

STEEL MANUFACTURERS ASSOCIATION

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Chairman John D. Dingell
Committee on Energy and Commerce
Chairman Rick Boucher
Energy and Commerce Subcommittee on Energy and Air Quality
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Dingell and Chairman Boucher;

I am pleased to provide these comments on behalf of the Steel Manufacturers Association (“the SMA”) in response to the Energy and Commerce Committee’s February 27, 2007 request for industry input on potential Congressional actions on global climate change.

The SMA is the primary trade association for scrap-based electric arc furnace (“EAF”) steelmakers and rerollers. Our members produce over 70 percent of the steel made in the United States. The SMA consists of 36 North American companies that operate 125 steel facilities and employ approximately 40,000 people in 37 states and 122 Congressional districts.¹

In question 5 of your letter, you asked what steps our organization’s members have taken to reduce greenhouse gas emissions. SMA member companies are the largest recyclers in the United States. Recycled scrap constitutes nearly 100 percent of the material input of EAF steel producers. In 2006, the U.S. steel industry recycled approximately 75 million tons of ferrous scrap, with approximately 80 percent of that scrap consumed in EAFs. In addition to the environmental benefits of recycling on an unparalleled scale, the EAF steel production that occurs at SMA member companies also requires one quarter of the energy that steel production from iron ore requires. In fact, each year, SMA member companies save about 800 trillion BTUs -- enough energy to electrically power 23 million households, or the city of Los Angeles for one year.

In response to questions 1, 2, and 3 of your letter the SMA asks that the Committee recognize that American industries, and SMA member companies in particular, are some of the cleanest, energy-intensive industries in the world in terms of green house gas emissions. If greenhouse gas legislation does not take international trade, and particularly, the environmental costs of trade, into account, greenhouse gas emissions from the world’s most energy-intensive industries will actually increase.

Some legislative proposals on greenhouse gas reduction would control the steel industry’s emissions as a sector. Others would focus exclusively on the electric utility industry.

¹ The SMA also represents companies with 12 international steel facilities.

Under either proposal, the U.S. steel industry, and all energy-intensive industries, would suffer a significant competitive disadvantage in relation to countries that will not face sector-specific requirements or drastically increased energy costs. Currently, in Europe, high energy costs have significantly hindered the competitiveness of the European steel industry. As such, regardless of whether the steel industry is specifically regulated as a sector or if electric utilities are regulated alone, the U.S. steel industry will need some type of allocation to offset the competitive disadvantage generated by higher electricity costs.

Virtually all of the world's recent growth in steel capacity has been in rapidly developing countries, such as China, that are effectively exempt from the limitations and requirements in the Kyoto Protocol. The Kyoto Protocol would have required the United States to institute a seven percent reduction in greenhouse gasses between 1990 and 2012. According to the U.S. Environmental Protection Agency's recent report on domestic greenhouse gas emissions, the U.S. steel industry has reduced its process-related carbon equivalent greenhouse gas emissions to 37 percent below 1990 levels. These steep reductions are due primarily to the increased reliance on EAF-based steel mills. Viewed against the objectives of the Kyoto Protocol, American steel producers have already exceeded the targets in the Kyoto Protocol by almost 400 percent. As such, the SMA urges the Committee to consider the following ways to recognize low-greenhouse gas intensive producers:

1. Reward recycling – High-energy intensive industries that rely on utilization of recycled materials as feedstocks for the production of new products should be rewarded. These rewards could be accomplished through allocations that offset the competitive advantage that foreign firms otherwise enjoy by operating in countries not subject to mandatory greenhouse gas costs or limitations;

2. Bring order to domestic energy policy – Effective greenhouse gas emission control must have an energy policy component to improve energy efficiency and develop low carbon emitting energy source technologies;

3. Global monitoring – The U.S. Congress should routinely review the progress of developing nations in addressing their greenhouse gas emissions and establish a means of leveraging full international cooperation in the reduction of greenhouse gas emissions, with no exemptions available for any nation, developing or otherwise;

4. Technology – Current discussions of carbon cap and trade programs have failed to address serious economic and effectiveness limitations that must be resolved to ensure that greenhouse gas reductions are achieved from efficiency and technological improvements, rather than demand destruction of low carbon intensive manufacturing.

SMA member companies produce steel in an environmentally conscious and energy efficient manner. Nonetheless, they are forced to compete in a highly-competitive global steel market against businesses in countries where there are little or no effective environmental controls. As the Committee considers the various proposals to address global climate change, the SMA urges you to recognize that any proposal that is not trade neutral will only serve to

provide additional advantages to foreign competitors and further erode the international market share for America's manufacturing industry. The U.S. steel industry, which has taken effective early steps to reduce its greenhouse gas emissions, critically needs an allocation or credit in recognition of its effective reductions and competitive market. Further, the SMA believes that mandatory domestic requirements should be conditioned upon assumption of specific responsibilities by developing nations so that these developing nations are not able to assume a competitive advantage on American companies by dragging their feet on greenhouse gas reduction.

I appreciate the Committee's willingness to reach out to the industrial community to seek input on its climate change efforts. I hope that the SMA and its member companies can be a resource to you and your staff as you advance on this complex policy area and develop a specific legislative avenue. As such, please do not hesitate to contact me if the SMA can assist the Committee in any way.

Sincerely,

Thomas A. Danjczek
President
Steel Manufacturers Association

cc. SMA Board of Directors
SMA Environment Committee
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SMA Energy Ad Hoc Group
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