



Tenaris USA
2200 West Loop South
Suite 800
Houston, Texas 77027
(713) 767-4400 tel
(713) 767-4444 fax
www.tenaris.com

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BY EMAIL

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

Re: Tenaris' Written Comments for Section 232 National Security Investigation of Steel

Dear Director Botwin:

On behalf of Tenaris Maverick Tube Corporation and Tenaris Bay City (collectively, "Tenaris"), and pursuant to the Notice Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Steel, published in the Federal Register on April 26, 2017, we hereby submit written comments to assist the Bureau of Industry and Security ("BIS") of the U.S. Department of Commerce in connection with its investigation of the effect of imported steel on the national security of the United States in accordance with Section 232 of the Trade Expansion Act of 1962.

Tenaris is a leading manufacturer of high-value tubular products for the oil and gas sector. Tenaris has invested \$ 7.5 billion in its U.S. operations over the last decade. These comments are intended to provide BIS with a better understanding of the critical role that high quality, high-value steel tubular products play in the further development of the nation's critical energy infrastructure, which is a matter of national security.

A. Overview of Section 232

The purpose of this Section 232 investigation of steel products is to determine whether steel imports threaten to impair the national security of the United States.¹ If the investigation leads to an affirmative finding, and if the President concurs, the President must "determine the nature and duration of the action that... must be taken to adjust imports of the article and its derivatives so that such imports will not threaten to impair the national security."²

¹ See 19 U.S.C. § 1862(b)(3)(A).

² 19 U.S.C. § 1862(c)(1)(A).



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The investigation must address three central issues: (1) What constitutes “national security”; (2) What “effects of imports” should be considered; and (3) When do those imports “threaten to impair” the national security? In the 232 investigation of iron ore and semi-finished steel, BIS indicated that the standard would be met where imports of the product at issue threaten to impair U.S. national security either:

- “by fostering U.S. dependence on unreliable or unsafe imports”; or
- “by fundamentally threatening the ability of U.S. domestic industries to satisfy national security needs.”³

Tenaris provides its comments in the context of these standards and their application to this investigation of steel products.

B. Tenaris Plays A Unique Role Within The U.S. Steel Industry, Providing High-Quality Steel Tubular Products That Are Necessary For The Development Of U.S. Energy Resources And Critical Energy Infrastructure

Tenaris, a U.S. manufacturer of high-quality and high-value steel tubular products for the oil and gas sector, is a world leader in its field, and has invested billions in its U.S. operations over the last decade. Tenaris plays a unique role within the U.S. steel industry by producing high-quality steel tubular products necessary for the development of energy resources and critical energy infrastructure. Tenaris’ products and its U.S. investment make a significant contribution to the nation’s energy security, which is an important aspect of national security.

Tenaris’ products are critical to the efficient development of the United States’ energy resources. Much of the easily accessible oil and gas reserves in the United States have been depleted, and significant portions of existing reserves are harder to reach and require sophisticated, reliable steel tubular products to produce the reserves efficiently. Tenaris’ strength lies in producing high-quality, high-value tubulars with premium connections that help deliver energy resources efficiently.

Tenaris’ latest investment is a \$1.8 billion state-of-the-art seamless steel tube production facility in Bay City, Texas. When this mill comes on line in Q3 or Q4 of 2017, the United States will have the most efficient, modern mill in the world dedicated to the production of high value steel tubulars necessary to develop critical energy resources. Tenaris is proud to have developed this asset in the United States, and looks forward to a long future of contributing to the United States’ energy security.

Tenaris Bay City offers a combination of favorable geography, operational logistics, and the availability of a skilled workforce. Tenaris Bay City will complement Tenaris’ integrated global

³ See, U.S. Commerce Department, *The Effect of Imports of Iron Ore and Semi-finished Steel on the National Security* (October 2001), at 6 – 7.



manufacturing network as well as Tenaris' existing North American facilities and further strengthen the company's domestic production of premium connections and seamless requirements for our customers and in furtherance of critical energy supply and infrastructure.

Tenaris Bay City is located within 500 miles of major shale plays in the United States, and will enhance the company's ability to quickly supply high quality products to our customers' operations. In terms of employment, the new facility will result in 600 direct manufacturing jobs, with an average annual salary of \$66,000, and an annual payroll of approximately \$40 million. In addition, the facility's economic impact in the region is projected to be more than \$19 billion. The mill will have the capacity to produce 600,000 tons of seamless OCTG.

C. Nexus of Products Produced By Tenaris to the "National Security"

In the most recent Section 232 investigation of iron ore and semi-finished steel, BIS found that national security requirements included both (1) "a military or 'national defense' component" and (2) "critical industries," which was noted to include the energy sector.⁴

Several industries within the energy sector were specifically identified by BIS as "critical industries," including: crude petroleum and natural gas; petroleum refining and related products; pipelines, freight forwarders, and related services; and gas production and distribution.⁵ Tenaris supplies pipe and tubular products for applications in each of these four industries that were expressly identified as a "critical industry" in the 2001 232 Investigation.

Steel tubular products are vital to U.S. energy infrastructure, such as petroleum refineries, oil and gas pipelines, off-shore rigs, and storage tanks. A typical refinery contains miles of specialty pipe, large sophisticated boilers and process pressure vessels, thousands of custom made valves and fittings -- all made from steel designed expressly for critical applications. Pipelines, the vehicles by which petroleum and natural gas are delivered to refineries and then on to consumers, are made from technically demanding steel tubular products. New drilling, extraction and related construction initiatives depend upon OCTG and SLP, and the prompt and effective maintenance and restoration of pipelines are vital to our national energy security infrastructure and to our national economy.

Moreover, since 2001 there have been substantial changes within the industry that have further strengthened the nexus between many of the products that Tenaris produces and national security. These include the fact that the nature of current U.S. oil and gas reserves that U.S. energy companies seek to exploit requires sophisticated products and complex drilling practices.

⁴ See, U.S. Commerce Department, *The Effect of Imports of Iron Ore and Semi-finished Steel on the National Security* (October 2001), at 5.

⁵ See, U.S. Commerce Department, *The Effect of Imports of Iron Ore and Semi-finished Steel on the National Security* (October 2001), at 5, 15, 16, Table 2.



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Some portions of U.S. oil and gas reserves reside in areas that make extraction very complex undertakings that depend upon very sophisticated practices and high end precision products, such as where, for example, the reserves are in deep offshore waters, where diagonal drilling is required, or where there are environmental concerns related to extraction. In addition, product specifications have become more demanding and stringent for an array of casing, piping, and tubular products since 2001.

D. Whether Imports of OCTG and SLP from Certain Countries “Threaten to impair the National Security” of the United States

Intervention by states in the steel market, in the form of illegal subsidies and through the activities of state-owned enterprises (“SOEs”) that do not operate on market principles, has been the cause of the glut of foreign steel on the world market and has resulted in unused U.S. domestic capacity. At the same time, a diversified supply of high quality products that does not rely on any one source is critically important. Trade presents an opportunity to benefit from alliances among like-minded, strategic partners and to develop economic integration among those partners who can enhance the national security of the United States. Such relationships, in turn, can eliminate reliance on supply from those nations whose industries are controlled by the government, operate in distorted markets, and who may have priorities that negatively affect the national security of the United States.

As President Trump indicated in his April 20 Memorandum to the Secretary of Commerce, investment by U.S. producers is critical in order to allow for the development of new and better grades of steel and to maintain a skilled domestic steel work force:

The artificially low prices caused by excess capacity and unfairly traded imports suppress profits in the American steel industry, which discourages long-term investment in the industry and hinders efforts by American steel producers to research and develop new and better grades of steel. If the present situation continues, it may place the American steel industry at risk by undermining the ability of American steel producers to continue investment and research and development, and by reducing or eliminating the jobs needed to maintain a pool of skilled workers essential for the continued development of advanced steel manufacturing.”⁶

As noted above, Tenaris has maintained a long term commitment to the U.S. market and Tenaris’ \$7.5 billion investment in its U.S. operations during the last decade is direct evidence of this commitment. Tenaris is betting big on the U.S. market. Indeed, the most recent manifestation of

⁶ Memorandum from President Trump for the Secretary of Commerce, Steel Imports and Threats to National Security, April 20, 2017, at 1.



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Tenaris' U.S. commitment is the \$1.8 billion state-of-the-art seamless steel tube production facility in Bay City, Texas. Thanks to the commitment of Tenaris, its belief in its U.S. operations and in the U.S. market, the United States will have the most efficient, modern mill in the world dedicated to the production of high value steel tubulars necessary to develop critical energy resources, once the Bay City facility becomes operational later this year. The new facility will complement Tenaris' integrated global manufacturing network as well as Tenaris' existing North American facilities and further strengthen the company's domestic production of premium connections and seamless requirements for our customers. The facility will result in hundreds of high paying jobs and a capacity to produce well over a half-million tons of OCTG annually.

There is a need for U.S. producers, such as Tenaris, to have a diverse product portfolio. For a company to be able to provide the high-quality and sophisticated products that are essential to critical energy industries such as those that necessary for our oil and gas energy infrastructure and energy security, such companies must also be able have a diversified product portfolio so that they can maintain efficiencies, profitability, capacity utilization, in order that they can compete efficiently and profitably in commercial markets. Companies such as Tenaris need to operate their U.S. mills efficiently and for reasonable returns on investment that will support the company's research and development, and continued U.S. investments.

However, increasingly, the supply of critical steel products is being concentrated in countries whose industries are controlled by the government, whose industries benefit from unfair subsidies and distorted markets, whose industries have built capacity far exceeding any reasonable domestic or regional demand. Such foreign steel companies can operate without regard to market principles and can threaten the viability of their U.S. competitors, which in turn exacerbates the possibility of over-reliance on foreign supply.

It is important that this proceeding recognize that the countries with these characteristics constitute a materially different threat to the U.S. steel supply and the nation's national security. The practices of these trade distorting states harm not only the global market generally but also the individual markets that are among the primary destinations of exports, and the United States is the principal target market for these sources. Moreover, the industries in these source countries increasingly have become embedded in the supply chains of third states – whether to circumvent existing trade remedy orders or to avoid the application of non-market economy rules in the context of trade remedy cases. In this way, the indirect presence in third states of SOEs and companies benefitting from their home state's trade distorting practices also significantly contributes to the problem of excess capacity and production that plagues the global steel market.

The nation's energy supply, and the products necessary to develop it, should not be placed at risk. Investments in steel production, like that of Tenaris over the last decade, is necessary to satisfy the nation's energy demands and must be encouraged and given a chance to succeed



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and fully develop in the United States. The success of such investments is important to the energy security of the United States and is a matter of national security.

E. Conclusion

Tenaris considers that imports of OCTG and SLP from certain countries threaten to impair U.S. national security (1) by potentially fostering U.S. dependence on unreliable and unsafe imports from nations whose industries are controlled by the government, benefit from unfair subsidies and other market distorting measures, and who may have priorities that negatively affect the national security of the United States, and (2) by fundamentally threatening the ability of U.S. domestic producers, such as Tenaris, from producing the high-quality, high-value steel tubular products that play a critical role in the further development and maintenance of the nation's critical energy infrastructure, which is a matter of national security.

Please do not hesitate to contact me if you have any questions.

Sincerely,

German Cura

CEO, Tenaris Maverick Tube Corporation and Tenaris Bay City