**Testimony of Jim Gallagher**
**President, UAW Local 3303**

**Legacy Costs and the Steel Industry**

**before the**

**Congressional Steel Caucus**

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Mr. Chairman, my name is Jim Gallagher. I am the President of UAW Local 3303, which represents about 1500 active production and maintenance employees and 1600 retired workers at the AK Steel plant in Butler, Pennsylvania. We appreciate the opportunity to testify before the Congressional Steel Caucus concerning the state of the steel industry in our nation.

Our plant is located about 35 miles north of Pittsburgh. Today our members melt, cast, roll and finish stainless and electrical steels into sheet and strip products. The markets we serve include automotive, aircraft, chemical processing, restaurant, cookware, medical and health equipment.

Our electrical steels have special magnetic properties that make them ideal for use in highly efficient electrical products such as generators, motors and transformers.

In addition to the Butler Works, AK Steel has six other steel plants in Ohio, Kentucky and Indiana which make and process carbon, stainless and electrical steels. Together from these operations AK Steel ships about six million tons of steel per year, with about 8,000 employees. There are also approximately 32,000 retirees.

UAW Local 3303 is deeply concerned about the impact of so-called legacy costs on AK Steel and our members. This includes health care costs for retirees and older workers, as well as pension costs. We believe similar problems are affecting many other steel companies and older manufacturing companies in general.

UAW Local 3303 is committed to maintaining the health care and pension protections that we have negotiated for our active and retired members. These benefits are critically important to maintaining an adequate standard of living, and assuring that our members have access to quality health care and can retire in dignity.

At the same time, we recognize that the costs of providing these health care and pension benefits to retirees and older workers are placing an enormous burden on AK Steel. In particular, these costs are putting AK Steel at a competitive disadvantage with newer domestic steel companies that do not have large numbers of retirees and older workers, older domestic steel companies that have shed their retiree pension and health costs through bankruptcy, as well as steel companies in foreign countries where these costs are spread more broadly across all of society. Because of these competitive pressures, AK Steel has fewer funds available for investment in new production and equipment, as well as wages and other benefits. In the end, the burdens associated with these legacy costs are threatening the future viability of AK Steel, and the jobs and benefits of the active and retired members of UAW Local 3303.

We believe Congress should take a number of steps to address the problems posed by legacy costs.

First, the domestic provisions of the Foreign Sales Corporation (FSC) legislation that was enacted last year did not provide any benefit to many major auto and steel companies. Because of their high "legacy" health care and pension costs, these manufacturers do not have sufficient "manufacturing" income to benefit from the rate reduction in this legislation. During consideration of this bill, the UAW joined with the major steel and auto companies to support a bipartisan amendment sponsored by Senators Specter and Bayh that would have allowed manufacturers to elect either to take the tax reduction in the bill, or in lieu of that, to receive a tax credit equal to a portion of their health care expenditures for active and retired workers aged 55-64. This election would have enabled steel and auto companies to receive a tax benefit equivalent to that received by other domestic manufacturers, and would have enabled these companies to increase investments and create additional jobs for American workers. Unfortunately, this amendment was not included in the final bill that was enacted. However, the UAW urges Congress to reconsider this issue, and to adopt the Specter-Bayh amendment so that steel and other older manufacturing companies can get assistance with their legacy costs.

Second, UAW Local 3303 urges Congress to consider legislation to establish a reinsurance program for so-called catastrophic health care costs. This concept has already received bipartisan support, including from Senate GOP Leader Bill Frist, as well as Democratic Presidential candidate John Kerry. We believe a properly designed reinsurance program for catastrophic health care costs could provide enormous benefits for employers and individuals. It could reduce the overall costs of health care. In addition, it could help provide AK Steel and other older manufacturing companies with some relief for their legacy costs, since retirees and older workers are more likely to incur catastrophic health care costs.

UAW Local 3303 recognizes that the proposals we have discussed would cost the federal government some money. But it is important to recognize that the federal government will be hit with costs if we do nothing to address the issue of legacy health care and pension costs. At a minimum, the federal government will lose substantial revenue as we continue to lose jobs in the domestic steel industry and other older manufacturing sectors. In addition, under the Trade Act of 2002, the federal government provides a 65 percent tax credit to retirees aged 55-64, in situations where their company's pension plan has been terminated and taken over by the Pension Benefit Guaranty Corporation (PBGC), and the retirees have lost their health care benefits. UAW Local 3303 believes it makes sense for the federal government to help steel and other older manufacturing companies with their legacy costs before they get into trouble and have to terminate their pension plans and retiree health benefits.

Finally, UAW Local 3303 is concerned about the negative consequences of the pension proposals that have been put forward by the Bush Administration. These proposals would punish older manufacturing companies that already are experiencing financial difficulties because of heavy legacy costs, by sharply increasing their pension funding and PBGC premium costs. The net result could be more bankruptcies, plant closings and job and benefit loss. In addition, the proposals could lead to even more pension plan terminations, and even more pension liabilities being transferred to the PBGC. Because of these negative consequences, most major business groups, as well as the UAW and other unions, have strongly opposed the Administration's pension proposals. Accordingly, we urge Congress to reject these dangerous and counterproductive pension proposals.

In conclusion, I appreciate the opportunity to testify before the Congressional Steel Caucus on the state of the steel industry, and in particular the problems posed by retiree health care and pension legacy costs. Thank you.

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