

# VOLKSWAGEN

GROUP OF AMERICA

**Docket Number BIS-2018-0006**

June 7, 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  
Washington, DC 20230

**Re: Volkswagen Group of America Chattanooga Operations, LLC  
Attachment to Request For Exclusion From Remedies In Section 232 National  
Security Investigation of Imports of Steel for Certain Electro-Galvanized Steel  
Products**

Dear Mr. Botwin:

This letter supplements certain requests filed by Volkswagen Group of America Chattanooga Operations, LLC ("VWGoACO") for the exclusion from the tariffs instituted by Presidential Proclamation 9705 of March 8, 2018 of certain electro-galvanized ("EG") steel products that are not available from U.S. mills. Specifically, this letter supplements the product exclusion requests filed by VWGoACO for those EG steel products defined by the following unique VWGoACO part and specification numbers:

<b>VWGoACO Part #</b>	<b>VWGoACO Specification #</b>
3CN809605	CR5-EG29/29-E-P-O
3CN809606	CR5-EG29/29-E-P-O
3CN817111E	CR4-EG29/29-E-P-O
3CN817111F	CR4-EG29/29-E-P-O

VWGoACO respectfully submits that the following factors strongly support the exclusion of the above-specified products from the tariffs imposed by Presidential Proclamation 9705.

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Chattanooga Operations, LLC  
8001 Volkswagen Drive  
Chattanooga, TN 37416

First, VWGoACO's facility in Chattanooga, Tennessee represents a major and growing investment in U.S. manufacturing, which would be adversely impacted by the imposition of the tariffs, which could add millions of dollars annually to its U.S. operating costs. As of today, VWGoACO's investment in U.S. manufacturing amounts to \$2.3 billion, and supports 3,500 manufacturing and other skilled, high-paying jobs in Chattanooga. VWGoACO has produced the Passat sedan in Chattanooga for multiple markets worldwide since 2011, and last year began production of the 7-passenger Atlas SUV. This year, VWGoACO announced plans to begin production in Chattanooga of a third vehicle, a 5-passenger variant of the Atlas.

Second, VWGoACO is dedicated to increasing its reliance on U.S. steel sources and is currently in discussions with a number of U.S. steel mills to supply more of the specialty steel products that VWGoACO must currently source from foreign mills in the absence of availability from U.S.-based suppliers. Under its localization strategy, VWGoACO has steadily increased the absolute volume and share of steel procured from U.S. mills. Indeed, as of 2017, VWGoACO has been sourcing 53 percent of its steel inputs, or 57,736 metric tons, from U.S. mills. VWGoACO's U.S.-based steel suppliers include AK Steel, Arcelor, Nucor, SDI, and U.S. Steel. VWGoACO is in ongoing discussions with U.S. mills to continue to increase its sourcing of U.S.-made steel, and is investing in changes to its manufacturing processes that will permit it to substitute U.S.-made for imported steel.

Third, the EG products at issue here are unique and different from those EG products used by other U.S. automobile producers in that they have distinct surface roughness and peak

count specifications, along with a specified level of waviness. The roughness and peak count specifications described in the accompanying product exclusion applications are a function of VWGoACO's paint process. Specifically, VWGoACO's Chattanooga manufacturing operations were designed and configured to apply the "Paint Process 2010," which is used by manufacturing entities throughout the Volkswagen Group globally, but not (to the best of VWGoACO's knowledge) by any other U.S. automotive manufacturer. The protocols of the Paint Process 2010 were developed so as to minimize water usage and waste generation, while maximizing production efficiency and upholding VWGoACO's high standards for surface finishes on the end products sold to consumers. The Paint Process 2010 does not use any primer, and therefore the steel to be painted requires a specified microscopic surface structure to ensure proper adhesion of the finishes and paints applied by VWGoACO, as expressed by the peak count and roughness specifications at issue here. Any deviation from these specifications would thus be inconsistent with the Paint Process 2010, and would introduce risks to achieving the desired final finish. VWGoACO would be pleased to provide the Department with a confidential description of the Paint Process 2010 upon request and the establishment of a procedure for the protection of business confidential information. The document that VWGoACO could provide on such terms describes the considerable environmental benefits and technical aspects of this process that impact the type of steel that must be used for it to function as designed.

In contrast to the above-discussed peak count and roughness specifications, which ensure that the EG steel at issue complies with the Paint Process 2010, VWGoACO's waviness

specification reflects a balancing of steel workability requirements with the desired surface appearance of the final product. That is, the waviness specification required by VWGoACO ensures that the steel forming performed by third-party stamping contractors does not compromise the surface appearance of the final product. VWGoACO would be pleased to provide the Department with additional confidential information describing its waviness specifications upon request and the establishment of a procedure for the protection of business confidential information.

VWGoACO has explored with U.S. steel mills their capabilities to produce to these specifications, but to date none has these capabilities or has invested in the production technology required to do so. In particular, VWGoACO has had numerous discussions with U.S. steel mills owned by AK Steel and Arcelor about potential supply of EG steel to VWGoACO's specifications, and has issued requests for quotes ("RFQs") to these firms. Not once, however, has VWGoACO received a quote to supply to the required specifications. VWGoACO also conducted testing with U.S. Steel in order to approve the relevant mill to produce the EG products to VWGoACO's specifications, but U.S. Steel was never able to meet VWGoACO's roughness and peak count specifications.

Fourth, pursuant to its ongoing localization strategy, and given the inability of U.S. mills to produce to the above-described specifications, VWGoACO has determined to reconfigure its Chattanooga manufacturing operations to permit the substitution of certain hot dip galvanized ("HDG") steel for the EG steel that is the subject of these product exclusion requests. This

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reconfiguration is costly, requiring a multi-million dollar investment in new laser welding technology. This investment is needed to manage the conversion from EG to HDG steel because additional laser power is required to evaporate the added zinc layer present in HDG steel that is not present in the EG steel that VWGoACO is currently utilizing. The penetration of this zinc layer is necessary to ensure that the weld fully bonds with the steel. The laser welding equipment currently in place and used with the EG steel products at issue here is unable to perform this added function. While the planning for this manufacturing reconfiguration is well underway, certain of the needed welding equipment is not yet available, and VWGoACO anticipates that the transition cannot be completed until 2019. VWGoACO expects that, once this transition has been completed, it will be able to source the HDG steel at issue from a U.S. mill operated by AK Steel.

The above reasons provide ample justification for the exclusion of the EG products at issue here from the tariffs that may be imposed under Presidential Proclamation 9705.

Finally, VWGoACO emphasizes that the current procedure for the submission of product exclusion request applications does not include a mechanism for the provision to the Department, or the protection of, business confidential information that is relevant to establishing why U.S. mills cannot supply the specific products for which exclusion is sought. VWGoACO is therefore unable to submit with its product exclusion applications certain business confidential information from its current foreign steel suppliers, who will not permit the disclosure of such confidential information to the Department absent a defined mechanism for the protection of such

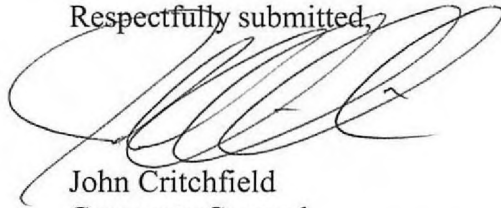


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information. VWGoACO therefore encourages the Department to develop such a process as expeditiously as possible, and to provide VWGoACO with the opportunity to provide this information upon the establishment of the process.

Please do not hesitate to contact the undersigned with any questions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John Critchfield', written over the closing 'Respectfully submitted,'.

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