The Committee on Pipe and Tube Imports

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Written Statement of Edward T. Kurasz
Executive Vice President of Sales, Allied Tube & Conduit
Chairman, The Committee on Pipe and Tube Imports (CPTI)
Before the U.S. House of Representatives Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing and Trade Hearing
"Our Nation of Builders: The Strength of Steel"
March 21, 2013 – 9:30 a.m. – 2123 Rayburn House Office Building

- Representing Allied Tube and Conduit, a leading steel pipe and tube manufacturer celebrating over 50 years of serving its customers.
- Chairman of The Committee on Pipe and Tube Imports, an association of 42 pipe, tube and fittings producers representing 30 states and over 35,000 workers
- The pipe and tube industry is suffering from massive surges of unfairly traded imports, which not only threatens the future of that industry but also that of the flat-rolled steel industry.
- Transshipment and misclassification of imports that allows importers to evade duties and defraud Customs must be stopped, and we support the passage of the ENFORCE Act that would aid U.S. Customs and Border Protection in that fight
- We believe that the Government of China's continued subsidization of its steel industry and manipulation of its currency continues to threaten our future and Congress and the Administration must take action through legislation and at the WTO.
- Our industry's inability to obtain relief through the current U.S. International Trade Commission further cripples us against the onslaught of imports, and we ask for your assistance in amending the trade laws to provide for the protection of U.S. manufacturers.

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Good morning Chairman Terry, Ranking Member Schakowsky and the distinguished Members of the Energy and Commerce Subcommittee on Commerce, Manufacturing, and Trade. My name is Ed Kurasz, and I am Executive Vice President of Sales for Allied Tube and Conduit, a part of Atkore International, in Harvey, Illinois. On behalf of my company and colleagues in the industry, we thank you for holding this timely hearing on the steel industry and its role as a critical contributor to the nation's economy.

Our company manufactures a variety of steel pipe and tube products at facilities located in Phoenix, AZ, Harvey, IL, Kokomo, IN, North Philadelphia, PA, and DePere, WI. Unfortunately in 2012 we closed our facility in Morrisville, PA. I will elaborate on this later in my testimony. At our headquarters in Harvey we are one of the last steel manufacturers on the south side of Chicago that remains open. This location is home to our largest facility that employs nearly 1,000 workers. We have continually reinvested in this world-class, state of the art facility since we opened our doors in 1959. We are proud of our history and our commitment to serving our valued customers for over 50 years, and we look forward to keeping with this tradition for many years to come. As a leader in the industry we developed a patented in-line galvanizing technique for our products that is recognized around the world.

It is a privilege to appear before you today as the Chairman of the Committee on Pipe and Tube Imports (CPTI). Our company was one of the founding members of the CPTI when it was established in 1984. Today, CPTI members represent the majority of U.S. steel pipe, tube and fittings producers and employ approximately 35,000 workers nationwide. We have 42 member companies which are located in 30 states. Our members supply the mechanical tubing that supports the automotive, truck, and agricultural industries; standard and structural pipe for building construction, fire protection and infrastructure; stainless and pressure pipe for chemical plants and refineries; and OCTG and line pipe for the energy industry.

<u>Overview of U.S. Pipe and Tube Industry and Impact of Imports</u>

This morning I would like to provide members with a glimpse into our sector of the U.S. steel industry. We are an important customer of the U.S. flat-rolled steel industry since we use steel sheet as the primary input for our welded products. Additionally seamless producers use billets to make their product. The health of our pipe and tube industry is closely aligned with that of the nation's steelmakers, and over the past three decades we have worked together to promote pro-manufacturing policies.

In 2012, pipe and tube imports in the United States were 8.75 million tons, an all-time high. That represented an increase of 1.7 million tons from 2011 and meant that virtually the entire increase in domestic consumption in 2012 was captured by these imports, with domestic shipments remaining flat. Worse yet is the fact that in the energy tubular areas, the domestic industry has been rapidly increasing capacity and dedicating significant investment to enable greater production of oil country tubular goods (OCTG) and line pipe to meet the projected demands of growing U.S. energy production. However, these new mills are not operating at the capacity levels that their investors envisioned, nor are they hiring as many workers as they could. In fact, in 2012, OCTG imports took more than half of the U.S. market and line pipe imports took more than two-thirds of the U.S. market. For example, Korea alone shipped nearly 2 million tons of pipe to the United States. Korea, a country with no oil or gas drilling of its own whatsoever, and no comparative advantage, has become the largest supplier of pipe and tube products to the U.S. market. Other examples include Vietnam, Turkey, Taiwan, India, and many Middle Eastern countries, who have contributed to the massive import surges of pipe and tube to the United States.

These trends are troubling, and unfortunately our industry has suffered from these influxes of imports for far too long. I would emphasize that our U.S. pipe and tube mills and workers are the most efficient in the world. The cost of U.S. labor in a ton of pipe converted from steel is far less than the cost of ocean freight and port unloading expenses in an imported ton of pipe. As you know, U.S. integrated steel mills have an advantage over foreign competitors because they have access to their own North American iron ore and coking coal supplies. U.S. flat rolled mini mills are absolutely the most efficient converters of scrap into steel and the U.S. generates more scrap than any place in the world. Unfortunately for them, 2012 financial results show that these steel mills are selling flat rolled to the pipe and tube industry at about their cost of production without any measurable profit margins. So, what is the problem?

Challenges to the Industry

There are two problems, and we would like to propose to the Committee two solutions that you should consider in the legislative process. The first opportunity for change is China – currently the largest producer of steel in the world and a major exporter of steel to the United States over the past decade. Today, we have orders that restrict imports on seven different pipe and tube products from China. While direct imports of pipe and tube from China have fallen from 3 million tons in 2008 to less than 200,000 tons last year, we have experienced significant evasion of orders through transshipment and misclassification. This has eroded much of the relief intended by the orders. As a result, we have worked with others in the industry to support Customs enforcement legislation that would provide U.S. Customs and Border Protection (CBP) with the necessary tools to end Customs fraud and duty evasion. Our efforts continue through our work with Committee member Rep. Billy Long (MO) and we thank him for his leadership on this legislation and look forward to the reintroduction of the ENFORCE Act.

To understand the challenge that China presents, I believe it will be useful to explore China and its steel industry. Today, China has 250 million tons of subsidized excess steel capacity and has become far and away the largest steel exporter in the world at dumped and subsidized prices. Not surprisingly, Korea has become China's single largest export market. In fact, we estimate that more than half of the 8.75 million tons of pipe and tube that was imported in the United States in 2012 was made from Chinese flat-rolled steel.

The Government of China controls approximately 90% of its steel industry. Under Chinese law, a foreign company may not have a controlling interest in a company that melts steel in China. According to the OECD, China had approximately 970 million tons of steel capacity and approximately 717 million tons of steel production in 2012. While China only exports about 10% of its production, those 60 million tons make it far and away the largest steel exporter in the world, and it exports that steel at ridiculously low dumped and subsidized prices. The Chinese government is funding the building of 30 million metric tons of new steel capacity in the south of China through state-owned enterprises (SOEs) in order to maintain growth in the Chinese economy and increase employment for their citizens. Our industry has worked with Congress to obtain support for legislation that would level the playing field. For instance, we support an effort to end currency manipulation by the Chinese and urge Congress to support the Currency Reform for Fair Trade Act, which was reintroduced on March 20, 2013 by Congressmen Levin, Tim Ryan, Tim Murphy, and Brooks. We applaud their efforts and ask you to support this important legislation. We ask Congress to weigh in with the Administration to pursue actions at the World Trade Organization which would end China's subsidization of its steel industry.

Our second obstacle is the inability of the U.S. steel industry to respond to surges of unfairly traded imports by obtaining relief at the U.S. International Trade Commission

(ITC). Last year both the galvanized steel wire industry and our circular welded pipe (CWP) industry lost cases at the ITC because the Commission found that despite increased imports, these respective domestic industries were showing modest improvement due to increases in demand after the depth of the recession. We are very concerned that the Commissioners are not adhering to the laws as written by Congress. Allow me to present two examples that just begin to illustrate the problem. First, in its November 14, 2012 negative determination in circular welded pipe from India, Oman, the UAE and Vietnam, four countries which the Department of Commerce found were dumping and/or subsidizing pipe into the United States and who had increased their exports to the United States from 100,000 tons in 2009 to 200,000 tons in 2011, the Commission said, and I quote, "we are unpersuaded by petitioners' argument that the domestic industry's operating income margins should have approached 9%, which they allege to be the industry's approximate cost of capital, in the context of the business cycle at the end of the period examined…Finally, we note that petitioners' argument is premised on the assumption that the domestic industry's operating income margin should equal or exceed the industry's cost of capital…"

From my own business experience I find the ITC's statement perplexing. I believe at the foundation for any business, especially in manufacturing that a key principle is to earn your cost of capital. In this case, the data gathered by the ITC showed that the industry had operating margins of 2% and net losses of 2%. Not only were we failing to earn the 9% that we pay for money for non-investment grade bonds, but the industry was not even making enough to pay our interest expenses, i.e. we were losing money. In spite of this, the

Commission actually found that we were a healthy, profitable industry not vulnerable to increased imports, and the final result was a 4-2 negative determination – a decision that sent shock waves through the industry that continue to be felt today.

Earlier in my remarks I mentioned that one year ago, in March 2012, Allied closed a plant in Morrisville, PA. This facility had a capacity of approximately 100,000 tons making the same CWP products that were unfairly imported into the United States. As a result, 75 hardworking, USW workers permanently lost their jobs. This is what the ITC said about the plant closure in their determination, and I quote, "Although Allied closed the mill in Pennsylvania due in part to subject import competition, other evidence indicates that JMC acquired the mill from Allied in 2012 and restored at least a portion of the mill's capacity by distributing some of the mill's equipment to other JMC mills that would continue to serve the shuttered mill's customers." They cite an American Metal Market (AMM) article entitled "JMC to Buy, Gut and Shut Atkore Plant" from March 14, 2012 and to an affidavit that I submitted as to why we closed that plant in response to unfairly traded imports taking volume away from that plant and selling at prices we couldn't possibly meet. Nothing in my affidavit, nor in that AMM article, supports the ITC statement that using our mill for replacement parts for other JMC mills instead of buying new replacement parts would add to JMC's capacity. It is very troubling as a business executive trying to maintain employment for American workers to face a government agency that it is willing to go out of its way to twist facts or make untrue statements to the detriment of American businesses and American workers. This certainly confirms my view that we have a problem here.

The result of the ITC's determination last fall has created an even more challenging environment for us to compete in. The pipe mills in Vietnam, many of which have been moved from China and use Chinese steel, keep ramping up their shipments. The president of the largest mill in the UAE issued a press release the day after the ITC vote, thanking the ITC for its negative determination and pledging to increase exports to the United States. That same company had admitted in a public presentation made in the Middle East that its two primary sources of steel were China and Iran. This entire series of events is disturbing to me and frankly elevates my concerns that swift and powerful reforms must be made at the ITC to ensure that industries can obtain relief from unfairly traded imports.

Today, the combination of a massive buildup of inventory in 2012 of nearly nine million tons of imports and the continued import surge is wreaking havoc on our industry in the first quarter of 2013. The attached charts illustrate the stark reality we are facing. This data, recently released by the AISI, shows industry shipments in January 2013 compared to January 2012. Standard pipe is down 25%, OCTG is down 12%, line pipe is down 26%, mechanical tubing is down 11%, pressure pipe is down 46%, structural tubing is down 16% - overall, down 16%. These downturns support what we know has occurred – a reduction of production shifts and workers' hours in our industry. We are suffering even in the midst of an economic recovery, all because of unfairly traded imports.

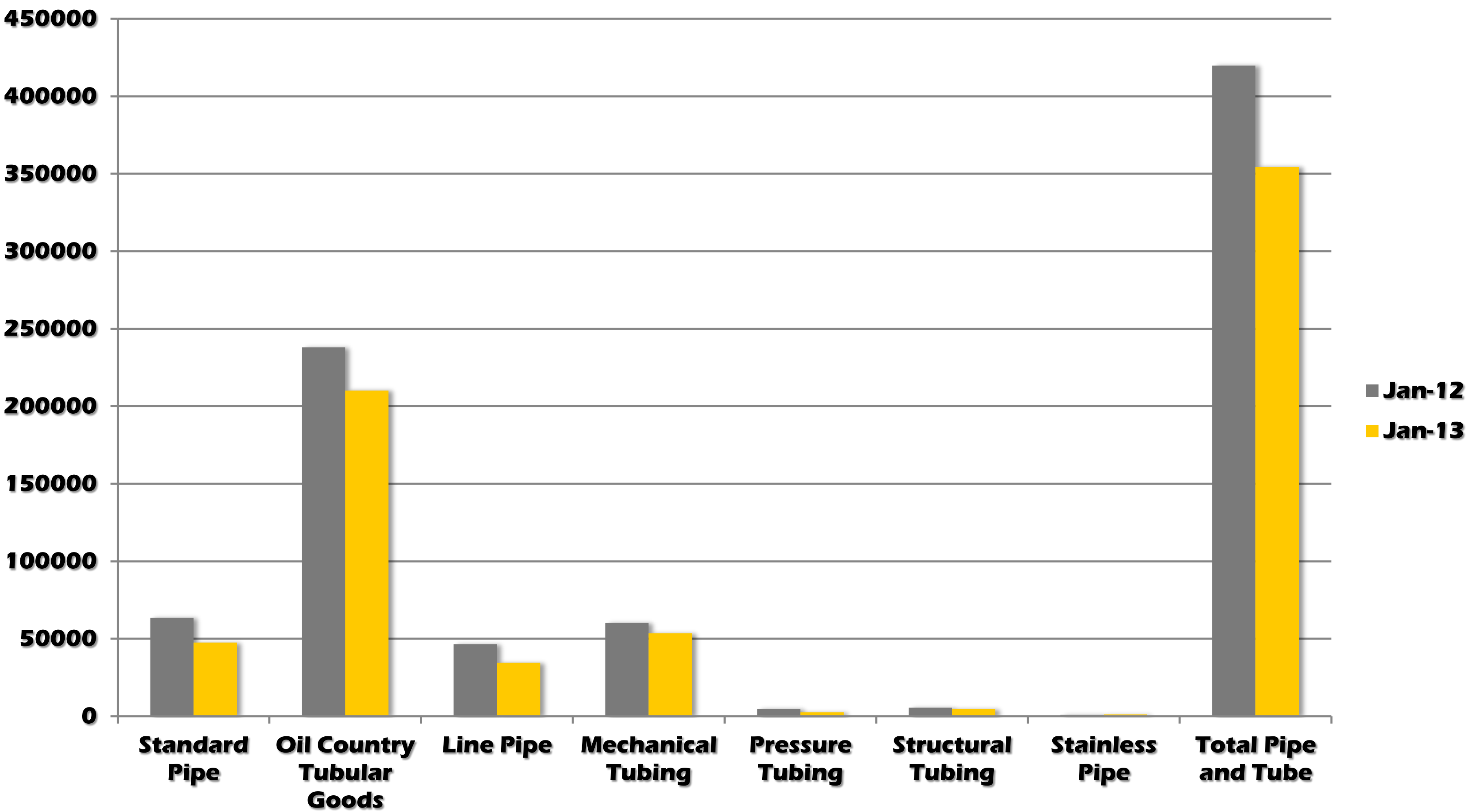
<u>Call for Congressional Action</u>

You have heard about import surges hurting the American steel industry and our segment, the pipe and tube industry. What can this Committee do about it? We have two proposals for your consideration. First, urge USTR to work with governments and our major trading partners that have steel industries also being hurt by massive Chinese subsidization of inefficient overcapacity to file a case at the WTO against China's violations of the Subsidies and Countervailing Measures Agreement (SCM). That provision of the WTO code forbids governments from providing funds to make up for companies' operating losses and bars subsidies over 5%. China has violated both of these provisions and action should be taken immediately.

Second, put reform measures in place within the ITC and give American industry the access to trade relief that Congress intended through the passage of the antidumping and countervailing duty laws. Urge the White House to nominate individuals who we know will strongly enforce the trade laws. This Administration has dedicated resources to promoting export growth through its National Export Institute (NEI). Congress, while supporting the NEI, should demand that the Administration propose and implement fair trade initiatives that will ensure a promising future for U.S. manufacturers. Finally, we would urge you to support changes to the injury and threat of injury statutes consistent with our WTO obligations that make it clear that U.S. industries who are facing dumped and subsidized competition should not have extremely high hurdles to gain relief, but that Congress meant it when it said it in the 1979 Trade Act that material injury is injury that is not immaterial, insignificant or inconsequential. These laws need to be revisited.

The CPTI appreciates the opportunity to appear before you today. We sincerely believe that without access to trade relief against unfairly traded imports, our industry will disappear within a decade and the flat-rolled steel industry will see more plant closures and greater unemployment for American workers instead of growing with our industry, its second largest customer. We urge the Committee to take steps in the development of broad and effective pro-manufacturing policies that will continue to ensure a bright future for this industry, its workers and their families as well as the local communities that make up this great country. Thank you.

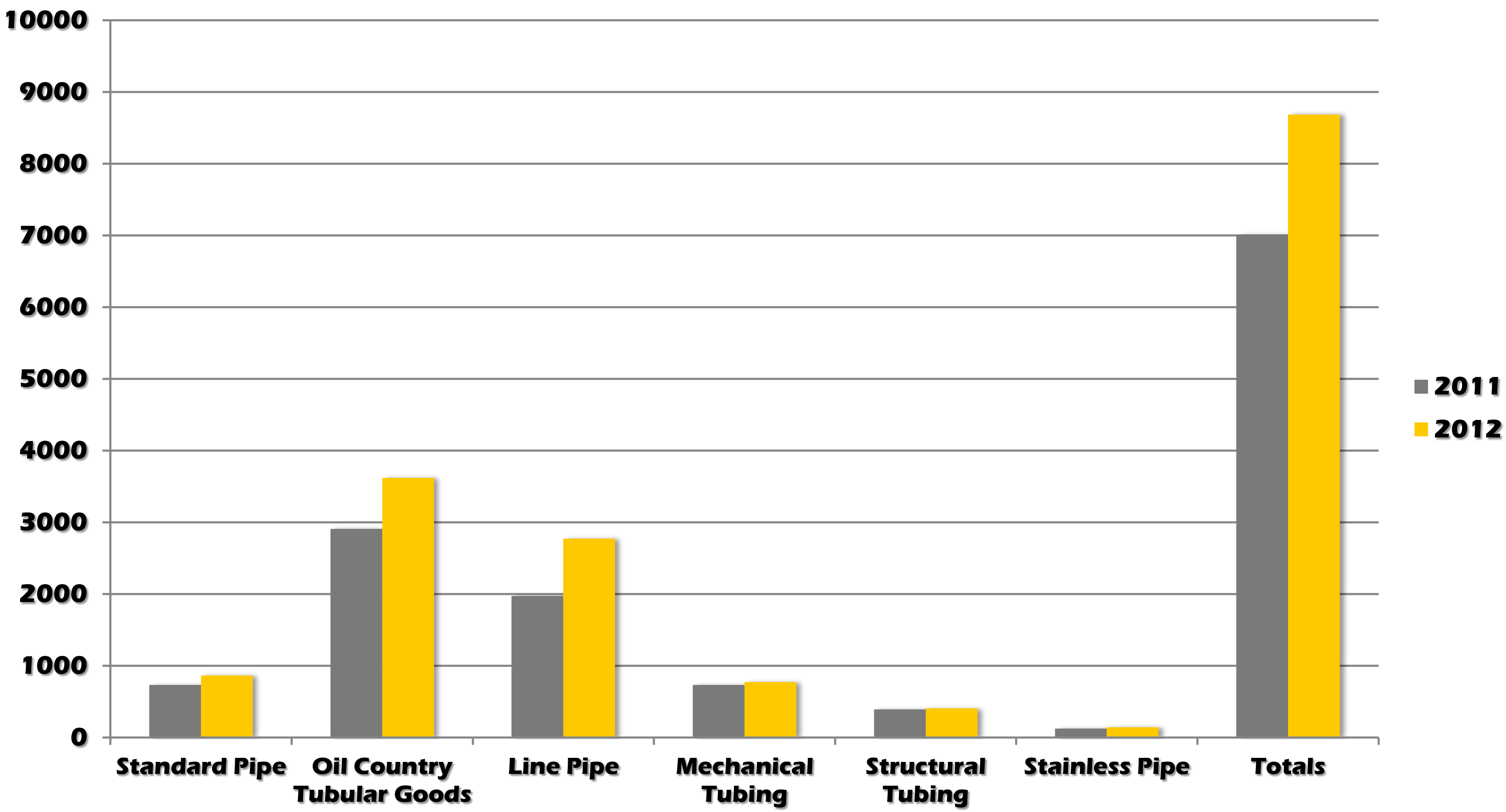
DRAMATIC DECLINE IN DOMESTIC PIPE AND TUBE PRODUCTION JANUARY 2012 VS. JANUARY 2013



Source: American Iron and Steel Institute AIS 10 Report - January 2012 and January 2013
Prepared by The Committee on Pipe and Tube Imports – March 2013

INCREASES IN PIPE AND TUBE IMPORTS 2012 VS. 2011

(IN 000S SHORT TONS)



Source: IM 145 – Modified by Canadian Export Statistics (Totals reflect all pipe and tube, some subgroups not included above)
Prepared by The Committee on Pipe and Tube Imports – March 2013