

JFE Testimony

{show slide 13} Good afternoon. My name is Kaoru Okamoto. In April 2011, I became President of JFE America, based in New York City. Prior to this position, I had been the Vice President, Marketing here at JFE Steel America, Inc. since May 2005. My responsibilities include all North American marketing for all products from JFE Steel, including tin mill products. This position also includes JFE activities in Mexico, a major market for Japanese exports. Earlier in my career with JFE (and its predecessor NKK), I held various other marketing positions, including a position in the Export Department, NKK Corporation, where I was specifically responsible for marketing tin mill black plate, the substrate for tin mill products.

You have heard a lot this morning from the domestic industry about what they think will happen if the AD order on tin mill steel is terminated. Well, I am here today to share with you what JFE – my company – actually will be doing in the future. We have plans to grow our business, but those plans have nothing to do with significantly expanding exports of finished tin mill steel to the U.S. market. You have already heard a great deal about the Japanese strategy for selling finished tin mill steel to various markets around the world from Mr. Aoyama of Nippon Steel. I would therefore like to focus on a different aspect of the Japanese

approach to this product: why Japanese mills and JFE in particular have and will continue to focus on the strategy of supplying tin mill black plate to joint ventures around the world.

{show slide 14} As you can see on the screen, Japanese mills have established several tin mill steel joint ventures around the world. There are a total of nine joint ventures in six different countries: three in China, two in Thailand, and one each in Colombia, Indonesia, Malaysia, and Vietnam. Of the total, six of these joint ventures involved JFE and three involve Nippon Steel. Moreover, these joint ventures consume the vast majority of the tin mill black plate that Japanese mills export. In 2011, total black plate exports to these six countries totaled 1.15 million tons. This amount represents about 96 percent of total Japanese black plate exports. This amount is also larger than the 915,000 tons of finished tin mill products exported during 2011. Thus, you can see that black plate shipments to joint ventures are a major part of the Japanese mills' strategy for this product area.

To make all this more concrete, let me tell you a bit more about the joint ventures in Thailand and how they affect our approach to that market. Thailand has two Japanese joint ventures, one in which JFE is the partner and one in which Nippon Steel is the partner. For both companies, the Thai joint venture is the largest of the joint ventures. **{show slide 15}** Because of these joint ventures, Japan has consistently exported on average about 240,000 short tons of black plate

per year over the 2006-2011 period. At least for the JFE joint venture in Thailand, we expect steady growth in 2012 and 2013. These joint ventures use Japanese black plate for some of their production and also use local black plate for their production. They use Japanese black plate to make higher quality products that better serve specific applications. That is the competitive niche for the joint ventures, and how they differentiate themselves from other suppliers of more commodity types of tin mill steels. As the slide shows, we also have continued to sell some finished tin mill steel products to Thailand, that averaged about 25,000 short tons per year over the 2006-2011 period. These exports of black plate and finished tin mill steel are both parts of serving the market need for the higher quality tin mill product we can supply. Black plate and finished tin mill steel are two different parts of the same basic strategy of supplying customer need for the highest quality products that better meet their specific applications.

{show slide 16} Why are these joint ventures so important to the Commission's analysis? I think there are several key points. First, every ton of black plate that a Japanese mill ships is a ton that cannot become tin mill products. A ton of cold rolled steel needs to go through the same annealing process whether it going to be sold as black plate, or further processed into tin mill products. Historically, this annealing process has been the practical constraint on how much black plate and tin mill products JFE could produce. So the Commission can really

understand our future capabilities only by considering both black plate and tin mill products.

Second, these joint ventures represent long term commitments. We at JFE like to think that all our customer relationships are longer term, but the joint venture are different. We have a longer term commitment to supply them the black plate substrate that is the key to their operations. We cannot abandon the joint ventures just because tin mill prices may be higher somewhere else. Black plate is not widely available on the open market. Our joint ventures buy most of their TMBP from their Japanese mill partners.

Finally, these joints ventures are in faster growing emerging markets, and thus represent a better long term strategy for the Japanese mills. In mature markets like the United States and Japan, tin mill consumption has been falling, in the face of limited population growth and a shift to alternative packaging. In emerging markets, however, tin mill consumption has been strong. We provided in our questionnaire response a market study JFE prepared that projected tin mill consumption growth in Asia of about 4 percent annually through 2015 and beyond to 2020. The joint ventures in Asia represent a concentrated effort by JFE and other Japanese mills to compete for this growing market in Asia.

Thus, these joint venture serve as a practical constraint on the ability of Japanese mills to significantly increase tin mill exports. Black plate is already a

larger portion of total shipments than tin mill steel, and that portion is likely to grow over time. At JFE, we build our production planning for this product area around our commitments to the joint ventures. We first supply the joint ventures with black plate. We then supply tin mill products to our existing customer base, many of whom are long standing customers, both in Japan and in other emerging markets around the world. The black plate comes first, since it represents a more important part of the longer term JFE business strategy of combining Japanese steel making technology with local partners to compete in key growth markets. Continuing to meet existing customers needs comes second. It simply does not make any business sense to abandon long standing customers to chase a new opportunity that may exist this year but be gone next year.

These joint ventures have become even more important to JFE in light of the raw material price volatility Mr. Aoyama just discussed. This volatility affects JFE as well. We have also had to abandon annual contracts, and switch to more frequent price changes. It is simply not possible to quote an annual price when the raw material costs can vary so much during that year.

In closing, I would like to summarize how Japanese mills see the current incentives in the tin mill market. On the one hand, we have fast growing emerging markets that have been offering higher prices than the U.S. market. In many of these markets, we have joint ventures to which we have made a longer term

commitment. On the other hand, we have the U.S. market. The U.S. market has been shrinking, not growing. The prices have been lower. Customers in U.S. market strongly favor the annual contracts that are very high risk for Japanese mills. Nor are any of these situations likely to change anytime soon. Given this situation, it simply makes no sense for Japanese mills to significantly increase exports to the United States.

Thank you.