House Steel Caucus – June 16, 2009
Statement of Thomas A. Danjczek
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About the SMA
I am Tom Danjczek, President of the Steel Manufacturers Association (SMA). Thank you for the opportunity to appear before you today, and thank you for all that the Congressional Steel Caucus does to support the domestic steel industry.

Copies of our Public Policy Statement are available on the back table, along with a longer prepared statement for this morning.

SMA members include 36 North American steel companies who operate 130 steel plants. We account for more than 70 percent of U.S. steel production from 369 plant and head office locations in 39 states. SMA members directly employ more than 60,000 people; in addition, we have 129 associate member companies who supply products and services to the steel industry.

Condition of the Steel Industry
SMA members operate highly efficient electric arc furnaces that consume close to 60 million tons of ferrous scrap annually. We are the world’s largest recyclers, with energy costs per ton of new steel that are only one third that of iron-ore based steel producers. In an April 2009 report on the world steel industry, Morgan Stanley stated that U.S. minimills have a world cost advantage “sitting near the bottom of the world cost curve”.

Despite the competitiveness of U.S. minimills, SMA members have been severely impacted by the recession that has gripped our national and global economies. Downturns in major steel markets – including automotive, residential and non-residential construction – have left mills without orders.

Through the end of April, the U.S. steel industry is on pace to produce only 52.2 million short tons in 2009. According to Purchasing Magazine, overall tonnage is down 45 percent compared to the same time last year. The price for hot-rolled sheet steel in coil, the benchmark grade, has averaged $392 per ton, the lowest spot market price since January 2004, and 63 percent below the price from last July. Cold-rolled sheet is at $477, 59 percent below last summer’s peak of $1153. These pricing trends hold true for
structural beams, concrete reinforcing bar, and other products, placing tremendous cost pressures and non-existent margins on steel companies.

Producers have been quick to adjust their operational practices – many have reduced work hours across the board, while others have increased efforts relative to workforce training, safety programs, and plant maintenance in an attempt to keep people working; but without new orders, closures have come with increasing regularity, and layoffs have now affected an estimated one-third of the steel workforce. In light of the multiplier effect commonly associated with steel jobs, these layoffs are having a far-reaching impact on U.S. employment levels.

Today’s Hearing
We understand that the purpose of today’s Steel Caucus Hearing is to focus on what the Caucus can do to help the industry during these difficult times.

1. Climate Change: (We are appreciative of the efforts of several caucus members to obtain allowances for carbon intensive industries).

During the SMA Board meeting last month, the overwhelming consensus was to continue to forcefully oppose cap and trade, primarily based on the lack of an economic evaluation and the absence of a meaningful global agreement. In the absence of a truly global agreement on GHG regulation, the U.S. must limit carbon leakage (in the form of industrial jobs) from the U.S. economy. Industrial sectors such as steel require a platform that enables them to compete on a level playing field with all international trading partners; as Indiana Governor Mitch Daniels wrote in late May: "No thanks to cap and trade".

Problems with cap and trade are enormous. The goals are not achievable and not viable. Changes in electricity costs and availability with migration to non-regulated countries, along with regional inequities, are two prime examples.

The onslaught of enormous and expensive regulatory initiatives makes little sense without knowledge of the economic impact. It should be labeled “Cap and Tax”. Legislation requires a reasonable economic evaluation of the cost versus the consequences and potential benefits. The imperceptible effect on the climate causes SMA to oppose the currently proposed legislation.

2. Cash for Clunkers: A recent proposal that could help to stimulate demand for steel products is the so-called “cash-for-clunkers” plan. The legislation would provide federal vouchers for people to trade in their vehicles to purchase new ones with better gas mileage. Supporters say that the plan could add one million automotive sales in the U.S., replacing older vehicles with new ones that use less fuel, are safer, and pollute less. In order to achieve the maximum environmental and economic impact, the legislation should contain a provision that requires junked cars to be shredded, following the removal of mercury switches. This will remove potentially harmful mercury from the
system, and provide steel producers with additional metallic units for melting and recycling.

3. Environment: In October 2008, after fifteen years of effort, EPA published a final rule promoting recycling of certain hazardous secondary materials, such as steel mill Electric Arc Furnace (EAF) dust. The rule created a new conditional exclusion that imposes stringent management conditions to protect the environment while encouraging the recovery and reuse of valuable materials. In January 2009, the Sierra Club filed a petition with EPA seeking revocation of the final rule. EPA has scheduled a public hearing on June 30, 2009, to determine whether to grant the Sierra Club petition.

SMA members would benefit greatly under the final rule through reduced administrative costs associated with recordkeeping and reporting. The rule would also benefit the environment by encouraging more recycling of EAF dust and other hazardous secondary materials. In this difficult economic climate, smart regulation that promotes environmentally sound recycling should be encouraged. Therefore, SMA strongly urges the Members of the Steel Caucus to support the final definition of solid waste rule and to encourage EPA to deny the Sierra Club Administrative Petition.

4. Workforce: We need to protect an employee’s right to privacy in voting whether or not to join a union; abandoning secret ballots would invite intimidation and eliminate privacy (no “card check” provision). We also oppose binding arbitration where mandatory arbitration would eliminate incentives for employers and unions to adopt realistic bargaining positions, and would yield control over basic business decisions to an arbitrator; this would threaten the competitiveness of U.S. companies, and deny employees the right to vote on contract ratifications. SMA urges the U.S. Congress and Administration to oppose any legislation that would severely weaken employee rights such as EFCA in any form.

5. Infrastructure and stimulus: We must continue to invest in ourselves. The economic recovery package rightfully maintained strong Buy America provisions that continue to ensure that the iron, steel and manufactured goods used in federally-funded projects are produced here in the United States. Regrettably, the current stimulus bill has had little impact to date on SMA steel producers. We strongly advocate the promotion of U.S. competitiveness through sufficient funding of infrastructure improvements, including energy infrastructure – expand funding from federal, state, local, and private sources, and utilize domestically-produced materials. We encourage Congress to pass SAFETEA-LU reauthorization without the number of extensions that occurred a few years ago. Our country needs the timely stimulus and benefit of infrastructure spending now - not after 12 extensions.

6. Managed Currencies: The undervalued currencies of several governments are in effect an import tax and an export subsidy, injuring industries in countries that are recipients of imports made more competitive by currency undervaluation. The WTO, in its current configuration, cannot cope with the problem of undervalued currencies. Congress should pass H.R. 2378, the Currency Reform for Fair Trade Act of 2009. Currency manipulations distort normal economic patterns and market forces.
Also, the SMA calls for the scheduling of a conference of nations, involving both the WTO and the International Monetary Fund, in order to develop a permanent program that provides the capability to determine accurate valuations of currency relationships, and the ability to enforce needed corrections.

**7. Trade and Tax:** SMA continues to call for strict adherence to trade laws, including fairness and accountability. The Doha Round of trade negotiations, launched in 2001, has gone nowhere. The current multilateral process governing trade through the World Trade Organization is unable to cope with severe trade-related strains. Doha lacked relevance regarding issues of importance involving the manufacturing, services and intellectual property industries. The US is no longer in an economic position to provide unfettered access to trade based upon foreign government intervention and subsidization. Congress should pass H.R. 471, the Supporting America’s Manufacturers Act; this legislation would amend the Trade Act of 1974 to provide a limitation on presidential discretion with respect to Section 421 cases and actions to address market disruption. Please continue to watch out for our interests.

U.S. tax policies are responsible for some of the real cost disadvantages that confront domestic steel companies and other manufacturers. The US corporate tax rate is the second highest in the world. The US government does not rebate taxes to U.S. corporations when they export manufactured products, as do most of our major trading partners. Foreign steel companies receive tax credits that typically amount to 10 to 20 percent of each ton of steel that they export.

The U.S. needs a national assessment to revise its incomprehensible tax code to provide simple and effective improvements in the taxation of business enterprises, in order to make U.S. taxation competitive with the substantially lower business tax burdens of other major nations. This will require the adoption of an indirect value added tax to replace equivalent direct business taxation – this value added tax would be rebatable on exports and imposed on imports.

**8. Energy:** Congress is now considering omnibus energy and environmental legislation that collectively aim to promote a clean energy strategy for the U.S. Key features of the bills include cap and trade requirements for carbon emissions, a national renewable energy standard, improved energy efficiency codes and standards, investment in developing a "smart grid", and enhanced role of the federal government in siting multi-state high voltage transmission lines. The recession has temporarily muted the continuing increases in peak electric demand that requires more generation capacity be built.

From the standpoint of American steelmakers, it is critically important that Congress attend to basic fundamentals with respect to energy legislation.

Today, the U.S. gets more than half of its electricity from coal-fired generation and another 20 percent from existing nuclear plants. At the same time, almost all of the generating capacity built in recent years has been fired by natural gas. Similarly, new
nuclear capacity, if it can be built at a reasonable cost, is also at least a decade away. This inescapably means that the country will continue to increase its reliance on natural gas to fuel power plants. Congress must confront the need to ensure an adequate supply of North American natural gas both to fuel that generating capacity and to meet the energy requirements of energy intensive manufacturing operations. This by far is the most significant near term energy issue for the country.

Congress is promoting development of an assortment of renewable energy technologies, some of which hold considerable promise. For the most part, however, most of these technologies (wind, solar, geothermal and ocean/tidal) are geographically limited, are not particularly available when the grid needs them, and are located some distance from load centers. Significant transmission expansion will be required to connect those resources to the grid.

In the longer term, Congress must sort out the jurisdictional mess that is currently associated with siting, constructing and allocating the costs of new transmission investment. Moreover, we recognize the difficulty that is routinely associated with establishing new transmission rights of way. A strong federal effort should be placed on developing technologies that will allow greater use of existing transmission pathways.

**Conclusion**

These are certainly difficult times for the domestic steel industry. SMA would like to thank our Congressional leaders for their attention to issues impacting the steel industry. SMA members are poised to be a key component of the overall economic rebound, and are appreciative of your support for the steel industry and the manufacturing workers across our country.