

Testimony of John W. Nolan, Vice President and General Manager,
Steel Dynamics, Inc. before the Senate Banking Committee Hearing on China Currency
Manipulation - May 23, 2007

Good Afternoon Chairman Bayh and Members of the Committee. Steel Dynamics began its journey in 1994 as a “greenfield” flat-rolled steel producer in Butler, Indiana. Today, we are arguably the fifth largest steel producer in the United States, and we are an American company, with American values and interests. We have eight (8) production facilities in Indiana employing nearly 2,000 Hoosiers. We have bought or built twelve (12) more facilities in the United States that when combined with our Indiana operations, produce over five (5) million tons of steel products annually, and support more than 3,500 American families.

It is a fact that the government of China manipulates its currency to the detriment of U.S. manufacturers, and it is a fact that the Chinese government has actively intervened in the currency market to gain export advantage for its manufacturers since 1994. China’s \$470 billion global trading surplus in 2006 and its \$225 billion bi-lateral trading surplus with the United States affirm this. The brilliant Chairman of the Federal Reserve, Ben Bernanke, also understands this economic reality because he has recognized and emphasized this significant point to which most economists agree -- that manipulation of the value of the Chinese Yuan by the Chinese government clearly constitutes an export subsidy for Chinese manufacturers. Given that the Bush Administration has failed during the past six (6) years to directly confront this unfair trade practice via the WTO, I would like to focus in my testimony today on the Administration’s additional failures to enforce trade laws passed by Congress -- trade laws intended specifically to address surging imports from China that might materially

injure U.S. manufacturers. I will then ask Congress to act expeditiously to amend these laws to ensure that they are used as Congress originally intended they be used.

In 2001 Congress passed the China Permanent Normal Trade Relations Act. The centerpiece of this Act, which granted China permanent normal trade relations with the United States and membership in the WTO, was the inclusion of a China specific safeguard that was only allowed in U.S. law for a period of twelve (12) years. This was supposed to be a panacea to give relief to U.S. industries that suffered import surges as a result of China's complete and unfettered access to the U.S. market and its WTO membership. To everyone's grave disappointment, the President of the United States has all but nullified this congressionally mandated statutory provision.

Since 2002, there have been four affirmative decisions by the International Trade Commission in Section 421 cases. In each the President has denied relief claiming that the rebuttable presumption of full relief had been met, and concluding that there would be more harm to the U.S. economy from relief than benefit to the U.S. industry producing the subject products. Since the negative 2002 determination by the President on steel wire hangers, wire hanger imports from China surged by 800%, from 300 million hangers to 2.4 billion hangers a year. Thirteen of the fifteen U.S. plants producing these products have already shutdown. In a March 5, 2007 article, *Fortune Magazine* reports that the last two steel wire hanger plants, one in Wisconsin and one in Alabama will also be shutting down soon. The Chinese will have gone from 15% of the U.S. market to 90% of the U.S. market with the rest supplied by other imports. Soon whenever a man or woman in this country picks up a shirt or blouse on a wire hanger from the dry cleaners it will be carried by a Chinese wire hanger. About 2,500 workers lost their jobs in this industry

and the U.S. steel wire rod industry has permanently lost several hundred thousand tons of annual consumption due to the loss of this important downstream market.

In a 2004 case on ductile waterworks fittings, the President again denied relief for exactly the same reason cited in the steel wire hanger case. In the three years since that case concluded, imports from China have more than tripled their market share, from 20% to approximately two-thirds of the U.S. market and major foundries have been shut down in Chattanooga, Tennessee and Aniston, Alabama, as well as partial foundry shut downs in Birmingham, Alabama. Another major production site, Tyler, Texas will see its operations dwindle as its parent company ramps up a new foundry -- in China!!!. In the very near future our entire municipal waterworks infrastructure carrying water from every U.S. local water authority to every U.S. home or business will be entirely dependent upon imports from China.

The last Section 421 case -- and I emphasize -- it will be the last ever 421 case unless Congress changes the law, was near and dear to Steel Dynamics. That case involved circular welded non-alloy steel pipe. This 421's petitioners were many of the U.S. steel industry's largest customers. At the time the case was brought, imports from China had increased from 10,000 tons in 2002 to 290,000 tons in 2004. After the President said no to relief in late 2005, these imports soared to 680,000 tons in 2006 and are on pace for nearly a million tons in 2007. In fact, as evidenced by the chart attached to my testimony, after the President waved the green flag to the heavily subsidized and state controlled Chinese steel pipe and tube industry, imports of pipe and tube have surged uncontrollably to a total of 3.5 million tons this year, approximately 30% of the entire U.S. market. Every ton of pipe from China that replaces a ton of pipe produced in

the United States also takes a ton of steel sales from SDI and other U.S. mills. There have already been three major plant shutdowns by U.S. pipe producers and it is our understanding that many more will occur in the near future.

What amazes and frustrates me is that when I bring these issues up to USTR and ask them why they do not use their power to self-initiate 421 cases when they see the devastating impact on certain industries of massive surges of Chinese imports all I get back is a blank stare and then the general political pablum about how the Administration is always committed to enforcing laws. How can they be committed to enforcing the law by denying relief and then in the face of import surges of 300%, 400%, 800% and the total and complete devastation of an industry and fail to initiate their own 421 case to try to save the industry. It is either that they do not care or that they have another agenda and that agenda is not in the best interest of the United States and its workers.

As a company trying to create and maintain good jobs in the state of Indiana, I am also overwhelmed by the loss of manufacturing jobs in Indiana caused by increased imports from China. Most of these lost jobs are in the steel using sectors with the hardest hit being the auto parts industry. According to the 2007 Indiana Manufacturer's Directory which was reported on May 9, 2007, in just the last 12 months Indiana lost 2.4% of our manufacturing jobs, 17,000 lost jobs. Of these 17,000 lost jobs over 11,000 were in auto parts. Our state lost 12% of our auto parts jobs in one year. We are representative of the United States job losses in auto parts. The Chicago Fed reported that there have been nearly 200,000 job losses in the auto parts industry in just the last four years. The cause of this is the increase in auto parts imports from China from a billion dollars in 2001 to over 7 billion dollars in 2006. The Economic Policy Institute

reported that Indiana was the hardest hit state in the mid-West in terms of job losses by reason of surging imports from China.

In industries like auto parts, the Chinese government targets the creation of an entire industry through subsidized loans, special economic zones, the provision of input materials at subsidized rates, and of course massive currency manipulation. The Commerce Department has refused to even investigate whether currency manipulation is an export subsidy. Members of the Committee, this is beyond the pale!! Mind you, unlike the Schumer-Graham Bill imposing a 27.5% tariff on all goods from China, countervailing currency manipulation vis-à-vis the Department of Commerce means that only U.S. industries that can demonstrate injury by reason of increased imports from China will obtain relief. At the present time, approximately 1% or 3 billion dollars of Chinese exports are currently covered by unfair trade case duties. Application of the countervailing duty law to China and mandating that the DoC defines currency manipulation as a countervailable subsidy will not result in massive trade disruptions with China. It will merely allow U.S. industries to fight for and obtain the elusive “level playing field” we have for so long sought.

At SDI, we feel fortunate that nearly 60% of what we produce finds its way into the nonresidential construction market. At the present time, the Chinese aren't shipping many buildings to the United States. However, 40% of our sales are made to the flat-rolled steel market. Our flat-rolled products often wind up as pipe and tube products, auto parts, automobiles, or appliances. Virtually, all of these market segments are under assault today by the Chinese, severely reducing demand from this important customer base, lessening our sales opportunities, and contributing to market oversupply. I note a

recent announcement by the one-hundred (100) year old American company “Citizen’s Coke” of Indianapolis. The announcement stated that Citizen’s Coke was shutting down its coke ovens because its foundry coke customers, like a former Chrysler auto parts foundry in Indianapolis, had shutdown and moved to China. We do not want the same thing to happen to ultra-modern, environmentally, and super efficient steel producers like Steel Dynamics. Therefore, I ask this Committee to make every effort possible to combat Chinese currency manipulation, and to urge the Finance committee to fast track to the floor of the Senate provisions that are currently in Senator Rockefeller’s trade bill, S.364. These provisions would remove Presidential discretion from Section 421 enforcement and require the Department of Commerce to apply the countervailing duty law to Chinese currency manipulation. Thank you very much for today’s opportunity to appear before you.