<u>Testimony for Hearing on *Economic Impact of Section 232 and 301 Tariffs on U.S. Industries*, Inv. No. 332-591</u>

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I appreciate the opportunity to testify and relate to the Commission my experience with the impact of the Section 232 tariffs on steel imports. My name is Stuart Speyer and I am president of Tennsco, a U.S. manufacturer of steel storage products located in Dickson, Tennessee. My father founded the company in 1962 and we just celebrated our 60th year in business. We are a third-generation family-owned manufacturer with over 1.8 million square feet of manufacturing and warehousing in nine facilities located in middle Tennessee. We employee over 700 people, which makes us the largest private company in the county.

We sell our products through distributors and wholesalers with the end user primarily being industrial and commercial businesses located across the U.S., Canada, and Mexico. Other than a paint finish and some packaging material, our products are almost exclusively made from commercial quality cold rolled and hot rolled steel. The manufacturing process starts with large coils of steel, which are cut, formed, welded, painted, assembled, and packaged in our facilities. Our product lines consist of metal storage cabinets, bookcases, lockers, several types of steel shelving, light duty rack, library bookstacks, industrial workbenches and various types of filing products.

Far and away the largest cost driver for Tennsco is the cost of steel. In 2021, we consumed over 55,000 tons of steel. Over the past 20 years, we have experienced fluctuations in steel pricing which have presented challenges for our company. The first dramatic increase was back in 2002-2003 when George W. Bush placed Section 201 tariffs on imported steel. We navigated another price hike in steel costs in 2008 and a spike in 2018. The pandemic exacerbated the price spike that resulted from the Section 232 tariffs and from May 2020 to October 2021, the AMM steel index for hot rolled steel went from under $22/cw to just under $98/cw in October 2021. From valley to peak, this was a 347% increase.

For much of 2021, not only did steel prices reach "precious metal" levels, but there was reduced availability. For several months it was a "feeding frenzy" on steel purchases. We were buying steel on the spot market at well above our contracted prices just to keep our factories running. On numerous occasions, we were forced to shut down production lines due to the lack of steel. We incurred higher production costs as we were jumping between different stamping line setups simply based upon what steel was available. We were hand to mouth running production, which created havoc on our scheduling department.

We need stability and certainty in our industry and the Section 232 national security tariffs on our allies and now some Tariff Rate Quotas create more instability, not less, even if you do not import much steel.

The vast majority of the steel we use is from domestic sources and the quality of the steel during that time showed a noticeable dip which increased our reject and scrap percentages.

Our on-time service levels reached embarrassing lows. We scrambled to adjust our product prices to keep pace with escalating material costs throughout 2021. We had never resorted to surcharges before, but rapidly escalating steel pricing left us navigating uncharted waters. We raised prices on average 20% in February of 2021 followed by four escalating surcharges that started at 18.25% and ended in December at 58.25% above the 20% increase from February. The current U.S. inflation rate of 8.6% is a 40-year high, but the rate is quite "quaint" compared to what the U.S. experienced with steel the last couple of years.

I suspect there are multiple causes for the run-up in steel prices. The domestic steel mills shut down much of their capacity in early 2020 as Covid appeared to be pushing the country into a recession. As we all know, the economy made a dramatic comeback starting the second half of 2020 and the mills decided to keep these facilities idle. Worldwide there were various supply chain issues that was like sand in the gears. Relative to this hearing, a contributing factor was something our own government can control - the 25% Section 232 import tariffs on steel. It was a perfect storm of a mismatch of supply and demand. As a result, the U.S. steel mills and shareholders are making record profits at the expense of manufacturers who consume steel and ultimately the American consumer's pocketbook, since manufacturers who can are forced to pass on rising steel costs with product price increases.

I want to be clear that the greatest concern I have isn't so much the price of domestic steel, but the price we are paying relative to our foreign competitors. As this Commission knows, in addition to the 232 steel tariffs, there are 152 separate anti-dumping and countervailing duty orders insolating U.S. mills from foreign steel competition. According to the Steelbenchmarker report, back in November, U.S. manufacturers were paying over three times what our Chinese competitors were for steel. Even now U.S. hot rolled is 108% higher and cold rolled is 133% higher than China. The U.S. prices as compared to the world export market, reached a 144% differential and is still at 75% higher. As a result, our trade policies have been effective at limiting raw steel from entering the country, but not products and components made from steel.

There are foreign suppliers of the majority of the products Tennsco manufactures, i.e., steel shelving, lockers, cabinets, and workbenches. Our largest product line is metal storage cabinets and our largest competitor sources them from Mexico. This was not the case a few years ago. Tennsco is willing and able to compete against the best of them, but we have one hand tied behind our back when our material costs are dramatically higher.

As I mentioned, we buy the vast majority of or steel from domestic sources and we prefer it that way. We are not necessarily looking to purchase foreign steel, but it is critical that we have competitively priced steel to compete in an aggressive global marketplace. Tennsco competes in the global marketplace every day and so should the domestic steel mills.

In my view, when the Section 232 tariffs were implemented, they were a solution in search of a problem. The country's experience over the last couple years demonstrates how counterproductive they have been. There is a significantly greater value-added labor in producing finished products from steel than in the production of the steel used. Any gains seen by the steel industry from the tariffs has been overshadowed by the losses in the companies downstream.

I greatly appreciate your time and I would be happy to answer any questions.