



**Statement of Richard J. Harshman
Chairman, President and CEO
Allegheny Technologies Incorporated**

**Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade
U.S. House of Representatives**

March 21, 2013

SUMMARY

Background: ATI and other members of the Specialty Steel Industry of North America (SSINA) produce stainless steel, superalloys, high-nickel materials, electrical steel, tool steels and other high-technology materials for critical applications. This is a significant year for the industry, which is celebrating the 100th anniversary of the creation of stainless steel. As an industry, we believe that the ability to manufacture critical specialty metals for our key growth markets must remain a core competency of the United States, both from a national security and sustainable economic growth perspective. We are optimistic about our ability to continue to grow and invest here in the U.S. – ATI alone has invested more than \$3.7B in capital expenditures and strategic acquisitions in recent years. That said, we are facing several regulatory challenges that may affect our long-term competitiveness.

Transformer Efficiency Standards: We are concerned that DOE has yet to finalize its preliminary ruling regarding more stringent efficiency standards for distribution transformers. The proposed standards were issued after a lengthy negotiated rulemaking process and strike the right competitive balance – DOE should finalize the preliminary ruling without further change.

Conflict Minerals: Our companies are working to comply with the SEC’s rule on the use of conflict minerals as required by Dodd-Frank. While we are pleased that scrap has essentially been exempted, much of the rule remains unclear and we have received little guidance.

Trade: We see substantial evidence of unfair trade practices on the part of our global competitors, such as dumping and foreign government subsidies – we remain particularly concerned about China’s undervalued currency. Here at home, Commerce and USTR recently proposed a new “targeted dumping” methodology which will severely weaken our antidumping laws. Additionally, we are concerned about the potential use of foreign-trade zones to subvert existing tariffs.

Environmental: We remain opposed to EPA’s development of new mercury source control requirements which would effectively preclude the construction of any new facilities in the U.S. – the rulemaking continues despite EPA data confirming that mercury emissions from specialty steel facilities are miniscule. Our industry is also concerned about DOE’s proposed plan to release into the market scrap metal from radiological areas – the plan threatens the integrity of the scrap supply as well as consumer confidence in specialty metals and steel products made from recycled material.

Defense: Specialty metals are critical to our country’s defense industrial base and, as a result, we urge Congress to continue its efforts to ensure that DOD complies with both the spirit and intent of the Specialty Metals Amendment.

WRITTEN STATEMENT

Good morning, Mr. Chairman and Members of the Subcommittee. I am Richard J. Harshman, Chairman, President and Chief Executive Officer of Allegheny Technologies Incorporated (ATI). Thank you for inviting me to participate in this hearing.

I am appearing on behalf of the Specialty Steel Industry of North America (SSINA), and my company. SSINA's member companies produce stainless steel, superalloys, high-nickel materials, electrical steel, tool steels and other high-technology materials for critical applications. A list of our members is attached to my statement.

ATI is one of the largest and most diversified specialty metals producers in the world, with 2012 sales of \$5.03 billion. We have approximately 11,200 full-time employees, 85% of whom are located in the U.S. At ATI we use innovative technologies to offer growing global markets a wide range of specialty metals solutions. Our products include titanium and titanium alloys, nickel-based alloys and superalloys, zirconium, hafnium and niobium, advanced powder alloys, stainless and specialty steel alloys, and grain-oriented electrical steel. We also produce highly engineered forgings and titanium castings. Strategic end-use markets for our specialty metals products include, aerospace and defense, oil and gas and chemical process industry, electrical energy generation and distribution, and medical devices and equipment. We are very proud that ATI's direct international sales have grown to 36% of our total revenue. We are also very proud that our sales to many of our domestic customers allow them to produce critical products for domestic and global markets such as commercial and military airplanes and jet engines, gas turbines, power transformers, oil and gas drilling and completions equipment, products used in critical applications by the global chemical processing industry, and advanced medical equipment. We are fortunate in that at this time, we are one of the few companies in the world which can produce a full lineup of specialty metals that can stand up to such a wide variety of critical applications. We understand and believe that the ability to manufacture critical

specialty metals for our key growth markets must remain a core competency of the United States, both from a national security and sustainable economic growth perspective.

State of the Specialty Steel Industry

First, I would like to comment on the current state of the specialty steel industry. As the U.S. economy improved, so did demand for our products, though at a slow pace. The outlook for 2013 is for modest improvement over 2012. Imports continue to take a substantial share of the market, about 35 percent in 2012. Imports were up 12 percent in 2012 compared to 2011, with China and Mexico leading the way.

We continue to see substantial evidence of unfair trade practices such as dumping and foreign government subsidies to the specialty steel sector. U.S. policy toward state-owned enterprises (SOEs) needs to be clarified and updated so that U.S. producers are competing on a level playing field.

One of the problems we face in the specialty steel industry generally is the lack of new graduates in metallurgy and related technical fields. We need qualified people to support the technological challenges of the future in this high-technology business. We will be meeting with DARPA and the Department of Energy to seek their support in concert with leading universities.

This is a significant year for the specialty steel industry, which is celebrating the 100th anniversary of the creation of stainless steel. We hope you can attend a reception on April 15th with an exhibit showing the history of stainless steel. We are also scheduling a Congressional briefing at 8:00 am on April 16th, to which you will be invited.

U.S. Competitiveness

The U.S. specialty metals industry is technologically advanced and competitive in the global economy. ATI is a good example. We export about 26 percent of our U.S. production (representing a substantial portion of our international sales); and we sell our U.S. made products all over the world.

We continued to invest in the U.S. during the great global recession and our investments continue today.

In recent years, ATI has invested more than \$3.7 billion in capital expenditures and strategic acquisitions, nearly all in our facilities located in the U.S. Some of ATI's major capital investments include:

- Construction of our \$1.2 billion Hot Rolling and Processing Facility in Brackenridge, Pennsylvania, which is currently on schedule for completion by the end of 2013;
- Construction of our \$500 million titanium sponge facility in Rowley, Utah which received standard grade, or SQ, aerospace qualification in 2012; and
- Construction of our \$260 million titanium and superalloy forging facility and titanium plasma arc melting facility in Monroe, North Carolina. These facilities have been qualified for production of aerospace products.

So, why did ATI choose to invest in the U.S. rather than outside the U.S.? There are several reasons: First, we are a proud U.S. company. Second, we believe that to ensure that we remain a technology leader in specialty metals products, we need to co-locate our technology development resources with our core manufacturing capabilities. At ATI, we aim to continue to build the world's best specialty metals company. We believe the best way to achieve this vision is to have the majority of our manufacturing capabilities in the U.S, so that we can be an innovative, high quality, reliable, and cost competitive supplier to our customers. However, as a primarily U.S.-based manufacturer, we must be able to compete on a level playing field with our foreign competitors. A level playing field combined with ATI's industry leading innovation and advanced technical capabilities, our unsurpassed manufacturing capabilities, and the productivity and knowledge of employees, who are the best in the world, will enable ATI to continue to grow and invest so that ATI continues to be a key contributor to the national security and economic growth and diversification of the United States.

To be successful, we must have a driving desire to improve the speed at which our Company gets better. At ATI, we must be a relentless innovator in everything we do. If we don't, we will surely fall behind.

A recent research study concluded, “..that the innovation cycle in the U.S. is alive and well, and could continue to serve as an engine for future U.S. growth.” That same research study mentioned ATI as one of America's innovative companies. The study said, “U.S. specialty metals companies like Allegheny Technologies developed high temperature-resistant alloys like ATI 718Plus® alloy and Rene 65 alloy. These specialty metals increase the efficiency of jet engines by allowing [the engines] to burn hotter.”

But, like other specialty metals and steel companies, it is critical that the U.S. retain strong trade laws to allow us to fight pervasive unfair trade practices of our foreign competitors – dumping, government subsidies, protected markets, state-owned enterprises. U.S. companies struggle to compete with government-owned and supported foreign companies which have easy or low cost access to capital or may not be required to make the same returns on investment required of a publicly-traded U.S. company.

DOE Distribution Transformer Efficiency Standards

ATI remains supportive of the Department of Energy's preliminary ruling regarding more stringent efficiency standards for distribution transformers. The preliminary ruling was issued in February of 2012 but has not yet been finalized. The proposed efficiency standards were issued after a lengthy negotiated rulemaking process, where the DOE considered the views of all stakeholders and arrived at standards that will maintain a competitive balance between grain-oriented electrical steel transformer cores and long-standing alternative materials. More radical increases in mandatory efficiency would result in the wholesale replacement of grain-oriented electrical steel with a core amorphous material that is manufactured on a very limited basis relative to the size of the U.S.

distribution transformer market by a single foreign-owned company that currently exports much of its production. Uncontrolled price increases and supply shortfalls would likely follow, resulting in rising costs that would be passed on to consumers of electricity. This scenario would also damage the dwindling manufacturing base in the U.S. and could lead to a situation where no domestically-owned company would produce the strategically important core material for transformers. The DOE's preliminary rule establishes a well-balanced update to the distribution transformer efficiency standards which results in significant additional energy savings, is environmentally responsible, and maintains the domestic manufacturing base for core materials. Accordingly, we believe it is critical that the DOE finalize the preliminary ruling without further change.

Conflict Minerals

Now that the SEC has announced its rule on the reporting of the use of conflict minerals, our companies are working on compliance – though the rule has not yet taken effect. We are pleased that scrap has essentially been exempted, as it is impossible to trace the original sources of the ingredients in steel scrap. Other aspects of the rule remain unclear, and in part because of pending legal challenges, the SEC has been unwilling to provide further guidance. We appreciate the support of the Members of Congress in encouraging the SEC to take a realistic approach to enforcement of the conflict minerals rule. It is important to note, however, that while we support the spirit of the rule, it seems clear to us that the SEC and U.S. public companies are not in the best position to effectively pursue this kind of geo-political enforcement policy.

China's Currency Remains Significantly Undervalued

China's undervalued currency remains a significant problem. The Government of China continues to subsidize its specialty steel and other specialty metals producers by keeping its currency undervalued. China continues to build massive new capacity for producing stainless steel and other

specialty metals. We appreciate the continuing support of the majority of Members of Congress for legislation to address this ongoing problem.

Antidumping Cases

We are very concerned about a proposal by the Department of Commerce and USTR to make a major change in the methodology of calculating antidumping margins. The proposed new “targeted dumping” methodology will weaken a key trade law. We will continue to keep you informed about this matter.

Use of Foreign-Trade Zones

We are concerned that the Foreign-Trade Zones Board is considering applications for manufacturing authority that – if granted – would enable the applicants to avoid significant inverted tariffs. We believe that a decision to grant such applications would be contrary to the FTZ Board’s regulations and precedent, and that actions to diminish or eliminate inverted tariffs should be taken only by the Congress in connection with its constitutional responsibilities to establish import duties.

Environmental Issues

ATI and SSINA remain opposed to EPA’s ongoing development of a rule that would replace existing common sense and effective mercury source control requirements with numeric emission limits and expensive monitoring. Despite no legal mandate to do so, EPA’s new rule effectively would preclude the construction of any new facilities in the U.S. For specialty steel and other specialty metals, this effort is particularly troubling because EPA data confirm that mercury emissions are truly miniscule – less than one-tenth of a pound per year at a representative mill. This is due to the stringent scrap specifications our companies use to prevent mercury in our feedstocks. EPA should exclude the specialty steel and specialty metals sector from the scope of the rulemaking.

In addition, we oppose DOE’s proposed plan to release into the market scrap metal from radiological areas that it labels as “uncontaminated.” Unfortunately, this scrap is not truly clean. The

plan would allow the release of scrap with levels of radiation that will trigger detectors at our mills. The plan threatens the integrity of the entire scrap supply and threatens consumer confidence in all specialty metals and steel products made from such recycled material.

Defense Issues

Specialty metals are critical to the defense industrial base of the U.S. No weapon, naval, or aerospace program could function without specialty metals, including specialty steels and other high performance materials like titanium and superalloys. Congress recognized this more than 40 years ago when it enacted into law the Specialty Metals Amendment, which requires that all specialty metals used in defense programs be melted in the U.S. We have fought for decades to ensure this law is properly administered and enforced by the Department of Defense. Congress has had to intervene on several occasions when DOD strayed from the clear meaning of the law.

ATI is proud to provide materials critical to the national defense. We are the only company in the world able to produce certain advanced high performance specialty materials. We can afford to do so, however, only if our basic commercial business is healthy. For that reason, it is essential that DOD and Congress continue to support the long-standing laws which enable ATI to produce vital materials for our defense sector.

MEMBERS OF THE
Specialty Steel Industry of North America

March 2013

ATI Allegheny Ludlum
Pittsburgh, Pennsylvania

North American Stainless
Ghent, Kentucky

ATI Allvac
Monroe, North Carolina

Talley Metals Technology, Inc.
A Carpenter Company
Hartsville, South Carolina

Carpenter Technology Corporation
Reading, Pennsylvania

Universal Stainless and Alloy Products
Bridgeville, Pennsylvania

Crucible Industries LLC
Solvay, New York

Valbruna Slater Stainless Inc.
Fort Wayne, Indiana

Electralloy
Oil City, Pennsylvania