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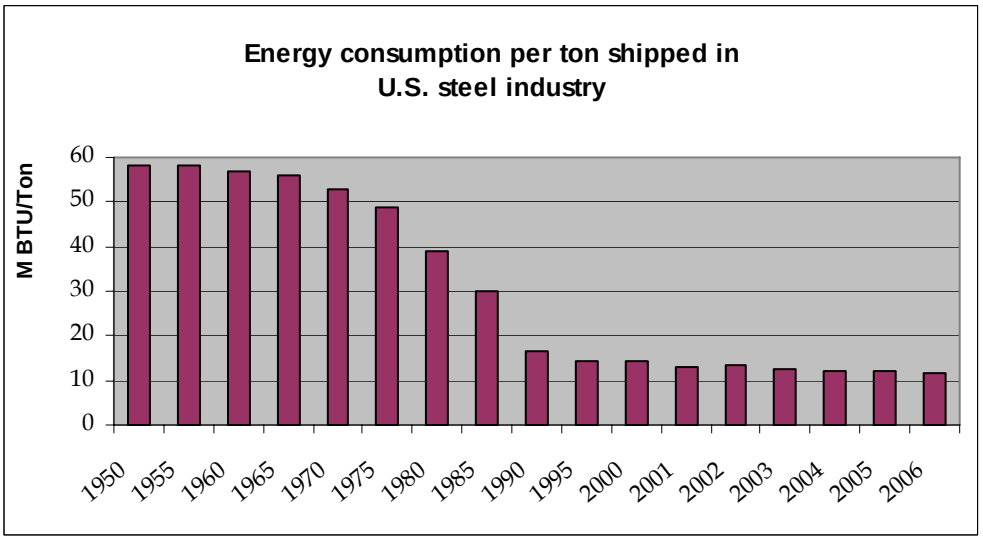
American Iron and Steel Institute
Legislative Hearing of America's Climate Security Act of 2007, S. 2191
The Senate Committee on Environment and Public Works
November 13, 2007

On behalf of the American Iron and Steel Institute, I express my gratitude to Chairwoman Boxer, Ranking Member Inhofe and the Members of the Committee for the opportunity to testify today.

The American steel industry is part of the solution in this debate, not the problem. We are the most energy efficient steel industry in the world and we have the data to prove it. We not only beat the Kyoto targets 11 years early, we are already doing on our own what S.2129 seeks to do for the entire economy. The domestic industry, largely through recycling and investments in new technology, has reduced energy use per ton of steel shipped by over 40% over the past 25 years. Reductions in carbon emissions per ton of steel shipped between 1990 and 2006 exceeded 29% (a detailed chart appears below). If you will, relative to the rest of the economy, this industry is laying golden eggs.



Steel is the most recycled material. The entire domestic industry is using more scrap metal, both mini-mills and integrated mills. I understand that Senator Carper may offer a recycling amendment to the bill. The use of recyclable materials as raw material feedstock in manufacturing processes can significantly reduce, and even avoid in some cases, greenhouse gas emissions. The proposed amendment, which is purely voluntary and market based, allows manufacturers eligibility for offsets when implementing a variety of activities including increasing the use of recycled materials, manufacturing of products that can be increasingly recycled, eliminate or reduce substances that impede recycling, employ other recycling practices that increase recycling or any combination of these activities. Our industry commends Senator Carper for recognizing the important

positive contributions that recycling provides for the environment. The recycling issue must be part of any approach to the reduction of GHG.

While our present processes are optimized, we are not standing still--the U.S. steel industry, in collaboration with the rest of the global steel industry, has embarked on aggressive research and development programs to develop the next generation of iron and steelmaking technologies that will drastically reduce or eliminate CO_2 emissions. We continue to work to make strides but one reality needs to be taken into account- steel is an alloy of iron and carbon. That is, carbon is necessary in the current steelmaking process technologies and unless we undo the laws of physics, it is a reality that must be taken into account.

The steel industry has and is developing new types of steel products that lead the way in reducing the greenhouse gas emissions of our customers, for example, through the design of automobiles using advanced high strength steels which permit much lower vehicle weights and require much less fuel, all while maintaining vehicle safety. Use of some steel products results in more efficient buildings and infrastructure and is integral in pressure vessels for electrical power generation and energy transportation. Fighting global warming will require significant amounts of new steel products.

If you take only one thing away from this hearing, it should be the impact of climate change legislation on U.S. workers and manufacturers. I want to be as clear as possible on this point: if climate legislation fails to address the competitiveness issues vis-à-vis foreign products, it will have devastating consequences not only for the U.S. economy, but also for the environment. Not only will we export American jobs, greenhouse gas emissions will rise. The carbon footprint of our major foreign competitors selling in the U.S. market is substantially higher than that of the domestics as a whole.

It goes without saying that in a market open to imports (such as ours) any legislation that undermines the competitiveness of U.S. mills will encourage steel production to leave this market in favor of markets with *lower* environmental standards. Such an outcome will necessarily result in *higher* volumes of greenhouse gas emissions worldwide. In other words, any climate change legislation that does not adequately account for competitiveness issues will have precisely the opposite effect from that intended by its supporters. To put it bluntly, the big winner in such a scenario would be countries like China and India – and the big losers would be U.S. workers and the global environment.

Looking specifically at S. 2129, energy costs will rise under the bill beginning in 2012, costs that our foreign competitors do not face. Our allowance obligations commence in 2012 further driving our costs up. The bill does not impose allowance obligations on foreign manufacturers, if at all, until 2020, eight years later. For a cyclical industry like steel, eight years is an eternity. The bill's baselines for our foreign competitors invite gaming. The purchase of international allowances invites subsidies by foreign governments. And I would add, under the international allowance mechanism in Title VI, any allowances that you give for free to American carbon intensive industries must be subtracted from the allowance obligations of foreign manufacturers. That is true,

apparently even if you are trying to offset higher energy costs from cap and trade that the foreign manufacturers do not have.

We believe that any competitiveness provision should 1) apply simultaneously to domestic and foreign firms selling in the U.S. market; 2) use the same baseline periods; 3) not invite subsidies by foreign governments; and 4) not enable the Administration to waive the requirements on foreign manufacturers.

In short, the best way to deal with an industry facing foreign competitors would be to adopt an approach that requires everyone selling in this market- whether domestic or foreign- to live up to the best practices and highest standards in terms of the carbon performance of their manufacturing operations, based on the particular manufacturing process that is employed. Such mandatory performance standards would be fair, equitable, and would have the immediate effect of actually *lowering* global emissions without creating market distortions. Such a policy would ensure that manufacturers in the United States and elsewhere would compete on even terms, because all producers active in this market, including us, would be subject to the same rules. This approach would give your bill a true global reach and not put the domestic steel industry at a competitive disadvantage. And as our trade deficit shows, everyone wants to be in this market. Why not use that fact to encourage greener production abroad? Instead of a "race to the bottom" in which manufacturers have an incentive to make the product in countries with the least restrictive standards, why not encourage a "race to the top" where manufacturers worldwide compete to meet our standards?

We still have grave doubts generally about how well cap and trade can address climate change. Cap and trade worked reasonably well on the acid rain problem. The climate change issue is quite different. With climate change we have major technological gaps, the need for global reach, the presence of foreign competitors, and no guaranteed ability for regulatory cost pass-through.

More specifically, S. 2129 rewards states with extra allowances if they impose more stringent cap and trade requirements than the federal scheme. I shudder to think how American industry can cope with a federal cap and trade program and a multitude of conflicting, more stringent state programs. Recall that the states, under the U.S. Constitution and our trade laws, have no mechanism to achieve global reach, to avoid giving foreign manufacturers who sell in our markets a competitive advantage over domestic firms.

Finally, we are very concerned that S. 2191 will encourage fuel switching from coal to natural gas, further escalating natural gas prices. This scenario is already occurring, just in anticipation of legislation. Electricity price hikes will unquestionably follow, not just for us, but for the entire economy. The technologies we need are not in place, and won't be for many years. Unfortunately, energy supply is woefully neglected in this bill, and in the pending energy legislation. Obviously, if U.S. energy costs continue upwards unabated, this will only increase the likelihood that foreign manufacturers, who have

access to affordable energy, will capture U.S. jobs and domestic market share, and consequently increase greenhouse gas emissions.

Madam Chairman, we certainly agree on one thing. We must find prudent means of addressing climate change. While we disagree on much of what is contained in S. 2192, we want to work with you and the other members of this committee to find reasonable and effective policies. We are not just saying "no." We hope you will regard our suggestions as constructive.