ALLIANCE FOR AUTOMOTIVE INNOVATION

October 31, 2023

U.S. Senator Amy Klobuchar
Chair
Subcommittee on Competition Policy,
Antitrust, and Consumer Rights
224 Dirksen Senate Office Building
Washington, D.C. 20510

U.S. Representative Thomas Massie
Chair
Subcommittee on the Administrative State,
Regulatory Reform, and Antitrust
2138 Rayburn House Office Building
Washington, D.C. 20515

U.S. Senator Mike Lee
Ranking Member
Subcommittee on Competition Policy,
Antitrust, and Consumer Rights
224 Dirksen Senate Office Building
Washington, D.C. 20510

U.S. Representative J. Luis Correa
Ranking Member
Subcommittee on the Administrative State,
Regulatory Reform, and Antitrust
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Chair Klobuchar, Ranking Member Lee, Chair Massie and Ranking Member Correa:

On behalf of Alliance for Automotive Innovation, the association representing auto manufacturers producing most vehicles sold today in the United States, I write regarding Cleveland-Cliffs Inc.'s proposed acquisition of United States Steel Corporation. If permitted to proceed, this transaction could have negative implications for the auto industry and increase costs for average drivers.

In August 2023, Cleveland-Cliffs made an unsolicited offer to acquire 100 percent of U.S. Steel for $7.25 billion in cash and stock. Cleveland-Cliffs is the largest flat-rolled steel producer and largest manufacturer of iron ore pellets in North America.

The vertically integrated company (stretching from mined raw materials to primary steelmaking and finishing) is also the largest supplier of steel to the automotive industry in North America. Automakers represented 31 percent of the company's revenue in 2022.

The potential concentration in domestic steel production that will result from this proposed transaction deserves antitrust scrutiny from the subcommittee and government regulators. In particular, the government should examine the potential for anti-competitive pricing of materials used by steel-reliant automotive manufacturers.

For the subcommittee's benefit, I've outlined specific areas where a combined Cleveland-Cliffs and U.S. Steel would have total or near total control of steel manufacturing in the U.S.

In addition to owning nearly all U.S. iron ore mining and processing facilities (iron ore is the dominant mineral input in steel production), a combined Cleveland-Cliffs and U.S. Steel would control:

- 100 percent of blast furnace production in the U.S.

- More than 90 percent of U.S. advance high strength steel used for automotive underbody panels, bodyside reinforcements and impact areas.

- 80 percent of body in white (BIW) steel used to produce a vehicle's structural frame.

- 65 percent of U.S. exposed grade steel used for automotive surface panels like doors, hoods and fenders.

A consolidation is also problematic for the production of electrical steel (e-steel) used for electric vehicle (EV) motors.

Currently, there are two primary domestic suppliers of automotive grade e-steel in the U.S.: Cleveland-Cliffs and Big River Steel (*owned* by U.S. Steel). In a combined company, 100 percent of the domestic e-steel needed for electrical motors and EV production will be concentrated in a single company.

Based on my conversations with automakers, I can tell you there is concern about the cost of both steel and e-steel.

The average transaction price of a new EV remains higher than the industry average. Without competition in the U.S. for the production of e-steel, automakers face an increase in the cost of materials which could ultimately increase the cost of finished EVs for customers. A production concentration in a single company also exposes the broader economy to supply chain interruptions and shortages.

In its August announcement, Cleveland-Cliffs said: "based on review by outside counsel, Cliffs believes the proposed transaction would receive regulatory approval in a timely manner."

The facts above suggest otherwise.

Indeed, in rejecting the Cleveland-Cliffs proposal, the president and CEO of U.S. Steel said his company needed further clarity on several issues including "regulatory risk" and answers to "questions that would need to be better understood in order for both of us to appropriately assess the antitrust risk of your proposal…"

Auto manufacturing in the U.S. is undergoing a massive transformation. The U.S. industrial base is retooling and automakers are localizing manufacturing through $115 billion of commitments toward automotive electrification.

A consolidation of steel production capacity in the U.S. will further increase costs across the industry for both materials and finished vehicles, slow EV adoption by driving up costs for customers, and put domestic automakers at a competitive disadvantage relative to manufacturers using steel from other parts of the world.

I look forward to discussing this important issue with you or your staff.

Sincerely,

John Bozzella
President and CEO
Alliance for Automotive Innovation

Cc: The Honorable Chuck Schumer
Majority Leader, U.S. Senate

The Honorable Mitch McConnell
Republican Leader, U.S. Senate

The Honorable Mike Johnson
Speaker of the U.S. House of Representatives

The Honorable Hakeem Jeffries
Minority Leader, U.S. House of Representatives

The Honorable Jonathan Kanter
Assistant Attorney General, Antitrust Division
U.S. Department of Justice

The Honorable Lina M. Khan
Chair, Federal Trade Commission