



California Steel Industries, Inc.

Post 2020 Cap and Trade Comments

January 20, 2017

CSI: Strong Company and a Strong Employer

Company

- An American corporation celebrating 32+ years in business
- On site of former Kaiser Steel Co. which operated here for 40 years

Products

- Flat rolled steel and electric resistance welded pipe

Customers

- 200+, California and surrounding Western states, construction-based

Site

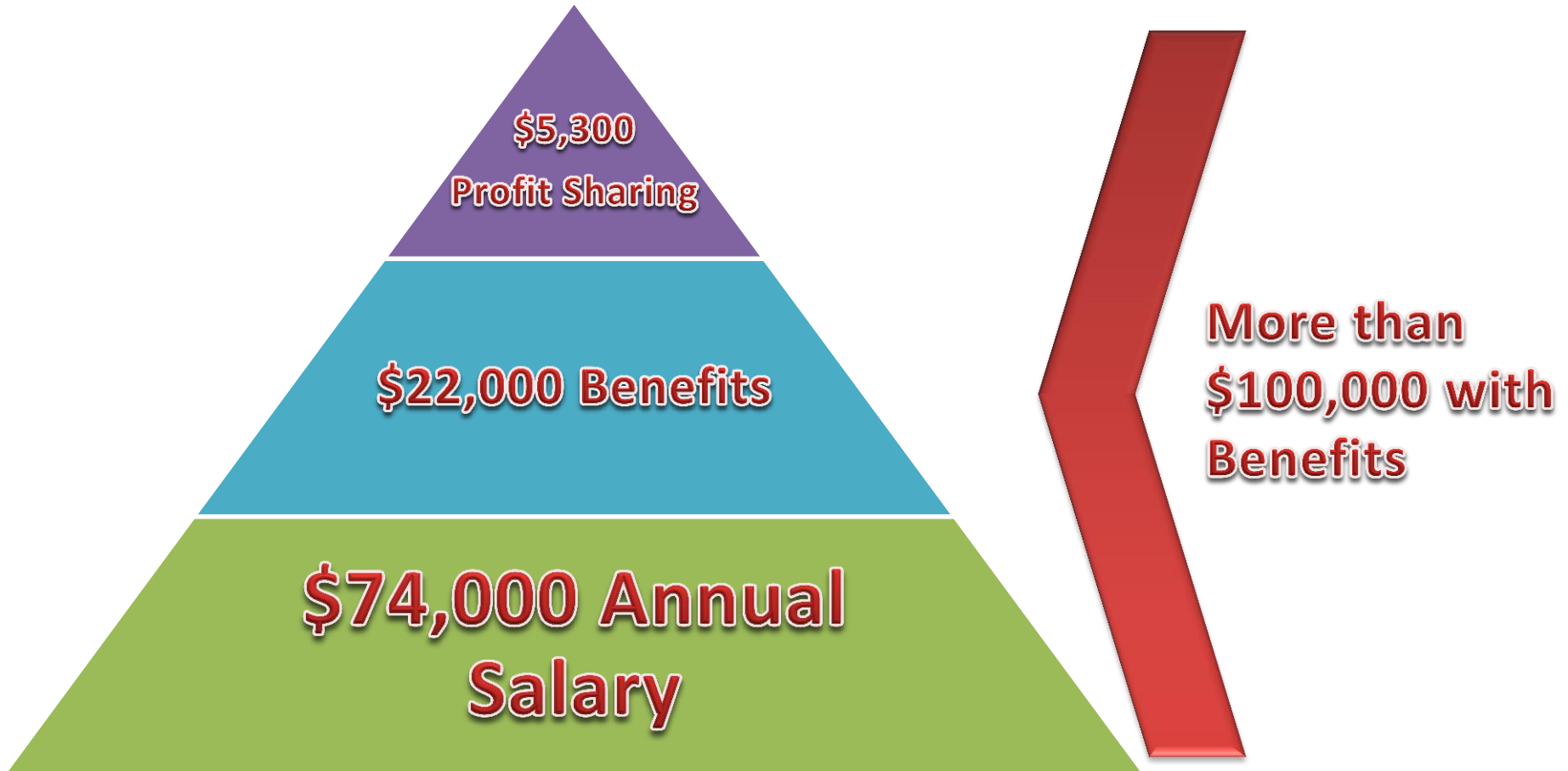
- 400 acres, with 150 acres “under roof”
- **>\$1 Billion** in capital investments since 1992

Workforce

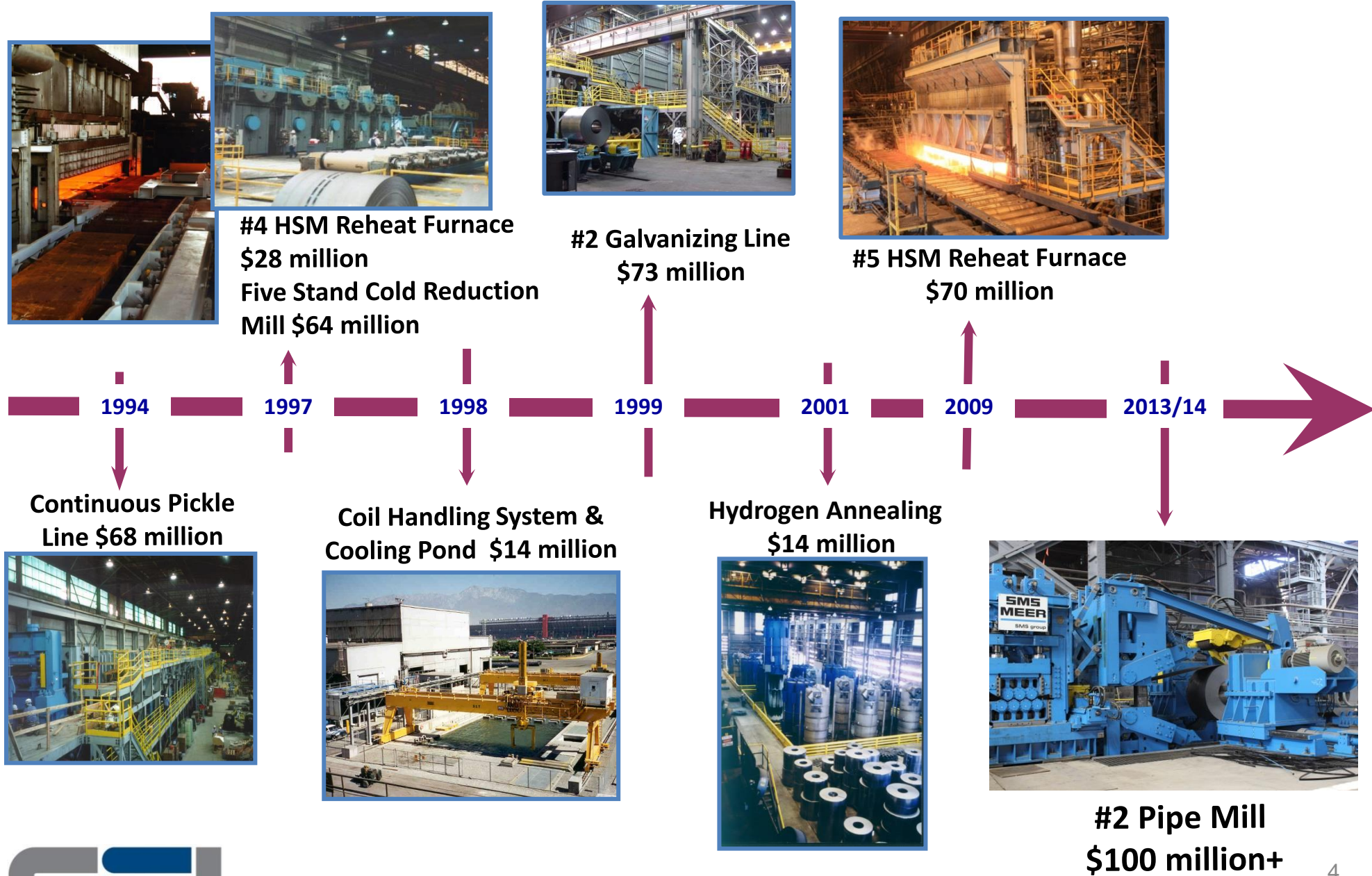
- ~1,000 employees
 - ~50% minorities
 - ~20% veterans
 - **CSI has never had a layoff in its history!**
-

FACT: They Are Real Jobs

Average Annual Total Compensation for CSI Employees



CSI Has Invested >\$1 Billion since 1992

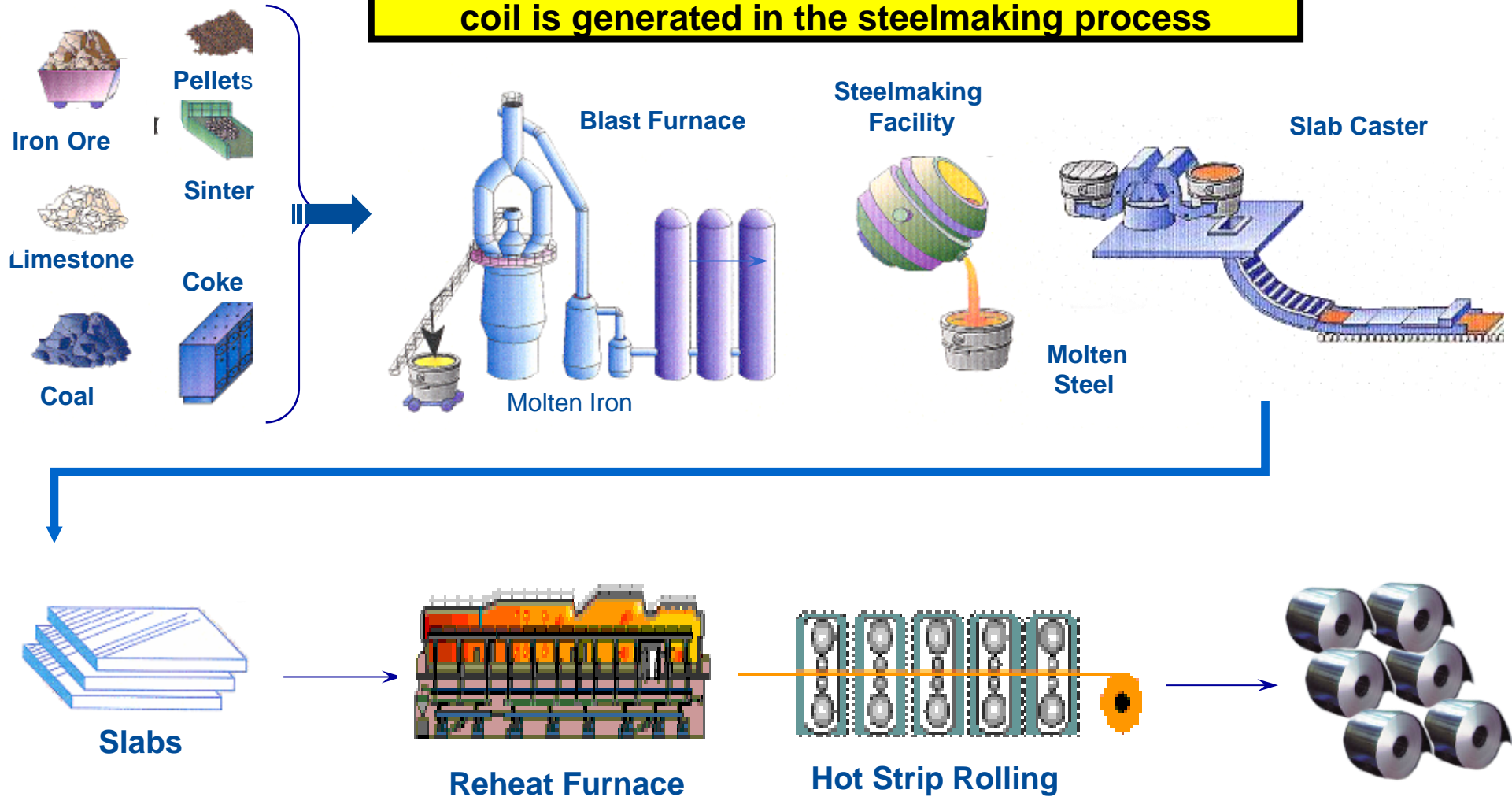


Summary of CSI Points for Discussion

1. Steel is a global industry; Western U.S. is highly accessible to competition from imports and from Eastern U.S. mills
2. CSI is the only in-state producer of hot rolled steel sheet
 - A. CSI's products start as slab, formed into hot rolled sheet, which feeds CSI's downstream operations
 - B. ~75% of CSI's GHG emissions are from the hot rolling process
 - C. CSI has much higher cap and trade costs than in-state competitors due to the fact that CSI has this upstream process (hot rolled coil production) feeding products that must compete with other California producers
 - D. In-state competitors do not hot roll. They purchase their sheet feedstock from other states and nations
3. CSI is one of the most efficient operations in the U.S.
 - GHG per ton of steel at ~60% of 1990 levels
 - EPA study shows that CSI has implemented virtually all available efficiencies for its hot rolling process
4. Post-2020, CSI requests consideration of continuing full industry assistance due to its unique situation

Typical Integrated Steel Mill (None in West)

90% of the GHG from producing a hot rolled steel coil is generated in the steelmaking process

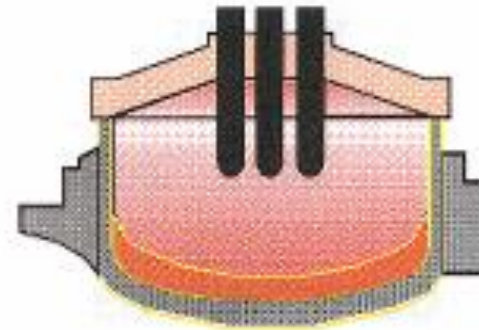


CSI's reheat & rolling processes produce just 10% of the GHG for hot rolled steel

Mini-Mill Sheet Producer (None in West)



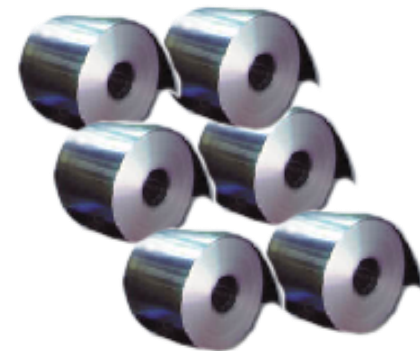
Scrap



Electric Arc Furnace



Thin Slab Caster & Hot
Rolling



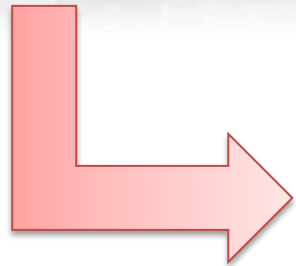
CSI Purchases Slabs From Other Mills as Feedstock



Slabs

**Sold as Hot
Rolled Coil or
Converted to:**

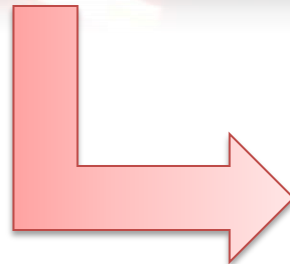
**Pickled & Oiled Coil
Galvanized Coil
Cold Rolled
Annealed Coil**



Converted to:



Hot Rolled Coil



***Some Hot Rolled coil
formed into...***



**Electric Resistance
Welded Pipe**



CSI's Hot Strip Rolling Mill
= ~75% of GHG Production

Typical End Uses of CSI Products

Hot Rolled Sheet:

Spiral weld pipe, shipping containers, construction

Pickled & Oiled Sheet:

Auto wheels and rims, strapping, grape stakes, tubing

Cold Rolled Sheet:

Electronic cabinetry, lighting fixtures, metal office furniture, water heaters, containers, tubing, construction

Galvanized Sheet:

Solar installations, framing, tubing, drums, tanks, culvert, decking, fireplaces, stoves, HVAC, general construction, grape stakes

ERW Pipe:

Oil and gas transmission pipelines; construction

There is no homogeneous steel industry in California. There are four “steel mills,” each unique (with varying NAIC codes):

- California Steel Industries (CSI), Fontana (331221)
- USS-Posco (UPI) Pittsburgh (331221)
- Steelscape, Rancho Cucamonga (332812)
- Gerdau-Tamco, Rancho Cucamonga (331111)

Key Competitor Differences

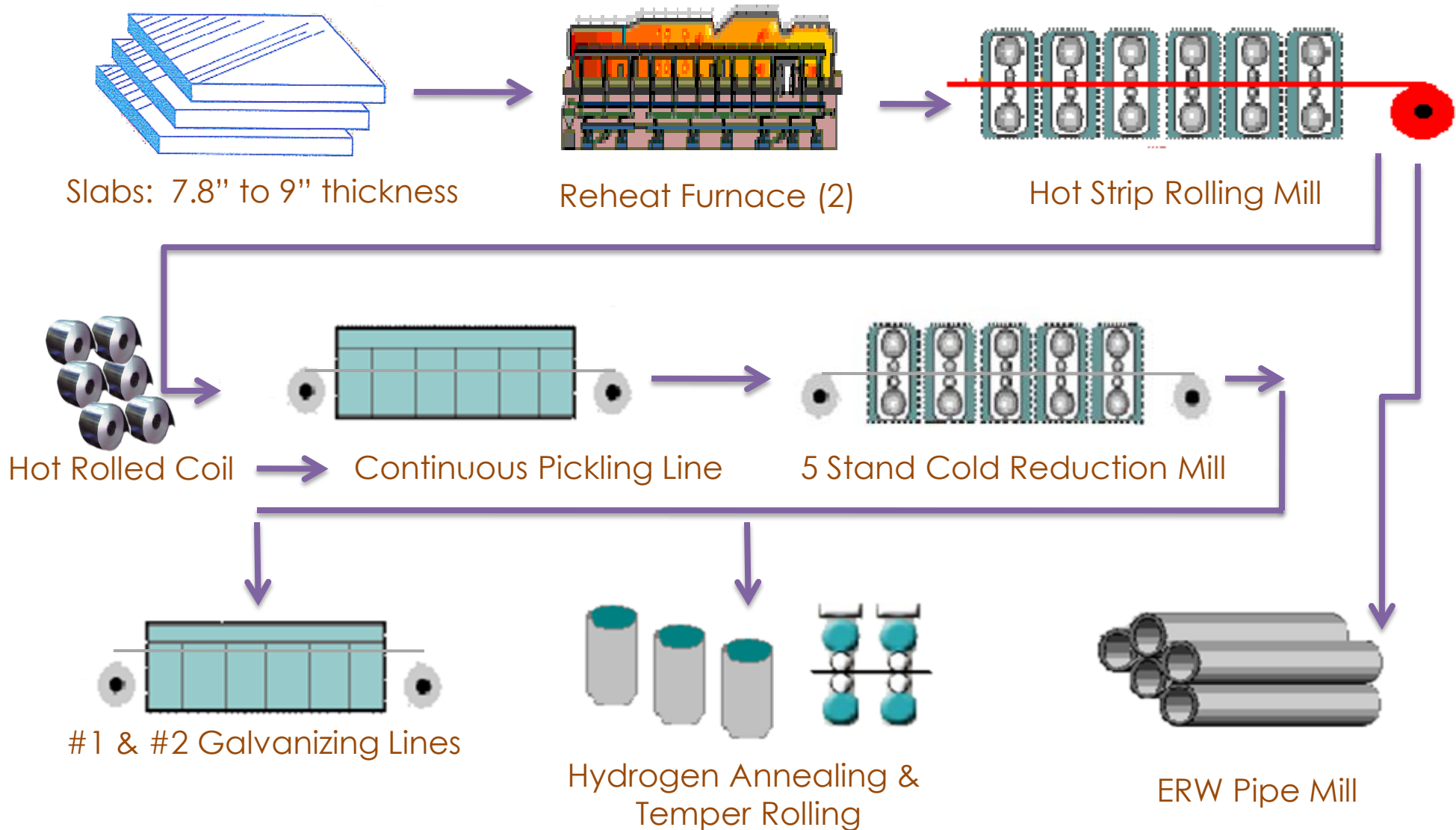
CSI:

- Slab converter
- Hot rolled coil producer
- Sell or further process hot rolled coils
- Sells Hot Rolled, Pickled & Oiled, Cold Rolled, & Galvanized sheet; plus Pipe

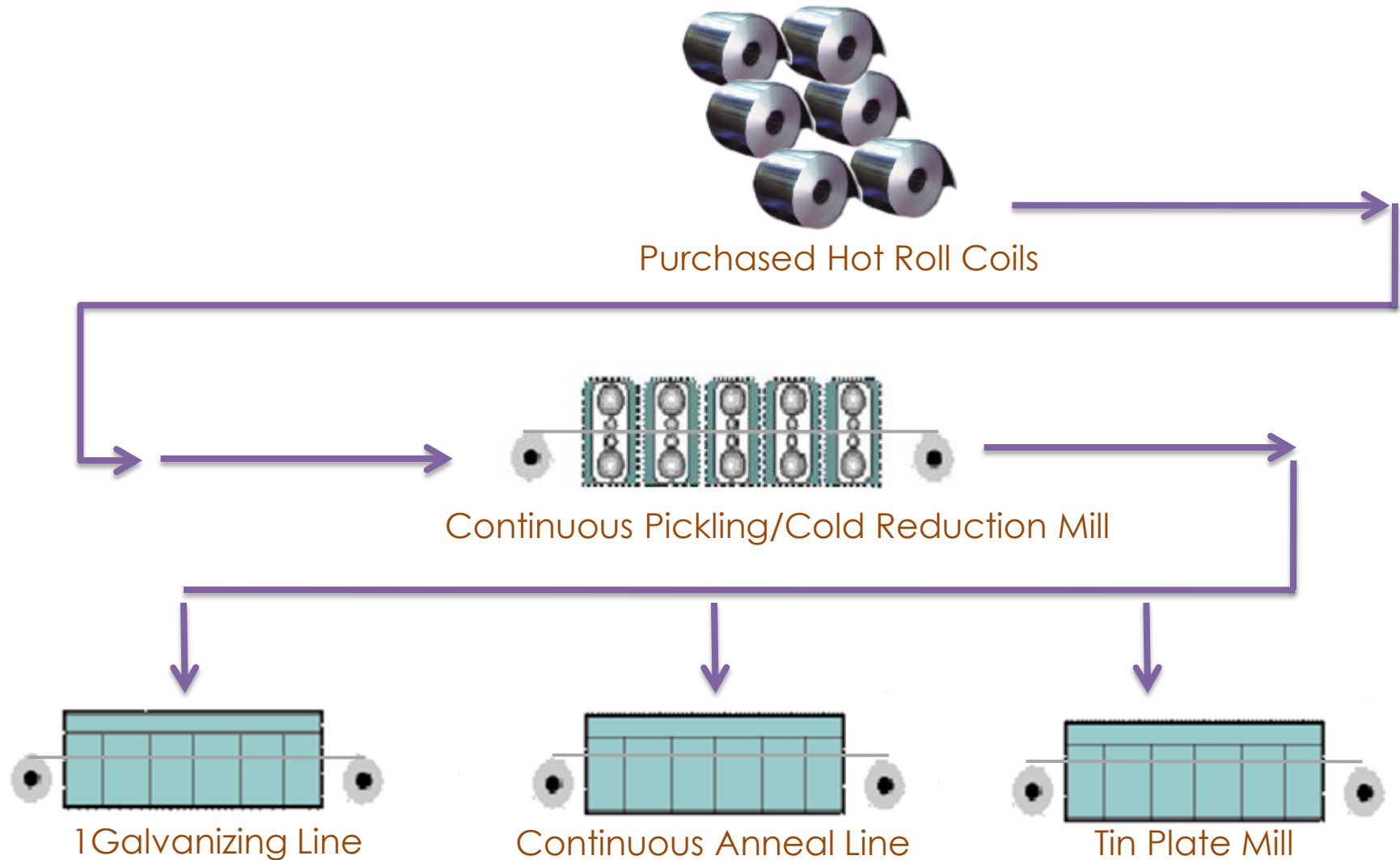
UPI:

- “Re-roller”
- Purchases hot rolled coils for feedstock
- Further processing of all purchased coils
- Sells Cold Rolled & Galvanized sheet & Tinplate

“Slab Converter” Rolling Process at CSI



“Re-roller” Rolling Process at UPI



In-State Steel Firms – Similarities & Differences

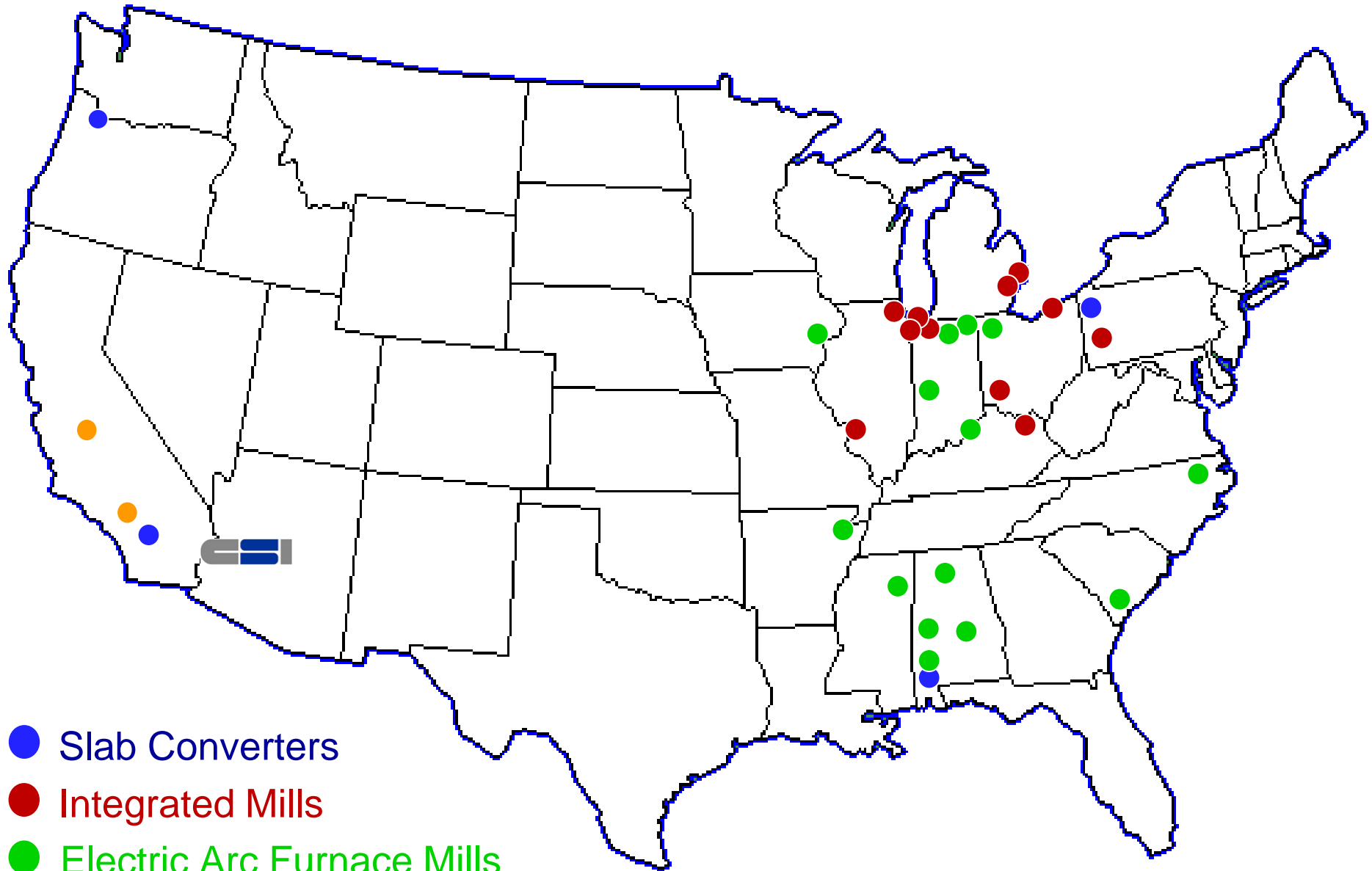
	Products (Indicates Competing Products)	Feedstock	AB32 Activity Sectors	Blast Furnace	Electric Arc Furnace (EAF)	Hot Strip Mill	Galvanize Mill	Tin Mill	Annealing Line
CSI	Sheet: Hot Rolled, Cold Rolled, Galvanized; ERW Pipe	Slab	Hot Rolled Steel Sheet Pickled Steel Sheet Galvanized Steel Sheet Cold Rolled Steel Sheet	0	0	1	2	0	1
UPI	Sheet: Cold Rolled, Galvanized; Tin Plate	Hot Rolled Sheet Coils	Pickled Steel Sheet Galvanized Steel Sheet Cold Rolled Steel Sheet Tin Steel Sheet	0	0	0	2	1	1
Steelscape	Sheet: Galvanized, Galvalume	Cold Rolled Sheet Coils	Galvanized Steel Sheet	0	0	0	1	0	0
Gerdau/ Tamco	Reinforcing bar	Scrap	Steel Production Using an Electric Arc Furnace	0	1	NA	NA	NA	NA

In-State Steel Facilities

ARB ID	Facility Name	Average 2011-2015 CO2 Emissions	Preliminary Activity Sector Leakage Risk	Proposed Post 2020 Assistance Factor	City	NAICS Code and Description
100954	California Steel Industries, Inc.	188,512	Hot Rolled Steel Sheet – High Pickled Steel Sheet, Galvanized Steel Sheet, Cold Rolled Steel Sheet - Medium	20%	Fontana	331221 - Rolled Steel Shape Manufacturing
104370	Steelscape Inc.	18,400	N/A	N/A	Rancho Cucamonga	332812 - Metal Coating, Engraving
101073	Gerdau-TAMCO	49,070	Steel Production Using an Electric Arc Furnace - High	70%	Rancho Cucamonga	331111 - Iron and Steel Mills
101068	USS-POSCO Industries	48,357	Pickled Steel Sheet, Galvanized Steel Sheet, Cold Rolled Steel Sheet, Tin Steel Sheet - Medium	20%	Pittsburg	331221 - Rolled Steel Shape Manufacturing
104329	Shultz Steel Company	24,159	N/A	20%	South Gate	331221 - Rolled Steel Shape Manufacturing

**The Western US represents less than
5% of US consumption of the sheet
products for which CSI competes.**

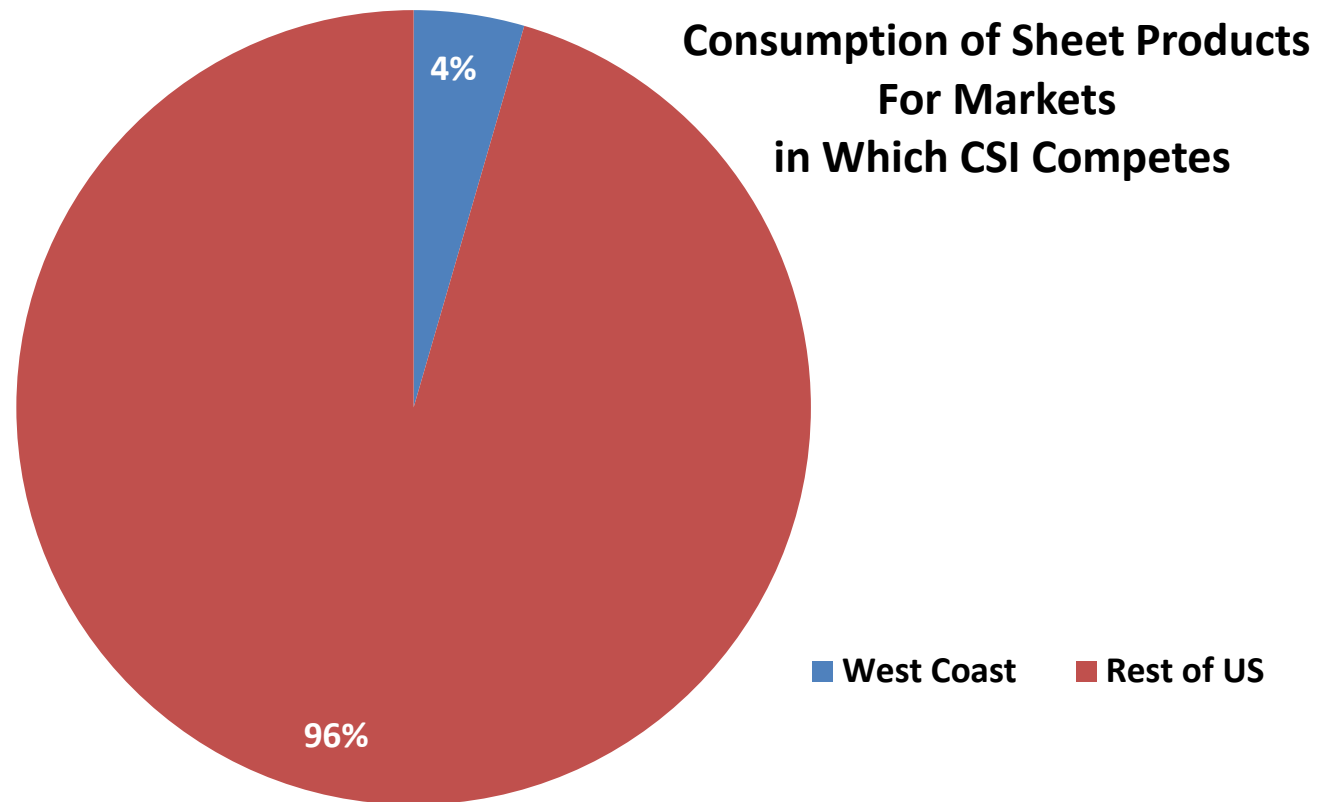
Sheet and Plate Producers in U.S.



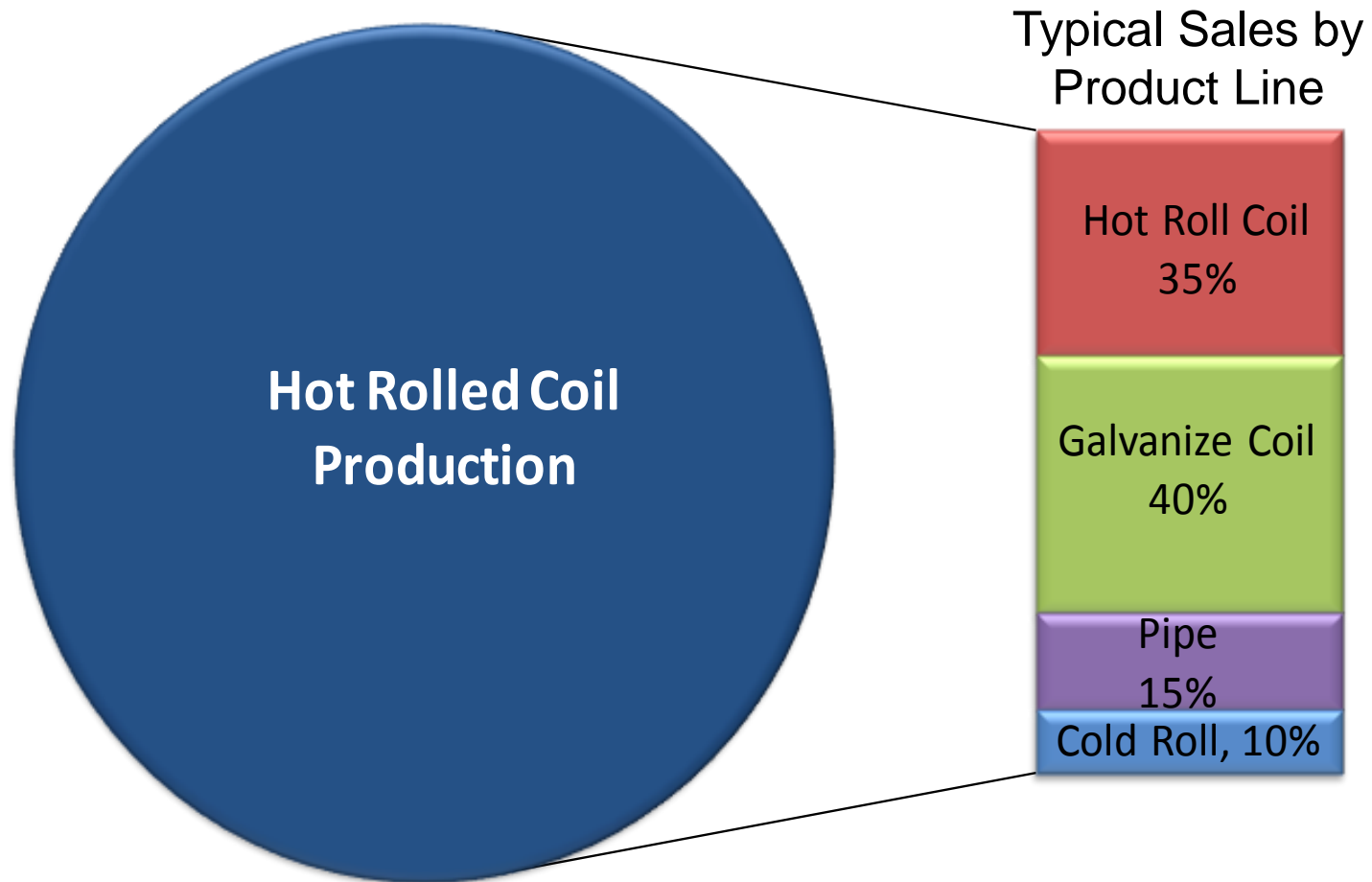
- Slab Converters
- Integrated Mills
- Electric Arc Furnace Mills
- UPI /Steelscape – Re-rollers

- Mills east of the Rockies can participate in the West Coast market without significant impacts to their overall commercial strategies
- Displacement of CSI market share could be easily absorbed by Eastern mills

This would create a classic case of leakage of jobs and production to other states as a result of high costs of doing business in California.

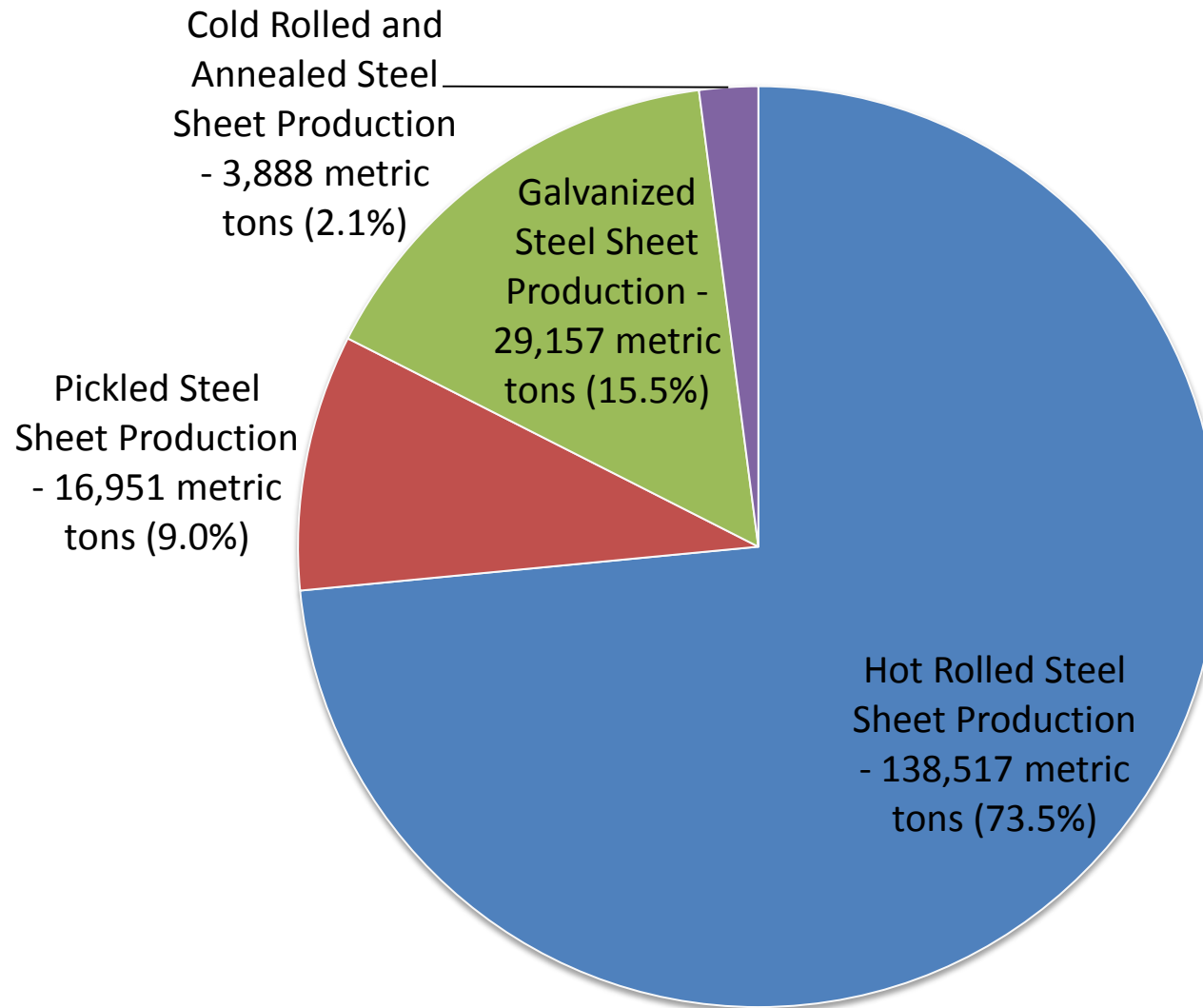


CSI Hot Rolled is Sold “As Is” or Further Processed

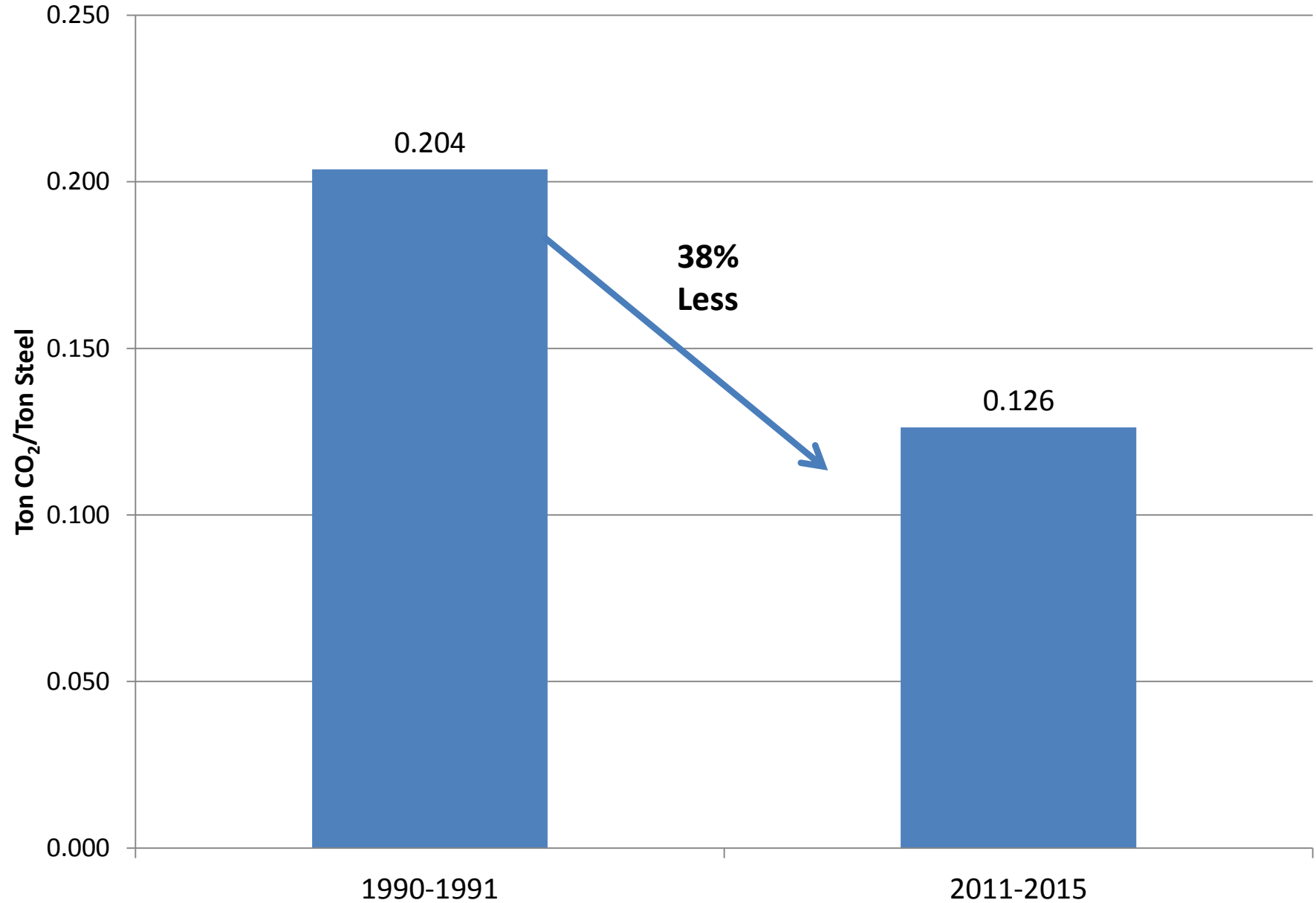


CSI 2011-2015 Emissions Summary

- 188,512 average metric tons CO₂eq for 2011-2015



Carbon Intensity: CO₂ per Ton of Steel Produced



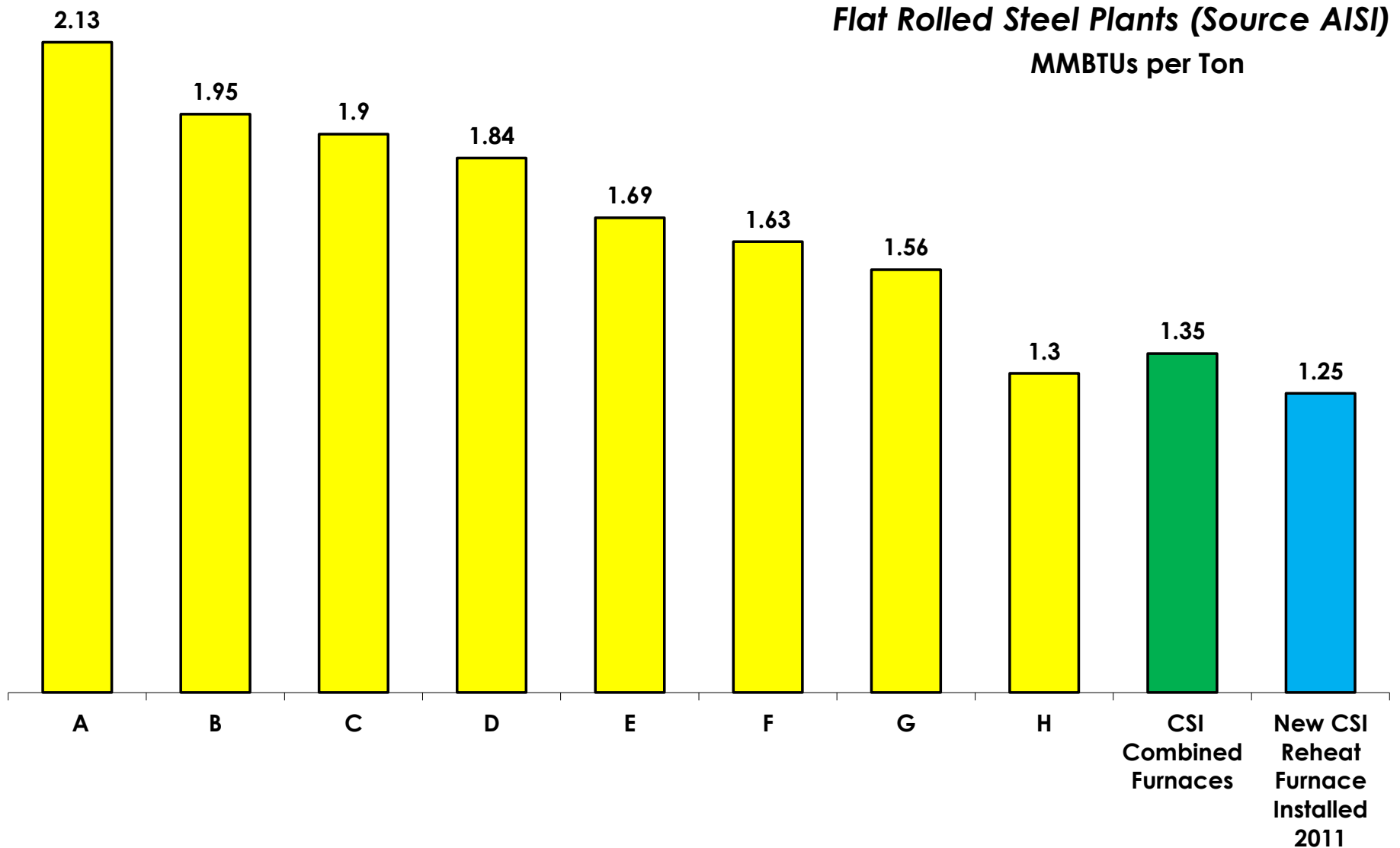
Other Slab Conversion Mills

- There are 4 other similar conversion mills to CSI in the US, and NAIC Codes do not always match up for the same process

Facility Name	Reported Primary NAICS Code	Average 2011-2015 Emissions
AM/NS Calvert, LLC	331111	352,162.51
CALIFORNIA STEEL INDUSTRIES INC	331221	188,548.27
Evraz Oregon Steel	331111	109,495.14
NLMK PENNSYLVANIA CORP	331221	164,005.85

Natural Gas Consumption Per Ton of Steel

U.S. Steel Industry Reheat Furnaces



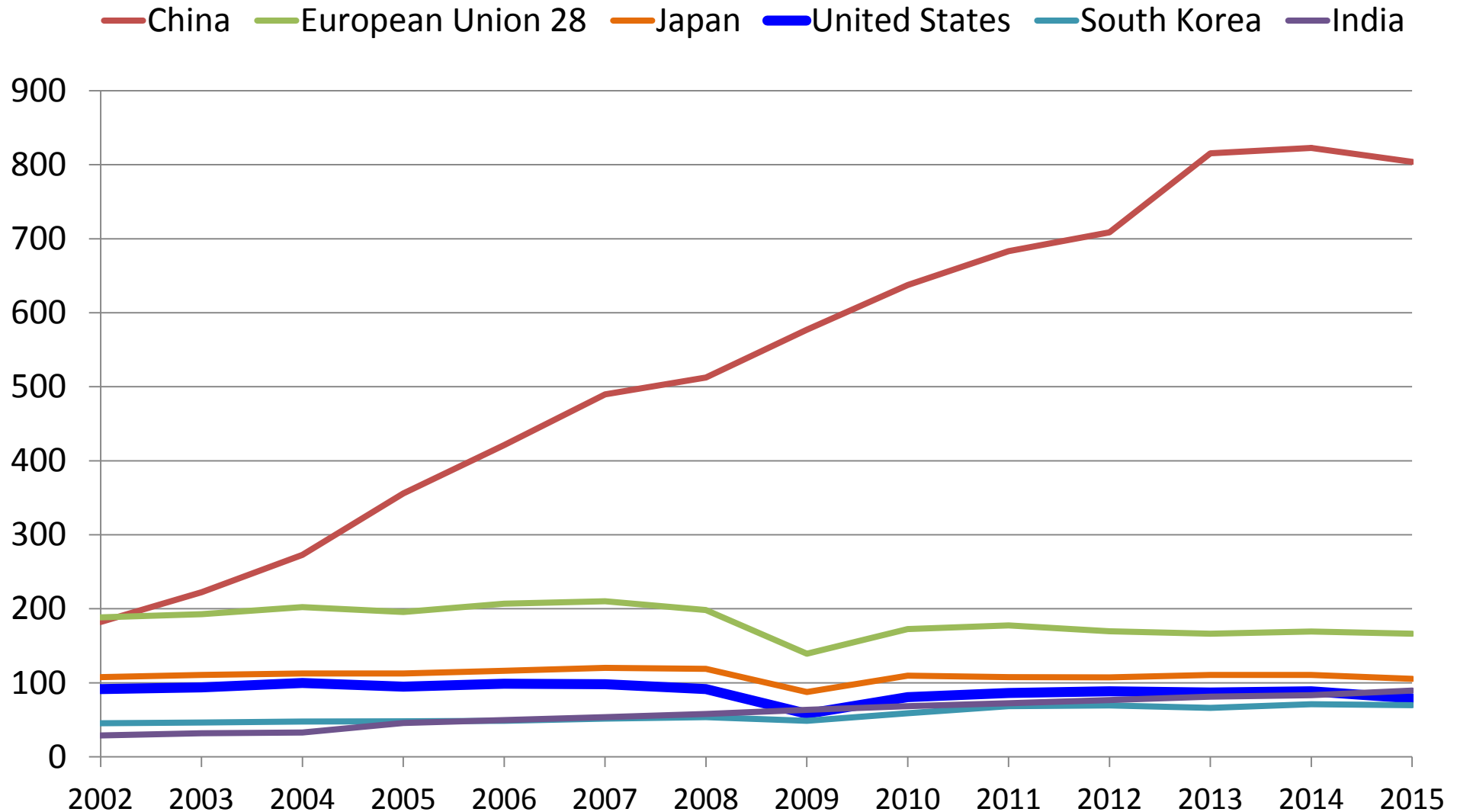
Global and Domestic Challenges

Status of the U.S. Steel Industry

- Steel is a cyclical industry
- 2015: Worst conditions since “The Great Recession”
- Today: Steel demand remains weak in many areas of the world, which has deeply affected the U.S.
- In recent years imports have been at record levels
- CSI is inevitably affected by global forces
- Over the business cycle, steel customers will not absorb additional California-specific costs

Global Challenge: China

Raw Steel Production - Millions of Metric Tons Through 2016 YTD

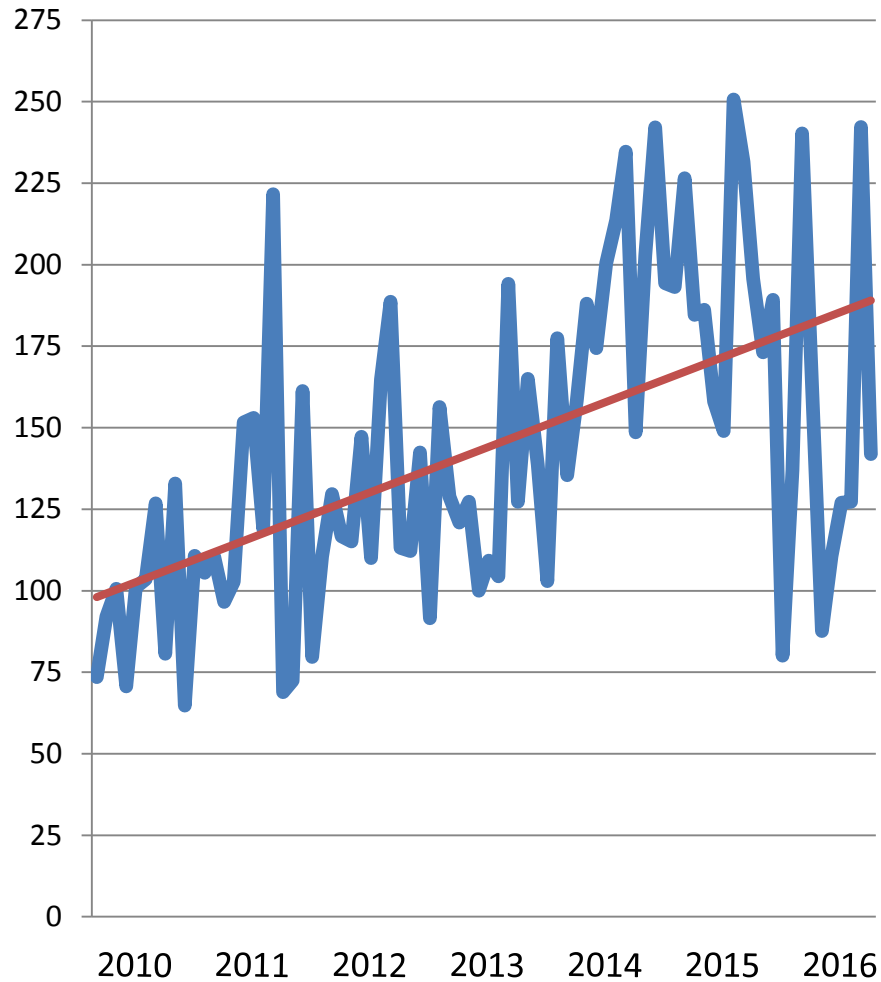


Source: World Steel Association

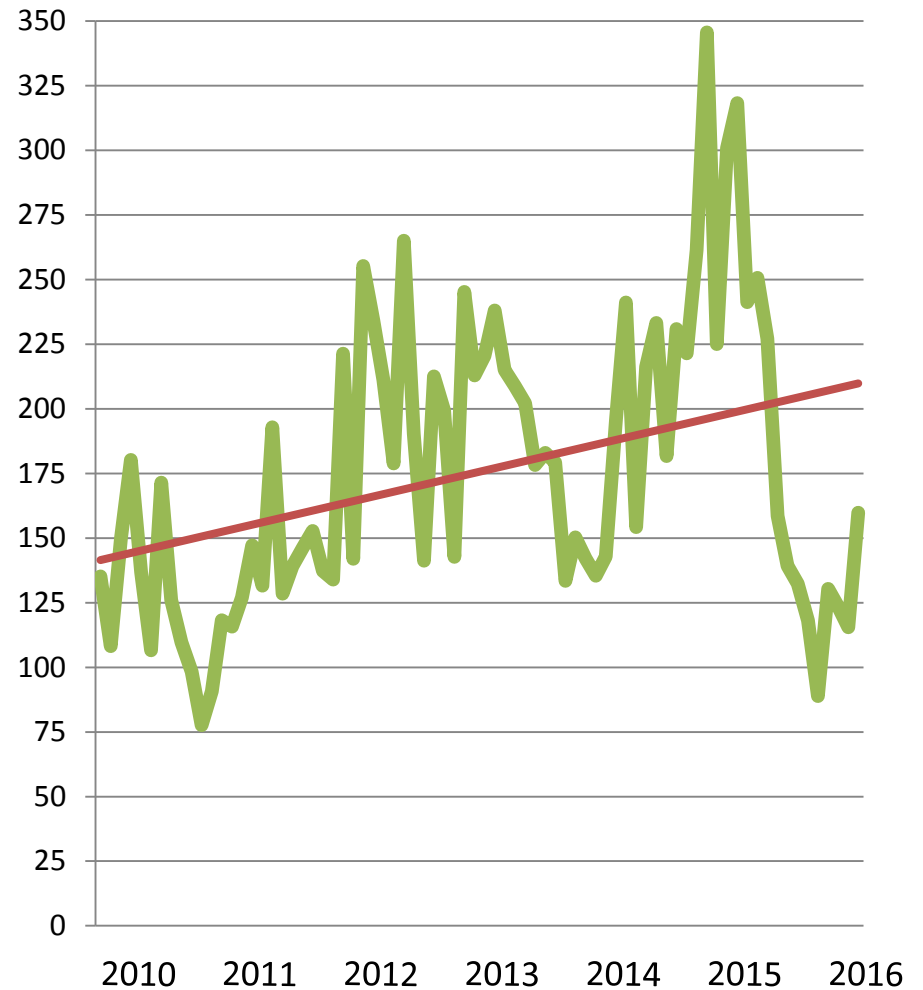
Imports Per Month

Thousands of Net Tons

West Coast Flat Rolled

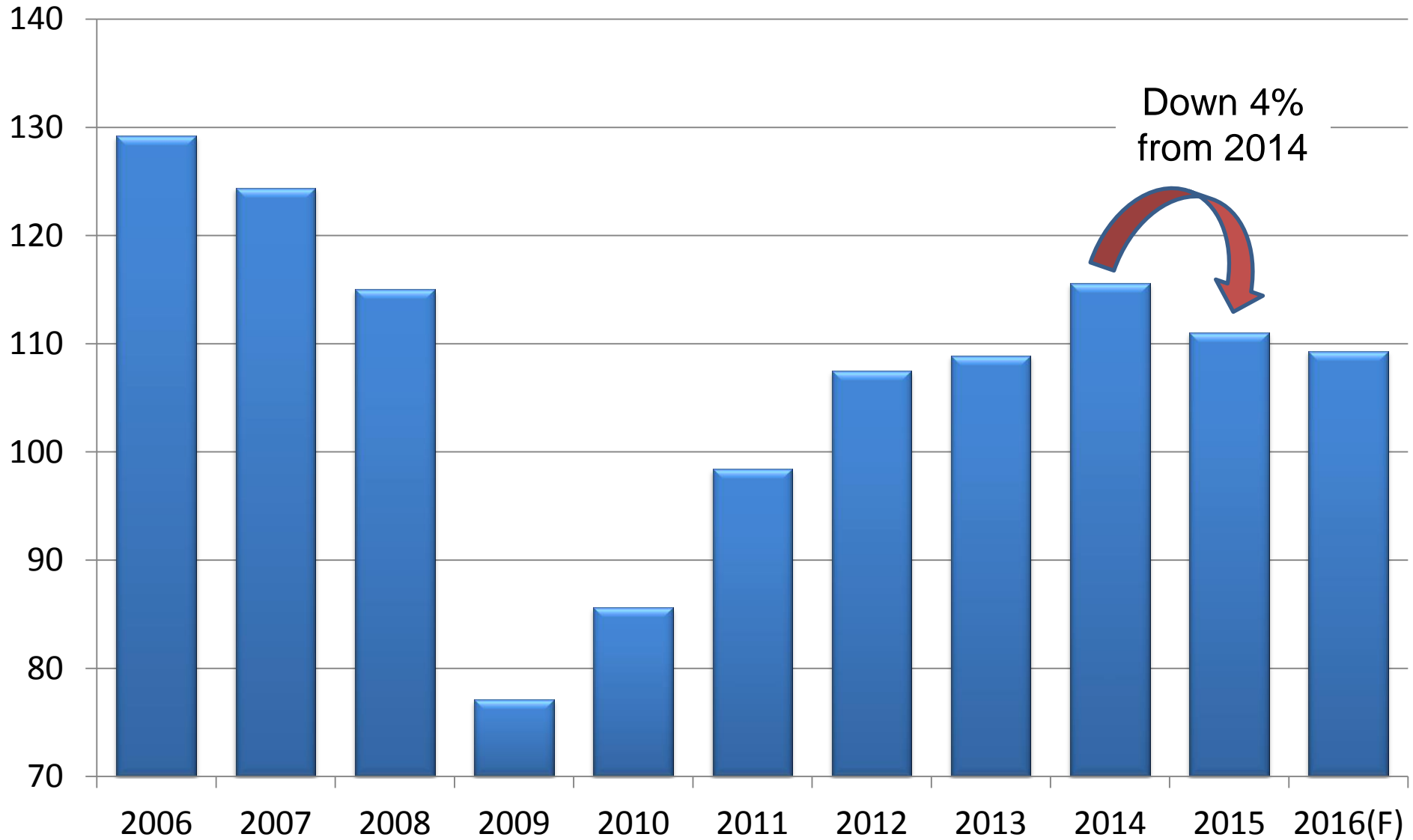


U. S. Line Pipe



U. S. Steel Consumption

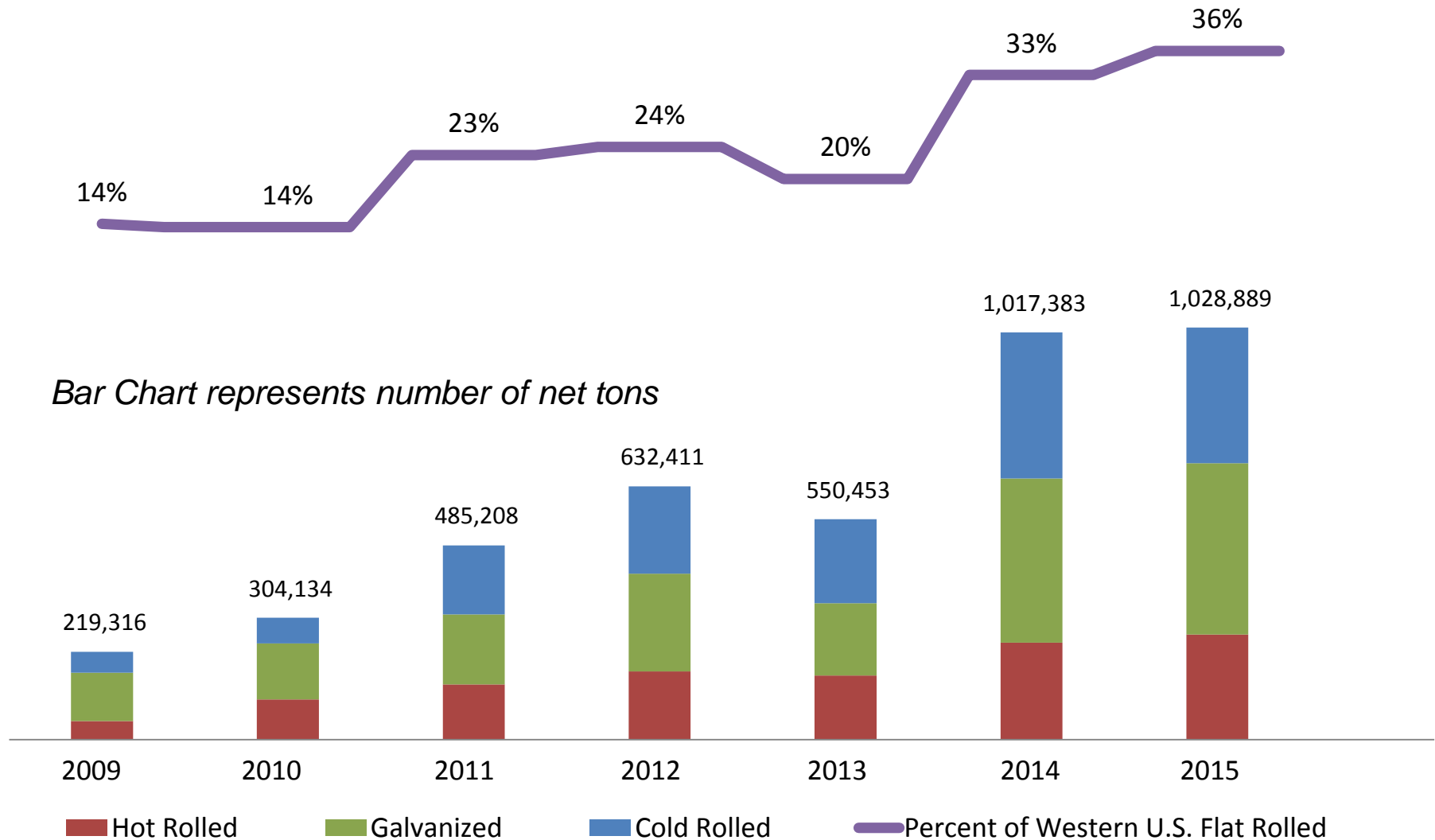
Millions of Net Tons



Source: World Steel Dynamics

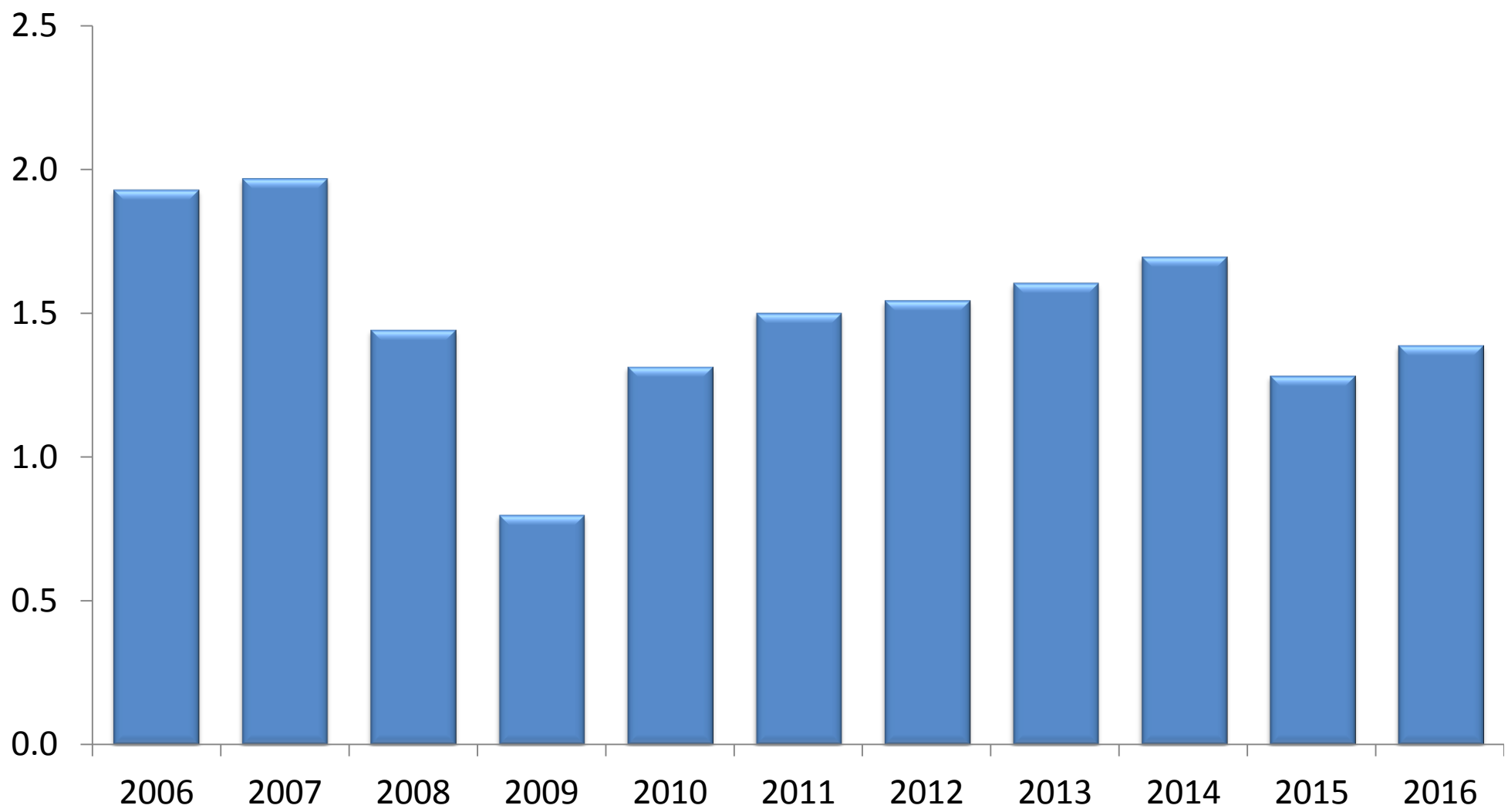
Imports as % of Steel Consumed, Western U.S.

For many Asian importers, the Western U.S. is the most attractive export market in the world, due to relatively advantageous logistics



CSI Shipped Tons

Millions of Net Tons



EPA GHG Study – Iron and Steel

- [EPA Study released in September 2012](#)¹
- CSI employs 9 of the 11 recommendations made for reheat furnace (hot rolling) GHG reduction
- The 9 adopted strategies include: temperature and process control, recuperative burners, insulation, walking beams, and waste heat recovery, among others
- The other 2 recommendations are not possible or feasible within CSI's hot rolling process

¹<https://www.epa.gov/sites/production/files/2015-12/documents/ironsteel.pdf>

Summary: CSI's Position on Cap and Trade

- Energy intensive and trade exposed
- Unique among California steel firms
 - West's only producer of hot rolled steel sheet
- 100% exposed to leakage
- World-class in energy efficiency and GHG emissions
- Prepared to grow good jobs in California
 - ***We ask ARB to reconsider its position on reducing industry assistance post 2020.***