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ITC Testimony of Rep. Mark R. Kennedy (MN-06)
Steel-Consuming Industries: Competitive Conditions with Respect to
Steel Safeguard Measures (Investigation # 332-452)

Madame Chairwoman, Madame Vice-Chairwoman, distinguished ITC Commissioners, and invited guests. I appreciate the opportunity to testify before you on the negative impact that Section 201 steel tariffs have had on domestic steel users and American jobs. As you know, the steel tariff issue is a hotly debated one that has had a significant impact on both steel producers or consumers. Since focus has been on the impact of Section 201 tariffs on steel producers, I am pleased that the ITC has decided to hold this hearing on the effect of the tariffs on steel consumers and our domestic manufacturers.

To begin, I would like to state for the record my position on steel tariffs. As a firm believer in markets with twenty years experience in the business world, I do not support permanent punitive tariffs on steel or any other industry. I believe that imposing tariffs on products is never a preferred solution to a market problem. Artificially changing the price of a product in a market artificially changes the rate of consumption of that product in unpredictable and often unintended ways. When punitive tariffs are imposed, businesses who can alter their consumption rates to the new market realities, while other businesses who lack the means to adjust are left to bear a disproportionate share of the tariff burden.

Having said that, there is no question that the last decade has been difficult for domestic steel producers. A decade of international economic turmoil led to a sharp increase in cheap steel exports to America. The impact of these imports on domestic producers has been well documented, highlighted of course by the collapse of Bethlehem Steel and the LTV Corporation. In fact, the Congressional Research Service reports that by 2002, more than 30 steel companies were in bankruptcy.

In light of these problems and after repeated pleas from industry producers, in June 2001 President Bush requested that the ITC undertake a broad Section 201 trade investigation on the steel industry. That December, the ITC announced its findings that 16 of the 33 product groups under investigation were harmed or threatened by steel imports and it issued a series of recommendations to the president for remedial actions. On March 5, 2002, President Bush took action on those recommendations and imposed three-year tariffs with top rates as high as 30 percent on the steel exports of certain countries.

At this point, I would like to offer a couple of observations. First, I think it is important to point out that the ITC's tariff recommendations were not unanimous. Two of the six ITC Commissioners wanted more severe tariffs than were ultimately put into place, three wanted less severe tariffs, and one mostly preferred quotas over tariffs. Obviously, the more severe the tariff the more it would tend to favor steel producers and injure steel consumers. This lack of consensus on severity shows the difficulty of tailoring a tariff solution to help one segment of the steel industry without injuring the other.

Additionally, I think it is telling that the Administration chose to exempt two major steel exporters, Canada and Mexico, as well as some of our other trade partners, from the Section 201 tariffs. It also granted more than 700 requests for tariff exclusions on specific imports, and later added 295 more products to the exclusion list. The decision to exempt certain countries and goods shows that the Administration understands the harmful effects tariffs can have on our economy and on our preferred trading partners. Simply put, the Administration recognized that without issuing exemptions in key areas, any economic benefit steel tariffs might provide domestic producers would be more than offset by the losses these tariffs would cause for steel consumers at home.

The impact of Section 201 tariffs on steel consumers has been pronounced. Small and large manufacturers alike have suffered under these tariffs, companies like Wilson Tool in Hugo in my district. Wilson Tool purchases 80-85 percent of its steel from domestic sources and has seen its operating costs increase as a result of our steel. Contrast that with foreign manufactures in China and elsewhere with plentiful access to cheap steel, allowing them to export more goods at lower prices. Foreign competitors benefit from the extra cost burdens Section 201 tariffs have added to domestic manufacturers and have seen their market share increase while manufacturers like Wilson Tool struggle to compete. As a result of the increased costs the Section 201 tariffs have added to their business, Wilson Tool has gone from 770 employees in October 2001 to 470 employees today. That's 285 American workers who know firsthand about the unintended consequences these tariffs have had on steel consumers.

To further illustrate this point, I would like to use the example of another company in my district in Minnesota, Electrolux, that has particularly hard hit by these tariffs. Electrolux is the world's largest manufacturer of appliances. It has thirteen manufacturing plants in the United States spread across nine states. One of those plants is in St. Cloud, MN, where Electrolux manufactures freezers and freezer components.

Electrolux has a proud tradition of purchasing all of its steel for its domestic operations from domestic steel producers only. In fact, it expects to purchase $49 million worth of steel materials this year alone. However, because of the Section 201 tariffs, Electrolux has seen its steel costs soar dramatically, and the negative impact on its St. Cloud operation is over $8.8 million alone. As a result of these added costs, Electrolux has been losing business to foreign competitors and has seen its freezer market share shrink over 20 percent during the last five years. That means the loss of high paying jobs in manufacturing here in the U.S. to China, Russia, Korea, and other cheap-steel counties.

The impact of Section 201 tariffs has been severe for Electrolux and its St. Cloud facility. Although these steel tariffs were designed to assist domestic producers, the evidence is clear that they are having the exact opposite effect on steel consumers. Companies like Electrolux that rely on the benefits of competition on a level-playing field have found that the Section 201 tariffs have only made the steel they require to do business more expensive. This is not only bad for business, it's bad for the 1,700 workers in my district whose paychecks depend on Electrolux profitability as well as for individuals all across the country who will have those increased steel

costs passed on to them in the form of higher prices. Clearly, something must be done to reverse this negative trend.

That's why I support the lifting of the Section 201 tariffs on steel imports at the earliest possible juncture. These steel tariffs have done little to correct the problems plaguing the domestic steel production industry, but they have had a profound negative impact on steel consumers like Electrolux. And with steel-consuming jobs outnumbering steel-producing jobs by a 59 to one margin nationwide – and a 228 to one margin in Minnesota – the negative impact on manufacturers and American jobs far outweighs any marginal benefit steel producers could claim to get from Section 201 tariffs.

Although the responsibility for lifting the tariffs belongs to the president, the ITC can play a vital role in this process by issuing a recommendation its mid-term review of the Section 201 tariffs that the effectiveness of the tariffs as a remedy has been impaired by changed economic circumstances. Such a recommendation, if acted on, will help provide immediate and much needed relief to the countless steel consumers who have been unintentionally punished over the last 16 months by Section 201 steel tariffs. Thus, I strongly urge the ITC to review all the evidence regarding the negative impact the Section 201 tariffs on steel imports have had on domestic steel consumers and manufacturers, and recommend an immediate end to these counterproductive measures.

Thank you for your time and consideration.