

Testimony of Joseph K. Block
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Hearing on "Our Nation of Builders: Manufacturing in America" House
Subcommittee on Commerce, Manufacturing and Trade Rayburn HOB Room 2322
February 14, 2013

Dear Chairman Terry, Ranking Member Schakowsky, and Distinguished Members of the Subcommittee,

My name is Joseph Block, and I appreciate this opportunity to present my company, Block Steel Corp., a steel service center in Skokie, Illinois, and discuss Block's success and the role it has played in United States manufacturing over the past 65 years. In doing so I hope to illuminate some of the issues specific to Block Steel Corp. and in general those of small to medium size US manufacturers. With knowledge of these issues and an understanding of their ramifications, public policy can be fashioned which more effectively supports both the growth and sustainability of U.S. manufacturing, especially for the smaller and medium sized business such as Block Steel Corp.

Block Steel Corp. represents a great American success story, and for the past 65 years Block's history tracks the core of manufacturing in the Midwest, if not the whole of the USA, and demonstrates the flexibility and innovation necessary to compete in a changed manufacturing environment.

Introduction to Block Steel Corp.

Block Steel Corp's origin begins with a scrap cart on the streets of Chicago.

Beginning in the late 1930's and into the WW2 years, my grandfather Albert Block, collected scrap on the streets and alleyways of Chicago, to be sold to scrap dealers. It

was certainly a difficult way to earn a living, but in that time period manufacturers were much less efficient than today and produced an abundance of scrap. This presented a great opportunity to source material.

During his daily walks through the city, Albert gained extensive knowledge as to what products were being produced that created all this scrap. He made contacts and grew relationships with the manufacturers and came to understand what steel they needed to produce their products. He realized that scrap collected at one manufacturer, could be used in production by another manufacturer. With the money he had saved from his scrap cart business, he bought a yard where the scrap he collected could be inspected and sorted. This sorted material could then be sold to the manufacturer. During this time, Albert was also able to gain contacts with the steel producers, and learn what steel mill made what products.

In 1948, with his son, my father Harvey Block, and son in law, my uncle Oscar Wolfson, they founded Block Steel Corp. Production and office employees were hired from the local community. It was decided from the onset that employees would be treated like extended family and good wages with health benefits were provided for all employees from the beginning. A building was bought, and steel-processing equipment was installed to cut the steel to exact dimensions customers would need. These included slitters, which cut wide coils of steel to narrower coils, and shears, which cut close tolerance sheets, or blanks, to a specific size.

Located on the west side of the Chicago area, Block Steel Corp. was positioned to supply many of the manufacturing companies in the burgeoning post WW2

economy. These included manufacturers of home appliances such as Thor Washing Machine (Hurley Electric Laundry Equipment Company), General Electric/Hotpoint (washers, dryers, stoves and ranges), Sunbeam Appliance (toasters, irons etc.), and Zenith Electronics (televisions, radios). Continuing to expand on the relationships developed over the years, Block Steel Corp. began to source directly from the steel mills of the Chicago area. The steel, usually of less than prime quality, was brought to Block Steel Corp. where it would be inspected and sorted and processed as required to create a prime quality product. This is at its core the function of a steel service center.

Function of a Steel Service Center

The need for this supply chain is created by the differential between the lead times to produce steel by the mills, and the product manufacturers whose production process requires constant fluctuation of material needs in time, quantity and quality.

The production of steel is a large complex industrial process involving large quantities of material. Because this process is generally on such a grand scale, the mills want to ideally produce and sell as much tonnage as possible with their facilities, as well as ship it as soon as it is ready. Further, because of many functional variables, lead-time from an order to a mill and production by that mill of the finished steel product can be highly fluid. Manufacturers on the other hand generally need steel in very specific quantities and very specific times to match their production. The mills are unable to provide that level of service. Thus the need for Block Steel Corp. and steel service centers, who on one end can deal with the mills

and their needs by providing an outlet for the mills production, then on the other end control the outflow of material to support the needs of manufacturers.

Block Steel's Introduction to Aluminized Steel

During its early years Block Steel Corp. was a general line steel service center, sourcing and stocking many grades and types of steel, essentially whatever we knew could be sold to the local manufacturers. And, because of our business philosophy of treating both employees and customers as 'family', we were able to prosper and build up a very loyal customer base. Our customers actually looked for opportunities where they could do more business with us, and those strong relationships helped forge Block's direction for the future.

Albert died in 1963, but the core philosophy of our family company remained. Under Harvey's direction and with our dedicated employees and strong customer relationships, Block Steel's growth was maintained. Beginning in the 1960's at the behest of our customers, Block Steel Corp. began to stock and provide aluminized steel. This was a relatively new steel product at the time, combining the strength of steel with the corrosion resistance and/or the heat reflectivity of aluminum.

Aluminized steel Type 1 is a lower cost alternative to stainless steel in some applications, as well as the primary material in other applications. Aluminized Type 1 was ideal for products such as toasters, ranges, dryers and the like. Eventually the benefits of aluminized steel Type 1 began to be seen by the HVAC, baking, fireplace, BBQ, and especially the automotive industries.

There is a second type of aluminized steel called Type 2, which is primarily designed for corrosion resistance applications only. This is used in roofing, insulation and culvert applications.

With the addition aluminized steel, and being one of the first service centers in the U.S. to begin carrying aluminized steel, Block Steel Corp. began to differentiate from the other service centers.

Strategic Direction

By the end of the 1970's I became active at Block Steel Corp. and following the growth of demand for aluminized, we made three strategic decisions which would become elemental to the future of Block Steel Corp.

First, we decided to focus on aluminized steel. Today, Block Steel Corp. is the largest independent distributor of aluminized steel in North America. We are known not only in the USA, but also throughout the world as the service center for aluminized steel.

Second, by anticipating the quality and efficiency trends in manufacturing, particularly in the automotive industry, we made the decision to stock exclusively prime material and institute quality control systems to become the highest quality supplier possible to our customers.

Third, we expanded into our present facility in Skokie, Illinois. This was our largest capital expansion since our founding, and we moved from a 40,000 square foot building to our present 160,000 square feet. We added the most up to date

processing equipment to meet the increased demands of the marketplace, including new slitters (coil to coil) and cut to length leveling lines (coil to sheets or blanks). At the time of our move to Skokie, our yearly sales were approximately \$15 million.

The customer base of Block Steel Corp. in the 1980's began to look different than it was in the 1960's. As an example using the customers mentioned above, many of those stopped producing in the Chicago area. The reasons for this are varied from company to company. Hurley no longer exists, General Electric/Hotpoint moved production to Louisville then eventually to Mexico, Sunbeam today exists as a brand name only with products contract produced offshore, and although the same for Zenith, the technological change from tube technology to flat screen has eliminated the need for large quantities of steel.

This move for manufacturers to find lower cost production whether it is lower labor rates or tax incentives has pushed some US manufacturing overseas, to Mexico or to 'lower cost' states. Technological changes can obsolete products. These trends have accelerated in the past 25 years and would impact Block Steel Corp. and the economy as a whole in a negative way.

Adapting to Changes in Manufacturing

Block Steel Corp. has been particularly adept at adapting to these industry changes. This has been accomplished in a number of ways including the use of contract facilities which expands our geographic range, a focus on selling to high quality well managed companies, developing long term sustainable supply contracts, and by increasing our export business. Block Steel developed a strong mission statement,

titled “Building Blocks to the Future: Continuous Improvement, Innovation, Quality and Service”. While this really reflected what we were already doing, it brought a company wide understanding of our principals to all our stakeholders, from employees to suppliers and customers. We expanded our focus on the automotive sector, and became TS-16949 quality system registered. Block currently supplies to a cross section of the automotive manufacturers and suppliers. Block Steel Corp. also does extensive export business to Mexico, Middle East, South America, and China. Besides our Skokie facility and headquarters, we store and process material at 5 locations across the USA. Our contract facility in Houston is particularly positioned to service our Mexican export market. Block continued to grow and thrive, hitting peak sales of approximately \$75 million in 2007.

The Recession

From the 4th quarter of 2008 into the 1st quarter of 2009 our business dropped over 45%, or to approximately \$40 million annualized sales. The depth and suddenness of this decline was devastating. This was one of the most critical time periods in our history. What was perhaps most frustrating about that situation was that it was out of our control. We lost business not because of bad business practices on our part, but due to critical components of our economic system failing, dragging us down with it. We were forced to downsize for the first time in our history, and it was heartbreaking. However, due to the dedication and hard work of our employees and the rebound of the automobile industry, due in part to the federal bailout, we were able to survive and regain our growth. From a philosophical viewpoint I am torn on

the auto industry bailout, but there can be no denying it helped save my company and many others as well as thousands of jobs. Today we have recovered, and in the last 2 years have hired 10 new employees. We are on the cusp of another expansion, and may be hiring to support full around the clock production as the housing market recovers. Block has rebounded to approximately \$60 million in annual sales.

The Future

Ultimately the aggregate demand for aluminized steel is a function of demand for products produced by the manufacturers and generally bought by consumers. In the aluminized steel market today our customers make vehicles and vehicle parts especially heat shields and exhaust and exhaust related components, small engines, major and small appliances, hot water heaters, HVAC units especially heating units, baking pans, BBQs, fireplaces, industrial ovens and paint lines, gas and oil field pipe insulation and many small parts and brackets used across industries.

Many of the non-automotive industries are strongly dependent on new housing units. The maintenance of these industries as viable in the USA is critical to maintaining demand for aluminized steel, and hence the health of my company as well as the steel industry in general. The un-sustainability of the housing and credit markets in 2008 must be understood, and we need sensible regulations and oversight to guard against a reoccurrence.

Block Steel Corp. has been a private, family run business since inception, and a good measure of our success can be tied to our internal company practices. With a total of approximately 60 employees, Block treats employees like family. Many of our

present employees are from the same families who were our original employees! I represent the 3rd generation of the Block family, and we have employees who represent the 3rd generation of their families to work at Block Steel Corp. It has always been our practice to provide employees with extensive health insurance as well as retirement plans. Although all costs are of great importance to us, we feel that a mission of a great company is not only to be profitable at all costs. We have a dedication to our community and feel part of that mission is to provide employees with sustainable living wage with good health care. Block Steel Corp. has resisted the race to the bottom in wages and benefits.

This has put great competitive pressure on us to provide the superior service in our industry. We survive not by being the absolute lowest cost, (although we are always competitive), but being flexible, innovative and the best at what we do. And we do that having a dedicated and secure work force. Good wages and security supplies our employees with the means to buy the products our customers make.

Recommendations

I believe that a 'race' to find the lowest cost wages or the lowest taxes is ultimately unsustainable and takes away from true innovation. This drives manufacturing from the USA. For manufacturing to survive the focus should be on being the best at what you do and innovation.

Perhaps the best way to phrase it is the need for a level playing field. No company wants to have excessive costs whether they are taxes or regulatory requirements, but if all companies have similar costs in that regard, they can then compete on

innovation, better products and better business practices. Small to medium size companies can not move as easily as large corporations to the lowest tax area, or chase after the worlds lowest wage and benefit rates. Manufacturers should not be rewarded for cutting benefits and not paying taxes, but instead be rewarded for building a better product or providing a better service and providing good jobs. A simplified and fairer tax code will in the long run benefit a strong sustainable manufacturing base. Regulatory standards should be harmonized across markets, both in the USA and as much as feasible worldwide.

Summary

In talking with many of our customers, from both small stamping operations to largest public companies there is universal agreement for the need to be a country of makers. Manufacturing is of great importance to the U.S.A. and obviously to Block Steel Corp. Beyond knowing how to build things, actually building things produces good jobs and a builds a sustainable and yet flexible infrastructure of economic vitality. In summary, to help maintain and grow Block Steel Corp. and the great American manufacturing base I see a need for the following basic general policies:

- 1) A fair, simplified and equitable tax code.
- 2) Regulations, both environmental and safety, on manufacturing industries that are harmonized across the country, and as much as feasible across the globe.
- 3) Support and encouragement of education in manufacturing and technological skills

- 4) Health care with costs for industry harmonized across the USA.
- 5) Regulations and oversight of financial markets to help avoid a repeat of 2008.

Attached please find some economic data as provided by our industry trade group, the MSCI. This shows the general impact of the service center industry on the economy broken down to the country, Illinois and my House District (Illinois 9th).

I wish to sincerely thank the committee members for taking the time to receive my testimony and gain an understanding of my company, and I look forward to Congress working together to develop policies that support not only my industry specifically, but manufacturing in general.

2012 Economic Contribution of the Metals Service Industry

Illinois Congressional District 9

	Jobs	Wages	Economic Impact
Direct Impacts			
Primary Producers	1,242	\$110,655,500	\$807,193,900
Metals Service Centers	668	\$56,379,300	\$119,603,200
Other Fabricators and Processors	96	\$6,650,700	\$24,743,800
Total Direct Impacts	2,006	\$173,685,500	\$951,540,900
Supplier Impacts			
Agriculture	2	\$27,300	\$211,500
Mining	21	\$1,976,900	\$5,926,900
Construction	48	\$2,979,600	\$6,868,700
Manufacturing	215	\$17,170,600	\$72,087,100
Transportation & Communication	269	\$20,531,900	\$66,845,400
Wholesaling	189	\$16,509,300	\$34,852,300
Retailing	13	\$417,600	\$847,700
Finance, Insurance & Real Estate	255	\$17,188,700	\$61,661,500
Travel & Entertainment	144	\$3,708,200	\$10,177,400
Business and Personal Services	1,222	\$88,147,600	\$161,273,000
Government	19	\$1,660,100	\$2,995,300
Other	-	\$-	\$-
Total Supplier Impacts	2,392	\$170,317,800	\$423,746,800
Induced Impacts			
Agriculture	13	\$684,300	\$2,312,500
Mining	4	\$342,900	\$864,100
Construction	21	\$1,239,700	\$2,743,400
Manufacturing	134	\$10,931,400	\$77,790,400
Transportation & Communication	126	\$9,055,400	\$31,286,000
Wholesaling	111	\$9,510,500	\$20,008,400
Retailing	598	\$18,811,300	\$38,937,800
Finance, Insurance & Real Estate	527	\$30,675,500	\$147,152,100
Travel & Entertainment	537	\$12,380,300	\$34,023,000
Business and Personal Services	1,993	\$113,773,400	\$207,804,200
Government	19	\$1,554,600	\$3,591,900
Other	100	\$1,517,700	\$3,714,700
Total Induced Impacts	4,178	\$210,477,000	\$570,228,600
Total Economic Impact	8,575	\$554,480,300	\$1,945,516,300

This report was produced for the Metals Service Center Institute by John Dunham and Associates as a component of the 2012 study, *Economic Impact of the Metals Service Industry (2012)*

2012 Economic Contribution of the Metals Service Industry

Illinois

	Jobs	Wages	Economic Impact
Direct Impacts			
Primary Producers	13,510	\$1,203,429,400	\$8,778,604,100
Metals Service Centers	25,660	\$2,166,398,800	\$4,595,803,500
Other Fabricators and Processors	7,106	\$493,804,600	\$1,837,193,900
Total Direct Impacts	46,276	\$3,863,632,700	\$15,211,601,500

Supplier Impacts			
Agriculture	95	\$1,689,600	\$13,097,800
Mining	885	\$84,956,400	\$254,700,300
Construction	1,295	\$81,588,700	\$188,079,700
Manufacturing	4,630	\$370,374,200	\$1,554,942,600
Transportation & Communication	8,175	\$625,020,000	\$2,034,866,300
Wholesaling	4,144	\$363,081,500	\$766,490,300
Retailing	234	\$8,062,400	\$16,364,200
Finance, Insurance & Real Estate	5,271	\$356,021,400	\$1,277,165,100
Travel & Entertainment	2,510	\$64,748,700	\$177,708,900
Business and Personal Services	17,848	\$1,287,577,600	\$2,355,726,300
Government	934	\$84,655,300	\$152,741,900
Other	-	\$-	\$-
Total Supplier Impacts	46,016	\$3,327,775,800	\$8,791,883,400

Induced Impacts			
Agriculture	797	\$42,369,300	\$143,189,000
Mining	144	\$14,737,200	\$37,133,900
Construction	568	\$33,945,300	\$75,119,600
Manufacturing	2,884	\$235,793,100	\$1,677,964,700
Transportation & Communication	3,834	\$275,659,100	\$952,390,100
Wholesaling	2,438	\$209,160,800	\$440,034,300
Retailing	11,526	\$363,153,000	\$751,694,900
Finance, Insurance & Real Estate	10,912	\$635,367,200	\$3,047,889,300
Travel & Entertainment	9,360	\$216,173,600	\$594,080,900
Business and Personal Services	29,102	\$1,661,896,200	\$3,035,411,100
Government	935	\$79,276,300	\$183,165,400
Other	1,724	\$26,203,300	\$64,135,800
Total Induced Impacts	74,219	\$3,793,734,600	\$11,002,208,800

Total Economic Impact	166,509	\$10,985,143,100	\$35,005,693,700
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Fiscal Impacts

	Business Taxes
Federal Taxes	\$3,149,469,500
State Taxes	\$2,564,809,300
Total Taxes	\$5,714,278,800

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2012 Economic Contribution of the Metals Service Industry

The United States of America

	Jobs	Wages	Economic Impact
Direct Impacts			
Primary Producers	228,400	\$21,263,132,800	\$157,104,979,500
Metals Service Centers	191,400	\$15,031,696,200	\$31,896,193,800
Other Fabricators and Processors	127,300	\$8,922,347,000	\$40,146,165,200
Total Direct Impacts	547,100	\$45,217,176,000	\$229,147,338,400

Supplier Impacts			
Agriculture	3,219	\$105,429,800	\$334,673,200
Mining	50,257	\$5,268,568,000	\$20,463,191,400
Construction	26,598	\$1,406,479,500	\$3,508,295,500
Manufacturing	77,837	\$6,206,879,000	\$32,357,328,700
Transportation & Communication	125,029	\$9,599,018,700	\$32,623,485,800
Wholesaling	75,775	\$5,954,769,200	\$12,635,522,300
Retailing	3,894	\$129,553,500	\$268,189,300
Finance, Insurance & Real Estate	69,066	\$3,698,812,400	\$14,681,426,600
Travel & Entertainment	35,214	\$833,413,000	\$2,344,146,100
Business and Personal Services	270,799	\$15,950,820,500	\$29,961,485,900
Government	14,928	\$1,285,139,200	\$3,328,753,600
Other	-	\$-	\$-
Total Supplier Impacts	752,612	\$50,438,882,800	\$152,506,498,300

Induced Impacts			
Agriculture	25,215	\$703,496,800	\$2,842,988,700
Mining	5,784	\$612,579,900	\$1,764,120,200
Construction	10,227	\$543,429,200	\$1,311,729,400
Manufacturing	51,824	\$3,827,224,800	\$28,055,485,300
Transportation & Communication	59,902	\$4,221,758,500	\$15,147,967,200
Wholesaling	36,691	\$2,883,398,300	\$6,118,330,000
Retailing	185,793	\$5,795,076,900	\$12,226,366,200
Finance, Insurance & Real Estate	170,249	\$8,633,167,100	\$46,602,861,000
Travel & Entertainment	155,640	\$3,442,471,600	\$9,774,102,200
Business and Personal Services	439,377	\$23,455,242,200	\$43,022,982,400
Government	15,869	\$1,259,861,500	\$3,286,101,200
Other	30,722	\$423,285,900	\$982,973,000
Total Induced Impacts	1,187,294	\$55,800,992,700	\$171,136,006,600

Total Economic Impact	2,487,000	\$151,457,051,500	\$552,789,843,300
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Fiscal Impacts			
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	Business Taxes
Federal Taxes	\$36,920,993,100
State Taxes	\$27,600,115,200
Total Taxes	\$64,521,108,300

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