

United States Senate

WASHINGTON, DC 20510

November 7, 2011

The Honorable Gregory H. Friedman
Inspector General
United States Department of Energy
Forrestal Building
Room 5D-039
1000 Independence Avenue, SW
Washington, D.C. 20585-0102

Dear Inspector General Friedman:

The Department of Energy recently issued a conditional loan commitment to Severstal North America, Inc. d/b/a Severstal Dearborn, LLC (Severstal) for \$730 million under the Advanced Technology Vehicles Manufacturing Loan Program (ATVM). We write to request that you undertake a formal inquiry into the conduct of Department officials in relation to this conditional loan commitment. We request that you do so pursuant to the duties and responsibilities vested in your office to keep the “Congress fully and currently informed ... concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by” federal agencies, including the Department of Energy, under section 4(a)(5) of the Inspector General Act of 1978 (5 U.S.C. App.).

The Department’s stated purpose for the loan program is to “accelerate the domestic commercial deployment of ... new or significantly improved energy technologies.” There is ample evidence to show that several U.S. companies already manufacture the Advanced High Strength Steel (AHSS) for which Severstal is receiving this loan award. As such, the Department’s decision to issue the loan raises very serious concerns.

We hoped the Secretary, given the opportunity to respond to questions asked in a letter written by Senator Coats on August 2, 2011, would alleviate our concerns by providing complete and straightforward answers. Unfortunately, the Department sent back a non-responsive reply, dated September 27, 2011, which did not address our concerns.

Thus, we ask that you address the following issues in your investigation and report:

1. Does AHSS qualify as a “component” under Section 136 of the Energy Independence and Security Act of 2007? We suggest that steel is a *material* used in the manufacturing of various components of a car but certainly is not a *component* under the spirit and letter of the statute.

2. Did the Department conduct any type of market analysis before making this award to determine what AHSS products are already in the marketplace and whether a taxpayer loan was even needed? Did the Department make any estimates of current and future capacity in the United States for the production of AHSS? Did the Department estimate the future demand for AHSS from automakers? Evidence shows that the AHSS market is strong and robust in the United States with multiple producers manufacturing high technology products. In fact, we are told that AHSS has been manufactured in the United States since the 1980s and there is substantial excess capacity today. In the case of hot dipped galvanized AHSS, the most popular product, current or soon to come on line factories in the United States have a capacity to supply twice the expected demand in 2020, even with increased CAFE standards. To date, the Department refuses to answer how it determined that a product with excess capacity now needs a federal loan.
3. Why did the Department fund a project that was near completion and already had been paid for by the loan recipient? According to Severstal's own documents, two of the three required lines will be finished by December 2011. Only an annealing line valued at one-third of the amount of the loan at best is awaiting the final approval. Additionally, the Department's website state, "Loans will not be available on a retroactive basis." Is it proper to give a company more than half a billion dollars for facilities that they have already built?
4. Did the Department accurately portray the job impacts of this loan? In its press release the Department claimed that "over 2,500 construction jobs" would be created by the issuance of this loan. We find that claim dubious on the merits, since most of the plant is already finished. Further, the Department estimated the project would create 260 permanent jobs. Given the state of supply and demand, any new jobs created at Severstal would come at a cost to other producers—creating at best a net zero job gain nationwide. Did the Department calculate job losses at other non-subsidized producers?
5. Did the Department determine whether Severstal would use the loan to produce AHSS that is appreciably different from other AHSS products in the market? If not, how does subsidizing one company over other companies in a competitive market further the goals of the ATVM program?

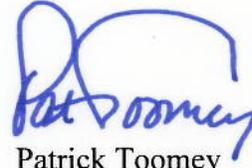
Given the tremendous fiscal crisis that we find ourselves in today, it does not seem appropriate for the program to subsidize technologies that have already achieved commercial success through private sector means. American taxpayers deserve to know how the Department of Energy is making decisions regarding these types of loan investments. As of result of the Department's refusal to provide answers, we ask that you proceed immediately to undertake a formal review into the Department's issuance of the Severstal conditional loan commitment.

We thank you for your prompt attention to this matter.

Sincerely,



Dan Coats
United States Senator



Patrick Toomey
United States Senator