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# Steel Tariffs Unexpectedly Work Against White House

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DETROIT — Before President Bush decides what to do about steel tariffs, he might want to square things with the 2 million metal-benders of America.

He could start with Tim Tindall or Mike Chubb.

Tindall, president of a company that makes brackets and springs for the auto industry, has laid off 17 employees since Bush imposed tariffs on imported steel last year, and he's struggling to retain the 85 people still on his payroll.

Chubb, an industrial engineer let go in March by a truck part maker, just wants another job. Any job. And a new president.

"Yes, I was a casualty of steel tariffs. Yes, I feel a great deal of bitterness," said Chubb, who survived previous rounds of industry contractions but senses that this loss is permanent. "Basically, my job went to Korea. It's not coming back."

The tariffs, put in place to protect companies and workers in steel-producing states such as Pennsylvania, have cost jobs in steel-consuming states such as Michigan. While the administration expected that the tariffs would not be well-received in international markets, it did not fully anticipate the backlash at home.

Tindall and Chubb live on the Michigan side of the tariff divide, a boundary that looms large in the complicated terrain of the 2004 presidential election campaign. For Bush, who is expected to decide soon whether to continue the tariffs for another 18 months, the divide could prove treacherous.

On one side are steel-producing states where Bush scored points by shoring up prices so that the ailing industry could attempt to get its affairs in order. Steelworkers want Bush to stick to his plan and keep tariffs in place until 2005, warning of industry turmoil and voter retribution if he changes course.

"If Bush wants to win Pennsylvania, he's got to stick to his promises," said Ron Davis, a member of United Steelworkers of America Local 9462 in Conshohocken, Pa. "That's the bottom line. We're not naive."

On the other side are heavy steel-consuming states, where higher prices compounded the problems of metal-bending firms already squeezed by a sluggish economy and foreign competition. Steel fabricators and auto-part makers want the president to end the tariffs at their 18-month midpoint, suggesting he faces an even bigger electoral revolt if tariffs stay in place.

"The tariffs have got the little guys all riled up," said Jim Zawacki, president of GR Spring & Stamping Inc. in Grand Rapids, Mich. "That's really going to hurt the president if he doesn't come out with the right decision. I think the steel issue could determine whether Bush gets reelected or not."

When Bush imposed tariffs of up to 30% on certain steel imports in March 2002, his economic advisors predicted that they would buy time for domestic producers to restructure without creating big problems for steel users, who were expected to pass along their higher costs in the form of modest price increases to consumers. The president's political advisors saw the tariffs as an opportunity to build support in pivotal steel-making states.

Things didn't proceed quite according to plan.

Spot market prices for some types of steel soared after tariffs took effect. Metal-bending operations such as Tindall's found that customers were not willing to absorb the higher costs. The tariffs were ruled illegal by the World Trade Organization, and the European Union is threatening $2 billion in retaliatory sanctions.

Although steel prices have fallen in recent months, the turmoil was enough to cause some smaller steel fabricators to lose contracts, post losses and, in some cases, lay off employees. Some analysts say they are convinced that the economic damage done on the steel-consuming side of the tariff divide is greater than the gains on the producing side. The political backlash from outraged steel users has proved more potent than the president's advisors had imagined.

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"They've all suffered," said Rep. Joe Knollenberg (R-Mich.), who is leading an effort by Michigan Republicans to rescind the tariffs. "The unintended consequences of this action have come back to bite us and to bite him."

For months, steel producers and consumers have been bombarding the Bush administration with dueling studies. Tariff opponents estimated that higher steel prices had eliminated 50,000 existing and potential jobs at fabricators and part makers, and as many as 200,000 jobs among a broader group of consuming industries. They blamed tariffs for much of the price increase.

Supporters argued that tariffs had restored 16,000 of the 50,000 jobs lost in recent years at bankrupt steel makers and preserved thousands of additional jobs in "upstream" businesses that provide goods and services to mills.

Economist Gary Hufbauer thinks the claims on both sides are exaggerated. He estimates that the tariffs have reduced employment in consuming industries by 25,000 or so and saved perhaps 5,000 mill jobs. He attributes the imbalance in part to the fact that much of the revenue from higher prices went to bondholders and bankruptcy creditors, not workers.

"We shifted money from the wrong pockets to the wrong pockets," said Hufbauer, a senior fellow at the Institute for International Economics in Washington. "The balance is much less favorable than they originally anticipated. This is the biggest consuming industry backlash that we've seen in the history of trade policy."

The U.S. International Trade Commission presented Bush with a study on Sept. 19 acknowledging that steel consumers were hit with significant price increases last year, but noting that their workforces actually fell more during the year before the tariffs were put in place than during the year after. The ITC estimated that tariffs had reduced earnings of steel-consuming firms by $601 million, increased income of steel producers by $67 million and generated $650 million in tariff revenue for the government. The net loss to the U.S. economy, it said, was a minuscule $30 million.

The agency said steel makers had made considerable progress in consolidating operations, reducing costs and negotiating new labor agreements. Since the tariffs took effect, U.S. Steel Corp. has acquired bankrupt National Steel Corp., and the recently formed International Steel Group has purchased the assets of LTV Corp., Bethlehem Steel Corp. and Acme Steel Co.

"What the steel industry is doing is exceeding the expectations of the administration and even the critics of the tariffs," said Peter Morici, a former ITC chief economist and now a University of Maryland business professor. "The tariffs gave some security to the markets that the bottom wasn't going to fall out." And, he argues, the damage done to consuming industries has not been extensive.

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For Tim Tindall, the president of Spring Engineering & Manufacturing Corp. in Canton, Mich., the effect on firms like his is not so easy to dismiss.

To minimize layoffs, Tindall has tried everything from cutting executive salaries to eliminating free coffee for employees. But he had to let 17 workers go last year when his steel costs jumped about 30% after the tariffs took effect.

Tindall's family-owned company buys about 1,500 tons of steel a year and turns it into nearly 200 million brackets, clips and springs for the automotive industry.

Although the parts are small, steel accounts for about a third of Tindall's costs. In recent years, he repeatedly lowered his prices at the insistence of customers who threatened to take their business to cheaper, offshore producers. The squeeze was worsened by the tariffs, which apply only to raw steel and not to finished products.

"You come in and you say, 'I need an increase because we've got a 30% tariff now,' " Tindall said. "They look at you and say, 'Fine, give us your increase ... and be prepared to lose [the contract].' And they mean it."

Higher steel prices increased Tindall's costs by about $700,000 a year, a sizable amount for a company with $12 million in sales annually. Last year, Spring Engineering posted its first annual loss. Tindall expects to lose even more this year.

Like other metal-benders whose plants line industrial parks throughout metropolitan Detroit, Tindall acknowledged that tariffs were not the only problem. Companies such as his have been subject to relentless cost-cutting pressures for years, reflecting the increasing availability of cheap foreign labor, the growing propensity of big companies to move production or procurement offshore, and the undervaluation of the Chinese yuan and other Asian currencies.

"The tariffs were just the tipping point," Tindall said. "They took the situation and made it intolerable."

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Officials say most of Bush's economic team now favor ending the tariffs ahead of schedule. But the political payoff in consuming states is uncertain. Several Michigan company owners and workers said their chief concerns were manufacturing job losses and foreign outsourcing.

"This whole thing is a lot bigger than steel tariffs," said Michael Aznavorian, president of Clips & Clamps Industries in Plymouth, Mich., where 57 employees stamp out $8 million worth of auto parts every year. "It's manufacturing. It's globalization."

"Outsourcing will be the ruin of this nation," said Wes Smith, owner of E&E Manufacturing Co., another Plymouth auto-parts maker. "Things are being outsourced now at the click of a button."

One company that has been moving jobs overseas is Plymouth-based Metaldyne, an auto-component maker with $1.4 billion in annual sales and 8,400 employees worldwide. Metaldyne has laid off roughly 600 U.S. workers over the last 18 months, and it says Bush's tariffs were an important part of the equation.

"The steel tariffs have accelerated our outsourcing of products to offshore companies," spokesman Kurt Ruecke said. "We did it out of necessity. We would have lost the business otherwise."

But the view appears quite different on the other side of the tariff divide. In Pennsylvania, steel makers wield more political clout than metal-benders, and Bush could experience a counter-backlash if he chose to end the levies ahead of schedule.

The prospect of ending the tariffs infuriates Carlo DiMidio, one of several thousand union members who attended a tri-state rally near Pittsburgh last weekend to warn the White House of what might happen if the tariffs were scrapped.

"Mr. Bush wanted the steel makers to merge. We're merging. We're doing what he wants. What else does he want?" fumed DiMidio. "Give us a chance. Don't stop the tariffs now; we're on a roll."

John P. Surma, president of Pittsburgh-based U.S. Steel Corp., said his company had spent $1 billion acquiring National Steel Corp. and undertaking expensive improvements since Bush's tariffs took effect. Although plant employment has declined during that period, it would have fallen even further if not for tariffs, he said. U.S. Steel has about 30,000 U.S. employees, nearly 7,000 of them in western Pennsylvania.

If Bush ends the tariffs early, Surma said, the industry's consolidation could come unglued, along with its effort to preserve jobs and retiree benefits.

"Roll the videotape back to what it meant to 50,000 people back in 1998, 1999, 2000," Surma said, recalling the era of depressed prices. "They're all out of work now."

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But so is Mike Chubb, the Michigan engineer.

Chubb, 49, lost his job in March along with 12 other employees at Dowding Industries Inc., a Lansing-area metal-stamping firm that makes brackets, braces and supports for diesel truck engines. The company's president, Chris Dowding, said tariff-induced steel price increases were the "dominant factor" in the decision.

Chubb has been looking for work since. A 30-year industry veteran, he has been turned down by prospective employers who told him he was overqualified and feared he would quit when something better came along.

One of Chubb's last assignments at Dowding was to try to re-engineer a spot-welding station where a worker toiled away putting nuts on a spindle, punching a button to activate the welder, and tossing the finished hose brackets into a bin.

The company calculated that to produce the parts as cheaply as they could be purchased from a Korean supplier, the worker would have to bat out about 800 brackets an hour. The best production rate Chubb could achieve was about 200. The job is now being done by someone on the other side of the Pacific.

"It's not that the Korean is working any faster than the American," Chubb said. "It's that the Korean is working for pennies per hour."

And using steel not subject to tariffs.