

Before the
U.S. 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 Michael C. Hartman

Good morning. My name is Mike Hartman, and I am the Director of Quality and Technical Services at Thomas Steel Strip Corporation. I have held this position since 2009, prior to which I was the Director of Battery Sales for North America for five years. In that position, I dealt with our major customers, Duracell, Energizer, and Rayovac, and I am still involved with these customers.

My role involves the qualification process that we must go through to supply customers with our product. If we want to produce nickel plated steel for a new part or modified battery specification, we start by identifying the customer needs. Given that most development work initiates in North America, Thomas Steel is almost always the first to supply material for prototype tooling or when design changes are being considered. Our relatively short lead time allows our customers to begin the evaluation as quickly as possible. During this evaluation, modifications can be made relatively easily. Parts or cans are stamped from the material and then built

into a cell. Once we deliver the material, each of these steps may take as little as one week to complete.

Slides 8, 9 and 10 illustrate the three stages in the formal qualification for cans. At the first phase of qualification, shown by **Slide 8**, the volumes are small. This is used to perform an initial evaluation.

Once a customer has our material, they can get a performance evaluation immediately. After the initial evaluation, the customer will stamp cans and then produce batteries. The finished batteries will be tested for shelf life and performance. This first phase process takes about three to three-and-a-half months.

With a brand new supplier, the customer might wait until phase one is completed before moving to phase two. However, in our case, it is common for our customers to move to phase two once they have an initial performance evaluation. If the customer is in a hurry to qualify us, especially if the Japanese price is going to go up because of antidumping duties, this process can be accelerated, and being the local supplier the feedback loop is short. Also, if you are qualified in a foreign market, you may be able to skip phase one altogether.

Slide 9 illustrates phase two. Phase two is duplication of the process in phase one, but on a larger scale. In this phase the customer is supplied with several coils, which amounts to a week of production. The can maker will produce cans from this material, using its normal commercial production equipment. In other words, the can maker will take one of its can making lines and stop using the incumbent's nickel plate.

From these coils of nickel plate, a can maker may produce anywhere from 10 to 25 million battery cans. The battery maker will then process these cans into finished batteries. Sample lots will be set aside for testing. The large majority of the batteries made in phase two are sold commercially.

Being a historical supplier will elevate the customer's confidence in the product, especially if you have proven yourself in the past. For this reason, in the case of suppliers like Thomas or Toyo Kohan, the battery producer will have confidence in the performance of the batteries and will sell them into the consumer market.

Slide 10 illustrates phase three. Phase three is equivalent to phase two but involves running an entire month's volume. The can maker will stamp 40 to over 100 million cans. And, the battery producer will process those cans into an equal number of batteries. At this point, again, sample lots will

be retained for testing but the vast majority of the batteries are sold in normal commercial channels.

In other words, after the first three months of phase one, the new supplier is shipping commercial quantities. The can stamper is using normal production equipment to make cans, and the battery manufacturer is producing tens of millions of batteries that are being sold to consumers. Although the new supplier may not be "technically qualified," it has already replaced the volume that used to be supplied by the incumbent.

We have never failed a phase three qualification, nor can I recall us ever having failed phase two, although of course, modifications are sometimes made. But if you offer a lower price, the customers will try harder and almost always manage to qualify your material.

Some cans are harder to produce than others, given the particular dimensions and demands on the stamping equipment. As a result, customers will most often ask to qualify the most difficult can material first, on the theory that if you can satisfy let's say the C can material, you can supply any material. It is worth noting, therefore, that we were replaced at Duracell by Toyo Kohan for the supply of C can material. We understood from the customer, however, that our nickel plate was superior in producing C cans.

And, when we lowered our price for C can material, we recovered that business from Toyo Kohan.

Qualification occurs separately for each customer location. A can maker can “tool to the steel” or we can make steel to the tool. Generally, though, a little of both happens. A marginal reduction in cost will motivate a company to adjust its tooling to accommodate a particular producer’s nickel plate. If our product is higher cost, however, the customer will typically make little effort to adjust to our nickel plate.

For example, after Toyo Kohan replaced us at Rayovac in 2009, we tried for several years to have Panasonic re-qualify our nickel plate for use in Rayovac cans. Rayovac and Panasonic changed most products to a new specification for nickel plate. We had been qualified to supply nickel plate for the previous specification but not the new one which was introduced after we lost the account.

Eventually, Panasonic agreed to take a trial quantity in 2011. However, after shipping only a small quantity in 2011, Panasonic did not report the Rayovac results or even ask for a second shipment. Given that our price was 10 percent higher than Toyo Kohan’s price, it was simply not

worth it for either of us to continue the qualification process. And, we did not receive any orders for the new specification in 2012.

Only when Hurricane Irene hit in 2011 did Panasonic place orders for our material. In that case, Panasonic needed the nickel plate that was still being used to produce D cans. Because we had been the supplier of that material for years, Panasonic purchased several hundred tons for supply of cans to Rayovac.

Two years later, and only after the antidumping petition was filed, have we begun shipping to Panasonic once again. For the past nine months, Panasonic has purchased product for all can sizes simultaneously. And our material has reached the third stage in the qualification process.

I understand that Panasonic, in particular, has argued that its decision to purchase Japanese material is due to our lack of qualification and poor quality but it has everything to do with the lower prices offered by Toyo Kohan. In this respect, the next slide provides an indication of our overall quality performance. These figures include volumes to all automotive fuel line customers as well as direct and indirect sales to all battery producers. As shown, over 99% of our shipments are accepted and processed by our customers. Our internal goal is to achieve 99% acceptance. Since we

installed the Parsytec imaging system in 2010, we have achieved over 99.6% acceptance.

In short, we are the largest producer in the U.S. market. We are fully qualified to supply every battery specification at Energizer and Duracell, as well as every auto fuel line company in North America that uses nickel plated steel. Over the period of investigation, we have supplied several specifications to Rayovac. And, since the antidumping petition was filed, we have been supplying additional can specifications for Rayovac batteries in commercial quantities. Our nickel plate is now found in batteries, stamped by Panasonic, that are on the shelves for consumers to purchase. Unfortunately, I suspect that Panasonic will not declare us formally “qualified” until after there is a vote in this case.

Qualification is not the real reason that we have had trouble selling to Panasonic. As discussed by Bill Boyd, Panasonic has sought out the lowest prices and insists that we meet the lowest price in the market. If we agree, however, we will inevitably be forced to lower prices to all customers. On the other hand, if we refuse to cut our prices, it is not worth it to undertake the qualification process. In other words, the dumped imports force us to choose between prices that are too low or sales volumes that do not come close to our capacity.

For these reasons, we need relief. Thank you.