



**CALIFORNIA STEEL INDUSTRIES, INC.**

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1 California Steel Way  
Fontana, CA 92335  
(909) 350-6300  
Fax (909) 350-6223

May 31, 2017

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: Comments on Section 232 National Security Investigation of Imports of Steel  
Opposing Tariffs or Quotas on Slab Imports**

Dear Mr. Botwin:

California Steel Industries, Inc. ("CSI") is pleased to provide comments in response to the Bureau of Industry and Security's April 26, 2017, request for comments on the Section 232 national security investigation of imports of steel.<sup>1</sup>

Specifically, CSI requests that:

1. The Department of Commerce ("DOC") should not recommend any restrictions – including quotas or tariffs – on imports of semi-finished steel ("slabs"), and
2. The investigation focus on the flood of unfairly priced imported line pipe and other finished products that have severely impacted the domestic steel market.

**CSI's Business Model Is Dependent Upon Imported Steel Slab As Its Feedstock**

In battling unfair imports, CSI has been part of the solution, not the problem. CSI is the largest steel mill in the Western U.S., with the capacity to produce up to 3 million tons of steel sheet annually. In 2016, our sheet production was approximately 1.4 million tons.

Our products include hot rolled, cold rolled and galvanized sheet; and straight-seam ERW (electrical resistance welded) line pipe. After investing \$150 million in a new pipe production facility in 2014, we have the largest capacity in the U.S. for the types and sizes of pipe that we

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<sup>1</sup> Notice request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Steel, 82 Fed. Reg. 19205 (April 26, 2017).

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manufacture. We have been in business for nearly 33 years and are located in San Bernardino County, California.

CSI was formed in 1984 with the rolling mill assets of Kaiser Steel, an integrated steel mill that shut down in 1983 after 40 years of operation. Following Kaiser Steel's closure and the layoff of its several thousand U.S. employees, CSI renewed steel rolling operations only – no coke ovens, blast furnaces, or melting operation of any type – preserving 950 excellent jobs and becoming the first steel mill in the world to operate with purchased slab as its sole source of feedstock for producing finished steel products. For that reason, our model is called a “slab converter” (sometimes also called a “re-roller”).

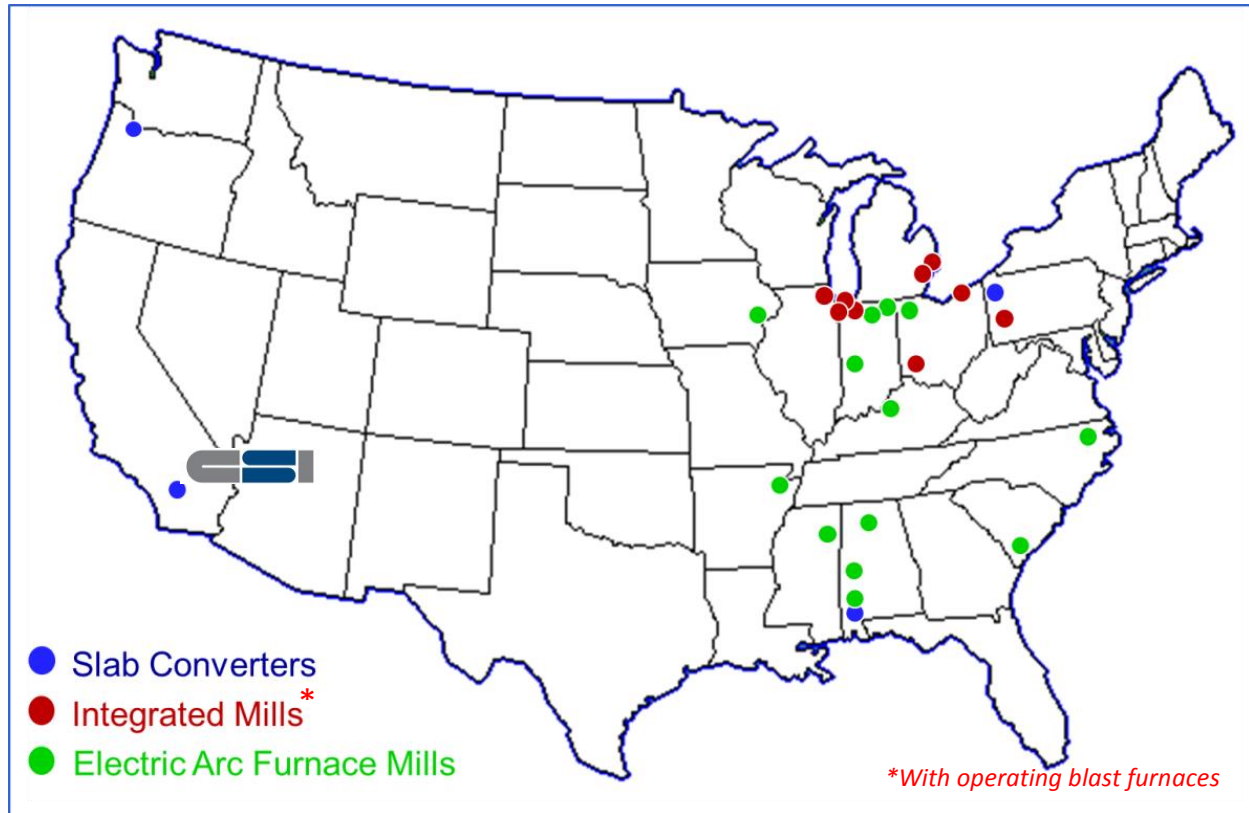
Early in its history, CSI had a ready supply of domestic slab, with nearly 40 integrated mills making slab in the U.S. However, following immense changes in the steel industry over the past three decades, it has become almost impossible to buy slab from domestic mills, which are simply not in the business of making slabs for sale to other steel companies on any regular basis.

#### **Western States Have No Slab Production, Creating Even More Need to Import Slabs**

Slabs are used exclusively by steel rolling mills in sheet and plate production. Fairly-traded slab imports are especially important to the Western U.S. sheet and plate market, and to the two slab converters located in the West. The locations of domestic sheet and plate producers, including slab converters, integrated mills, and electric arc furnace mills, are illustrated by the map in **Exhibit A**. 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, electric arc furnace mills by design do not produce slabs used by slab converter mills. 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.**



There are only three companies operating domestic integrated facilities with slab casting today. Collectively among the three companies, there are only nine domestic blast furnace mills in current operation. These blast furnace facilities located along the Mississippi River and eastward simply do not produce slab for commercial sales on any sustained basis with volume or price competitiveness. They elect to use the slabs themselves to produce value-added products, rather than make any real effort to sell slab to CSI as a value-added competitor.

Faced with that situation, 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.

We normally import slabs from Mexico, Brazil, and Japan. (We do NOT import from China directly or indirectly.) CSI's necessary dependence on imported slabs is easily understood by our geographic distance from potential slab suppliers in the Eastern U.S., and by the fact that the few

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remaining domestic integrated mills have a history of producing slabs only for their own intracompany consumption.

### **CSI Creates American Jobs and Embraces An Employee-Friendly Approach**

Our workforce is made up of about 50 percent minorities and 20 percent U.S. veterans. We pay excellent wages (annual average \$74,000), plus profit-sharing that has averaged more than \$5,000 annually over the years. We offer outstanding benefits, including an onsite Family Health 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 early 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 33 years without a layoff of regular employees.

As integrated mills shut down or reduced capacity over the past three decades, slab converter mills like CSI invested in and restored jobs to shuttered U.S. mills, putting U.S. steelworkers back to work – many of whom come from families who had worked in the same steel mills for generations. Our choice to invest in America revived local communities and continues to provide stability to thousands of hard-working Americans and their families.

Your evaluation will ultimately be based on the facts – and the facts show that the import of steel slab as a feedstock for CSI is a natural consequence of changes in the U.S. steel industry that have made the industry stronger against global forces, not weaker. 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 950 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.

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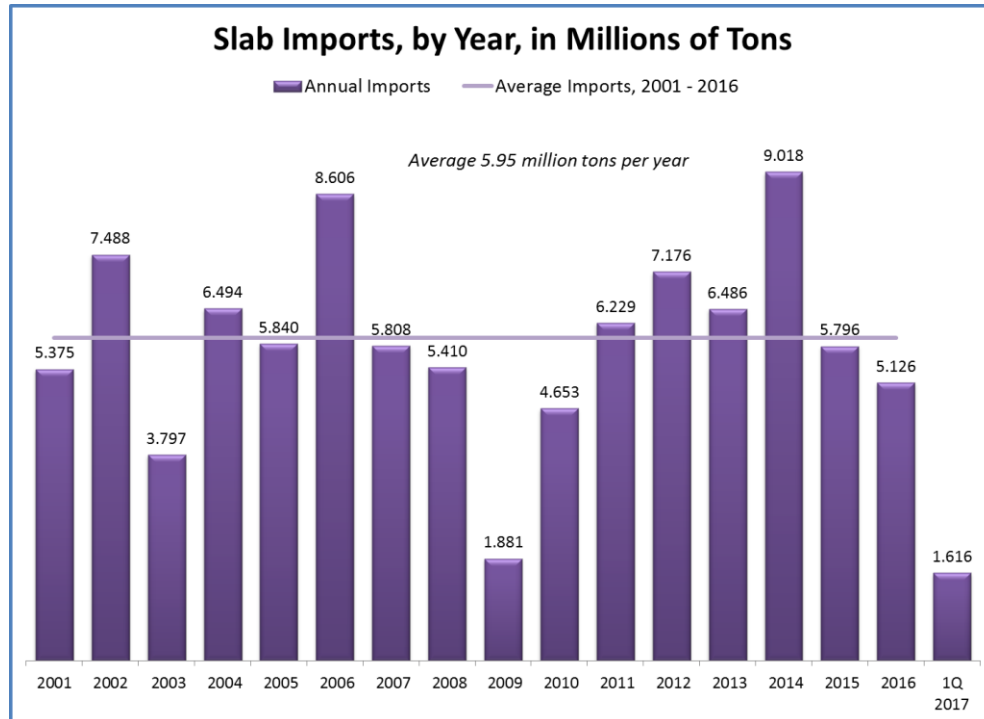
### **Slab Imports Have NOT Increased on Average, Despite Additional Slab Converter Mills**

While CSI was the first slab converter mill to be almost wholly dependent upon imported slab, 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 slab is virtually unchanged since the last Section 232 investigation concluded in 2001, and were actually less in 2016 than 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.<sup>2</sup> The import of slab is also practiced by integrated mills in order to guarantee their finished good production during periodic furnace maintenance shutdowns.

### **Exhibit B** **Annual Slab Imports**



<sup>2</sup> Michael Cowden, *AK keeping Ashland idle despite 232 case: CEO*, AMERICAN METAL MARKET (April 25, 2017),

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**Independent Studies Confirm that Slab Converters Have No Choice But to Import Slab**

DOC and academic studies have confirmed that steel slabs are not commercially available in the U.S. and must be imported, especially for the slab converters in the Western U.S., whose situation is more aggravated with logistical costs.

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.”<sup>3</sup>

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 unavailable for sale. After a multi-year, nationwide review, the ITC released findings that:

- 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 long-term basis and slab converter mills therefore require the importation of slab to ensure a steady, dependable supply of their feedstock.<sup>4</sup>

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.<sup>5</sup> 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.”<sup>6</sup> It went on to state: “... domestic mills can and do choke off the supply of slab and thus can largely eliminate the competition . . . . This

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<sup>3</sup> 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).

<sup>4</sup> Steel, Inv. No. TA-201-73, USITC Pub. 3479 (Dec. 2001).

<sup>5</sup> H. R. REP. NO. 112-463 (2012).

<sup>6</sup> James Durling and Thomas Prusa, *Using Safeguard Protection to Raise Domestic Rivals’ Costs*, Japan and the World Economy, 47 – 68 (January 2003) at 54.

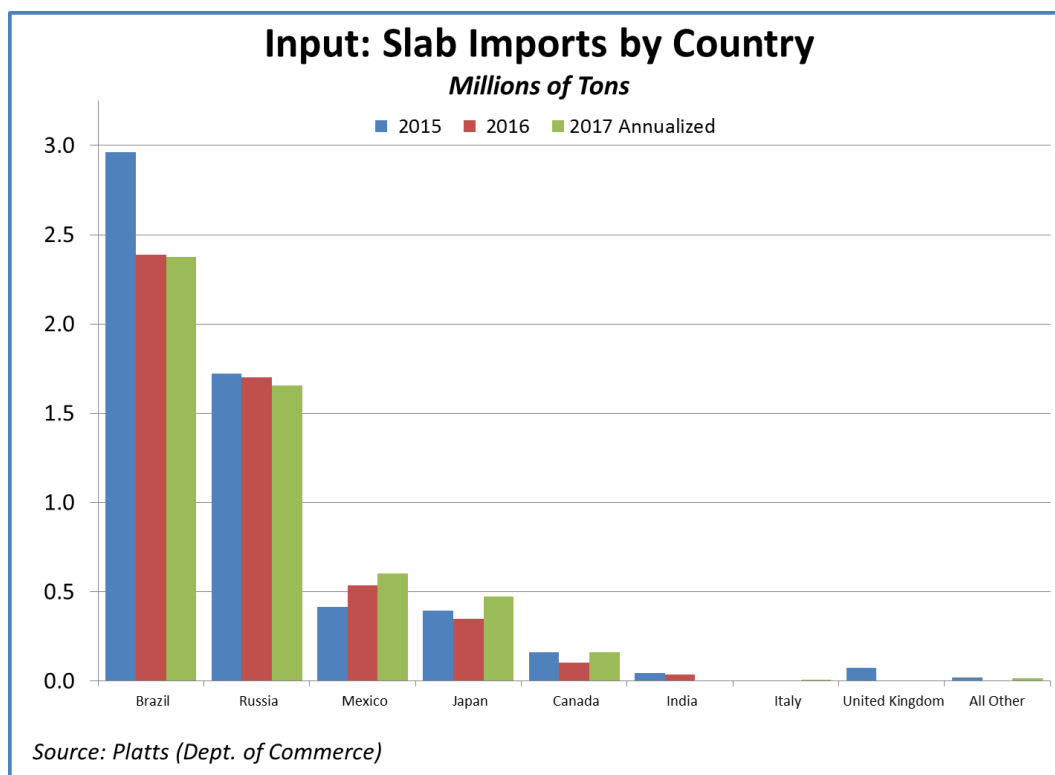
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business situation means that rollers [slab converters] depend almost entirely on imported slab.”<sup>7</sup> As these studies have confirmed, we have no choice but to import our feedstock, steel slabs. As stated earlier, we do NOT buy slabs from China either directly or indirectly; Chinese producers use their slabs to make higher-value finished steel products that are increasingly flooding the U.S. market, rather than export the slabs themselves.

### **Integrated Mills, Electric Arc Furnace Mills and Slab Converters ALL Import Feedstock**

Slabs are only one of many steel mill feedstock inputs that are imported. As **Exhibits C-H** below indicate, slab converter mills import slabs; electric arc furnace mills import pig iron, direct reduced iron, and scrap; and integrated mills import iron ore and metallurgical coal. Most mills import some feedstock from foreign markets, and it adds up to quantities of tonnage that when combined, far exceed slab imports. Overall, imports of pig iron, direct reduced iron, and scrap are over double the amount of slab imports. It is noteworthy that China is not an impactful exporter to the U.S. for any of these imported steel mill feedstocks.

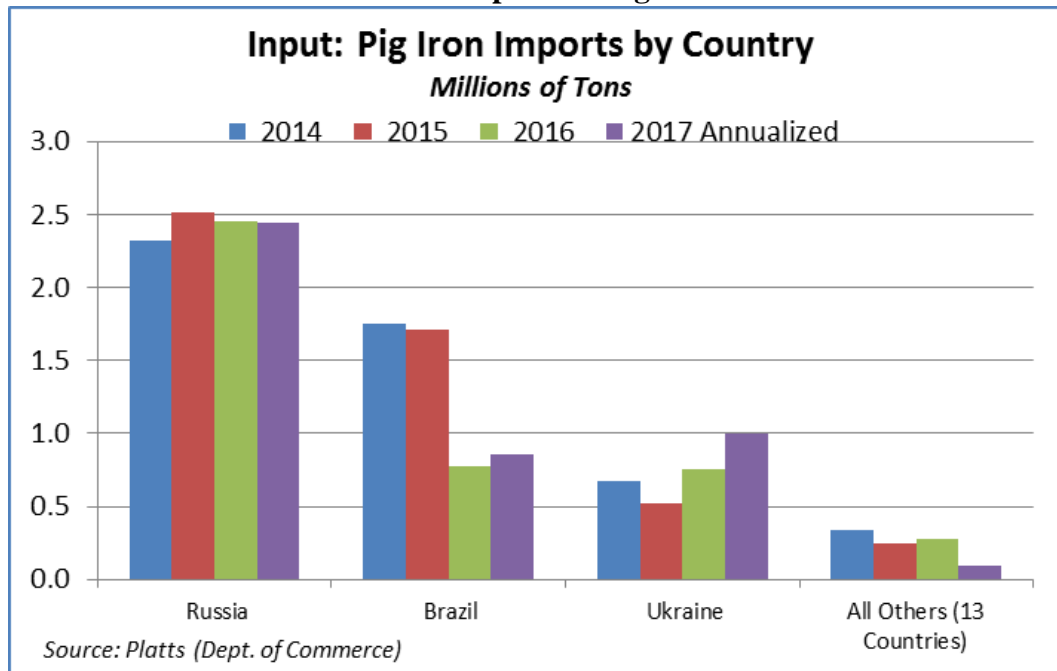
### **Exhibit C** **Imports of Slab**



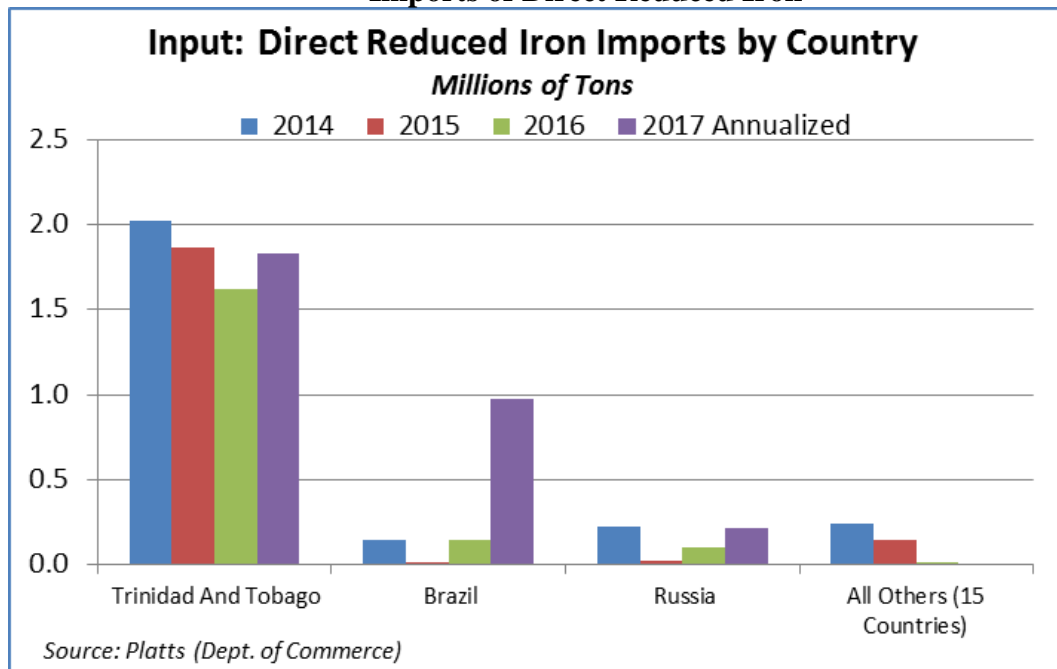
<sup>7</sup> *Id.*

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**Exhibit D**  
**Imports of Pig Iron**



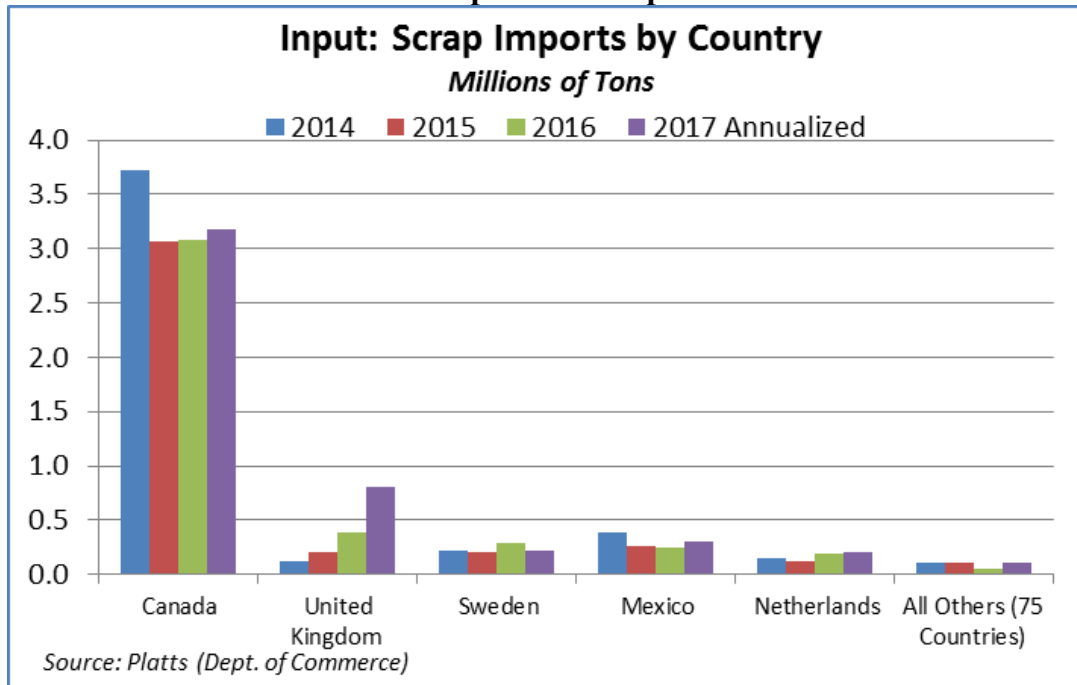
**Exhibit E**  
**Imports of Direct Reduced Iron**



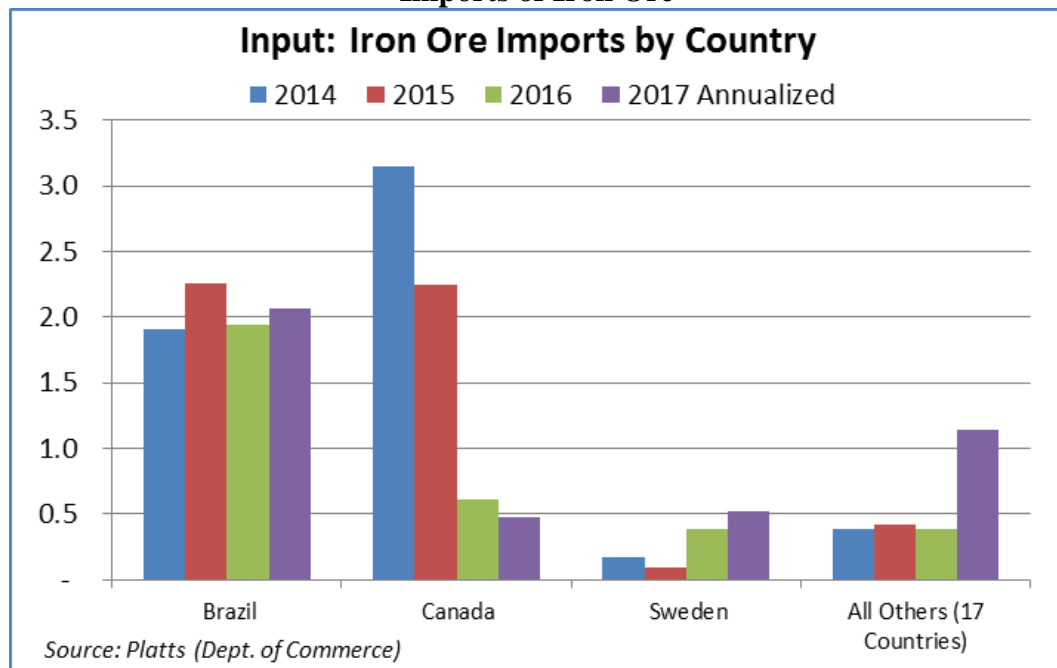


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**Exhibit F**  
**Imports of Scrap**

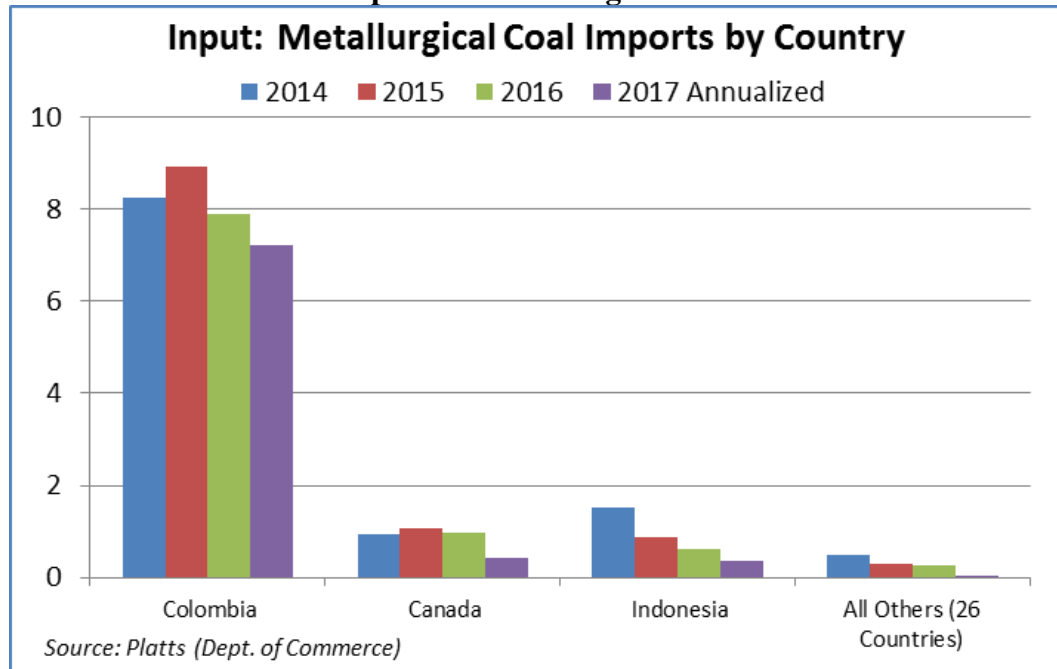


**Exhibit G**  
**Imports of Iron Ore**



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**Exhibit H**  
**Imports of Metallurgical Coal**



**Slab Converters Already Face Job-Impacting Challenges from Buy America Requirements**

Our slab converter model continues to work despite increasing legislative, regulatory and administrative activities that take business from us and give it to Eastern U.S. domestic competitors. We comply with and support Buy American, an objective, performance-based standard that protects all U.S. companies and works against unfair foreign competition, requiring steel to be “substantially transformed” in the U.S. In contrast, under Buy America steel must be “melted” in the U.S. In the 1980s the “melting” standard encompassed all domestic steel facilities. Since then, however, the domestic steel industry has evolved, outpacing Buy America’s narrow “melting” definition. As a result, Buy America now picks winners and losers among U.S. companies and workers. Rather than “melting,” our U.S. steel mill reheats 20- to 30-ton steel slabs to approximately 2,400 degrees Fahrenheit, just short of melting.

Buy America requirements have succeeded in blocking our steel products and those of our customers from being used in federally-assisted highway, some transit projects, and Environmental Protection Agency (“EPA”)-funded water infrastructure projects, reducing competition and raising costs for the U.S. taxpayer. Not only is this hurting supply chains and giving a competitive advantage primarily to recyclers, but it is increasing the cost of and delaying federally-funded projects. When some companies can charge more for the same product because the federal government has disqualified other U.S. producers (like CSI), the federal dollar buys less.

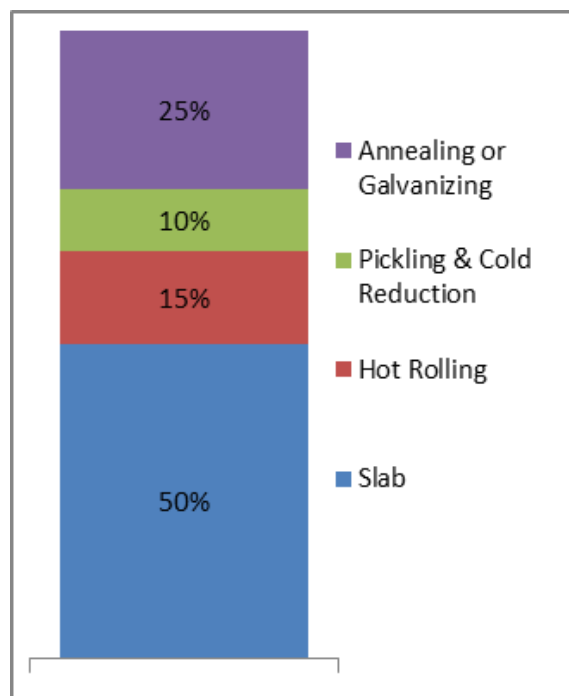
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For example, in 2014 EPA issued guidance defining the American Iron and Steel requirement for federally assisted water projects as a domestic melting requirement, like Buy America. At the time, a U.S. company bid on a California water utility project, intending to use pipe made from CSI steel, as it had done for decades. The company was disqualified even though the pipe was made from steel sheet rolled by CSI workers in Fontana, CA. The company's disqualification left only one bidder, eliminating competition and raising the cost of a \$5 million public utility water pipe project to nearly \$8 million. The utility had to pay approximately \$3 million more for pipe that could have been made from CSI steel for far less. The higher cost was borne by the utility rate-payers and US taxpayers.

### **Value of Slab in the Production of Finished Steel Flat-Rolled Products**

The majority of the value of a finished steel product delivered to the construction site is added in the United States by U.S. workers through a multi-tiered manufacturing process. As shown in **Exhibit I**, slabs account for barely half the costs associated with the hot-rolling and coating processes conducted at slab converter mills like ours.

**Exhibit I**  
**Steel Rolling Process & Associated Costs<sup>8</sup>**  
*Production Costs to Produce Finished Coil Product*

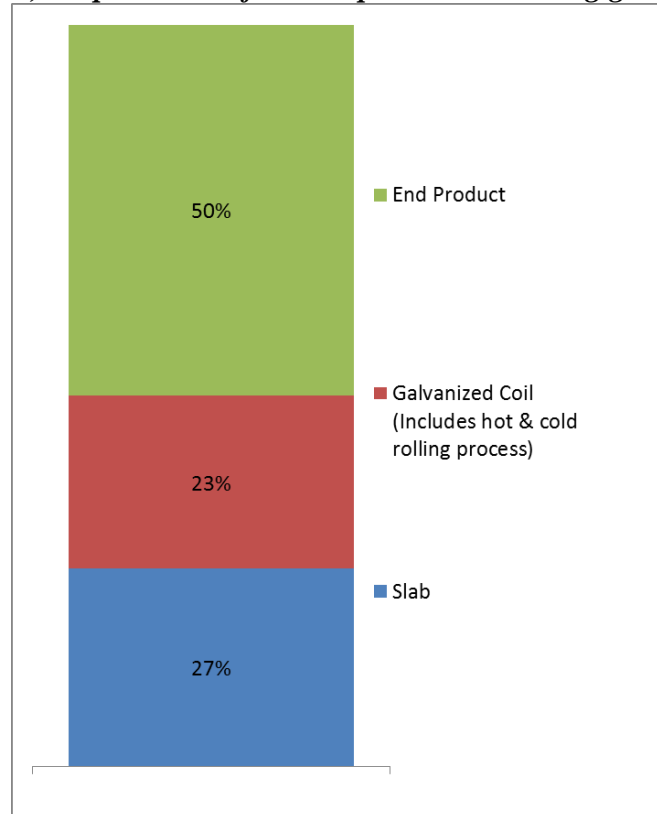


<sup>8</sup> CSI Company Reports; World Steel Dynamics Steel Cost Curve.

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Slabs account for roughly 27 percent of the average market value of finished steel products produced using coil manufactured in slab converter mills, as shown in **Exhibit J** below. Coil-derived products include truss connectors, computer frames, and steel framing.

**Exhibit J – Steel Product Market Value of Coil-Derived Products<sup>9</sup>**  
*Assumes \$1,500 per net ton finished product cost using galvanized coil*



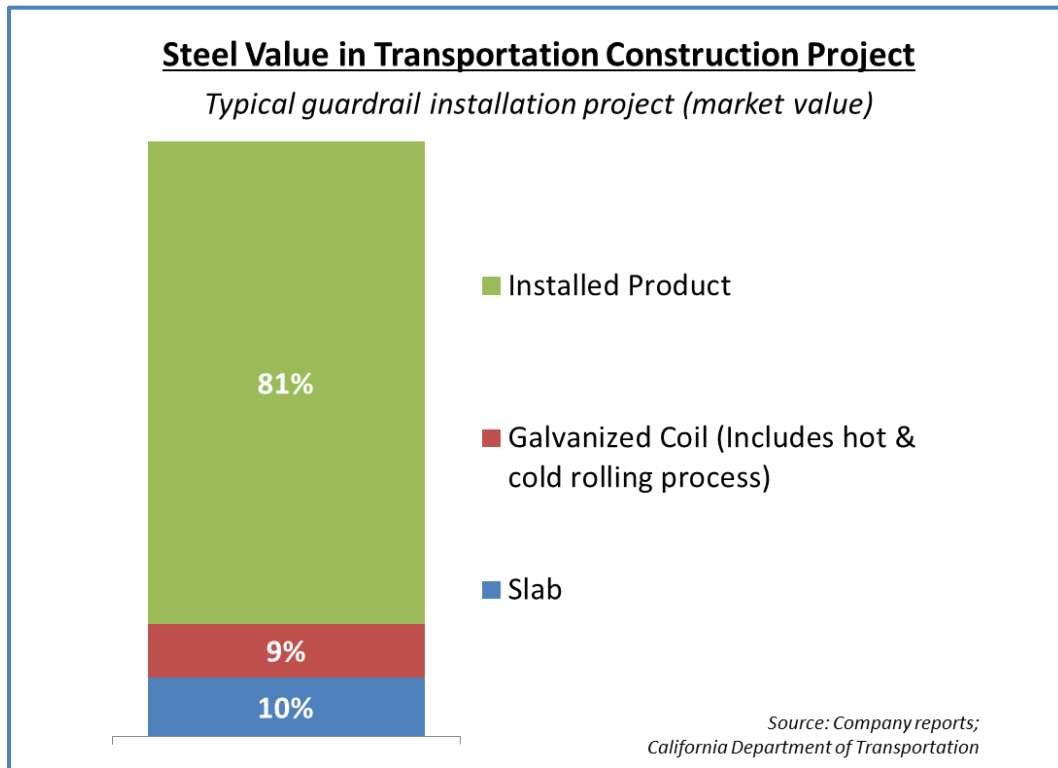
Furthermore, for a finished product installation like a guardrail, the actual example in **Exhibit K** gives an indication that slabs are only 10% of the value – and a relatively small portion of the jobs involved.

<sup>9</sup> CSI Company Estimates; World Steel Dynamics Steel Cost Curve.

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**Exhibit K**

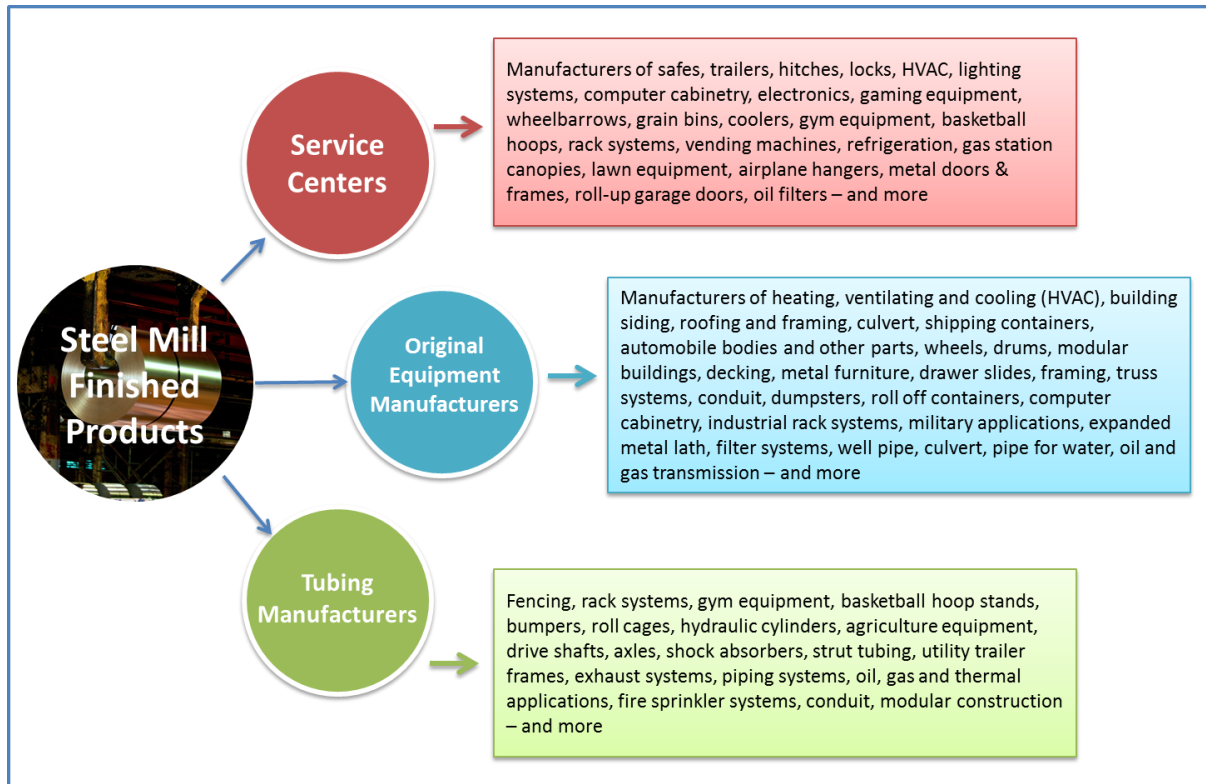
**Most of the Value Is Added by U.S. Companies Downstream vs. the Imported Slab Cost**



In summary, imported slabs are critical to slab converter companies such as CSI. The value added by CSI and its downstream customers is substantial, and is vital to the success of the slab converter model and its customers. The process of converting steel slabs to coils is complex and multi-faceted and is undertaken in the U. S. with the support of U. S. steelworkers, engineers, support staff, and parts suppliers. **(Exhibit L).**

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**Exhibit L**  
**Downstream Added Value from Steel Mill Finished Products**



**CSI Does Not Supply the Defense Industry**

Most tellingly for purposes of a Section 232 investigation, CSI does not supply the defense industry. Due to our geographic market demand characteristics, we have had no need to pursue this business.

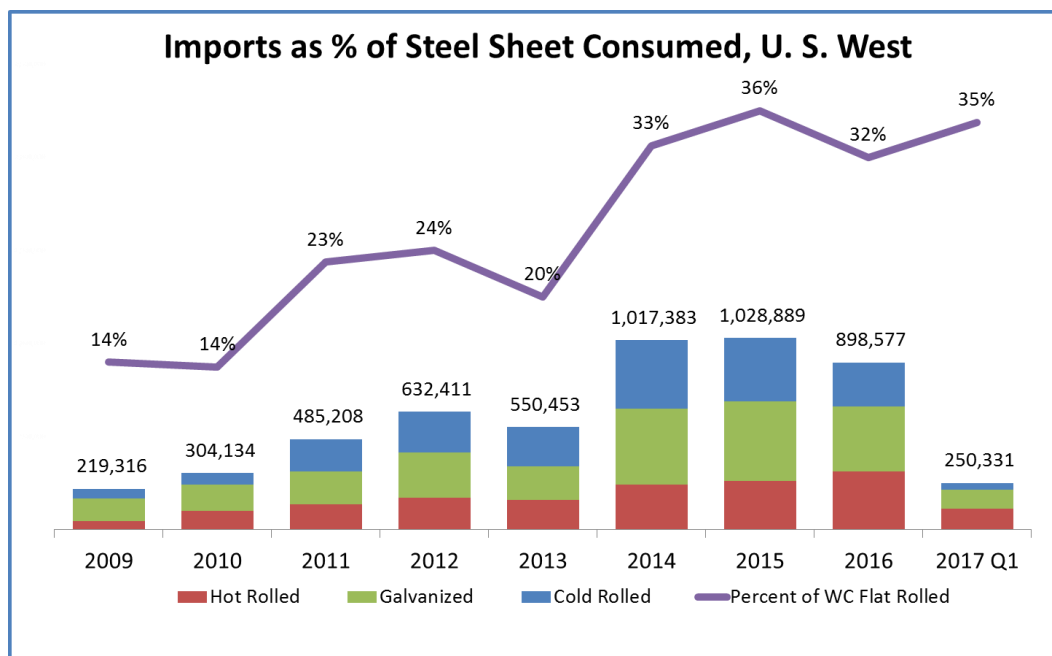
**The Section 232 Investigation Should Recommend Action on Finished Goods Imports, Especially Pipe**

CSI fights against the flood of unfairly-traded imports of finished steel products that often damage our business. As a consequence of our Western U.S. location, we often face the largest influx of finished steel sheet product imports, primarily from China (**Exhibit M**). We have filed numerous anti-dumping and countervailing duty legal actions, together with our industry peers. We look forward to supporting the Administration's efforts to pursue strong enforcement of existing trade laws and trade remedies investigations to counter illegal dumping and subsidization from abroad.

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Imports of line pipe have been especially damaging. Since its investment in a new \$150 million pipe mill in 2014, CSI now has two ERW pipe mills. The new mill has a capacity of 400,000 tons, and the older mill has a capacity of 240,000 tons. The combined mills are capable of producing approximately 3,870 miles annually of ERW line pipe, or 640,000 tons.

**Exhibit M**  
**Imports of Finished Steel Products as % of Steel Sheet Consumed, U. S. West**

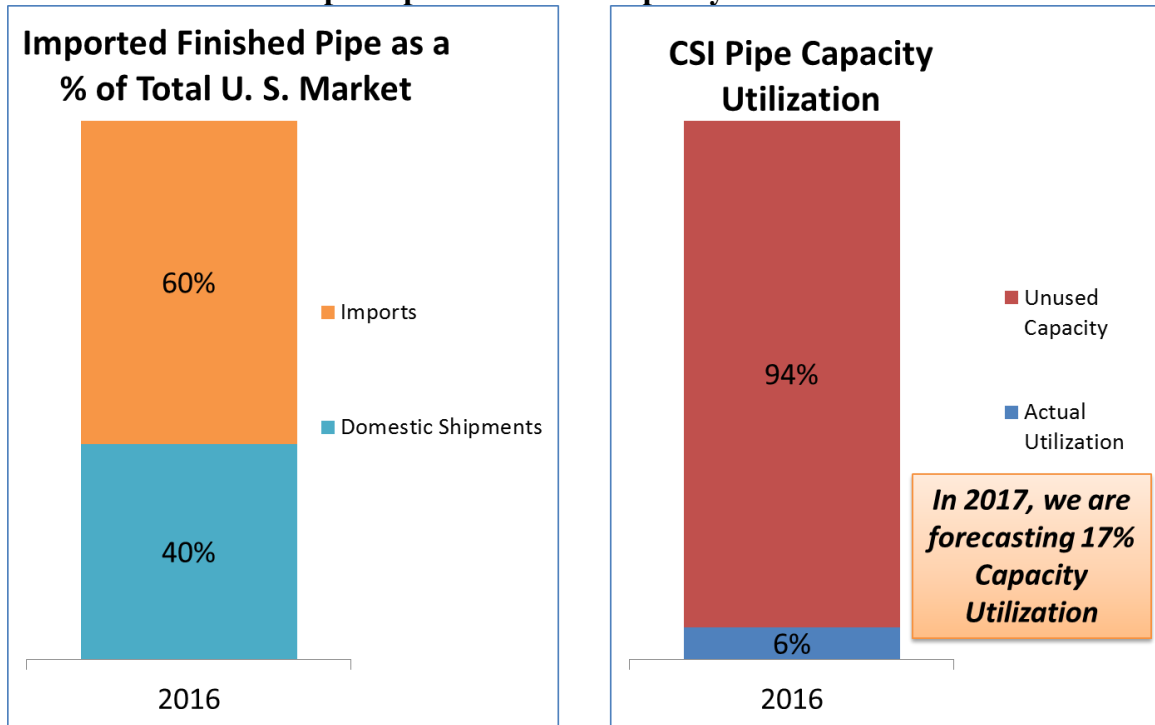


However, despite this world class pipe production investment, CSI produced just 37,000 tons of line pipe in 2016, or less than 6 percent of our total capacity (**Exhibit N**). While lack of demand after the collapse in oil pricing in the fourth quarter of 2015 was a factor, by far the biggest impact came from the flood of low-priced imported pipe, from Korea and elsewhere, which prevented CSI from operating anywhere near capacity.

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### Exhibit N

#### Pipe Imports and CSI Capacity Utilization



Source: American Iron & Steel Institute; CSI Company Reports

100 percent of our pipe is produced in the United States at our facilities in Southern California. Almost all of it is made from hot rolled steel sheet produced onsite from slabs that are largely imported.

We share the concerns the President has emphasized insofar as unfair trade of finished pipe products, and we are an active participant in ongoing industry trade cases fighting unfair imports of finished line pipe. Foreign pipe producers are using raw material from subsidized coil substrate (particularly from China) to gain an unfair advantage over U.S. pipe manufacturers. Thus, some action to protect U.S. manufacturers from unfair competition should be implemented. However, we ask that the Department of Commerce NOT damage existing American pipe and sheet producers such as CSI, who provide great jobs with the only model (imported slab) that works in our West Coast situation.

CSI's business model using imported raw material (slab) to produce Made-In-America sheet and pipe has kept steelworker jobs from disappearing entirely at our site. We hope the Administration recognizes the dynamics of the U.S. steel industry and understands the importance of steel production and manufacturing west of the Mississippi River before adopting



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policies that completely change the competitive landscape and harm some U.S. companies to benefit others.

**In summary:**

- We are a successful American company based on a slab converter model for the past 33 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.
- The Section 232 investigation should focus on the real problems caused by unfairly traded finished goods imports, especially pipe, and NOT on imports of slab from fair-trading partner countries.
- If the Section 232 investigation results in restricting slab imports from any commercially friendly country or in the imposition of tariffs, the result could be the loss of thousands of U.S. jobs.
- We ask that your investigation take these facts into full consideration and not result in findings for tariffs, quotas or other restrictions on steel slab imports, which would simply take jobs from some American companies and move them to other companies elsewhere in the U.S.

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Thank you for the opportunity to express our concerns and offer our thoughts for a successful "win-win" result in the Section 232 investigation.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Botelho", with a stylized flourish at the end.

Marcelo Botelho Rodrigues  
President & CEO  
California Steel Industries, Inc. (CSI)