UNITED STEELWORKERS
USW
UNITY AND STRENGTH FOR WORKERS

CERTAIN PASSENGER VEHICLE AND LIGHT TRUCK TIRES FROM CHINA

USTR-2009-0017

SUMMARY OF USW'S RESPONSES TO OPPONENTS' ARGUMENTS AGAINST RELIEF

AUGUST 2009

UNITED STEELWORKERS

USW

UNITY AND STRENGTH FOR WORKERS

CERTAIN PASSENGER VEHICLE AND LIGHT TRUCK TIRES FROM CHINA, USTR-2009-0017

On June 18, 2009, the United States International Trade Commission ("USITC") made an affirmative determination that imports of Chinese passenger and light truck tires are causing market disruption to the domestic industry. On July 9, 2009, the USITC submitted its report and remedy recommendation to the President and the United States Trade Representative. The Commissioners who voted in the affirmative on market disruption unanimously recommended that the President impose increased tariffs on Chinese tires for a three-year period, beginning at 55 percent *ad valorem* in the first year, 45 percent the second year, and 35 percent the third year. The Commissioners further recommended that if applications are filed, the President direct the Department of Commerce and the Department of Labor to provide expedited consideration of trade adjustment assistance for workers and/or firms affected by imports of Chinese tires. The USTR, together with the Trade Policy Staff Committee, is now considering the issue of what remedy to recommend to the President.

Throughout the course of this investigation, importers, wholesalers and distributors of Chinese tires have opposed the implementation of virtually any remedy and have presented a host of arguments, none of which has factual or legal merit. Those arguments and the facts that undermine them are summarized below.

Whether the Chinese Tire Industy Is Affected by Government Distortions

Opponents' Claim:

> **"{T}he Rubber Industry Association conveyed to me, as well as a couple of the tire companies, that there are no longer any export requirements. They supposedly have been canceled years ago. . . ."**
>
> **-- *David Spooner, Counsel for CCCMC/CRIA, TPSC August 7 Hearing.***

Opponents' Contradictory Statements:

> **"Yes, there is the regulation in China when you invest in China, you build a joint venture or build a whole enterprise. Chinese government hope you export your products 80 percent back."**
>
> **-- *Mary Xu, Deputy Secretary General, China Rubber Industry Association, TPSC August 7 Hearing.***

The Facts:

> **"Cooper started construction in 2005 on a new plant in Kushan, Jiangsu province to produce radial passenger and light truck tires under Cooper Kenda (Kushan) Co., Ltd. . . . The first tire from that plant was produced in February 2008, and, based on its business license, all the tires produced at this plant in the first five years must be exported by Cooper."**
>
> **-- *Cooper Tire & Rubber Co. Final Submission on Remedy to the ITC.***
>
> **"The Company has entered into a joint venture with Kenda Tire Company to construct and operate a tire manufacturing facility in China which was completed and began production in 2007. Until May 2012, all of the tires produced by this joint venture are required to be exported and sold by Cooper Tire & Rubber Company and its affiliates."**
>
> **-- *Cooper Tire & Rubber Co. 2008 10-K at 40.***

Opponents' Claim:

> **"{T}he view of the Chinese industry is that it's a highly competitive, low margin industry."**
>
> **-- *David Spooner, Counsel to CCCMC & CRIA, TPSC August 7 Hearing.***

The Facts:

> **A significant portion of China's tire industry continues to be state-owned and collective-owned enterprises and exports from such enterprises accounted for a full 23 percent of China's tire exports from 2006-2008.**
>
> **The U.S. government has found that the state-owned companies in the rubber industry provide inputs to downstream consumers at a price lower than the adequate remuneration that would be demanded in the market.**
>
> **The Department of Commerce has also found extensive industrial policies in China directing the government at all levels to support the development of the tire industry.**

<u>Whether the Domestic Industry Has Abandoned the Value Sector of the Replacement Tire Market</u>

Opponents' Claim:

> **"{C}ompanies such as American Pacific Industries selling less recognizable Chinese tires compete in a completely different segment of the after market, a segment characterized by mass market sales, lower brand equity, and extremely price conscious customers. Domestic manufacturers consciously abandoned the lower end of the replacement market in which we compete as that market segment demands lower prices and lower profit margins."**
>
> **-- *Thomas Burkhardt, Secretary and General Manager, API, USITC June 2 Hearing.***

Opponents' Contradictory Statements:

> **"There's, in our area there is still substantial production of tier three tires in the U.S. Cooper Tire and Rubber Company is very active in that end of the business still. And the other manufacturers are in it to a very small degree."**
>
> **-- *Phillip Berra, President, Community Wholesale Tire, Inc., USITC June 2 Hearing.***

The Facts:

> **The majority of shipments of domestic tires fall into category 1 and the majority of shipments of imports from China fall into category 3. A greater number of domestic shipments fall into category 3 than category 2. A significant quantity of shipments of imports from China fall into category 2, and only a small amount fall into category 1. "This indicates that there is a substantial overlap between domestically produced tires and the subject imports. . . . {T}here is also competition between the domestically produced tires and the subject imports in the OEM market."**
>
> **-- *Views of the Commission, USITC Report at 31.***
>
> **"{S}ubject imports . . . are not limited to those identified as tier 3, nor has U.S. production of tier 3 tires ceased."**
>
> **-- *Separate and Dissenting Views of Chairman Pearson and Commissioner Okun, USITC Report at 55.***
>
> **Certified statements by USW members included in USW submissions confirm that U.S. plants in which they work are currently producing private brand tires.**

Whether Domestic Producers Do Not Offer Tires At Value Prices

Opponents' Claim:

"The industry talks about, okay, yeah, they make all kinds of tires. They make all the same sizes of tires. They make 100 to $150 to $180 tires in the U.S. They are not making $50 tires now, and they are not going to make $50 tires now."

-- *Marguerite Trossevin, Counsel to the American Coalition for Free Trade in Tires, TPSC August 7 Hearing.*

Opponents' Contradictory Statements:

"I would say they {Cooper} make a private brand offering. Hercules is a very big brand with our company. That is a tier three brand. It's a private brand. . . . I can go to my warehouse and get a Hercules tire in the same line, same quality level. Some of the tires are made in Ohio, the U.S., or Texarkana, made in the USA. They're branded on the side, Made in the USA. And then I can show you the same sizes, the same line and it's made in China."

-- *Phillip Berra, President, Community Wholesale Tire, Inc., USITC June 2 Hearing.*

The Facts:

Wal-Mart currently advertising a U.S.-made Michelin Symmetry tire for sale at $50.

Tire-easy.com is advertising U.S.-produced brands such as BF Goodrich 215/70 R15 at $43.30, Dunlop Grandtrek AT 20 and Uniroyal Tiger Paw A/S 6000 both priced around $58 per tire, and a Goodyear Integrity priced at $61.70.

Whether Consumers Would Be Adversely Affected by Implementation of a Remedy

Opponents' Claim:

It is "beyond dispute" that any import restriction will impose "enormous costs" on consumers and be "hugely costly."

-- *CCCMC & CRIA Prehearing Submission to TPSC.*

"The overall cost of the proposed remedy to U.S. consumers is staggering."

-- *Les Schwab Prehearing Submission to TPSC.*

Relief would create shortages, price increases, and delays in purchases.

-- *API, Final Submission on Remedy to the ITC.*

Opponents' Contradictory Statements:

"There wouldn't be any harm to the consumer."

-- *Phillip Berra, President, Community Wholesale Tire, Inc., USITC June 2 Hearing.*

If a remedy is imposed, importers will simply turn to other low-cost sources to supplement supply.

-- *CCCMC & CRIA, Final Submission on Remedy to the ITC*.

Import restrictions will "merely reshuffle the sourcing" of imports, and distributors will buy tires from third countries at the same price as tires from China.

-- *Les Schwab, Final Submission on Remedy to the ITC.*

Other countries will be the "primary beneficiaries" of any relief, replacing the imports from China.

-- *API, Prehearing Submission to TPSC.*

"Today we could buy tires out of Thailand at the same price as from China. And they'd just ramp up the production. And they're supplying tires in a global market so they'd just make decisions they would ship more tires to the United States."

-- *Phillip Berra, President, Community Wholesale Tire, Inc., USITC June 2 Hearing.*

According to the opponents' economic modeling analysis, the smaller the decline in Chinese imports, the larger the cost to consumers.

Scenario	Decline in Chinese Imports	Cost to U.S. Consumers ($ million)
1	-77.9%	$ 597
2	-68.3%	$ 655
3	-54.7%	$ 700

The Facts

The Commission estimated that the remedy could result in a net benefit to the national welfare of more than $73 million.

The increase in prices would be "modest," and any negative effects on U.S. consumers would be "very small in absolute terms and even smaller in relative terms."

-- *Views of the Commission, USITC Report at 37.*

The total cost to consumers predicted by the ITC ranges from $459 million to $534 million, or about 0.003% of U.S. Gross Domestic Product in 2008. The cost is also minimal from the perspective of individual consumers. Figures generated by the ITC staff indicate that the remedy would result in a weighted-average price increase on tires from all sources of 5 to 7 percent, for an average increase of approximately $3.50 per tire.

Whether Tire Wholesalers and Distributors Would Be Significantly Affected

Opponents' Claim:

If the proposed tariff of 55% is imposed on Chinese tires, at least 25,000 jobs would be lost among tire wholesalers, distributors and retailers, one out of every eight jobs in the tire industry.

Opponents' Contradictory Statements:

According to the opponents' economic modeling analysis, the smaller the decline in the volume of Chinese imports, the larger the increase in lost jobs.

Scenario	Decline in Chinese Imports	Wholesaler/Dealer Jobs Loss
1	-77.9%	25,009
2	-68.3%	27,272
3	-54.7%	28,998

The Facts:

The domestic industry has substantial unutilized capacity available to produce the same types and sizes of tires currently being imported from China and has every incentive to increase production in order to increase their capacity utilization.

The ITC staff estimates that any reduction in Chinese imports resulting from the remedy will be essentially offset by increases in U.S. shipments and imports from third countries. Thus, overall consumption of replacement

tires will be affected very little, and no significant reduction in tire distribution and retailing is likely.

Adverse effects on retailers in terms of the diversity of supply, performance levels, and price points are also unlikely given the broad spectrum of products available from a variety of producers.

-- *Separate Views of Chairman Aranoff on Remedy, USITC Report at 42.*

Whether The Decline in Imports From China Will Be Replaced Primarily By Imports from Other Countries

Opponents' Claim:

The domestic industry will not benefit from any remedy because distributors will simply shift to imports of low-cost tires from other sources.

The Facts:

The Commission staff took into account the availability of third country imports in its analysis of the likely effects of the remedy. That analysis showed that a relatively small share of the shift from Chinese tires would go to third country imports.

The claim by the opponents is based primarily on a comparison of average unit values (AUVs) of imports from various countries and U.S.-produced tires. The argument fails to take into account:

- **More than 70% of tire imports from countries other than China are imported by tire producers with U.S. facilities, which means the AUVs represent transfer prices, not arms-length prices, and therefore provide little or no indication of likely prices at the wholesale or retail level.**
- **Because consumer tires exist along a broad continuum of sizes and price points, reliance on AUVs at the aggregate level is meaningless.**
- **The trading patterns of most of these countries as reflected in their exports over the last five years indicates little likelihood of sudden, significant shifts of exports to the United States. In most cases, the U.S. is not a major market for them and in many cases, their exports to the U.S. have been declining.**
- **There is also no evidence of significant unutilized capacity that could be used to significantly increase shipments to the U.S.**

Whether Implementation of a Remedy Would Have An Adverse Impact on the U.S. Economy "Clearly Greater" Than The Benefits of Such Action

Opponents' Claim:

Imposition of a remedy would result in imposition of costs of more than $600 million and a reduction in the U.S. GNP of over $280 million. By contrast, benefits to the domestic industry would be very small (between 400 and 1800 jobs created).

The Facts:

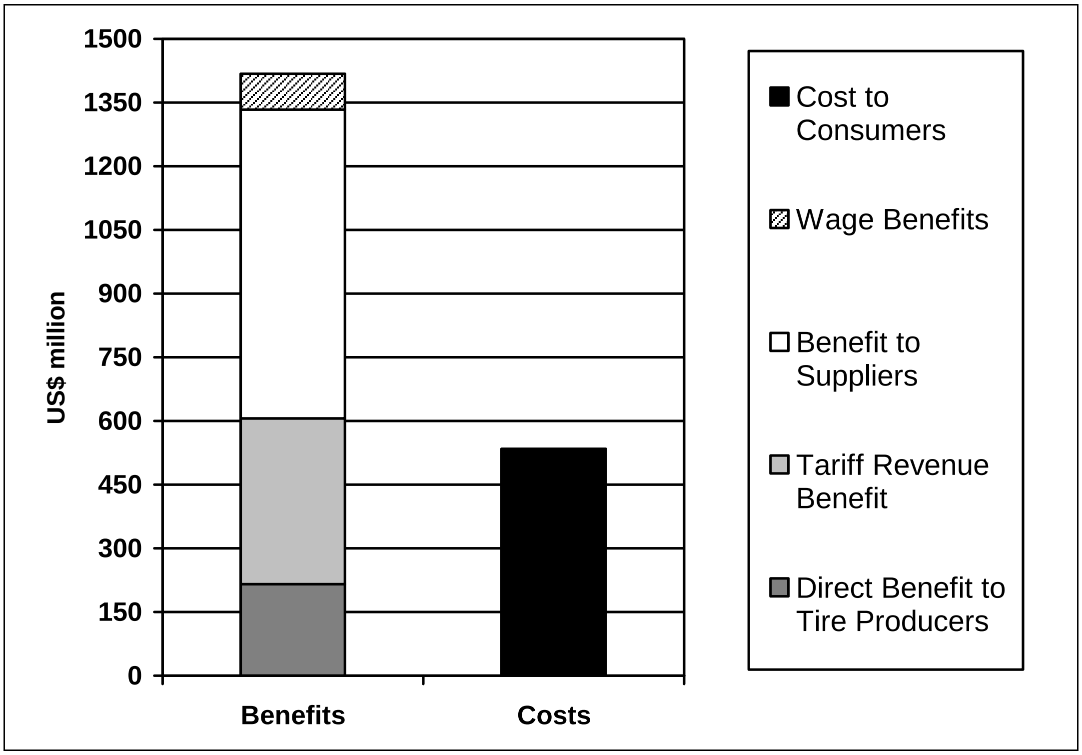
"There wouldn't be any harm to the consumer."

-- *Phillip Berra, President, Community Wholesale Tire, Inc., USITC June 2 Hearing.*

The Commission's analysis, which compared the effects on the domestic industry to the effects on consumers and the national welfare, found that the net welfare effect of their proposed remedy ranged from negative $71 million to a positive net benefit of more than $73 million. The average of the two estimates ends up with a small net benefit.

The Commission found that the proposed remedy would result in an increase in domestic production, shipments and sales of tires and restore the industry to at least a modest level of profitability from its current operating loss position.

Information supplied on the effects on upstream industries demonstrates that upstream industries that supply tire producers with inputs and services would significantly benefit, as would the communities in which the tire plants are located. These benefits would outweigh costs to consumers by a ratio of more than 2.5 to 1.



Whether A Remedy Should Provide An Exclusion For Imports of Chinese Tires into the OEM Sector

Auto Producers' Claims:

If a remedy is imposed on Chinese OEM tires, U.S. automakers, its employees and its customers would be "unduly harmed." "The most price sensitive customers in some of the newest, fuel efficient models will be hit the hardest with this burden." "{O}riginal equipment tire tariffs would be levied on domestic auto manufacturers while imported vehicles would have the cost advantage, and that advantage would range between 50 to $150 per vehicle." The automakers would be forced to absorb this cost.

-- Charles Uthus, Vice President, Automotive Trade Policy Council, USTR August 7 Hearing.

The Facts:

The USITC found that costs of relief to consumers would be minimal, especially "given that tires are generally a small cost component in the ultimate end uses in passenger vehicles and light trucks."

-- Views of the Commission, USITC Report at 31.

The price of the average tire is estimated to rise by $3.50 per tire, or $14 for a set of four tires, if the recommended remedy is imposed. Given that the average price of a car sold in the United States was $28,797 in 2007, the added costs imposed by relief of $14 per set of tires amounts to less than 0.0005% of the cost of a car.

Experience with other suppliers to the auto producers suggests that it is unlikely the auto companies will end up paying much if any of the duties assessed. For example, as steel fabricators testified regarding the impact of the Section 201 steel safeguard, the ability of suppliers to pass on cost increases to the automotive sector is extremely limited.

The auto producers dictate the "price point" at which the tires are to be produced.

-- *Charles Uthus, Vice President, Automotive Trade Policy Council, USTR August 7 Hearing.*

Such an exclusion would be extremely difficult to administer by Customs, which would have to distinguish between tires for the OEM sector and for the replacement market. It would be an open invitation to importers to evade the remedy.