House Steel Caucus Hearing – March 25, 2010
Statement of Mario Longhi, President & CEO of Gerdau Ameristeel
And Past Chairman, the Steel Manufacturers Association

About the SMA

Thank you for the opportunity to appear before you today. First, we wish to express our sincere appreciation to the Congressional Steel Caucus for all it has done to support the domestic steel industry over several decades.

I am Mario Longhi, recent past Chairman of the Steel Manufacturers Association (SMA) and President and CEO of Gerdau Ameristeel. SMA members include 34 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. Gerdau Ameristeel is North America’s second largest minimill with the capacity to manufacture over 12 million tons of steel annually.

Copies of the SMA 2010 Public Policy Statement are available, as well as our statement this morning.

Condition of the Steel Industry

Our industry is facing its greatest economic challenge since the Great Depression, with our plants collectively operating at around 68% of capacity.

SMA members operate highly efficient electric arc furnaces. We are the world’s largest recyclers, with energy inputs per ton of steel produced only one third those of iron-ore steel producers. In a recent report on the steel industry, Morgan Stanley said that U.S. minimills have a competitive cost advantage “sitting near the bottom of the world cost curve”. We concur, although we know it may not favorably affect steel trade flows.

Nonetheless, SMA’s US minimill members have been severely impacted by the recession that has gripped our national economy. Downturns in steel’s major markets – including automotive and construction – have left US mills with orders insufficient to defray total costs while insurance costs in health care, workers compensation, and property continue to rise.
In response, US producers have been quick to adjust their operating practices. Many have reduced hours worked. Others have increased workforce training, safety programs, and
plant maintenance in an attempt to keep people working. But without sufficient new orders, closures have occurred with increasing regularity and layoffs have affected an estimated one-third of the steel workforce. In light of the job multiplier effect that is demonstrably tied to steel jobs, these layoffs are having a negative impact on U.S. employment levels.

Today’s Hearing
We have been advised that the purpose of today’s Steel Caucus hearing is to focus on what the Congressional Steel Caucus can accomplish to help the industry during these difficult times. Most of the policy changes we are advocating will help all US manufacturers and revive the US economy across the board, rather than policies affecting just the steel sector alone. We do not mean to minimize the difficulty in achieving these policy changes, but they are now vitally necessary inasmuch as the US has lost 20 percent of its manufacturing jobs since 2001 (see attached SMA response to White House statement on revitalizing US manufacturing).

We must ensure the US is still a competitive place for manufacturing investment. This requires the US to reverse the unsustainable imbalance that has allowed other nations to adopt policies supporting excessive exports of manufactured goods to the US, while we export debt and manufacturing jobs. In the process, we have absorbed unsustainable US trade and current account deficits.

In this statement we list five major issues for consideration, action on which would improve the competitive position of US manufacturers, including the steel industry.

1) We must reduce US trade and current account deficits (see attached recent statement of the SMA: “New Policy To Expand World Trade” which proposes the adoption of a new and improved international monetary policy regime to achieve that objective).

2) The US must engage in a concerted drive for greater energy independence

3) We must rebuild the obsolescent and deficient US infrastructure

4) We must revise the US tax code, adopting a border adjustable, revenue-neutral, value-added tax, also reducing the US corporate income tax in equal amount to improve US manufacturing competitiveness and to bring the US trade and current account deficits into better balance.

5) The economic impact of climate change policies must be fairly allocated to all nations, not selectively imposed upon a few countries.

Comments on the steel sector contained in the statement issued by the Executive Office of the President call for “Reinvigorating The Backbone Of Manufacturing: Steel & Autos” (p. 30). The report says that today’s steel industry has emerged from two decades
of consolidation and restructuring as modern, hi-tech, green and globally competitive,”
and that “a major source of industry productivity improvements has been the
development of minimills.” Factual data on industry productivity improvements over the
last decade confirm the accuracy of this statement.

The White House document contains several excellent recommendations proposing
programs and legislative action to strengthen US manufacturing. In response to this
document, our comments were presented to the Administration in the hope that
constructive policy changes will occur before the decline in US manufacturing capability
becomes irreversible. **The decline in US manufacturing has been so severe that policy
incrementalism, however well intentioned, is not sufficient. Unless the main core
issues are addressed, there will be little improvement within the manufacturing sector.**
The damage has gone far beyond traditional fixes, which were inadequate to
begin with.

We cannot alter the fact of global economic integration. Nonetheless, we must be able to
demonstrate that North America is still a place for manufacturing investment. To assure
this, the US must reduce its budget, trade and current account deficits which have
hollowed out US manufacturing industries.

Current economic, trade, fiscal and regulatory policies, have created an investment
climate that attracts companies to invest their manufacturing capital offshore. The US
needs to be a more competitive place for manufacturing investment.

**Response To Distortions In Trade Caused By Currency Manipulations Of Governments**

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 undervaluations. The WTO, in its current configuration, cannot
cope with the problem of undervalued currencies. To more effectively address the
unsustainable US negative trade balance, due in major part to currency undervaluations
of other governments, we have submitted to the White House, the Treasury Department,
and the USTR, an SMA proposal to initiate an international monetary conference. Its
objective is to form a new group of world trading nations dedicated to the expansion of
market-based world trade whose currencies are freely convertible. There would be
adverse trade consequences including changes in market access for those countries whose
governments continue to manipulate their currencies to gain trade advantage.

The US has been unsuccessful in changing the policies of China and a few other
governments that engage in currency manipulation. They combine import controls and
depressed currencies to favorably affect their trade balances. Given the reactions of these
governments to muted US protests, there is little hope of success in changing their
policies through bilateral negotiations. For example, China’s Prime Minister and Central
Bank governor have just announced the Yuan will remain stable (ie. 40% undervalued)
against the dollar, despite the fact that China’s foreign exchange reserves increased by $450 billion in 2009, also causing their total reserves to rise to $2.4 trillion at the end of last year.

The US therefore should initiate efforts to convene an international monetary conference, either through the International Monetary Fund or a new venue, to be led by the US, the EU, Japan, and hopefully with Chinese participation. The objective would be to establish a new monetary regime of trading countries whose membership would be based on the maintenance of free-floating, freely-tradable currencies to assure that floating currencies, as they are intended, create vitally needed adjustments in unsustainable trade balances.

**Energy Policy**

Today, the US gets more than half of its electricity from coal-fired generation and another 20% from existing nuclear plants. At the same time almost all of the generating capacity built in recent years has been fired by natural gas. New nuclear capacity, if it can be built at a reasonable cost is also at least a decade away. Inescapably, this means that the country will continue to increase its reliance on natural gas to fuel power plants. Congress must support efforts to ensure an adequate supply of North American natural gas to fuel both 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 facing the country.

Congress is promoting development of renewable energy technologies, some of which hold considerable promise. Significant transmission expansion will be required to connect these resources to the grid.

In the longer term, Congress must clarify and rationalize the jurisdictional mess that is currently associated with siting, constructing and allocating the costs of new transmission investment. A strong federal effort should be undertaken to develop technologies that will allow greater use of existing transmission pathways.

**Infrastructure Funding**

We must expand investment in our national infrastructure. The recent US economic recovery package maintains strong Buy American provisions to ensure that steel and other manufactured goods used in federally funded projects are produced in the United States.

We must increase US competitiveness by rebuilding our rotting national infrastructure, including the nation’s electricity grid, roads, bridges, schools, waterworks, airports, and transportation networks. For several years, the SMA has pressed for the establishment of
a national infrastructure development bank to renew America’s obsolescent infrastructure. Accordingly, we strongly support the Administration’s proposal to create a national infrastructure development bank to be authorized by the Congress and financed with public and private capital. This infusion of well-managed funds could play an important role in rebuilding America.

We encourage Congress to pass comprehensive SAFETEA-LU reauthorization, rather than short-term extensions. These short-term measures impede project approval and the flow of capital. Our nation needs the timely stimulus and benefit of infrastructure spending now.

**Tax Policy**

US business tax policies create competitive disadvantages for US manufacturers. US producers incur higher corporate tax rates than do manufacturers in most other countries. US corporations do not receive export tax rebates when they export manufactured goods as do our major trading partners. Foreign steel companies receive tax credits that typically amount to ten to twenty percent of each ton they export.

The US should undertake a national assessment in order to improve its tax code to provide simple and more effective changes in the taxation of business enterprises. This would make US taxation competitive with the substantially lower business tax burdens of other major nations. It would require a shift to the adoption of a partial indirect value added tax to replace an equivalent amount of direct US business taxation. This tax would be rebatable on exports and imposed on imports. We urge the Congress to develop such recommendations.

**Climate Change Legislation**

SMA members continue to oppose cap and trade, primarily due to the lack of any economic assessment upon which to base implementation. In addition, they believe that fairness requires global agreement on participation. Without a truly global agreement on GHG regulation, the US should defer any decision on carbon emission taxes until a world program exists to share the costs of carbon limitations. Industrial sectors such as steel require the implementation of policies that enable them to compete internationally, as for example, exemption from a tax on carbon emissions which other nations refuse to pay.

**Conclusion**

The SMA wishes to thank our Congressional representatives for their work on issues impacting US manufacturing and the steel industry. SMA members look forward to working with the Congressional Steel Caucus to accelerate the overall economic recovery.