



# SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication  
serving SFSA steel casting industry Members

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## May — 2006

### Casteel Commentary Highlights:

Trade will be one of the key issues facing our industry for the next decade. Developing a strategy will be key. SFSA is organizing a tour of foundries in China for members. The Casteel Commentary points out the need to think hard and study this issue.

### SFSA Annual Meeting

The SFSA Annual Meeting will be held in Santa Fe, NM on September 10-12. This meeting is essential to top managers who are interested in opportunities and challenges facing our industry. I would invite all members to attend. With strong economic conditions, now is the time to invest in attending these meetings.

### SFSA Research Review Meeting

The SFSA Research Review Meeting will be held on August 9 and 10 at the Wyndham O'Hare Hotel. A program and registration material will be emailed to SFSA members.

### Heavy Section

The SFSA Heavy Section Meeting will be held in Carlisle, PA, on June 21-22. The meeting will include a tour of Frog Switch.

### International

China remains a mystery to many of us. SFSA is organizing a plant study tour of China for October. Final details are being worked out and will be distributed when they are finalized. Please let Raymond Monroe know if you are interested in this opportunity.

Two other international opportunities are possible. The first is the biannual International Foundry Forum 2006. This is organized by the Europeans and is intended to give an overview of the global state of the foundry industry. Leading suppliers and foundries are able to attend by invitation only. This year's meeting will be held September 28-29 at the Hotel Cascais Miragem (<http://www.cascaismirage.com/>) in Lisbon, Portugal. Details are available at <http://www.international-foundry-forum.org/>. You may also wish to consider joining SFSA next year for a trip to GIFA. This is the largest trade show for foundry equipment. We will also organize plant tours for our delegation in Germany, the Czech Republic and Poland if possible. This will be in June 2007.

### End Use Survey

We are trying to complete the industry end use survey for 2005. If you have the forms please fill them out and return them. If you have misplaced the forms, let us know. The forms are available online at <http://www.sfsa.org/enduse>

### Safety Item

SFSA will be organizing another safety meeting focusing on ergonomics. We will be sending out notices as the details are finalized.

The new rules on hexavalent chromium exposure will take effect in November, We will have a speaker at the T&O Conference but that will be after you will need to comply. I have another summary paper on testing attached to this newsletter. Welding

stainless is likely to be a problem and I am not certain about other operations like welding.

### **Directory of Steel Foundries**

We have a limited number of printed directories available. These are printed on paper and placed in a three ring binder. Several members have requested a printed version. These copies are available for \$200. Contact R. Blair if you are interested in purchasing one.

### **Innovation**

Bottom pouring is the most common method of producing a casting over 5,000 pounds. While shrouding has proven effective, few shops have adopted it as a production practice. More of a concern is the continued throttling that is routine practice in many shops that bottom pour. Throttling creates inclusions. It is employed because the gating system cannot accommodate the flow of steel and the operator must either throttle or get burned. While the nozzle size can be reduced, this will lengthen the pour time and not give the highest quality. In fact, the goal is to pour even the largest casting in less than a minute. If the pouring time is longer, the gate and nozzle need to be larger. If throttling is common, the gate needs to be reengineered to handle the maximum flow. It is common to use a 2 to 4 in. nozzle and for the sprue tile to be a full inch larger in diameter in comparison to the nozzle, 3 to 5 in.

### **Environmental Note**

*Courtesy of KERAMIDA*

The deadline for submitting Toxic Release Inventory (TRI-Form R) is July 1, 2006 and is quickly approaching. Beginning in 2006, the EPA will no longer accept hard copies of the forms. The reports will need to be submitted on-line or on a disk. 2006 is the second year that MEK is longer reportable. Keep in mind some common errors that occur when completing the forms. For example, facilities often forget to consider certain activities when determining their thresholds. i.e. using chemicals when cleaning equipment, manufacturing compounds when treating waste, and importing chemicals. Ms. Erin Surinak at KERAMIDA Environmental, Inc. can be contacted at 1-800-508-8034 or <http://www.keramida.com/> with questions on completion of Form R reports.

### **Market News**

Demand for steel castings remains strong for survivors. Bookings and shipments for carbon and low alloy steel castings has remained over 20% for two years. High alloy castings are more volatile. The low year to year growth rate in the graph from June through December 2005 is likely a reflection of the comparison with very high increases in the prior year. As can be seen, booking in high alloy castings has risen sharply and signals strong production in the coming months. The outlook for steel products and capital goods also suggest that market demand will remain strong for the balance of the year.

## **Casteel Commentary**

Trade is a difficult subject to understand. Globalization however will demand that the successful enterprise understand their competitive position and the factors that determine their success. In particular, we will need to understand the underlying realities of global competition if we are to position ourselves for success.

Unfortunately, there are several complicating factors for the steel casting producer. First, steel foundries generally supply the capital equipment commodities production industries. Second, much of the public and political discussion on trade is naïve and incorrect. Finally, our own self-image and self-defined role misleads us in thinking about trade clearly.

Trade flows are determined by a host of factors but among the most key are relative currency value, taxes and tariffs, and economic environment. One of the flaws in the North American, especially the U.S., is to focus trade discussions on taxes and tariffs. One of the largest hurdles to U.S. competitiveness is our acceptance of the WTO rule that our direct taxes are not border adjustable, placing us at a disadvantage with the entire rest of the world that rebates a VAT at the border on exports and imposes it on imports. Our inability to stand up for our own interests in the area of border adjustability will continue to damage our trade position. This means that we are at a systemic and continuous disadvantage in world trade.

We also tend to undervalue the effect of currency. With a largely internal market and a stable dollar, we do not frequently notice the fluctuations that are a fact of life in other parts of the world. Trading societies are extremely sensitive to exchange rates and its affect on competitive advantage. Maintaining a strong currency as is US policy benefits financial institutions and consumers while maintaining a weak currency benefits producers and traders. While attention has been focused on this with the situation in China, we are not sophisticated in our understanding. With a weak currency China must pay more for commodities. This makes them less competitive in raw materials and commodities and more competitive in manufactured goods. For steel casting production, the weak Yuan means that they pay relatively more for energy and sand and metal and alloys. This makes them less competitive. They buy lumber, steel, scrap, and energy at high prices, supporting global demand that is maintaining higher prices and driving demand for the capital equipment we make. There is no “right” or “fair” value. But the policy decision on currency value profoundly affects trade and competitiveness.

Economic conditions include safety and health regulation, health care and retirement costs, investment tax policy, labor standards, environmental regulations, etc. We often say that other competitors are unfair because they have not adopted our environmental standards or labor rules. They point out subsidies in the US like SBA loans, antidumping duties, and tax incentive abatements. One of our challenges in global competition are the unfriendly policies that make investment in manufacturing in the US unattractive. “Unfair” advantages of global players can only be alleviated through our own policies giving an incentive for US firms.

We think that manufacturing is the key to successful economic progress. Unfortunately, policymakers are unconvinced. They will not say publicly that manufacturing or farming is not essential, but their policies favor a strong dollar, tight environmental and labor

standards, open markets for low cost consumer goods, and statesmanship over US self interest.

Fortunately most steel foundries produce parts for capital equipment in global commodity production. The strong global economic growth is creating strong commodities pricing and spurring the demand for capital equipment. We need to position ourselves to maintain unique technical and production capabilities that are essential to competitive equipment manufacturing. We need to be aware of our global marketplace. We need to look for opportunities around the globe as well as in our own backyard.

I have attached a paper on the concerns of steelmakers with the US effort to develop a free trade agreement with South Korea to this newsletter. You may find the analysis of the problems with the US policies on trade of interest.

**Raymond**

# STEEL FOUNDERS' SOCIETY OF AMERICA

## MEETINGS CALENDAR

### **2006**

June

21/22

Heavy Section Product Group Meeting & Plant Tour, Carlisle, PA

August

9/10

Research Review, Rosemont, IL

September

9/12

SFSA Annual Meeting, Eldorado Hotel, Santa Fe, NM

December

13/16

National Technical & Operating Conference, The Drake Hotel, Chicago, IL

### **2007**

December

12/15

National Technical & Operating Conference, The Drake Hotel, Chicago, IL

**STEEL FOUNDERS' SOCIETY OF AMERICA  
BUSINESS REPORT**

<b>SFSA Trend Cards</b> (%-12 mos. Ago)	3 Mo Avg	Feb	Jan
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**Carbon & Low Alloy**

Shipments	20.2	24.0	32.3
Bookings	19.1	30.0	17.3

**High Alloy**

Shipments	29.8	69.0	7.3
Bookings	66.6	114.0	61.7

**Department of Commerce  
Census Data**

**Iron & Steel Foundries (million \$)**

Shipments	1,712	1,705	1,706
New Orders	1,766	1,785	1,790
Inventories	1,998	1,982	1,995

**Nondefense Capital Goods (billion \$)**

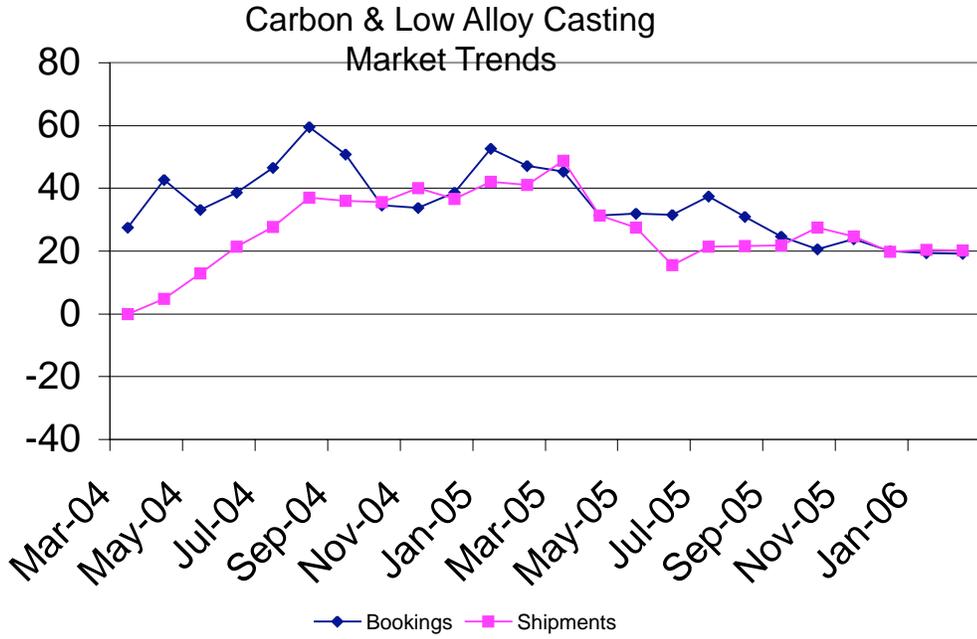
Shipments	71.6	71.0	70.6
New Orders	78.9	74.4	72.9
Inventories	114.3	114.6	114.7

**Nondefense Capital Goods  
less Aircraft (billion \$)**

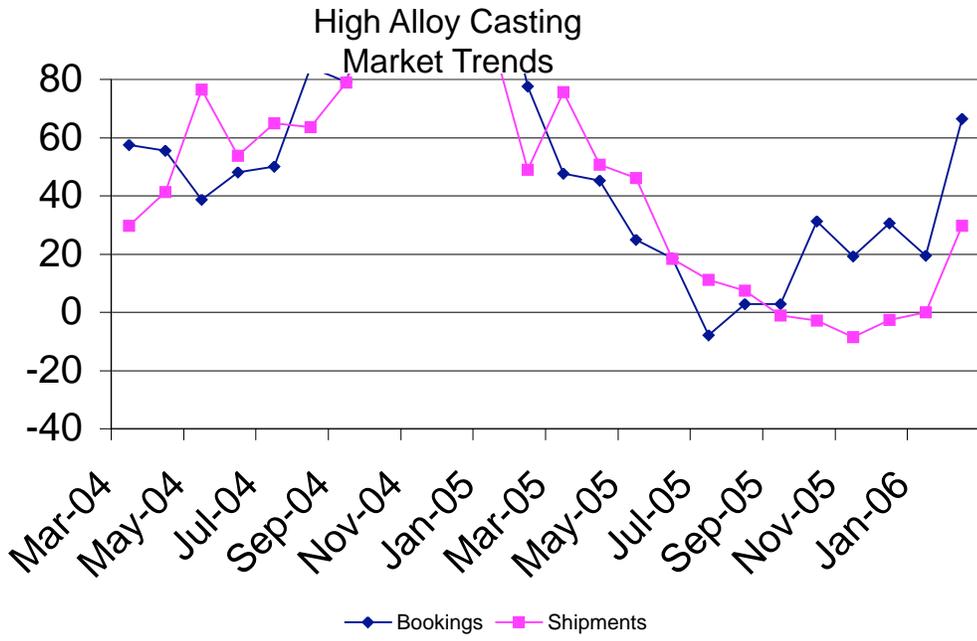
Shipments	65.0	65.0	64.8
New Orders	66.2	66.4	65.6
Inventories	95.7	96.0	96.1
Inventory/Orders	1.44	1.45	1.46
Inventory/Shipments	1.47	1.48	1.48
Orders/Shipments	1.02	1.02	1.01

**American Iron and Steel Institute**

Raw Steel Shipments (million net tons)	8.8	8.9	8.9
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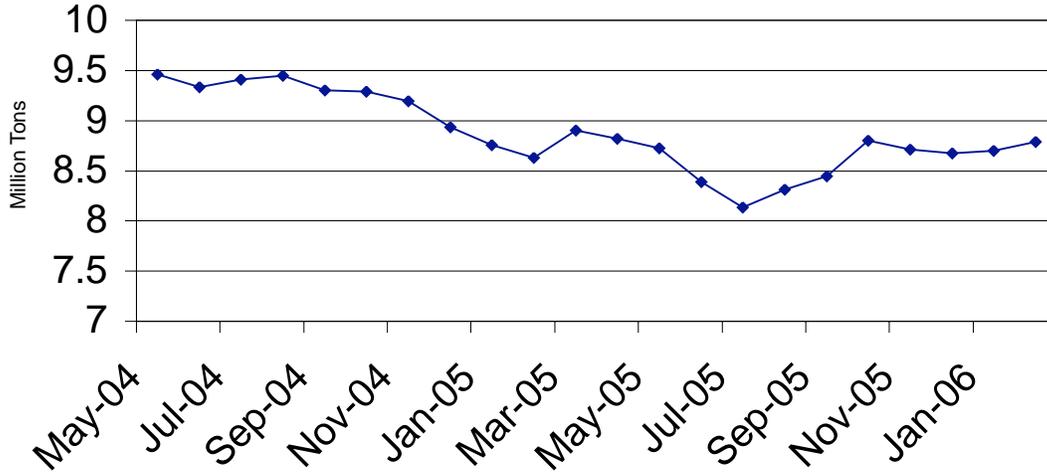
SFSA Postcards



SFSA Postcards

# Raw Steel Shipments

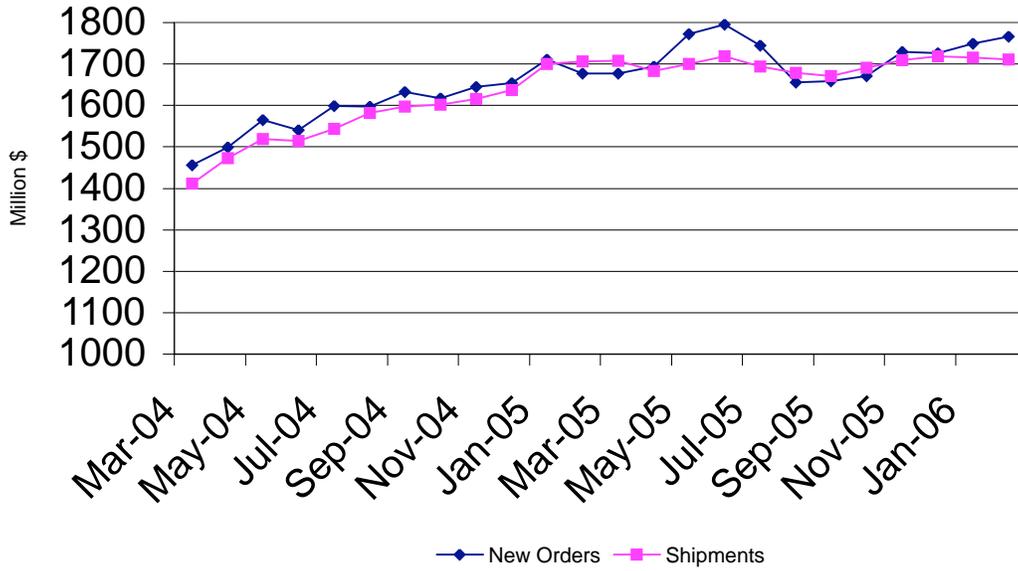
3 month average



AISI Data

# Iron and Steel Castings

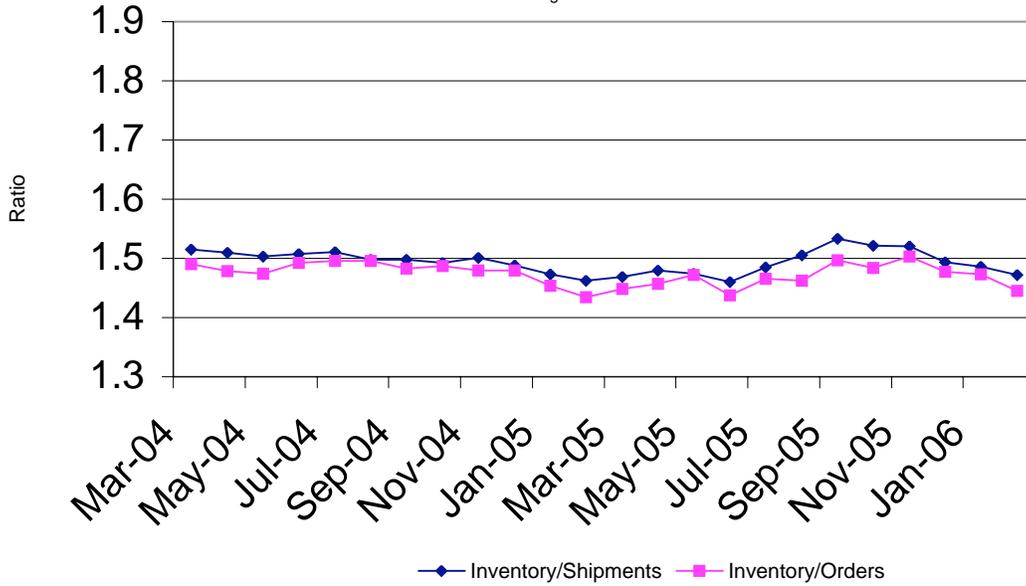
3 month average



SFSA

### Nondefense Capital Goods less Aircraft

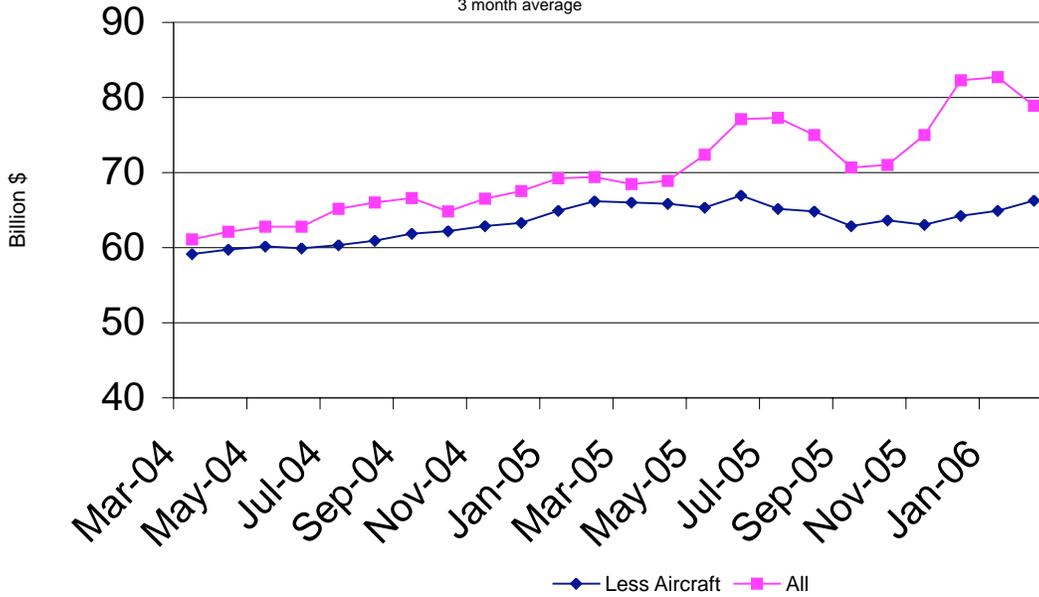
3 month average



Department of Commerce

### Nondefense Capital Goods New Orders

3 month average



Department of Commerce

**Coast to Coast in 4 days:  
Yellow Transportation improves service on more than  
850 lanes**



**Creating Possibilities. Yes We Can.**

In today's fast-paced world, transportation is becoming more important than ever. Increasingly, companies are manufacturing goods in different parts of the world. And while supply chains are adjusting to globalization, inventories must be kept closer to customers and arrive faster. That means supply chains and inventories must be managed more efficiently.

Yellow is committed to helping serve its customers better by offering ideas that will save them time and money while also helping them manage their supply chain: In early December, they set a new service standard, reducing transit times from five days to four on more than 850 lanes between the Northeast, key business centers in Canada, and Southern California.

The new standards will also result in faster service and improved reliability to and from Salt Lake City and the Pacific Northwest. Several areas in the Midwest, including St. Paul, Kansas City, St. Louis, Chicago, and Cleveland/Richfield, Ohio, will also see improvements to and from the East and West coasts.

Yellow Transportation less-than-truckload (LTL) shipping services are now available to SFSA members on qualifying shipments weighing more than 150 lbs.

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Yellow's Standard Ground™ LTL provides best-in-class service across the continental United States, Alaska, Hawaii, and Puerto Rico.

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# EXPOSURE MONITORING GUIDANCE FOR COMPLIANCE WITH THE NEW OSHA STANDARD FOR HEXAVALENT CHROMIUM

By: **Joelie Zak, CEF-4**  
**Scientific Control Laboratories, Inc.**  
[joeliezak@sclweb.com](mailto:joeliezak@sclweb.com)  
April 6, 2006

On February 28, 2006, the Occupational Safety and Health Administration (OSHA) issued a standard that significantly lowered the limit on worker exposures to hexavalent chromium (Cr(VI)). This new standard greatly increases the monitoring, training and hygiene requirements for facilities with industrial processes that use Cr(VI), even in small quantities and/or concentrations. These processes include, but are not limited to:

- Chromium Electroplating
- Chromic Acid Passivation
- Hexavalent Chromium Conversion Coating
- Chromic Acid Etching
- Chromic Acid Sealing of Anodized and Phosphated Parts
- Wastewater Treatment of Hexavalent Chromium Containing Rinsewaters
- Welding of stainless steel

OSHA's new standard requires that facilities with Cr(VI) monitor employee exposures. During the initial compliance assessment period, all job tasks that have potential exposures are evaluated. These job tasks include, but are not limited to:

- Metal Finishing Operations (e.g., operators, un/rackers, supervisors)
- Quality Control Monitoring and Chemical Additions (e.g., lab technicians)
- Periodic tasks such as tank clean-out, liner replacement (e.g., maintenance staff)
- Wastewater treatment of Cr(VI)-containing process water & concentrates (e.g., treatment operators)

## **General Initial Monitoring Requirements:**

If hexavalent chromium is used in the workplace, the employer must monitor employee exposure to Cr(VI) to determine if any employee is being exposed in excess of the Permissible Exposure Limit (PEL) of  $5 \text{ g/m}^3$ , as an 8-hour time-weighted average (TWA) or the Action Level (AL) of  $2.5 \text{ g/m}^3$ .

The method to be followed for air sampling and analysis is OSHA Method 215 (available through OSHA's web site at [www.osha.gov](http://www.osha.gov)). This validated method meets the +/-25% accuracy and precision requirements of the standard. Facilities can conduct their own sampling provided that they use the proper sampling equipment, filter media and follow the method. During this sampling, a small calibrated pump is worn on the belt of the operator and is used to draw a representative air sample from the breathing zone of the employee and collected on a filter. An accredited laboratory with an outside approved quality control program is to be used for the Cr(VI) analysis of the filter, using ion chromatography equipped with a UV-vis detector. The quantitative detection for the OSHA Method 215 is  $0.003 \text{ mg/m}^3$  based on a sample volume of 960L of air (eight hours of air sampling time).

**Initial Assessment Compliance Dates:**

- Employers with less than 20 employees must provide initial monitoring by May 30,2007.
- All other employers must provide initial monitoring by November 27,2006.
- When a new Cr(VI) exposure is introduced into the workplace.

*Initial monitoring is not necessary if:*

- Objective data, representing the highest Cr(VI) exposure likely to occur during processing, use, or handling, show that Cr(VI) cannot be released in concentrations above the action level;
- Employee exposure monitoring was performed within 12 months prior to May 30,2006, which satisfies the monitoring requirements and was conducted under conditions substantially equivalent to existing conditions;

**Periodic Monitoring:**

*If initial monitoring shows employee exposures are at or above the action level, employers must perform periodic 8-hour TWA monitoring as follows:*

- Every six months if initial TWA monitoring results are at or above the action level but at or below the TWA PEL.
- Every three months if initial TWA monitoring results are above the TWA PEL.
- Periodic 8-hour TWA monitoring is not required if initial TWA monitoring results are below the action level (AL). ***However, the standard requires (2) two consecutive measurements, taken at least 7 days apart, to demonstrate that exposure levels are below the AL.*** After that, employers may discontinue the monitoring requirements accordingly.

**Additional Monitoring:**

Employers must perform additional monitoring if there is an indication that employee exposures have increased. Changes in production that may trigger additional monitoring include process chemistry changes, equipment changes, control equipment, or work practices that could increase exposure levels; and leaks, ruptures, or other equipment breakdowns.

**Monitoring Specifications:**

*In determining each employee's workplace exposure to Cr(VI), employers may take either:*

- Personal breathing zone air samples for each employee exposed; or
- Personal breathing zone air samples for one or more employees when the samples are representative of each employee's exposure, provided that sampling is conducted under the highest potential exposure.
- Area monitoring (e.g., placing the monitor next to a tank for the day) is not an acceptable method for determining PEL compliance. It does provide some background data, but should not be used for PEL compliance determinations.

*Personal breathing zone air samples are considered representative of an employee's 8-hour TWA if:*

- The employee(s) sampled is expected to have the highest Cr(VI) exposures of all employees in the group of employees represented by the samples collected, the employee(s) sampled are in the same job classification, the employee(s) sampled are working in the same area
- The employee(s) sampled work during the same work shift (if the employer can document that tasks and workplace conditions are similar during all work shifts, he/she only needs to determine the exposure level for one work shift).
- OSHA ID-215 monitoring method requires that the sampling device must be ***calibrated in-line, through the air filter media being used, for each monitor***. The flow rate through each monitor must be 2 Liters per minute (LPM). The air sampling media to be used is a 37 mm PVC filter badge, which is typically clipped to an operator collar and placed near his/her breathing zone. An approved primary calibration (e.g., not a field rotameter) instrument must be used to verify the flow rate of 2 LPM through each filter. At least one (1) blank (unused) cassette must be submitted for each lot of filters to be analyzed.
- Before placing the monitor on the employee, explain why they are being tested. Indicate that they will notified of the test results when they are available to the employer. The employees should be instructed not to touch or remove the monitor at any time during the testing. They should wear the monitor during breaks and lunch periods. It is recommended that sampling be conducted for a full work shift. At a minimum, at least seven (7) hours for each operator should be tested. For example, a maintenance operator may only have 30 minutes of exposure to chromic acid, but the monitor should be worn for the full work shift.

#### **Employee Notification of Monitoring Results:**

Employers are required to notify employees of all monitoring results, in writing, within 15 working days of receiving the results. If exposures are above the PEL or action level, the employer must inform the employee of the corrective actions being taken (i.e., changes to engineering controls, work practices, etc.). Results can be posted on a company bulletin board or provided in writing to the individual workers affected.

OSHA's standard requires employers to allow affected employees or their designated representatives to observe any monitoring activities. Where such observations involve entry into areas where personal protective equipment (PPE) is necessary, the employer must provide and ensure the use of the appropriate PPE. In addition, the employer must ensure that observers follow all other applicable safety and health procedures.

#### **Recordkeeping:**

Employers must establish and keep accurate records of all exposure monitoring data as well as the objective data used to support exemptions from initial monitoring requirements.

##### **a) Exposure Monitoring Data:**

*Employers must keep exposure monitoring records for 30 years. The records must include:*

- Date of the measurement for each sample taken;
- Monitored operation involving Cr(VI) exposure;
- Sampling and analytical methods used and evidence of accuracy by lab.

- Number, duration, and results of samples taken.
- Worker name, job classification, and exposure levels (where representative samples are used, identify all employees represented by the data and indicate which employees were above the action level and PEL).
- ***Additional helpful general process information*** to include is the type of metal finishing process (e.g., hard chromium plating), the type of equipment used (manual, automatic hoist, etc.) and the type of ventilation (bilateral, push-pull, enclosed hood, etc.)

(NOTE: this guidance provides only general information on air monitoring requirements and should not be considered to be a complete summary of the Cr(VI)-related monitoring requirements. For specific exposure monitoring requirements, please refer to the OSHA Cr(VI) standard Title 29 of the Code of Federal Regulations, Part 1910.1026. The standard can be accessed at OSHA's web site [www.osha.gov](http://www.osha.gov).



**American  
Iron and Steel  
Institute**



April 27, 2006

Hon. Marilyn R. Abbott  
Secretary to the Commission  
United States International Trade Commission  
500 E Street, SW  
Washington, DC. 20436

**RE: U.S.-Republic of Korea Free Trade Agreement: Written Comments Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports**

Dear Ms. Abbott:

In response to a request from the United States International Trade Commission (ITC),<sup>1</sup> the American Iron and Steel Institute (AISI), The Steel Manufacturers Association (SMA), and the Specialty Steel Industry of North America (SSINA), on behalf of its U.S. member companies<sup>2</sup>, hereby submits written comments to the ITC, and advice on, the U.S.-Republic of Korea (ROK) Free Trade Agreement (FTA), and the Probable Economic Effect of Providing Duty-Free Treatment for Imports.

The stated objective of this proposed FTA is to remove tariffs and expand trade. With regard to tariffs and bilateral U.S.-ROK steel trade, both countries committed to go to zero tariffs on steel in the Uruguay Round and both are already at zero (normal) duties on steel imports from each other and the world. Thus, from a steel standpoint, when we look at the potential gains or losses from a possible FTA with Korea, we find it necessary to go beyond the issue of steel and steel tariffs, and to look closely at other factors, in particular: (1) non-tariff barriers (NTBs) and "indirect" steel trade; (2) "new" issues such as exchange rates and border-adjustable taxes; and (3) the broader trade context.

## **I. History of Unfair Trade in Steel**

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<sup>1</sup> See United States International Trade Commission, "U.S.-Republic of Korea Free Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports," Invoice numbers TA-131-032 and TA-2104-021 (February 22, 2006).

<sup>2</sup> Our members, together, account for nearly all of the carbon and specialty steel mill products produced annually in the United States.

The decision to launch FTA negotiations with South Korea is especially important to us, because this represents the first U.S. effort to negotiate an FTA with a major world steel-exporting nation since the inception of the NAFTA.

The ROK government has supported and “targeted” Korea’s steel industry as a “strategic” sector for decades, and this industry has a long history of close ties to both the Korean government and military. Today, South Korea has the fifth largest steel industry in the world. The Pohang Iron and Steel Company (POSCO), until recently government-owned and controlled, is the fifth largest steel company in the world. According to OECD data, in 2005, South Korea’s steel capacity was around 53.3 million metric tons (MT); its domestic steel demand was about 46.9 million MT; and its steel exports to the world were roughly 16.1 million MT (2.2 million net tons of which went to the U.S market.).

While all U.S.-ROK steel trade (not affected by trade cases) is already tariff-free, having zero tariffs is not, by itself, a “primary driver” of U.S.-Korea trade in steel. It does not lead automatically to increased U.S. imports of ROK steel, and it certainly does not mean that U.S. exports of steel will increase to Korea (steel imports from the U.S. currently represent less than one percent of Korea’s total steel imports). Instead, when it comes to steel trade with Korea -- and Asia in general -- it seems that there are other, more important factors at work than the level of bound or applied normal duty rates. Steel trade flows are affected more by NTBs and by macroeconomic developments -- including the extent to which excess steel capacity in South Korea and other Asian nations is, or is not, able to find a “home” in China or other major world export destinations.

The main problem appears to be that trade in steel or other “strategic” sectors can be very “free on paper” with the ROK and other Asian countries -- yet “free on paper” will not result in any measurable gains in U.S. trade performance. This is why so many of the U.S. steel industry’s domestic customers, especially small and medium-sized firms, have now concluded that the only way to achieve bottom line “results” in trade with the mercantilist countries of Asia is through numerical -- and enforceable -- targets, i.e., managed trade.

With regard to steel and the ongoing mercantilist policies of the ROK government, our concern stems from a decades-long history of South Korean government support for the steel sector, promotion of steel exports and resulting injurious unfair trade by Korean steel firms. In the July 2000 U.S. Department of Commerce (DOC) report entitled “Global Steel Trade: Structural Problems and Future Solutions,” the report’s Korea chapter highlighted (1) the problem of “unsound, often government-influenced, bank lending practices” and (2) the “fundamental concerns about competition within the Korean steel market ...”. The most recent National Trade Estimates (NTE) Report (2004) reaffirms a continuation of Korea’s “*undue reliance on exports, particularly from its traditional export-oriented industries, such as automobiles, semiconductors and steel.*”

As explained in the "Global Steel Trade" DOC report, during the 1997-98 Asian financial crisis, the bankrupt and un-creditworthy Hanbo Steel became a "poster boy" in South Korea for the political and economic corruption, and the state-directed preferential financing, which were among the leading causes of the economic meltdown in Asia in the first place. In 1997-98, Korea was a major contributor to the record surge of injurious and unfairly traded steel in the U.S. market. In the years following the crisis, there have continued to be periodic surges of dumped and subsidized steel from South Korea. Notwithstanding the privatization of POSCO, it and other ROK steel firms have continued to benefit from direct and indirect government subsidization (including "dual pricing schemes" for flat rolled steel going into tubular products).

In the year 2000, the United States registered a 3.0 million net ton (NT) steel trade deficit with South Korea. In 2005, the U.S. steel trade deficit with Korea was "only" 2.2 million NT. This "improvement" was not the result of zero tariff treatment on steel imports in South Korea. Rather, it was due to the successful prosecution of steel trade cases in the United States. In addition to the antidumping (AD) or countervailing duty (CVD) steel "orders" against South Korea that have existed in the recent past (e.g., on cold rolled flat products, structural beams and steel wire rope), there are current unfair trade orders against Korea in the following key steel product lines:

- Cut-to-length plate;
- Corrosion resistant flat rolled;
- Concrete reinforcing bar;
- Oil country tubular goods;
- Circular welded non-alloy steel pipe;
- Stainless angles, wire rod, bar, plate in coils and sheet and strip in coils.

What this history of unfair trade in steel tells us is that, in any FTA with the ROK:

- The U.S. should not agree to any proposal that would weaken in any way U.S. trade remedy laws or trade law rights. This is a bedrock principle for the U.S. steel industry, and any departure from it would cause us to oppose this or any other proposed FTA.
- The U.S. should not agree to any process similar to the NAFTA Chapter 19 dispute settlement system, whereby binational panels are permitted to hear cases and sit in judgment of U.S. law in AD/CVD appeals. In addition to constitutional concerns, repeated questions have arisen about bad decisions, judicial activism and impartiality or expertise of panelists. Accordingly, our U.S. members join with other U.S. trade law-using industries to insist that neither the KFTA nor any other proposed U.S. FTA include international dispute settlement provisions that would or could supplant existing U.S. law, courts and procedure for the review of trade remedy determinations.

- The U.S. should insist upon the NAFTA rules of origin (ROO) for steel products and strict ROO for manufactured products in general. We support the steel ROO in the NAFTA and, regarding steel ROO in a KFTA, does not wish to see any departure from the sound and effective NAFTA ROO. Unfortunately, in two recent FTAs -- the Central American Free Trade Agreement (CAFTA) and the U.S.-Peru FTA -- the U.S. agreed to accept more lenient and flexible steel ROO than exist in the NAFTA. It is our view that, in any KFTA, the U.S. should insist on: (1) the NAFTA ROO for steel products -- so as to avoid conferring origin based merely on rolling or minor processing operations in an FTA country; and (2) strict ROO across-the-board on manufactured products -- so as to (a) avoid conferring FTA benefits based on a relatively lesser amount of processing in an FTA country, (b) ensure that the benefits go where they are intended and (c) ensure that the FTA not serve to incentivize and benefit products where value is added largely or substantially in third countries.

## **II. Non-tariff Barriers and Indirect Steel Trade: History of Lack of Access for U.S. Producers of Steel-Containing Products**

“Indirect” steel trade is imports vs. exports of cars, machinery and other steel-containing products, expressed in tons of steel. In year 2004, according to data developed by our organizations, the United States ran an estimated indirect steel trade deficit with South Korea of approximately one million NT -- up from 600,000 NT in 1999. A key reason why it is so difficult to improve America’s indirect steel trade balance with the ROK is the historic lack of access in the Korean market for U.S. (and other foreign) producers of steel-containing manufactured goods.

The history of U.S.-ROK trade in motor vehicles provides a good case study on the major market access challenge facing U.S. manufacturers that want to sell in Korea. In the case of vehicles, the two governments previously negotiated two separate agreements (in 1995 and 1998), which were intended to open up Korea’s auto market. The result has been that, in 2005, approximately 4,000 U.S.-made autos were sold in South Korea (about the same number sold in 1996); meanwhile, Korean auto sales in the U.S. surged from 136,000 in 1996 to more than 730,000 units last year. The ROK automotive market remains effectively closed to imports from the U.S. and elsewhere due to a complex range of written and unwritten tariff and non-tariff barriers to trade.

Unless the proposed U.S.-Korea FTA (KFTA) is “done right” -- which means effectively addressing all of Korea’s tariff and non-tariff barriers to imports of steel-containing products -- there can be no measurable progress for steel’s U.S. customers under a KFTA. Given the size of South Korea’s manufacturing sector and the failed Korean track record when it comes to providing real market access to U.S. producers of automotive and other steel-containing products -- we urge that, in any KFTA, there must be:

- An end to all Korean NTBs that have limited imports of U.S. (and other foreign) manufactured goods and a process to ensure that no new NTBs are introduced;
- An end, in particular, to Korea's "double testing" requirements and to the use of standards and certification procedures as NTBs;
- Full transparency in regulations and rulemaking in the ROK;
- Full disclosure and discipline regarding ROK government direct -- and indirect -- subsidies to manufacturing in Korea, given a history of "industrial targeting" of steel, autos and other "strategic" sectors by the government of South Korea;
- A level playing field in the structure and application of ROK domestic tax policy -- e.g., an end to the eight separate taxes, in addition to tariffs, which imported autos are currently required to pay;
- Enhanced transparency and due process procedures for covered government procurement entities in the ROK -- but no expansion of covered entities in the KFTA, given the continued lack of equity and results for U.S. firms in this area to date;
- Stronger provisions on competition policy than exist in all previous FTAs, given a history of illegal cartel and other anticompetitive practices by the Korean Chaebol banks, steel producers and others key players in Korea's economic development;
- Stronger provisions on intellectual property rights (IPR) protections as well, given a history of ROK government toleration of IPR violations;
- Iron clad enforcement provision for all of the key ROK commitments.

### **III. "New" Issues: Exchange Rate and VAT Manipulation**

The recent history of FTAs shows that they can be used to expand our traditional thinking about trade and to address important "new" issues -- including labor and environment standards, investment rules and antitrust cooperation. With regard to the proposed KFTA, we are of the view that it must address two key issues that have a huge impact on trade flows, but which historically have not been part of FTAs -- namely, government manipulation of (1) exchange rates and (2) value-added taxes (VATs).

On the currency issue, this FTA must include principles and provisions that would: (1) commit the Korean government to a market-determined exchange rate and a free-floating won; limit the accumulation of ROK currency reserves (at present, more than \$215 billion) to those necessary and prudent to support the won and Korean commercial banks; (3) provide appropriate sanctions for variance from these disciplines; and (4) disallow "escape hatches" that would enable the ROK government to evade these commitments

While the precise shape or definition of such currency provisions remain to be determined, we are convinced that it will be possible to address this critical issue of currency effectively in the KFTA, just as so many other difficult "new" issues have been addressed in previous FTAs. Given the history of currency manipulation by the ROK

government to keep the value of the won at an artificially undervalued rate<sup>3</sup>, effective currency provisions are essential in this FTA.

On the issue of border-adjustable taxes (BATs), we recognize that this is part of a much broader problem (see below). However, the KFTA should, at a minimum, commit the ROK government to refrain from increasing BAT rebates on South Korean exports (which function as subsidies) once this FTA goes into effect.

#### **IV. Broader Trade Context**

Our position on new FTAs has historically been that we support such initiatives to liberalize trade, with the goal of increasing market access for U.S. manufacturers -- as long as they enhance, and do not weaken in any way, U.S. trade laws or trade law rights. Unfortunately, it has become increasingly clear to us in recent years that FTAs alone will do little to reverse the dangerous and unsustainable, record U.S. trade deficits. The United States today is running massive trade deficits both with FTA and non-FTA countries, and there is little reason to expect that an FTA with Korea will reverse the current significant U.S. trade deficit (\$16.9 billion in 2005) with that country.

With the U.S. trade deficit now approaching 6-7 percent of GDP and, with global trade imbalances becoming worse, our domestic manufacturing base has already suffered serious damage -- and U.S. national and economic security is being put at risk. The United States should not wait until a full-blown national and global economic crisis is at hand. If our nation is to reverse these dangerous trends, we need to:

1. Understand the extent to which our massive trade deficits are self-inflicted;
2. Get our own economic house in order -- e.g., by increasing our national savings rate, addressing our federal budget deficit and eliminating excessive regulatory and other cost burdens on U.S. manufacturing;
3. Change the direction of U.S. trade policy.

A business-as-usual approach to trade -- and pat assumptions that America can somehow export its way out of this unsustainable trade deficit -- will not work. It also will not help to allow this problem to descend into a false battle between "free trade" and "protectionism." A public that does not believe trade is fair will not support trade liberalization. We cannot continue to negotiate new FTAs in the absence of close monitoring and measurement of the results of past FTAs. The public also expects the U.S. government to pay as much attention to the import, as it does to the export, side of the trade ledger. In short, we require a more effective, results-oriented trade policy. A good place to start would be to focus, in a bipartisan way, on three "big picture" issues:

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<sup>3</sup> The U.S. Treasury Department actually cited the ROK government for currency manipulation in October 1988, in April 1989 and in October 1989.

- First and foremost, because strong and strictly enforced trade laws remain an essential underpinning of any pro-manufacturing policy, the United States must resist all WTO Doha Round efforts to weaken the current international “rules” against dumping and trade-distorting subsidization. The ROK government has been one of the so-called “Friends of Antidumping Negotiations (FANs), which has been pushing hard in Geneva for trade law weakening changes in the WTO rules negotiation. It is critical that U.S. negotiators make it clear to the ROK, China, Japan and other governments in no uncertain terms that the U.S. Administration will not accept -- and the U.S. Congress will not approve -- any Doha Round package that weakens America's vital laws against unfair trade, as outlined in S. Con. Res. 55, which passed the United States Senate by voice vote in 2005 as an amendment to a tax reconciliation bill.
- Second, because manufacturers in the United States cannot compete against foreign governments that intervene excessively in exchange markets to keep their currencies at severely undervalued rates in order to obtain artificial trade advantages, we need to enact -- and use -- new trade remedy tools to counter currency manipulation by Korea and other foreign governments. In this regard, it is also essential to recognize that, as long as one major country (China) retains the most severely undervalued major currency in the world, other nations (including Korea and Japan) will feel compelled to maintain their currencies at an artificially undervalued rate.
- Third, because manufacturers in the U.S. cannot compete against an OECD-average 18 percent government VAT rebate on other countries’ exports of manufactured goods in world markets, we need to address the adverse trade impacts of today’s un-level international playing field in the area of taxation. The U.S. can no longer afford to accept discriminatory WTO rules that allow the European Union (EU) and other countries to border-adjust their indirect taxes (rebate such taxes on exports and apply them to imports), while it prevents the United States (which relies primarily on direct taxes) from border-adjusting its taxes. The latest adverse WTO ruling on the U.S. “JOBS” (FSC/ETI replacement) bill should be a wake up call for the United States to make it a top trade negotiating priority to fix, once and for all, this fundamental WTO tax inequity. This is a trade, more than a tax, issue, and the U.S. must insist, in the current WTO “Rules” negotiation, that the WTO prohibit all border-adjustable taxes.

## V. Conclusions

AISI, SMA, SSINA and our U.S. member companies will closely monitor the KFTA negotiation, and we urge the Steel Caucus and entire Congress to do the same.

Insofar as Korea is negotiating FTAs simultaneously with all three NAFTA countries -- and recent newspaper articles have talked about the ROK goal of using a new FTA with Mexico, for example to gain increased access to the U.S. market -- AISI, SMA and SSINA

Ms. Marilyn R. Abbott

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on behalf of our North American membership, also urges that the U.S. government consult closely with the governments of Canada and Mexico on KFTA issues to the extent possible.

Our final position on the U.S.-Korea FTA, on behalf of U.S. member companies, will be determined in the end by several factors, including the extent to which:

- The strength of U.S. AD/CVD laws is fully maintained, not only in the KFTA, but also in the WTO Doha Round rules negotiation;
- NTBs on steel and steel-containing manufactured goods are effectively eliminated in the KFTA, and no new NTBs on these products are reintroduced;
- The United States effectively addresses the "new" issues of currency and BAT manipulation, both in the KFTA and in other negotiating arenas as appropriate -- e.g., on currency, through direct talks with offending governments and, on BATs, through the Doha Round negotiation on rules.

We appreciate this opportunity to provide written comments to the ITC on the proposed FTA with the Republic of Korea and the probable economic effect of providing duty-free treatment for imports

Sincerely,



**Andrew G. Sharkey**  
President & Chief Executive Officer  
American Iron and Steel Institute



**Thomas A. Danjczek**  
President  
Steel Manufacturers Association



**David A. Hartquist**  
Executive Director  
Specialty Steel Industry of North America



## **EERE's Industrial Technologies Program: Proven Returns on Federal and Industrial Investments**

**Higher energy prices in the U.S.** are the result of an imbalance between supply and demand. Uncertainty in the Middle East, hurricanes in the Gulf and global political uncertainties increase prices. Increased energy supply and improvement in energy efficiency are U.S. public policy goals.

**The Industrial Technologies Program (ITP) improves energy efficiency** through partnerships in vital high energy-use Materials Manufacturers: aluminum, chemicals, forest products, glass, metal casting, and steel. These industries collectively consume 75% of energy used by U.S. industry (or 25% of total U.S. energy), supply 90% of materials vital to our economy, produce \$1 trillion in annual shipments, directly employ 3 million people, and indirectly provide additional 12 million jobs. ITP has been working with these energy consuming industries for over two decades to develop energy-efficient manufacturing technologies with great success. For example, steel making energy intensity has been reduced 28% since 1990, as reported by the American Iron and Steel Institute. Other sectors have made similar strides. That this track record was achieved during the period ITP was fully funded is not coincidental—and this track record says similar increases can be made over the next two decades, should the program return to 2001 funding levels.

**Every federal dollar spent on ITP saves \$7.06 a year** in energy costs and saves 1.3 million in annual source BTUs. For each federal dollar invested there is at usually least one dollar of industry money spent. Industry participation and input is key. This is the cheapest energy that can be bought by an investment of federal dollars. In one case alone, lightweight car and truck designs based on materials and models developed in this program saved the U.S. consumer 121.9 million barrels of oil and 49.1 million tons of CO<sub>2</sub> in 2004. This saved U.S. consumers \$9.1 billion in gasoline costs based on the average price of \$1.88 per gallon of gasoline in 2004. Unfortunately, at a time of maximum need, this manufacturing program [ITP] is being targeted for elimination. Since FY 2001 to FY 2006 the budget request for ITP has decreased 69.6%.

**The EERE-ITP program supports engineering education in manufacturing.** Global competition requires an innovative economy. Innovation depends on a technology infrastructure that includes industry, government, and universities. Universities are extremely sensitive to public investment in technology. Private investment in manufacturing is proprietary, limited and product-specific. Elimination of public co-investment in these technologies will lead directly to loss of the private funding. Universities will abandon support for facilities and faculty. Maintaining the technology infrastructure at public universities has always been a benefit of the program, for example since the inception of the ITP metalcasting portfolio, approximately 350 students have participated in the research, and over half have pursued careers in the U.S. metal casting industry.

**The EERE-ITP program is vital to national security.** The ability to defend the U.S. will depend on advanced technology. Manufacturing technology superiority is an essential prerequisite to military technology superiority. As the U.S. military adopts a global supply strategy, critical links of manufacturing technology will inevitably migrate offshore. The elimination of this program will significantly accelerate that trend, exposing the U.S. to the security risks of depending upon foreign suppliers for our next generation of technology.