

Before the
United States International Trade Commission

Diffusion-Annealed Nickel-Plated Flat-Rolled Steel Products from Japan
Inv. No. 731-TA-1206 (Final)
USITC Hearing – April 1, 2014

Statement of William Boyd

Good morning. I am William Boyd, President and CEO of Thomas Steel Strip Corporation. I joined Thomas as CEO in 2009, shortly after Thomas was acquired by Tata Steel. Prior to that time, I spent 22 years in the steel industry, first selling tinplate and specialty products for British Steel and Corus, then as managing director of a tinplate packaging company.

Compared to tinplate, the nickel-plate market is surprisingly small in terms of the number of consumers and suppliers. We have six major battery customers, and we basically compete with two other suppliers, Toyo Kohan and Nippon Steel. There is also a tightly-knit supply chain, and the purchasing within that supply chain is highly professional.

The qualification of the product is a significant factor in the nickel-plate market; there is no such requirement in a commodity market such as tinplate. In fact it is a very important hurdle to clear. However, once the product is qualified, competition is all about price.

Both Toyo Kohan and Nippon have qualified at the major customer accounts in the U.S. market. Most importantly, Toyo Kohan is qualified for the largest U.S. nickel-plate consumer, Duracell, and for the highest-volume product, the Duracell AA battery. Duracell AA batteries are the number-one selling battery in America and the world. As a result, when Toyo Kohan seized over 80% of the Duracell AA business it sent a shockwave through our business.

Typically about 50% of nickel-plate production is used for AA batteries. This is the case at Thomas. As the largest volume product, it is the product that is usually targeted by suppliers. Thomas Steel, Toyo Kohan and Nippon Steel all covet sales of AA battery steel because of the large volume. It allows us to load our capacity, to produce long production runs, to operate efficiently and to cover our fixed costs.

From the standpoint of a producer with excess capacity, AA is the optimum target. And, because Duracell is the recognized industry leader, if you capture the AA business at Duracell, all of the other battery producers take notice. They assume, implicitly, that you can produce high-quality nickel plated steel, up to the standards at Duracell.

For these reasons, 2009 was an important year. Up to that time, Toyo Kohan supplied Panasonic Battery Corporation of America and supplied AA and AAA cans to Duracell. In March 2008, Panasonic Battery stopped producing alkaline batteries in the United States. To replace that business, Toyo Kohan targeted two customers, Rayovac and Duracell.

As you can see in **Slide 2**, Japanese imports surged in 2009, even though their major U.S. customer left the market in 2008. Toyo Kohan increased its U.S. sales because it captured all of our business at Rayovac, 20 percent of the AA business at Duracell, as well as a share of the AAA business at Duracell.

When Toyo Kohan offered a price cut in 2011, Duracell decided to move 90% of its AA business to Toyo Kohan in July 2012.

In response to the loss of the majority share of the AA Duracell business, I reduced our price to Duracell and Duracell increased our share from 10% to 20% in 2013. Nevertheless, the damage was substantial. As shown by **Slide 2**, Japanese imports reached record levels in 2013.

As a result, our shipments fell. Even though we cut prices for other products, and even though we recovered the C can business at Duracell, our

production fell by more than 15 percent. Our capacity utilization fell to less than 60 percent and by the end of 2012 we were losing money.

In short, qualification is a threshold requirement, but it has not prevented Japanese imports from seizing market share or forcing us to meet low prices offered by Toyo Kohan and Nippon Steel.

Thomas is the market leader in the nickel plate business. We were the first steel producer to introduce diffusion-annealed nickel-plated steel strip in the United States. As shown by **Slide 3**, we sold nickel plate to a company called Mallory, which later became Duracell. It is our understanding that the development of diffusion-annealed nickel-plated steel was a key advance in technology that allowed the alkaline battery to be produced.

As I said, nickel plate is not tinplate. The specifications are difficult to meet and suppliers must qualify their products. As Mike Hartman will explain, the process can take several months. We know our Japanese competitors sometimes struggle to formulate a process that provides the customer with the performance characteristics for the steel that they need.

For example, Duracell shifted the C can business back to Thomas in 2011 because our material will process better in its equipment. I should

note, though, that we had to match Toyo Kohan's price to get the business back. In other words, Thomas and the Japanese producers are all capable manufacturers.

From my perspective, there are essentially three, well-established suppliers that compete in the nickel plate market. Although Thomas is the leader, with the largest market share in the United States, Toyo Kohan and Nippon Steel have steadily increased their share of the market.

Slide 4 shows the structure of the market. For example, Cly-Del stamps AA, AAA, and AAAA cans for Duracell. We sell the corresponding nickel plate specification to Cly-Del. And, we are currently qualified to supply every battery specification to Cly-Del.

We also sell certain specifications directly to Duracell. For example, we sell end cap material and C and D can material directly to Duracell, which the customer processes in its own facilities. Similarly, we sell end cap material directly to Rayovac.

Although you must undergo qualification in order to supply these customers, it is common to quote prices even before qualification begins. That is the norm in our industry. Our customers put out requests for quotations for ongoing business realizing this. It makes sense for everyone

to supply a quote and compete for that business, even if they aren't currently qualified.

In other words, qualification offers little protection against competition and is certainly no guarantee of being selected as the supplier. When Thomas is the incumbent supplier at a customer account, the customer may still go through the process of qualifying other suppliers. Once another supplier is qualified, the customer will inevitably purchase at least a portion of the business from that the new supplier. At that point you are in a bidding war with the other supplier, driving price down.

If I simply ignore a price quote by an unqualified supplier, it is a high-risk strategy to gamble that the customer won't give business to my competition. Even though Thomas is more qualified in the global market, both in terms of number of customers and battery can types, this does not guarantee we will be chosen over Toyo Kohan or Nippon Steel to supply our customers. It generally always comes down to price.

Our prices typically include three components. There has been a surcharge for nickel since well before I joined the business. In addition, given volatile hot band prices since 2006, we proposed a similar surcharge to address changes in hot-rolled steel costs. This adjustment is based on iron

ore and coking coal costs, as reflected in published price indices. We implemented the raw material price adjustment mechanism, or “RMPAM” in 2011. We lag the adjustment by three months, reflecting that we purchase the hot-rolled steel three months before we start nickel plate production. This lag time allows our customers to anticipate the change in prices due to the RMPAM.

Slide 5 shows all three components for product 1. As shown, part of the decline in our overall price was due to the decline in the nickel surcharge and RMPAM. In each quarter, the tall blue bar is the base price, the red bar is the nickel surcharge and RMPAM is the green bar.

Our total prices fell by about \$400 per ton. The nickel surcharge and RMPAM accounted for somewhat less than \$200 per ton. The majority of the decline in our prices, as shown by **Slide 5**, was the result of declining base prices.

In fact, the RMPAM and nickel surcharge simply pass through changes in raw material costs to our customers. Because these factors reflect lower or higher raw material costs, they do not impact our profitability.

Given the import raw material costs, one major customer requires us to present our bids using a template or format that separately identifies the

base price. In this manner, the customer can determine if we reduced our base price from year to year. Also, because all suppliers are forced to quote a base price without any surcharge or RMPAM, all of the bids by all suppliers must be made on the same basis. The customer states on the bid sheet that this approach produces, and I quote, an “apples to apples” comparison.

I personally call on and negotiate with our customers. I will visit Duracell, Energizer, and Rayovac several times a year. I also call on Cly-Del, H&T Waterbury, and Panasonic, the can-makers for the battery producers. At every one of these accounts, I am told that customers have offers from Japanese producers at prices below our price.

Using the prices quoted by the Japanese producers, our customers constantly pressure us to reduce our prices. **Slide 6** provides some examples taken from emails that we have supplied to the Commission. In the first example, our customer stated that we were \$250 a ton higher than the competition. The customer then insisted that we cut an additional \$80 to \$100 per ton in subsequent years. That is roughly a 15 percent price cut over two years. If I agree to such a large price cut, my other customers will demand the same. As a result, I would not reduce our price and we did not get this business.

The next quote illustrates the same type of pressure. In this case, I refused to lower our price in the face of competition from Nippon Steel. Rather than award us a normal, one-year contract, the customer only gave us a six-month contract and we later learned that they were qualifying Nippon.

Turning to the next quote, dated June 15, 2012, the customer responded to our initial offer by calculating the savings it would realize if it switched the entire volume of sales to Japan. Even though the Japanese competitor was not formally qualified, we had to drop our price to keep their business.

Over the period since I became CEO in 2009, I have received this sort of pressure at every customer account. Even our loyal customers tell me that they must have price reductions or they will not be able to compete downstream. Our customers are global battery manufacturers and they use every means to force us to reduce our prices. In addition to threatening us with competitive price quotes, they will also offer longer-term contracts if we will reduce prices. The October 2, 2012, quote is an example.

Our customers will also attempt to use prices in Asia as leverage to reduce prices in the U.S. market. Because of its proximity to the two Japanese producers, Asia is the lowest priced region in the global market.

Customers will attempt to get us to enter global sourcing agreements, offering larger volumes but requiring us to reduce prices to levels set by the Japanese producers in Asia.

Ultimately, the problem with contracting on a global basis is that we are selling nickel plate at a loss. We cannot increase our volume at prices that are below cost. Since becoming CEO, I have never entered a global agreement. Even when we conduct joint negotiations with our sister company, Hille and Mueller, we offer separate price schedules for sales to the United States, Europe and Asia.

After we filed the antidumping petition, we experienced a fairly remarkable turnaround. Our success since antidumping duties were imposed in October last year shows that our product is accepted throughout the market and that we can earn a profit if dumping is eliminated.

The Japanese strategy has been to enter the market, develop significant market share, drive down the prices, and to drive the competition out of business. They have already inflicted severe financial damage on Thomas Steel. If they continue to take U.S. market share and drive down prices, we will be unable to sustain our operations. We're a highly capable operation. We have taken significant and painful steps through the process

of restructuring – reducing jobs, taking away people’s livelihoods – and we’ve made improvements in productivity and invested where we can to improve our quality. From a customer service point of view, we are far better than the competition. We need to protect our workers, our business, and our supply chain. We don’t want a free lunch, we just need to compete on a level playing field. For these reasons, we ask the Commission to make an affirmative determination. Thank you.