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Before the Congressional Steel Caucus
Hearing on Stabilizing Steel
June 16, 2009

Good Morning, Chairman Visclosky, Vice-Chairman Murphy, and Members of the Congressional Steel Caucus. Thank you for the opportunity to testify today. My name is Jack Tuomi and I am Vice President and General Manager at United Taconite, a Cliffs Natural Resources wholly-owned and operated iron ore mining and processing facility located on Minnesota’s Iron Range. United Taconite is one of eight iron ore mining and processing operations in the United States. Our operation employs over five hundred workers and has the capacity to produce 5.2 million tons of iron ore pellets annually. Iron ore is a primary input in the integrated steelmaking process. The only end-use for our iron ore pellets is the production of steel using the blast furnace.

I. Cliffs Natural Resources and its Local Economic Impact

Cliffs Natural Resources is a merchant miner, the largest producer of iron ore pellets in North America, and a significant supplier of metallurgical coal, an input for integrated steel making. Cliffs has been mining iron ore for more than 162 years and operates and has ownership interest in five mines and processing plants in the United States as well as iron ore and coal facilities in Canada, Australia and South America. Iron ore mining and processing is an energy and labor intensive industry and we make significant contributions to the communities in which we operate. In 2008, Cliffs U.S. iron ore operations employed over 3,400 workers with an annual payroll of over $354 million. They produced 31 million tons of high quality pellets, contributed more than $50 million in state and local taxes, with a total economic impact of approximately $2.3 billion. All of Cliffs’ operations are located in rural communities, where we are the major employer in those areas.

II. The U.S. Iron Ore Industry and its Local Impact

The U.S. iron ore industry is comprised of eight mines, six of which are located in Northeast Minnesota, with two located in Michigan’s Upper Peninsula. In addition to Cliffs’ five operations, two mines are owned and operated by U.S. Steel Corporation, and one is owned and operated by Arcelor Mittal. Together, the eight U.S. mines have the capability to produce up to 55 million tons of iron ore pellets, employ over 5,000 individuals, with a total economic impact of nearly $3.9 billion.

III. Global Economic Downturn

The global economic downturn has had an extreme adverse impact on domestic iron ore operations. Like steel, industry utilization rates are currently below 50 percent, with iron ore shipments down 65 percent compared to a year ago. Significant inventories exist at the mines and upper lake ports which will take considerable time to work off once an economic recovery is underway. Operations on both the Minnesota and Michigan ranges were quick to bring iron ore production in line with the rapid slow-down in steel production. Production curtailments have been achieved through a combination of taking pellet furnaces off-line and plant shutdowns lasting anywhere from a couple weeks to several months.
- United Taconite – Operating 1 of 2 pellet furnaces. Plant totally idled in May and half of June.
- Hibbing Taconite – Operating 1 of 3 pellet furnaces. Plant totally idled mid May-September 1
- Keewatin Taconite – Idled indefinitely beginning December 2008
- Minorca Mine – Plant idled May 10 thru August 1
- Empire and Tilden – Scheduled to run at 50 percent of production capacity in 2009

These production curtailments are having a significant adverse impact on the communities in which we operate. They have resulted in numerous layoffs and significant reductions in goods and services purchased locally.

IV. Industry Issues – Policy

The purpose of this hearing is to determine ways to stabilize and improve the current state of the steel industry. As a member of Congress, your decisions will affect the pace of economic recovery and this industry’s future by shaping policies such as the recovery act and climate change legislation.

The American Recovery and Reinvestment Act will provide stimulus funding for projects that require significant quantities of steel. Included in the Act is a Buy America provision that requires that iron and steel utilized in stimulus-funded projects be American-made. The Recovery Act follows the precedent established by the Surface Transportation Act of 1982, stipulating that the manufacture of American-made steel begins with the initial melting, pouring, and mixing phases.

We ask members of the Steel Caucus to see to it that the Buy America provision is strictly enforced so that the Recovery Act only funds the procurement of steel actually produced (melted and poured) in the United States. Without strict enforcement of the Buy America provision, certain foreign-owned steelmakers would be able to provide steel that is finished from imported steel slabs from countries such as Brazil, Russia and the Ukraine. This practice would circumvent the use of domestic iron ore and the production of pig iron in blast furnaces of U.S. steel producers. Such a scenario would have a devastating impact on the employees of facilities like United Taconite and communities reliant on the iron ore industry.

In addition to the Buy America provision, we ask your support in correcting an issue relating to The American Clean Energy and Security Act (H.R. 2454), recently reported by the House Energy and Commerce Committee.

As stated earlier, the iron ore industry is energy intensive (energy represents approximately 23% of total production cost). Title IV of The American Clean Energy and Security Act provides allowance rebates to facilities in industrial sectors that meet energy intensive and trade exposed criteria. While the Steel industry meets the definition of an eligible industrial sector and will receive allowance rebates, the iron ore industry is excluded from the definition of an industrial sector and not able to receive rebates, even though it meets both the energy intensive/trade exposed criteria.

Congressman Stupak is leading efforts to correct this issue, and while members of the committee are aware of this problem and have committed to including language to address the problem, the bill has not yet been amended to provide direct allowance rebates to the iron ore sector. Without direct
allowance rebates, domestic iron ore will not be competitive with iron ore from countries like Brazil, leading to the leakage of carbon and highly-valued jobs overseas.

We ask you to join your colleagues in crafting a solution to this iron ore eligibility problem in order to provide facilities like United Taconite the allowance rebates they will require to remain viable and competitive in a carbon-constrained economy.

V. Conclusion

In closing, I’d like to express my gratitude for the continued efforts of the Congressional Steel Caucus. A strong domestic iron ore industry is essential to a viable domestic steel industry and to our national and economic security. Cliffs Natural Resources intends to supply the domestic steel industry with high quality inputs for decades to come. We appreciate your support of our vital industry.