Written Testimony of

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Before

The International Trade Commission

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

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Good morning Madam Chair and members of the Commission. Thank you for allowing me to appear before you today at this hearing to examine the effects of the President's steel program on steel consuming industries.

It was not so long ago that the House Committee on Ways and Means, of which I am a member, held a hearing on this very topic. I suspect that after the Commission has thoroughly evaluated the evidence presented and listened to all of the testimony, the finding will be the same as what we learned at Ways and Means. The very clear conclusion we reached was that manufacturing in this country – including the steel producing and consuming industries – is in crisis.

The U.S. manufacturing sector has lost over 2 million jobs since 2000 – including almost 140,000 in Pennsylvania alone – and has been slow to recover from the recession that is still ongoing in western Pennsylvania. Manufacturing is under attack from many directions. An honest assessment of the state of manufacturing in our country today would likely reveal that there are not two or three simple reasons for the precipitous decline. Among the most visible reasons are: disincentives for capital investment, skyrocketing health care costs, foreign currencies distorted by government intervention, and the difficulty in policing the U.S. market from unfairly traded imports. What an honest assessment would not reveal is that the steel tariffs are anywhere near the top of the factors contributing to this decline. But the fact remains that there are countless issues which domestic manufacturers contend with on a daily basis that place them at a comparative disadvantage to their foreign competitors.

U.S. manufacturing is on the brink of collapse because all of these factors and more are treated as separate illnesses in themselves, rather than as symptoms of a much bigger problem: the lack of a thorough, cohesive and sensible manufacturing policy. Strides have been taken by the Administration to begin developing a comprehensive manufacturing policy, but these steps must be accelerated, strengthened and enacted.

While I firmly believe that efforts to tear down the steel safeguard should be re-focused on the real problems facing manufacturing, as Chairman of the Congressional Steel Caucus I am pleased to dispel for the Commission some of the bad information out there which is commonly used to criticize the steel program.

The President's 201 remedy was a reasonable, necessary and modest response to a crisis of unprecedented proportions facing one of our nation's most critical industries. The President based his 201 decision on fact, common sense and unanimous ITC rulings. If there ever was a situation to apply a safeguard remedy, this was it, and the President enforced the law.

The President's program did not stop steel imports. To the contrary, steel imports were 8.4% higher in 2002 than in 2001. Imports of hot-rolled sheet increased by 56% from 2001 to 2002, while imports of coated sheet rose by 34%. This is most likely due to the fact that most countries and many major products were exempted from the 201 duties; it is estimated that the duties only apply to about 20% of all steel imports.

This data not only dispels the consuming industries' claim that there was a vast shortage of steel, but highlights that perhaps, in the long term, the biggest beneficiaries of the President's steel program will be steel consumers themselves. In December 2001, LTV, at that time the third largest producer of steel in the U.S., suddenly announced that it was ceasing operations. Almost overnight over six million tons of steel making capacity went off line. The impact of LTV's closure was immediate: customers scrambled for alternate suppliers, prices for flat-rolled products increased sharply, and occasional shortages occurred. The President's courageous stand against illegally traded imports was necessary to stop further bankruptcies, and disruptions. The safeguard mechanism, as well as all other mechanisms in our trade remedy law toolbox must be employed whenever the playing field is not level to ensure a healthy environment for all businesses, both producers and consumers.

Because the steel safeguard is enabling the domestic steel industry to restructure and reduce costs, the President's program will continue to benefit steel consumers far into the future. A new economic study performed by international trade experts at the respected economic consulting firm Charles River Associates, will be formally presented to you during today's hearing. This study, using well-respected economic modeling, shows that the continuation of the steel safeguard measures will yield a significant net welfare effect on the national economy. The study finds nearly three to five billion dollars in economic benefit to the U.S. economy. The President clearly took the right approach in implementing a tariff-based measure that helped save the American steel industry while also providing a shot in the arm to the U.S. economy.

Under the President's program, the domestic industry has increased its competitiveness by restructuring, resulting in productivity gains. Even allowing for very modest increases in productivity, the study shows significant beneficial effects for both the domestic steel industry and steel consumers. For the domestic steel industry, productivity gains will increase steel output, decrease steel prices, decrease steel imports, and decrease steel employment compared to what they would be if the remedy were terminated. Additionally, for steel-consuming industries -- some of whom have claimed that the tariff will have a negative effect on U.S. manufacturing -- the tariffs will lead to lower input costs, increased production, increased employment, and lower imports of competing products than if the remedy were terminated.

Critics also say that the domestic steel industry is not consolidating, and won't. I wholeheartedly disagree with that statement and the facts counter the assertion that no consolidation is taking place. Since the 201 duties were implemented: ISG acquired LTV, Bethlehem and Acme Steel; U.S. Steel acquired National Steel; Nucor acquired Birmingham Steel's assets as well as the assets of Trico Steel. Clearly, consolidation and restructuring is occurring.

Claims that U.S. consumers would pay significantly higher prices for new vehicles or appliances because of steel prices are also false. Steel represents a tiny percentage of the total cost of most end-use products, and Bureau of Labor Statistics data indicate that steel price fluctuations in 2002 had little effect on most final consumers of steel-intensive products. In fact, the wholesale price of new vehicles, auto parts and household appliances actually fell 2.2, 0.7 and 1 percent, respectively, last year.

The reality is the President's steel program is working as intended and its effect on steel consumers has been minimal. U.S. steel prices have recovered from unsustainable lows reached in late-2001. U.S. steel prices today are at the low end worldwide, and U.S. steel users are not at a competitive disadvantage relative to their foreign competitors. There is no shortage of steel in the U.S. market today, both domestic and imported steel products continue to be readily available.

The steel consumers who benefited from the unsustainable and artificially low steel prices during the steel crisis of 1998-2001 would like to turn back the clock. But it is important to remember that had U.S steel prices continued at the unsustainable levels of late-2001, there would no longer be a domestic steel industry. Illegal trade is not an acceptable practice or answer to competitiveness challenges, and it is not appropriate for one sector to gain from illegal trade at the expense of another.

Therefore, I believe it is imperative to keep the steel safeguard in place for its full three year term, without modification. It is also imperative that the U.S. continue to appeal the arbitrary and capricious WTO dispute panel ruling on the steel safeguard. Further, I believe strongly that U.S. trade remedy laws must be utilized whenever justified, as they are our last line of defense and only tool we have to police our markets.

Thank you again for the opportunity to provide my views to the Commission. I welcome any questions you may have of me.