

Congress of the United States

House of Representatives

108th Congress

Committee on Small Business

2361 Rayburn House Office Building

Washington, DC 20515-6315

REMARKS OF THE HONORABLE DONALD A. MANZULLO (IL-16th) BEFORE THE INTERNATIONAL TRADE COMMISSION

Steel consuming industries: competitive conditions with respect to steel safeguard measures (Section 332-452 investigation)

June 20, 2003 9:30AM ITC headquarters 500 E Street, S.W.

Mr. Chairman and distinguished panel Members...

The area of the nation that I am privileged to represent is in dire distress. I've seen this before when Rockford, Illinois led the nation in unemployment in 1981 at 25.9 percent. Now, the unemployment rate in Rockford – the largest city in the 16th District and the second largest city in the state – reached nearly 11 percent. This is nearly double the nation's unemployment rate of 6.1 percent. In the past four years, 10,000 factory jobs, mostly in small manufacturing firms, have been eliminated in Boone, Ogle, and Winnebago Counties – the heart of the Rock River Valley of northern Illinois. If we do not change various government policies, such as the higher steel tariffs, the worst may yet come.

How did this happen? Rockford, unlike most other cities, is disproportionately dependent upon the manufacturing sector for its economic livelihood. Twenty-five percent of Rockford's economy – double the average for most American cities – relies upon a healthy manufacturing base. The vast majority of these manufacturing jobs are located in small firms of 30-to 50-person tool and die shops or machining facilities.

These small manufacturing facilities were already struggling against a high regulatory and tax burden. They were fighting against an overvalued U.S. dollar. They were fighting a serious credit crunch, as banks would not extend credit to them – in some cases, banks were recalling loans demanding immediate repayment. They were fighting double-digit health care premium increases, making it extremely difficult to continue extending coverage to themselves and their workers.

They were fighting to save their businesses as their larger customers were moving production overseas, mostly to China, taking their supply chain to foreign shores. Then, to top it all, their steel supplier informs them of record increases on the price of their raw

material, blaming it on Washington, and their customer refuses to accept any price increase or else they'll go offshore to purchase their product. I enclose for the record a local news article documenting the devastating effect of these steel tariffs on small manufacturers in Rockford, Illinois (<http://www.rrstar.com/localnews/specialreports/steeltariffs/index.shtml>).¹

Last year, as Chairman of the Small Business Committee, I held two hearings documenting the negative effect these higher steel tariffs were having on an overwhelming number of small manufacturers. The hearing transcripts can be accessed through the Small Business Committee web site (www.house.gov/smbiz). I concede that the steel industry and their suppliers have been temporarily helped in the past year by these tariffs. The Section 201 safeguard protection has granted short-term stability to these manufacturers but at an enormous cost.

The decision has created extreme *instability* for the vast majority of small manufacturers, particularly upon those who rely on a steady supply of steel. These manufacturers dominate the 16th District of Illinois and many other Congressional districts across the nation.

This is not a problem just facing Rockford-based manufacturers. The problems of Rockford are representative of the crisis in manufacturing across this nation. As a follow-up to the hearings the Small Business Committee held last year, I sent a questionnaire last January to all those who contacted the committee on this issue to get an update. I received a 17 percent response rate. These companies experienced an average 25 percent increase in the price of their steel, one going as high as 71 percent. Sixty-two percent of the respondent companies experienced broken contracts from their steel supplier.

Over half of the respondents can demonstrate that their company lost business to foreign competitors because of the higher price of steel in the United States. Finally, a third of the companies that responded experienced job layoffs or reduced work hours, some as high as 50 percent of their entire workforce.

One company just sent me a further update just last Monday. National Metalwares of Aurora, Illinois is a small union shop that makes steel tubing used in office and school furniture manufacturing. In their opinion, the steel tariffs are the major contributing factor to the decision for their long-term customers to move to offshore suppliers. National Metalwares has lost \$5.36 million in business since April, 2002.

Mr. Chairman, we all want a strong and vibrant steel industry. But when one study² estimates that we've already lost 200,000 manufacturing jobs – more than are employed in the entire steel industry – due primarily to higher steel prices in 2002, I

¹ "Bush Tariffs Backfire on Local Steel Users," Rockford Register Star, July 21, 2002, p. 1

² "The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002," by Dr. Joseph Francois and Laura Baughman, Trade Partnership Worldwide, LLC, February 2, 2003.

cannot help but conclude that the Section 201 Safeguard action is an overwhelming failure. Illinois was the fifth largest state in terms of job loss because of this decision. Nearly 10,000 Illinois workers at facilities like A-American Machine in Rockford, which laid off 15 workers over the past year, lost their jobs last year due to higher steel prices. Small manufacturers and their workers are hurting from arbitrary price hikes and supply shortages.

They are also losing their global competitiveness, as foreign companies are able to import finished goods made with steel bought at world market prices, undercutting American small manufacturers. There's got to be a better way to solve the problems facing the steel industry.

I commend the International Trade Commission for examining the steel safeguard's effects on steel-using manufacturers in conjunction with the mid-point review next September. This information is critical to developing a complete picture of the steel tariff decision. The President should have all the available information in order to make an informed decision. I hope this 332 investigation provides the sufficient rationale for the President to rescind these tariffs as soon as possible.

We all need to step back and take a deep breath in order to reexamine fundamental assumptions. We cannot have the problems of one sector pushed onto other key sectors of our economy, many of which are vital to our defense industrial base. Just as we need steel to make a battleship or a tank, our nation cannot manufacture any product without a machine tool or an industrial mold.

This is also not a union/non-union issue. Last year, the Small Business Committee heard from many local labor union officials – including representatives from the United Steel Workers of America – who argued against the higher steel tariffs. We need a comprehensive manufacturing revitalization agenda to help all industrial sectors, not pit part of our industrial base against another. Thank you very much, Mr. Chairman.

Sunday Register Star

SUNDAY, July 21, 2002

NEWSPAPER OF THE ROCK RIVER VALLEY rrstar.com

Rockford, Illinois \$1.50

STEEL SHAKEOUT: AN INDUSTRY UNDER ATTACK

“ You’re (President Bush) costing us American jobs. Americans are getting laid off because of what you are doing. ”

— Don Metz of Metz Tool on the steel tariffs imposed four months ago by the Bush administration



Bush tariffs backfire on local steel users

■ Heavy toll in a short time

More than 34 U.S. steel companies have gone bankrupt since late 1997. In an effort to turn the tide, President Bush has imposed tariffs on steel imports, but experts question whether the industry can be saved.

■ Small manufacturers struggle

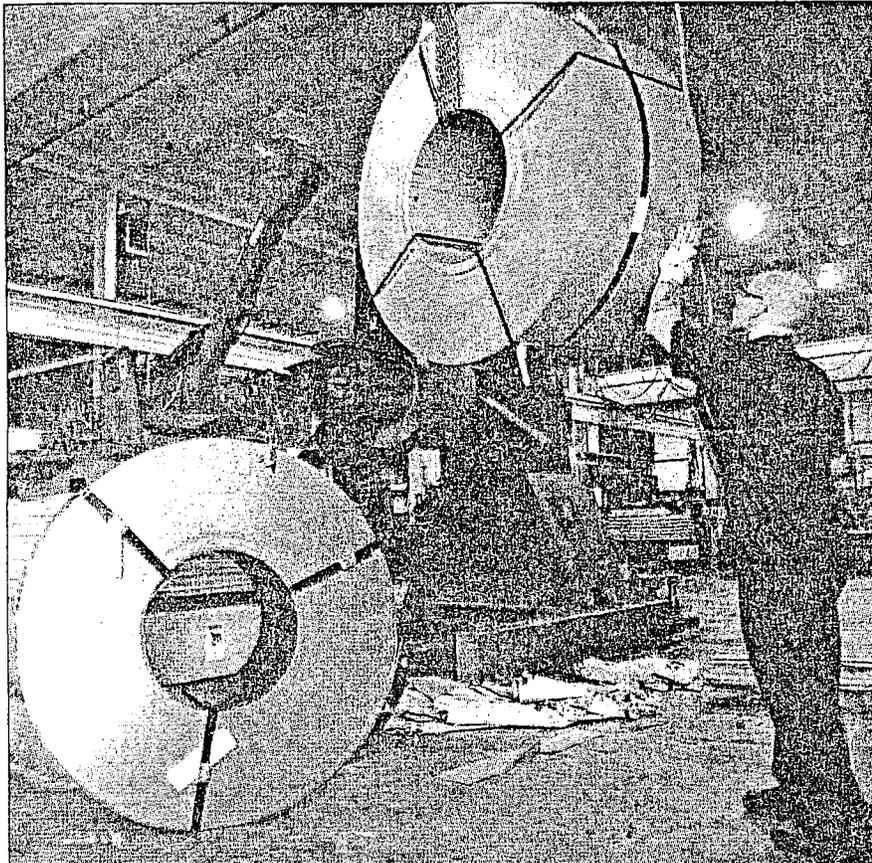
Bush’s tariffs have added to the woes of small manufacturers in the Rockford area who already face threats from intense foreign competition and a lackluster economy.

END OF AN ERA

To small manufacturers, some of whom inherited machine shops from their fathers and grandfathers, the business represents a job and a heritage. Now, as dozens of companies go bankrupt, these people say their lifestyle is under attack.

MIXED BLESSING

Although the steel tariffs have taken a toll on tool-and-die manufacturers, other Rockford companies say they have seen few adverse effects.



Holly McQueen/Rockford Register Star
Crane operator Joe Perry moves a coil of steel onto a press at Rockford Toolcraft. The steel will be turned into parts for a Dell computer product.

IN WASHINGTON

Rep. Don Manzullo, chairman of the U.S. House Committee on Small Business, has scheduled hearings on the tariffs Tuesday. He hopes to persuade the administration to rescind the taxes.

INSIDE

- Heritage Mold Inc. is one example of dozens of area manufacturers trying to survive. 1F
- How a tool-and-die firm made life better for Matthew Metz, a victim of Duchenne’s muscular dystrophy. 1F

 rrstar.com

- Find out how the steel industry has deteriorated.
- Track bankruptcies of U.S. steel companies.
- What are tariffs and how do they affect manufacturers?
- Link to Tuesday’s live broadcast of hearings at the U.S. House Committee on Small Business.

SUNDAY Business

SUNDAY, July 21, 2002

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STEEL SHAKEOUT: AN INDUSTRY UNDER ATTACK

“They can’t stay afloat for another 17 months before the tariffs end.”

— Rep. Don Manzullo, who will hold hearings Tuesday on how the Bush administration’s steel tariffs affect small manufacturers



Tariffs strangle area shops

Already-fragile manufacturing base damaged, threatened

SASHA TALCOTT
Rockford Register Star

At twilight, a street lamp shines on a can of lukewarm tea outside Heritage Mold Co., the only sign of life in the Rockford toolmaker’s weedy parking lot.

Two years ago, the shop on West View Road brimmed with activity as men worked 10 hours a week, second shifts and overtime. Now, with a 32-hour workweek and the number of employees reduced almost by half, Heritage Mold ins dozens of Rockford-area manufacturers trying to survive in a business climate here the rules never again will be the same.

For small manufacturers such as Heritage Mold, President Bush’s tariffs on imported steel expose a painful contradiction: Designed to bail out America’s steel mills and keep jobs at home, the tariffs also deal a harsh blow to many shops that rely on steel. Steel prices have soared 20 percent to 40 percent in the four months since the tariffs took effect, and Rockford manufacturers report shortages in supply as well. Steel that once took weeks to order now takes months — if manufacturers can get it at all.

If the high cost of steel forces businesses to raise prices, manufacturers fear that their customers will take their work elsewhere — to companies in China, Malaysia or Japan, which can produce many of the same products at a fraction of the cost.

As global competition intensifies, Rockford small manufacturers are cutting costs and reducing work schedules, hoping that the economy will rebound.

So far, layoffs have been light, but manufacturers said that will change if orders remain stagnant for too long.

“The shakeout is already going on,” said Lloyd Falconer, secretary-treasurer of Seward Screw Products Inc. in Seward. “It’s really coming to a head now. The competition is fierce. You either grow or you die. No one can stand still, or a train will hit you.”

Local manufacturers also say they are fighting to preserve something far more fundamental than gears, machinery and profits: They refuse to give up their optimistic, utilitarian American way of life.

“The saddest truth is, off the backs of your grandfather and my grandfather is how we built this country,” said Don Metz, president of Metz Tool & Die in Rockford.

“Now that economy is not being passed down to future generations. I’m still optimistic

about where we’re going to go, but the bottom line is that the steel tariff does not help.”

Rep. Don Manzullo, R-Egan, will hold hearings Tuesday on how the tariffs affect small manufacturers.

Manzullo, chairman of the House Committee on Small Business, already has brought two Rockford tool-and-die manufacturers to Washington to speak to Congress and lobby the Bush administration to rescind the tariffs. The congressman has received a three-inch stack of letters from people nationwide protesting the tariffs.

He campaigned successfully to get tool steel, used by many Rockford shops, exempted from the tariffs.

“These things have hurt the very fragile manufacturing base we have in Rockford,” Manzullo said. “All of the wrong stars are lined up against them. These people can’t stay afloat for another 17 months before the tariffs end.”

Saving steel

When President Bush issued an executive order in March to tax foreign steel, he spoke mostly of hope, compassion and the need to save American jobs.

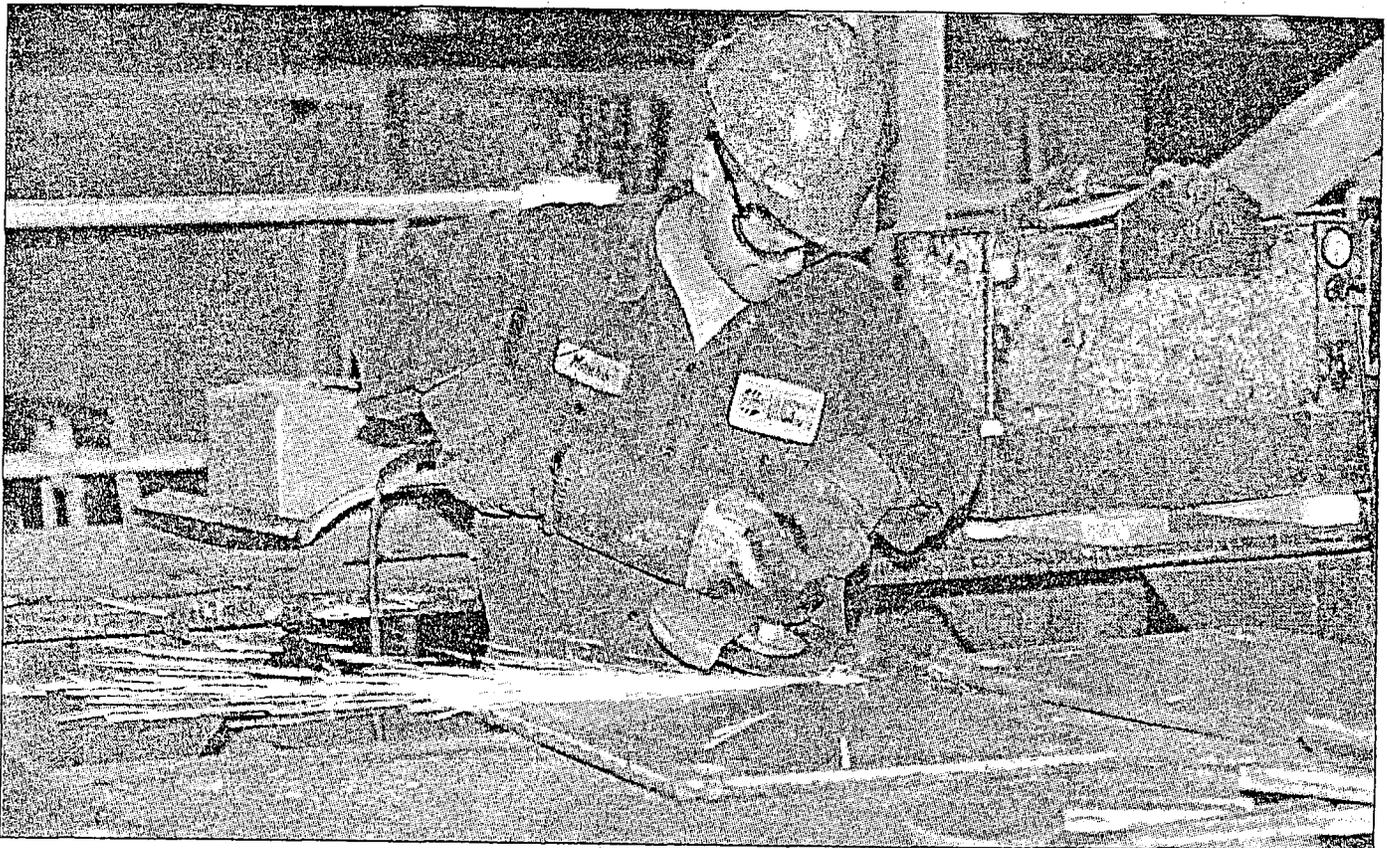
In the past four years, more than 30 American steel companies have declared bankruptcy, throwing more than 45,000 people out of work. The bankruptcy of Northwestern Steel and Wire Co. 18 months ago sent shockwaves through the community of Sterling and left more than 1,500 people jobless.



Lloyd Falconer



Don Metz



Christina N. Elbers/Rockford Register Star

Nicholas Dominguez, a parts-finisher at Liebovich Brothers Steel & Aluminum Co. in Rockford, cleans parts after they were flame-cut. For such small manufacturers, President Bush's tariffs on imported steel have dealt a harsh blow. Many area shops are cutting costs and reducing work schedules, hoping that the economy will rebound.

pay higher prices if it prevents America from becoming dependent on foreign steel.



Jerry Busse

Jerry Busse, president of Rockford Toolcraft, said national defense should take priority over his own business interests.

In the past four months, Busse said, the domestic steel he buys has increased from 17 cents a pound to 20

“A lot of these Rockford shops are hanging on by a thread. It's very slow. They're dead in the water.”

— Jack Wilcox, an engineering manager for Heritage Mold Inc. of Rockford

cents — a figure that adds up quickly when Rockford Toolcraft uses 175,000 pounds of steel a day.

Still, he said steel is cheaper than when he started the die-and-stamping business 25 years ago, costing “less than you'd pay for rocks.” The Rockford company employs about 140 people

and has made parts for DaimlerChrysler and Ingersoll-Rand Co.

“Everyone is looking at it in a very selfish manner,” Busse said. “It's unpatriotic. All of these crybabies should pay more for steel if it's going to help save our industry. I'm all for that.”

Impact on workers

For workers, too, the string of manufacturing woes creates an environment of constant uncertainty: They see friends and colleagues laid off from jobs, and they know they could be next.

Marcelino Fajardo, production manager at Cherokee Industries in Hampshire, works nine hours a day, and soon might scale back to eight.

He notices the difference in his paycheck, which now is far smaller than when he put in back-to-back shifts of up to 20 hours a day.

Sales at the 20-employee company sank from \$3 million to \$2 million last year, and the company reduced its work force by one-third.

“Everyone is worried about being laid off,” said Fajardo, who emigrated from Mexico in 1976. “We just don't have enough work for everyone. I can see that

the orders are not there.”

Two months ago, A-American Machine owner Mark Keller called his workers together for a painful announcement: The company's profits had slumped and orders were barely trickling in. He would lay off four of his 20 employees, and trim the workweek to 32 hours until things got going again.

Keller, a straightforward man who fondly refers to employees as “my guys,” said the decision was painful but necessary.



Mark Keller

“It was very emotional,” he said. “It affected each and every one of us. It hurts.”

For those who remain, the reduced workweek means some small sacrifices, but employees still worry they could be next in the unemployment line.

Shawn Van Barriger, a mill operator at A-American, said smaller paychecks mean he will give up his hobby of carving poker tables out of wood, cut back on eating out and eliminate vacations in Wisconsin.

Machinist Warren Weerda said he likely will not be able to attend another NASCAR race until business picks up again.

Sales at A-American dipped to \$1 million this year from \$1.4 million last year, Keller said. The company's steel costs have jumped 20 percent since Bush imposed the tariffs. After manufacturing orders sagged more than 70 percent, Keller said A-American will shift its focus to other enterprises.

The company now maintains newspaper printing presses. It also bought a line of hand tools and a food-packaging machine.

Instead of manufacturing parts to order, A-American will specialize in repairing and replacing parts for customers.

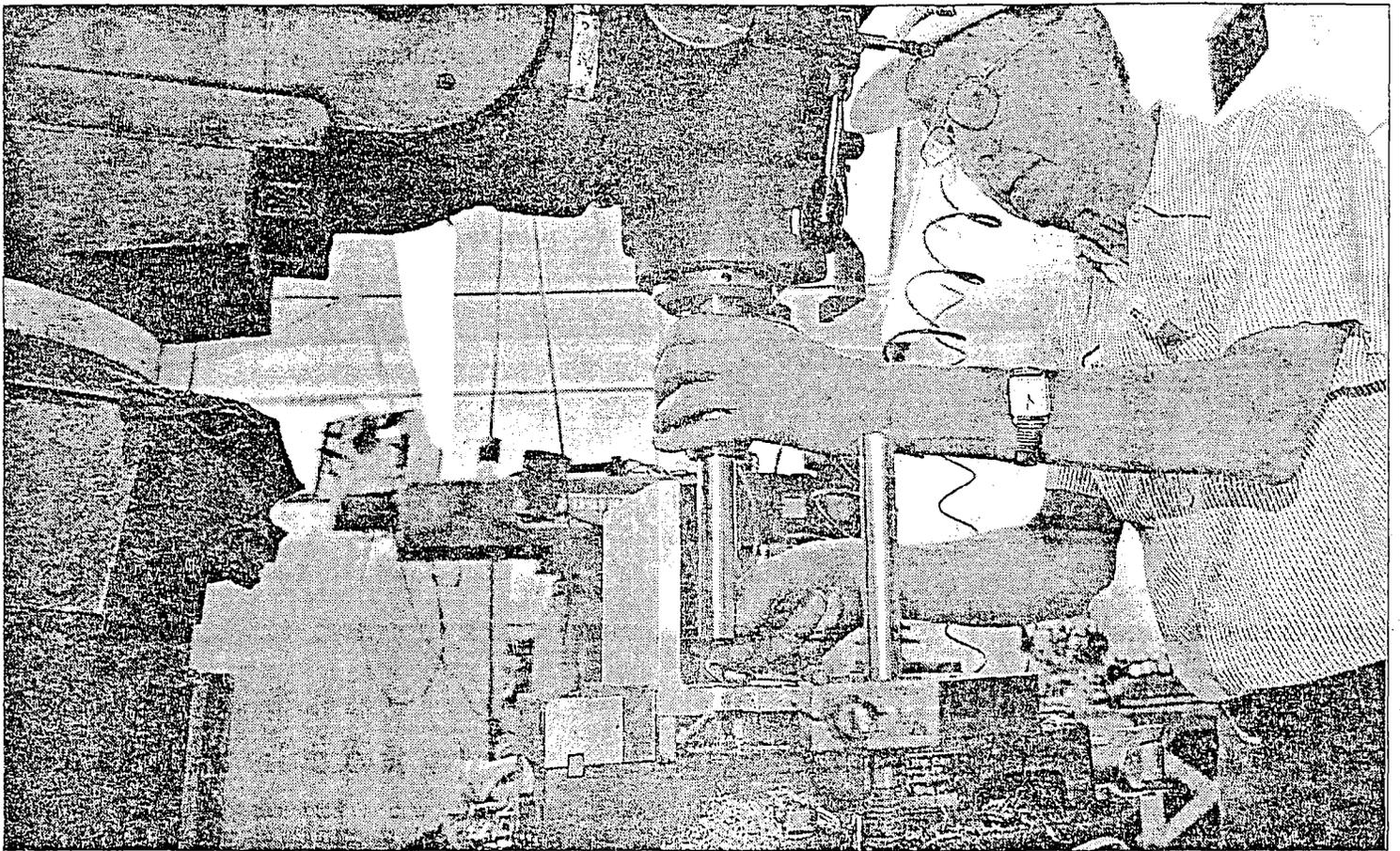
“We'll survive,” Keller said. “We're just going to have to adapt. We'll play by different rules and make money where it's available. If it means we'll have to change fields or restructure, we'll do it.”

As sales of foreign steel slowed in response to higher prices, local small manufacturers report that American steel has become more difficult to obtain.

Randy Gay of Action Tool said it takes up to two months to order steel. Before March, it took five weeks. At the same time, he said, the price he pays for that steel increased between 40 percent and 50 percent.

Tariffs strangle, threaten area manufacturers

► Continued from Page 1F



Photos by Eddy Montville/Rockford Register Star

Machinist Warren Weerda does milling work at A-American Machine and Assembly in Rockford. Two months ago, A-American owner Mark Keller laid off four of 20 employees and trimmed the workweek to 32 hours because of slumping orders and profits.

When a customer recently placed an order, Action Tool had to scour local steel distributors to meet it. Gay said the company ended up buying part of the steel from one distributor and part from another — and that Action Tool was lucky to get the steel at all.

“This could put us right out of the ball game,” Gay said. “It could snowball into something the president never expected.”

Steel artists

Though struggling, the tool-and-die industry still employs some of the region's most highly skilled and highest-paid blue-collar workers.

Most tool-and-die makers undergo years of education and training, including formal apprenticeship programs with manufacturers. The U.S. Bureau of Labor Statistics estimates that Rockford tool-and-die workers earn nearly \$21 an hour, which does not include overtime pay that workers reaped when the economy was strong.

The Rock River Valley is home to about 70 tool-and-die shops and hundreds of other companies that use steel. Beyond making parts, many in the tool-and-die industry view themselves as creators and innovators as much as manufacturers.

In the office of his Rockford shop, Don Metz has covered a countertop with AstroTurf. On it he placed miniature statues of famous American baseball players made by Metz Tool for Major League Baseball more than a decade ago.

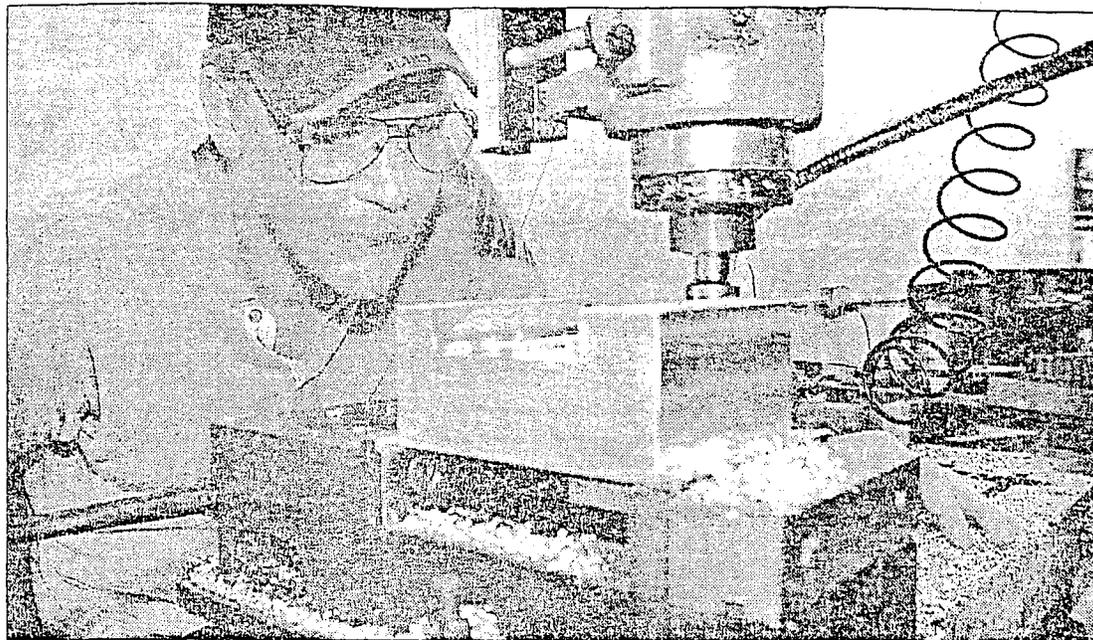
He said Metz Tool fashioned its identity around pioneering new products, hoping to ward off foreign competition. The 30-person company designs specialty molds, faucet heads and other custom metal parts.

“We are artists who sculpt in steel,” Metz told the U.S. House Committee on Small Business when he testified in April.

“Everything that is mass-produced, from the plastic rattle you shake as a baby to the hardware that decorates your casket when you are laid to rest, comes from our industry.”

Today, many in the industry link tool-and-die manufacturing with down-home American values in the face of a market impossibly stacked against them.

In Seward, a tiny town of 300 people in western Winnebago County, the post office shares space with the general store, across the street from a kindergarten classroom. Seward Screw is next door to a meat-



Machinist Shawn Van Barriger works at A-American Machine and Assembly in Rockford. Sales dipped to \$1 million this year from \$1.4 million last year. Meanwhile, the company's steel costs have jumped 20 percent since President Bush imposed the tariffs. The company maintains newspaper printing presses, including those owned by the Rockford Register Star and the Chicago Sun-Times.

packing plant and a soybean field, a mile or so down the road from a barn painted with an American flag.

Seward Screw is by far the town's largest employer, drawing 125 workers from all over the region.

Business remains strong — thanks, in part, to Seward Screw's largest customer, Harley-Davidson.

“Everything that is mass-produced, from the plastic rattle you shake as a baby to the hardware that decorates your casket when you are laid to rest, comes from our industry.”

— Tool-and-die maker

Don Metz to the U.S. House Committee on Small Business

parts for Harley's Milwaukee plant.

Still, Seward Screw's Falconer said planning for orders has become far more difficult since Bush imposed the tariffs. It now takes up to five months to order steel, where it once took six weeks.

The company also makes gear blanks and electrical fittings, but not screws.

“We're a can-do, nuts-and-bolts kind of town,” Falconer

said. “That's just who we are. The heart and soul of the Rockford area is the heart and soul of America. We have a lot of common sense and a real lot of practical knowledge of how to get things done.”

Threats from abroad

Although Bush's steel tariffs have pummeled local manufacturers, the tariffs are just one in a series of problems they face.

Intense competition from foreign companies and high labor costs put pressure on local shops, and manufacturers saw orders slump when the dot-com bubble burst two years ago.

Many Rockford shops tell the same tale: Once-loyal customers are flocking to Chinese manufacturers, which are freed from the demands of unions or environmental controls.

Customers often force small manufacturers to make the painful decision to either accept impossibly low prices or forfeit the job altogether.

“We're expected to compete against countries where workers earn \$20 a week and live in cardboard boxes,” said A-American's Keller. “We're not going to compete. I'm not going to ask my guys to live in a cardboard box.”

At Heritage Mold, foreman Tim Barkdoll said that every day he sees the empty benches of five men who no longer work in the shop.

Buckling under the company's reduced work schedule, two

men left for other jobs. One died, and two were laid off near Christmas. None was replaced.

“Morale has been bad,” said Todd Friberg, a tool maker who has worked at Heritage Mold for seven years. “It's just depressing. The shop is quiet. The machines aren't running. We're just scraping by.”

Heritage relies mostly on tool steel, which is exempt from the steel tariffs. The exemption helped, owner Bennett Franzen said, but not nearly as much as if Heritage could match the low prices of its global competitors.

In the past two years, sales have shriveled to \$700,000 from \$2 million, a “devastating” decline that Franzen blames on global competition, a sagging economy and Sept. 11 attacks.

Franzen, who scaled back to a 32-hour workweek, said he sees small signs that orders are picking up.

But foreman Barkdoll said that the slight increase has yet to register in the shop. With the reduced schedule, he said, he no longer can afford to buy a used car for his 16-year-old daughter.

“This is the first time I've not been able to say, ‘Hey, it's going to get better,’” Barkdoll said. “It hasn't happened. We're still down.”

For now, most Rockford tool and die manufacturers are playing a waiting game.

“A lot of these Rockford shops are hanging on by a thread,” said Jack Wilcox, an engineering manager for Heritage Mold. “It's very slow.

Bush administration's tariffs a compromise

Steel tariffs imposed by President Bush four months ago cover a wide range of materials and countries.



President Bush

Critics have accused Bush of putting the tariffs in place to win votes in steel-producing states such as Pennsylvania, but in many ways, the tariffs represent a compromise.

For example, the administration exempted from the taxes a variety of the metal called tool steel, which about one-third of Rockford small manufacturers use.

The steel industry had lob-

bied the government to impose 40 percent tariffs and to assume responsibility for the health and pension funds of thousands of aging steelworkers nationwide. Those legacy costs total about \$12 billion, steel companies estimate.

The administration refused to do that, saying it would set a bad precedent for other industries.

Robert Crandall, senior fellow of economic studies at the Brookings Institution, said no amount of tariffs or bailouts could save large old-line steel mills.

Worrying about their demise is "like worrying about the disappearance of the manual type-

writer industry," he said.

While old-line steel mills stagger, a new type of American mill is taking market share away from the industry leaders. Called "mini-mills," these leaner competitors make steel from scrap metal and have significantly lower labor costs.

Steel-tariff opponents argue that mini-mills are the real threat to the old-line facilities and that government should let market forces wipe out inefficient steel companies.

"It makes (Bush) look like a fool in the eyes of the world," said Crandall, who has studied the issue on behalf of steel-using companies. "It has subjected him to such enormous ridicule.

Really, it'd be much cheaper to pay off all the people in the steel industry who have lost their jobs and ship them all off to Florida."

In Rockford, many small manufacturers said they likely would support bailing out old-line steel mills if the tariffs were guaranteed to work.

But Lloyd Falconer, secretary-treasurer of Seward Screw Products Inc. in Seward, said America's steel mills might be a lost cause.

"They're operating in the 19th century," he said.

"They never made it to the 20th. They're going to walk to their own drummer and the customer be damned."

— *Sasha Talcott*

Local steel shops feel the strain

They're some of the highest-paid and most skilled blue-collar workers in America. So why are local manufacturers fighting for their lives?

Foreign competition: Many companies in developing countries pay workers less and are not subject to environmental regulations. They can make cheaper products and undercut U.S. manufacturers.

Recession: Manufacturers are one of the best barometers of economic health. They generally are the first to experience slowing orders and also the first to see the economy pick up. Some say they see no end to the economic slump.

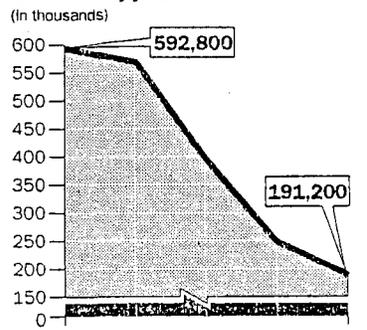
Steel tariffs: In March, President Bush imposed taxes of 8 percent to 30 percent on imported steel. Shielded from foreign competition, domestic steel companies raised their prices as well. Overall, the price of steel has increased 20 percent to 40 percent since the tariffs were imposed, according to the Heritage Foundation in Washington.

Strong U.S. dollar: Weak foreign currencies and a strong U.S. dollar make it easier for U.S. companies to import products but more difficult for manufacturers to sell their products abroad.

Steel companies blame imports for job losses, but critics doubtful

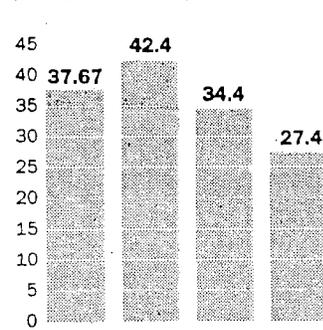
Steel companies and unions say a surge of unfairly priced imports is killing U.S. steel mill jobs. But imports fell in recent years and the American industry simply cannot compete with modern, cutting-edge plants in Europe, Asia and South America, critics say.

U.S. steel blast furnace, pipe and tube industry jobs



*Preliminary figure.

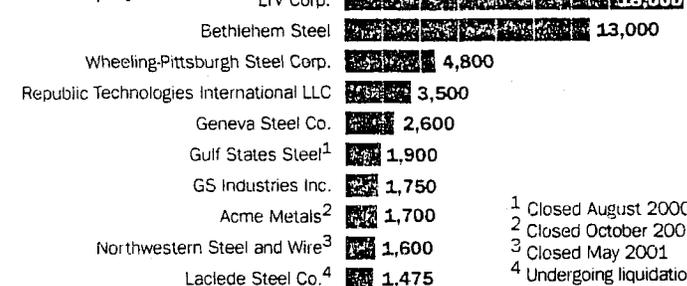
U.S. steel imports



Top foreign steel suppliers in 2001



10 biggest steel makers in bankruptcy



¹ Closed August 2000

² Closed October 2001

³ Closed May 2001

⁴ Undergoing liquidation

ONLINE



- View pictures of Rockford's steel industry.
- By the turn of the century, Andrew Carnegie was the world's richest man, and he made much of his money through steel. Find out how the steel industry has deteriorated.
- Track the bankruptcies of American steel companies by region.
- What are the steel tariffs and how do they affect Rockford manufacturers?
- Learn quick facts about the steel crisis.
- Find out which steel products are affected by the tariffs.
- Read a Rockford manufacturer's testimony in Congress.
- Link to Tuesday's live broadcast of U.S. House Committee on Small Business hearings.

Some shops not hurt by steel tariffs — yet

By SASHA TALCOTT
Rockford Register Star

As rising steel costs make it tough for many small Rockford manufacturers to stay afloat, other companies say tariffs that have forced steel prices upward have had mixed effects.

Liebovich Bros. Inc. is the largest local player in Rockford's steel industry, shipping 700 tons of steel daily. When President Bush announced the tariffs four months ago, the value of the company's inventory of 20,000 tons of steel increased immediately.

Although profits are down and the company is not hiring, Liebovich recently expanded its Rockford distribution plant to anticipate an economic upswing.

At Liebovich's 500,000-square-foot distribution center on a muggy June afternoon, workers wearing blue hard hats with U.S. flag decals maneuvered overhead cranes to hoist bars of steel, cut them to order and sort them by an intricate color-coding system.

The company buys steel from mills and cuts it to the specifications of heavy-metal users, saving their customers the cost and hassle of cutting metal themselves.

Larry Liebovich, executive vice president, said that the company has had trouble maintaining a steady supply as steel mills have failed. So, he said, the tariffs will bring much-needed stability to the industry.

"Our prices were way too low," Liebovich said. "I knew the problems were coming a long time ago. It was just a matter of which recession was going to get them."

Although the value of Liebovich's inventory increased, he worries that the tariffs will not be enough to bail out besieged steel mills.

Conversely, he said, he's concerned that his customers may be squeezed out of business by overseas competition if the price of steel rises too high.

To anticipate these scenarios, Liebovich will sell its inventory as quickly as possible. It also is preparing to pick up the slack from any competitors who go bankrupt.

Liebovich recently expanded its operation by 125,000 square feet, linking its train tracks with its storage center.

In the midst of that expansion, however, a red sign in Liebovich's entryway cautions visitors, "Em-

“ It's very vulnerable, but we don't lose money. We don't print red ink around here. ”

— Larry Liebovich
about how his company has been affected by steel tariffs

ployee applications not being taken at this time.”

Although the company's fortunes generally parallel the ups and downs of the steel mills, Liebovich said, it has managed to stay above water even as other mills have gone under.

"It's very vulnerable, but we don't lose money," he said. "We don't print red ink around here."

A-1 Wire, which makes stainless steel and nickel alloy wire, is another Rockford company that has experienced few negative effects from the steel tariffs.

In the past four months, A-1 Wire saw overall cost of stainless steel jump by about \$1 million, but the company passed much of that price increase on to customers, said controller Tony Coldagelli.

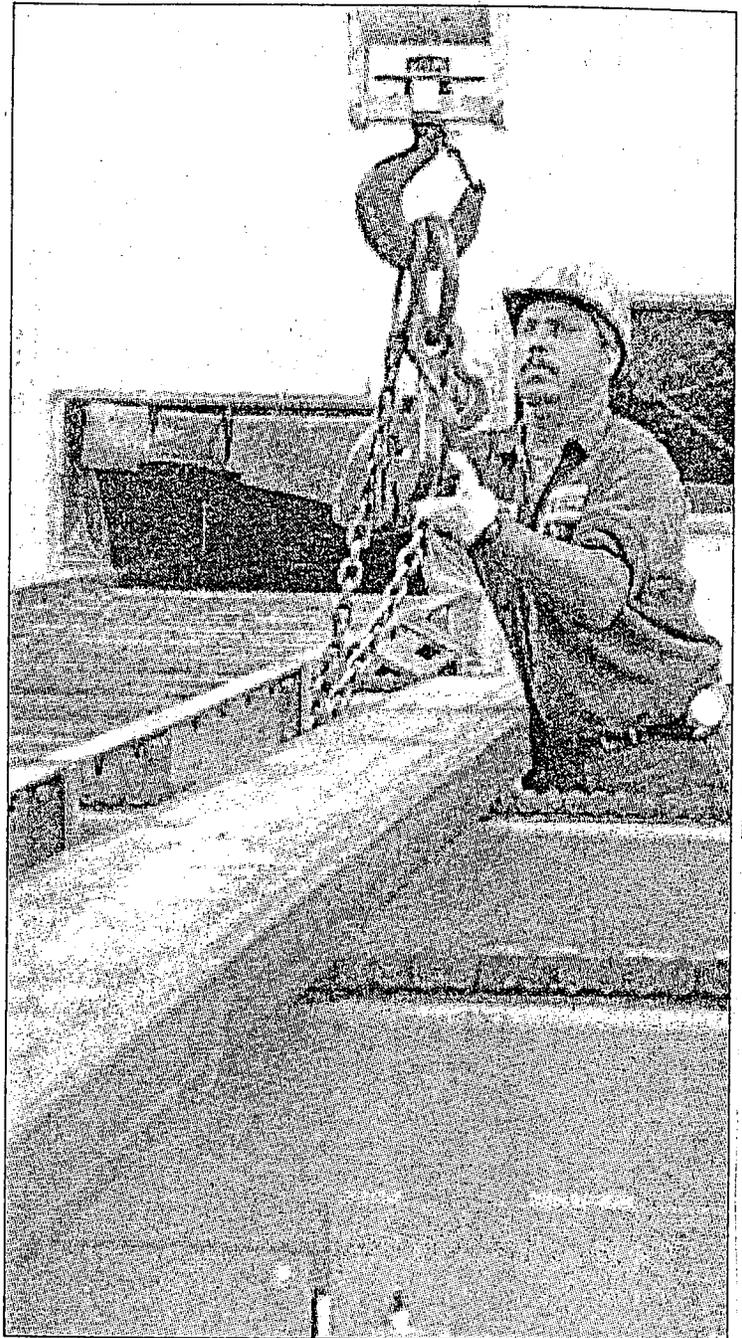
The 75-person company uses about 10 million pounds of steel a year, much of it imported.

After Bush imposed the steel tariffs, A-1 stopped importing steel from Korea and Taiwan but still buys steel from India, which is not covered by the tariffs.

Still, Coldagelli expects the taxes to take a toll in the long run.

Like Liebovich, Coldagelli said he fears A-1 could suffer if manufacturers and tool-and-die makers that buy A-1 Wire's products struggle.

"It's a wash for us," he said. "Business is better this year, but our customers will have more trouble competing in the future."



Christina N. Elbers/Rockford Register Star

Tom Ditzler, a crane material handler at Liebovich Bros. Inc. in Rockford, unhooks the crane from a large piece of steel while preparing it for transport. Liebovich is the largest local player in Rockford's steel industry, shipping 700 tons of steel daily.

Rockford tool and die shop supported family, disabled son in living full lives

By SASHA TALCOTT
Rockford Register Star

At age 16, Matthew Metz's heart stopped beating.

Years earlier, he lost his ability to reach up and give his mother a hug or to jump off the couch and grab a Coke from the fridge.

He could not get in and out of bed on his own. Unruly shoelaces eluded his faltering fingers. He would never catch a foul ball at the White Sox games he loved to attend.

Diagnosed with Duchenne's muscular dystrophy at 5, using a wheelchair by 8, dead by 16, Matthew Metz lived a life few would envy.

"We had one daughter who was a Division I basketball player and another child, just as big of a sports fan, who was in a wheelchair," said Matt's father, Don Metz, who is president of Metz Tool & Die in Rockford. "Matt never got to go from first to third on a base hit or shoot a jump shot. Those things were taken from him."

But for 16 years, the Metz family tool-and-die business helped make it just a little easier for Matt to deal with his day-to-day struggles.

When Matt's shoulders cramped his child-sized wheelchair, his grandfather fashioned a "big man" chair to hold him more comfortably.

On trips to Disneyland, White Sox games or weekend basketball tournaments, the family drove a van outfitted with a special seat and a wheelchair lift. Their home had an elevator so Matt could venture outside by himself.

"I'd never wish muscular dystrophy on anyone, but it changes you, it teaches you, it humbles you in a way you never imagined," Metz said. "You begin to appreciate the business. You appreciate manufacturing. I'm proud of the things we build here."

In April, Metz told the sto-



Photo courtesy of Don Metz

Matthew Metz visited Duke University as a 12-year-old. His wheelchair was designed by grandfather Jim Metz of Metz Tool & Die in Rockford. It included safety features and extra room.

ry of his son to the U.S. House Committee on Small Business while testifying about the struggles of Rockford's small manufacturers. He said his use of the tool-and-die business to help Matt demonstrates the need to protect small manufacturers and preserve an American way of life.

Metz told Congress that when he agonized over how to make Matt's bed more comfortable, his son turned to him and said, "Don't worry about it, Dad. Grandpa (Jim Metz) is a mold maker. They can make anything."

The family went on long road trips to watch Matt's sister play in basketball tournaments. They wheeled a folding hospital bed with them to keep Matt comfortable in hotels.

"We went all over the Midwest, and we'd take the bed with us," said Matt's sister, Jennifer, who is pursuing a doctoral degree in sports psychology at the University of Illinois. "After you've gone into the Chicago Hyatt with a hospital bed, you learn not to get embarrassed easily."

Although Matt died eight years ago, Jennifer and her father said it forever changed the way they view the family business.

"It made all of our lives easier," Jennifer said.

"There was a definite faith in 'you could take it to the shop and dad or grandpa could figure it out.' If my dad or grandpa couldn't figure it out, we always knew someone who could."

U.S. Manufacturing in Crisis

Summer 2003

By Donald A. Manzullo
Chairman, House Committee on Small Business

Declining State of U.S. Manufacturing

- Severe internal and external pressures on the U.S. economy have decimated U.S. manufacturing base
- Over 2.5 million manufacturing jobs lost in the last 3 years
- Manufacturing employment in the U.S. economy, currently at 14.8 percent, has fallen below the level at which it was first officially measured

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Declining State of U.S. Manufacturing

- “The Federal Reserve said output at manufacturing plants, mines and utilities slid 0.5 percent [in April], its second consecutive drop. Industry operated at only 74.4 percent of capacity, the lowest level in 20 years.” (New York Times 5/16/03)
- “The manufacturing woes were one big reason why the Labor Department reported Friday that the U.S. Unemployment rate rose to 6% in April from 5.8 in March. A continuation of the so far jobless recovery.” (USA Today 5/5/2003)
- “The flight of labor-intensive goods-making tasks to low wage countries isn’t the only reason [for manufacturing unemployment] anymore. Lately it’s been big companies’ tendency to order parts from foreign countries that has cost small to medium-sized U.S family firms a lot of business.” (Los Angeles Times 5/18/03)
- U.S. recovery further clouded by bad economic news globally and uncertainty with Iraq reconstruction, terrorism, and the Middle East

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Why Small U.S. Manufacturers Matter

- 95% of Manufacturers considered small or medium-sized businesses¹
 - Employ half of all manufacturing workers
 - Account for more than \$1 trillion in receipts
 - Pay their workers 20% more than other small businesses
 - Account for the vast majority of the basic products (e.g., tools, dies, molds) and inputs (e.g., specialty metals) essential and critical to our national security

¹ Source: National Association of Manufacturers – The Manufacturing Institute, “Today’s Small and Medium Manufacturers,” 2001

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Ten Factors Working Against U.S. Manufacturers

- 1) *Washington's* cluelessness as to importance of manufacturing
- 2) Surging cost of insurance of all kinds (esp. health care)
- 3) Overwhelming regulatory burden (federal, state, and local)
- 4) Suffocating tax burden (federal, state, and local)
- 5) Inaccessibility of capital (e.g., tighter credit standards)
- 6) Inaccessibility of Federal procurement contracts
- 7) Overvalued U.S. dollar (inflating cost of U.S.-made goods)
- 8) Steel tariffs and corresponding spikes in domestic prices
- 9) Domestic trade barriers (e.g., export controls, unilateral sanctions)
- 10) Foreign trade barriers (e.g., tariff & other barriers to market access)

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1. Washington Clueless on Manufacturing

- What we hear in Washington:
 - “Manufacturing is only 15 percent of GDP”
 - “We have a service and high-tech economy”
 - “Nobody wants a factory job any more”
- Ignorance of the “multiplier effect” of manufacturing
 - \$1.00 manufacturing product = \$1.26 in intermediate economic output (the service sector statistic is \$0.74 for every \$1.00 of final sales)¹
 - \$1 million manufacturing sales = 8 manufacturing jobs + 6 service jobs (\$1 million in service sector sales = 3.5 service jobs)¹
 - 150 manufacturing jobs translates to \$30 million in economic output²
- Bureau of Labor Statistics underestimates role of manufacturing in communities

Educate Washington officials about U.S. manufacturing and how it affects the economy, communities, and constituents

¹ Source: National Association of Manufacturers

² Source: Penn State Study, “Community Costs of Technical Skills Deficits: A Pennsylvania Case Study,” October 25, 1996

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2. Surging Health Care Costs

- Small business premiums soaring 20-40%
- Percentage of small businesses offering health care benefits slumping (from 67% in 2000 to 61% in 2002) (Kaiser Foundation Survey, Sept. 9, 2002)
- 60% of the nation's 43 million uninsured are small business owners and their employees and families
- Large Business healthcare advantages:
 - 100% tax deductibility of healthcare premiums
 - Ability to buy health care at reduced-rates based on volume

Initiatives to ease the burden of high health care costs:

- Association Health Plans – enabling small businesses to pool interests in negotiations with health care providers
- President's tax credits for the uninsured
- Medical Savings Accounts – tax deferred savings accounts for health care costs not covered by health insurance
- Medical malpractice/litigation reform

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3. Overwhelming Government Regulation

- Complying with government regulations costs businesses about \$843 billion per year (\$8,164 for a family of four),¹ or about 8% of GDP
 - Annual regulatory burden is 60% higher for small firms (under 20 employees) compared with medium to large firms (over 500 employees)¹
 - Federal regulations in 2000 exceeded 83,000 pages (double the size in 1980)
 - Environmental regulations and the paperwork burdens of tax compliance make up about 40% of the total regulatory burden on businesses¹
- Regulations affect small businesses *more*:
 - Small businesses lack the resources to manage and fight these burdens
 - Large businesses spread costs over greater volume
 - Government regulation pushing manufacturing offshore

Use the Congressional Review Act to nullify overly burdensome regulations (e.g., proposed ergonomics rules); enforce the Regulatory Flexibility Act to require economic impact analysis on small business before regulations become final; and fix the law (EAJA) that's supposed to make losing federal agencies pay a prevailing small party's legal fees

¹ Source: Office of Advocacy, SBA, "The Impact of Regulatory Costs on Small Firms," October 2001.

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4. Suffocating Tax Burden

- High taxes and a complex tax system block small business growth
- The U.S. has one of the highest corporate tax rates (national and state taxes at 40%) compared to other developed nations (average of developed countries at 31%) *(Source: CATO Institute, Apr. 12, 2002)*
- While moving outside the U.S. solely to avoid taxes is wrong, our flawed and expensive tax system encourages offshore movement

The proposed Job Protection Act would lower corporate taxes for domestic manufacturers by 10%; the president's economic growth package supports rate reductions, increased expensing, "bonus" depreciation, and relief from the double taxation on dividends; also seeking permanent repeal of the "Death Tax"

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5. Inaccessible Capital

- Small businesses – those most in need of financial backing – lack access to growth capital
- Fees too high on SBA loan guarantee programs, making the programs unattractive for most small manufacturer borrowers
- SBA loan limits too low for the capital-intensive credit needs of most small manufacturers
- Banks reluctant to lend to small manufacturers in the Midwest

Increase small business access to SBA lending programs; raise SBA loan limits for manufacturers; support the BRIDGE act (tax deferral initiative) to help small business capital needs

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6. Inaccessible U.S. Procurement Contracts

- The U.S. government buys well over \$200 billion worth of goods and services each year; yet it rarely reaches the modest 23 percent goal for small business
- Small business hurt in many ways (e.g., preference for “bundled” contracts)
- U.S. policy to “streamline” procurement often makes it difficult for small companies to break in with a new idea or product
- U.S. government (esp. the Pentagon) uses U.S. taxpayer dollars to import products instead of using domestic U.S. manufacturers (harming domestic manufacturing base and jeopardizing future national security needs)
- U.S. agencies forced to buy many prisoner-made products from Federal Prison Industries because of its “mandatory sourcing” preference, even though price may be higher and the quality and delivery of service lower

Examining Pentagon procurement practices (Army Berets / Joint Strike Fighter / Titanium) to keep production in the U.S. while fighting unsound contract bundling; House-passed defense bill protects U.S. industrial base, e.g., (1) raises Buy-American content requirement from 50 to 65%, and (2) mandates that defense contracts greater than \$5m must use American-made machine tools, dies, and industrial molds

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7. Overvalued U.S. Dollar

- By most measures, the U.S. dollar remains overvalued, making our:
 - exports more expensive, harming global competitiveness and eroding global market share of our firms, and
 - imports that much cheaper, diminishing pricing power and eroding domestic market share of our firms
- Other nations routinely manipulate currency markets to prevent their currencies from appreciating against the U.S. dollar, and thus keep the dollar overvalued

The U.S. Administration has recently ceased talking-up the dollar; the Treasury Secretary also should vocally oppose foreign governments manipulating world currency markets; we sent a letter to China's Premier urging China to un-peg its currency from the U.S. dollar and allow market forces to determine the Chinese currency's value, making Chinese imports properly more expensive in the U.S., and U.S. exports properly less expensive/more competitive in global markets

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8. Consequences of the Steel Tariffs

Five general themes of a policy initiative gone bad:

1. Small U.S. manufacturers have seen their steel prices rise by up to 80%
2. Steel-using manufacturers face arbitrary allocations and shortages
3. U.S. sales lost to foreign companies purchasing steel at world prices
4. Layoffs because steel prices have made manufacturers uncompetitive
5. Big steel producers breaking existing contracts to arbitrarily raise prices

Initiated Section 332 Investigation by the International Trade Commission concerning the impact of the tariffs on steel users; encouraging Administration to end steel tariffs at the midterm review period in September 2003

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9. Export Controls / Unilateral Trade Sanctions

- Export controls and trade sanctions cost \$20 to \$40 billion in lost exports per year, or roughly 400,000 jobs¹
- Export controls place severe and often outdated limitations on U.S. high-tech manufacturers (e.g., machine tool builders) selling "dual use" products (with mainly commercial but potentially military applications) to key foreign markets
- Our key international competitors have no such limitations and take away many high value sales from our manufacturers
- Unilateral trade sanctions imposed by the U.S. to make a foreign policy statement often cause great harm in lost business opportunities
- U.S. agencies use visa policy to unduly restrict access to the U.S. for foreign customers, tourists, and others seeking to do business here

U.S. export policy causes U.S. businesses to be unreliable suppliers; even our allies use U.S. export policies against our businesses

¹ Source: Institute for International Economics

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Examples of Misdirected Export Policy

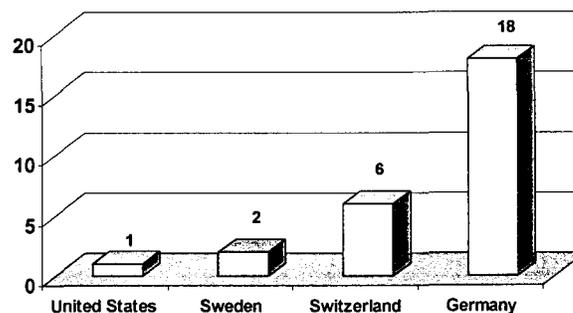
- Cray Computer
 - Because of the long delays for our government to process an export license for Cray to sell a supercomputer to India in 1989, India turned around and created its own supercomputer industry that now competes directly against U.S. firms
- Hughes Communications
 - After the State Department denied an export license to Hughes to launch a \$600 million communications satellite from China, China went ahead and bought an Alcatel satellite from France; the world market share for U.S. satellite manufacturers declined 40% (our European competitors took the market share) in just 2 years after the State Department took over the licensing process in 1998

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Example: Sale of 5-axis Machines to China

Chinese Imports of Licensed 5-Axis Machines (1997)¹



Because of counter-productive export controls, we lost the 5-axis machine tool market in China in 1997

¹ Source: The Association for Manufacturing Technology

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10. Foreign Trade Barriers

- Trade barriers cost U.S. businesses \$200 billion annually¹
- Our domestic consumers enjoy lower prices because the U.S. is among the "most open economies" in the world, but our producers struggle mightily in an uneven and unfair international tariff environment
 - We benefit from foreign investment (subsidiaries of foreign companies in the U.S. employ over six million Americans)
 - Yet our businesses face high tariff and non-tariff trade barriers against their exports from most other countries

Promote exports while guarding against unfair trade; Level the playing field through use of anti-dumping and countervailing duty trade laws, and the Byrd amendment (higher tariffs go to injured companies, not the U.S. Treasury)

¹ Source: University of Michigan Study, 2001

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Focusing Big Business on Small Business

- We must do better to make trade work for small business
- Barriers to entry are too great
 - Small businesses have been sidelined, unable to get involved in international trade on their own
- We need the support of our large U.S. multinational firms, in addition to U.S. government backing, to make trade work for small business

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AJF – Our Message to America’s CEOs

- **America’s Jobs First (AJF):** U.S. Multinational firms should put America’s jobs *first* by actively soliciting competitive American small business suppliers for their global supply chains
- Benefits include having higher quality American inputs, saving and creating American jobs, and recovering political support for free trade
- Bottom lines will *IMPROVE*
 - Multinationals depend on the expansion, protection, and safety of overseas markets created and sustained by trade-friendly U.S. policies, which in turn depend entirely on public support for free trade
 - Any costs can be offset by redirecting some of the \$1.5 billion in reported annual lobbying expenditures, and part of the corporate advertising budget, to assess and advertise U.S. opportunities in supply chains

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A Meaningful Trade Strategy for US Corporations

- U.S. products and services are of the highest quality, and purchasing agents worldwide are *still* willing to pay more for them
- The imperative: When the quality of U.S. inputs is equivalent or superior, and the price competitive, stir the value of free trade into the calculation and *source American*, putting American jobs first
- There’s never been a better time for a “Buy American” campaign
 - Shows patriotism, corporate responsibility, and American values
 - Shows concern for U.S. “dislocations” and “adjustments” of free trade
 - Demonstrates that free trade can work for the little guys, too
 - Stops destruction of U.S. manufacturing and defense industrial base
 - Rehabilitates public image of Corporate America
 - Furthers the Administration’s National Export Strategy

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