CALIFORNIA STEEL INDUSTRIES, INC.
1 California Steel Way
Fontana, CA 92335
(909) 350-6300
Fax (909) 350-6223

March 26, 2018

Mr. Brad Botwin
Director, Industrial Studies, Office of Technology Evaluation
Bureau of Industry and Security
U.S. Department of Commerce
1401 Constitution Avenue, NW, Room 1093
Washington, DC 20230

Re: **Attachment to California Steel Industries, Inc., Exclusion Request of March 26, 2018 for 7224900055 HTSUS (BIS-2018-0006)**

Dear Mr. Botwin:

California Steel Industries, Inc., ("CSI") requests that its anticipated need for semi-finished carbon steel slabs be excluded from the tariffs imposed by the President on March 8, 2018, under Section 232 of the *Trade Expansion Act of 1962* (19 U.S.C. § 1862).[1] Steel slabs are not "produced in the United States in a sufficient and reasonably available amount."[2] Without an exclusion for CSI's projected need for imported semi-finished steel slabs, the tariffs will have the perverse effect of killing jobs at CSI and potentially putting our company out of business.

CSI was formed in 1984 from the rolling mill operations of the shuttered Kaiser Steel, an integrated mill that started its operation in 1943 and closed down in 1983. CSI was able to save about 1,000 of the 10,000 jobs that Kaiser Steel once had.

We have no ability at our California site to melt steel or produce our own steel slabs. We have operated since our inception with purchased steel slab as the lone feedstock for our hot rolling operation, which feeds production of hot rolled, pickled and oiled, cold rolled, and galvanized sheet products, as well as electrical resistance welded (ERW) line pipe.

Executive Summary: CSI Must Operate Almost Exclusively on Imported Slab

- CSI is the largest steel production operation west of the Rocky Mountains, with 3 million net tons of hot rolling capacity. However, we have been operating at just 50 percent of rolling capacity in recent years. If we can be assured of a tariff-free supply of imported slabs, we believe that the tariffs on finished products may reduce import competition for those products. This may allow us to reclaim more of our Western market from foreign competition and increase our rolling capacity utilization to 85 percent of nominal. This would be in line with the stated goals of the U.S.

[1] "Adjusting Imports of Steel Into the United States," Proclamation No. 9705, 83 Fed. Reg. 11625 (Mar. 8, 2018).

[2] *Id*.

Department of Commerce (DOC) Section 232 investigation results[3] to bring U.S. domestic steel capacity utilization to more than 80 percent of nominal.

- Our history shows that we survive only because of our ability to import the majority of our steel slab needs. Our slabs come through the Port of Los Angeles, where we are the largest single customer by tonnage. Slabs are offloaded by workers from the International Longshore and Warehouse Union, with hundreds of jobs at stake. Our main suppliers in recent years have been Brazil, Japan and Mexico. We do not buy slabs from China. When we buy slabs from our two shareholders (JFE Steel Corporation of Japan and Vale S.A. of Brazil) or their affiliates, we do so on an "arm's length" negotiation basis only.

- There is a well-documented shortage of domestic slabs available for sale commercially from U.S. mills. The domestic slab shortage is especially acute for CSI due to its location in the Western U.S., far from the only domestic steel mills that have slab production capability, which are located along the Mississippi River and eastward.

- CSI regularly inquires of domestic mills about slab availability, with little success. Distance, freight costs and their own competing business objectives have simply made it an unattractive proposition for the Eastern U.S. mills to sell slabs to us. In the period of 2016 through 2017, CSI documented at least 24 inquiries of domestic steel producers, where we sought to purchase slab. Just three of those 24 inquiries resulted in deals to purchase slab. As further evidence of this difficult commercial situation, from 2015 – 2017 CSI's domestic slab purchases averaged just 2 percent of our total slab purchases.

- A 25 percent tariff on any of our imported slab purchases makes CSI uncompetitive, especially considering that our domestic competitors would not have the same cost burden on their feedstock. Eventually, our competitors would take over our market, which we are required to serve with slabs bearing the tariff cost burden.

- Finally, if the temporary tariff exclusions for countries that supply slab are overturned at any time, and/or if Japan is not excluded, our very business model would be in jeopardy and we would be forced to file for additional company-specific exclusions.

Our request for exclusion of our anticipated slab needs is critical to CSI's survival and to the business interests of our suppliers, our trading partners and the Western U.S. supply chain (including our more than 200 customers located across the Western U.S. and as far east as the Mississippi River).

<u>CSI Creates American Jobs and Embraces An Employee-Friendly Approach</u>

Our workforce is made up of about 50 percent minorities and 20 percent U.S. veterans. We pay excellent wages and benefits (annual average above $100,000), plus profit-sharing that has averaged more than $7,000 annually over the past five years. We offer outstanding benefits, including an onsite Family Health

[3] U.S. Department of Commerce Bureau of Industry and Security Office of Technology Evaluation (Jan. 11, 2018).

Center staffed with excellent doctors and nurses that employees and their families can use for $0 copays. We also feature an onsite regional technical training center (called InTech Center) in cooperation with area community colleges. We have invested more than $1 billion dollars in our facilities since the mid-1990s to maintain safety excellence, comply with strict California environmental requirements, and serve our markets. Despite the ups and downs in the steel industry and with the support of our shareholders, we have proudly operated for nearly 34 years without a layoff of regular employees.

As integrated mills shut down or reduced capacity over the past three decades, the import of steel slab as a feedstock for CSI saved jobs. We pioneered the slab converter model in response to broad shifts in the U.S. steel industry, as integrated mills closed and less labor-intensive electric arc furnace recycler mills ("mini-mills") expanded. Slab converter mills like ours are more job-intensive than electric arc furnace mills, reemploying many of the steelworkers displaced by the closing of other mills.

In addition to its own U.S. employment, CSI's slab converter production model supports related jobs in manufacturing and transportation. CSI is the largest customer by weight of the Port of Los Angeles. Our 400-acre site is served by two railroads and numerous trucking firms, as well as hundreds of local, national, and international vendors supplying hundreds of millions of dollars in goods and services.

CSI and its nearly 1,000 direct employees are at the center of a chain of transportation and manufacturing producers and services that are highly dependent upon our viability. Using the standard industry metric, we estimate that we generate an additional 6,650 indirect jobs, for a total of 7,600 U.S. jobs across our multi-tiered U.S. manufacturing chain.

<u>Western States Have No Slab Production, Creating Even More Need to Import Slabs</u>

The locations of domestic sheet and plate producers, including integrated mills, electric arc furnace mills and major slab converting mills, are illustrated by the map in **<u>Exhibit A.</u>** There are only three companies operating domestic integrated facilities with slab casting today. Collectively among the three companies, there are only ten domestic blast furnace mills in current operation.

As shown, the few remaining integrated mills in the U.S. that have slab production capability for their own use are located along the Mississippi River or further East. Even if those mills wanted to sell slabs to Western slab converters, including CSI, transportation costs pose a significant hurdle to providing a good business opportunity for any of the parties, as rail is much more expensive than ocean transport. Further, mini-mills by design do not typically produce slabs used by slab converter mills. CSI and Evraz Oregon, the two Western slab converter mills, depend entirely upon purchased slab, and must import almost all of their feedstock.

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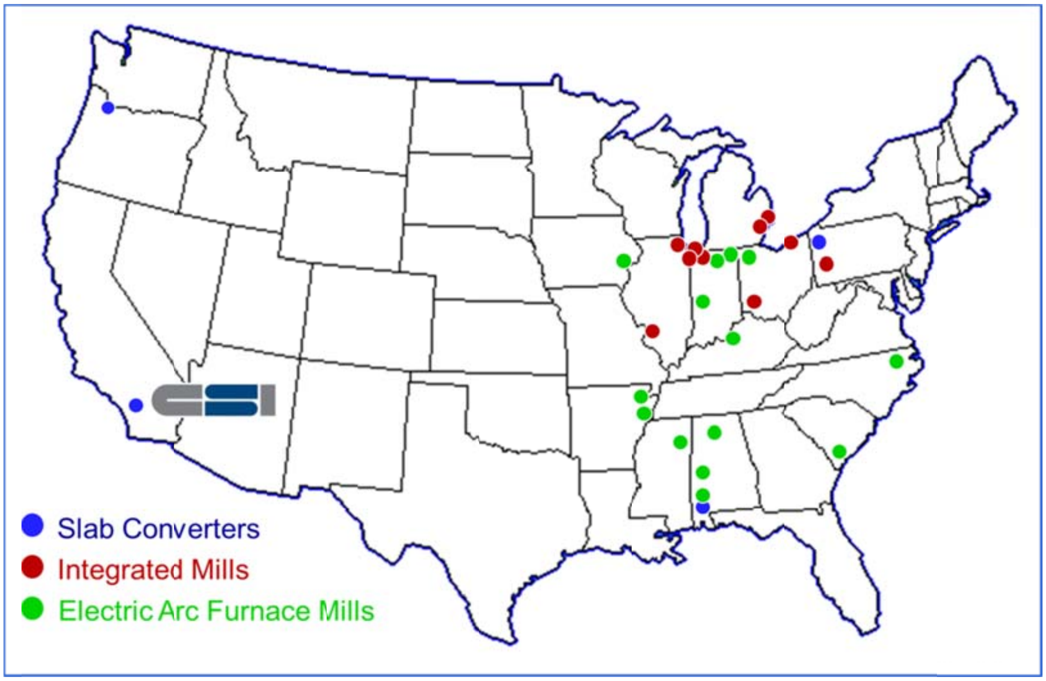
Exhibit A
Locations of Operating Sheet and Plate Producers in U. S.



Faced with that continuing shortage of domestic slab availability, CSI has become almost completely dependent on fairly traded slab – and despite this necessary evolution, CSI has sustained itself as a reliable and successful operation, serving hundreds of manufacturing and service center companies across the American West with high-quality steel products.

Slabs Are Not "Produced in the United States in a Sufficient and Reasonably Available Amount" to Support Commercial Demand

During its most recent Section 232 investigation into steel imports in 2001, the then-Bureau of Export Administration found: "Of the semi-finished steel [i.e. steel slab] that is produced in the United States, most is consumed within the … producer's facility for processing into finished steel products. As a result, very little semi-finished steel is available on the U.S. merchant market."[4]

The U.S. International Trade Commission ("ITC") has also extensively investigated and reported in the context of trade cases that domestically-produced steel slabs are largely unavailable for sale. After a multi-year, nationwide review, the ITC released findings that:

[4] BUREAU OF EXP. ADMIN., U.S. DEP'T OF COMMERCE, THE EFFECT OF IMPORTS OF IRON ORE AND SEMI-FINISHED STEEL ON NATIONAL SECURITY (2001).

- The vast majority of U.S.-produced slabs are internally consumed by the domestic slab producers in the production of other steel products, with a very minor portion being sold on the commercial market; and
- While some slab sales do take place, the overall supply is inadequate to satisfy the needs of slab purchasers on a long-term basis and slab converter mills therefore require the importation of slab to ensure a steady, dependable supply of their feedstock.[5]

The report accompanying the House of Representatives' FY 2013 Commerce, Justice, Science, and Related Agencies ("CJS") Appropriations directed DOC to conduct a new review of domestic slab availability.[6] DOC submitted the study to the House CJS Subcommittee in 2014. The Subcommittee has not released it but has allowed congressional staff to read it, take notes, and quote from it. Staff has verified that the study confirmed that steel slabs are almost never available for sale domestically. At the time, the report found that only about 1.1 percent of total U.S. production of slabs was available for sale in the domestic market.

A 2002 Rutgers University study similarly reported that domestic integrated mills "never offer commercial quantities of slab on a regular basis" as "they would rather roll the slab into higher value-added products before selling the steel."[7] It went on to state: "… domestic mills can and do choke off the supply of slab and thus can largely eliminate the competition . . . . This business situation means that rollers [slab converters] depend almost entirely on imported slab."[8] As these studies have confirmed, we have no choice but to import our feedstock, steel slabs.

While CSI is believed to have been the first steel mill in the world to be almost wholly dependent upon purchased imported slab as its feedstock, we are no longer alone in that model. Today, including CSI, there are at least four mills supplying flat-rolled products that use the same model of imported slab as their feedstock. These mills represent approximately 4,000 direct and 30,000 direct and indirect jobs, most of which would be at risk without slab availability at a competitive price. Despite this expansion of the slab converter model, the facts show that the average annual tonnage of imported semi-finished steel (almost all in slab form) is virtually unchanged since the last Section 232 investigation concluded in 2001. (**Exhibit B.**)

Notably, these import numbers include periodic purchases of imported slab by integrated steel mills, to supplement their own steel slab production – as AK Steel did in 2014 by purchasing 460,000 tons of imported slab.[9] The import of slab is also practiced by integrated mills in order to guarantee their finished good production during periodic furnace maintenance shutdowns.

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[5] Steel, Inv. No. TA-201-73, USITC Pub. 3479 (Dec. 2001).

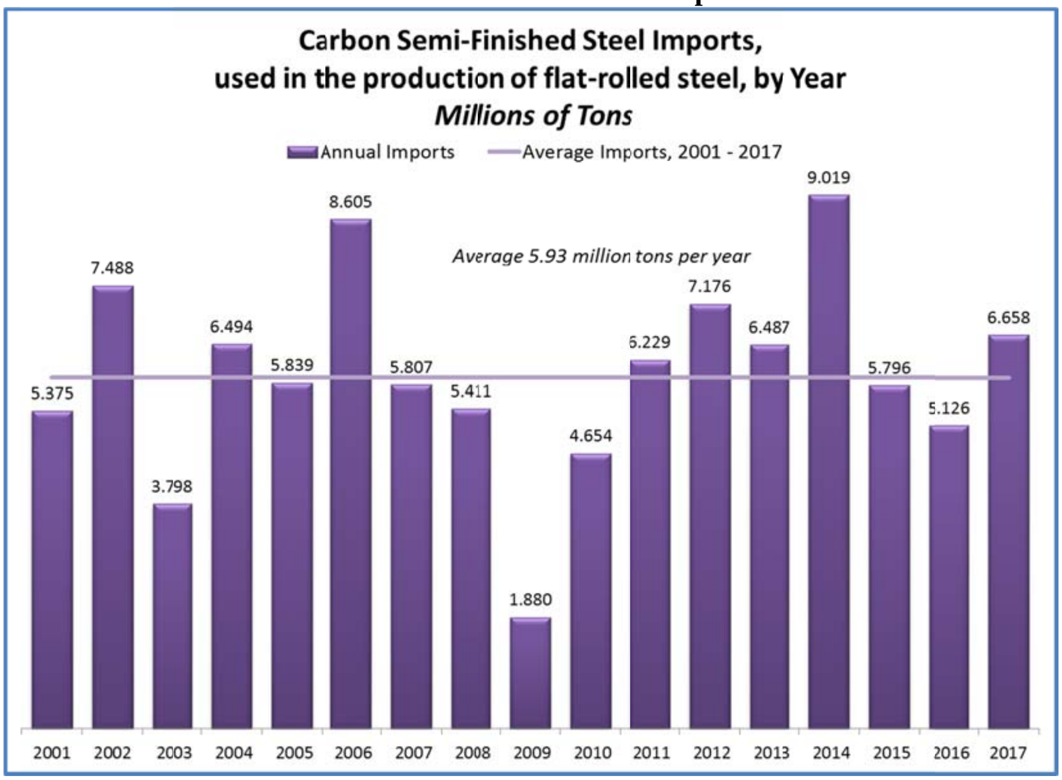
[6] H. R. REP. NO. 112-463 (2012).

[7] James Durling and Thomas Prusa, *Using Safeguard Protection to Raise Domestic Rivals' Costs,* Japan and the World Economy, 47 – 68 (January 2003) at 54.

[8] *Id.*

[9] Michael Cowden, *AK keeping Ashland idle despite 232 case: CEO*, AMERICAN METAL MARKET (April 25, 2017),

Exhibit B
Annual Semi-Finished Steel Imports



Our experience has only proven what these studies and analyses show: since CSI started operations in 1984, slabs have not been available domestically in sufficient commercial quantities to support the quantity demanded by CSI, or for the needs of other slab converter mills that have emerged since. This was true even before any recent curtailments of integrated mill blast furnace and slab production capacity.

In addition, the integrated mills' capacity to produce slabs is <u>less</u> than their capacity to hot-roll slabs into coil sheet, the final product. According to data published by the Association of Iron and Steel Technology (AIST), if all idled furnaces are brought online, integrated mills would still be 2.5 million net tons per year short of meeting their existing hot-rolling capacities.

<u>Despite CSI's Capital Investments, Unfairly Traded Finished Steel Imports Have Hampered Our Capacity Utilization and Job Growth</u>

Since the mid-1990s, we have invested more than $1 billion to improve our California operations. These capital expenditures include $150 million for a new ERW pipe mill in 2014. All of these investments were made with the knowledge that we had established supply lines of fairly traded imported slabs from U.S. trading partners. However, despite these significant job-preserving investments, we have been operating at just 50 percent of our hot rolling capacity of 3 million net tons per year. One of the reasons has been the growing influx of imported <u>finished</u> steel products, which most particularly impact the

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Western U.S. Finished sheet imports to the Western U.S. in the last nine years have gone up 80 percent and represent more than a third of the Western flat-rolled sheet market. **(Exhibit C.)**

For pipe, the situation is even more pronounced. CSI's capacity utilization for its two pipe mills was just 17 percent in 2017, while 2017 line pipe imports in CSI's size ranges (6" to 24" diameter) made up 59 percent of the U.S. market. **(Exhibit D.)**

CSI has joined our industry peers in a number of anti-dumping and countervailing duty trade cases against <u>unfairly traded, finished</u> steel imports, with mixed levels of success.

Exhibit C
Western U. S. Flat Rolled Carbon Imports & as a Percent of Total Market

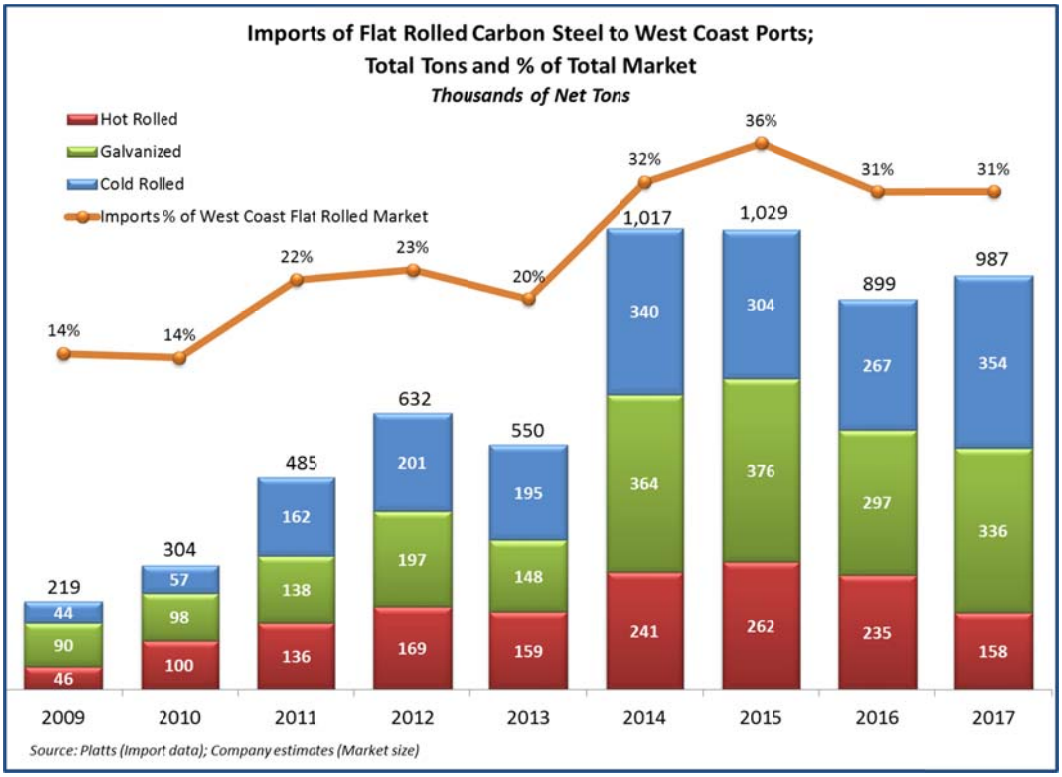
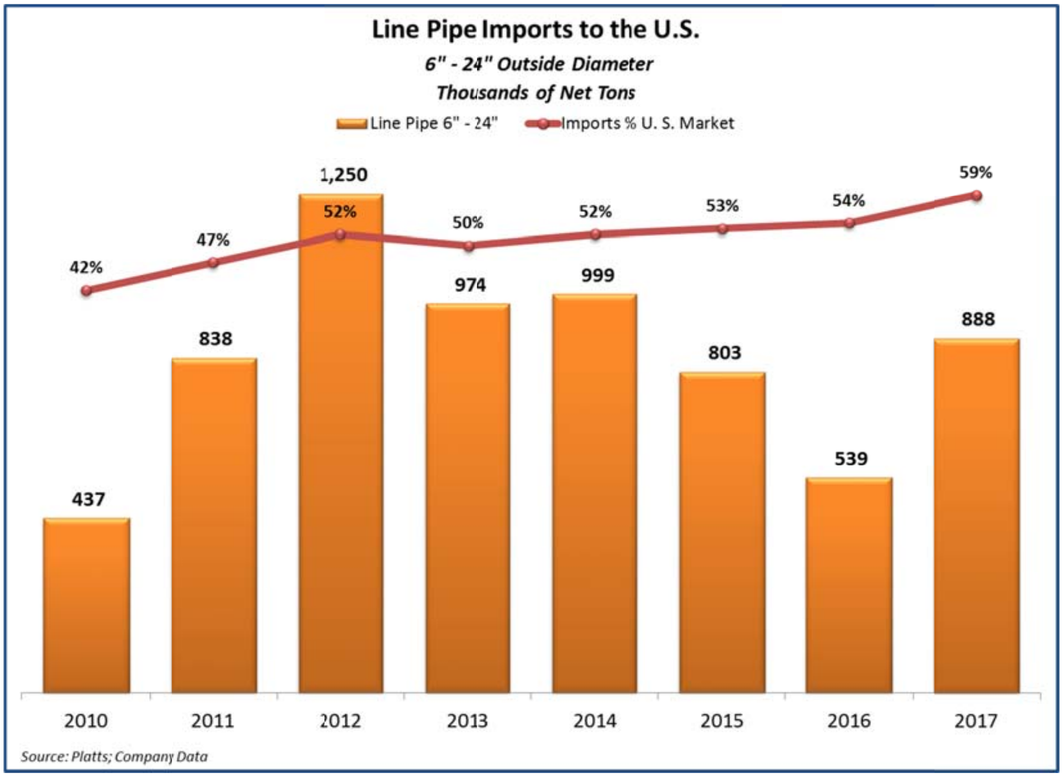


Exhibit D
Line Pipe Imports to the U. S. & as a Percent of Total Market



On the other hand, if we can secure exclusion from the tariffs on our slab imports, we believe that the tariffs on finished products may slow or halt this increase in foreign competition and allow us to increase our hot rolling capacity utilization to 85 percent. This would be in line with the U.S. Department of Commerce Section 232 investigation goal of bringing U.S. domestic steel capacity utilization to more than 80 percent. We believe we can also increase our pipe production capacity utilization dramatically.

This requested exclusion is critical to CSI's very survival and to the success of our suppliers, our trading partners, and the Western U.S. supply chain (including our more than 200 customers located across the Western U.S. and as far East as the Mississippi River).

Conclusion

We are a successful American company based on a slab converter model for nearly 34 years, providing jobs that make a difference in our region. We are supportive of the President's intentions to protect American jobs and to combat unfairly traded, below-market-price imports of finished steel products. We urge you focus on the real problems caused by unfairly traded finished goods imports, especially pipe, and not on CSI's imports of slab from fair-trading partner countries. If our request for an exclusion is denied, the result will be devastating to our business and to the livelihoods of our team members.

We ask that you take these facts into full consideration and show the flexibility the President promised, in order that the entire U.S. domestic steel industry, including CSI, benefit from the tariffs and not be harmed.

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Sincerely,

Marcelo Botelho Rodrigues
President & CEO