



SPECIALTY STEEL INDUSTRY OF NORTH AMERICA

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THE FUTURE OF THE SPECIALTY STEEL INDUSTRY OF NORTH AMERICA

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INTRODUCTION

This paper describes the challenges facing the Specialty Steel Industry of North America (SSINA), the importance of the industry to the national defense and the industrial economy, and suggests public policies to support the long-term survival of this industry.

WHO WE ARE AND WHAT WE DO

The Specialty Steel Industry of North America is comprised of eleven companies engaged in the fully integrated manufacture and distribution of specialty metals in mill product form (sheet, strip, plate, billet, ingot, bar, rod, wire, etc.). Our customers use these materials to make end use items serving virtually all segments of the economy, including **defense; aerospace; consumer products; electronics, computers and communications; automotive and transportation; energy generation and distribution; chemical processing; pharmaceuticals; oil and gas production, distribution and refining; food processing; medical devices, instrumentation and hardware, and others.** The “specialty” nature of these materials refers to their **unique chemistry and high tech processing requirements.** The materials themselves include stainless steels, tool steels, electrical steels, and nickel alloys among others. SSINA members also make other materials such as cobalt based alloys, titanium, zirconium and other metals for critical high-temperature applications. It is not an exaggeration to state that none of the industries mentioned above could function effectively (not just efficiently) without these materials. Importantly, missing from this list is “steel”, per se. **The focus of the businesses represented by SSINA is not conventional “steel”.**

These specialty materials are vitally important to virtually every U.S. military platform. Whether it is the stainless wire for bomb springs and tank fuses; the flat-rolled armor plate for plane, ship armament and ground vehicles such as Humvees used to protect our troops in Iraq and Afghanistan; the high-temperature alloys, super alloys, and other metals critical in aircraft engines, airframes, and rockets; the alloy tool steel used in the production of machine tools for the manufacturer of tanks; alloys for the F18, Joint Strike Fighter, Black Hawk and Apache helicopters; or materials for nuclear propulsion, American-made specialty metals are a vital component of U.S. military strength.

Specialty steels touch our daily lives in a wide range of ways. They are essential in today’s industrialized economy and serve critical applications in all the industries mentioned above. Believe it or not, a significant amount of high technology stainless steel is used in every cell phone and computer manufactured today. Our health depends on the use of special grades of

stainless steel in the processing of foods and pharmaceuticals, in the manufacture of orthopedic implants and surgical equipment, in the manufacture and use of electronic diagnostic equipment like CT scanners. The list is virtually endless and all of it is somewhat taken for granted by the consuming public.

SSINA membership includes both small and large companies engaged in the activities mentioned above. Many of the member companies are multi-national companies with operations and sales in all major global markets.

The U.S. industry, represented by SSINA, is modern and efficient, and at the leading edge throughout the world in both new product development and the development and deployment of the most current technology to produce these materials. Maintaining this high-technology base has been the key to our success in a highly competitive global market place. Doing so has taught us over many years that process and product development are interrelated. Our production facilities are frequently our laboratories. Process development is essential if new products are to be made and sold cost-effectively.

In pursuit of these objectives, the industry spends substantial amounts annually on research and development, among the highest in the metals industries. Most of this funding is provided by the member companies themselves, with some additional U.S. government-supported research and development.

The industry provides relatively high wages to its workforce, both union and nonunion, and a sophisticated, highly productive workforce is crucial to its success. SSINA members have manufacturing facilities in 18 states.

THE POTENTIAL PROBLEM WE FACE

In a manner very similar to the loss of many other manufacturing industries in the U.S., and assuming disturbing trends that exist today continue virtually unabated into the future, **the U.S. over an extended period of time may gradually lose its domestic specialty metals manufacturing base, along with its leading edge position in metals technology. Maintaining a healthy domestic specialty metals industry is vital to the security interests of the U.S.** Domestic manufacturing of these critical materials is needed in times of war. The ability of the U.S. to maintain leading edge technology in these specialty metals depends on the continued existence of a healthy domestic manufacturing capability. We cannot let this domestic capability move offshore.

The potential loss of our leading edge position in specialty metals technology is particularly disturbing and could occur for the following reason. If domestic manufacturing of these specialty metals were to be outsourced to any significant extent, research and development will be shifted abroad as well, taking advantage of lower costs and ties to the manufacturing process. **As noted above, “our factories are our laboratories.”** This issue is not well understood or appreciated outside of the industry, but is viewed as an absolute by those well informed about the nature of specialty metals product and process development. **It is naïve, at best, to think that a leading edge position in these technologies and related defense**

applications can be maintained in the U.S. in the absence of healthy and vibrant domestic manufacturing activity.

WHY AND HOW COULD THIS HAPPEN?

- *Lack of a Coherent U.S. Strategy Related to Manufacturing*

As is the case with many other domestic manufacturing industries, U.S. specialty metals companies and their customers may be forced to accelerate efforts to source manufacturing offshore in order to reduce costs, generate positive cash flow, and improve earnings and a return on invested capital. Such a process is driven by the nature of the free enterprise system, but also is fueled by any significant imbalance in the relative magnitude of incentives/disincentives to invest here versus overseas. **Unfortunately, the U.S. government has no defined strategy in place to help guide this process, unlike many foreign trading partners. It is not a level playing field.** In addition, the very nature of the U.S. free enterprise system encourages individual companies to pursue the financial interests of their shareholders without regard to any overarching national objectives.

Significant financial incentives are currently being provided by foreign host countries in order to encourage foreign direct investment and gain access to U.S. technology. Numerous examples of this across the spectrum of the manufacturing sector appear almost daily in the business press, not as problems but as opportunities for U.S. corporations and their shareholders.

At the same time, disincentives to invest here continue to mount. The list is long and includes exponentially rising costs of healthcare and post-retirement benefits, exorbitant regulatory and legal costs, high taxes, along with increasing concerns regarding the enforcement of U.S. trade laws and the ability of the U.S. to establish fair trade practices with its global trading partners.

The overall level of profitability and return on invested capital within SSINA member companies is currently unacceptable, despite their ongoing investment in domestic manufacturing capability and R&D. This situation is not sustainable, and adds to the pressure to reallocate jobs and investments elsewhere.

Some of the issues impacting SSINA member companies and their customers are discussed in more detail in the following sections.

- *Government Procurement Policy*

A glaring example of failures in this area relates to repeated efforts in the U.S. Congress and the Department of Defense to weaken laws requiring the use of U.S. made specialty metals in defense applications. In the light of what has been mentioned above, how could anyone support this position? Even in this simple example, there are frequent differences of opinion about the relative importance of maintaining a healthy specialty metals industry. **What is more important to national security ... permitting the DOD to outsource critical materials at lower cost in the short run to meet budgetary constraints, thereby helping to destroy the domestic specialty metals industry in the process, or continuing to support existing statutes which mandate purchase of these materials at reasonable prices from**

domestic manufacturers? This is an excellent example of an issue that cries out for a national strategy with regard to the future of certain manufacturing industries, and specialty metals in particular.

- *Rising Costs of Manufacturing in the U.S.*

As documented by the National Association of Manufacturers (NAM), costs of manufacturing in the U.S. continue to rise in comparison to other countries. NAM's **latest estimates are that external, non-production costs related to taxes, health care, litigation, regulation and energy are at least 22% higher in the U.S. than the average of its nine most important trade competitors.** The fact that the U.S. has been unable to develop an effective national energy plan is a good example of the differences in approach between global trading partners and its potential impact on the nature of future investments by U.S. manufacturers. It is important to note that the cost issues described by the NAM for manufacturing in general are particularly acute problems for the specialty metals industry.

- *Subsidized Foreign Competition*

The industry faces powerful new entrants in the global specialty steel marketplace, particularly in stainless and electrical steels. **Globally, there is more capacity than demand yet additional large facilities are being added. Suppliers in North America face significant impact from huge new competitors in China, India and Russia.** This is happening despite attempts by the Bush Administration to **discourage foreign government subsidies and to encourage taking uneconomic capacity out of production.**

Much of the new capacity is being funded through massive government subsidization, particularly in China. The Administration actively supports negotiations through the Organization for Economic Cooperation and Development (OECD) to restrict such subsidization. However, the negotiations are not going well and are unlikely to produce effective controls. China has been participating in the negotiations, but has not been forthcoming with respect to restrictions on subsidization. **New Chinese capacity, initially built to service the fast-growing Chinese market, inevitably will produce for export. We are already seeing early signs of China's aggressive entry into the U.S. stainless steel market. SSINA forecasts that within the next 12 to 18 months, China will have significant overcapacity and will begin "dumping" specialty steel into world markets, with Chinese government support.** As supply begins to exceed demand in China over the next few years, it is logical to expect that countries currently exporting this product to China will begin dumping these products into the U.S. market, as they have done in the past. Thus the U.S. specialty metals industry faces the prospects of increased imports of dumped and subsidized stainless entering our markets not only from China itself, but from all those countries currently exporting these products to China. **SSINA seeks a level playing field with our global competitors, free of market-distorting practices such as dumping and foreign government subsidies.**

- *Aggressive Challenges to U.S. Trade Laws*

Relentless efforts are being made to weaken U.S. trade laws in multiple arenas – WTO negotiations, WTO “dispute settlement” proceedings and even in the United States Congress.

SSINA has been a major user of such laws for nearly 40 years. It is no exaggeration that without these laws the domestic specialty metals industry would have succumbed to foreign competitors which play by different rules, are propped up by huge government subsidies and have protected home markets allowing them to sell products below cost in the United States. **Private enterprise companies simply cannot compete with foreign producers that may never have to make a profit to survive.** Strong trade laws, consistent with WTO rules, are a necessary defense to such unfair trade tactics. The U.S. Administration and Congress must stand firm against attempts to weaken these crucial laws.

- *Currency Manipulation*

China has a built-in competitive advantage based upon Chinese government manipulation of its currency, **the yuan, giving China a 40 percent or greater advantage** on that basis alone, according to published reports. SSINA is joining with other manufacturing industries in challenging China’s currency practices.

SOLUTIONS TO THESE PROBLEMS

SSINA supports the following public policy positions crucial to the preservation of the specialty metals industry in the United States:

- The Administration and Congress should develop and articulate a coherent strategy in support of U.S. specialty metals manufacturing, **balancing incentives for multi-national corporations to invest overseas with ones encouraging them to invest in the United States, both in manufacturing and R&D.**
- Eliminate barriers to earning a profit in U.S. specialty metals manufacturing operations. The National Association of Manufacturers has documented much of what needs to be done in a letter to The Honorable Donald L. Evans, Secretary of Commerce, dated June 24, 2003. Some of the more important initiatives **include regulatory, tax and tort reform; addressing the exponentially rising costs of health care and post-retirement benefits, which burden many U.S. manufacturers, unlike many of our foreign competitors; and stabilizing and reducing energy costs.** The Administration has established an office in the Department of Commerce to develop a strategy to combat these phenomena. **The situation is urgent.** We encourage the Bush Administration and Congress to develop policies such as those recommended by NAM to deal with these accelerating problems.
- Discourage the manipulation of currencies by China and other countries, which give them an artificial advantage in global markets.

- Enforce and maintain strong trade laws to encourage investment by U.S. specialty metals manufacturers and discourage dumping and foreign government subsidization.
 - **Fight to preserve the integrity and effectiveness of current U.S. trade laws.**
 - Pass legislation providing for a “**private right of action**” enabling U.S. manufacturers to obtain treble damages, as in antitrust cases, for injuries proven to have resulted from foreign dumping and subsidization.
 - **Reevaluate U.S. strategy regarding the World Trade Organization.** WTO decisions in the dispute settlement process continue to undercut the ability of member companies to enforce their domestic trade laws. The system is not working and needs to be changed.
- Continue efforts to negotiate effective bilateral and multilateral agreements with U.S. trading partners consistent with the philosophy described above, *e.g.*, **restricting foreign government subsidies and eliminating uneconomic steel-making capacity.**
- Support the continuance and enforcement of statutes **requiring that the DOD purchase their specialty metals requirements from domestic manufacturers.**
- Implement the program of steel import licensing promised months ago by the Bush Administration.
- **Preserve the Continued Dumping and Subsidy Offset Act** allowing injured U.S. producers to receive compensation for damages caused by foreign producers.
- **Support continuance of the antidumping cases** that are currently in effect for stainless sheet and strip, coiled plate and wire rod currently being considered in sunset review processes.

The foregoing measures are not designed to protect an inefficient industry. Quite the opposite. They are designed to create a level playing field and thereby encourage domestic investment in an industry that is a technological leader in its field and critical to the long-term security interests of the U.S.

CONCLUSIONS

Is there a crisis today with regard to the specialty metals industry? No, but there could be if we don't act. Today there are fewer companies producing specialty steels in North America than at any time in the last 50 years. **The nation relies on this industry to support our national defense.** Overall, our industry is still marginally healthy, but the handwriting is on the wall. Now is the time to act. **If we wait until the domestic industry is gone, it will be too late to reconstruct it in an acceptable timeframe.** It is not a matter of equipment. It is a matter of people – highly trained and experienced people at all levels – from the manufacturing floor to the R&D center. **The unique nature of these materials and their processing is not taught in universities. It must be learned on the job. Once those well-paid, highly-skilled jobs are lost, they cannot be replaced easily or quickly.** So far, the U.S. political system has not

recognized this as a significant problem, and therefore has not put in place well thought-out solutions. It seems content to let the “free trade” free enterprise system run its course, while the U.S. lives by the rules. If it does not act soon, it may be too late.

It is not realistic to expect that all types of manufacturing stay in this country. Global competition is good for U.S. industry and for U.S. consumers. When multi-national companies move some of their production to other countries in order to participate in economic growth occurring there, this can benefit the U.S. However, the U.S. should not lose jobs and manufacturing ability, and weaken our industrial and defense capacity for the wrong reasons. It is a question of balance, as with most things in life. **Today, the scales tip heavily in favor of moving manufacturing off shore. It's tough being a manufacturer in the U.S. today and it's getting tougher every day. This trend must be reversed, particularly in the case of specialty metals.** SSINA supports the development of government policies to enforce trade laws designed to eliminate anticompetitive practices and encourage investment and job development in the U.S.

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