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Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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October 20, 2011

The Honorable Steven Chu
Secretary
U.S. Department of Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Mr. Chu:

The Oversight and Government Reform Committee is conducting oversight of the Department of Energy's (DOE) Advanced Technology Vehicle Manufacturing Program (ATVM). The Committee is concerned about DOE's decision to offer a \$730 million conditional loan commitment to Severstal North America, a subsidiary of the Russian steel and mining company OAO Severstal, to improve an advanced high strength steel (AHSS) plant in Dearborn, Michigan. Of specific concern is that Severstal was already moving forward with production plans before the ATVM loan was approved with apparently no need for federal financing. Finally, it is not clear that AHSS manufactured by Severstal is eligible for ATVM loan consideration.

According to DOE, "[t]he ATVM Loan Program provides loans to automobile and automobile parts manufacturers for the cost of reequipping, expanding, or establishing manufacturing facilities in the United States to produce advanced technology vehicles or qualified components, and for associated engineering integration costs."¹ Unlike many applicants to the ATVM program, OAO Severstal is a multibillion-dollar Russian company with steel and mining operations throughout Europe, Africa, and North America.² According to *Forbes* magazine, the CEO of Severstal, Alexei Mordashov, is one of the world's wealthiest persons with a net worth of \$18.5 billion.³ Mr. Mordashov has close ties to Vladimir Putin and other powerful people involved in Russian politics and business within a cadre known as "The St. Petersburg Group."⁴ Accordingly, it does

¹ U.S. Department of Energy, ATVM available at https://lpo.energy.gov/?page_id=43, last visited Oct. 6, 2011.

² Severstal – Businesses available at <http://www.severstal.com/businesses>, last visited Sept. 30, 2011.

³ The World's Billionaires – Alexei Mordashov available at <http://www.forbes.com/profile/alexei-mordashov/>, last visited Sept. 30, 2011.

⁴ Andrew E. Kramer, *A Steel Magnate with Kremlin Connections*, N.Y. TIMES, May 27, 2006.

not appear that Severstal would have any difficulty self-financing the Dearborn project or finding financing on the open market.

Announcements made by Severstal during the loan consideration process indicated that the company had ample means to carry out the project. In March 2011, before receiving taxpayer funds, Severstal had already sold plants in Ohio, West Virginia, and Maryland in order to shift financial resources to its Dearborn facility.⁵ Following these closings, Severstal then announced a \$740 million modernization project at the facility. Surprisingly, in June 2011, DOE granted an ATVM loan to Severstal, months after the decision to undertake the Dearborn project had already been made. Given the immense wealth and power of Severstal's CEO and the fact that the corporation had already made significant investments in the project, it is surprising that DOE would choose Severstal for a loan meant to spark new businesses and technologies within the automotive industry.

The Committee is also concerned that the loan to Severstal is not consistent with the purpose of the ATVM program. For a business to qualify for an ATVM loan, it must be either an "automobile *manufacturer* or a *component supplier* that undertakes a project that reequips, expands, or establishes manufacturing facilities in the United States ... which provide meaningful improvements in fuel economy performance beyond specified levels" (emphasis added).⁶ Since Severstal clearly does not manufacture automobiles, it could only qualify as a component part manufacturer. Steel, whether AHSS or otherwise, is clearly a *material* used to make components. Thus, Severstal should not be eligible for the ATVM loan program.

Finally, AHSS is not in short supply in the United States. Numerous American AHSS manufacturing facilities already exist and currently produce under capacity.⁷ In fact, current total U.S. AHSS production capacity is just over six million tons per year, nearly two million tons more than the estimated AHSS peak demand in 2020.⁸ It would seem to be a waste of taxpayer funds to subsidize Severstal's AHSS facility when there is already more than enough production available for this material.

In light of these numerous concerns, I request that you respond to the following questions, and provide the requested documents:

1. Please explain how Severstal's Dearborn plant meets DOE's definition of component supplier. Why is steel defined as a component as opposed to a material? How is coiled steel as sold by Severstal "installed for the purpose of

⁵ Press Release, *Severstal North America Completes Asset Sale and Accelerates Capital Improvements*, Mar. 31, 2011.

⁶ Advanced Technology Vehicles Manufacturing Incentive Program, 73 Fed. Reg. 66,721 (Nov. 12, 2008) (to be codified at 10 C.F.R. pt. 611.2) [emphasis added].

⁷ Advanced High Strength Steel Market Analysis, Sept. 28, 2011 (on file with author).

⁸ *Id.*

meeting performance requirements” as required in DOE’s definition of component?⁹

2. In DOE’s press release announcing the loan commitment to Severstal, the agency comments, “Severstal estimates the project will generate over 2,500 construction jobs and over 260 permanent manufacturing jobs.”¹⁰ However, the Severstal plant was already functional before the DOE loan was approved. Why is DOE taking credit for the creation of jobs that would have existed without the DOE loan? Has DOE performed its own jobs analysis for this project? If a jobs analysis was made, then please provide this to the Committee.
3. In DOE’s press release announcing the Severstal loan project, Secretary Chu stated, “[b]y manufacturing more advanced high strength steel here at home, we rely less on imports and create thousands of new jobs that get people back to work.”¹¹ Has the Department studied the amount of AHSS steel imported into the United States? Has DOE analyzed the potential effects of the competitive advantage that this loan gives to Severstal over other U.S.-based steel manufacturers and their employees? Please provide the Committee with these studies.
4. Was DOE aware that Severstal’s modernization plan at the Dearborn plant was a pre-existing project that was already under way before the ATVM loan was approved? Are loans given under the ATVM program for new projects or for projects that are already significantly under way such as Severstal’s Dearborn project?
5. In DOE’s Final Environmental Assessment for the Severstal Project, the agency states that “DOE recognizes that the proposed project may eventually secure other financing and proceed without DOE’s loan...”¹² Why did DOE deem it appropriate to give Severstal a loan for this project if the agency felt that Severstal could secure private financing? How is this the best use of nearly three quarters of a billion dollars of guaranteed taxpayer money?
6. Please provide Severstal’s unredacted ATVM loan application and all documents and communications referring or relating to DOE’s decision to grant Severstal’s ATVM loan for the Dearborn plant.

⁹ Advanced Technology Vehicles Manufacturing Incentive Program, 73 Fed. Reg. 66,721 (Nov. 12, 2008) (to be codified at 10 C.F.R. pt. 611.2).

¹⁰ Press Release, *Department of Energy Offers Severstal Dearborn, LLC a \$730 Million Conditional Loan Commitment for Michigan Project*, July 13, 2011.

¹¹ *Id.*

¹² U.S. Department of Energy, *Environmental Assessment for Department of Energy Loan to Severstal Dearborn, Inc, For Advanced Technology Vehicles Manufacturing Project in Dearborn, Michigan*, Feb. 2011, 3.

The Honorable Steven Chu

October 20, 2011

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The Committee on Oversight and Government Reform is the principal oversight committee of the House of Representatives and may at “any time” investigate “any matter” as set forth in House Rule X. An attachment to this letter provides additional information about responding to the Committee’s request.

We ask that you provide the requested documents and information as soon as possible, but no later than 5:00 p.m. on Thursday, November 3, 2011. When producing documents to the Committee, please deliver production sets to the Majority Staff in Room 2157 of the Rayburn House Office Building and the Minority Staff in Room 2471 of the Rayburn House Office Building. The Committee prefers, if possible, to receive all documents in electronic format.

If you have any questions about this request, please contact Joseph Brazauskas or Ryan Hambleton of the Committee Staff at 202-225-5074. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink that reads "Darrell Issa". The signature is written in a cursive style with a large, sweeping initial "D".

Darrell Issa
Chairman

Attachment

cc: The Honorable Elijah E. Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

ONE HUNDRED TWELFTH CONGRESS
Congress of the United States
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Minority (202) 225-5051

Responding to Committee Document Requests

1. In complying with this request, you should produce all responsive documents that are in your possession, custody, or control, whether held by you or your past or present agents, employees, and representatives acting on your behalf. You should also produce documents that you have a legal right to obtain, that you have a right to copy or to which you have access, as well as documents that you have placed in the temporary possession, custody, or control of any third party. Requested records, documents, data or information should not be destroyed, modified, removed, transferred or otherwise made inaccessible to the Committee.
2. In the event that any entity, organization or individual denoted in this request has been, or is also known by any other name than that herein denoted, the request shall be read also to include that alternative identification.
3. The Committee's preference is to receive documents in electronic form (i.e., CD, memory stick, or thumb drive) in lieu of paper productions.
4. Documents produced in electronic format should also be organized, identified, and indexed electronically.
5. Electronic document productions should be prepared according to the following standards:
 - (a) The production should consist of single page Tagged Image File ("TIF"), files accompanied by a Concordance-format load file, an Opticon reference file, and a file defining the fields and character lengths of the load file.
 - (b) Document numbers in the load file should match document Bates numbers and TIF file names.
 - (c) If the production is completed through a series of multiple partial productions, field names and file order in all load files should match.

6. Documents produced to the Committee should include an index describing the contents of the production. To the extent more than one CD, hard drive, memory stick, thumb drive, box or folder is produced, each CD, hard drive, memory stick, thumb drive, box or folder should contain an index describing its contents.
7. Documents produced in response to this request shall be produced together with copies of file labels, dividers or identifying markers with which they were associated when they were requested.
8. When you produce documents, you should identify the paragraph in the Committee's request to which the documents respond.
9. It shall not be a basis for refusal to produce documents that any other person or entity also possesses non-identical or identical copies of the same documents.
10. If any of the requested information is only reasonably available in machine-readable form (such as on a computer server, hard drive, or computer backup tape), you should consult with the Committee staff to determine the appropriate format in which to produce the information.
11. If compliance with the request cannot be made in full, compliance shall be made to the extent possible and shall include an explanation of why full compliance is not possible.
12. In the event that a document is withheld on the basis of privilege, provide a privilege log containing the following information concerning any such document: (a) the privilege asserted; (b) the type of document; (c) the general subject matter; (d) the date, author and addressee; and (e) the relationship of the author and addressee to each other.
13. If any document responsive to this request was, but no longer is, in your possession, custody, or control, identify the document (stating its date, author, subject and recipients) and explain the circumstances under which the document ceased to be in your possession, custody, or control.
14. If a date or other descriptive detail set forth in this request referring to a document is inaccurate, but the actual date or other descriptive detail is known to you or is otherwise apparent from the context of the request, you should produce all documents which would be responsive as if the date or other descriptive detail were correct.
15. The time period covered by this request is included in the attached request. To the extent a time period is not specified, produce relevant documents from January 1, 2009 to the present.
16. This request is continuing in nature and applies to any newly-discovered information. Any record, document, compilation of data or information, not produced because it has not been located or discovered by the return date, shall be produced immediately upon subsequent location or discovery.

17. All documents shall be Bates-stamped sequentially and produced sequentially.
18. Two sets of documents shall be delivered, one set to the Majority Staff and one set to the Minority Staff. When documents are produced to the Committee, production sets shall be delivered to the Majority Staff in Room 2157 of the Rayburn House Office Building and the Minority Staff in Room 2471 of the Rayburn House Office Building.
19. Upon completion of the document production, you should submit a written certification, signed by you or your counsel, stating that: (1) a diligent search has been completed of all documents in your possession, custody, or control which reasonably could contain responsive documents; and (2) all documents located during the search that are responsive have been produced to the Committee.

Definitions

1. The term "document" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded, and whether original or copy, including, but not limited to, the following: memoranda, reports, expense reports, books, manuals, instructions, financial reports, working papers, records, notes, letters, notices, confirmations, telegrams, receipts, appraisals, pamphlets, magazines, newspapers, prospectuses, inter-office and intra-office communications, electronic mail (e-mail), contracts, cables, notations of any type of conversation, telephone call, meeting or other communication, bulletins, printed matter, computer printouts, teletypes, invoices, transcripts, diaries, analyses, returns, summaries, minutes, bills, accounts, estimates, projections, comparisons, messages, correspondence, press releases, circulars, financial statements, reviews, opinions, offers, studies and investigations, questionnaires and surveys, and work sheets (and all drafts, preliminary versions, alterations, modifications, revisions, changes, and amendments of any of the foregoing, as well as any attachments or appendices thereto), and graphic or oral records or representations of any kind (including without limitation, photographs, charts, graphs, microfiche, microfilm, videotape, recordings and motion pictures), and electronic, mechanical, and electric records or representations of any kind (including, without limitation, tapes, cassettes, disks, and recordings) and other written, printed, typed, or other graphic or recorded matter of any kind or nature, however produced or reproduced, and whether preserved in writing, film, tape, disk, videotape or otherwise. A document bearing any notation not a part of the original text is to be considered a separate document. A draft or non-identical copy is a separate document within the meaning of this term.
2. The term "communication" means each manner or means of disclosure or exchange of information, regardless of means utilized, whether oral, electronic, by document or otherwise, and whether in a meeting, by telephone, facsimile, email, regular mail, telexes, releases, or otherwise.
3. The terms "and" and "or" shall be construed broadly and either conjunctively or disjunctively to bring within the scope of this request any information which might

otherwise be construed to be outside its scope. The singular includes plural number, and vice versa. The masculine includes the feminine and neuter genders.

4. The terms "person" or "persons" mean natural persons, firms, partnerships, associations, corporations, subsidiaries, divisions, departments, joint ventures, proprietorships, syndicates, or other legal, business or government entities, and all subsidiaries, affiliates, divisions, departments, branches, or other units thereof.
5. The term "identify," when used in a question about individuals, means to provide the following information: (a) the individual's complete name and title; and (b) the individual's business address and phone number.
6. The term "referring or relating," with respect to any given subject, means anything that constitutes, contains, embodies, reflects, identifies, states, refers to, deals with or is pertinent to that subject in any manner whatsoever.