

# Congressional Steel Caucus – State of Steel Meeting

June 7, 2023

## Testimony of Lourenco Goncalves



- Good morning, Chairman Crawford, Vice-Chairman Mrvan and members of the Steel Caucus. I am Lourenco Goncalves, Chairman, President and Chief Executive Officer of Cleveland-Cliffs. I also serve as Chairman of the American Iron & Steel Institute, the steel industry's leading trade association.
- It is an honor to testify alongside my friend, Mr. Tom Conway, President of the United Steelworkers, and other industry colleagues.
- I would like to start my testimony addressing Cleveland-Cliffs' progress toward substantially reducing carbon dioxide emissions from our operations, and our significantly positive impact on our clients, particularly the automotive sector.
- **In 2022, Cliffs achieved a remarkable 32% reduction in absolute Scope 1 and Scope 2 greenhouse gas emissions as compared to a 2017 baseline.**
- **Our goal for 2030 was a reduction of 25%.** Due to our decision -- made in 2018 -- to spend \$1 billion to build a state-of-the-art Direct Reduction Plant, and then to use our low-emissions direct reduced iron in the form of HBI as feedstock in our blast furnaces, Cleveland-Cliffs was able to not only exceed the target by a large margin, but also to get there in 2022 -- **eight years ahead of schedule.**
- Just last month, on May 8, 2023, Cleveland-Cliffs completed a successful hydrogen trial at our Middletown Works blast furnace, injecting hydrogen into all 20 tuyeres of the furnace. This was the first trial of its kind in the Western Hemisphere. This groundbreaking use of hydrogen as an iron reductant is a massive step toward the continued decarbonization of the superior steels produced by the blast furnace-BOF route, and utilized by the automotive industry.
- As we proved in our trial, we can use massive amounts of hydrogen as a reductant, replacing coke, and consequently replacing CO<sub>2</sub> generation with H<sub>2</sub>O generation. CO<sub>2</sub> is a greenhouse gas; H<sub>2</sub>O is water. We now only need hydrogen at scale, and at a cost-competitive level.
- Cleveland-Cliffs is working to bring about a clean hydrogen economy through our participation in two Midwestern hydrogen hubs. Our significant offtake will serve to resolve the chicken-and-egg dilemma around hydrogen. As a major consumer of the hydrogen to be produced by the hubs, we will enable the use of hydrogen by other carbon-intensive industries, particularly the automotive sector.

- Please keep in mind: Hydrogen powered vehicles are a very real alternative to battery electric vehicles. Some of our automotive clients are already working on the hydrogen alternative, in addition to their efforts on electrification of the fleet.
- To that end, Cleveland-Cliffs is the United States' sole producer of both Grain Oriented Electrical Steel, known as GOES, and Non-Oriented Electrical Steel, which we call NOES. GOES is used in distribution and power transformers, and NOES is used in the most highly-efficient electric motors, including in electric vehicles.
- Last week, a number of trade groups, led by the National Electrical Manufacturers Association, sent a letter to President Biden regarding alleged "limited availability" of domestically-produced electrical steel.
- **Because of the interest this caucus has taken in the continued production of electrical steels, I must set the record straight in relation to this letter, which is just plain wrong.**
- I addressed this caucus in March of 2020, just days before Cleveland-Cliffs finalized its acquisition of AK Steel Corporation. At that time, AK Steel – the sole producer of electrical steels in the United States -- was planning to close its electrical steel-producing operations, Butler Works in Pennsylvania and Zanesville Works in Ohio.
- In early 2020, the electrical steel market had been decimated by imports of both GOES and transformer components called laminations and cores, that are simply cut and stacked pieces of GOES. Dumping from bad foreign players was forcing the closure of the sole producer of electrical steels in the United States.
- Such a closure would have been devastating to 1,500 men and women who work at Butler and Zanesville, most of whom are represented by the United Auto Workers, and would have led the United States to be exclusively reliant on foreign countries for the material needed to maintain and enhance the capabilities of the U.S. electric grid.
- Despite the fact that we were very public about the serious challenges facing these operations, **not one of these same trade groups took a stand on our behalf, nor did they raise any concerns about limited availability of electrical steels at that time.**
- In March 2020, I pledged in front of this Steel Caucus that Cleveland-Cliffs would keep Butler and Zanesville open and make investments if the federal government addressed these dumped and subsidized imports. Through the great work of leaders such as Congressman Troy Balderson, Congressman Mike Kelly, Congresswoman Marcy Kaptur, Senator Sherrod Brown, Senator Bob Casey, former Senator Rob Portman and others, we were able to turn around both Butler Works and Zanesville Works.
- In the past couple years, Cliffs has invested approximately \$50 million in these two facilities, in order to increase production of both GOES and electric vehicle-grade NOES.

- **In fact, Cleveland-Cliffs is currently producing more GOES than our customers are able to receive and process. So much so that, last week, we sent 2,000 tons of GOES coils to an offsite warehouse, for storage until customers can finally accept deliveries.** This is steel they have ordered, but are actually unable to take.
- What these trade groups ultimately want is lower prices, which is exactly what led to the near shutdown situation of 2020. We do not gouge any of these customers for electrical steel. We earn the fair return necessary to re-invest in our facilities and pay our union workers good, middle class wages.
- While our clients in the transformer industry are experiencing production issues resulting in extended transformer lead times, those problems relate to their labor shortages and their shortages of other materials. **These problems have nothing to do with the supply of electrical steels from Cleveland-Cliffs.**
- I urge you all to see this trade association letter for what it is – a distraction from the real production problems hampering the transformer industry and **an excuse being offered by importers** to argue for the removal of Section 232 tariffs and quotas that cover electrical steel imports.
- If electrical steel imports are permitted to flow in unrestrained, the continued production of both GOES and NOES in the U.S. would be in jeopardy, threatening U.S. national security and investments in grid modernization and vehicle electrification needed to facilitate continued economy-wide greenhouse gas reductions.
- I count on the continued support of this Steel Caucus to maintain our U.S. electrical steel production capabilities.
- I would be happy to address any questions. Thank you for the opportunity to speak today.