Good morning. My name is Kevin Dempsey and I am the Senior Vice President for Public Policy and General Counsel of the American Iron and Steel Institute (AISI). AISI is comprised of 24 producer member companies in North America, including integrated and electric furnace steelmakers, and 138 associate and affiliate members who are suppliers to or customers of the steel industry. Our members make approximately 75 percent of the steel produced in the United States. Prior to the economic downturn, the steel industry directly employed approximately 165,000 persons in the United States, supported 1.2 million jobs overall and contributed $350 billion to the economy annually.

I would like to thank the Co-Chairs of the Congressional Caucus on Coal, Ms. Capito and Misters Shimkus, Rehberg, Altmire, Holden, and Salazar, for the invitation to participate in today’s roundtable.

Steel is a backbone material for our economy. Steel is a critical material for our nation’s transportation and energy infrastructure, for commercial and residential construction, for the automotive and appliance industries, and for stable and long-lasting food containers. But our steel industry today could not operate without coal, as coal is a vital raw material for our industry. In fact, coal is so critical to both our energy needs and key steelmaking processes that many of our member companies have their own coal mines.

The steel industry is the largest energy-consuming industry in the world. In the United States, iron and steel production represents approximately three percent of overall energy consumption. The cost of energy represents approximately 20 percent of the total cost of making steel. As such, we rely on and support greater and more reliable access to all forms of energy.

We use coal and coke, a derivative of coal, in our furnaces and much of the electricity we rely on is produced at coal-based power plants. Currently, roughly 50 percent of our energy is derived from coal. This reliance on coal is not unique to the steel industry in the United States. Worldwide, approximately 13 percent (around 717 million tons) of total hard coal production is currently used by the steel industry and almost 70 percent of total global steel production is dependent on coal.
In 2007, the last full production year for which data are available, the U.S. steel industry consumed approximately 27,150,000 tons of coal or coal-equivalent in the form of metallurgical coke. Metallurgical coke – which is produced from coal – is the essential fuel and chemical processing agent required for production of high-grade steel used in automobiles, appliances, and dozens of other products.

The primary use of coke is in blast furnaces, where coke provides the necessary source of carbon to chemically convert iron ore to iron. It also serves as the source of energy to sustain the ironmaking process and possesses the strength and porosity to support the blast furnace burden while allowing process gases to pass through the burden. Most metallurgical-grade coal in the United States is produced in the Central Appalachian region.

In addition to coke, some blast furnaces inject coal directly into the furnace. Coal and coke are also used as a fuel in the production of steel in electric arc furnaces. Coal has also been historically used in boiler houses to produce steam and electricity, but that has become less common in recent years as byproduct gases, waste heat, and natural gas have seen greater use for that purpose.

Given the steel industry’s reliance on coal and on all forms of energy – natural gas, biomass and electricity – we feel it is critical that Congress and the Administration avoid the adoption of policies that could result in dramatic energy price increases. Such price increases would be extremely detrimental to the international competitiveness of our industry and other manufacturing industries. Manufacturing has already lost 11.7 million jobs over the last decade, 2.1 million alone since the start of the recent recession. We are in no position to take on added energy costs, especially when our competitors around the world will not face similar burdens.

One example of the types of public policies that must be avoided is the looming threat of EPA regulation of greenhouse gases from stationary sources under the Clean Air Act. This regulatory scheme would unilaterally raise our costs, while allowing our overseas competitors to continue to increase their emissions. The result would be no environmental gain, but significant additional economic pain here in the United States. Climate change is a global problem that requires a global solution.

Our industry also has many substantial concerns with cap-and-trade legislation, like the House-passed Waxman-Markey bill, which will also threaten the international competitiveness of energy-intensive, trade exposed manufacturing sectors like steel. Of particular note for this hearing, we are concerned that the legislation would create winners and losers among electric utilities from different regions of the country. Those utilities that generate electricity primarily from coal – and often are major suppliers to steel production facilities – will likely bear the brunt of the costs if the legislation is enacted, while utilities on the coasts may see unjustified windfalls. This result will have a negative impact on both the steel industry and the coal-based utilities with which we have long-standing business relationships.
Our opposition to the Waxman-Markey bill does not mean we do not take seriously the importance of reducing greenhouse gas emissions. In fact, the steel industry in the United States has already voluntarily stepped up to the plate by reducing our greenhouse gas emissions by 33 percent since 1990.

We are also actively involved in research programs to develop new steelmaking technologies that will allow further significant emissions reductions. Under a grant from the Department of Energy’s Industrial Technology Program, we are developing the detailed engineering design for a pilot plant for a new coal-based direct reduced iron technology process – the Paired Straight Hearth Furnace – that has the potential to produce steel using much less energy than a traditional blast furnace. We also support continued research into carbon capture and storage technology, both for electricity generation and for steelmaking operations.

These potential new technologies offer the prospect of finding new ways to use our nation’s coal resources to build and power our economy at substantially reduced levels of greenhouse gas emissions. But achieving the necessary technological breakthroughs will take serious commitment of national resources to solve serious technical issues. It cannot be accomplished through a simple government mandate or imposition of an arbitrary cap and trade scheme without measures to ensure that our energy-intensive industries and the jobs they create are driven offshore to less regulated economies.

In closing, I would like to reiterate how important reliable, abundant, low-cost energy sources, and specifically coal, are to the steel industry. Because energy costs are 20 percent or more of the cost of making steel, increased energy and raw material prices have a significant impact on the sector’s bottom line and our international competitiveness. As such, we would encourage Congress to enact policies that promote a national pro-manufacturing strategy including a comprehensive, all-encompassing energy plan that will assist U.S. manufacturers in competing in today’s global economy.

Thank you very much. I would be happy to answer any questions.