

- [Pages](#)
 - [Blogs/Sites](#)
 - [Contact Info](#)
 - [Listen](#)
 - [Read](#)
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 - [Quotes](#)
- [Archives](#)
 - [November 2011](#)
 - [October 2011](#)
 - [September 2011](#)
 - [August 2011](#)
 - [July 2011](#)
 - [June 2011](#)
 - [May 2011](#)
 - [April 2011](#)
 - [January 2011](#)
 - [December 2010](#)
 - [November 2010](#)
 - [October 2010](#)
 - [September 2010](#)
 - [August 2010](#)
 - [July 2010](#)
 - [June 2010](#)
 - [May 2010](#)
 - [April 2010](#)
 - [March 2010](#)
- [Categories](#)
 - [Big Government](#)
 - [Economics](#)
 - [Education](#)
 - [Ethics](#)
 - [Fiscal Responsibility](#)
 - [Foreign Affairs](#)
 - [Free Press](#)
 - [Free Speech](#)
 - [Freedom of Religion](#)
 - [Immigration](#)
 - [Individual Freedom and Personal Liberty](#)
 - [Law](#)
 - [Leadership](#)
 - [Politics](#)
 - [Right to Privacy](#)
 - [Science](#)
 - [Terrorism](#)
 - [The Economy](#)
 - [The Environment](#)
 - [The Internet](#)
 - [The New Health Care Plan](#)

[Text of Congressional Letter Questioning Energy Department Approval of \\$730 Million Loan Made to Subsidiary of Russian Company Headed by Billionaire](#)

27 Oct

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In a press release issued today, the House Oversight and Government Reform Committee announced that it has questioned Energy Secretary Steven Chu concerning the Energy Department's approval of a \$730 million loan to Severstal North America, a subsidiary of the Russian steel and mining company OAO Severstal, led by Alexei Mordashov. Mordashov is one of the world's wealthiest businessmen, with a reported personal net worth of more than \$18 billion.

According to the press release, Chairman Darrell Issa (R-CA) sent the written request for information

because it appeared there was no immediate need for this private firm to require federal financing, nor was it clear that the type of steel was even eligible for federal loan consideration under the Advanced Technology Vehicle Manufacturing Program (ATVM) overseen by the Department of Energy (DOE).

Following is the text (footnotes omitted) of Issa's letter to Secretary Chu:

October 20, 2011

The Honorable Steven Chu...

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." 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. 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. 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." Accordingly, it does 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. 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). Since Severstal clearly does not manufacture automobiles, it could only qualify as a component part manufacture. 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. 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. 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 meeting performance requirements" as required in DOE's definition of component?
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." 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." 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...." 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.

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,

/s/ Darrell Issa

Chairman



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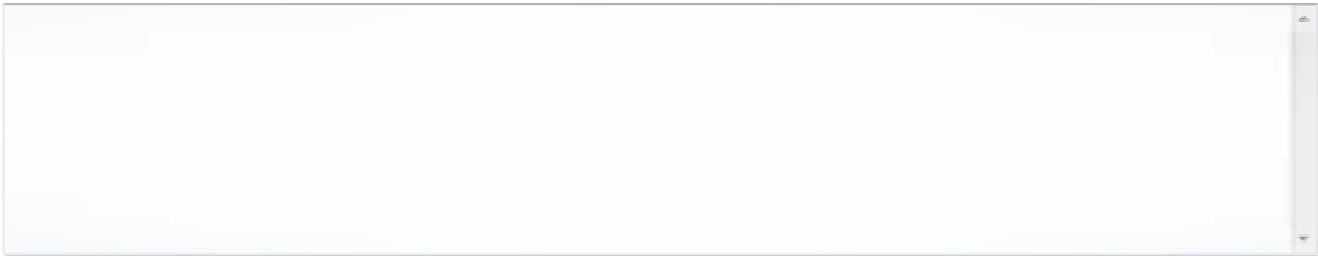
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The exercise of liberty and freedom by a large number of individuals always results in a raucous, noisy, beautiful disorder.

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- [Blogs/Sites](#)
- [Contact Info](#)
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- [Big Government](#)
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- [Education](#)
- [Ethics](#)
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- [Immigration](#)
- [Individual Freedom and Personal Liberty](#)
- [Law](#)
- [Leadership](#)
- [Politics](#)
- [Right to Privacy](#)
- [Science](#)
- [Terrorism](#)
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