

**WRITTEN STATEMENT OF  
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AND  
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BEFORE THE CONGRESSIONAL STEEL CAUCUS**

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**About AISI**

Good Morning. Thank you, Mr. Chairman, Mr. Vice Chairman and Members of the Steel Caucus, for hosting today's hearing. I am pleased to be here as part of this distinguished panel and to present testimony as Chairman of the American Iron and Steel Institute (AISI), whose members – some of whom also belong to the Steel Manufacturers Association – account for over 75 percent of the raw steel produced in the United States and North America.

For the benefit of new Members and to refresh the memories of veteran Members, let me say a few words about AISI. The work of AISI and its members is centered on common goals and a clear vision for the future: “to promote steel as the material of choice and to enhance the competitiveness of the North American steel industry and its member companies.” To that end, AISI helps its members:

- To provide high-quality, value-added products to a wide array of customers;
- To lead the world in innovation and technology in the production of steel;
- To produce steel in a safe and environmentally friendly manner; and
- To increase the market for North American Steel in both traditional and innovative applications.

AISI also -- as you know well -- acts as a central organizing force in the development and advocacy of industry positions on a wide variety of public policy issues. This role is conducted primarily here in Washington, but we are also active on NAFTA-wide and multilateral levels, as well as occasionally in the states.

AISI is also the primary statistician of the North American industry. Its regular reports on production, capacity utilization, analysis of import data and other important information are relied on by governments, analysts, investors and those active in the steel market, around the world.

AISI is comprised of 32 member companies, including integrated and electric furnace steelmakers. Some Members of the Caucus might recall when AISI could claim larger membership, in terms of numbers of individual companies. Today's smaller number does actually represent a reduction in size, however. Rather, it is a real world

## **State of the Industry**

America's steel industry is in the midst of a dynamic transformation through consolidation and restructuring. The industry has invested over \$4 billion to date in this process, which has reduced the number of players and, in so doing, has also strengthened those that remain. In fact, we have seen more industry consolidation in the past two years than in the previous two decades.

It is critical to recognize the role not just of improved market conditions, but also of the greater stability and predictability that has permitted significant restructuring to occur. During the depths of the recent steel crisis, companies were often restrained in their ability to pursue projects that otherwise would have made economic sense and created value – due to extraordinary volatility in the market, the lack of capital, and the difficulty of justifying any acquisition in the context of wholly unsustainable market conditions.

The success of the industry's revitalization efforts is reflected in a return to profitability, much improved share price performance, better access to capital markets, and a somewhat more favorable outlook from credit agencies. It is important to recognize that these are all very positive developments, not just for the industry, but also for our economy and our consumers, as the long-term productivity and cost-competitiveness of the industry is enhanced and a more stable outlook can be foreseen.

A number of factors, including improvement in the market balance of supply and demand, have contributed to this result: new management efficiencies and innovative labor agreements; the elimination or reduction of some legacy costs; significant gains in productivity, and extensive recapitalization.

The recent rebound in net income is badly needed to begin to recover from significant losses in recent years and to start to work down a backlog of needed investment. Steel producers anticipate increasing their investment spending by 30 percent over the next two years, which benefits our customers with a stronger and more vital steel sector.

A healthy domestic steel industry is essential to strengthening the U.S. manufacturing base and preserving a globally competitive manufacturing sector. The industry's ongoing innovation is keeping 150,000 skilled steel industry jobs here in America and, by its impact on upstream suppliers to the industry, over one million jobs overall.

Steel is the backbone of the U.S. manufacturing sector. U.S. manufacturers use steel in a vast array of products, from automobiles to appliances to the food cans that are preserving and protecting our food supply. Ongoing innovation is critical to both the steel industry's growth, but also to meeting our customers needs. For example, 60

far along in shaping an agenda that would inevitably lead to a calamitous weakening of fair trade disciplines.

Meanwhile, the U.S. government has been slow out of the box and timid in its response to these efforts. The proposals our government has put on the table have been neither hard-hitting nor aggressive, but have focused merely on issues around the periphery (such as transparency of AD/CVD procedures). At the same time, our opponents have put forward a litany of fundamental and highly damaging proposals, including, among others:

- demands for mandatory "sunset" of AD/CVD orders after five years;
- a so-called "lesser duty rule" (which would require a highly-political and easily challenged determination of whether lower duties could effectively address injurious imports);
- much higher *de minimis* levels (which allow unfair trade to continue, up to certain margins of dumping or subsidization, without remedy);
- higher "negligibility" thresholds (which would allow smaller volume unfair traders to escape remedies).

As such, the current dynamic of the talks is extremely one-sided, with any give-and-take likely to result in a substantial and potentially catastrophic weakening of existing disciplines. This danger is only heightened by the continuing problems the United States has faced with rogue and baseless WTO dispute settlement decisions – which have acted to substantially impinge on legitimate trade remedy actions through activist interpretations of WTO provisions.

The Administration and major parties to the WTO talks have made clear their intent to finalize an agreement by the end of 2006 – in time to take advantage of U.S. trade promotion authority procedures (so-called "fast track" authority), which will likely expire in mid-2007. This in turn would require that the outlines and much of the substance of a final package be in place by the end of the Hong Kong ministerial in December. Indeed, public reports suggest that negotiators would like to see a draft package by the time the WTO breaks in August. The WTO committee working on "Rules" changes has begun bi-monthly meetings – 3-5 days at a time – and is planning to continue thusly throughout the year. In short, we are faced with an extremely compressed and dangerous time frame relating to agreements that could very well make or break our trade laws.

If there is one thing we would ask of this Caucus in the trade area, it would be to lead the way in organizing effective opposition in Congress to *any* trade law weakening in the Doha Round – or in other international trade talks. The pressures facing the Administration to cave in on these laws are enormous, and the temptation to use concessions as a way to grease the skids for a final deal is great. Effective Congressional pressure is absolutely imperative if we are to retain strong trade laws in the face of these challenges.

appreciate the efforts of this Caucus in helping to organize that support and we believe similar efforts will be essential in upcoming cases as well.

- Second, the stalled talks at the OECD on a proposed new steel subsidy agreement (SSA) are highly instructive as to the vital need for our trade laws going forward. The breakdown in the talks occurred for one reason and one reason alone – namely, the refusal of foreign countries to give up on future subsidies. The litany of loopholes and exemptions that were demanded show that government involvement in the steel industry is not a thing of the past. That means our trade laws will be even more critical in the years ahead to deter and counter such market distortions.
- Third, the time may well be ripe to pursue key trade law strengthening objectives in Congress. Concern about China, along with continuing challenges facing the U.S. manufacturing base, has helped to highlight problems with unfair foreign competition. Again, through the leadership of this Caucus, a number of measures have been introduced that stand a real chance of passage – including the proposal making clear that U.S. CVD laws are applicable to non-market economies like China. This measure, which has the support of NAM and a broad swath of manufacturing, would be a major step forward. We once more thank you for your leadership on this issue and stand ready to help in any way we can to see final passage of the bill.
- Fourth, defense of the Continued Dumping and Subsidy Offset Act (CDSOA) must be an imperative. As you know, this law does not provide a single penny to U.S. industries unless (and only to the extent that) unfair trade continues. It is a common sense measure that provides vital funds for investment and survival to industries facing a continuation of dumping and subsidized imports *after* an order is put in place. The WTO decision striking it down was utterly groundless, and it is time for Congress to take a stand against the unbridled judicial activism of that body. We should reject any effort at repeal or change of the law, and continue to urge the Administration to find a negotiated solution as part of the Doha Round talks.
- Finally, I would like to say a word more broadly about WTO dispute settlement. This process has already been highly damaging to U.S. trade laws and simply must be reined in if we are to preserve their effectiveness. As the brazenness and overreaching of these WTO panels has increased, one would hope that a critical mass of concern and outrage is forming in Congress. As in the case of defending the trade laws in general, we and you have a golden opportunity to reach out to other constituencies affected by these abuses – including agriculture (cotton), other Byrd amendment supporters, those who have fought against internet gambling, environmentalists, and the list goes on. I hope you will look to build support in these areas. The upcoming five-year review of U.S. participation in the WTO will also serve as a great forum to raise these issues and highlight problems

- Gross disparities in fundamental regulatory standards here and abroad;
- Spiraling healthcare costs contributing greatly to what the NAM has calculated to be a structural cost disadvantage to U.S. companies of some 22%; and
- The persistence of blatant market distortions and unfair trade by foreign nations.

This Caucus can perform a great service not only to the steel industry, but to the entire U.S. manufacturing base, by pressing for fundamental change in these areas. We as an industry need to do a better job – hopefully with the help of our great supporters in Congress – to reach out more broadly to all U.S. manufacturers and enlist them in our cause.

## **Other Issues of Importance to AISI**

### Transportation Equity Act Reauthorization

Highway and infrastructure construction is the number one high-profile marketing opportunity for steel. More than one million tons of steel is consumed annually in the support of building and upgrading America's transportation system. Opportunities that exist include (but are not limited to) bridges, guard rails, light poles, signage and rails. The steel industry benefits from strong funding for this program not only through the improved movement of goods, but also through the opportunity to supply the construction market.

AISI commends the members of the Congressional Steel Caucus for supporting passage of reauthorization of the highway program (H.R. 3) last week. The current law expired in September of 2003 and the program is running under an extension of that law. Lack of a long-term (6 years) reauthorization is creating havoc, as states, contractors and the steel industry – among others – struggle with the uncertainty.

AISI urges Congress to act as quickly as possible to finalize a long-term reauthorization at funding levels that are equitable and acceptable to meet the transportation needs of the country. We also support any provisions that could provide supplemental means of financing with an emphasis on Private Activity Bonds (supported by DOT Secretary Mineta).

In addition, we continue to support strongly the expansion, enhancement and strict enforcement of Buy American/Buy America provisions at both the federal and state government levels as an essential component of a strong economy. We would oppose any attempt to weaken or eliminate these provisions and we thank the stalwart Members of the Caucus who have championed this cause over the years.

A well-balanced, comprehensive energy bill should include:

- Aggressive energy efficiency/conservation programs;
- A thoughtful, balanced approach for the integration of renewable and other alternative fuels into our energy mix;
- Improved and timely access to onshore and offshore natural gas supplies such as the State Enhanced Authority for Coastal and Offshore Resources Act of 2005 often referred to as SECOR;
- Research and development programs to enhance the use of clean and gasified coal, one of our most abundant resources;
- Nuclear Power Plant construction incentives;
- Liquefied natural gas;
- The preservation or enhancement of energy consumer protections as energy markets adapt to a more competitive environment; and.
- Federal and state regulatory changes that create more effective demand response participation in electricity markets.

## **Closing**

Again Mr. Chairman, Mr. Vice Chairman and Members of the Caucus, your interest in these and other issues is deeply appreciated and encouraging. We stand ready to provide any additional information you might wish and, of course, to work together toward these and other shared objectives. I look forward to our conversations about how we can go about that, both today and in the future.

Thank you for this opportunity to appear before you today on behalf of the American Iron and Steel Institute.