ORAL TESTIMONY
JOSEPH A. CANNON, CHAIRMAN
GENEVA STEEL COMPANY
BEFORE THE UNITED STATES SENATE FINANCE COMMITTEE
FEBRUARY 13, 2002

Mr. Chairman and members of the Committee, I am Joseph Cannon, Chairman of Geneva Steel in Vineyard, Utah. Thank you very much for the opportunity to appear before you today.

Sixty years ago. during World War II, what is today Geneva Steel, was built by the United States Defense Production Corporation. It was built as part of the war effort to produce plate steel for Liberty ships. After the war, Geneva was acquired by U.S. Steel. In 1987, I led a team that purchased Geneva Steel from USX. Since then, we have invested $600 million in maintaining and modernizing the mill.

Unfortunately, after having issued $325 million in bonds to finance our modernization, mounting losses created by the import surges of 1998 prevented us from meeting those debt obligations. As a result, we filed for Chapter 11 reorganization in February 1999. We emerged from bankruptcy in January 2001 with a new, deleveraged balance sheet. Sadly, as a consequence of continued import surges, exacerbated by a deepening recession, Geneva was forced to file for Chapter 11 on January 25 of this year.

Beginning well before our first bankruptcy, we took dramatic steps to address the onslaught of imports. Since 1997 we have reduced our white-collar workforce by almost half and our hourly workforce by 40%. At our normal operating levels, these reductions result in $30/ton in savings over and above our interest expense reduction of $22.3 million. Unfortunately, because of current market conditions, we have ceased all operations.

The primary cause of Geneva's financial difficulties is imports. While I am very concerned about imports in all our product lines – slab, sheet, plate and pipe – I will concentrate my testimony here on slab imports.

Geneva has traditionally been the largest and most consistent seller of slabs in the U.S. market place. We currently have about 400,000 to 450,000 tons of slab production capacity in excess of rolling capacity. Right now we have over one million tons of slab making capacity sitting idle. Even if we sold one million tons of slabs at cost, it would benefit our overall cost structure tremendously because of the contribution those sales would make to our fixed costs. So why are we not doing so? The answer is <u>price</u>. We are well situated to supply CSI in Fontana, California, which only rolls slabs, and Oregon Steel Mills in Portland, Oregon which often elects to buy slabs. We have made repeated offers to each to sell slabs at below our total cost and only slightly above our variable cost, which, by the way, is in line with other integrated producers. They have rejected our offers for one reason: imported slabs are even cheaper. Recently, Mr. Gonćalves of CSI has stated that his delivered price is $144/ton. Even the maximum requested tariff would not come close to bringing these slab prices back to their pre-injurious 1996-1997 price levels.

Injury caused by cheap imported slabs is clear and a matter of common sense. When our competitors, and both CSI and Oregon Steel are our competitors in the West, can undercut us by using foreign slabs, we and the vast majority of other domestic producers suffer.

Let me explain why it is important to include slabs in any 201 remedy. If relief is granted on other products, the price of imported slabs will likely fall further as foreign producers shift their U.S. sales to slabs. This will allow slab rollers to continue to undercut our prices on finished products and eliminate any hope for us to increase overall volume through supplemental slab sales. We will thus be deprived of the benefit of any remedies on other products.

Finally, Geneva views §201 import remedies as providing a bridge to a much more competitive company. If the Committee is interested, I can provide you with a confidential independent cost analysis that demonstrates that Geneva, already a low cost producer of our products, will as a result of certain planned capital expenditures, have costs even lower than many of our mini-mill competitors.

On behalf of the many thousands of our direct and indirect employees and their families living in Utah Valley who rely on Geneva for their livelihood, I urge you to urge the President to provide the strongest possible tariff remedy for all of the target steel products, including slabs.

Thank you.