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September 18, 2017

The Honorable Wilbur Ross
Secretary
U.S. Department of Commerce
1401 Constitution Avenue, NW
Washington, DC 20230

The Honorable Robert Lighthizer
U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: Request for Comment on the Costs and Benefits to U.S. Industry of U.S. International Government Procurement Obligations for Report to the President on “Buy American and Hire American” (ITA-2017-0006)

Dear Secretary Ross and Ambassador Lighthizer:

California Steel Industries, Inc. (“CSI”) is pleased to provide comments in response to the International Trade Administration and Office of the U.S. Trade Representative’s August 21, 2017, request on the costs and benefits to U.S. industry of U.S. international government procurement obligations for the report to the President on “Buy American and Hire American.”¹ CSI has been a Board member Company of the American Iron and Steel Institute (AISI) for many years, and we are supportive of Buy American protections for U.S. jobs and companies like CSI. Buy American is an objective, performance-based standard that protects U.S. companies and workers against unfair foreign competition. It requires that steel products directly procured by the U.S. government have been “substantially transformed” in the U.S., with the final product manufactured in the U.S., regardless of where the steel was first “melted.”

In contrast, Buy America is a biased, antiquated, process-based standard requiring that only steel “melted” in the U.S. complies for use in certain federally-assisted projects, regardless of how much additional downstream value is added in the U.S. after melting. Buy America picks winners and losers among American companies. As a result, we disagree with our peers at AISI and their comments in favor of the Buy America “melted in U.S.” requirement as the domestic preference standard for the changing U.S. steel industry.

¹ *Request for Comment on the Costs and Benefits to U.S. Industry of U.S. International Government Procurement Obligations for Report to the President on “Buy American and Hire American,”* 82 Fed. Reg. 39561 (Aug. 21, 2017).

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CSI is the Largest Steel Mill in the Western U.S.

CSI is the largest steel mill in the Western U.S. We have the capacity to produce up to 3 million tons of steel sheet and pipe annually. In 2016, our 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 manufacture. We have been in business for nearly 33 years and are located in San Bernardino County, California.

Our only “final” product is line pipe, which we sell primarily to the private energy industry and rarely directly to the federal government. Our sheet products feed a chain of processors and manufacturers which often do business on federally-assisted infrastructure projects, if not direct sales to the government. Because our slab supply is almost exclusively imported, this creates a major problem under Buy America requirements.

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 facilities – 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.

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 mills (also known as “scrap remelters”) expanded. Slab converter mills like ours are more job-intensive than scrap remelters, reemploying many of the steelworkers displaced by the closing of other mills.

Our choice to invest in America revived local communities and continues to provide stability to thousands of hard-working Americans and their families.

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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. Our jobs are easily valued at more than \$100,000, on average, in annual wages and benefits. Our wages average \$74,000, our profit-sharing averages more than \$5,000, and our employee benefits average \$22,000 and include 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.

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.

CSI Sheet Qualifies for Buy American, but Not for Buy America

Buy America is a process-based definition created by the Federal Highway Administration in 1983 and recently adopted by the Environmental Protection Agency ("EPA") for its federal water infrastructure assistance programs. Under Buy America, steel must be "melted" in the U.S. In the 1980s, all U.S. steel sheet producers were integrated mills that "melted" iron ore, coal, and other raw materials. There were 35 of them; today there are nine. The last one was built in 1964. The integrated mills shut down because of the advent of the scrap remelters. Since then, however, the domestic steel industry has evolved, outpacing Buy America's narrow "melting" definition.

Our model is almost as labor intensive as the integrated mills – and is more labor intensive than the scrap remelters. However, 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. Because of this relatively minor degree difference, we do not qualify under Buy America.

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All three types of mills – integrated mills, slab converters, and scrap remelters – rely on feedstock from foreign markets. 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. Our raw material imports do not receive such waivers or exemptions from Buy America. Allowing certain steel companies waivers and exemptions from foreign inputs while refusing equitable treatment to other domestic steel companies creates an unfair playing field domestically and runs counter to our efforts together against unfairly-traded imports of finished goods.

CSI does qualify to sell sheet to U.S. manufacturers for use in Buy American projects where the U.S. government is doing direct procurement. This is because CSI's imported slabs are "substantially transformed" at our facilities and those of our customers into the final product purchased directly by the government (think of steel framing for a government office building – it can be made from imported slab transformed into sheet, so long as the framing is manufactured in the U.S.)

Given the nationwide shortage of commercially available slabs for sale, CSI is virtually shut out from selling sheet products that qualify for use in federally-assisted (Buy America) projects for highways and certain transit and water projects. While originally intended to protect the entire U.S. steel industry, today Buy America's "melting" standard gives a competitive advantage to some, while excluding others. We support "Buy American and Hire American" policies, but not those that specifically exclude certain American companies and jobs. Promoting the antiquated Buy America standard – as opposed to the original Buy American standard – will ultimately undermine the President's vision of protecting all American jobs.

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 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 scrap remelters, 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.

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 for the bid because CSI used imported slab – even though the pipe was to be made in America, from steel sheet rolled by CSI workers in Fontana, California. 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 U.S. taxpayers.

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In a separate instance, another California steel manufacturer sold steel to a local tank manufacturer, which further manufactured it into a water tank before selling it to a Texas contractor working for a local utility on an EPA-funded water project. The contractor installed the tank presuming that the steel qualified as American since it had undergone manufacturing by multiple U.S. companies and hundreds of U.S. workers. The contractor was forced to remove the tank based on EPA's Buy America requirements – raising project costs, increasing delays, and causing a devastating loss to this family-owned business.

For spiral-weld water transmission pipelines, we have already seen our sheet business significantly impacted due to the 2014 EPA guidance requiring that federally-assisted water projects use steel that is melted in the U.S. In 2013, we shipped 35,405 tons of hot rolled sheet for such projects. Our shipments of hot rolled sheet for spiral-weld pipe projects were reduced to 16,670 in 2016.

Buy America requirements are particularly complex for small companies that may not have the staff to investigate and track compliance requirements through the supply chain. Western companies may be particularly burdened by having to maintain two inventories. In a typical case, where CSI or another Western sheet producer is their preferred supplier, they must also pay extra freight costs to procure domestically melted steel from Eastern mills, and maintain additional separate inventory in order to supply local Buy America projects.

Our slab converter model continues to work despite increasing legislative, regulatory, and administrative activities that take business from us and give it to our competitors. Our sheet and pipe facilities, and virtually all of our suppliers and customers, are located in America. We pay great middle class wages, offer great benefits, and have never had a layoff of regular employees. Our employees are hard-working, tax-paying Americans with families to support. We represent thousands of additional Americans throughout our domestic supply chains. We are supportive of the President's intentions to protect American jobs – but not a policy that will simply move jobs from our company to another U.S. company. We are doing the work and adding value here in the U.S.

Slab Converters like CSI Are More Labor-Intensive than Scrap Remelters

Today's U.S. steel industry is increasingly dominated by scrap remelters, which employ a fraction of the workers required to produce the same products as integrated mills. Remelters take scrapped finished products, such as cars and refrigerators, combine them with pig iron and direct reduced iron (DRI), and "remelt" them. Remelters make the same products as integrated mills with one-third of the labor and at a much lower cost. Nearly 70 percent of the integrated mills that existed in 1983 have shut down due to this increased competition within the industry. Scrap remelters dominate the U.S. industry today.

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A 2002 Rutgers University study found that scrap remelters have “very low unit labor requirements” because their production process (i.e., re-melting scrap steel) “avoid[s] the...process of making raw steel.”² The study notes that scrap remelters “have the lowest unit labor requirement...followed by rollers [such as CSI]...and then integrated” mills.

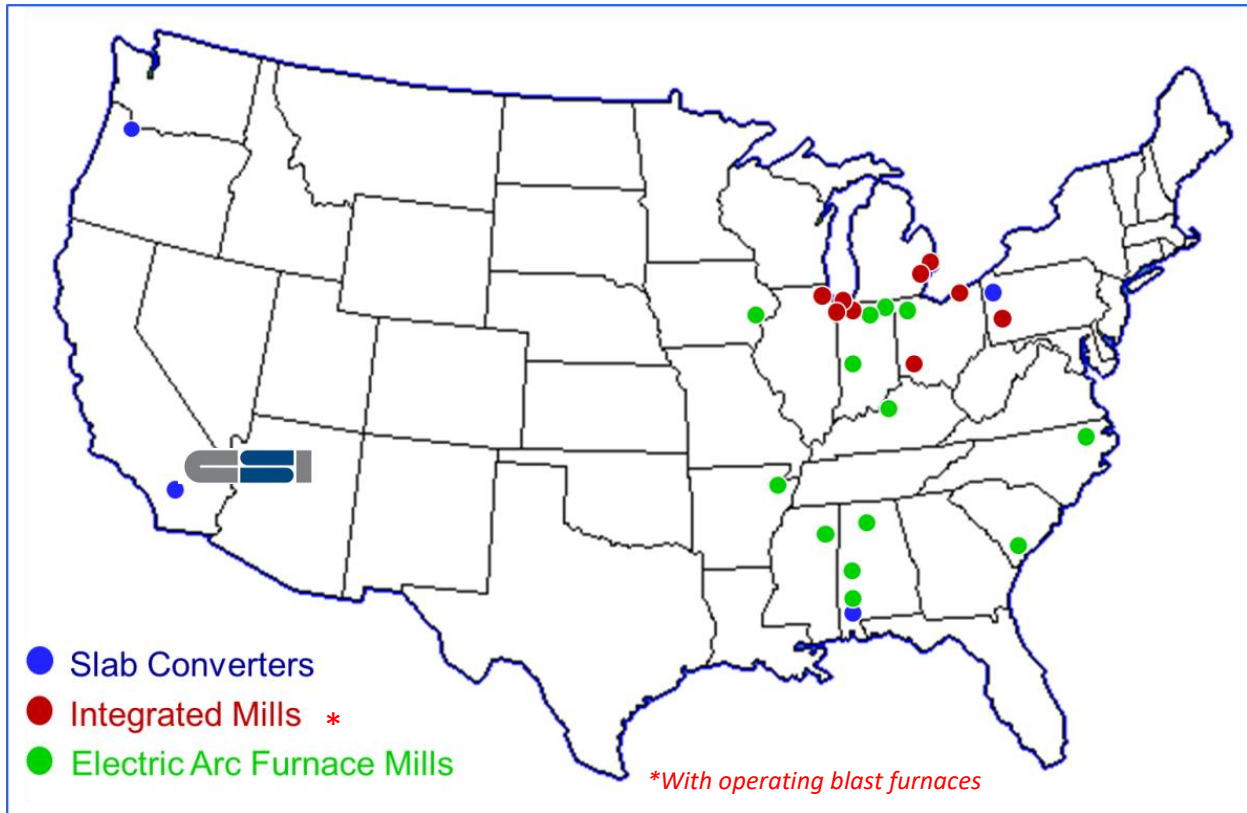
Western States Have No Slab Production, Creating Even More Need to Import Slabs

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 scrap remelters, 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, scrap remelters by design do not typically 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.

² James Durling and Thomas Prusa, *Using Safeguard Protection to Raise Domestic Rivals’ Costs*, Japan and the World Economy, 47–68 (January 2003) (hereinafter “Rutgers study”) at 49, 51.

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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, all located in the Eastern U.S. 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.

Even if there were a supplier from the Eastern U.S. willing to regularly supply slabs to CSI, the logistics cost to transport slabs from Eastern mills is three times more than the logistic costs of imported material, wiping out profit margins of the Western supply chain and/or making projects more expensive.

Faced with that situation, CSI has become almost completely dependent on fairly-traded imported 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.

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

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 U.S. mills supplying flat-rolled products that use the same model of imported slab as their feedstock. These mills represent approximately 30,000 direct and indirect jobs, most of which would be at risk without import slab availability at a competitive price.

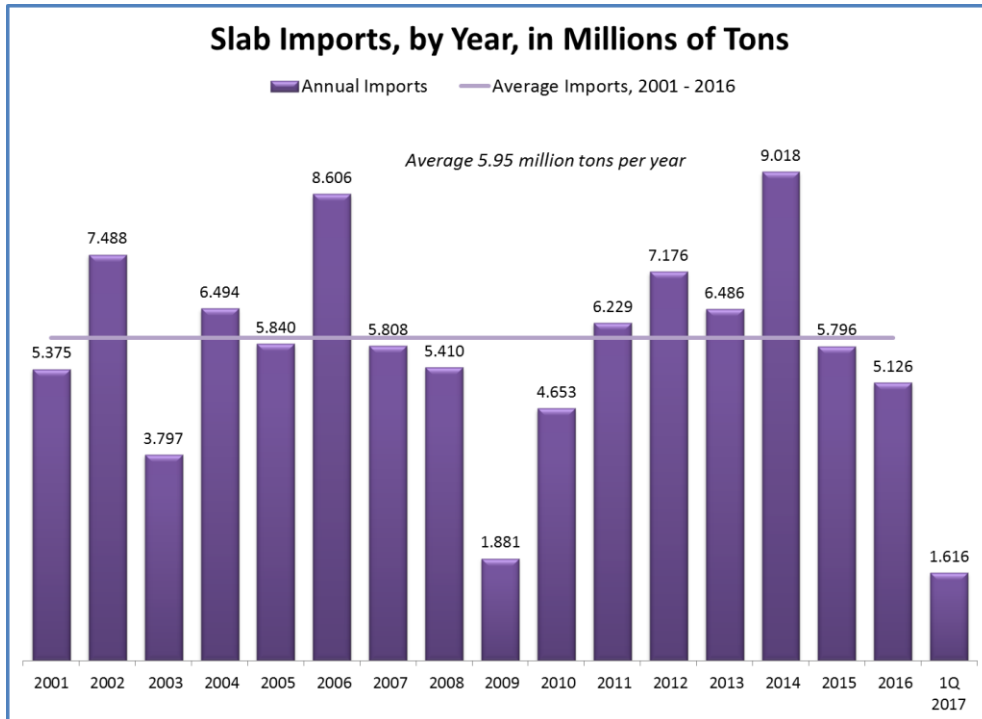
Despite this expansion of the slab converter model, the facts show that the average annual tonnage of imported slab is virtually unchanged since 2001, and was actually less in 2016 than in 2001 (**Exhibit B**).

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.³ The import of slab is also practiced by integrated mills in order to guarantee their finished good production during periodic furnace maintenance shutdowns.

³ Michael Cowden, *AK keeping Ashland idle despite 232 case: CEO*, AMERICAN METAL MARKET (April 25, 2017),

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Exhibit B



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

The major barrier to having 100 percent domestic content in our products is the availability of our primary feedstock, steel slabs. Department of Commerce (“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.

In 2001, when conducting a 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.”⁴

⁴ 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).

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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.⁵

The report accompanying the House of Representatives’ FY 2013 Commerce, Justice, Science, and Related Agencies (“CJS”) Appropriations bill directed DOC to conduct a new review of domestic slab availability.⁶ 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.

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.”⁷ 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.”⁸

As these studies have confirmed, we have no choice but to import our feedstock, steel slabs.

Integrated Mills, Scrap Remelters, 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; scrap remelters 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 collectively more than double the tonnage of slab imports.⁹ However, our competitors

⁵ Steel, Inv. No. TA-201-73, USITC Pub. 3479 (Dec. 2001).

⁶ H. R. REP. NO. 112-463 (2012).

⁷ Rutgers study at 54.

⁸ *Id.*

⁹ It is noteworthy that China is not an impactful exporter to the U.S. for any of these imported steel mill feedstocks.

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currently have waivers and exemptions from Buy America, which allow their foreign feedstock to be considered as if it were of U.S. origin.

Exhibit C
Imports of Slab

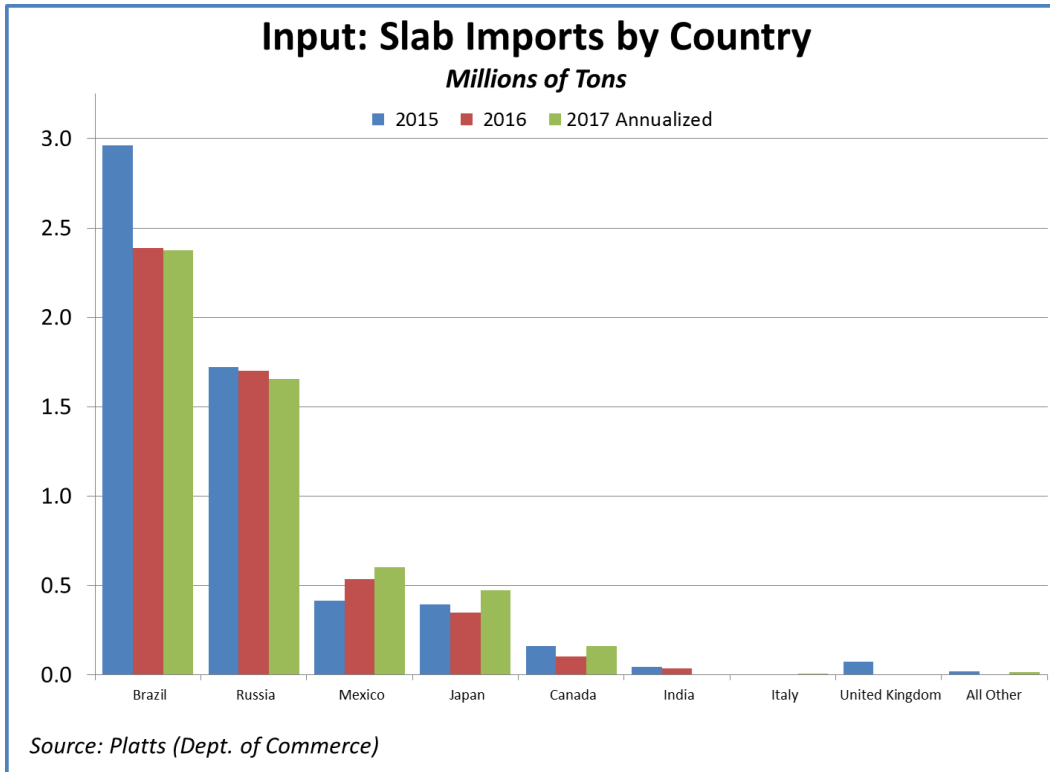
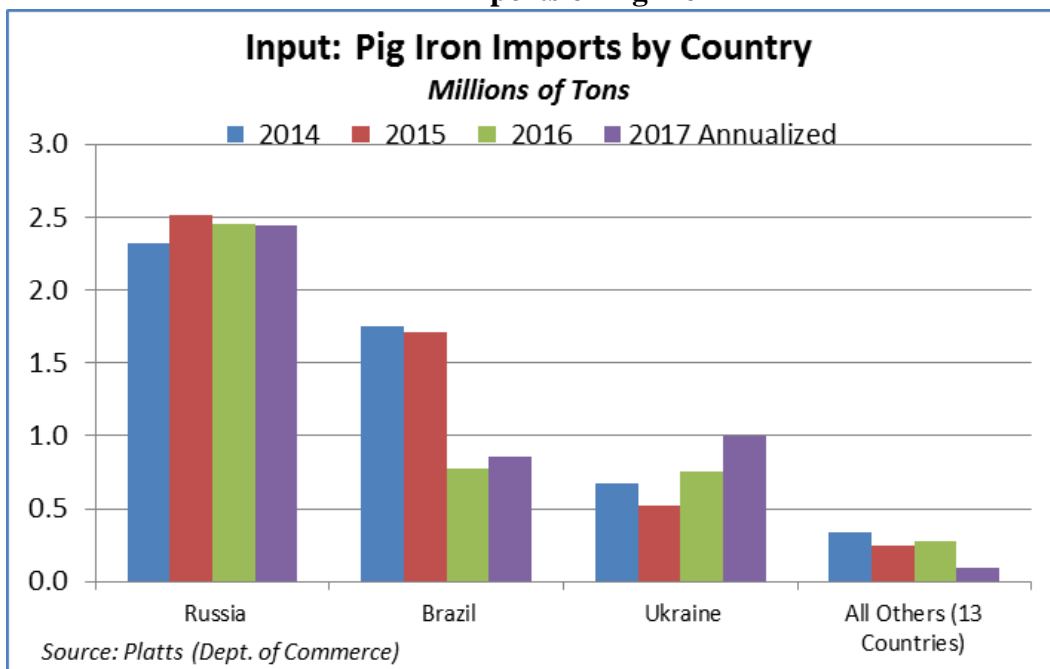


Exhibit D
Imports of Pig Iron



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Exhibit E
Imports of Direct Reduced Iron

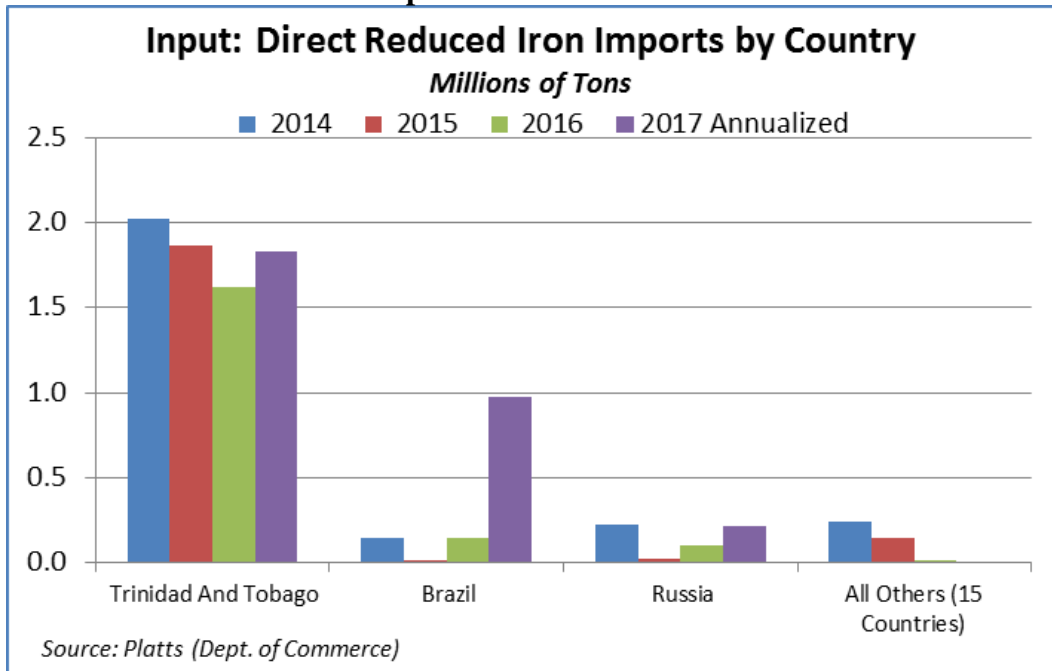
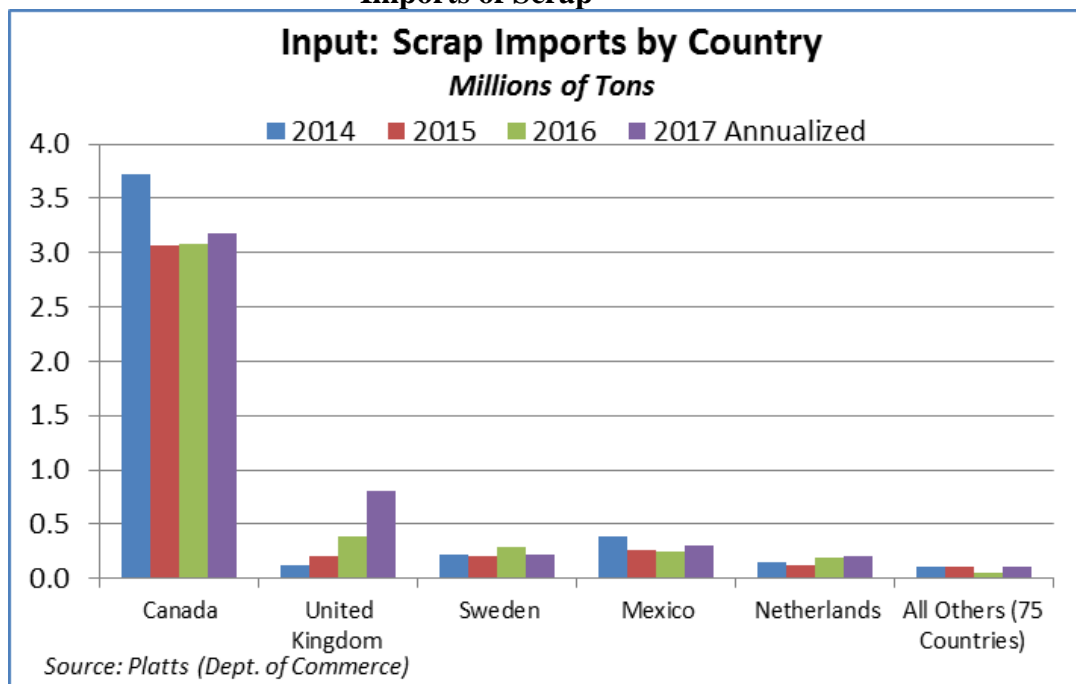


Exhibit F
Imports of Scrap



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Exhibit G
Imports of Iron Ore

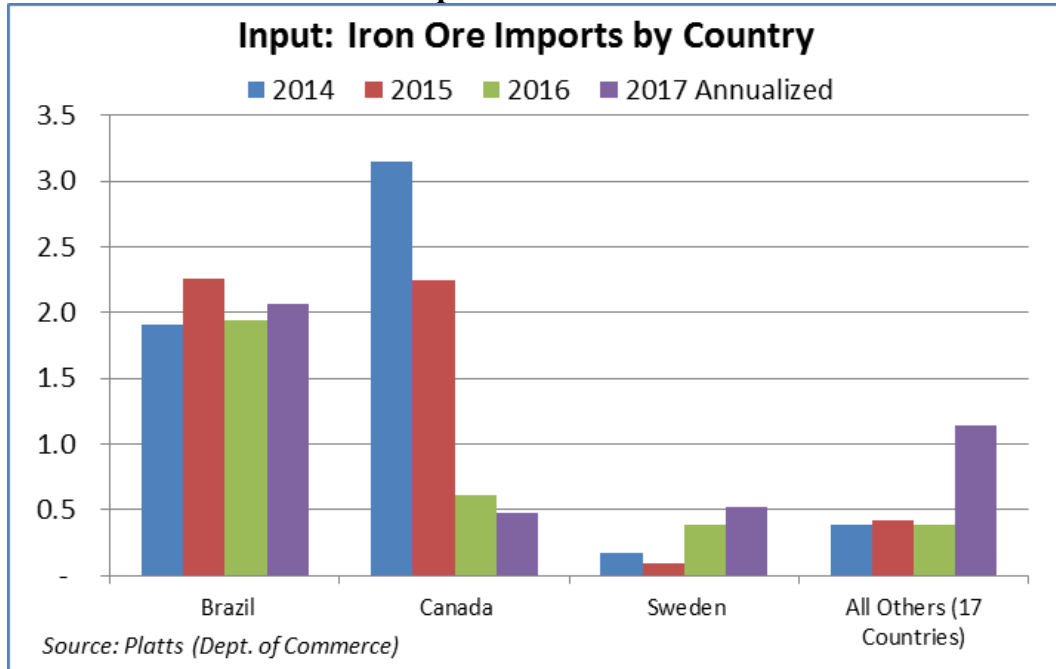
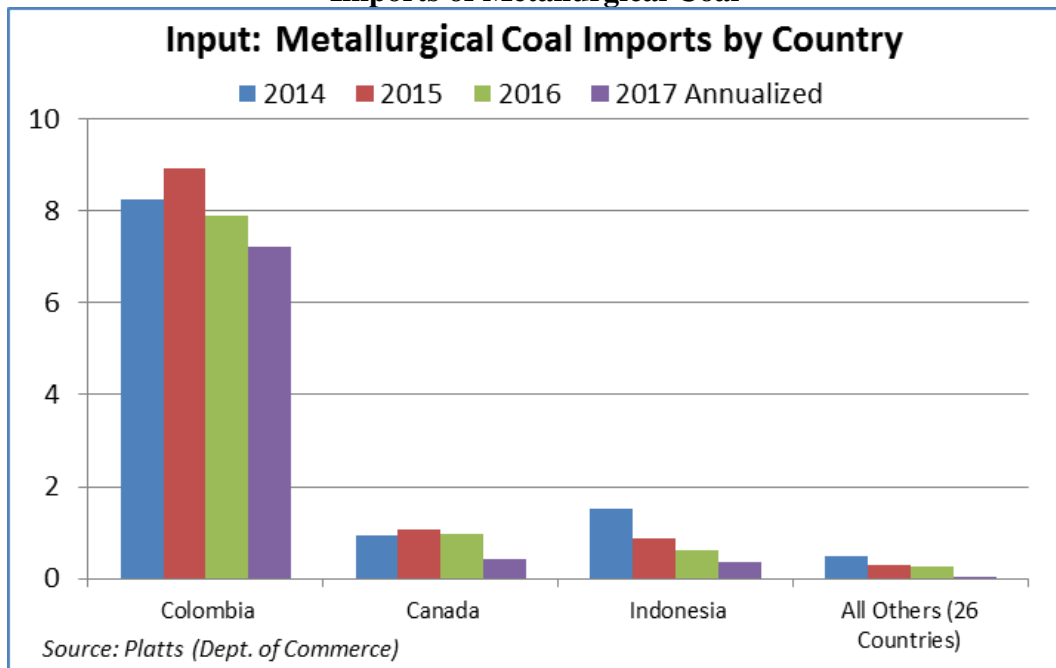


Exhibit H
Imports of Metallurgical Coal



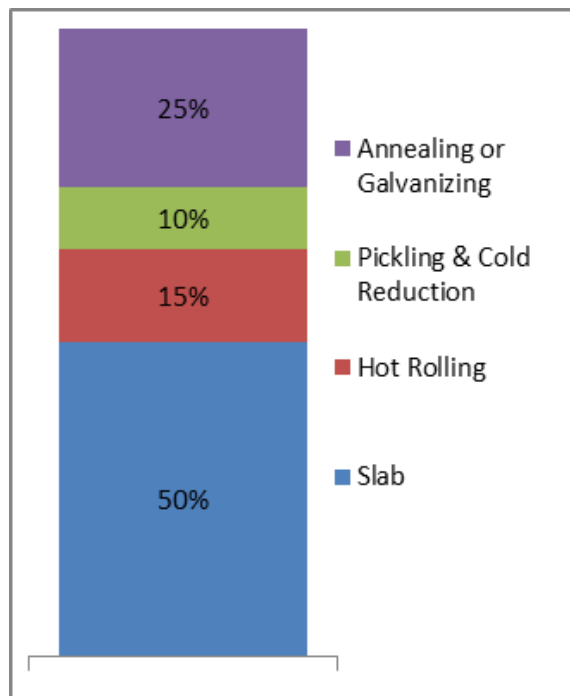
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Value of Slab in the Production of Finished Steel Flat-Rolled Products

Regardless of the source of slabs, only a small percentage of the final value of a transportation construction project – barely 10 percent – can be attributed to the slab feedstock. The value of a finished steel product delivered to the construction site – approximately 90 percent – 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 Costs¹⁰
Production Costs to Produce Finished Coil Product

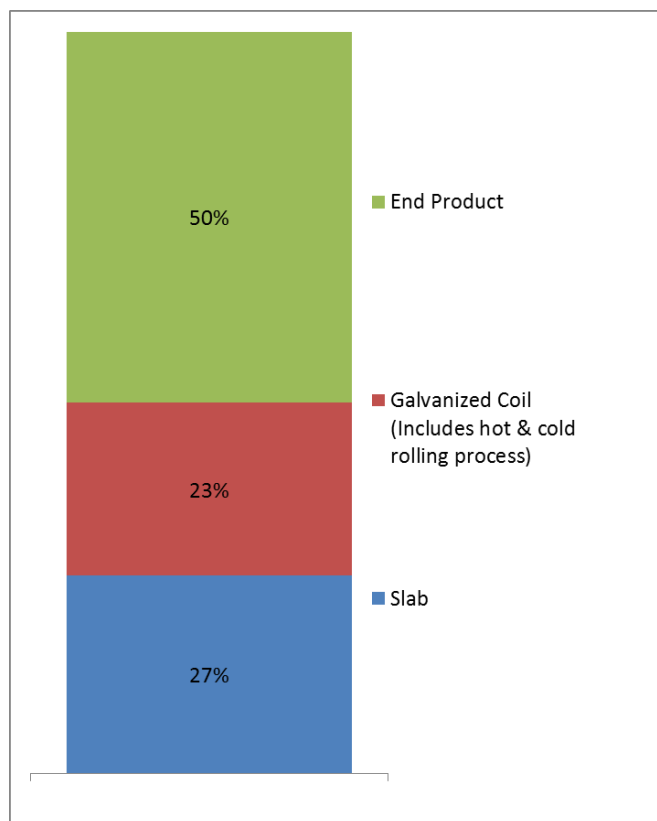


¹⁰ CSI Company Reports; World Steel Dynamics Steel Cost Curve.

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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 Products¹¹
Assumes \$1,500 per net ton finished product cost using galvanized coil



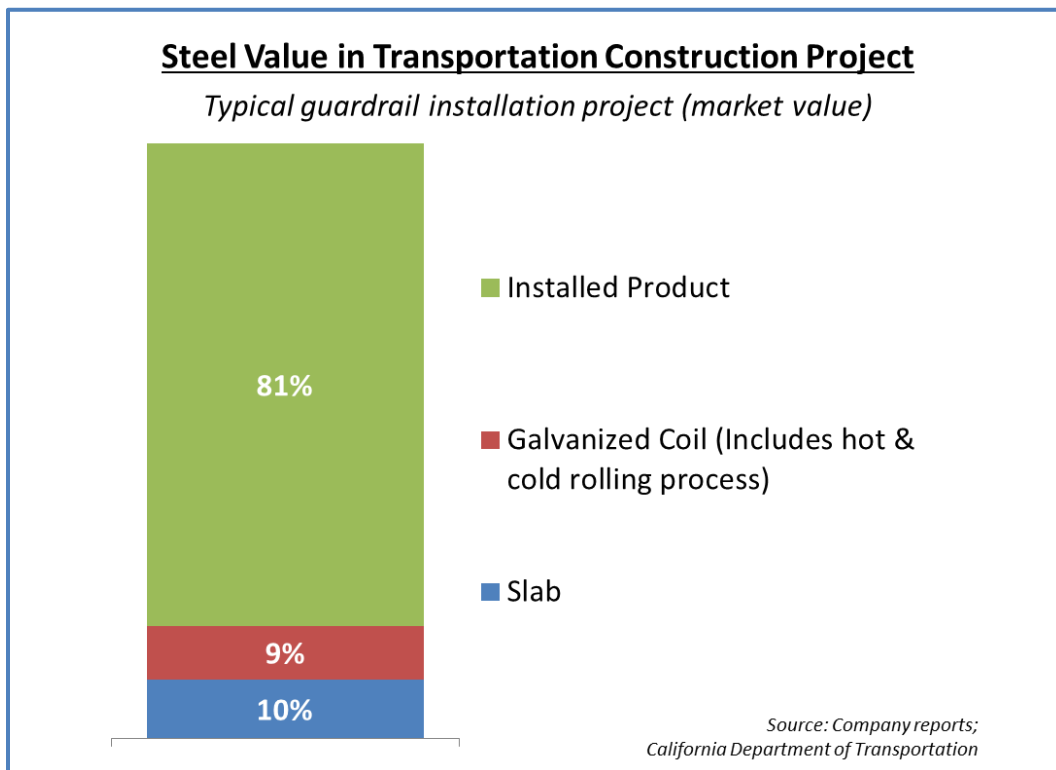
¹¹ CSI Company Estimates; World Steel Dynamics Steel Cost Curve.

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

Exhibit K

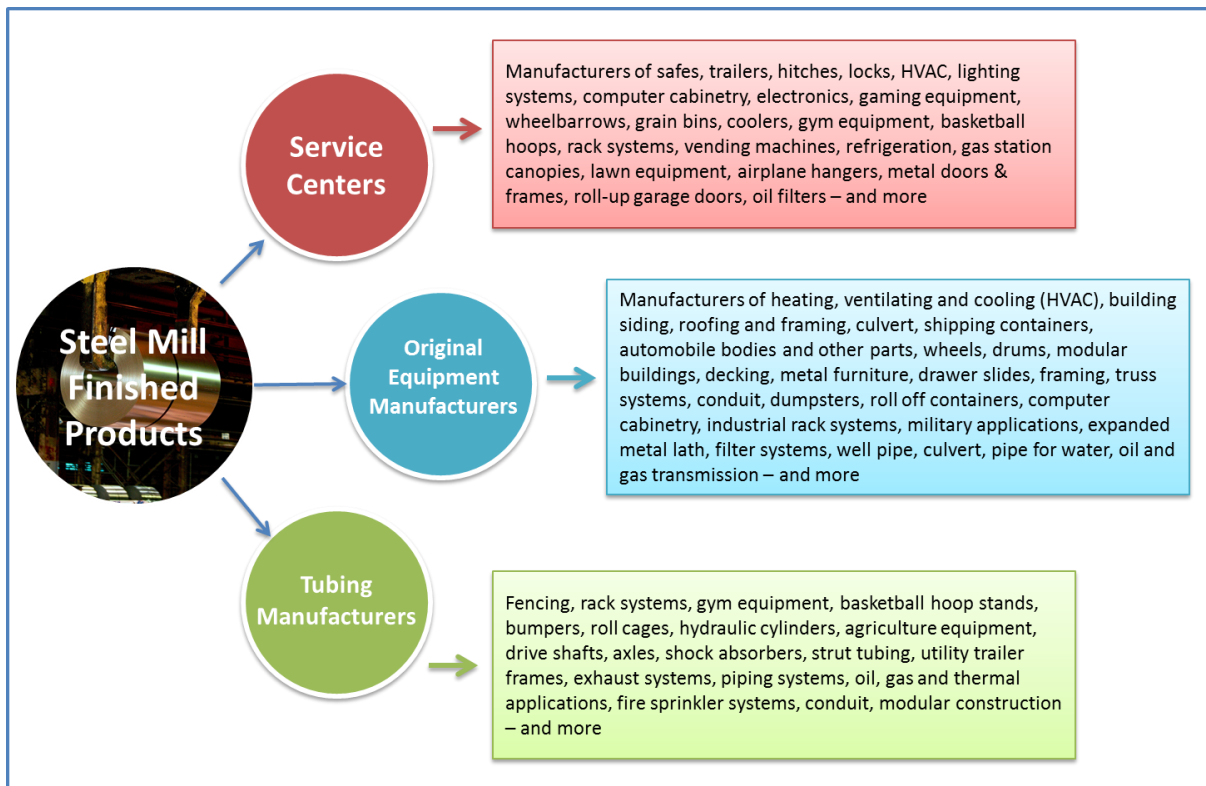
Most of the Value Is Added by U.S. Companies Downstream vs. the Imported Slab Cost



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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**).

Exhibit L
Downstream Added Value from Steel Mill Finished Products

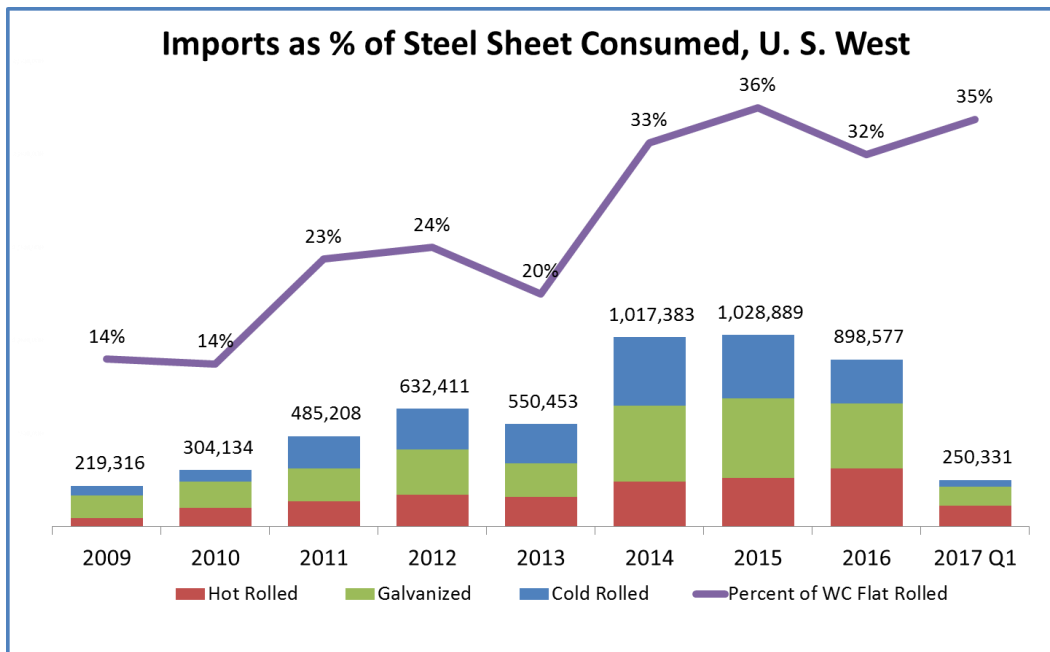


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CSI Fights Against Unfairly Traded Finished Steel Products

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.

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



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

Thank you for the opportunity to express our concerns and offer our thoughts on "Buy American and Hire American."

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Botelho Rodrigues". The signature is stylized and cursive.

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