



***Passenger Vehicle and Light Truck
Tires from China, Nos. 701-TA-522 and
731-TA-1258 (Final)
ITC Hearing Presentation***

June 9, 2015



U.S. Producers Are Expanding Existing Capacity and Investing in New Facilities

Company	Amount of Investment (millions)	Annual Tire Output (millions)	Jobs Created
Bridgestone	\$346	4.6	300
Continental	\$500	8	1600
Cooper	\$140	n/a**	n/a*
Giti	\$560	5	1700
Hankook	\$800	11	1800
Kumho	\$413	10	450
Michelin	\$200	n/a**	270
Toyo	\$371	3.8	650
Total	\$3,330	42.4	6,770

Source: ITG Voma and American Omni Prehearing Brief at 61.
See also Exhibit 1 to ITG Voma and American Omni Prehearing Brief.

U.S. Producers Are Expanding Capacity

- Bridgestone: “This capacity expansion at the existing Aiken County PSR/LTR tire plant announced today...is intended to meet growing demand in key market segments...”
- Toyo: “We’ve had significant growth in 2013 and 2014, and our growth really is stunted by capacity. That’s why we have made the major investments in White.”

Source: ITG Voma and American Omni Prehearing Brief at 59; Exhibit 1.

Video 1 – March 28, 2012 Groundbreaking at Continental’s New Tire Plant in Sumter, SC (USA)

- Began production on January 28, 2014
- Investment: \$500m
- Capacity: 5m units/year by 2017; 8m units/year by 2021
- Employment: 600 in 2014; expected to reach 1,600 when completed



Source: ITG Voma and American Omni Prehearing Brief at Exhibit 1, page 61 n. 218 (video).

Video 1 – March 28, 2012 Groundbreaking at Continental's New Tire Plant in Sumter, SC (USA)



New Entrants Are Building U.S. Factories

- Giti: “Existing business and strong demand for Giti Tire’s passenger and light truck tires ... has made this significant investment in South Carolina possible.”
- Hankook: “This new facility will help Hankook Tire accomplish our plan to establish a production base in all major markets.”
- Kumho: “The North American market is a strategic market...the construction of the manufacturing plant in Georgia is predicted to quickly elevate the market status of Kumho Tire in the American market ...”

Source: ITG Voma and American Omni Prehearing Brief at 62-63.

Video 2 – “Hankook Tire’s Future in America”

- Hankook’s Clarksville, TN plant
 - Began construction in October 2014
 - Investment: \$800m
 - Capacity: 5.5m units/year in 2016; 11m units/year by 2018
 - Employment: expected to create 1,800 jobs



Source: ITG Voma and American Omni Prehearing Brief Exhibit 1; page 61 n. 218 (video).

Video 2 – “Hankook Tire’s Future in America”



The U.S. Industry is Operating at Full Capacity

- Prehearing Report: domestic industry's capacity utilization was 91 percent at the start and end of the POI
- Market participants believe that there is a shortage of PVL T tires in the premium, high-value segments of the market
- Barry Littrell, COO of American Pacific Industries, explained:
“The higher tier manufacturers have not been able to keep up with demand and their fill rates are poor to the replacement market....consistent with the very limited production capacity currently available to U.S. producers”

Source: ITG Voma and American Omni Prehearing Brief at 63-65 & Ex. 7, para. 5.

New U.S. Capacity Targets Premium, High-Value Tires

- Bridgestone: “This capacity expansion...is intended to meet growing demand in key market segments, including ultra high performance and light truck/SUV tires”
- Hankook: “We will be able to provide our customers, consumers and car makers with high quality tires...to meet the demands of the American market”
- Kumho: “{W}e are continuously expanding our tires supply to the premium end of the completed vehicle range with the North American market as the basis...”
- Michelin: “We must have additional capacity for high performance passenger car tires to meet our customers’ needs”
- Toyo: “Toyo is increasing annual production initially at White by 2 million tires, with a majority of that new capacity targeted at its enthusiast products including Proxes {Ultra-High Performance (“UHP”)} tires...”

Source: ITG Voma and American Omni Prehearing Brief at 58-60, 62-63

Dennis Mangola

- ▣ **Currently CEO of DMC Consulting, Inc.**

- DMC consults with international trading companies on business opportunities, including global sourcing and supply chain management in the tire industry

- ▣ **Previous Positions**

- Founder and CEO of AmPac Tire Distributors, one of the largest wholesale distributors in the USA
- Founder and CEO of Tire Pros, the largest retail tire franchise in the USA today, including 40 company-owned retail stores. Sold after 28 years
- Global Manager of the Tire Group for the Itochu International Trading Company, 1999-2010
- Consultant to Itochu Tire & Rubber Group 2010-2014
- Consultant to largest tire distributor in U.S.A. and Canada 2010-2014

How Does the U.S. Tire Market Operate?

- ▣ Market segmentation
- ▣ Tiers / categories
- ▣ Product differentiation

PVLT Tire Market Segmentation

OEM (Original Equipment Manufacturer)

Automobile and light truck manufacturers purchase OEM tires for installation in new vehicles

Replacement Tires

Sold directly to vehicle owners through tire dealerships, chain stores, service stations, department stores, and warehouse and discount clubs

Branded Tires

Brands differentiate the product in some way from other similar products, such as perceived quality and support for pricing position

Private Label Tires

Consumers expect to pay less and get less, primarily with mileage and/or performance. The perceived quality of private label tires is lower than branded tires

Tiers in the U.S. Tire Replacement Market

Modern Tire Dealer categorizes the replacement tires sold in the U.S. market into four tiers based on the following factors:

- Brands and their marketing
- Brand recognition
- Price
- Perceived quality



Source: ITG Voma and American Omni Prehearing Br. Ex. 4, "Facts Issue 2015" Modern Tire Dealer at 36-38.

Tiers are Defined by Brand, Price, Perceived Quality & Marketing

**T
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PREMIUM

Highly recognizable brands such as Michelin, Bridgestone, & Goodyear

HIGH VALUE

Recognizable brands such as BFGoodrich, Firestone, & Dunlop

VALUE

Somewhat recognizable brands at a much lesser price such as Nexen, Kelly, Uniroyal, & Fuzion

ECONOMY

Little or no brand recognition, price driven, typically on older vehicles

Source: ITG Voma and American Omni Prehearing Br. at 13-14, Ex. 3 at 24-30, Ex. 4, "Facts Issue 2015" Modern Tire Dealer at 36-38.

Michelin's Multi-brand Strategy for Tier Management

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PREMIUM

Michelin

Approximate price: \$190 - \$210



HIGH VALUE

BFGoodrich

Approximate price: \$125 - \$150



VALUE

Uniroyal

Approximate price: \$75 - \$100

ECONOMY

No offering

Source: ITG Voma and American Omni Prehearing Br. at 13-14 and Ex. 3 at 24-30.

Differentiation within Each Tier

- ▣ It is important to understand how tires differ

- ▣ Products are differentiated by
 - Size;
 - UTQG ratings;
 - Speed ratings;
 - Price; and/or
 - Application

Source: Petitioner's Prehearing Br. at 24-26, 41-43.

Differentiation by Application

(4 tiers in each category)



Cadillac



SUV



Mercedes-Benz



TOURING



CORVETTE



HIGH PERFORMANCE



LIGHT TRUCK

Petitioner Is Comparing Completely Different Tires

Goodyear Eagle RS-A
\$177
High Performance

Goodyear Eagle RS-A
\$156
High Performance

Goodyear Eagle LS
\$125
Performance Touring

Goodyear Assurance
\$109
All-Season Touring

Goodyear Integrity
\$87
All-Season Touring

Goodyear Ultra Grip
\$86
Snow / Winter Tire

PUBLIC VERSION
 Business Proprietary Information Removed from Brackets

PVLT Tire Brands and Prices from TireRack.com¹⁵⁴

P225/60R16		LT285/75R16	
Brand	Price	Brand	Price
		Pirelli	\$259
		Michelin	\$243
		Goodyear	\$243
		Goodyear	\$241
		Firestone	\$235
		Goodyear	\$235
		Dick Cepek	\$230
Goodyear	\$177	General	\$228
Goodyear	\$156	Goodyear	\$223
Michelin	\$138	Dick Cepek	\$221
Goodyear	\$125	BFGoodrich	\$216
Yokohama	\$122	Goodyear	\$209
Michelin	\$115	Goodyear	\$208
Goodyear	\$109	Dick Cepek	\$208
Bridgestone	\$109	Yokohama	\$208
Pirelli	\$101	Michelin	\$200
Pirelli	\$100	Michelin	\$200
Hankook	\$100	BFGoodrich	\$195
Yokohama	\$92	Kumho	\$193
Firestone	\$90	BFGoodrich	\$193
Goodyear	\$87	Firestone	\$187
Goodyear	\$86	Bridgestone	\$185
Kumho	\$82	Dick Cepek	\$180
Firestone	\$80	Yokohama	\$179
Firestone	\$80	Kumho	\$177
Kumho	\$79	General	\$164
		Firestone	\$158
		Pirelli	\$149
		Firestone	\$143
		Yokohama	\$132
		Yokohama	\$126

Firestone Destination
\$235
Mud Tire

Firestone Destination
\$187
On-/Off-Road AT

Firestone Winterforce
\$143
Snow Tire

While the different price points also reflect the different features and performance profiles of the tires, brands or "tiers" do not explain price differences between tires with various

Advertising materials for these tires are attached to Petitioner's Comments on Draft Questionnaires (Feb. 4, 2015) at Exhibit 4. A similar comparison based on advertising materials from June of 2014 is in Petitioner's Post-Conference Brief (June 30, 2014) at 15 (citing the Petitions at Exhibit 1-2).

Differentiation by Uniform Tire Quality Grade (UTQG)

- ▣ The Uniform Tire Quality Grade Standards (UTQG) is established by the National Highway Traffic Safety Administration (NHTSA) to help manufacturers and consumers to price and purchase tires based on
 - Treadwear
 - Traction
 - Temperature

- ▣ Required by law for most passenger car tires sold in the United States (not winter/snow tires)

Source: Petition at I-22 and Ex. I-18; 49 CFR Section 575.104.

Differentiation by Speed Ratings

- Speed ratings provide the maximum speed capability of new tires
- The most common tire speed rating symbols, maximum speeds and typical applications are shown below

Speed Rating	Maximum Speed	Vehicle Category
R	106 mph	H.D. Light Truck Tires
S	112 mph	Family Sedans & Vans
T	118 mph	Family Sedans & Vans
H	130 mph	Sport Sedans & Coupes
V	149 mph	Sport Sedans, Coupes & Sports Cars
W	168 mph	Exotic Sports Cars
Y	186 mph	Exotic Sports Cars

U.S. Tires Have Significantly Higher UTQG Factors than Chinese Tires

Size	Origin	Load Speed		Treadwear Grades		Traction Grades		Temperature Grades	
		Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest
205/55R16	China	91T	91V	340	640	A	AA	B	A
	U.S.	89H	91Y	40	820	B	AA	B	A
P235/75R15	China	105S	109T	500	700	A	A	B	B
	U.S.	105S	108T	300	800	A	A	B	A
225/60R16	China	98H	98H	400	400	A	A	A	A
	U.S.	98T	98V	400	800	A	A	B	A
215/60R16	China	95T	95V	400	640	A	A	B	A
	U.S.	94V	95V	260	820	A	A	B	A
P215/60R16	China	94T	95T	640	760	A	A	B	B
	U.S.	94S	94V	340	800	B	A	B	A
P265/70R17	China	113S	113S	500	500	A	A	B	B
	U.S.	113S	113T	340	800	B	A	B	A
195/65R15	China	91T	91H	400	480	A	A	A	A
	U.S.	91T	95H	400	740	A	A	B	A
195/60R15	China	88H	88H	400	400	A	A	A	A
	U.S.	87S	88V	260	740	A	AA	B	A

Source: Petitioner's Br. at 25

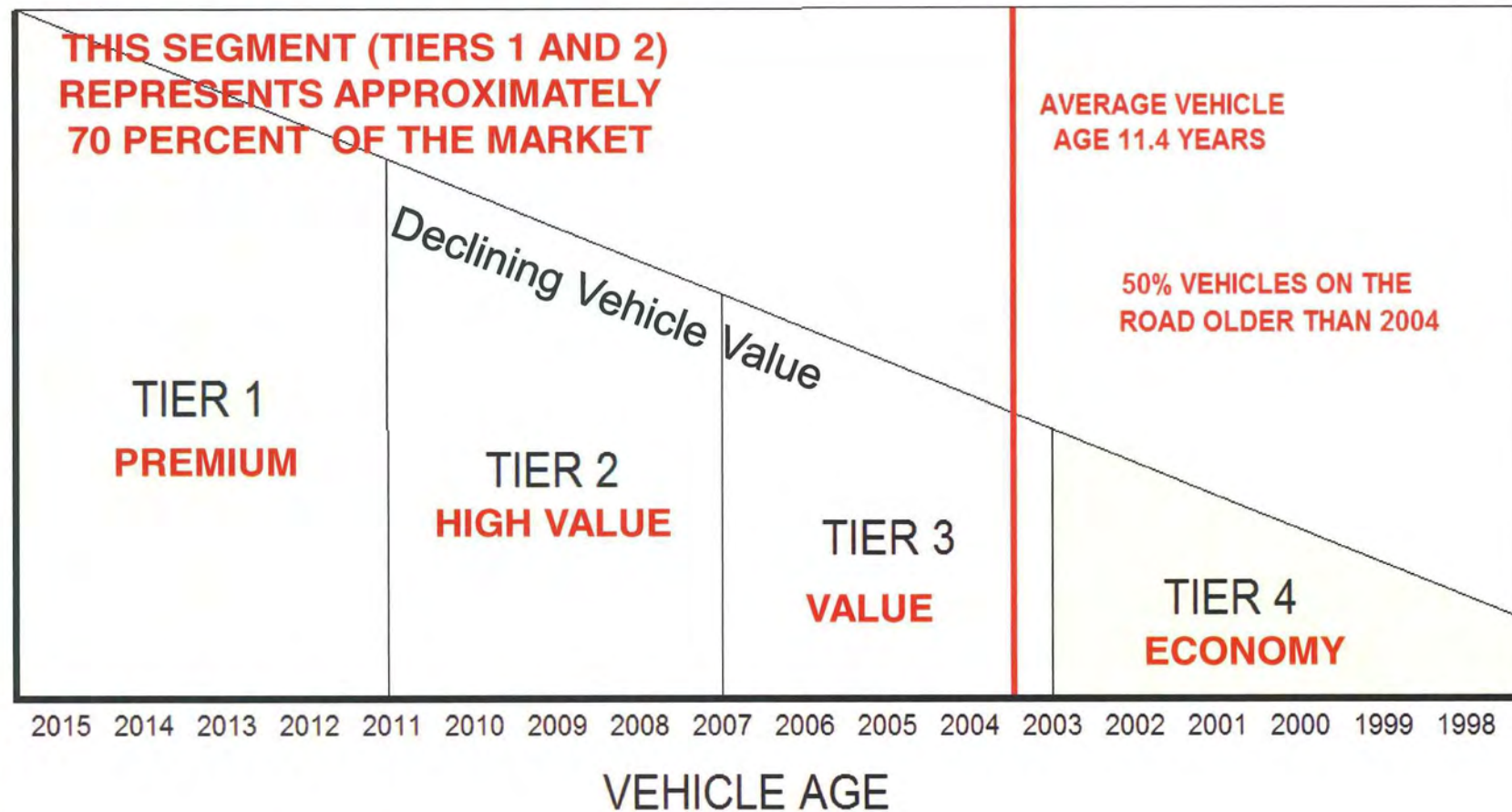
Increased Demand for Value and Economy Tires

- ▣ Demand for Value (Tier 3) and economy (Tier 4) tires has increased -
 - Approximately 50% of the vehicles are older than 2004
 - Median U.S. household income has decreased 8% to just over \$51,000 annually in the last few years

- ▣ These facts have produced what I call the “affordability factor”

Source: ITG Voma and American Omni Prehearing Br. at 15-17.

Vehicle Lifecycle Related to Tier Management



Source: ITG Voma and American Omni Prehearing Br. at 16, 70-71 and Ex. 4, IHS.

Vehicle Lifecycle Related to Tier Management

- ▣ Newer vehicles use Premium and High Value tires (Tiers 1 and 2)
- ▣ Approximately 70% of the replacement market is in the Premium (Tier 1) and High Value (Tier 2) segments
- ▣ Chinese imports are servicing the economy segments of the market (Tiers 3 and 4)
- ▣ Competition between US-manufactured tires and Chinese manufactured tires is very limited

Source: ITG Voma and American Omni Prehearing Br. at 39, Ex. 3, 35-38.

Minimal Overlap between U.S. and Chinese Tires

- ▣ U.S. tire industry is focused on Premium (Tier 1) and High Value (Tier 2) demand; very limited Value (Tier 3) offerings
- ▣ U.S. manufacturers are not interested in producing Economy (Tier 4) tires
- ▣ Economy (Tier 4) demand is being addressed by global producers
- ▣ If Chinese imports are deterred, then other foreign countries (e.g., Indonesia and Thailand) will provide tires to fill demand