Testimony of Carl Walton

Panasonic Energy Company of America -- Material Division
ITC Hearing – 1 April 2014

Introduction

Good afternoon. My name is Carl Walton. I am the Director of Operations at Panasonic Energy Company of America's Material Division, or PECA for short. I began working as a Manufacturing Engineer with PECA in 2001, and later became a Production Manager, before assuming my current role of Plant Manager in 2009. Previous to working at PECA, I worked at Panasonic Battery Company for close to nine years designing production machinery for making alkaline batteries. So all in total, I have around 22 years in the battery making business.

I am joined today by my colleague Miki Nakai, the Purchasing Manager for my company. She has been with PECA since it was founded in 1995, and has served in the purchasing and planning role the entire time. She is knowledgeable about all aspects of our purchase of the steel product subject to this investigation.

Let me start with a very important refutation. In its Brief, Thomas submitted various written declarations of Michael Hartman, in which Mr. Hartman accused our company, PECA, of providing incorrect and misleading statements to the Commission during the preliminary phase of this trade case. Mr. Hartman's accusation is wrong and should be ignored. At all times our company has provided accurate information. Indeed,

purchases because Thomas was not an approved qualified supplier. Thomas was not approved by any of our customers, including our largest domestic customer, and so we were not able to purchase qualified steel from Thomas, and therefore we never engaged in serious commercial negotiation with Thomas for nickel plated steel. Indeed, we were even told point blank by Thomas that the pricing currently offered from them is for this qualifying stage and commercial pricing can only be negotiated after ongoing commercial quantities of steel are decided on.

I will now explain our history of nickel plated steel sourcing.

Early History of PECA-MD

As a part of PECA, the Materials Division, was founded in 1995 and began producing battery cans in 1996 at a production factory located in Columbus, Georgia. The battery can production operation was originally established to supply battery cans to our Panasonic sister factories that produced batteries in North and South America. One of our major customers was a Panasonic-Kodak joint venture to produce batteries and was located right next door to us. In 1999, after increasing its battery can production capacity, PECA also began supplying battery cans to one of the three major battery producers in the US. When we began production in 1996, we sourced the steel used to make our battery cans from Worthington Steel located in Pennsylvania. They were one

at the time, had begun shifting part of their battery production to offshore as well. These two events reduced the volume of *battery* production by our customers in the U.S, and resulted in a decreased volume of steel needed by PECA.

And so with a significant decrease in sales and production of battery cans, in the 2007 to 2008 time frame, we decided that we needed to switch to a single steel supplier. With the reduced volume, it no longer made business sense to continue dual-sourcing, since the reduced purchasing volume would have given us less bargaining leverage with either of the two suppliers.

After consultation with our customers, we ultimately decided to continue sourcing steel only from Toyo Kohan. There were various reasons. One key factor was that Toyo Kohan was already supplying most of the other Panasonic battery can production factories around the world, and we would be able to utilize the leverage of Panasonic's global sourcing, and not just our own now limited production volume.

Another key factor in selecting Toyo Kohan to be our sole supplier was steel quality. Defects in the steel such as holes and other types of material defects can result in serious accidents and personal injury when used in batteries. Additionally, inconsistencies in the mechanical properties and surface finishes create very challenging production conditions for can makers.

And so, the combination of being able to leverage the larger volume purchased from Toyo Kohan by Panasonic factories around the world, and the superior quality of the steel from Toyo Kohan, supported our decision to select them as our single source for steel beginning in 2008.

Trying to Re-Qualify Thomas

After the 2008 timeframe, as our sales and production volume bounced back over the next couple of years, we began studying dual sourcing, again, for our steel needs. But we cannot just start buying steel from a supplier. In the battery industry, it is necessary to re-qualify materials that have not been used for some time. Re-qualification is necessary to account for changes in battery specifications and/or changes in steel production. And indeed, from 2009 to 2012, our can specifications for alkaline batteries underwent a significant change in the required specifications for the steel. These changes include a significantly thinner gauge of steel. Accordingly, our steel supplier had to be re-qualified for each specific product to ensure that they could produce acceptable steel with a new thinner gauge. I note that this change in gauge specifications is reflected in the pricing products established for this case. Product 5 is the older thicker gauge product and Product 4 is the new thinner gauge product.

In the case of steel for battery cans, the qualification and lead time for steel generally takes 12 to 18 months. The reason that it takes so long is that testing is a multi-

produced. Unfortunately, when we ran the tests, once again there were problems with the test coils supplied from Thomas.

In its Pre-Hearing brief Thomas provided written declarations from Michael Hartman, the public versions of which seem to suggest that PECA was exaggerating the quality problems with Thomas Steel so that we can continue only sourcing from Toyo Kohan. Thomas' suggestion is just plain wrong.

It is a simple fact that over the past few years the Thomas steel that we have tested had significant quality problems. In response to a specific question from the Commission Staff at the preliminary conference, we provided copies of reports from our quality and testing department about the results of testing Thomas Steel. These are actual test results undertaken in the ordinary course of business before the petition was even filed. These test results detail the quality problems encountered with Thomas' nickel-plated steel. And indeed, these test reports included photographs of the defective steel; which we also provided to the Commission Staff. We ask that you, Commissioners, examine these PECA test reports for yourselves.

Thomas also suggests that because they are an approved supplier for other can stampers, there is no reason that Thomas shouldn't be qualified at PECA as well. Thomas' suggestion is factually wrong. Qualification is a process that very much depends on BOTH the specific type of battery cans being produced AND the machinery

If there are issues, then testing is normally repeated and the length of the test run can be extended up to 1 month to insure that the quality of the material is stable.

And so, if there are any problems with the steel, we essentially need to repeat the entire process. This is precisely what happened to Thomas over the past year. Because the Thomas steel had serious quality problems, we were required to repeat many of the tests, and so, it is just downright ludicrous for Thomas to claim that because it sold more steel to PECA last year, its steel is acceptable. In fact, just the opposite is true. Thomas also does not point out that we were testing their steel that is made in two different ways. As such, we needed to purchase coils for each type of steel. It is also important to note that even though there is a significant price difference between the two types of steel offered by Thomas, testing for the less expensive type of steel has stopped due to its poor level of quality. At the request of our customers, we are still testing the more expensive steel because it is closer to meeting their quality requirements.

I now want to address an important steel pricing issue. In the public version of its Pre-Hearing Brief, Thomas chose to make public the content of an e-mail dated June 2011 from my colleague right next to me, Miki Nakai. This is our e-mail and we recognize the quote. The Thomas Pre-Hearing brief quotes snippets from the e-mail to suggest that PECA was demanding that Thomas reduce its proposed offering price by $250/ton. We will leave aside the procedural question as to why Thomas chose to make the content of this e-mail public, while claiming confidential treatment for the content of

This concludes my testimony. Thank you for your time and attention. We are happy to answer any questions you may have for us.