



Vallourec Star

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
Washington, DC 20230

**Re: Comments by Vallourec U.S. Companies on the U.S. Department of
Commerce Section 232 Investigation of Steel Imports**

Dear Mr. Botwin:

On behalf of Vallourec Star, Vallourec USA Corporation, and Vallourec's U.S. affiliates (collectively "Vallourec"), this submission responds to the Bureau of Industry and Security ("BIS") notice inviting comments on the effects on the national security on imports of steel in connection with BIS's investigation initiated under section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. § 1862) ("Section 232").¹ Vallourec's comments, in particular, address the following elements of the Notice's request for written comments: "the displacement of any domestic steel causing substantial unemployment, decrease in the revenues of government, loss of investment or specialized skills and productive capacity, or other serious

¹ See 82 Fed. Reg. 19,205 (April 26, 2017) ("Notice").

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effects” and “other relevant factors.” Specifically, Vallourec respectfully submits that its extensive manufacturing operations in the United States support the demand for domestic steel and that its importation of specific steel products that are internally sourced from Vallourec Group supply chain to meet its U.S. customers’ needs does not threaten to impair the national security of the United States. Indeed, Vallourec’s manufacturing operations contribute to the economic vitality of the United States and provide significant support to the domestic steel industry.

I. Vallourec’s Manufacturing Operations Contribute Significantly to the U.S. Economy

Vallourec, a U.S. producer of tubes and pipes primarily serving the oil and gas energy market, is a world leader in premium tubular solutions. Vallourec designs and develops a comprehensive range of products, including seamless tubes and premium connections for drilling and production operations. This includes oil country tubular goods (“OCTG”), drill pipe, line pipe and well equipment capable of withstanding extreme operating conditions: high pressure, high temperature, shale play applications, and deep, offshore, corrosive environments. Vallourec offers a wide range of tubes for refineries and engineered mechanical applications as well as custom-made solutions for mining, heavy machinery, and special grades for OCTG accessories, cranes, and agricultural machinery. Vallourec also has a wide range of steel grades for hydraulic cylinders and accumulators and excels in materials for all structural applications, both onshore and offshore.

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Vallourec is committed to manufacturing its goods in the United States. Its production facilities are located in Ohio, Texas, Oklahoma, and Louisiana. Vallourec has a total workforce in the United States of 1,818, including 1,543 workers in its manufacturing plants. Vallourec also maintains six sales and service centers in the United States, which employ 135 of its workers, which are part of its team dedicated to bringing its products to the American energy market. During the recent economic downturn, Vallourec kept its American facilities open and continued to provide quality manufacturing jobs and superior products while other manufacturers shut their American facilities and increased imports. In fact, Vallourec continues to invest heavily in American manufacturing, including investing approximately \$1.1 billion in its Ohio plant for a Fine Quality Mill for rolling pipe ("FQM"). The FQM resulted in approximately 500 new jobs in Youngstown and Vallourec continues to employ over 862 employees at its Vallourec Star facilities. Additional investment was made in a new pipe threading facility adjacent to the FQM, which created new jobs for 47 current employees. Importantly, Vallourec continues to add jobs and employees in the American heartland.

II. National Security Must Be Broadly Defined To Include Energy Security.

The U.S. statute governing national security investigations states that the Secretary of Commerce and the President shall

give consideration to domestic production needed for projected national defense requirements, the capacity of domestic industries to meet such requirements, existing and anticipated availabilities of the human resources, production, raw materials, and other supplies and services essential to the national defense, the

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requirements of growth of such industries and such supplies and services including the investment, exploration, and development necessary to assure such growth, and the importation of goods in terms of their quantities, availabilities, character, and use of those affect such industries and the capacity of the United States to meet national security requirements.²

Commerce has repeatedly found that “energy security must be considered” when making determinations about national security.³ In fact, most Section 232 investigations have directly involved oil and energy issues.⁴

Vallourec’s products, particularly its OCTG, line pipe, and drill pipe are critical components of the American energy industry. OCTG is comprised of casing and tubing pipes that are used to extract oil and gas from wells. OCTG is essential to the U.S. energy industry because it is a necessary part of the oil and gas extraction process. Moreover, because it must withstand extreme internal and external pressure, is subject to extremely high tensile and joint strength requirements, it is a highly specialized product that must be built to very rigid specifications. Therefore, it is important that U.S. energy industry have a trusted and reliable source of OCTG supply. Vallourec, with the support of its network of suppliers, serves a vital role for the U.S. energy industry.

² See 19 U.S.C. § 1862(d).

³ See Petroleum (Crude Oil and Refined Products) (1999) at 52.

⁴ See Petroleum (Crude Oil and Refined Products) (1999); Petroleum (Crude Oil and Refined Products) (1994); Petroleum (Crude Oil and Refined Products) (1987); Crude Oil from Libya (1982); Oil (includes crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar) (1979);); Oil (includes crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar) (1978);); Oil (includes crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar) (1975);); Oil (includes crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar) (1973).

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Line pipe transmits oil and gas, and together with OCTG, forms an essential part of the U.S. energy infrastructure. Although, Vallourec produces line pipe products in the United States, line pipe comes in many different specifications and sizes, Vallourec cannot produce the full range of sizes and specifications to meet all of the specific needs of each customer. Therefore, it is necessary to import products from its European and Brazilian facilities to augment its U.S. product portfolio.

III. As steel imports should be found to threaten to impair the national security, certain exceptions should be made to protect the American energy industry.

Vallourec uses billets (a “semi-finished product”) as an input to manufacturing OCTG, drill pipe, line pipe, and mechanical tubing. Without an adequate supply of billets, Vallourec will not be able to efficiently produce these products, which are critical to U.S. energy production. Currently, Vallourec’s domestic steelmaking, despite operating at full capacity, cannot meet its pipe making needs at its new FQM in Ohio, so it must import billets from its affiliates abroad.

To ensure an adequate and reliable supply of billets from certified mills capable of meeting Vallourec’s delivery and timeliness requirements, Vallourec proposes excluding products from its affiliated companies from any import adjustment measures. Vallourec is a global company with affiliates in Europe, Brazil, and Canada. These countries are important military and economic allies of the United States and the most recently completed Section 232

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investigation noted the importance of imports from safe and diverse suppliers.⁵ In fact, that iron ore and semi-finished steel Section 232 investigation highlighted the reliability of Germany, Brazil, and Canada as trading partners.⁶ Vallourec's affiliates are located in those same reliable, safe trading countries.

BIS's determination of whether certain imports are harmful to U.S. production must take into account the fact that many U.S. companies have branches, facilities, and affiliates outside of the United States. Global affiliated supply chains allow U.S. businesses to be strategic in their sourcing decisions while maintaining visibility and control throughout its production process. All of Vallourec's imported input products are supplied by its affiliated companies. From 2013 to 2015, Vallourec increased its dependence on affiliates for billet imports by over six-fold. It is crucial to Vallourec's manufacturing that input products from these affiliates be available for import into the United States, especially because they have a purely neutral national security effect.

Because of the prolonged depression of the U.S. steel industry, it is no longer viable for many U.S. steel mills, including Vallourec, to maintain the capacity and facilities necessary to produce the full spectrum of products needed by their clients. Therefore, in addition to material inputs, Vallourec imports certain custom-made or specialty-sized products that it does not have the technical capability, size range, or capacity to produce in the United States. These include

⁵ See The Effect of Imports of Iron Ore and Semi-Finished Steel on the National Security (Oct. 2001) at 27.

⁶ *Id.* at 27-32.

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specialty, high-grade, and custom-sized green tube (i.e., unfinished raw tube) and drill pipes, and certain sizes and specifications of line pipe. The offshore drilling market is highly advanced, requiring specific heat treatment, machining, lengths, end sizing, and coating. Vallourec simply does not have the capacity to make these products in its U.S. plants. Vallourec's Youngstown facility also does not have the capacity to produce some of the grade combinations and sizes for onshore line pipe and process piping, or the multitude of steel alloy grades sold for OCTG mechanical applications. These imports, to the extent that they are controlled and monitored by Vallourec, are also an important part of the U.S. national security effort as it allows trusted sources such as Vallourec to supply the energy industry with necessary products. These imports are complementary to Vallourec's domestic production and allow the company to cover the full size range customers' need. Thus, hampering these imports would have a negative effect on Vallourec's customers in the American oil and gas industry and potentially impact Vallourec's activity and high-quality jobs in the United States.

Alternatively, if BIS does not accept Vallourec's proposal to exclude imports from affiliated companies from a Section 232 import adjustment, Vallourec proposes allowing U.S. companies to request limited exclusions for necessary and critical products. As explained above, Vallourec's imports of input and specialty products are crucial for its manufacturing plants across the United States and for its customers in the U.S. energy industry. U.S. companies should be permitted to petition Commerce to allow imports of these essential goods.

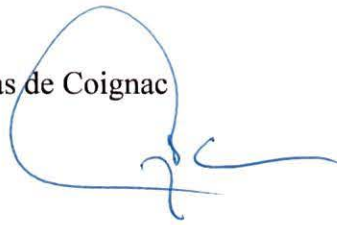
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IV. Conclusion

Vallourec is grateful for your consideration of these comments. Please do not hesitate to contact the undersigned with any questions concerning this submission.

Sincerely,

Nicolas de Coignac

A handwritten signature in blue ink, consisting of a large, stylized 'N' followed by a horizontal line and a small flourish.

Chairman, Vallourec Star, LP

CC: Jack Bowler, Vallourec USA Corporation
Douglas Polk, Vallourec USA Corporation
Stephen Kho, Akin Gump Strauss Hauer & Feld LLP
Shana Hofstetter, Akin Gump Strauss Hauer & Feld LLP