

Before the  
UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, D.C.

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NON-ORIENTED ELECTRICAL )	
STEEL FROM CHINA, )	ITC Inv. Nos. 701-TA-506-508 and
GERMANY, JAPAN, KOREA, )	731-TA-1238-1243 (Final)
SWEDEN, AND TAIWAN )	
_____ )	

**TESTIMONY OF ERIC PETERSEN**

October 8, 2014

Good morning. My name is Eric Petersen. I am Vice President, Sales and Customer Service, at AK Steel Corporation. I have worked with AK Steel and its predecessor, Armco, for over 20 years. During that time I have filled positions of increasing responsibility. I have served as AK Steel's Director of Research, which covers all product lines at AK Steel, including non-oriented electrical steel or NOES. I was the Director of Specialty and International Sales from November of 2012 before assuming my current position in July of 2013.

AK Steel is a world leader in the production of flat-rolled carbon, stainless, and electrical steel products. We employ about 7,500 men and women in eight steel plants in Indiana, Kentucky, Ohio, Michigan, and

Pennsylvania, and at our corporate headquarters in West Chester, Ohio. The core values of our company are worker safety, quality, productivity, and customer service. Our company policy is to continuously improve our products and services in order to meet or exceed our customers' expectations 100% of the time.

AK Steel is one of the few flat roll steel producers in the world that has the capability to produce carbon, stainless, and electrical steels. We are a relatively small steel company versus the total capacity of our peers. Thus we focus upon high quality, value added niche products which require a greater degree of service, quality, and technical support. We are consistently recognized within the markets that we serve for our outstanding quality, just in time delivery, customer service, technical support, and reliability. This approach has garnered AK Steel with numerous awards, and we consistently are ranked as a top supplier by our customers and the industry. Our strategic focus upon high quality niche products, to meet the ever increasing demands of our customers, requires us to produce innovative products, and to continue to bring technical advances to the quality of the products we provide.

AK Steel's predecessor, Armco Steel, was the first producer of NOES in the United States. We began to produce NOES in 1902. We have been the only U.S. producer of NOES since about 2004. Today, we are a leader in the NOES industry in terms of product offering, quality, reliability, technical support, and customer service.

NOES is a high value-added steel product, just the type of steel product that AK Steel wants to sell. The NOES market may be small in relation to the other steel product markets in which we compete, but we consider it important. We have dedicated equipment to make NOES, and we want to utilize that equipment to the full extent possible. We also want to fully employ the highly talented employees associated with our NOES operations. One of them, Tom Harlan, is with us on the panel today.

We are an industry leader in innovation and product development. In our research department, we have 16 full and part-time employees with a combined 320 years of experience dedicated to electrical steels, including NOES. Since 1980, AK Steel and its predecessor, Armco, have been awarded 34 patents on electrical steel technology. Jerry

Schoen, one of our most experienced engineers who is with us on the panel today, is a named inventor on 22 of those patents and one pending patent application.

In addition, our customer service department also has a tremendous amount of experience serving NOES customers. We have nine employees with a combined 82 years of experience working on NOES.

Our customers appreciate our dedication and service. Mapes & Sprowl Steel, a prominent NOES customer, named us their Supplier of the Year in 2011. Another large NOES purchaser has consistently rated us as “Excellent” on their internal rating system with respect to quality and on-time delivery. Finally, our customers for specialty steels – which include NOES, GOES, and stainless – rate us in each quarter in response to Jacobson and Associates’ customer survey. Some of our largest NOES customers participate in these surveys. During each and every quarter of the period of investigation, our specialty steel customers rated AK Steel as either number one or two in overall customer satisfaction, quality, and customer service. In addition, we rated higher than imports

in each of these categories during every quarter of the POI. But we did rate lower than imports in every quarter of the POI with respect to price.

AK Steel has made substantial investments to strengthen the competitiveness of its specialty steel operations, including equipment used to manufacture NOES. Since 2004, we have invested over \$250 million to install new electrical steel production equipment at our Butler and Zanesville facilities. At Butler, we melt and cast cold-rolled or hot-rolled steel with the desired chemistries for the production of NOES and GOES. The completion of the production process for NOES all takes place at our facility in Zanesville, Ohio, whether it is fully processed or semi-processed.

Our NOES is sold in fully processed and semi-processed forms. In the fully processed form, the magnetic properties are completely developed by the steel producer and are ready for use without any additional processing required to achieve the desired magnetic quality. Semi-processed NOES is finished to a final thickness and physical form by the steel manufacturer, but it must be annealed by the customer after it is fabricated into a part to develop final magnetic quality. Before the

semi-processed NOES leaves our plant, we perform a quality assurance anneal to make sure it will achieve the desired magnetic properties when the electrical part is annealed by the customer. It is important to note that the annealing of semi-processed NOES takes place after the NOES has been fabricated into a part. The resulting annealed product is a part made of steel; it is no longer a flat-rolled steel product.

The subject foreign producers use similar processes to produce NOES. The main difference is that to our knowledge all of the imports from the subject countries are fully processed.

Let me now explain how the U.S. industry producing NOES is materially injured by reason of the subject imports.

Producers in the six countries covered by our petition have used aggressive price undercutting to take and maintain a huge share of the U.S. market. In fact, of all the steel products we make, imports of NOES have by far the largest U.S. market share. For example, subject imports of NOES have a much larger share of the U.S. market than imports of GOES, and the share held by imports of GOES is substantial. As a result of the huge volume of imports, our NOES production

capacity was grossly underutilized during the entire period of your investigation.

The subject imports have taken and maintained such a large share of the U.S. market by undercutting our prices. Our customers told us repeatedly during the period of investigation that subject imports were undercutting our NOES prices by significant margins, on average, by about 25 percent. Thus, we are not surprised that the purchasers responding to your questionnaire have said that our prices are “inferior” to the prices of the imports. We also are not surprised that some purchasers are fighting this petition. Their motivation is obvious. They do not want to pay higher prices for NOES.

From 2010 to 2012, the lower priced subject imports increased by 37 percent. Their market share increased as our market share decreased. Having lost substantial market share to subject imports from 2010 to 2012, we made a strategic decision to lower our prices even further in 2013 in order to keep a portion of our plant running and a portion of our workforce employed. While this strategy did allow us to regain some

lost market share in the first half of 2013, we did so with depressed prices and increasing harm to our bottom line.

As you know from our confidential data, the average unit value of our shipments steadily declined from 2011 to 2013 in response to the falling unit values of the subject imports. Had we not lowered our prices, we would have lost so much market share that we would not have had enough production to run our plant and maintain our workforce.

As you also know from our confidential data, we had very poor financial results on NOES during the entire period of investigation. We used too little of our capacity, and our prices were too low. As the import prices continued to fall, our financial performance continued to worsen. We cannot continue to follow import prices downward, operate at very low capacity utilization, and remain a U.S. producer of NOES.

On behalf of the workers and communities that rely on AK Steel's NOES operations, we respectfully request an affirmative determination to give our NOES operations and our NOES workers a chance to compete in a market that is not distorted by either dumping or subsidies.

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