

## Oral Statement of John P. Surma

Chairman Terry, Members of the Sub-Committee, I'd like to start by thanking you for devoting an entire hearing to the state of the steel industry. We have long recognized that our industry has a true champion in your colleague, Steel Caucus Chairman Tim Murphy, and we appreciate the efforts he puts forth on the policy and political front to protect and advance our interests. Your willingness to hold today's hearings speaks volumes about Mr. Murphy's enthusiasm and persistence in promoting an industry that is important to the country, especially to his district, where I live, and state, where we are headquartered.

Steel is a globalized industry that competes fiercely on cost and quality to win and keep markets. Too often, some of our biggest challenges come from counterproductive and costly government policy and regulation. The Energy and Commerce Committee knows these problems well and we appreciate your efforts to conduct vigorous oversight of US EPA regulations and guidance, and to attempt to force better cost-benefit analysis of individual rulemakings, as well as the cumulative cost of regulatory compliance and the opportunity costs associated with lengthy and uncertain environmental permitting processes.

I'd like to spend my time this morning talking about America's natural gas success story and how it is affecting the steel industry.

Just a few short years ago, few people anywhere could grasp the economic, social, and environmental potential that would be unleashed by the discovery and

technological mastery of bringing America's shale resources to market in the form of oil and natural gas. Today, however, we read U.S. Government reports projecting that the United States will be the largest energy producer in the world by 2020.

As a result of this new supply source and our ability to extract it safely and economically, there is a renaissance underway in the manufacturing sector. It is propelled by the availability and competitive pricing of natural gas. Electric utilities, industrial users including refiners, chemicals, steel, and the transportation sector, and households are all turning to natural gas as a clean and cost effective energy source.

United States Steel Corporation has been manufacturing high-quality steel products for more than 100 years. Since 1901, our products have included pipes and tubes for energy industry customers and today we are the largest supplier of these products in North America. We are delighted and excited to be serving the shale development market.

As the energy industry has increased its domestic exploration and production efforts, new markets have emerged for steel tubular products and services. The energy sector has been a rare bright spot for us during a challenging period of economic recession and slow growth in the rest of the economy.

- We built a joint venture in Northern California to produce large diameter, spiral welded pipe to serve pipeline and distribution customers.
- We are designing new grades of steel and new products, such as our PATRIOT TC™ and USS-LIBERTY FJM™ premium connections, to serve the exacting requirements of shale drilling and production.
- We are adding new capabilities at our operating facilities to serve our customers' growing and changing needs, including a new \$100 million finishing facility in Lorain, Ohio, that began operations in late 2011 and created 100 new full-time jobs, and the refurbishment and re-opening of McKeesport Tubular operations south of Pittsburgh.
- We have also added new sales offices in Houston and Calgary to better serve customers.

U. S. Steel is also one of the country's largest natural gas consumers. In fact, we consume all forms of energy, including natural gas, coal, coke, electricity, and biomass. To give you an idea of our natural gas use, in 2012 U. S. Steel used more than 130 million MMBTUs of natural gas across our North American facilities, so every \$1 change on the NYMEX is over a hundred million dollar impact for us on an annual basis. The current, competitive price situation has been very positive for our steel producing activities, where we use 6 MMBTUs per ton of steel shipped. Here in the U.S., these 6 MMBTUs cost us around \$25, in Europe, where

we also operate, those same 6 MMBTUs cost us close to \$75. That's called being more competitive.

We are as concerned as anybody about prices and volatility, but we also have great confidence in the ability of our domestic shale reserves and the energy industry to meet America's natural gas demand requirements.

Competitively priced natural gas has enabled us to enhance or adjust our industrial processes and technologies, while improving our environmental performance along the way. As you know, natural gas emissions contain about half the greenhouse gases present in coal emissions, so every ton of coal we can replace with natural gas helps us reduce total emissions.

One such example is increased injection of natural gas to our blast furnaces in order to reduce our usage rates for coke, which is an important coal-based raw material in our iron making process. We now have the ability to optimize the blend of fuels to attain the lowest carbon cost for each particular furnace as well as make adjustments to maintain the lowest cost based on the changing relationship between coke, injection coal and natural gas.

I'd like to close my remarks with a couple of comments concerning recent surges in imported steel products generally, including pipe and tube products.

In 2010, the United States imported almost 2.3 million net tons ("NT") of oil country casing and tubing products, used in exploration and development of oil

and natural gas. Last year, the U.S. imported over 3.4 million NT of these high-tech, high value-added products. That's an increase of more than 51 percent over a two year period.

Some foreign producers have been even more aggressive. Since 2010, casing and tubing imports from South Korea are up more than 58 percent, imports from Taiwan are up more than 88 percent, and imports from Saudi Arabia are up more than 420 percent. The same story is true for many other pipe products. From 2011 to 2012, imports of welded tubular products other than Oil Country Tubular Goods (OCTG) increased by almost 30 percent, due in large part to aggressive shipments from Korea (up 49 percent) and Japan (up almost 45 percent). These imports are weighing heavily on the U.S. market.

Even though last year featured a relatively strong market for OCTG, public pricing sources estimate that average U.S. prices of casing and tubing fell by as much as \$202/NT from December 2011 to December 2012. Over the same period, U.S. prices for welded line pipe fell by as much as \$187/NT. This is especially disconcerting following large capital investments to serve the sector by our company and others.

Given the long history of unfair trade in the steel sector, we are very concerned that foreign market distortions – including dumping and subsidies – are one of the principal underlying causes of this injurious import surge.

As in the broader steel market, foreign government policies such as currency manipulation, government support, and closed home markets have encouraged mills in China and other countries to build far more capacity than market conditions justify. Last December, a study presented to the OECD Steel Committee estimated that the world currently has more than 500 million metric tons of excess steelmaking capacity – a figure more than five times larger than total U.S. production of crude steel in 2012. This excess capacity leads to import surges in this market, as mills around the world seek some outlet for their production.

The shale gas revolution holds great promise for American industry and workers. We believe the import surge problem calls for a strong response from all who believe that true, market-based competition is the best pathway to prosperity.

The time has come for a strong global consensus that winners and losers in the steel business should be determined by hard work and innovation, by costs and competition – not by market-distorting government programs.

All of us – producers and our customers – will benefit from such a consensus. In the energy tubular market, for example, domestic energy companies need and depend upon a strong domestic steel industry – one that has the resources to invest in developing better products and meeting their full range of needs.

We obviously depend on our customers and share a mutual advantage when we can promote and sustain growing employment and production in both of our

industries in the United States. One point sometimes overlooked in the energy debate is the role that our customers play in buying domestic pipe and supporting good paying jobs in this country. We need to do a better job getting that word out – and hopefully promoting even more domestic purchases of our products and those of other industries that support the energy sector. It is a "win-win" in terms of growing U.S. employment and enhancing the public perception of domestic energy companies. This in turn should promote greater public support for needed domestic energy projects and development.