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SECTORAL TRADE DISPUTES: LUMBER AND STEEL

HEARING

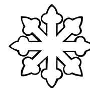
BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

FEBRUARY 13, 2002



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SECTORAL TRADE DISPUTES: LUMBER AND STEEL

WEDNESDAY, FEBRUARY 13, 2002

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 1:32 p.m., in room 215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Also present: Senators Rockefeller, Breaux, Lincoln, Grassley, Hatch, and Snowe.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The hearing will come to order.

If you based your opinion on entirely on what appears in the newspapers and television, you would have the impression that international trade was all about major international meetings, and perhaps protests surrounding them.

You may have heard of NAFTA, but would not recognize the term "countervailing duty." The World Trade Organization might sound familiar, but the term "Section 301" would just be bureaucratic gibberish.

There is no question that international summits, the NAFTA, WTO, are very important aspects of the trade debate. My experience, however, when it comes to the public's and Congress' views on trade, is that the effectiveness of these trade laws actually have a much greater impact than the outcome of international summits.

Ultimately, Congress will judge the administration's trade policy based more upon the handling of sectoral disputes regarding products like lumber, steel, and wheat than upon the success of trade negotiations.

Two critical disputes are likely to come to a head in the next couple of months. Lumber and steel warrant special attention, and they are the topic of today's hearing.

Let me begin with the United States-Canada lumber dispute, a dispute which unfortunately has raged on for more than two decades. The fundamental issue is that Canada maintains a web of interlocking provincial policies aimed at subsidizing its lumber industry in the hopes of spurring economic development.

The first level of these subsidies concerns give-away prices well below market rates on the right to cut trees from public land. Just north of the Montana border, for example, Canadian companies pay

as little as 6 percent of the price that Montana companies, just miles away, must pay. Six percent.

In addition, so-called tenure rights virtually guarantee Canadian lumber companies the right to keep harvesting at subsidized rates for years to come. Making matters worse, provincial governments require that Canadian mills continue operating even when the market suggests shutting down, forcing them to dump lumber in foreign markets.

On top of this, there are waivers of international laws and a series of other policies that ensure over-harvesting of timber in Canada and a perpetual flow of subsidized and dumped lumber into the United States. As a result, Canadian lumber controls more than one-third of the U.S. market.

Despite the claims of the Canadian government and some of their supporters on this side of the border, Canadian subsidies have been confirmed, time and time again, by experts in both countries.

In the current case, thanks to sound Commerce Department enforcement of U.S. antidumping and anti-subsidy laws, a combined 32 percent duty has been preliminarily imposed on Canadian lumber imports. These decisions will be finalized next month.

These investigations have been comprehensive, they have been fair, and fully consistent with the NAFTA and with the WTO. If challenged, I am confident they will survive challenge at either forum and I reject any suggestions to the contrary.

In recent months, the United States has been in discussions with Canada aimed at reaching a comprehensive settlement to eliminate Canadian subsidies and dumping. If that can be achieved, that is the best outcome.

If, however, all that can be achieved is a piecemeal, stop-gap agreement, it is far preferable to simply proceed with the current unfair trade investigations. As is always the case, no agreement is far better than a bad agreement.

Finally, since this is such a complex and important negotiation, I want to strongly urge Secretary Evans, Under Secretary Aldonas, and Assistant Secretary Shirzad to remain personally involved in assisting my good friend, former Montana Governor Racicot in managing the talks. This needs to be a top priority of Commerce and throughout the administration.

Let me turn to the other topic of today's hearing. Occasionally, someone will ask me why I have long been a strong advocate for the trade interests of the United States steel industry. After all, there may be more lumber mills in Montana, but not many steel mills.

Although my efforts pale compared to those of my good friend Senator Rockefeller, I have often advocated the cause of the steel industry for two reasons. First, they have a legitimate trade complaint. Any American who has legitimate trade complaints' cause should be championed.

There is simply no such thing as free trade in steel. The global market in steel is distorted by an untold number of government subsidies, cartels, closed markets, and other trade distortions.

Only the United States, the world's largest importer of steel, even truly tries to play by the rules of free trade in steel. I take

particular umbrage when Europe and Japan criticize U.S. trade policy in steel after decades of subsidies and cartels in their own steel markets.

Second, the course of action for relief that the steel industry is now pursuing, Section 201, is entirely appropriate. It has been used by many other industries, including lamb producers and wheat gluten producers. Due to a scheduling conflict, though, I might say at this point, Senator Rockefeller will be chairing most of the portion of the hearing on steel. But, nevertheless, I want my views on Section 201, that is the steel Section 201 complaint, to be unambiguous.

The steel industry has diligently pursued their complaint. The International Trade Commission has unanimously confirmed their claims. The relief recommended by the ITC is supported by the facts and fully consistent with international law. I urge the President to act swiftly to provide this relief.

Some in the media have given the Bush administration high grades on its trade policy in its first year because of the success in launching a new round of global trade talks and winning House approval for a new grant of fast track.

Both of those achievements, however, are tentative. They are both entirely contingent upon maintaining the support of Congress, and the support, more importantly, of the public for its trade policy.

I want to tell the administration, in the strongest possible terms, that the support of Congress and the apparent successes of the last year could both melt away very quickly if issues like those facing the lumber and steel industries are mishandled.

Enforcement of trade laws and handling of sectoral disputes is the real acid test that Congress applies to administration trade policy. If confidence is lost over these issues, it will be very difficult to rebuild.

Now, I would like to turn to my good friend, Senator Grassley. I apologize, Senator. I started before you were here, and that is not my custom. I apologize.

Senator GRASSLEY. It is a good thing I looked at my schedule, or I would not be here either. I thought I had until 3:00 free. But I am prepared, though.

First of all, these two issues, steel and lumber, deserve the appropriate review by this committee. They are very important issues. This administration deserves a tremendous amount of credit for its efforts on both issues.

On steel, President Bush has done more in 12 months to deal with many complicated elements of this problem, both internationally and here at home, than has been done in the past 8 years. The problems of the American steel industry did not develop within the last 12 months. But the administration's efforts to deal with it represent the best attempt I have seen yet to craft a comprehensive and long-term solution.

Secretary Aldonas, who is with us: resolving the steel issue in a satisfactory way is a very, very tough problem. Everyone that has followed this knows that. But if the war on terror tells us anything, it tells us that this President and this administration is not going to shy away from tough problems.

You have to literally travel the globe, trying to develop a viable resolution. I know that there is a long way to go, but I want people to know how deeply I appreciate the President, Secretary Evans, and what you have done, Secretary Aldonas.

As you continue your efforts to address the complex economic difficulties confronting the steel industry, I ask that you try to refrain from taking any action that might penalize hundreds of companies and the many thousands of American workers whose livelihoods depend on the availability of steel products that are not commercially available in the United States.

For instance, just one company, a national company but with three locations in Iowa and hundreds of employees at one of these locations, Belmont, Iowa.

I was able to tour the Eaton facility. They make sophisticated valves that require specific kinds of engine valve steel that is not made in the United States. There are many others in my home State of Iowa who could be harmed by import restrictions on steel producers, such as Maytag, Amana, Frigidaire, Electrolux, and John Deere.

It would be most unfortunate and counter productive to what we are trying to achieve if we hurt many American workers and their families while trying to help others. I have a letter from the president of Eaton that I would like to include in the record, Mr. Chairman.

The CHAIRMAN. Without objection.

[The letter appears in the appendix.]

Senator GRASSLEY. I would go to a new point. The point that I want to make, is that a satisfactory resolution of these issues and of all the trade issues that we care so much about depend, to a very large degree, on American leadership and on the President's credibility at the negotiating table.

So, it should not surprise the Chairman or anybody else if I bring up trade promotion authority. The Finance Committee did a very good job, in the tradition of this committee, through an 18:3 vote, approving this and sending it to the floor. I thank the Chairman for doing that.

Now, it is conceivable that the Senate Majority Leader might not take up this legislation until April. I think that every day in the Senate that we do not act on trade promotion authority is a setback for our opportunities to make advancement in trade worldwide, including these issues that we are dealing with today.

Lack of this authority undermines America's credibility with our trading partners, because other countries that do not necessarily share our interests and values have an upper hand in shaping the direction of trade policy. So, I hope that this can happen right away and well before April.

Our trading partners are very sophisticated. They know that trade promotion authority is a lot more than just the technicalities that come into play at the end of trade talks. They know that it is a powerful signal to the rest of the world about the unity and credibility of the U.S. Government.

When we show a divided face to the world on any trade matter, I think we hurt ourselves and weaken our position. I know the

Chairman does not want that to happen, I do not want it to happen.

Especially in light of the resounding 18:3 vote in this committee, too much is at stake, I believe. So intend to raise this issue every chance I get. If we can put aside our political differences to vote a good TPA bill out of this committee by such a wide margin, surely we can bring it to the floor in a timely fashion.

So, a final point, Mr. Chairman. Our trade policy should be aimed at expanding the economic pie, not arguing about how large the slices of that pie should be. If we limit opportunities to trade, that is just what we will get, limited opportunities, meaning fewer jobs than are possible, lower economic growth than is possible.

Expanded trade opportunities and the extension of market-oriented rules to a broader range of sectors and products, I think, beyond a doubt benefits all Americans. They will benefit steelworkers in Pennsylvania and West Virginia, lumber workers in Idaho, cattlemen and wheatgrowers in Montana, and pork producers in my State of Iowa.

This is exactly what the Federal Reserve Chairman Alan Greenspan twice told this committee. Trade liberalization can provide a boost to economic growth, and reducing trade barriers is just like a stimulus tax cut that, presumably, we will not get passed. So, we can do other things, and trade promotion authority and expanding trade is one of them.

I look forward to working with the Chairman to win early approval of trade promotion authority so that we can strengthen our global leadership to the benefit of every American worker.

The CHAIRMAN. Thank you, Senator. I appreciate your reemphasizing the importance of passing negotiating authority for the President. It is very important and I hope that it is brought up on the Senate floor very quickly.

In order of appearance, we have Senator Rockefeller, Senator Hatch, and Senator Breaux, for any statements they might want to make at this point.

Senator ROCKEFELLER. Mr. Chairman, I was just wondering, and I would be happy to yield to Senator Hatch, if you wanted to sort of bifurcate this into softwood and steel, it could be useful. So, I am willing to wait.

The CHAIRMAN. I appreciate that. Why do you not go ahead and give a statement, then we can go ahead with the hearing. I do have to leave at a later time. At that later time we can focus a little more on steel. I do have a few questions to ask with respect to softwood lumber.

But why do you not just go ahead, Senator?

Senator ROCKEFELLER. I am happy to do that.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. I think this is a defining moment for the American steel industry. I think all of the sort of esoteric, theoretical thoughts and ideas about it now come to a very short string, and we are either going to have a steel industry or we are not going to have a steel industry.

I think that also applies, to a lesser extent, in terms of what happens, particularly on Section 201, to American trade policy.

I have voted for trade agreements for most of my 18-year Finance Committee life. But I was one of the three who voted against it, along with the 18 who voted for it, because I will no longer stand by and watch the decimation, in violation of United States trade law, as well as the analysis of the Department of Commerce of other aspects of practices of steel in other countries and support trade policy.

Steel is now, and has not been, sort of another item on the agenda for me. It is a defining agenda. Our witnesses know that, and I respect them both very much. They know that, I hope.

So, I want to commend you, Ambassador Allgeier and Under Secretary Aldonas, and this administration and President Bush, as Chuck Grassley said, for putting Section 201 before us.

Now, it so happens that the Finance Committee did it 4 days later, too, and we were planning to do it anyway. That would have kicked in at 201, regardless of what the President had done, because we have that power. But the President did it; Clinton did not. So, he deserves credit for that. On the other hand, it was only the beginning of a process. That process is simply kicked off.

Then the question is, what happens when the process comes to a conclusion—that is, Section 201—and the President has to announce remedies? It is remedies where everything resides. It is not the beginning of a process, it is not for the calling of a process.

That, in and of itself, does nothing except gets the issue discussed and has us having hearings. It is what happens with the remedies that determines what will happen to the steel industry.

We have had about 35 years of attempts to deal with steel trade problems in this body, and in America. I think there is more of a chance of getting it right now than ever before because we have come this far. This far is, as of yet, nothing tangible, but there is a chance. There is a sense of hope in the air.

Seven months ago, the President announced he would ask for the 201 investigation and launched negotiations on foreign excessive capacity reduction, and addressing underlying barriers and distortions that create and maintain this gross foreign capacity.

I know that you, both of you, are in discussions with the industry on the important issue of consolidation and ensuring that legacy costs are addressed to help ensure that retirees retain their health benefits, even as we promote the consolidation.

That is, 201, consolidation, legacy. It all goes together. If it all works, it works. If it does not, it does not. But it starts with Section 201. If Section 201 does not work, the others will not happen. So, 201 is it.

Now, the International Trade Commission has given its answer. They unanimously found that imports caused serious injury. They do not do that lightly. Five of the six commissioners have recommended tariffs to the President. That becomes very important, for reasons we will get into.

Now, I know that there is a line at your door, you two gentlemen, of foreign steel producers, their governments, and those who benefit from extremely low, below-cost-of-production prices asking that the relief be granted just be cosmetic relief. That is not going to

cut it. The effect will be that the steel industry will fade away if that is the result. It is just precisely what will happen.

There is a story in Monday's Wall Street Journal that talks of the administration considering sort of a mixture of light tariffs and quotas. Maybe this is a trial balloon. If it is, let me try to, in a friendly way, offer some advice.

It would be better to give no relief at all than to give fraudulent or wholly inadequate relief that, in fact, does nothing. Results are what America measures itself by, whether it is in the Olympics or anywhere else.

I think that is precisely what a light tariff or a tariff rate quota would be, a gesture that would do as much or more harm as good. I do not think that the Clinton White House meant to do great damage to the American industry when it put tariff rate quotas on steel wire rod, but that is what happened. That is what happened.

They did tremendous damage to the industry they were trying to help. They thought they were trying to help. The relief that was granted, so to speak, proved to have a devastating result. Imports could, and did, come in free of duty up to recent levels, and then attracted additional tariffs, and then the product still kept coming in. It was a disaster. It was a disaster. So, there was a higher import spike with trade relief than without it, so this is tricky business.

Tariffs are the answer. The Congress has supported trade agreements for over 70 years. But let me remind you, it was on the basis that seriously injured industries would be given temporary relief. This is what U.S. law and our trade agreements provide for and it is what the American people demand.

The March 6 steel decision is a time of testing for the President and for the trade agreement programs. I believe that President Bush will want to make the right decision that preserves an American industry and gives it a chance to rebuild. I hope the President knows what is at stake.

What is at stake, is a basic industry that will never recover if the President does not put into effect a substantial tariff. I am not talking about 20, 25 percent. I am talking about 40 and 4 years.

What is at stake is tens of thousands of jobs and the families that depend on them, so therefore hundreds of thousands of jobs if he does not put into effect substantial relief. Then the communities.

What is at stake is our National security. As the President said in Pennsylvania, not sort of industrial health. National security. He said it last summer. He was already President.

What is at stake is popular support for our Nation's trade policy. There will be a backlash in steel-producing States if real tariffs are not granted. Prices are just too low to have a quota or a tariff quota work. West Virginia, Ohio, Pennsylvania, Arkansas, as well as communities in Indiana, Illinois, Alabama, New York, North Carolina will be severely harmed. We live in a democracy. Whether academics or editorial writers, like it or not, our citizens' views do count.

Let me tell you, public opinion is something that you do not want to, gentlemen, take lightly on this matter. So you will hear talk about balance in the steel decisions, but this is not an issue of bal-

ance where one can split the difference. This is a fundamental issue of fairness, fairness to the American worker and the American industry.

America subjects our workers and other industries to more competitive pressures than any other nation on earth. We are proud of that. It is why we are the way we are.

But our sense of fairness means that an American worker and business, when they are pushed to the wall and can demonstrate that foreign imports did this to them and brought them to this position, that we give them some breathing room to rebuild. It is the only fair thing to do. You cannot take that right away from people and you cannot give them a half measure.

So, I conclude. We have gone through wrenching adjustment and downsizing. Steelworkers have taken cut, after cut, after cut. We cannot carry the world's burden of excess steel any longer. Only with strong tariffs, and by this I mean 40 percent tariffs, as recommended by Commissioners Bragg and Devaney, as recommended by some of us on the panel, not some cosmetic relief. So, only when the 201 works can we go on to consolidation and legacy.

I thank the Chairman for his forbearance.

The CHAIRMAN. Thank you very, very much, Senator.

Next, Senator Hatch. And Senator Breaux has asked, if possible, to give a fairly short statement, so we can get on with the witnesses.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A. U.S. SENATOR FROM UTAH

Senator HATCH. Thank you, Mr. Chairman. I will try.

The committee is going to receive testimony that focuses on two industries important to the United States, steel and lumber, today. I am very pleased that two of these witnesses that will appear before us today have production facilities in Utah, Joe Cannon of Geneva Steel in Vineyard, Utah, and Don DiMicco of Nucor Steel, with plants in both Brigham City and Plymouth, Utah.

Having been born and raised in Pittsburgh, I am also happy to see U.S. Steel weighing in here and testifying, in the case of Mr. Usher and others. I do not mean to leave anybody out.

But until recently, these two firms in Utah directly employed over 2,100 Utahans. Unfortunately, toward the end of 2001, economic conditions compelled Geneva to suspend operations and production and lay off its entire 1,400-person labor force.

Now, some, including those who will testify today, may argue that this is simply a case of inefficient, outdated U.S. firms losing out to leaner foreign competition. I do not think so. I do not think that is an accurate story.

Joe Cannon and Don DiMicco have made the investments necessary to modernize their plants. They are not afraid to compete on a level playing field. But there comes a point when even the best private sector entrepreneurs cannot stand up to what amounts to the sustained intervention of many foreign governments.

The International Trade Commission has recently spent several months delving into the facts and circumstances surrounding foreign competition in our steel market and they have concluded that

import surges caused, or threatened to cause, serious injury to the domestic steel industry.

I have to say that I have been down there so many times, I am beginning to think I was maybe an employee down there. I want to commend the ITC for its work on the Section 201 case. I also want to recognize the Bush administration for its constructive role with respect to steel issues. I hope, and I fully expect, that the administration will now fashion an effective remedy.

I have closely followed the progress of the 201 case, as has my colleague and friend, Senator Rockefeller, and other members of this committee.

I want Under Secretary Aldonas and Deputy Trade Representative Allgeier to take back the message that Congress is early awaiting the announcement of the remedy in the 201 case. I am counting on you two brethren to see that it is a remedy that will work.

I am most mindful, as I and other members of this committee indicated to both Secretary O'Neill and Ambassador Zoellick last week, that the only way we can stop this Whack-A-Mole dynamic on product-by-product surges in the steel import matter is to address meaningfully the issue of global over-capacity.

I know that both members of the first panel, Grant Aldonas and Peter Allgeier, have invested their personal time and effort in this regard, and I want to personally express my appreciation.

Unfortunately, it is my understanding that we have a long way to go before we arrive at a workable long-term resolution to the root issue of the structural imbalance between global supply capacity and demand.

It will not be easy to achieve an international consensus on steel, but I think we have to try. I would like to close by making two other very quick points.

First, I want to commend you, Ambassador Allgeier, for your testimony before the Senate Foreign Relations Committee yesterday in which you described the administration's commitment to enforcing and encouraging our trading partners to enforce, of course, the implementation of the TRPS provisions, which set forth the international rules for the protection of intellectual property. We need to protect our knowledge-based industries which are so susceptible to piracy in this modern day and age.

Second, while some may be inclined to condition their support for trade promotion authority upon the administration's actions on steel, I am highly skeptical of this school of thought. I have a lot of confidence that the Bush administration will do the right thing on steel.

As I said last week, I think the American public will be well-served if Congress can get off the dime this year and pass both trade adjustment assistance and trade promotion authority legislation. We need to do both. Tied together, untied, in any order, let us get the job done.

We need assistance in training programs for displaced workers and we need to open new markets for the products and services of American workers. A new round of global trade talks are under way and our country should play a leadership role.

Mr. Chairman, I am grateful for the efforts that you are making. I hope you will get these two bills up. I just wanted to make these comments here today.

The CHAIRMAN. Thank you, Senator. I particularly appreciate your very strong support on these matters. You have been very active, particularly with respect to helping get a fairer, more level playing field with respect to steel and other issues. I deeply appreciate it, as do, I know, many other members of the committee, and particularly the industry.

Senator HATCH. Now, I did not mean to just focus on steel.

The CHAIRMAN. No, you did not. That is right. That is why I praised you the way I did. It has been a lot of other issues, as well.

Senator Breaux, we would like to hear from you at this point.

OPENING STATEMENT OF HON. JOHN BREAUX, A U.S. SENATOR FROM LOUISIANA

Senator BREAUX. Thank you, Mr. Chairman.

I have got two letters in front of me. One is from the Port of New Orleans asking me and my colleague, Senator Landrew, to sign it, saying, do not restrict the free imports of steel coming into this country.

The port needs it. There are always a lot of people at the port that would lose jobs if we stopped foreign steel from coming into this country. It is one of the biggest items in the Port of New Orleans, if not the biggest.

They point out their concern about our trading partners taking retaliatory action against us in other areas, in agriculture, if we do anything to tariffy imported steel or to restrict the amount through a quota system.

The second letter I got is from some steel manufacturers in Louisiana who obviously take exactly the opposite position, and say, Senator Landrew, you and Senator Breaux have to sign this letter to the President to make sure that we have a 40 percent, or 30 percent tariff on flat steel, and also on pipe and tube products.

This is obviously not an easy problem to resolve. We have got very strong feelings on both sides. I just want to try and explore with you, after your testimony, about what are our options, and what are the implications of our options internationally?

I look forward to your presentations. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Lincoln?

OPENING STATEMENT OF HON. BLANCHE L. LINCOLN, A U.S. SENATOR FROM ARKANSAS

Senator LINCOLN. Thank you, Mr. Chairman, for holding the hearing and for your leadership in this area. Thank you very much to the witnesses for being here today to discuss with us, as Senator Breaux mentioned, what are our options here and where do we need to take the next step.

I think the hearing has occurred at a very important time. Very soon, obviously, the Senate will consider legislation to approve TPA and to extend and expand the trade adjustment assistance.

I think it is very vital to the success of the pro-trade initiative in Congress, and with our constituents, particularly, back home

who do need a boost in their faith in how their government is going to work with them on trade initiatives, to link these two efforts together to demonstrate to the American people that we should embrace both the promise of a freer trade in a global marketplace, but also recognize the dislocations that inevitably occur with it. This gives us an opportunity to do that. I hope and encourage the leadership that we will move forward on that.

Because, as we have seen before and as we see in the problems in both the domestic steel and the softwood lumber industries face, and both of those issues are very important to Arkansas, even productive and efficient sectors of our economy can have problems.

This can occur because our trading partners often do play by different rules than we had anticipated. The varying problems that can result require very different solutions.

Nevertheless, I think in both cases we see the importance of enforcing our trade laws. That is something else I hope that we will address.

In the case of steel, in my former congressional district, the eastern part of our State is the second-largest steel-producing area in the country. We have learned that quotas are an ineffective remedy. Quotas simply encourage a rush to supply by foreign producers, which can drive prices even further down.

We are very honored to have here today Dan DiMicco, who will be representing Nucor Corporation. I know that Senator Hatch claimed him. I am going to claim him, too, because he has been a resident in Bliable, Arkansas and has done a great job in helping me to better understand the needs of the steel industry.

But, instead, the steel industry needs strong, effective support under Section 201 that will provide comprehensive relief. This can be achieved by applying a single tariff rate applied to all of the imports found to be causing serious injury.

Any product left out of the remedy would become a target—mentioned that in the last hearing we had—compounding the problems for that particular product and effectively circumventing the purpose of comprehensive relief.

As for the softwood lumber industry, we have to do something to resolve, once and for all, the Canadian timber subsidies. The Canadian timber subsidies force down prices and undermine our domestic lumber industry that, like steel, serves as a fundamental component to a healthy, secure national economy.

I think many of us have said, and as we have seen in the debate here, it does boil down to the economy. Because both of these industries are so fundamental, it is truly incumbent on us to utilize the full strength of the trade laws to ensure that our trading partners do play by the same rules that we are required to play by.

So I thank the witnesses for being here and for your continued interest in working with us, and I look forward to your testimony and answering any questions we may have.

Thank you.

The CHAIRMAN. Thank you, Senator, very much.

Now we will get to our principal witnesses. Thank you so much for taking the time. I know how busy you both are. I know how often you testify before committees of Congress, and you kind of wonder, gosh, another hearing, another appearance. But it is a de-

mocracy. It is what makes the wheels go around. We all deeply appreciate the time and attention, and your making yourselves available.

The first witness is Hon. Grant Aldonas, who is the Under Secretary of Commerce for International Trade. Next is, Hon. Peter Allgeier, who is a Deputy USTR here in Washington, DC.

So, Mr. Secretary, why do you not proceed?

STATEMENT OF GRANT D. ALDONAS, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC

Mr. ALDONAS. Thank you, Mr. Chairman. I have to say, after some of the things I have been doing lately, this is a lot more like coming home, honestly, than appearing just before another committee.

The CHAIRMAN. Do not speak too quickly, there.

Mr. ALDONAS. Sorry. [Laughter.] No. I welcome the opportunity and I am glad you have held this hearing. I think there are no two industries that better raise the question about whether we are going to keep the bargain with the American public on trade.

And, there are no two more important issues that we are going to have to address fully if we are to keep that bargain. We welcome that.

What the President has made clear is that if we are going to expect that the American public is going to support an aggressive, forward-looking trade agenda, we are going to have to represent their interests vigorously, whether it is at the negotiating table, whether it is in pressing for compliance with trade agreements, or whether it is the enforcement of our trade laws, which Congress has asked us to do. We are committed to doing that.

American trade leadership depends on trust—trust that the President will carry the equities of American industry, farmers, and workers to the negotiating table and implement the trade laws as Congress intended.

In recent meetings with the President and Secretary Evans on the trade agenda, what has struck me most is their commitment to rebuilding trust in government generally, and in our trade agenda specifically.

They both know that the trust is earned through deeds, not words. As an Administration, we expect to be held accountable to that standard. We recognize that the administration's actions on lumber and steel are a part of that process.

Turning to lumber, no one knows better than you, Mr. Chairman, how long our industry has raised concerns regarding the market-distorting effects of Canadian lumber subsidies. I know Senator Lincoln has been a staunch advocate as well on behalf of our industry.

When I visited with you, Mr. Chairman, in Montana this past June I had the opportunity to meet with producers and workers in the lumber industry. I heard stories of lost jobs, closing mills, and a very personal sense of frustration because our lumber producers feel they are not playing on a level playing field. I had the opportunity, in monitoring trade on the border, to see first hand the

trucks with maple leaves outside the wrapped packets of Canadians lumber crossing the border.

As an Administration, we are committed to the vigorous enforcement of our trade remedy laws. We have demonstrated that in the case of Canadian lumber. The current lumber case involves allegations of both dumping and subsidies. It represents, by far, the most complicated, resource-intensive single case the Department has ever investigated.

Faryar Shirzad, my former colleague here on the Finance Committee, and now Assistant Secretary of Commerce for Import Administration, has assigned over 25 analysts, lawyers, and accountants to the case to ensure that we meet the statutory deadlines. Both Faryar and I have, as I have said, have been personally involved visiting the border ourselves to monitor the existing trade.

Both the dumping and subsidy cases are on track, to be completed by March 21. We will ensure that the cases are conducted in a fair, accurate, and transparent manner, providing all the interested parties with a fair opportunity to be heard on the issues before the Department.

At the same time, we have tried to fulfill the promise that we made to reach beyond simply prosecuting cases. We are in the business of trying to resolve the underlying problems that give rise to these disputes, rather than allowing them to continue to fester. What that has meant, has been a sustained, high-level effort to negotiate with our Canadian counterparts on reforms in provincial forestry practices that lie at the heart of the dispute.

We are particularly indebted to Governor Mark Racicot for taking his time and taking on the task of finding a solution to the softwood lumber dispute. His efforts, in my opinion, having been involved in this for about 20 years, have brought us closer than we have ever been to discussing, in real terms, the fundamental issues between the two industries on either side of the border.

That said, if we cannot achieve bona fide reform in the negotiations we will pursue the trade cases to their conclusion. Both Secretary Evans and Ambassador Zoellick feel very strongly about this. We will not accept an agreement that does not provide a level playing field and makes real reforms in the forest practices that led to the dispute in the first place.

Turning to steel, I want to underscore that no other single trade issue has received greater cabinet-level attention. This Administration has been extraordinarily vigilant with respect to allegations of unfairly traded steel. There are currently 160 orders in place involving steel or related products, 130 antidumping, another 30 countervailing duty.

In fiscal year 2001, Import Administration received 119 new petitions, a five-fold increase over the normal case load. I would like to take credit for that, but that, of course, reflects the conditions in the industry as much as it does the efforts of the Commerce Department.

But, I do have to say, on behalf of the troops at the Commerce Department in Import Administration, and on behalf of Assistant Secretary Shirzad, they have done an amazing job with a heavy, heavy case load. The reason I want to underscore that, is we have been going after the distortion of steel markets through the dump-

ing and countervailing duty laws in conjunction with what we have done on Section 201 and the other legs of the President's steel strategy.

Secretary Evans, who worked in steel mill himself, is acutely sensitive to the current conditions in the industry. He believes, as does the President, that the time has come to find a lasting solution, one that restores market conditions to the steel trade globally.

That is why President Bush laid out his three-part strategy in June of this past year to address what he called a 50-year legacy of foreign government intervention in the market and direct financial support of their steel industries. The President's strategy included initiation of the Section 201 investigation, the launch of two multilateral efforts—one designed to clear the glut of excess capacity, the other to impose new disciplines on trade-distorting practices. Simply put, the President's goal is to rid the market of government interference that created the global glut in the first place, and in the process, level the playing field for our steel producers.

Mr. Chairman, I hope that our efforts look like a page out of the committee's play book, since they are precisely what the Finance Committee called for in the TPA bill that it reported out. We very much appreciate the efforts of the committee, and expect we are going to follow through on the negotiating objectives. Part of that does relate to steel.

The administration has followed through on the President's strategy. As you know, the ITC has returned its Section 201 recommendations. The President has until March 6.

I might say, just as a personal aside, that the Administration, in contrast to the last administration, intends to meet that statutory deadline. As far as we are concerned, following the law, including the deadlines, is part of keeping the bargain on trade.

What I would like to do is draw two threads together. We, as an Administration, recognize that our leadership on trade depends ultimately on the trust of Congress and the American people. We recognize that both our words and our actions matter, and we expect to be held accountable in precisely those terms.

We are going to need your help in that effort. This Committee has a long history as an ardent advocate on behalf of open and fair competition in international markets. Our trading partners need to know that there is no daylight between the President and Congress on trade matters and the objectives we share on behalf of our country.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Secretary.

[The prepared statement of Mr. Aldonas appears in the appendix.]

The CHAIRMAN. Mr. Ambassador, you are next.

STATEMENT OF HON. PETER ALLGEIER, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. ALLGEIER. Thank you very much, Mr. Chairman, Senator Grassley, and members of the committee. I would like to summarize my remarks and have my testimony submitted in the record, if that is fine.

The CHAIRMAN. Without objection.

Mr. ALLGEIER. Thank you.

[The prepared statement of Mr. Allgeier appears in the appendix.]

Mr. ALLGEIER. First of all, I would just like to say, Senator Rockefeller, we understand very clearly that these two cases are not about trade theory. They are concrete cases that we need to address because they are of such critical importance to the welfare of so many American people. That is the approach that we have as we approach these two cases.

They are both examples in which we are trying to use both vigorous enforcement of U.S. trade laws and our best negotiating leverage possible to obtain solutions that are in the interest of the American people.

Let me, first, talk about softwood lumber. There, the issue is quite clear. We need to address the fundamental cause of the problem, and that is practices in Canada that insulate Canadian lumber producers from market forces and competition. We have to get to a situation where the prices and the volume of Canadian lumber are set by, or equivalent to, those that would be obtained in a free market.

As I said, we are pursuing this on two tracks. The first, is the vigorous, conscientious implementation of our unfair trade laws, our laws against unfair trade practices, antidumping and countervailing duty. The second is, of course, negotiation of a possible long-term solution to the unfair trade practices in Canada.

One of the things that, Mr. Chairman, you pointed out in your opening statement is that it is not just one practice or two practices, it is an interwoven linkage of practices which, as I said, insulate the Canadian lumber industry from free competition.

So, the approach that we are taking, in consultation with our industry, is to look at the entire range of transactions from the time the lumber is cut to the time that it is leaving the mill, and to inject in each of those steps the market competition and break away the administrative kinds of systems that they have in the provinces in Canada. So, it has got to be a combined effort of steps. It cannot simply be one thing that is going to suddenly resolve the issue.

We have worked very closely with the industry to identify those. I will not get into the details here. Basically, among the principal practices that need to be addressed are tenure reform, the mandated requirements, and various stumpage pricing practices.

The other thing, is that the practices differ from province to province. So any true solution to this, any longstanding solution, stable solution, must have province-specific elements to it.

There are other aspects to the case that we are consulting with people on. Of course, there are environmental aspects for anything having to do with lumber. That is a very important part of the picture that we have to factor into our work with the Canadians and with our industry.

In addition, we are aware that there are other interests in the United States concerned about the impact of any agreement on prices for home building. Let me just say that we are dedicated to ensure that our industry is operating on a level playing field. If one

gets a level playing field in production, that is certainly a fair outcome for consumers.

We will be meeting next week with the Canadian officials, both Federal officials and provincial officials, with the aim of exploring whether we are able to put together enough elements that provide effective competition and market-based behavior in Canada.

If we are not able to achieve meaningful agreement with the Canadians on addressing these underlying problems, we will press ahead with effectively enforcing our trade laws and vigorously defending them in the WTO.

As you said, Mr. Chairman, I think in the closing part of your statement, we will not accept a bad agreement. We have our trade remedy laws here for a purpose. If that is the way that is necessary to correct the unfair trade practices, that is what we will pursue.

With respect to steel, I think that Under Secretary Aldonas has described very clearly the perspective that the Bush administration has on this. We understand clearly how important this issue is and we are pursuing very vigorously the three elements of the President's policy.

That is, the Section 201 safeguard action, the negotiations to deal with inefficient excess capacity, and negotiations to deal with the underlying unfair trade practices of our trading partners.

I think that Grant has described very well the negotiations that are going on in the OECD. I think what I would like to highlight there, is one of the outcomes of the recent meeting in Paris that Under Secretary Aldonas headed with the U.S. delegation, is a working party to identify the market-distorting measures in steel trade so that we can take those measures into negotiations, into the WTO and elsewhere, to address the fundamental problems facing our steel industry.

We are working very hard to develop the recommendations for the President under the Section 201 investigation, and we very much appreciate the advice of the members of this committee as we work toward that target date of March 6.

Thank you very much.

The CHAIRMAN. Thank you, Ambassador.

As you well know, our trade laws are critically important to prevent other companies from taking advantage of us. That is why they are there. If this were a perfect world and other countries were playing fairly, the United States, too, we would not have to have trade laws like Section 201, countervailing duty, anti-subsidy, and so forth. But they are critical.

I also believe strongly that other countries tend more to try to take advantage of the United States than we do of them, by a long shot, by a long measure. So, those trade laws are critically important.

I make that point because I am a little concerned. In a hearing before this committee last week, Ambassador Zoellick argued that new WTO rules on our trade laws may be needed to address antidumping and countervailing duty cases brought against U.S. exporters. This is an argument that sometimes is out in the air. It has been made for years.

But after extensive research, I must tell you that my staff has not been able to identify a single case in which changes in WTO

rules are needed to address abusive application of these laws by foreign countries. That is, current laws are sufficient to address all of these potential cases brought by foreign countries against the U.S.

What I would like you to do, is go back and see if you could find some examples. As I said, our staff cannot find any examples. That is, a list of examples of cases brought against U.S. exporters by foreign countries. If you could get that list to the committee by the end of this week, I would appreciate it.

Mr. ALLGEIER. Thank you. We will do that.

The CHAIRMAN. I have a question for you, Mr. Secretary. In the Canadian press and in some political circles, the United States has been criticized for not developing counter proposals to positions offered by Canada late last year.

The administration and the U.S. industry appear to have agreed that their primary goal is, as we have said many times, to reach a negotiated solution to achieve free market reform, but that is comprehensive.

It deals with pricing issues, that you mentioned, Mr. Ambassador, but also tenure reform, elimination of mandates on harvest and mill closures, the lack of antitrust law, or at least the enforcement of antitrust law in Canada, just the whole range of interlocking connections.

With the February 19 deadline very close, just six days away, for Commerce Department to negotiate a suspension agreement, I would like to know, and with all good deference to everybody involved, particularly my good friend Governor Racicot, is the Commerce Department deeply enough involved in these negotiations? After all, you really know this issue, with your deep experience.

Mr. ALDONAS. Yes, I believe we are. We work very well with USTR, obviously, in terms of trying to develop the background for the discussions.

Among a lot of the issues that are on the table, there are issues that the Commerce Department has investigated, as you all know, for years. I think we are providing an awful lot of support through that effort.

I do have to say that I take issue with the characterization by our Canadian colleagues that we have not come back to them with any sort of counter proposal. The fact of the matter is, I think Governor Racicot has taken us closer to a discussion of the root level concerns, just as you outlined, Mr. Chairman, than we have ever been before.

We spent a lot of time talking about border measures in the past, and about things that would be a stop-gap at best, but nothing ever really got to the root of the issue in terms of what lay beneath the provincial practices.

The CHAIRMAN. What about going down the path of a suspension agreement, as was hinted at, at least, by the Canadians?

Mr. ALDONAS. Well, it is still an option, but time is growing very short, as you alluded to. The deadline, as a practical matter, is 30 days from March 19 because we have to provide public notice of any intent to enter into a suspension agreement.

If the Canadians are interested in walking down that path, of course, I am sure that is something that we would want to con-

sider. I do not know that we have had any expression of interest directly from the Canadian government suggesting that they do want to enter into that set of discussions. At least, not that I am not aware of.

The CHAIRMAN. I make that point because, in our case, it is pretty clear.

Mr. ALLGEIER. I agree.

The CHAIRMAN. I mean, it is a unanimous ruling. We got the suspension rulings. What do they call them?

Mr. ALDONAS. Preliminary determinations.

The CHAIRMAN. Preliminary determinations are made and they are as solid as a rock. We are fast approaching the finals. Maybe the Canadians might be interested in reaching some kind of an agreement here.

Mr. ALDONAS. Well, like I say, I am sure we would be open to that possibility if they were interested. But let us be clear. To the extent we can, and we can really get after fundamental reform in the provincial practices, I still think that is the best bet to resolve this once and for all.

That may not come to pass, but at this juncture it is very, very important to keep our focus there. If the Canadians were interested in negotiating a suspension agreement, I am sure we would want to talk to them about that.

The CHAIRMAN. Ambassador, do you hear anything along those lines?

Mr. ALLGEIER. No. The Canadians have not expressed to us an interest in negotiating a suspension agreement. If I could just pick up one thing. I do want to stress how closely the Commerce Department, and the Office of the U.S. Trade Representative, and the Forest Service, and other agencies have worked on this case. We could not do it, except as an interagency team.

I also wanted to thank Governor Racicot for the work that he has done, as Grant said.

The CHAIRMAN. I would like to address another point, if I might. I am disappointed, frankly, by some statements attributed to U.S. officials to the effect that there is great risk of a WTO or NAFTA panel overturning the Commerce Department decisions on trade complaints. They say, in this case, it is in the air.

I want to tell you, I have been quite concerned about some recent WTO dispute settlement panel decisions regarding the U.S. trade laws, but I believe totally, strongly, unequivocally that the Commerce Department's actions in these cases are fully consistent with U.S. law, and also with the WTO and with NAFTA.

Can you publicly confirm that that is also the view of the U.S. Government?

Mr. ALDONAS. Well, sure. I think from our perspective we have done everything, not only consistently with what we view as our WTO obligations, but frankly we have gone out of our way to try to ensure this process, because of its complexity, because of the impact, because of a number of provincial practices in dispute, was as open as possible to all.

We have solicited additional comment from all of the participants in the process so everybody's views are on the record before we

make a decision. So, the notion that there is some infirmity in the process strikes me as odd.

Second, I think it is fair to say we share the concern you do, Mr. Chairman, about the trend in WTO dispute settlement decisions. I do not know who made the comment, but frankly, I want to be clear that we are very concerned that there is a growing trend inside the WTO that looks at the dispute settlement process as a way to achieve what folks could not achieve at the negotiating table in the Uruguay Round with respect to the dumping agreements and the subsidies agreement. That is not something we can live with, ultimately.

The CHAIRMAN. I appreciate you making that point. But, in addition to that point, though, do you believe that the Commerce Department actions in these cases are fully consistent with U.S. law?

Mr. ALDONAS. Absolutely.

The CHAIRMAN. And with the WTO?

Mr. ALDONAS. Absolutely.

The CHAIRMAN. And with the NAFTA?

Mr. ALDONAS. Absolutely.

The CHAIRMAN. Ambassador Allgeier?

Mr. ALLGEIER. Frankly, I think that the United States sets the standard for how to carry out the obligations of the WTO and the NAFTA with respect to the trade remedy provisions of those agreements.

The CHAIRMAN. So the answer is yes, they are fully consistent.

Mr. ALLGEIER. The answer is yes, with an exclamation point.

The CHAIRMAN. Thank you. I have more questions, but I also have lots of other Senators.

Senator Grassley?

Senator GRASSLEY. Thank you. Thank you both for your testimony.

Ambassador Allgeier, I have heard that you may be considering something called a bridging mechanism. I understand that to be a temporary measure agreed to between the United States and Canada until some sort of long-term solution could be reached.

I understand that there are a number of options on the table, including export tax and some type of quota arrangement.

I want to express concern about the impacts such mechanism might have on consumers of softwood lumber driving up the price of home buyers transferring American dollars to the Canadian government.

Are you considering a bridging mechanism, and if so, are you taking into account the effect such a mechanism would have on consumers in the United States?

Mr. ALLGEIER. Senator Grassley, our focus is on trying to find an agreement that will be a correction of the unfair practices that we encounter in competition with Canada, a stable, long-term solution.

It may be that, once we define that solution, that there will have to be a transition period of some sort to get to that solution. So, there may need to be some bridging elements in that context. But we are not looking at something that is an indefinite export tax or something along those lines.

I do want you to be confident that, throughout this process, we have consulted with all parties, including the home builders, and

we are attentive to that as we strive to ensure fair competition for our industry.

Senator GRASSLEY. All right. Secretary Aldonas, I want to ask a question about some language that is in a Doha declaration dealing with antidumping and countervailing duties.

In this declaration it says, "We agree to negotiations aimed at clarifying and improving disciplines under the agreements on implementations of Article VI of GATT 94, and on subsidies and countervailing measures, while preserving the basic concepts, principles, and effectiveness of these agreements and their instruments and objectives."

I have heard you make the case, and fairly persuasively, that this language allows the U.S. Government to go on the offensive against some of the more abusive uses of antidumping and countervailing duty laws which impede our exports.

Could you elaborate on this concept and explain how we can go after the abusive practices in other countries, while at the same time preserving the ability of our country to use our own laws effectively.

Mr. ALDONAS. Sure. With deference to Peter and the list of examples he will develop, there are at least a few that we can cite where we have had industry come in and talk to us about it, where other countries have not been living up to our standards, certainly, and to what we would view as an appropriate standard in terms of processing dumping actions.

The first and most important thing to say, is that the language in the Doha declaration does allow us to go after that. Where we have started to feel the pinch—and this is with the understanding we are now the second-largest target of dumping actions in the world—is in agriculture and commodity products. Given low commodity prices and the fact that, as you are going through these cyclical downturns in the farm community, you see a lot of sales below cost. So, suddenly the United States is being found to be dumping.

Now, generally that is with a very cursory proceeding. So, for example, what our poultry producers now face in South Africa is something of a "star chamber" proceeding. They have no opportunity to know what the allegations are or have a chance to interact with the industry on the South African side alleging that there is unfair trade involved or to understand the basic calculation that would lead to a conclusion of dumping with respect to U.S. products.

It is very difficult for them, really, to engage with the South African government and establish that they are not dumping as a part of the process. At the end of the day, those are the sorts of things where we have rules in our system that are designed, just as I was elaborating in the context of the lumber dispute, that are specifically there to allow both the respondents and the petitioners to make their case open and above-board, on the record.

The Commerce Department makes an enormous amount of information available to both sides to be able to contest the views that are put on the record, as well as, ultimately, the determinations by the Department. That is the kind of system we would like to be able to see in every other country.

I do not think that is inconsistent with preserving what we would like to see on our own side. I do have to say, having been a part of the discussions in Doha, we started out with a fairly large consensus against the U.S. position, and I think we moved a lot of people, in part because we underscored for them that these laws are not there for protection. These laws are designed to gird the WTO rules because they address violations of the WTO rules. I think, in large part, that was accepted.

Some of our trading partners are now becoming active users of the dumping laws and are going to become more aggressive in terms of trying to protect the ability to use them. I want to make sure, as they start to use those laws and we may become the target, that it is done fairly and consistent with U.S. practices.

Senator GRASSLEY. Secretary Aldonas, the suggestion has been made that the government should pick up retiree and health benefits for steelworkers because it would somehow be less expensive for the government to bear existing legacy costs as opposed to allowing the companies to liquidate, and then have the government pay such costs through the Pension Benefit Guarantee Corporation.

From your opinion, what are the sorts of things that we ought to consider as we think about whether this is good policy?

Mr. ALDONAS. Well, I guess the first thing is to examine what is there in the social safety net now, and also see what has been proposed, both by Congress and the President, going forward to see what kind of a social net that, in fact, provides. Also, I think you have to be very conscious about the choices you may be making amongst companies when you start to address the legacy cost concerns.

I think, also, when you drill down into the industry, one of the concerns it raises is that there are a number of folks even within the integrated industry that can take care of their legacy costs. It is not actually an industry-wide problem.

But, having said that, there is an awful lot of sympathy in the administration for the workers who do find themselves, in LTV, for example, at a point where they are going to lose, not their pension benefits because the Pension Benefit Guarantee Corporation will pick up about 93 percent of that, but the health benefits.

For some group that is over 65, there is the possibility of Medicare and a Medigap policy. If the President's proposal in the budget is passed, they would have a health care tax credit available to them.

But there is a group that is retired and not yet 65 where they are not going to feel that cushion. So, there are serious issues there in terms of the social cost of adjustment, really, as we go through a consolidation in whatever form, whether it is just the market driving it or whether it is something where companies are trying to consolidate in the form of reorganization.

Senator GRASSLEY. Thank you, Mr. Chairman.

I will submit some questions in writing that I did not get a chance to ask.

[The questions appear in the appendix.]

The CHAIRMAN. Thank you, Senator.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Mr. Secretary, people have brought up the subject of retaliation. I wanted to, without putting you on the spot, just to make people aware of something.

My understanding is that, I guess it would be Section 8.3 of the Safeguards Agreement says that, “The right of suspension of concessions in response to a safeguard,” i.e., a 201 action, “shall not be exercised for the first 3 years that a safeguard measure is in effect, provided that the safeguard measure has been taken as a result of an absolute increase in imports and that such measure conforms to the provisions of this agreement.”

Now, I think it is virtually impossible to read our Section 201 action on steel as anything other than meeting that definition. I want to simply put that out, that those who scream for retaliation may not be familiar with that clause.

Second, the Commerce Department, of which you are such a distinguished part, put out a very excellent report on the steel crisis and outlined some of the structural factors in foreign steel industries that led to the over-capacity problem and the other types of problems, dumping, et cetera, in the United States market.

The report seemed to mention foreign government subsidies, foreign government ownership, markets that were closed formally through tariff barriers or quotas, or closed informally through anticompetitive distribution cartels and dysfunctional bankruptcy codes that encourage companies to continue uneconomic production and export steel to the United States.

Some of these practices seem to explicitly violate the WTO codes or subsidy codes, others surely seem to violate fair play.

I know you have been discussing these issues at the OECD talks on global over-capacity. I welcome that. I recognize that Ambassador Zoellick mentioned to us here last week that he saw Doha, the WTO process there, as a means of addressing some of the, as you said, underlying problems and practices that have led to dumping cases brought by the U.S. steel industry.

I wonder if you could outline what you think those problems are.

Mr. ALDONAS. Sure. Let me start with privatization, which has been an issue that is much in dispute. I think that both our courts and the WTO have been persuaded, wrongly, in my view, that when you privatize a company it ends the market-distorting effect of the subsidy or the government ownership of that industry.

We have to find a way to come to grips with this problem because, although a government cleans up its own fiscal books when it sells a loss-making enterprise, and while it may no longer provide any direct financial outlay, what it does in privatizing it is it cleans up the balance sheet of the steel company. It takes the liabilities off the balance sheet, puts the assets on the auction block.

Under those circumstances, somebody can buy that and make money on it for a short period of time, particularly with the other distortions that many countries have in their markets. But the practical effect is that the capacity is still on the market and it is still depressing prices. It also takes a long time for the capital markets to siphon capital away from that loss-making enterprise and get that steel out of the market.

British steel is probably the best example. It had 14 loss-making companies in 1968, aggregated into a single enterprise kept alive

by government subsidy until 1989, when Margaret Thatcher privatized it. It is still alive. It is still losing money, even now bundled together as Corus with the Netherlands firm Hoogovens.

That is how long it takes before there is enough market pressure to start squeezing some of this out of the market. Until we come to grips with that reality, whether it is through the existing subsidies agreement or some other arrangement, we will not have addressed the fundamental problem.

Twenty years ago, we had a steel industry globally that was 75 percent government owned. It is still 25 percent government owned. If you think about what that means in terms of the implications of how 25 percent of the capacity in the market is insulated from market pressures, you have defined why we have a glut of capacity on the market worldwide.

Senator ROCKEFELLER. Two quick follow-ups. The ITC, basically, is dealing with injuries. It does not deal with subsidies, countervailing duties, dumping, things of that sort.

So if you have the ITC recommending serious injury, as they did, but then in addition to that the President believed that an import surge that was accounted for in large part by dumping and by the sorts of practices I and you have just described, it would seem to me that that would allow him to go beyond tariffs that were literally, let us say, recommended by the ITC, to which he is not wedded.

Mr. ALDONAS. Yes. Sure.

Senator ROCKEFELLER. So, I mean, it is a function of serious injury plus malpractice. Is it not?

Mr. ALDONAS. Yes. I think, by and large, we have done that through the existing dumping orders and countervailing duty orders on steel.

Senator ROCKEFELLER. But in his 201 reaction, this could occur to him, could it not?

Mr. ALDONAS. He is certainly not bound by the ITC's recommendations.

Senator ROCKEFELLER. That is correct. Right.

Mr. ALDONAS. There is a cap on tariffs he could impose at a 50 percent level, but he is free to disregard the ITC's recommendation.

Senator ROCKEFELLER. Thank you, sir.

The CHAIRMAN. Thank you very much, Senator.

Senator Breaux?

Senator BREAUX. Thank you, Mr. Chairman. Thank the two presenters for their testimony.

I take it, if you have got to make a final decision by March 6, 2 weeks from now, there is probably a piece of paper somewhere around the White House in which that recommendation has already been typed up, and probably just about decided.

I will not ask you, obviously, what that piece of paper says, but I am pretty sure that that decision is probably in the computer somewhere already written.

I am interested in the fact that we will make this decision, while at the same time we are negotiating all around the world with steel-producing companies about what we can do globally to try and reduce what you called "the excess capacity of inefficient steel," which is an interesting term, because I guess if they were efficient

producers of steel they would have a greater excess of capacity than we do now with inefficient producers of steel. But that is another point.

The question I want to ask is, do we run into problems if the United States unilaterally, on March 6, makes a decision on tariff and quotas, while at the same time we are negotiating with all of these other countries on ways to reduce steel capacity? I mean, do they say, what in the world are you negotiating with us for? You have already unilaterally taken action.

Mr. ALDONAS. Well, I guess two things, Senator Breaux. It is a relevant question. What we have done in the OECD thus far, is we have tried to get forecasts from governments about what the market is likely to take out in terms of excess capacity.

So, literally, there is no nexus between what is happening there and what the President might do on March 6. The idea that somebody could withhold what the market is, otherwise it is going to take out as a result of the current conditions——

Senator BREAUX. Your testimony, and I think the Ambassador's testimony, was helpful in that. You say that the forecasts indicate that we will get rid of about 117.5 million tons of excess inefficient steelmaking capacity by the year 2005, and the estimate is that we have about 200 million tons of excess inefficient capacity right now.

So if that forecast is correct, we still have an over-capacity of inefficient steel producers. Correct?

Mr. ALDONAS. That is right.

Senator BREAUX. So I guess you could say that what you are trying to do is to address that portion that is still there?

Mr. ALDONAS. Certainly. I think the best way to put it, is I thought we made a lot of progress in the OECD. But it is about 60 percent of the problem. Is it good? Yes. Is it enough? No.

Senator BREAUX. I note from my good friend, Mr. Steel, Senator Rockefeller here, that we have been averaging about 27 percent imports, 26 percent, 30 percent, 23 percent, 24 percent. I would note that we are importing over 55 percent of our oil in this country, and we continue to do that with almost no plan to reduce that.

But the question becomes, sometimes when you have got real difficult situations, people try to find the middle, which is normally where I find myself. So is there a middle here? What do you do? You have got tariffs and tariff quotas. You have got a 40 percent recommendation. I mean, can we guess that you are going to probably split the difference on this? [Laughter.]

Senator ROCKEFELLER. Would you like me to answer that for you? [Laughter.]

Senator BREAUX. The question was not whether you would like that or not. It is no whether you would like it. I know what that answer is. I mean, I have got people in Louisiana saying, do not do this, we need the steel. I have got the Port of New Orleans saying, you are going to put the Port out of business.

There are some very legitimate concerns from both sides here. How do you address this in a way, if you can, that makes both sides feel like you have done the right thing? Is that possible?

Mr. ALDONAS. It is very tough. I will try and explain why. I think that all of you would think we would be remiss if we did not take

into account some of the downstream effects of a decision, any decision, we would take here.

At the same time, you are stuck in a situation where one of the things you have to do is make sure that the burden of adjustment that is going to be borne as we adjust out of this 200 million tons of excess capacity is borne fairly. The market has been working in the United States with brutal efficiency. We all know that.

The question is whether that has been happening abroad as well. I would have been satisfied had we made greater progress in terms of eliminating the excess capacity. Prices would respond, the market would adjust, I would have some confidence that we could bear our share and we could move on. I do not think we are there, frankly.

I do not want to prejudge what the President's determination would be. But it does mean that, while you take into account the downstream effects in our own economy, we also have to make sure that this problem, which everybody in the room—39 countries and their industries—agreed they had contributed to making this problem, largely confirming what our industry has said for the last 50 years.

Senator BREAUX. But I take it your opinion or recommendation is that, despite the fact that you are projecting, because of the meetings, a reduction of a substantial portion of the over-capacity of inefficient steel, that you still think that something needs to be done, but have not really made the final decision on what needs to be done.

Mr. ALDONAS. I think it is fair to say that the talks alone do not suggest to me that there is going to be a burden sharing that is entirely fair. We are at a point where you could take the entire U.S. steel industry out—that is 124 million tons of capacity—and would still have, 80 million tons of excess capacity in the world market.

This is going to have to happen worldwide. The real question is, are other countries going to belly-up to the bar and share their fair share of the burden of this adjustment? I think that is really what the call is about.

Senator BREAUX. Well, good luck.

Mr. ALDONAS. Thanks.

The CHAIRMAN. Senator Lincoln has a solution. [Laughter.]

Senator LINCOLN. Thank you, Mr. Chairman.

Just a couple of questions. I was very pleased that the Chairman certainly touched on a lot of the softwood lumber issues. As Mr. Aldonas mentioned earlier, those are very important to us in Arkansas.

I will just focus in on a couple of questions about steel. Although the import volumes for some of the products have declined recently, imports for some long products such as the rebars have continued to increase.

My question for those of you who have far more background in this than I do, does this not argue for the comprehensive relief that covers all of the products equally?

This is very important to us in Arkansas, where we produce just about all kinds of steel. It is essential to the success, really, of the

201 response that we have truly comprehensive relief. Obviously, that is what we are encouraging you to do.

I am hoping that your answer to that is that the argument is for comprehensive relief. If the Section 201 remedy does not provide for the across-the-board remedies, will the foreign producers not simply shift their products to products that are low or no tariffs?

Mr. ALDONAS. Senator, I think the industry made a fairly compelling case that the existing web of unfair trade cases—now, remember, I said there are 160 orders out there on steel, and that is over half of the total number of dumping and subsidy orders that we have in place under unfair trade laws—is not working. If you look at the conditions of the industry, that alone is not going to do it.

One of the reasons, as we saw during the surge during the Asian financial crisis, is people did shift out of the markets they had been in traditionally. They moved their production around. The steel service centers are in the market as buyers. They turn to alternative sources of supply.

So, one of the reasons I think they pressed for the Section 201 was precisely the reason you described, which is, without that broader product coverage, what you find is you are just squeezing on one part of the balloon and it is coming out somewhere else.

Senator LINCOLN. Great.

I also just want to echo some of what I have heard here today, hoping that you are not considering quotas rather than tariffs as a remedy. I think the history, certainly, as I have seen or read in the Section 201 cases, has proven that they do not work.

I guess I am referring particularly to one that has been brought to my attention, the Steel Wire Rod case, where the only result of the imposition of the quotas was that a number of the U.S. wire rod producers became bankrupt, or even shut down, I guess, after the winning case.

So I think maybe, if nothing else, we are hoping that you see this as a reason why quotas would be equally ineffective in this case as well.

Mr. ALDONAS. Well, I would say, Senator, it is both a question of the remedy as when it gets imposed. I know when I was fortunate enough to serve here as chief trade counsel, one of the things that drove me crazy was the fact that the last administration blew past the deadline on the wire rod decision without thinking twice about it.

A lot of the decline in the company you are describing was the result of the fact that the last administration was unwilling to make a decision and get it done, wholly apart from the type of decision.

When I say that, I think we take seriously the notion that essentially restoring the bargain between the committee, the administration, and between ourselves collectively and the American people, is hitting those deadlines.

Because I guarantee you, even with a tariff rate quota, things would have been better for that company had it been done when the decision was due. I am sorry. That was a personal reflection here.

Senator LINCOLN. Senator Rockefeller and I have been screaming for a long time about meeting deadlines and getting things done as quickly as possible.

Mr. ALDONAS. Yes. Absolutely.

Senator LINCOLN. But thank you very much.

Mr. ALDONAS. Sure.

Senator LINCOLN. Thanks for your input.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

To me, this does not take rocket science.

Mr. ALDONAS. Agreed.

The CHAIRMAN. I mean, it is pretty basic. Look at the Canadian practice on lumber and other countries' practice on steel. Let us take steel, first. It is government policy in every government to have a strong steel industry. It is like their flag. It is almost in their psyche. It is machismo. It is just, you have got to have a strong steel industry. Other countries are so involved with their governments, with their producers much more than we are directly.

Mr. ALDONAS. That is true.

The CHAIRMAN. Clearly, they are pushing excess capacity. It is pretty obvious. It is pretty simple. To get rid of it, what do they do? They dump or all the other practices they undertake to deal with excess capacity. Sure, we produce.

I have talked to a lot of steel mills in this country. We all trust our sense. You listen to the music as well as the words, you read between the lines as well as read the sentences. You try to get a feel, a sense of, how true is this? You take everything with a few grains of salt. It is clear in both of these areas, lumber and steel, other countries are, very simply, taking advantage of us. It is pretty clear.

You have a terrific opportunity, you the administration, to take decisive action to put a stop to a lot of this, or to begin to get the wheels in motion. We are finally going to, at least in these two industries, these two products, kind of rationalize and get some worldwide reasonable playing rules here. It is a little bit simpler with Canada because we are just dealing with one country, as heinous as that practice is.

But with respect to steel, there is over capacity and the basic reason is because for other countries it is just part of their national policy to produce steel.

So, I just hope that you take advantage of this opportunity and be very creative. For example, under 201 in steel, the President has a whole long list of potential remedies. In addition to injury and adjustment, he has got TAA, he has got a whole list of remedies. I would just urge you, in consultation with all of your other colleagues in the administration, to remember, here is our opportunity to do it right.

Let us be creative so we are thinking down the road, so we have a more consistent, constant, predictable solution here so we are not coming back and going through all this all over again, trying to reinvent the wheel about two, three, or 4 years from now. Let us do it. Let us get this thing done.

Mr. ALDONAS. Agreed.

The CHAIRMAN. Good. Thanks. Thank you both.

Our next panel includes Mr. Rusty Wood from Perry, Georgia; Mr. Bobby Rayburn, who is the vice president and treasurer of the National Association of Home Builders; and Mr. Rodger Schlickeisen, president, Defenders of Wildlife.

I notice Mr. Schlickeisen is not here yet. Mr. Snape, you can go ahead and fill in.

Thank you, all three of you, very, very much. I hope that the hearing thus far has been helpful to you as well, helping to shape your testimony and what you might have to say to us today.

Mr. Wood, why do you not begin? First, I want to compliment you, being a very faithful servant of the softwood industry. I know you have worked very hard and very above-board, too. You are a straight-shooter, and I appreciate that.

STATEMENT OF W.J. "RUSTY" WOOD, CEO, TOLLESON LUMBER COMPANY, PERRY, GEORGIA

Mr. WOOD. Thank you, Mr. Chairman. Thank you for all your hard work.

Good afternoon, Chairman Baucus, members of the committee. My name is Rusty wood and I am chairman of the Coalition for Fair Lumber Imports. The coalition represents hundreds of lumber companies from throughout the country.

I am also the owner and operator of Tolleson Lumber Company, a third generation family-owned saw mill company out of Perry, Georgia.

I sincerely appreciate the opportunity to speak on behalf of the U.S. industry regarding unfair Canadian lumber imports. Over the past few years, and still today, subsidized and dumped imports of lumber from Canada impair and threaten the viability of the U.S. lumber industry, the livelihood of hundreds of thousands of workers, and the investments of millions of landowners.

According to one independent source, in the eight months prior to filling our cases we saw 158 mill closures in the United States, 27 of which were permanent. During that time, the same source reported only two permanent Canadian closures. Unfortunately, that report includes only a partial list of closings. Scores of additional mills have closed across the country.

The problem is simple. The Canadian governments own 94 percent of the timber and they give it to their mills for a fraction of market value, as the chart shows.

If Canada is allowed to continue the unfair practice of giving away its timber while we pay the market price for ours, many more family businesses like mine will fail, many more tens of thousands of our employees will be out of work, and many woodland owners will not be able to afford the cost of reforestation and forest management.

As the Southern Forest Resource Assessment draft report from the U.S. Forest Service notes, if returns do not justify the investment, timberlands will be sold off to developers, creating further urban sprawl.

Canada's provincial governments have a complex scheme of timber management that artificially encourages production, especially in weak markets, and fixes timber prices at less than one-fourth of true market value.

The existing tenure system locks up the timber and prevents competition on a vast majority of timber sales, benefitting selected Canadian companies. Mills must harvest timber regardless of market conditions. Mills cannot close without government approval. These problems, too, will have to be remedied to have fully open and competitive markets.

The Canadian system is so perverse that an analyst with a Canadian financial firm Geopel McDermid Securities concluded, “In short, the Canadian forest industry is running the same way as the controlled economies of the former Eastern bloc. Bureaucrats and politicians allocate the resource and determine its value.

It took 50 years for the East bloc economy to collapse because of misallocation and mispricing of resources, and we have no doubt the Canadian timber tenure system will collapse for the same reasons.”

In the meantime, that subsidized system wreaks havoc on fair trading U.S. mills and workers. Growing Canadian production over the past 25 years, as our second chart shows, tells the story.

We are not seeking any special kind of protection or special status, just the relief we deserve and are entitled to under nationally and internationally recognized principles of international trade.

The U.S. Government most certainly has not only the right, but the obligation, to protect its industry and workers from unfair trade by vigorously enforcing the U.S. trade laws.

In terms of the litigation, our cases are strong. Commerce preliminarily found combined subsidy and dumping rates of over 32 percent. But for a clerical error, the rate would have been 37 percent.

We believe the evidence at final will show even greater unfair trade. With respect to injury, there is simply no question that the U.S. industry has been injured by the unfairly traded imports.

In negotiations, the United States has sought an end to unfair trade practices by urging Canada to adopt open and competitive markets for timber and logs. Yet, Canadian officials loudly claim that the United States has negotiated in bad faith. This is nonsense.

The United States has suggested that Canada can solve the dispute in a variety of ways: one: adopt fully open and competitive market; two: sell timber at market value in a system that competitively sells a substantial majority of timber and substantially reforms the current tenure system to ensure that sales are, in fact, competitive and not depressed; three: impose effective border measures while long-term reform is negotiated; or four: offer proposals that have a comparable effect to an open and competitive market.

Instead, Canada has offered to sell competitively 1 percent of government timber in Quebec and 13 percent in British Columbia. Further, there have to be effective commitments that there will be no pass-backs of subsidies and grants or reduced forest management expenses.

Unfortunately, it appears that Canada is unwilling to solve the real problem and is exerting all of its influence to get the administration to accept a weak deal based on international political pressure.

The United States must remain firm. If Canada will not solve the real problem, then the full weight of U.S. trade law must be applied.

Finally, I would also like to address arguments that have been made by certain organizations that claim to represent lumber consumers. U.S. Government agencies have looked into the effect that lumber prices have on the cost of a new home, and time and time again have found that the cost of lumber makes up such a small part of the overall cost of a home, that an increase in lumber prices simply does not have a significant impact on housing.

The National Association of Home Builders and Census data show that, in 2001, lumber accounted for just over 2 percent of the cost of an average new single-family home, the lowest share in 20-plus years. The numbers just do not support the claims that are being made.

The CHAIRMAN. I am going to have to ask you to wrap up, Mr. Wood.

Mr. WOOD. We just thank you for your attention. We are not interested in trying to get a margin point increase in our business, we are here for survival. So, it is a life-and-death issue for us. Thank you so much.

The CHAIRMAN. Thank you, Mr. Wood.

[The prepared statement of Mr. Wood appears in the appendix.]

The CHAIRMAN. Mr. Rayburn?

STATEMENT OF BOBBY RAYBURN, VICE PRESIDENT AND TREASURER, NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, DC

Mr. RAYBURN. Good afternoon, Mr. Chairman, Ranking Member Grassley, and members of the committee. My name is Bobby Rayburn and I am from Jackson, Mississippi. I am president of Rayburn & Associates and have been a builder of single- and multi-family homes for more than 30 years.

I appreciate the opportunity to appear today as vice president and treasurer of the National Association of Home Builders on behalf of our 205,000 member firms, and the more than 8 million employees in all 50 States.

I want to particularly thank the Senators on this committee, Grassley, Kyl, Bingaman, Nickles, and Bob Graham, who have been sensitive to the interests of American consumers who have been adversely impacted by trade restrictions on softwood lumber.

We are here because of efforts to restrict the supply of our most important building material: lumber. Home building and remodeling accounts for two-thirds of lumber consumption in the United States. Lumber accounts for a larger share of the cost of a home than any other materials used by home builders.

This issue is important, not only to home builders and contractors, but also to other U.S. businesses that use softwood lumber, such as manufacturers of trusses, cabinets, pallets, and furniture, as well as lumber wholesalers and retailers.

Altogether, with businesses in real estate and mortgage finance, millions are employed in housing-related industries that are all contributing to our economic recovery.

Lumber price increases have severe effects on our Nation's housing market. Each one dollar increase in the price of framing lumber per 1,000 board feet adds about $20 to the price of a new home.

An increase of $50 in the average wholesale price of framing lumber would mean about 300,000 families would not be able to qualify for a mortgage on the average first-time home.

Because of harmful effects of artificial price increases, I want to be clear. We are opposed to border measures such as quotas, tariffs, and export fees that restrict imports of Canadian lumber. Domestic producers cannot meet the need for new homes and improvements to existing homes without lumber imports.

Because of the limits of the supply of the timber in the United States, trade restrictions on Canadian lumber would lead to an increase in imports from other parts of the globe with much less environmentally sensitive forest practices.

Most importantly, I can tell you firsthand that the types of lumber imported from Canada are significantly different from most of the lumber produced in the United States.

Builders use different lumber species for different structural uses in home construction. The imported lumber is better suited for wall framing, while most domestic species are better suited for floors, roofs, headers, and outdoor applications.

In the absence of Canadian spruce, builders are likely to turn to lightweight steel studs or lumber imports from other countries to build homes with walls that will not crack.

We support the changes to make lumber supply more responsive to market demand. However, we are wary of the idea of a negotiated settlement based on past experience with lumber agreements that allowed U.S. and Canadian lumber producers to restrict supply and raise prices.

These past agreements restricted lumber supply and contributed to artificial price increases and volatile swings in the lumber market, both of which hurt housing affordability.

Since housing has been a critical stabilizing factor in our Nation's faltering economy, it is imperative that our government does not artificially raise the cost of housing through trade restrictions. [Applause].

The CHAIRMAN. That is a pretty good statement there. I mean, you have got quite a fan club here in the back. [Laughter.]

Mr. RAYBURN. Thank you.

In closing, we welcome the opportunity to be heard, because U.S. trade laws give little consideration to the interests of consumers and downstream industries. This bias has limited the ability of American consumers to receive products and services of the highest quality at the lowest cost, and of U.S. businesses to provide jobs and increase production.

The building industry alone creates millions of jobs in our country. The bias also encourages other countries to adopt similar protectionist policies that limit the choices of their citizens and opportunities for U.S. exporters.

I hope this committee will take the lead in bringing the benefits of free trade to Americans rather than creating distortions in the marketplace, providing off-budget subsidies to uncompetitive U.S.

special interests and creating windfall gains for a few at the expense of U.S. home builders and U.S. home buyers.

Thank you. I would like to submit a full written testimony for the record.

The CHAIRMAN. Without objection, it will be included.

[The prepared statement of Mr. Rayburn appears in the appendix.]

The CHAIRMAN. Mr. Snape?

STATEMENT OF WILLIAM J. SNAPE, III, VICE PRESIDENT FOR LAW AND LITIGATION, DEFENDERS OF WILDLIFE, WASHINGTON, DC

Mr. SNAPE. Thank you, Mr. Chairman.

My name is Bill Snape, chief counsel for Defenders of Wildlife, a biodiversity advocacy group with approximately one million members and supporters throughout North America.

Rodger Schlickeisen, our president, gives his regrets. The changed hearing time conflicted with a longstanding obligation. He may still show up.

Before I begin my remarks, I would like to point out that just this morning, approximately 100 environmental groups from both the United States and Canada submitted a letter to Special Trade Envoy Mark Racicot about the significant forestry reforms that must occur in Canada for there to be a truly open and transparent trading system. The letter itself was focused on the forestry reforms.

Mr. Chairman, my testimony this afternoon focuses on two major themes. First are the many different types of subsidies that the Canadian governments grant the Canadian timber industry, including passback subsidies that are explicitly based on environmental protections and enforcement, or the lack thereof.

Second, I would like to outline some constructive and reasonable solutions to the softwood lumber debate that we believe will achieve a durable and effective negotiated agreement. Thus, subsidies and solutions are my two themes.

There is a reason why the environmental community and the U.S. timber industry stand together today. That is, the pernicious and multiple subsidies constantly granted to the Canadian timber industry to clear-cut trees from virtually every corner of Canada harms both U.S. workers and our shared environments.

For those of us seasoned in this dispute like you, Mr. Chairman, reciting the litany of subsidies is almost de rigueur. We have below-market stumpage prices, monopolistic tenure arrangements, first nation treaty violations, and a bevy of environmental problems, including unsustainable but mandatory cut requirements, no Endangered Species Act, and documented and repeated violations of the Federal Fisheries Act that should otherwise protect important riparian habitat.

While all of these specifics on the subsidies are very important, and indeed I have not listed them all, we must keep the most salient fact on subsidies clearly in focus.

That is, the Canadian timber system is extremely closed. There are no open log market sales. There are no opportunities for real

public input. There are no meaningful environmental analysis done in Canada. That is the reality.

That is why tenure reform may be the most crucial issue that connects the injuries being inflicted on the American environment, the Canada environment, U.S. workers, and even, frankly, Canadian workers. It is the flawed tenure system that denies both the market a chance to work and environmental protection a chance to work.

Now, as I turn to solutions, and some of them have been touched upon already today, any framework for negotiations, we believe, must include the explicit linkage between harmful trade subsidies and the environmental degradation caused by present Canadian forest practices.

When we talk about the environmental injury caused by Canadian forest practices, I think we should start with the provincial governments' studies and figures themselves. In British Columbia, estimates by the own B.C. government indicate that they are cutting 40 percent above economic sustainable levels.

The environmental injury in the United States is also significant. We have shared endangered species, such as the grizzly bear, woodland caribou, bull trout, and their shared ecosystems that are being injured severely by Canadian timber practices.

On pages 7 through 9 of our written testimony, which I would also like to submit for the record, Mr. Chairman, we have outlined some detailed recommendations that we think would help move the process forward in negotiations.

USTR and Commerce have seen most of these, although they have not seen, obviously, this particular testimony. None of them should be a major surprise. Of course, they track the pricing problems, the tenure problems, and the environmental problems that I have already mentioned.

One immediate question is how to move forward in the short term, given the magnitude of the problems with the Canadian forestry system. The Canadian forestry system has problems that took many years to develop and we are not going to solve them overnight.

In general, we think that the duties under U.S. trade law—the duties that have been previously applied in the preliminary determination and those that will probably be found in the final determination—should be gradually lifted and tiered to Canadian reforms.

In other words, I do not think we should give in on any of our U.S. fair trade laws until we see an appropriate response and reform by the Canadian timber industry.

Another important issue is the creation of a follow-up mechanism to continue examining potential subsidies such as the environmental protection issues and to ensure compliance with commitments already made.

I think past experience indicates that we need to be able to hold certain feet to the fire to make sure that what we get on paper will occur on the ground.

Before I give you my very quick conclusion, I do want to respond very briefly to the National Association of Home Builders. Two

points. The first is to emphasize the environmental lawlessness that really does occur in Canada.

It is hard, really, to comprehend here in the United States. But in Canada they not only have weakened environmental laws, they simply are not enforced and there is no public mechanism to enforce those Canadian laws the way that we have in the United States.

The second point I wish to make, is that we believe—in fact, the Home Builders' own Web site has examples of this—that you can save money and save wood at the same time with home building. We think any impact to consumers is negligible at best, and I think that ought to be firmly on the table.

In conclusion, since my time is up, Mr. Chairman, we are at the crossroads of two extremely significant trade policy developments. The first, obviously, is the softwood lumber agreement itself. I think we are an historic opportunity to solve the problem.

The second opportunity—if we are successful with the softwood lumber agreement—is with our overall trade policy and trade promotion authority. We are hopeful that the Senate will deal with trade policy in a way that the House, with a very narrow margin, did not.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Snape.

[The prepared statement of Rodger Schlickeisen appears in the appendix.]

The CHAIRMAN. Mr. Wood, could you compete if you were truly on a level playing field, and the families that you were talking about if we were on a truly level playing field? That is, everybody, the Canadian and American lumber producers, were all treated alike?

Mr. WOOD. We are more efficient than the Canadian industry. That is not a subjective thing. It is, what is the cost per 1,000 of producing lumber? It is cheaper in the United States. Seventy percent of our cost is the raw material because it is competitively bid. In Canada it is about 30 percent.

But as far as the cost, labor, wages, everything per 1,000, we are more efficient than the Canadian industry. The only way they are getting down to Florida from Canada, is they are giving away their timber.

The CHAIRMAN. Mr. Rayburn, I often hear the argument that you made. That is, gee, what about consumers? Do we not want to pay the lowest prices? That is a general position that all of us in the country adhere to. But we also have loss.

Not to make an analogy here, but I am reminded a bit of a hearing in this room not too long ago, a Commission on Human Rights established under the PNTR bill, permanent normal trade relations with China.

One of the witnesses there made the point that, in his belief, China is a nation by law, not a nation of laws. The United States is certainly a Nation of law. That is, we have laws that everyone follows, and the laws are enforced.

If the law provides that there is a subsidy here, an unfair subsidy and it is wrong, it is just my view that that law should be en-

forced. We find other ways to deal with adverse impacts, if there are any, as a consequence of enforcing that law.

And the laws can always be changed. If the laws are unfair or wrong, they can always be changed. The United States has made this determination that we have anti-dumping and anti-subsidy laws, and that is what they are, to protect us against unfair practices overseas.

Turning to another point here. As I was listening to you, I was thinking to myself, well, what if I were a home builder and I were residing in the southern half of, say, an average American town of 100,000 people, 200,000 people, something like that. There is a lot of mobility back and forth across town.

In the northern half of the town, home builders get a 32 percent subsidy, so consumers get a break on any homes built by that home builder that happens to reside in the northern part of town.

Now, say you live in the southern half of town. Would that be fair?

Mr. RAYBURN. Mr. Chairman, we do not believe there are any subsidies there. The Auburn University has submitted studies showing there are no studies. We have been in Canada on numerous occasions.

I will be in Ottawa with Mr. Pettigrew 2 weeks from now, encouraging the Canadians not to negotiate this deal. We believe that, as it happened three other times, that if this ruling by the Commerce Department is taken to the fullest and taken to the World Trade Organization, that it will be overturned.

The CHAIRMAN. So it is your view there are no subsidies.

Mr. RAYBURN. Yes, sir.

The CHAIRMAN. Second, do you believe that the United States should follow the law, the United States citizens, U.S. Government?

Mr. RAYBURN. Absolutely.

The CHAIRMAN. Do you believe that our trade laws are appropriate? That is, should we have trade laws?

Mr. RAYBURN. We should have trade laws. But we should also strive in our trade laws to provide for free trade between one country and another. That is what we are all about. We are for free trade.

I want to be able to buy spruce studs from Canada because I cannot get them from the United States, for the most part, because of various limiting factors that have taken place on government lands, not building roads, being able to get in to them.

The CHAIRMAN. So it is your view that there is no subsidy, the Canadians do not subsidize. What if, in your view, it was shown to you factually, and you look at all the data, from Mr. Wood or others, plus the Auburn study. You get all these studies together and you look at them all.

What if you were to conclude that the Canadian government, through all of its arrangements, is, in fact, subsidizing Canadian producers. Would you think that that is something that the United States should stop and do something about?

Mr. RAYBURN. Mr. Chairman, our experts, our economists, have provided various pieces of information regarding the free trade and regarding subsidies to the U.S. Trade Representative's office, to

ITC, and Commerce, also. I would have to rely on their expert opinion.

The CHAIRMAN. I appreciate that. With all due respect, you did not answer my question. My question is, if you looked, as an objective man, Mr. Rayburn, an objective, fair, honest person, looked at all the data and you concluded that Canada is subsidizing their producers, whereas American producers are not getting subsidized, do you think the United States ought to stop that?

Mr. RAYBURN. If I have privilege to all the information, yes.

The CHAIRMAN. All right.

Mr. Wood, you had a point?

Mr. WOOD. Mr. Chairman, Michael Carliner, the economist for the National Association of Home Builders, is quoted that "if there was a 20 percent tariff on Canadian lumber, it would not substantially increase the price of a home." That is their economist.

Mr. RAYBURN. If I may follow up, I think that was quoted out of context. I would be glad to supply the information to this committee.

The CHAIRMAN. If you would, Mr. Rayburn, when you see Minister Pettigrew.

Mr. RAYBURN. Yes.

The CHAIRMAN. Would you please tell him that most of us in the United States have an absolutely contrary point of view compared with the one that you are going to represent?

Mr. RAYBURN. I would be glad to share that information with him, Senator.

The CHAIRMAN. Thank you.

I have no further questions. Senator Rockefeller?

Senator ROCKEFELLER. No. I am happy to see that important products for important States and workers in this country and the industries in this country are under assault and that the business of fairness in trade rises, I think, at least to the level of, and probably higher, and is the only thing that creates something called free trade if it is fair trade. What I think I have heard two of this panel describe, supporting Senator Baucus, is that that is not the case.

Mr. SNAPE. Mr. Chairman, can I say one very quick word?

The CHAIRMAN. Briefly. I might say, we are in kind of a bind here. I apologize. I am probably the person most responsible. The Senate Finance Committee is going to mark up energy tax-related legislation in this room in less than 40 minutes, so we have got to be very efficient here. We have one more panel.

Senator Grassley?

Senator GRASSLEY. I am going to pass.

The CHAIRMAN. Thank you. I am sorry, Mr. Snape.

Mr. SNAPE. No. I understand, Mr. Chairman.

The CHAIRMAN. We are going to have to proceed. All right. Thank you very much.

The next panel will be chaired by Senator Rockefeller.

Senator ROCKEFELLER. Our next panel is Mr. Tom Usher, chairman, CEO, and president of the U.S. Steel Corporation, Pittsburgh, PA; Mr. Daniel R. DiMicco, president and CEO of Nucor Corporation, Charlotte, NC; Mr. Jon Jenson, chairman, Consuming Industries Trade Action Coalition, Washington, DC; Mr. Leo W. Gerard,

president of the United Steelworkers of America, Pittsburgh, PA; Mr. Gary C. Hill, president and CEO of National Metalwares on behalf of the Emergency Committee for American Trade, Aurora, IL; and Mr. Joseph Cannon, CEO of Geneva Steel, from a place called Vineyard, UT.

We will start with Tom Usher.

Mr. USHER. Thank you, Mr. Chairman.

Senator ROCKEFELLER. And thank you for your patience in all of this.

Mr. USHER. Very good, Senator.

STATEMENT OF THOMAS J. USHER, CHAIRMAN, CEO & PRESIDENT, U.S. STEEL CORPORATION, PITTSBURGH, PA

Mr. USHER. I am very grateful for the opportunity to testify here today.

Our domestic steel industry is in the midst of the most significant crisis in its history. We have seen more than 30 bankruptcies, prices at their lowest level in decades, and companies losing money at a rate that is not only unsustainable, it is catastrophic.

Without immediate and meaningful relief, and that means substantial tariffs at the 40 percent we have advocated, the ability of our industry to meet the Nation's basic industrial and security needs will be severely, and perhaps permanently, compromised.

Even at a time of devastating losses and disruption, this industry has devoted enormous effort and resources to pursuing this Section 201 investigation and to proving, by a unanimous 6:0 vote, that we have been seriously injured and are entitled to relief under the law.

It would be a cruel and crippling blow to have gone all the way, to have proved every element under the law, only to see our chance of recovery dashed by half measures and ineffective relief.

Let me state this as plainly as I can. We have seen the reports that the administration is considering a mix of low tariffs and quotas, the same type of measures that have been proposed by foreign producers to evade any real market restrictions.

I think you need to be suspicious when, after the trial has been held, the defendant found guilty by a 6:0 vote, the defendant is able to propose the sentence.

This type of inadequate remedy would not only provide no relief to the domestic industry, it would quite likely be a death blow from which we would never recover.

Any number of press reports have already made clear that foreign producers and importers will simply absorb duties as high as 20 percent, with little or no effect on imports.

Even worse, the type of quota and tariff rate quota measures that have been proposed are well above current import levels and would provide no restraint whatsoever on imports.

Indeed, if history is any guide, weak tariff rate quotas would actually encourage imports, just as they did in the Wire Rod 201 case.

More fundamentally, we have to recognize that this is a unique and pivotal moment. Rarely, if ever, has the entire global industry, as well as the governments here and abroad, been so focused on the steel problem.

Never has the President had such a mandate and such wide-ranging authority to address this issue in a lasting and fundamental way. If we let this opportunity slip, if we send a message to the rest of the world that this has all been for show, I think you will see a market effect that is overwhelming and unstoppable.

If foreign producers and governments know they can evade our laws and wreck our market with impunity, it will only be a matter of time before they finish what they have started.

I know that some groups, including those represented here today, have suggested that import relief would have a devastating effect on consumers. That argument is, quite simply, ludicrous. The domestic industry has ample capacity available to increase shipments without significant price increases.

Indeed, the 40-percent tariffs we have advocated are projected to raise the price of domestic products in the neighborhood of 10 percent. Even with the modest price increases that would result from a 40-percent tariff, pricing would still be well below the average levels of the last 20 years.

It is appalling to me that consuming groups that have benefitted from totally unheard of price levels would seriously argue that modest increases in this range, to save an industry critical to our economy and security, are somehow unreasonable.

As our proposed remedy in the national interest, think about what it would mean not to have the basic capability to make and develop new and critical types of steel. Think about what it would mean to lose the stable source of supply in our own market and the vigorous competition provided by domestic companies.

Think about the benefits to the industry and consumers if we can, as the President sent out to do, provide an incentive for foreign governments to address their own market-distorting behavior in this sector.

Think about the benefits to the world economy generally if we can end the cycle of unfair trade and the continued trade disputes in this area, restoring greater confidence in the trading system.

Make no mistake. The current situation is not sustainable. We can fail to act and see our industry destroyed. But, over the long run, no matter which producers supply this market, they will have to earn a sustainable return.

The question before the President is whether he will act now to save the industry and spur a return to market forces or whether we will wait, see our industry go under, and watch as foreign producers take advantage of a market that has been left defenseless.

We have never had a greater opportunity to truly address the problems facing the industry. We urge, we implore the President to take the steps necessary to make that happen, and we respectfully ask the committee's help in conveying that message.

Thank you.

Senator ROCKEFELLER. Thank you, Mr. Usher.

[The prepared statement of Mr. Usher appears in the appendix.]

Senator ROCKEFELLER. Mr. DiMicco?

STATEMENT OF DANIEL R. DiMICCO, PRESIDENT AND CEO, NUCOR CORPORATION, CHARLOTTE, NC

Mr. DIMICCO. Good afternoon, Mr. Chairman and members of the committee. I am Dan DiMicco of Nucor Corporation, one of the two largest steel producers in the United States. Nucor manufacturers both flat and long products at 10 steel mills in 8 States.

Mr. Chairman, I will be blunt. The problem is the flood, over the last 5 years, of low-priced imports, most of it traded illegally in violation of international rules.

The domestic steel industry is united on a necessary solution to the import crisis. We are all urging the President to impose a Section 201 tariff of 40 percent minimum for a period of 4 years on all steel imports subject to the ITC finding, including semi-finished steel.

The President got it right last June when he launched his three-part initiative designed to restore free, but fair, trade to the world's steel markets. He has offered a long-term solution to the import crisis. This is a welcome departure from the failed Band-Aid approaches of the past 35 years.

A time out under 201 is critical for the success of this effort. It will allow the domestic industry to obtain partial price relief, reinvest, and restructure.

This is something we have been unable to do while our markets were being savaged by dumped and subsidized steel imports. It will provide the President with the leverage he needs to get our trading partners to the table for serious capacity reductions and to conclude these talks successfully.

It will give Congress the opportunity to correct the flaws in our trade laws that led to import surges and repetitive dumping that has occurred repeatedly over the last 30 years. Bills introduced by Senator Lincoln and by Senators Durbin and yourself, Senator Rockefeller, would go a long way towards addressing these concerns.

While dumping cases have been helpful in combatting unfair trade practices, they take a long time and they are open to circumvention. Too often, traders simply switch countries or products and continue dumping. Our trade laws must be strengthened, not weakened, in the Doha Round.

Section 201 offers a comprehensive, global solution. I cannot emphasize this enough. It is essential that the same tariff be applied to all products, from semi-finished slab to rebar.

Most foreign producers can make a wide variety of products and will simply shift production to the lower tariff items if different rates are applied. It is like squeezing a balloon, as you heard earlier from Grant Aldonas. Making one part smaller simply makes the other part bigger. Total imports will be the same as before and the remedy will be gutted.

But please let me touch on a couple of the importers' points as well. They claim that the 40-percent remedy will cause substantial harm to U.S. consumers. The facts are otherwise.

Imposition of the tariff will immediately lead consumers to switch from foreign to domestically-produced steel. This is already happening for some products just from the threat of 201. The U.S.

industry has substantial unused capacity that is highly suitable and substitutable with imports.

For this reason, domestic steel prices will not return to the levels in effect before this crisis began in 1998, although we hope and believe that they will rise substantially from the hole we fell into in 2001.

Prices of consumer products are simply not as sensitive to steel prices as some here today would have you believe. For example, 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 and dryer did not change. Jobs did not shift one way or the other 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. A price drop did not create jobs and those jobs will not go offshore, as some importers and others allege, if we get some recovery.

As for the importer job studies, I will stack our job impact studies against theirs any time. These are real results, not wrongly-based theory. We demonstrate that a healthy U.S. steel industry creates thousands of jobs, both directly at steel mills and up and downstream at companies serving the mills and their workers.

In fact, for every one of the 1,300 direct jobs created by Nucor in Mississippi County, Arkansas in the late 1980's and early 1990's, nearly eight other jobs were created. These are facts. The total was 11,000 new jobs in the Mississippi Delta, one of the poorest areas of the country.

With all due respect, I challenge the representatives here today from CITAC and ECAT, to tell those 11,000 workers that their jobs are not worth saving, particularly when our workers are the most efficient and our plants the most environmentally friendly in the world.

Your colleagues on this committee, Senators Lincoln and Thompson, know firsthand the tremendous economic impact that Nucor's investment has had on their States.

Then there is the plan that the tariff will send consuming industries overseas. Ridiculous? Probably not strong enough a word.

Steel prices are currently at 1982 levels, not inflation-adjusted. Those industries are not about to undertake the expense of moving overseas because of partial restoration of steel prices.

I talked with customers who have moved operations overseas and the price of steel is not even among the top five reasons for moving, and will not be. We need a comprehensive trade remedy, one that provides an effective time out so that a more permanent fix can be put into place to stem the illegal flow of products into our market. This will be good for almost everyone.

One concluding remark, if I might. Free trade. The word "free" is much overplayed here. Free does not come without responsibility, or fairness, or rules. But those opposed to our position on 201 have clearly chosen to distort the truth and the concept of rules-based free trade.

Thank you.

Senator ROCKEFELLER. Thank you, sir.

[The prepared statement of Mr. DiMicco appears in the appendix.]

Senator ROCKEFELLER. Mr. Jenson?

STATEMENT OF JON E. JENSON, CHAIRMAN, CONSUMING INDUSTRIES TRADE ACTION COALITION, WASHINGTON, DC

Mr. JENSON. Mr. Chairman, Senators, I am Jon Jenson, chairman of the Consuming Industries Trade Action Coalition, CITAC. I am president emeritus of the Precision Metal Forming Association.

Joining with CITAC in the spirit of this testimony is the Free Trade in Steel Coalition, representing U.S. ports and related maritime industries. They are concerned because more than 38,000 jobs in the U.S. are dependent on the handling of fairly traded steel imports.

Calls for the President to declare tariffs of up to 50 percent on steel imports are frightening. The proposed import restrictions would deal U.S. manufacturers a triple whammy: first, increased raw material costs; second, threatened access to steel products not produced in the U.S.; and third, increased competition from abroad for the products they make.

This will simply send our business offshore, devastating U.S. steel users, most of them small businesses. Meanwhile, U.S. exporters would be exposed to retaliation from our trading partners.

The President now must decide what to do. CITAC strongly opposes restrictions on steel imports for several reasons.

First, import restraints do not address the most serious problem facing certain integrated steel producers. Imports are largely the result, not the cause, of the steel industry's problems.

High and relatively inflexible costs, including costs for raw materials, energy, legacy costs, and labor are the root cause of the integrateds' inability to compete.

Many mills with a different cost structure have been more competitive and more profitable. In 2001, Nucor reported record sales and profits, while LTV, for example, lost nearly $40 on every ton of steel it shipped.

With imports down, one might expect the fortunes of certain integrated producers to reverse. But imports have not caused the financial downfall of these companies, and accordingly, declining imports have not saved them.

Restricting imports will not provide lasting relief to the integrated mills because it will not reduce their costs, improve productivity, or increase their competitiveness.

Second, the U.S. market needs imports. Steel imports are essential for two reasons. First, total U.S. steel production falls significantly short of satisfying domestic demand.

Second, many steel products are not made in the U.S. We need imported steel meeting specifications that U.S. producers cannot, or do not, supply. Since domestic steel is not completely interchangeable with imports and cannot completely replace them, we cannot do without them.

Third, import restrictions would jeopardize tens of thousands of U.S. jobs. Our steel-using manufacturers would be injured to a far greater degree than steel producers would be helped. Our studies

provide the obvious facts: eight jobs lost for every one saved. Every State in the union would lose more jobs than trade restrictions would save, even steel-intensive States like Indiana and West Virginia.

We have carefully examined comments critical of our recent study and we stand by the results of the study. It employs the appropriate econometric model, uses realistic assumptions, and is consistent with results of at least two other separate, independently funded studies. The unsupported criticisms of the study are simply invalid. Fourth, steel policy should focus on competitiveness and protection of workers, not companies.

We offer the following suggestions for developing a strong and vigorously competitive domestic steel industry.

First, we favor the consolidation of certain integrated producers, either with mini mills or among themselves. Second, if legacy costs are to be addressed, we favor coupling relief for retired workers with capacity closure.

Third, environmental issues must be addressed. We would favor some government assistance, properly limited for plant closures, to accomplish this.

Fourth, steel producers must learn to compete globally. Global steel markets are not closed. In the year 2000, 280 million tons of steel crossed international boundaries before being consumed. That is more than one-quarter of all of the global steel production. Global competition is a reality and steel producers must recognize this.

In conclusion, we reject proposals that tax steel-using manufacturers in the U.S. and their 12.8 million workers, either through import tariffs or excise taxes. It is abundantly clear that import restrictions will cause much more harm than good and will not address the real problems of certain integrated steel producers.

Steel is an important industry. It is not the only industry, however. The cost of saving certain integrated producers should not outweigh the benefits.

Thank you for your attention.

[The prepared statement of Mr. Jenson appears in the appendix.]

Senator ROCKEFELLER. Mr. Gerard?

STATEMENT OF LEO W. GERARD, PRESIDENT, UNITED STEELWORKERS OF AMERICA, PITTSBURGH, PA

Mr. GERARD. With all due respect, I will provide you with about a 23-page report and a number of charts. To the extent that I can keep track of my own comments I will, but I want to say I have never heard such unadulterated drivel in all my bloody life.

The fact of the matter is, you have got folks who are in robbing the chicken, then killing the chicken, saying that our problem is that we cannot build a farm because we do not have enough chickens. This is just absolute baloney.

Let me just make it real clear. Our steel industry is the most efficient steel industry in the world. We produce steel with the lowest man hours per ton in the world. We produce steel at the lowest energy consumption in the world. We produce steel at the lowest emissions in the world. If we were given a level playing field, we would not have a problem.

The fact of the matter is, the apologists for the illegal dumpers who want to come into this country, take our market, destroy our industry, then criticize us for not being able to produce the things that they have destroyed are the ones who are the culprits, not our members and not our workers.

We have over 700,000 of our members who are retirees who are on the verge of losing their health care. As you put it so ably, Senator Rockefeller, the only solution is a three-step solution.

The first step in that solution is a comprehensive remedy under 201. The only remedy that will work is a remedy that, at a minimum, has a 40 percent tariff. In the 5 years since our union has been advocating for a solution to this crisis, 51 steel plants have been closed; 31 companies have gone into bankruptcy; 46,000 workers have lost their jobs; and 350,000 retirees from those companies are on the verge of losing their health care.

The fact of the matter is, prices today are at the lowest levels they have been in 20 years. Prices declined in a precipitous amount as illegal imports surged through the last 5 years.

In fact, the reality of the circumstances are that trade in steel has not only been substantial and injurious, but it has predominantly been in violation of U.S. trade law.

I sat in the back while Under Secretary Aldonas talked about the number of trade complaints they are managing in Commerce, and I compliment them for that work.

But the fact is, the reason they are managing those cases is that, more than 136 times were the illegal dumpers that you represent here over and over and found guilty under our laws, then went around and tried to circumvent those laws and had to be brought back again.

So if you sense a bit of temper in me, I am doing my best to hold it. Our people know the reality of the industry that they are in.

I have heard people talk about the ports. Well, let me tell you, if we were competing on a level playing field and we were competing in open markets, and we were competing in regions that had not formed their own regional cartels, we would be able to export steel through those ports rather than bring it illegally to be dumped into this country.

The fact of the matter is, the steel industry outside of America has been proven, certainly in excess of the last 30 years, to be one of the most heavily subsidized industries in the world. In the last 30 years, country after country has grown its steel industry and grown it through subsidies of all different forms.

In fact, I will just take us through a few. China has now built, over the last short period of time, the largest steel industry in the world through its various 5-year plans.

Japan has added 93 million tons of capacity up until 1974; all of that capacity, we know, put together with the help of MITI and their government subsidies.

Korea has used control over its domestic banking system to channel low interest loans to the steel industry. Korea now produces far more steel than it can consume.

Brazil has pumped $14 billion into its State-owned steel sector, producing more steel than it consumes. The Ukraine has inherited

the Soviet Union's steel industry in its region. It now exports 60 percent of its finished steel, and it was given that steel industry.

We could go through this over and over, and I see my yellow light. But the fact of the matter, Mr. Chairman, if he was here, and you, Senator Rockefeller, is that American steelworkers can compete with anybody in the world. American steelworkers have been restructuring this industry for over 20 years.

Sixty billion dollars of investment has gone into modernization to get us to those levels that I have talked about. At this point in time, steel prices are at the levels they are and not one steel company, whether they are integrated or whether they are minis, can sustain themselves over the long term.

Let me just close with one fact that was, again, misconstrued. In the steel bankruptcies and closures of the last 5 years, 46 percent of the capacity that has been closed was capacity that was from the mini mill sector. It is not one sector of the steel industry that is being hurt, it is every sector, every product line, union and non-union.

It is not high labor costs. It is not unwarranted benefits. It is, in fact, being killed by illegally subsidized import surges that have not stopped. The only way that it will be stopped is with a minimum of a 40 percent tariff, and we are counting on you to bring that message to the President. Thank you.

Senator ROCKEFELLER. Thank you, Mr. Gerard.

[The prepared statement of Mr. Gerard appears in the appendix.]

Senator ROCKEFELLER. Mr. Hill?

STATEMENT OF GARY C. HILL, PRESIDENT AND CEO, NATIONAL METALWARES, ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE, AURORA, IL

Mr. HILL. Mr. Chairman, thank you.

Mr. Chairman, members of the Senate Finance Committee, my name is Gary Hill. I am president and chief executive officer of National Metalwares, LP, a small steel fabrication company located in Aurora, Illinois, the home of a distinguished America, House Speaker Denny Hastert.

I appear on behalf of the Emergency Committee for American Trade. 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.

National Metalwares is a small, privately-owned company. We have 250 employees, down from 300 12 months ago. Ours is the story of tens of thousands of small businesses across America. My partners and I bought National Metalwares 6 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 manufacturer a variety of steel fabricated products such as handles for

powered law 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 Allied Conference of the International Brotherhood of Boilermakers Local 114.

Steel is the largest single component of my company's manufacturing costs. It represents approximately 46 percent of our cost of goods sold. The ITC's recommendation that the President impose 20 to 40 percent tariffs or 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 a letter here signed by over 200 of our employees urging the President not to impose high tariffs on steel. I would like to submit this at the end of my discussion today.

[The letter appears in the appendix.]

Mr. HILL. 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 upon: durable goods factories, auto parts manufacturers, and small metalworking companies like mine.

If restrictions are imposed on imported steel, excess lower cost steel will be converted in the finished steel products or components, giving our offshore competitors a significant cost advantage.

In all of our business planning, we have never contemplated that a single decision by the Federal Government could undermine our competitive position in the markets we serve, in 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. 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.

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 the 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 Department of Commerce or USTR.

Small businesses do not 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 in-

creases 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.

If I could, I want to make a couple of additional comments. I testified in front of the Trade Policy Staff Committee on January 10, and I would like to read one comment that I presented to them.

"The excess capacity in worldwide steel production will not disappear if these tariffs are implemented. Any excess lower-cost steel will find its way into products destined for the U.S."

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

Senator ROCKEFELLER. Thank you, Mr. Hill.

[The prepared statement of Mr. Hill appears in the appendix.]

Senator ROCKEFELLER. Mr. Cannon?

STATEMENT OF JOSEPH CANNON, CEO, GENEVA STEEL, VINEYARD, UT

Mr. CANNON. Mr. Chairman, thank you very much for your patience today, and also for your long-suffering through this whole, long crisis that we have had. We really appreciate it. I will just say that on behalf of steel producers in our country.

I am Joseph Cannon, chairman of Geneva Steel. It is located, as you mentioned, in Vineyard, Utah, not far from many Olympic venues, by the way. I would like to thank you for the opportunity to appear before you today.

Sixty years ago, during World War II, what is today Geneva Steel was built by the U.S. 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 over $600 million in maintaining and modernizing the mill. Unfortunately, after having issued $325 million in bonds to finance our modernization program, mounting losses created primarily by the import surges of 1998 prevented us from meeting our debt obligations. As a result, we filed for Chapter 11 reorganization in February, 1999.

We emerged from bankruptcy in January of 2001 with a new deleveraged balance sheet. Sadly, as a consequence of the continued import surges and exacerbated by the deepening recession, Geneva was forced to file Chapter 11 again late last month.

Beginning well before the first bankruptcy, we took dramatic steps to address the onslaught of imports. Since 1997, we have reduced our white collar workforce by almost half. We have reduced our hourly workforce by 40 percent, still at the same production levels.

At our normal operating levels, these reductions result in a $30 a ton savings over and above our interest charge reduction, as a result of our Chapter 11, of $23 million. Unfortunately, because of the current market conditions, Geneva has currently ceased all operations.

The primary cause of Geneva's financial difficulties is imports. While I am very concerned about imports along all of our product

lines, which are sheet, plate, and pipe, I am going to focus primarily here on slab imports and the effect they have on our company. I think that is emblematic of the problem throughout the rest of the industry.

Geneva has traditionally been the largest and most consistent seller of slabs in the U.S. marketplace. We currently have about 400,000 to 450,000 tons of slab production capacity in excess of our rolling capacity. Right now, we have over one million tons of slab-making capacity sitting idle.

Even if we sold a million tons of slabs at cost, it would benefit our overall cost structure tremendously because of the contribution these sales would make to our fixed costs.

So why are we not selling slabs? The simple answer is price. We are well-situated to supply California Steel Industries in Fontana, California, which only roll slabs, and Oregon steel mills in Portland, Oregon, which often elects to buy slabs.

We have made repeated offers to each to sell slabs to them at below our total cost and only slightly more than our variable cost, which by the way is in line with other integrated producers. They have rejected these offers for one reason: it is cheaper to buy imported slabs.

Recently, Mr. Gonsalves of California Steel Industries has stated that his delivered price for a slab is $144 a ton. I am sure there is a lot of information in the record about how devastating that is. That is an extremely low price.

Even if the maximum tariff that we have requested is granted, it would not bring us near the pre-injurious pricing levels of 1996 and 1997.

Injury caused by cheap imported slabs is clear and a matter of common sense. Both CSI and Oregon Steel compete with us in our product lines, in each case we are one of two principal suppliers of sheet products in the western United States and plate products in the western United States.

So when our competitors can undercut us by using foreign slabs, we and the vast majority of other domestic producers suffer. Here is why. This is why it is important to include slabs in any Section 201 remedy. If relief is granted on the other products and not slabs, the price of imported slabs will fall further as foreign producers shift their U.S. sales to slabs.

This will allow the slab rollers to continue to undercut any of the pricing of finished products and, in Geneva's case, eliminate the opportunity for us to increase our overall operations by slab sales through the supplemental slab sales.

I just want to say, before my time ends, that this 201 remedy provides us with a bridge to a much more competitive company. If you are successful in persuading the President to grant these, this relief under Section 201, we could provide you with a confidential, independent cost analysis that demonstrates that Geneva, already a low-cost integrated producer of our products, will, as a result of certain planned capital expenditures, will have costs even lower than many of our mini mill competitors. So, we are exactly the poster child, if you will, of why this relief is necessary.

Thank you very much.

Senator ROCKEFELLER. Thank you, Mr. Cannon.

[The prepared statement of Mr. Cannon appears in the appendix.]

Senator ROCKEFELLER. We have literally five minutes, and we have to share this, Senator Grassley.

I just want to say to you, Mr. Hill, I understand you are from a small company. ECAT generally represents large companies, Fortune 500. It is very interesting to me that many of these companies have in the past endorsed U.S. trade sanctions, used them to their advantage when they needed them for their purposes.

Examples would be Ford and the automotive sector, General Electric, Texas Instruments, Merck, Monsanto, et cetera, et cetera, et cetera.

Now, they belonged to ECAT, but they were quite happy to take advantage of sanctions. Why is it all right for them to do it in your organization, but somehow steel does not make it?

Mr. HILL. I have been associated with ECAT for about 6 weeks, and I am going to be very blunt with you.

Senator ROCKEFELLER. No, you are going to answer my question.

Mr. HILL. I apologize, Senator. Would you repeat the question, sir?

Senator ROCKEFELLER. Why is it all right for the large companies that ECAT basically represents to take advantage of U.S. trade sanction laws when they wish, and have done in the past, but it is not right for steel, which is profoundly fundamental to this country to do so? Why do you so argue, sir?

Mr. HILL. I do not make that argument. We support relief, but relief that is balanced for all interests. I got a little help on that.

Senator ROCKEFELLER. All right. Thank you.

Mr. Usher, people have talked about the 20 percent relief remedy, 30 percent, 40 percent. Some, including myself—and I think yourself—have said that 20 percent, 30 percent would do nothing.

Could you describe what is a minimal requirement to have this industry recover?

Mr. USHER. Yes. And I have been in this 37 years, not 6 weeks. So, I have been around a while. Twenty percent does nothing. We have offers on the street from European companies that are absorbing the 20 percent. They are telling traders, if it goes to 20 percent, no problem. We are going to keep bringing it in and we will eat the 20 percent. Again, they are interested in keeping their production full at our expense.

So, our position has been that the 40 percent does not result in a 40 percent price increase. We need a price increase, but it allows us to get better business, to have more volume, to lower our costs, to get some price relief.

But these companies that are complaining, back in 1997 they were doing much better than they are today and steel prices were higher. They have had the advantage of 3 years of unprecedented low prices. While it will be an inconvenience to some, it will not be a matter of their survival, it will be a matter of the steel industry's survival.

So, 40 percent is the minimum we need. To do something less would be, as you mentioned in your opening statement, sort of an effort to appease everybody, but we certainly will not be happy with any type of relief in neighborhoods less than that.

Senator ROCKEFELLER. Thank you, sir.

Mr. DiMicco, it has usually been the thought that mini mills and integrated mills do not share the same views. What is very clear here, is that you do on Section 201.

Mr. DIMICCO. Absolutely.

Senator ROCKEFELLER. That does not mean you necessarily do on everything in the world, but you do on 201.

Could you just, once again, very quickly say why there is this unity on this, even though there are other differences as between these two forms?

Mr. DIMICCO. Nucor has historically stayed away from trade issues, and that was the right decision for our company at the time. The problem today is, we have had such an extreme flood of illegally traded imports hit this country, that not even the most efficient steel producers in the world, recognized by many of the folks that are fighting the 201 as being such, can withstand the flood of these illegally traded imports at the very low prices.

Not even Nucor and the other mini mills that we represent in the Mini Mill Coalition, can withstand price drops of $200 a ton, 50 percent, and be able to earn our cost of capital and continue to reinvent the steel industry, not only in this country, but globally. It is not going to happen. That is why we are here and that is why we share that common purpose with our integrated friends.

Senator ROCKEFELLER. Thank you, sir.

Mr. Gerard, people have floated the idea, and Ms. Lincoln has mentioned it, of the tariff rate quota as a possible remedy. I would wonder if you could explain your views and your members' views as to why this will not work.

Mr. GERARD. We are the unfortunate recipients of the last tariff rate quota on wire rod. The main employers that we represented in that wire rod are no longer in business. They have gone through Chapter 7 and, unfortunately, one of them is now in liquidation.

Let me just say that, without a strong tariff remedy 40 percent or higher, there will not be a consolidation of the United States' steel industry.

As I speak, the steel industry around the world is consolidating. In Europe, they are consolidating to form about three companies, one of which will probably end up about 50 million tons that is consolidating Spanish, French, and others: totally subsidized coal subsidy, interest rate subsidy, environmental subsidy, picked up the total cost of pension and retiree benefits for those that will be dislocated. The Japanese are doing the same thing.

There will not be a consolidation of the U.S. steel industry without a tariff remedy. What there will be, is a disaggregation of the industry.

The companies that are in Chapter 11 now, and some in Chapter 7, are being approached by Brazilians, by French, by Portuguese, by Chinese, by Spaniards, by Germans, by Canadians, looking to buy pieces of those companies and set up separate small companies.

So if there is not a consolidation, we will end up with, possibly, U.S. Steel and Nucor, being fairly large companies, then the next companies will be four million tons or lower, and that will not make it. In 10 years, there will not be a steel industry in America.

This is a crucial time for the administration, the House, the Senate, and the President to act to save the steel industry, and in particular to save the hundreds of thousands of steelworkers who made this the most productive steel industry in the world, who are on the verge of not only losing their jobs and their health care, but also their homes. This is a catastrophe and a calamity that we should all be ashamed of if we do not act to save it.

Senator ROCKEFELLER. Thank you, sir.

Senator Grassley?

Senator GRASSLEY. Let us just go to our mark-up.

Senator ROCKEFELLER. Senator Lincoln?

Senator GRASSLEY. All right. I thought you said we had 5 minutes.

Senator ROCKEFELLER. I did.

Senator GRASSLEY. Then I will take my time.

Senator ROCKEFELLER. All right.

Senator GRASSLEY. Mr. DiMicco, you heard me make reference in my opening remarks to specialty steel for engine valve stems that Eaton Corporation makes in Iowa, and that they have to import the raw steel for those.

Have you thought in terms of the 40 percent that you want to add onto across-the-board duties, the impact that that might have on the downstream manufacturers not being able to continue to pay that and be competitive, and maybe those jobs would be lost?

Mr. DIMICCO. What we have seen over the last five years is a steel price that was historically competitive and being reduced by introduction of new technologies. Our customers in this country were benefitting, and those around the world were benefitting from this. Today we see the deterioration of that competitive pricing to absurdly low levels due to the legal trading.

Any company that depends upon illegal activity for its existence should be ashamed of itself. What you are asking me to comment on here is the fact that it is all right for illegal activity to take place, and I am telling you it is not. We are asking for the fair enforcement of our trade laws.

Senator ROCKEFELLER. Senator Grassley, we are being threatened from the back room.

Can I turn to Senator Hatch?

Senator HATCH. Thank you, Senator Grassley and Senator Rockefeller.

Let me just say that I just got back in time to hear your statement, Mr. Gerard, and I thought it was pretty prescient. In all honesty, we are not being treated fairly by the rest of the world.

We are about to lose the steel industry in America. If we do that, we are going to pay through the nose the rest of our lives. All of the cost of goods and services and commodities are going to go out of sight.

We are not going to be able to do the defense things that we have got to do when crucial times come. We are not going to be able to handle a lot of the problems that we have in this country. A lot of it comes down to economics, because the vast majority of companies want cheap steel. You are a minority. I do not think it was easy for the ITC to come out in your favor, in the steel industry's favor.

My gosh, I know one thing. They do not normally want to do that because they know that it is a problem. But we know that a lot of these countries are competing unfairly. There is only one answer to it, and that is for us to stop it, without the loss of jobs and without the loss of this industry.

Now, let me just ask one last question, maybe to you, Mr. Cannon. Your business is in real perilous shape right now. Geneva Steel is one of only two producers of hot-rolled sheet and carbon cut-to-length plate west of the Rocky Mountains. Each of your competitors in these two categories of steel products source imported slabs.

Now, Mr. Cannon, can you tell the panel whether Geneva will be able to reorganize and emerge from Chapter 11, restart your mill, and rehire over 1,000 Utah residents—that is important in any State, but you can imagine what it means to us in Utah, over 1,000 Utah residents—if the administration does not impose significant tariffs on slab and these west coast competitors are able to continue to obtain slabs at what has been reported in the press at $160 a metric ton delivered cost.

Mr. CANNON. It is extremely important to the future of Geneva Steel that slabs are included fully in any relief that the President grants. We urge, like everyone else—not everyone else on the panel, but other members of the panel—a minimum of a 40 percent tariff rate on slabs, not quotas, but a tariff in the 40 percent-plus range. It is important for us. That actually goes all the way through the whole steel industry. So, yes, it is an indispensable element. In Utah Valley, I might say it is upwards of 40,000 individuals' livelihoods that are dependent.

Senator HATCH. When you are talking directly and indirectly.

Mr. CANNON. Indirectly, and the families of those people. So it is a very, very major consequence in our part of the State.

Mr. GERARD. To add to what Mr. Cannon said, while the union and the industry have been working for the last 15 years to bring over $60 billion of modernization to the steel industry, those from the countries that I represent have had over $100 billion of subsidy. We cannot compete in that environment.

Senator ROCKEFELLER. Senator Lincoln?

Senator LINCOLN. Thank you, Senator. I will be brief.

I just want to echo, I think, some of the comments from Senator Rockefeller in complimenting the industry in coming together. I think that was one thing that certainly brought to mind to me the dire crisis situation that we have been in better than a year ago, several years ago, when I realized that both integrated and the mini mills, which I represent the mini mills in Arkansas, have come together.

I would like to compliment the industry in working together. They have done a great job in coming to us, and making our job and being supportive of what needs to be done, better.

I would also like to compliment what has happened with the steel industry in Arkansas because, as Mr. DiMicco mentioned, it has been a great deal of benefit to one of the poorest areas of the country in the Mississippi Delta region, and it has meant a lot.

I have just two brief questions for Mr. DiMicco. I know that in your testimony there is a cite about an economist's study, that 40

percent tariffs will raise automobile prices by only two dollars. You mentioned that in some of your statement, or somewhere in some writings. How realistic is that?

Mr. DIMICCO. Actually, what I was quoting was the economist quoting a CITAC study and information. Personally, our calculations have shown that it may be as high as $60. But even if it was $200, the price of an average automobile being $30,000, I defy anybody to tell me those jobs are going to disappear because the price of steel went up by $200, or the cost of a car went up by $60 because of the increase in steel pricing. I mean, the destination charge on the last car I bought was more than that.

Mr. USHER. Senator, there are 700 pounds of steel in an average car. That is a third of a ton. So, it is not a significant cost increase in a car.

Senator LINCOLN. That is why I wanted to make sure we knew how realistic some of that was.

Yes, Mr. Cannon?

Mr. CANNON. May I respond to that?

Senator ROCKEFELLER. Very quickly.

Mr. CANNON. Thank you. As I said earlier in my testimony, 46 percent of our cost of goods sold is steel. I have run some analysis with my staff, and it is our opinion that if these tariffs are implemented at the rate that has been recommended, that we will be at a 25 percent cost disadvantage on steel compared to offshore manufacturers. We are getting tremendous competition from offshore in every aspect of our business. All we are asking for, I have heard the term "level playing field" today. That applies to our business, too.

If these tariffs are implemented, I think the effect is going to be to drive value-added offshore because U.S. steel consumers will have to pay the increase, but there is no increase offshore. As a matter of fact, I think offshore suppliers will get the benefit of lower steel costs.

Senator ROCKEFELLER. Mr. Hill, the time for this hearing and for your comments has run out. We are now going into another hearing, and I apologize.

I thank all of you very, very much, and God bless most of you. [Laughter.]

This hearing is adjourned.

[Whereupon, at 4:17 p.m. the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Hon. Grant D. Aldonas

Thank you, Mr. Chairman, Senator Grassley, and Members of the Committee, for inviting me to testify before the Senate Finance Committee. Senator Baucus, I want to thank you for holding this hearing. If we expect the American people to support an aggressive, forward-looking trade agenda, we must assure them that we will look out for their interests—while working at the negotiating table, pressing for compliance with trade agreements, and enforcing our trade remedy laws.

The two industries that you have asked me to address specifically—lumber and steel—offer instructive examples of what I mean. I think they also underscore what the Administration has done to restore trust and renew the bargain with the American people on trade. Both industries face markets significantly distorted by government intervention over a period of years. In the case of steel, it is the legacy of foreign government involvement in the market that has left us with 200 million tons of excess capacity globally. In the lumber industry, it is the requirements that our neighbors to the north impose on their own industry to continue cutting timber, even when demand would dictate otherwise, that exacerbate the price swings our lumber mills face, particularly when economic growth slows in the U.S. economy as a whole.

I look forward to continuing what you set in motion with your leadership during the Committee's field hearing that you chaired in Missoula on June 1, 2001. Your activism and energy is reflected in this Committee's ambitious agenda. Both Secretary Evans and I welcome the attention from the Committee in its leading oversight role. We enjoy our close working relationship with you and your staff.

Trade Liberalization

Mr. Chairman, the President's trade agenda is the focus of our work in the International Trade Administration. President Bush believes, and I agree, that trade means considerably more than just economic growth, more higher-paying jobs, and a rising standard of living in America. Trade is ultimately about freedom. As the President said in is first State of the Union address, "In every region, free markets and free trade and free societies are proving their power to lift lives. Together with friends and allies from Europe to Asia, and Africa to Latin America, we will demonstrate that the forces of terror cannot stop the momentum of freedom."

Trade has provided enormous benefits worldwide. WTO figures indicate that tariffs on manufactured goods averaged nearly 40 percent at the time the GATT was created in 1947. By the end of the Uruguay Round, for developed countries, those rates had fallen to below 5 percent. During that same time, trade increased 16 times. The OECD has estimated that the Uruguay Round delivers annually the equivalent of a $200 billion tax cut to consumers worldwide.

Our efforts in the GATT have been focused on "tariffication"—that is, transforming trade barriers to tariffs, which can be quantified and measured. We established certain rules to keep from undercutting these efforts, and we continue to regard the antidumping and countervailing duty laws that Congress has given us as critical tools to aid in that purpose.

Our work is not done. A recent study by Robert Stern at the Gerald R. Ford School of Public Policy at the University of Michigan underscores that point. Professor Stern estimates that a one-third reduction in global barriers to trade in agriculture, services, and manufacturing, would yield $613 billion in world economic growth, the equivalent of an economy the size of Canada. Eliminating all trade bar-

riers would boost global growth by $1.9 trillion, the equivalent of adding two Chinas.

This is why we must succeed with our efforts on the DOHA Development Agenda, the FTAA, and our other FTA negotiations. Trade promotion authority would empower our negotiators and send an important signal to our trading partners—showing that our executive and legislative branches had reached a consensus on trade to help lift living standards throughout the world. And this why we need to keep the bargain on trade by ensuring that our trading partners keep their commitments. At the same time, that policy is also fundamentally about fairness.

The Role of the Commerce Department

As Secretary Evans and I see it, my main job is to be an advocate for U.S. exporters. That advocacy takes a number of different forms.

On the top of that list is ensuring that our trading partners comply with our trade agreements. Nothing is more dispiriting to our farmers, workers, and entrepreneurs than the sense that they are not receiving the market access we bargained for in various trade agreements. For our country to achieve the full benefits of open trade, we need to ensure that other countries live up to past trade agreements.

The next item on my list of priorities is expanding export opportunities for American business, both through the negotiation of new commitments on market access arid through trade promotion. I am extremely fortunate to be working with the professionals in the Commerce Department's International Trade Administration who have a long and successful record on both counts.

Within the International Trade Administration, the staff of Trade Development, which is an organization of industry-specific trade specialists, plays an integral role in setting the agenda for our trade negotiations and in support of our negotiators in the Office of the U.S. Trade Representative. Similarly, staff in the Market Access and Compliance unit provide their country strategic and functional expertise in support of USTR's negotiations in the WTO, FTAA and other trade agreements. There are also a number of areas, such as disciplines on foreign unfair trade practices, such as subsidies, where the Commerce Department takes the lead.

On the trade promotion front, my job is to make sure that our exporters, and those individuals and firms looking to export markets for the first time, are aware of the tremendous resources available to them at the Commerce Department. Mr. Chairman, as you know, our U.S. Export Assistance Centers (USEACs), such as the one in Missoula, provide a vital link back to the Department, where there are a number of forms of assistance available to our exporters. They also provide a link to our Commercial Service officers, whose main role is to identify export opportunities for American business and link American firms with those opportunities. Our Commercial Service officers are located in 105 offices in cities throughout the United States, and in 160 locations in 85 countries abroad. Our Advocacy Center provides all U.S. exporters with a unique, central point for marshaling all the resources of 19 U.S. government agencies to ensure that sales of U.S. products and services have the best possible chance abroad. The Department's Trade Information Center provides a "one-stop-shop" for information on U.S. government resources designed to facilitate their export transactions.

In addition to the role that the Commerce Department plays in promoting our exports, the professionals in ITA's Market Access and Compliance and Import Administration units are ready to assist our exporters and domestic producers when foreign governments try to unfairly tilt the playing field in favor of their exporters. Import Administration administers both the antidumping and countervailing duty laws.

Congress designed the antidumping laws to ensure that our producers in the United States were not undercut by foreign exporters dumping their goods here in the U.S. market. Although the law focuses on dumping by individual firms, it is often the case that some government action lies behind the ability of foreign firms to sell into our market at prices that may not cover their operating expenses, much less provide a normal rate of return on their capital.

For example, when a government keeps its own markets closed, it guarantees its producers a higher rate of return than they would otherwise receive in fair and open international competition. The net result is that those firms can often afford to subsidize their sales into the U.S. market.

Similarly, Congress designed the countervailing duty laws from the start to combat subsidies paid by foreign governments to assist their exporters. What Congress understood as far back as 1890, when it introduced the original countervailing duty law to combat production subsidies paid by the Tsarist government to Russian sugar exporters, was that the effect of a protective tariff or an outright grant of cash to a foreign producer was the same. It allowed the foreign exporter to sell his products

at a lower price on the U.S. market because the foreign government was assuming (or forcing others to assume) a part of the producer's cost of doing business.

The job of our professionals in Import Administration is twofold. First and foremost, they are responsible for investigating claims by U.S. industries producing a like-product that goods exported to the United States are unfairly dumped or subsidized. We're mindful of the dramatic impact that these cases have, both domestically and internationally, and we have been administering these proceedings in a fair and transparent manner, in keeping with Congress' intent for the vigorous enforcement of the antidumping and countervailing duty laws.

The second part of Import Administration's job is also very important: That is to use the leverage of the antidumping and countervailing duty actions to persuade foreign governments to eliminate the underlying unfair practices.

In that regard, let me reiterate something about how Secretary Evans and I approach the administration of the U.S. trade remedy laws. I want to underscore the fact that we view these laws as an essential part of the bargain on trade.

We negotiate market access for our exports and open our markets to imports on the assumption that the trade will flow according to the laws of the marketplace, not based on which government intervenes to tilt the playing field in their exporter's direction. And Congress intended our trade remedy laws to ensure that our basic assumption about free and fair competition prevails.

It also is important to note, however, that if we find that either dumping or subsidies exist, we will always look to solve the root of the problem. We must eliminate the underlying government action that affords advantages to certain players in the marketplace at the expense of others.

Lumber

We are indebted to Governor Racicot for his leadership and work in finding a solution to the softwood lumber dispute. We have greatly appreciated his efforts to advance progress on this issue. As you know, we have been approaching the lumber issue on two separate tracks: the dumping and subsidy cases and the discussions to find a long-term market-based solution. Commerce and USTR have worked closely together on this; Commerce has taken the lead on the trade cases, and USTR has taken the lead on the discussions. Let me assure you of one thing that Secretary Evans and Ambassador Zoellick feel very strongly about: We will not accept any agreement that does not provide a level playing field. Any trade agreement must address the underlying subsidies and market distortions that led to the dispute in the first place. If it does not, we will enforce our trade laws vigorously and complete the cases.

Status of the Cases

Both the dumping and subsidy cases are on track to be completed by March 21. We're continuing to work hard to make sure that these cases are conducted in a fair, accurate and transparent manner, providing all interested parties with the opportunity to provide their comments for the record and the Department's consideration.

With regard to some of the details in these cases, we will be addressing a number of complex questions that have arisen in the course of these investigations, including issues concerning valuation, and certain company and product exclusions. In connection with these proceedings, we are also engaged in a number of cases in this area involving the WTO's Dispute Settlement Body and NAFTA.

Status of the Discussions

Ambassador Allgeier will address the details of the current status of the discussions, but I would like to make a few points. As Secretary Evans and I have stressed to members of this Committee, in addition to strictly enforcing our trade laws, we want to get at the underlying government practices that lead to the unfair trade. In the case of lumber, it is the administered pricing systems and other market-distorting practices that are at the heart of the trade cases. And it is these practices that we are attempting to reform in the discussions. If we cannot achieve bona fide reform, we must pursue the trade cases. Secretary Evans and Ambassador Zoellick feel very strongly about this.

Steel

No other single trade issue has gained more attention at the Cabinet level than steel. A major problem our steel companies continue to face is a legacy of competing with state-owned and state-subsidized steel producers. The net effect has been a glut of excess capacity that outstrips world demand. This distorts the playing field on which our own steel industry must compete—a playing field that features historically low prices, falling production capacity utilization, and declining employment.

The time has come to find a lasting solution—one that restores market conditions to the steel trade globally. We must find a way to get rid of the government interference and underlying distortions in the market that have produced the global glut in the first place. That is why President Bush laid out a three-part strategy, which included the initiation of international talks aimed at eliminating excess inefficient global capacity and market-distorting practices, such as subsidies, that propped up this capacity.

Pursuant to the President's three-part strategy for steel, our efforts are focused on a number of fronts, including: (1) review of all the information relevant to the International Trade Commission (ITC) Section 201 injury determination and careful consideration of the views of our industry, consumers, unions, and other interested parties; (2) discussions with other steel-producing countries on market-based reduction of inefficient excess steel-making capacity; and (3) discussions with our trading partners to develop measures that address the market-distorting practices that have led to the current situation in the steel industry.

Section 201 Investigation

In responses to the President's request, the ITC completed its investigation on imports of steel products, determined that imports of steel products are a substantial cause of serious injury to the U.S. steel industry, and recommended that the President provide relief to the domestic industry. Although the recommendations of the individual Commissioners vary from product to product, they have recommended some form of relief for each of the 16 product categories for which the ITC made an affirmative determination of injury, with various recommendations, including tariffs, quotas, and tariff-rate quotas.

The President has significant discretion in deciding whether to impose remedies under Section 201 and, if so, in selecting the appropriate remedies. We're carefully considering all options in making our recommendation to the President.

Of course, it hardly needs to be said, the conduct of the Section 201 investigation (as well as unfair trade actions) adheres to the objective of vigorously implementing trade remedy actions in a manner consistent with U.S. law and international obligations.

Steel Capacity Rationalization Negotiations

The second element of President Bush's three-part initiative is to work with other steel-producing countries to facilitate the market-based reduction of inefficient excess capacity in the global steel industry. In a special meeting at the OECD last September, the United States raised the issue of pursuing reductions of excess capacity. Thirty-nine countries agreed that overcapacity was a global problem in the steel trade. Each participating government undertook a self-assessment of the conditions in its steel markets and committed to provide reports on projected closure of capacity in the near term. Specifically, the OECD Secretariat requested each government to: (1) address the long term economic viability of its steel industry; (2) identify the inefficient capacity and explain how this capacity was identified; (3) identify economic, social and regulatory issues that hinder the closure of uneconomic capacity; (4) discuss policies and proposals under consideration to encourage capacity rationalization and the closure of inefficient capacity; and (5) project future decreases in production capacity.

Last December, we met to discuss our findings. As a result of our self-assessments, countries reported projected capacity closures of up to 117.5 million metric tons by the end of 2005. Participating countries recognized that the market, if allowed to operate, will eliminate a significant amount of the overcapacity currently in the global steel industry.

While we have made good progress in addressing the problem of overcapacity, there is still much more to be done. We hope to improve the quality of the reports that were submitted, and have urged countries to take a closer and more realistic look at their respective steel industries and how their industries will likely respond to future market forces. As additional countries submit more complete reports, we will obtain a snap shot of the steel industry worldwide and how steelmaking capacity in each country is forecasted to change. This information is crucial in allowing us to better understand and address the problem of excess capacity.

In addition to reporting on overcapacity, countries also agreed to work together to address developments in capacity and to undertake a number of other actions related to furthering market forces in steel trade. These talks continue. I participated in the third OECD High-Level Meeting on Steel last week, where we stressed that, to continue making progress in this area, we need to establish a working group to study the best means by which to collect capacity-related data and to report it to

the participating countries. This working group was formed and will present its findings at the next High-Level meeting in April.

Discussions on Disciplines to Address Market-Distorting Practices

The third element of the President's steel initiative is focused on the market-distorting practices that have led to the current condition of the industry. Our work through the OECD process has generated broad support for enhancing disciplines on subsidies and other market distorting practices. As a result of our efforts to encourage consensus on the issue of overcapacity, participating countries concurred that government intervention in steel has hampered the efficient functioning of the market and that the problem of overcapacity will likely recur without effective market disciplines. Participants agreed that all governments affirmed the need to pay closer attention to: (1) subsidies and related measures that support new steelmaking facilities; (2) government assistance to failing steel enterprises; (3) measures and regulations that impede fair competition and trade in steel; and (4) anti-competitive behavior that distorts the steel market.

To further the President's objectives in this area, we called for, and reached agreement on, the formation of a group to identify and inventory government interventions and other market-distorting measures in steel, and to discuss the manner in which negotiations on such measures would be conducted.

The December communique made it clear that this discussion should not be limited to "garden-variety" government subsidies to the steel sector (e.g., grants, loans, debt forgiveness, below market priced inputs), but should include other trade restrictive and market-distortive measures where governments could be taking affirmative steps to ensure the market is working efficiently. The purpose of this exercise would be to develop a comprehensive list of practices that participating countries believe should be taken up in discussions about disciplines.

The group also could examine how negotiations in this area could be structured, particularly in connection with the WTO process. The practices identified by the group could be taken up as part of the WTO rules negotiations. The steel discussions could both contribute to and gain from the course of negotiations and other work in related areas, such as market access, services, competition policy and rules. After developing the list of practices and examining the possible structure for negotiations, the group would then report its findings at the next High-Level meeting in April.

Pursuing Solutions

I want to underscore the President's commitment to trade liberalization. The President intends to press forward bilaterally, regionally, and multilaterally, to expand our trade and the economic opportunities that it creates for all Americans. A key part of the President's trade agenda is the renewal of trade promotion authority. Whether or not Congress grants that authority rests ultimately on trust—trust that the President will make sure that our trade policy works for all Americans. We expect to earn the trust of the American people as we advance our trade agenda.

I believe it is our duty under the trade remedy laws that Congress has enacted to ensure not just that we fairly investigate the allegations brought before us by petitioning U.S. industries, but also to search for solutions to the underlying problems that give rise to those complaints in the first place.

I intend to ensure that we continue to effect Congress' intent in providing redress to U.S. industry when it faces unfairly traded goods. But, I also intend to use the industry's filing of the petition as a catalyst to pursue solutions to the underlying complaints.

I believe that is consistent with our obligation under the law and with the intent of President Bush and Secretary Evans as well. Both the President and Secretary Evans spent the formative years of their careers in business where the market places a premium on identifying solutions to problems and implementing those solutions as quickly and effectively as possible.

That ought to be our goal here as well. In that effort, both the Secretary and I will need your help. Due to your long record as an ardent advocate on behalf of open and fair competition in international markets, you are in a unique position to ensure that we accomplish that goal.

Thank you, Mr. Chairman. I look forward to your questions.

PREPARED STATEMENT OF HON. PETER ALLGEIER

Thank you, Mr. Chairman, Senator Grassley, and Members of the Committee, for inviting me to testify today on two of the most important issues on our current trade agenda.

On February 6, Ambassador Robert B. Zoellick said "Given America's relative openness, we can only maintain domestic support for trade if we retain strong, effective laws against unfair trade practices" and that ". . .the Doha Declaration makes clear that trade remedy laws are essential tools." This Administration's handling of the softwood lumber and steel issues is founded upon effective enforcement of our unfair trade laws.

In addition, U.S. trade laws and international agreements also provide for safeguard actions when domestic industries are injured by a flood of imports. Under the WTO Agreement, the ability for a country to implement safeguard measures is an important part of the trade regime that we bargained for in successive rounds of GATT and WTO trade negotiations.

I appreciate the opportunity to discuss two concrete examples of these trade laws in action—softwood lumber and steel. I would like to begin with an update of the softwood lumber negotiations and then move on to steel.

Softwood Lumber

As you are well aware, Canadian provincial practices concerning softwood lumber have been the center of a long-standing and often heated dispute between Canada and the United States. For over twenty years, we have sought to change practices in Canada that essentially export unemployment to the United States.

We are steadfast in our support for the U.S. industry's right to file antidumping and countervailing duty petitions, vigorous in our enforcement and defense of U.S. trade laws, and unrelenting in our pursuit to eliminate the unfair provincial practices in Canada.

To understand the serious nature of the problem that we face in softwood lumber, one simply needs to look at the imbalance in the marketplace, and how responding to market forces falls squarely on the shoulders of the U.S. industry rather than equally on both U.S. and Canadian producers. Mill closures and production curtailments have been felt primarily in the United States. From 1999 to 2000, the most recent figures available, U.S. softwood lumber production dropped 639 million board feet. Canadian production increased 17 million board feet and Canadian softwood lumber imports into the U.S. increased 82 million board feet over the same period. In addition, Random Lengths (a wood products industry report) has identified 158 U.S. softwood lumber mill closures, with 27 of these permanent, in the 8 months prior to the filing of the AD/CVD cases. During this same time period, 53 closures were reported in Canada, with only two permanent. Finally, lumber prices have been at or near all time lows in real terms. Random Length's framing lumber composite price was $297 per thousand board feet in January, which is below the annual average composite price for each of the last 9 years.

However, there finally is serious discussion of reform within Canada itself. For example, there is a new provincial government in place in British Columbia that is focused on the need to reform British Columbia's practices. There is some hope that the Canadian federal and provincial governments are willing to talk about the fundamental causes of the problem—the practice that insulate Canadian lumber producers from market forces and competition. It has taken us over twenty years to get the discussion with Canada to this point. This Administration is committed to an intensive effort to reach an agreement which will result in market-based behavior by Canadian producers so that we have the equivalent of open competition in Canada that will address our concerns about unfair practices.

The work of our Special Representative Governor Racicot has gotten us to this point. His knowledge of the issues and commitment to our efforts have made an invaluable contribution to moving the softwood lumber discussions with Canada further than they have ever been. We are finally talking about, for example, how the administratively set stumpage fees in the Canadian provinces fail to capture the full market value of the timber stands, and about how current tenure systems and processing requirements obstruct market forces from affecting Canadian producers.

Given the complexity and inter-related nature of all the practices, we seek changes to a broad range of policies. From the start, our approach has been to focus on three interwoven sets of provincial practices: tenure reform, mandated requirements and stumpage pricing practices. Province-specific reform is necessary all along the processing chain, from when the tree is cut to when the sawmill ships lumber to the market. Our approach is to press for reforms that enable market

forces to penetrate the decision making at various points throughout the manufacturing process.

We have raised serious concerns about the long-term timber harvesting contracts in Canada and how they limit competition and depress the price of timber. Long-term guaranteed sources of supply for almost all timber needs protect Canadian softwood lumber producers from market risks U.S. producers face every day. In order to introduce competition into the provincial systems, we believe Canadian softwood lumber producers should obtain a significant amount of their timber needs from the open market on a regular basis—as U.S. producers do. We seek competitive auctions rather than prices determined by provincial governments. In addition to the critical area of auctions, we seek the elimination of mandated requirements. Several Canadian provinces mandate that a given volume of timber goes to a specific mill and that a tenure holder must own processing facilities. Several provinces, in fact, require producers to remain operating despite economic realities to the contrary, thereby forcing lumber products on the U.S. market. Such mandated requirements discourage competition among existing firms and bar new companies from entering the market. Competition is increased when the barriers to entry are reduced for all mills.

Furthermore, there should be a tight linkage of the remaining administered priced timber to the timber sold competitively. To ensure fair play, we believe provincial minimum reservation prices and protections against collusion in the bidding processes should be reformed. As a competitive market is our objective, we will need to see if sufficient competition results. If other provincial restrictions could contribute to the solution, we are willing to consider them. We are also exploring a cross-border stumpage price reference mechanism to ensure that Canadian producers are influenced by market forces in a manner similar to U.S. producers. All of these elements are inter-locking and interrelated. Any solution which is based on reforms will have to be customized to reflect the differences of the current systems in each Canadian province.

At the end of last year, the key Canadian provinces (Alberta, British Columbia, Ontario and Quebec) gave us initial province-specific proposals aimed at addressing our concerns in all three sets of policies (i.e., tenure reform, mandated requirements and stumpage pricing practices). While they represented a framework which could be the basis for an eventual agreement, the positions varied in detail from province to province and, in our view, did not address sufficiently the essential issues. Yet, they were helpful in giving the various U.S. stakeholders an idea of what was on the table. We intend to follow-up with Canada by holding additional discussions in Canada next week in Ottawa.

In addition to our frequent consultations with the petitioners of the AD/CVD cases, we have worked closely with environmental groups to determine their concerns. Many of the concerns to U.S. producers, such as tenure reform and eliminating mandated minimum cut requirements, are priorities for the environmental groups too. Throughout the negotiations, we have regular contact also with the National Association of Homebuilders and other consumer groups, and we are taking their views into consideration in our attempts to address the unfair practices in Canada without imposing undue burdens on our communities and families.

All of these groups have provided us with useful advice on how to improve the provincial-specific framework tabled at the end of last year, so that any subsequent agreement would address the fundamental unfair practices in Canada. We also value the input from members of this Committee. We will continue to work with all U.S. stakeholders on these important issues in the days and weeks ahead.

We are trying to craft a productive way forward so that the fundamental causes of the problem—the provincial practices that insulate Canadian lumber producers from market forces and competition— are remedied. High-level contacts with Canadian officials continue.

In concluding my remarks on softwood lumber, I would like to assure you that we will not accept just any agreement. We supported the U.S. industry's filing of the AD/CVD cases. If we are not able to achieve a meaningful agreement which addresses the underlying problems identified in those cases, we will press ahead with effectively enforcing our trade laws and vigorously defending our rights in the WTO.

Steel

Now let me turn to steel. Following Ambassador Zoellick's testimony last week, and that of Under Secretary Aldonas today, my remarks on steel will be brief. As they have testified, the Administration is hard at work implementing the President's three-part steel strategy which consists of the initiation of (1) a Section 201 safeguard action; and (2) complementary international discussions with our trading partners aimed at eliminating inefficient excess capacity, and (3) negotiations aimed

at eliminating market-distorting measures, such as subsidies, in the world's steel industry.

This Administration is committed to free markets and open trade. Our decision to launch the President's comprehensive steel initiative is based on those principles. That is why the initiative is focused on restoring market forces to the steel industry and addressing global inefficient excess capacity. The U.S. has been one of the largest net importers of steel, and is the market of first and last resort for many steel-producing countries around the world. Both these factors have led to surges in low-priced steel exports to the U.S. and injury to the domestic steel industry.

Excess Inefficient Steelmaking Capacity and Market Distorting Practices

After the President announced his desire to launch multilateral steel talks, senior officials from USTR, and the Departments of Commerce, and Treasury began an intensive series of bilateral consultations to prepare an agenda for multilateral talks at the OECD. Teams of senior officials literally traveled around the world two times, meeting with officials in Argentina, Brazil, Canada, China, the European Union, Japan, Korea, Mexico, Russia, and Ukraine. In addition, Cabinet level officials raised these issues in bilateral consultations at home and abroad, and our State Department colleagues at U.S. Embassies followed up with a number of meetings in foreign capitals.

At the first round of negotiations, held at the OECD on September 17–18, 2001, we obtained the consensus of the participating governments that a global excess of inefficient steelmaking capacity is a central problem affecting steel trade. The governments issued a communique recognizing the problems caused by the global excess of inefficient steelmaking capacity, and committed to taking concrete actions to reduce global excess inefficient steelmaking capacity.

OECD steel discussions have proceeded with a "self assessment" in which each government consulted with its industry to assess what changes in steelmaking capacity have recently occurred or are anticipated to occur due to market forces.

As stated in the OECD communique, the participating governments agreed to consult with individual steel producers in their own countries over the next two months and:

evaluate the long term economic viability of their steel facilities in an open global market;

identify the response of their steel companies to changing competitive conditions in world steel markets in recent years, and consider what further actions their industry is likely to take;

identify the facilities unlikely to be economically viable;

identify the principal economic, social and regulatory issues that are impeding, or could impede, closure/reduction of this capacity; and

consider policies to facilitate the reduction/closure of inefficient facilities via market forces.

The results of these government/producer consultations were then discussed at the next round of negotiations on December 17 and 18, 2001. At that meeting, we obtained the consensus of the 39 participating governments that the global excess of inefficient steelmaking capacity is a central problem affecting steel trade. Participating governments reported that market forces and policy measures have recently resulted in, or will result in, the projected closure of at least 61 to 65 million metric tons of capacity by the end of 2003, a further 9.5 million tons of capacity by 2005, and another 23 million tons by 2010.

USTR and Commerce officials have just returned from the Third High-Level meeting on Steel at the OECD held in Paris on February 7 and 8, 2002. At that meeting, the U.S. delegation, headed by Under Secretary Aldonas, made further progress on the Administration's goals. Representatives of the 39 participating governments forecast that as much as 117.5 million tons of excess inefficient steelmaking capacity will close around the world by the end of 2005.

Although the total amount of projected capacity closure is less than the total amount of global excess of steelmaking capacity, estimated to be approximately 200 million metric tons, reduction of as much as 117.5 million tons of excess in efficient capacity should contribute significantly to the stability of the world steel market.

The participants at the February OECD session also agreed to establish terms of reference for two groups to further implement the multilateral initiatives on capacity and market distorting measures. The first is a Capacity Working Group which will regularly update and review the progress made towards the market-based reduction of excess capacity around the world.

The second group will focus on the need for greater disciplines on government interventions and other market distortions in steel. The communiqúe issued on February 8 established the following mandate for the initial work of the group:

to explore the scope for a political commitment by participants to voluntarily limit or, where possible, eliminate market-distorting government measures related to the steel industry, except for the purpose of facilitating closures;

to examine which of the existing multilateral disciplines do not appear to be achieving the desired results in the case of steel and why;

to establish an inventory of measures that distort steel markets; and, in light of the above,

to develop options for the strengthening of disciplines on government interventions and other market distortions in steel, feeding the results, as appropriate, into wider-ranging discussions at the WTO.

In the coming months, we intend to use the work of this group, particularly the inventory of market distorting measures, to identify issues for further negotiation in the WTO and other fora as appropriate.

In summary, by obtaining the consensus of 39 governments to take action on excess inefficient capacity and market distorting practices in global steel trade, the Administration has achieved important initial results at the Special High-Level Meetings on Steel at the OECD. However, solving the challenges facing the steel industry will require a continued effort. We at the Office of the USTR will continue to work with the domestic industry, our trading partners, and our colleagues at the Departments of Commerce, State, Labor, and Treasury to solve the complex problems of excess inefficient capacity and market-distorting practices in the global steel industry.

Section 201

In June, the Administration requested a safeguards investigation by the U.S. International Trade Commission into whether increased imports were causing serious injury to the U.S. steel industry. The Administration's action was supported by the resolution of this Committee.

Since this Administration began to formulate new steel policies, Ambassador Zoellick and other members of the Administration have made it clear that a long-term solution must be found to ensure a healthy, viable steel industry. Our steel strategy is therefore aimed at restoring market forces to the global steel market.

On October 22, 2001, the U.S. International Trade Commission found that imports valued at over $10 billion a year were harming U.S. manufacturers and workers. These products accounted for approximately 74%, by volume, of United States steel imports.

This is the most complex Section 201 investigation ever conducted. On December 19, the International Trade Commission issued its three-volume report containing its recommendations. A plurality of the commissioners recommended various remedies for many of the steel product categories.

On January 3, 2002, Ambassador Zoellick, on behalf of the Administration, requested additional information from the ITC that would be useful to the President in evaluating whether to impose a safeguard action under Section 201.

On February 4, in response to Ambassador Zoellick's request, the ITC provided the information on:

Unforseen developments that contributed to the injurious increase in imports of steel

The economic analysis of remedy options considered by the Commission

Whether the Commissioners would have made affirmative injury determinations if NAFTA countries are excluded.

In response to the question regarding imports from Canada and Mexico, the ITC Commissioners found that none of its injury determinations would change if imports from Canada and Mexico were excluded. The Administration is carefully considering the supplemental information provided by the ITC.

In addition to the three-volume report and the supplemental information from the ITC, the Administration is also considering the views of a diverse collection of steel companies, labor unions, steel consumers, port authorities, exporters, and interested Members of Congress.

In order to solicit input from as many stakeholders as possible, on October 26, we published a notice in the Federal Register establishing an electronic filing system for the Trade Policy Staff Committee (TPSC) and have received several hundred comments on the following subjects:

Comments on what action, if any, the President should take under Section 201

Proposals on industry adjustment actions
Requests for exclusion of specific products
Rebuttal on the three subjects above

These comments have been very helpful to the Administration. These comments are available for public review on the USTR website at: *http://www.ustr.gov/sectors/industry/steel/.shtml*

After receiving written comments, the TPSC held more than 90 meetings with parties representing virtually every segment of the steel producing and consuming industries. Administration officials have also held numerous individual meetings with domestic parties and bilateral consultations with foreign governments. These consultations are continuing.

Pursuant to our WTO obligations, the USTR has formally notified WTO members that the United States is prepared to hold consultations under Article 12 of the WTO Agreement on Safeguards. In response to that notification, we have received formal requests for consultations from Brazil and the EU, and the first consultation with the European Union is scheduled to occur this afternoon (February 13, 2002). Any action taken by the President under Section 201 will be consistent with our WTO obligations.

We of course welcome further input from this Committee and the Congress. Based on this information, we expect the President will decide on a course of action in coming weeks.

Thank you for this opportunity today to explain why our objectives in implementing the President's steel policy.

PREPARED STATEMENT OF DANIEL R. DIMICCO

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 *won* dumping cases against Japanese and Korean beams, traders found eight new suppliers and we had to file eight *new* 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 semi-finished 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 *a healthy U.S. steel industry creates thousands of jobs*, both directly at the steel mills *and up and downstream* 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. *We created 1,300 new jobs* at those two steel mills. *It didn't stop there*. 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 *additional 1,900 jobs* to the region. *It didn't stop there*. An additional *7,800 jobs were created indirectly by these investments*, as businesses sprang up to service these companies and their employees. *In other words, for every one of the 1,300 jobs created by Nucor, nearly eight other jobs were created in the region*. 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 despite 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, *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*.

Further, importer interests have claimed that a section 201 remedy would force steelconsuming 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 is 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 anti-dumping 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.

RESPONSES TO QUESTIONS FROM SENATOR GRASSLEY

Question: Mr. DiMicco, various U.S. steel industry executives have proposed at least three contingencies that need to be in place to allow for successful restructuring of the industry: (1) the President should impose strong trade remedies under Section 201; (2) the federal government should assume employee-related obligations accrued by certain steel-makers in prior restructuring; and (3) workers should agree to a new "progressive" labor agreement that would lead to significant reductions in operating costs.

- Given these expectations, what actions is the U.S. industry prepared to make to respond to changes in the market for steel and restructure to improve competitiveness?
- How might the U.S. government better collaborate with U.S. steel producers and trade unions to maintain and increase the competitiveness of U.S. steel worldwide?

Answer: Before I address your main questions, I would like to clarify that Nucor and many other U.S. steel producers do not agree that the assumption by the federal government of certain employee related "legacy" obligations is a necessary prerequisite (or "contingency") for successful restructuring of the industry. We strongly support the President's three-part initiative to restore market forces to international trade in steel, and that includes: (1) import relief under Section 201; (2) international negotiations to eliminate global excess capacity, which is the root cause of the injurious import surges; and (3) international negotiations to eliminate foreign government subsidies and anticompetitive practices. As further explained below, we do not believe that the government should absorb the unfunded "legacy costs" of a few select steel companies at the expense of the rest of the industry or the taxpayers.

Nucor Corporation and the rest of the U.S. steel industry have responded, and must continue to respond, to the challenges of a global steel marketplace. As I emphasized in my testimony before the Committee, a "time out" under Section 201 will lead to greater capacity utilization in the U.S. industry and partial restoration of prices that have been driven to 20-year lows due to surges of illegally traded imports. This will improve industry balance sheets and allow us to earn our cost of capital so we can reinvest and develop new technologies. A dynamic steel industry needs these investments as older, less efficient plants are retired. Stop investing and competitiveness is gradually, but surely, lost.

Nucor is one of the most efficient steel producers in the world and is an industry leader in technological innovation. Despite the weakened economic conditions, Nucor has continued to invest in upgrading its facilities. On February 13, for example, we announced that we would spend $200 million over three years on capital projects related to our Bar Mill Group. Even with these spending plans, however, our capital spending this year will be significantly reduced compared to previous years. The extremely low prices caused by the glut of unfairly traded steel imports has simply prevented us from undertaking all of the modernization that we believe is necessary. Hopefully that will change with effective, strong tariff relief.

Restructuring and consolidation of the U.S. steel industry is well underway and Nucor has been involved in this process. In the past year, Nucor has purchased the assets of Trico Steel, a sheet steel minimill in Alabama, and Auburn Steel, a steel bar minimill in upstate New York. These are modern steelmaking facilities that are needed by the U.S. economy. We have also made an offer to acquire substantially all the assets of Birmingham Steel. These acquisitions provide an economy of scale and place the assets under the umbrella of one of the strongest, most stable and most successful steel producers in North America.

There are several steps the U.S. government can take to help Nucor and the rest of the U.S. steel industry maintain and increase its global competitiveness. First, the government needs to give the industry a level playing field, and maintain it, so that the best companies can survive on the basis of their competitive merits. The government should continue to support effective, proactive trade laws, both in its enforcement of the trade laws in the United States, and in the upcoming WTO trade negotiations. Free trade implies "rules based" trade, so that there is accountability when the rules are abused. At home, Congress should address the shortcomings in our own nation's trade laws that encourage "country switching" and circumvention of dumping orders. The legislation introduced by Senator Lincoln, S. 1869, and the

bill sponsored by Senator Durbin, S. 979, would go a long way towards addressing these concerns. We urge the Finance Committee to favorably report these bills to the full Senate.

Second, we support the President's initiative to negotiate with our trading partners to eliminate excess steelmaking capacity, foreign government subsidies, and anticompetitive practices. The U.S. government needs to throw its full weight behind the negotiations being conducted through the OECD to reduce global overcapacity and to address market distorting measures in the global steel industry. These measures have included massive subsidies, restrictive and discriminatory customs clearance procedures, high tariffs, and back-door agreements to keep markets closed. The U.S. government should push for rules to prevent other governments, such as Poland, from heavily subsidizing their state-owned steel industries in preparation for their privatization. It should negotiate stronger rules governing state-owned enterprises that are currently in Article XVII of the GATT. And, the government must insist that multinational development banks like the World Bank and the Ex-Im Bank once and for all get out of the business of subsidizing additional steelmaking capacity that only makes the steel problem worse.

Third, the U.S. government should support, not hinder, the consolidation and restructuring of the U.S. steel industry. This does not mean that it should absorb the unfunded "legacy costs" of a few select steel companies at the expense of the rest of the industry or the taxpayers. Nucor and other U.S. minimill producers oppose bailout proposals such as those included in H.R. 808 and S. 957. It does mean that, when undertaking antitrust reviews of acquisitions and mergers among U.S. steel companies, the global nature of the steel industry and the need to compete with giant foreign steel companies should be taken into consideration by government authorities.

With such collaboration by the U.S. government, I believe that the U.S. steel industry would be able to earn a sufficient return on investment to be able to justify the cost of modernizing its equipment, while continuing to increase its efficiency and lower the cost of producing every ton of steel.

PREPARED STATEMENT OF LEO W. GERARD

Mr. Chairman and distinguished members of the Senate Finance Committee, thank you for the invitation to appear before you today to discuss the unprecedented crisis facing the American steel industry and several hundred thousand steelworkers, retirees, and their families.

We meet today three weeks to the day before President Bush may literally decide the fate of the American steel industry. The 21 days from now until then are—in the view of our members—nothing short of a *Final* Countdown to Justice.

Three short weeks in which the President will decide whether or not to save some 700,000 steelworkers, steelworker retirees and surviving spouses and the communities where they live and work from utter devastation. President Bush now has the opportunity to follow through on his vision when he told steelworkers in Pennsylvania last September that "Steel is an important jobs issue. It's also an important national security issue."

Only tariffs of at least 40 percent can prevent this disaster—a disaster that has already launched a parade to oblivion for virtually every American steelmaker.

Under U.S. laws, only strong tariffs will break the 30-year cycle of predatory practices employed by our trading partners to undermine America's global leadership in steel.

Only strong tariffs can prevent continuation of the trade violations that have unanimously been ruled by the International Trade Commission (ITC) to have caused serious injury to our markets.

Only strong tariffs can prevent unfair trade from continuing to short-circuit the profitability of the world's most productive steel industry.

And only President Bush has the power to invoke these tariffs.

That's why we consider these next three weeks a Countdown to Justice.

Because the President has taken the first crucial step toward justice by calling on the ITC to conduct its Section 201 investigation.

Now we urge you to join us in calling on the President to fulfill the hope of justice he has created.

We urge you to join us in calling on him to save the American steel industry and the hundreds of thousands of active and retired steelworkers who have given their labor and their lives to forge the most dynamic steel industry in the world.

Anything less would be an injustice to the victims of unfair trade—the nearly three-quarters of a million American steelworkers and retirees who have worked to

defend this nation and keep it economically strong. They do not deserve to see their worklives, their retirements, and their hope of health security in old age threatened with extinction by unfair trade.

I. INDUSTRY IN CRISIS

This is an industry in crisis. It is a crisis caused by deliberate decisions made by foreign governments and corporations going back over three decades and by the repeated unwillingness of our own government to insist upon the strong enforcement of our trade laws. In short, this crisis could have been avoided had the proper actions been taken early on. We are now faced with the enormous consequences of that failure.

As of today, 31 steel companies representing nearly 30 percent of U.S. steelmaking capacity have filed for bankruptcy. Twenty-one steelmaking plants are idled or shutdown representing the loss of 25 million tons or 19 percent of this nation's steelmaking capacity **in just the last two years**. In total, over 50 steelmaking or related plants have shut down or been idled since January, 2000.

While some analysts mistakenly believe that mini-mills (which produce steel by melting scrap in electric arc furnaces) haven't been hurt by unfair trade and record-low prices, it is noteworthy that *fifteen of these 21 shutdowns are mini-mills*. Indeed, shutdown steel capacity is almost evenly divided between integrated steelmakers and minimills. In late 1997, the steel industry was operating at nearly 98 percent of capacity. By the end of 2001, it had fallen under 70 percent.

Steel prices have fallen to the lowest levels in twenty years. The December, 2001 composite average of steel prices published by *Purchasing Magazine* had declined by $140 per ton or 33 percent from the average between 1994 and 1997. The industry posted a combined operating loss of $1.3 billion during the first nine months of 2001.

The impacts of these shutdowns for steelworkers, their families, and the communities where they live and work are devastating. Over 43,000 steelworkers and 3,100 iron ore miners have lost their jobs since January, 1998. Worse yet, a looming disaster is facing 600,000 steelworker retirees, their surviving spouses and dependents who are in jeopardy of losing their health care benefits from steel companies facing bankruptcy.

How did this happen?

In late 1997 and early 1998, the USWA warned our policymakers that the Asian crisis and the collapse of the Russian economy would, if not dealt with correctly, lead to a flood of imported steel. The delay in responding dramatically at that time worsened the situation, leading to the most serious crisis for our steel industry since 1980.

In the pre-crisis period from July, 1994 to June, 1997, monthly imports of steel mill products averaged 2.4 million net tons. By the end of 1998, the figure was 4.5 million net tons. Imports of semi-finished steel increased from 2.4 million net tons in 1990 to 9.5 million net tons in 2000. Also, during the 1998–99 period, the financial strength of many steel producers was dramatically weakened as the surge of imports led to the collapse of domestic steel prices. This, in turn, shook the confidence of the financial markets and has made it next to impossible for the industry to raise needed capital in the equity and debt markets. Without access to these markets, the industry is unable to raise the funds for vitally-needed modernization projects.

In 1999, with the expedited treatment of anti-dumping cases and diplomatic pressure, there was a brief respite. At that time, the USWA warned that incremental steps taken country-by-country or product-by-product, would simply invite ever-more inventive circumvention of trade rules. Reducing imports of a limited number of products from a limited number of countries would, without a comprehensive approach, inevitably lead to the dumping of different products by different countries.

In July, 2000, the Commerce Department released its *Report to the President: Global Steel Trade—Structural Problems and Future Solutions*, which promised vigorous enforcement of our trade laws, a policy of zero tolerance for unfair trade, and to press those most responsible for the import surge to trade fairly and return imports to their pre-crisis levels.

The Commerce Department report meticulously documented the state of the global market for steel.

Among its key findings were the following:

- There has been a thirty-year history of repeated unfair trade actions which are symptomatic of underlying market-distorting practices in the global steel market;

- One way or another, steel companies around the world benefit from government practices and policies that forestall adjustments mandated by the market. As a result, market forces are not able to bring world capacity and supply in line with demand;
- The world steel industry is characterized by a variety of non-competitive practices. The effect of such practices is that investment decisions as well as pricing and sales almost certainly are different from what would occur in a purely competitive market.

For the year 2001, steel imports totaled 30 million net tons. This was the fifth consecutive year that imports have exceeded 30 million tons. Recent declines in steel imports have closely followed the imposition of tariff relief in particular product cases. But despite the lower tonnage now coming into the U.S., imports continue to exert a distorting impact upon domestic steel prices.

In 2001, at the urging of the industry and the USWA, the administration initiated a Section 201 investigation on steel. Following one of the most complex 201 investigations in its history, the U.S. International Trade Commission (ITC) ruled unanimously that nearly 80 percent of the product lines of the American steel industry have been seriously damaged by surges of low-priced foreign imports, many of which have been illegally dumped in our market.

After determining broad injury to the steel industry, the ITC next turned its attention to recommending appropriate remedies to the President. The ITC has recommended the imposition of tariffs over a four-year period ranging from 20 percent up to 40 percent. The President is expected to decide by March 6 what remedies he will impose.

We are urging the President, along with many members of Congress, to impose the 40 percent tariffs across the board for four years. Only by taking the strongest action possible will the President be able to signal to our trading partners that we intend to enforce our trade laws. Only by taking the strongest possible action by imposing 40 percent tariffs will the President send a message to deter further dumping and other predatory practices by our trading partners. Only by imposing the maximum 40 percent tariff for four years will the President provide our industry and our steelworkers the time they need to recover, stabilize, and return to profitable operations.

The USWA opposes quota-based remedies, such as the tariff-rate quotas advocated by a number of foreign producers, because we do not believe they would offer real relief to the domestic industry. We have already seen in a number of steel dumping cases how creative foreign producers can be in shifting their product lines to fall outside the definition of antidumping orders. We do not want an illusory solution to the steel crisis. We want a real solution to the steel crisis.

Some have said that the steel industry and our steelworkers need to face up to the fact that the industry must be restructured. Restructuring is inevitable given the calamity in this industry. It is worth noting, however, that we have been down this road before.

Between 1980 and 1987, the American steel industry underwent a painful restructuring, eliminating 42 million tons of steelmaking capacity. Over 270,000 jobs were eliminated. We saw the tax base in steel communities in Pennsylvania, Ohio, Indiana, West Virginia, Minnesota, and elsewhere shrink as workers went from earning a paycheck to collecting unemployment benefits. Thousands of iron ore miners abandoned towns in Michigan and northeastern Minnesota's "Iron Range" when jobs were lost. The exodus had a strong adverse affect upon the local tax base in these communities which were forced to curtail local government support for schools, transportation, and public safety. Many of these communities have never recovered from this economic blow.

This restructuring, along with over $60 billion in capital investments since 1980 by U.S. producers, resulted in major productivity gains. In fact, American steelworkers and steel producers have become the most productive in the world. We increased tons shipped per hour worked by 180 percent from 0.1 in 1980 to .28 in 2000. The restructuring of the industry not only led to increased capital expenditures and increased productivity. It also left the steel industry with the highest retiree health care costs in the world.

For over twenty years, while the U.S. steel industry has restructured itself and eliminated capacity, many of our trading partners have dramatically increased their capacity. OECD data indicates that foreign steel producers had excess raw steel production capacity amounting to over 270 million metric tons. That is more than twice the total annual steel consumption in the United States.

On February 8, after two days of talks in Paris at the OECD, steel producing countries reportedly agreed that by 2005 they anticipated reductions of about 120 million tons in their combined steelmaking capacity. Despite the significant elimi-

nation of U.S. capacity even as foreign nations continue to add further capacity, the OECD members still expect the U.S. industry to eliminate even more capacity over the next three years. Also, we fully expect that OECD member nations will find ways to circumvent their supposed agreements to eliminate their own domestic overcapacity. We firmly believe that the source of our steel crisis is 200 million tons of global overcapacity which exists abroad and that much of that overcapacity is dumped in the U.S. market. The outcome of the Paris talks is instructive. It illustrates once again that multilateral negotiations are no substitute for strong enforcement of our own trade laws, including Section 201.

China has built what is now the largest steel industry in the world through a series of government five-year plans with a combination of massive investments and huge debt write-offs.

Japan added an incredible 93 million tons of capacity between 1965 and 1974, representing nearly half of all capacity added in the Western world during this period. Japan's Ministry of International Trade and Industry (MITI) has administered a long-standing cartel which has enabled its integrated mills to maintain high, stable prices. Imports are sharply curtailed and surpluses are dumped in export markets.

Korea has used its control over its domestic banking system to channel low-interest loans to the steel industry since the 1970s, fueling a dramatic expansion in capacity from 2 million metric tons in 1975 to 43 million tons in 1998—far in excess of what Korea's domestic market can absorb.

Brazil has pumped at least $14 billion into its state-owned steel sector between 1977 and 1986. By the mid 1980s, Brazil was producing approximately 7 million tons of steel beyond its apparent consumption.

Ukraine inherited a large part of the Soviet steel industry and has become the world's eighth largest steelmaker. The country exports 60 percent of its finished steel output. The government props up struggling firms to prevent bankruptcies and keep private investors outside.

India has emerged as the tenth largest steelmaker in the world thanks to massive government financial support, import protection, export subsidies, and the sanctioning of cartels by domestic steelmakers.

Foreign steel has been more heavily subsidized than any other manufacturing sector in history.

Since 1980, steel producers outside of North America have received well over $100 billion in direct government subsidies. These funds have created many new mills that would not otherwise have been built, and have enabled many producers which otherwise would have shut down long ago not only to survive, but to continue exporting.

Among major steel producing countries, **the United States and Canada are the only countries that have eliminated their excess capacity and produce less raw steel than they consume**.

In contrast, market distortions abroad have allowed foreign mills to maintain and increase their excess capacity.

There is another reason for the President to impose the highest possible tariffs on steel imports. The health care of every active steelworker, retiree, and their spouses and children is at jeopardy.

At the end of 1999, American steel's retiree health care benefit obligation totaled an estimated $13 billion. Health benefits for 600,000 retired steelworkers, surviving spouses, and dependents annually cost domestic steel producers an estimated $965 million or $9 per ton of steel shipped. Several steel companies have retiree health care costs that are substantially higher than the industry average. Our active members and retirees are concentrated most heavily in Pennsylvania, Ohio, Indiana, Illinois, West Virginia, Minnesota, and Michigan, but they live all across the nation.

In the U.S., we have made a policy choice in favor of employment-based health insurance coverage rather than guaranteed national health insurance. This means that when an employer goes bankrupt or liquidates, absent a social safety net, workers are at risk of losing their health insurance and access to health care services.

The demise of LTV Steel is the most recent example of this burgeoning crisis. On December 21, 2001, just four days before Christmas, a Federal bankruptcy court in Youngstown, Ohio agreed to the liquidation of LTV, one of the nation's largest integrated producers of steel. The decision also places in immediate jeopardy the health care benefits of 85,000 active steelworkers, retirees, surviving spouses, and dependents.

Geneva Steel in Utah is self-insured for medical care. It is the only recipient, to date, of a federal steel loan guarantee under the Byrd Steel Loan Guarantee Act passed by Congress. The initial estimate is that over $3 million in unpaid employee medical bills were pending when the company filed for bankruptcy on January 25,

2002. Because Citibank and the Federal Loan Guarantee Board have, to date, refused to give Geneva permission to pay these bills, over one thousand Geneva employees face the prospect of health care providers going after them for these unpaid bills, some amounting to tens of thousands of dollars. To have this happen at the same time that our members and other company employees have lost their jobs is yet one more example of the urgent need to put in place a safety net for the health care of active steelworkers and retirees.

The USWA is very proud of its record in negotiating decent health care coverage for both its active workers and retirees. In 1993, the USWA negotiated pre-funding of retiree health care in the iron ore industry. Benefits provided to steel industry retirees are equivalent and, in some cases, more modest, than benefits provided to retirees from other basic manufacturing companies, such as Alcoa, Boeing, and General Motors.

These plans typically include cost containment provisions, such as deductibles, copayments, pre-certification requirements, coordination with Medicare, and incentives to utilize managed care. Most of our retirees pay monthly premiums equal to 25 percent of the total health care cost, plus deductibles and copayments. Retiree premiums for major medical coverage vary by employer due to differences in demographics, regional health care costs, utilization, and design of the plan. The USWA estimates that the average major medical premium during 2001 was approximately $200 per month for a non-Medicare eligible couple and $150 per month for a Medicare-eligible couple.

American steel's international competitors do not bear a similar burden. In one form or another, foreign producers' retiree health care costs are offset by government subsidies.

In Canada, every Canadian is a beneficiary of government-funded health care.

In Spain, the European Union approved $10.4 million in subsidies last year to the shipbuilding industry.

In Germany and Spain, these governments provided subsidies to their iron ore industries.

In Japan, the government provides government-backed insurance programs. Government subsidies cover some administrative costs and contributions to Japan's health care programs for the elderly.

In the United Kingdom, the UK's National Health Service is 85 to 95 percent funded from general taxation with the remainder coming from employer and employee contributions.

In Germany, health care is financed through a combination of payroll taxes, local, state, and federal taxes, copayments and out-of-pocket expenses, and private insurance. Insurance funds with heavy loads of retired members receive government subsidies.

In Russia, de facto government subsidies exist. While Russian steel companies theoretically pay for workers' health care, the national and local governments allow companies not to pay their bills—including taxes and even wages. At the end of 1998, Russian steel companies owned an estimated $836 million in taxes. According to the Commerce Department report, the Russian government's "systematic failure to force large enterprises to pay amounts to a massive subsidy."

The U.S. is the only country in the industrial world in which the health care benefits of retirees are not assumed by government to facilitate consolidation in one form or another. It is now very clear that American steelworker retirees stand to be hit twice by the collapse of the steel industry since a majority of them were **involuntarily** forced into retirement (350,000)—many prematurely—during the massive restructuring of the steel industry during the late 1970s and the 1980s. Our government's inadequate, and inadequately enforced trade laws are the principal reason that these retirees' health care benefits are now at risk.

Because our government has allowed this unlevel and unfair trade environment to exist and grow for over thirty years, government now has a responsibility to this industry and its workers and retirees.

The President has it in his power to prevent this human disaster by invoking the strongest possible tariffs under Section 201 and directing those tariffs into a trust fund to relieve the legacy cost obligations of American steel producers.

This solution to the problem of legacy costs has three key advantages:

- It prevents those who are violating our trade laws from victimizing steelworkers and steelworker retirees any further;
- It creates a more level playing field in the global steel marketplace by providing American steel producers with the same sort of relief already being provided to our foreign competitors by their own governments; and
- It can be achieved with no increase in taxes and no additional cost to the Federal budget.

Vigorous enforcement of our trade laws is absolutely essential if this industry is to have any chance at all of recovery. While we applaud the ITC's actions in the Section 201 case last year, I must also note that the ITC failed to provide relief in a series of cold-rolled cases in 2000, despite evidence that subject imports had doubled and prices had collapsed. This action sent a signal of non-enforcement to the market and has been a major additional cause of the continuing steel crisis. Any response to this steel crisis will fail unless the Bush Administration follows a policy of full and strict enforcement of the trade laws.

The U.S. must take aggressive action to prevent the further erosion of trade remedies through the WTO dispute settlement system. Not surprisingly, foreign countries who are the biggest offenders of WTO-sanctioned trade remedies are now seeking to weaken these rules in the new round of negotiations launched in late 2001 in Doha. Any legislation granting so-called "fast track" or Trade Promotion Authority (TPA) should make clear that the trade laws, including antidumping and countervailing duties (CVD) are not subject to renegotiation and will not be covered under fast track rules.

On behalf of all of our steelworkers and retirees, we urge you in the strongest possible terms to contact President Bush at the earliest opportunity and urge him to impose the maximum 40 percent tariffs on all subject steel product lines.

The American steel industry was built over the course of this nation's history through the blood, sweat, tears, sacrifices, and lives of our steelworkers. This is the industry that built America's skyscrapers, factories, bridges, and highways. This is the industry that made the steel that won World War II in its tanks, ships, guns, and planes. Saving America's steel industry should not just be my concern and the concern of the Steelworkers union; it should be the cause and the concern of all Americans.

Prepared Statement of Hon. Charles E. Grassley

Mr. Chairman, today's hearing will examine the trade-related problems and concerns of two American industries, steel and lumber. These concerns are important, and deserve appropriate review by this Committee.

I would like to make three points with regard to this hearing.

The first is that this administration deserves a tremendous amount of credit for its efforts on both issues.

Particularly on the steel issue, President Bush has done more in 12 months to deal with the many complicated elements of this problem, both internationally and here at home, than has been done in the past eight years. The problems of the American steel industry did not develop on this Administration's watch. But the Administration's efforts to deal with it represent the best attempt I have seen yet to craft a comprehensive and long-term solution.

Secretary Aldonas, resolving the steel issue in a satisfactory way is a very, very tough problem. Everyone in this room knows it. But if the war on terror tells us anything, it tells us that this president, and this administration, does not shy away from tough problems. You have literally traveled the globe trying to develop a viable resolution.

I know that there is a long way to go. But I want you to know how deeply we appreciate what the President, Secretary Evans, and you have done.

As you continue your efforts to address the complex economic difficulties confronting the steel industry, I ask that you try to refrain from taking any action that might penalize the hundreds of companies and the many thousands of American workers whose livelihoods depend on the availability of steel products that are not commercially available in the United States.

For example, the Eaton Corporation, which employs 800 workers in Belmond, Iowa, makes sophisticated valves that require specific kinds of engine valve steel that is not made in the United States. And there are many others in my home state of Iowa who could be harmed by import restrictions on steel, producers such as Maytag/Amana, Frigidaire/Electrolux, and John Deere. It would be most unfortunate, and counter-productive to what we are trying to achieve, if we hurt many American workers and their families while trying to help others.

Mr. Chairman, I have a letter from the President of Eaton that I would like to include in the record.

The second point I want to make is that a satisfactory resolution of these issues, and of all the trade issues that we care so much about, depends to a very large degree on American leadership, and on the President's credibility at the negotiating table.

Trade Promotion Authority legislation is languishing in the Senate. The Finance Committee approved bipartisan trade promotion authority legislation two months ago, by an overwhelming 18–3 vote.

It is conceivable that Senator Daschle might not take up the TPA legislation until April.

Every day in the Senate that we do not act on TPA is a setback for American leadership on trade.

It undermines America's credibility with our trading partners. It gives other countries that do not necessarily share our interests and values the upper hand in shaping the direction of trade policy.

Frankly, I can't understand why Senator Daschle would want to let that happen.

Our trading partners are very sophisticated. They know that trade promotion authority is a lot more than just a technicality that only comes into play at the end of trade talks. They know that it is a powerful signal to the rest of the world about the unity and credibility of our government. When we show a divided face to the world, on any trade matter, we only hurt ourselves.

I will not let that happen, Mr. Chairman.

Especially in light of the resounding 18–3 vote in this Committee.

Too much is at stake.

I intend to raise this issue every chance I get.

If we can put aside our political differences to vote a good TPA bill out of this Committee by such a wide margin, surely we can bring it to the floor in a timely fashion.

One final point, Mr. Chairman.

Our trade policy should be aimed at expanding the economic pie, not about arguing how large the slices should be.

If we limit opportunities to trade, that's just what we will get—limited opportunity.

Limited jobs.

Limited economic growth.

Expanded trade opportunities, and the extension of market-oriented rules to a broader range of sectors and products, benefits all Americans.

They will benefit steel workers in Pennsylvania and West Virginia.

They will benefit lumber workers in Idaho.

They will benefit cattlemen and wheat growers in Montana.

And pork producers in Iowa.

This is exactly what Fed Chairman Alan Greenspan twice told this Committee—trade liberalization can provide a boost to economic growth.

And reducing trade barriers is just like a stimulative tax cut.

Mr. Chairman, I look forward to working with you to win early Senate approval for trade promotion authority, so we can strengthen our global trade leadership for the benefit of every American.

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Stephen M. Buente
Senior Vice President
and Group Executive
Automotive

February 13, 2002

Senator Charles Grassley
Ranking Member, Senate Finance Committee
135 Hart Senate Office Building
Washington, DC 20510-1501

Re: Steel Safeguards Investigation and the Impact on Eaton Corporation

Dear Senator Grassley:

I am writing on behalf of Eaton Corporation ("Eaton"). We very much appreciate your efforts on our behalf, and in particular in helping to optimize the sustainability of jobs in Belmond, Iowa. Jobs in our Belmond plant are already under stress due to offshore competition, and we are very concerned about the negative impact that import restrictions would have on Eaton's ability to continue to produce engine valves in the United States. We really need your help in convincing the President not to put import restrictions on tool steel.

As, you are aware, Eaton is a $7.3 billion company that manufactures a variety of industrial products in the U.S. and overseas. Eaton uses steel to manufacture a host of products, including auto parts. The majority of the steel that Eaton uses is sourced from U.S. companies, but Eaton does need to import a small amount of highly specialized steel to make engine valves. Engine valves are used in all vehicles and Eaton has a majority share of the vehicles produced in the United States. This engine valve steel is classified by the Commerce Department as "tool steel" in the context of the current Section 201 investigation on steel. Much of this specific type of steel is not commercially available in the United States in the form Eaton needs. If Eaton cannot have

access to this small amount of steel, Eaton's ability to continue to produce valves in the United States will be threatened.

Eaton employs about 3,000 people in its air management automotive business, and has valve manufacturing plants in Belmond, Iowa; Kearney, Nebraska; and Westminster, South Carolina. If the President puts duties or restrictive quotas on our tool steel, our production costs will increase substantially since raw material represents a significant portion of the cost. In the worst case scenario, we would be forced to move our valve production to our existing valve plants in Europe, Latin American and China, if we can no longer make valves competitively in the U.S.

We are already vulnerable financially, with sales and employment down 20 percent over the past year. The events of September 11 have only exacerbated the situation, and the downturn in the automotive sector has hit Eaton particularly hard. Cost increases would have a devastating effect on our bottom line. We will not be able to pass any increased duties on to our customers, because Eaton itself competes with foreign valve producers that will continue to have access to foreign tool steel and stainless steel bar that is not subject to tariffs or quotas. This puts U.S. companies like Eaton at a serious competitive disadvantage.

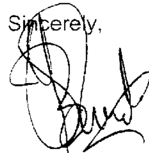
The President clearly has the discretion not to take any action on tool steel. The International Trade Commission ("ITC") was evenly divided on the question of injury to the domestic tool steel industry. Three ITC Commissioners found no serious injury from tool steel imports. These three noted in their joint opinion that tool steel is not an industry, which is exhibiting signs of injury. U.S. tool steel producers actually *increased production* during the period reviewed, it *operated profitably*, it *maintained shipment and capacity levels*, and it had *no layoffs or plant closures*. (This stands in stark contrast to Eaton's experience and that of the U.S. auto parts industry.) Of the three Commissioners voting affirmative, one Commissioner found that imports were only a threat of injury, and the affirmative votes of the other two Commissioners are highly tenuous. These two only found injury by combining data for *all* stainless steel and tool steel products together. However, for over half the products in this group, including stainless slabs, stainless ingots, and stainless plate, the Commission as a whole made negative determinations of injury. This should remove these three products completely from

the case and should, therefore, invalidate the analysis of these Commissioners that voted affirmatively on tool steel and stainless steel together.

Eaton hopes that you can help convince the President that putting duties or quotas on tool steel is bad economic policy and will not benefit the U.S. tool steel producers, who can never make all the specific varieties of tool steel that U.S. producers needs.

Thank you again for your help to Eaton.

Sincerely,



Stephen M. Buente
Senior Vice President – Automotive

SMB/njp

PREPARED STATEMENT OF GARY C. HILL

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 *not* 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:

First, imports of base steel products subject to the import restraints will decline, but *imports of steel contained in downstream products will increase*. 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. *The effect: 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.

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February 4, 2002

To: The Honorable Members of the Senate Finance Committee

From: Employees of National Metalwares, l.p.

Subject: Opposition to Proposed Steel 201 Remedies

The senior management of our company has held numerous meetings to inform all employees about the proposed remedies in the current 201 trade case. Our company president also met with the officers of our local union. We are opposed to the tariffs on imported steel for the following reasons:

- Steel costs represent approximately 46% of our total costs of goods sold. On some products, steel represents 75% of every sales dollar.

- We compete in an aggressive global market place. We cannot compete if our costs of steel are higher than offshore sources.

- Since 1998, we have observed a rapid acceleration in our customer base sourcing offshore. The anti-dumping duties imposed on steel that year were key drivers in their efforts. The current Section 201 investigation and the uncertainty it has created has triggered even more aggressive offshore sourcing. Our customer base is compelled to make contingency plans to avoid the potential cost increases, should the recommended tariffs be imposed.

- It makes no sense to impose duties of up to 40% on raw steel, yet allow products and components made from steel to enter our markets at little or no duty. This would provide any offshore source with a substantial cost advantage over U.S. manufacturers.

- The excess capacity in worldwide steel production will not disappear if these tariffs are implemented. Any excess, lower cost steel will find its way into products destined for the U.S.

The imposition of tariffs, as proposed, will cause U.S. steel consuming manufacturers to become immediately non-competitive with offshore manufacturers. More manufacturing jobs will move offshore and small U.S. manufacturers will fail, unable to compete. We believe that the implementation of tariffs may serve to kill the customer base the tariffs were intended to protect for U.S. steel producers.

Please consider these points as you consider this matter. Our jobs, and thousands of other jobs at small steel consuming manufacturers, are at risk.

NAME / SIGNATURE	NAME / SIGNATURE
Enrique Anaya	Rosa M Carrillo
Rafael Alfaro	Karen Martin 25yrs
Barbara Harris	Dorothy Viros
M.W. Wood	Margaret Miller
Ben Villa	Jose Luis Cepeda
Enrique Villa	Russell Shipp
Norman Arden	Kevin T Ogea
Bregail Whisenant 27yr	Placido Nater

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Kathy Johnson 22 yr	José A. [illegible]
Rafael Madrigal	Ana M. Garcia
Gaudilio González	Bodi Ma[illegible]
Socorro [illegible]	Rodolfo Villanueva
Yolanda Madrigal	Lydia Castellanos
Patricia Mejia	FCO F Flores
Maria Madrigal	Eugene Rios
Irene J López	Jerry Butler
Maria Villa	Ruby Gregory

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Alejo Vazquez	Rudy Bustamante
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Elva S Rocha	Luis Vega
Thelma Chavez	Samuel [illegible]
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Don Nillis	Cecilia Hernandez

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plutarco corral	Mylva Reyna
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Velma W Jones	Victor Gutierrez
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Laurence Rayford	William Coleman
Luis P. Mendoza	[illegible]
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Maria Herrera	
Pedro Martinez	
Maria Roldan	
Hilario Villa	
Lucio Anaya	
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NAME / SIGNATURE	NAME / SIGNATURE

PREPARED STATEMENT OF JON E. JENSON

Mr. Chairman, Senators.

I am Jon Jenson, Chairman of the Consuming Industries Trade Action Coalition ("CITAC") and President Emeritus of the Precision Metalforming Association. With me today are CITAC's Counsel, Lewis Leibowitz, and Laura Baughman, co-author of the CITAC study of the effects of tariff restrictions on downstream industries in the U.S.

We appreciate the opportunity to testify this afternoon on behalf of CITAC. CITAC is a coalition of companies that rely on open channels of trade to be competitive in their U.S. manufacturing, transportation, construction, retailing, energy production and other activities. While I have been asked to comment specifically on the issues surrounding requested aid to the U.S. steel industry, CITAC members care equally about open markets for other inputs, as well as for export opportunities.

Joining with CITAC in the spirit of this testimony is the Free Trade in Steel Coalition representing U.S. Ports and related maritime and other transportation indus-

tries. They are concerned that the imposition of trade restrictions would be detrimental to their economic welfare since more than 38,000 jobs in the U.S. are dependent on the handling of fairly traded steel imports.

They are also concerned about the emerging school of thought that trade restrictions on steel imports will not matter because increased activity resulting from the possible passage and implementation of Trade Promotion Authority would fill the void. This is simply not the case. Even if TPA were passed by the Congress and signed into law by the President this year, it would take at least three to five years to negotiate, ratify and implement trade agreements under this act.

Also, we have had expressions of support for CITAC's position from minority business and civil rights leaders, who are concerned about discussion of allocating scarce public funds for health care to a few steel workers instead of America's uninsured poor and minority communities. These leaders emphasize that the $12 billion for the steel bailout would provide medical care to every one of the 11 million children in the U.S. without care.

Steel is certainly at a crossroads. Calls for the President to declare tariffs of up to 50 percent on steel imports, which are vital to many American manufacturers, frighten us. Pleas for the government to bail out companies from excessive health care obligations for retired and active workers threaten to set a precedent for government bailouts of other industries in economic difficulty. Calls for consolidation in the steel industry in combinations with import restraints are raising antitrust concerns. There are further calls for global talks to reduce steel capacity and eliminate government-induced market distortions. These are questions that warrant serious debate and analysis. We at CITAC have tried to do our part. We have commissioned studies that analyze the economic impact on trade restrictions on America's steel-consuming industries, a sector of the economy that, until we focused attention on it, received entirely too little consideration in public policy debates.

Steel-using manufacturers and U.S. exporters would be hurt by steel import restrictions. This merits full consideration, especially now. The economy is in a recession. Even during this downturn, steel users must compete with efficient global manufacturers of all types of consumer and industrial installations, machines and conveyances—everything from earth movers to nuts and bolts. Forcing U.S. manufacturers to pay considerably more for steel inputs than their foreign competitors will deal U.S. manufacturers a triple whammy: (1) increased raw material costs; (2) threatened access to steel products not produced in the U.S.; and (3) increased competition from abroad for the products they make. It will simply send our business offshore, devastating U.S. steel-using businesses, most of them small businesses. U.S. exporters would be the subject of retaliatory restrictions, and this would likely occur promptly, not after three years.

We acknowledge that certain integrated U.S. steel producers are in deep trouble. The 1998 steel import surge in the major flat-rolled carbon steel market was a serious blow to steel producers. But steel prices have nose-dived all over the world, not just in the United States. Certain U.S. integrated producers have not been able to cope wit the new realities of the global market place.

The Section 201 case took place against this backdrop. CITAC participated fully in the International Trade Commission proceedings on steel and at the Trade Policy Staff Committee. As you know, the Commission found injury or continued the investigation by a tie vote in 16 of 33 product groupings covering 74 percent of steel imports. In December, the Commissioners transmitted their findings and recommendations for relief to the President.

The President now must decide what to do. CITAC strongly opposes restrictions on steel imports. I would like to tell you why we think import restraints are the wrong answer for the country.

1. Import restraints do not address the most serious problem facing certain integrated steel producers

Imports are largely the result, not the cause, of the steel industry's problems. High and relatively inflexible costs—including costs for raw materials, energy, "legacy costs" and labor—are the root cause of the integrateds' inability to compete.

There are two steel industries in this country: integrated mills (U.S. Steel, Bethlehem, Inland, National, the former LTV and several smaller companies); and minimills, such as Nucor and Steel Dynamics. The former have reported massive losses over the last three years, while the latter are profitable (of course, during the current recession, profits are down). In 2000, Nucor reported record sales and profits (they were even profitable in the recession year of 2001, while LTV, for example, was sliding into deeper economic difficulties. According to LTV, in 2000 LTV lost nearly $40 on every ton of steel it shipped, while Nucor made nearly $40 profit on every ton it shipped. It's an apples to apples comparison—the same product, the

same market, and the same time frame. The difference in performance is the cost of manufacture.

Both segments of the steel industry have complained about imports. Extensive use of antidumping and countervailing duty cases in the U.S. has caused imports to decline dramatically.

With imports down, one would expect the fortunes of the integrated companies to reverse. But imports have caused the financial downfall of integrated steel companies, so declining imports have not saved them. If we restrict imports, we will not provide any lasting relief to the integrated mills because we won't be solving their real problem.

2. The U.S. market needs imports

Our CITAC study and other recent studies indicate that imported steel is needed in the U.S. market for two reasons. First, the total production of steel in the United States, even at peak capacity, is not enough to satisfy domestic demand. There is a shortfall of 25 to 35 million tons every year (including semifinished steel) that domestic steel suppliers cannot provide.

Second, there are many steel products that are not made in the United States. In the Section 201 case, more than 1000 product exclusion requests have been filed with the Administration. We believe this is only the tip of a very large iceberg. American steel using manufacturers need imported steel meeting specifications that U.S. producers cannot or do not supply. The Section 201 record contains numerous examples of this problem, but they are only examples.

In short, domestic production of steel is not completely interchangeable with imports and therefore cannot completely displace imports. U.S. steel using manufacturers do not purchase imported steel for convenience; imports are necessary in many instances to allow our manufacturers to compete globally. Globally competitive price is a part of it but in many cases it is the consistency of quality, metallurgical properties, and formability, chemistry or other factors that dictate the use of imported steel. It would be a serious mistake to base any policy decision on the assumption that U.S. steel consuming manufacturers can do without imports.

3. Import Restrictions would jeopardize tens of thousands of U.S. jobs

We are not trying to scare people when we report in our study that domestic steel-using manufacturers would be injured to a far greater degree than steel producers would be helped. We are simply providing the facts. Protectionism is a bad idea. It usually does not work and it will not work here.

Every State in the Union would lose more jobs than trade restrictions would save—even steel—intensive states like Indiana and West Virginia.

Steel-consuming industries have been among the very few job-creating industries in the U.S. manufacturing sector, even in recent years. Between 1997 and 2000, steelconsuming sectors added 848,000 jobs, compared to losses in the steel sector of 10,00 over the same period. It makes little sense to hit hard one of the few manufacturing sectors of the economy that is creating jobs to bail out an industry that is going through a much-needed adjustment process.

We have carefully examined comments critical of our study and have consulted many experts. We stand by the results of the study. The study employs the appropriate econometric model, and uses realistic assumptions. The database for the GTAP model is maintained by a consortium including the ITC, the Department of Agriculture, the World Bank, the WTO, the OECD and others. The resulting study is a reasonable estimate of the jobs impact of tariffs on steel. The purported critique commissioned by Nucor is based on one person's unsupported assertions that are contradicted by sound economics and economic literature. Some of the conclusions accompanying these assertions are emphatically not consistent with reality.

For obvious reasons, we cannot accept the idea of a tax on steel sales, whether in the form of a tariff on imported steel or an excise tax on all steel. Both taxes would increase costs for America's steel using manufacturers and benefit foreign steel users.

Finally, other parts of our economy would probably suffer also. Calls for compensation or retaliation against U.S. exports would come immediately from trading partners injured by U.S. unilateral restrictions. Joint international efforts to limit capacity would come to an end. There is much to lose.

4. Steel policy should focus on competitiveness and protection of workers, not companies

Based on our views of the causes of the integrated producers' problems and the consequences of trade restrictions, we reject the notion that trade restrictions are the answer. Although they would perhaps help some companies postpone extinction

by temporarily reducing their losses, such restrictions would do far more harm than good.

Having said what we reject, we offer suggestions for the development of a strong and vigorously competitive domestic steel industry. First, we favor the consolidation of certain integrated producers, either with minimills or among themselves. One or two companies would be more competitive in the global marketplace than seven or eight.

While this consolidation would lessen competition, the long-term benefit to consumers would seem to be greater than relying on small, uncompetitive companies.

Second, if "legacy costs" are to be addressed, we favor coupling relief for retired workers with capacity closure, such that mills would not come back in another form after having benefited from government subsidies.

Third, environmental issues must be addressed. Clean-up costs are prohibitive for some companies and they keep open capacity that should be shut down. We would favor some government assistance, properly limited, for plant closures to accomplish this.

Fourth, steel producers must learn to compete globally. They lag far behind their foreign counterparts in thinking and acting globally. U.S. Steel has purchased a mill in Slovakia, yet other mills claim that foreign markets are closed. The facts are that in 2000, 280 million tons of steel crossed international boundaries before being consumed. That is more than one-fourth of all global production. Global competition is a reality in steel and steel producers must recognize that.

Conclusions

The upcoming steel policy decision looms as a critical moment for America's manufacturers. Imposition of huge tariffs will signal America's desire to withdraw from the world economy. This desire is not only wrong—it is impossible. We could not withdraw even if we wanted to. The only way for steel producers to be competitive is to compete.

We reject proposals that tax steel using manufacturers in the U.S. and their 12.8 million workers, either through import tariffs or excise taxes. It is abundantly clear that import restrictions would cause much more harm than good and will not address the real problems of certain integrated steel producers.

We support proposals that would take extraordinary action—to assist retired workers, to permit the orderly closure of inefficient steel making capacity and to clean up the environment.

Steel is an important industry. It is not the only industry, however, and the costs of "saving" the steel industry should not outweigh the benefits.

I thank the Committee for its attention. I would be pleased to respond to any questions you may have.

CITAC

EXHIBIT 1

CITAC Steel Study—December 2001
Job Impact Estimates by State

	Low Tariffs			High Tariffs		
	Total Gains	Total Losses	Steel-Consuming Losses	Total Gains	Total Losses	Steel-Consuming Losses
Alabama	174	-536	-234	353	-1,104	-467
Alaska	0	-41	-7	0	-87	-15
Arizona	12	-546	-194	23	-1,131	-392
Arkansas	98	-359	-177	199	-736	-352
California	137	-3,727	-1,389	278	-7,702	-2,779
Colorado	23	-521	-167	48	-1,083	-338
Connecticut	40	-563	-299	82	-1,151	-596
Delaware	13	-107	-42	26	-221	-83
Florida	30	-1,585	-429	61	-3,299	-865
Georgia	26	-982	-339	53	-2,034	-680
Hawaii	0	-104	-10	0	-219	-21
Idaho	0	-134	-43	0	-278	-87
Illinois	384	-1,859	-908	781	-3,810	-1,809
Indiana	659	-1,095	-650	1,340	-2,230	-1,294
Iowa	27	-470	-237	54	-963	-471
Kansas	13	-406	-195	26	-835	-389
Kentucky	112	-557	-274	227	-1,142	-547
Louisiana	22	-481	-180	45	-996	-362
Maine	0	-147	-47	1	-306	-95
Maryland	0	-549	-146	0	-1,143	-296
Massachusetts	18	-869	-326	37	-1,794	-650
Michigan	236	-1,846	-1,161	480	-3,754	-2,311
Minnesota	22	-733	-302	45	-1,510	-603
Mississippi	25	-379	-198	50	-775	-393
Missouri	49	-832	-397	101	-1,707	-792
Montana	0	-79	-13	0	-165	-27
Nebraska	11	-237	-89	22	-490	-177
Nevada	0	-218	-53	0	-455	-109
New Hampshire	0	-184	-83	0	-377	-165
New Jersey	44	-950	-294	90	-1,969	-588
New Mexico	0	-153	-31	0	-321	-63
New York	83	-2,011	-581	169	-4,173	-1,165
North Carolina	32	-1,144	-522	64	-2,352	-1,042
North Dakota	0	-76	-22	0	-157	-45
Ohio	760	-1,965	-1,107	1,546	-4,009	-2,204
Oklahoma	35	-401	-165	71	-826	-329
Oregon	38	-399	-138	77	-825	-278
Pennsylvania	699	-1,599	-697	1,423	-3,290	-1,392

	Low Tariffs			High Tariffs		
	Total Gains	Total Losses	Steel-Consuming Losses	Total Gains	Total Losses	Steel-Consuming Losses
Rhode Island	0	-127	-49	0	-261	-98
South Carolina	55	-563	-269	111	-1,155	-537
South Dakota	0	-98	-36	0	-203	-72
Tennessee	67	-913	-490	137	-1,866	-975
Texas	168	-2,428	-941	341	-5,021	-1,889
Utah	46	-270	-99	93	-558	-200
Vermont	0	-74	-26	0	-153	-51
Virginia	30	-864	-295	60	-1,790	-594
Washington	16	-752	-319	32	-1,550	-639
West Virginia	130	-169	-51	265	-351	-102
Wisconsin	45	-1,011	-571	91	-2,062	-1,135
Wyoming	1	-52	-12	1	-109	-25
TOTAL	4,375	-36,164	-15,304	8,902	-74,502	-30,592

Source: Trade Partnership Worldwide, LLC, Washington, DC.

CITAC

EXHIBIT 2

The Consuming Industries Trade Action Coalition
Steel-producing and Steel-consuming Employment* for All 50 States (1999)

STATE	STEEL-CONSUMING JOBS	STEEL-PRODUCING JOBS	LARGE STEEL-CONSUMING SECTORS	STEEL-CONSUMING VS STEEL-PRODUCING JOBS
Alabama	206,839	8,713	Industrial machinery & equipment, transportation equipment	24 steel-consuming for every steel-producing job
Alaska	14,427	n/a	Special trade contractors, non-residential construction	
Arizona	213,944	529	Transportation equipment, heavy construction	404:1
Arkansas	121,089	4,549	Special trade contractors, fabricated metal products, industrial machinery & equipment	27:1
California	1,218,046	6,857	Industrial machinery & equipment, transportation equipment, general building contractors	178:1
Colorado	196,038	1,199	Special trade contractors, industrial machinery & equipment	164:1
Connecticut	202,963	1,939	Transportation equipment, fabricated metal products, industrial machinery & equipment	105:1
Delaware	53,437	627	Chemicals and related products, special trade contractors	85:1
Florida	470,416	1,558	Transportation equipment, fabricated metal products, industrial machinery & equipment	302:1
Georgia	335,793	1,301	Transportation equipment, fabricated metal products, industrial machinery & equipment	258:1
Hawaii	19,885	0	Special trade contractors, heavy construction	
Idaho	48,842	n/a	Special trade contractors, industrial machinery & equipment	
Illinois	646,968	19,834	Industrial machinery & equipment, fabricated metal products	33:1
Indiana	450,363	33,071	Transportation equipment, special trade contractors, industrial machinery & equipment	14:1
Iowa	161,934	1,277	Industrial machinery & equipment, fabricated metal products	127:1

The Consuming Industries Trade Action Coalition
Steel-producing and Steel-consuming Employment* for All 50 States (1999)

Kansas	161,781	729	Transportation equipment, industrial machinery & equipment, special trade contractors	222:1
Kentucky	220,448	5,374	Special trade contractors, transportation equipment, industrial machinery & equipment	41:1
Louisiana	218,141	1,130	Chemicals and related products, transportation equipment	193:1
Maine	45,406	n/a	Special trade contractors, transportation equipment, non-residential construction	
Maryland	181,672	5,524	Industrial machinery & equipment, transportation equipment	33:1
Massachusetts	247,651	975	Industrial machinery & equipment, fabricated metal products	254:1
Michigan	794,795	11,744	Transportation equipment, industrial machinery & equipment, fabricated metal products	68:1
Minnesota	248,047	1,087	Industrial machinery & equipment, fabricated metal products	228:1
Mississippi	133,086	1,358	Industrial machinery & equipment, transportation equipment	98:1
Missouri	303,702	2,435	Industrial machinery & equipment, transportation equipment, special trade contractors	125:1
Montana	20,111	n/a	Special trade contractors, heavy construction	
Nebraska	74,277	n/a	Industrial machinery & equipment, fabricated metal products, special trade contractors	
Nevada	88,866	n/a	Special trade contractors, heavy construction	
New Hampshire	54,726	184	Special trade contractors, industrial machinery & equipment	297:1
New Jersey	299,007	2,091	Industrial machinery & equipment, fabricated metal products, chemicals and related products	143:1
New Mexico	45,972	n/a	Special trade contractors, heavy construction	

The Consuming Industries Trade Action Coalition
Steel-producing and Steel-consuming Employment* for All 50 States (1999)

New York	536,399	4,174	Special trade contractors, industrial machinery & equipment, chemicals and related products	129:1
North Carolina	421,941	1,764	Industrial machinery & equipment, chemicals and related products, transportation equipment	239:1
North Dakota	25,874	0	Industrial machinery & equipment, special trade contractors, heavy construction	
Ohio	769,071	38,797	Industrial machinery & equipment, fabricated metal products	20:1
Oklahoma	143,694	1,779	Industrial machinery & equipment, transportation equipment, fabricated metal products	81:1
Oregon	132,214	1,807	Industrial machinery & equipment, special trade contractors	73:1
Pennsylvania	553,315	35,730	Industrial machinery & equipment, fabricated metal products	16:1
Rhode Island	35,380	1,132	Industrial machinery & equipment, fabricated metal products, special trade contractors	31:1
South Carolina	217,701	2,689	Industrial machinery & equipment, transportation equipment, special trade contractors	81:1
South Dakota	33,774	n/a	Industrial machinery & equipment, special trade contractors	
Tennessee	328,501	3,396	Industrial machinery & equipment, transportation equipment, fabricated metal products	97:1
Texas	951,563	7,751	Heavy construction, industrial machinery & equipment, fabricated metal products	123:1
Utah	109,886	2,130	Industrial machinery & equipment, transportation equipment, special trade contractors	52:1
Vermont	22,701	n/a	Industrial machinery & equipment, transportation equipment, special trade contractors	

The Consuming Industries Trade Action Coalition
Steel-producing and Steel-consuming Employment* for All 50 States (1999)

Virginia	295,096	1,276	Industrial machinery & equipment, transportation equipment, heavy construction	231:1
Washington	287,501	730	Industrial machinery & equipment, transportation equipment, special trade contractors	394:1
West Virginia	57,932	6,718	Industrial machinery & equipment, chemicals and related products, special trade contractors	9:1
Wisconsin	365,933	2,253	Industrial machinery & equipment, fabricated metal products	162:1
Wyoming	19,300	n/a	Special trade contractors, heavy construction, chemicals and related products	
TOTALS:	12,806,648	226,211		

n/a = Bureau of Labor Statistics did not publish data because there are too few companies to meet confidentiality requirements.

SOURCE: The Trade Partnership, derived from data provided by the U.S. Department of Labor, Bureau of Labor Statistics.

* Numbers are for total employment, consisting of production as well as administrative workers
Employment considered steel-consuming includes workers in the following sectors: fabricated metal products (SIC 34); industrial machinery and equipment (SIC 35); electric distribution equipment (SIC 361); electrical industrial apparatus (SIC 362); household appliances (SIC 363); electric lighting and wiring equipment (SIC 364); transportation equipment (SIC 37); chemicals and related products (SIC 28); tires (SIC 301); petroleum refining (SIC 291), and nonresidential construction (SIC 15 –17 minus SIC 152).

These figures are conservative because data is not available for workers of transportation services, such as railroads and ports.

Steel-producing employment includes workers at blast furnaces and manufacturers of basic steel products (SIC 331).

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Prepared Statement of Bobby Rayburn

My name is Bobby Rayburn and I am from Jackson, Mississippi. I am President of Rayburn and Associates and have been a builder of single and multi-family homes for more than 30 years. I appreciate the opportunity to appear today as Vice President-Treasurer of the National Association of Home Builders on behalf of our 205,000 member firms and their more than 8 million employees in all fifty states. We are also a member of the American Consumers for Affordable Homes alliance, which is made up of U.S. and Canadian industries in support of free trade. This alliance includes Home Depot, the National Lumber and Building Materials Dealers Association, Chep International, the International Mass Retail Association, the Black Chamber of Commerce, the Hispanic Contractors Association, and the Canadian Free Trade Lumber Council. I would also like to thank each of you for your past efforts to help provide safe and affordable housing.

Your attention to this issue is essential at this time because the Commerce Department has issued preliminary decisions creating a combined 32 percent tariff on Canadian lumber imports. The duties are the result of the Commerce Department's preliminary decision to impose a 19.3 percent Countervailing Duty and 12.6 percent Anti-dumping duty. We believe these tariffs are unfounded, burdensome to American consumers and extremely harmful to the housing industry and our national economy. If confirmed in a final decision, this tariff will have harmful effects on the home building industry and the national economy. It will create a new hidden tax on American home buyers, renters and consumers.

NAHB vigorously opposes barriers to free trade in lumber and other building materials and oppose laws, regulations, and policies that allow countervailing duties to be imposed unfairly and used to thwart legitimate competition. We support trade policies that reflect the interests of consumers and downstream industries.

LUMBER IN HOUSING

Home building and remodeling account for two-thirds of all of the lumber consumption in the U.S. Canada is the source of more than a third of the lumber used

in U.S. home building. Lumber accounts for a larger share of the cost of a home than any of the other materials used by home builders.

This issue is very important to home builders and subcontractors, as well as other U.S. businesses that use softwood lumber, such as manufacturers of trusses, cabinets, pallets, and furniture, as well as lumber wholesalers and retailers. Lumber-dependent industries employ more than 7 million American workers. Roughly one million more workers are self-employed as independent contractors and business proprietors in the home building industry. Millions more are employed in housing-related businesses such as real estate and mortgage finance. By contrast, the number of logging and sawmill jobs is only about 200,000. Overall, American workers in lumber-dependent jobs outnumber workers in lumber-producing industries by more than 30 to 1.

The potential for growth in industries that depend on lumber is substantial. However, the potential for growth in logging and sawmills is limited by the supply of timber available, and employment in those industries will inevitably continue to decline, as it has since 1988—despite higher lumber prices—during periods of free trade, quotas, and tariffs. The downward trend in lumber producers' payrolls has only been interrupted when growth in home building created increased demand.

The economic impact of home building extends itself deep down into the economy of the U.S. Building a new home requires workers, skilled and semi-skilled. New homes require building materials, some produced locally and some produced at regional or national factories. New homes need appliances and carpets and cabinets and windows and literally thousands of large and small products that must be produced in order to complete the home. Homes are painted and landscaped and furnished and windows are covered. Building and selling a home requires professional services, such as surveyors, architects, attorneys, real estate brokers, bankers and insurance companies. All of this economic activity spreads itself across the local economy, the national economy and into all sort of different industries.

The economic activity generated by home building is three to four times the typical home buyer's down payment. Hence, a typical $34,000 down payment on a new home generates nearly $160,000 in new economic activity (the underlying land value is subtracted from the calculation). Many aspiring homebuyers are just on the edge of being able to qualify for a mortgage and make the required payments. Even a small change in house prices or interest rates can determine whether they can buy a home.

Lumber trade restraints would have broad, harmful effects on the housing market and the national economy. Housing and related industries account for nearly 5 percent of our GDP, and the housing sector is currently one of the few remaining healthy sectors in the economy. Imposing a punitive duty on lumber would further raise the cost of housing, slow production and have harmful effects on our economic recovery.

EFFECTS OF LUMBER PRICE INCREASES

Lumber price increases have direct effects on the cost of housing. Each one dollar increase in the price of framing lumber per 1,000 board feet adds about $20 to the price of an average new home. An increase of $50 in the average wholesale price of framing lumber would mean that about 300,000 families would not be able to qualify for a mortgage on an average first-time home.

Home builders are generally entrepreneurial small business people. 82% of home builders build fewer than 25 homes a year and 60% of our members build fewer than ten homes a year. Many of these small-volume builders and subcontractors do not have the capital to withstand the artificial price increases and price volatility of trade restrictions.

Because of the severe effects of artificial price increases and volatility, I want to be clear: we are opposed to border measures such as quotas, tariffs or export fees that restrict imports of Canadian lumber.

Trade restrictions on lumber cause artificial price increases and volatile swings in the lumber market, both of which hurt housing affordability. Builders are already feeling the effect of the preliminary trade tariffs. If the full extent of the tariff is reflected in average lumber prices, the tariffs could add up to $1,500 to the cost of building a new home, creating a new hidden tax on American home buyers, renters and consumers. A $1,500 housing surcharge would effectively prevent an additional 450,000 families from being able to qualify for a home mortgage, according to an analysis by the Census Bureau.

The U.S. cannot meet the need for new homes and improvements to existing homes without lumber imports. Due to the current limits on the supply of timber in the U.S., border restrictions on Canadian lumber would lead to an increase of

imports from other parts of the globe with much less environmentally-sensitive forest practices. A report issued last year finds that "the province of British Columbia has some of the strictest forestry protection rules, in comparison to the vast majority of U.S. softwood lumber-producing states." (report from Auburn University, March 2001) Other environmental reports have documented that Canadian policies do not encourage over-harvesting. Only 0.4% of Canada's forests are harvested each year, which is well below sustainable harvest levels, and Canada grows twice as much wood as is harvested annually. Although Canada has more commercial forestland, it harvests less than half of what is harvested in the U.S. each year.

DIFFERENT SPECIES, DIFFERENT USES

Most importantly, I can tell you first-hand that the types of lumber imported from Canada are significantly different from most of the lumber produced in the U.S. Builders use different lumber species for different structural uses in home construction. The imported lumber is better suited for wall framing, while the primary domestic species are better for floors, roofs, headers, and outdoor applications. In the absence of Canadian spruce, builders are likely to turn to light weight steel studs or lumber imports from other countries in order to build homes with walls that don't crack. Southern Yellow Pine, the primary wood species in the southern U.S., is more likely to bend and warp, and is used for beams and joists and for outdoor applications requiring pressure-treated lumber.

The principal competitive threat to the use of Southern Yellow Pine, the most common domestic lumber species, comes *not* from imports but from engineered wood products such as wood I-joists and composite materials, which offer improved performance, easier installation, and reduced reliance on old-growth timber. Increased efficiency in new U.S. sawmills and limits on the supply of timber in the U.S., as well as use of engineered wood, have made many older sawmills economically untenable. While some mills are closed, improvements in other mills and construction of new mills have increased overall capacity.

NEGOTIATIONS

Last fall, the U.S. and Canadian governments held a series of negotiating sessions aimed at resolving the long-running dispute over lumber. NAHB supports the good faith efforts of Special Trade Representative for Lumber Marc Racicot and applaud him for considering the interests of U.S. consumers. We are hopeful that our input will be considered in the future. NAHB seeks to have the interests of all U.S. stakeholders—not just lumber producers—included in lumber policy discussions. Specifically, the interests of homebuyers, home builders, and other U.S. consumers and downstream industries should be recognized and represented in negotiations, litigation, and policy formulation regarding Canadian lumber.

In December, the Canadian provincial governments, which own most of the timber in Canada, proposed far-reaching changes in the management of their timber, intended to remove incentives to over-produce during periods of weak demand, make sales practices more transparent, and eliminate suspicions that their timber sales are not market-based. These proposals included, for example, the elimination of minimum harvest requirements.

NAHB has been wary of the idea of a negotiated settlement, based on past experience with lumber agreements that allowed lumber producers in the two countries to restrict supply and raise prices. These past agreements created supply constraints that contributed to volatility in lumber prices. However, the forestry changes proposed by Canada were a valid basis for a long-term solution that would serve the interests of lumber consumers, lumber producers, and the overall U.S. national interest. Although we oppose border measures that restrict lumber imports, we support changes to make lumber supply more responsive to market demand.

CONSUMERS AND TRADE LAWS

U.S. trade laws give little consideration to the interests of consumers and downstream industries. This bias has limited the ability of American consumers to receive products and services of the highest quality at the lowest cost, and of U.S. businesses to provide jobs and increase production. It also encourages other countries to adopt similar protectionist policies that limit the choices of their citizens and opportunities for U.S. exporters.

In the last twelve months alone, the support for free lumber trade has grown nationwide. Supportive newspaper editorials have been published in many major newspapers such as *The Washington Post, The Seattle Post Intelligencer, The Chicago Tribune, The Boston Herald, The Los Angeles Times, The Dallas Morning News, the Portland Oregonian*, and the *Financial Times*.

Over one hundred members of Congress have cosponsored a pro-housing resolution calling for free trade in Canadian softwood lumber (S.Con.Res. 4 introduced by Senators Don Nickles and Dick Durbin, and H.Con.Res. 45 introduced by Representatives Jim Kolbe and Steny Hoyer.) On November 9th, a bipartisan group of U.S. Senators and Representatives sent a second joint letter to President Bush on this issue. It urged the President to consider the harmful effect of lumber tariffs on the housing industry and the national economy, and asks that no new lumber trade restrictions be created.

On January 15th of this year, President Bush spoke in New Orleans, Louisiana, about the need for free trade. The President said, "One of the reasons I'm traveling down the spine of America and on the mighty Mississippi is because I want to remind our fellow citizens how important trade is. It's important to these workers that we trade. . . . There are some who play politics with the trade issue. They want to shut down trade. I like to remind people, those who shut down trade aren't confident. They're not confident in the American worker, they're not confident in the American entrepreneur, they're not confident in American products. I'm just the opposite. I know we got the best workers in the world. I know we can make the best products in the world, and therefore, we ought to have free and fair trade around the world. . . . This isn't a Republican issue. This isn't a Democrat issue. Trade is a jobs issue."

Unfortunately, the Commerce Department has not acted to achieve the President's goals for free trade. The two tariffs amounting to a 32 percent tax on Canadian lumber imports not only run contrary to Bush's philosophy, but will harm American consumers by raising the cost of housing.

The people who ultimately pay the cost of trade restrictions are consumers—the homebuyers, renters and people remodeling their homes. Consumers are rarely organized, and that makes them an easy target to fund subsidies for special interests.

I hope this committee takes the lead in bringing the benefits of free trade to Americans, rather than creating distortions in the marketplace, providing off-budget subsidies to uncompetitive U.S. special interests, and creating windfall gains for a few at the expense of U.S. home builders and home buyers.

PREPARED STATEMENT OF RODGER SCHLICKEISEN

Mr. Chairman and Members of the Senate Finance Committee, we appreciate the opportunity to discuss the present lumber trade dispute between the United States and Canada. My name is Rodger Schlickeisen, and I am president of Defenders of Wildlife, a non-profit biodiversity advocacy organization with over 1,000,000 members and supporters in North America.

I. Overview and Summary

It is not everyday that we are in agreement with the U.S. timber industry, but today we stand together on one fundamental issue: *that the Canadian timber industry is massively subsidized by both the federal Canadian government and the various provincial governments*. These illegal subsidies not only harm the U.S. timber industry, but also inflict significant and major injuries to American and transboundary habitats, as well as harm to forests in Canada that are of continental and global significance. Only by understanding the full nature of these present subsidies can we move forward with durable solutions to this longstanding dispute between two nations that are otherwise friendly neighbors and close allies.

This testimony is not only endorsed by our principal U.S. environmental allies in this effort, such as NRDC and the Northwest Ecosystem Alliance, but also supported by many environmental and citizens' groups on both sides of the border, who realize that fundamental forestry reform in Canada must be addressed in the current softwood lumber negotiations.[1] We do not oppose continued logging in Canada, nor do we oppose trade in softwood lumber. What we oppose is the literal liquidation of all wild forests in Canada in a manner that is economically unsustainable, ecologically destructive, and highly distortive of truly free trade.[2] *Any meaningful solu-*

[1] It is imperative to contextualize the "grassroots groups" supposedly opposed to curbs on Canadian timber exports to the United States. First, some of these groups, such as the American Consumers for Affordable Housing, are funded by the Canadian timber industry. Second, wood is less than 3% of the total cost of a new house, and even this cost can be significantly lessened (to levels approaching zero) by wood efficiency methods touted by the National Association of Homebuilders (NAHB) itself.

[2] For these reasons, Defenders and our allies have been preparing a "Citizens' Trade Alternative" to aid negotiations of a new softwood lumber agreement. This draft document serves to

tion to the present impasse, consequently, must be grounded in the reality that "the market" is not working with regard to Canadian lumber.

While my counterpart from the Coalition for Fair Lumber Imports (CFLI) will address some of the subsidies granted to the Canadian timber industry—for example, the administratively set and exorbitantly discounted stumpage fees charged to Canadian timber companies to actually cut down trees—I'd like to focus my limited time this afternoon on the intertwined subsidy issues of tenure monopolization and weak environmental protection. That is, because the Canadian timber industry is dominated by a relatively small number of companies, who receive free and virtually unfettered long-term access to forested areas, the governments of Canada are either unable or unwilling to meaningfully regulate the Canadian industry's behavior. In addition, we do not see how the significant stumpage price disparity between the two countries can be rectified without examining reforms in the Canadian tenure system, which helps shield Canadian timber companies from the competitive and open markets. Subsidies based on weak environmental regimes are discussed immediately below.

II. The Clear Linkage Between Harmful Trade Subsides and Environmental Degradation

From the perspective of science-based environmental protection of shared forest ecosystems, an end to the harmful subsidies now granted to the Canadian industry would unequivocally aid the protection of imperilled species and habitats. "Regulatory relief" to Canada's timber industry, secured either from weak environmental standards or from lack of environmental enforcement, clearly serves as a financial "pass back" to the Canadian industry.[3] Thus, if the Canadian timber industry cannot make profits based upon artificially low stumpage fees, then the provincial governments will once again reduce environmental protection standards to lower costs.

To the Canadian timber industry's bottom-line, there simply is no difference between these "lack of environmental protection" subsidies and other economic subsidies.[4] Estimates of the *total amount of harmful subsidies from weaker environmental protections* granted to the Canadian timber industry total *at least hundreds of millions of dollars annually*. Recent proposed "result-based" changes by the existing B.C. Government to the B.C. Forest Practices Code could significantly increase these subsidies. *See* Attachment 1 from Vancouver Sun, 25 October, 2001 ("Victoria takes axe to FRBC, prepares to 'streamline' Forest Practices Code; Goal is to trim delivery costs").

In order to get a handle on the magnitude of the environmental lawlessness and the concomitant damage occurring in Canadian forests, at least three types of harmful subsidies from weak environmental protection must be identified:

- Subsidies granted by the provincial governments for lax and poorly enforced forest practices codes. Issues here include the lack of meaningful environmental assessments, mandatory high-cut levels with over-reliance on large clear-cuts, lack of riparian habitat protection, and non-existence of binding ecological indicators on logging and disturbance actions. By way of comparison, the provincial forestry codes in Canada are *far* weaker than the standards in the U.S. National Forest Management Act.
- Subsidies granted by the federal government and certain provincial governments such as Alberta and British Columbia by failing to possess an Endangered Species Act (ESA). Indeed, the current federal legislative proposal supported by the ruling party of Prime Minister Chretien does not contain any mandatory habitat protections, even on federal lands in Canada. This discrepancy greatly harms U.S. ecological interests, and puts the U.S. timber industry at a distinct competitive disadvantage.
- Subsidies granted by the federal government for failure to enforce the federal Fisheries Act, which requires protection of riparian habitat. Last year, the Natural Resources Defense Council, along with Defenders and the Northwest Eco-

help the U.S. negotiators by providing a legal framework under the National Environmental Policy Act, the Endangered Species Act, and relevant international law.

[3] The 1996 U.S.-Canada SWLA at Article VII explicitly recognized "forest management systems" highly relevant to subsidy determinations, and in 1998, the B.C. Government justified its unilateral reduction in stumpage fees as necessary to offset forest management costs.

[4] *See generally* Tom Green and Lisa Matthaus, *Cutting Subsidies or Subsidized Cutting?* (July 12, 2001) at 12–15. Although this report commissioned by the B.C. Coalition for Sustainable Forestry Solutions focuses on British Columbia, where many independent analysts have reached similar conclusions, the problems discussed are rampant throughout other provinces such as Alberta, Quebec, and Ontario. Further information on the other provinces can be supplied, upon request.

system Alliance, calculated that this subsidy gave the timber industry in British Columbia over $243 million (CND) annually in savings.

Despite these severe problems, which are harming U.S. workers[5] *and* U.S. listed species such as the grizzly bear, woodland caribou, bull trout, lynx and marbled murrelet, *there are viable solutions in sight*. Step one in reaching a solution, however, entails the two countries firmly acknowledging the critical connections between forest management practices and fair trade. Once this point is reached, the formula for successful negotiation will likely involve a sliding scale system of compensatory duties that decrease over time as reforms in Canada are verified by an independent binational body. *If the linkage between environmental protection and harmful trade subsidies is not made in the framework for future negotiations, any agreement reached will not be durable or long-lasting because of the Canadian industry's ability to recoup costs through poor ecological stewardship*.[6]

III. Subsidies Granted to the Canadian Timber Industry

Three core categories of subsidies have a major impact on binational forest protection: 1) stumpage fees, 2) tenure system issues, and 3) environmental compliance problems.

A. Pricing (Stumpage)

In the United States, the vast majority of timber on both public and private lands alike is sold in competitive markets. In Canada, the forested land is primarily owned by the province and the timber is sold to a handful of large timber companies far below market value through long-term tenures. In fact, ninety-five percent of the land in British Columbia, by far the largest exporter of softwood lumber in Canada (CN$6.88 billion in 2000), is owned by the province.[7] As a subsidy to the Canadian timber industry, stumpage fees are administratively set one-third to one-quarter of the true market price.[8] These low stumpage rates are "based on government's revenue objectives rather than an accurate assessment of what the timber would be worth in a well-functioning market situation."[9] Estimated subsidies to the BC timber industry for one year, 1999–2000, ranged from C$2.8 billion to C$3.6 billion.[10]

One technique called 'grade-setting' allows the logging companies to successfully manipulate the stumpage system by circumventing higher-end stumpage rates. By unloading the worst quality wood from the cutblock first, a low stumpage rate assessment is triggered for all the wood, even though higher-grade logs are removed later. Researchers at The Sierra Legal Defense Fund estimated that coastal companies in British Columbia saved C$138 million between 1998 and 2000.[11] In response to all these problems, a number of government commissioned blue-ribbon panels have recommended the creation of competitive and transparent regional log markets, with sufficient participation to prevent price manipulation.

B. Tenure System

Through long-term tenure (or license) agreements, the provincial governments provide logging companies security of access to a specified timber supply, free of charge. In exchange, tenure agreements require companies to process the wood at particular mills (with the intention of providing employment and community stability) in addition to paying stumpage. However, the BC government has been permitting more and more timber companies to shut down appurtenant mills, but nonetheless to retain control over their licensed wood supply.[12]

Fourteen large companies control a full two-thirds of the provincial wood supply in BC. While the government provides enormous tenures coupled with an almost automatic license renewal, competition is non-existent. Overall in Canada, thirteen timber companies possess tenures each as large as all of Switzerland, accounting for

[5] *See e.g.*, Testimony of G. Bruce Willis, The United Brotherhood of Carpenters and Joiners of America, Senate Field Hearing on Canadian Lumber Imports (July 1, 2001).

[6] The provincial government of Quebec should be noted for its proposal to link the economic trade issues with the environmental trade issues.

[7] Environment Canada. *The State of Canada's Forests 2001: Profiles Across a Nation*. (http://www.nrcan-rncan.gc.ca/cfs-scf/national/what-quoi/sof/sof01/profiles—e.html#CND)

[8] The New America Foundation, *Stopping the Giveaway of Canada's Forests: Establishing True Free Trade in Softwood Lumber* (October 2000) at 11.

[9] Green and Matthaus at 5.

[10] *Id*. at 8.

[11] Mitch Anderson and John Werring, *Stumpage Sellout: How forest company abuse of the stumpage system is costing B.C. taxpayers millions* (Vancouver: Sierra Legal Defense Fund, 2001).

[12] Green and Matthaus at 21–22.

roughly half of Canada's total forest tenures.[13] The present tenure system does not promote fair competition or good land stewardship. Tenure take-back and redistribution have been recommended by a wide variety of Canadian stakeholders.

C. Forest Management and Environmental Protection

As discussed in the overview and summary, *supra*, the Canadian timber industry operates under weak and poorly enforced environmental protections. At present, there is no accepted binational mechanism in place to gauge the effectiveness of Canadian forest-related environmental laws, or their level of enforcement. Because it is obvious that environmental compliance is an area targeted by the Canadian timber industry for "pass backs," weak and/or poorly enforced ecological standards must not become a way in which a new binational agreement is circumvented.[14] The *linkage* between harmful trade subsidies and environmental degradation must be maintained in any future softwood lumber negotiations. *This central issue cannot be emphasized enough*.

IV. The Overcutting of Canada's Forests

Without the subsidies, many of Canada's forests would simply be uneconomic to log. Wood priced well below market value—sometimes offered to the Canadian industry for as low as $10 for a full truck load or .25 (one quarter) for a cubic meter—provides a perverse incentive to cut more trees. As logging companies move to expand timber production, primary growth forests are increasingly harvested in response to the bevy of subsidies available to the companies. In fact, more than 90 percent of timber harvested in Canada comes from old-growth forests.[15] Throughout all of Canada, logging companies are harvesting wood at a rate 25% above *sustainable economic levels*, while in B.C. that number moves to 40%.[16] Weak or no provincial endangered species acts encourage logging in the habitat of endangered and threatened species such as the woodland caribou and the grizzly bear, undermining millions of U.S. dollars spent every year under the ESA to protect these fragile species.[17] Tenure agreements that mandate minimum cut levels exacerbate this problem. As the Bush I Commerce Department aptly stated:

> The extensive margin means that, at any particular stumpage price, only certain categories of stands can be profitably harvested. As the price of stumpage drops, more and more stands become economically accessible, which allows the supply of stumpage to increase. The intensive margin concept applies to trees within a stand that is currently economically accessible. It recognizes that, within each stand, there are certain categories of trees that cannot be profitably harvested at a given stumpage price. If stumpage prices are lowered, the intensive margin is expanded so that the formerly unutilizable trees within a particular stand can be profitably harvested, thereby increasing the supply of timber.

57 *Fed. Reg*. 22570, 22589 (May 28, 1992).

V. U.S. Homebuilders' Perspective

The National Association of Homebuilders (NAHB) claims that tariffs on Canadian softwood lumber increase the cost of building a home. However, they fail to mention: 1) lumber prices are now at near record lows because of abundant supply; 2) lumber represents less than 3% of the price of an average home.[18] Further, using wood efficiency practices recommended by NAHB's own research center—such as

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[13] Global Forest Watch Canada, *Canada's Forests at a Crossroads* (World Resources Institute, 2000) at 71.

[14] *See* Attachment 1 from October 2001 *Vancouver Sun*, which calls forest management system "cost-burdensome." More recently, the ruling provincial government of B.C. announced major budget cuts that will severely hamper natural resource management and enforcement. Environmental groups from both countries have informed USTR and the rest of the U.S. administration of these recent developments. Numerous independent studies have documented the costs savings associated with shirking basic environmental responsibilities. *See e.g.*, PricewaterhouseCoopers, *The B.C. Forest Industry: Unrealized Potential* (January 2000) at 3–4; British Columbia Ministry of Forests, *Financil State of the Forest Industry and Delivered Cost Drivers* (April 1997), available at www.for.gov.bc.ca/het/costs/fin-10.htm. In addition, enforcement audits by the Northwest Ecosystem Alliance indicate that over 50% of examined forest planning units in Canada possessed significant environmental enforcement problems. *See also* David R. Boyd, *Canada vs. The OECD: An Environmental Comparison* (University of Victoria, 2001) (detailing Canada's woeful environmental enforcement record generally).

[15] Global Forest Watch Canada, *Canada's Forests at a Crossroads* (World Resources Institute, 2000) at 55.

[16] *Id*.

[17] U.S. Fish and Wildlife Service. *Summary of the Conservation Status of Selected Forest-Related Species with US/Canada Ranges* (January, 2001).

[18] The New America Foundation at 37.

trusses and panels, stressed-skin panels, and optimum value engineering—can reduce building costs by as much as $4,800 per home, sometimes easily making up the cost of fairly priced wood products from Canada.[19] And, again, it must be remembered that our coalition does not seek to end Canadian timber exports to the United States.[20] We seek only a more rational economic and ecological framework under which Canadian logging takes place.

VI. Constructive Solutions to the Softwood Lumber Debate

We support a negotiated settlement to the softwood lumber trade dispute as the most efficient avenue for broad provincial forest management reforms and we hope that our comments can be of assistance in reaching a durable agreement. Any negotiating framework settled on by our two countries needs to be comprehensive. We have pointed out many times in the past months that the fundamental elements of a softwood lumber trade agreement are interdependent. No one will benefit if reforms are only partially implemented. We believe that a durable solution is only possible under a strong framework that ties the core elements together as a single package. These core elements include tenure reallocation, full market pricing, improved environmental measures, and recognition of aboriginal title.

Environmental organizations advocate a solution to the softwood lumber dispute that addresses the economic, environmental and social problems related to forestry in Canada. The following reforms would not only solve the softwood lumber dispute, but also lead to a more innovative, ecologically sound and publicly beneficial forest sector by: diversifying control over forest lands, creating opportunities for new market entrants, ensuring full value for the forest resource, and ensuring greater public participation and environmental protection in our forests.

A. Diversify control over forest lands in Canada

In many areas of Canada, a relatively small group of integrated forest products companies control the vast majority of the land base through long-term licenses or "tenures." This has implications for Canada as well as the United States. Because the economies of many communities are dependent on them, these companies are able to pressure governments to ease environmental protections and reduce the amount they pay for trees. The tenure system has undermined the capacity of forest-based communities to achieve ecological sustainability, economic diversity and control over land-use decisions that will affect their lives, while presenting an obstacle to the honorable resolution of aboriginal land issues.

Recommendation: A significant portion of public forest tenures must be taken back to break up timber monopolies and to facilitate increased conservation, resolving First Nations land issues and providing tenure to a diversity of new entrants, such as small business loggers, woodlots and community forests.

B. Ensure full market value for timber resource

Although the vast majority of provincial forested land is publicly owned, Canadians do not receive the full economic rent under current stumpage policies. Provincial stumpage systems are often arbitrary, subject to manipulation by licensees and governments, and inadequately monitored or enforced. These shortcomings result in subsidies to licensees estimated in the billions of dollars. These subsidies encourage unsustainable over-cutting and result in negative impacts on transboundary and endangered wildlife. While increasing the number of timber sales for small business loggers can play a role in establishing a fair market value for public timber, it is very important to create *actual* markets in logs for processing. Even if a range of loggers can participate in the market for harvesting rights, if these loggers can only sell their logs to a few large processors, Canadian wood product markets will remain artificially restricted to low-end goods.

Recommendation: Provinces must institute regional log markets to generate accurate timber values, ensure ease of access to wood for all wood processors (particularly in the value-added sector), and provide confidence that the full value of logs is being collected.

Recommendation: Sufficient volume must be required to flow through log markets to ensure truly competitive bidding (e.g., 75% of timber harvested).

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[19] *See www.nrdc.org* for NRDC publication *Efficient Wood Use in Residential Construction: A Practical Guide to Saving Wood, Money and Forests* (1998) (Attachment 2).

[20] Indeed, under the 1996 SWLA, which allowed all Canadian softwood lumber up to 14.7 billion board feet per year into the U.S. duty-free, Canadian exports regularly exceeded the amount of lumber that triggered the highest sliding scale duty (i.e., $100/thousand board feet), indicating a viable market exists for such higher-priced wood.

Recommendation: Stumpage fees must be calculated in a transparent manner, using accurate timber values from log markets and timber sales so that the full value of the wood is collected.

Part of ensuring full market value for timber resources requires an adequate field of players inside Canada to generate market signals. To this end, a softwood lumber trade agreement should leave existing raw log export bans in place. There are a variety of provincial and federal laws and policies that restrict the export of raw logs. The raw log export restrictions were intended to encourage value-added industries by discouraging large-scale export of the raw resource. Given the underdeveloped nature of Canada's value added industry, these restrictions must be maintained or strengthened to close present loopholes that undermine their effectiveness.

Recommendation: The raw log export ban must be maintained and the loopholes closed.

C. Implement improved environmental measures

Any negotiated settlement on the softwood issue must address the subsidy currently in place through Canada's weak forest management laws, including a lack of adequate protection for wildlife habitat and poor enforcement of rules that require protective buffers along the shores of Canadian waterways. While some provinces require habitat protection in their endangered species legislation, not all provinces have such legislation. The proposed federal *Species At Risk Act* fails to include this protection, despite Canada's obligations under international law and previous commitments to do so. Transboundary endangered species, including migratory birds, are afforded extensive protections under U.S. law, but are not adequately protected under Canadian law when they cross the border. Provincial rules also allow forestry companies to log in ecologically sensitive areas along the banks of fish-bearing streams. In B.C., for example, the *Forest Practices Code* offers no legally required protections for small fish-bearing streams and direct tributaries to fish-bearing streams, which are supposed to be protected under the federal *Fisheries Act*.

Recommendation: Any negotiated settlement must guarantee that no roll-back of federal or provincial environmental standards will take place.

Recommendation: The federal government must enforce the *Fisheries Act* to ensure adequate riparian protections, or at least ensure that provincial rules meet the standards of this Act.

Recommendation: The federal government must amend its proposed *Species At Risk Act* to ensure the habitat of all species at risk is protected.

D. Recognize Aboriginal Title

Forestry reforms can be lasting solutions only if they are based on a legally and morally defensible foundation—recognition of Aboriginal Rights and Title. Failure to recognize this constitutionally enshrined right represents a further subsidy to the forest industry. Specifically, where government action infringes a nation's Aboriginal Title, there is a duty to consult in good faith, and in some cases consent is legally required. In addition, fair compensation will ordinarily be required when Aboriginal Title is infringed. *Delgamuuk v. British Columbia*, 3 S.C.R. 1010 (1997). Because of the constitutional requirements to address Aboriginal Rights and Title, any agreement that does not address these issues cannot be a long-term solution.

Recommendation: Aboriginal Title must be justly addressed as the underlying foundation for tenure and pricing reforms. These reforms must recognize the constitutionally mandated priority of aboriginal rights to forest resources after conservation concerns have been addressed, and revenue-sharing agreements that recognize the economic component of Aboriginal Title.

E. Next Steps

The United States and Canada are on the right path in discussing reforms of the pricing, tenure, and forest management. Only through such reforms can we achieve a durable solution to this dispute. However, once a framework for negotiation is settled upon, the hard work begins of ensuring that the framework will work in practice. For instance, on-the-ground forestry reforms must be monitored and verified. Such an implementation mechanism will need to include clear indicators of success to enable those monitoring implementation to evaluate the reform process. Furthermore, many of the reforms will take months and maybe years to complete. Cognizable interim reform steps, combined with reductions in the applicable duty or fee, should be actively considered. Of course, it is not acceptable to remove subsidies in one area, while granting new subsidies in another. Consequently, any implementation mechanism will need to establish safeguards against such backdoor subsidies , such as the weakening of environmental protections. Ultimately, *we believe serious consideration must be given to a bi-national commission to monitor reform, identify and analyze problem issues, and generally oversee implementation of a new softwood*

agreement. This bi-national commission, or any other implementation mechanism, should function in an open and transparent fashion, including citizen representatives from both sides of the border.

VII. Broader Trade Principles At Stake

As might be expected, the softwood lumber issue is beginning to rear its head in multiple ways at international trade fora. The best way to curtail the continued proliferation of these types of actions is, of course, an appropriate negotiated settlement.

Last summer, for instance, Canada initiated case at the World Trade Organization (WTO) challenging the U.S. Department of Commerce preliminary countervailing duty determinations concerning softwood lumber from Canada. Canada alleges that the US Department of Commerce's preliminary determinations are inconsistent with WTO rules. Canada's position is that government-granted extractive rights to natural resources, in this case granted to Canadian timber companies for logging, cannot constitute a subsidy under international trade rules. The U.S. Government responded that the countervailing duty determinations were preliminary and subject to change, and that Canada's request for a panel was premature. The opening Canadian brief could be due as early as March 2002, coincidentally the month that the final determination by Commerce is due.

In December 2001, further, Canfor Corporation of British Columbia filed a case against the United States for $250 million (US) in damages under Chapter 11 of NAFTA, which allows foreign corporations to sue national governments for democratic actions that merely reduce anticipated profits. Canfor alleges that the Commerce preliminary countervailing duty and anti-dumping determinations were made in an "arbitrary, discriminatory and capricious manner."

And just earlier this month, the North American Commission on Environmental Cooperation (CEC) announced that is formally seeking information for the preparation of a "factual record" as to whether Canada has failed to enforce the federal Fisheries Act in connection with logging practices. The petition was filed by a binational coalition of environmental groups. At least one other complaint at the CEC concerning the federal government of Canada's failure to enforce the Fisheries Act is also pending.

The common denominator for all these actions is Canada's resistance to change "business as usual" in its lumber sector. Were it not for U.S. trade and environmental law, we would not possess the opportunity for change that now exists. But our window is short and narrow. We are hopeful that this Committee and the Administration can come up with a negotiating agenda that balances the binational diplomatic relationship, the lumber trade, and the extraordinary natural values in an effective way. *The upcoming Senate vote on the President's request for "trade negotiating authority" (or "fast-track") is a unique opportunity to revisit the U.S. trade agenda, with the tangible lessons of this softwood lumber debate firmly in mind*.

VIII. Conclusion

Thank you for the opportunity to provide testimony on this important international topic. If done correctly, a new U.S.-Canada softwood lumber agreement could set productive and historic precedents. We look forward to working toward this shared goal of a strong and effective negotiated settlement. If we cannot make the trade and environment linkages with a U.S.-Canada Softwood Lumber Agreement, we are hard-pressed to see where such linkages can be made. This is a very important test for the Bush Administration and its nascent trade policy.

attachment 1

Victoria takes axe to FRBC, prepares to 'streamline' Forest Practices Code

Industry warm to changes to management system, now termed 'cost-burdensome'

By JIM BEATTY and GORDON HAMILTON

The Liberal government toppled two pillars of NDP forest policy in British Columbia on Wednesday by scrapping Forest Renewal B.C. and announcing it is rewriting the Forest Practices Code.

Forest Renewal B.C., which has spent more than $2.5 billion since its creation in 1994, was scrapped by the cabinet and will cease operations at the end of the fiscal year.

This year, FRBC will spend $2[illegible] million. About $134 million will continue to be spent on programs next year delivered mostly by industry in value-added manufacturing, research, environment and enhanced forestry.

Forest Minister Mike de Jong said FRBC was spending twice as much as it was taking in and simply was not sustainable.

The code is to be replaced within one year with a new results-based code that de Jong said will "streamline" on-the-ground forest management but provide stiffer penalties for companies that don't perform.

"We are under way," de Jong said in an interview with The Sun's editorial board "I hope to have something in bill form, or as a white paper available for distribution in the spring. We want people look at it."

He said the legislation is expected to be introduced next fall.

The industry welcomed the changes.

"We welcome the chance to move from a cost-burdensome process-driven code to one that is based solely on results," said Brian Zak, president of the Coast Forest & Lumber Association. "Industry will reap what it sows."

B.C. chief forester Larry Pedersen said sustainability will continue to be the goal of the provincial government.

"It is entirely possible to move towards a more results-based code without putting forest values at risk," Pedersen said after speaking at a forest-management conference.

"This isn't a free-for-all. There will still be standards of conduct

See GOAL IS D2

Goal is to trim delivery costs

VANCOUVER SUN OCT 25/01

From D1

for forest management. It's just a different way of attaining those standards."

However environmentalists expressed concerns." A results-based code is a dangerous direction to be heading," said Greenpeace's Catherine Stewart. "With a results-based code, once the damage is done, it can be permanent."

Matt Price, research associate with the Natural Resources Defence Council, said even though the government promises tougher penalties, it will not be willing to enforce them.

Price also said the defence council intends to bring the FRBC changes before the U.S. trade representative alleging the government is subsidizing forestry in B.C. by turning public funds over to the industry.

De Jong said the goal in making the changes is to reduce delivery costs.

The decision to scrap FRBC could mean the loss of up to 100 direct jobs at FRBC as well as hundreds across the province who rely on the Crown agency.

"There are going to be job losses," the minister said.

Specifically, most of the 100 people working for FRBC will be out of work, he said.

"We're making some tough decisions and in the short term, people are going to be presented with challenges," de Jong said after the open cabinet meeting.

"If we're going to get our fiscal house in order, revitalize the industry [and] have a management policy regime that makes sense we [must] make these decisions."

In his address to cabinet, de Jong said the Crown corporation wasted money, had a muddled mandate and was spending millions more than it was receiving in revenue.

"That's a recipe for immediate disaster," de Jong said. "This is going to have a dramatic effect on community-based programs."

However, the decision to scrap FRBC raised more questions than it answered.

John Betts, of the Western Silvicultural Contractors Association, said the government has not explained what it intends to do with FRBC's so-called rainy-day account, a contingency fund of $243 million at the beginning of the fiscal year.

The changes, he said, could be a chance to make things better "or a lot worse."

IWA-Canada president Dave Haggard, a former member of the FRBC board, said the Crown corporation was finally beginning to perform with the funds allocated to it.

"Who knows what is going to happen to this money? It has been taken out of the hands of a board that was representative of this province and put into the hands of God-knows-who and nobody knows what the procedure is going to be and if it is going to do the things that FRBC was set up to do."

Forest Renewal was established in 1994 by the former NDP government as a means to revitalize the industry. FRBC channeled money collected through stumpage and spent it on reforestation, job retraining, rebuilding damaged watersheds and adding value to lumber products.

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with Canadian Press

attachment 2

FACT SHEET

Efficient Wood Use in Residential Construction
A Practical Way to Save Wood, Money, and Forests

For building industry professionals, wood-efficient practices save dollars by reducing material costs. Many of these methods also reduce the time spent on construction, making it possible to complete more homes each year and increase profits.
Efficiency is also good for the environment. Global consumption of wood is expected to double over the next few decades while natural forest cover is expected to decline. (ft1) Natural forests give us clean air, pure water, irreplaceable scenic and recreational resources, and other benefits. The efficient practices and materials that we describe here typically reduce the wood used in building a home by 15 to 30 percent. They can therefore significantly help alleviate the growing pressure on natural forests. The information is based upon case studies and experiences of builders in the field. Most of the following data concerning cost savings comes from the National Association of Homebuilders Research Center.

The savings from efficiency measures are significant.

- **Trusses and panels** ("components") can save 250 hours on the job site and save more than $3,300 per house. They use 26 percent less wood than traditional framing techniques. They offer numerous other practical advantages, including longer floor and roof spans, lighter weight, consistent material quality, and vendor-supplied engineering.

- **Stressed-skin panels** can reduce the time to construct the building "envelope" by more than one-third. This time savings can improve a builder's productivity -- and profitability -- by 16 percent. A builder with one crew, building four houses per year, can increase annual profits by $5,900. Stressed-skin panels can save between 25 and 50 percent of the framing lumber used in a typical house.

- **Optimum value engineering** can reduce framing wood costs by $700 to $3,400 per house or as much as $1.20 per square foot. Builders who have used these practices have reduced the amount of wood used for framing by 11 to 19 percent.

- **Reducing wood waste** can save builders hundreds of dollars. Approximately one-sixth of the wood delivered to a construction site ends up in the landfill. Builders who have adopted construction site waste reduction programs have saved $300 to $800 on a single job.

- **Environmentally certified and reclaimed wood** can be substituted directly for standard dimensional lumber in nearly all residential building. Using environmentally certified and reclaimed lumber can, in some cases, save hundreds of dollars and also offers a "green" marketing advantage. Using certified hem-fir framing lumber, certified plywood, and reclaimed beams can save as much as $1,000 dollars in a single house.

- **Building more durable homes** can reduce long-term costs and improve safety. Deterioration of wood shortens the life of buildings, creating added costs for replacement

materials, disposal, and labor. Building to prevent deterioration can help to avoid these costs.

Builders who have combined wood-efficient approaches have profited even more. On one California project, using optimum value engineering, trusses, and certified wood together saved more than $4,800.

For more information, go to www.nrdc.org and look at the publication: "**Efficient Wood Use in Residential Construction: A Practical Guide to Saving Wood, Money, and Forests" (1998).**

September 2001, Natural Resources Defense Council.

September 2001

AFFORDABLE HOUSING DEPENDS ON GREEN BUILDING, NOT ON SOFTWOOD LUMBER TRADE

Why does the National Association of Homebuilders not embrace wood-use efficiency and save consumers as much as $4,800 per home?

The National Association of Homebuilders (NAHB) claims that tariffs on Canadian softwood lumber are the culprit in rising housing costs. If NAHB really cared about rising housing costs, they would focus on the dollars to be saved in green building, rather than encouraging harmful forestry practices that hurt the Canadian and U.S. environment.

- Wood-use efficiency means (1) reducing wood waste; (2) eliminating redundant or excess wood use; (3) using wood from non-depleting "environmentally certified" and "reclaimed" sources; and (4) enhancing the durability of homes.
- The savings from efficiency measures are significant. For example, *optimum value engineering* can reduce framing wood costs by **$700 to $3,400 per house** or as much as $1.20 per square foot. Builders who have used these practices have reduced the amount of wood used for framing by 11 to 19 percent. Builders who have combined wood-efficient approaches have profited even more. On one California project, using optimum value engineering, trusses, and certified wood together **saved more than $4,800.**
- Wood-use efficient home building is a "win-win" opportunity for building industry professionals and the environment. Building industry professionals can save money and time by building more efficiently. The environment wins, too, since saving wood in residential construction conserves both forests and energy.

Don't let the National Association of Homebuilders change the focus of the softwood lumber debate: if NAHB is sincere about affordable housing, they will work to lower housing costs through means that do not harm the environment.

Canadian softwood lumber is harvested at the expense of the environment. Until Canadian logging companies are required to protect the environment and realize the true costs of their logging activities, trade in Canadian softwood lumber will not be fair or free. Don't let NAHB set up roadblocks to a long-term solution in the U.S.-Canadian softwood lumber trade dispute. Urge NAHB to build U.S. homes in a way that both protects the environment and is affordable. Green building is the answer.

For more information contact: NRDC Forest Initiative's Susan Casey-Lefkowitz, tel: (202) 289-2366 or Sami Yassa, tel: (415) 777-0220. See, www.nrdc.org for NRDC publication "Efficient Wood Use in Residential Construction: A Practical Guide to Saving Wood, Money, and Forests" (1998).

RESPONSES TO QUESTIONS FROM SENATORS BAUCUS AND GRASSLEY

Question: In May 2001, the Natural Resources Defense Council, Defenders of Wildlife, the Northwest Ecosystem Alliance, and others filed a second countervailing duty petition with the Commerce Department. The petition alleged that Canada was providing subsidies to the British Columbia forest industry through a waiver of environmental restrictions under the Canadian Fisheries Act habitat provisions. Commerce declined to take up the investigation, leaving it up to the Canadian system. What is the status of this case?

Answer: As is noted in the question, during the course of Commerce's ongoing countervailing duty investigation with respect to illegal Canadian government subsidies to Canadian timber operations, both environmental groups and Canadian First Nations (i.e., Grand Council of the Cree and the Interior Alliance comprised

of five native nations) have made a series of submissions concerned with three principle points: 1) a request that British Columbia's waiver of environmental protections and disregard for First Nations' rights be treated as actionable subsidies and be included in the countervailing duty determination; 2) rebuttals of British Columbia's argument that it did not provide subsidies through its administrative stumpage and tenure system; and 3) documentation of significant and injurious undervaluing of logs by the government of British Columbia.

Regarding actionable trade subsidies, Commerce incorrectly decided not to initiate an investigation into the claim of a countervailable waiver of environmental protection subsidy in British Columbia. Although Commerce clearly possesses the legal authority to entertain the petition, that agency declined because it asserted that the failure to enforce an environmental statute is more properly addressed within the Canadian legal system. We respectfully disagree. We are not asking for an adjudication or enforcement of Canadian environmental laws. We are merely asking Commerce to administer U.S. trade laws, which require that Canadian lumber exports to our country be examined in the context of the competitive nature of such lumber products within the U.S. market. Our submissions unambiguously demonstrate that the Canadian federal government, along with various provincial governments, are providing a waiver of environmental restrictions through the deliberate and systematic failure to enforce Canada's Federal Fisheries Act, and specifically that act's habitat protection provisions. For instance, the federal Department of Fisheries in Canada has identified the need for greater stream buffers to be left around streams in order to meet the Federal Fisheries Act requirements. Yet, the Canadian federal government does nothing as logging continues in these crucial ecological buffers (buffers that, additionally, are mandatory right across the border in Washington state and elsewhere). This situation should be an actionable subsidy because the Canadian timber industry is specifically being relieved of an immediate cost it otherwise would be compelled by law to incure.

Commerce has reportedly examined all of our submissions in this matter, including our case brief of February 22, 2002 and our March 6, 2002 testimony before the International Trade Commission. The entire matter is now under active consideration by Commerce.

RESPONSES FROM WILLIAM J. SNAPE III TO QUESTIONS FROM SENATORS BAUCUS AND GRASSLEY

Question 1: In your testimony, you criticized Canadian forestry practices. But, as you know, many environmental groups in the United States also oppose U.S. forestry practices. In fact, a University of Auburn study found that U.S. states provide less forest protection than Canadian provinces. How can you reconcile these two situations? Are there timber practices in the United States softwood lumber industry that Defenders of Wildlife would also like to see changed, modified or curtailed? If so, would you please provide a summary list of those activities for the Committee? In doing so, please identify, by state, where those activities occur. Finally, please identify the activities, by state, that your organization is undertaking to change, modify, or curtail these activities. Please be specific. If Defenders of Wildlife is not concerned with environmental practices of the softwood lumber industry in the United States, please explain why you are not.

Answer: While we fully acknowledge that timber practices in the U.S. are far from perfect, our research has shown that they are in fact far better overall than those in the Canada. Our organizations are working to improve forestry practices in the U.S. at the federal, state and local levels. Pointing out that Canadian practices are far worse than American practices, and in need of substantial reform, in no way implies that U.S. forest practices are perfect in every respect.

For instance, our coalition has been working for nearly 10 years to reform, Washington state forestry practices to make them more ecologically sustainable and return commensurate value to citizens through various forms of advocacy. Reform proposals include stronger riparian protection, longer rotations, wildlife habitat protections, and more constraints on clearcuts. The Northwest Ecosystem Alliance also raised $16 million in one year to protect 25,000 acres of roadless areas in the Loomis state forest. In Oregon, Defenders and a broad array of interests have completed a study entitled *Oregon's Living Landscape*, which *inter alia* identifies that state's most important forest habitat for biodiversity conservation and strategies, as well as a plan for allowing natural resources to be appropriately extracted. A copy of this impressive report is enclosed

The Auburn study authored by Ben Cashore compares practices on private timberlands in the U.S. southeast to provincial practices in British Columbia and

to a lesser extent other provinces. Not only does Mr. Cashore's analysis possess some flaws, which we will note, but it also compares apples and oranges. There are at least three major reasons why comparing the U.S. southeast to the Pacific northwest is rationally suspect. First, the ecology of the southeast, where trees grow relatively fast, is radically different than the northwest, where heavy disturbances to native forests frequently lead to permanent damage. Second, unlike the southern United States (whether on private or public land), Canada possesses no federal (or provincial) environmental regime to monitor Canadian timber practices; thus, Canadian industry does not need to worry about an enforceable Clean Water Act, Endangered Species Act, or National Environmental Policy Act (not to mention state law), all of which are explicitly applicable to the southern United States. And, third, the United States Congress has shown leadership in promoting forest conservation on private lands through various incentive programs, which all interest groups agree should continue to expand to appropriate targets; it is not clear whether Canada or its provinces have similarly effective programs. The only federal constraint or program on provincial Camber management is Canada's Fisheries Act, the non-enforcement of which has been well documented. *See, e.g.*, Letter from Donna Petrachenko, Fisheries and Oceans Canada, to Lee Doney, Deputy Minister, Ministry of Forests (February 28, 2000); Sierra Legal Defense Fund, *Streamside Protection Under The Code: The Destruction Continues* (February 1997).

Mr. Cashore's report compares the management of wild, old growth Canadian public forests, much of which have never been logged before, with timber plantations that have been managed as such for decades in totally different geographical/geophysical regions. These Canadian forests are crucial habitat for hundreds of internationally shared endangered, threatened and imperilled species, as well as critical [drinking] watersheds for hundreds of thousands of Canadian and American citizens. The landscape of the Pacific Northwest, in particular, is characterized by highly erodible soils and very steep terrain. Most of British Columbia is salmon habitat, all runs of which are commercially valuable and ecologically critical as food sources for a multitude of species and marine nitrogen sources for forests. Hundreds of these runs are either extinct or vulnerable to extinction. Moreover, most of the provincial forests are constrained in their productivity by harsh climatic regimes and thin soils. In the vast fire-driven pine forests of the interior, it may take 150 years for a tree to achieve a diameter of 8 inches.

If the riparian standards of B.C. are so good as Mr. Cashore says, why has the B.C. Ministry of Environment, Lands and Parks (MELP) identified on its web site logging related impacts as the number one source of salmon spawning habitat degradation and the number one risk factor—twice the impact of the next biggest competitor (agriculture)—to riparian dependent species? The riparian buffers for S–1 to S–3 streams in U.S. federal forests west of the Cascade crest are two to five times wider than those in B.C. coastal forests. For S–4 streams, which are smaller fish bearing streams, B.C. requires no buffers, compared to 300 feet on U.S. coastal federal forests. These U.S. stream buffers were determined by one of the most thorough scientific processes and assessments ever undertaken, that of the Forest Ecosystem Management Assessment Team, the basis for the U.S.'s historic Northwest Forest Plan. East of the crest, the so-called east side screens provide streamside protection that is also far superior to those in B.C.'s interior. *Compare* U.S. Interior Columbia Basin Ecosystem Management Plan *with* B.C. Forest Practices Code. In short, no one seriously disputes that provincial forestry laws are not adequately protecting many waterways in Canada, negatively impacting a wide array of wildlife and their ecosystems. *See, e.g.*, Dovetail Consulting, *An Evaluation of DFO Involvement in Land and Resource Management Plannin in British Columbia* (Canada Department of Fisheries and Oceans, 1999).

In recent Sierra Legal Defense Fund audits in B.C., companies misclassified 40% of the streams included in their logging plans, 4 out of 5 of which were fish bearing. Legislated "minimum" widths for no logging buffers were being implemented as maximums" with only 1 % of the streams having buffers larger than minimum. There are also no required riparian buffers on private lands in B.C. Conservative estimates place loss of salmon habitat at between 162,000 and 324,000 square meters yearly due only to substandard stream crossings on forest roads despite the "no net loss" of salmon habitat mandates of the Pacific Salmon Treaty and the Canadian federal Fisheries Act. See D.J. Harper and J.T. Quigley, *No Net Loss of Fish Habitat: An Audit of Forest Road Crossings of Fish Hearing Streams in British Columbia* (Fisheries and Oceans Canada, 2000).

Most importantly, B.C. is logging its forests at the rate of 70 million cubic meters yearly, 20 to 40% more than is sustainable from a commodity production standpoint, by the governments own admission in its timber supply review. They call this the "old growth bonus." Furthermore what little oversight there was from the MOF is

being stripped away as the new government slashes agency budgets by more than 50% in some cases and moves toward a so-called Results Based Forest Practices Code. Finally, Mr. Cashore reports that clear-cut size is tightly regulated in the provinces. This is simply inaccurate. In fact very broad discretion is given to district managers in this and other forest management decisions, especially in B.C.. In Ontario, for example, the government recently proposed raising the legal size of clear cuts to 10,000 acres.

Question 2: In your testimony, you stated that an analysis by Defenders of Wildlife shows that any price increase associated with tariffs, quotas, or other trade restrictions on soft-wood lumber imports from Canada would have a negligible impact on U.S. consumers. Please identify the data that Defenders utilized to come to that conclusion? Have you undertaken a similar analysis of the impact of U.S. environmental laws or regulations associated with timber harvesting and their lack of enforcement on U.S. consumers? If not, explain why Defenders has not undertaken a similar study in the United States. Does Defenders of Wildlife regularly conduct cost benefit analysis of foreign or U.S. environmental regulations on U.S. consumers? If you did not conduct an independent study, please identify the source of the data which you used in your testimony that forms the basis of your conclusion that any price increase associated with tariffs, quotas, or other trade restrictions on softwood lumber imports from Canada would have a negligible impact on U.S. consumers and what steps Defenders took to independently verify that data and the independent analysis undertaken to support the conclusion in your testimony. If you did not independently verify or analyze the data that forms the basis of your conclusion, please state whether it is customary practice for Defenders to base conclusions upon data which was not independently verified when testifying before the U.S. Senate. Is Defenders of Wildlife going to undertake an analysis of the impact of U.S. environmental laws or regulations and their lack of enforcement in timber harvesting on U.S. consumers? If not, why not? If so, when will the study be released?

Answer: All objective analysis done on the subject indicates that correcting the absence of a functioning market in Canadian wood products would **not** have a discernable impact on U.S. consumers who often purchase Canadian wood products. For additional charts, graphs and figures, I refer you to the attachments accompanying the testimony of Mr. Rusty Wood, Chairman of the Coalition for Fair Lumber Imports, on February 13, 2002. *See also www.fairlumbercoalition.org*. The information cited by us, infra, is generally accepted by economic professionals, and was independently analyzed and studied by Defenders' staff before dissemination to the U.S. Senate.

Using data gathered from both the U.S. Census Bureau and the National Association of Home Builders (NAHB) (*www.randomlengths.com*). lumber price as part of the overall cost of a new home has actually decreased from 3.9% in 1996 to 2.4% in 2001. Indeed, even with the tariffs and quotas required by the 1996 U.S.Canada Softwood Lumber Agreement, average lumber costs for a new home were lower in 2001 ($4,992) than for every year since 1992 ($4,592). During the year 2000, for instance, lumber prices dropped from $385 per thousand board feet in January to $279 per thousand board feet in September, as home prices continued to climb. *See* New America Foundation, *Stopping the Giveaway of Canada's Establishing True Free Trade in Softwood Lumber* (October 2000). Indeed, throughout the five year life of the 1996 SWLA, Canada regularly exported and sold . somewhat more than the 14.7 billion board feet of wood that was allowed to enter the U.S. duty free, thus indicating there are consumers quite willing to pay prices closer to the true market price of such wood. AS NAHB economist Michael Carliner has stated, "I think a duty of 20 percent or less would not produce a jump on (lumber) prices." Reuters, August 10, 2001. Amortized over a 30-year mortgage, any duty levied to offset unfair trade amounts to very little per month, and pales in comparison to even small increase in interest rates. In addition, well-accepted wood efficiency practices can reduce lumber costs for a new home by as much as $4800 per house, easily offsetting whatever minimal costs might theoretically be incurred by honest market accounting of Canadian lumber exports. *See www.nrdc.org* for publication *Efficient Wood Use in Residential Construction: A Practical Guide to Saving, Wo Money and Forests* (1998).

We have not yet undertaken a similar analysis on the impact of U.S. environmental and/or forestry laws upon U.S. consumers for several reasons. First, unlike in Canada, the U.S. sells its lumber on a truly open market. Second, given the open markets and ready availability of wood in our country, there has been no indication that U.S. environmental and/or forestry laws have any discernable impact on U.S. consumers. Third, Americans greatly value our country's fantastic array of forest habitats and wildlife, and are generally willing to incur relatively modest increases in consumer prices for a healthy environment. We will continue to rigorously exam-

ine these issues, and will inform the Committee if we decide to undergo a formal study.

Defenders regularly engages in various cost-benefit analyses of all sorts of environmental regulations, though such analyses vary greatly depending upon both. the action at issue and the environmental value at stake. Frequently, such analyses are not made formal, but are incorporated into our overall response (i.e., legal, political, social, scientific, economic) to governmental or private actions that affect the environment. One extremely stubbom challenge is that there is not yet any accepted methodology for discounting the future value of environmental events such as species extinctions and irreversible habitat loss. I predict that this area of ecological economics will continue to garner increased attention, and Defenders looks forward to working with this Committee on these important issues. In some ways, the entire trade and environment debate is centered upon the accurate environmental accounting of goods and services traded globally—usually with foreign or international environmental regulatory oversight that pales in comparison to our mature environmental protection regime in the United States—A new and effective binational softwood lumber agreement is a historic opportunity to promote trade in an economically and ecologically sustainable manner.

Prepared Statement of Thomas J. Usher

I. INTRODUCTION

Mr. Chairman, on behalf of the U.S. steel industry, I thank you for the opportunity to present testimony before your Committee today. You and your colleagues have a daunting task before you. The domestic steel industry is at a crossroads. Both the President and this Committee initiated an investigation under Section 201 of the trade laws last year and the International Trade Commission ("ITC") voted unanimously that the domestic steel industry has been seriously injured by foreign imports. The President must now make his final decision by March 6 on the remedy that is to be provided.

A tariff of at or near 40% must be imposed for four years in order to allow the industry to recover from the serious injury caused by imports and to make the necessary adjustments to better withstand future low-priced import surges. So-called "tariff rate quotas," will provide no benefits and might well be worse than nothing at all as they often have the perverse effect of encouraging imports as foreign producers rush for the border to beat the cap, knowing that their effective duty rate will be lowered by an duty-free imports they can get in under the cap.

Contrary to the assertion of our opponents, this tariff remedy would not result in significant increases in the prices of everyday products that use steel. Foreign producers and importers have indicated that duties of up to 20–25 percent will simply be absorbed without affecting imports. Indeed, actual written offers have been received memorializing the intent of foreign producers to absorb Section 201 duties. Furthermore, increases in steel prices have minimal effect on the price of end-products since steel represents only a small share of the total cost of most products that contain steel. And lastly, since 1995 the price of finished goods has risen 10 percent while the cost of hot-rolled steel, for example, has *declined* 27 percent. Our proposed tariff rate increase will only result in modest and reasonable price increases.

I cannot overemphasize the importance of this moment—the health of the American steel industry and the jobs of thousands of steelworkers are at stake.

II. ORIGIN AND CAUSE OF THE STEEL CRISIS

This steel crisis began in 1998 with a sustained surge of foreign steel into the U.S. market. Imports remained at extraordinarily high levels in 1999 and 2000, depressing prices and preventing the domestic industry's recovery. These imports have continued to seriously injure the domestic steel industry and to severely diminish profitability. Current market prices are at a twenty-year low (see Chart 1). Since the import deluge began in 1998, 43,600 steelworkers have lost their jobs and 31 firms have been forced into bankruptcy. These 31 firms include the nation's second and third largest integrated steel producers—Bethlehem Steel and LTV Steel Company. (See Chart 2.) While Bethlehem is still operating, LTV is in the process of auctioning off its assets.

These problems have occurred despite the fact that our industry has taken dramatic steps to reduce our own capacity and to modernize operations. Since 1980, domestic steel producers have invested over $60 billion in steel plant modernization, closed numerous inefficient mills, reduced capacity by over 23 million tons and eliminated hundreds of thousands of jobs. As a result, the American industry is effi-

cient, clean and world class competitive. It now takes fewer than four man-hours per ton steel produced (see Chart 3).

Our industry is facing these injurious imports for one reason: foreign steelmaking overcapacity. Foreign steel manufacturers are producing steel in such quantities that it is impossible for them to sell all of the steel they produce unless they export their products to the United States at artificially deflated prices. To illustrate, in 1999, foreign excess steelmaking capacity was more than two times as great as the total of annual U.S. consumption (see Chart 4).

Subsidies

Overcapacity has several root causes. One of these is the massive government subsidies provided to foreign steel manufacturers. These subsidies have taken the form of debt assumption, tax breaks and equity infusions and have been provided by governments in many countries, including Germany, Spain, Italy, Ireland, China, India and Russia. The Department of Commerce has found that more than one-third of the steel production of the largest 76 foreign steel companies has benefited from government subsidies (see Chart 5). In Europe, European Union ("EU") member country governments provide subsidies to steelmakers in significant amounts. For example, during the period 1995–2001, the EU Commission approved more than $2 billion in government aid to Spanish steel producers. In Asia, Korea continues to provide large subsidies to its steel industry, even after an attempt to create a steel company with $6 billion in government loans failed miserably. (See Chart 6 for a partial inventory of foreign steel subsidies.)

Market access barriers

In addition, many foreign countries protect their domestic steel industries through formal and informal market access barriers, including in-country distribution barriers to foreign steel and international market-sharing agreements by foreign steel companies.

For example, the EU imposes quotas and pricing guidelines on steel imports from selected countries, and in Japan a variety of import barriers are in place to prevent foreign steel from penetrating the market. In Brazil, import tariffs, licensing schemes and "captive distribution channels" protect Brazilian steelmakers from foreign competition. These barriers allow foreign steel producers a protected home market in which they can sell at high prices while dumping their excess production in the open U.S. market.

III. THE UNITED STATES NEEDS A DOMESTIC STEEL INDUSTRY

The U.S. steel industry is a key element of our nation and our economy. The domestic steel industry supplies many essential industries with the basic materials to manufacture their products. The close collaborative Research & Development and near-at-hand supply that domestic steel manufacturers can provide is essential to downstream producers—not only of autos, but consumer durables and food containers.

The domestic industry is also a cornerstone of America's national defense and infrastructure. On August 26, 2001 President Bush spoke to the important role the domestic steel industry plays in our national security. Steel is an indispensable component of many types of weapons systems and the vehicles that carry those weapons, including ships, tanks, and a variety of other vehicles. Further, our nation's transportation system is dependent on steel. Oil and gas pipelines, electric power generation and transmission systems, waterway locks and dams, factory buildings and other steel and steel reinforced structures that make up our economic and industrial infrastructure all need steel.

Finally, it is important to note that the domestic steel industry is a customer to many other industries for goods and services, including the trucking, rail, shipping and electronics industries. The steel industry's use of goods and services in its production process generates considerable economic activity at the intermediate levels. This is the so-called multiplier effect. The U.S. manufacturing sector, including the steel industry, has one of the highest multiplier effects: for every $1 of a manufactured product sold to an end-user, an additional $1.19 of intermediate activity is generated; the multiplier effect for the service sector is a mere 77 cents for every $1 sale. The steel-generated demand for key raw materials such as coal, iron ore and limestone, provides jobs in many regions of this country where jobs might otherwise be very scarce. Many businesses in communities across the nation rely on the spending generated by the steelworkers' paychecks and the steel industry is a major contributor to the U.S. tax base, including the tax base of state and local governments.

All of this is important background information, but is not the reason that I am before you today. I am here to ask for your help. I believe that the Administration and Congress have a unique opportunity to help our industry survive the import crisis and make it stronger through consolidation. Sadly, if government assistance is not forthcoming, our industry's troubles will continue and only get worse.

IV. SECTION 201 INVESTIGATION AND RECOMMENDATIONS

The Administration has recognized the severe economic crisis facing the industry. On June 5, 2001, President Bush announced an initiative to address the endemic problems plaguing the global steel market and the U.S. industry. This program contains three key elements: (1) initiate a Section 201 investigation, (2) begin negotiations with trading partners in order to eliminate inefficient excess steelmaking capacity; and (3) enter into negotiations on the rules governing steel trade, and eliminate those underlying market distorting subsidies that have led to the current situation. The Finance Committee also initiated a Section 201 investigation that was merged by the ITC with the investigation brought by the Administration. The U.S. industry strongly supports these efforts to address the steel import crisis.

On October 22, 2001 the ITC determined that the domestic steel industry was being injured by imports of foreign produced steel. On December 7, 2001, the ITC outlined remedy recommendations that included import duties ranging from 20% to 40% and quotas. A majority of the Commissioners recommended a strong tariff-based remedy for most steel products, with two of the Commissioners recommending a 40% tariff rate.

The purpose of my testimony is to outline the industry's proposal for ending this crisis. Specifically we are asking that the President fulfill his pledge by imposing effective Section 201 remedies and by providing appropriate assistance in addressing legacy costs. We believe that an adequate remedy must include these two elements.

First, a strong tariff-based remedy, as provided for in the recommendations of the ITC, is essential in order to return steel prices to their normal pre-crisis levels and to allow American steel companies to make the necessary investments to remain viable and competitive in the future.

Second, our government must provide assistance to the industry that would facilitate the consolidation process. This assistance is most needed in the area of legacy costs that our companies must face.

V. THE DOMESTIC INDUSTRY SUPPORTS A STRONG TARIFF-BASED REMEDY

Tariff relief

A strong Section 201 tariff-based remedy of at least 40% is necessary in order to return steel prices to normal and sustainable levels and to provide our steel companies the time to make necessary adjustments to enhance long-term competitiveness. This tariff relief must be substantial enough in order to ensure that prices return to market-based levels.

A 40% tariff remedy is necessary because it is the minimum tariff rate that would be sufficient to allow the American steel industry to return to reasonable and fair profitability and importantly, ensure that low priced imports do not continue to harm the domestic industry. In fact, the imposition of a 40% tariff would still leave prices below their average levels over the past 20 years (see Chart 7). A lesser tariff would not be effective as foreign producers and importers of foreign steel expect that duties of up to 20% would simply be absorbed by foreign producers, and would have little or no effect on imports. In order for this tariff to have any impact, it must be substantial.

Relief based on quantitative restrictions would not be effective

A number of foreign producers and importing interests have aggressively advocated the use of tariff rate quotas ("TRQs") as a remedy in the Section 201 investigation. Quantitative restrictions like TRQs—which apply an additional duty only after a certain volume of imports has come in at low or zero duty rates—are known to be far less efficient and far more trade distortive than simple tariff-based measures. The domestic industry does not support remedy proposals that include quotas or tariff-rate quotas as they would offer no real relief to the domestic industry—and could very well do more harm than good.

TRQs will provide inadequate price relief as importers can average prices of steel entered with and without duty. By contrast to a tariff, which raises prices for all steel imports, a tariff-rate quota would allow a significant amount of steel to enter duty-free. There would be no price relief for these in-quota imports, which would continue to depress domestic steel prices.

TRQs would precipitate a race to the U.S. market, as each importer seeks to bring in as much material as possible before the tariff-rate quota ceiling is reached. This is exactly what happened in another Section 201 cases involving steel wire rod products, causing substantial additional injury to the domestic producers (see Chart 8).

TRQs that permit a large volume of imports to enter duty-free deny the U.S. Treasury revenue for adjustment programs. A substantial tariff would produce significant revenue for the U.S. Treasury that could be allocated to assist with the adjustment and restructuring of the domestic industry, including providing for legacy cost assistance to displaced workers and retirees. A TRQ, by contrast, would permit all or at least the vast majority of imports to enter the U.S. market duty-free. Thus, there would be little or no tariff revenue to assist in adjustment and restructuring.

Finally, TRQs will promote customs fraud and require bureaucracy to administer country- and product-specific allocations. A complex TRQ remedy would be subject to greater customs fraud than would a simple tariff system, as importers would seek to misclassify steel to categories where there is still duty-free quota available. This is not a problem with a simple, across-the-board tariff. A TRQ remedy also would be extremely difficult to administer. To reduce the likelihood that very low-priced imports from a few countries would flood in and fill the quota, separate TRQs would have to be established on a country—and a detailed product-specific basis. To administer these many separate TRQs, and to address the repeated classification issues that would arise, a substantial administrative bureaucracy would have to be established to administer the TRQ remedy.

Four-year implementation period

The proposed 40% tariff remedy must be imposed for four years. This time period would allow the domestic steel industry the time to make the necessary adjustments to import competition, and would allow the President to achieve his objective of addressing and repairing the global steel trading system.

This remedy would give the President more leverage in his talks with foreign countries. The imposition of tariffs for a four-year period would demonstrate to foreign producers and governments that the United States is serious about addressing the problem of foreign excess steelmaking capacity. If further abuse of the U.S. market is disallowed, foreign steel producers will be forced to make the difficult decisions to take the steps already taken by the American industry—the modernizing of facilities, the elimination of inefficient capacity, the scaling back of production—to bring about the return of stability and balance to the global steel market.

Comprehensive relief is needed

Relief on slab is critical. Preferential treatment for slab imports would force domestic steel producers to close their hot-ends, creating an industry of steel processors, and an abandonment of steelmaking in the United States. Slab would be the only remaining outlet for the enormous world excess supply of low-priced steel. Given that slab comprises the majority of the value of the finished product, is the locus of much of the innovation, and is really what it means to make steel, it would be a catastrophe to leave slab effectively uncovered. The only fair remedy is to put everyone on an even footing—including slab re-rollers, hot band re-rollers, integrated mills, etc.—and insure that any imported feedstock is subject to a consistent remedy.

Current antidumping and countervailing duty orders must remain in effect

Those who oppose these remedies assert that if any Section 201 relief is granted, current antidumping and countervailing duty orders must be eliminated. The Section 201 relief that we are proposing is by law temporary relief that is not designed to address the systemic problems that have precipitated this crisis. In that regard, these existing antidumping and countervailing duty orders remain necessary in order to offset the effects of systemic dumping and foreign government subsidies. Setting aside these orders would perversely reward foreign producers that engage in unfair trade in steel products.

Price increases for steel users would be reasonable and modest

It is important to dispel a myth that has been perpetuated by foreign producers. They claim that any tariff increase would harm consumers of steel-related products. Steel, however, constitutes only a small share of the total cost of most products that contain steel. For a typical family car, the increase caused by the imposition of a 40 percent tariff would be about $60. For a refrigerator, the increase would be about $3. In fact, as measured by the Department of Commerce, steel's share of total costs is minimal for many industries—it is a mere 0.8% for construction, 3.4% for motor vehicles and parts; 5.4% for other transport equipment; 6.8% for household appliances; 4.6% for electrical industrial apparatus; and for the highest of Commerce's

categories, fabricated metal products, steel's share of total costs is only 15.9% (see Chart 9).

Those who oppose this remedy assert that relief under Section 201 will not return the domestic industry to a state of profitability and that relief would only raise consumer prices to prohibitive levels. This argument is clearly wrong, and misstates the available facts. Steel's share of total costs for most products is relatively small, and so any tariff increase will have a minimal, if any, effect on consumers.

An effective remedy is responsible economic policy

The remedy that we are proposing makes sense from an economic standpoint. The U.S. steel industry is a catalyst for economic activity throughout the economy and provides goods and services that are needed in a host of other industries. By preserving the domestic steel industry, we ensure that industries that use steel have a predictable source of supply of quality products, and are not held captive to the whims of foreign steel producers. Importantly, our proposal ensures the return of real competition in the market for steel products restoring market forces worldwide to normal and sustainable levels. Foreign steel industries and manufacturers would be forced to make the changes necessary to bring their production in line with market realities.

VI. OBSTACLES TO CONSOLIDATION MUST BE ADDRESSED

The Administration has asked the domestic industry to look for means to restructure and rationalize domestic production. The industry, however, will not be able to take the necessary steps to achieve these goals without government assistance in solving the legacy problem—the extraordinary liabilities for health care and pension costs.

These liabilities are in part the result of U.S. government policies that go back 50 years and included government intervention in health and pension matters. This intervention was unique among domestic industries and resulted in legacy costs such as the requirement that domestic steel companies finance 100% of employee health plans and provide for substantial financial benefits in employee pension plans. While we are not here today to denigrate past U.S. government policies, we do believe that the government has a role in addressing these problems.

It is instructive to note that our competitors in other countries generally do not face the same level and types of employee and retiree health-care costs. In Canada, Japan, the UK, France, Germany, Russia and China, health care is government funded to varying degrees. For instance, in Canada the national health insurance system provides universal access, comprehensive coverage and public funding for hospital and physician services. In Japan, the government subsidizes company-sponsored health plans with significant contributions.

It is important to recognize that while these legacy costs are not unique to U.S. domestic steel producers, our foreign competitors have benefited from generous government assistance that effectively has rendered these liabilities insignificant. In Argentina, France, Germany, Britain, Belgium, Spain, Italy, Mexico, Brazil, South Korea, India and Thailand, the government has provided significant financial assistance to cover legacy costs to these industries. For example, in Argentina, Belgium, Italy and Spain, retiree and worker-benefit costs have historically been underwritten by the government.

I also want to respond to the allegation that U.S. government assistance with legacy costs would set a bad precedent and would encourage other domestic industries to ask for federal assistance. This is a false assumption. The problems facing the domestic steel industry, and the reason for the need for government assistance, are totally unique. Our industry's current problems result from a unparalleled history of unfair trade, massive foreign subsidization and excess capacity, and government intervention, particularly in regards to labor relations, as I have previously explained. Our industry currently faces an estimated 250 million metric tons of excess steelmaking capacity around the world. It is difficult to imagine any other industry facing similar circumstances.

We are anxious to work with Congress and the Administration to develop a plan to address this obstacle to necessary industry restructuring.

VII. CONCLUSION

The very future of our domestic steel industry is at stake. Strong relief under Section 201 coupled with assistance in solving the legacy cost problem is essential if the industry is to recover. Strong relief is equally critical to create incentives for international capacity reduction, restoring balance to the global steel market.

Our government has a unique opportunity to ensure the continued viability of a domestic industry critical to national security and represents a basic element of U.S. manufacturing. I hope that we do not miss this opportunity.

RESPONSES TO QUESTIONS FROM SENATOR GRASSLEY

Question 1: You talked about the need for the U.S. government to help offset some of the legacy costs for the steel industry.

- Do you have any other examples where the U.S. government has undertaken such an obligation on behalf of private companies?
- Does it seem fair for the government to pick up legacy costs for the steel industry while other workers, most notably the employees of Enron, might also lose their promised benefits?

Answer: It is important to view the legacy cost issue in the context of the recent findings by the U.S. International Trade Commission and the President that the domestic steel industry has been seriously injured by recent surges of imports and the decision by the President to implement safeguard tariffs. At the same time, as Treasury Secretary O'Neil and most observers have recognized, consolidation and capacity reductions are needed to achieve a healthy, sustainable domestic steel industry. In the case of the steel industry, legacy costs are the single largest barrier to such rationalization.

Although the legacy cost issue is of particular significance to the steel industry, there have been a number of occasions in the past when the federal government has determined that the public interest required industry-specific financial assistance. In the mid-1970's, for example, the federal government provided $7 billion to help facilitate a major restructuring and rationalization of the freight rail industry in the Northwest and Midwest regions of the country, which faced the loss of essential rail services as a result of the insolvency of seven major railroads. In 1989, Congress adopted legislation in response to the savings and loan crisis that has provided more than $150 billion in federal funding to this industry. Other federal programs have provided various forms of assistance to the automobile industry (Chrysler), the agricultural industry, and the airline industry.

In each case, Congress and the President made a judgment that there was valid national interest in providing some form of assistance. I believe that an important public purpose—a stronger, more competitive steel industry—would be served by a coordinated industry-labor-government response to the steel legacy problem.

With respect to the Enron situation, although I am, like all Americans, concerned about the impact on its employees, I am not in a position to comment on whether a government role is appropriate.

Question 2: Mr. Usher, there has been quite a lot of criticism about a potential deal in which the federal government would cover the legacy costs of the major U.S. steel companies. Critics say that this would tilt the domestic playing field by wiping out the obligations of large U.S. steel producers, while competitors of these companies that have met their obligations to their workers would get nothing.

- How do you respond to this point?
- Would federal assistance for legacy costs unfairly tilt the playing field?

Answer: Thirty-one companies, representing over one third of the industry have declared bankruptcy during the current steel crisis. Some of these companies are closing their doors forever. There are approximately 600,000 elderly Americans in jeopardy of losing retiree health benefits as a result of the steel crisis. When their former employers go bankrupt, the retirees lose every health benefit they were promised. This is the human dimension of the problem.

The steel industry itself faces a related problem. There are five or six retirees for every active worker. No other industry has this problem and it is an unsustainable situation.

Crafting a fair and affordable solution to the problem of retiree legacy costs is not easy. We are working with all elements of the steel industry, including those whose accrued health and pension obligations are not as great as ours, to develop a means to address this serious legacy cost problem. On January 15, 2002, Dan DiMicco, Vice Chairman and CEO of Nucor Corporation, and I agreed that there is a role for the government in helping to remove this principal barrier to consolidation in the domestic steel industry.

Question 3: Mr. Usher, as you know, the federal government provided extensive financial help to the Chrysler Corporation, and many criticized that action at the time. As a condition for providing financial aid to Chrysler, the federal government was granted special shares of Chrysler stock, on which it earned a nice profit when Chrysler turned around.

- Should the federal government get a similar stake in steel companies now if it provides financial aid to ailing steel companies?

Answer: We are at the beginning of a process of consultation that we hope will lead to solving the challenge of steel legacy costs. Developing a solution will require the cooperation of all who are affected—the industry, the unions and the government. Although the resources of the steel industry are limited, as part of this process, I am prepared to discuss any serious proposals that might contribute to reaching a favorable solution.

PREPARED STATEMENT OF W.J. "RUSTY" WOOD

Good Morning. My name is Rusty Wood and I am Chairman of the Coalition for Fair Lumber Imports. The Coalition represents hundreds of lumber companies from throughout the South, Northwest, Inland and Northeast. I am also the owner and operator of Tolleson Lumber Company—a third generation family-owned sawmill out of Perry, Georgia. I sincerely appreciate the opportunity to speak on behalf of the U.S. industry before this panel regarding our long-standing trade dispute over subsidized and dumped Canadian lumber.

Over the past few years, and still today, subsidized and dumped imports of lumber from Canada impair and threaten the viability of the U.S. lumber industry, the livelihood of hundreds of thousands of workers and the investments of millions of landowners. According to one independent source, in the eight months prior to filing our cases, we saw about 158 mill closures in the United States, 27 of which were permanent closures. During that time, the same source reported only 2 Canadian permanent closures (even though Canada controls over 40% of North American production). Unfortunately, that report includes only a partial list of closings. Scores of additional mills have closed across the country. In 2000, U.S. lumber production dropped significantly (almost 700 MMBF of lost production), while subsidized Canadian production and imports continued to increase.

The softwood lumber industry is reeling under record imports dumped into our market fueled by subsidies that Canadian governments give to our competitors. The problem is simple: The Canadian governments own 94% of the timber and they give it to their mills for a fraction of market value, as the attached charts shows. If Canada is allowed to continue the unfair practice of giving away its timber while we pay the market price for ours, many more family businesses like mine will fail, many more tens of thousands of our employees will be out of work, and many woodland owners won't be able to afford the cost of reforestation and forest management.

If prices for lumber continue to drop manufacturers will shut down and the demand for timber will drastically decline. But we can't expect low timber fees to save us. U.S. timberland owners operate in a market, and if returns don't justify the investment, timberlands will be sold off to developers creating further urban sprawl. The Southern Forest Resource Assessment draft report issued November 2001 by the U.S. Forest Service supports this view. We simply cannot afford to lose this valuable resource base and lose an important segment of the forest products industry.

Unfortunately, the Canadian timber pricing subsidies are only part of the problem. The provincial governments also have tenure systems and mandates that distort the lumber market. The existing tenure system locks up the timber and prevents competition on the vast majority of timber sales, benefiting selected Canadian companies.

Canada's provincial governments have a complex scheme of timber management that artificially encourages production (especially in weak markets) and fixes timber prices at less than one-fourth of its true market value. Mills must harvest timber regardless of market conditions. Mills cannot close without government approval. These, too, would have to be remedied to have fully open and competitive markets.

The Canadian system is so perverse from a free-market perspective that one industry analyst (from the Canadian financial firm Goepel McDermid Securities) came to the following conclusion. I quote:

> "In short, the Canadian forest industry is run in the same way as the controlled economies of the former Eastern Bloc. Bureaucrats and politicians allocate the resource and determine its value. It took 50 years for the East Bloc economy to collapse because of misallocation and mis-pricing of resources and we have no doubt the Canadian timber tenure system will collapse for the same reasons."

In the meantime, that subsidized system wreaks havoc on fair trading U.S. mills and workers.

The market-distorting policies in Canada encourage artificially inflated timber harvests, overproduction of lumber, and lead to uneconomic decisions by Canadian

lumber producers. As one Canadian observer noted: "Canadian provinces continue to sell timber, no matter how low the price falls, to maintain employment and public revenues." Canadian lumber companies are forced to pump lumber into the U.S. market at below the cost of production—a practice that is condemned as anti-competitive and actionable under domestic and international trade laws. Growing Canadian production over the past 25 years, as our second chart shows, tells the story.

The web of Canadian policies that results in subsidized and dumped imports is basically the product of the Canadian government's policy to artificially protect its lumber industry and its workers, which seems fine on its face. But when artificially maintaining employment in the Canadian industry comes at the expense of otherwise competitive U.S. mills and workers, the U.S. government most certainly has not only the right, but the **obligation,** to protect its industry and workers from unfair trade by vigorously enforcing the U.S. trade laws.

I should be clear here as to what the U.S. industry expects of the U.S. government. We're not seeking any special kind of protection or special status; just the relief we deserve and are entitled to under nationally and internationally recognized principles of international trade.

In terms of the litigation, the dispute is before the U.S. Department of Commerce and the U.S. International Trade Commission, and then, in all likelihood, international dispute settlement panels under NAFTA and the WTO. Our cases are strong. Commerce preliminarily found combined subsidy and dumping rates of over 32%. But for a clerical error, the rate would have been 37%. We believe the evidence at final will show even greater unfair trade. With respect to injury, there is simply no question that the U.S. industry has been injured by the unfairly traded imports.

Canada has challenged the Department of Commerce's preliminary determination at the WTO based on the use of a cross-border comparison benchmark for the price of timber. However, not only is this the required result under U.S. law, but in 2001, the WTO has also used cross-border benchmarking in the *Dairy* case. The same standard applied in the softwood lumber case shows an enormous subsidy.

The Congress, of course, has an important role to play in ensuring through oversight that the U.S. trade laws are fully, vigorously and promptly enforced at the agency level, and defended vigorously during international dispute settlement and negotiations.

The Congress also has a role to play in supporting a negotiated settlement. The position of the Coalition has consistently been supportive of government-to-government negotiations.

The United States has sought an end to the unfair trade practices by urging Canada to adopt open and competitive markets for timber and logs. Yet, Canadian officials loudly claim that the United States has negotiated in bad faith. This is nonsense. The United States has suggested that Canada can resolve the dispute in a variety of ways: (1) adopt fully open and competitive markets, (2) sell timber at market value in a system that competitively sells a substantial majority of timber and substantially reforms the current tenure system to ensure that sales are in fact competitive and not depressed, (3) impose effective border measures while long-term reform is negotiated or (4) offer proposals that have a comparable effect to an open and competitive market. Instead, Canada has offered to sell competitively 1% of government timber in Quebec and 13% in British Columbia.

Further, there has to be effective commitments that there will not be a pass-back of the subsidies through grants or reduced forest management expenses.

Unfortunately, it appears that Canada is unwilling to solve the real problem and is exerting all its influence to get the Administration to accept a weak deal based on international political pressure. The United States must remain firm. If Canada won't solve the real problem, then the full weight of U.S. trade laws must be applied. Then Canada can solve the problem or simply pay an offsetting duty.

Finally, I would also like to address arguments that have been made by certain organizations that claim to represent lumber consumers. These organizations raise the questions of how much the imposition of anti-subsidy and antidumping duties on lumber from Canada would result in an increase to the cost of buying a home.

U.S. government agencies have looked into this issue—that is, the effect that lumber prices have on the cost of a new home—and time and time again have found that the cost of lumber makes up such a small part of the overall cost of a home that an increase in lumber prices simply does not have a significant impact on housing costs and does not limit a significant number of potential homeowners from the market. NAHB and Census data show that in 2001 lumber accounted for just over 2% of the cost of an average new single-family home, the lowest share in the 20+ years of available data. The numbers just don't support the claims that are being made.

The forest products industry is vital to the United States. It ranks in the top ten of the country's manufacturing industries, representing 7.8 percent of the manufacturing work force. The Forest Service's Assessment points out that "With expansion in forest production has come an expansion in jobs and income derived from the wood products industry. In 1997, timber harvests led to more than 700,000 jobs in wood products sector and more than $118 billion in total industry output. Total economic impacts of these activities were about 2.2 million jobs and $251 billion of total industry output." On top of that, there are literally millions of timberland owners in the United States who see their land devalued, and their ability to engage in sustainable forestry compromised, as a result of the timber subsidies.

Fair trade is not going to bankrupt any homebuilders or prevent people from buying homes, but restoring fair trade is the difference between life-or-death for many U.S. mills and workers.

I also want to make it clear to our customers that what we're asking for is in their long-term interest as well. Canadian subsidies and dumping have put us in such a position that if we don't get the trade relief we deserve, or come up with another type of acceptable solution, we're going to be driven out of the business of selling softwood lumber altogether. That means that our customers would be left to the mercy of a reduced supplier base and the artificial pricing practices of the Canadian industry. I think its safe to say that no consumer wants to be in that position. U.S. consumers should, at least, join us in a call for open and competitive markets in lumber *and* timber; that's a long-term fair solution for everyone.

The primary and overarching aim of the U.S. industry is to have market forces, not government policies, determine the price and volume of softwood timber and lumber. That's the way a market should operate, and the only way that both producers and consumers can be satisfied. All that the U.S. industry has ever sought is open and fair competition in timber, logs and lumber. If the Canadian governments revise their policies and provide for market-based pricing for timber, this dispute will be over. That will give us a fair chance, and that's all that we're asking for. If that is not achieved, however, as a matter of survival we have to defend our right to conduct business in our own market. We appreciate the Commerce Department's effort in implementing the countervailing and antidumping laws and setting a combined duty rate of 32 percent to offset the Canadian lumber subsidies and dumping activities.

And we need the Congress to ensure that our rights are fully protected.

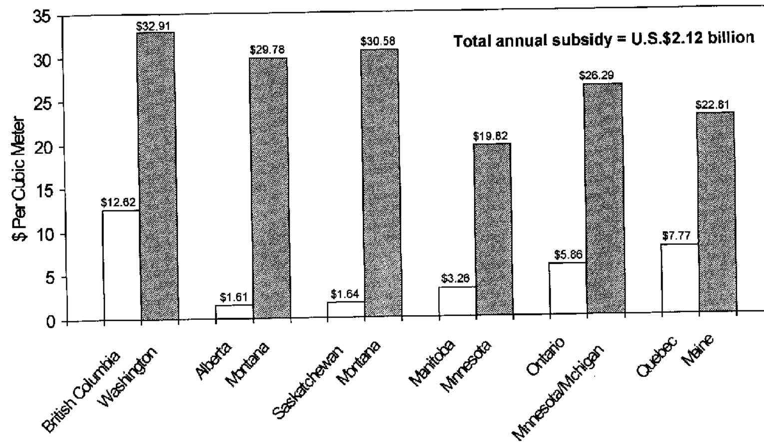
First, Congress should, through careful oversight, insist on the full enforcement of the anti-subsidy and antidumping laws. And second, we need Congress to support real negotiations that lead to a long-term durable solution to this contentious issue that has created too much injury for US producers and workers for too long.

Once again, I would like to thank all the Members for the time they have taken out of their busy schedules to attend this hearing on the very important issue of unfair lumber imports from Canada.

CANADIAN STUMPAGE IS HEAVILY SUBSIDIZED

Commerce Preliminary Decision

(With Corrected Conversion Factors)



Source: Department of Commerce, Preliminary Determination

Note: Using conversion factors (5.66 for BC coast, 4.81 for all others)

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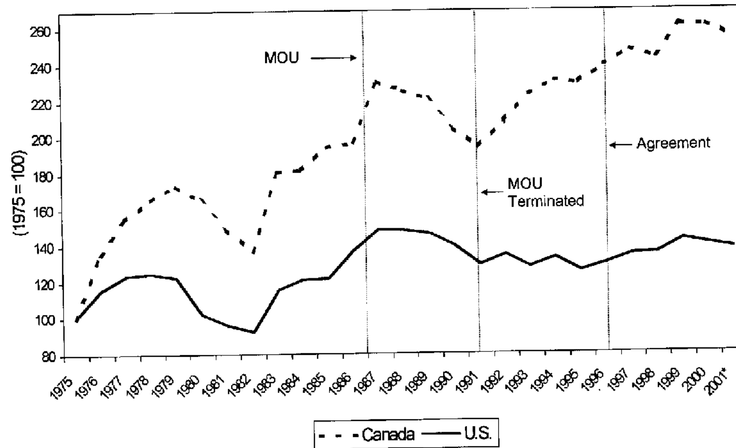
SUBSIDIZED CANADIAN LUMBER PRODUCTION HAS OUTPACED U.S. PRODUCTION

(Indexed)



Source: American Forest and Paper Association and Statistics Canada

* Production data annualized based on January-October data

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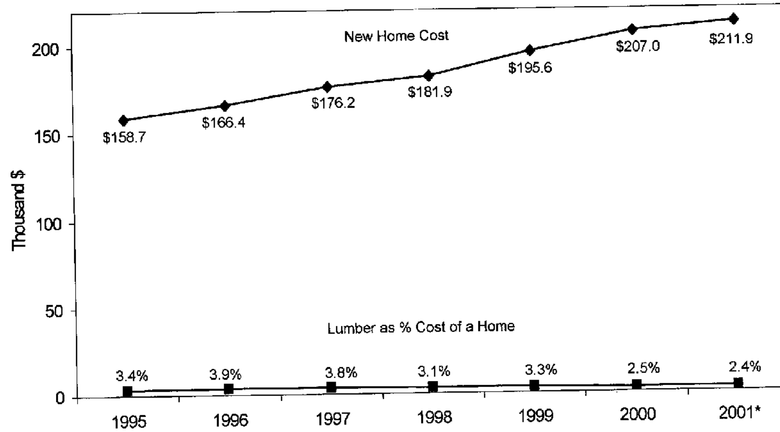

135472

COMMUNICATIONS

STATEMENT OF THE AK STEEL CORP., CALIFORNIA STEEL INDUSTRIES, INC., DUFERCO FARRELL CORP., AND OREGON STEEL MILLS, INC.

I. INTRODUCTION

AK Steel, California Steel, Duferco Farrell, and Oregon Steel are significant members of the domestic steel industry. Collectively, we employ approximately 15,000 workers, ship about 11 million tons of steel per year, and have recently invested $1.5 billion in state-of-the-art capacity to roll plate, hot roll, cold roll, and coated products ("plate and sheet").

Restrictions on slab imports threaten the closure of California Steel, which has been entirely dependent on slab imports since its inception in 1984, and which employs approximately 1,000 workers. They also threaten to shut down Duferco Farrell, which has been entirely dependent on foreign slabs since it rescued the Farrell Works from extinction in 1999 and put 500 people back to work. Import restrictions would also jeopardize the of their own slabs, but need imported slabs to supply their state-of-the-art rolling mills that were predicated on their access to foreign slabs. Accordingly, we urge the President not to impose any import restrictions on semi-finished steel slab.

If restrictions must be imposed on imported slab, then we respectfully urge the President to adopt, with modifications, the tariff-rate quota ("TRQ") recommended by the International Trade Commission ("ITC"). Although the ITC intended to avoid causing harm to domestic steel purchasers that need imported slabs, the TRQ as proposed would not avoid such harm. Even if demand for foreign slab did not exceed the 7 million ton quota in year one recommended by the ITC, slab purchasers would bid up the price for slab early in the year to eliminate the risk of paying the 20 percent tariff on above-quota imports at year-end. Higher slab prices would mean higher raw material costs for those domestic producers that purchase slab and a competitive advantage for domestic minimills that do not purchase slab and do not compete with slab imports. In addition, the demand for foreign slab is likely to far exceed the 2000 import level of 7 million tons relied upon by the ITC in setting the TRQ level. Increased demand for domestic plate and sheet, the closure of Geneva Steel, the acquisition of Heartland by Brazil's largest steel producer (CSN), increased furnace re-lines, and transitions that are anticipated by several integrated producers to electric arc furnace ("EAF") steelmaking should increase the demand for foreign slab to 10 million tons in year one of the TRQ.

In short, the President should not impose any import restrictions on slab. Alternatively, he should modify the proposed TRQ by (a) increasing the quota level to at least 9 million tons in year one, 9.5 million tons in year two, and 10 million tons in year three; (b) reducing the tariff on over-quota shipments to no more than 10 percent in year one, 8 percent in year two, and 6 percent in year three; and (c) limiting the duration of the TRQ to three years and one day.

II. THE PRESIDENT SHOULD CONSIDER SLAB SEPARATELY

A. The Conditions Of Competition For Slab Are Far Different Than Those For Flat-rolled Products

The President, like the ITC, should treat slab separately from plate and sheet. First, slab is *not* a flat-rolled product. It is a raw material used only by members of the domestic steel industry to make plate and sheet. That cannot be said of any other flat steel product. For example, while some domestically produced hot roll is used by steel mills as a feedstock to produce cold roll, about 40 percent is sold in the merchant market.

Second, “virtually all U.S.-produced slab is internally consumed by the domestic slab producers in their production of hot-rolled steel (sheet, strip, or plate).” (p. 39)[1] During 2000, “99.4 percent of the quantity of domestic producers’ total U.S. shipments of slab were internally transferred.” (*Id.*)

Third, no domestic steel producer is in business primarily to sell slab. As Mr. Usher, the Chairman and CEO of U.S. Steel, explained during the ITC’s investigation: “we do not go out trying to sell slabs to somebody whether we know that they need slabs or not.” ITC Remedy Hearing, Transcript at 192. Steel producers are constantly trying to push their output down to the higher value-added products that are more profitable. Moreover, producers with sporadic excess slab-making capacity have no incentive to supply their competitors with an essential raw material. Minimills, such as Nucor, do not even sell slab into the merchant market. The thin slabs they typically produce are “immediately consumed in the hot-rolling process and are thus not available for the merchant market.” (FLAT-1, n.1)

Fourth, slab price and import trends are vastly different than those for plate and sheet. For example, 1998 was the peak year for plate and sheet imports, but the trough year for slab imports, and “prices of flat-rolled carbon steel were lower at the end of the period of study than at the beginning, with the sole exception of slab.” (FLAT–74)

Finally, unlike plate and sheet, domestic slab for the merchant market is in short supply in the United States. This explains why “{s}labs were the only product in which more purchasers purchased from foreign sources than domestic sources.” (FLAT–54) They had no alternative. In fact, “{d}uring 2000, all 11 domestic steel producers which bought slabs purchased imported slabs.” (FLAT–51)

B. The President Need Not Treat Hot Roll And Cold Roll “Feedstock” The Same As Slab

The remedy for hot roll and cold roll used as “feedstock” need not be the same as the remedy for slab. First, the ITC recommended a TRQ, rather than a straight tariff, on slab in order “to avoid causing harm to domestic steel producers that have legitimate needs to continue to import slabs.” (p. 365) Vice Chairman Okun added that a tariff remedy on slab “would have a potentially severe impact on the members of the domestic industry that need a reliable source of slab.” (p. 456) The ITC made no finding that a straight tariff on hot roll or cold roll used as feedstock would harm *any* domestic producers and made no recommendation that those products be treated like slab for remedy purposes.

Second, unlike hot roll and cold roll, every ton of imported slab is used by a steel mill to make plate or sheet and benefits a domestic producer of plate or sheet. Every ton of foreign slab is *pulled* into the United States by a domestic steel mill to make flat products. Hot roll and cold roll, on the other hand, are commodity steel products that are *pushed* into the U.S. market by foreign producers. According to Metal Strategies, most imported hot roll and cold roll is sold “as is” in the U.S. market and is not used as feedstock to make downstream flat products.

Third, as noted above, over 99 percent of U.S. slab shipments are captively consumed to make downstream products. Conversely, only 66 percent of U.S. hot roll shipments and only 59 percent of U.S. cold roll shipments are captively consumed to make downstream products. (Tables FLAT–14&15) As a result, domestic producers’ annual commercial shipments average $7.4 billion for hot roll and $6.9 billion for cold roll vs. only $153.7 million for slab.

Fourth, domestic capacity to produce slab falls short of capacity to make downstream products (plate and hot roll) by over 14 million tons per year. Domestic capacity to produce hot roll, on the other hand, *exceeds* capacity to make downstream products (cold roll, welded pipe, welded OCTG) by 24 million tons per year, and domestic capacity to produce cold roll *exceeds* capacity to produce downstream products (coated and tin) by over 14 million tons per year.

In short, hot roll and cold roll used as feedstock, unlike slab, can be easily obtained from domestic steel mills. Domestic steel mills sell approximately one-third of their hot roll and 40 percent of their cold roll into the merchant market, and domestic producers have far more capacity to produce hot roll and cold roll than they have to produce downstream products.

[1] All citations to page numbers and to “FLAT” are to the ITC’s December 19, 2001 determination.

III. THE PRESIDENT SHOULD NOT RESTRICT SLAB IMPORTS

A. Slab Imports Benefit Members Of The Domestic Industry

Every ton of imported slab is used by and benefits a member of the domestic industry. Substantially all members of the industry (other than minimills with thin-slab casters) purchase foreign slab. For example, domestic producers of plate and sheet that have no hot end must import slab to survive. California Steel has depended on slab as its essential raw material since it commenced operations in 1984. Duferco Farrell depended on imported slab to commence its operations in 1999. Lone Star Steel and Jindal USA in Texas also are entirely dependent on slab imports.

Domestic producers with more rolling than slab-making capacity are dependent on slab imports to supplement their domestic production. AK Steel, for example, runs its hot end at maximum capacity and produces nearly 90 percent of its own slab requirements. Even so, it must purchase up to 800,000 tons of slab each year to keep its finishing mills running at peak efficiency. Likewise, Oregon Steel must import over 500,000 tons of slab to fully utilize its state-of-the-art plate mill.

In addition, all blast furnaces ("BFs") have planned outages for maintenance and improvements and unplanned outages due to breakdowns and explosions. During these outages, mills need imported slab to run their rolling operations at the desired level of utilization. (p. 365)

Slab imports are especially important to the western United States. With the recent closure of Geneva Steel, no mill west of the Rocky Mountains sells any slab to the merchant market. Shipping slab overland to the West from mills in the Midwest and the East is cost prohibitive. Thus, California Steel, Oregon Steel, Lone Star Steel, and Jindal USA must import slab.

B. Slab Imports Did Not Cause Any Injury

1. The ITC did not conclude that slab imports caused any injury to the domestic industry

The ITC found that the "surge in imports in 1998, at prices below domestic prices, led to a decline in the industry's financial and other indicators." (p. 62) The ITC did not conclude that slab imports caused any injury to the domestic industry. To the contrary, slab imports did not even contribute to the 1998 import surge that the ITC found injurious. Although imports of plate and sheet jumped 79 percent from 1996 to 1998, imports of slab fell 15 percent during this period. Moreover, the ITC correctly noted that "{b}etween 1996 and 2000, commercial shipments of slabs accounted for only 0.9 percent of {the quantity of} total shipments of domestically produced slab." (p. 53, n.199) Unlike imports of plate and sheet, increased imports of slab did not displace domestic commercial shipments.

2. Slab imports did not cause Geneva Steel to close

Before this Committee, Mr. Cannon, the CEO of Geneva Steel, suggested in his testimony that Geneva's shutdown was the result of slab imports and that Geneva can only resume operations if a 40 percent tariff is placed on slab. This statement is contradicted by Geneva's own statements to the Commerce Department ("Commerce"), a federal bankruptcy court, and the Securities and Exchange Commission.

Geneva has readily admitted that imports of downstream finished steel products are the primary source of the company's financial troubles. In an April 6, 2001 letter to Commerce, Geneva stated that "the flood of *finished* steel products forced the Company into Chapter 11 bankruptcy protection in March 1999" and that "unfair imports of *finished* steel products have been the primary cause of the sales declines experienced by Geneva. . . ." (emphasis added). In its bankruptcy "Disclosure Statement" filed with the U. S. Bankruptcy Court for the District of Utah (Central Division), Geneva refers to injury from various flat and tubular products, but not once does it refer to injury from slab imports. Also, Geneva has never cited any injury from slab imports in its SEC filings.

Slab imports did not force Geneva to shut down its furnaces, because Geneva has never been in business primarily to sell slab. Geneva has never been a consistent and reliable supplier of slab; it cannot produce and, in fact, is unwilling to produce many of the slab specifications most needed by California Steel and Oregon Steel. At the ITC's hearing on injury Mr. Corvin, the President and CEO of Oregon Steel, testified that Geneva's ability "to provide the various grades of steel required in our production process is limited." ITC Injury Hearing, Transcript at 564. Likewise, Mr. Gonalves, the President and CEO of California Steel, testified by affidavit that "Geneva Steel also does not have the ability to produce all the various slab sizes and chemistries that are required by California Steel." Moreover, Geneva's claims to the ITC that it was willing and able to sell large quantities of slab were flatly contra-

dicted by (a) documentary evidence of its sporadic offers of negligible slab quantities and its preference to sell plate and sheet and (b) the announcement of the closing of its plant *one* day after it made such claims to the ITC.

C. Restrictions On Slab Imports Are Not Needed To Remedy The Injury

The financial performance of slab production is dictated not by merchant sales of slab, but by merchant sales of plate and sheet. Commercial slab sales account for only 0.5 percent of the net sales value of the domestic industry, and commercial sales of plate and sheet account for the remaining 99.5 percent. As a result, the imposition of import restrictions on plate and sheet, not slab, will improve the financial performance of the *entire* industry, including slab production. Restrictions on slab would only increase raw material costs and hurt the financial performance of domestic producers that depend on foreign slab.

To the extent there is injury to the flat products industry from increased imports, it can be remedied solely by import restrictions on plate and sheet. First, import restrictions on plate and sheet would create more demand for captively consumed slab to supply domestic plate and sheet mills. This would increase slab capacity utilization and decrease unit fixed costs of slab production. Second, import restrictions on plate and sheet would lead to higher domestic prices for plate and sheet made from slab. This would lead to higher revenues allocated to slab operations.

D. Restrictions On Slab Imports Would Largely Benefit Minimills That Do Not Sell Slab And That Do Not Compete With Slab Imports

The domestic producers that would principally benefit from restrictions on slab imports are minimills like Nucor that do not compete with slab imports. Minimills using thin-slab casters do not purchase slab. Their raw materials are mainly steel scrap, pig iron, and DRI, which they import in large quantities. Nucor imported over a million tons of pig iron in 2000, because "pig iron is not available domestically." ITC Injury Hearing, Transcript at 548. Likewise, Nucor urged Ambassador Zoellick in a June 21, 2001 letter to exclude pig iron from the scope of the Section 201 investigation because "{p}ig iron is an essential raw material for virtually all steel producers who utilize electric arc furnace technology. . . . Pig iron is not commercially available in the United States." As support, Nucor attached Table 26 from the AISI 1999 Annual Report, which showed that the share of total BF production of pig iron sold into the merchant market was 1.2 percent in 1997 and 0.5 percent in 1999. Nucor defends its resort to foreign pig iron during years of excess domestic BF capacity by showing that the integrated mills choose not to participate in the merchant market for pig iron. The same logic applies to slab. The share of domestic slab production sold into the merchant market equaled only 1.2 percent in 1997 and 0.6 percent in 1999. (FLAT–16)

E. Restrictions On Slab Imports Would Hurt Plate And Sheet Consumers, Particularly In The Western United States

Restrictions on slab imports would hurt plate and sheet consumers, especially in the western United States. The western steel market is distinct and somewhat isolated from the rest of the U.S. steel market. Western consumers of plate and sheet are particularly dependent on local producers of these products. California Steel ships about 40 percent of the flat-rolled carbon steel products that are consumed in the 11 states located west of the Rocky Mountains, but it is totally dependent on slab imports. If California Steel disappears or is forced to cut back production due to restrictions on slab imports, consumers of sheet in the western United States will lose their most important single source of supply. Similarly, Oregon Steel supplies most specialty plate and a substantial portion of commodity plate consumed in the West, but it cannot utilize all of its plate production capacity without slab imports.

F. Restrictions On Flat-rolled Imports Would Not Cause Slab Imports To Surge

At the Committee's hearing representatives from U.S. Steel (Usher), Nucor (DiMicco), and Geneva Steel (Cannon) testified that without the same remedy on all steel products, foreign producers will simply shift imports to the product with the least restrictions. The representative from Nucor likened this scenario to a balloon. Squeezing one part, Mr. DiMicco testified, "simply makes the other parts bigger." Mr. DiMicco should focus more on steel and less on balloons, because his analogy simply does not work for slab.

Slab is only consumed by steel producers to make downstream finished steel products. Consequently, slab (the upstream product) is not directly substitutable with plate or sheet (the downstream product), and slab cannot be pushed into the market because it trades exclusively on a mill-to-mill basis. The level of future slab imports,

therefore, will be dictated by domestic mills' slab needs for their production of downstream products, not by foreign suppliers pushing unneeded slab into the U.S. market. Slab imports did increase from 1998 to 2000, but solely because AK Steel, California Steel, Duferco Farrell, and Oregon Steel invested $1.5 billion in new rolling capacity.

Finally, the domestic steel industry has not included slab in any of the plethora of antidumping and countervailing duty petitions filed over the past 20 years. Foreign producers have never responded to the antidumping and countervailing duties imposed on plate and sheet by exporting more slab to the United States. Nor would they do so as a result of Section 201 import restrictions on plate and sheet.

IV. ALTERNATIVELY, THE PRESIDENT SHOULD MODIFY THE TRQ

A. The Quota Level Should Be Increased

The ITC stated that its recommendation of a TRQ for slabs "is intended to avoid causing harm to domestic steel producers that have legitimate needs to continue to import slabs. . . ." (p. 365). Unfortunately, the TRQ as proposed will not satisfy that objective.

First, because the proposed TRQ would impose a sharp 20 percent input cost penalty on late orders beyond the TRQ threshold, rational slab purchasers would be forced to reduce their risk exposure by moving forward their orders for slab. Given the first-come, first-serve nature of any TRQ, this would bid the price of slab imports up far in advance of the TRQ starting to bind. Moreover, it would do so in weak years even if actual imports never crossed the threshold because steel producers must make their purchases based on expectations. The irony of this phenomenon is that prior to the threshold being reached, these quota rents would transfer funds from efficient domestic steel producers to foreign slab suppliers.

Second, the 7 million ton quota recommended by the ITC is based upon "the level of imports of slab minus imports of slab from Canada in the year 2000." (p. 365) Given a lower slab import level during depressed demand conditions in the first half of 2000, the ITC noted that this 7 million ton level "would not be triggered under current market conditions." (*Id.*) Current market conditions, however, will soon change. Demand for foreign slab in the first year of relief is likely to be at least 3 million tons greater than in 2000, due to (a) the closure of Geneva Steel on November 14, 2001, (b) CSN's acquisition of Heartland in July of 2001, (c) increased domestic production of plate and sheet resulting from restrictions on imported plate and sheet, (d) additional furnace relines, (e) Wheeling-Pittsburgh's November 5, 2001 adjustment plan, (f) the closing of inefficient slab-making capacity as a result of industry consolidation and restructuring, and (g) the closing of older slab-making capacity due to tightening environmental restrictions. Therefore, if the President decides to impose import restrictions on slab, he should modify the TRQ recommended by the ITC by increasing the quota level to at least 9 million tons in year one, 9.5 million tons in year two, and 10 million tons in year three.

B. The Above-Quota Tariff Level Should Be Reduced

A 20 percent tariff would create a "hard" ceiling beyond which slab purchasers could not afford to import and would lead to short-supply situations. Accordingly, the above-quota tariff level should be reduced to no more than 10 percent in year one, 8 percent in year two, and 6 percent in year three. Alternatively, the President should either increase the quota level (*e.g.*, to 10 million tons in year one, 10.5 million tons in year two, and 11 million tons in year three) or impose a short-supply mechanism in conjunction with the TRQ.

C. The Duration Of The TRQ Should Be Three Years And One Day

Given the uncertainty surrounding the merchant market for slab, it is impossible to predict an appropriate level of relief over four years. Thus, any restrictions on slab imports should be limited to no more than three years and one day. That duration would require the ITC to conduct a mid-term review to determine, among other things, if the restrictions are exacerbating the current domestic slab shortage.

V. CONCLUSION

The President should not impose import restrictions on slab, because they are not needed to remedy the injury suffered by the domestic flat products industry, and because they would harm members of that industry. Alternatively, the President should modify the TRQ recommended by the ITC by (1) increasing the quota level to at least 9 million tons in year one, 9.5 million tons in year two, and 10 million tons in year three; (2) reducing the additional tariff to no more than 10 percent in

year one, 8 percent in year two, and 6 percent in year three; and (3) limiting the duration of the TRQ to three years and one day.

Statement of the Alliance of American Consumers for Affordable Homes

[SUBMITTED BY SUSAN PETNIUNAS]

Dear Senator Baucus: On behalf of the Alliance of American Consumers for Affordable Homes, we are pleased to submit the following statement for the hearing record. The Alliance of American Consumers for Affordable Homes (ACAH) is an ad hoc group with seventeen national organizations as members. The mission of ACAH is to support trade policies that enhance affordable housing. ACAH represents approximately 95% of the domestic consumption of lumber in the U.S., and has a presence in every Congressional District and state throughout the country. A roster of organizations in our group is attached for your information.

ACAH continues to work diligently to espouse the need for strong support of free trade of softwood lumber between Canada and the United States. We believe that any level of trade restraint on lumber harms U.S. consumers and the national economy. While we applaud the Administration for attempting to reach a long-term durable solution for lumber trade between the U.S. and Canada, we remain concerned by recent actions taken by the Commerce Department.

In August, 2001, the Commerce Department announced that it would impose a 19.3% countervailing duty on Canadian softwood lumber imports, which account for some 35% of the U.S. softwood lumber consumption. In October, the Department ruled that an additional 12.6% in duties for anti-dumping will be imposed on softwood lumber from Canada. These actions are especially troubling for the housing sector, which represents one of the only strong segments of our economy.

U.S. consumers and lumber-dependent industries are already experiencing the harmful effect of these trade restrictions. The preliminary decisions on lumber tariffs have resulted in increased price volatility in the market, forcing U.S. purchasers to make provisions to incorporate what amounts to as much as a 32 percent tax imposed by the Commerce Department. It is estimated that the Preliminary Determinations by the Commerce Department could add as much as $1000 to the price of a new home, thus excluding nearly one-half million U.S. households from mortgage eligibility.

ACAH opposes implementing tariffs and other potentially restrictive border measures because they cause artificial price increases and volatile swings in the lumber market, which hurts housing affordability and U.S. purchasers of lumber. These types of actions are simply a tax increase on housing.

We urge that you and your colleagues on the Senate Finance Committee work to protect the interests of U.S. consumers and lumber-dependent industries that employ seven million workers by requesting that the Administration interpret pending trade cases in a fair, factual, and unbiased manner. Moreover, it is imperative that the Administration exclude any provision that would impose a tax, quota, or other government-mandated cost increase on U.S. consumers in their negotiations with Canada.

Mr. Chairman, we thank you for this opportunity to submit a statement for your hearing record.

Attachment: Roster of ACAH Participants

Participants of Alliance of American Consumers for Affordable Homes:

American Homeowners Grassroots Alliance
Catamount Pellet Fuel Corporation
CHEP USA
Citizens for a Sound Economy
Consumers for World Trade
Free Trade Lumber Council
Home Depot
Leggett & Platt, Incorporated
International Mass Retail Association
International Sleep Products Association
Manufactured Housing Association for Regulatory Reform
Manufactured Housing Institute
National Association of Home Builders
National Black Chamber of Commerce
National Lumber and Building Material Dealers Association
National Retail Federation

United states Hispanic Contractors Association

STATEMENT OF THE AMERICAN HOMEOWNERS GRASSROOTS ALLIANCE

The American Homeowners Grassroots Alliance (AHGA), which represents the nation's 72 million homeowners, applauds the Senate Finance Committee for holding this hearing on softwood lumber trade with Canada. AHGA supports free trade and opposes tariffs and other restrictions that raise the price of homes and products used by homeowners and other consumers. This policy is in the best long-term interest of the US and other countries, and results in the greatest benefit to homeowners and other consumers in all countries. The fast changing world economy will continue to shift competitive advantages from industry sectors in one country to those in another. The solution to the inevitable challenges of worker displacement and corporate profitability challenges that result is the extension of unemployment benefits passed in the Senate last week and an expansion of trade adjustment assistance. AHGA supports strengthening trade adjustment assistance programs, in particular by expanding funding for worker retraining so displaced workers can qualify for employment in growing industries.

AHGA is concerned that recent proposals by the U.S. Commerce Department would effectively impose an indirect tax averaging $1,000 on many new homes built in the U.S. and would substantially increase the cost of home additions and other remodeling projects. The tax will be in the form of 12 percent to a 32 percent tariff on Canadian softwood lumber, a primary building component of new homes. A 15% tax on lumber that was implemented in 1986 cost consumers about $900 million. The U.S. Census Bureau estimates that the fees on additional shipments under the current proposal would total more than $1,000 for the lumber in an average new home. If the tariffs are imposed U.S. homes will become less unaffordable, especially to the most vulnerable first time buyers who account for a substantial portion of the nation's annual 1.6 million new home sales. The tax would price a half million of those families out of the market and would make home additions and other remodeling projects unaffordable for many more homeowners.

AHGA strongly opposes the tariffs. Most affected will be first time new home homebuyers and those who would otherwise barely qualify for home ownership. Their purchases will be delayed until their earnings increase. In the meantime they will lose the opportunity to build equity in a home they could have owned. While other will still be able to buy a home, they will be paying interest for 30 years on the $1,000 home price increase resulting from the tariff. The increase in cost for lumber in home additions and other remodeling projects would also increase substantially, and many of the nation's 70 million homeowners would pay the price.

AHGA is opposed to the implementation of tariffs and other restrictive border measures because they deny the dream of home ownership to millions of Americans and because they will prolong the current recession. From an employment standpoint the tariffs could also contribute to layoffs in the construction industry and its suppliers. We urge members of the Committee to ask Commerce Secretary Evans to ensure that the Administration protects U.S. consumers and ask U.S. Ambassador Robert Zoellick not to include, in his negotiations with Canada, any provision that would impose a lumber-related tax, quota, or other government-mandated cost increase on U.S. consumers.

We urge members of the committee to resist pressure from large U.S. timber companies that support the lumber tariffs. Those companies currently receive large subsidies from the U.S. government. While AHGA is sympathetic to potential job losses in that sector, the tariffs would only shift job losses to the home building and supply sector. They would also deny home ownership to many more Americans, raise ownership costs to many others, and undermine principals of free trade that benefit homeowners and other consumers.

The American Homeowners Grassroots Alliance (AHGA) is a national bipartisan advocacy organization representing the nation's 70 million homeowners. AHGA believes that policies that encourage and protect home ownership are in our national best interest. Those policies encourage and sustain the maintenance of a strong and broad middle class, build a sense of community and responsibility, and facilitate investment in homes, which are the largest, most universal savings/equity-building vehicle for most Americans. AHGA's positions and more information about the organization are available at AmericanHomeowners.org. The American Homeowners Foundation's section of the website also contains free educational materials to help homeowners and future homeowners buy, sell, remodel, and finance their homes.

STATEMENT OF DEERE & COMPANY

Deere & Company manufactures, distributes and finances a full line of agriculture equipment, as well as construction and forestry equipment, commercial and consumer equipment, and other technological products and services. Deere is one of the largest U.S. consumers of steel and steel components, with manufacturing operations in Iowa, Illinois, Wisconsin, Georgia, North Carolina, Tennessee, Virginia, Kansas, Missouri, and Louisiana. Together, Deere employs more than 22,000 workers in these states.

Deere is concerned about the potential impact of restrictions on steel imports, and in particular the potential impact of the International Trade Commission's (ITC) recommendations on Deere's U.S. manufacturing operations and cost structure. With continued weakness in the U.S. economy and in key market segments, John Deere is focused on rigorous asset and cost control management. Measures that restrict U.S. imports of steel or steel products will have a detrimental effect on both Deere's operations and on Deere's many parts and components suppliers. Deere procures nearly half of its U.S. steel requirements from domestic mills and service centers, with the balance procured in the form of parts and components for use in John Deere equipment.

1. Deere opposes the imposition of restrictions on U.S. steel imports.

- Duties or import quotas will result in increased prices in the U.S. for both domestic and foreign steel as U.S. steel producers raise their prices to reflect the duties imposed on imports.
- Such cost increases would be particularly onerous for all U.S. manufacturers, and would impede economic recovery and job growth at a critical time.
- Full implementation of the International Trade Commission (ITC) recommendations will result in substantial increases in John Deere's acquisition costs for steel and steel components.

2. U.S. manufacturers would be disadvantaged relative to foreign competitors.

- Because U.S. restrictions on steel imports would increase the supply of steel in world markets, foreign competitors would benefit from downward pricing on materials and inputs at a time when U.S. manufacturers are faced with significant price increases.
- U.S. manufacturing exports in global markets would be adversely affected by this cost disadvantage. Likewise, U.S. imports of foreign manufactured goods could rise as overseas competitors are able to undersell U.S. manufacturers at home.
- U.S. manufacturers would have to consider offshore manufacturing and outsourcing of finished products, parts, and components in order to remain competitive, at home and abroad.

3. Steel import restrictions could invite trade retaliation.

- Retaliatory measures could be directed at manufacturing exports, and at Deere's major customer base—American farmers—through foreign restrictions on U.S. agricultural exports.
- Progress toward new global trade negotiations, and global steel rationalization talks, would be undermined, as would recent, successful efforts to renew U.S. leadership in world trade.

Because of its reliance on domestically-produced steel and steel components, Deere has a long-standing, vested interest in a strong, efficient and competitive U.S. steel industry. However, Deere believes government policies that restrict steel imports could cause harm to the thousands of American businesses and workers that rely on competitively priced raw material imports such as steel.

Policies such as the ITC's recent recommendations are contrary to America's overriding trade interests and could lead to unintended consequences, including raising U.S. manufacturing costs, inhibiting job growth, reducing U.S. competitiveness in global markets, and triggering retaliation against U.S. exports. For this reason, Deere opposes the imposition of tariffs or quotas on U.S. steel imports.

STATEMENT OF THE INTERNATIONAL MASS RETAIL ASSOCIATION

This statement is submitted on behalf of the International Mass Retail Association (IMRA), the world's leading alliance of retailers and their product and service suppliers committed to bringing price-competitive value to the world's consumers. IMRA represents many of the best-known and most successful retailers in the world, who operate thousands of stores worldwide. IMRA equally values among its

members hundreds of the world's top-tier product and service suppliers, working with their retailer partners to further the growth of the mass retail industry.

IMRA generally supports U.S. trade laws, when they are used correctly. If an industry is adversely affected by dumped or subsidized imports, it has every right to seek relief under the terms of current U.S. trade laws. Similarly, Section 201 allows industries to seek *temporary* relief in cases of "fairly" traded goods.

However, these trade laws should not be used to help those industries with a long history of poor management, or who have already been provided long-term protection from foreign competition through other avenues. In both the softwood lumber and steel cases, IMRA believes there are serious questions about the application of U.S. trade law.

At the same time, all of IMRA's members depend upon imports to provide American consumers with quality and value. Trade remedy cases, and other forms of trade protection, immediately disrupt the marketplace. They drive up prices, limit product supply and choice, and force IMRA's members to change their sourcing strategies and relationships. In many cases they have no impact in bringing business back to the United States, but only drive it into new areas of the world. In addition, these cases sometimes have far-reaching negative impacts on our U.S. suppliers, who depend upon imported inputs to production. In either case, our members' customers ultimately pay the price.

And yet, despite the undisputed impact that protection has on downstream users and their customers, U.S. trade law gives no standing to consumers, either industrial or individual. Only the domestic industry who brings the case, the foreign producers against whom the case is brought and the importers of record have any official standing in trade cases. More times than not, IMRA members do not qualify for official standing in these cases. And yet, IMRA and its customers *always* pay the cost of these cases.

While IMRA continues to support our nation's trade remedy laws, and finds them a much better alternative to side bar agreements or legislated protection we continue to believe that they need to be changed in several important respects. At the very least, consumers and consuming industries should be given standing at these cases so that they can mount credible defenses in cases that impose enormous costs on them. Second, efforts should be made to insure that products in short supply in the United States are not subject to trade remedies. Finally, dumping and countervailing duty cases should include a review of the *national interest*, much like the Presidential review included in Section 201 cases, that will ensure that we do not damage our economy in our efforts to help a single industry. To fail to consider the impact on down stream American industry and end users is foolhardy.

The following will provide further detail on how the current trade dispute cases on Canadian softwood lumber and steel are impacting the U.S. mass retail industry.

Softwood Lumber Dispute

IMRA's membership includes some of the country's largest home centers and lumber dealers. These companies purchase lumber from both imported and domestic sources of supply. The lumber that these companies stock is determined not only by price, but by consumer preference. Canadian softwood lumber, specifically Spruce Pine Fur is significantly different in many respects from the Southern Yellow Pine produced in the United States. Southern Yellow Pine is not considered acceptable for house framing because it warps. The Canadian product is therefore far preferable for that use, while Southern Yellow Pine is preferred for other uses (decks, etc.) in the same new house. More important, Spruce Pine Fur cannot be grown in the United States, especially with the restrictions on cutting in the Pacific Northwest. This is a key point, because the purpose behind the current lumber cases and the Canadian Softwood Lumber Agreement (SLA) which preceded it are to tell U.S. consumers that they are required to use Southern Yellow Pine in all applications.

Unfortunately, that's not a choice for individual consumers, if they want a product that won't warp. The recently expired U.S.-Canada Softwood Lumber Agreement (SLA) created marketplace volatility for the Canadian product that resulted in an increase in new housing costs of about $1,000 per home. The Census Bureau estimates that an increase in construction costs of this magnitude denies as many as 300,000 low- and moderate-income American families from home ownership.

To make matters worse, the SLA imposed these price increases and market disruptions on Americans as a result of a negotiation in which consumers and consuming industries were especially excluded at the request of U.S. lumber companies. That's hardly fair trade.

For this reason, IMRA strongly supported the expiration of the SLA as a member of the Alliance of American Consumers for Affordable Homes (ACAH). ACAH is an ad-hoc alliance of 17 national organizations that represent over 95% of the domestic

consumption of lumber in the U.S. These lumber consuming industries employ many more workers than those in the domestic lumber industry. As mentioned above, these industries and U.S. homebuyers paid the price for this agreement.

IMRA was prepared in early April 2001 when, just days after the expiration of the SLA, a handful of domestic lumber producers brought a CVD case against Canadian softwood lumber. The issue between the U.S. and Canada has always been over alleged subsidies. These claims of subsidy remain unsubstantiated even though U.S. industry had brought numerous cases. The U.S. has never been able to prove in a neutral forum, such as the Court of International Trade, a NAFTA tri-national panel or at the World Trade Organization that Canada's forest policies constitute a real subsidy, as defined by the General Agreement on Tariffs and Trade.

Although we were prepared to fight the subsidy case one more time, IMRA was both shocked and amazed that the industry also brought an anti-dumping case. How domestic suppliers could claim that imports that had been subject to an import quota and higher tariffs under the SLA could have possibly been *dumped* in the United States is an absolute outrage. The fact that preliminary dumping margins of 19% were found on these products calls into question the basic fairness of our dumping process. Not only are consuming industries kept officially out of dumping cases; the government apparently cooks the books to find dumping even when the imports have been controlled for years and subject to increased tariffs.

Now, in addition to these ongoing cases, the United States, presumably at the urging of domestic industry is attempting to negotiate another "solution" to the alleged problem. If the United States and Canada want to have discussions over Canadian lumber policy, we have no objections. But, when every suggested "solution" includes an export tax on softwood lumber that IMRA's members and customers will pay, we have very strong objections. The U.S. has trade laws. They are very imperfect, and they shut out consumers, but they are better than a cooked up deal between the two countries in which consumers are completely ignored and in which any revenue from border taxes would inure to the benefit of the Canadian government. It is estimated that a 15% export tax such as that implemented in 1986 would cost U.S. consumers $900 million dollars a year.

While we disagree with the preliminary determinations in these cases, and while we support reform of the dumping and CVD laws, we continue to urge that Congress and the Administration allow these cases to go forward, because they are better than negotiated or legislated solutions. In addition, we hope the final determinations will be based on fair, factual and unbiased consideration of the facts; including the impact such restraints would have on a slumping U.S. economy.

Steel Dispute

IMRA retail members do not import steel. However, they do construct new stores with steel, sell products (appliances, hand tools, farm equipment, etc.) that are made with steel, buy trucks for their trucking fleet and use containers made from steel to import and export products for use by consumers. The current debate over steel will lead to increased costs for all of these processes for U.S. retailers, which will ultimately be passed along to U.S. consumers.

Once again, IMRA has grave concerns about how an industry where more than half of the imports are already subject to dumping orders and where imports are declining is allowed to seek additional protection under Section 201. While it is true that Section 201 is designed to provide *temporary* relief for industries to adjust to *fair* trade, the fact remains that imports are not the problem facing U.S. steel producers. Their failure to modernize and improve productivity and quality certainly is.

Nevertheless, if remedies are provided, U.S. down stream consumers—among them IMRA's members and their customers—will surely foot the bill. Why should we pay for the bad decisions of an industry? Why are the workers in *that* industry more important than all of the thousands of other American workers in downstream industries?

A recent report by the Consuming Industries Trade Action Coalition, of which IMRA is a member, found that the December 7, 2001 recommendations by the International Trade Commission (ITC) on the Section 201 steel case would have detrimental effects on the U.S. economy. Tariffs as proposed by the ITC would lead to increased costs for steel inputs which could lead to increased imports of finished steel-containing products. As a result, up to 74,500 jobs could be lost in all sectors. Losses in steel consuming industries could range as high as 30,000 while only protecting 4,300 steel producing jobs. Essentially 8 jobs would be lost for every 1 steel job protected at a cost to the American consumer of up to $450,000 per job protected.

Will imports decrease under the proposed remedies? Yes, but at an extremely high cost. While overall imports decline, prices for imported materials and products would drastically increase, almost 20%. U.S. consumers could end up paying between $1.9–$4.0 billion a year. This would be detrimental to a slowing U.S. economy that is just starting to show signs of recovery.

U.S. steel consuming industries would face even tougher competition from foreign competitors who don't face import restrictions under the remedies proposed by the ITC. U.S. products made from imported steel (including appliances, automobiles, construction equipment, etc.) would significantly decrease while imports for such goods from foreign competitors would increase.

We are comforted only somewhat that at the very least, Section 201 cases require the President to undertake a review of how remedies might affect the national interest including downstream consumers. We fervently hope the President will consider these downstream economic impacts when he makes his final recommendations on steel remedies. In addition, of course, we urge the Senate not to second-guess the President, or to consider enacting a legislative "solution" for the steel industry. Were Congress to do this, it would, once again, call into question the U.S. trade remedy laws that have been established to protect the competing interests in a Section 201 case. These interests are important. They should not be ignored.

Conclusion

As stated earlier, IMRA supports the use of U.S. trade laws when used appropriately. As the Department of Commerce and the International Trade Commission investigate these and other trade cases, they must do so dispassionately and fairly. We would also urge that the U.S. International Trade Commission consider the impact on U.S. consuming industries and the overall economy when recommending dumping and CVD remedies, although such a change would probably require a change in U.S. trade law. As witnessed by these current cases, proposed trade remedies often do more harm than good to the U.S. economy, when viewed from a long-range perspective. We must learn how to balance the competing concerns among and between industries better. Trade remedies are not always the right course of action, and yet our laws are set up in such a way that petitioning industries almost always get some kind of relief.

IMRA strongly urges Congress to let the current cases run their course. Congress should not pass legislation to help these industries, even if the cases don't go their way. Finally, we urge Congress to review our current procedures to ensure that the larger national interest is reviewed and considered.

STATEMENT OF THE NATIONAL LUMBER AND BUILDING MATERIAL DEALERS ASSOCIATION

[SUBMITTED BY MIKE FRITZ, NLBMDA CHAIRMAN, PRESIDENT, RUGG LUMBER, GREENFIELD, MA]

I want to thank you for allowing me this opportunity to address the Committee on an issue of great importance to my industry, and one which has sharply divided it for over twenty years.

I am the current Chairman of the National Lumber and Building Material Dealers Association (NLBMDA), an organization of over 8,500 independent lumber and building material dealers, 20 federated associations and 40 industry service providers located in every state and district in the nation. NLBMDA represents over 300,000 employees of independent lumber dealers, and takes a very active and engaged interest in every issue that impacts the stable, affordable supply of the building materials needed to help America build its homes.

Independent lumber dealers collectively purchase the majority of building materials sold by US and Canadian producers each year, and their customers are primarily the nation's home builders and contractors—approximately 80% of NLBMDA members' total business is with home builders and remodelers. Independent lumber dealers are small businesses, usually family-owned, and as competition in the marketplace has dramatically increased with the rise of the "Big Box" retailers such as Home Depot and Lowe's, independent dealers are more reliant than ever on a stable marketplace for the wood products they sell, a marketplace unencumbered by spiking volatility and manipulated, protectionist trade agreements—a marketplace that provides access to quality lumber.

The softwood lumber trade issue has been a vital concern of ours for over twenty years. For many of those years, we struggled to find opportunities to have our voice heard in regard to the negative—often disastrous—impact the past two decades'

worth of lawsuits and manipulated trade has had on the softwood consuming industry in the United States. We found quite often that most decisionmakers preferred to characterize the softwood debate as a "U.S. versus Canada" trade issue. As direct consumers of the products in question, we vehemently disagree. This has never been about just the U.S. versus Canada. There are very real impacts on U.S. consumers—and U.S. homebuyers—when the trade of a vital building component is manipulated over the span of twenty years. A handful of U.S. producers may seek special protections from the U.S. government, but when the U.S. government intervenes to protect a *portion* of a single segment of an industry from competition, that intervention causes a ripple effect of injury among other parts of the U.S. industry, and all U.S. consumers of the product in question. Such has been the case in softwood.

In 1998, U.S. consumer groups representing over 95% of the nation's consumers of softwood lumber came together in the Alliance of Consumers for Affordable Homes (ACAH). NLBMDA is a founding member of that group, and continues to work alongside of groups like the National Association of Home Builders, the Manufactured Housing Institute, Home Depot and 13 other national groups in an effort to call attention to the impact of the softwood issue on American consumers—making the case for free trade of softwood, and calling for an end to volatility in the trade of the product. The creation of the ACAH in 1998 came in response to the pending expiration of the Softwood Lumber Agreement of 1996 (SLA), at that time scheduled to expire on March 31, 2001. Like never before, the SLA and its system of arbitrary quotas—a negotiated 'deal' pushed for by the U.S. government to appease the protectionist interests of a handful of U.S. producers in 1995–1996—created confusion, spiking volatility in supply and prices, and quarterly mayhem in the consuming sectors of the U.S. industry.

The housing sector is heavily reliant on the product provided by Canada, S-P-F (spruce-pine-fir). In fact, as more and more U.S. forestlands have been pulled from use during the past two decades, the U.S. housing sector has become even more dependent on foreign sources of lumber. Canadian S-P-F is an essential component in the frame of a house. The fact that it is from Canada is irrelevant, but the fact that the species of lumber, S-P-F, has the physical properties and characteristics essential for studs and wall framing makes it an essential product. The U.S. supply of S-P-F, which was predominantly found in the Northwest, has been all but shut down by government regulation; yet the nation's population continues to grow, and Americans still consider owning their own home a key component of the American Dream. The S-P-F so essential to framing a house must come from somewhere. The annual demand for housing in the United States simply cannot be supplied by S-P-F from within our own borders.

Southern producers here in the U.S. also grow an essential species of lumber used in homebuilding—SYP (southern yellow pine). Because of its dense characteristics, and tendency to warp as weather conditions change, SYP is not used for studs and wall-framing; instead, SYP is a frequent component of trusses and plates. Both S-P-F and SYP are essential to framing a house, but each species of lumber is used for a different purpose in the frame.

For over twenty years, the response to cries from producers for special protection has been to essentially 'tax' American consumers. Years of acrimony over forest practices on both sides of the U.S.-Canadian border—as interests attempt to make 'apples and oranges' comparisons of systems of forest management and public/private ownership which have been dramatically different for over two hundred years—have led to attempts, and occasional successes, to levy border penalties on softwood lumber. This most current episode, Lumber IV, shows again that the knee-jerk response of those who would seek the U.S. government to provide them protection, is to call for penalties and taxes in the form of border tariffs, which will be paid ultimately by U.S. consumers. During the years of the aforementioned Softwood Lumber Agreement, penalties in that agreement amounted to an approximate 15% tax on softwood lumber, a tax that rolled downhill onto U.S. consumers.

Ultimately, the CATO Institute estimates that the 15% tax created by the SLA added up to an additional $800–$1200 added to the cost of a home. One of the most common arguments used by industries seeking protection is to claim that the burden placed on the U.S. consumer who ultimately pays for that protection is 'not high enough' to warrant the concern of the U.S. government. But it is a concern, it is a concern for all of us. Not only because asking U.S. consumers to carry the financial burden of protecting those companies who seek ways around competition is patently wrong, but also because when you talk about adding dollars to the cost of a home, even if it is only $1, the impact is immediate and real.

In the housing sector, adding a few hundred dollars to the cost of a home may not seem significant, but it is. In the United States homes are not usually purchased with cash, they are financed—especially by those in the lower and middle income

brackets. Gone are the days when Americans would go to their neighborhood bank, and sit down with the banker they've known for years to hammer out the possibilities for mortgage eligibility. Today, a computer and a series of formulas decide mortgage eligibility. Each time the cost of a home is increased by even $1, Americans at the lower end of the income brackets—the very same people we all agree should be encouraged and aided in the purchase of good, affordable homes—are kicked out of mortgage eligibility. They don't meet the criteria required by the computer formulas. So when a restrictive trade agreement adds $800–$1200 to the cost of a home, the U.S. Census Bureau tells us that 300,000 Americans—each year—at the lower income brackets are no longer eligible for a mortgage. As the protectionist producers have said, "$800 is only the cost of a fancy dishwasher." They're absolutely correct, you can purchase a pretty nice dishwasher for $800. Unfortunately, the 300,000 Americans who are no longer eligible for a mortgage will never be able to go dishwasher shopping: they've been denied the dream of home ownership altogether in exchange for some protection for a handful of U.S. producers.

Adding insult to injury, the cases filed in April of 2001 made the producers' protection requests under the SLA look benign. Producers requested a 78% tariff on softwood coming across the border into the U.S. A 78% tariff request, insisting that such an enormous, unbearable level of injury to their companies occurred over the five years during which they were actually covered by a protective, restrictive trade agreement—the SLA—which they themselves helped to author. This time around, the U.S. government awarded them 32% worth of protection. When we look at the amount of consumer and homebuyer impact that occurred under the Softwood Lumber Agreement—from volatility of the market, to instability of supply, to mortgage ineligibility of lower-income Americans—is it any wonder why over 95% of the softwood consuming public has banded together in an effort to stop the unfair manipulation of trade?

As we sit here today, efforts are ongoing—again—to determine some 'long-term' solution to the softwood lumber issue. The independent lumber dealers in America would submit to you that the only workable, truly long term solution is free trade of a vitally important home-building material, a recognition of the impact manipulative trade agreements have on the over 7 million Americans directly employed by the softwood consuming industries—in addition to untold numbers of American homebuyers—and an end to twenty years of protecting a few U.S. producers. Ongoing "negotiations" between the U.S. and Canada cause great concern for U.S. consumers of softwood lumber because of the almost constant implication that some kind of manipulative trade agreement similar to the SLA, or in the form of an export tax, will be the end result. This industry has, over the past 20 years, already seen what manipulative agreements and taxation of U.S. consumers can do. Every previous "long term solution" has put us precisely back in the same position as where we started. The one "long term solution" we have not seen in twenty years is free trade, and it is about time that we did. The members of the National Lumber and Building Material Dealers Association would much rather see the current countervailing and anti-dumping cases make their way to a fair and final round at the WTO—where we are certain the cases would be overturned—than see yet another poorly-written, volatility-spurring and injurious 'deal' cut to appease some U.S. producers.

In addition, we feel that the so-called "Free Trade" coalition is bargaining in bad faith. This time around the Canadians have offered huge concessions only to be met with a "that's not enough" response from the Coalition. We think it is time that the American consuming public is given consideration in this debate and that we stop the U.S. Government from enabling the coalition to arbitrarily raise lumber prices for the sole purpose of increasing their profits.

In closing, I would like to add to the record the sincere thanks of the members of NLBMDA to the over 100 members of the House and Senate who have joined our efforts to promote free trade and affordable housing; several of those supporters hold seats on the Senate Finance Committee. The over 7 million employees of the softwood consuming industries, and millions of American homebuyers, appreciate their support and leadership on this important issue.

Again, Mr. Chairman, you have my thanks for allowing us this opportunity to include our remarks on this vitally important concern to the housing sector.

March 1, 2001

THE PRESIDENT,
The White House,
Washington, DC.

Dear Mr. President: We are writing to enlist your support for resolving the dispute over the 1996 U.S.-Canada Softwood Lumber Agreement which is set to expire on March 31, 2001. We strongly believe that Canadian lumber import negotiations should begin immediately. Doing nothing, or extending the current Agreement for a short period of time, will only provide advantages for the Canadian industry and destroy our domestic softwood industry.

The central problem is that in the United States, the market sets prices for timber from both public and private forests while Canadian provincial governments heavily subsidize their lumber industry by selling their timber at a fraction of the timber's fair market value. In Canada, federal and provincial governments owns 95 percent of timber resources and set the price of timber at a level that ensures high employment levels. These administratively set prices are generally one-half to one-quarter of the actual market value of the timber, thus constituting a significant government subsidy. Further, Canadian timber licenses require the Canadian softwood industry to cut and produce lumber regardless of market conditions, which results in the dumping of lumber on the U.S. market.

The scope of the problem, however, goes beyond lumber prices and the forest products industry. For example, environmental interests are concerned about rates of harvest and labor interests are troubled by the potential impact on employment. While Canada has the right to make economic choices, such choices severely effect trade flow between the two countries and injuriously impact the U.S. economy. Due to these actions, the livelihood of over four million forest landowners; nearly 20,000 logging facilities, sawmills, and planing mills; and over 700,000 employees is at stake. The U.S. lumber industry faces a continued crisis this year with lumber prices collapsing nearly 33 percent and subsidized shipments from Canada growing to record levels. In the past six months, such conditions caused approximately one hundred mills across the U.S. to close with attendant losses in employment.

If we are to have free trade between the United States and Canada, we must also have a level playing field. To open our lumber market unilaterally, while allowing Canadian provincial governments to continue subsidizing timber to their mills would not only be unsound trade policy, but also devastating to our timber industry, its workers and landowners.

We urge you and your Administration to make resolving the problem of subsidized lumber imports from Canada a top trade priority. The U.S. softwood lumber industry cannot withstand an expiration of the U.S.-Canada Softwood Lumber Agreement without a new and improved trade agreement in place. This Administration must act immediately to enforce vigorously and fully U.S. trade laws which safeguard against subsidized and unfairly dumped imports. The first step should be actively engaging Canada in negotiations before the expiration of the Agreement.

We thank you for your time and urgent consideration of this matter.

Sincerely,

SOFTWOOD LUMBER LETTER SIGNERS

1. Baucus (D-MT)
2. Crapo (R-ID)
3. Lott (R-MS)
4. Daschle (D-SD)
5. Lincoln (D-AR)
6. Snowe (R-ME)
7. Cochran (R-MS)
8. Murray (D-WA)
9. Craig (R-ID)
10. Thurmond (R-SC)
11. Burns (R-MT)
12. Smith, G. (R-OR)
13. Breaux (D-LA)
14. McConnell (R-KY)
15. Sessions (R-AL)
16. Landrieu (D-LA)
17. Enzi (R-WY)
18. Wellstone (D-MN)
19. Hollings (D-SC)
20. Rockefeller (D-WV)
21. Hutchinson, T (R-AR)
22. Collins (R-ME)
23. Kerry (D-MA)
24. Shelby (R-AL)
25. Campbell (R-CO)
26. Dayton (D-MN)
27. Warner (R-VA)
28. Cleland (D-GA)
29. Johnson (D-SD)
30. Allen (R-VA)
31. Feinstein (D-CA)
32. Bennett (R-UT)
33. Smith, B. (R-NH)
34. Corzine (D-NJ)
35. Leahy (D-VT)
36. Stevens (R-AK)
37. Hatch (R-UT)
38. Wyden (D-OR)
39. Boxer (D-CA)
40. Byrd (D-WV)
41. Thomas (R-WY)
42. Cantwell (D-WA)
43. Jeffords (R-VT)
44. Miller (D-GA)
45. Kennedy (D-MA)
46. Levin (D-MI)
47. Stabenow (D-MI)
48. Murkowski (R-AK)
49. Dominici (R-NM)
50. Clinton (D-NY)
51. Kohl (D-WI)

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