U.S. House Financial Service Committee Hearing
Examining the Export-Import Bank's Reauthorization Request
and the Government's Role in Export Financing
June 3, 2015

Thank you, Chairman Hensarling, Ranking Member Waters and member of the Committee, for the opportunity to testify today. My name is Clifford Smith and I am the Executive Vice President of Business Development for Cliffs Natural Resources Inc. With five major mines in Minnesota and Michigan, Cliffs is North America's largest producer of iron ore pellets for steelmaking.

I am here today to speak about a recent transaction at the Export-Import Bank of the U.S. that, we believe, exposed serious flaws in the Bank's governance and has contributed to the decimation of the global iron ore trade. I want to emphasize up-front that Cliffs has not advocated for the outright elimination of Ex-Im Bank. However, we believe Ex-Im Bank's financing activity is making it more difficult for Cliffs to compete and we believe substantial revisions to the Bank's Charter and operating procedures are needed to protect U.S. interests.

Through Cliffs' recent experience opposing the Bank's $694 million direct loan for the Roy Hill iron ore project in Australia, it is apparent that the Bank is falling short of adherence to its Congressionally authorized Charter. Quite simply, the Bank is failing to properly account for the negative economic impact its transactions have on domestic companies.

To summarize, in late 2012, Cliffs became aware of Ex-Im Bank's pattern of support for foreign iron ore producers. ***In total, between 2009 and 2013, the Bank has helped bring on-line 124 million metric tons of new or expanded iron ore capacity (which is 2.31 times annual U.S. production).***

In the case of Roy Hill, Ex-Im Bank provided a $694 million direct loan to the project proponent, Hancock Prospecting. Hancock Prospecting is owned by Gina Rinehart, one of the richest women in the world and a highly controversial figure in Australia. In May 2013, following the release of the Economic Impact Notice (EIA) for the Roy Hill project, Cliffs commissioned an independent EIA on the impact that the Roy Hill project would have on global iron ore supply and demand, specifically noting the impact on U.S. producers. Cliffs' EIA found that the Roy Hill project would cause the loss of almost $600 million worth of U.S. iron ore exports and the loss of $1.2 billion in U.S. domestic sales (due to price degradation by increasing supply iron ore). ***Total impact to Cliffs over the financing period could exceed $1.8 billion!***

These pricing estimates were based on an assumption that global oversupply would lead seaborne iron ore prices to degrade from an average of approximately $135 per-ton in 2013 to a price of $96 dollars per-ton in 2018. In fact, the global oversupply situation has become much worse than even our own EIA predicted. ***Today the global seaborne iron ore price is in the low $60 per-ton range, with the price having dipped in the $40s per ton during the month of April 2015.***

To put this into perspective, when the Roy Hill transaction was approved, the U.S. iron ore industry was producing at near capacity and at full employment. Today, the situation is quite different, with well over 1,200 workers at domestic iron ore operations who are currently on layoff or have been notified of a coming layoff.

This oversupply situation has been caused by the conscious decision of major iron ore producers like Rio Tinto and BHP Billiton to bring on additional, unneeded iron ore capacity, even as the Chinese economy continues to slow down and demands less iron ore. Over the past nine months, we have been reshaping Cliffs' business to be a pure U.S.-centric company, and to take us out of the iron ore trade with China. While we still have an international iron ore mining operation in Australia, we have initiated restructuring proceedings for our Canadian operations – Companies Creditor Arrangement Act, also known as CCAA.

In addition, let me point out that there is even a direct correlation between low cost seaborne iron ore and U.S. steel imports. How? Low cost iron ore is facilitating Chinese steel producers to flood the U.S. with cheap steel. As many of you already know, the U.S. steel market is experiencing all time high levels of finished imports. A staggering 34 percent at the end of the first quarter of this year. As it stands today, the domestic steel market is not capturing any new growth and has remained relatively flat for the past two years. It is being captured by cheap steel imports.

Cliffs has been impacted by the steel import situation too. We lowered our full-year U.S. sales and production volume expectations due to the weakened demand and view of the U.S. steel market conditions. At the end of June, we are temporarily idling our Empire Mine in Michigan through the end of October of this year. This will impact approximately 350 of our employees.

The Roy Hill project, which proposes to add more iron ore to the market than the U.S. industry produces in aggregate, will further exacerbate this global oversupply situation when the project begins production at the end of 2015. The findings of Cliffs' Ex-Im Bank study were sound and should have precluded Ex-Im Bank from approving the Roy Hill loan for the following reasons: 1.) The Charter prohibits the Bank from approving transactions that would result in production of a commodity when that commodity is in a state of global oversupply; and 2.) Ex-Im Bank's Charter prohibits the Bank from financing projects that would harm U.S. producers more than it would benefit the U.S. exporter requesting the financing

Notwithstanding these well documented economic impacts, the Bank approved the transaction without ever releasing or acknowledging the outcome of its own Economic Impact Analysis (which it is bound by its Charter to conduct). When a non-confidential summary of the Bank's economic analysis was finally made available…***only after the transaction was formally approved***, it was clear that the EIA was substantially flawed:

The Bank’s EIA found an adverse economic impact to U.S. producers of only $25 million! (compared to Cliffs’ finding of $1.8 billion in harm).

In order to reach this outcome, Ex-Im Bank made wildly unsupported claims. ***For example, the Bank deemed, without explanation, that 55 million metric tons per year would not change global supply/demand dynamics in the iron ore space***

These unsupported assumptions and shortcomings in the Bank’s EIA stand as a primary example of why the Bank must be more accountable and more transparent.

In short, in the case of Roy Hill, Ex-Im Bank second-guessed Cliffs’ EIA and largely refused to acknowledge our outlook on our own industry. Now, over a year-and-a-half later, our predictions have come true with terrible consequences for U.S. companies and workers.

Going forward, we look forward to working with the committee to share our thoughts on necessary amendments to the Bank’s Charter. The goal of these proposed changes will be to ensure that the Bank must be accountable to parties that object to its financing arrangements, in order to ensure that the Bank can never again fund a fatally flawed project such as Roy Hill.

Thank you once again for your time today. I’m happy to answer any questions the committee may have.