Testimony of Shigeo Asano
Before the US International Trade Commission
Clad Steel Plate from Japan (Third Review), Inv. No. 731-TA-739

Good afternoon. I am Shigeo Asano, Manager of the Titanium & Clad Steel Plate Section of JFE Steel. I joined the Fukuyama Steel Works of NKK in 1988. NKK began commercial production and sales of clad steel plate in 1985. Because NKK had not exported any clad steel plate to the United States at the time of the original investigation, NKK did not participate in the proceeding.

NKK merged with Kawasaki Steel to form JFE Steel in 2003. Prior to the merger, NKK had not exported any clad steel plate to the United States and to this day, JFE Steel has not exported any clad plate to the United States. Because of this, we do not have information on the U.S. market, so I would like to speak about JFE's experience in Japan and other markets. I am also generally familiar with the other Japanese clad steel plate producers and will discuss them briefly.

I would like to touch quickly on certain key differences between the production of clad plate and other steel products, like carbon steel and stainless steel. Carbon and stainless steel typically is produced through continuous production. Production efficiency is emphasized in the continuous production of carbon and stainless. It is important as it is not efficient to start and stop the production of carbon and stainless. In contrast, clad steel is a high-value added product, whose production is on a batch basis with many production bottlenecks. For example, the base steel plate must be welded manually to the cladding as one of the bottleneck production processes. Production efficiency is dictated more by the production bottlenecks and by other factors such as welding, thickness of plate, width of plate, and types or grades of steel. Production is stopped and started for each batch. Even when the output may appear small in terms of weight, we are operating at full capacity in that we cannot produce more clad steel at that time. Thus, the production capacity for clad steel plate is somewhat difficult to measure.

A lot depends on the particular type of product we are producing in a particular batch and the constraints on producing the particular product. Thus, to produce at full theoretical capacity when measured in weight, we would need to make only one type of basic clad steel plate that does not have product constraints. The utilization rate for the production of clad steel plate by necessity is lower than that of carbon or stainless, which requires continuous production.

As a matter of profitability, it is better to produce difficult, higher-value added products, rather than basic products, even if by doing so, our capacity utilization rate, when measured by weight, is always lower than our utilization rate for carbon or stainless production.

Next, I would like to explain some key changes in the sales trends for clad steel plate. About three years ago a few European pipe producers contacted JFE to see if we could supply clad steel plate for their pipe applications, especially for their production in Asia. These pipe producers have opened production facilities in

Asia over the past few years. Although they normally had sourced clad plate from European suppliers, they had been looking for a supplier in Asia for their Asian factories, which are now just ramping up production. Previously, we had not produced clad steel plate for pipe applications. After these inquiries, JFE researched and developed clad plate products for use in pipe production. We can provide additional information on our sales to these customers and the estimated demand for this new sales channel in our post-hearing submission, but given the expected increase in demand for pipe applications for Asian energy development, we expect significant increases in demand for clad plate for pipe end uses in the near future.

Similarly, given the increasing demand for clad steel pipe, I would expect that JSW, which is a major producer of clad steel pipe, will use more of its clad plate production to its clad steel plate production as pipe is a much higher-value added product.

I was a bit surprised about the statements in the domestic producers' brief regarding Japanese exports of clad steel plate to Canada and Mexico as suggesting that Japanese producers would export to the United States. First, there have been no Japanese exports to Mexico since 2006. Second, exports to Canada have been comparatively small and declining. As our focus is on the Asian market, the Japanese producers no longer have much interest in other markets. Nearly all of our shipments are to the Asian market, including Japan. Back in 1996, the U.S. might have been an attractive market for clad steel plate, but this no longer is the case as Asia is the largest and growing market for clad steel plate.

The domestic industry has argued that JFE's sales office show that we have the "ability and interest" to sell clad steel plate to the United States. This is not correct as our two offices do not have the experience or technical know-how to sell clad steel plate, which is a niche product. First of all, our Houston office sells only line pipe and OCTG and has no familiarity with other steel products. Second, the

sales and technical staff in our New York office only have experience in basic steel products. We have only two sales staff and two technical staff in our New York office; none have any experience with clad steel plate. As explained in the investor presentation and other materials from DMC that we included in our pre-hearing brief, the sales of clad steel plate requires dedicated resources and highly-technical knowledge. Sales of clad steel plate at JFE is handled by sales staff at the clad plate division, and not by general sales staff. For the size of the market, it would not make sense for us to add the people necessary to support the sales of clad steel plate in the United States. I believe that such limitations would be true for JSW and NSSC as well.

Please allow me to briefly discuss the other Japanese producers. Asahi Kasei is a chemical company that can produce cladded product by explosion bonding. Their focus is on high-value, specialty products. They use explosion bonding to produce many different types of cladded products other than clad steel

plate. For example, they produce cladded products that do not contain any steel, such as cladded copper, cladded magnesium, and cladded titanium. We understand that their exports of clad steel plate are to Asia.

For cladded steel plate, NSSC is only in the domestic market. We have not ever seen them in any export market. We understand that NSSC can produce types of clad steel plate that typically are sold only in the Japanese domestic market and are not used in other markets.

JSW is unique in Japan as they produce both clad steel plate and clad steel pipe. As demand for clad steel pipe increases due to the expansion of demand for clad pipe in energy applications, mainly in Asia and the Middle East, we believe that they will use more of their clad plate in their own production of pipe, which they already produce in large quantities.

Thank you. I would be happy to answer any questions that you may have.