Good Morning. Today, I’ve been asked to address two issues – climate change policy and the closely related topic of energy policy. The steel industry is keenly interested in both these subjects because the industrial processes we operate consume a great deal of energy and the carbon control proposals to date have fallen short of our requirements to remain globally competitive.

At the Steel Caucus hearing last February, I discussed our industry’s concerns with cap-and-trade programs to control greenhouse gas emissions on industrial sources -- especially those that are energy intensive and subject to international trade pressures. Subsequently, several members of the Steel Caucus, led by Energy & Commerce Committee member Mike Doyle helped to craft transition provisions to mitigate the impact of proposed climate change legislation on industries like steel. The House of Representatives then went on to pass H.R. 2454, the American Clean Energy and Security Act in June 2009 by recorded vote of 219-212. That legislation remains of concern to our industry. While it contained useful transition provisions, it failed to allocate adequate emissions
allowances to cover industrial needs and it did not include an effective border adjustment mechanism.

Since the House passed that legislation, there have been other related developments worth noting. In December, the Senate Environment and Public Works Committee reported-out the so-called Kerry – Boxer bill. That legislation moved in the wrong direction from our perspective – with even tighter emissions caps and fewer allowances for energy intensive manufacturers. Presently, Senators Kerry, Lieberman, and Graham are reportedly working together to produce a new, bipartisan approach to climate legislation, but details on that proposal have not been forthcoming.

The United Nations held the COP-15 talks in Copenhagen in December and it became clear that countries like China, India, and Brazil have no intention of committing themselves to binding emissions reductions in the near- to mid-term.

Then, in January, the U. S. Environmental Protection Agency issued a finding of endangerment on man-made greenhouse gas emissions and is currently in the process of finalizing several rules to regulate greenhouse gas emissions under the Clean Air Act. In response, there are several legislative measures – and court challenges -- now pending that would prevent the EPA from regulating stationary source greenhouse gas emissions under the Clean Air Act. The steel
industry strongly supports full and immediate pre-emption of the Clean Air Act with respect to stationary source greenhouse gas emissions.

As the steel industry looks at all of these efforts, we are reminded that reducing greenhouse gas emissions can only be accomplished effectively on a global basis. We must also remain vigilant about the need to preserve a competitive cost structure for domestically produced steel. Our carbon costs or energy costs cannot deviate much from world price levels if we are to remain competitive with globally traded steel and maintain domestic employment and production levels.

I would now like to say a few words about energy policy.

By any measure, steel is an energy intensive industry. In 2007, the latest year for which AISI energy data is available, the domestic steel industry consumed 23.4 million tons of coal and coke, 299 billion cubic feet of natural gas, and 52.8 billion kilowatt hours of electricity. Some companies are predominantly dependent on electricity – the EAF segment of our industry accounted for 75 percent of our industry's electricity consumption. Conversely, integrated producers accounted for 95 percent of all coal and coke consumed by the sector. Natural gas is important for both EAF and integrated producers. Fuel prices, choices, and availability influence each company’s profitability in different ways.
At the individual company level, I expect that we all have a pretty good idea about the type of energy policy each of us as private sector companies should be following. Our industry’s record of energy efficiency improvement since 1990 clearly illustrates this awareness and commitment. It has also resulted in corresponding CO2 emissions reductions that are well beyond anything contemplated in the Kyoto Protocol.

At U. S. Steel, we have had a formal energy and CO2 management policy since 2006. Our policy holds operating management accountable to reduce energy use year-to-year on an intensity basis. It is accomplished by conserving the energy we do use, recycling by-product gases and waste heat whenever practical, and maximizing the use of recycling throughout all of our manufacturing processes. We also have implemented separate greenhouse gas measurement and reduction strategies. At the end of the day, we – like every other company in our industry -- have a clear profit motive to maximize energy efficiency, because energy-saved is cost-avoided. Energy is one of our major cost drivers. If it costs one of our member companies $500 to produce a ton of hot rolled steel coil, as much as 30% or $150 relates to energy in one form or another.

Energy policy affects the steel industry differently than other manufacturing sectors. As energy consumers, individual steel companies are affected by various energy market forces. As suppliers to different industrial sectors, each of
us serves different customer groups who are also affected differently by the energy markets.

On the customer side of the equation, U.S. Steel is the leading supplier of tubular products for the energy sector. We have an important steel business segment that is reliant on robust activity in oil and gas exploration and production. That is obviously not our only business. We are also among the global market leaders in developing and producing advanced high strength steels that have allowed car manufacturers to reduced vehicle body weights by more than 35 percent, resulting in enormous vehicle fuel efficiency gains. Other companies, perhaps those with steel plate operations, have enjoyed market growth stemming from the recent expansion of electricity-generating windmills. One way or another, energy markets are intricately woven into our business.

Within all this intra-industry diversity, lies the challenge of identifying and advocating for a national energy policy that best serves the needs of the steel industry. No matter how lawmakers slice it, decisions on national energy policy will determine winners and losers within the global and domestic steel industry and among competing materials that have different energy use profiles.

During recent congressional debates concerning climate policy, you heard about the strong correlation that exists between iron and steelmaking and carbon emissions. As you know, those greenhouse gas emissions are a function of the
energy used to reduce iron oxide and melt scrap, to create iron and steel, and to finish into the various shapes and products used by our customers to make products ranging from building supplies and aircraft carriers to food cans and automobiles. Steelmaking requires large amounts of energy to break the chemical bonds required to convert basic elements into iron and then to produce useful products including advanced high strength steel. This energy fact derives from the laws of thermodynamics. As we look ahead, this truth will not change. Steelmaking in the future will remain very energy intensive -- perhaps even more so than today, because required emission control systems require substantial incremental energy inputs. What can change, however, depending on many factors, are the emissions that occur during the production of a ton of steel and how steel is used to help make our economy more energy efficient.

Accordingly, I urge the steel caucus to view energy policy for industrial America as a two-fold problem -- a near-term challenge and a longer-term opportunity.

**In the near- to mid-term**, how do we improve energy efficiency and reduce greenhouse gas emissions, while recognizing that manufacturing and industrial activity is reliant on the affordability, availability, and reliability that traditional fossil fuels like coal and natural gas have to offer. An industry like steel must always first consider cost and competitiveness impacts. This is not an either / or calculation and we must not allow the false choice of either jobs or the environment to be presented. What is needed is a recognition of the harsh
reality of global competition. It is very difficult, if not impossible, for domestic manufacturers to pass along costs not borne by foreign producers. Therefore, we believe the guiding principle should be “do no harm,” particularly if efforts to increase exports and manufacturing employment are to be given a high priority. The costs associated with a poorly-designed cap and trade program, a US-only carbon tax, well-intentioned but costly legislation, or draconian EPA regulations will place American steel companies at a competitive disadvantage and jeopardize steel jobs. While there may be virtue in establishing a carbon price signal that would capture associated externalities and infuse business decision making with more carbon reduction discipline, I struggle to see how the U.S. could go this alone.

The renewable electricity portfolio mandate raises difficult considerations. While the steel industry generally supports incentive-based energy policies, we question the wisdom of locking ourselves into a national electricity system that would, under current economies, mandate that 15-20% of supply be generated from non-conventional sources like solar, wind, and biofuels. Today, these technologies are extremely expensive and non-competitive on their own. Manufacturers cannot rely on these technologies being subsidized forever, and our products will not be competitive if electricity rates reflect their real total cost. That said, we still support identifying and developing alternative energy sources such as these and believe many opportunities exist to take advantage of
industrial waste heat, Combined Heat and Power, by-product recycling, and other
types of conservation and efficiency.

Since coal and natural gas form the base of our energy pyramid, we should focus on developing clean coal technologies and altering the mix of our staple diet by shifting the supply and demand curve for natural gas. Domestic natural gas is abundant. With the discovery and ability to develop shale gas resources across the country, like the Marcellus Shale in our own backyard of Western Pennsylvania, we now have a safe, affordable, abundant and conveniently located resource base from which to build. The emergence of this new supply of clean natural gas allows us to consider expanding how we use natural gas as a base utility fuel and as a transportation fuel in certain circumstances. Corporate vehicle fleets offer the best opportunities in this regard – our Gary Works alone operates about 1000 vehicles -- and we are already conducting trials in some of our plants to convert our on- and off-road vehicles to natural gas.

Biofuel can also be economically used in some steelmaking operations. For example, U.S. Steel has been a pioneer user of biomass to fuel furnaces at our Minntac facilities in northern Minnesota. Energy policy should help ensure that federal and state land managers cooperate with biofuel producers as part of their land management practice.
Integrated steel producers will remain dependent on coal and coke as a chemical reductant for ironmaking. There are many promising possibilities for new coal technologies to be applied in the steel industry, so I hope clean coal R&D funding initiatives will not be limited solely to the utility sector.

Generally speaking, steel has promising opportunities to save energy and help increase U.S. energy independence in the near- to mid-term. Our country’s natural gas supply should help us maintain cost competitiveness in manufacturing, reduce greenhouse gas emissions through the mid-term, increase our energy independence, and create good paying jobs and leaseholder opportunities in many parts of the country. Natural gas and biofuels should be embraced and encouraged.

**Over the longer-term**, we must ask how Government can best insure that American industry will be ready with products and processes to compete in the low- or no- carbon economy that may lie ahead 20 or 30 years in the future. That is really not a very long period of time to completely overhaul our national electricity grid and manufacturing infrastructure. Government, however, is well-placed to help provide funding for the kinds of basic and applied R&D, pilots, and demonstration projects that are needed to develop, prove, and commercialize breakthrough technologies. The steel industry is particularly proud of the work that has been accomplished to-date in cooperation with the Department of Energy’s (DOE) Industrial Technology Program. Presently, however, we are very
concerned that the President’s Fiscal Year 2011 Budget for the Department of Energy has zeroed-out funding for steel-specific projects. Continued FY 2011 DOE funding of $3.15 million for steel industry specific projects is critical to achieving the objectives set forth for ongoing projects and we would urge the Congress to ensure these programs are fully funded.

I will conclude my thoughts on energy policy by underscoring the need for Congress to devise a coherent energy message that sends consistent signals on carbon emissions without jeopardizing industrial competitiveness, avoids near term action that creates winners and losers based on industry or geography, and provides adequate resources to invest in technology solutions for the long haul. Moreover, we encourage you not to let the perfect become the enemy of the good, by holding hostage sound, popular policies that would stimulate natural gas and nuclear power development and allow many positive environmental benefits to be realized along the way.