B. Walter & Co.

Since 1887

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Thank you for this opportunity to discuss how the Section 232 Tariff has impacted my company which is representative of a typical manufacturer of fabricated metal products, the fifth largest segment of U.S. manufacturing. I applaud the Trade Commissions investigation into the Section 232 Tariffs as these ongoing tariffs, which are now more than 4 years old, have severely damaged U.S. manufacturing global competitiveness and an independent review of their impact is long overdue.

B. Walter & Co., in continuous operation since 1887, is among the oldest manufacturing companies in Indiana. Steel is our exclusive raw material and we receive it weekly in semi-truck load quantities from domestic suppliers in sheet, coil, and wire form. We laser cut it, stamp it, bend it and weld it into products for other manufacturers and distributors serving the furniture, kitchen cabinetry, construction, agriculture, and beverage markets. Some examples of our products include: drop leaf supports and locking mechanisms for furniture manufacturers, retail store metal point of purchase display racks, and brackets used to hold trash bins in place under the kitchen counter.

My own manufacturing career, which began in the engineering department of a European steel producer, spans nearly 40 years and most of it has been with companies that produce products from steel. This background makes me well qualified to comment on the impact of the Section 232 steel tariffs.

As with most manufacturers, our two largest cost inputs are labor and raw material. The problem with the Section 232 steel tariff is that it has caused the cost of steel in the U.S. to become unhinged from its global price. Typically, Hot Rolled Band (a basic type of steel) sells in the U.S. for a $100 per ton premium to its global price. Since the imposition of the Section 232 steel tariff, the premium has increased to as much as $1200 per ton. This puts U.S. industrial users of steel in a tough position of deciding how much of the steel cost increase to pass onto their customers. Pass along too much of it and risk losing business to foreign competitors who have access to steel at half the U.S. cost. Pass along too little of it and your factory generates insufficient revenue to cover its cost which is not a sustainable situation.

The Section 232 steel tariff has damaged our company in a number of ways.

First, it was a major factor behind the nearly tripling in our cost for steel vs. pre tariff levels. Currently, we are paying 70% to 100% more for steel than we did in early 2018 before the tariff was imposed. Such a cost increase has forced us to increase the selling price of our products multiple times which is a huge diversion of management attention away from growing our company. Additionally, in order to retain business, we

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have had to internally absorb a portion of the steel cost increase which has reduced our profitability and at times caused us to operate at a loss.

Second, the higher cost of steel has increased our working capital needs. Working capital is used to fund inventory and receivables and is often financed by a Line of Credit from one's bank. When we approached our bank for an increase in our Line of Credit to help us pay for the higher cost of steel, they said "no" because our profitability was too low. This forced us to find other sources for our increased working capital needs.

Third, we had to reduce the size of our management team as well as defer and reduce the number and amount of raises for plant staff. This has posed staffing challenges for our company given the tight labor market as we aren't able to offer as high a wage as we would otherwise be able to do.

Fourth, the reduced profitability of our business caused us to be unable to restructure our corporate debt and lock in lower interest rates ahead of the well telegraphed interest rate increases we are now experiencing. This alone is expected to add hundreds of thousands of dollars in additional interest expense to our company in the years ahead.

Fifth, a much larger portion of our cash flow has been diverted towards paying our steel bills leaving less money available to invest in our business. This has resulted in us deferring capital equipment investments in our company which would make us more efficient and globally competitive.

In total, the cumulative impact of the Section 232 steel tariffs on my small manufacturing business with a staff of 40, is well over $1 million. That's a considerable sum of money for a company of our size.

In conclusion, I'd like to share my assessment for the future of my industry and in turn domestic steel producers. Although the negative impact on steel users from these tariffs has been reduced somewhat by the past year's transition to a combination steel import quota and steel tariff scheme, this is insufficient to alter changes underway in domestic steel market. Because these tariffs have existed for so long with no clear path communicated for them to end, across the U.S. boardrooms at large steel users have had ample time to develop plans to move some of their manufacturing operations to other countries in order to secure steel at more globally competitive prices. Indeed, this has already happened at one of my former employers. Consequently, the longer these steel tariffs remain, the lower the long-term demand will be for American made steel resulting in fewer manufacturing jobs both at domestic steel users as well as domestic steel producers.

Scott Buehrer
President