

Congressman Les AuCoin

Testimony on H.R. 13910

Before Trade Subcommittee of Ways and Means
September 29, 1978

Mr. Chairman, I deeply appreciate the opportunity today to appear before you in light of the closeness to adjournment. I applaud you for recognizing the seriousness of the matter at hand, and of its ultimate impact on eliminating the existing shortage of railcars that handicaps U.S. industry and farmers.

My bill would reduce the Column I duty tariffs on steel cast parts called truck bolsters and side frames that are used in manufacturing railcars. It is intended only as a temporary removal of the duty tariffs because there is a temporary 12 to 18 months shortage of these parts from domestic steel foundries.

While my bill is simple enough to grasp, the nature of the railcar industry is not. That's because it is a cyclical industry with economic peaks and valleys. Coming from Oregon, a state whose economy relies heavily on the timber industry which also is highly cyclical, I have a great concern for all parties in the railcar industry.

Quite candidly, this hearing today came about in part because legislation providing tariff relief to one segment of the railcar industry had been passed in the Senate and some of us objected that a segmented approach was unwise.

I still hold to that view.

When dealing with a cyclical industry, shortages are inevitable when demand is on the upswing. Giving relief to some who are

impacted by these shortages, but not to others, has the net effect of transferring the risk to those unfortunate few who are left out. Over time, this will discourage producers and lead to circumstances that deepen the economic cycles of the industry.

Mr. Chairman, you have adopted the wise course today by looking at the problem from the standpoint of an industry-wide solution to the problem. For my own part, I have never opposed any of the other measures under consideration here today. They should rise and fall on their own merits, within the context of the overall problem of cyclicalality faced by the railcar industry. That's the same test I would hope you would apply - and I know you will - to my bill.

Now let me state the case for my bill.

A constituent company in my Congressional district approached me some weeks ago pointing to a shortage of truck bolsters and side frames - steel cast parts that represent 12 percent of the cost of a new railcar. The problem: The company was being forced to look for foreign suppliers of these parts which when imported would be subject to a 9 percent tariff duty. That translates into an additional cost of \$330 per railcar. Considering that railcars most often are bought 100 or 1,000 at a time, the additional per car cost is extensively significant. And I should note that the railcar business is a price sensitive venture where competition both domestic and international is pitched, so added costs do make a difference.

Before I introduced a bill to temporarily remove the Column I tariff duties on truck bolsters and side frames, I felt an obligation to query the major steel foundries that produce these parts. The answers I received, particularly from Buckeye Steel Castings from the Chairman's home state of Ohio, were most instructive. Each stressed the cyclical nature of the industry, and each pointed to a surge in demand and their inability to immediately meet that demand. The International Trade Commission says the top five producers of truck bolsters and side frames have a backlog of orders averaging 9 to 12 months as freight car orders in 1978 are expected to total 75,000 compared with orders in 1977 totaling 64,615. In 1976, by way of contrast, railcar orders totalled only 36,043.

Most companies indicated a willingness to step up production to gradually meet higher demand, if there are assurances this new level of demand would be constant and not transitory. There also were indications that two foundries which have dropped out of the business of making truck bolsters and side frames because of declining orders are busy retooling their operations. This, of course, will expand domestic capacity. Meanwhile, railcar manufacturers are faced with a simple choice: To import additional truck bolsters and side frames with the resulting impact of increasing costs and potentially losing ground to competitors, or to limit production.

My constituent company, in response to rising demand for railcars in the face of a national shortage of railcars, increased its

production by 50 percent last November. It now has the capacity to manufacture 5,000 railcars annually, and the company has plans to increase that even further to 6,000 railcars - if it can get the parts.

This company produces all of its railcars at a factory within my district which I visited earlier this year. That factory now has 250 more workers on the job because of stepped-up production. The factory now provides 1,700 good-paying jobs. These are jobs helping keep Portland's urban center economically vital by retaining and expanding existing plant investment and employment opportunities.

However, the problem here is not one of my constituent company's, nor other railcar manufacturers' making. Mr. W.D. Reuter, Vice President of sales for Buckeye Steel Castings, described the situation best when he said in his letter to me of July 28, 1978:

"Manufacturers serving the railroad industry hoped the shortages of 1974-75 would encourage railroads to plan their acquisitions of equipment with greater foresight, but as indicated by the deep railcar building depression of 1976-77, such was not the case."

Mr. Reuter also said:

"Most manufacturers have elected not to expand capacity for frames and bolsters in recent years, preferring to diversify their product lines or invest in other facilities to reduce the impact of the

cyclical nature of railcar building."

Mr. Chairman, we have on our hands a situation we cannot cure today. The cyclical nature of this industry is a fact of life. If we are to sustain a viable domestic supply of railcars, we must take some steps to assure continued industrial capacity to produce them. But that will take time, as it will take time for steel foundries to adjust to the current surging demand for railcars. All we can do today is to assure that temporary shortages within the industry do not impede progress toward meeting the national railcar shortage that has caused severe national economic consequences for so many industries and, ultimately, for the consumer. My bill deals with one slice of this temporary problem. Other bills deal with other slices of the problem.

I urge you to favorably consider my bill because it will assure stepped up production of railcars by domestic manufacturers at competitive prices.

But I also urge you to consider this action as only a temporary step. In introducing my bill, I made it clear I see it as a temporary solution to a more far-reaching problem. I don't want to see that stopgap solution become an aggravation that blocks an ultimate solution to the problem. I don't believe this bill

Page 6

sets a precedent, nor should it. By providing tariff relief until May, 1980, I don't believe we will discourage manufacturers from expanding so the nation will have the industrial capacity to serve U.S. railroads.