House Steel Caucus – March 21, 2012
Statement of Richard Teets and Tracy Porter
Vice Chairmen, Steel Manufacturers Association

About the SMA, Steel Dynamics, and Commercial Metals Company

I am Richard Teets, Vice Chairman of the Steel Manufacturers Association (SMA), and President & COO – Steel Operations of Steel Dynamics, Inc. SDI is the nation's fifth largest producer of carbon steel products. Headquartered in Fort Wayne, Indiana, SDI operates five electric arc furnace (EAF) minimills, and directly employs about 6,500. I am accompanied by Tracy Porter, Vice Chairman of the Steel Manufacturers Association (SMA), Senior Vice President of Commercial Metals Company (CMC), and President of CMC Americas. CMC operates four steel minimills, with a combined capacity of 2.8 million tons.

The SMA is the primary trade association for EAF steel producers, commonly referred to as "minimills". SMA members include 34 North American steel companies who operate 130 steel plants. Our member companies account for more than 75 percent of U.S. steel production from 369 facilities and head office locations in 39 states. SMA members directly employ more than 60,000 people; in addition, we have 121 associate member companies who supply products and services to the steel industry.

Thank you for the opportunity to appear before you today and for all that the House Steel Caucus does to support the domestic steel industry.

Today's Hearing

We understand that the purpose of today's hearing is to focus on what the Caucus can do to support the industry during these challenging times.

In the last decade, the U.S. has lost over 20 percent of its manufacturing jobs. While other nations are exporting goods to the U.S., the U.S. is exporting debt and jobs, and is increasing its foreign debt to alarming levels.

- We must enforce our rules-based trading system and address the illegal trade practices of foreign governments;
- We must ensure that our regulatory and tax systems encourage investment, innovation, and job creation;
- We must reduce our trade and current account deficits;
- We must rebuild our obsolescent and deficient infrastructure;
- And we must engage in a concerted drive for greater energy independence.

While we would no doubt echo many of the sentiments of our colleagues, today we would like to focus our comments on the impact of foreign raw material export restrictions, especially pertaining to ferrous scrap, the need for alternative investment in our infrastructure, and an environmental regulatory challenge that impacts SMA's Members.

Rules-Based Trade

U.S. minimills can out-compete any steel producers in the world. The U.S. Government must ensure a level playing field by enforcing our rules-based trading system and addressing the illegal trade practices of foreign governments, including government subsidies, intellectual property theft, trade law circumvention, raw material export restrictions, and currency manipulation.

Raw Material Restrictions and Availability

Many U.S. policymakers are seemingly indifferent to unprecedented growing purchases of U.S. ferrous scrap by foreign steel producers. Excessive foreign purchases of U.S. scrap are hollowing out our domestic scrap supply, while other countries' own scrap export restrictions distort markets and discourage the development of needed recycling networks. U.S. ferrous scrap exports surged to nearly 24.3 million tonnes in 2011, and our nation now exports one-third of its scrap each year.

EAF capacity and corresponding scrap requirements continue to grow globally, while the amount of scrap that is traded across borders has remained relatively fixed and limited. Rising global demand for scrap will increase pressure on scrap supplies, while foreign restrictions on scrap exports are increasing. This could ultimately create global scrap shortages.

Pervasive foreign government controls have distorted world markets for both steel and raw materials that are used in steelmaking. Governments that provide subsidized investment and control the movement of raw materials through trade barriers directly violate WTO agreements. Often, foreign steel industries respond to government dictates, rather than market forces.

A recent troubling example is the actions of the Russian government to limit exports of scrap by restricting the ports through which it can be exported. A Russian Customs regulation adopted in February permits the export of scrap in Russia's Far Eastern Federal District only through the far northern port of Magadan. This regulation prohibits scrap exports through the ports of Vladivostok and Nakhodka, even though those ports handle nearly 90 percent of Russia's scrap exports in the Far East.

Similarly, the Federal Customs Service of the Russian Federation recently released a draft decree that would restrict exports of steel scrap and other scrap products to certain ports in the Northwest Federal District. Significantly, the decree would not authorize scrap exports through St. Petersburg, which has been by far the largest shipping point for

Russian exports of scrap from northwestern Russia, accounting for 87 percent of regional scrap exports in 2011.

These measures could deny the United States and other World Trade Organization members the benefits of commitments that Russia has made in connection with its accession to the WTO. These measures are also contrary to Article XI of the General Agreement on Tariffs and Trade, which prohibits restrictions on exports other than duties and other charges.

State-Owned Enterprises

The need for vast amounts of raw materials for steelmaking underscores an important part of the role that state-owned and state-influenced enterprises (SOEs) play. While we welcome foreign investment in our nation, we are cautious of SOE investment that does not appear to be market-oriented.

The Chinese government, seeking increased self-sufficiency, has encouraged Chinese firms to expand overseas equity in raw material supplies from 15 to 50 percent. The purchasers are SOEs, often acting with funding from state-owned banks and investment funds. Because these firms are acting pursuant to government direction rather than market demands, there is a real concern that they will use SOEs to monopolize access to key raw materials, including those that are used to make steel.

The long-term impact of SOE investments in the U.S. is of concern. Because SOEs receive government backing in a variety of forms, including direct subsidies and access to low-cost financing, SOEs operating in the U.S. market will not be subject to the same market forces that are imposed on their competitors. SOEs should operate under the premise of competitive neutrality.

We again express our appreciation for the efforts and actions of the House Steel Caucus, and for your efforts to communicate to Treasury Secretary Timothy Geithner the need for CFIUS to fully investigate Chinese SOE investment in U.S. steelmaking capacity. We support efforts to develop a mechanism that will transparently and fairly assess investments in our nation.

Need for Infrastructure Investment

The House Steel Caucus has long understood our nation’s need to invest in its infrastructure. While the U.S. economy has shown signs of improvement, it is still in a crisis.

A recent article by Lazard’s Felix Rohatyn and former U.S. Secretary of Transportation Rodney Slater states: “We could create millions of jobs by rebuilding our transport and water systems – ending the congestion that stifles our ports, airports, railroads and highways; increasing productivity; and empowering the U.S. to compete with countries that are investing in infrastructure on a massive scale.”

Infrastructure financing tools are available. The SMA has advocated for over ten years the need for Congress to bolster investments by providing tools such as a National Infrastructure Bank, which could leverage hundreds of billions of dollars in private capital. This is not a new idea, but recent legislation introduced by Congresswoman Rosa ReLauro and Senators Kay Bailey Hutchison and John Kerry may finally be gaining traction. This is an idea whose time has come.

Infrastructure bank legislation is supported by President Obama, the AFL-CIO, and the U.S. Chamber of Commerce, all of whom recognize our need to rebuild and reinvest.

Sufficient, long-term investment in our infrastructure will generate real economic returns and put Americans back to work in the near-term, and will foster our nation's global economic competitiveness going forward.

Environmental Regulatory Challenges

Many recent EPA regulations impact electric utilities, thus increasing the costs of energy for manufacturers who rely on electricity to run their operations. EAF steel production is an energy-intensive process, so even slight energy cost increases can have a huge impact.

The Utility MACT rule is a case in point. It will adversely impact the entire electricity grid by forcing the early retirement of a portion of the coal-fired power plants that currently provide electricity to half of the U.S. It is estimated that it will result in the annual loss of over 180,000 American jobs, and a total cost of compliance of $127 billion between 2012 and 2020. In addition, raised electricity prices during the same timeframe could reach as high as $52 billion, which would be passed along to all consumers, household and industrial users alike.

EAF steel producers are also dealing with a host of EPA regulations that directly impact their facilities – specifically, air emissions of mercury. EPA is voluntarily revisiting the EAF Area Source Rule, which was only imposed on the U.S. EAF sector in June 2008. EPA is likely to propose threshold limits for mercury emissions from EAF facilities that would all but assure that no new carbon EAF facilities would ever again be built in the U.S. and with 88 percent of the existing EAF industry currently out of compliance. Additionally, the annual cost for proposed mercury testing could exceed $1 million per bag house, which is unnecessarily onerous. Over the past 6 years, over 4.5 tons of mercury has been recovered from the scrap stream before it enters domestic EAF furnaces due to source control implementation by the mills.

EPA's imposition of interim guidance, interim rules, draft policy and reinterpretation of policies has led to uncertainty regarding actions taken by state and federal regulatory bodies. Regulations should be established through approved legislative initiatives, rather than questionable regulatory actions that add cost and bureaucratic red tape. The EAF sector needs stable, pro-growth environmental regulations in place in order to focus attention on domestic job creation and global competitiveness, as well as to devote resources to environmental projects that promote sustainability and real environmental improvement.

Conclusion

Our nation needs an adequate domestic supply of steel to maintain our national economic security, to contribute to our national defense, to provide a sufficient domestic source of steel for infrastructure rebuilding and rehabilitation, and to help ensure the recovery of U.S. manufacturing.

These are challenging times for the domestic steel industry. SMA would like to thank our Congressional leaders for their support, and for their continuing attention to issues that impact the U.S. steel industry.