



February 11, 2019

TO: Co-Chairs Power and Dembrow,
Vice Chairs Bentz and Brock Smith, and
Members of the Joint Committee on Carbon Reduction

FR: Peter B. Saba, Senior Vice President, General Counsel* and Corporate Secretary
Schnitzer Steel Industries, Inc.

RE: Testimony in opposition to HB 2020

On behalf of Schnitzer Steel Industries, Inc. please accept this testimony offering the Company's concerns with HB 2020. I serve as Senior Vice President, General Counsel and Corporate Secretary for Schnitzer, which was founded in Portland in 1906 and as an Oregon company has grown into one of North America's largest recyclers of metal and a manufacturer of steel from recycled scrap metal.

Schnitzer appreciates the opportunity to testify at the invitation of the Committee. I would also like to thank Governor Brown and her staff for the collaborative process that they and the Carbon Policy Office have undertaken over the past year on this very important issue. Through this submittal, I will share how HB 2020, which would establish the Oregon Climate Action Program and which was recently introduced by this Committee, could impact Schnitzer's steel mill - Cascade Steel Rolling Mills located in McMinnville - and its workers.

When we talk about Cascade, we are talking about a state-of-the art, energy-efficient, electric arc furnace. We produce long products, such as rebar and wire rod, using 100% recycled scrap metal primarily sourced from our own metals recycling operations throughout Oregon. Moreover, 90% of Cascade's electricity consumption comes from non-carbon emitting hydroelectric power, and we use natural gas for our reheat furnaces.

Using recycled metal in steel manufacturing as we do at Cascade saves approximately 75% in energy input, reduces water use by approximately 40% and virgin material use by 90%, and minimizes mining waste generation by 97% compared to steel manufacturing using newly mined ore. Most importantly for purposes of this conversation, using recycled scrap metal as our feedstock at Cascade results in significant greenhouse gas savings compared to traditional steel manufacturing from newly mined ore. Based on our output of finished steel products for fiscal year 2017, we estimate that production at Cascade resulted in approximately 1/7th of the greenhouse gas emissions on a CO₂ equivalent basis than producing the same amount of steel at a blast furnace, which is the most common form of steel production. In other words, if this steel was produced by a competitor using a blast furnace it would have resulted in 7 times the amount of GHG emissions.

As a result, fiscal 2017 production at Cascade's state-of-the-art mill avoided almost 650,000 metric tons of CO₂ equivalent emissions as compared to traditional steel production. Rather than increasing the costs of production at Cascade compared to competitors that do not face carbon pricing and thereby potentially resulting in decreased production at Cascade, Oregon's Climate Action Program should be incentivizing production at Cascade or at a minimum not put Cascade's production at a competitive disadvantage

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Also, as described in the report on Oregon Sectoral Competitiveness under Carbon Pricing prepared for the Oregon Carbon Policy Office, the primary metals manufacturing sector is relatively significant to the Oregon economy. 400 employees keep the Cascade steel mill operating, 280 of which are members of the United Steel Workers Union. Cascade is the largest employer in McMinnville. The steel mill's operations also directly support 130 employees in our Portland Yard and another 40 at locations around the state. These are all family-wage jobs. Cascade's ripple effect within the economy is estimated at 1200 additional jobs in McMinnville and 1700 statewide, when using the economic multiplier of approximately 3 jobs for every 1 manufacturing job.

Specific to HB 2020, following is a brief overview of our most significant concerns and requests for clarifications.

First, we greatly appreciate that the list of emissions-intensive, trade-exposed (EITE) sectors in Section 18 of the bill includes steel manufacturing. This is consistent with the report on EITEs prepared for the Oregon Carbon Policy Office and issued last December. Our finished steel products trade as a commodity, and given our output relative to the markets in which we compete we are a "price taker" meaning we do not have the ability to pass on higher production or regulatory costs to our customers. Moreover, we compete with producers in jurisdictions which do not have carbon pricing putting Cascade at a potential competitive disadvantage.

Therefore, at the top of our list of concerns is the steep annual reduction in allowances that would be provided to the Mill beginning in year two of the program. In effect, we would be facing a mandate for deep decarbonization right off the bat – reducing emissions by over 50% over the next 13 years – where there is no existing feasible technology that can accomplish such emissions reductions at the Mill.¹ We are already employing best achievable control technologies at Cascades and, given our competitive situation, are constantly working to implement production and efficiency initiatives wherever economically feasible.

We cannot wish or mandate our way to new technologies, and the Oregon program even in conjunction with other Western states is not likely to create adequate incentives to drive the type of technological change that would be required to achieve such reductions. As a result, faced with these annual decreases in allowances, Cascade would either have to purchase additional allowances that would increase its costs and could make its goods uncompetitive or have to reduce its production. Steep production cuts commensurate with the rate of decrease of allowances could impact the competitiveness of the remaining output as high fixed costs are spread over decreasing output and could have significant employment impacts.

A second major concern relates to the uncertainty created by the Program and the significant decisions that are left to rulemaking or to the discretion of the Director of the Carbon Policy Office. The rulemaking and discretionary process for granting adjustments for EITEs under Section 18(6) of the bill is one example. Overall, the lack of regulatory certainty - including as to the future cost of allowances -increases business uncertainty. As was noted in the EITEs report, steel manufacturing may face significant carbon cost and regulatory uncertainty could impact investment decisions, such as Mill expansion and the attendant

¹ Oregon Sectoral Competitiveness under Carbon Pricing, prepared for the Oregon Carbon Policy Office by Vivid Economics Limited, Final Report, December 2018, p. 124 ("Emissions reduction opportunities - Abatement opportunities for the iron and steel subsector are limited, although further research is required in this area."). See also: Energy Efficiency Improvement and Cost Saving Opportunities for the U.S. Iron and Steel Industry, sponsored by the U.S. Environmental Protection Agency prepared by Ernest Orlando Lawrence Berkeley National Laboratory, October 2010, p. 24-25. "...direct GHG emissions [of the U.S. iron and steel industry] have declined by 43% (or 37.4 Mtonne CO₂-eq.) from 1990 to 2006 (U.S. EPA, 2008b). This is attributed to the restructuring of the industry, technological and energy efficiency improvements, and increased scrap utilization."

employment benefits and other benefits for the Oregon economy associated with such expansion, given the long lead time and large capital costs involved.

In this regard, it is not entirely clear to us how expansion of manufacturing facilities and/or increased production will be factored into the allocation of allowances. Issues such as the one-year lag in output data used to calculate allowances under Section 18(4) and whether facility expansions would be considered a change to the manufacturing process for purposes of allowance adjustments under Section 18(6) warrant further discussion, we believe.

Similarly, we have questions around the benchmarking process under Section 18(5). As the only company in Oregon manufacturing the goods we do, Cascade should be afforded a facility-specific benchmark. We would prefer this designation be spelled out in statute and not be left to rulemaking. In addition, greater clarity on how “individual goods” will be defined or grouped is warranted to avoid the potential administrative burden of calculating emissions factors for a myriad of products.

Another significant concern is what I like to call the Double Whammy, but I am sure that the economists have a more refined term for this. As we read it, the bill establishes a carve out for natural gas marketers and utilities under Section 9(2)(d) and (e) for the carbon emissions associated with fuel to be provided to other regulated entities, like Cascade, and under Section 10(2)(d) for fuel used in railroad locomotives, but we fail to see how that benefit inures to the end users, such as Cascade. If a double hit is not the intent, then further clarification in the bill language will be necessary.

Even if further language clarification addresses this issue for natural gas and railroad fuels, we note that there is no similar relief for other transportation fuels that are a significant cost in our production and delivery process. Transportation costs are already a competitive disadvantage given the location of Cascade in relation to our sources of scrap supply and to the location of our customers for our finished products in relation to our competitors. We estimate that for every 5% increase in transportation expenses, we would incur \$1.5 million in additional costs. Given the highly competitive environment in which we operate and the existing transportation cost disadvantage, every increase in transportation costs is a matter of concern. The competitive impact on EITE of increased transportation costs as a result of the Program should also be addressed in the bill.

At Schnitzer, sustainability is at the core of what we do as a leader in metals recycling industry and is at the core of how we operate. In 2018, we were recognized as one of the World’s Most Ethical Companies for the fourth consecutive year by Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices. We were the only metals recycling company worldwide, the only U.S. steel manufacturing company, and one of only two companies in the “Metals, Minerals and Mining” category worldwide to attain this recognition. Environmental sustainability is a key criteria in this rigorous selection process, and this award underscores our employees’ commitment to acting ethically, safely and sustainably every day.

Again, we appreciate the opportunity to engage in this dialogue on HB 2020 and look forward to continuing to work with the Committee and the Governor’s office on these and other issues as the bill moves forward.