

SPECIALTY STEEL INDUSTRY OF NORTH AMERICA

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The President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

On behalf of the Specialty Steel Industry of North America (SSINA), I want to express our support for the American Competitiveness Initiative announced in your State of the Union address earlier this week. As explained below, our industry has just published a report showing how critical this issue is, not only for job growth and our economy, but also for national defense. In addition, we provide recommendations in this report regarding what needs to be done in order to address this issue.

SSINA is a 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 SSINA member companies. Importantly, the focus of SSINA is specialty metals, not conventional steel. It is also important to note that the US specialty metals industry is modern and efficient, and is at the leading edge ... throughout the world ... in both new product development and the implementation of advanced manufacturing technology.

As mentioned above, SSINA recently published the enclosed report entitled, "Specialty Metals and the National Defense." This study, prepared at the suggestion of the Department of Defense, establishes that the domestic production and availability of high technology specialty metals are crucial to the national defense. It forewarns, however, the potential loss of such capability, much like the loss of other US manufacturing capability, absent appropriate government action to encourage ongoing investment here. When the report was released in December, Acting Deputy Under Secretary of Defense Gary A. Powell stated, "There is no question that specialty metals are critical to the national defense, and the US 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 metals supply disruptions."

We agree with your position that it would be very unwise for our country to become protectionist or isolationist or afraid of international competition. However, based on our study, there are a few, very important issues that must become priorities in the implementation of the American Competitiveness Initiative:

1. Research, education, and innovation are inextricably linked to the manufacturing process. It is essential that ongoing investment in manufacturing be made in the US

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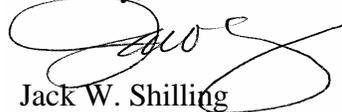
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in order to create the right incentives and objectives for research and education. It will do little good to push education and research if investments in manufacturing gradually migrate outside the US. The quality of the research will be poor and there will be no jobs here for the graduates. It would be naïve to think that a leading edge position in specialty metals technology can be maintained in the absence of a healthy and vibrant domestic manufacturing activity. Our factories are often our laboratories.

2. You are correct in stating that we can compete with anyone if we have "... a level playing field..." But as we point out in our study, the playing field is not level and becoming less so every day. Dramatic and prompt action is needed. It is very helpful to consider the "playing field" issue in terms of what CEO's consider when they are making investments. What is the return on investment if they invest overseas vs. investing in America? In our paper, we point out that three factors are very important. All of these factors are tilting the table in favor of investing overseas, but all of these we have the ability to change. These are: global trade inequities, structural cost differences ... apart from labor, and tax structure. Tax reform is vitally important, not only with regard to taxes on individuals as you point out, but most importantly with regard to taxes on corporations related to investments in manufacturing capacity and technology development.

American multi-national companies do not need to make all of their investments in the US. It is only necessary that significant ongoing investment be made here in order to support our economy, favorably impact our balance of trade, maintain our leadership position in technology, and provide for our national defense. Without ongoing investment here, particularly in the specialty metals industry, our great manufacturing and technological leadership position in the world will be liquidated as it slowly moves offshore. As a PhD engineer myself who has moved out of the research lab and on to the management of specialty metals companies, I can attest to the fact that the concerns expressed above are real and shared by others in our industry. We will continue our efforts to influence opinion and action in Washington. We are delighted to offer our assistance to your Administration to further these objectives. Good luck in this very well conceived and urgently needed initiative.

Sincerely,



Jack W. Shilling

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of North America*

*Executive VP, Corporate Development
and Chief Technical Officer,
Allegheny Technologies Incorporated*

Enclosure