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

Dear Mr. Botwin:

NLMK USA 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.1

NLMK USA is a steel producer with mills in Sharon and Farrell, Pennsylvania, and Portage, Indiana. We employ 1,063 workers and generate an additional 7,441 indirect jobs, for a total of 8,504 American jobs. We belong to a small but innovative sector of the U.S. steel industry that provides sheet steel to companies via a multi-tiered U.S. supply and manufacturing chain that reaches across America. Since 1999, we have invested almost $900 million in capital improvements at our steel mills, which use a modern yet job-intensive steel production model invented in the U.S. Our latest investment is a state-of-the-art furnace which will produce a higher-quality product with greater energy efficiency, lower emissions, and improved safety. We spend over $1 billion annually in equipment, maintenance, transportation, and electric and gas supply. Our contribution to the regional and national economies in 2016 alone includes: $946 million spent with vendors for equipment and contracted maintenance; $30 million for truck, rail, and barge transportation; and $55 million for electric and gas supply.

Our model depends on steel slabs, which are not commercially available in the U.S. Therefore we must import them. If the Section 232 investigation results in prohibiting slab imports from any country or in the imposition of tariffs or quotas thereon, the result could range from layoffs of U.S. workers to the immediate demise of this sector of the U.S. steel industry and the loss of over 30,000 U.S. jobs.

I. Slab Converters Like NLMK USA Restored U.S. Jobs as Integrated Mills Shut Down

NLMK USA has preserved U.S. steel and manufacturing jobs in communities that have otherwise seen steep declines in their steel and manufacturing bases. NLMK Pennsylvania emerged from the former Sharon Steel Company after a series of bankruptcies. NLMK’s acquisition and reinvestment in this facility restored hundreds of jobs to an economically distressed community. NLMK Pennsylvania today is a strong and growing company and one of the largest regional employers. The average annual compensation (salary and benefits) for NLMK USA’s hourly employees is more than $97,000, which is markedly higher than the median income in each of these communities. Our investments have not only preserved jobs, but provide the infrastructure needed for NLMK USA to expand production and employment in the future.

Over 250 steel manufacturers in 30 states depend on NLMK USA’s steel. NLMK USA’s longstanding regional supply relationships are particularly important to its more than 90 steel manufacturing customers in Pennsylvania, Ohio, Michigan, Indiana, Illinois, and West Virginia, which account for 86 percent of the materials NLMK USA ships.

The U.S. steel industry has evolved substantially in the last 35 years. There were 35 integrated mills in 1982, the last of which was built in 1964; there are only 11 today, of which only 9 are operating blast furnaces. The now-dominant model, electric arc furnace mills, entered the market and produced the same product as the integrated mills – 20-25 ton steel coils – but with 1/3 to 1/2 the labor and lower energy costs. A 2002 Rutgers University study found that electric arc furnace mills have “very low unit labor requirements” because their production process (i.e., re-melting scrap steel) “avoid[s] the...process of making raw steel.” The study notes that electric arc furnace mills “have the lowest unit labor requirement...followed by rollers [such as NLMK USA]...and then integrated” mills.

Slab converters also entered the market and saved jobs lost to this shift in U.S. production. NLMK USA and other slab converters purchased and repurposed closed integrated mills and put steelworkers back to work, creating a new model closer to integrated mills – the original steelmaking model – saving portions of their facilities and putting their workers back to work in an innovative way. Slab converters are a small part of the industry, but together account for over 30,000 direct and indirect jobs, jobs that would be at risk if semi-finished slab steel imports are restricted in any way.

Our production model not only supports American steel jobs, but port and transportation jobs. NLMK USA is the anchor tenant of the new Paulsboro marine terminal on the banks of the Delaware River in Gloucester County, New Jersey, the first terminal built on the Delaware River in 50 years. The State of New Jersey invested over $170 million to transform this abandoned oil refinery station into a 150-acre port. With NLMK importing nearly 1.5 million metric tons of steel slabs annually, Paulsboro is an engine for job growth and economic development, projected to bring over 2,000 jobs to the area in marine terminal operations, stevedoring, cargo handling, trucking, rail, and barge operations. Paulsboro promises to catalyze broader economic

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3 Rutgers study at 59, n. 27.
revitalization throughout southern New Jersey by creating unparalleled opportunities for new cargo and business growth for the entire region.

II. Slabs Are Not Available on the U.S. Merchant Market

All steel mills – integrated mills, slab converters, and electric arc furnace mills – rely on imported material for their feedstock, as indicated in Exhibit A below.

Exhibit A – Imports of Steel Mill Inputs\(^4\)

\[\text{Millions of Net Tons}\]

\[
\begin{array}{c|c|c|c|c}
\text{Year} & \text{2014} & \text{2015} & \text{2016} & \text{2017 Annualized} \\
\hline
\text{Pig Iron} & 5.1 & 5.0 & 4.3 & 8.1 \\
\text{Direct Reduced Iron} & 2.5 & 2.1 & 7.9 & 3.0 \\
\text{Scrap} & 4.7 & 4.0 & 4.8 & 4.8 \\
\text{Metallurgical Coal} & 11.2 & 11.2 & 9.8 & 8.0 \\
\text{Iron Ore} & 5.6 & 5.0 & 3.3 & 4.2 \\
\text{Slab} & 9.0 & 5.8 & 5.1 & 5.3 \\
\end{array}
\]

Our feedstock is not commercially available in the U.S. – a fact that has been confirmed by government and academic studies. Thus, any action to restrict or increase the cost of slab imports will have a direct negative impact on our operations.

During its most recent Section 232 investigation into steel imports, 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."\(^5\)

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\(^4\) Platts.

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 a long-term basis and slab converter mills therefore require the importation of slab to ensure a steady, dependable supply of their feedstock.\(^6\)

The report accompanying the House of Representatives’ FY 2013 Commerce, Justice, Science, and Related Agencies (CJS) Appropriations directed the Department of Commerce (DOC) to conduct a new review of domestic slab availability.\(^7\) 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. The report found that only about 1.1 percent of total U.S. production of slabs was available for sale in the domestic market.

The 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.”\(^8\) 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.”\(^9\)

The average tonnage of imported slab over the years has remained largely the same since the last Section 232 investigation concluded in 2001, as indicated in Exhibit B below.

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\(^8\) Rutgers Study at 54.

\(^9\) *Id.*
Exhibit B – Annual Rate of Slab Imports\textsuperscript{10}  
By Year, In Millions of Tons

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.375</td>
</tr>
<tr>
<td>2002</td>
<td>7.488</td>
</tr>
<tr>
<td>2003</td>
<td>3.797</td>
</tr>
<tr>
<td>2004</td>
<td>6.494</td>
</tr>
<tr>
<td>2005</td>
<td>5.840</td>
</tr>
<tr>
<td>2006</td>
<td>8.606</td>
</tr>
<tr>
<td>2007</td>
<td>5.808</td>
</tr>
<tr>
<td>2008</td>
<td>5.410</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1.881</td>
</tr>
<tr>
<td>2010</td>
<td>4.653</td>
</tr>
<tr>
<td>2011</td>
<td>6.229</td>
</tr>
<tr>
<td>2012</td>
<td>7.176</td>
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<tr>
<td>2013</td>
<td>6.486</td>
</tr>
<tr>
<td>2014</td>
<td>9.018</td>
</tr>
<tr>
<td>2015</td>
<td>5.796</td>
</tr>
<tr>
<td>2016</td>
<td>5.126</td>
</tr>
</tbody>
</table>

Average: 5.949 million tons/year

As these studies confirm, we have no choice but to import our feedstock, steel slabs. Slab imports have remained relatively stable since the last Section 232 investigation into steel imports. Integrated mills have little incentive to sell their slabs, as they use them to make their high-value product – coils. Why would they sell their feedstock to a competitor so the competitor can make the coil? Given that slabs are not readily available for purchase domestically, quotas or tariffs on slab imports will severely undermine competitiveness and risk thousands of American steelworker jobs.

III. All Steel Mills Rely on Imported Feedstock

All steel mills rely on imported feedstock. As Exhibits C-H below indicate, slab converter mills (slabs), electric arc furnace mills (pig iron, direct reduced iron, and scrap), and integrated mills (iron ore and metallurgical coal) all import their feedstock from foreign markets. Most slab imports originate in Brazil, followed by Russia. By contrast, most pig iron imports originate in Russia, followed by Brazil. The percentage of overall pig iron imports that originate in Russia exceed the percentage of overall slab imports that come from Russia.\textsuperscript{11} Overall, imports of pig iron, direct reduced iron, and scrap are over double the amount of slab imports.\textsuperscript{12}

Exhibit C-H: Steel Mill Imported Inputs by Country\textsuperscript{13}  
In Millions of Net Tons

\textsuperscript{10} USITC Import Statistics.  
\textsuperscript{11} Platts.  
\textsuperscript{12} Id.  
\textsuperscript{13} Id.
Exhibit F: Scrap

Exhibit G: Iron Ore

Exhibit H: Metallurgical Coal
Limiting imports of slab would put slab converter mills like ours at an unfair competitive disadvantage vis-à-vis electric arc furnace mills, the most prominent model today, at the expense of American jobs. The authors of the 2002 Rutgers University study note that because limiting slab converters’ market access shifts production to firms with “the smallest unit labor requirement [electric arc furnace mills],” it causes “total industry employment [to] fall.” They found that policies limiting slab converters’ market access are therefore “counterproductive to the objective of increasing steel industry employment,” and the “primary effect of the government’s decision is to choose winners and losers.” Any action putting slab converter jobs at risk would therefore run counter to President Trump’s government-wide efforts to protect U.S. jobs and manufacturers.

As the above analyses show, all U.S. steel mills rely on imported materials for their feedstock. However, our competitors have waivers and exemptions from Buy America, which allow their foreign feedstock to be considered as if it were of U.S. origin. Under Buy America, steel must be “melted” in the U.S. At the time this “melting” standard was adopted, it encompassed all domestic steel facilities. Since the 1980s, 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. By contrast, Buy American, an objective performance-based standard which requires that steel be “substantially transformed” in the U.S., protects U.S. all companies and workers from unfair foreign competition.

Rather than “melting,” we “hot roll” our feedstock – slabs – to just 50 to 100 degrees short of melting. While the “melting” interpretation was meant to protect integrated mills that melt iron ore and other materials to make steel, most of these mills have gone out of business. Today’s industry is dominated by low-cost electric arc furnace mills that “re-melt” scrap metal, like old cars, that are sometimes of foreign origin steel, along with pig iron and direct reduced iron formed by “melting” in foreign countries. While the scrap recyclers technically “melt,” their entire model is based on bypassing the traditional, labor-intensive process of making raw steel from molten iron ore. Slab converters “hot-roll” to just short of “melting” but create more American jobs per ton than the scrap recyclers dominating the U.S. market today. We urge you to consider a single standard – Buy American – that protects U.S. companies against unfair foreign competition, as opposed to Buy America, which picks winners and losers among U.S. steel companies that all import feedstock and ultimately hurts U.S. workers without any added protection against unfair foreign competition.

IV. The Vast Majority of Coil, Product, and Project Value is Added in the U.S.

Steel coils produced in the U.S. by U.S. workers in slab converter mills create even more U.S. jobs as they move down the supply chain from slab to installed product. The vast majority of product value is added in the United States by U.S. workers through a multi-tiered manufacturing process.

The process of converting steel slabs to coils is complex and multi-faceted, and is undertaken in

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14 Rutgers study at 64.

15 Id.
the U.S. with the support of U.S. steelworkers, engineers, support staff, and parts suppliers. Ultimately, slabs account for barely 43 percent of the cost to produce a coil, as indicated in Exhibit I below.

Exhibit I – Production Costs to Produce Finished Coil Product\textsuperscript{16}

\begin{itemize}
  \item 29\% \hspace{1cm} \text{Annealing or Galvanizing}
  \item 20\% \hspace{1cm} \text{Pickling & Cold Reduction}
  \item 9\% \hspace{1cm} \text{Hot Rolling}
  \item 43\% \hspace{1cm} \text{Slab}
\end{itemize}

Slabs account for roughly 28\% of the market value of finished steel products produced using coil manufactured in slab converter mills, as shown in Exhibit J below.

\textsuperscript{16} NLMK internal reports.
Moving down the supply chain, slabs account for only 12 percent of the value of steel in the average construction project, such as a roll-formed roofing panel project – the vast majority, 88 percent, is value added in the United States by the hot-rolling, manufacturing, and installation processes, as shown in Exhibit K below.

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17 NLMK internal reports; American Metal Market.
As shown in the series of charts above, each stage – from the moment slabs enter our facilities until final project installation – means U.S. jobs. Restricting slab imports in any way threatens domestic jobs along the entire supply chain, a risk with an exponentially-increasing impact as you progress from slab to coil to finished product.

V. Recommendations

Based on the above, we recommend as follows.

First, the Department of Commerce should not recommend any restrictions – including quotas or tariffs – on slab imports. Tens of thousands of American jobs depend on slab imports both within slab converter mills – which are more labor intensive than the predominant model today – and all along the supply chain. Unlike efforts targeting the unfair dumping of finished goods on the U.S. market, restricting imports of important feedstock like slabs puts U.S. steel jobs at risk.

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\textsuperscript{18} NLMK internal reports.
Instead, we urge you to focus your investigation on responding to the influx of illegally dumped and subsidized imports of finished pipe and tube, which are having a devastating effect on U.S. domestic producers that rely on our American-made coil. Tube and pipe products are critical to U.S. national infrastructure and can be found across the U.S. economy, including in buildings and military equipment, along roads and highways, and to transport critical energy and water resources. If these companies are forced out of business by unfairly dumped and subsidized tube and pipe imports, demand for our American-made coil will fall, risking even more U.S. steelworker jobs.

More broadly, the Department of Commerce must seek to restrict imports of illegally dumped and subsidized finished products from China that are in fact threatening U.S. producers. No U.S. slab converter buys slabs from China; Chinese producers use the slabs they produce to make higher-value finished steel products that are increasingly flooding the U.S. market. We commend President Trump for his strong commitment to trade enforcement, especially in response to the unfair dumping and subsidization of finished steel goods, which threaten our customers in the United States.

We represent thousands of Americans supportive of the President’s intentions to protect American jobs. We strongly urge you consider the negative impacts that could flow from limiting imports of, or imposing tariffs or quotas on, slabs that are critical feedstock for slab converter operations like ours. Our mills are located in America and our employees are hard-working Americans with families to support, Americans who help to form the backbone of the U.S. domestic steel industry.

Thank you for the opportunity to comment as part of your investigation. We would be happy to answer any questions you may have.

Sincerely,

[Signature]

Robert D. Miller
NLMK USA