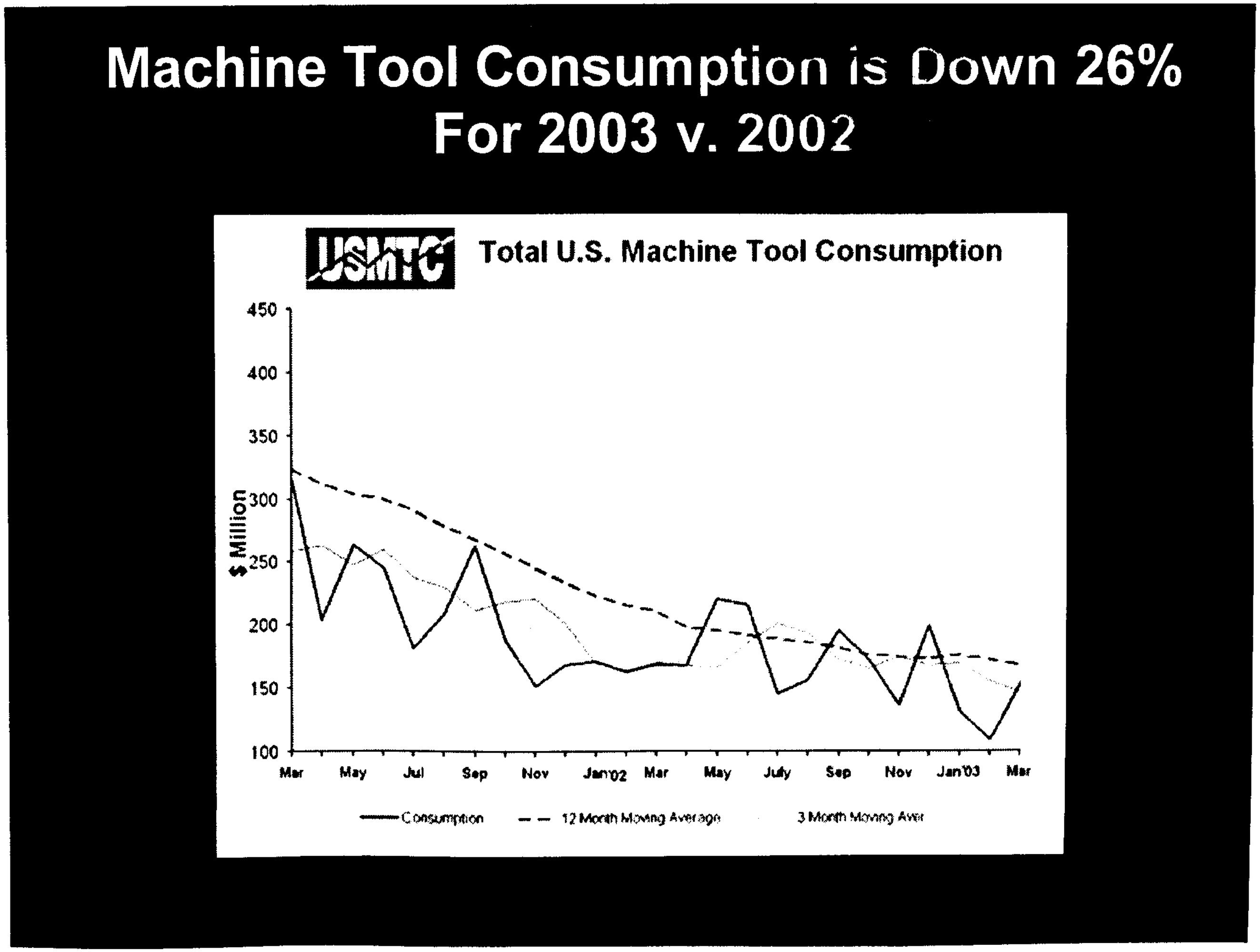
(4) Last winter, it became quite common for those who supported tariffs to make several observations, including comments that "the tariffs will only last for three years," and "the exclusion process has taken care of any problems companies have had obtaining raw material." In fact, if the steel tariffs last for the full three years, Plante & Moran, L.L.P., a respected consulting firm serving automotive middle-market manufacturers, has projected that up to 30 percent of steel-consuming companies will not survive. Further, the product exclusion process does not work very well for small and medium size manufacturers who simply cannot afford the substantial costs to hire attorneys and consultants to file exclusion requests. And the exclusion process provides no relief whatsoever for steel-consuming manufacturers who purchase primarily domestic steel. The steel market for these companies was seriously disrupted by the 201 steel tariffs, and product exclusions will simply not help the vast majority of steel-consuming companies survive if tariffs are continued.

Thank you for the opportunity to testify today. Attached to my statement are several charts characterizing current conditions among metalforming companies. I would be happy to answer any questions or provide supplemental information as may be appropriate.

Shipments in the metalforming industry plummeted sharply between October and December 2000. For 2001, ave shipments were down 17% compared to 2000. There was 0% growth between 2001 and 2002 and 56% of reporting com experienced declines in shipment value. Through April, 2003 is up 4% year-to-date over 2002.



Capital equipment producers, who sell equipment to metalforming companies, have experienced a substantial business decline since March 2001 reflecting weakness among their customer markets. Machine tool consumption was down 23% for 2002 vs 2001 and an additional 26% in first quarter 2003. The capital equipment market for metalforming machine tools is unlikely to recover until steel tariffs have been ended. Thousands of jobs have been lost in machine tool markets.



Spot market prices for flat rolled steel reached their bottom in the 4th quarter, 2001, due primarily to soft manufacturing conditions post-September 11th among metalforming companies (see the Oct-Dec 2001 drop in shipments on page 7). During this period, LTV Steel ceased operations, creating an immediate correction in spot prices which began to recover from late 2001 lows. By March 2002, spot prices had risen by some 20% for hot rolled sheet, 23% for cold rolled sheet, and 19% for galvanized sheet. Imposition of the tariffs in late March 2002 had an immediate impact on prices reflected in substantial jumps in April 2002 which continued to rise through July.

Purchasing Magazine – U.S. Steel Pricing Trends (Spot Market) Demonstrate Market Disruption Caused by Steel Tariffs

	2001			2002												2003				
Items:	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
H-R Sheet (Midwest)	215	215	210	220	230	260	290	320	340	400	380	380	370	345	300	300	280	280	280	260
C-R Sheet (Midwest)	300	300	300	310	320	370	380	410	435	525	525	500	480	465	410	410	400	400	400	380
HD Galv Sheet (Midwest)	330	330	320	330	330	380	415	425	445	535	535	525	510	500	460	460	440	440	420	410

HR price of $400 in July was a 14-year high!

The metalforming industry experienced 20-year low average profitability in PMA's 2002 Operational Cost Survey, with average profits totaling only 1.6% of sales before taxes. Nearly 40% of member companies reported losses. Average profit historically has been 4.5 to 6% while the historical average of companies reporting losses is approximately 18%.