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STEEL MANUFACTURERS ASSOCIATION

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Thomas A. Danjczek
President

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November 21, 2002

The Honorable Spencer Abraham
Secretary of Energy
U. S. Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Mr. Secretary:

On behalf of the member companies of the Steel Manufacturers Association (SMA), I want to express our interest in participating in the Administration's voluntary climate change Business Challenge. As part of his announcement of the Clear Skies Initiative, President Bush called for the development of an improved greenhouse gas (GHG) emissions accounting system under 1605(b) of the Energy Policy Act, and the promotion of investments by industry sectors in cost-effective, energy-efficient, low-GHG emission technologies. The SMA and its member companies are well-positioned to contribute to these efforts, and would be interested in pursuing possible commitments to achieve continued improvements in the industry's GHG emissions intensity.

SMA BACKGROUND

The SMA is the largest steel trade association in North America, in terms of membership, and the primary trade association of electric arc furnace (EAF) steel producers, often referred to as "mini-mills." The 40 U.S. member companies of the SMA are geographically dispersed across the country and account for over 50 percent of total domestic steel production. EAF facilities make various steel products, including carbon, alloy, and stainless steels, from a feedstock of nearly 100 percent steel scrap. Mini-mills use electricity to melt scrap metal to make new steel products and are the largest recyclers in the United States. They comprise an energy efficient and internationally competitive segment of the global steel industry. SMA also includes several integrated steel companies that make steel from a mix of iron ore, coke, and scrap, as well as companies engaged in hot and cold rolling of steel mill products. Steel cannot be produced without carbon and energy, the primary sources of carbon dioxide emissions from EAF steel manufacturers.

EMISSIONS ACCOUNTING

EAF steel manufacturers have, for several years, tracked their industry sectors' GHG emissions through the offices of the SMA. In 2000, we compiled information from our members equaling over 80% of the EAF steel makers in the US, and published the information in a DOE-sponsored report, "*Energy Use in the US Steel Industry: An Historical Perspective and Future Opportunities*" (Dr. J. Stubbles, prepared under contract to Energetics, Inc., for the US Dept. of Energy, Sept. 2000). SMA duplicated the reporting regimen in 2002, collecting information

from our member companies for 2001. With the assistance of DOE, we believe that we can further refine the reporting process, and come up with a common methodology for collecting accurate estimates of GHG emissions from the EAF steel industry sector.

PROMOTING ENERGY-EFFICIENT AND LOW-GHG EMISSION TECHNOLOGIES

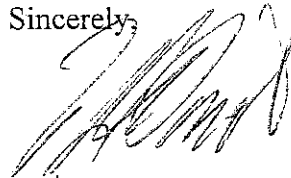
SMA and its members also promote the use of technologies that allow for economic growth without corresponding increases in GHG emissions. Individual companies are already funding research on cost-effective, energy-efficient technologies, exploring related operating and process techniques, and utilizing those technologies at their domestic facilities, where applicable.

SMA will continue, at regularly scheduled meetings of its standing Operations and Environment Committees, to speed the exchange of new information among companies. We have also attached a summary description outlining other actions that we believe support the President's voluntary climate change initiative.

Our industry is diverse in size and product mix, and there are many technologies and processes that have the potential to lower further our GHG emissions, as well as our cost of production. With our members striving to cut costs and maximize production, these successful and cost-effective technologies are sure to be adopted by a growing number of companies.

SMA and its members look forward to working with the Department of Energy to refine our GHG emissions accounting methodology and promote the research needed to develop the wide range of technologies required to reduce further our GHG emissions. Please let us know how to proceed with our efforts under the Administration's Business Challenge. We look forward to your affirmative response to our request.

Sincerely,



Thomas A. Danjczek
President
Steel Manufacturers Association

cc. Barton Marcois, Principal Deputy Assistant Secretary
Larisa Dobriansky, Senior Advisor, National Energy Policy
Al Cobb, Senior Advisor, Office of the Assistant Secretary

Attachment

ELECTRIC ARC FURNACE STEEL INDUSTRY SECTOR CLIMATE CHANGE VOLUNTARY ACTION ITEMS

Background

- The member companies of the Steel Manufacturers Association ("SMA") are primarily electric arc furnace ("EAF" or "mini-mill") carbon steel producers. EAF steelmakers use electricity to melt scrap metal to make new steel products. They comprise an energy efficient and internationally competitive segment of the global steel industry. Steel cannot be produced without carbon and energy, the primary sources of carbon dioxide ("CO₂") emissions from EAF steel manufacturers.
- EAF steel producers are the largest recyclers in the United States. Recycling steel saves energy and minimizes effects on natural resources. Each year, EAF steel production saves six trillion Btus -- enough energy to power 18 million households, or the city of Los Angeles, for eight years.
- EAF steel production is almost three times more energy efficient than ore-based steel producers, and 10 times more efficient than aluminum production.
- The U.S. EAF steel industry sector competes in an international marketplace, and climate change policies must preserve the domestic industry's competitive position. Actions that cause the environmentally progressive U.S. EAF steel producers to reduce production will cause mills in developing countries to increase production in order to meet growing U.S. steel consumption needs. Transferring steel production to less efficient and less controlled steel producers in foreign countries - countries not subject to emission limits - would have the absurd effect of increasing greenhouse gas ("GHG") and other emissions. Further, market distortions will result as economically efficient U.S. producers are displaced by less efficient and environmentally unacceptable imports.
- SMA supports a climate change program based on emissions intensity or efficiency (total pounds of CO₂ generated per ton of steel produced) consistent with the President's call for an 18 percent improvement in U.S. greenhouse gas intensity (emissions per unit of gross domestic product) by 2012.
- EAF steel production is growing. EAFs now produce approximately half of the steel made in the United States. In 2001, EAFs produced 47.2 million tons out of 99.2 million tons of steel produced in this country. For the first six months of 2002, EAFs produced 51.9% of the steel produced.
- EAF steelmaking is the most energy efficient and environmentally friendly form of steel production. SMA member companies have already made substantial reductions in GHGs per ton of steel produced.

Voluntary Actions by SMA and Member Companies

- Member companies will increase participation in government voluntary programs;
- Companies will continue to research relevant cost-effective, energy-efficient, and low-GHG emissions technologies and integrate successful efforts into their operations;
- SMA will continue to hold meetings of the Operations and Environment Committees where information on successful technologies and processes for emissions reduction will be shared;
- SMA and its members will continue to work with other steel industry sector associations to promote advanced energy-efficient technologies for the US;
- SMA will take an active part in public policy debates at national and international levels to promote cost-effective GHG reduction options without damaging economic growth.