Testimony of Dan DiMicco

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Good afternoon, Mr. Chairman and Members of the Committee. I am Dan DiMicco, President, CEO, and Vice Chairman of Nucor Corporation. Nucor is the largest steel producer in the United States. We also have the most diverse product line of any U.S. producer. We manufacture both flat products and long products at ten steel mills in eight states. Nucor manufactures its own semi-finished steel – we do not simply process imported steel. Raw steelmaking is where the substantial capital investments are – it is what makes the industry.

Mr. Chairman, I'll be blunt. The U.S. industry's problem is not "legacy" costs for workers and retirees. The problem is increasing volumes of low-priced imports, much of it traded in violation of international rules. The root causes of the import surges are global excess capacity and market-distorting subsidies. The President got it right last June when he launched his three-part initiative designed to restore free but fair trade to world steel trade. That plan includes a temporary "time out" under Section 201 on unfairly traded steel imports that have devastated the U.S. steel industry and its workers; international negotiations to eliminate global excess capacity; and negotiations to address market-distorting subsidies and anticompetitive practices. The President's blueprint offers a long-term solution to the import crisis, and is a welcome departure from the failed "band-aid" approaches of the past. I appreciate the Chairman's, and this Committee's, strong support of the President's initiative.

A time out under Section 201 is critical to the success of this effort. Section 201 relief will allow the domestic industry to obtain partial price relief, reinvest, and restructure. Import relief will provide the President with the leverage he needs to get our trading partners to the table for serious capacity reductions – and to conclude those talks successfully. It will give Congress the opportunity to correct the flaws in our trade laws that led to import surges and repetitive dumping.

The entire industry is unified in urging the President to impose a 40 percent tariff for a period of four years on all steel imports subject to the ITC finding. Let me explain why, as supporters of free trade, we at Nucor came to support a strong section 201 remedy.

Until a few years ago, Nucor shunned trade cases and in some instances even opposed them. We believed we could compete against anyone as the low-cost producer. But when we saw our markets savaged by dumped and subsidized imports we changed our mind. Nucor felt a responsibility to its shareholders and workers to fight back within the trade laws. The severe pricing pressure caused by low-priced imports drove our profits down by 68 percent in 2001. Sales price per ton declined by as much as 50 percent. This is an unsustainable trend.

Between 1988 and 2000, Nucor built seven greenfield mills that are world class competitors today. We also have a new strip mill nearing completion that uses a revolutionary new technology, "strip casting," that was described by Forbes Magazine recently as the "greatest technological development in the industry in 30 years." However, all of these investments were committed prior to 1998 when the import surge began. Since then, we have not been able to justify any new mills. We have been unable to maintain the momentum that we had in the 90's when market conditions were more stable. A dynamic steel industry needs these investments as older, less efficient plants are retired. Stop investing and competitiveness is gradually, but surely, lost.

Although the dumping cases have been helpful in combating unfair trade practices, they take a long time and are open to circumvention. Too often the traders simply switch countries or products and continue dumping. For example, after we <u>won</u> dumping cases against Japanese and Korean beams, traders found eight new suppliers and we had to file eight <u>new</u> cases a few months later. That scenario is repeated over and over in other product sectors. A time out on imports will give Congress the opportunity to address the shortcomings in our laws to avoid such problems. The legislation introduced by Senator Lincoln to combat "country switching," S. 1869, and the bill sponsored by Senator Durbin, S. 979, would go a long way towards addressing these concerns. I urge the Committee's support of these measures.

A Section 201 remedy gives the domestic steel industry the breathing room to adjust. It should provide the industry enough profits to modernize while shutting inefficient capacity. It will also provide foreign steel producers time to adjust, as it takes a number of years to reduce capacity in an orderly fashion. It should provide stable pricing for U.S. purchasers, while assuring them of the continued existence of domestic sources of supply. And it will give the U.S. government time to forge a long-term solution.

It is crucial that the same tariff be applied to all product categories, from semifinished slab to rebar. Most large integrated producers in foreign countries have the capability to make a wide variety of products. For example, mills can change their production from hot-rolled bar to rebar in a matter of hours. If different tariff rates apply to these products, foreign producers will simply shift production to the lower-tariff items. It's like squeezing a balloon -- making one part smaller simply makes the other parts bigger. We will see the same total tonnage of steel imported from foreign countries as before, and the remedy will be gutted.

Importer interests claim the 40 percent remedy will cause detriment to U.S. consumers. But the facts are otherwise. I know that a 40 percent tariff sounds high, and to assert that it won't significantly affect American consumers may sound dubious. Let me explain.

First, the immediate impact of a tariff will cause consumers to switch to domestically produced steel. The U.S. industry has substantial unused capacity to produce steel that is highly substitutable with imports. For this reason, most economic studies show that domestic steel prices will not go back to price levels in 1998 although they will, we hope, increase from the hole they fell into in 2001. The steel-consuming industries can certainly handle the level of steel prices that prevailed in the second quarter of 2000, and such prices would be a tremendous help to the long-term viability of the steel industry. That is why hundreds of our customers and suppliers are supporting import relief, including the scrap industry. They know that a healthy U.S. steel industry is in their best interest, and the nation's.

Second, even if the tariff bites on some products, prices of consumer products are not very sensitive to steel prices. Hot band prices dropped by $100 per ton, or 35 percent, from the second quarter of 2000 to the fourth quarter of 2001, and by over 50 percent since 1997. But, the cost of a washer or dryer didn't change, and jobs didn't shift one way or another due to the steel price drop. Even if we get a partial restoration of pricing, we will only get back to where we were 18 months ago. Jobs weren't created by the price drop, and won't go offshore if we get some recovery.

I'm sure some witnesses appearing today will tell you of the dire results that their economic studies predict will arise from the imposition of tariffs on foreign steel. We have asked very distinguished economists to examine these studies. They have concluded that they prove the old economists' adage that you can get an economic model to come to any conclusion you want, depending on what assumptions you put into the model. The importers' studies may use terms of art like "elasticity of substitution" and "computable partial equilibrium models" to add credence to their arguments. Poke through the verbiage to the heart of their assumptions, and it makes you wonder what steel industry they are talking about.

For example, in the study prepared for the Emergency Committee for American Trade, or "ECAT," the authors state: "In general terms, when steel imports are curtailed by one million tons, domestic steel production rises by only 600,000 tons." Do they think that 40 percent of the U.S. demand for steel simply evaporates? Would U.S. auto producers cut back production equivalent to 400,000 tons of steel simply because the price of steel goes up a few dollars? Of course not!

The ECAT study is simply not credible because it assumes that a decline of a million tons of imported steel will allow the sale of only 600,000 more tons of domestic steel. This assumption underlies one of the key assumptions in the ECAT model and produces the extreme – but unbelievable -- conclusions. This faulty assumption allows ECAT to fabricate its absurd job loss claims. The study produced for the Consuming Industries Trade Action Coalition—

"CITAC"—makes a very similar assumption. The saying of the software industry—"garbage in, garbage out"—applies equally well to the economic modeling industry.

The claim that meaningful 201 relief will result in substantial job losses for U.S. workers is nothing but a cheap trick designed to scare the American public. I'll stack our job impact studies against theirs any time. Our studies use the Department of Commerce's own methodology for measuring economic impact and demonstrate that <u>a healthy U.S. steel industry creates thousands of jobs</u>, both directly at the steel mills <u>and up and downstream</u> at companies serving the mills and their workers. Don't take it from me – your own colleagues on this Committee, Senators Lincoln and Thompson, know first-hand the tremendous economic impact that Nucor's $1.2 billion investment has had on their states since we began investing there in 1987. Indeed, our steel mills in northeastern Arkansas provide a useful case study on the question of job creation and they're worth an extra look.

Nucor invested $1.2 billion in these facilities at a time when the unemployment rate in Mississippi County, Arkansas was 15 percent. <u>We created 1,300 new jobs</u> at those two steel mills. <u>It didn't stop there.</u> Several other companies-- Maverick Tube, Huntco Steel, Heckett Steel, Paco Steel, Friedman Industries, IPSCO Tubulars, Prospect Steel, and Federal Pipe and Steel, to name a few—established facilities in the region solely because of the presence of Nucor. Those companies brought an <u>additional 1,900 jobs</u> to the region. <u>It didn't stop there</u>. An additional <u>7,800 jobs were created indirectly by these investments</u>, as businesses sprang up to service these companies and their employees. <u>In other words, for every one of the 1,300 jobs created by Nucor, nearly eight other jobs were created in the region</u>. Let me repeat that: for every one of the 1,300 jobs created by Nucor, nearly eight other jobs were created in the region.

The unemployment rate in the county was cut in half, to under 7 percent. And the per capita income shot up from $13,374 in 1990—below both the state and national average --to $24,145 in 1998—significantly above the state average. Incredibly, all this occurred <u>despite</u> the closing of an Air Force base that cost 4,000 jobs in the area! In total, eleven thousand new jobs were created, all thanks to the U.S. steel industry. These are not jobs flipping hamburgers; they are solid manufacturing jobs with benefits. With all due respect, <u>I challenge the representatives here today from CITAC and ECAT to tell those 11,000 workers in the Mississippi Delta that their jobs are not worth saving</u>.

Further, importer interests have claimed that a section 201 remedy would force steel-consuming businesses to move overseas. This is nonsense. There are too many reasons for the companies to stay in the USA. Companies that make parts to sell to the automobile manufacturers are faced with just-in-time inventory management systems. They have a very short amount of time to get the parts to the auto manufacturers, and moving overseas would make that nearly impossible. Further, auto and other manufacturers have "life of part" contracts where the price of the steel inputs is set at a level well above the spot price and allows for fluctuations in the steel price.

The imposition of tariffs on foreign steel simply gives purchasers the incentive to buy their steel from domestic rather than foreign sources, at prices that all agree will not be substantially above current prices. Contrary to the arguments of the importer interests, domestic steel <u>is</u> highly substitutable for foreign steel. Increasing capacity utilization to replace imported steel will allow the domestic steel mills to run 24 hours a day, seven days a week, as they were designed, thereby dramatically lowering unit costs.

As the U.S. government's own Bureau of Labor Statistics figures show, steel prices are currently at 1982 levels, something that cannot be said about many, if any, of the products of the steel consuming industries. Those industries are not about to undertake the expense of moving overseas because of a slight increase in the price of steel. I've talked with customers who have moved operations overseas, and the price of steel is not even among their top five reasons for moving.

To conclude, I would like to applaud the President for his initiative, and this Committee for its longstanding support. The problem for Nucor and our industry is low-priced and unfairly traded imports. Seeking piecemeal remedies through antidumping cases is just not working. They are too easy to circumvent. The domestic steel industry is on its knees. We need a comprehensive trade remedy. With that relief, Nucor can maintain its reputation for world-class innovation and efficiency. I urge the President to impose a 40 percent tariff on all of the steel products that the International Trade Commission found to be causing serious injury, and I ask for this Committee's support.

Thank you.