

Before the
United States International Trade Commission

**DIFFUSION-ANNEALED NICKEL-PLATED
FLAT-ROLLED STEEL PRODUCTS FROM JAPAN**
Inv. No. 731-TA-1206 (Final)

Hearing – April 1, 2014

TESTIMONY JONATHAN M. JARVIS

Good morning. I am Jon Jarvis, Vice President Finance for Thomas Steel Strip Corporation. I have been the senior financial officer for Thomas Steel Strip since 2004, and I have been in the steel industry for 25 years in various accounting positions. I will address the impact of imports of diffusion-annealed nickel plate from Japan on our business at Thomas.

Slide 2 showed the long-term trend in Japanese imports of nickel plate. Based on Census statistics, imports from Japan increased sharply in 2009 and again in 2012 and 2013. Bill Boyd explained that the increase in Japanese imports in 2012 and 2013 is the result of Duracell's decision to shift AA can business to Toyo Kohan.

As shown by **Slide 13**, as the Japanese imports increased, Thomas Steel's shipments declined. On a quarterly basis, our shipments of nickel plate declined over the period of investigation. The trendline shows the decline in shipments, which corresponds with declining production and declining capacity utilization, all reported in our questionnaire response. On a quarterly basis, you can see that there is some seasonality. Shipments pick up in the third quarter, as our customers increase battery production for the hurricane season and for the holidays.

The decline in our shipments in **Slide 13** contrasts with the increase in import shipments in **Slide 2**. Since the antidumping duties were imposed, however, our shipments have increased. In fact, the increase in volume has been substantial and the volume alone will make us profitable in 2014.

Slide 14 shows our actual quarterly shipments through 2013 and our orders for 2014. Also shown is the same data without the volume that we recovered due to the antidumping case. The red line, starting in the fourth quarter 2013 shows our shipments without the additional volume we recovered at Duracell and Rayovac. As you can see, without the preliminary antidumping duties, we would have lost about 2,500 tons a quarter since the fourth quarter 2013.

A major component of the lost sales volume was our sales to Duracell for the AA battery. As Bill explained, the loss of that account was critical to our business. **Slide 15** shows the decline in our shipments and prices of “Product 1” reported to the Commission. As you can see, starting in the fourth quarter 2012, our volume dropped remarkably. This coincides with Duracell’s decision to shift its AA volume from Thomas Steel to Toyo Kohan. We then cut prices, trying to regain a portion of the business. You can see this in the line plotted on **Slide 15**, which shows the downward trend in our prices for this product.

I mentioned that our loss of sales volume translated into declining production and underutilized capacity. **Slide 16** shows our capacity utilization on a historical basis. Going back to the 2005-2008 period, just after I joined Thomas, we generally operated at about 80 percent capacity utilization. When Panasonic Battery left the U.S. market and Toyo Kohan shifted its sales to Duracell and Rayovac, our production fell and our capacity utilization fell sharply. In 2010 and 2011 we recovered C can business.

Since 2011, our capacity utilization has fallen to its lowest level in ten years.

Capacity utilization is vital to our business because our fixed costs are high. **Slide 17** shows our fixed costs, excluding raw materials costs. As shown by this chart, our fixed costs account for over 70 percent of our non-material costs. Because our prices generally adjust for any changes in raw material costs, we normally analyze our fixed costs in this manner. It is essential for us to produce at a healthy level of capacity utilization in order to spread those fixed costs.

Turning to **Slide 18**, you can see the decline in our capacity utilization from 2011 to 2013. As shown, our capacity utilization is below 60%. It may be noted that because of the antidumping duties since October 2013, our capacity utilization has improved. Without antidumping duties we would have been at 44% utilization in the first quarter 2014. With the added volume from Duracell and Rayovac, we are instead at 61.5%.

The decline in production has a human dimension, as well. Turning to **Slide 19**, you can see that our employment levels fell sharply in 2012 and 2013. When we were forced to cut production in 2012, we lost 8.5 percent of our workforce. Because Toyo Kohan was supplying AA material to Duracell, and because we were unable to recover sufficient volume at other customer accounts, we lost more workers in 2013. I will note that we tried

to soften the blow to our work force. We did not have any permanent layoffs, but instead encouraged voluntary retirements and did not replace the retiring workers.

Apart from reducing our workforce, we shut down our plant for one week in April 2013 due to a lack of orders for nickel plate.

By the end of 2012, although we had regained a portion of the volume lost to Toyo Kohan, our overall shipments were down, our capacity utilization was impaired and we were suffering operating losses.

Slide 20 shows our operating income as a percent of sales during the period 2011 through 2013, and including the first quarter 2014. During this period, our shipments fell more than 15 percent. Our average prices fell \$400 per ton. As a result, from a healthy level in 2011, our operating profits became losses in 2012. And, those losses became even worse in 2013.

Slide 20 also shows the impact of relief from dumping on our business. Although antidumping duties have only been in place since October 2013, our sales volumes have increased. The added volume has returned our operations to profitability in the first quarter 2014, even though we have been unable to significantly increase prices.

Slide 21 shows the impact of lost volume and declining prices on our operations. In **Slide 21**, we compare our operating profits in 2011 with our losses in 2013. As shown, in 2011, our operating profits were significant. In 2013, we incurred a loss. Roughly half of that decline was due to lost volume – our shipments fell over 15 percent between 2011 and 2013. About a third of that decline was due to the decline in average revenues per ton. Our prices fell \$400 per ton. Finally, the last portion of the graph shows the increase in other costs. Taken together, these three factors account for our losses in 2013.

We have already discussed the impact of our lost sales volume on fixed-cost recovery. We have also seen that even without any price increase, recovering the lost volume will return us to profitability.

As Bill explained, the nickel surcharge and RMPAM mirror changes in our raw material costs. When the surcharge or RMPAM decline, our costs also decline. Thus, these elements of the price do not affect our profits.

On the other hand, changes in the base price directly impact our bottom line. Our base prices fell by \$200 per ton over the period 2011 –

2013. This decline in revenue has nothing to do with changes in nickel or RMPAM. It reflects the fact that we had to reduce prices to compete with dumped imports.

Knowing that we had lost major sales volume to Toyo Kohan, we cut costs throughout 2012 and 2013 to remain competitive. For example, we cut back on maintenance over the course of 2012 and 2013, although this is hardly a long-term solution. We also improved our energy efficiency. In addition to the reductions in the workforce I have already identified, we subcontracted shipping and IT support functions and shifted logistics to a third-party provider.

Despite the continuous cost cutting, the operating losses in 2012 and again in 2013 forced us to cut back on important functions. We had to cut our “PMD” expenditures, or product market development costs. We cannot cut product development costs over the long-term and remain competitive in the market.

As a consequence of these losses, our return on investment is inadequate to fund necessary capital projects. We have identified these projects in our questionnaire response. Among other items, we need to make capital improvements to an annealing furnace in order to increase our

yields. However, our total capital spending for 2014 will be only a fraction of the amount needed for this project alone.

Relative to depreciation, our capital spending is not sufficient to refresh our equipment and assets. We are not making sufficient capital investments to maintain our asset value.

In short, in little more than three years, we have seen our production fall, our shipments decline, our prices erode and our profits disappear. In the U.S. market, the only qualified, experienced and longstanding suppliers are Thomas Steel and the Japanese producers. But for the low prices set by those dumped imports, I have no doubt that we would have been able to sell nickel plate and make a profit. The proof is in the fact that our performance sharply improved as soon as antidumping duties were imposed. Without those duties, we will again lose sales volume, prices will decline and our profits will disappear.

For these reasons, we request that the International Trade Commission make an affirmative determination and provide relief to our industry. Thank you.