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1 UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE
2 PUBLIC HEARING

3 In Re: The effects on the national security of imports of iron
ore and semi-finished steel
4 -----

5 H E A R I N G
6 Sunday, July 15, 2001
7 Northern Michigan University
8 Marquette, Michigan

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11 Industries and Economic Security, Department
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00002

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2 U.S. Representative Bart Stupak
U.S. Representative David Bonior
3 Leo Gerard
Michigan Senator Don Koivisto
4 Michigan Representative Stephen Adamini
Mayor Stuart Bradley
5 Mr. Paul Arsenault
6 Mr. John S. Brinzo
7 Mr. Paul A. Korpi
8 Mr. Michael P. Mlinar
9 Mr. Carl L. Valdiserri
10 Mr. Ken Johnsen
11 Mr. Thomas Byrne
12 Mr. William C. Verrette
13 Mr. Roger B. Schagrin
14 Mr. Michael A. Prusi
15 Mr. Daniel P. Carilli
16 Monsignor Louis Cappel
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I N D E X

PAGE

2 Opening Remarks by Daniel Hill 4
SPEAKERS:
3 U.S. Senator Carl Levin 8
U.S. Senator Debbie Stabenow 12
4 U.S. Representative Bart Stupak 17
U.S. Representative David Bonior 24
5 Leo Gerard 29
Michigan Senator Don Koivisto 39
6 Michigan Representative Stephen Adamini 43
7 Mayor Stuart Bradley 47
8 Mr. Paul Arsenault 52
9 Mr. John S. Brinzo 57
10 Mr. Paul A. Korpi 62
11 Mr. Michael P. Mlinar 67
12 Mr. Carl L. Valdiserri 81
13 Mr. Ken Johnsen 91
14 Mr. Thomas Byrne 98
15 Mr. William C. Verrette 104
16 Mr. Roger B. Schagrín 108
17 Mr. Michael A. Prusi 119
18 Mr. Daniel P. Carilli 123
19 Monsignor Louis Cappel 127
20 Mr. Gary P. Boyer 132
21 Mr. George J. Ryan 134
22 Mr. Jerome K. Welsch Jr. 140
23 Mr. John Marshall 146
24 Dr. Judith I. Bailey 151
25 Dr. James Scheiner 156

00004

1 Marquette, Michigan

2 Sunday, July 15, 2001 - 12:05 p.m.

3 MR. HILL: Good afternoon and welcome to the
4 Department of Commerce's public hearing regarding the
5 impact on our national security of imports of iron ore and
6 semi-finished steel.

7 My name is Daniel Hill. I'm the Director of the
8 Office of Strategic Industries and Economic Security at the
9 U.S. Department of Commerce. And I'm the hearing official
10 for today's hearing. I'd like to welcome everyone who is
11 here with us today.

12 Before we hear testimony from our witnesses, I'd like
13 to thank the following people for the efforts they have
14 made in facilitating this hearing: Senator Carl Levin,
15 Senator Debbie Stabenow, Congressman Bart Stupak; their
16 staffers Matt Johnson, Sherry Davey; Northern Michigan
17 University Official Judy Maara. And I have a long list of
18 other people to thank. And I think it's well worth the
19 effort 'cause, as you can see, this is a lovely facility.
20 It's been nicely set up. So just bear with me: Jan
21 Paquette, the University Center custodial staff who worked
22 through most of the night; Alan Davis, Todd Norwood. I'd
23 also like to thank Eric Smith and Jeff Kobal on our AV
24 equipment; Associate Vice President for Auxiliary Services,
25 Andy Wasilewski; Dining Services, Jim Riley; Paul Supanich

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1 and other staffers and volunteers; Sara Katt, Jim Dellies,
2 Greg Brunet and Matt Johnson. Again, thank you very much
3 for making this hearing happen today.

4 As many of you know, the Bureau of Export
5 Administration at the Department of Commerce initiated this
6 investigation on February 1st of this year in accordance
7 with Section 232 of the Trade Expansion Act of 1962 as
8 amended. We are conducting this investigation at the
9 request of Representative Bart Stupak, a congressman from
10 Minnesota, and James Oberstar -- Bart Stupak from
11 Michigan -- I'm sorry, Congressman -- and James Oberstar of
12 Minnesota.

13 Section 232, Subsection D of the Act, directs us to
14 evaluate the domestic production needed for projecting
15 actual defense requirements, the capacity of domestic
16 industries to meet such requirements, the requirements of
17 growth of such industry, including the investment and
18 development necessary to assure such growth, the
19 importation of goods in terms of their quantities,
20 availabilities, character and use and the impact of foreign
21 competition on the economic welfare of individual domestic
22 industries.

23 We are here today to learn and gather information to
24 help us assess those important elements. We have assembled
25 an inter-agency team in Washington, a team of experts, some

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1 of whom are here today. This team in Washington includes
2 representatives from other U.S. government agencies,
3 including bureaus within the Department of Commerce, the
4 Department of Defense, Department of Labor, Department of
5 State, the Department of Transportation, the Office of the
6 United States Trade Representative, the United States
7 International Trade Commission, the Department of Interiors
8 of the United States Geological Survey and the Counsel of
9 Economic Advisors at the White House.

10 One of the initial steps of our investigation involved
11 the public comment period which closed on May 2nd, 2001.
12 During this period we received approximately 3,000
13 submissions. And I'm sure that some of you here in the
14 audience today have submitted your comments. We are now in
15 the process of analyzing those comments and including them
16 in our report. All of these comments are available on the
17 Internet and the FOIA reading room via a link from our BXA
18 which is www.bxa.doc.gov, G O V.

19 In addition to the written comments, we are conducting
20 two public hearings. We've conducted a hearing in
21 Virginia, Minnesota, on July 5th, and we're conducting a
22 public hearing today. We have also developed survey
23 instruments which iron ore and semi-finished steel
24 producers and end users will complete in order to account
25 for their respective views. We had announced a public

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1 hearing in California, but that has since been canceled.
2 We will consider all the input from the written comments,
3 public hearing surveys and independent research in
4 developing our report. We will provide our report to the
5 Secretary of Commerce, who by law is required to report his
6 findings and recommendations to the President of the United
7 States no later than October 29th, 2001.

8 On our panel today we have myself; my legal counsel,
9 Dave Recker; Brad Botwin and Mike Vaccaro with the Bureau
10 of Export Administration; Jim Thompson with the Department
11 of Defense; Jim Woods with the Department of Labor; and
12 William Kirk with the Department of Interiors, U.S.
13 Geological Survey. I'd like to personally thank the panel
14 for coming here and supporting this valuable hearing today.

15 In addition to all the comments we received today, I
16 have decided to leave the official record open until August
17 17th, 2001. And any additional comments we receive will
18 become part of the official record. Similar to the written
19 comments that we have already received, all of the requests
20 to speak and all of the written comments we receive by
21 August 17th will be available on the Internet again via the
22 link to our FOIA site. In addition, a transcript of the
23 hearing today -- and we have our two court reporters. And
24 I want to thank them as well for supporting us today --
25 will also appear shortly on our website.

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1 Now let's begin the hearing. Each speaker has been
2 allotted ten minutes, which includes time for questions and
3 answers. I would ask each speaker to keep their comments
4 to five minutes if possible, thereby allowing for the panel
5 to ask five minutes' worth of questions. We do have a
6 timekeeper over here on my left who will hold up signs at
7 the five-minute mark, three-minute mark, one-minute mark,
8 thirty-second mark. And then she has a "time expired"
9 mark. If she stands up because I have given her a signal,
10 you know we'll have to take extraordinary efforts to move
11 on to the next witness.

12 We do have what I think is a terrific list of
13 witnesses today that represent a good cross section of the
14 community. Those of us from Washington have been reviewing
15 their comments and their outlines for their testimony
16 today. We're very excited. We think we will have a very
17 good day of hearings. And on that note, I'd like to invite
18 our first speaker, Senator Levin, to come forth and give us
19 his testimony.

20 Senator Levin.

21 SENATOR LEVIN: Mr. Chairman and members of this
22 distinguished panel, thank you for coming to Marquette. My
23 heart goes out to you, Mr. Chairman, by the way, trying to
24 keep speakers to five minutes. I recently have assumed the
25 chairmanship of a full committee and a subcommittee, and we

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1 have only have two lights. So you've got about six signs
2 there. So you're much more technologically advanced than
3 we are.

4 But, again, the people in the UP are grateful for your
5 coming here. It's a Sunday. We know that you have
6 families that I know you would prefer to be with. But what
7 you're about is a very, very important function and a
8 service to this country of ours. We feel very strongly
9 about the thousands of jobs that are involved. We feel
10 very strongly about the economics of this to the region, to
11 our state.

12 We just left a couple thousand people in the Superior
13 Dome at a rally. And you may have heard their voices all
14 the way to this particular room. They can't all be here,
15 and so we will speak for them. But we are also speaking
16 for our nation's security, 'cause that's what you're about.

17 And we have laws. And this is not a case where there
18 ought to be a law; this is a case where there is a law.
19 And what we're pleading with you to do is to enforce that
20 law. And what that law provides, as you well know, is that
21 where imports threaten our nation's security -- "to impair"
22 is the key word here -- just simply threaten to impair our
23 national security, then you have the responsibility of
24 making a recommendation, and the President then has the
25 responsibility of taking action to assure that our nation's

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1 security is protected.

2 I am chairman of the Armed Services committee. I
3 haven't been chairman for very long, but I've been on that
4 committee for more than two decades. Our major
5 responsibility on that committee is to make sure that the
6 men and women of our Armed Forces are well trained, well
7 paid, that their morale is high, that they're given the
8 greatest equipment that's available now and in the future.

9 But we also have the responsibility of making sure
10 that this country can respond to an emergency, that we can
11 surge our output, if necessary, in a self-sufficient and
12 independent way, to build the planes and the ships and the
13 tanks and produce the bullets and the missiles and the
14 shells that are necessary in time of need. We simply do
15 not have that assurance if we are depending on imports.

16 Now, imports have done great damage to us already.
17 And there are other provisions of law, as you well know,
18 which protect us against surges in imports, protects us
19 against dumping of subsidized imports. Your business here
20 is a little different from that. But your business and my
21 business is very similar, and that is to help assure us
22 that, in time of need, the domestic capacity in this
23 country to produce steel -- and that includes iron ore,
24 'cause that's an essential part of an integrated steel
25 industry -- will be there for us.

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1 You cannot be as sure that imports will be there for
2 us in times of an emergency as you can if you have a
3 domestic integrated steel industry which has surged in
4 times of needs in war after war. World War II, Korea,
5 Vietnam we have seen the surges domestically that are
6 essential to protect this country of ours.

7 So the responsibility is an awesome one that you have,
8 that the Secretary has, that the President has. The
9 responsibility that we have on the Hill is awesome. But
10 there it is. It's something we all feel very keenly about,
11 but it's something that, frankly, I lose a lot of sleep
12 over, the well-being of our forces and the future strength
13 of this country. And national strength and national
14 security, to a significant degree, relies on the strength
15 of steel. I mean, that's the bottom line for Section 232.
16 And I think there is no escaping that bottom line.

17 Self-sufficiency is critical, and we just simply
18 cannot be put in the position that we have to rely on
19 others to surge their outputs in case of our needs. It's
20 ironic that imports are creating such economic difficulty
21 for us now. But the other side of that coin is, when it
22 comes to the balloon going up, if it does, we've got to
23 rely on our own domestic industry.

24 No other country -- and I'll close with this 'cause I
25 see the big 30. No other country -- it's unimaginable to

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1 me that any other country with an integrated steel industry
2 would tolerate the demise of that industry, just from a
3 national security perspective if from no other perspective.
4 I don't know of any country that would tolerate it.

5 So, yeah, we're fighting for jobs. And, yeah, we're
6 fighting for our economy. But we are truly fighting for
7 the national security of this country. And, again, we
8 thank you for your involvement in that effort.

9 MR. HILL: Thank you, Senator. At this time I'd like
10 to call Senator Debbie Stabenow.
11 Senator.

12 SENATOR STABENOW: Good afternoon. We've all just
13 left I think what amounts to over 3,000 people by now and
14 counting, who are going to be coming over, I understand, in
15 just a little bit. Folks are beginning to come. And we
16 won't be able to accommodate all of those in this room.
17 But just know that there are literally thousands of people,
18 from small children up to grandpas and grandmas, that are
19 joined together in a very strong unified voice about the
20 seriousness of this issue.

21 So I would like to thank Director Hill and members of
22 the Administration, all of you, for taking the time to come
23 to this important community and hold this hearing and
24 listen to what we have to say about an issue that is so
25 important to Marquette County, to the Upper Peninsula, and,

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1 I believe, to our nation as a whole. We're talking about
2 saving our mining industry and the integrated steel
3 industry of this country.

4 I also want to thank the Secretary of Commerce and the
5 members of his team for meeting with us in Washington and
6 for listening to our concerns and pursuing this
7 investigation. Time is of the essence. And we all
8 appreciate the way you're working with us on this important
9 issue. So I want to say thank you and at the same time say
10 that we have a tremendous sense of urgency about bringing
11 this investigation to a positive conclusion and having
12 action taken as it relates to the issues which are before
13 us today.

14 I'm very pleased to be here with my colleague, Senator
15 Carl Levin; Congressman Bonior; Congressman Stupak, who has
16 been at the forefront representing his communities and
17 bringing this to our attention. And it's been my privilege
18 to work with all of them on this important issue. There
19 will be a long list of presenters today talking about very
20 important aspects of the mining industry, the important
21 parts and intricacies as it relates to various aspects of
22 today's hearing.

23 What I would like to do in my short time is to put a
24 human face on the loss of the industry and what that means.
25 Since the mid 1800's when iron was first discovered here in

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1 the Upper Peninsula of Michigan, people have been seeking a
2 better life. From around the world they've come to work in
3 the mines and the industries that support them. Together
4 they have built communities, and those communities have
5 helped build this nation.

6 Since mining first started here and in Minnesota,
7 nearly 4 billion tons of iron ore have been shipped and
8 turned into steel, steel that defended our nation as tanks
9 and ships, steel that spanned our rivers as bridges and
10 trestles, steel for the railroads that crossed the country
11 and steel of the skyscrapers that rose above it.

12 Now just two mining operations remain here in the
13 Upper Peninsula and another six in Minnesota. And that's
14 it. That's all there is in America.

15 These communities that did so much for our nation need
16 our help in return. And we are helping ourselves in doing
17 that because of the critical national security concerns.
18 They need relief from cheap imported steel slabs that are
19 driving down demand for the iron ore pellets these mines
20 produce. And we need -- we as a country need to make sure
21 that they stay in business.

22 The lives of thousands of people in the Upper
23 Peninsula and all across Michigan depend on keeping these
24 mines open, and so does our national defense.

25 As Michigan's new senator, I have made the economy of

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1 the Upper Peninsula and the health of the mines one of my
2 top priorities, and it will continue to be until we resolve
3 this in a positive way. We've been meeting with union
4 officials and executives and the civil, civic leaders and
5 hardworking people from all over the communities that go
6 back generations. And in almost every case, you see the
7 fear in their eyes because of their concern that the
8 community, that the way of life that they have built may
9 simply vanish.

10 Remember, it's just not the people who are directly
11 working for the mines who are affected; it's the whole
12 community; the building that you sit in, the University.
13 The mines touch every business, every person, the hospital,
14 the schools, everyone young and old, in this county and
15 beyond. If they go, everything is affected. And if they
16 vanish, a large part of our defense capability will vanish
17 with them.

18 Consider this: If we allow our domestic steel
19 industry to become dependent on imported semi-finished
20 steel slab -- and let the mines go under -- the day will
21 come when we may very well be dependent on Russia, China,
22 the Ukraine, Brazil to furnish the materials we need to
23 manufacture steel here. That strikes me as a long and
24 unstable supply line to depend on in times of military
25 emergency.

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1 And, remember, the same factors that threaten the iron
2 mines threaten our steel industry as well. It's in our
3 national interest to ensure that we keep a vital mining
4 industry that supplies the raw materials for a vibrant
5 steel industry.

6 Our national security requires both of those things.

7 I find it ironic that, while we are having a national
8 debate about dependency on foreign oil and we import just a
9 little over 50 percent of foreign oil, we are in danger of
10 letting our mining industry wither and die. And when that
11 happens, we'll be 100 percent; 100 percent dependent upon
12 foreign countries for the materials that are the backbone
13 of so many other industries in this country.

14 When we built the U.S.S. Ronald Reagan, 47,000 tons of
15 steel were used. Stem to stern, it was built by American
16 labor.

17 But when I think now of national defense, I think we
18 need a new definition of "Made in America." "Made in
19 America" should mean it started with the hands of an
20 American steelworker. Then it's made in America by the
21 communities that helped build this great country.

22 We thank you for initiating this investigation. And
23 we ask you to act now to join us so that we may save this
24 vital American industry.

25 I pledge my ongoing support and help in whatever way

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1 is needed to guarantee the future health and prosperity of
2 the iron mines in Michigan and Minnesota and the future
3 security of our country. Thank you very much for being
4 here.

5 MR. HILL: Thank you, Senator. At this time, I'd like
6 to ask Congressman Bart Stupak if he would come forward.

7 CONGRESSMAN STUPAK: Well, thank you for holding this
8 hearing on the Marquette Iron Range.

9 I would also like to thank all of our speakers who
10 came here today to support our iron miners, their parents
11 and grandparents who have provided iron ore to this great
12 nation for over 150 years!

13 Congressman Oberstar and I sought this 232 probe
14 because we believe this investigation will demonstrate that
15 our national security depends on the workers who mine iron
16 ore and process it into pellets and then into steel.

17 This ore is used to make steel, which is then used to
18 build our tanks, our planes, our ships, roads, bridges,
19 buildings. Steel touches every aspect of our life and
20 every aspect of the American economy. For example, as
21 Senator Stabenow said, the U.S.S. Ronald Reagan, that was
22 just recently commissioned, required over 47,000 tones of
23 steel. Our nation's military and our industrial and
24 manufacturing base rely on the output of eight mines, just
25 eight mines, to provide the basic ingredient for making

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1 steel. That's iron ore.

2 Two of these mines, the Empire and Tilden mine, are
3 located within 30 minutes from where we sit. The other six
4 are in Northern Minnesota.

5 Through these mines, America literally; literally
6 draws its strength from the ground.

7 But as this panel is surely aware, our iron ore
8 industry is being threatened by cheap illegal imports.

9 This assault on the iron ore and steel industry is
10 especially troubling when these imports are subsidized by
11 foreign governments and then dumped in and on our markets
12 at prices below their true manufacturing cost.

13 At any stage in the steel-making process, an influx of
14 illegal imports diminishes the demand of our domestic iron
15 ore.

16 If we continue to allow illegal dumping of slab steel,
17 what will happen to iron ore production? What will it mean
18 for the country as a whole? What can be done to prevent
19 it?

20 These are the questions that must be answered if we
21 are to gauge the true impact of illegal steel dumping of
22 iron ore and slab steel on our national security.

23 If this nation continues to allow the flood of cheap
24 iron ore imports, semi-finished slab steel or finished
25 steel, it will no longer be economically feasible to

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1 operate our domestic iron ore mines.

2 If we do nothing; if we do nothing, what will happen
3 to the Marquette Iron Range in 5 to 10 years?

4 As we continue to upgrade and replace our aging
5 military equipment, are we going to have to rely on steel
6 from Thailand, Brazil or Russia?

7 Can we depend on these countries for on-time cost
8 efficient delivery?

9 Will the quality of the steel be up to our standards,
10 especially in the specialized steel area?

11 Will our national and economic security be threatened
12 by an embargo of foreign steelmakers who don't agree with
13 our U.S. policy?

14 Once the domestic industry is gone -- domestic iron
15 ore industry is gone, even the most powerful person on
16 earth cannot simply order that we restart the domestic iron
17 ore industry.

18 If the iron ore mines are shut down, our fleet of iron
19 ore carriers will be docked, probably cut up and sold for
20 scrap.

21 Railroads that now criss-cross the upper Midwest
22 carrying iron ore will no longer be maintained.

23 How long will it be before the equipment at the mines
24 are sold off or rusted to pieces?

25 Once iron ore shipments are stopped, there is no

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1 longer a need for the coke production and the blast
2 furnaces. There are only 40 blast furnaces left in all of
3 the United States which can convert the coal to coke and
4 then take the pellets to make the steel.

5 Companies that supplied the mines with basic
6 industrial needs as welding rods, gas tanks, compressors,
7 steel drill bits will be gone and a major segment of our
8 U.P. economy will vanish.

9 Today our steel mills and our mines are still
10 producing iron ore and steel, but barely. We are at about
11 60, 65 percent of capacity. We are fighting for the
12 survival of this vital, vital industry.

13 Let us require that our defense industry use
14 domestically produced steel in constructing ships or tanks
15 and guns.

16 Let's require that government-funded projects like
17 interstate highways, bridges, public buildings, schools and
18 other structures use domestically produced steel.

19 And I'm sure you understand that, when I say
20 "domestically produced steel," I clearly mean steel made
21 with domestic iron ore, not finished steel domestically
22 rolled from imported slab steel.

23 We have the legislative tools. We have the trade
24 tools to address this problem. And we need only to
25 demonstrate the will to do them. And that's why we've come

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1 to you. When you look back for the last 150 years, the men
2 and women of the Marquette Iron Range have stood up for
3 America. It's time for America to stand up for iron ore.

4 They have a lot of empty seats. They won't be empty
5 long. We just left about 3,000 people. They plan on
6 coming over. And we just want you to see and feel the
7 strength of these people and the strength they've given
8 this country. And we ask you consider that and give us
9 back our strength so we can continue to provide for our
10 families up here in the Upper Peninsula. Thank you very
11 much. Any questions?

12 MR. HILL: Thank you, Congressman. I have one quick
13 question. We now are in our second hearing, and we have
14 heard a number of views on the reconstitution issue once a
15 mine shuts down. Is it six months? Is it one year? Is it
16 two years where it's too late to go back? I find your
17 testimony somewhat compelling as to what the effect would
18 be on the surrounding infrastructure with the railroads
19 going on. And frankly, as we drove around yesterday this
20 beautiful part of Michigan, we saw the train tracks are now
21 bike paths and things like that. Could you just give us
22 your views on reconstitution issues and what you think
23 about that issue?

24 CONGRESSMAN STUPAK: Sure. The iron ore industry is
25 huge up here. There are only two mines. They're very

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1 large mines. And we have about 3,000 people. But the
2 money that's spread out for the infrastructure to support
3 this industry -- I know Mr. Marshall is going to be here to
4 talk about the EL&S or what his railroad line has to do.
5 We still ship down to Escanaba where we unload pellets
6 there to ship down basically the Lake Michigan side. The
7 Duluth and Marquette area, we go through the Soo Locks and
8 down to the Lake Huron and Lake Erie area for the steel
9 mills.

10 All that infrastructure -- and then on the ships, the
11 ports, the suppliers -- Bill Verrette is going to testify
12 later about all that he supplies here and the impact -- you
13 can't simply say, if you're the President, "We've got a
14 problem here. Let's fire up these mills." Just go right
15 over here to the old Champion mill and the Republic mill
16 right over here. You'll see it's all rusted out, and that
17 is after they have cleaned it up a lot. You just can't
18 simply re-fire it.

19 What happens when the water starts filling these
20 mines? How are you going to pump them out? The pumps are
21 a big part of the whole process. It takes time. We just
22 lost the last big copper mine up here over in White Pine
23 and the smelter that we had there. And that is being
24 filled with water. To get it reconstituted, the State of
25 Michigan went out on a limb here in, oh, mid 1980's. We

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1 got it going. But once the cheap copper from South America
2 came in and copper went down to less than 19 cents a pound,
3 they ended up having to close it 'cause you have to
4 maintain this infrastructure.

5 When I talk about the steel mills at 60, 65 percent
6 capacity, their cost to run that mill is very, very high.
7 The iron ore mines here, how much electricity and power do
8 they take? They take enough electricity that you could
9 light the whole city of St. Louis. Is that electrical
10 power going to be there? We're all worried about
11 electricity right now. California wants it. If these
12 mines go down, are they going to sell that on the grid? Is
13 there going to be enough power to light St. Louis just to
14 get the Empire or Tilden mine going again? How do you get
15 that power grid back? These are all the issues that are
16 all interwoven to keep a mine going.

17 The overhead for a mine is extremely high, as you are
18 well aware of. That's why we can't run at 60, 65. We've
19 got to be at that 95 to 100 percent capacity to make a
20 profit. How many steel mills have we had go bankrupt this
21 year? 13, 14? You just don't suddenly put it all back
22 together.

23 MR. HILL: Thank you very much, Congressman Stupak.

24 CONGRESSMAN STUPAK: Thank you.

25 MR. HILL: At this time, I'd like to call David Bonior

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1 to testify.

2 Congressman.

3 CONGRESSMAN BONIOR: Good afternoon, Director Hill.

4 And I would like to welcome each member of the panel to our
5 state. I am proud to join all of those here today, the
6 steel workers, their family members, members of this
7 wonderful community and my colleagues in the Congress; Bart
8 Stupak, who I have an immense amount of respect for, a
9 fighter for working people; and our two great senators,
10 Carl Levin and Debbie Stabenow, who distinguish themselves
11 for working people every day that they're in Washington and
12 in Michigan.

13 To be here to alert you to the serious problem our
14 iron ore industry is facing, about 150 years ago, the
15 United States Deputy Surveyor William Burt was in Marquette
16 County. Burt was one of the more heroic people in the
17 history of our state. He actually was born and raised down
18 in Washington, Michigan, which is in my district in Macomb
19 County. And he was one of the greater inventors that we've
20 ever had in this nation. He came up here. And he noticed
21 the needle on his compass spinning wildly. And he knew
22 there was something special about this area. He would soon
23 find out what we know today, that the Upper Peninsula is a
24 powerhouse of iron ore producing ability.

25 For all of those 150 years, this area of Michigan has

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1 been home to iron ore mines. They have served our nation
2 in times of peace and in times of war, providing the ore
3 that produces steel for our bridges, our cars, and our
4 tools -- as well as our guns, our tanks and our ships. The
5 mines in this area have maintained the local economy, and
6 they have played an important part in bolstering the
7 economy of our entire state.

8 But, today, the two remaining mines, the Empire and
9 the Tilden, find themselves, as we have just heard,
10 struggling, affecting anywhere between 2- and 3,000
11 employees and countless other workers who depend upon the
12 industry. This summer the mines shut down. And,
13 fortunately, it was not permanent. Luckily, some of the
14 workers are able to go back to work this month. But this
15 shutdown may not be the last for the Tilden and Empire
16 workers. Workers fear the next time could be permanent.

17 When workers lose their jobs and the mines close their
18 operations, more than unemployment results. Communities
19 are devastated when the tax base evaporates. The way of
20 life is destroyed. And America loses more good-paying jobs
21 to foreign countries. Certainly the iron ore industry is
22 no stranger to layoffs and closings. For a century and a
23 half, the industry has faced its share of closings due to
24 depleted supplies or not being able to remain profitable.
25 However, today the threat is entirely different. Our iron

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1 ore mines are more efficient than ever. They have
2 modernized, and our workers are among the best in the
3 world. But they are being forced to compete on a playing
4 field that simply is not level.

5 The culprit is the flood of illegal imports of iron
6 ore and semi-finished steel. They have destroyed the
7 Tilden and Empire mines and our nation's iron ore
8 industry -- the foundation of our ability to produce steel.
9 Foreign governments subsidize manufacturing of these
10 products within their country. And their lack of worker
11 rights, environmental laws, safety standards allow them to
12 produce at minimal cost. Our domestic producers simply
13 cannot compete with imports priced at such low levels. The
14 bottom line is that these imports are driving the iron ore
15 industry in our state right into oblivion. It is unjust.
16 And it is unfair for this to continue.

17 But this problem is certainly more than unfair. It is
18 a threat to our national security. I would like to remind
19 the panel -- and I assume others have done so. And forgive
20 me if I repeat this. But during World War II, Nazi
21 submarines sank Canadian ships of iron ore headed to our
22 shores in an attempt to undermine our war effort. This
23 showed President Roosevelt the critical importance of being
24 a self-sufficient producer of steel. As a result,
25 Roosevelt commanded troops to ensure our domestic safety --

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1 through protecting our steel and iron ore industry. He
2 placed troops on ships and at canal locks to ensure these
3 crucial elements of the war effort, that they would be
4 safe. Luckily, we had the prosperous Michigan and
5 Minnesota mines to see us through.

6 In fact, the work that was done in the mines was so
7 important that when the iron ore workers attempted to
8 enlist during World War II, many were directed to remain in
9 the mines. The government realized then that the workers
10 were just as important to our national defense producing
11 our nation's steel as they were on foreign battlefields.
12 Clearly, the government saw the advantage and the
13 importance of protecting our domestic iron ore supply.

14 We were again reminded of the importance of steel --
15 and of the iron ore that produces it -- in 1975. During
16 that year, a collision occurred between the two ships, the
17 Belknap and the U.S.S. John F. Kennedy. The Belknap, which
18 was constructed of aluminum, suffered severe damage and
19 many soldiers lost their lives. The aluminum simply could
20 not withstand the hit. Because of this incident, our
21 government insisted that steel replace aluminum as the
22 construction material in all future destroyers.

23 And, today, our need for iron ore and steel in our
24 national defense remains as strong as ever. In March of
25 this year, the Ronald Reagan nuclear-powered aircraft

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1 carrier was christened. The ship required nearly 47,000
2 tons of steel to build.

3 We simply cannot underestimate the importance -- and
4 the potential -- of our domestic steel industry. It is
5 essential to our families who depend on the jobs the
6 industry provides. It is essential to the foundation of
7 our steel communities. And, as we are focused on today, it
8 is essential to our national defense.

9 The world in the 21st Century remains a very
10 vulnerable and unpredictable place. A dependence upon iron
11 ore and steel from other nations leaves us wide open to the
12 winds of global politics. We must ask ourselves, if faced
13 with international conflict today, would we want to depend
14 on countries like China and Russia for our steel?

15 The people of Marquette and Michigan's Upper Peninsula
16 stand ready today -- just as they did during World War II
17 and for generations before that -- to give their heart and
18 soul, day in and day out, for the defense of this nation.

19 And I believe, Mr. Chairman, Mr. Director, that we
20 must stand by them as well. And I thank you for the
21 opportunity to say a few words to you this afternoon.

22 MR. HILL: Thank you, sir. At this time we have a
23 minor change in the schedule. We will ask Mr. Leo Gerard,
24 who is the International President of the United Steel
25 Workers of America, to come forward and present his

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1 testimony at this time.

2 Mr. Gerard, please.

3 MR. GERARD: Thank you. Let me also thank you for
4 taking the time to have field hearings both here and in
5 Minnesota, I think the 5th of July. We have submitted
6 written testimony to you. I want to in many ways reinforce
7 some of the things that have already been said this
8 morning. But I want to as well try to put a very human
9 face on the crisis that we are currently in.

10 I would like to refer you to a Commerce Department
11 study that was released at the end of 1999, 2000, by the
12 Commerce Department that one of its key quotes said that,
13 "The American Steel Industry has been the target and the
14 victim for close to 50 years of dumped and subsidized
15 steel, illegally dumped subsidized steel, that has
16 undermined the very foundation of that steel industry.

17 I think it's important for you to know, if you haven't
18 had it presented to you already, that, in the last 15
19 years, our union and in particular our members, the workers
20 in the iron ore mines and the steel industry, have improved
21 productivity in the steel industry by close to 175 percent.
22 I would put that record up against any industry in any
23 nature.

24 During that same period of time, very much of it
25 initiated by our members through the collective bargaining

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1 process, the industry has invested almost 60 billion
2 dollars in modernization. Yet today we're facing a period
3 where 19 steel companies are in Chapter 11 or are just
4 easing their way out of that Chapter 11 bankruptcy. And,
5 in fact, as the second quarter results are being released
6 by the steel industry in the next few weeks, some of the
7 strongest steel companies will end up losing in the
8 hundreds of millions of dollars.

9 We're facing a circumstance where unfairly traded and
10 dumped steel is surging again. I mentioned too the rally
11 that people have referred to, that when this industry was
12 working at 100 percent, virtually 100 percent of its
13 capacity a few years ago, it could only meet 80 percent of
14 its demand.

15 No other nation on earth is prepared to sacrifice that
16 much, if any amount, of its domestic steel industry.
17 Except for the United States, virtually every other
18 steel-producing nation doesn't only produce 100 percent of
19 its demand but produces 100, 110, 120 and some of them 200
20 percent of their demand. So that it's important that this
21 group that's here today -- and I don't know if you're the
22 same people that were in Minnesota because I wasn't
23 there -- that you will get the kind of documentation that
24 collectively shows that the industry is virtually at risk
25 of not existing.

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1 If those 19 steel companies were to not survive, the
2 capacity of the nation to meet its own demand might fall
3 below 65 percent or maybe some lower amount. Virtually
4 600,000 retirees and their dependents need to have the
5 steel industry. They rely on that steel industry for their
6 retiree health care. Those communities would be
7 devastated. The iron ore ranges of American would be
8 devastated. But in some ways just as importantly, the
9 whole country would be devastated. This needs to be looked
10 at in an extremely serious fashion, and I assume that
11 you're going to do that.

12 But today I was taken aback. I don't know that the
13 young reporters in the room at the rally over at the
14 dome -- a reporter came up to me and said, "What's the
15 point of all of this?" He said, "There will be hearings,
16 and there will be rallies. And nothing will be done. And
17 folks will lose their jobs." And I said, "Well, why would
18 you say that?" He said, "Well, they went through all these
19 hearings when they closed the bases. And they were just to
20 make us feel good."

21 I can't find a way to express to you in strong enough
22 terms how important it is that the government of this
23 country act to protect this basic industry. We're at a
24 point in time -- and I can tell you this very directly.
25 I've just spent eight weeks in negotiations with LTV and

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1 the unsecured creditors. We're at a point in time where
2 the financial markets don't believe that the government
3 will do anything. The financial markets believe that the
4 government has abandoned the industry. So you can't raise
5 needed capital. You can't raise capital to invest in the
6 continued modernization of the mills, and you can't invest
7 capital in the increased modernization of the mines. And
8 at the same time, more and more foreign steel and iron ore
9 is being dumped into this country.

10 In our written testimony, we point out that
11 semi-finished steel has shot up 25 percent. Imports of
12 semi-finished steel have shot up 25 percent just in this
13 current crisis. It is tremendously important that, as you
14 do your deliberations, you recognize that a do-nothing
15 response will lead to the demise of the industry. It won't
16 happen tomorrow; it won't happen next year. It may not
17 happen the year after that. But as the chairman of U.S.
18 Steel said at a meeting with the Secretary of Labor, with
19 the current uncertainty in offshore dumping and the
20 unregulation of the market, in ten years U.S. Steel won't
21 be making steel.

22 In my office in Pittsburgh, there is a poster from
23 1944. And it shows the Allies in a cartoon sitting around
24 the table playing cards with the Nazis. And it was clear
25 that they were going to win because we could see their

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1 cards and the poster, that they were holding all the steel
2 companies.

3 We are now virtually to the point; virtually to the
4 point where, if the government does nothing, that in 15
5 years the steel industry could be where the oil and gas
6 industry is now. I was at the energy briefing at the White
7 House. And I said then what I would say now. I am not in
8 a position to say something about the President's energy
9 policy when it's told to us at the last minute. I don't
10 know anything about ANWAR (phonetic), but I'll get used to
11 finding out. I'll get into it. But I do know one thing.
12 You can't build petro chemical plants; you can't build
13 coal-fire generating stations; you can't build nuclear
14 generating stations; you can't build 38,000 miles of
15 pipeline; you can't build oil rigs out of cellophane,
16 cardboard and plastic. You've got to build it out of
17 steel. And it would be a travesty to try and say that we
18 need to increase oil and gas production and energy
19 production in this country because we're being left victims
20 of foreign cartels where at the same time, on the other
21 hand, we turn our back on a basic American industry that
22 community after community relies on.

23 Let me close by saying that I thank you for coming,
24 but in particular I thank Senator Levin and Congressman
25 Bonior and Stupak and Stabenow and Congressman Oberstar

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1 because of the meeting they held in their office which I
2 attended; and their boss showed up. You were there too?
3 There were so many people you couldn't even tell who was
4 there.

5 MR. HILL: I was hiding in the back.

6 MR. GERARD: And I would think that that was a
7 starting point for what I anticipate will be a very
8 intelligent and thoughtful process that will lead to the
9 government, on this issue of national security, adding to
10 the solution as we hope that they will do on 201. And we
11 hope that the Senate and Finance Committee will do. I want
12 to thank you for taking time. And I want to encourage you
13 to not let that young reporter be disillusioned. Thank you
14 very much. I'll be happy to take questions.

15 MR. HILL: Sir, this is not a question. I just want
16 to thank you for your thoughtful comments today and again
17 express our appreciation for the research that you have
18 shared with us and encourage you to continue to do so. We
19 will hold the record open 'til August 17th, and we look
20 forward to working with you on this important issue. Thank
21 you.

22 MR. GERARD: Thank you very much. We'll send you
23 more.

24 MR. THOMPSON: Mr. Gerard, I have a question on the
25 domestic steel industry which addresses Department of

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1 Defense needs for weapon systems is integrated with the
2 larger industry that meets domestic needs or civil needs.
3 I would appreciate your insights now or at a future time
4 about how the portion that addresses Department of Defense
5 needs is integrated with the rest and how they mutually are
6 dependent.

7 MR. GERARD: I'm not sure that I understand the
8 question, but let me see if I do. You would be interested
9 in getting some remarks from us as to how the integrated
10 steel industry meets the demand of both the defense
11 industry and what I will call the non-defense industry?

12 MR. THOMPSON: I'll try to clarify that there is a
13 portion which addresses Department of Defense needs.

14 MR. GERARD: Yes.

15 MR. THOMPSON: And there is a portion which addresses
16 civil needs. And they're mutually interdependent. And I
17 was wondering if you could help us understand that.

18 MR. GERARD: Sure; sure. We can certainly put
19 together some information and send it to you officially on
20 the record in a week or ten days. But let me also just say
21 that the whole of the integrated industry is at risk. What
22 is commonly referred to as the mini mills or melt shops
23 that makes steel from scrap currently -- and I don't know
24 what the technology will do in 5 or 10 or 15 years. No one
25 ever knows that. But currently the quality of steel that

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1 they make is not the quality of steel that goes to the
2 defense industry.

3 The quality of steel that's made in most of the
4 integrated mills is of such a range of products that they
5 can meet the automotive industry needs. They can meet
6 construction industry needs. They can meet computer
7 industry needs, and they can meet defense industry needs
8 for the range of defense products that need steel.

9 But one thing that I think it's important for all of
10 us to understand -- and too many people think of the steel
11 industry as a, quote, "rust belt industry" -- the steel
12 industry and the iron ore industry are amongst the most
13 sophisticated, technologically advanced industries in this
14 country. And the range of products that they can make and
15 the range of grades that are made in the steel industry,
16 you could actually have a mill that is making steel that
17 will go into the computer chips or go into the computer the
18 same time that it's running products that will go into the
19 armament industry or one company. And when that mill goes
20 down, the whole company goes down.

21 The comment that one of the presenters was making
22 about the integration of the industry, it's a very
23 capital-intensive industry. It's a very sophisticated
24 industry. And when one function of the industry is
25 damaged, it flows through like a domino effect. We all

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1 remember the term when we started thinking about domino
2 effects. It flows through like a domino effect.

3 One of the down sides that we need to worry about in
4 the iron ore range is that, when corporations in the steel
5 industry are having the capital base dry up, when they're
6 cutting investment and trying to survive, the downstream
7 users of the capital, like, for them, the iron ore mines,
8 are one of the first to be starved. And so they have that
9 domino effect falling back.

10 We will try to give you very exact statistics that
11 will help make the point that I'm trying to make. But you
12 need to keep in mind that currently there is maybe one,
13 maybe two companies that will make money in the second
14 quarter in America. And those two companies will probably
15 make money because they are so new. They don't have
16 retirees yet. Okay. They don't have retiree health care.
17 They don't have a pension plan yet.

18 I always get angry when people say, "Well, they can
19 make money." Well, fine. U.S. Steel might make money too
20 if they decided not to give anyone a pension plan, not to
21 give anyone any health care benefits. But that's not the
22 kind of country we are, and that should not be the level we
23 expect to stoop to for an industry to survive. So thank
24 you very much for the question. I got an extra three
25 minutes.

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1 MR. WOODS: Mr. Gerard, for the sake of time, one of
2 the things, if appropriate, that we would like to follow up
3 with you on are possible statistics on workers, kinds of
4 occupations and skills. As part of this study, there will
5 be surveys of businesses both in the mining and in the
6 steel-producing sector. But from a Department of Labor
7 standpoint, we will be helping in preparing the labor
8 market analysis and the occupational analysis. So, if
9 appropriate, we'd like to follow up and perhaps work with
10 you on additional information you have.

11 MR. GERARD: We'd love to do that. And let me just
12 say that we've had, for 15 years now, an organization that
13 we've funded, again through collective bargaining, called
14 the Institute for Career Development. And through that
15 institute, we are continuously upgrading our members on a
16 voluntary basis, educational and personal skills as it
17 relates to the ability to do their work. And we were doing
18 computer training in the ICD back in 1986 after the first
19 negotiations, just to give you an example of how far ahead
20 of the curve we were. So we would be very, very pleased
21 and look forward to your request. And we would assign
22 someone to work directly with you for awhile if you need
23 that.

24 MR. WOODS: Thank you.

25 MR. GERARD: Thank you.

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1 MR. HILL: Thank you, Mr. Gerard. Now we'll go back
2 to our schedule. I'd like to call the Honorable Don
3 Koivisto of the Michigan State Senate.

4 MR. KOIVISTO: Thank you. Mr. Chairman and committee
5 members, my name is Don Koivisto, and I represent the 38th
6 Senate District, which includes most of the Upper
7 Peninsula. After reapportionment, we'll include just about
8 all of the Upper Peninsula. I want to take the opportunity
9 to, first of all, sincerely thank you for being here and to
10 thank President Bush for ordering the investigation and
11 Secretary Evans for following through on that. We realize
12 that that's an important step, and we want to make sure
13 that you understand that we do appreciate the efforts that
14 have been taking place today. What will be great is if
15 your investigation comes out in the end and concludes what
16 we believe, and that is that there has been the unfair
17 dumping of steel into this market and that we need relief
18 from that scenario.

19 One of the things that I passed out in my written
20 remarks -- and I have strayed from those. But in the
21 written remarks -- I just periodically refer to them in the
22 time that I'm allowed to speak here -- is one of the things
23 I included; was a letter. There are 38 Senators in
24 Michigan, and we have 23 Republicans and 15 Democrats. And
25 the letter that I circulated to you is signed by 30 State

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1 Senators requesting the same sort of thing that I'm
2 requesting, in requesting that you act favorably on the
3 investigation that you're currently conducting.

4 So why I mention that is there is strong bipartisan
5 support in Michigan for the position that this industry is
6 deserving of protection and deserving of assistance so that
7 they can compete fairly in this market. And what we have
8 said from time one, from day one, is that, if we are
9 allowed to compete fairly, then we will win that battle
10 time and time again.

11 I'd like to refer to a couple paragraphs in the
12 written portion that I have. And one of those paragraphs
13 says:

14 "Those that work in the mines and steel mills are
15 proud of their jobs. They rightfully say with a great
16 deal of pride 'I am a miner' or 'I am a steel worker.'
17 They also have a sense of fair play in their
18 character, and they very strongly resent their jobs
19 being threatened because of imports."

20 That's important, and that's something that I hope you'll
21 remember as you're going through the investigative aspect,
22 that those people are proud of the jobs they currently
23 have. And they don't want some kind of other
24 secondary-type profession to fall back on. They want to be
25 able to continue to compete in the industry and continue to

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1 be able to do the jobs that they currently are doing.

2 Another paragraph I want to partially read is:

3 "When dumped steel and semi-finished slabs reach the
4 point of totally controlling the market, it can't help
5 but have a negative impact on national defense. The
6 United States cannot allow this vital commodity to be
7 controlled by Japan, Brazil, Russia, the Ukraine, or
8 China. And once our domestic producers are put out of
9 business, that is exactly what will happen."

10 Yesterday the United States successfully completed an ABM
11 test over the Pacific Ocean. And you can see where some of
12 those people that are currently in the market of producing
13 steel and dumping it in our market will be upset with that
14 kind of test that was successfully completed.

15 I know there is a lot more work that will be done on
16 trying to negotiate treaty aspects and whatnot, especially
17 with Russia. But, nevertheless, that just shows the
18 vulnerability of our particular industry to the threat of
19 being economically blackmailed by those that would provide
20 such as precious commodity as steel, which is so vital to
21 our economy.

22 I guess the final comment I would make is that I've
23 represented the 38th Senate District since 1980. And we
24 have had mine closures in my district in the past. And the
25 human element, when those closures take place, is

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1 absolutely devastating. It's devastating on the business
2 community, devastating on the work force, devastating on
3 the schools. And it's just something that I hope we're not
4 going to repeat here in the central U.P.

5 White Pine at one time employed 3,000 workers. And
6 one of the previous speakers, Congressman Stupak, alluded
7 to the fact that, when South American copper took over our
8 market, we were put out of business. Well, those jobs
9 obviously will never be recouped. And once those mines are
10 closed, the other thing will be that they will never be
11 reopened. That mine has been flooded. Because of the
12 nature of the mining industry, they will never be reopened.

13 When my father worked in the iron mines in Gogebic
14 County, we had 30 active iron mines at one time. And now
15 we have none in Gogebic County. So we hope you'll follow
16 through with the investigation and conclude what we believe
17 to be right, and that is that there is illegal dumping
18 taking place in this market. And those same people that
19 say they're proud to be miners and proud to be steel
20 workers are also proud to be Americans. So I hope that
21 will also count for something. Thank you.

22 MR. HILL: Thank you, sir. At this time, I'd like to
23 call the Honorable Stephen Adamini, Michigan State
24 Representative.

25 Sir.

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1 MR. ADAMINI: Thank you. Good afternoon. My name is
2 Stephen Adamini, and I have the great honor and privilege
3 of representing the citizens of Marquette and Alger
4 Counties. That's the 109th Legislative District in the
5 Michigan House of Representatives. The Empire and Tilden
6 mines are located within the boundaries of my legislative
7 district. And so the fate of those iron mines, the people
8 who work there, and the many thousands of others whose
9 lives are impacted economically by those mines weight
10 heavily on my mind.

11 Indeed, the day I took my oath of office last January
12 at noontime, that same day at 1:00 o'clock our local
13 newspaper came out. And the headline was, "Mines May be
14 Forced to Close." And so the joy of assuming office was
15 quickly tempered by the economic realities of a disaster
16 that might take place.

17 I am the son, grandson, and great grandson of hard
18 rock iron ore miners. Most of constituents in my district
19 are the children, grandchildren or great grandchildren of
20 people who immigrated to this remote and desolate region,
21 seeking to make a living by mining iron or copper, or
22 working in the forest industry or, even more remarkably,
23 some of them attempting to farm in this climate. No one
24 sought a handout; there were none to be had. They sought
25 good schools for their children so that they might have a

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1 brighter future. They sought steady work and pay, even
2 though the work was hard. And they sought the blessings of
3 peace, liberty and freedom.

4 The iron range that developed here in the late 1840's
5 and 1850's and the emerging Great Lakes steel industry was
6 one reason that the Union had a decided advantage in the
7 great Civil War of the 1860's, a fact that is often
8 forgotten.

9 Those same iron fields, along with those of Minnesota,
10 and our large Great Lakes steel industry, served as the
11 foundation of our participating in World War I when the
12 United States was "the great arsenal of democracy."

13 In World War II, the iron and steel industries,
14 together with the great automotive industry, which was
15 centered in the State of Michigan, outproduced our enemies
16 production by a magnitude that is almost impossible to
17 imagine. Hundreds of thousands of jeeps, trucks and tanks
18 rolled off the assembly lines in Michigan. Thousands and
19 thousands of bombers rolled off the assembly lines at
20 Willow Run. Again, it was American industrial capacity
21 that saved the world from the horror of fascism.

22 We are now in a new age, with new economies, new
23 trading patterns and new technology. We are told that it
24 is a global economy, where political boundaries are
25 meaningless and important decisions are made according to

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1 the "bottom line."

2 Under such a scenario, it is suggested that the United
3 States doesn't really need a steel or iron industry. If
4 the cost accountants -- and I prefer to call them "bean
5 counters" -- determine that we can get imported and
6 subsidized steel for a few cents a ton less than American
7 steel, well, that's the law of the economic jungle. But I
8 ask, once the American blast furnaces are turned off, guess
9 what's going to happen to the price of foreign steel? It's
10 the law of the jungle.

11 Once the American blast furnaces are shut off, how
12 long will it be before some cost accountant or "bean
13 counter" suggests it would be more efficient and less
14 costly to produce cars, trucks, refrigerators, washers,
15 dryers, et cetera, at locations which are closer to the
16 source of steel, their main ingredient, that being now in
17 foreign countries?

18 If American loses its iron and steel industries, the
19 automotive and heavy manufacturing industries of this
20 country will not be far behind. It's the law of the
21 jungle. When that happens, we will have lost the capacity
22 for world leadership. We will have lost our objective, to
23 be the great arsenal of democracy. We will have lost
24 everything that our ancestors came here for; namely, steady
25 work and good-paying jobs, a brighter future for their

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1 children and the blessings of peace and freedom that are
2 secured by our industrial might.

3 All of this can be prevented without handouts or
4 subsidies. All that is asked by the descendants of those
5 hardworking immigrants is the opportunity to compete in the
6 workplace and in the world economy on a level playing
7 field. Free trade must be fair trade.

8 Although I represent one small district in the Upper
9 Peninsula, because this issue is of so vital importance to
10 the entire State of Michigan because of the ripple effect
11 on the automotive industry, I believe I am speaking on
12 behalf of the entire membership of the Michigan House of
13 Representatives. And I note that my good friend, Senator
14 Don Koivisto, pointed out that he had 30 of the 38 Senators
15 sign his letter.

16 I'm pleased to report that there are 58 Republicans in
17 the Michigan House of Representatives, 52 Democrats. We
18 had a unanimous vote in support of the resolution I
19 offered, which I have included in my written testimony and
20 which I won't bother you with. But I speak not only here
21 as a representative of this small district, but this is of
22 vital interest, I believe, not only to our region but to
23 our state and to our nation. Thank you.

24 MR. HILL: Thank you, sir. At this time, I'd like to
25 call the Honorable Stuart Bradley, Mayor of the City of

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1 Marquette.

2 Mr. Mayor.

3 MAYOR BRADLEY: I had the pleasure of meeting with a
4 few of you not too many weeks ago in your fair city. I was
5 dressed a little bit differently, as I remember, at that
6 time. But my name is Stu Bradley. I am a stockbroker with
7 firm of Edward Jones and currently serving as the Mayor of
8 the City of Marquette. However, today I am speaking to you
9 as a 26-year veteran of the United States Air Force.

10 In the fall of 1992, I retired from the Air Force with
11 the rank of Colonel at Randolph Air Force Base in Texas. I
12 immediately moved back to Marquette County where I had been
13 assigned in late 1980's at K.I. Sawyer Air Force Base
14 located 20 miles south of the City of Marquette.

15 My career field in the Air Force was aircraft and
16 munitions maintenance. Later, as my rank increased, I
17 added supply, transportation and contracting functions at
18 base level to these areas of responsibility. One of my
19 later assignments was the Headquarters Air Force Inspector
20 General's team. Our team of ten officers traveled the
21 world to evaluate each major Air Command's inspection team.
22 We inspected the inspectors.

23 What I saw on that tour of duty was a well-equipped
24 and well-trained Air Force with strong leadership and high
25 morale -- a group of individuals who were proud to serve

00048

1 and ready to fight and win any type of conflict or major
2 war. The ability to fight a war and win is dependent upon
3 a variety of variables, some of which are very subjective;
4 such as, leadership, morale and commitment.

5 Maintaining a high level of combat readiness is
6 critical to our long range national defense objectives.
7 With an all-volunteer military, it is essential that each
8 individual serving believes that our national leaders back
9 policies that will ensure the military forces will be
10 properly supported during wartime. Each volunteer soldier
11 has made a commitment to support and defend our country
12 against our enemies. But this commitment can be a
13 short-term commitment, and they can return to civilian life
14 in a matter of months.

15 Firing a rifle, driving a tank, crewing a ship or
16 maintaining an aircraft made from or supported by supplies
17 imported from other countries would send a negative signal
18 to our military personnel, and in my view lead to a reduced
19 morale and lower level of readiness of our entire military
20 force. The defense of our nation, which no longer rests in
21 the capable hands of citizens of the United States, would
22 be turned over to others with much less of a commitment to
23 our way of life. To win a war, our forces need a steady
24 supply of backup equipment, replacement parts, munitions.
25 Being dependent upon other countries for those vital

00049

1 resources is not good policy.

2 Our nation's foreign policy must be carried out from a
3 position of strength, not weakness. Without a domestic
4 steel-producing industry, we will reduce our position as
5 the world's only super power and will be relegated to just
6 another country that is dependent upon others for their
7 critical natural resources and industrial products. I
8 believe there is a reasonable probability some time in the
9 future that countries supplying iron ore and steel products
10 would use that as leverage in gaining some strategic
11 advantage over us. The dependence upon other countries for
12 our critical war-fighting resources in my opinion is poor
13 long-range policy that would greatly reduce our
14 independence as a nation.

15 Once we close down the iron ore mines and disassemble
16 the last steel-making furnace, this vital American industry
17 will be gone forever. Mines would be almost impossible to
18 reopen, and the economic capital and time required to
19 design and build new steel plants as well as not having a
20 skilled workforce available would make the closing down of
21 our steel industry an everlasting decision. Our military
22 forces would lose the ability to conduct a long-term war
23 and our country, in turn, would be acting from a position
24 of weakness.

25 I hope the President will be given all of the

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1 ramifications of the long-term impact of shutting down the
2 nation's iron ore and steel industry. As a military
3 veteran and a person who loves this country greatly, I
4 believe the impact on the military services will be
5 devastating. And in my mind it's not worth taking the
6 chance of losing something so vital to our own long-term
7 security and independence.

8 Thank you for your attention.

9 MR. WOODS: You mentioned in your comments, both
10 verbally and in writing, the loss of some of the skills.
11 As mayor, what do you also see -- or do you see as the
12 impact on the overall community? And the interests that we
13 would have on that -- and certainly looking at it from a
14 national security issue -- is the community is a key part
15 of that infrastructure. How does it impact on schools,
16 other things, population base for this area?

17 MAYOR BRADLEY: Well, about ten years ago, a decision
18 was made to close an Air Force base that I was once
19 assigned at. And we're still sort of feeling the impact of
20 that. I think we've had some good, positive things that
21 have occurred in the middle that have helped maybe ease
22 that pain. But I think the mine would be more much
23 serious.

24 The base had 3800 military people and about 800
25 civilian jobs. A lot of that money stayed on the base. I

00051

1 don't know what percentage of it. But the commissaries and
2 the hospitals and the PX is all out there. But all of the
3 miners and all the people that work at the mines and
4 support the mines and the miners, all that money stays
5 locally; in our county, primarily. And I just think it
6 would have a -- I spoke today on national defense because I
7 wanted it to be a little bit different, I think, than
8 everybody else's.

9 But, I mean, as a citizen of this county, I can see
10 just a devastating impact on the economy of our whole
11 county. I mean, our numbers, I think our population in
12 1980 for our county was about close to 80,000. And then in
13 1990 it went down to, like, 74,000. And now we're down to
14 64,000. And that last 10,000 was primarily the base
15 departure. But I think that we can recover from that. But
16 it's going to take an awful long time to recover from the
17 mines closing.

18 MR. WOODS: Thank you.

19 MR. HILL: Thank you very much, sir. At this time, as
20 we had previously scheduled, we will take a short break.
21 We will reconvene the hearing at 2:00 o'clock in this room
22 promptly. I will begin the testimony with Mr. Arsenault,
23 Vice Chairman of the Marquette County Board of
24 Commissioners. So at this time we're in adjournment or
25 recess, whatever.

00052

1 (Off the record)

2 MR. HILL: The hearing will come to order. Before we
3 begin, I'd like to once again thank the people at the
4 University here for their gracious hospitality. It's my
5 understanding they've gone us even one better, that they
6 have offered and are now furnishing refreshments down in
7 the atrium, which I understand is you go out this way and
8 down the stairs; hot and cold drinks, especially the warm
9 ones for those of you who braved the rain outside. So feel
10 free, as the hearing progresses, to partake. And, again,
11 our thank you for the very gracious hospitality from the
12 University.

13 I'd like to remind our witnesses, as we go through the
14 panel, that we do have a timer. Mr. Timer, raise your
15 hand. As in a Congressional hearing, each witness has been
16 allotted five minutes to give their testimony. And we will
17 then have Q's and A's from the panel for the next five
18 minutes. And we'll try and move forward. We do have a
19 large number of witnesses to hear from. We're very excited
20 about it, and we'd like to start. Having said all that,
21 I'd like to call, to get us going here, Paul Arsenault,
22 Vice Chairman of the Marquette County Board of
23 Commissioners.

24 Sir.

25 MR. ARSENAULT: Good afternoon. My name is Paul

00053

1 Arsenault. I am the Vice Chairman of the Marquette County
2 Board of Commissioners. Chairman Gerald Corkin is unable
3 to testify because of a prior national commitment in
4 Philadelphia. His support for domestic iron ore and steel
5 production is so great that, if we could open a window, we
6 would probably hear him all the way from the Liberty Bell.
7 The board's support is as great as the chairman's. The
8 board thanks you for this opportunity to testify. The
9 board is distressed, concerned and dismayed that the
10 problem of steel dumping has gone on this long and that so
11 little has been done prior to today's hearing. Our country
12 must protect its national defense infrastructure. Iron ore
13 is a fundamental raw material needed to maintain that
14 infrastructure.

15 As a long-time resident and business consultant, I
16 know the importance of iron ore mining to our communities.
17 And I know the difficulties that we will experience if the
18 mines close because of imports. These difficulties will
19 have an impact on national security. Other speakers will
20 tell you about history, and tell you much more about
21 national security and mining.

22 I want to talk about people and the community. As a
23 local elected official, I'm stopped at the grocery store or
24 at church and told what will happen to families if the
25 mines close. What will happen is that people will leave

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1 the area. Communities will decline. Our economy will
2 suffer. These local problems will have an impact on
3 national security.

4 Marquette County, unfortunately, has recent experience
5 with losing a major employer and contributor to our local
6 economy. Because of the Federal Base Re-alignment Closure
7 Act, the K.I. Sawyer Air Force Base, located in Marquette
8 County, closed in 1995. At that Time Marquette County
9 started losing \$150 million dollars annually. About 1400
10 local jobs were lost. By the year 2000, 6,253 people moved
11 out of the County. Only ten years ago, K.I. Sawyer was one
12 of the County's top employers.

13 Now the County is confronted with another loss, a loss
14 that would have an even greater impact than the closure of
15 K.I. Sawyer because, unlike an Air Force base, all of the
16 employees from the mines are local residents.

17 An unfortunate example of the economic impact our area
18 would experience from the mines closing is the closing of
19 LTV mining in Minnesota. When that mine closed in January
20 of 2001, 1400 jobs were lost, \$87 million dollars in wages
21 and benefits were gone, \$131 million dollars in purchased
22 goods and services left the community. The state lost \$9
23 million dollars in royalties, and \$20 million dollars were
24 lost in taxes. The total economic impact of the LTV mine
25 closing in Minnesota is \$247 million dollars.

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1 Iron mining on the Marquette Range in Marquette County
2 goes back over 150 years. And the threat of local mines
3 closing goes back almost as far. In the past, however,
4 some mines struggled and closed while others continued.
5 Workers with skills specific to the mining industry were
6 hired at operating mines when the economy picked up.

7 Today, the last two iron mines in Marquette County are
8 at risk because of foreign steel imports. 90 percent of
9 the workers at those mines or 5 percent of the employed
10 labor force in Marquette County live, shop, own property,
11 pay taxes, receive medical care and have children that
12 attend school here.

13 Approximately one-half of those employees have skills
14 that will transfer to other places of employment. These
15 are occupations such as electricians, mechanics and
16 electronic repair specialists. However, it is unlikely
17 that all of these skilled workers will be able to remain in
18 the area. Many of the workers and their families will have
19 to relocate to areas without iron ore, to places where
20 employers provide jobs that offer comparable wages and
21 benefits. As a result, the local labor market will lack
22 skills needed for local mining production. The loss of
23 this necessary skilled labor force will add to the
24 prohibitive costs of restarting future mining production.
25 This inability to restart domestic iron ore production is,

00056

1 in the opinion of the board, a national security concern.

2 The remaining half of the mining employees will have
3 skills specific to the mining industry that would not
4 transfer to other occupations. The lack of economic
5 opportunity in the area would make it difficult for all
6 affected employees to find other employment in Marquette
7 County or the Upper Peninsula. Additionally, if new
8 employment is obtained, it is unlikely they will find new
9 positions locally that provide the same wages and benefits
10 currently received from our local mines.

11 The Tilden and Empire mines employ 1,740 local people
12 with an average wage of \$19.00 per hour. The annual
13 payroll is \$147 million dollars, including benefits. About
14 \$249 million dollars in local services and supplies are
15 purchased each year. State and local taxes received each
16 year are \$6.7 million dollars. The specific ore tax is
17 5.7.

18 Marquette County is still recoiling from losing one of
19 its top employers in 1995. Clearly, our communities and
20 families cannot lose another top employer. The viability
21 of Marquette County depends on the economic health of the
22 iron ore industry. The viability of domestic steel for
23 national defense depends on the iron ore mines of Michigan
24 and Minnesota. Thank you.

25 MR. HILL: Thank you, sir. I have a question, and my

00057

1 fellow panelists may have others. Towards the end of your
2 testimony, you talked about the 5.7 percent. Is that a tax
3 by the state on iron ore production?

4 MR. ARSENAULT: Yes. It's a specific ore tax which is
5 based on production. That's correct.

6 MR. HILL: Okay. Is that only a state tax? Or is
7 that a local tax as well?

8 MR. ARSENAULT: It's a state tax.

9 MR. HILL: Okay.

10 Any other questions? Jim?

11 MR. WOODS: I appreciate the details and some of the
12 data that you're providing. The 249 million dollars in
13 local services and supplies, does that include not only
14 direct vendor services but also estimates of other impacts
15 on the community, other loss of jobs?

16 MR. ARSENAULT: Yes. Yes, it does. Northern Michigan
17 University, a study that was done by the University states
18 that, for every mining job we have, there are 16 ancillary
19 jobs. And so there would be a ripple effect that would be
20 devastating to this county.

21 MR. WOODS: Thank you.

22 MR. HILL: Any other questions? Okay. Thank you,
23 sir.

24 Okay. At this time, I'd like to call Mr. John Brinzo,
25 Chairman and Chief Executive Officer of Cleveland-Cliffs,

00058

1 Inc., accompanied by Mr. Paul Korpi, General Manager,
2 Empire Iron Mining Partnership, and Mr. Mike Mlinar,
3 General Manager, Tilden Mining Company.

4 Gentlemen, I don't know which order you'd like to go
5 in. But, please, Mr. Brinzo. Good to see you again.

6 MR. BRINZO: Thank you. Good afternoon, Mr. Hill and
7 members of the panel. My name is John Brinzo. I am
8 Chairman and Chief Executive Officer of Cleveland-Cliffs,
9 Inc. I appreciate the opportunity to appear here today to
10 present testimony at this important hearing. I am joined
11 today by my colleagues, Paul Korpi and Mike Mlinar, who are
12 the General Mine Managers of Michigan's two remaining iron
13 ore mines. While they will speak to their specific
14 operations and the threat imports of semi-finished steel
15 pose to their mines' future viability and our country's
16 national security, my comments will focus on our only
17 customer, the blast furnace of the integrated steel
18 company.

19 The integrated blast furnace remains the only
20 commercially proven technology capable of converting large
21 quantities of iron ore into iron metal, the basic
22 ingredient from which all steel is made. Iron is consumed
23 not only in the production of the higher grade steels in
24 the integrated steel-making process, but also as an input
25 for electric arc furnaces as mini-mills expand into product

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1 lines that require higher quality. The ability of any
2 nation to maintain an independent and viable steel industry
3 hinges on its ability to convert iron ore to iron in a
4 blast furnace.

5 Today the blast furnace in the United States is under
6 attack by foreign steel producers, many of whom are owned
7 or subsidized by their governments. Semi-finished steel
8 imports have surged dramatically, more than quadrupling to
9 8.6 million tons in 2000. Semi-finished steel imports from
10 Brazil, Mexico, Russia, and the Ukraine alone totaled 6
11 million tons in 2000, over a 900 percent increase from
12 1990. This massive increase of semi-finished steel imports
13 represents a calculated assault intended to establish
14 reliance on imported slabs while bringing about the
15 premature closure of U.S. blast furnace capacity. If the
16 United States fails to take immediate and decisive action
17 to fend off this attack, blast furnaces in this country
18 will disappear and our ability to make steel to defend
19 ourselves in the event of a national emergency will be lost
20 forever.

21 Forty years ago there were more than 200 blast
22 furnaces operating across this country. Today there are
23 only 36 left in the United States. Maintaining a blast
24 furnace is extremely costly, with a complete reline of a
25 large furnace costing in excess of 100 million dollars. In

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1 1999 two blast furnaces in the United States were relined,
2 one last year and only one this year. The life of a
3 typical reline is approximately 12 to 15 years.

4 In addition to the enormous capital required to reline
5 a furnace, new environmental regulations have added
6 considerable cost to blast furnace operations. In recent
7 years, domestic producers have spent tens of millions of
8 dollars to install new environmental equipment upgrades.
9 Yet there are producers from certain countries that import
10 large volumes of steel into the United States who are not
11 subject to the same high environmental standards. In fact,
12 a significant quantity of world production is being
13 produced in open hearth furnaces, an extremely
14 environmentally unfriendly process.

15 When these costs are combined with the livable wages
16 U.S. steel companies pay their workers, it's not difficult
17 to understand why domestic producers have difficulty
18 competing against foreign imports from less developed
19 countries where governments often own or subsidize their
20 steel mills. Since 1997, 18 steel companies in the United
21 States have filed for bankruptcy protection, and industry
22 analysts believe others to be in serious jeopardy of
23 failing.

24 Many of these troubled domestic steel companies are
25 faced with the economic decision to reduce costs and

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1 conserve cash by switching to and processing low-priced
2 semi-finished steel imports. While this could provide
3 short-term relief, the long-term consequences would be
4 disastrous and likely irreversible.

5 Becoming reliant on imports of foreign steel slabs for
6 our domestic raw steel requirements would bring about the
7 immediate closure of primary steel-making operations and
8 eventually the elimination of the domestic finishing
9 operations. Once foreign steel producers control our basic
10 raw steel requirements, they will simply move up the value
11 chain and import higher valued finished products. This
12 will have serious implications for the entire country by
13 reducing our national defense capability and subjecting our
14 essential domestic needs to high prices and interruptions.

15 The transformation of our domestic steel industry from
16 that of "steel producer" to an industry of "steel
17 converter" is not a natural evolution driven by the
18 depletion of quality domestic inputs. To the contrary, we
19 have adequate supplies of high quality raw materials. What
20 we are confronted with today is the implementation of a
21 very calculated business plan by the world's iron ore
22 producers to dominate the world's iron ore and steel
23 markets.

24 For example, CVRD, a Brazilian mining company, has
25 acquired virtually all of Brazil's rich iron ore resources

00062

1 in the past couple of years. While they have had only
2 limited success in penetrating the U.S. iron ore market,
3 they have initiated a strategy to capitalize on the
4 financially distressed U.S. steel industry by importing
5 iron units in the form of semi-finished steel slabs through
6 related steel companies. This is evidenced by plans
7 announced by Brazilian steel mills to bring on-line 9
8 million tons of new slab capacity and purchase finishing
9 facilities in the United States to roll slabs.

10 Under existing trade law, Cleveland-Cliffs cannot
11 initiate a trade action on subsidized and unfairly traded
12 semi-finished steel slabs because we are not a slab
13 producer. If foreign iron ore and steel producers are
14 allowed to import unlimited quantities of steel slabs into
15 the U.S. steel market, domestic blast furnaces and iron ore
16 mines will close.

17 At this point, our country will no longer have the
18 capability to produce steel for its national defense or
19 industrial needs. It is imperative that the United States
20 retain its steel-making capability, which can only be
21 achieved by taking action now under Section 232 and
22 temporarily limiting imports of semi-finished steel.
23 Absent such a restriction, slab prices will remain
24 artificially depressed and domestic steel producers will
25 not invest in relining blast furnaces.

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1 Thank you again for the opportunity to testify today.
2 And I would be happy to answer any questions that you may
3 have.

4 MR. HILL: Thank you.

5 Mr. Korpi.

6 MR. KORPI: Thank you. Good afternoon. My name is
7 Paul Korpi, and I'm the general manager of the Empire Mine
8 located in Palmer, Michigan.

9 The Empire Mine is an iron ore mining and processing
10 facility which has been in production since 1963. During
11 that time, Empire has produced over 200 million tons of
12 iron ore pellets for U.S. integrated steel making.

13 Empire Mine employees begin returning to work today
14 following a six-week shutdown to reduce our 2001
15 production. The shutdown was directly related to the large
16 amount of unfairly imported steel being dumped by foreign
17 producers on American shores. As a result, Empire's
18 projected 2001 production of 7.2 million tons is well below
19 the original project of nearly 8.1 million tons of iron ore
20 pellets.

21 Empire employs 925 skilled workers with an annual
22 payroll, including benefits, of more than 80 million
23 dollars a year. The mine purchases more than \$100 million
24 annually in local services and supplies and has an annual
25 local economic impact of more than \$190 million.

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1 Based on current dedicated reserves and production
2 plans, the Empire mine has a projected life of mine to the
3 year 2017. There are, however, additional resources
4 available that would extend the life-of-mine considerably
5 as market conditions permit.

6 Due to what can only be called an industry import
7 crisis, LTV Steel Company, a 25 percent partner-owner of
8 Empire, is currently in Chapter 11 bankruptcy protection.
9 In addition, Wheeling-Pittsburgh Steel Corporation, a
10 longtime partner-owner of Empire, filed for Chapter 11
11 bankruptcy protection last year and sold its ownership
12 interests. The other partner-owners of Empire are Ispat
13 Inland and The Cleveland-Cliffs Iron Company.
14 Cleveland-Cliffs is also the managing company of the mine.

15 Empire has only one customer -- the blast furnaces of
16 the integrated steel-making companies in North America.
17 When imported semi-finished steel slabs are used by
18 steelmakers in place of using blast furnaces, no domestic
19 iron ore is used.

20 As an example, Empire Mine partner Ispat Inland has
21 announced the planned shutdown of two of their smaller
22 blast furnaces. Due to the current economic conditions and
23 scarce industry capital, it would be difficult for Ispat to
24 justify any major investment in these furnaces or in
25 replacement electric furnaces. The lost production from

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1 these blast furnaces is a prime candidate to be replaced
2 with imported semi-finished slabs.

3 Because of the process involved in mining and
4 producing iron ore pellets, mines such as Empire are very
5 inefficient when not operating at full capacity. Due to
6 high fixed costs, Empire is not cost effective when it must
7 endure a production cutback such as this summer's six-week
8 shutdown.

9 Empire, its partners and its people have worked hard
10 to maintain the mine's viability in a difficult
11 marketplace. Empire's partners have invested nearly 165
12 million dollars in capital improvements in the last decade
13 at the mine.

14 Our workforce is the best trained and best prepared in
15 the industry with constant skill training and professional
16 development taking place.

17 Like other American iron ore producers, however,
18 Empire finds itself struggling through a very difficult
19 economic situation with reduced domestic steel consumption
20 and depressed steel prices due to steel dumped on our
21 shores by other countries. If the current trend continued
22 unabated, the high costs and inefficiencies incurred by
23 Empire could lead to a disaster if our mine was forced to
24 permanently shut down.

25 That would not only be a disaster for the hardworking

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1 men and women at Empire and their families, but also for
2 the many related businesses, employees and families who
3 depend on a healthy iron ore industry for their livelihood.

4 On a larger scale, however, the permanent closure of
5 Empire would also be a disaster for our country. As it is,
6 we continue to lose domestic iron ore capacity. Twenty
7 years ago, the United States produced 91 million tons of
8 iron ore to fuel our steel industry. With domestic steel
9 production shrinking because of unfairly imported
10 semi-finished steel, demand for iron ore pellets has been
11 reduced. We currently have about 53 million tons of
12 pellet-making capacity in the United States, which means
13 that more than 40 percent of the United States iron ore
14 production capacity has been eliminated.

15 My father is a veteran of the United States Army who
16 served in Europe during World War II. Upon his return from
17 the Service, he joined my grandfather as an underground
18 miner working for the same company as I represent today. I
19 had the great luck, actually, to join my father as an
20 underground miner during my college days for summer
21 employment. My grandfather and my father believed then, as
22 I do and as my father does today, that Michigan iron ore
23 was and is vital to the strength and defense of this
24 country.

25 Michigan iron ore helped create the steel that built

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1 the machinery allowing us to become the strongest nation in
2 the world. While Michigan iron ore continues to help fuel
3 the domestic steel industry, its existence is precarious
4 due to the high levels of imported, semi-finished steel.

5 That is why it is vital that this flood be stopped as
6 quickly as possible.

7 Once lost, the iron-producing mines and steel plants
8 of America cannot be rebuilt or re-opened easily or
9 quickly. The highly skilled workforce cannot be replaced.
10 Once dismantled, the infrastructure that supports the mines
11 and mills would take years and hundreds of millions of
12 dollars to replace, if it would be possible at all.

13 As an industry we are not asking for special
14 privilege. We are simply asking that you help us preserve
15 this vital industry and allow us to work to provide the raw
16 materials necessary to our national interests.

17 At this time I would also be happy to entertain any
18 questions the panel may have. Thank you.

19 MR. HILL: Okay, sir.

20 Mr. Mlinar?

21 MR. MLINAR: Good afternoon. And thank you for the
22 opportunity to speak. My name is Mike Mlinar, and I'm the
23 general manager of the Tilden Mine, which is located near
24 Ishpeming, Michigan. I am here representing the 815
25 hardworking employees that we enjoy at Tilden. Tilden is

00068

1 an iron ore mining and processing facility which has been
2 in operation since 1974. During that time, Tilden has
3 produced more than 140 million tons of pellets.

4 Tilden has an annual payroll, including benefits, of
5 more than 65 million dollars. The mine purchases 139
6 million annually in local services and supplies and has an
7 annual local economic impact of more than 200 million
8 dollars.

9 Based on our current reserves and mining plans, we
10 have reserves to last an excess of 40 years. However, due
11 to the current steel industry crisis, the economic
12 viability of that life is being challenged. Like other
13 iron ore mining processing facilities in the United States,
14 the Tilden mine has only one customer, and that's the blast
15 furnaces of the integrated steel-making companies.

16 Currently, unfairly imported, semi-finished steel
17 slabs are being used by steelmakers in place of making
18 steel using the blast furnace method. By purchasing
19 imported, semi-finished steel, pellets are eliminated from
20 the process. And as a direct example, in 1999 Weirton
21 Steel purchased imported slabs and shut down Tilden from
22 the impact for more than a half a million tons, which was a
23 major factor in causing us to lose more than 1.6 million
24 tons that year.

25 More recently, just three weeks ago, Tilden restarted

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1 production following a six-week shutdown due to the effect
2 of imported semi-finished steel slabs. As a result, Tilden
3 is scheduled to produce 6.8 million tons, which is down a
4 million tons from the original projection of 7.8 million.
5 This reduction in production has meant that many of our
6 employees were laid off during a portion of the summer.

7 In addition, as Paul explained, Tilden, like Empire,
8 suffers a high level of fixed costs. And it's not
9 cost-effective when it must endure a production cutback or
10 shutdown. And this has a very negative impact both on
11 Tilden and on our owners and customers.

12 This type of cost escalation spiral which results from
13 shutdowns works against what we have worked so hard to do,
14 and that's to keep our costs down for the past 27 years. I
15 think it's important to point out that, since Tilden's
16 expansion to double its capacity in 1979, there have been
17 no other large investments or expansion capability built in
18 the United States. If we allow the current import crisis
19 to reduce our iron ore production capability and, as a
20 result, mines such as Tilden close, I can assure you that
21 it would be impossible to re-open or gear them back up in
22 term of a national emergency.

23 Facilities such as Tilden require large amounts of
24 capital to mine and process iron ore efficiently and cost
25 effectively. Over the past ten years, Tilden's owners have

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1 invested more than 115 million in new equipment and
2 technology to keep us at the current edge of our industry.

3 To construct a greenfield property or to return a
4 shuttered mine to operation would likely take investments
5 totaling near or even topping a billion dollars.

6 Design, construction and obtaining and installing the
7 necessary processing equipment would take years.

8 Closing a mine now would trigger a reclamation process
9 that could mean removal of the fresh water basins and
10 tailings impoundments that are needed for operation.
11 Reversing this process to create reservoirs and tailings
12 areas would be difficult even if property and water sources
13 were available.

14 If the mines close, we would lose the current network
15 of suppliers and services that we now have in place. And
16 as Representative Stupak explained this morning, we would
17 likely also lose the railroad and much of the Great Lakes
18 shipping fleet, which are the key transportation systems
19 necessary to move our commodity from the mine to the
20 market.

21 Most importantly, once lost, the skilled workforce
22 that we enjoy would take years to train and replace. In
23 short, while it may be true that you don't know what you
24 have until it's gone, I can assure you that those of us in
25 this industry know that, once the mines are gone, they are

00071

1 virtually irreplaceable.

2 That leads us to the question of whether we want to
3 replace our efficient, productive, world-class iron ore and
4 steel industries with imported steel. As a mine manager
5 and also as a citizen of the United States, I can tell you
6 that the only answer I see to that is a resounding "no."

7 If you believe, as I do, that our strength comes from
8 within and that the security of our national defense is
9 critical, then I urge you to consider what those of us in
10 our industry are presenting at today's hearing.

11 An effective national defense begins with a strong and
12 healthy steel industry, and steel begins here on Michigan's
13 Iron Range. We as iron ore miners are proud to be a link
14 in that national defense chain, and we ask you for your
15 support for us to continue in that effort.

16 And now, if you have questions of any of us, we'd be
17 open to that.

18 MR. HILL: Thank you. I'm sure we have a number of
19 questions. I'd like to start with you, Mr. Brinzo, if I
20 could. During your testimony, you spoke about the costs of
21 the environment requirements that have come up over the
22 recent years and maybe even further back than that. And I
23 know that Cleveland-Cliffs is not an integrated steel mill.
24 You don't have a blast furnace. And I'm not really looking
25 for an answer today. But any information you could provide

00072

1 us on those costs and those laws?

2 We have a report that goes back to 1994 that we were
3 able to collect that gives us some insights into that. But
4 we would be interested in updating that a little bit. And
5 we'll be asking our colleagues at the EPA for an update on
6 that; but if you had any information you could gather.
7 And, again, I understand that may be a tough assignment,
8 but that would be very helpful.

9 MR. BRINZO: Well, Mr. Hill, I would think that the
10 gentlemen that will follow me that represent the steel
11 industry would be in a better position --

12 MR. HILL: Sure.

13 MR. BRINZO: -- to speak to the environmental costs of
14 the steel industry. As a supplier to that industry, we are
15 kind of well aware of what the amount of capital that goes
16 into the steel companies is because inevitably we have a
17 competition for capital with our steel company partners as
18 to where the money is invested, steel plants or in iron ore
19 mines that they happen to be partners in. And we
20 frequently hear about the shortage of capital and because
21 so much of it is designated for environmental spending.

22 From our own standpoint at Cleveland-Cliffs, our
23 expenditures on environmental, though significant, are not
24 to the level of steel-making companies themselves. But we
25 spend tens of millions a year in insuring that any water

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1 that we use in our process is properly impounded that
2 doesn't get into the water table; scrubbers on our
3 equipment, environmental controls in our plant,
4 environmental controls on the equipment and just plain good
5 environmentally sensitive mining methods for operating in
6 the Upper Peninsula.

7 So our expenditures are significant, but not to the
8 level that a steel company would incur.

9 MR. HILL: Appreciate that. Thank you.
10 Bill?

11 MR. KIRK: Mr. Mlinar, you said that, to construct a
12 greenfield property, it would cost about a billion dollars.
13 Is that the size of Tilden or smaller?

14 MR. MLINAR: Approximately the size of Tilden. If a
15 new facility were to be constructed, it would likely be the
16 size of Tilden and Empire combined, which would take
17 advantage of the larger-scale efficiencies that would come
18 with that.

19 MR. KIRK: Right. Thank you.

20 MR. BRINZO: Mr. Kirk, if I might just address your
21 point, Mike Mlinar's comments are exactly right on the cost
22 of building these facilities. I would only add that a
23 facility like Empire or the Tilden mine could never be
24 built today for that kind of an amount because the prices
25 that iron ore miners are receiving are much the same as

00074

1 steel producers in the world. They are depressed. And the
2 level of revenue that we would get would never justify the
3 spending of hundreds of millions or a billion dollars to
4 replace these facilities.

5 These facilities were built at a time when the price
6 for iron ore was roughly 50 percent greater than it is
7 today in absolute terms, not in real terms. So prices have
8 been forced down both for the steel companies, largely
9 through trade, and also through iron ore, largely through
10 the impacts of currency changes in producing countries in
11 other parts of the world.

12 MR. HILL: Brad.

13 MR. BOTWIN: I have a question. Mr. Brinzo, you
14 mentioned you're looking for possibly temporarily limiting
15 imports of semi-finished steel. What time duration are you
16 thinking about? And have you done some analysis on this?
17 Also, have you looked at duties and tariffs as an
18 alternative remedy, from your standpoint, both to raise
19 prices?

20 MR. BRINZO: Well, Mr. Botwin, I think that what we
21 need here is a duration that would be at least five years
22 to control the semi-finished imports to allow the
23 steelmakers to fundamentally get financial strength for
24 them to again raise the capital to reline their furnaces
25 and provide the necessary relief. I think anything shorter

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1 than that will be very difficult. I can't really address
2 your question on quotas and tariffs.

3 MR. VACCARO: Mr. Brinzo, I'll follow up on that
4 point. Could you describe what you think the impact of
5 such restrictions would be on the U.S. Steel industry as a
6 whole, maybe commenting not only on the integrated sector
7 but on new mills and converters also?

8 MR. BRINZO: The impact of this will be this: It will
9 fundamentally allow U.S. producers, in conjunction with
10 what steel producers are asking for and other trade relief,
11 a period of time to become financially capable again to
12 reline blast furnaces. It will allow producers hopefully
13 to meet the demand of slabs domestically rather than
14 through having to import foreign slabs. And most
15 importantly, it will preserve steel making and iron ore
16 mining in this country to fundamentally provide the
17 necessary industry that will be necessary for defense and
18 commercial success of this country as we have known it over
19 generations.

20 MR. THOMPSON: Gentlemen, I have a couple basic
21 questions. And the first is, what is the additional cost
22 to pelletize the ore, to form pellets?

23 MR. BRINZO: The incremental cost?

24 MR. THOMPSON: Right.

25 MR. KORPI: You mean to convert it from a --

00076

1 MR. THOMPSON: Yeah.

2 MR. KORPI: -- concentrate or a raw into a pellet?

3 MR. THOMPSON: Correct.

4 MR. KORPI: See, from the concentrates, assuming we've
5 concentrated out ore, which is something that we have to do
6 here in Michigan that is not done by a lot of foreign iron
7 ore producers, we have to add another 4 or 5 dollars a ton
8 to produce a pellet from concentrates, which also has a
9 pretty significant cost in production, approximately 10 to
10 11 dollars a ton, to produce those concentrates from the
11 ore once it is mined.

12 MR. MLINAR: Mr. Thompson, because we process a little
13 bit different iron ore at Tilden, it would be a touch more
14 than that, more in the 6 to 7 dollar range. Ours requires
15 a bit more heat to convert it to pellets than it would at
16 Empire.

17 MR. THOMPSON: And, foreign producers, they don't
18 require concentration or pelletization?

19 MR. KORPI: You know, particularly the Brazilian and
20 Australian producers right now are mining the ore. And
21 they may pelletize the ore. But they have to do no
22 upgrading as we have to do here in Michigan or in
23 Minnesota.

24 MR. BRINZO: We would estimate that a Brazilian's
25 overall cost of producing pellets would be roughly half of

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1 what it would be here.

2 MR. HILL: Mr. Mlinar, on the energy costs, we've been
3 visiting and talking with several mines. And in one
4 location they talked to us about investigating alternate
5 fuels. And they went through a litany of issues they're
6 coming into as they try to explore alternative fuels.
7 Either you or Mr. Korpi, have you looked at alternate fuels
8 for your furnaces? Have you run into any problems there
9 that you'd like to make us aware of?

10 MR. MLINAR: Yeah, I'll start. Both Empire and Tilden
11 enjoy the ability to burn alternate fuels. And we were
12 built, both of us, with the ability to burn both natural
13 gas and coal. With the high price of natural gas now, we
14 are burning in excess of 80 percent coal right now. The
15 problem that results for us is it isn't quite as clean a
16 operation. What I mean by "clean" is not
17 environmentally -- environmentally is fine -- but clean in
18 the process itself. We suffer some buildup and subsequent
19 damage to the equipment because of that buildup.

20 MR. HILL: No. I was referring to -- I guess let me
21 make myself a little clearer.

22 MR. MLINAR: Okay.

23 MR. HILL: The gentleman had talked to us. And I
24 don't want to give away any business confidential
25 information. But he was talking other than I would

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1 normally think of, you know, with coal, natural oil,
2 petroleum, things like that. They are investigating, you
3 know, things that most people don't think about. And they
4 actually found a couple products that would burn and burn
5 very efficiently and hot. But then when they went to
6 investigate, they ran into some problems. In one case, an
7 association representing the group of the commodity was
8 hesitant because there was U.S. subsidies supporting that
9 commodity.

10 Have you investigated, other than coal and natural gas
11 and things like that -- what we're looking for as we go
12 through the studies, the various remedies we might propose,
13 regardless of which way they're run -- is there anything we
14 need to know here? Is there anything that you suggest we
15 look into?

16 MR. KORPI: Well, we are watching with interest some
17 of our sister operations in Minnesota. They're looking at
18 wood chip burning, as an example. And we'll follow that
19 very closely to see if we can apply that technology here.

20 MR. KIRK: Who is doing that? Who in Minnesota is
21 using the wood chips?

22 MR. MLINAR: There's been some testing done at Hibbing
23 Taconite Mine, just a short amount of testing. And the
24 MinnTac mine, which is run by USX, has burned wood chips as
25 well.

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1 MR. BRINZO: We are looking at other fuels such as pit
2 coke and that in all of our operations. The benefit that
3 these two mines in Michigan enjoy is the ability to burn
4 coal. So our need to look at some more exotic sources of
5 fuel like wood chips haven't been as great as to where the
6 Minnesota operations have more trouble burning coke.
7 Therefore, things like wood chips become more feasible, if
8 you will, than here in Michigan.

9 MR. HILL: And we saw a tank unloading coal yesterday
10 over on Presque Isle. So --

11 MR. KORPI: One thing that I might note for the Empire
12 mine this year, we've invested about 800,000 this year into
13 different coal-grinding technology, which is quite
14 innovative. And it improves our efficiency in coal burning
15 and also allows us to use essentially 100 percent coal in
16 our firing process. So, you know, work is going on in
17 trying to improve our ability to also burn conventional
18 fuels. And in the case of Empire, with an 800,000 capital
19 investment, we are pursuing those opportunities also.

20 MR. HILL: Any other questions?

21 Jim.

22 MR. WOODS: First of all, one question, that was
23 dealing -- both of you spoke about the critical importance
24 of the employees and workers as really being, of all of the
25 important resources, the most significant group in this

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1 process. Do you have or is there non-proprietary
2 information that could be shared as part of the study?
3 There will be a survey that asks for what you consider the
4 six most critical occupations, and you could expand upon
5 that. But for Minnesota we do have available, from the
6 Labor Market Information Division in the State, employment
7 security staffing patterns. And because there were six
8 mines there, we are able to look at that information. And
9 there are confidentiality issues.

10 Is there possibly staffing pattern information that
11 you could share from your organizations as part of the
12 study? We could talk about this later if held in
13 confidence because, as part of the Labor Market Analysis,
14 one of the key parts is looking at the whole occupational
15 distribution within the firms.

16 MR. HILL: As a point of order, I'd just like to
17 clarify that, if you do submit information to us and you do
18 ask us to hold it confidential, we will, as part of the
19 process.

20 MR. BRINZO: We would be happy to share any employment
21 information we have.

22 MR. HILL: Okay. Thank you.

23 MR. WOODS: And this is just clarification on my part.

24 I guess it will be picked up in the report itself.

25 Mr. Korpi, you had some really significant figures. Do you

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1 have a paper copy? Or would you be able to share a paper
2 copy of your statements --

3 MR. KORPI: Yes.

4 MR. WOODS: -- with us?

5 MR. KORPI: Yes, I would.

6 MR. WOODS: Great.

7 MR. HILL: Okay. One last question, Brad.

8 MR. BOTWIN: Short question. Let's go back to
9 environmental issues. We do, in fact, in the survey, ask
10 questions about your environmental costs. Have you had an
11 opportunity to visit the Brazilian mines, the Australian
12 mines, look at them? Do they do any type of environmental
13 protection, cleanup, in their processes? We have not had a
14 chance to go visit.

15 MR. BRINZO: I have personally been at the Carejoff's
16 (phonetic) operation in Northern Brazil, which is operated
17 by CVRD. Their costs are very low, an efficient mine. Yet
18 they operate with a very high grade of iron ore. The best
19 that I could tell, they operate at a very high standard of
20 safety and environmental protection.

21 MR. HILL: Okay. Thank you, Gentlemen, very much. At
22 this time, I'd like to call Mr. Carl Valdiserri, Chief
23 Executive Officer at Rouge Steel.

24 MR. VALDISERRI: Good afternoon. And thank you all
25 for the opportunity to speak to you today. I am Carl

00082

1 Valdiserri, Chairman and Chief Executive Officer of Rouge
2 Steel. Rouge Steel is an independent steelmaker that
3 services the automobile industry. 80 percent of what we
4 make ends up on four wheels. By way of background, Rouge
5 Steel was a wholly owned subsidiary of Ford Motor Company
6 and, in fact, was founded and built in the 1920's by the
7 original Mr. Ford as a part of what was then referred to as
8 the "Arsenal of Democracy," the phrase that you've heard
9 before.

10 We at Rouge are a 45-percent owner in a
11 Minnesota-based iron ore mine. However, because of the
12 differences in the iron ores that our blast furnaces
13 prefer, we are one of the primary customers and consumers
14 of the Tilden pellets located here in Michigan. In fact,
15 80 percent of all the pellets we use come from this
16 facility. We do rely completely on a North American supply
17 of iron ore. And, therefore, any threat to that industry
18 is a threat to our steel-making operations.

19 As such, Rouge Steel fully supports quantitative
20 import restraints, both on semi-finished and finished
21 products. Share with you a couple of facts: There is,
22 first of all, no overcapacity of raw steel production in
23 this country. We consumed in the United States last year
24 133 million tons. We shipped, as domestic producers, 103
25 tons. Our total capacity, if we were operating full out,

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1 every one of our steel-generating facilities could produce
2 120 million. So there is a 13-million-ton shortfall that we
3 are obliged to bring in from foreign producers in a
4 consuming market such we had last year.

5 The bad part is, we brought in 29 million tons and put
6 on the shelf approximately 13 million tons of our own
7 steel-making capacity. That equates to four times the size
8 of our steel company down in Dearborn, Michigan. We
9 produced 3.1, 3.2 million tons a year. So we idled four
10 companies the size of ours by allowing additional imports
11 to come in.

12 I'm not at all embarrassed to compare the productivity
13 of our workforce, of our iron ore mining operations. The
14 productivity of our people as far as quality and
15 through-put is above the world average. And I'd be
16 hard-pressed to single out one country that is more
17 productive when it comes to raw steel production. But --
18 and I have to point out -- there are things that our people
19 can't control, and one is the currency exchange rate. That
20 makes foreign slabs, foreign coils a heck of a lot less
21 expensive in that country that has the weaker currency. My
22 people can't control that. Lack of comparable
23 environmental regulations, as you mentioned to Mr. Brinzo,
24 there is a difference in the steel operations there that
25 I've visited versus that which we are required to live on.

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1 And I will be happy to make that data available to you.

2 MR. HILL: Thank you.

3 MR. VALDISERRI: They, of course, in several
4 countries, have closed markets and cartels at a set price.
5 It's not illegal in many of the countries over there. They
6 do have some government subsidies, and some of them have,
7 as John pointed out, low energy costs in the area of
8 Brazil. And some of them do have a benefit there.

9 Now, that all contributes to their being able to throw
10 a lot of dumped steel into our market. And it's a
11 dual-phase effect in that they operate at higher
12 capacities, lowering their overall cost, you know, the
13 fixed-cost element. If I can operate at 100 percent of
14 capacity, my costs per ton goes way down. That allows them
15 to do that, the more steel they dump into our country.
16 That takes orders away from our steel producers here. We
17 cut back capacity; our costs go up. Our industry today is
18 operating at about 76 percent of capacity.

19 I think it's far better to fill the domestic shortfall
20 and capacity first and then allow the imports to make up
21 the difference between consumption and our capacity. Today
22 there are 20 North American steel companies -- Algoma up in
23 Canada just declared -- all in Chapter 11 or coming out of
24 them. This is caused by the lowest steel prices, steel
25 selling prices, in the last 20 years, dollar for dollar,

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1 not inflation related.

2 We are selling steel because of the imports. And this
3 is the domino effect. They will eat away at the least
4 sophisticated kinds of steel and drive all the other kinds
5 of steel down to those kinds of pricing prorated. But a
6 20-year low in steel selling prices, that situation causes
7 our problem in that we can't get financial investment. And
8 without financial investment, I can't rebuild my blast
9 furnace. We are going to run the risk of having to shut
10 down those furnaces, as will every other steel company.

11 The irony is we can't get those kind of investments,
12 yet China and Korea get both grants and government-backed
13 loans from the World Trade Organization and the U.S.
14 Export-Import Bank. Both Pohang (phonetic) Steel in China
15 and Hambo (phonetic) Steel in Korea receive major financing
16 support. And both of those are exporters of their steel
17 into our country.

18 And for those steel companies that are interested in
19 only short-term profits, we would be better off buying
20 foreign slabs. If I didn't care about my employees at
21 Rouge Steel or the employees here in these mines, our
22 company as well as most others could make short-term
23 profits by buying foreign slabs.

24 Over the past four years, the foreign slabs have
25 vacillated in selling price \$80 a ton, a 70-percent swing

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1 over four years. Now, they're at an all-time low now, \$162
2 a ton, something like that. Four years ago people were
3 paying \$270 a ton. So once these furnaces are down, once
4 we take these furnaces down, you and I both know that the
5 law of supply and demand is going to escalate up to a high,
6 high price for slabs.

7 So what's the net result? The net result is that, if
8 we shut down blast furnaces, we lose 34 percent of all of
9 our employees working the primary end that would be out of
10 jobs if we imported all slabs. So we've got tens of
11 thousands of employees out of work. Slab prices go up.
12 The cost of the steel goes up. And the net effect is we
13 have our consumers paying the same prices for steel
14 products three, four years down the road as if we were to
15 curb the imports and get a modest and reasonable price for
16 our steel product. That's the dilemma I think we find
17 ourselves in.

18 We know that your concern, our government's concern,
19 is one of our consumer. And just let me put this in
20 context for you. If imports were to be curbed, we in the
21 steel industry obtain a 10 to 15 price increase. We get
22 our finances structurally sound again. That would mean
23 that, of the \$550 worth of steel in the automobile that you
24 drive today, the car that you buy in 2002 or 2003 might
25 cost you another 25 to 50 bucks a car. In a refrigerator

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1 or other appliances, the increase would be 2 to \$4 for that
2 appliance.

3 So, yes, we share your concern about the consumer. We
4 don't think that the steel content and everything that is
5 related back to it, oh, the consumer is going to pay more
6 for it. In context, it's a small price to pay. I support
7 the iron ore industry and the investigation that you're
8 doing under the national defense strategy. Do we want to
9 be analogous to our dependency on foreign oil? Because
10 that's where we will be but doubly so. I really appreciate
11 the opportunity to be with you; happy to take any
12 questions.

13 MR. HILL: Thank you, sir. I have one quick question.
14 You mentioned I think about halfway through that it's
15 difficult in this industry to attract investors. And this
16 may not apply to your operation at this time.

17 MR. VALDISERRI: Oh, it sure does.

18 MR. HILL: But are you aware of the Bird Bill that did
19 not get out of the Congress?

20 MR. VALDISERRI: Yes, sir, I am, certainly. I've
21 worked with Senator Bird.

22 MR. HILL: I think Congressman Oberstar co-sponsored.

23 MR. VALDISERRI: Yes, sir.

24 MR. HILL: What do you think about a guaranteed
25 government loan program like that? I believe they were

00088

1 paying the subsidy rate at prime. Is that something that
2 you think would be helpful to the industry?

3 MR. VALDISERRI: Absolutely helpful; absolutely
4 helpful. But the return on making that investment, then
5 having to pay back just the principal would not be
6 justified under today's pricing. I can't take to my board
7 of directors a project, no matter how good it is, because,
8 at today's price levels, there's no return on the
9 investment. I mean, we're barely breaking even. Our
10 company is one of six majors remaining out of bankruptcy.
11 And it's a matter of months.

12 MR. HILL: Thank you. Any other questions?

13 MR. KIRK: Mr. Valdiserri.

14 MR. VALDISERRI: Yes, sir.

15 MR. KIRK: In the public comments that you said in
16 April, --

17 MR. VALDISERRI: Yes, sir.

18 MR. KIRK: -- you said that you had a competitor not
19 far away from your mill that was in Chapter 11 and was
20 bringing in slab at \$159 a ton.

21 MR. VALDISERRI: 159 to -- depending on the grade,
22 yes, sir.

23 MR. KIRK: How sure are you of that price?

24 MR. VALDISERRI: Well, I know we've been quoted \$162 a
25 ton.

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1 MR. KIRK: Okay.

2 MR. VALDISERRI: So, I mean, I might be off three
3 bucks, but not any more than that. I can verify the 162.

4 MR. KIRK: Okay. Now, I think it was coming from a
5 Russian producer, if I remember.

6 MR. VALDISERRI: Yes, sir. That's correct.

7 MR. KIRK: Based on what we know about the
8 inefficiencies in the Russian system, is there any way you
9 could put a price or you could make an estimate of how much
10 it costs the Russians to produce a ton of slab?

11 MR. VALDISERRI: In our currency, yes, sir.

12 MR. KIRK: Yeah.

13 MR. VALDISERRI: Yes, sir, I can do that. I have data
14 that I have compiled over my 47 years in this business that
15 actually breaks down labor, raw material, energy. And our
16 labor is by far ahead of theirs. And their big advantage
17 comes from the raw material and energy. Yes, I can do that
18 and will do that.

19 MR. KIRK: Thank you.

20 MR. WOODS: Just one quick question.

21 MR. VALDISERRI: Yes, sir.

22 MR. WOODS: Also in your April submittal, I believe
23 you had noted that the approximate ratio of the impact for
24 each job loss is about 4 to 1 --

25 MR. VALDISERRI: 4 to 1.

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1 MR. WOODS: -- for your suppliers. Just generally
2 what would you consider suppliers? I mean iron ore. But
3 what other kinds of businesses are in the supply chain?

4 MR. VALDISERRI: Oh, yes, sir. First of all, all the
5 refractories for our furnaces; secondly, all the people who
6 handle our byproducts; people who handle our slag for
7 road-building aggregate; so all the processors of our
8 byproducts. We have a brand-new power plant that is
9 dependent upon our blast furnace gas. It's a co-gen
10 facility. So we have utility people. Probably the largest
11 is Prax Air (phonetic), which is an oxygen supplier.

12 We use millions of dollars a month of oxygen to refine
13 the iron ore into steel. We have suppliers of rolls and
14 handling equipment that actually process our product and a
15 lot of service people as far as health care and the rest of
16 that. But 4 to 1 is a conservative estimate. We have
17 2,800 employees direct.

18 MR. WOODS: Thank you.

19 MR. VALDISERRI: Yes, sir.

20 MR. THOMPSON: One question is you described the
21 pressure of the \$162 a ton for steel on a particular grade.
22 Can you describe the pressures on the various types of
23 grade? Are imports affecting all grades equally?

24 A There have been some trade cases that have supported a
25 couple of our products. Hot roll product, the most basic

00091

1 element, coming right off the hot mill, is under least
2 attack today because of some findings six or eight months
3 ago by the ITC, I believe. Certainly, the galvanized
4 product that goes into the outer skin of your automobile
5 sort of protects itself for the time being because it is
6 too sophisticated and too unique. But certainly any of the
7 general cold roll products for automobile and construction,
8 as well as hot-dipped galvanized, is under severe attack
9 right now.

10 But, you know, the slabs are the thing. I mean, all
11 of us could make more money importing slabs. And we could
12 be competitive with anyone else. If you start me off with
13 159 or \$162-dollar-a-ton slab, I'll compete with anyone.
14 But those are unfairly priced slabs. That's all there is
15 to it.

16 MR. HILL: Okay. Thank you very much, sir.

17 MR. VALDISERRI: My pleasure. Thank you.

18 MR. HILL: At this time, I'd like to call Mr. Ken
19 Johnsen, President and Chief Executive Officer of Geneva
20 Steel.

21 Sir.

22 MR. JOHNSEN: Thank you. Good afternoon. My name is
23 Ken Johnsen, and I am President and CEO of Geneva Steel.
24 It's fitting for Geneva Steel to testify in a hearing with
25 respect to a national security investigation. Our mill was

00092

1 built by the U.S. Government back in the 1940's to supply
2 plate steel for the building of liberty ships in
3 California. The government chose Utah because Utah was out
4 of range of Japanese bombers and couldn't be harmed. All
5 of our iron ore currently comes from the iron ore ranges
6 here in this part of the country.

7 After the War, the mill was sold to United States
8 Steel, which operated the mill until it was shut down in
9 1986. Therefore, a group of Utah investors purchased the
10 mill from U.S. Steel and reopened the mill in 1987. From
11 the time we reopened the mill until now, we have spent 665
12 million dollars in new equipment and capital maintenance.

13 Our mill currently has more slab-producing capacity
14 than rolling capacity. And as a result, we can produce
15 about 350,000 to 400,000 tons of slabs even when we're at
16 full production on our other products. And at the right
17 price, we could produce in excess of a million tons of
18 slabs. Consequently, sales of slabs to California Steel
19 Industries as well as other steel mills have been very
20 important for Geneva's business. At times CSI has been our
21 largest customer.

22 Geneva's business was ravaged in the last years of the
23 1990's by the continued wave of unfairly traded imports in
24 all of our product lines. We did what we could by
25 responding with trade cases. We joined other members of

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1 the industry in bringing several successful trade cases.
2 Unfortunately, no cases were filed on imported slabs. Use
3 of the U.S. market as a dumping ground for the world's
4 overcapacity resulted in Geneva's filing for bankruptcy
5 protection under Chapter 11 in February of 1999. Since
6 then we have restructured our balance sheet. We have
7 further reduced our costs, and we have successfully emerged
8 from Chapter 11 bankruptcy.

9 Our emergence would not have been possible without the
10 assistance of a 110 million dollar, 85 percent government
11 guaranteed loan under the Emergency Steel Loan Guarantee
12 Program. But getting a loan is not enough. You have to
13 have a market for your products to operate profitably.
14 Unfortunately, that hasn't occurred. 2001 has again been
15 an extremely challenging year for us, and most of those
16 challenges have been related to imports and specifically
17 imports of steel slabs.

18 Since February, Geneva has been operating only one
19 blast furnace -- we have three -- which effectively reduces
20 our capacity utilization rate by more than 40 percent. A
21 primary reason for this is that we have virtually no slab
22 sales at the present time. Current prices for slabs make
23 slab sales uneconomical. If anyone tells you that they
24 cannot buy domestic slabs in the West Coast area, ask them
25 at what price they're willing to pay.

00094

1 Our finished steel products compete in the West Coast
2 market with California Steel Industries and Oregon Steel
3 Mills. California Steel Industries has no hot-end and has
4 always been a converter of slabs since its restart of the
5 old Kaiser steel assets. Our other West Coast competitor,
6 Oregon Steel Mills, located in Portland, Oregon, has an EAF
7 and a caster.

8 In the past year, they have operated that furnace at
9 only about half of its capacity and have based
10 approximately half of their production on the conversion of
11 cheap foreign slabs. Attached to my testimony is a chart
12 showing imports of steel slabs into the West Coast over the
13 past three years and through April of this year. As you
14 can see, the prices of imported slabs fell by \$50 or 25
15 percent per ton between 1998 and 1999. This helped push
16 Geneva into bankruptcy.

17 Similarly, thus far in 2001, slab prices through April
18 are down by \$30 per ton compared to last year and are just
19 barely above the 1999 lows. In CSI's most recent earnings
20 report for the second quarter, they disclose that their
21 slab costs have dropped an additional \$14 a ton through the
22 second quarter. So we're headed in the wrong direction.

23 When our West Coast competitors purchase imported
24 slabs at extremely cheap prices instead of buying slabs
25 from Geneva, the loss of slab business to Geneva is

00095

1 obvious. But the cheap slab imports also permit our
2 converters to undercut our pricing for finished products in
3 the West Coast area. We recently lost a major bid to a
4 Southern California ship builder. And I believe that the
5 plate to be supplied is being rolled from imported slabs at
6 Oregon Steel.

7 Finally, by not purchasing slabs at reasonable prices
8 from Geneva, our West Coast competitors reduce our
9 utilization rates and increase our per-unit costs for our
10 remaining production. Eventually, these cheap slab imports
11 could force the closure of Geneva Steel, resulting in the
12 elimination of 1650 jobs, 1450 of which are steelworker
13 jobs. Therefore, our West Coast competitors will
14 presumably be able to raise prices significantly in the
15 West Coast market. And, of course, during any military
16 conflict or if for any reasons imported slabs became
17 unavailable, the economy in the Western United States would
18 be hobbled by a lack of steel.

19 It would indeed be ironic if the Administration failed
20 to take action to protect our national security and allowed
21 imported slabs to destroy an integrated steel mill in Utah
22 that Japanese bombers could not reach. We ask that you
23 prevent this from happening and that you recommend to the
24 President to take action limiting imported slabs pursuant
25 to Section 232. Thank you.

00096

1 MR. BOTWIN: A question I asked earlier: Do you have
2 an opinion on either duties, tariffs, quotas on product
3 coming in?

4 MR. JOHNSEN: Actually, Roger Schagrin would be a
5 better person to ask that question to, but I do. I think
6 what you have to look at is, if you go back historically
7 for a number of years before the surges started, what was
8 sort of a steady state slab production or slab importation.
9 And then you also have to consider the additional capacity
10 in the west that we now provide.

11 At one point in our history early on, we were about a
12 1.1-million-ton-per-year plant. We now could produce in
13 the range of 2-1/2 million tons if we were selling as many
14 slabs as we could. So, from a tariff perspective, I think
15 you look at a steady state pre-surge time period.

16 The other thing you can look at is pricing, you know.
17 At what price can the domestic industry survive? And then
18 the importers have a choice. They can pay the domestic
19 price, or they can import at that price. And in either
20 case, the industry and national security is protected;
21 perhaps a combination of the two.

22 MR. HILL: Jim.

23 MR. THOMPSON: I have a couple questions. One is what
24 do you think the transportation costs on foreign imports
25 would be compared to your costs? And second is, what is

00097

1 the cost differential as delivered to your customers, the
2 differential between imports and the slabs you might
3 provide?

4 MR. JOHNSEN: Well, in CSI's earnings release, they
5 indicated that they are paying \$195 a ton for slabs
6 delivered to their plant. That means that that slab is
7 being sold for some price in Brazil or Mexico or whatever.
8 It's being shipped ocean freight, which is probably in the
9 range of 12 to \$18 a ton. It's been off-loaded in the
10 port. So they're stevedoring other charges there. And
11 then it's being transported from the port to their plant.
12 I think, if you start with the delivered cost of \$195 a
13 ton, you get back to about the numbers that the previous
14 witness indicated, somewhere in the range of \$160 a ton.

15 MR. THOMPSON: And what's the difference for your
16 costs?

17 MR. JOHNSEN: Well, I cannot disclose our costs. But
18 let me say this. I think, if you were to look at the
19 variable cost of all the producers in the United States --
20 and there are reports that provide that -- \$160 a ton would
21 be below the variable cost for most U.S. producers. So
22 they're competing at a point where they're just going to
23 lose more with volume selling at that price.

24 MR. HILL: Okay. Thank you very much, sir.

25 MR. JOHNSEN: Okay. Thank you.

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1 MR. HILL: At this time, I'd like to call Mr. Thomas
2 Byrne, President and General Manager of Manitowoc Marine.

3 MR. BYRNE: Thank you. Good afternoon. A colleague
4 asked me Friday why I would get up and drive four hours on
5 a Sunday morning to give five minutes' worth of testimony,
6 get in my car and drive back home. And I told him because
7 what I thought we were talking about today is extremely
8 critical.

9 And he said, "But you don't even have a dog in this
10 fight." And I said, "Everybody has a dog in this fight."
11 Thank you for the opportunity to testify. I represent the
12 largest shipbuilder and repair facility on the Great Lakes.
13 My group operates more than 60 percent of the U.S. Great
14 Lakes drydock footage, including two of the three largest
15 graving docks and two of the largest shipyards on the
16 Lakes. The Manitowoc Marine Group is the largest single
17 supplier of ships to the United States Coast Guard. Our
18 customers also include the United States Navy, the lake
19 carriers who move iron ore, coal, stone and other
20 commodities on the Great Lakes, and numerous commercial
21 maritime companies that conduct domestic and international
22 trade.

23 Much of the steel that we use to construct and repair
24 our vessels starts from the Mesabi iron ranges of Minnesota
25 and the iron mines of Michigan. And then it makes its way

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1 to several mills along the shores of the Great Lakes and in
2 the Eastern United States.

3 These integrated steel mills are in real trouble
4 today, as you've heard. More than 15 are in Chapter 11.
5 There are myriad reasons for this, but one of the most
6 significant, it appears to me, is an unprecedented period
7 of unfair competition. I'm an industrialist. And I
8 believe there are few industries that must be inviolate in
9 this country. I believe steel is one of those.

10 As we begin this new century, our country continues,
11 as it has for 225 years, to rely heavily on free trade sea
12 lanes to conduct trade and to defend our vital interests
13 here and around the globe. And a strong and robust U.S.
14 steel industry provides the raw material foundation that
15 guarantees our nation's preeminence on the sea around the
16 world.

17 The United States is blessed with an abundant supply
18 of natural resources and a highly skilled work force to
19 manage those resources prudently and efficiently with a
20 keen sense of stewardship toward the environment. During
21 World War II, the United States unleashed a national war
22 production machine unprecedented in the annals of history.
23 The U.S. steel industry was at the forefront in this
24 effort, and this country had only to look within its own
25 borders for the natural resources to win a World War.

00100

1 Manitowoc was part of this effort. We've been building
2 ships for 100 years, including 28 submarines during World
3 War II, all, by the way, made with American steel.

4 This scenario was repeated again during the Cold War.
5 Since that time, however, the confrontation of opposing
6 super powers that challenged us for fifty years has been
7 replaced by a multitude of less definable nemeses -- where
8 transnational threats can come from radical organizations,
9 groups or rogue nations. This administration recognizes
10 the complexities of these new threats and has proposed
11 changes to our national security strategy to defend against
12 them.

13 It, therefore, becomes vitally important, within this
14 strategy, to keep the world's sea lanes open and free. Raw
15 materials, products, production equipment, facilities and
16 other supplies that are essential to building ships for our
17 national defense must be produced here. This can only be
18 accomplished by eliminating this country's increasing
19 dependency on foreign steel.

20 As a shipbuilder, I cannot be forced to depend on
21 foreign sources to provide me with the steel I need to
22 produce Coast Guard and Naval vessels. My company fully
23 supports the "Buy America" provisions that apply to any
24 vessel constructed for the United States Government. If we
25 continue to allow the unwanted dumping of foreign steel on

00101

1 our shores, it will create an induced national security
2 threat in the event of a national emergency or conflict.

3 These unfairly traded imports reduce, and will
4 eventually eliminate, the need for domestically mined and
5 processed iron ore. They will result in the premature
6 closure of integrated raw steel-making facilities and iron
7 ore mines, which not only impact the U.S. economy but also
8 its national security. Foreign steel interests continue to
9 chip away at the foundation of the domestic American steel
10 industry. They do so to assure a long-term source for very
11 liquid American dollars. They have seriously injured the
12 steel industry and jeopardized the jobs of thousands of
13 hard-working Americans.

14 Continued dumping coupled with domestic reductions in
15 market share will affect the entire chain of production --
16 from the mining ranges to the ship crews that deliver the
17 ore, from the steel mills to the shipyards. Thousands of
18 jobs are at risk. A highly skilled labor force is
19 absolutely necessary for us to react to national
20 emergencies and enable those of us in industry to assure
21 our national security. Domestic steel production capacity
22 must be enhanced if national defense requirements are to be
23 met. If we do not face this challenge today, we will
24 surely be at risk tomorrow and for the foreseeable future.

25 I welcome the Administration's bold efforts to look at

00102

1 this critical issue and join the battle to reverse this
2 "death spiral." I applaud those members of Congress who
3 have brought this issue to the forefront and are
4 championing this cause with legislation that puts a stop to
5 illegal dumping. We have, however, been here before. We,
6 all of us; industry, labor and government; must combine to
7 send a clear message to those foreign interests that enough
8 is enough.

9 U.S. ships should be built with American steel. It is
10 vital to our economy and vital to our national security.
11 For all these reasons, I suggest that the Department of
12 Commerce and the Administration fully support extending the
13 policy to reduce the current import levels until the steel
14 industry can, by virtue of reinvestment and
15 recapitalization, become more competitive with foreign
16 steel producers again.

17 Secondly, I recommend that the Administration and
18 Congress support the passage of H.R. 808, the Steel
19 Revitalization Act of 2001, which has been introduced in
20 the House. It will send a clear message that U.S. steel
21 production is vital to our country and our security. I
22 would also urge management and labor to work together to
23 assure that competitiveness remains a primary focus.

24 Taking effective and decision action now will decrease
25 the threat to impair the security of our nation. I started

00103

1 to cite statistics and data in preparing for this
2 testimony. I soon realized, however, that if we don't
3 understand the severe impact that steel dumping has had on
4 jobs, the economy, trade imbalance, tax revenue and
5 potentially our national security, then statistics will be
6 irrelevant. Please understand I can build ships with this
7 low price, illegally dumped steel. Help me avoid the need
8 to exercise that option, because we do need a domestic
9 steel industry for all the reasons cited. And we need that
10 industry to be competitive. I urge you to give them the
11 time they need to get that done. Thank you.

12 MR. THOMPSON: Mr. Byrne, you note the "Buy American"
13 provisions for Coast Guard and Naval vessels. Can you
14 identify the suppliers of steel that you utilize?

15 MR. BYRNE: The majority of the plate is from
16 Bethlehem. But we buy steel for outfitting and that kind
17 of thing from several domestic mills.

18 MR. VACCARO: Have you had any supply problems getting
19 the steel that you need in a timely manner at this point?

20 MR. BYRNE: Absolutely not; absolutely not. And we
21 deliver three Coast Guard cutters a year at our current
22 pace plus additional domestic dredging, oil haulers, that
23 kind of thing. We've never had a problem getting domestic
24 steel.

25 MR. THOMPSON: Are there overseas suppliers for the

00104

1 types of steels that are used for those kind of vessels?

2 MR. BYRNE: Oh, yeah. A lot of the slab sourcing that
3 you've heard about could be used in any of our vessels.

4 MR. HILL: Okay. Thank you very much, sir.

5 MR. BYRNE: Okay. Thank you.

6 MR. HILL: At this time I'd like to call Mr. William
7 Verrette, Chairman and Chief Executive Officer of Champion,
8 Inc.

9 Mr. Verrette, sir.

10 MR. VERRETTE: Thank you, sir. My name is William
11 Verrette, and I'm Chairman and Chief Executive Officer of
12 Champion, Incorporated. Our home office is located in Iron
13 Mountain, Michigan. And I am here in support of the United
14 States Iron Ore Industry.

15 Champion is a vendor and a contractor to the iron ore
16 industry in Michigan and Minnesota. And we employ
17 approximately 650 people. If iron ore mining is shut down
18 in the United States, our company will face an overwhelming
19 challenge.

20 In the year 2000, iron ore mining companies led by
21 Cleveland-Cliffs directly or indirectly accounted for 42
22 percent of Champion's annual sales. There are no other
23 industries in the rural areas of Michigan or Minnesota that
24 could replace this business if it were lost.

25 It's my opinion that the criteria listed in 15 CFR

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1 Part 705.4 fully applied to the iron ore industry. The
2 closure of the domestic iron ore industry would have a
3 catastrophic impact on the national security.

4 However, it's not my intent to dwell on 15 CFR Part
5 705.4 in total. I direct my comments to Article "c" of the
6 above-referenced CFR, to the devastating impact on
7 companies such as ours and the impact it would ultimately
8 have on national security. Article "c" speaks to the
9 existence and the accepted availability of human resources,
10 raw materials, production equipment and facilities to
11 produce these items.

12 If the iron ore industry is shut down for any extended
13 period of time, the labor and equipment at each mine will
14 cease to exist. People will move out, and the equipment
15 will be sold. In essence, once the mines are shut down,
16 they will never reopen. Companies like Champion,
17 Incorporated, will suffer the same fate. Products and
18 service not directly in the employ of the mines but
19 essential to the mines' operations that are provided by
20 companies such as ours would evaporate and disappear. The
21 whole infrastructure needed to successfully operate the
22 mines would be gone in a very short period of time.

23 People, electric power apparatus, railroads,
24 production equipment, facilities, supplies and services
25 such as our company and others provide that are essential

00106

1 to the operation of the mines and, therefore, essential to
2 the national defense would be gone.

3 If the mines are shut down, you cannot restart
4 shipment of iron ore pellets by backing a power shovel into
5 a mining face and loading railroad cars. Restart time on a
6 iron ore taconite pellet plant is directly proportional to
7 the multiple of shutdown time. That is, it takes a great
8 deal more time to restart a pellet plant than it does to
9 shut one down. When skilled employees, specialized
10 equipment and the infrastructure surrounding the industry
11 are gone, several years would be needed to restart an iron
12 ore operation.

13 In a period of national crisis, we will not have the
14 luxury of that time.

15 As a history buff, I am astonished to see that today,
16 at the start of the 21st Century, we, the United States,
17 may be working towards putting ourselves in the same
18 position as the Japanese were in at the start of World War
19 II. Granted there are major differences between Japan of
20 1940 and the United States of 2001. However, Japan got its
21 oil from Arabia, rubber from Southeast Asia, iron ore from
22 Australia and other far flung parts of the world. Feeling
23 threatened on many fronts, including the possibility of
24 being cut off from basic resources, they, Japan, started a
25 war.

00107

1 Can we avoid the same situation at some point in the
2 future?

3 During World War II, the United States produced more
4 steel than its enemies and allies combined. This was a
5 very important part in winning the war. Can we be less
6 prepared now?

7 We all seek solutions. In my opinion, the only
8 solution that works is a limit to the import of slab steel.
9 Whether this is at the year 2000 level or at a lower level,
10 I leave to more expert people than I.

11 I know this is a tough choice.

12 However, in this global economy, ultimately we need to
13 stand up for ourselves. If slab steel imports continue to
14 increase, we will lose more blast furnaces, and there will
15 be more mine closures. We will ultimately lose our
16 domestic owned steel industry.

17 That loss certainly would have a grave consequence for
18 the national security of the United States.

19 And I respectfully ask the Department of Commerce to
20 find the United States iron ore industry essential to the
21 national security and protect it as such.

22 Thank you.

23 MR. WOODS: Just one question. And if it's
24 proprietary, just answer -- what, in your business, are
25 some of the key occupations or most critical kind of

00108

1 skilled occupations that would be lost to the community and
2 for national security purposes?

3 MR. VERRETTE: Basically, it would be across the
4 board. Whether you're starting with warehouse people or
5 mechanics that tend equipment, whether it would be
6 engineers that do design, whether it would be people with
7 the expertise of going out and recommending equipment to
8 the mines, all of the jobs that we have in our company,
9 whether it's on the construction side or whether it's on
10 the supply side, would definitely be affected by the
11 closures.

12 MR. WOODS: Thank you.

13 MR. HILL: Okay. Thank you very much, sir.

14 MR. VERRETTE: Thank you.

15 MR. HILL: At this time, I'd like to call Roger
16 Schagrin of Schagrin Associates.

17 Roger, good to see you again.

18 MR. SCHAGRIN: Good to see you. Good afternoon,
19 Chairman Hill and Members of the Administration. For the
20 record, my name is Roger Schagrin of Schagrin Associates,
21 and I'm very proud to be representing Cleveland-Cliffs, the
22 largest producer of iron ore in North America, in this very
23 important investigation. I would ask you, Mr. Hill, for
24 the inclusion of my full remarks in the record, and I would
25 just summarize them here today.

00109

1 As has been stated in many of the public comments
2 filed with the department, no new blast furnaces have been
3 built in the United States since the early 1980's.
4 However, it should be pointed out that this is not because
5 blast furnaces have been determined by world steel
6 producers to be an uncompetitive method of producing steel.
7 In fact, in the decade of the 1990's and continuing to the
8 present time, new blast furnaces have been installed in the
9 European Union, Eastern European countries, Commonwealth of
10 Independent States countries, China, Korea, Taiwan and
11 Brazil. And many of these countries are suppliers of
12 semi-finished steel to the United States.

13 We are also well aware -- and this panel is very well
14 aware of the fact that plate for ships and tanks as well as
15 armored vehicles, sheet for military vehicles and for
16 manufacturing all type of artillery and weapons, are
17 sourced exclusively in the United States from integrated
18 steel manufacturers.

19 There is no question that each and every one of these
20 military applications can be supplied by the conversion of
21 imported slab made from iron ore in a foreign steel
22 producer's open hearth or blast furnaces and then rolled to
23 the military's requirements by rolling those in the United
24 States that previously had steel-making capabilities.
25 After all, these foreign countries all also have armies,

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1 navies and air forces. So they supply the steel for their
2 armed services.

3 The question before the Administration is whether this
4 country's national security can be dependent upon the
5 importation of foreign steel slab. In addition, two
6 absolutely essential civilian sectors of the economy are
7 completely dependent for metallurgical reasons on steel
8 produced in integrated facilities, vehicle manufacturing
9 and the can-making sector. The former uses over 20 million
10 tons annually of steel, an estimated 95 percent of which is
11 made in integrated mills. And the can-making sector uses 6
12 to 7 million tons annually. And 100 percent of these needs
13 are from integrated mills.

14 Thus, the dependence of these essential sectors of the
15 economy on slab imported into the United States is critical
16 to the Administration's analysis under Section 232. It
17 should be abundantly clear to the Administration, from the
18 statements made on the record by various U.S. steel
19 producers, that each and every integrated steel producer in
20 this country considers it not only a viable but clearly
21 more profitable option to turn to the conversion of
22 low-cost imported slab instead of making investments, very
23 expensive investments, in their own blast furnaces.

24 Thus the Administration is faced with the real and
25 inescapable conclusion that, within a period of several

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1 years, all of the defense requirements, as well as our
2 vehicle and can-making production requirements, would be
3 dependent on keeping the sea lanes open for the continued
4 importation of steel slabs.

5 As you've heard, after blast furnaces are shut down
6 and destroyed, after iron ore pelletizing plants are turned
7 into scrap and iron ore mines are closed and flooded, a
8 minimum period of three to five years might be required to
9 replace these assets. Now, Section 232 creates a clear
10 conflict between this nation's strong capitalist spirit
11 that encourages each company to make the highest profits
12 and our national security needs. In fact, the history of
13 this Section, the Trade Act of 1962, we have to remember it
14 occurred just one year after the Cuban Missile Crisis,
15 which was a severe threat to our national security.

16 Now, no one can deny that the profits of U.S. steel
17 producers could be greatly increased if they are able to
18 import slabs at cost that are significantly less than the
19 costs of producing those products. However, similar
20 arguments were made by both importers and users of machine
21 tools in the Section 232 investigation of machine tools in
22 the mid 1980's.

23 Machine tools, while vital to our military needs, play
24 an even bigger role in the manufacturing of such products
25 as vehicles. Notwithstanding extra costs to such a large

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1 consuming industry in the U.S., President Reagan decided
2 that a period of import relief was necessary to allow the
3 U.S. machine tool industry to reinvigorate itself and to
4 continue today to be a vital and necessary part of our
5 economy and our strategic defense requirements.

6 In this case, you should also recommend to the
7 President that the national and economic security interests
8 of the United States requires a limitation of semi-finished
9 steel in order to maintain integrated melting capacity in
10 the U.S. to serve the defense and essential economic
11 interests of the U.S. Such a decision will force
12 steelmakers and their suppliers and the technical community
13 to figure out ways to improve blast furnace production, or
14 else they will have no alternatives.

15 The seriousness with which the Administration and the
16 panel is undertaking this investigation is self-evident.
17 Unfortunately for you and for the American economy, you
18 will not be judged at the present time for your decision to
19 either take appropriate action under Section 232 to limit
20 semi-finished steel imports or a decision not to limit
21 semi-finished imports. It is only if the Administration
22 fails to take action and a major conflict which we all hope
23 and pray will not occur does occur that an inability to
24 procure steel for the production of tanks, ships and other
25 military equipment and ordnance would be regretted. It is

00113

1 only if the auto factories of this great State of Michigan
2 cannot procure any steel and are shut down until the end of
3 the conflict that you would be blamed. It is only if our
4 fields lay fallow because fruits and vegetables cannot be
5 canned because can makers have no access to the tin mill
6 products necessary for the production of their cans that
7 you would, again, be blamed.

8 The balancing of the interest that you must make and
9 the projections of essential defense and economic security
10 requirements you must make are not an easy undertaking.
11 However, I trust the Administration will utilize your
12 judgment and its judgment to make the right decision in the
13 Section 232 investigation; not for the benefit of
14 individual steel companies, not for the benefit of the
15 thousands of steel workers involved in the production of
16 these products, not for the preservation of the iron ore
17 mines and the mining companies, but for the national
18 security of this great nation with which you have been
19 entrusted.

20 Thank you for the opportunity to testify here today.

21 MR. HILL: I have one quick question. In your
22 testimony, you mention a possible remedy is limiting
23 imports. Do you have a specific recommendation for at what
24 level, for what duration? And do you have any -- not to
25 put you on the spot. But, you know, out of respect for

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1 your expertise in this, do you have any other remedies you
2 would like to suggest to the panel at this time?

3 MR. SCHAGRIN: First, in terms of the Section 232
4 investigation -- and I recognize, as do you, there is a
5 Section 201 investigation that also includes semi-finished
6 steel at the present time. And because of past work I've
7 been involved in under Section 201 -- I think we all know
8 this in this area -- everything that the United States
9 Government does then goes to the WTO, which almost seems to
10 be a second master of our economic and trade policies.

11 It seems to me that under Section 232 the assignment
12 to the Administration is to maintain a capability that can
13 serve our basic national security needs. And, therefore, I
14 think that, after much consideration in the Cliffs' filing
15 of comments, it was suggested that, under Section 232,
16 which has different remedies than 201, we at least place a
17 cap at a reasonable level of semi-finished steel so that
18 those companies that are operating blast furnaces today
19 aren't able to make the economic choice, "I'm going to shut
20 down my blast furnaces, whether it's because I don't want
21 to make environmental expenditures, I don't want to pay to
22 reline or I can't compete with other producers or imports
23 of finished steel. I want to import slab instead of
24 maintaining a steel production capability."

25 And that's why, under Section 232, we believe the most

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1 appropriate remedy is to have a limitation at some type of
2 current level, be it an average of the past decade, be it
3 now while the market is down it's at a lower level. Tariff
4 increases could also be considered. My guess is they might
5 trigger more compensation requirements under our WTO
6 obligations than limitations. And they would have to be
7 very, very high, 'cause you can see the prices of the
8 imported slab are so far below domestic producers' marginal
9 costs, maybe 15, 20 percent. They're probably in the range
10 of 30 to 40 percent below domestic producers' fully
11 allocated costs. I mean, that would require substantial
12 tariff increases in order to level the field between
13 imported semi-finished product and domestically produced.

14 So that was the basis for our recommendation.
15 Secondly, we would hope that, similar to machine tools --
16 and I don't think we've finalized everything that could be
17 recommended in this regard -- that there could be some
18 government support for other avenues of research to make
19 blast furnaces more efficient.

20 I think Mr. Valdiserri mentioned to you earlier -- and
21 I learned it on the plane trip here -- that they have got a
22 new agreement with an electric utility that is taking off
23 their natural gas from their blast furnace, which, in turn,
24 is reducing their blast furnace cost. So it was like
25 solving two problems in one. We're making their blast

00116

1 furnace more efficient; we're creating more electricity at
2 a time when we have serious energy shortages.

3 So there is obviously other things that can be
4 explored. However, as Mr. Johnsen said in his testimony,
5 after they received money from the Steel Loan Program --
6 and I'm very familiar with that program -- the reason only
7 one-tenth of those funds have been expended so far is,
8 unless we solve the import problems, the import problem on
9 semi-finished steel in the 232, no investment is great
10 enough to make steel producers viable. And no one in the
11 private sector is going to invest more money. We simply
12 have to do something about the surge of semi-finished steel
13 into the U.S. if we're then going to explore other
14 alternatives to making our industry more efficient and more
15 competitive.

16 MR. THOMPSON: Mr. Schagrin, you noted that there were
17 metallurgical reasons why integrated steel mills were able
18 to produce steel that was appropriate for various
19 applications. Could you amplify on that?

20 MR. SCHAGRIN: Yes. I'll admit I'm not an engineer.
21 I said in my full testimony I was a history student.
22 However, I have been representing people in the steel
23 industry for 20 years. And I understand it has to do with
24 metallurgical properties that allow for the drawing of the
25 product that give it the flexibility to be made into an

00117

1 auto hood or all the exposed parts of automobiles.

2 Same thing with cans: Cans are essentially drawn.

3 And the steel produced in mini mills, which -- flat-roll
4 steel has only been produced in mini mills now for 12
5 years. I mean, that was a revolutionary breakthrough, and
6 it's still a fairly recent process. And I have in my
7 testimony that possibly, if many mills had relief -- 'cause
8 they're also competing in the United States with
9 semi-finished steel imports that's being converted here.
10 If they were able to have relief from that competition,
11 they might be able to garner the additional revenues to
12 make further investments because, as I say, they've been in
13 existence for 12 years.

14 The auto market is a 20-million-ton market. They've
15 only cracked, over the first 12 years, about 5 percent of
16 that. So clearly they have to have some significant
17 leap-frog technologies to go from utilizing scrap as their
18 basic mix in their electric furnaces to the produced steel
19 that's produced with iron ore in blast furnaces in order to
20 get these metallurgical properties and allow the steel to
21 be drawn.

22 As to some of the military needs, you heard from the
23 shipbuilder earlier that Bethlehem is their main supplier.
24 There I think it's less a matter of metallurgical
25 properties than the fact that the military requirements are

00118

1 for very thick products, and most of our consumer-oriented
2 requirements are for thinner products. And so all the new
3 mini mills that have been built over the last 12 years have
4 focused on the thinner products as their main applications.
5 And so what we have for these defense capabilities in the
6 plate area are the older mills. And, of course, those
7 mills can't survive if they can't sell into the commercial
8 area.

9 And I guess we can amplify the metallurgical
10 reasons -- certainly some of the steel companies could
11 probably amplify on those issues.

12 MR. THOMPSON: Okay. Thank you. Also in your
13 testimony you identified that there was one bomb case
14 manufacturer.

15 MR. SCHAGRIN: Correct.

16 MR. THOMPSON: Who is that?

17 MR. SCHAGRIN: It's a company called Stupp (phonetic).
18 They're based in Baton Rouge, Louisiana. And it's a major
19 product for them. And they're an excellent company that's
20 been in business since the early 1950's.

21 MR. THOMPSON: Okay. Thank you.

22 MR. HILL: Okay. Thank you very much.

23 MR. SCHAGRIN: Thank you very much.

24 MR. HILL: I'd like to call Michael Prusi,
25 Coordinator, "Stand Up for Iron Ore."

00119

1 Mr. Prusi.

2 MR. PRUSI: Thank you. Chairman Hill and members of
3 the panel, allow me to add my greetings to those already
4 offered you here this afternoon and this morning and
5 especially for the 4,000 people who joined us down in the
6 Superior Dome earlier today and the thousands that marched
7 in the rain to bring you greetings.

8 For the record, my name is Michael Prusi, a
9 third-generation iron miner. I represent an organization
10 called "Stand Up for Iron Ore," which was formed by the
11 collective bargaining agreement between United Steelworkers
12 of America and Cleveland-Cliffs Iron Company. This
13 agreement covers workers employed at the Empire iron mine
14 partnership, the Tilden Mining Company and the Hibbing
15 Taconite Company up in Minnesota.

16 Prior to accepting this position, I served three terms
17 in the Michigan House of Representative from the 109th
18 District covering Marquette and Alger Counties. My main
19 background on this subject, however, comes from over 20
20 years of employment at various mine operations here on the
21 Marquette Range, during which I served seven years as
22 President of Steelworkers Local Union 4950, primarily
23 representing workers employed at the Empire Mine.

24 For over 150 years, iron ore mining has been the
25 lifeblood in the foundation of this area's economy. Our

00120

1 communities have grown up around the mines. Generations of
2 local residents have made their living and raised their
3 families on a miner's wages, or else they have worked in a
4 business that depends on the continued operation of our two
5 remaining mines. Through good times and bad, we have
6 worked hard to fulfill America's need for the raw iron that
7 we have in such abundance.

8 That need has always been greatest during those
9 periods when America was in an armed conflict. During
10 World War II, the United States rolled more steel than our
11 allies and adversaries combined. Without Michigan and
12 Minnesota iron ore, we have had to rely on scrap steel to
13 achieve victory. Steel is an integral component of any
14 weapons system or defense infrastructure. Even today's
15 high tech weapons rely on steel platforms and on steel
16 armor to function properly. Unfortunately, an
17 ever-increasing amount of our nation's steel consumption is
18 being dumped and unfairly traded into our market by foreign
19 sources. This has been documented in the Department of
20 Commerce's The Global State Trade - Report to the President
21 submitted last July.

22 Although I am not an expert in defense strategy, I
23 feel that it is safe to say that America's national
24 security depends on adequate, reliable supplies of domestic
25 iron and steel. I find it strange and somewhat ironic that

00121

1 we have to convince our government that this is true.
2 Timely action at the onset of this crisis would have helped
3 to prevent the ongoing strangulation by bankruptcy of our
4 basic integrated steel companies and the attendant impact
5 on our defense infrastructure and our nation's economic
6 stability.

7 Nearly 20 years ago, the steel industry went through a
8 painful contraction that saw a dramatic loss of
9 steel-making capacity. The lives and livelihoods of
10 hundreds of thousands of Steelworkers were devastated, and
11 their communities are still struggling to recover from the
12 economic atom bomb of multiple plant closures. During the
13 80's, I was laid off for nearly two years before regaining
14 steady employment at the mines. I won't detail my personal
15 troubles, as they probably aren't as deep as those that
16 many of my friends and neighbors experienced during those
17 years. Suffice I take it to say that the hard-working,
18 patriotic taxpayers of both iron ranges do not deserve to
19 relive that era.

20 The mining operations of today are a far cry from
21 people's image of picks and shovels. We work with enormous
22 and complex equipment that generates thousands of
23 horsepower driven by extremely high voltage, all of which
24 needs to be set to tolerances in the thousandths of an
25 inch. We have remote electronic sensors, digital controls,

00122

1 and global positioning capability all linked to computers.
2 And men and women who operate and maintain this costly
3 machinery are well trained and highly skilled.

4 Should these mines be forced to close due to the
5 burdens placed on our industry by unfair and illegal
6 imports, there are few other places for them to use their
7 skills in this part of the country. Once they have left
8 this area, the availability of a work force capable of
9 doing their jobs will be negligible. It would take years
10 to train new hires to the level of skill necessary to
11 perform adequately.

12 The mine owners have invested hundreds of millions of
13 dollars in equipment, technology, and training. The
14 Steelworkers have sacrificed jobs, modified contract
15 language and work rules and worked side by side with
16 management to increase productivity to a level unmatched by
17 any steel industry in the world. All of this investment
18 and sacrifice is at risk unless our government acts and
19 acts quickly to roll back the level of semi-finished steel
20 imports to pre-crisis totals. Put plainly and simply, that
21 is the remedy that I believe is proper, necessary and
22 justified. We cannot allow a commodity so vital to this
23 nation's security interests and to our basic manufacturing
24 economy to become yet another product that we no longer
25 produce here at home.

00123

1 I realize that this investigation is focused on the
2 national security aspects of imported iron ore and
3 semi-finished steel, and I wish I had the expertise and the
4 statistics to fully make that case for you today. I have
5 only my love for my country, a deep and abiding pride in
6 the people who manufacture this ore and an innate sense
7 that steel made America strong and that only American steel
8 can keep her strong. If we become a nation where people
9 who work hard for the American dream must live like the
10 Chinese, the Brazilians or the Koreans in order to compete,
11 then will we still be a nation worth defending?

12 Thank you. And I will take questions if there are
13 any.

14 MR. HILL: Thank you very much, sir.

15 MR. PRUSI: Thank you.

16 MR. HILL: At this time, I'd to call Mr. Dan Carilli,
17 President of Local 4950, District 2, United Steelworkers of
18 America.

19 Sir.

20 MR. CARILLI: Thank you. Good afternoon. My is Dan
21 Carilli. I am the President of Local 4950, United
22 Steelworkers of America, representing the 800 bargaining
23 unit employees employed at the Empire Iron Mining
24 Partnership in Palmer, Michigan.

25 The Empire Mine was built in four phases. Empire Mine

00124

1 went on line in 1962 at a production rate of 1.2 million
2 long tons per year. Empire IV, the final expansion, went
3 on line January 1, 1980, raising the plant's total capacity
4 to 8 million long tons per year. The Empire IV expansion
5 took about four years to complete at a cost of almost 400
6 million dollars.

7 Over the years, employment levels rose to a high of
8 1450 bargaining unit employees by 1980. Since 1980 the
9 number of bargaining unit employees has continually been
10 reduced due to productivity increases achieved through a
11 continual capacity investment and training of a highly
12 skilled work force. Capital investment over the past ten
13 years has been 164 million dollars, averaging over 16
14 million dollars per year. And the current plant employs
15 800 bargaining unit and 121 salaried employees, still
16 producing at a capacity of 8 million long tons per year.

17 The 1979 five mining sites employed almost 4,000
18 bargaining unit employees on the Marquette Iron Range.
19 Today only the Tilden and Empire Mines remain, employing
20 about 1460 in the two bargaining units. The population of
21 our already rural community decreases every year. Large
22 numbers of our children are forced to leave the area to
23 find employment as they graduate from high school and
24 college. School districts have been reduced by 20 to 30
25 percent.

00125

1 Studies of our local economy show that every mining
2 job creates five jobs in our surrounding economies. The
3 loss of almost 2,000 mining jobs would, therefore, cause an
4 additional loss of almost 10,000 jobs. Currently about 65
5 million long tons of material are mined at the Empire
6 annually to produce 8 million long tons of pellets. The
7 equipment in all three areas of the mine is very large and
8 expensive and requires highly skilled personnel both to
9 maintain and operate. Many equipment purchases have lead
10 times which exceed one year. The work force is made up of
11 about 50 percent maintenance employees and 50 percent
12 operating employees. Maintenance employees typically serve
13 apprenticeships lasting three to four years. Skilled
14 equipment and plant operators take similar times to train.
15 There are not competing employers in our area who serve as
16 a training ground for miners. Likewise, unemployed miners
17 often have to leave the area to find employment.

18 The continued existence of our iron ore mines requires
19 the survival of the integrated steel producers in the
20 United States. Continued imports of steel, semi-finished
21 steel slabs and iron ore at the rates of the recent past
22 will almost certainly decimate our domestic and iron ore
23 industry, seriously threatening this country's ability to
24 sustain a military action and maintain our national
25 security. This should not be allowed to happen.

00126

1 If iron ore production ceases to exist in this
2 country, we will not be able to resume production over a
3 short time frame. Even if idled plants remained intact,
4 time will eventually render the equipment inoperable. Iron
5 ore bodies are not lying open to the surface and require
6 time to develop. New mining equipment with deliveries
7 exceeding one year could be required to restart an idled
8 plant.

9 A highly skilled mining work force such as exists on
10 the Marquette Range has been attained over our history of
11 mining for more than 150 years. We have supplied iron ore
12 for all U.S. wars since the Civil War, and it is certainly
13 a matter of national security that we maintain this ability
14 for generations in the future.

15 Thank you very much for traveling to Marquette, and we
16 enjoyed the hearings today. Thank you.

17 MR. HILL: Thank you very much, sir. At this time, is
18 Mr. Ed Hamilton in the room? He's not checked in? Okay.
19 At this time, what I would like to do is we'll recess the
20 hearing. And with the permission of our witnesses coming
21 up, we'll move up the time where we reconvene. I have 10
22 to 4:00, 3:50 in the afternoon. I'd like to reconvene at
23 4:15. I believe most of the final witnesses are here. So
24 if that's okay with everybody, we'll recess at this point
25 and reconvene at 4:15 sharp. For the press and the

00127

1 audience, Jean Cottilli from the Department of Commerce is
2 in the back. Wave your hand, Jean. I will be available
3 for press interviews at this time and after we finish the
4 final panel. We're in recess.

5 (Off the record)

6 MR. HILL: The hearing will come to order. I'd like
7 to remind the witnesses one final time as we enter the
8 final panel. And, frankly, we've been doing very well on
9 this. Everyone is allotted five minutes, the same rules as
10 the U.S. Congress; five minutes for testimony and five
11 minutes for Q's and A's. We have a timer over here who
12 will hold up cards at different intervals and give you fair
13 warning ahead of time. Again, my appreciation and thanks
14 to Dr. Judith Bailey, President of Northern Michigan
15 University, for her gracious hospitality in this fine
16 facility. And now let's begin the final panel.

17 I'd like to call Monsignor Louis Cappelletti, who is here
18 today as Chairman of the Lake Superior Community
19 Partnership.

20 Monsignor, I'd like to also thank you for ministering
21 to us twice today. A number of our delegation were at your
22 parish this morning for Mass.

23 MONSIGNOR CAPPELLETTI: Thank you. Well, welcome to God's
24 country. We walked around Presque Isle last night. And I
25 will completely agree with you. It is beautiful up here.

00128

1 My name is Monsignor Louis Cappelletti. I am the rector of
2 St. Peter's Cathedral here in Marquette. But today I am
3 testifying as Chairman of the Lake Superior Community
4 Partnership. The Partnership, with over 1,100 members, was
5 formed several years ago through the merger of several
6 Chamber of Commerces and the Economic Development
7 Organization of Marquette County. And one of the groups
8 involved in the merger was the Lake Superior Jobs
9 Coalition. And, ironically, this organization was
10 specifically formed to support our local mining industry
11 and the iron miners in the early 80's when the steel mills
12 and iron mines were fighting off an earlier threat from
13 steel imports.

14 The drive to create this new organization several
15 years ago came from the closing of our major Air Force here
16 in Marquette County. As you flew in the other day and saw
17 our airport, you had an opportunity to see K.I. Sawyer Air
18 Force Base. And this closing also had a major economic
19 impact on our community from which we're still recovering.

20 And one other piece of personal history that relates
21 to the subject of the hearing today -- and some of those
22 that were at Mass heard some of this this morning in my
23 comments after the close of the Mass today. As a priest in
24 the western part of the Upper Peninsula, I was involved in
25 the 1950's with the iron ore mines in that area, and they

00129

1 were fighting to stay alive. And it was a battle they
2 eventually lost, and the community has changed forever.
3 And I even hate to go back there sometimes just to see just
4 what happened over the last 40 years.

5 Now, this history that I give is important because it
6 helps explain why I am actively involved in the effort to
7 get the United States Government to take action against
8 illegal imports. Our organization has a strong record in
9 that regard. In fact, I represented the Partnership and
10 the community in a meeting with Secretary of Commerce Evans
11 in Senator Levin's office in April. My involvement stems
12 from the fact that I've witnessed firsthand what happens to
13 communities when major employers such as the iron mines go
14 out of business.

15 There are many towns in the Gogebic, as you heard from
16 Senator Koivisto today, and in the Menominee Iron Range in
17 the Western Upper Peninsula that have never fully recovered
18 from the loss of those industries. And my experience also
19 tells me that, once the mines close, they're not going to
20 reopen. And if someone believes that they can be reopened
21 in the case of a national emergency, I can tell you it will
22 be an almost impossible task.

23 America's capacity to produce iron ore is not much
24 over half of what it was 20 years ago. And this country
25 can't afford to lose any more. I don't think we need a

00130

1 hearing to determine that having a viable steel and iron
2 mining industry is vital to the national security. Steel
3 was needed to build and defend this country in the past,
4 and it will be needed in the future.

5 And I also know that we can't depend on other
6 countries to supply that steel. The world changes. There
7 are those who are friends sometimes become our enemies.
8 And so those who are responsible for serious aggression
9 against America are now our best friends. Perhaps we can
10 depend on others for shoes and tee shirts, but I don't
11 think we can depend on them for steel. It just doesn't
12 make sense.

13 The real mission of the Lake Superior Community
14 Partnership is to do all we can to help ensure that we have
15 a strong economic base in jobs for the people that live
16 here. As our organization was formed, we visited some
17 other places in the country that have been successful in
18 similar efforts. And the advice we received was that we
19 must focus first on total community development, that our
20 economy will not grow unless we have a community that
21 offers those quality-of-life features that are also
22 important to our people.

23 And I believe we have to take a look at national
24 security in a similar way. It's not something we create as
25 a single package, but something we build a step at a time

00131

1 and a community at a time. And for the United States to be
2 strong and secure, each community must be strong. Steel
3 imports have had a major negative impact on this community
4 for over 20 years. And I believe, unless we take some
5 aggressive steps and are taken now, I foresee this
6 community will be devastated.

7 There are those who will say the problem isn't imports
8 but instead it's because the world has too much
9 steel-making capacity. But where was the problem created?
10 Certainly not here in the United States. We do not have
11 enough capacity to supply our own needs for steel. That
12 being the case, why must our community suffer? Why must
13 our people here lose their jobs? Why must people in
14 Marquette County see their lives disrupted and in some
15 cases destroyed?

16 Previous studies by the Department of Commerce and the
17 International Trade Commission have documented the fact
18 that imports are being illegally dumped into this country,
19 causing severe damage to the steel and iron mining
20 industries. And I feel -- and I'd like to suggest that
21 it's time that we put our best interests first.

22 Just a little history: My dad was a miner, a copper
23 miner, for 51 years. I was born in the Copper Country.
24 Again, we lost all our mines. Communities were just
25 devastated. Schools closed. And I see the same thing

00132

1 happening here. The iron ore taken from the ground around
2 us helped to build and defend this country. And it would
3 be unbelievably foolish to allow our capability to produce
4 steel be destroyed from some foreign nations, some who are
5 on the opposite side in the Cold War that ended only a few
6 years ago.

7 I just cannot say enough, really, to try to convince
8 whoever we have to convince that the steel industry is
9 important to us as a nation. And we pray that you have an
10 open mind, that you look at all the facts and that God give
11 you the wisdom to make the decision to support us in this
12 effort.

13 Thank you.

14 MR. HILL: Thank you, sir. Thank you, Monsignor, for
15 those very thoughtful and heartfelt comments. Thank you.

16 At this time, I'd like to call Mr. Gary Boyer.

17 Mr. Boyer, sir.

18 MR. BOYER: Yeah. I am speaking on behalf of myself
19 and my wife, Constance Boyer. I am a retired CCI salary
20 employee. I'm am writing again to -- this refers to
21 Mr. Brad Botwin. And I'm writing again to ask you and our
22 Government to stop the dumping of iron ore and steel in
23 this country by foreign companies. They do not live up to
24 their trade agreements, to my understanding. To my
25 knowledge, you and the United States Department of Commerce

00133

1 are currently conducting a Section 232 investigation into
2 the national security impact of iron ore and imported
3 semi-finished steel. President Bush has also ordered an
4 investigation into the iron ore and steel dumping. The
5 previous administration was asked a couple of years ago to
6 do something about it, and nothing was done.

7 Iron ore and steel dumping is a threat, in my opinion,
8 to our national defense and our economy, as I see it.
9 These foreign countries put quotas and tariffs on us; we
10 should do the same for them. Foreign governments subsidize
11 foreign companies that make steel. Also they ship iron ore
12 and steel into the U.S. at below cost and use cheap labor.
13 Free trade but fair trade: USA is the only country, in my
14 opinion, that lives up to the free trade in the world.

15 These foreign companies and governments are not doing
16 free trade. We have lost thousands of jobs in the past 15
17 years to unfair trade. Congressman Bart Stupak and Jim
18 Oberstar requested this investigation. At least we should
19 pass in Congress and have President Bush sign it, Bill
20 HR975, the Bipartisan Steel Recovery Act. This bill
21 requires steel imports to return to pre-1997 levels. We
22 cannot afford to have the U.S. dependent on any foreign
23 iron ore or steel; or oil, for that matter. It is a threat
24 to our national security and economy. Thank you, Gary P.
25 Boyer and Constance Boyer.

00134

1 MR. HILL: Thank you. You were an employee at
2 Cleveland-Cliffs for how long?

3 MR. BOYER: Well, with my sailing time, just about
4 27-1/2 years.

5 MR. HILL: And "sailing time" is?

6 MR. BOYER: Well, I used to sail for the company on
7 the Lakes also, hauling iron ore, coal, whatever.

8 MR. HILL: Okay. And do you have family in this area
9 who are also involved in the mines today as well?

10 MR. BOYER: I have a son-in-law that works at the
11 Empire, and my wife has a cousin who retired from the
12 Tilden Mine. And I don't know. There might be a few
13 others too that, you know, are cousins or something that do
14 work at the mines too. I have a lot of friends that work
15 at the mines.

16 MR. HILL: Thank you for your testimony here today,
17 and thank you for your years of service, sir.

18 MR. BOYER: Thank you.

19 MR. HILL: At this time, I'd like to call Mr. George
20 Ryan, President, Lake Carriers' Association.

21 Sir.

22 MR. RYAN: Thank you very much, Mr. Hill. My comments
23 will somewhat amplify the comments made by Bart Stupak and
24 Mike Mlinar. The Lake Carriers' Association represents 12
25 American corporations operating 58 U.S. Flag vessels

00135

1 exclusively on the Great Lakes. In a typical navigation
2 season, these vessels and others flying the U.S. flag move
3 upwards of 115 million net tons of dry-bulk cargo. Key
4 among these cargos are iron ore for steel production, coal
5 for power generation and stone for the construction and
6 steel industries.

7 It's a tenet of U.S. policy that the national,
8 economic and military security of the United States depends
9 on its position as a military power and the strength of its
10 national maritime infrastructure. The U.S.-Flag Jones Act
11 fleet, of which the vessels operating in the Great Lakes
12 are a key component, is the foundation upon which U.S.
13 maritime power and the national maritime infrastructure
14 rests. This fleet is the key component of the Fourth Arm
15 of National Defense. Without the critical mass represented
16 by the domestic fleet, the United States would be unable to
17 sustain the maritime infrastructure essential to national
18 defense.

19 In times of crisis, nearly 95 percent of the arms and
20 materials that our troops need move to the war zone in
21 ships. The skills that our mariners on the Great Lakes
22 possess are transferable to the oceans. For example,
23 during the Persian Gulf War, a number of Great Lakes
24 mariners went deep sea during the winter lay-up period and
25 helped deliver much needed supplies to our troops in the

00136

1 Gulf.

2 In the Bosnian conflict, 70 percent of the U.S.
3 seafarers activated for military service had served on
4 Jones Act vessels, including those operating here on the
5 Great Lakes. This is not surprising since 87 percent of
6 the U.S.-Flag shipboard employment opportunities now are in
7 the Jones Act domestic fleets.

8 Although the size limitations of the St. Lawrence
9 Seaway preclude Great Lakes shipyards from building the
10 very large Naval vessels, you heard from Tom Byrne that our
11 region does build auxiliary vessels for the Navy and
12 several types of ships for the United States Coast Guard.
13 Without the U.S.-Flag ships that need to be built,
14 maintained and modernized, Great Lakes shipyards would not
15 be economically viable and thus would be lost for national
16 defense needs.

17 The fleet on the Great Lakes is able to exist as a
18 national defense asset because it has commercial cargo to
19 carry. The primary cargoes are iron ore and stone for the
20 steel industry. Take a substantial portion of that cargo
21 away, and the United States loses a part of its national
22 defense infrastructure. It's that simple.

23 The critical nature of the marine transportation
24 industry was affirmed in a 1998 Presidential Commission
25 that identified transportation as one of the eight segments

00137

1 of the U.S. economy as "critical infrastructures." And I
2 know the Department of Commerce is well aware of the
3 national security linkages as the Bureau of Export
4 Administration and the U.S. Navy are currently conducting a
5 national security assessment of the U.S. maritime industry.

6 Domestically mined iron ore is the largest single
7 commodity moved by the U.S.-Flag Lakes fleet. In the year
8 2000, iron ore cargos totaled 58.5 million net tons or 51.6
9 percent of the cargo moving in all of our U.S. bottoms. As
10 recently as '97, the U.S.-Flag float totaled 63.4 million
11 tons, but that was before dumped foreign steel began its
12 four-year attack on domestic steelmakers. Obviously, then,
13 were imported iron ore to replace domestically-mined
14 taconite, the U.S.-Flag Lakes fleet would lose a
15 significant portion its business.

16 Likewise, increased imports of semi-finished steel
17 would have a negative impact on Great Lakes shipping. It
18 takes 1.3 tons of iron ore and a half a ton of fluxstone
19 and a quantity of metallurgical coal to make a ton of
20 steel. So every ton of foreign steel displaces a like
21 amount of domestic production that takes two tons off of
22 our ships.

23 The 2001 shipping season offers graphic proof of the
24 impact of unfair trade in steel. We have six ships right
25 now that are currently idled that have a combined per-trip

00138

1 capacity of more than 175,000 gross tons. That's more than
2 9 percent of our fleet's total per-trip capacity. The
3 economic impact of increased imports of iron ore and
4 semi-finished steel extend beyond the loss of iron ore
5 cargos. Since many vessels carrying iron ore move cargos
6 of stone and coal on their way back to the iron ore loading
7 ports, the loss of iron ore would require a significant
8 increase in freight rates for these "backhaul" cargos.

9 I'd like to finish up by saying that the following
10 statement that was issued by the Merchant Marine Panel of
11 the House Committee on National Security in 1996 really
12 sums up the defense role of the Merchant Marine in the
13 United States, quote:

14 "The national security benefit of the domestic fleet
15 is substantial. Of particular significance, the U.S.
16 fleet provides vessels and crews to meet the U.S.
17 security needs without requiring the Defense
18 Department -- and hence the taxpayer -- to bear the
19 substantial costs of building, manning and maintaining
20 a government fleet and logistics capability already
21 provided by the private sector," end quote.

22 In summary, iron ore for the steel industry is the backbone
23 of U.S.-Flag shipping on the Great Lakes. And the loss of
24 that cargo to unfair imports will decimate the U.S.-Flag
25 fleet. Gone too would be the maritime capabilities and

00139

1 infrastructure that play a vital role in our nation's
2 national defense. I urge you to recommend to the President
3 to stem this unfair flow of iron ore and semi-finished
4 steel.

5 Thank you.

6 MR. BOTWIN: Could you provide us, I guess in
7 writing -- you don't have to give us an answer right now --
8 but the cost? You mentioned the backhaul -- what kind of
9 rate increases you're talking about percentagewise should
10 iron ore disappear? And, secondly, some numbers on the
11 mariners on the lake and how many have been called up in
12 previous conflicts, maybe some gross numbers and then --

13 MR. RYAN: We'll put some gross numbers together. But
14 as you know, the U.S. Merchant Marine is a civilian
15 component. They're not really called up as the naval
16 reservists would be called up. Many of them are members of
17 maritime unions who have contracts with companies operating
18 the ships in the ready reserve fleet. They volunteer to
19 serve in that capacity. The unions have some of those
20 records, and we'll try to get them for you.

21 MR. BOTWIN: Great.

22 MR. HILL: Thank you very much.

23 MR. RYAN: Yes, sir.

24 MR. HILL: At this time, I would like to call

25 Mr. Jerome Welsch, Executive Vice President of American

00140

1 Steamship Company.

2 Mr. Welsch.

3 MR. WELSCH: Good afternoon. Mr. Hill, members of the
4 panel and to other attendees gathered with us in this room,
5 my name is Jerry Welsch, and I am Executive Vice President
6 of American Steamship Company. I am here today as a
7 representative of my company, to testify about how we have
8 been adversely impacted by the importation of iron ore and
9 semi-finished steel.

10 American Steamship Company is one of 16 domestic
11 corporations that operate large U.S. flag vessels on the
12 Great Lakes. Today our fleet consists of eleven
13 self-unloading vessels, which represent an original capital
14 investment in excess of 250 million dollars. Our company
15 employs approximately 350 individuals, of whom the majority
16 are professional seafarers. In the year 2004, our
17 organization will have completed a full century of
18 operation. Sadly, however, as we approach that milestone,
19 we find ourselves operating in the most difficult
20 environment that we have faced in our history.

21 Our company exclusively provides waterborne
22 transportation of dry bulk commodities. These commodities
23 primarily include iron ore pellets, coal and limestone
24 aggregates. Even a casual review of statistical
25 information about our industry will reveal immediately just

00141

1 how dependent we are on the demand for domestic iron ore
2 pellets and other commodities related to the process of
3 integrated steel making.

4 Throughout the 1990's, the shipment of iron ore
5 pellets alone represented over 50 percent of the annual
6 demand for our industry's services. When you consider the
7 other steel-related commodities that we transport, our
8 industry's dependence on integrated steel making more
9 closely approximates 80 percent. As one of the major
10 carriers in the Great Lakes, our own company's steel-making
11 dependency statistics mirror those percentages.

12 The unprecedented level of steel imports during the
13 past three years is well documented. As our domestic
14 integrated steel manufacturing and iron ore mining
15 industries have deteriorated, so too has the market for
16 Great Lakes vessel operators. Between the years 1998 and
17 2000, demand for our industry's services decreased by over
18 9 million tons. Likewise, American Steamship Company's
19 annual float has followed a similar downward path.

20 Thus far in 2001, conditions are even worse. We are
21 projecting that our company's total haulage this year will
22 approximate 20 million tons. That is down from 25.3
23 million tons as recently as 1998. Much of this contraction
24 has occurred in the steel-related commodity segment. Three
25 vessels from our fleet that began normal seasonal operation

00142

1 in the spring of this year are currently in "lay up" due to
2 lack of product demand. That means that approximately 75
3 of our company's personnel are currently without
4 employment.

5 I would also point out that our presently idled vessel
6 equipment is not technologically obsolete or of marginally
7 efficient capacity. Rather, these assets are modern
8 self-unloading vessels that were built in the late 1970's
9 and are just now beginning to reach the midpoint of their
10 expected useful life. Indeed, with regular maintenance
11 and periodic capital investment, our assets can last well
12 in excess of sixty years. On the other hand, because our
13 equipment was built exclusively for fresh water operation,
14 we cannot deploy this equipment in ocean markets. The
15 ability to sustain the productive life of our assets will,
16 therefore, be determined by their economic viability in
17 service to customers on the Great Lakes.

18 The most troubling aspects of the crisis we are facing
19 today are threefold -- the absence of any immediate
20 respite, the threat of further market contraction, and the
21 realization that some portion of business already lost will
22 likely be permanent. Imports are continuing to enter the
23 U.S. at a debilitating rate and the litany of bankrupt
24 steel companies continues to grow. The ripple effect on
25 our industry is already being felt. It is clear that no

00143

1 amount of cost cutting, management ingenuity or improved
2 efficiency can remedy the permanent loss of a customer base
3 that represents such a significant component of our total
4 market.

5 Ultimately, our industry and our company are only as
6 viable as the customers we presently serve. If blast
7 furnaces are replaced by semi-finished steel slab imports
8 and the iron ore industry disappears, most of our fleet
9 will be taken out of service and eventually scrapped. In
10 the event of a national emergency, it would take up to two
11 years to build a replacement vessel. And in the case of
12 our largest carriers, the 1000-foot vessels, replacement
13 costs could be as much as 85 million dollars per unit.

14 Most of the references I've made today have dealt with
15 business statistics or have been about assets and
16 equipment. The real cost of this situation, however, has a
17 human face. Bankruptcy and layoffs deprive people of their
18 livelihood. Perhaps more importantly, these actions take
19 away hope and optimism for the future. As a manager, I see
20 the anxiety and the concern in the eyes of my coworkers.
21 Unlike previous recessions and even distinct from the
22 retrenchment that affected these same industries in the
23 early 1980's, there is a growing sense that much of what is
24 occurring today is beyond our ability to control.

25 Our basic steel manufacturing and our iron ore mining

00144

1 industry are clearly threatened. As a supplier inexorably
2 tied to basic steel manufacturing, we also feel that
3 threat. The national security relevance of each company
4 singularly represented at today's hearing can be debated.
5 What is undeniable is the importance to national security
6 of the infrastructure represented by this collective group
7 and therefore the importance of an economically viable
8 domestic iron ore mining and steel manufacturing industry.
9 As a major supplier to those industries, we believe that we
10 are an integral part of that infrastructure and therefore
11 relevant to discussions relating to national security.

12 I hope that my remarks here today may add additional
13 weight to the testimony of those who have come before and
14 to those who will speak after me and that our combined
15 input will help the important work of this committee and
16 its investigation.

17 That concludes my prepared remarks. I'd be happy to
18 take any questions.

19 MR. HILL: I have just one quick question. I don't
20 know if I read this or someone told me this. The
21 1,000-foot vessels, the last one was built in 1982 or
22 thereabouts?

23 MR. WELSCH: Thereabouts.

24 MR. HILL: Are there any other vessels being built for
25 the Great Lakes at this time? Or what's their size?

00145

1 MR. WELSCH: Currently at this time, no. I believe
2 the last delivery -- and Mr. Ryan can correct me if I'm
3 wrong -- was the Great Lakes Trader, which was actually
4 delivered last year, in the summer of last year. But prior
5 to that, I believe the last vessels delivered were on or
6 around the early 1980's. The last one we built was in
7 1982.

8 MR. HILL: Any other questions?

9 MR. VACCARO: What's the average age of your fleet
10 right now?

11 MR. WELSCH: The average age of our fleet, most of it
12 was constructed in the mid or late 70's, early 80's. So
13 the average age would be 25, 26 years.

14 MR. HILL: What's the average life cycle?

15 MR. WELSCH: Life cycle can be -- the life cycle could
16 be almost as much as you can economically justify
17 continuing to make investments. I guess that's a point
18 that I think Carl made earlier and Mr. Brinzo made earlier.
19 What would happen here and what the risk is here, as our
20 market continues to contract, investing and even
21 maintaining equipment becomes more and more an economically
22 unjustified venture. And so, as the market deteriorates,
23 when major capital investments are required, it will be
24 difficult, if not impossible, to convince a board of
25 directors to make those necessary capital investments. So

00146

1 while the assets may last for a considerable time, these
2 are long-lived assets. When capital investment
3 requirements come up, it would be very, very difficult, in
4 today's market, to justify such an investment.

5 MR. HILL: Most of your ships are too large to get
6 through the Locks to the ocean; correct?

7 MR. WELSCH: Yes. The Locks' limitations, I think,
8 are vessels 730 feet in length and 78 foot in beam. And
9 most of our vessels, simply because of a size constraint,
10 could not exit the seaway.

11 MR. HILL: Thank you very much, sir.

12 I'd like to call Mr. John Marshall, President and
13 General Manager at Lake Superior and Ishpeming Railroad
14 Company. Did I say that right?

15 MR. MARSHALL: Lake Superior and Ishpeming, yes.

16 MR. HILL: Thank you.

17 MR. MARSHALL: My name is John Marshall, and I am
18 President and General Manager. I'd like to thank you,
19 Chairman Hill and your panel, for sticking with us this
20 afternoon. I know it's been a long afternoon, and we are
21 winding down. When Congressman Stupak began his remarks
22 talking about railroads around noon, I was afraid he was
23 going to steal my whole testimony, but he did leave me a
24 little bit to talk about.

25 The LS&I employs 165 people. Our payroll is

00147

1 approximately 9.7 million dollars, and our total economic
2 impact on the area is about 14 million dollars. Now,
3 that's not quite as large as you heard the impact that the
4 mines have. But it's certainly a major impact.

5 Iron ore was discovered in this area in 1844, and that
6 marked the first discovery of iron ore anywhere in the Lake
7 Superior region. The early mining entrepreneurs knew that
8 transportation would be critically important to their
9 ventures. Marquette had a great potential as a shipping
10 port, and the Great Lakes provided access to more populated
11 areas. But getting the ore to the lake about 15 miles away
12 presented a great challenge. The first trainload of ore
13 moved by mule power on what was known as the "plank
14 railroad" in 1854. There were several rail lines, real
15 railroads, established in the late 1800's, and that
16 included the LS&I, which, with the Wisconsin Central
17 Railroad here in Northern Michigan, still serves the mines
18 today.

19 The LS&I built its first ore dock in Marquette in
20 1896. The unique pocket-dock; that, if you took a walk at
21 Presque Isle last night and you saw it; was built in 1912,
22 utilizes 1912 technology and still provides excellent
23 service today. I know you're not here to learn about
24 history, but it really is an important part of the story.
25 It's no coincidence that the integrated steel industry in

00148

1 the United States was built on or near the southern shore
2 of the Great Lakes while the iron ore mines were located in
3 the north.

4 The combination of railroads and Great Lakes shipping
5 that you just heard from two gentlemen representing that
6 industry really provided a transportation system that was
7 and is still today extremely efficient.

8 Last year the LS&I shipped 7.5 million tons over its
9 dock in Marquette. Wisconsin Central, our friendly
10 competitor, provides service to Escanaba on Lake Michigan
11 where they also operate a dock. Last year they shipped 6.9
12 million tons across that dock through the Port of Escanaba.
13 The LS&I shipped an additional half a million tons all
14 rail.

15 What I would like to talk with you about is another
16 part of that recurring theme that was weaved through all of
17 today's testimony. I'm referring to the fact that what we
18 have is a system that efficiently supplies steel-making
19 blast furnaces in the southern Great Lakes area. That
20 system involves mining iron ore in northern Michigan and
21 Minnesota, then transporting it by rail and ship. If these
22 mines are forced out of business, the system will be
23 destroyed, and it will be almost impossible to put back
24 together again.

25 Transportation is certainly one of the key issues to

00149

1 be considered. As it was 150 years ago, rail
2 transportation is still a very vital link in that system.
3 If the mines here on the Marquette Range were to close, the
4 LS&I would meet the same fate. Our only mission is to
5 serve these two large iron ore mines; so, when our
6 customers are gone, we too will be gone.

7 If that were to happen, the locomotives and the rail
8 cars would be scrapped or sold to other railroads. Rail
9 lines would be abandoned. And once you abandon a rail line
10 today, it's very, very difficult to get that right-of-way
11 back. Reestablishing service in a national emergency would
12 be virtually impossible.

13 I can't speak for other railroads, but it's likely
14 that this scenario would be repeated elsewhere, and many
15 other rail lines would have a similar experience.
16 Generally speaking, most of the railroads that serve the
17 U.S. iron mining industry are either part of the mining
18 operation, lines like the LS&I with our only customers
19 being the mines, or railroads where iron ore shipments make
20 up a major part of their business.

21 The bottom line is simple. The process of making
22 steel begins with iron ore. We now have the systems in
23 place to make that happen, and we need to deal with the
24 import issue today to ensure that it will still be there in
25 the future. If we should determine at some future date,

00150

1 when we've put the blast furnaces and iron mines out of
2 business, that it was in the national interest to maintain
3 the capacity to produce steel in this country and produce
4 steel from iron ore, it will be too late. The ore will
5 still be in the ground, and that's most likely where it
6 would stay.

7 Finally, as you think about national security, I hope
8 you will take the time to investigate the role that the
9 iron mining and Great Lakes shipping industries played
10 during World War II, just a little bit of history. It's
11 quite a story, but there really isn't time in the five
12 minutes you've allotted me. I can tell you, though, that
13 many people and companies worked together and did an
14 incredible job of serving the national need.

15 In 1942, a record-shattering 92 million tons of iron
16 ore were shipped on the Great Lakes. Over the seven
17 shipping seasons during the war period, 522 million tons of
18 iron ore was delivered. That iron ore was converted to
19 steel that was needed to make the tanks and ships and
20 armaments that helped American troops to victory.

21 The iron ranges in Michigan and Minnesota have been
22 there through the years to help build and defend America.
23 But we're not asking that you help to defend us today
24 because of what we've done for this country in the past.
25 We are asking you to ensure that this capacity and

00151

1 capability is there for the United States in the future.

2 Thank you.

3 MR. HILL: Any questions? Thank you very much, sir.

4 I'd like to call Dr. Judith Bailey, President,
5 Northern Michigan University. And, again, thank you very
6 much for your gracious hospitality today.

7 DR. BAILEY: Thank you, Director Hill. And thank you
8 for the opportunity to testify at the hearing. I am Judith
9 Bailey, President of Northern Michigan University. And on
10 behalf of Northern's more than 1100 employees and 8500
11 students, we were pleased to have served as your host today
12 because this issue is vital to us as an university in this
13 region.

14 In August, Northern will begin its 102nd year of
15 providing quality collegiate experiences to the people of
16 the Upper Peninsula, the Upper Midwest and beyond. Our
17 original mission, when we opened in 1899 -- and one we
18 still have today -- was to train the teachers who would
19 educate the children of the Michigan Iron Range.

20 Our role has expanded over the past 102 years to
21 include providing education and training for minors and
22 other employees at the mines. I am here today to talk
23 about the potential impact on the closing of the area's
24 iron ore mines and the educational aspect of the mine's
25 ability to restart in the case of a national security need.

00152

1 Northern has traditionally met the needs of employers
2 in the U.P., from nurses for the region's hospital to
3 school teachers for the area schools to providing skilled
4 employees for the iron ore mines, the last being an
5 excellent example of a business and education partnership
6 that has worked extremely well. A number of years ago, the
7 local mines came to Northern with a problem, a lack of
8 qualified personnel needed to maintain and run highly
9 sophisticated, technologically advanced equipment.

10 And I want to emphasize that this equipment is truly
11 highly sophisticated and technologically advanced. The
12 mines had tried, without success, to hire people locally
13 and throughout the region, including in the major
14 metropolitan areas. This inability to attract qualified
15 individuals was not related to low salaries for these
16 positions. These positions are among the highest-paying
17 jobs at the mines. But the working conditions are frankly
18 less than glamorous, oftentimes dark and dirty.

19 What I think it is important to realize about this
20 last point is that the Upper Peninsula has a deep tradition
21 that is tied to mining. It is part of our proud heritage.
22 Mining has played a role throughout generations of families
23 in the area and, as such, mining jobs are regarded as
24 highly desirable. If the mines close, this tradition will
25 be broken and finding employees to work in the mines during

00153

1 a national security situation may be even more difficult
2 than it is today.

3 In order to meet their need for qualified personnel,
4 the mines joined with Northern several years ago in
5 establishing two associate degree programs, one for
6 electrical technicians and the other for industrial
7 maintenance technicians. We staffed these programs to
8 provide instruction using the best learning approach
9 possible. These programs involve four semesters of
10 classroom work done in seven-week increments and on-the-job
11 training to further their abilities. So the programs are
12 set up with seven weeks of an eight-hour-day classroom
13 experience followed by seven weeks of an eight-hour-day
14 on-the-job training experience.

15 This is done in basically the same approach four times
16 over. The approach has been very successful, and we
17 currently have 62 mine employees who were students enrolled
18 in the programs, 12 in electrical maintenance and 50 in
19 industrial maintenance. If the mines were to close, in all
20 likelihood, Northern would not be in a position to continue
21 these programs. There would simply be no need. We would
22 not have enough students from the area or demand for the
23 programs.

24 This is a separate issue from the issue of a general
25 decline in demand that Northern would face from the mines'

00154

1 closure. If we faced a national emergency and had to
2 restart the mines, assuming that were even possible -- and
3 you've heard a lot of testimony today about the fact that
4 that's probably impossible -- the amount of time needed to;
5 one, restart the programs; and, two, to produce graduates
6 who could service and run the machinery; would be
7 substantial.

8 Some of the issues that cause this substantial time
9 frame are the need to obtain qualified facility to teach in
10 the programs, the need to obtain qualified mine personnel
11 who could supervise the on-the-job training segment and the
12 need to recruit individuals into the program. I do not
13 know how long it would take to hire qualified instructors
14 in a situation involving national security. But I do know
15 Northern's College of Technology and Applied Sciences
16 recently was involved in a two-year search to replace a
17 departing faculty member in this area of study.

18 Once the three key steps -- hiring qualified faculty,
19 hiring qualified mine personnel to supervise the on-site
20 training and recruiting for the program -- are in place, we
21 would then be in a position to start the training. The
22 classroom instruction takes a full 28 weeks. It cannot be
23 reduced much, if any, because already these men and women
24 are in the learning environment eight hours a day.

25 It is possible to lengthen the classroom day, but the

00155

1 question becomes how much more does a student absorb over
2 an extended learning period. The on-the-job training might
3 be able to be reduced, but remember that it is an important
4 part of the learning process, and there are safety issues
5 involved with extended work sessions.

6 If the mine closes, there is not substantial
7 employment for this type of skilled worker in the Upper
8 Peninsula. While these positions do exist regionally in
9 such organizations as the paper mills and the area
10 hospitals, the need is limited. Even the largest employers
11 of this area do not have more than one or two positions for
12 this type of skilled worker. Thus, it is most unlikely
13 that Northern would sustain the programs due to lack of
14 student demand.

15 In summary, if the mines close, the Upper Peninsula
16 will lose qualified technicians and qualified educators
17 that currently help in the process of producing iron ore,
18 and ultimately steel. In addition, as time goes on, we
19 will lose intellectual capital in the U.P. that is needed
20 to produce the infrastructure that allows the mines to be
21 productive in a reasonable period of time. These losses
22 would severely impact our ability to meet future national
23 security needs.

24 Thank you for the opportunity to testify, and I'd be
25 glad to take any questions.

00156

1 MR. HILL: I just have one quick question. At one
2 point in your testimony, I believe you said something to
3 the effect you have 62 mine workers in your programs today.
4 At the two operating mines today, how many skilled
5 technicians, as you defined it in your testimony, are there
6 in each one of those mines?

7 DR. BAILEY: I would have to defer to the mine
8 supervisors, but I will be glad to provide you that
9 information.

10 MR. HILL: Thank you. Any other questions? Thank you
11 very much.

12 DR. BAILEY: Thank you.

13 MR. HILL: At this time, I'd like to call Dr. James
14 Scheiner. He is the Dean of Cissler College of Business,
15 Northern Michigan University.

16 Welcome, Dr. Scheiner.

17 DR. SCHEINER: Thank you. Thank you, Chairman Hill.
18 Thank you for the opportunity of appearing before you
19 today. I'm Jim Scheiner, Dean of the Cissler College of
20 Business and Director of the Bureau of Business and
21 Economic Research at Northern Michigan University.

22 The closing of the mines because of their location
23 will have a severe and potentially devastating economic
24 impact on this area. This will adversely affect the area's
25 ability to provide the infrastructure needed to support the

00157

1 mines on a timely basis in the event of a national
2 emergency. The severe economic impact can be seen in
3 regional economic data, some of which I would like to
4 highlight for you.

5 The mines employ directly 1740 individuals. This is
6 approximately 5.7 percent of the Marquette County employed
7 work force. To provide some perspective, for the entire
8 Upper Peninsula, this represents over 1.15 percent of the
9 total current U.P. employed work force.

10 My discussion does not cover additional amounts spent
11 in other areas of the Upper Peninsula or throughout the
12 State of Michigan or the United States. I'm covering only
13 what is spent in Marquette County. My written remarks
14 include tables to detail the data that I'm presenting to
15 allow it to be more easily comprehended. Using the Bureau
16 of Economic Analysis RIMS, the Regional Industrial Multiple
17 System, 2, for Marquette County, the loss of these 1740
18 jobs would result in a total loss of over 4,070 jobs in the
19 area; 4,070 jobs.

20 This job loss would be in addition to the already
21 higher unemployment rate than the Michigan average.
22 Marquette County's average unemployment rate in May was 5.1
23 percent. For your information, that compares to the
24 Michigan average of 4.6 percent. And, indeed, the whole
25 U.P.'s average is slightly above that, 6.3 percent.

00158

1 Again, using the RIMS 2 data, the closure of the mines
2 would result in a total economic impact of over 600 million
3 dollars to the area; 600 million dollars lost to the area.
4 The jobless rate in the county, holding everything else the
5 same, would go to approximately 23 percent. If the mines
6 laid off all 17,040 instantaneously, that would shoot the
7 jobless rate to 10 percent; with the multiplier effect, 23
8 percent.

9 It is very important to recognize that this estimate,
10 in all likelihood, downplays the significance of the loss
11 of the mines. The three largest employers in Marquette
12 County are the mines, the Marquette General Health Care
13 System and Northern Michigan University; the other two
14 employers relying on the miners and their families for a
15 significant source of their business. These and other
16 businesses and governments in Marquette County would have
17 to, quote, "right size," unquote, to a new level of needs.

18 While it is very tempting to dismiss the potential
19 impact, one only needs to look at other data to see how
20 dire the circumstances could very well be. For example,
21 the median household income for Marquette County last year
22 was approximately \$26,400. The average pay of the mines is
23 more than double that. Hence, the median household income
24 would drop substantially in Marquette County.

25 Another item: The percentage of unoccupied housing in

00159

1 Marquette County is currently substantially above the
2 Michigan average. Vacant housing units in Marquette County
3 represent over 22 percent of all housing. Of this 22
4 percent, almost 13 percent are used for seasonal recreation
5 or occasional usage, leaving a true vacancy rate of 8.7
6 percent. This compares to only 5.1 percent for the state
7 as a whole. And, in fact, in the last couple years, a
8 growth in housing that has occurred here is basically
9 seasonal housing. People come up, enjoy the summer, go
10 elsewhere for the wintertime.

11 While the area used to have a low cost-of-living
12 advantage, much of that advantage has been lost in the past
13 several years. At least one service that tracks cost of
14 living has tracked a substantial cost-of-living increase in
15 the Marquette area that has not happened in the Escanaba
16 area, the other area that they tracked. Another service
17 shows Marquette at 99, slightly below their national
18 average of 100 for cost of living in a city.

19 In addition, the Bureau of Business and Economic
20 Research at Northern maintains a market basket of food to
21 measure the costs associated with living in the Upper
22 Peninsula. That market basket is now at the highest level
23 since we started keeping this data over four years ago.
24 Hence, Marquette may not be able to market a substantially
25 lower cost of living to attract new business.

00160

1 Perhaps a major impact of the mines closing would be a
2 further increase in the age of the population living in
3 Marquette County. Marquette already has a substantially
4 aging population. The median is over two years above the
5 state average. And the only reason it's that little
6 difference is because of Northern attracting students to
7 the area.

8 Given the higher-paying mine jobs, the loss of these
9 mine jobs would cause the younger workers to leave the area
10 and look for employment elsewhere. The demographics of the
11 area would continue to age, making it difficult to obtain
12 qualified workers to assist in a national emergency.

13 I'm reminded by a book that over 90 percent of all
14 iron ore that the United States utilized through the steel
15 industry during World War II was provided by Minnesota or
16 the Upper Peninsula. Given the already difficult economies
17 in the Upper Peninsula, the closure of the mines will
18 create a situation in which the need for iron ore in a
19 national emergency cannot be met in a reasonable time.

20 And I apologize for going over. Thank you.

21 MR. HILL: No problem. I just have one question. You
22 compared the Marquette area statistics with the State of
23 Michigan. And I'm sorry I'm not up on all the statistics.
24 How does the State of Michigan compare with the United
25 States as a whole? That's an unfair question, I know.

00161

1 DR. SCHEINER: I will send that to you. I apologize.
2 I did have it, but I've forgotten it.

3 MR. HILL: Because it would be interesting. If you
4 have it by region as well, that would be interesting to
5 have.

6 DR. SCHEINER: We will be glad to provide it to you.

7 MR. HILL: That was very informative. Any questions?

8 MR. WOODS: Not so much a question as maybe just to
9 explore, if we could follow up with you. Do you have
10 any -- or has the University done any published studies --
11 and these data are very helpful. But have you done any
12 published or do you have unpublished studies that have been
13 done that we might use as input either on the mining
14 industry or overall on the economy of the Peninsula?

15 DR. SCHEINER: We have done some other work on the
16 economy of the Peninsula, and we'll be glad to provide that
17 to you.

18 MR. WOODS: Okay. Thank you.

19 MR. HILL: Okay. Well, thank you very much.

20 DR. SCHEINER: Chairman Hill, thank you on behalf of
21 everybody who has spoken today. We really do appreciate
22 your coming here and listening to us. Thank you.

23 MR. HILL: Thank you. Just a few final notes: The
24 record for this hearing will stay open until August 17th.
25 Please submit any follow-up Q's and A's or answers to

00162

1 questions we had or any other information you'd like to
2 submit to us for our consideration by August 17th.

3 Again, I'd like to thank Dr. Judith Bailey and
4 Dr. Scheiner from the Northern Michigan University for your
5 gracious hospitality. I want a special thank you to
6 Congressman Stupak's staff. Matt Johnson and his people
7 are here. Matt, why don't you stand up over here? Let's
8 give Matt a round -- and Senator Levin and Senator
9 Stabenow's office. And I'd like to thank Bob Nichol of my
10 staff, who has worked many, many long hours. And as you
11 see, everything ran smoothly today. It's because of one
12 person, and that was Bob. So he made this happen.

13 So on behalf of the Department of Commerce, Secretary
14 Evans, I'd like to thank all of the witnesses. This was an
15 excellent hearing. Several people came up to me during the
16 breaks and said, "You must get tired hearing the same
17 things over and over again." We were not. In fact, we
18 heard a lot of new stuff today. This was very informative.
19 It's going to be very, very helpful as we prepare our
20 report to the Secretary. So I'd like to thank all the
21 witnesses and all the support people who made this happen.
22 And this hearing is now adjourned.

23 (Hearing concluded at approximately 5:10 p.m.)

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