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BEFORE THE U.S. HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

HEARING ON:

Examining the Department of Transportation's Regulatory and Administrative Agenda.

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Good morning, Chairman Crawford, Ranking Member Norton and distinguished members of the committee. Thank you for the opportunity to appear before you to discuss the Department of Transportation's regulatory and administrative agenda. As the Federal Highway Administration ("FHWA") and other federal agencies implement Buy Clean programs, it is imperative that they are designed to promote low emissions steelmaking and adhere to the statutory requirements established by Congress.

Introduction

My name is Philip Bell. I am a 35-year manufacturing industry veteran. I developed an interest in the steel industry in the 1980s while working in maintenance and operations at American Chrome and Chemicals Company in Corpus Christi, TX. Our plant made chromium coatings that are used in the electroplating of metal products. I have been president of the Steel Manufacturers Association (SMA) for over a decade. Prior to the SMA I held executive-level positions with Gerdau North America, the SGL Carbon Group, and Qualitech Steel Corporation. I am extremely proud to be a part of and represent an industry that is the backbone of our

country. The steel industry is a wonderful and glorious industry that has built careers, companies, communities, cities and even civilizations.

The SMA is the largest U.S. trade association for steel. SMA members are focused on safety, sustainability and innovation. Our members make essential products for America's infrastructure, national security, energy and manufacturing sectors. Between 2022 and 2026 our members will have announced, started or finished new capex projects worth more than $20 billion, leading the way in the electrification, modernization and further decarbonization of America's steel industry, which is already the cleanest in the world.

Modern Steel Industry

There are currently two ways to make steel. The traditional blast furnace/basic oxygen furnace (BF-BOF) production method is a centuries old, extractive, coal-based, high emissions way of making steel. 90% of the steel made in China uses this carbon intensive process. By contrast, SMA members use recycling- and scrap-based electric arc furnaces (EAFs) to manufacture steel with an emissions profile 70% lower than traditional BF-BOF producers. EAFs are inherently more efficient and lower emitting, which is why virtually every new U.S. steel mill built in the last 50 years has been an EAF. As a result, EAFs currently account for 70% of the steel made in the United States. EAF production dominates the steel used in our nation's infrastructure, including 99% of the domestic rebar (structural integrity of bridges, highways, buildings and foundations), wire rod (reinforcement), light shapes (strength and elasticity for load-bearing structures), wire mesh (holds concrete in place) and structural beams (creates strong and stable structures). EAF steel also accounts for the vast majority of plate, sheet, and

pipe products used in construction. EAFs and BF-BOF can make all the same grades and types of steel. The finished products from either method are virtually identical. America's reliance on EAF production gives us a significant carbon advantage over our global competitors. In fact, the domestic steel industry emits 75 - 320% less carbon than global producers.[1]

A Single Buy Clean Standard for Steel is the Only Solution

SMA believes that well-designed Buy Clean programs have the potential to meaningfully accelerate decarbonization and assist in securing a stable future for the American steel industry and its workers. However, we have serious concerns with the General Services Administration's (GSA) implementation of its Buy Clean program and, in particular, the adoption of a dual emissions standard that favors integrated BF-BOF steel production over recycling based EAF production. We urge the FHWA and other agencies to reject GSA's misguided approach.

The Inflation Reduction Act (IRA) appropriated more than $4 billion to the GSA and the FHWA to purchase construction materials that "have substantially lower levels of embodied greenhouse gas emissions" as determined by the Environmental Protection Agency (EPA).[2] The EPA defined "substantially lower" to mean products with the lowest 20% of embodied emissions when compared to similar materials.[3] There is no ambiguity in the requirement that purchases under these programs are limited to those with "substantially lower" emissions.

[1] CRU, Emissions Analysis Executive Summary (June 14, 2022)
[2] Inflation Reduction Act of 2022, H.R. 5376, 117th Cong. § 60503(a)
[3] EPA Guidelines on Inflation Reduction Act Programs https://www.epa.gov/inflation-reduction-act/inflation-reduction-act-programs-fight-climate-change-reducing-embodied#:~:text=For%20purposes%20of%20the%20interim,in%20embodied%20greenhouse%20gas%20emission

However, the dual emissions standard adopted by GSA is inconsistent with this statutory requirement and harms the goals of Buy Clean policies.

Specifically, for multiple steel product categories, GSA has set separate emissions standards for steel products made by integrated BF-BOF mills and those made by modern, efficient EAFs. Under this dual standard, steel produced in BF-BOF mills will be subject to more lenient emissions requirements than those made in EAFs. This means that a steel product made in a BF-BOF facility may be considered just as clean or cleaner than a steel product made in an EAF facility with much lower emissions. As a result, low emissions steel that would qualify as clean under a single standard may not qualify under a dual standard, while high emission steel that has substantially *higher* emissions, may qualify as clean. This is contrary to the statute, which requires that only materials with "substantially lower" emissions be purchased. It also discriminates against companies and workers that invested heavily and worked tirelessly to reach substantially lower emissions levels.

Further, dual standards like the one adopted by GSA are bad climate policy. They will result in higher total emissions by creating a carve-out for the highest emitting producers. By encouraging the continued acquisition of high emissions steel and not promoting purchases of the lowest emissions steel, the government will not put maximum pressure on the highest emitters to decarbonize. Transitioning towards low emitting technologies like EAFs is the quickest and most reliable way to significantly reduce the greenhouse gas ("GHG") emissions associated with steelmaking in the United States and across the globe. Buy Clean policies that do not distinguish between production technologies or raw material inputs can help accelerate

the decarbonization of the American steel industry and send the right signals to steelmakers globally.

GSA justifies its dual standard by claiming that EAFs cannot produce the same types and grades of steel products as BF-BOFs (*e.g.*, exposed automotive, advanced high strength, electrical, and tin mill steels) and that there will be insufficient scrap supply to support greater EAF production. Both claims are wrong and not supported by the market.

First, EAFs can produce the same types and grades of steel as BF-BOFs. Further, the products that integrated producers claim cannot be made by EAFs are not the types of construction products covered by Buy Clean programs. There is simply no dispute that EAFs can produce the grades and types of steel needed for construction projects and government procurement. Even for the most demanding steels, many of the BF-BOFs that are transitioning towards EAF production publicly acknowledge that their EAFs can produce the same types of advanced products as their BF-BOF operations.

Second, the availability of scrap does not limit the ability of EAFs to supply a greater and significant percentage of steel demand. Recent data from the OECD show a global scrap surplus through at least 2050. In fact, the United States is a significant net exporter of scrap. The availability of scrap is not a concern for construction grade products. And as far as automotive grades are concerned, recent technological advancements are increasing the available substitutes for prime scrap, and EAFs can produce high quality steel with little or no prime scrap.

SMA appreciates FHWA's work in developing its Buy Clean program and its efforts to engage domestic steel producers in doing so. We encourage the agency to avoid the same

misguided approach as GSA. Consistent with the IRA, FHWA should adopt a single emissions standard that applies equally to all products regardless of their production process or raw material inputs. All that should matter under FHWA's Buy Clean program are the actual embodied emissions of the products and that the production and use of materials with the lowest embodied emissions are encouraged.

From the customer perspective, the type of steel production process does not matter. Steel is purchased according to industry grades and standards that do not distinguish based on production technology or raw material inputs. In this sense, an emissions standard that differentiates by production process, such as a dual standard, delays decarbonization by allowing the highest emitting producers to claim they are cleaner than their actual emissions. It also discourages recycling and penalizes companies for investing in circular steelmaking. Instead, there should be a single standard based on actual emissions.

- A single standard is simple and transparent. A single standard makes clear to customers, business partners, and governments who are the lowest and highest emitting producers based on total, actual emissions, without caveats based on production process. High emissions producers should not be allowed to conceal the significant gap between the dirtiest and cleanest producers. Put simply, if two steel products are identical, they should be held to the same Buy Clean emissions requirements.

- A single standard is fair to all producers and encourages innovation and investment. A single standard does not prioritize specific steel production processes or raw material inputs and, in doing so, it incentivizes investment in all production pathways, including the types of steel technologies that will be needed to achieve significant reductions in the future. There is no longer a clear divide between EAF and BF-BOF production, and the future of steelmaking will require a variety of technologies. Buy Clean policies should promote the development and adoption of all types of new and low emissions steelmaking processes, rather than locking-in old technologies and production routes.

- A single standard results in the greatest emissions reductions and will further our global advantage on low emissions steel. By applying equally to all producers and production methodologies, a single standard rewards those with the lowest embodied GHG emissions

and promotes the fastest possible transition by companies who do not qualify for preferred government procurement under these programs.

In short, FHWA and other federal agencies should not differentiate between steel products made in EAFs or BF-BOFs, but rather adopt a single emissions standard that applies the same requirements to all steel producers and steel products, regardless of their production technology or raw materials. Doing otherwise would create a Buy Clean program that disadvantages carbon efficient producers and workers, mislabels dirty steel as clean, and tempers our ambition to decarbonize.

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Because of America's tremendous carbon advantage on steel, successful Buy Clean programs can be a powerful tool to meaningfully reduce emissions and support the American steel industry and its workers. A single standard that applies equally to all producers is the only way to comply with the statute, maximize emissions reductions, and incentivize investment in decarbonization. Thank you for inviting me to testify today. I look forward to continued engagement with members of this committee.