

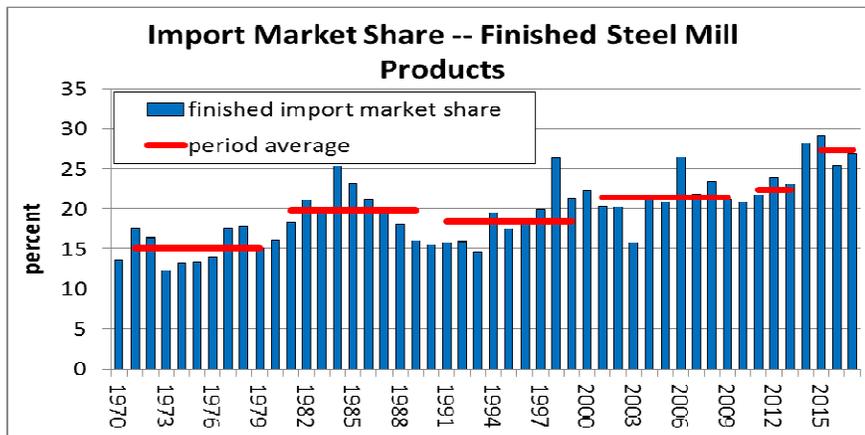


**Testimony of Roger K. Newport
Chief Executive Officer, AK Steel Corporation
House Ways and Means Committee
Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs
April 12, 2018**

Thank you, Chairman Brady, Ranking Member Neal, and members of the Ways and Means Committee.

I am Roger Newport, CEO of AK Steel. I want to thank you for holding this hearing and for inviting me to testify on behalf of our 9,200 AK Steel employees. AK Steel is headquartered in West Chester, Ohio and its domestic operations include eight steelmaking and finishing plants, two coke plants, a metallurgical coal production facility, automotive tooling and stamping facilities, and two tube manufacturing plants across Indiana, Kentucky, Michigan, Ohio, Pennsylvania, Alabama, and West Virginia. Approximately 6,500 AK Steel employees are represented by labor unions, including the United Steelworkers, United Auto Workers, and the International Association of Machinists.

AK Steel has a proud heritage that spans over 119 years. Over the past century, we have been a leader of innovation in the steel industry, including being the first manufacturer of grain oriented electrical steel, or GOES, as we refer to it, a key material for the nation’s electric grid. I am proud to say that I have worked at AK Steel for 33 years, but I have also seen first-hand the challenges confronting the domestic steel industry because of unfair trade over the last several decades. At no time in our history have those challenges been more severe than the past three years during which unfairly traded imports have grown to a record level of the U.S. market. While finished steel imports grew to an average of 27% of the U.S. market over that time, America’s steel mills operated less than 75% full.



Source: U.S. Bureau of the Census and American Iron and Steel Institute

The domestic steel industry has been fighting back by filing and winning expensive drawn-out trade cases during this time, but the import surge has only increased. Countries not subject to the orders rushed in with their dumped and subsidized imports continuing to injure U.S. steel manufacturers and threatening our national security interests. Recognizing the global reality we now face and the inadequacies of the trade laws to address it, President Trump and his Administration took bold action to impose tariffs on foreign steel under the Section 232 investigation, which we fully support.

AK Steel makes carbon, stainless and electrical steels. We are, however, the last remaining producer of grain oriented electrical steel in the United States. Our facility in Butler, Pennsylvania, in Congressman Mike Kelly's district, is the only facility in all of North America that melts and finishes electrical steel. We also finish electrical steel in Zanesville, Ohio.

Grain oriented electrical steel is the critical component in the cores of transformers that move electricity across the entire grid and deliver power to our homes and businesses. Damage or erosion of this infrastructure would have a significant negative impact on national security and the U.S. economy, which is why it is imperative that we have a domestic supply chain that can react to any such occurrence.

I think it is important to put into context what some are calling a "new" trade war. Our experience is that China has been fighting to undermine the American steel industry for many years, and our electrical steel business provides a good example. Before 2009, exports to China represented a significant part of AK Steel's sales of GOES. In 2009, however, China imposed unnecessary and illegal duties on GOES manufactured in the United States, effectively barring AK Steel and other producers from selling in the Chinese market. In response, the United States Government, at the urging of AK Steel, filed a case at the World Trade Organization (WTO) challenging China's baseless implementation of duties. In 2015, after five long years of litigation, the WTO ultimately determined that China did not meet its obligations under the WTO agreements when it imposed these duties on U.S.-produced GOES. Unfortunately, by that point the damage had already been done to U.S. exports of GOES. China used the five year period during which U.S.-made GOES was excluded from the market to dramatically increase Chinese electrical steel production capacity. China achieved this rapid expansion through state-sponsored subsidization of the Chinese GOES industry, which allowed Chinese producers to sell their newfound capacity at prices so low that no other producers could compete.

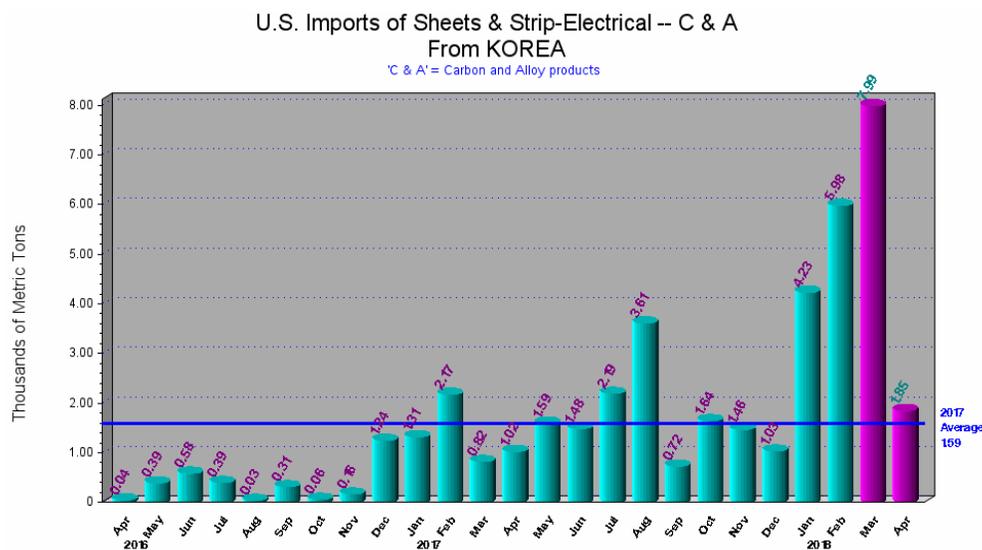
While U.S. steelmakers were boxed out of selling electrical steel in China, China continued to flood our market and other's with steel imports. In 2013, AK Steel and Allegheny Technologies Inc. (ATI) filed antidumping and countervailing duty petitions against imports of GOES from China, Czech Republic, Germany, Japan, Korea, Poland, and Russia. In those cases, the Department of Commerce determined that GOES from these countries was being sold at dumped and subsidized prices in the U.S. market. However, the International Trade Commission (ITC) determined that the domestic industry was neither materially injured, nor threatened with material injury, by reason of subject imports. The ITC's negative determination in 2014 was wrong, as imports of GOES have continued to surge, taking market share and causing tremendous injury to the domestic GOES industry. Among other negative consequences, this forced ATI to exit the market altogether in 2016.

In 2017, imports of GOES nearly doubled compared to their levels in 2016, which were already inflated compared to historical norms. Meanwhile, numerous countries around the world have imposed tariffs or similar trade restraints on exports of U.S.-made GOES. For example, the European Commission enacted a 5 year minimum import price (MIP) on GOES imports that prohibits AK Steel from selling GOES in Europe below a certain price. However, the European electrical steel industry can sell GOES for less than this amount, enabling them to always undercut us. This illustrates why action under Sections 232 of the trade laws is essential. It is important to understand, however, that for the electrical steel market, trade relief must apply not only to electrical steel itself, but to downstream articles like cores, core assemblies and transformers as well. Core-making is simply taking a large coil of electrical steel and slitting it into sheets, called laminations, and stacking or winding them into what we refer to as a core. As such, it is very easy and inexpensive to set up these minor processing facilities in order to evade a trade remedy.

After AK Steel and ATI filed a petition on imports of GOES in 2013, there was a dramatic rise in new core-making capacity outside of the United States, particularly in Canada and Mexico. While the GOES case was ultimately terminated after the ITC’s negative determination, the core/transformer-making capacity in Canada and Mexico increased significantly, as foreign producers continue to try to find new ways to evade any relief the U.S. government may put in place.

In fact, imports of cores and core assemblies in 2017 increased by 212% to 670% compared to 2016. These imports came primarily from Canada and Mexico, where there is **no** GOES production. In 2017, imports of cores and core assemblies were up 273% from Canada and 436% from Mexico when compared to 2016 import levels.

Similarly, our so called allies, Korea and Japan, have dramatically increased their shipments of GOES in the first quarter of this year. For example, according to U.S. licensing data, Korea has already shipped as much GOES in the first three months of 2018 as it shipped, IN TOTAL over FIVE years, from 2012-2016.



SOURCE: U.S. Department of Commerce, Enforcement and Compliance
Graph last modified on: April 5, 2018 with
Licensing Data collected through April 5, 2018
Commerce license data used for the last months appear in a different color
Data extracted from the import licenses are not official Census data

In fact, finished imports from six of the seven countries/regions with whom the U.S. is negotiating Section 232 agreements have increased significantly in the first quarter of 2018 compared to the first quarter of 2017.

	2018 1Q	2017 1Q	% change
Canada	1,630,351	1,538,698	6.0
Mexico	650,384	583,440	11.5
Brazil	220,242	177,472	24.1
Argentina	60,414	46,723	29.3
EU	968,245	856,374	13.1
Korea Republic	978,072	889,263	10.0
Australia	61,732	70,244	-12.1

Source: U.S. Bureau of the Census and American Iron and Steel Institute (Volumes in net tons. 2018 data is based on January final import volumes, February preliminary import volumes and March steel import permit volumes.)

Any significant increases in imports over historical norms must be taken into account in country exemption negotiations if the Administration is to achieve its goal of restoring the domestic steel industry to at least 80 percent capacity utilization.

We encourage the Committee and Congress to support the actions of the Administration to ensure the President’s steel Section 232 tariffs are effective, and that the U.S. maintains the ability to produce all products critical to our national security interests, including the electrical infrastructure supply chain. In the case of a natural disaster or a cyber- or physical attack on the country’s electrical grid, the United States’ national security cannot be put in jeopardy due to the absence of a domestic supply chain that supports the key components of the electrical grid. If the U.S. ends up being reliant on foreign suppliers to repair a catastrophic failure of the electrical grid, the disruption to the nation’s businesses and citizens’ way of life would be unnecessarily long and burdensome.

While the steel industry has taken the brunt of the unfair trade practices over the last several decades, no industry is immune, as we have seen with washing machines, solar panels and other manufactured products. It is only a matter of time before others are afflicted by unfair trade. This is why this Administration is to be commended and supported for its efforts to stand up for American workers and say enough is enough! We will no longer sit idly by and be taken advantage of! We must fight back to defend our industry and make American manufacturing stronger, given how critical manufacturing is to U.S. economic growth, and ensuring that Americans have jobs with family-sustaining wages that contribute to the health of our local communities across this great country.