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Introduction

Good morning and thank you for the privilege of addressing the Congressional Steel Caucus. My colleagues and I will endeavor to present you with current information on our industry and with our advice on those public policies that would, in our opinion, lend to the future prosperity of our workers, our companies, our industry and our nation. My statement will focus on the state of the steel industry in the United States. It will conclude with some observations about natural gas developments, which are having a positive impact on the steel industry and the entire manufacturing sector, at present and going forward.

State of our Industry

I'd like to begin by stating a few broad characteristics that define the American steel industry today.

1. **Basic Profile**

First, we are an industry that is committed to building a sustainable future both with our products and our practices. This commitment is backed by significant capital investments in state-of-the-art facilities that improve energy efficiency, reduce carbon emissions and increase productivity.

By deploying new steelmaking technologies and through the innovations of the workers on the plant floor, our industry has reduced energy intensity per ton of steel produced by 27 percent and CO2 emissions by 33 percent per ton of steel shipped since 1990. As we continue to produce the advanced, highly engineered steels that our economy needs, we are finding that steel has substantial “life cycle” advantages over competing materials due to its relatively low energy use, high recyclability, conservation of natural resources and extensive re-use of by-products.

Second, we are a global leader in labor productivity, with many facilities producing a ton of steel in less than one man-hour. In this regard, we are also a major job creator in the U.S. economy. For every one of the 151,000 direct jobs in the steel sector, seven additional jobs in upstream and downstream industries are generated, supporting more than a million jobs to the U.S. economy.

At the same time, our industry remains totally committed to continuous improvement in safety and health and to achieving an injury-free workplace.

Third, steel, the material, continues to be the basic backbone and the essential building block of the American manufacturing sector and of the renaissance in our manufacturing base that —with the right public policies — is poised to take place.

Steel provides an essential material for downstream manufacturers in the automotive, energy, machinery and equipment, container, construction, appliance and rail industries. It is a critical

building material: for our nation's energy, transportation and water infrastructure; for our country's commercial and residential structures; for our modern communication systems; and for virtually every military platform that is essential to our national defense.

Steel is one of the most highly engineered materials in the world. There are literally thousands of unique steel chemistries and each of those chemistries results in finished steel products with a unique combination of properties related to strength, formability, corrosion-resistance, and more.

As our industry continues to recover from the worst global recession since World War II, our sector today has strong, world-class companies that are poised to participate in a full recovery because they are internationally competitive by any standard.

In summary, today's American steel industry is well-positioned to compete with producers from anywhere in the world, provided the steel is fairly traded. However, what we cannot compete with are foreign governments -- and, in particular, the government of China.

2. **Industry Conditions and Short Range Outlook**

The current condition of the American steel industry and its short-range outlook are functions of the current state of the general economy, the state of major steel-using market segments and the state of competition from imports, which have all too often been subsidized and/or dumped.

Turning first to the current state of the general economy, it is improving from the depths of 2009, but not fast enough. While GDP, industrial production and manufacturing are all growing again and consumer confidence is on the rise, most economists continue to predict weak to moderate growth for the U.S. economy this year and next, developments that will do little to reduce the high number of long-term unemployed and that add risk to our fiscal situation. Also of significant concern to our industry is our nation's huge manufacturing trade deficit. This deficit, which increased by more than 30 percent in 2010 and rose another 12 percent last year, is continuing to cause weaker GDP growth, reduce manufacturing jobs growth and cost steel producers in the United States more than 10 million tons of lost sales every year.

On the positive side, U.S. manufacturing is growing, our major steel-consuming market segments are improving, and a slow, modest recovery is expected to continue both this year and next. Three key problems are that overall economic growth is not what we and our customers would like it to be, construction remains very weak and serious fiscal constraints continue to impose considerable uncertainty on infrastructure spending.

The automotive sector is a relatively bright spot for our industry. North American car and light truck production in 2011 was nearly 50 percent higher than in 2009, though the 13.1 million units produced last year was still well below the 2002-2008 annual average of nearly 16 million units. The good news is that, notwithstanding the higher fuel prices, recent automotive forecasts have been upgraded. They now call for North American car and light truck production to exceed 14 million units in 2012 and to exceed 15 million units next year. In addition, February light auto sales in the U.S. were up, making this the best 2-month start for auto sales since 2008.

The energy market is another bright spot for our industry. Forecasts for the energy infrastructure sector suggest that there could be a 5 percent increase in 2012 activity, followed by a 9 percent increase in 2013. Our nation's oil and gas rig count has improved substantially since June 2009 and is nearly 20 percent higher than a year ago. Continued interest in and development of North American shale resources, both oil and natural gas, will drive drilling and pipeline activity. This trend should increase demand for oil country tubular goods (OCTG) and, later, line pipe, and they set us up for greater industrial productivity as gas becomes a more widely used and a more competitive fuel source. (I will offer some additional thoughts about natural gas in the second part of this statement.)

There is one major steel-consuming sector that continues to be a drag on U.S. economic and steel market growth – the construction industry. In particular, public sector construction remains deeply depressed, due in part to government budget constraints at all levels. While there are some signs that commercial real estate may be approaching a bottom, perhaps by late this year or early next year, residential construction continues to struggle as already deeply depressed home prices continue to fall in many areas and fail to recover in others. To put the weakened condition of our critical housing sector into proper perspective, if we do get the modest gains in housing starts that are now being forecast through 2013, housing starts next year would still only be about half of their pre-recession level.

In summary, most major steel market segments are expected to experience moderate year-over-year growth in 2012, but the big exception is construction. The automotive, energy and machinery sectors are all likely to increase their domestic manufacturing output and to continue to outpace the overall rate of economic growth. Shipments to the construction industry, however, will remain level at best as demand in this market segment continues to be far below average.

Given all of this, apparent steel demand in the United States continues to increase, but even after the expected gains of 6 percent this year and another 6 percent next year, demand in the U.S. would still only be at 88 percent of the 4-year annual average preceding the global recession. The same applies to domestic steel shipments. Even after two solid years of gains in shipments, and after expected increases of another 5 and 6 percent this year and next, respectively, our industry's shipments would still be 10 percent below the 2004-2007 annual average.

One positive to report is that domestic steel capacity utilization increased to 78 percent in the month of February, but here again, this is still far below the more than 90 percent utilization rate that we had before domestic steel demand collapsed in late 2008. Another positive to report is on the export side. U.S. exports of steel in 2012 (80 percent of which go to NAFTA countries) are expected to exceed their 2008 peak.

A last vital component of apparent steel demand that affects current and near-term conditions in our industry is imports, and they remain a serious concern. The volume of finished steel imports, which increased 16 percent in 2011 compared to the year before, is up again, this time by nearly 30 percent in the first two months of the year compared to the same period in 2011. Based on year-to-date data, imports would annualize at 24 million net tons, which is significantly higher than what many experts were forecasting just a few months ago.

Precisely because our sector's recovery remains slow and fragile, the American steel industry must remain vigilant to the possibility of unfair trade surges this year. The risk of such surges has only increased compared to a few months ago because demand is increasing in the United States, whereas major parts of Europe are experiencing an economic downturn, growth is beginning to slow in China and there is economic contraction in Japan. All of these factors suggest one key policy conclusion: we must maintain and increase the strength of our vital trade remedy laws and, in this regard, we appreciate the support the Congressional Steel Caucus has consistently provided on this issue.

Of particular note was the very welcome action taken just recently by the House and Senate to overturn the erroneous ruling in the so-called "GPX" case. If there is one thing that has become clear over the past few years, it is that Congress fully intends that the anti-subsidy laws apply to non-market economies, especially China. The strong role that Steel Caucus members took in supporting the bill's enactment is well appreciated by everyone in the industry.

Natural Gas, Steel and American Manufacturing

Before I conclude, I would like to speak about an issue that our industry believes has the potential to further revitalize both the U.S. steel industry and American manufacturing as a whole -- and that is the natural gas opportunity in the United States.

Fully utilizing our natural gas resources is vital to reducing energy costs for domestic manufacturers — including the steel industry.

The discovery and development of North America's shale resources has the potential to be the most remarkable source of economic growth and prosperity that any of us are likely to encounter in our lifetimes. These developments will create high-value jobs, stimulate economic activity in North America and help provide energy security and independence for our nation.

The Marcellus shale formation alone is one of the most significant discoveries of natural gas in the world, with enough projected reserves to satisfy our nation's energy needs for 100 years.

Development in the Marcellus formation has revolutionized and revitalized the economic realities of local communities, regions, and states where gas can be extracted and brought to market. A recent independent study found that the Marcellus Shale accounted for the creation of more than 60,000 jobs in Pennsylvania in 2009, with more than 200,000 new jobs anticipated by 2015. Projections for New York, West Virginia and Ohio (Utica Shale) are just as promising.

Now, why is this so important to the steel industry?

The steel pipe and tube products that U. S. steelmakers produce are integral to the exploration, production and transmission of natural gas. So, increased exploration and transmission of natural gas would mean increased demand for specialized steel products. And more steel demand means more steel jobs – jobs that pay family-sustaining wages and provide good benefits, I might add, so that's good for everyone.

In addition, the steel industry is a significant consumer of all forms of energy, including natural gas. Using our company—United States Steel—as an example, last year alone in North America, we used more than 100 million mm/btus of natural gas, more than 9 million tons of metallurgical coal for coke making operations, and more than 1 million tons of other types of coal for pulverized coal injection.

From an environmental standpoint, natural gas is a fuel that many experts have identified as key to the advancement of our nation’s future cleaner energy agenda. Our access to affordable natural gas gives us a competitive advantage over other regions. Last year, the U.S. Department of Energy identified the U.S. steel industry as a world leader in achieving the lowest energy intensity per ton of steel produced as compared to steel industries in other nations. Natural gas played a positive role in those achievements and will continue to do so going forward.

So, what are looking for from the government from a policy standpoint?

We are urging Congress to pass Chairman Murphy’s “Infrastructure Jobs and Energy Independence Act” – HR 1861. This bipartisan legislation – which has been wisely embraced by leadership — focuses on expanding access and production of America’s oil and natural gas sources in the Outer Continental Shelf, while using the anticipated revenue to rebuild America’s transportation infrastructure.

We support common sense regulations of natural gas development. We believe environmental regulations on shale gas drilling are best developed and implemented at the state, rather than federal, level, where there is better flexibility to deal with local issues.

The President’s Council on Jobs and Competitiveness just issued a report emphasizing how important developing our natural gas and shale resource is to America’s economic and energy security as well as to our global competitiveness. We hope the Caucus and the entire Congress will join us in urging the President to take action on this recommendation, which will create jobs, stimulate the economy and secure our future energy supply.

I look forward to our discussion of these topics – and any other – with Members of the Caucus.

Thank you again for this opportunity to be with you.