



**PUBLIC HEARING BEFORE THE
U.S. INTERNATIONAL TRADE COMMISSION**

**CERTAIN PASSENGER VEHICLE AND LIGHT TRUCK TIRES
FROM CHINA**

INVESTIGATION NOS. 701-TA-522 AND 731-TA-1258 (FINAL)

JUNE 9, 2015

**TESTIMONY AND MATERIALS
IN SUPPORT OF IMPOSITION OF
ANTIDUMPING AND COUNTERVAILING DUTY ORDERS**

**LAW OFFICES OF STEWART AND STEWART
2100 M Street NW, Suite 200
Washington, DC 20037
(202) 785-4185**

**Counsel to Petitioner
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and
Service Workers International Union, AFL-CIO, CLC ("USW")**

PASSENGER VEHICLE AND LIGHT TRUCK TIRES FROM CHINA

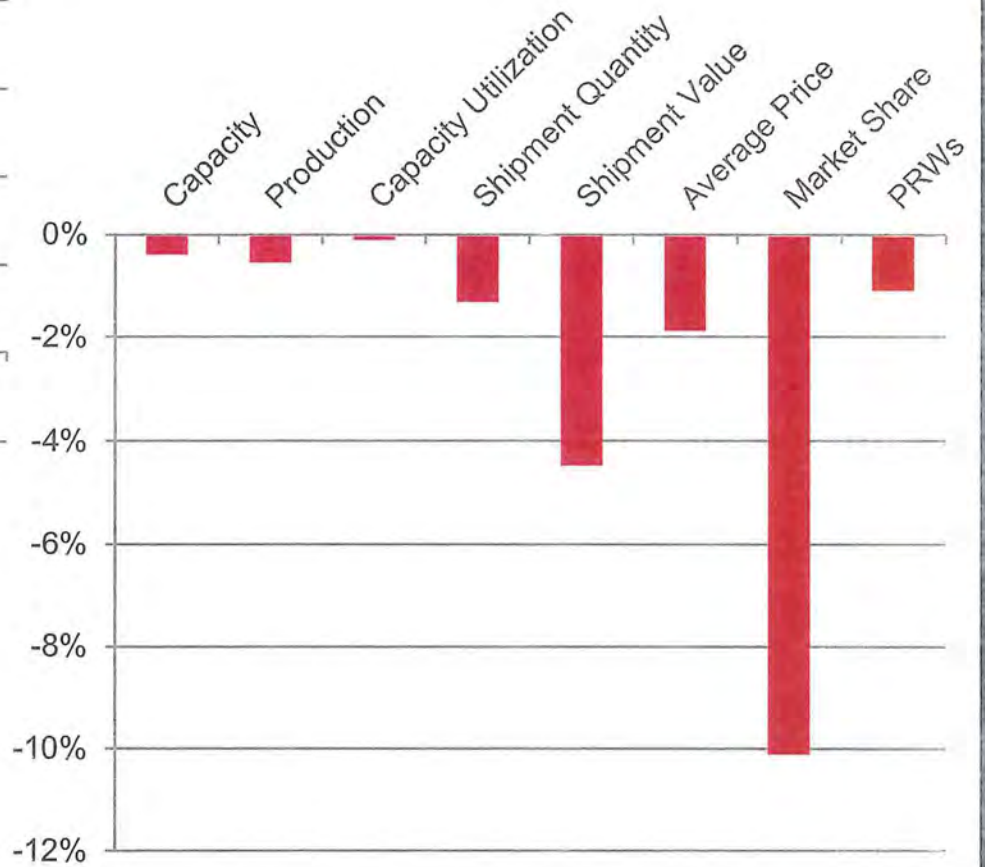
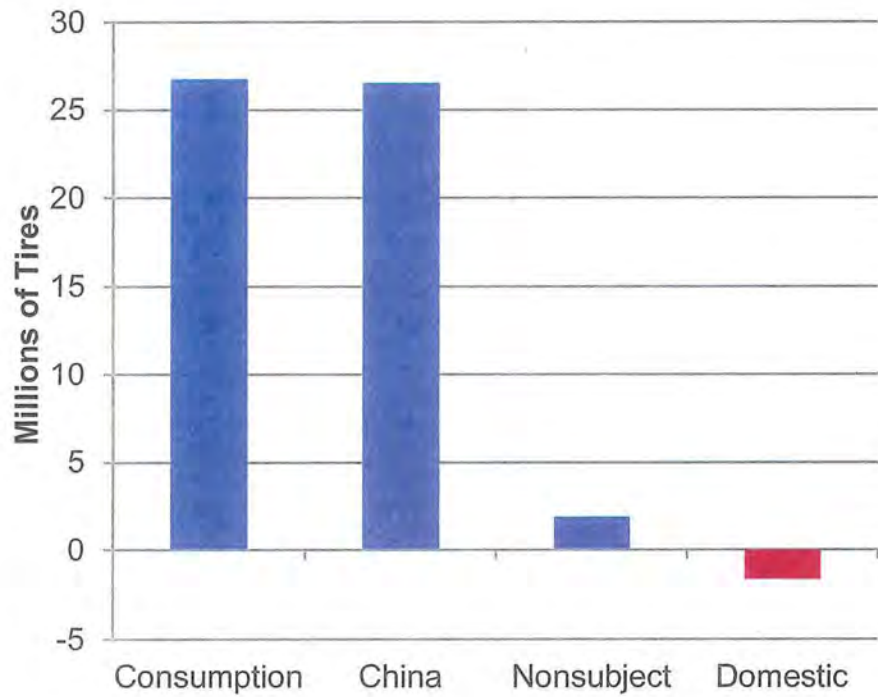
INV. NOS. 701-TA-522 AND 731-TA-1258 (FINAL)

PETITIONER'S PRESENTATION



**U.S. INTERNATIONAL TRADE COMMISSION PUBLIC HEARING
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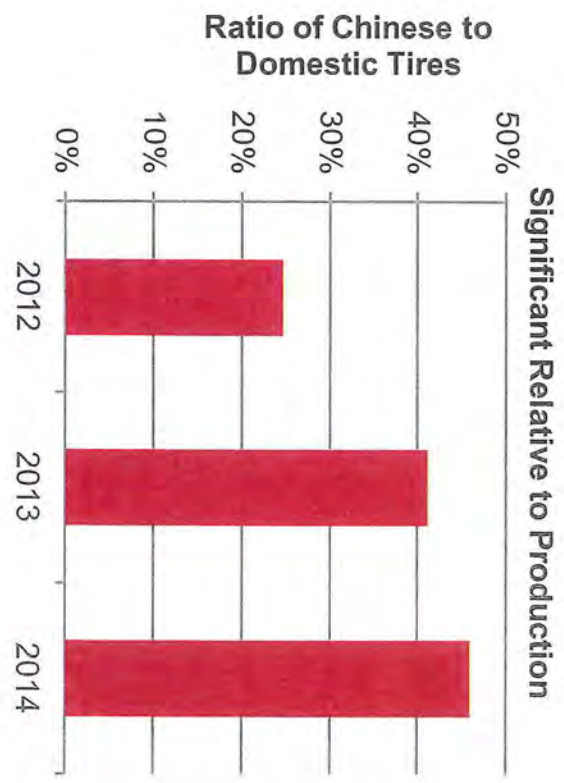
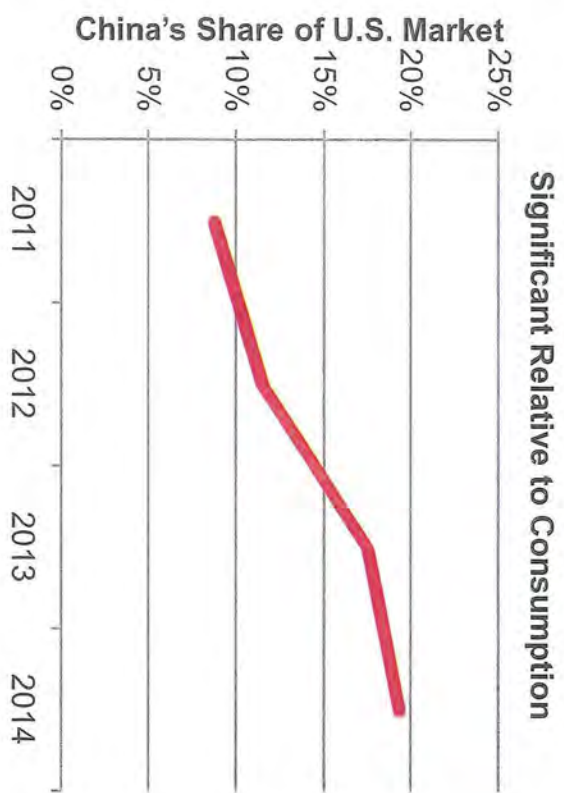
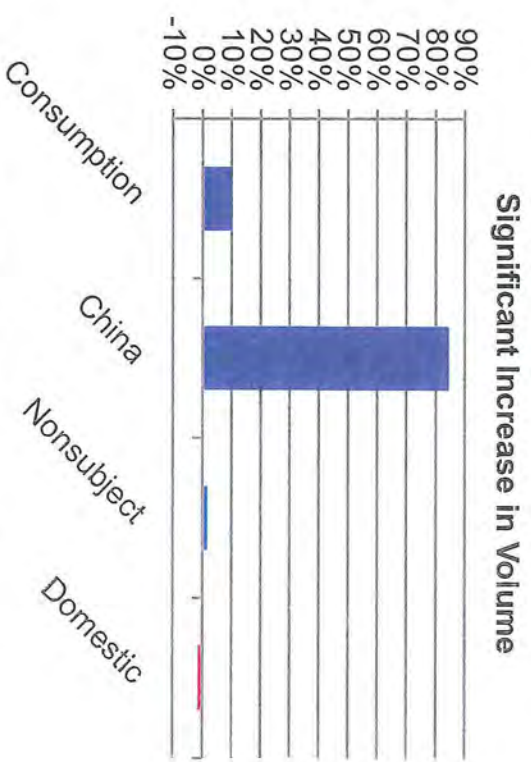
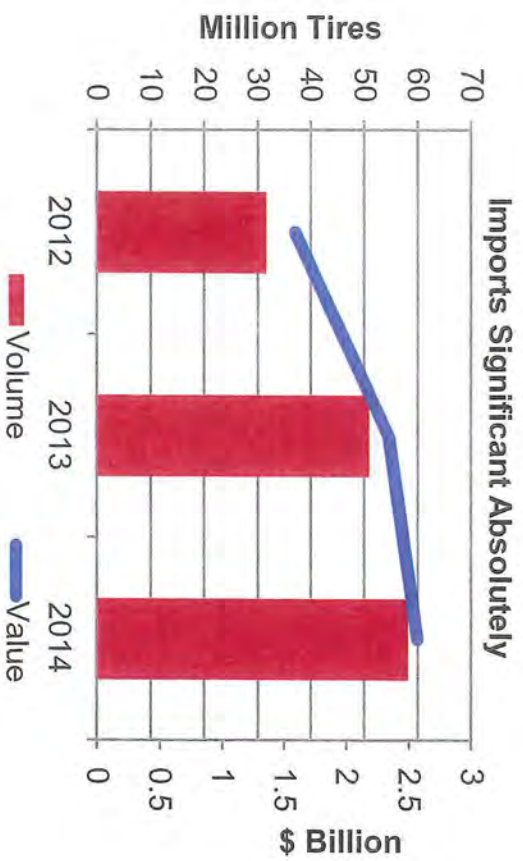
In a growing market, the domestic industry saw widespread declines from 2012 to 2014



Absent the surge in Chinese imports since 2011, the industry would have benefitted from rising demand

	2014 Industry Actual	2014 at 2011 Market Share	Lost to Imports
Net sales (th tires)	149,829	178,325	28,496
Net sales (\$ mn)	\$13,005	\$15,478	\$2,473
Production (th tires)	148,673	176,949	28,276
PRWs	25,026	29,786	4,760
Hours (1,000)	52,590	62,592	10,002
Wages (\$ mn)	\$1,389	\$1,654	\$265
Operating income (\$ mn)	\$1,676	\$2,644	\$968
Operating margin	12.9%	17.08%	4.18 ppt

VOLUME OF IMPORTS FROM CHINA



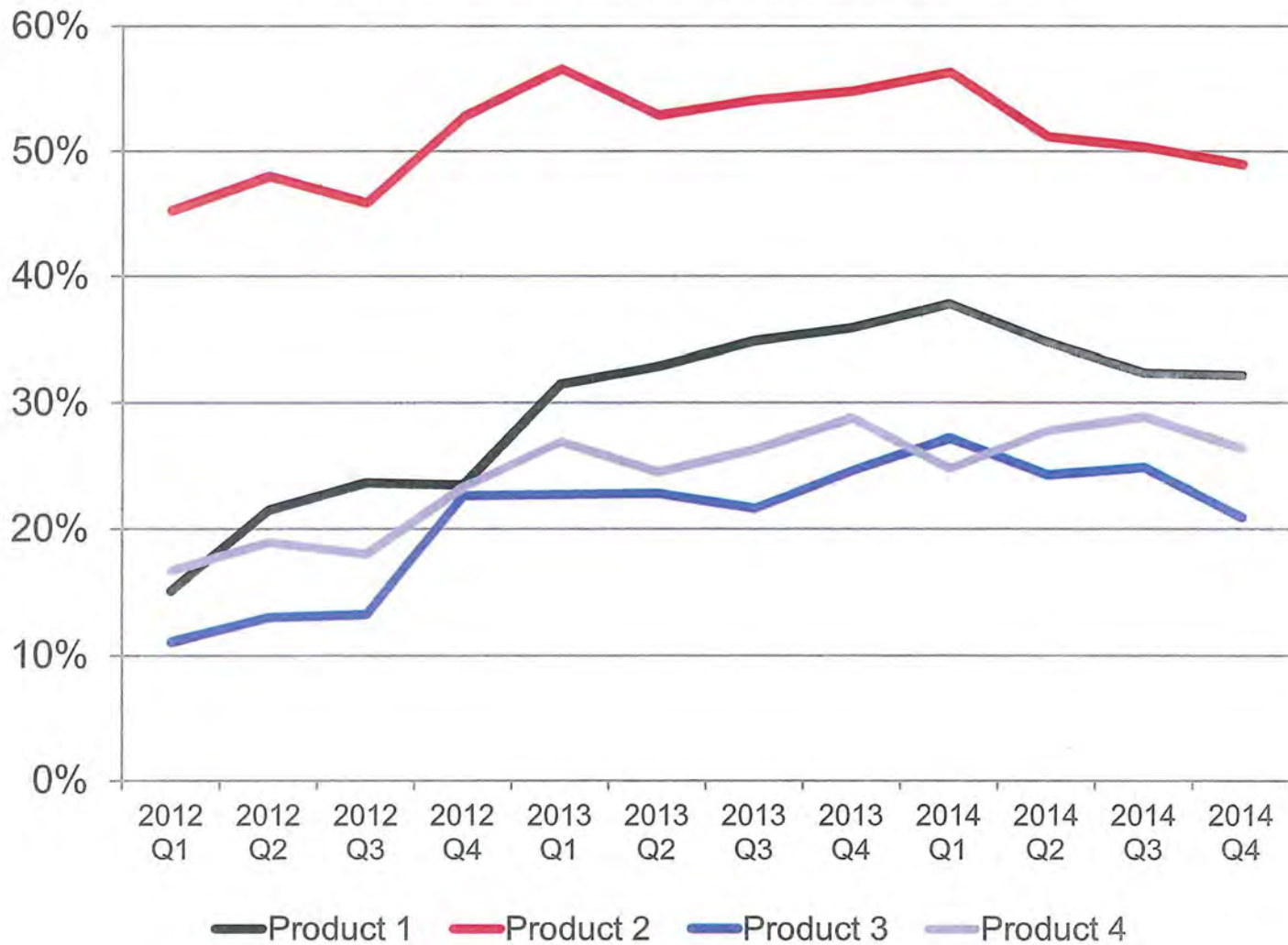
PRICE EFFECTS

Underselling in 100% of 72 quarterly comparisons

Product	Size	Underselling
1	205/55R16	12 of 12 quarters
2	P215/55R17	12 of 12 quarters
3	225/60R16	12 of 12 quarters
4	P235/75R15	12 of 12 quarters
5	LT245/75R16	12 of 12 quarters
6	LT265/75R16	12 of 12 quarters

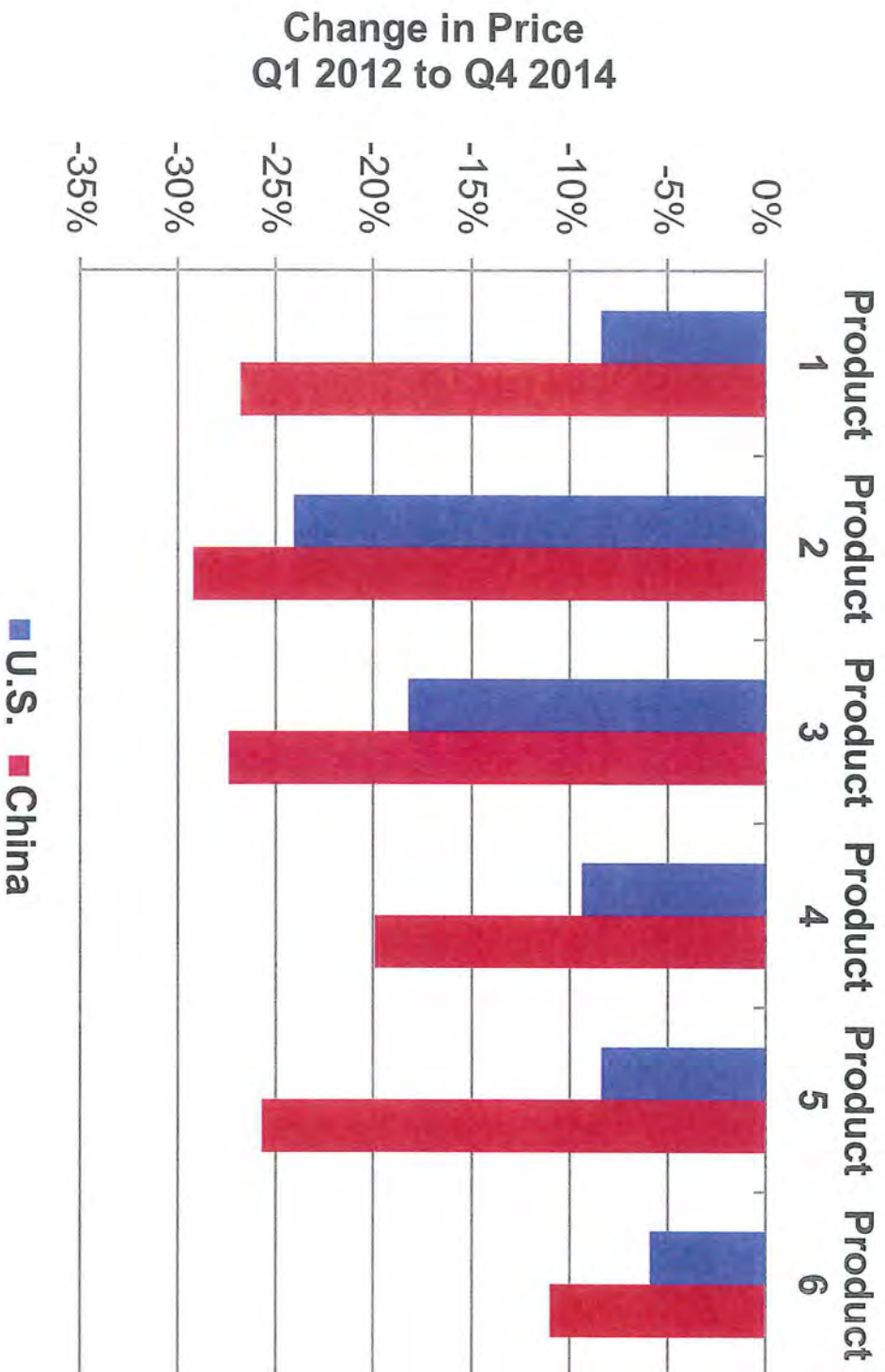
PRICE EFFECTS

Rising Margins of Underselling



PRICE EFFECTS

Price Depression Led by Chinese Prices



PRICE EFFECTS

“Chinese brands are coming into the U.S. market and the price level is coming down. Cheap tires are coming in and the Tier Two and Tier Three brands are reducing their prices to compete with the Chinese product. Then the Tier Two and Tier One have to adjust also.”

- Yokohama President, Nov. 2013

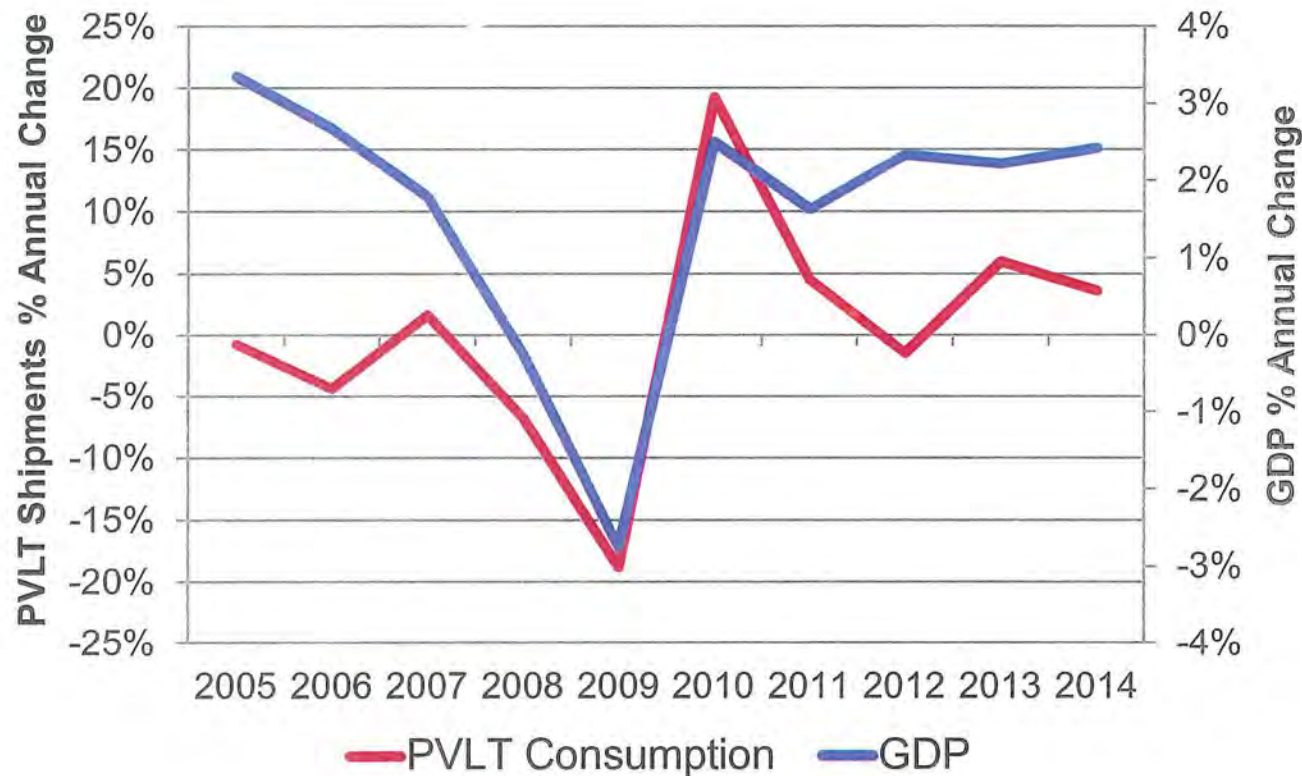
PRICE EFFECTS

“The best advantage Chinese-made tires have to offer is still price ... with that advantage comes **the ability to impact the market as a whole** through price fluctuation. Following the expiration of the elevated tariffs on Chinese-made consumer tires in September 2012, prices of Chinese tires decreased substantially, contributing – along with reduced raw material prices – to **devaluation on tires across the board.**”

- Del-Nat Tire Co. President, April 2014
(Major importer purchased by TBC In 2015)

BUSINESS CYCLE AND CONDITIONS OF COMPETITION

- The industry's performance should be analyzed in the context of the business cycle and relevant conditions of competition
- The PVLT tire industry has a business cycle which generally tracks the overall economy

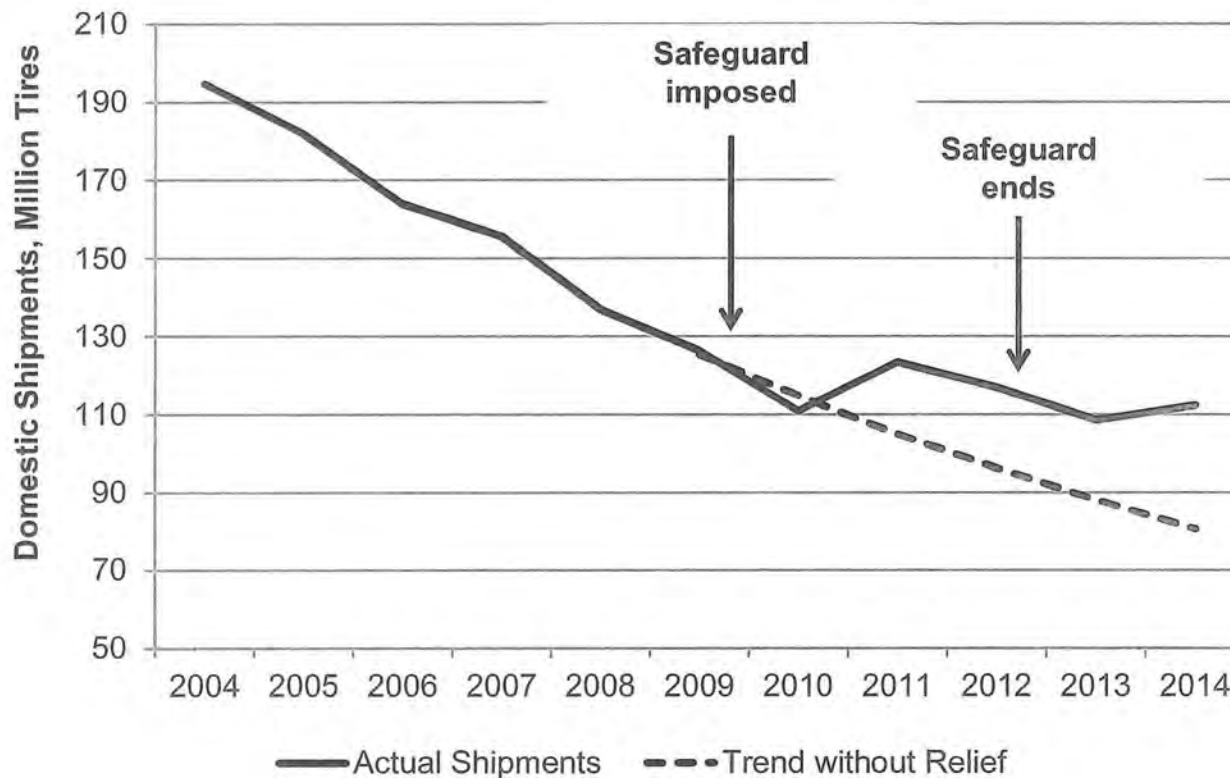


BUSINESS CYCLE AND CONDITIONS OF COMPETITION

- **There are two conditions of competition distinctive to the PVLT tire industry**
 1. Safeguard relief that expired in September of 2012
 2. Unusually steep decline in raw material costs during the period of investigation

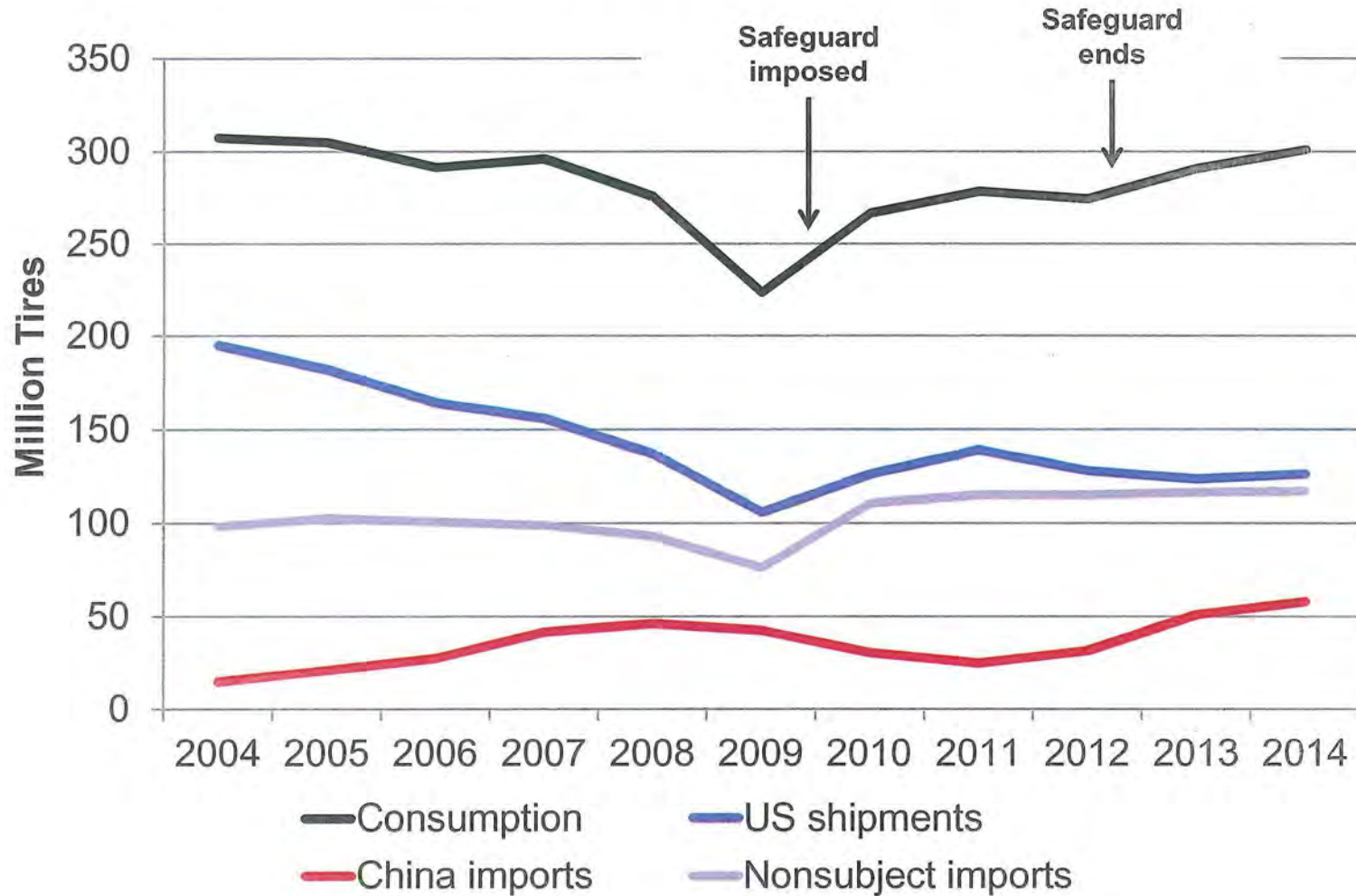
CONDITIONS OF COMPETITION - SAFEGUARD

- Prior to the safeguard, the domestic industry faced shrinking demand and surging imports from China
- Seven plants closed or announced for closure by April 2009, additional closure announced prior to safeguard duties
- Industry lost more than 70 million tires of capacity



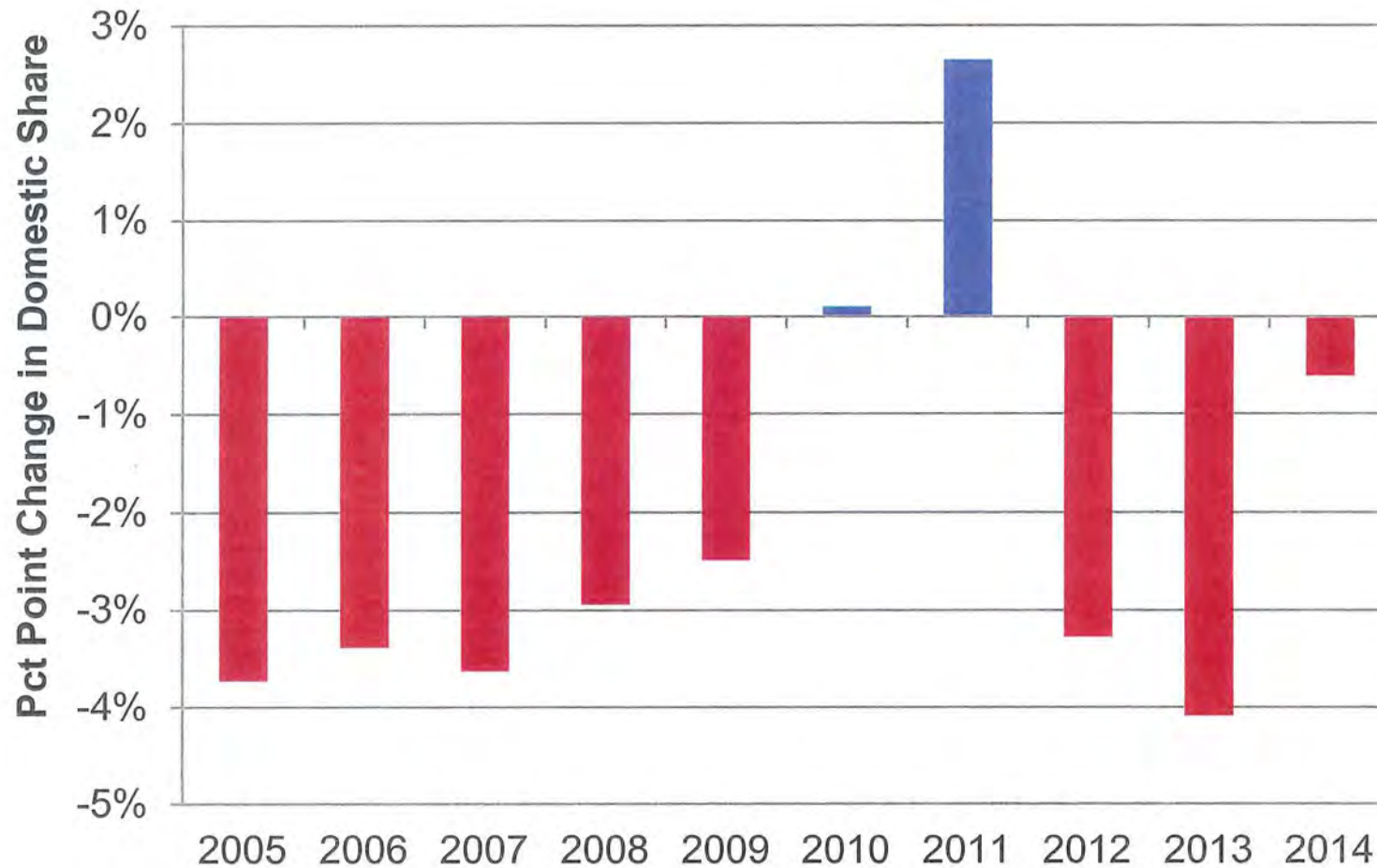
CONDITIONS OF COMPETITION - SAFEGUARD

Safeguard permitted industry to increase shipments in 2010 and 2011



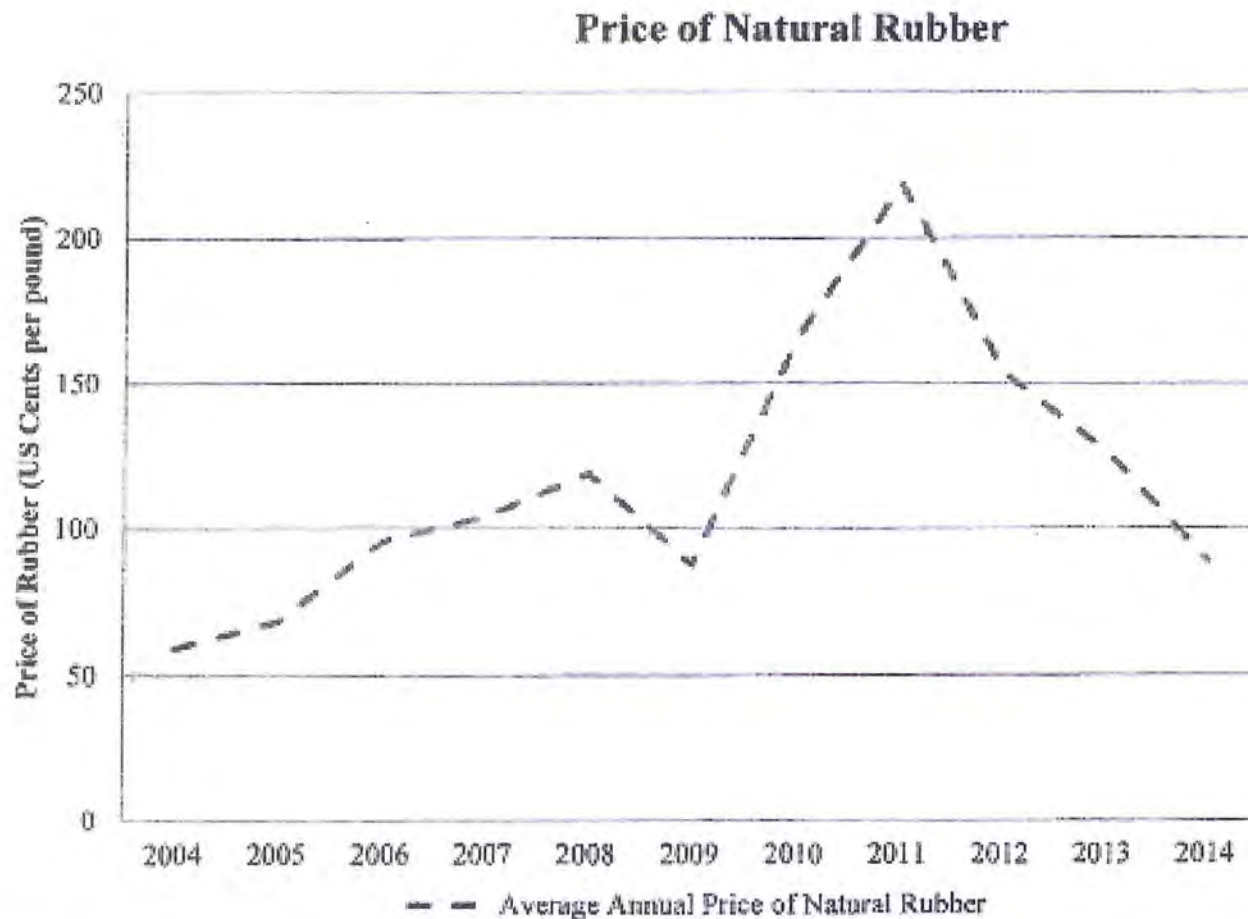
CONDITIONS OF COMPETITION - SAFEGUARD

Changes in domestic market share as Chinese imports rise and fall



CONDITIONS OF COMPETITION – RAW MATERIALS

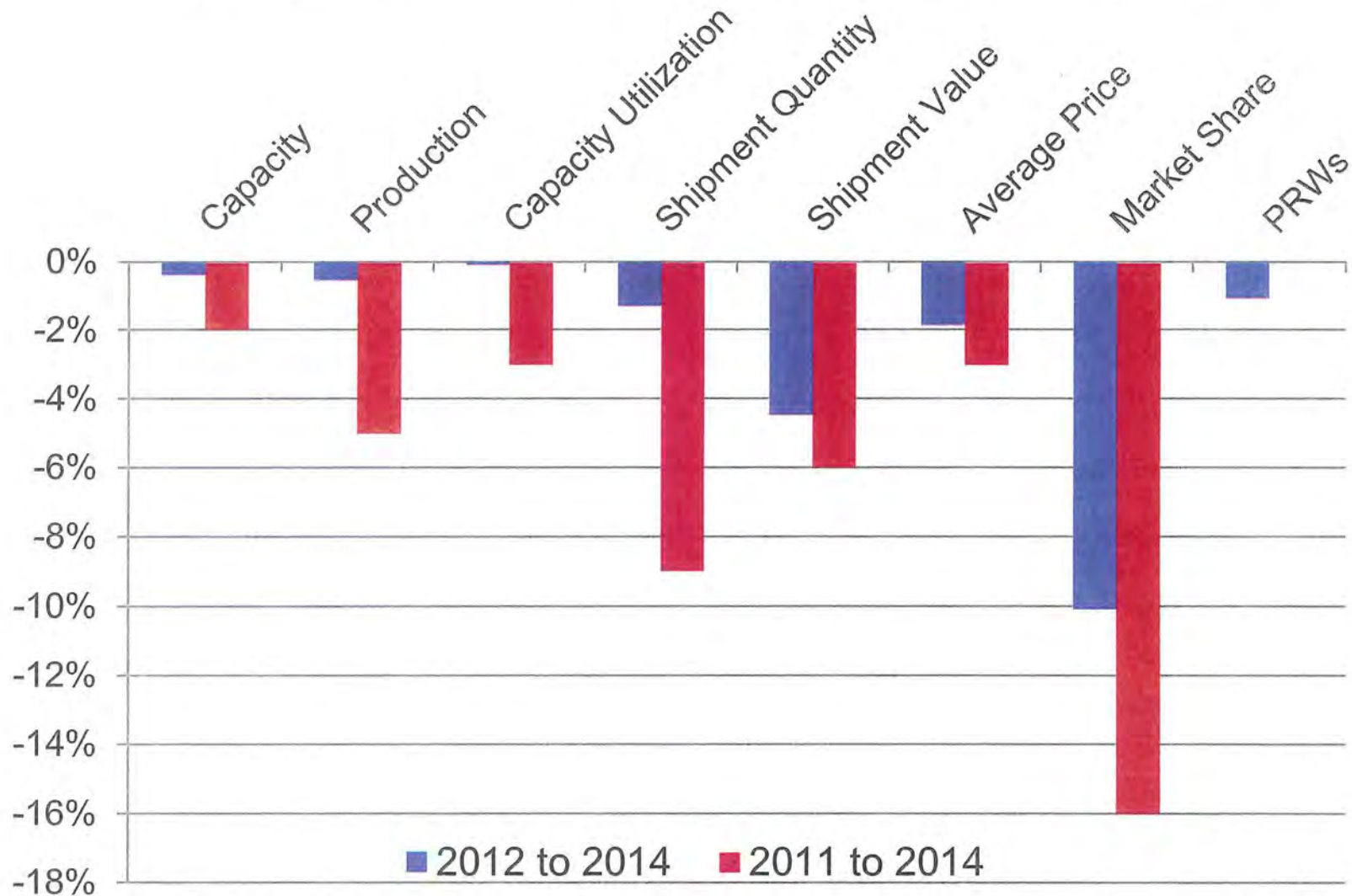
Sharp declines in raw material prices are another important condition of competition



Source: Singapore Commodity Exchange.

IMPACT

Industry declines across many factors during the POI



IMPACT

- Industry performance has been distressed over the course of the business cycle from 2004 to 2014
- Recent performance has not made up for prior losses and in some cases worsened

	2004 - 2014	2011 - 2014	2012 - 2014
Consumption	-2.1%	+8.1%	+9.7%
Market share loss	-21.4 ppt	-8.0 ppt	-4.7 ppt
Sales quantity	-32.5%	-5.9%	-0.8%
Capacity	-28.0%	-1.9%	-0.4%
Production	-31.9%	-4.6%	-0.6%
Employment	-31.3%		-1.1%
Hours	-30.8%		+1.7%
Wages	-22.6%		+4.9%

IMPACT

Rising demand and lower raw materials would have strengthened the industry but for the loss in market share to Chinese imports

	2014 Industry Actual	2014 at 2011 Market Share	Lost to Imports
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IMPACT

- While the safeguard benefits and declining raw material costs permitted operating income to improve, the industry is not achieving adequate returns over the business cycle
- Average 2004 – 2014 operating margin is below other industries (operating income as % of net sales)

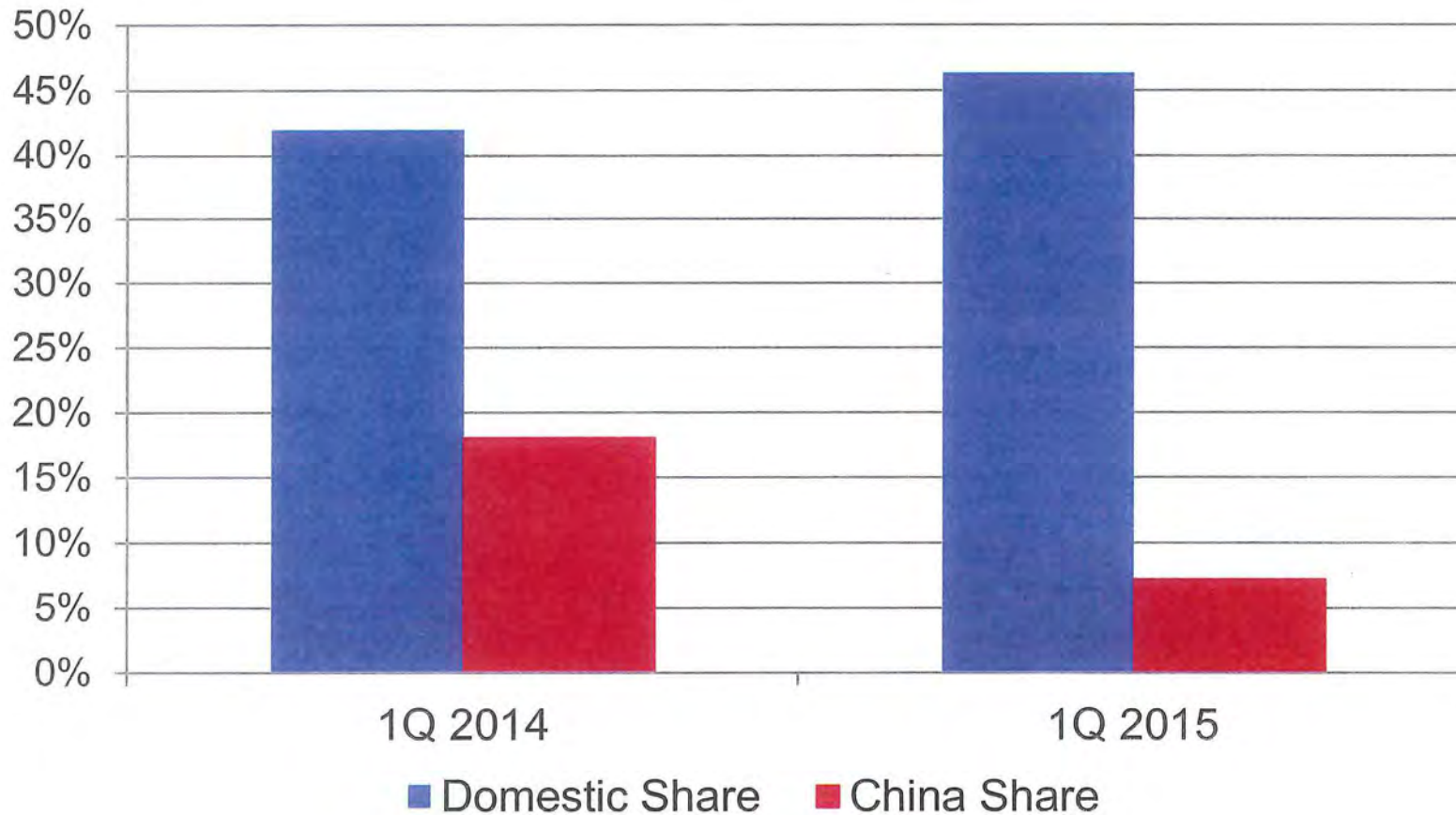
Industry	Margin	Industry	Margin
Manufacturing	6.9%	Machinery	8.2%
Plastics & Rubber	6.4%	Paper	6.2%
Chemicals	11.3%	Furniture	6.2%
Foundries	10.9%	Iron & Steel	5.8%
Fabricated Metal	8.6%	PVLT Tires	~ 4.5%

IMPACT

- **The industry's returns also did not cover the industry's cost of capital over the business cycle**
 - WACC = 11 to 13%
 - 2004 – 2014 return on invested capital \approx 10%
- **The inability to meet the cost of capital is particularly problematic for a capital intensive industry**
- **But for import surge from China, industry would have met cost of capital and had reasonable operating income margins**

IMPACT – Q1 2015 BENEFITS OF RELIEF

Benefits of preliminary relief underscore that causal nexus between material injury and unfairly traded imports



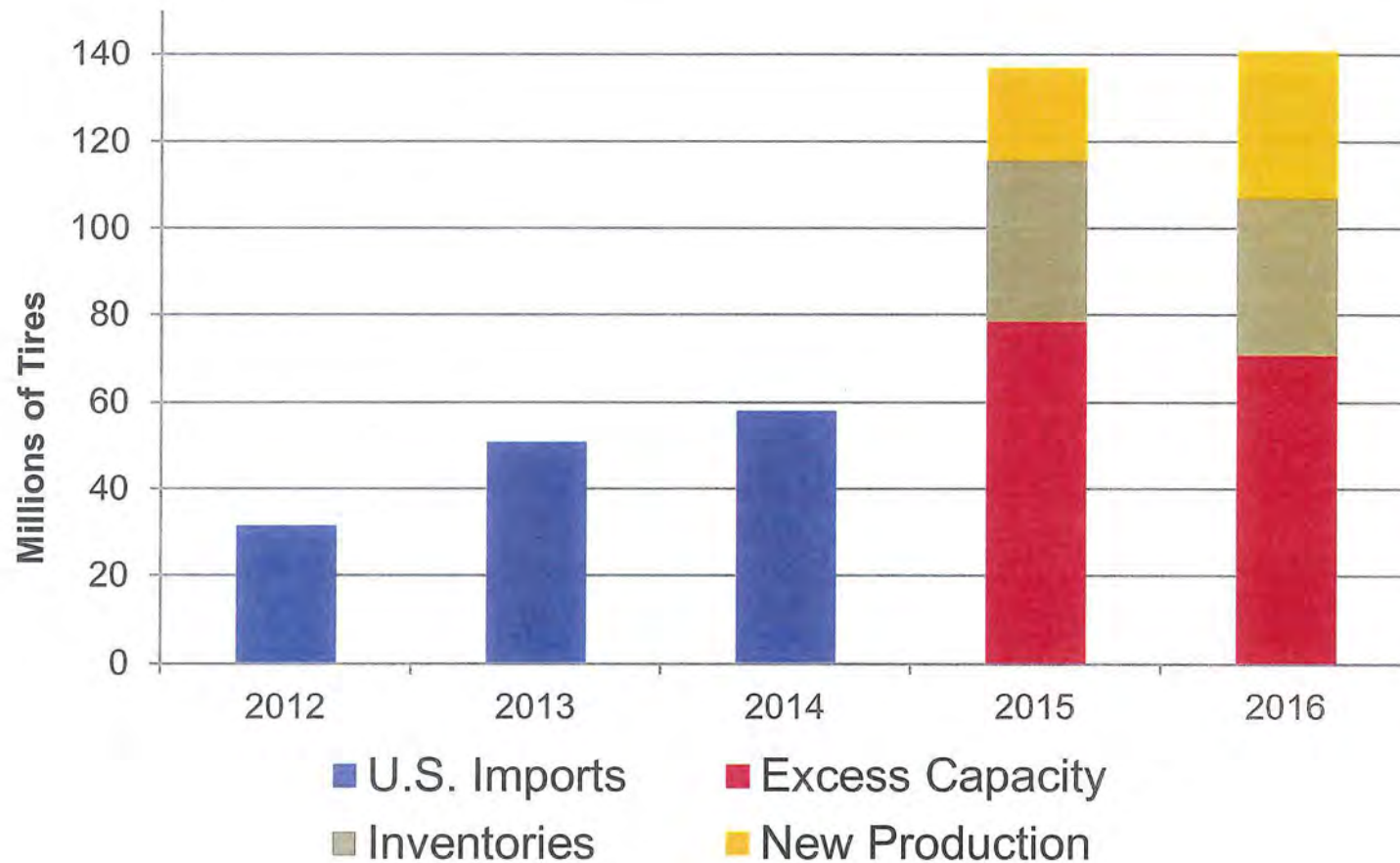
THREAT

Statutory factors for threat finding are also met:

- **Commerce's preliminary subsidy margins range from 11.74% to 81.29%**
- **This includes a number of export subsidies**
 - Discounted loans for export oriented enterprises
 - Export buyer's credits
 - Export seller's credits
 - Funds for "outward expansion"
 - Export credit insurance
 - Export credit guarantees
 - Export interest subsidy funds

THREAT

Foreign producer projections show massive excess capacity, inventories, and new production in 2015 and 2016



THREAT

- **Chinese industry publications cite:**
 - “overheated growth,”
 - 2014 capacity utilization at “historic low,”
 - “another tire industry with severe excess capacity.”
- **Overcapacity will continue with recent and planned expansions**

Kenda Rubber
Techking Tyres
Maxxis/Cheng Shin
Aeolus
Linglong
Hangzhou Zhongce
Sanshun Tire
Hankook Tire
Sailun

Qingdao Double Star
Double Coin/CMA
Triangle Group
Guangzhou Fengli
Shaanxi Yanchang
Anhui HeDing
South China Rubber & Tire
Himaxer

THREAT

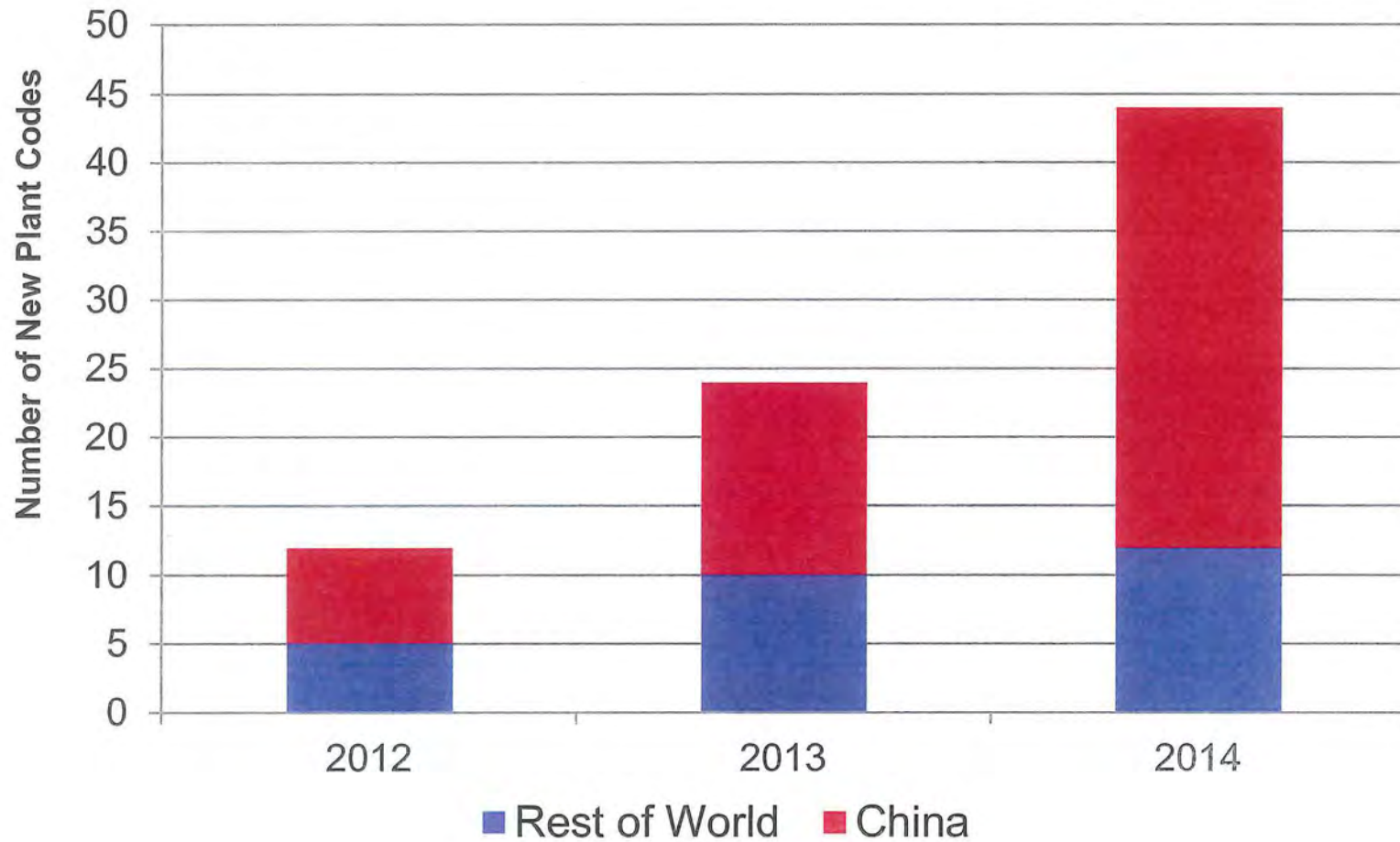
- **The Chinese PVLT tire industry is highly export-oriented**
- **The share of responding foreign producers' shipments that went to the home market fell during the POI**
- **In 2014, 58% of all shipments were exported, driven entirely by an increase in exports to the United States**
- **The U.S. is the largest single export destination for Chinese producers**
- **The Chinese industry is expected to increase its reliance on exports in the imminent future**

THREAT

- **China's strong interest in the U.S. market is further confirmed by:**
 - Importers' efforts to have Chinese tires already in inventory, ready to be shipped "at 12:01 on the 27th" of September 2012 when 421 relief ended.
 - Aggressive efforts to introduce new products and brands in the U.S. market after the expiration of 421 duties.
 - At a 2013 industry exhibition: "almost every type of tire was available" from 90 Chinese companies ... "The Chinese companies are making their move."
 - Close to twice the number of companies from China (50) at the exhibition in 2012.

THREAT

Most new DOT manufacturer codes are for plants in China



THREAT

If Chinese imports continue to grow at their 2014 pace, even if demand increases more than projected (1% a year), the domestic industry will lose more shipments, market share, and jobs

	2014	2015	2016	Change
Consumption	301,038	304,048	307,089	+6,051
China Imports	58,012	66,187	75,513	+17,501
Dom. Shipments	126,160	120,996	114,710	-11,450
China Share	19.27%	21.77%	24.59%	+5.32 ppt
Domestic Share	41.91%	39.79%	37.35%	-4.55 ppt
Capacity	163,219	163,219	163,219	-
Production	148,673	142,587	135,179	-13,494
Cap. Utilization	91.1%	87.4%	82.8%	-8.30 ppt
Employment	25,026	24,002	22,755	-2,271

THREAT

- **Prices for key materials have already started to increase and are projected to further increase in the rest of 2015 and 2016**
 - Crude oil
 - + 4.3% by Dec. 2015
 - + 8.4% by Dec. 2016
 - Natural rubber
 - + 4.9% by Nov. 2015
- **Continental: “Our guidance {includes} some increase in the raw materials in the second half of the year We still believe that there should be some increase.”**
- **Cooper: “The longer term raw material outlook is for costs to generally trend slightly higher through 2015 with periods of volatility.”**

THREAT

Together with continued loss of market share, adverse price effects will lower or eliminate profitability

If sales quantity and price fall by operating margins fall to:
4%	8.1%
6%	5.5%
8%	2.8%
10%	0.0%

OPPONENTS' CLAIMS

- **Opponents to relief seek to distract from this record of injury through various claims**
 - Attenuated competition
 - Underselling = brand premium
 - Market abandonment
 - “Healthy” domestic industry
- **The Commission has rejected similar claims before, and it should do the same here**

CLAIM #1: ATTENUATED COMPETITION

- **Confusion on existence of, and membership in, alleged “tiers”**
 - Five domestic producers, as well as some importers and purchasers, report there are no tiers
 - Other firms identify three, four, and/or five tiers
 - Wide variations in market share estimates for the tiers
 - Most brands classified in numerous tiers

CLAIM #1: ATTENUATED COMPETITION

Tier 1	Tier 2	Tier 3	Tier 4
Bridgestone	Bridgestone	Bridgestone	
Goodyear	Goodyear	Goodyear	
Michelin	Michelin	Michelin	
Continental	Continental		
Pirelli	Pirelli		
BFGoodrich	BFGoodrich		
Cooper	Cooper	Cooper	
Dunlop	Dunlop	Dunlop	
	Falken	Falken	Falken
Firestone	Firestone	Firestone	
Fuzion		Fuzion	
General	General	General	
	GITI	GITI	
		GT Radial	GT Radial
	Hankook	Hankook	
Kelly	Kelly	Kelly	Kelly
	Kumho	Kumho	
	Mastercraft	Mastercraft	
	Maxxis	Maxxis	
	Nexen	Nexen	Nexen
	Nitto	Nitto	
Sumitomo	Sumitomo	Sumitomo	
Toyo	Toyo		
Uniroyal	Uniroyal	Uniroyal	
Yokohama	Yokohama	Yokohama	

CLAIM #1: ATTENUATED COMPETITION

- **Brands, or “Tiers,” do not attenuate competition**
 - If tiers exist, U.S. and Chinese tires compete across the spectrum
 - Good/Better/Best is common in many consumer products, but does not eliminate competition
 - Many top dealers carry both U.S. and Chinese brands side by side
 - Most purchasers do not specify a brand
 - Most of those who do specify a brand are convinced to switch by the dealer
 - The dealer determines the brand that is bought in as much as 85% of replacement sales

CLAIM #1: ATTENUATED COMPETITION

DISCOUNT
(TIRE)

Home | Tires | Wheels | Store Locator | Appointments | Info Center | Financing

Tires By Brand



- AMERITVAL**
Ameritval Tires
- ARISUN**
Asian Tires
- ARIZONIAN**
Arizona Tires
- Baowun**
Baowun Tires
- BFGoodrich**
BFGoodrich Tires
- BRIDGESTONE**
Bridgestone Tires
- CARLISLE**
Carlisle Tires
- Continental**
Continental Tires
- COOPER Tires**
Cooper Tires
- DWT**
DWT Tires
- MICHELIN**
Michelin Tires
- MOPTON**
Milton Tires
- MILES STAR**
Miles Star Tires
- NANKANG**
Nankang Tires
- NEXEN TIRE**
Nexen Tires
- NISSAN**
Nissan Tires
- OKINAWA TYRES**
Okinawa Tires
- OHTSU Tires**
Ohtsu Tires
- PATHFINDER**
Pathfinder Tires
- PIRELLI**
Pirelli Tires
- DUNLOP Tires**
Dunlop Tires
- EZGO**
E-Z Go Tires
- FAUKEN**
Falken Tires
- FIERCE**
Fierce Tires
- GENERAL TIRE**
General Tires
- GOOD YEAR**
Good Year Tires
- GT**
GT Tires
- HANKOOK**
Hankook Tires
- HARTLAND**
Hartland Tires
- INTERGO**
Intergo Tires
- JOURNEY**
Journey Tires
- PIRELLI Tires**
Pirelli Tires
- GO COMP**
Go Comp Tires
- Prodigy Tires**
Prodigy Tires
- RACELINE**
Race Line Tires
- RACE**
Race Tires
- RIKEN**
Riken Tires
- ROAD HUGGER**
Road Hugger Tires
- STI**
STI Tires
- TASKMASTER**
Taskmaster Tires
- TENSOR TIRE**
Tensor Tires
- UNIRVAL**
Unirval Tires
- VISION**
Vision Tires
- KUMHO TIRE**
Kumho Tires
- LAUFENN**
Lauffenn Tires
- MATZ**
Matz Tires
- WEST LAKE**
West Lake Tires
- YOKOHAMA**
Yokohama Tires

CLAIM #1: ATTENUATED COMPETITION

- **Dealers promote Chinese tires as competing with high quality tires**
 - “Aeolus will be promoted as being an alternative to tier one and tier two brands.”
 - Sailun performs “at a level at least as high as a Tier Two tire, but at a lower price point.”
 - TBC’s Chinese tires have “the same type of workmanship and material warranty that we have from the Tier One manufacturers.”
 - “No one believes in the quality of Chinese-manufactured tires more fervently” than the CEO of API: “We’re trying to be a very good second-tier supplier.”

CLAIM #1: ATTENUATED COMPETITION

Opponents' product examples show direct competition between their alleged tiers

Prices for P215/55R17

Tier	Brand	Price
Tier 2	Continental	160.96
Tier 2	Continental	154.96
Tier 1	Goodyear	149.99
Tier 1	Michelin	149
Tier 1	Michelin	145
Tier 1	Michelin	135
Tier 1	Goodyear	132.99
Tier 2	Continental	129.99
Tier 2	Dunlop	128.99
Tier 1	Michelin	126.99
Tier 2	Continental	123
Tier 3	Nitto	119.99
Tier 2	BFGoodrich	117
Tier 2	Hankook	116.99
Tier 2	Continental	116
Tier 2	BFGoodrich	115
Tier 2	Dunlop	115
Tier 2	General	115
Tier 2	BFGoodrich	114.99
Tier 2	Continental	114.3

Tier	Brand	Price
Tier 1	Goodyear	112.99
Tier 3	Hercules	112.99
Tier 2	Cooper	109.99
Tier 2	General	109
Tier 3	Cordovan	108.99
Tier 3	Jetzon	108.99
Tier 3	Multi-Mile	108.99
Tier 3	Eldorado	107.99
Tier 3	Sigma	106.99
Tier 2	Yokohama	106
Tier 3	Telstar	105.99
Tier 2	Firestone	105
Tier 2	Firestone	105
Tier 3	Vanderbilt	104.99
Tier 2	General	101
Tier 2	Firestone	98.28
Tier 2	General	92.6
Tier 3	Eldorado	75.99
Tier 3	Kenda	71.99

CLAIM #1: ATTENUATED COMPETITION

- **Domestic producers' own statements identify direct competition with Chinese imports, refuting attenuation**
 - Goodyear: The U.S. market continues to “face disruption from the anticipation of a tariff on consumer tires imported from China As a result of the speculative buying during the second half of 2014, channel inventories remain at high levels, which we expect will impact our volumes in the first half of 2015.”
 - Cooper: “While our shipments were up ... they were negatively impacted by the pre-buying ... as customers had stockpiled inventory of imported tires ahead of the initial tariff determinations.”
 - Michelin: The “huge bump” in Chinese imports in 2014 was an “incredible” change in the U.S. market.
 - Yokohama: “Chinese brands are coming into the market and the price level is coming down.”

CLAIM #2: BRAND PREMIUM

- **Brand premiums do not explain underselling**
 - U.S. and Chinese pricing products in both private label and brand
 - Universal underselling in all products regardless of brand or private label percent

	Brand % of Domestic	Underselling Margins
Product 1	75.4%	15.1 – 37.8%
Product 2	91.3%	45.3 – 56.6%
Product 3	69.6%	11.0 – 27.2%
Product 4	94.6%	16.7 – 28.9%

CLAIM #3: MARKET ABANDONMENT

- **Domestic producers have not abandoned private labels or lower “tiers”**
 - Most purchasers report U.S. tires are comparable to Chinese tires in terms of private label availability
 - Domestic producers have expanded their presence in the mid-range of the market, particularly after preliminary CVD and AD relief from imports:
 - Goodyear announced new Kelly tires in January 2015 in sizes covering 89 percent of the “economy” market
 - Michelin released new lines of BFGoodrich tires in late 2014 and early 2015

CLAIM #3: MARKET ABANDONMENT

- **Claims of abandonment to focus on “high value added” tires ignore that Chinese producers are also focused on such tires**
- **Numerous Chinese brands that advertise “high value added,” premium, or ultra high-performance tires:**
 - Aeolus, Fullrun, GITI, GT Radial, Hangzhou Zhongce, Landsail, Linglong, Sailun, Sentaida, Triangle Tyre
- **Chinese government and industry policies have promoted and rewarded production of high-performance and high value added tires since at least 2010**

CLAIM #4: “HEALTHY” DOMESTIC INDUSTRY

- Commission doesn't focus on any one factor in evaluating whether statutory standard is met.
- Industry has shown declines across a broad array of indicators despite rising demand; operating income has improved because of the two specific conditions of competition
- But for the surge in dumped and subsidized Chinese imports, the industry would have performed better on all elements, so that industry performed significantly worse than it should have during the period of demand growth.
- Even with improvements in operating income during the POI, the industry is underperforming other sectors over the business cycle and not meeting its cost of capital over the cycle, but would have but for the surge from China