STATEMENT OF MR. GARY HILL
PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL METALWARES
ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

BEFORE THE
SENATE COMMITTEE ON FINANCE

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Mr. Chairman, Members of the Senate Finance Committee. My name is Gary Hill. I am the President and Chief Executive Officer of National Metalwares LP, a small steel fabrication company located in Aurora, Illinois, the home of a distinguished American, House Speaker Denny Hastert.

I appear on behalf of the Emergency Committee for American Trade (ECAT). Founded in 1967, ECAT is an organization of leading U.S. international business enterprises representing all major sectors of the American economy. ECAT companies share a common goal of seeking to promote economic growth through the expansion of U.S. trade and investment. Our companies, which include major consumers of steel are concerned about the domestic and international consequences of the remedies that have been recommended by the steel industry, unions, and the U.S. International Trade Commission ("ITC" or "Commission").

National Metalwares is a small, privately-owned company. We have 250 employees, down from about 300 12 months ago. Ours is the story of tens of thousands of small businesses across America. My partners and I bought National Metalwares six years ago, and have steadily expanded the business. Today, we are proud to supply many of America's best-known manufacturers with finished tubular steel components. We manufacture a variety of steel-fabricated products, such as handles for powered lawn and garden equipment and tubular steel frame components for classroom furniture, destined for public schools throughout the United States. I am very proud that our company provides health care and pension benefits. Our employees are proud members of the Metal Polishers, Buffers, and Platers Union and the Allied Conference of the International Brotherhood of Boilermakers, Local M114.

Steel is the largest single component of my company's manufacturing costs. It represents approximately 46 percent of our Cost of Goods Sold (COGS). The ITC's recommendations that the President impose 20-to-40-percent tariffs or restrictive quotas on imported steel would have a devastating impact on our business and on 250 National Metalwares employees, whose jobs and futures rest on our ability to go head-to-head against low-cost steel fabricators in Korea, Brazil, China, and Eastern Europe, who pay lower wages and would have access to cheaper steel. I have here a letter signed by over 200 of our employees urging the President not to impose high tariffs on imported steel.

As you analyze this very difficult and complex matter, it is vital to weigh the risk of unintended consequences. Steel tariffs or quotas have the potential to destroy the very U.S. customer base the U.S. steel industry depends on – durable goods factories, automobile parts manufacturers, and small metalworking companies like mine. If restrictions are imposed on imported steel, excess, lower-cost steel will be converted into finished steel products or components, giving our offshore competitors a significant cost advantage. Since 1998, when steel antidumping duties were imposed, we have observed a rapid acceleration in offshore sourcing by many of our major U.S. customers. The Section 201 investigation, and the ensuing commercial uncertainty, has only accelerated this trend.

In the current economic downturn, National Metalwares has invested aggressively to remain competitive. The efforts, dedication, and skill of our employees have enabled our company to improve productivity and product quality and hold down our costs. We welcome competition and continue to compete successfully against companies in Brazil, Korea, Germany, Japan, and China.

In all of our business planning, however, we have never contemplated that a single decision by the federal government could undermine our competitive position in the markets we serve and a company that I, my partners, and employees have worked for years to build.

American manufacturing is in the midst of a prolonged 18-month recession that has cost hundreds of thousands of jobs. While Wall Street analysts and economists predict an imminent U.S. recovery, there is little evidence of recovery in America's heartland. Instead, automotive and manufacturing companies continue to lay off thousands of workers. This situation appears likely to worsen because of the strong dollar, and the prospect that the recent depreciation of the Japanese yen will shortly trigger a series of competitive devaluations by other Asian and Latin American suppliers, such as Korea, China, and Brazil. In other words, American manufacturers, including large global manufacturing companies and small steel fabricating businesses like mine, are almost certain to confront a major surge in imports in the second half of this year. If the President imposes tariffs or quotas on imported steel, it will put us at an even steeper competitive disadvantage, resulting in further hemorrhaging of U.S. manufacturing jobs.

This burden will fall hardest on small business. Large global U.S. multinationals can shift their production to overseas plants in Brazil, Mexico, or China. They can afford lawyers and lobbyists to petition for product exclusions at the Department of Commerce or USTR. Small businesses don't have these options. U.S. producers of steel parts and components are already being told by their best customers, such as the U.S. auto industry, not to expect price increases when the Big Three and other U.S. manufacturing companies are bleeding red ink. If the President adopts the ITC's recommendations, U.S. manufacturers of steel parts and components will be caught in a deadly cost-price squeeze, and quietly disappear.

I. PROTECTIONISM WON'T WORK

A. Protectionism Has Not Provided a Long-Term Solution to the Competitiveness of the Domestic Steel Industry

Over the last 30 years, the United States has placed one form of import-restriction or another on U.S. imports of steel almost continually since voluntary restraint agreements (VRAs) were first imposed in 1968. A few years after the expiration of each such drastic measure, the steel industry and unions would again seek another form of import-restraint. So the 1968-74 VRAs were followed by the trigger price mechanism in the late 1970s and early 1980s. New VRAs were then imposed in the 1980s until they expired in 1992. Since then the domestic industry has filed trade remedy cases against numerous countries. At present, there are approximately 159 steel cases that have resulted either in antidumping or countervailing duty orders or are pending investigation; these cases cover approximately 80 percent of steel imports.

The only conclusion to draw from this history is that broad import-restraining measures have proven ineffective in addressing in any meaningful or lasting manner the domestic steel industry's problems. This cycle – which also has devastating consequences for other U.S. industries – must be ended.

B. Protectionism Cannot Solve the Problems that the Domestic Industry and Steelworkers Face Today

Despite numerous forms of protection that have been or continue to be in place, the integrated steel producers and the unions are once again lobbying for relief in the form of import restraints – principally 20 to 40 percent tariffs on steel imports. Import restraints have not provided a long-term, comprehensive solution to the steel industry's or the steelworkers' concerns in the past and they will not work now. Well-meaning government efforts have repeatedly failed to create a long-term competitive industry; instead, they have prolonged and worsened the adjustment process by propping up bankrupt and inefficient capacity in the United States.

The chief underlying cause of many of the steel industry's problems is the vast improvement in steel productivity. Technological advances mean the world's leading producers can produce more steel with fewer workers and at a significantly lower cost than 40 years ago. As a result, many U.S. integrated steel producers are at a fundamental competitive disadvantage, because of their high built-in costs, excess capacity, outdated technology, and large numbers of retirees. As a result, significant price cuts by bankrupt producers, such as LTV, have already helped push prices down and threatened the viability of all segments of the domestic industry.

The domestic steel industry and unions argue that the imposition of high tariffs and/or restrictive quotas will allow the domestic industry to raise prices, make capital improvements and maintain the existing steel workforce. This is largely envisioned without any significant restructuring or reduction in economically inefficient capacity and production. Yet, the imposition of high tariffs or restrictive quotas will not provide the relief that the domestic industry or steelworkers are seeking. Imposition of such import restraints will prolong the structural adjustment process by keeping afloat or allowing the reopening of inefficient, uneconomic U.S. capacity and production. This will allow bankrupt producers to continue to apply significant downward price pressure, undermining the more globally competitive segments of the U.S. industry. And in three years, when U.S. import restrictions are lifted under WTO trade rules, or billions of dollars in U.S. compensation are awarded to our trading partners, bankrupt domestic producers will be pushed off an even worse cliff as they must undertake serious restructuring in a more compressed time period or remain uncompetitive.

Import restraints will <u>not</u> solve the problems faced by the domestic industry or the current or retired steelworkers. To help the domestic industry "make a positive adjustment to import competition" as section 201(a) of the statute requires, a new approach is required.

II. PROTECTIONISM WILL IMPOSE DEVASTATING COSTS ON THE U.S. AND GLOBAL ECONOMY

A. Protectionism Will Impose Enormous Costs on other U.S. Industries and Workers and the U.S. Economy

The American manufacturing sector is already suffering from a devastating recession, which has cost hundreds of thousands of high-wage U.S. industrial jobs. The imposition of high tariffs and/or restrictive quotas will exacerbate this recession by undermining the competitiveness of other U.S. industries, resulting in the loss of tens of thousands of additional high-wage U.S. manufacturing jobs, and by imposing a regressive tax on American working families.

If steel prices for U.S. steel-consuming industries increase as the domestic steel industry and steel unions seek, four things will happen:

<u>First</u>, imports of base steel products subject to the import restraints will decline, but <u>imports of steel contained in downstream products will increase.</u> If high tariffs or restrictive quotas are placed on steel imports, there will be an increase of supply in foreign markets for the steel that is no longer viable in the U.S. market. This will result in downward pressure on the prices of foreign-produced steel sold abroad, making foreign producers of downstream steel products increasingly competitive, at the same time that U.S. producers of such downstream steel products are paying higher prices for steel domestically. As a result, American steel-consuming industries will face heightened competition from abroad by imports of steel-intensive industrial products such as motors and capital equipment, which can be produced more cheaply abroad. <u>The effect:</u>

an increase in imports of competing downstream products incorporating steel at the expense of U.S. steel-consuming industries and jobs. In essence, the imposition of high tariffs in particular would result in the ultimate tariff inversion, which as in other product areas will create an incentive for foreign producers to move up the value-added chain and displace other domestic industries producing downstream products.

Second, high-wage U.S. manufacturing jobs will move offshore. To be able to compete with foreign producers who have access to cheaper foreign steel, U.S. manufacturers will be forced to import products and components from overseas factories, themselves move production offshore in order to remain cost-competitive, or close their facilities and lay off workers because they can no longer compete.

Take the case of one of ECAT's member companies, Illinois Tool Works, and the U.S. metal fastener industry, both of which import special types of steel either not produced by the domestic steel industry or where domestic quality does not meet their customers' requirements. During the steel VRAs imposed in the 1980s, this industry lost 40 domestic producers (nearly all of whom were small companies without the resources to monitor trade fluctuations until it was too late), as foreign producers of tools and fasteners with access to lower-priced steel undersold domestic producers. This scenario should not be permitted to unfold again.

Third, demand for steel will decline in the United States as American consumers of steel purchase fewer tons of steel. Demand will be reduced because domestic production of steel-containing goods is being displaced by imports or because production is being moved abroad. The lowered U.S. demand for steel was not, unfortunately, calculated as part of either the Commission's or domestic industry's models of the effect of the proposed remedies; rather each of those models assumed that steel demand in the United States would remain constant. Such an assumption is economically unrealistic as most economists expect domestic prices to increase somewhat and foreign steel prices to fall. In short, the loss of U.S. manufacturing in the steel-consuming industries will have a negative effect on the steel industry and its workers.

Fourth, a 20-to-40-percent tariff increase would impose a regressive tax on American families. It would raise the prices of steel-intensive products, such as cars, appliances, and homes and fall hardest on working Americans.

Imposition of high tariffs and/or restrictive quotas will also have a broader effect on the U.S. economy and other U.S. companies that are globally engaged:

▫ It will undermine prospects for trade liberalization globally, regionally and bilaterally. The imposition of steel restraints by the world's largest trading country will undermine the forward momentum achieved at the World Trade Organization (WTO) last month in launching the Doha Development Round. If the United States shuts down a major portion of its own market, it will have little credibility in asking other countries to open theirs. Given the enormous positive effect of trade liberalization over the last decade alone – one-quarter of U.S. economic growth over the last decade is attributable to trade – the slowing down of trade liberalization will have serious ramifications for the entire U.S. economy and U.S. companies seeking new opportunities abroad over the medium-to-long term. It will also have severe consequences for the global economy, particularly developing countries.

▫ It will invite restrictive trade measures on American industrial and farm exports wholly unconnected to the steel trade. Although the WTO does not permit formal retaliation for WTO-consistent safeguard actions for three years, high tariffs and/or restrictive quotas on steel could create a protectionist spiral, resulting in heightened foreign countermeasures that seek to impede U.S. access in foreign markets.

B. Protectionism Will Impose Enormous Costs on the Global Economy and U.S. National Objectives

Imposing protectionist tariffs and/or quotas in the midst of a deepening global recession risks further exacerbating global economic problems in several significant ways:

First, U.S. steel import restrictions will diminish prospects for recovery among key trading partners. Such restraints will directly affect many of our key trading partners, *e.g.*, the European Union, Brazil, Russia, Korea, and Japan. If our trading partners cannot afford to buy U.S. products, retaliate against U.S. exports, or follow our example by adopting similar protectionist measures, prospects for a strong U.S. and global economic recovery would diminish.

Second, steel restraints will also exacerbate problems for many key developing countries. Such restraints will heighten the financial difficulties facing key developing countries that are also major steel producers, e.g., Argentina, Brazil, Korea, Japan, India, South Africa, Ukraine, and Russia.

Such restraints will also have negative repercussions on our broader national interests. We recognize the importance of promoting the development of a strong and globally competitive steel industry. Yet, it is also critical that any remedy also not undermine other national interests in promoting strong economic and political alliances and our other national objectives.

Imposition of such restraints will clearly impose greater economic and social costs than benefits – on the U.S. steel-consuming industries, other U.S. industries, and the U.S. and global economies. Simply put, closing the U.S. market to foreign steel, as the proposed remedies would do, is the wrong policy at the wrong time. In this period, the world is looking to the United States for leadership, not protectionism.

III. A BOLD NEW APPROACH IS REQUIRED

I have no quarrel with the employees and retirees of integrated steel companies who are seeking your help. In many respects, they are victims -- of advances in steel technology, of the rise of the mini-mills, the rapid globalization of the steel business, and management mistakes that were made decades ago. It would be a tragedy if their dreams of a secure retirement were to go up in smoke, and years of sacrifice and hard labor were to turn into nothing.

There is a clear alternative. ECAT urges Congress and the Administration to work together on a bipartisan basis to forge a comprehensive plan to assist dislocated steelworkers and to safeguard the pensions and health care benefits of workers and retirees from bankrupt, closed steel facilities. Such an approach would require federal funding, but it would be far cheaper than 20-to-40 percent steel tariffs, which would cost $500,000 per year per job saved and result in up to 8 lost jobs in downstream steel-using industries for every job saved in an integrated mill.

To end the cycle of failed import-restraining measures, any remedy imposed by the President must promote the market-based restructuring of the domestic industry in a manner that will support, and not undermine, its global competitiveness over the long-term. Efforts must be made, therefore, to address such long-term and core problems as the maintenance of inefficient capacity and dislocated worker issues, which have prevented the U.S. industry from maintaining international competitiveness. The failure to promote such concrete adjustments domestically will leave the steel industry in much the same position in which it finds itself today regardless of whether import-restraining remedies are imposed.

Mr. Chairman, it has been an honor to testify before the Finance Committee. I'd be pleased to respond to any questions.