



## **SPECIALTY STEEL INDUSTRY OF NORTH AMERICA**

**3050 K Street, NW  
Washington, DC 20007**

FOR IMMEDIATE RELEASE

Contact: Meg Mullery 202.342.8439  
[mmullery@colliershannon.com](mailto:mmullery@colliershannon.com)

### **VIBRANT U.S. SPECIALTY METALS INDUSTRY CRITICAL TO NATIONAL DEFENSE . . . HOW CAN WE KEEP IT THAT WAY?**

#### **Industry Group Identifies Important Strategic Problem and Offers Solutions**

(Washington, D.C.) (December 6, 2005) – A comprehensive, fifteen-month study conducted by the U.S specialty metals industry establishes that the domestic production and availability of high technology specialty metals are critical to the national defense. It forewarns, however, the unfortunate loss of such capability, much like the loss of other U.S. manufacturing capability, absent appropriate government intervention. The industry points out that should this happen, the country will also lose its ability to create new defense-related technology, an ability not easily restored in the future.

Not satisfied with simply identifying an impending strategic problem for the country, the industry goes on in its report to identify specific, dramatic and comprehensive actions that, if taken swiftly, will keep U.S. specialty metals manufacturers investing here rather than moving entirely offshore over time in search of better business opportunities and higher profits. Most importantly, these proposals, unlike many others, are non-protectionist in nature. Instead, they are designed to maintain the competitiveness of an already state-of-the-art domestic industry in an ever increasing competitive world. Nor are they designed to overly limit the ability of multi-national companies to continue to invest overseas, subject to appropriate export compliance controls. The industry believes that its recommendations, because of their inherent nature, should be politically acceptable to a wide, bipartisan constituency thereby facilitating their implementation. The latter point is of critical importance considering the acute nature of the problem.

Regarding defense applications, the survey of U.S. specialty metals companies conducted by their industry trade group, the Specialty Steel Industry of North America (SSINA), proves unequivocally that specialty metals are vitally important to virtually every U.S. military platform. “U.S. military capabilities are directly dependent upon the availability of crucial specialty metals,” explained SSINA Chairman Jack W. Shilling, who spearheaded the study. “Without them, the U.S. military and homeland security forces would not have the ability to fight a war, defend our borders, and protect our citizens from terrorism.”

Acting Deputy Under Secretary of Defense Gary A. Powell reinforced Shilling's comments by explaining, "There is no question that specialty metals are critical to national defense, and the U.S. specialty metals industry is a very important supplier of these materials to various defense contractors. And myriad defense programs would be negatively impacted by specialty metal supply disruptions."

Many examples of leading edge specialty metals applications currently used in missiles, jet aircraft, submarines, helicopters, Humvees and munitions are identified in the study, which will be delivered to Capitol Hill and the Pentagon. "Compiling this information was very time-consuming and I want to thank the SSINA member companies for their cooperation and support of this project," said Shilling.

The industry report cites Department of Defense studies as additional evidence of the critical importance of specialty metals to national defense. A series of reports entitled the *Defense Industrial Base Capabilities Studies* clearly show that applications which contain specialty metals are essential to meeting current national defense requirements and are critical components of technologies that focus on 21<sup>st</sup> century warfare.

Shilling also noted that for the past three decades the U.S. Congress has understood the dependent relationship between a healthy U.S. specialty metals industry and a strong national defense. "Over 30 years ago, Congress enacted the Specialty Metals Amendment to the Berry Amendment to recognize the importance of the industry to national defense and help ensure its long-term survival," he said. "Since then, the ongoing importance of this statute to national defense has been confirmed virtually every year during debate in Congress. Most recently, the Department of Defense published notice in the Federal Register of the department's intent to strictly follow this provision of the law."

The report, after presenting evidence that the U.S. defense capability could be significantly compromised if the specialty metals industry were to atrophy and move offshore, then takes the next step and asks the question, "What should we do about it?" One answer, according to Shilling, is the creation of a U.S. industrial policy that provides incentives to invest in American manufacturing, but at the same time is not protectionist, does not pick winners and losers, and supports the principles of free and fair trade.

"Companies make investment decisions based on the expected rate of return on their investments relative to their cost of capital," he explained. "These factors are considerably different in different parts of the world and each year the field seems to tilt in favor of investment outside the U.S. Most importantly, other countries are manipulating the field to their advantage while the U.S. is sitting on the sidelines doing very little to influence investment decisions."

In addition to participating in the growth of foreign markets, American multi-national companies often invest in manufacturing overseas in order to take advantage of such incentives as favorable tax treatment; lower operating costs (often due to foreign government intervention); overt and covert subsidies in many forms, including currency manipulation; and inconsistent application of the principles of free and fair trade, all of which favor foreign investment, according to the report. Interestingly and certainly true for the specialty metals industry, many if not most of these

incentives are unrelated to labor costs ... the frequent reason cited for a lack of U.S. competitiveness. At the same time, the obstacles facing those wanting to invest in American manufacturing include rising costs of energy, healthcare and post-retirement benefits; exorbitant regulatory and legal costs; high taxes; and increasing concerns regarding enforcement of U.S. trade laws and the ability of the U.S. to establish fair trading practices with its global trading partners as required by the World Trade Organization.

While a government/industry consensus exists that a healthy domestic specialty steel industry is in America's best interest, the U.S. lacks a coherent strategy related to all manufacturing—and particularly specialty metals production. “The erosion of the American manufacturing base is an issue that receives a lot of attention, but little has been offered in the way of effective solutions,” said Shilling. “Our report is different in that it both spotlights the critical threat to America's defense capability if we become dependent on foreign specialty metals production, and makes recommendations to encourage investment in American manufacturing that we believe are politically acceptable.” The recommendations include:

- The U.S. government, working with industry, create an industrial policy that levels the “investment” playing field, thereby encouraging investment in America. Trade, costs and taxes are identified as the primary factors.
- Congress and the Administration should closely monitor the behavior of strategic trading partners like China to ensure that U.S. specialty metals technology and the industrial base are not systematically and significantly weakened by overt and coordinated foreign trading and investment activities inconsistent with the principles of free enterprise, fair trade and World Trade Organization rules.

Regarding the latter point, China's heavily subsidized strategic initiative of aggressively seeking Western technology and, in return, offering access to its market across a wide range of manufacturing industries is a major and potentially devastating issue, according to the study. While currently incapable of making most, if not all, specialty metals required for leading edge defense applications, China has developed the capability of producing commodity stainless flat and long products, which are core commodity products of U.S. producers, and in the process has become a major exporter of these products to the U.S. This has been accomplished through a combination of foreign investment, significant transfer of Western technology, and government subsidization.

Shilling explained that this was an extremely important point and cautioned that the U.S. specialty steel industry cannot exist simply by producing materials for defense applications. “Leading edge and more standard defense applications represent perhaps 10 percent of total specialty steel production,” said Shilling. “The survival of our industry is dependent upon the core commodity products produced by our members.”

In case you think the solution might be to abandon manufacturing and focus on technology development, this will not work according to the report. “Technology development travels with the manufacturing process,” said Shilling. “Our plants in the specialty metals industry are our laboratories. It is naïve to think that manufacturing of these materials could be transferred to China while technology development remains in the United States.”

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The complete report, including a partial list of defense-related specialty metals applications, can be found on the industry's website: [www.ssina.com](http://www.ssina.com).

SSINA is a Washington, DC-based trade association representing virtually all North American producers of stainless steels and nickel-based alloys, including superalloys. Other specialty metals such as titanium and titanium alloys, zirconium, and niobium alloys are also produced by some SSINA member companies.

Jack W. Shilling, Ph.D., is Executive Vice President, Corporate Development and Chief Technical Officer, Allegheny Technologies Incorporated.

Member companies are: AK Steel Corporation, Middletown, OH; Allegheny Ludlum Corporation, Pittsburgh, PA and Allvac, Monroe, NC (both Allegheny Technologies companies); Carpenter Technology Corporation, Reading, PA; Charter Specialty Steel, Fond du Lac, WI; Crucible Specialty Metals, Syracuse, NY; Electralloy, Oil City, PA; Haynes International Inc., Kokomo, IN; ThyssenKrupp Mexinox SA de CV, San Luis Potosí, S.L.P., Mexico; North American Stainless, Ghent, KY; Outokumpu Stainless, Inc., Schaumburg, IL; Precision Rolled Products, Inc., Florham Park, NJ; Special Metals Corporation, Huntington, WV; Techalloy Central Wire Group, Mahwah, NJ; Timken Latrobe Steel, Latrobe, PA; Universal Stainless and Alloy Products, Bridgeville, PA; and Valbruna Slater Stainless Inc., Fort Wayne, IN.

David A. Hartquist, an international trade attorney with the Washington, DC law firm Collier Shannon Scott, PLLC, serves as lead counsel to SSINA.

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