

Kobe Steel Scam Hits Planes, Trains, Automobiles

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From

Kobe Steel Ltd. has made a startling admission: It sold products that failed quality control tests to about 500 companies. Worse still, it did so not in error but by falsifying data to make it appear that items had made the grade. Aircraft, electronics, car and bullet train manufacturers were among the recipients, raising obvious safety concerns. From Boeing Co. to Ford Motor Co., companies are [scrambling to check](https://www.bloomberg.com/news/articles/2017-10-10/here-s-what-kobe-steel-customers-are-saying-on-falsified-data) any affected products. And Japan Inc. is facing up to another embarrassing scandal.

1. What exactly did Kobe Steel falsify?

The admissions have dribbled out, and more may follow. Initially, the company confessed to falsifying data about the strength and durability of some copper and aluminum that was used in cars and trains and possibly planes and a space rocket, too. Then Kobe Steel said it also [faked data](https://www.bloomberg.com/news/articles/2017-10-11/kobe-steel-scandal-deepens-as-extent-of-falsification-spreads) about iron ore powder and materials used in DVDs and LCD screens. Chief Executive Officer Hiroya Kawasaki said on Oct. 12 more cases could emerge as the company continues its investigations. A day later it [flagged](#) misconduct related to more items including steel wire and copper piping, some of which were produced overseas.

2. So this was no one-off?




Hardly. The fabrication of data relating to aluminum was found at all four of Kobe Steel's local plants in conduct the company described as "systematic." For some items, the practice dated back some 10 years, according to Kobe Steel Executive Vice President Naoto Umehara. The dodgy materials used in bullet trains were supplied over the past five years, according to one customer. Details of how the deception unfolded have yet to fully emerge but the company has said it'll release the findings of safety checks for the products in about two weeks, and the causes of the issue and planned countermeasures within a month.

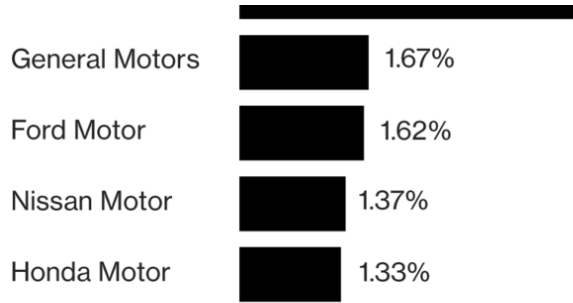
3. Which companies were affected?

A who's who of the transport industry. There are carmakers such as Toyota Motor Corp. and Honda Motor Co.; they used the suspect materials in hoods and doors. There's Boeing, which is examining parts it gets from Kobe Steel customer Subaru Corp. Hitachi Ltd. said [trains](#) it has exported to the U.K. contained compromised metal as well as bullet trains in Japan. Central Japan Railway Co., which runs the iconic trains between Tokyo and Osaka, said two types of aluminum parts used to connect cars to wheels fell short in quality tests. West Japan Railway Co. also found sub-standard parts. Ford said it used aluminum from the company in its Mondeo car hoods in China, although it hasn't confirmed whether the parts were compromised. As yet, no company has flagged any serious safety concern as a result of the compromised products.

Kobe Steel's Top Customers

Ranking based on contribution to Kobe Steel revenue

Shinsho Corp		13.02%
Mitsubishi Corp		5.07%
Toyota Motor		4.35%



Note: It is not clear yet if all companies above received materials linked to falsified data.
 Source: Data compiled by Bloomberg

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4. What is the company doing?

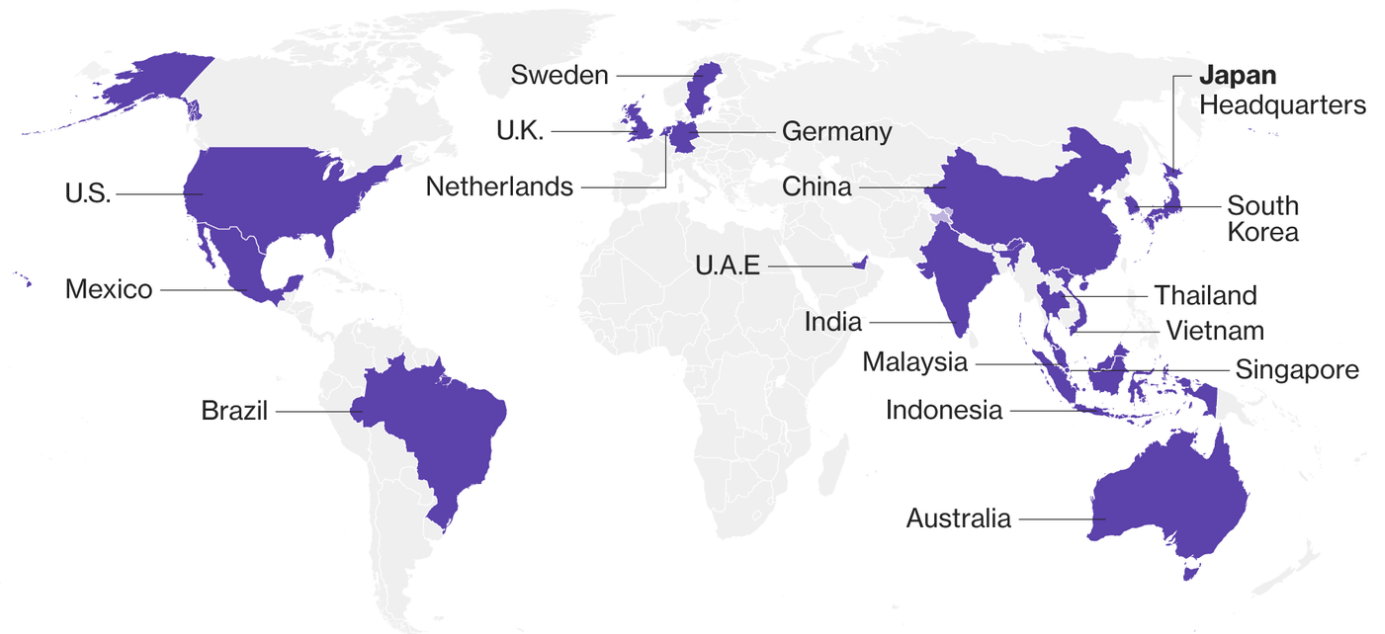
CEO Kawasaki is leading a committee to probe the quality issues. He has run Kobe Steel since 2013, overseeing moves to expand the No. 3 Japanese steelmaker’s presence in aluminum. “I deeply apologize for causing concern to many people, including all users and consumers,” Kawasaki said Oct. 12. Kobe Steel is likely to face lawsuits from investors, customers, consumers and regulators in Japan and U.S., experts say.

5. What’s the market’s verdict?

Shares in Kobe Steel have plunged 42 percent since its initial mea culpa, wiping out \$1.8 billion of market value. “This is not going to be the end of Kobe Steel, it could be the end for management,” said Thanh Ha Pham, an analyst at Jefferies Japan Ltd. “It could result in the break-up of the company.” The cost to protect Kobe Steel’s bonds against non-payment rose nearly 250 basis points in the week after the revelations, the highest in 20 months, as investors raced to reduce or hedge their exposure.

Global Network

Kobe Steel is checking for wrongdoing throughout its global operations



Note: Includes subsidiaries and affiliate companies
 Source: Company website

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6. More bad publicity for Japan’s manufacturers?

Japan Deputy Chief Cabinet Secretary Kotaro Nogami has said the faked data undermined the basis of fair trade, calling it “inappropriate”. It’s another scandal that threatens to undermine confidence <<https://www.bloomberg.com/news/articles/2017-10-10/once-revered-japan-inc-sees-image-getting-shredded-by-scandals>> in Japanese manufacturing. Shinko Wire Co., a Kobe Steel affiliate, in 2016 said a unit had misstated data on stainless steel wires and that it had supplied customers with alloy that

failed to meet Japanese standards. Takata Corp. pleaded guilty in the U.S. in February to one count of wire fraud for misleading automakers about the safety of its exploding air bags. Toyo Tire & Rubber Co. officials were referred to prosecutors in March after the company admitted falsifying data on rubber for earthquake-proofing buildings in 2015. And Nissan recalled more than 1 million cars in Japan in October.

The Reference Shelf

- The scandal spreads to Kobe Steel's core [business <https://www.bloomberg.com/news/articles/2017-10-13/kobe-steel-scandal-expands-into-core-steel-business-overseas>](https://www.bloomberg.com/news/articles/2017-10-13/kobe-steel-scandal-expands-into-core-steel-business-overseas) .
- Why Japanese [manufacturers <https://www.bloomberg.com/news/articles/2017-10-12/kobe-steel-scandal-shows-cost-of-race-to-keep-improving-metals>](https://www.bloomberg.com/news/articles/2017-10-12/kobe-steel-scandal-shows-cost-of-race-to-keep-improving-metals) are under pressure.
- How Kobe responds is key, says [corporate governance pros](#).
- Kobe is likely to see a rush of [lawsuits <https://www.bloomberg.com/news/articles/2017-10-11/kobe-steel-is-likely-to-see-onslaught-of-suits-over-fake-data>](https://www.bloomberg.com/news/articles/2017-10-11/kobe-steel-is-likely-to-see-onslaught-of-suits-over-fake-data) over fake data.
- How Japan Inc.'s image [got shredded <https://www.bloomberg.com/news/articles/2017-10-10/once-revered-japan-inc-sees-image-getting-shredded-by-scandals>](https://www.bloomberg.com/news/articles/2017-10-10/once-revered-japan-inc-sees-image-getting-shredded-by-scandals) .
- Here's Kobe Steel's [supply chain <https://www.bloomberg.com/quote/5406:JP>](https://www.bloomberg.com/quote/5406:JP) .
- Bloomberg Gadfly's David Fickling says the [cascading effects <https://www.bloomberg.com/gadfly/articles/2017-10-10/kobe-steel-tests-japan-manufacturing-s-breaking-point>](https://www.bloomberg.com/gadfly/articles/2017-10-10/kobe-steel-tests-japan-manufacturing-s-breaking-point) of another Japanese industrial scandal could be far-reaching.
- Bloomberg View's Noah Smith says that the scandal builds a case for Japanese corporate [reform <https://www.bloomberg.com/view/articles/2017-10-12/japan-inc-scandals-build-a-case-for-corporate-reform>](https://www.bloomberg.com/view/articles/2017-10-12/japan-inc-scandals-build-a-case-for-corporate-reform) .
- Bloomberg BusinessWeek examines the [Takata debacle <https://www.bloomberg.com/news/features/2016-06-02/sixty-million-car-bombs-inside-takata-s-air-bag-crisis>](https://www.bloomberg.com/news/features/2016-06-02/sixty-million-car-bombs-inside-takata-s-air-bag-crisis) .

— *With assistance by Stephen Stapczynski*

