SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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November — 2004

Casteel Commentary Highlights:

Improving labor productivity remains essential even as business improves. Just as important for the future, we need new applications. This month's Casteel Commentary urges all of us to plan now for future success.

Technical & Operating Conference

The 2004 SFSA Technical & Operating Conference was a great success. An outstanding program of papers on operational problems and solutions and technology was presented by your peers in the steel casting industry and SFSA researchers. This year's Conference was highly rated by attendees with 97% of those who responded giving the Conference a rating of excellent (67%) or very good (30%).

Presenters at the Conference answer questions from the audience.

Plan now to attend the 2005 Conference in Chicago (November 3-5, 2005). The 2005 Conference, like this year's, will include a member workshop on Wednesday (Nov 2). All SFSA members are encouraged to attend the Technical & Operating Conference.

International Business Resources

There are several meetings on international business opportunities coming up. A listing of these meetings and other resources is available at the U.S. Department of Commerce Export Assistance Centers website at http://www.buyusa.gov/uppermidwest/events.html

SFSA Internship Program

Our future depends on our ability to attract talent into the industry. One measure of SFSA success has been when member companies have been able to recruit students who have worked in steel foundries as part of our ongoing research program. The Intern program made possible by the Robert M. Schumo Foundation is an attempt to encourage companies to sponsor a student intern in the summer. More information and an application for sponsorship of an Intern is attached to this newsletter.

Market News

Business is booming for most of the steel casting industry. Bookings are up over the very low levels from 2003 by more than 50%. The demand for capital goods continues to grow. Strong demand is likely through the first half of next year. The high price of oil and other commodities may cause some economic slowdown but these high prices should support the continued purchase of equipment so that orders for capital goods should remain high.

Casteel Commentary

New market applications and improved productivity remain critical issues for the future prosperity of the steel casting industry. The current markets are straining our existing capabilities with strong demand for steel castings. Even with this intense production schedule, our industry is likely to see even stronger demand in the coming years. Our current facilities will be inadequate for the needs of tomorrow's requirements. The liquidation and lack of sustaining investment will create shortage of steel casting supplies. The higher prices commanded by our limited capacity will signal the need for capital investment. Our industry needs to make those investments with an eye to our future capabilities. Long-term growing markets are the only recipe for prosperity.

Steel castings are at a competitive disadvantage to other manufacturing methods because of our poor labor productivity. The amount of pure physical effort that we expend to produce castings is unsustainable. We will not be able to find workers willing to do this work, we will not be able to afford the cost if we could find them, our customers will not accept the variations in quality due to this manual processing and they will not tolerate the process time or costs. Recapitalization will allow us to address this situation in a manner impossible during the past 20 years. Now is the time to plan, to think, to investigate, to imagine, and to dream. We will need radical changes in our process and equipment to succeed.

Critical will be reducing both the labor content and labor intensity of our production. Labor content is the cost of the labor needed to produce. We need to reduce this by at least a factor of 2. We need to make steel castings sold at more than $200,000 per employee per year. Labor intensity is the measure of how much do I need to know, remember, what unusual skills do I need, or how valuable or critical is experience to succeed. The higher the labor intensity, the more difficult will be our prosperity. As the labor intensity goes up, our quality varies more, new applications are more difficult, schedules become uncertain, and labor costs become a barrier to profitability.

New markets need to be developed during this time of increasing demand. Many if not most of our parts are legacy designs or evolutionary. Without significant new applications, steel castings are an aging technology that will shrink and be replaced by the next new thing. To secure a place at the table in the future we will need to show the manufacturing community that our capability makes us the choice for new challenging products. Our efforts at developing castings for building construction is one effort in this area. We are entering the second year of this effort and I would encourage you to consider joining that effort. In any case, each plant needs to assess the age of the designs that they are making. If more than 20% of your products are not younger than 2 years old, you need new work.

Raymond Monroe

STEEL FOUNDERS' SOCIETY OF AMERICA
MEETINGS CALENDAR

2004

December
9/10 Precision Casting Update Meeting and Plant Tour, Fond Du Lac, WI

STEEL FOUNDERS' SOCIETY OF AMERICA
BUSINESS REPORT

SFSA Trend Cards (%-12 mos. Ago)	3 Mo Avg	Aug	Jul
Carbon & Low Alloy			
Shipments	37.0	33.8	32.9
Bookings	59.5	57.5	63.0
High Alloy			
Shipments	63.6	104.0	49.0
Bookings	84.2	122.3	30.2

Department of Commerce
Census Data

Iron & Steel Foundries (million $)

Shipments	1,582	1,596	1,603
New Orders	1,598	1,603	1,663
Inventories	1,789	1,834	1,784

Nondefense Capital Goods (billion $)

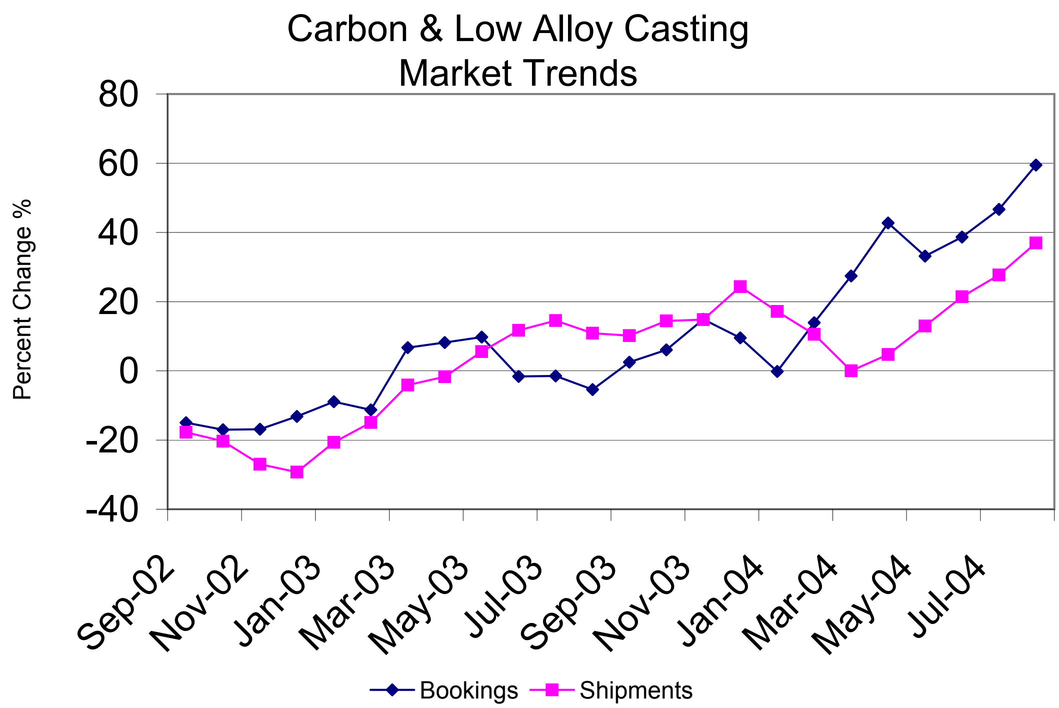
Shipments	63.2	64.5	63.0
New Orders	66.0	64.5	69.8
Inventories	108.5	109.4	108.7

Nondefense Capital Goods
less Aircraft (billion $)

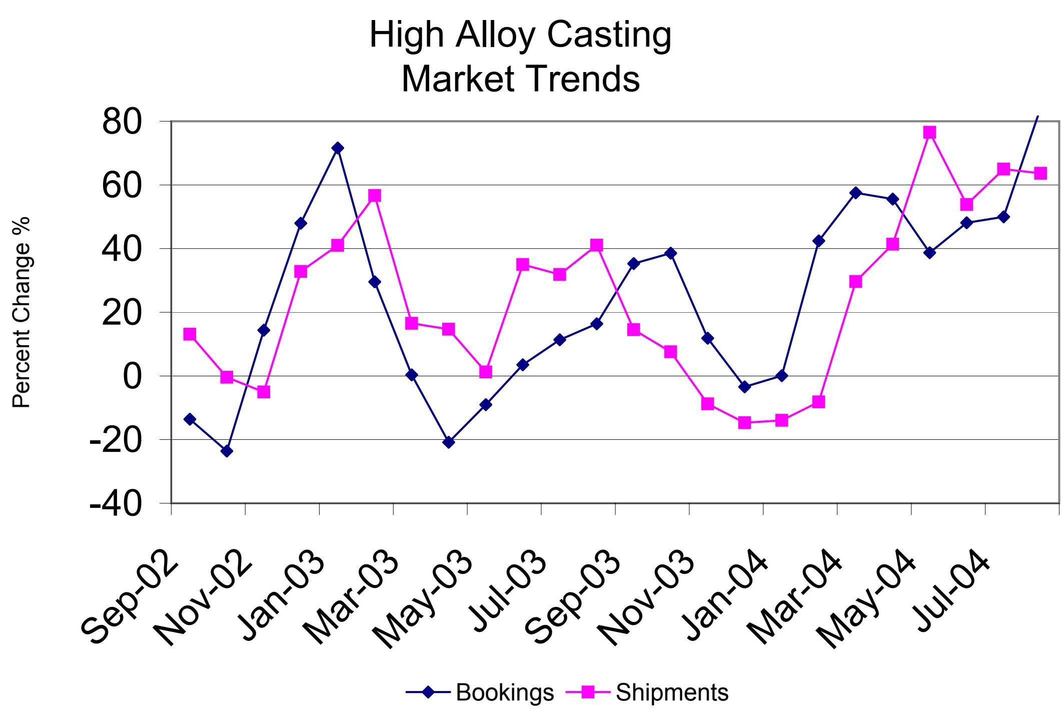
Shipments	60.9	61.9	61.0
New Orders	61.0	60.9	61.4
Inventories	91.2	92.0	91.0
Inventory/Orders	1.50	1.51	1.48
Inventory/Shipments	1.50	1.49	1.49
Orders/Shipments	1.00	0.98	1.01

American Iron and Steel Institute

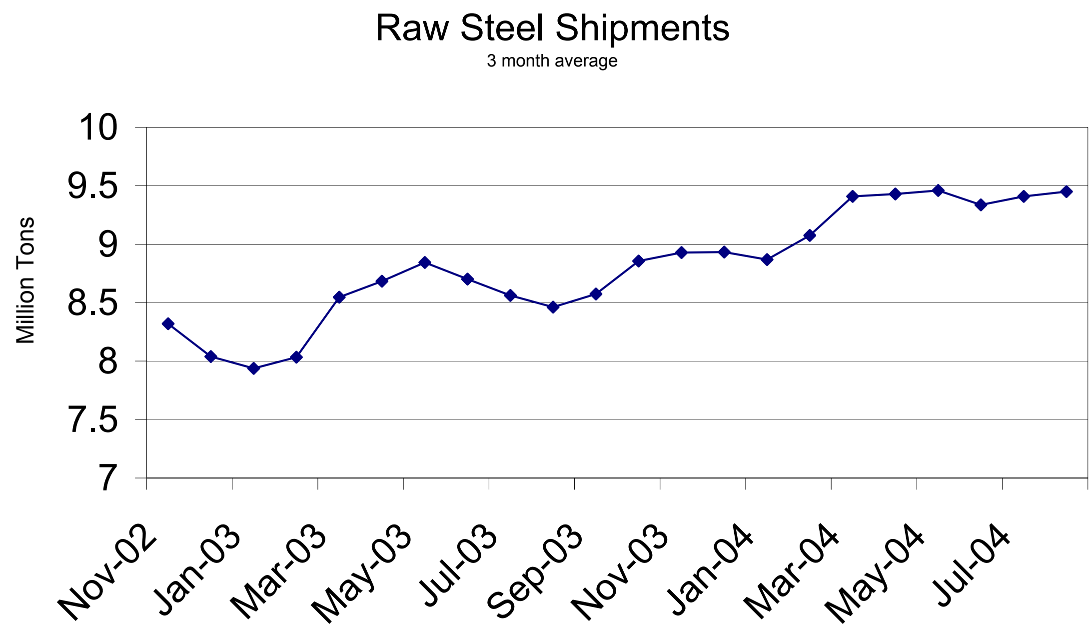
Raw Steel Shipments (million net tons)	9.4	9.3	9.4



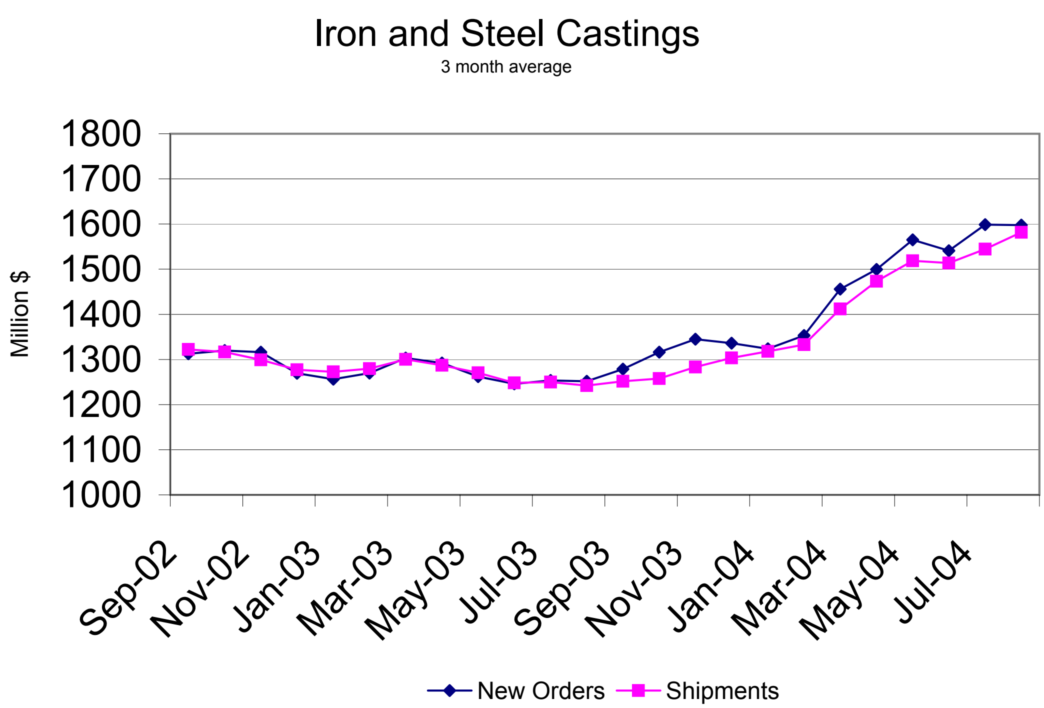
SFSA Postcards



SFSA Postcards



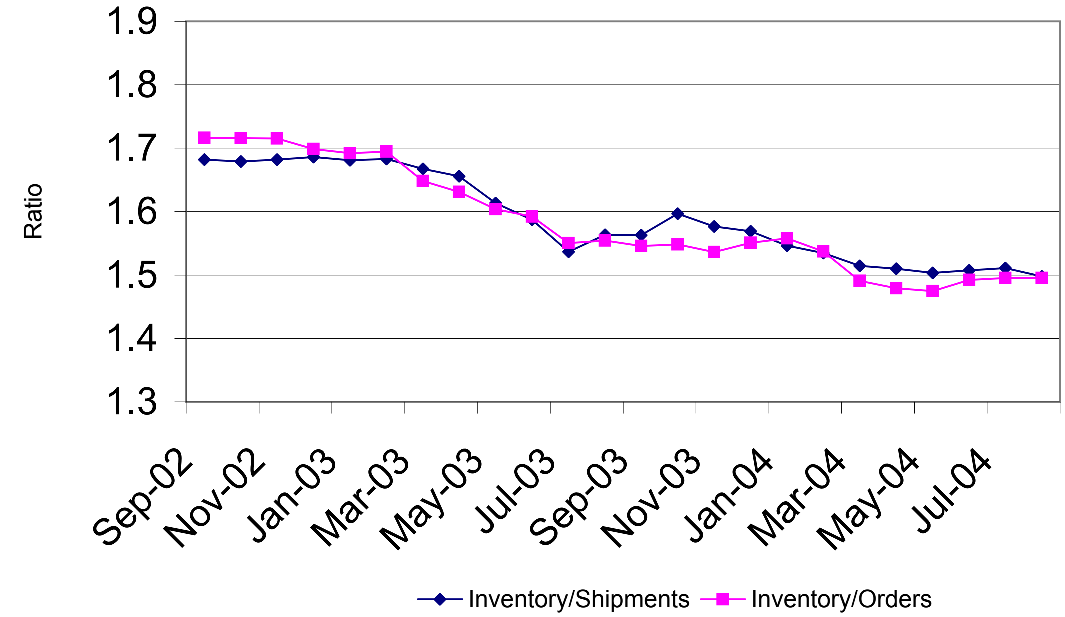
AISI Data



SFSA

Nondefense Capital Goods less Aircraft

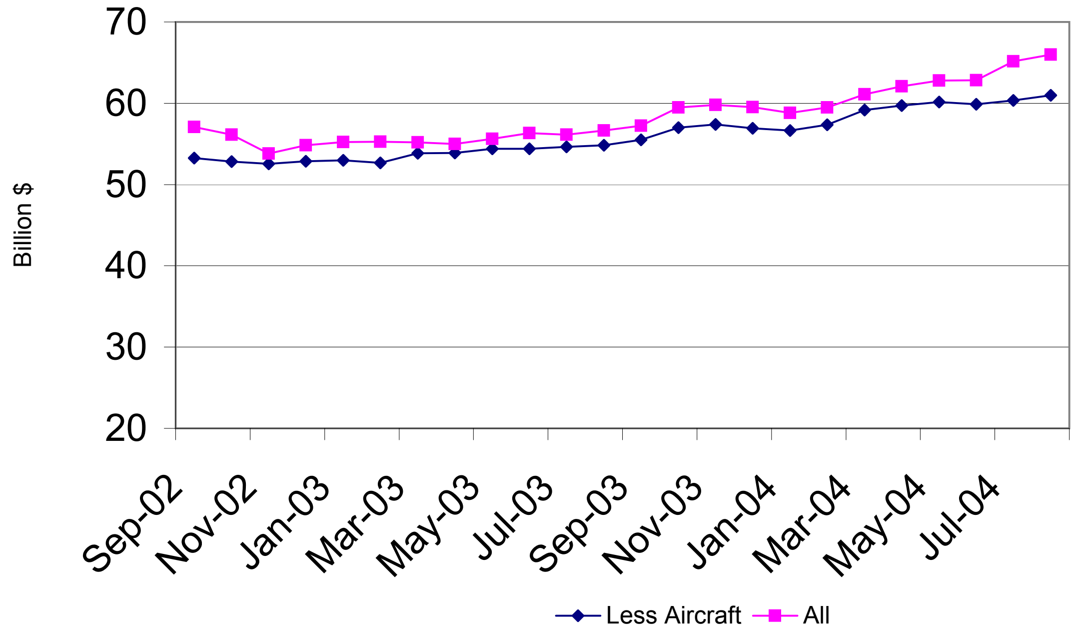
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce

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Memo Re: SFSA Foundation Intern Program

To: Steel Foundries

From: SFSA Foundation.

The SFSA Foundation was established in 2000 to work for the future of our industry. Based on the support of Bob Schumo, SFSA past president, and the leadership of Scott Holman, SFSA past president, this Foundation was created with a broad charter to provide education and technical development for the future of our industry. We are actively soliciting support and will be asking for your contribution in the future. This memo is not a request for your financial support but to give you the opportunity to sponsor the SFSA Foundation Intern.

Our future depends on our ability to attract talent into the industry. One measure of SFSA success has been when member companies have been able to recruit students who have worked in steel foundries as part of our ongoing research program. The SFSA Foundation Intern program is an attempt to encourage companies to sponsor a student intern in the summer. When the student successfully completes the internship, the SFSA Foundation will recognize this achievement with a $5,000 scholarship. This scholarship will help the sponsoring company secure the best intern. The company will commit themselves to supporting the student for a 10 week internship working on an engineering project for the company.

Attached is a short application. If you are interested in sponsoring the first SFSA Foundation Intern, please fill it out and return it by December 17, 2004. If you want to submit a joint application and share the student with another plant, that is fine. The successful sponsor will be involved in the selection of the student.

Please call if you have any questions or need additional information.

I would encourage you to strongly consider this opportunity.

Thanks,

Raymond Monroe

RWM

Application for Sponsorship of the SFSA Foundation Intern

Company Name:____

Person:_______________________________ Email:__________________________

Phone:_______________________________ Fax:___________________________

Short Description of the proposed engineering project for the Student: (50 words or less)

We are willing to support the student with a salary of $______ Per hour for at least a 10 week internship.

Are you willing to provide lodging for the student?_______________________________

Which engineering discipline would be required?________________________________

If you are not selected would you still be interested in working with the Foundation to secure an intern?

____

Please return this form to SFSA by December 17, 2004 Fax: 815 455-8241

AMERICAN FOUNDRY SOCIETY

American Foundry Society Inc.
1695 N. Penny Lane
Schaumburg, Illinois 60173
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FOR IMMEDIATE RELEASE
October 26, 2004

Alfred Spada, American Foundry Society Inc.
800/537-4237 ext. 281, aspada@afsinc.org

U.S. Metalcasting Industry Testifies Before U.S. ITC in Section 332 Investigation

Washington, D.C.…Continuing the passion that has become a trademark of its Section 332 Investigation with the U.S. International Trade Commission (ITC), the U.S. metalcasting industry, with the support of the American Foundry Society (AFS), testified before the ITC during a public hearing held October 14 in Washington D.C. This hearing was the sole opportunity for representatives from both sides of the Section 332 Investigation—U.S. producers of metal castings and foreign producers of metal castings importing low-price product into the U.S.—to provide verbal comments to the ITC.

This public hearing is the last formal step for the ITC in its Section 332 Fact-Finding Investigation to determine the extent to which the U.S. metalcasting industry has been harmed by low-price foreign competition. The first step was a survey distributed to more than 1,000 U.S. producers of metal castings, followed by surveys distributed to U.S. purchasers of castings and foreign producers of castings importing components to the U.S.

According to Federal Law, the ITC must complete the Section 332 within 12 months from the initiation date of the investigation—May 3, 2005. Once the Section 332 is complete, U.S. metalcasters can use the published report that is generated as a foundation for further trade action against foreign producers of metal castings to pursue tariffs, quotas, antidumping duties or other trade remedies.

Section 332 Hearing Testimony

At the public hearing, the U.S. metalcasting industry had 11 speakers (nine were representatives of AFS) provide statements on its behalf and three other representatives (including AFS President Chuck Kurtti) available to respond to questions before six commissioners of the ITC.

The nine representatives of AFS were: Albert Lucchetti, Cumberland Foundry Co., Dave Bumbar, Aurora Metals Div. LLC, George Boyd, Goldens' Foundry & Machine Co., Jim Keffer, EBAA

Iron Sales Inc., Kory Brockman, Wisconsin Aluminum Foundry Co., Larry Comunale, Doncasters Southern Tool, Randall Lawton, Bay Engineered Castings, Roy Hanks, ThyssenKrupp-Waupaca, and Tim Brown, Benton Foundry Co.

The goal of each speaker was to present the ITC with first-hand descriptions of their segment of the industry, the products they produce, the competitive conditions in the marketplace and the difficulties their operations are facing. Each speaker, representing their own metalcasting facility and industry segment, then proceeded to give specific instances, when possible, and the affect these actions had on their firm.

"Our goal when initiating the Section 332 was to energize the industry where possible to speak as one voice. With the opportunity to tell our story at the public hearing, we feel we have accomplished this objective," said Kurtti after the hearing. "We now must wait for the results of the study for the facts on how the pricing policies of our foreign competitors have impacted our industry and its ability to remain viable within our own country and competitive in the global economy."

Questions from the ITC

Once the statements were read by representatives from the U.S. metalcasting industry and one representative for an importer of low-price foreign castings, the six ITC commissioners proceeded with questions for the industry representatives. The questions focused on:

- clarification of testimony;
- an attempt to understand how to measure growth and/or declines in sales and production for the U.S. metalcasting industry;
- prices pressures from foreign competition and the discrepancy between U.S. and foreign pricing for like products;
- what countries pose the greatest competitive threat and in what markets;
- level of technology in the U.S. vs. that of foreign competition;
- what U.S. metalcasters must do to compete with foreign competition;
- export competitiveness of U.S. metalcasters;
- the make-up of the industry and its ability to produce low-volume vs. high-volume work;
- current leadtimes for U.S. casting production;
- tooling production in the U.S. and overseas;
- environmental, safety and health compliance in the U.S. vs. foreign competition;
- raw material pricing in the U.S. vs. foreign competition;

- what the U.S. metalcasting industry hopes to gain from the results of the Section 332 Investigation.

With each question, one industry representative was directed to respond, with other panelists invited to add comments if they desired.

Pre-Hearing Brief

Supporting the verbal testimony was the pre-hearing brief supplied by AFS that established a foundation of data supporting the contention that U.S. metalcasters are being harmed by low-price competition.

Quoting from the brief: "The U.S. foundry industry is at a critical juncture. The industry has been undergoing a massive restructuring, and the pace of closures of production facilities has escalated in recent years. Industry members that still remain have worked hard to reduce costs and improve efficiency while complying with numerous regulations concerning environmental protection and worker safety. In the face of these efforts, the number of foreign sources of foundry products has increased and the output and aggressiveness of producers in low-price sources such as China, Brazil, India and Mexico has risen dramatically. As imports of foundry products have increased, the ability of U.S. foundries to compete has become a consistently greater challenge."

Some of the statistics presented in the brief in support of this statement included data supplied by U.S. metalcasters in the surveys they completed for the ITC investigation. Quoting the brief," As U.S. imports of foundry product have increased in the 1999-2003 period, the domestic industry as a whole has suffered declines in almost all of its trade and financial indicators":

- employment of production and related workers among responding producers has declined 16.9%, and hours worked by production workers has declined 25.1%;
- total net sales of responding producers has declined 7.2%;
- operating income for the industry as a whole fell 65.3%;

To illustrate that prices have been suppressed in relation to production cost trends, the ratio of the industry's cost of goods sold to net sales value increased in each year from 1999-2003 for a 9.2% jump over the four-year period.

Quoting the brief, "Imports have come to account for a significant and growing share of the U.S. market for foundry products. An increasing number of imports has displaced U.S. sales of the domestic industry via two forms of competition. First, imports of foundry products themselves into the U.S. have taken sales directly from the domestic industry, as purchasers such as automotive OEMs have increased foreign sourcing of foundry products. Second, further-manufactured products and finished products that contain foreign-made castings (such as imports of finished construction equipment) have been increasingly imported, thereby supplanting sales by domestic producers and reducing demand for foundry products within the U.S. market."

"Based on the industry's inability to obtain reasonable margins for its value, the continued erosion of its domestic base seems inevitable unless pricing power and raw material stability is realized," said Kurtti after the hearing. "Presently, the loss of R&D, intellectual capital, an educated and capable labor force, and the ability to re-capitalize facilities due to low margins is challenging the metalcasting industry's existence as viable and capable of sustaining an essential domestic presence. With 90% of all manufactured goods in this country and our national defense dependent on the health of metalcasting, we are left no choice but to continue our quest to define a business plan that assures survival."

Section 332 History

For the past two and a half years, the U.S. metalcasting industry and its AFS Trade Commission (lead by AFS President Chuck Kurtti) have been working with the ITC to determine the extent to which the industry has been harmed by low-price foreign competition. The result from this cooperation is the Section 332 Fact-Finding Investigation that currently is being administered by the ITC.

The thrust of this Section 332 Investigation is a survey that was completed by U.S. metalcasters in September. This survey requested specific data and descriptions about the current state of the U.S. metalcasting industry and the conditions of competition between the U.S. industry and certain foreign countries. The survey was focused on 10 different metal/product groups, covering 24 different NAICS codes (Table 1). These metal/product groups were cooperatively developed by the AFS Trade Commission and the ITC in an attempt to cover as many segments of the U.S. metalcasting industry as possible.

This survey was followed by two others—one sent to casting purchasers in the U.S. and one sent to foreign producers of castings. The ITC uses these surveys as the foundation for its investigation. From the results of the surveys as well as the public hearings and supporting documentation submitted by all affected parties, the ITC issues a final report that documents facts about the industry and the competitive conditions. While this report makes no formal recommendations on what should be done to help the metalcasting industry (tariffs, quotas, etc.), it is a highly respected Federal document that would serve as the foundation for all future trade action by the industry as a whole or individual segments of it.

For More Information

For more information on the Section 332 investigation, contact Alfred Spada, American Foundry Society Inc., at aspada@afsinc.org or 800/537-4237 ext. 281, or visit the AFS website at www.afsinc.org and click on the AFS Trade Commission link.

Headquartered in Schaumburg, Illinois, AFS is a not-for-profit technical and management society that has existed since 1896 to provide and promote knowledge and services that strengthen the metalcasting industry for the ultimate benefit of its customers and society.

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