STATEMENT BY JAMES D. MCCLASKEY
PRESIDENT & CEO, MIDREX TECHNOLOGIES, INC.

BEFORE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

REGARDING

REAUTHORIZATION OF THE U.S. EXPORT-IMPORT BANK

JUNE 20, 2006

I am Jim McClaskey, President & CEO of Midrex Technologies, Inc., headquartered in Charlotte, North Carolina. I have worked at Midrex for the past thirty two years and with me today is Rob Klawonn, Vice President Commercial for our company. We sincerely appreciate this opportunity to speak to you today regarding an issue which is critical to the success of our company and the hundreds of small businesses we support in the United States. Specifically, I am directing my remarks to the pending reauthorization of the Export Import Bank of the United States. Midrex needs the support of an active and aggressive Export Credit Agency to allow us to compete on a level playing field with our competitors. These competitors in Europe benefit greatly from the aggressive support of Export Credit Agencies such as HERMES and SACHE.

Midrex is a small technology company with less than 100 full-time employees. *We are 100% dedicated to the Global Iron & Steel Industry and nearly all of our clients are foreign.* This year our revenues will be the highest in our company's history, more than 200 Million Dollars. How did we achieve revenues of more than 2 Million dollars per employee? We rely heavily on the support of hundreds of U.S. and yes, foreign suppliers and manufacturers of industrial electrical and mechanical equipment, specialty fabrications, refractory and much more. We typically sell a technology package of engineering, equipment, materials and services for export, and the pieces come together at our customer's plant site in their home country. Although we do not manufacture anything ourselves, the bulk of our revenues and profits are derived from the supply of goods manufactured right here in the USA. Key supplier relationships have developed over the past 30 plus years in states such as Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Massachusetts, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Utah, West Virginia, Wisconsin, and others. Many of these companies are small businesses. Furthermore, we are the market leader in our segment of the industry with two-thirds market share, and the MIDREX Direct Reduction Technology has over 90% market share in the Middle East North Africa region.

In the past, Midrex had received support from US EXIM BANK, although there were numerous complaints about its lack of speed and efficiency. We had developed support for projects in Mexico, Venezuela and the Middle East. We had not been in contact with US EXIM BANK for approximately 5 years, from 1998 – 2002 due to very poor global market conditions in the Iron & Steel business. Upon returning to EXIM in 2003 asking for support, we were verbally instructed by one business development officer at EXIM "don't waste your time" simply because we are associated with the "steel" industry. Unfortunately, we have had to spend thousands of dollars over the past few years educating many in Washington D.C. about our business and the fit we have in the global steel industry. I'd like to make one thing very clear at this point; the MIDREX technology does not produce steel. Our process is used to make a metallic iron raw material that is then used to make steel, much the same way that scrap metal is used.

Saudi EXIM Bank Denial: In December 2004, Midrex signed a contract with a client in Saudi Arabia to supply 81 Million Dollars worth of engineering, equipment and field services. The majority of this revenue is dedicated to U.S. goods and services. The contract is a minor, but critical part of a US$1.0 Billion investment being undertaken by our client to increase iron & steelmaking capacity in Saudi Arabia. The metallic iron produced by our technology will be used in adjacent steelmaking operations to produce steel for the Arab Gulf region's fast growth and also for export to their global steel-consuming customers.

In 2005, the Saudi client made its application to U.S. EXIM Bank for loan guarantees as part of an overall financing effort using combinations of commercial financing and European Export Credit Agency support. It is interesting to note that the lead bank, who was very much aware of the sensitivities associated with EXIM and support of foreign Steel producers, recommended that his Saudi client not submit an application to EXIM due to the high probability that the application would be denied. The Saudi client, nevertheless, expressed an interest in establishing a relationship with EXIM and instructed the financial arranger to complete the application process.

EXIM Bank, based upon the negative findings of the Economic Impact Analysis, denied the application a few months ago because the project as a whole will result in the addition of nearly 1.3 Million tons/year of Hot Rolled Coil capacity. On the surface, the system of checks-and-balances on EXIM Bank worked. The procedures and guidelines which were put in place as a consequence of the last EXIM reauthorization and fall-out of the Bush 201 Trade Sanctions imposed in early 2003 worked as intended.

However, I would like to ask a question: **Did the denial of this application, when all other European ECA's approved their respective portions, protect the U.S. economy?** The answer is a big NO! Did it make some people feel good because we didn't use U.S. Taxpayer dollars to support the project?...the answer is YES. But, let's look at the real outcome.

This project is still moving ahead as planned and will become operational in April 2007. So ask yourselves, what did we really accomplish here?

We must admit that Hot Rolled Coil was being dumped on the global market in the earlier part of this decade – anti-dumping duties and tariffs were imposed on some foreign producers. Many of these producers were selling at or below their cash costs of production. You have heard for years from various sources that there is a glut of steel capacity. However, as we all know, China has entered the picture now and on its own has raised total global crude steelmaking supply and demand by more than 30%. Furthermore, tremendous efforts have been made by the likes of Mittal, Nucor, US Steel, Severstal and other major players to absorb under-performing assets through acquisition and merger. Some inefficient and poorly located assets were simply taken out of operation altogether like Gulf States Steel and Geneva Steel. The threat of state-owned steel companies dumping steel and causing prices to plummet has been diminished, with the exception of China, of course. As for China, the story is a young one. We have been told by many analysts and industry leaders, that China is not a near-term threat due to high iron ore prices (they are expected to import approximately 300 million metric tons of this raw material in 2006 at market prices). Iron Ore costs are a major factor in determining production costs. They have other issues facing them as well, such as the high cost for energy, high prices for metallic iron, rising labor costs and labor inefficiencies, infrastructure issues, environmental concerns, currency uncertainties, etc. U.S. steel producers face some of these same issues. Despite this recent explosive growth, China is still a developing nation when considering its low per-capita consumption of steel, and its huge demand for infrastructure development.

Please don't misunderstand me, I don't mean to imply that the domestic U.S. steel industry is now well-protected. This is still, and will always be, a commodity business subject to the ups-and-downs of the global economic cycles and there will be some producers willing to sell at any price. However, I do offer that the future will look much different than the past, because of the huge privatizations which have taken place, putting capacity in the control of market-driven companies. Just look at recent industry gatherings and you'll find many statements by current U.S. steel executives which are positive about the future. An American Metal Market article published last month quoted the CEO of Nucor when he said:

> *"No one predicted that '04 would do what '04 did…..I think we are going to be in a bull market for the next 10 to 15 years." "There is something much bigger going on here……We are in a place where things will be very positive."*

An article titled "Raw Materials: The Sourcing Game" published in *American Metal Market* dated May 15, 2006 was making the argument that "*raw materials remain a key area of concern*" and cited a few steel leaders here in the U.S. on issues of raw material and logistics issues. The head of Mittal Steel USA was discussing raw materials and North American infrastructure when he was quoted. Here is a key excerpt from the article:

> *"They (*raw materials*) are still very tight," said Louis L. Schorsch, chairman of the AISI and president and chief executive officer of Mittal Steel USA Inc., Chicago. "I don't think there is any bad behavior out there or anything like that, but I think it is clear that the level of investment in raw materials or logistics infrastructure needs to improve.....investment in raw material capabilities is critical for steel producers. "It is the market at work," he said. "Supplies are tight and demand is high".*

Later in the same article the writer goes on to conclude by saying:

> *Most observers predict that steel consumption will continue to grow globally for the foreseeable future – putting further strain on raw material supplies not only in North America, but worldwide.*

So, back to the question at-hand…..How does the denial of the Saudi application and others like it protect the U.S. economy? As I said before, the project is still proceeding, the European Export Credit Agencies have no problem supporting it, and now Midrex has a free-hand to buy its equipment from global sources, rather than right here at home from American companies. **The denial of the Saudi application by EXIM does absolutely nothing to protect U.S. companies and its employees!** To the contrary, I would like to put forward that it will have far-reaching negative effects. The Saudi client is now 100% sure that their lead bank was correct: They never should have wasted time pursuing support from U.S. EXIM Bank. I must also mention that its predisposition to avoid U.S. EXIM Bank is very common among many of our foreign clients. I would like to read for you a direct quote from our client's banker taken from an email of November, 2004 (i.e. before the application was submitted to EXIM Bank).

> *"I think the way I would describe our position with regard to potential US EXIM support is that we would much prefer not to have a separate US EXIM facility and therefore wish to explore all other alternatives first. Hence our desire to understand all possible sourcing options."*

Now, let's look at the future for a moment. This same client has intentions to further expand his business. He will give Midrex the opportunity to supply its technology. If export credit is wanted or needed, then our European competitors will have a distinct advantage over us. What do we do? Who do we turn to for support? Remember, if we get the job, many other U. S. companies get business especially if EXIM Bank would participate.   However, if it does not, then we will look at other alternatives.

Perception is reality, and this view, unfortunately, is shared by many of our prospective clients. Since 2002 and with numerous visits to Washington D.C., we have learned that it is a widespread opinion shared by many foreign buyers (not only Midrex clients) who believe that approaching U.S. EXIM BANK is a fruitless endeavor. To be truthful, we also are beginning to feel this way.

Speaking for the thousands of small companies without a voice here today, the assumption that denial of applications actually protects the U.S. economy could not be more wrong. Such decisions deliver a terrible message to foreign buyers considering U.S. offerings. These buyers will proceed with or without the support of a U.S. Export Credit Agency, which means that U.S. offerings are at a competitive disadvantage to foreign companies using their Export Credit Agencies to support clients. Furthermore, American exporters like Midrex with the flexibility to buy goods competitively across the globe will quickly find ways to regain that competitiveness. European ECAs, JBIC (the Japanese ECA), and EDC in Canada are all very eager for Midrex to source more equipment from their respective countries and are willing to offer promotional support as well as tremendous flexibility. Given the restrictive nature of the current Economic Impact Analysis guidelines, Midrex, and who knows how many other companies like us, have no other option but to source equipment needs abroad in order to compete when ECA support is desired by our clients. Many, however, have their manufacturing here in the US and cannot take advantage of foreign supplies and foreign ECAs. Thankfully for us, we can change our sourcing patterns. And, we do have some clients who can arrange financing without the need for ECA support. But there are many prospective Midrex clients who need, and will receive ECA support for their projects.

Picture this as a Headline: **A Ukrainian Export Deal Goes to Japan! :** Let me give you another VERY REAL example. In the Ukraine we now have a client in the process of developing his financing for a 3.0 million ton per year steel slab-making facility. The order value for Midrex would be approximately 150 Million US dollars. In light of recent experience, we have already instructed our client to consider other ECA coverage, not US EXIM BANK. In fact, we will probably be offering Japanese ECA financing. If successful, the result is that we would have to place tens of millions of dollars in orders to Japanese suppliers in order to obtain their financing support. That means that many of our company's loyal U.S suppliers and. manufacturers will not get the opportunity to bid on these items as a result, and Midrex will lose some profit due to the higher costs of Japanese equipment purchases. Is this a good thing?....of course not.

Specific Changes to the rules imposed on US EXIM BANK have been proposed, and many of them are positive or neutral. Minor changes relating to notification and public comment periods, as well as methods of calculating the value trigger point for initiating an Economic Impact Analysis are not worth debating. Also, specifying that certain companies with a history of dumping should not receive EXIM BANK support seems reasonable and we agree with that. However, vague but substantive changes which might encourage unfounded political influence or oversight into the application review process is likely to destroy any appearance of objectivity and possibly be seen by many as an effort designed to grant unchecked influence on specific applications. Not to mention the fact that people may not take the initiative to really look at what is the real impact to the American economy of a negative decision. Could other small American companies get hurt? To what extent? Would anyone even think to check it out? Is it worth it to make some people feel good while the project or projects go ahead anyway? We do not want to see this happen.

Lastly, and perhaps most debatable is the introduction of the definition of "substantially the same product". While on the surface this request seems reasonable, it could easily be used to prohibit very legitimate projects intended to manufacture products which are globally traded and are in high demand and short supply. If you examine the attached flowchart of the Iron & Steel making processes, you will see that the MIDREX Ironmaking technology is far upstream from any finished steel products. Our technology produces a steelmaking raw material which is in very high demand and short supply. No one could rightfully claim that product made from our technology does harm to U.S. steel interests. To the contrary, increased supply of this metallic iron raw material does everything to help assure U.S. steelmakers of readily available and lower cost metallic iron for their steelmaking efforts.

Numerous Electric Arc Furnace steel producers exist in many of your States. In fact, the States represented by this committee alone have existing Electric Arc Furnace steelmaking capacity which is approximately 25% of the total U.S. crude steelmaking capacity, or roughly half of the total U.S. electric furnace steelmaking capacity. Therefore, your own steel producing companies need our technology to flourish in the global market so that they can continue to rely upon plentiful supplies of raw materials at low cost. Unfortunately, our technology cannot be applied here in the USA due to exhorbitant energy prices, specifically natural gas – the primary energy source for MIDREX Plants.

Concluding Remarks: We will conclude our remarks by insisting that foreign companies abiding by WTO trading policies and guidelines, with no history of dumping, should be able to receive the support of a U.S. Export Credit Agency. In fact, we should go out of our way to reward trading partners abiding by WTO rules, while simultaneously promoting the export of U.S. goods and services. This should be the ultimate objective of US EXIM BANK fully demonstrated by its actions, not just words. The objective of US EXIM BANK should be to support exporters, not to offer itself as a club to protect U.S. producers, because when used this way the club strikes only the U.S. exporters and not the foreign producer.

Insisting to place even more stringent rules and guidelines on EXIM BANK will simply render the bank useless to us and even more out of reach than it already is to the thousands of small businesses trying to compete globally. And, export-oriented, technology companies like Midrex will find other ways to compete and support our customers, unfortunately to the detriment of many U.S. manufacturers, who otherwise would not have access to these foreign projects.

Lastly and more near and dear to our heart, denial of legitimate applications for U.S. EXIM BANK support will greatly impact the competitive position of Midrex and hurt many U.S. companies, not to mention undermine the U.S.A.'s reputation for promoting fair trade. American exporters, including Midrex, **will** lose orders and to compensate we will be forced to take business purchases overseas when products could have been made available right here in our country. Over the long-term, continued protectionist actions disguised as medicine to relieve apparent chronic overcapacity in world markets, will significantly weaken the technological dominance of hundreds if not thousands of U.S. companies. Many will close their doors permanently, or already have, and those that survive will do so only by reducing profit levels and changing their business model to procure goods and services from foreign countries which are obviously more supportive of their exporters. All of this debate is supposedly based on the false assumption that denial of support for U.S. exporters actually protects American jobs when it is clearly obvious that the companies most likely to flaunt WTO rules and incur Anti-Dumping / Countervailing Duties would never qualify for the loan guarantee in the first place.

Please look at the attached state-by-state breakdown of our recent purchases. Dozens of suppliers in these states benefit from export business that they otherwise would not have. There are many millions of dollars in purchases to be made in the coming 12 months as a result of new projects as well. How do we explain to these suppliers that, due to our government's failure to promote exports, we have to go across the Pacific or Atlantic Ocean to find an export-oriented government willing to do what is necessary to support us, our clients and its own domestic manufacturers? Do we tell them that our government stood on principle based on the best information available at the time? What kind of explanation would that be? Remember, the projects manage to go ahead anyway so who wins as a result of an EXIM denial, and who are the REAL losers here?

I submit to you that the application of Economic Impact Analyses may theoretically determine the possibility of future economic harm, but the reality is that most investments will move forward with or without the support of U.S. EXIM BANK. Thus, restricting the Bank and its ability to support exporters during a time when manufacturing in this country is quickly moving abroad and our trade balance is deteriorating, will do nothing to protect U.S. jobs but will only hurt the U.S. economy.

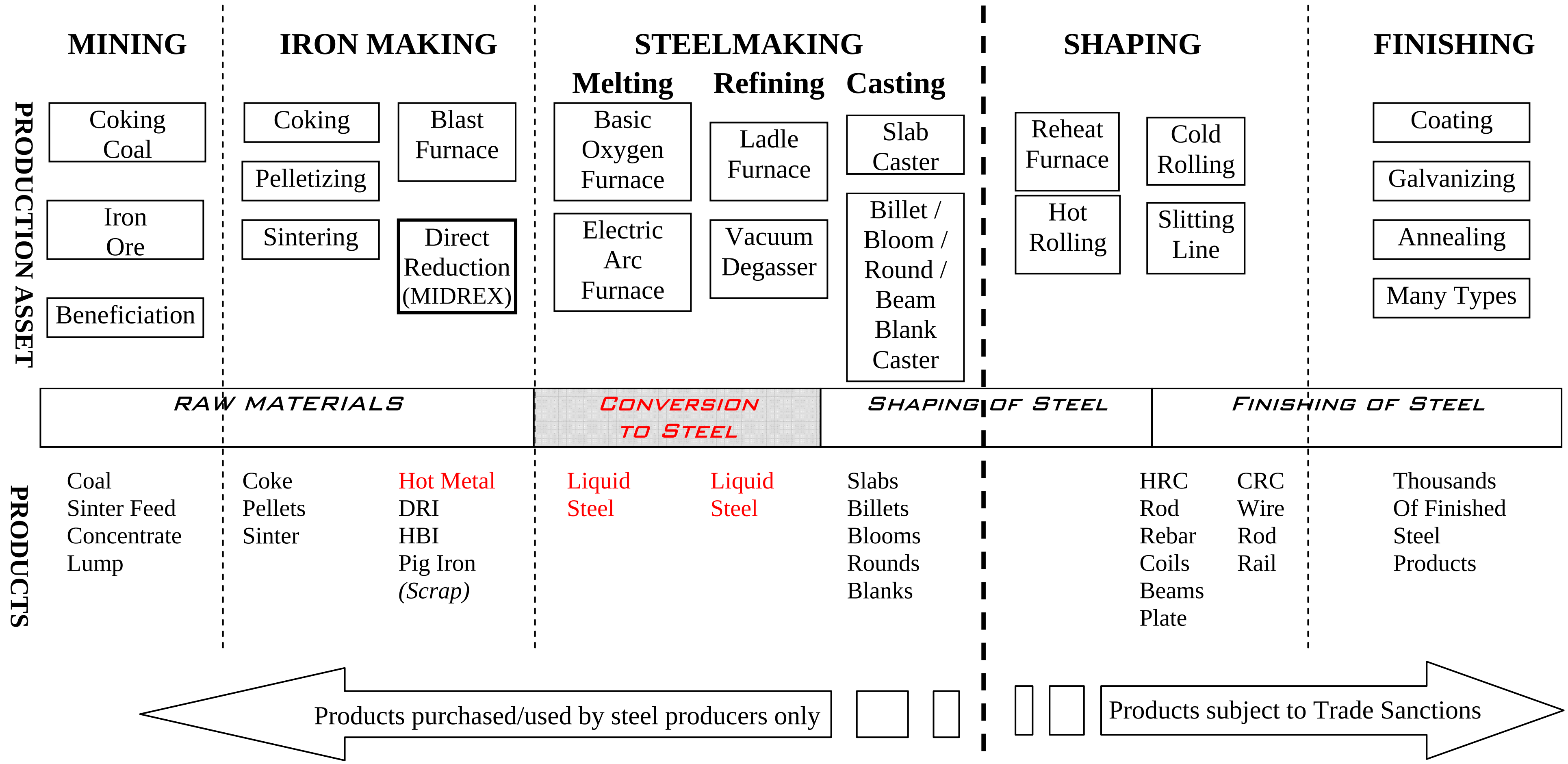
I want to thank each and every one of the distinguished committee members gathered here today for your attention. I am hopeful that this committee will recognize these challenges we face and we ask that you please stand behind small companies like Midrex, promoting job creation rather than job protection, strengthening the U.S. reputation rather than weakening it, and understanding that global trade is a very dynamic and ever-changing world in which to compete. Please support us and give us the chance to compete fairly, on a level playing field with foreign competitors by allowing EXIM Bank to meet the goals of its charter and allow it to operate freely with prudent oversight and management under the leadership of Mr. Lambright and the many professional and hard working managers at EXIM. ***Do not allow EXIM BANK to be used as a protectionist club, because its strike zone does not extend beyond our own borders!***

Thank you.

James D. McClaskey

James D. McClaskey
President & CEO
Midrex Technologies, Inc.

U.S. IRON & STEELMAKING PROCESS ROUTES



- No need for trade protection (according to U.S. steelmakers opinion & history)
- The only buyers/users of these products are steel producers
- Vast majority of energy is consumed here in these steps
- These intermediate products are traded globally
- Majority of capital investment and infrastructure is required here

- Products are sold to steel consuming industries
- Steelmakers pursue sanctions on these products only
- Customers are highly diverse
- Sanctions only pursued during depressed steel markets when foreign steelmakers sell at or near variable costs of production

Approx. 1/4 of raw US steel demand must be met by foreign <u>steel</u> producers !!!!

MIDREX®

CLIENT CLASSIFICATIONS

1. **Iron Making Only Client** who sell their product as metallic iron for consumption as a raw material to the global steelmaking community.

2. **Semi-Finished Steelmaker looking to add only ironmaking for self-consumption and/or some merchant ironmaking exports** - i.e. slab/billet producer who does not have ironmaking capabilities and wishes to add just ironmaking for their own needs and even to export the excess iron to the global steelmaking community. Furthermore, the steel product produced by the client is a semi-finished steel (i.e. available to the global steel market and purchased and used only by other steelmakers including U.S. steel producers).

3. **Finished Steelmaker looking to add only ironmaking for self-consumption** - i.e. a steelmaker who produces finished steel products for export to global steel consumers

4. **Semi-Finished Steelmaker looking to add both ironmaking & steelmaking capacity** - i.e. slab/billet producer who wants to establish both ironmaking and steelmaking capacity to make slab/billets. Again, like Type II above, the steel product is a semi-finished steel which is consumed only by other steel producers for re-rolling/finishing.

5. **Finished Steel producer looking to add both ironmaking & steelmaking capacity** - i.e. steelmaker who produces finished steel products for export to global steel consumers.

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MIDREX Equipment / Material Purchase Order Values
Purchases to-date since January 2005

STATE	PURCHASE ORDER VALUE
ALABAMA	$12,721,934
CALIFORNIA	$73,590
COLORADO	$349,500
CONNECTICUT	$56,006
FLORIDA	$8,037,522
GEORGIA	$2,630,184
ILLINOIS	$865,227
INDIANA	$13,151,728
KENTUCKY	$11,732,981
LOUISIANA	$7,722
MASSACHUSETTS	$262,542
MICHIGAN	$255,471
NEW JERSEY	$623,599
NEW YORK	$510,477
NORTH CAROLINA	$11,015,230
OHIO	$380,225
OKLAHOMA	$100,337
PENNSYLVANIA	$38,787,529
RHODE ISLAND	$18,028
SOUTH CAROLINA	$254,814
TENNESSEE	$62,409
TEXAS	$15,121,206
UTAH	$546,250
VIRGINIA	$94,759
WEST VIRGINIA	$4,048,354
WISCONSIN	$25,080,065

TOTAL **$146,787,690**

US Electric Arc Furnace (EAF) capacity by state

(per ISS EAF Round-up, May, 2003, with some updates)

Figures are in thousands ('000s) of tons capacity per year

	carbon	foundry, forge, or powder	high alloy, SS or other specialty	totals by state
Alabama	4,820	140		4,960
Arizona	500			500
Arkansas	2,980			2,980
California	750			750
Colorado	1,200			1,200
Delaware	400			400
Florida	600			600
Georgia	850			850
Illinois	1,965	200		2,165
Indiana	6,200	97	123	6,420
Iowa	1,580	38		1,618
Kansas		70		70
Kentucky	1,800	63		1,863
Louisiana	1,365			1,365
Michigan	750			750
Minnesota	600			600
Mississippi	500		10	510
Missouri	960			960
Nebraska	1,000			1,000
New Jersey	1,550	112		1,662
New York	550		50	600
North Carolina	1,450			1,450
Ohio	6,186	235	706	7,127
Oklahoma	600			600
Oregon	1,500		42	1,542
Pennsylvania	2,530	343	2,473	5,346
South Carolina	5,550			5,550
Tennessee	1,125	500		1,625
Texas	4,885	18	196	5,099
Utah	500			500
Virginia	1,910			1,910
Washington	840			840
West Virginia	400			400
Wisconsin	515			515
totals, by steel type	58,911	1,816	3,600	

GRAND TOTAL
64,327

AMM
AMERICAN METAL MARKET
May 11, 2006

Steel executives share bright view of industry

May-9-2006 6:30PM

By Scott Robertson

BOCA RATON, Fla. -- Most steel industry observers have an upbeat view of the industry, but limit their optimism to what might happen in the remainder of the second quarter. The more optimistic of them might say the fundamentals are in place for continued prosperity for the remainder of 2006.

And then there is Daniel R. DiMicco, vice chairman, president and chief executive officer of Nucor Corp., Charlotte, N.C., who believes that steel's glass is not only half-full, but will stay that way for as long as 15 years.

"No one predicted that '04 would do what '04 did," DiMicco said at the Metals Service Center Institute/American Iron and Steel Institute annual meetings in Boca Raton, Fla. "I think we are going to be in a bull market for the next 10 to 15 years."

DiMicco allowed that the typical steel industry business cycles will remain, but said peaks and valleys will be more level and that down periods would be for shorter durations than in years past. "The cycles will still be there," he said. "But we are entering an age of building and construction that we have not seen since the end of World War II. Today, we don't have the reconstruction that we did at the end of the war. But what we have is the rest of the world starting to grow and building infrastructure."

Many speculate that the boon China has meant to the world steel industry will disappear in 2008-if not before-as much of China's growth is attributed to the country's need to build infrastructure in advance of the 2008 Olympic Games in Beijing. But DiMicco said there is enough going on in other developing countries and in new product development to keep the steel industry strong well beyond the 2008 Games. "There is something much bigger going on here," he said. "We are in a place where things will be very positive."

He pointed to the development of alternate fuels, stating that any new ethanol plant would require anywhere from 160 to 200 new, specialized railcars to be built. "There is going to be more spending on ethanol," he said. "Those cars haven't been built yet."

Others participating in a panel discussion on the future strength of the global steel industry also were optimistic, but many qualified their optimism by noting that any type of cataclysmic event could place the industry in peril.

"I share the optimism," said Bill Jones, president and chief executive officer of O'Neal Steel Inc., a service center in Birmingham, Ala., "but not quite to the exuberant level that Dan has. I'm still wary of the cycles in the business. We are only as good as our customer base. We've got to be aware of what is happening with our customers-we are only as good as that base is strong."

David Sutherland, president and chief executive officer of Ipsco Inc., Lisle, Ill., said his company's presence in the energy markets as a manufacturer of plate and oil country tubular goods bodes well for the near term. "We think the energy part of the business will be active for some time," he said. "The (original equipment manufacturers) we service are predicting a strong performance for a number of quarters to come. Short of a cataclysmic event, this will carry on for at least a few quarters, at least in plate and pipe."