

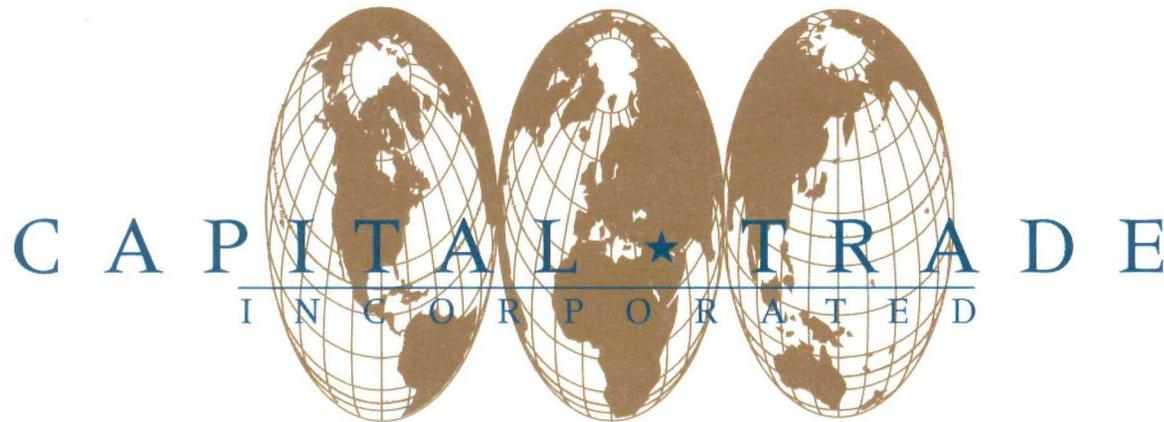
**Economic Rebuttal**

# **Passenger Vehicle and Light Truck Tires from China**

**Inv. No. 701-TA-522 and 731-TA-1258 (Final)**

**June 9, 2015**

**Presentation at the USITC**



Dr. Seth T. Kaplan

[skaplan@captrade.com](mailto:skaplan@captrade.com)

202-955-6814

## Economic Rebuttal

# Dr. Button's Report

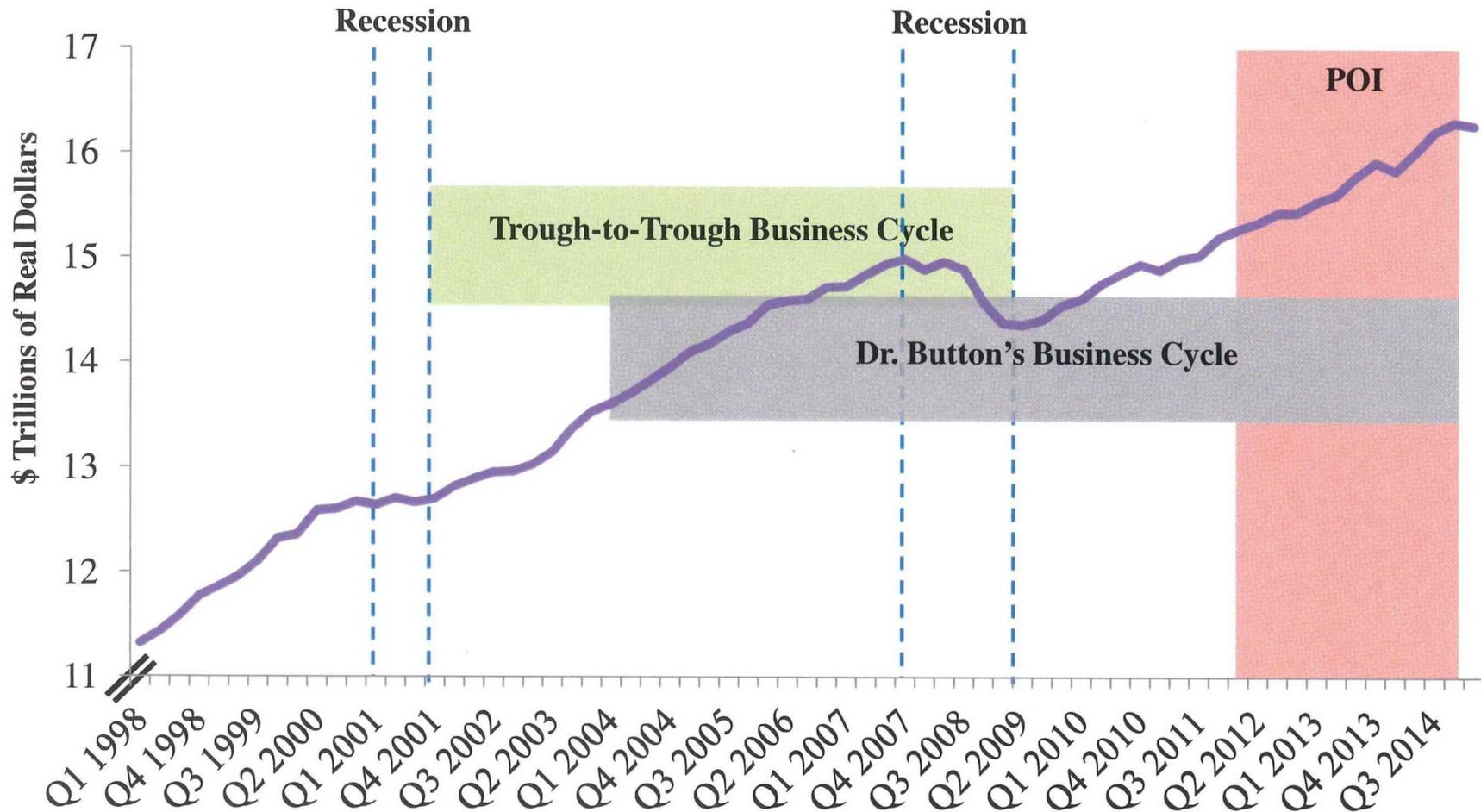
### I. SUMMARY OF ECONOMIC AND FINANCIAL ANALYSIS

- The performance of the U.S. PVLТ tire industry is cyclical and follows the U.S. general economic cycle.
- Virtually all key performance metrics of the U.S. PVLТ tire industry deteriorated during the 2012-2014 POI (capacity; production; U.S. shipments quantity, value, and AUV; market share; number of PRWs; total assets) with the exception primarily of increasing operating income performance.
- Across the ups and downs of the recent 2004-2014 business cycle, the U.S. PVLТ tire industry has failed to achieve an average profitability which covers the industry's cost of capital over the period. With an average 10.1 percent return on invested capital (equivalent to 4.4 percent operating income margin), the industry did not reach the return on invested capital in the range of 11.0 percent to 13.0 percent (equivalent to an operating income margin range of approximately 5 percent to 6 percent) that was necessary to cover its cost of equity and debt capital during the period. "But for" the negative impact of the subject imports, the U.S. industry's financial performance during the POI would have been stronger than what was achieved.
- The U.S. PVLТ tire industry is threatened with deterioration in its financial condition in the absence of trade relief because it otherwise faces the virtually inevitable decline in profitability because of (i) the reversal in the prior trend of falling raw material costs (e.g., synthetic rubber and carbon black) which are now rising, (ii) the continued loss of U.S. sales volume and market share to the subject imports, and (iii) the continued decline in U.S. tire prices.

# Economic Rebuttal

## Business Cycle

### The Business Cycle is Not from 2004 - 2014



Source: Bureau of Economic Analysis. Chained 2009 dollars, SAR; Recession NBER U.S. Business Cycle Expansions and Contractions; Economic and Financial Analysis Appendix to Petitioners' Pre-Hearing Brief at 1.c

# Economic Rebuttal

## Raw Material Costs

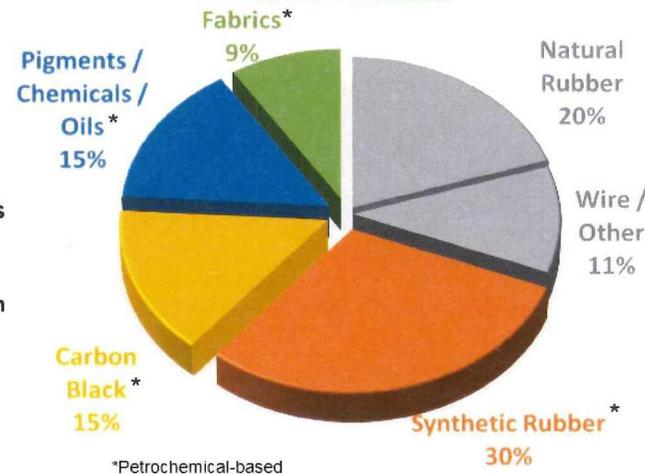
# Raw Material Costs Are Likely to Remain Low

## Raw Materials



- Raw materials ~50% of tire business cost of goods sold
  - Tires ~85% of total cost of goods sold
  - ~25% of raw materials cost not affected by commodity prices
- Around two-thirds of raw materials are **influenced** by oil prices
  - P&L impact lags spot rates by 1-2 quarters depending on commodity
- Approximately two-thirds of raw materials are purchased in USD
  - Largest foreign currency transactional exposures are from Euro, Real and Canadian dollar
- Customer agreements indexed to raw materials:
  - OE customers (~20% of sales)
  - Certain large Commercial fleets
  - OTR customers

**Goodyear Global Raw Material Usage**  
2014 FY Estimate



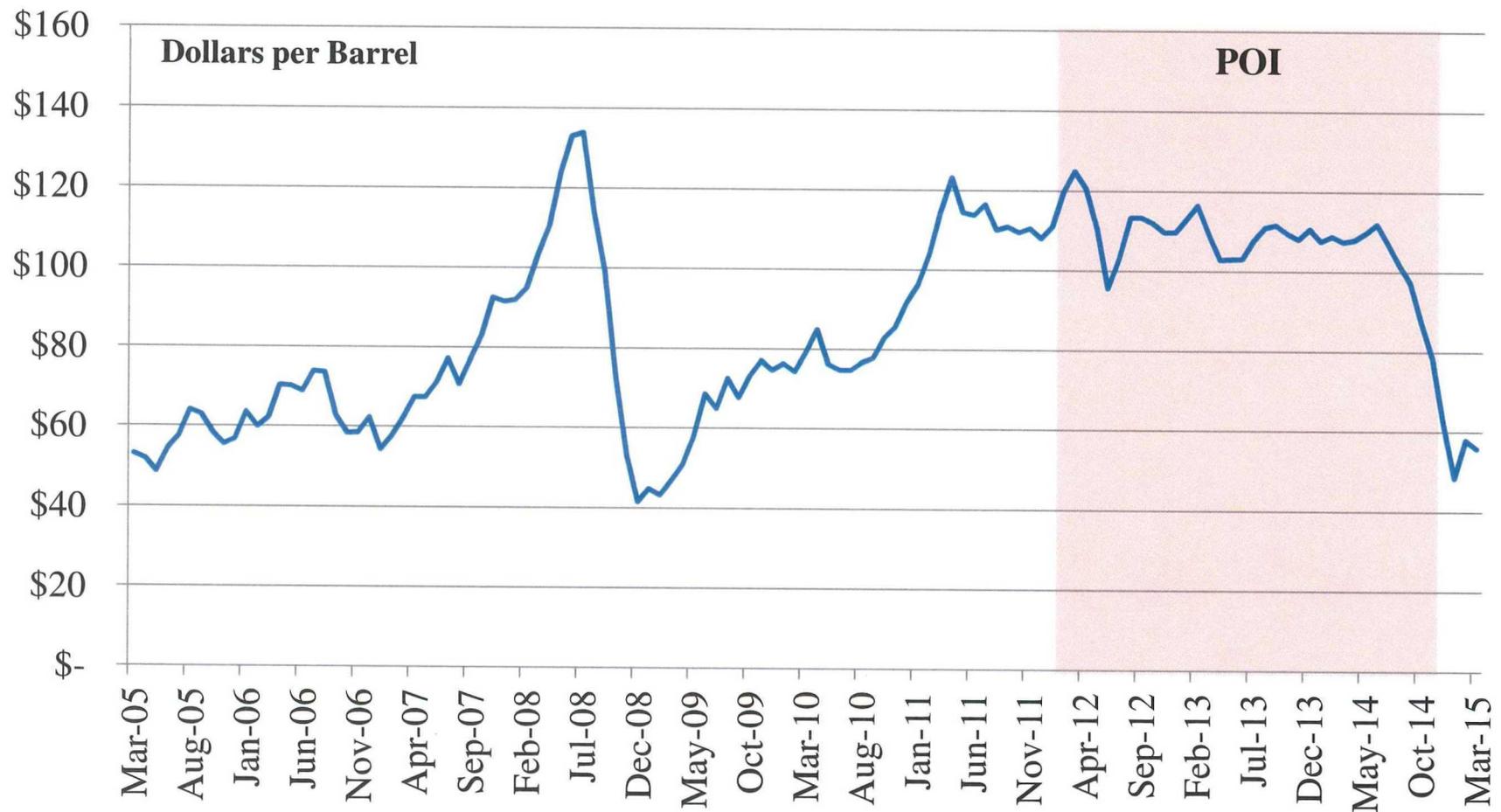
Based on current commodity spot rates, we expect raw material costs to be down ~10% for the full year

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## Economic Rebuttal

### Raw Material Costs

# Raw Material Costs Are Likely to Remain Low: Oil

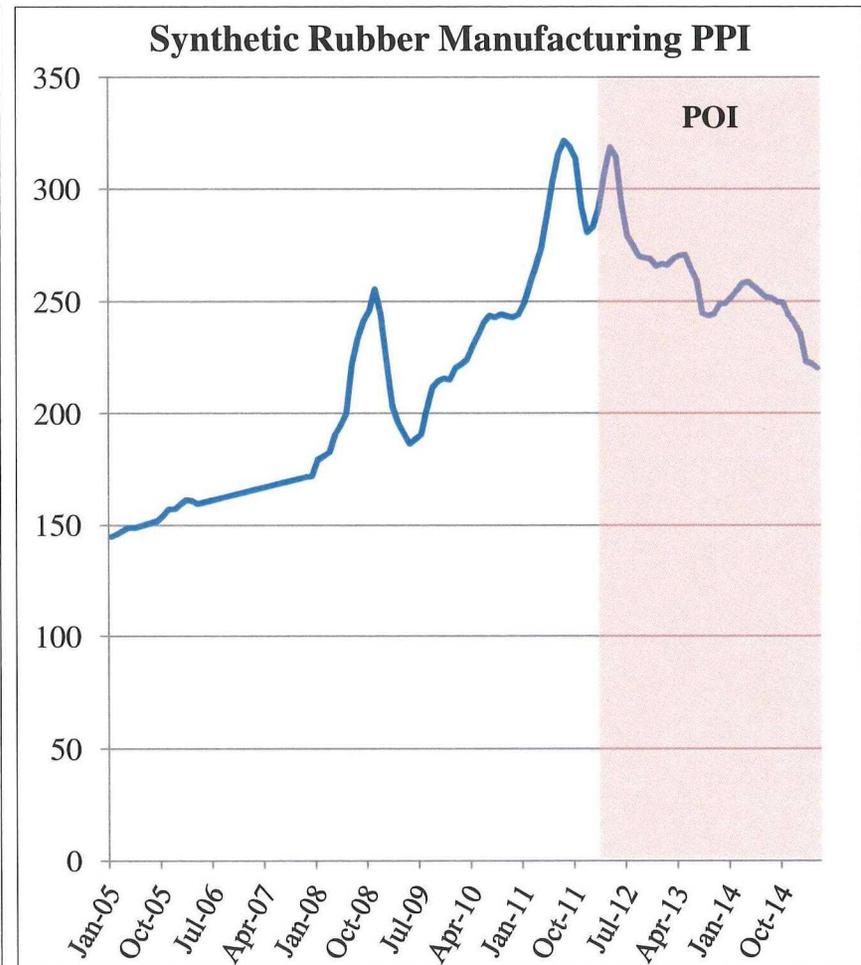
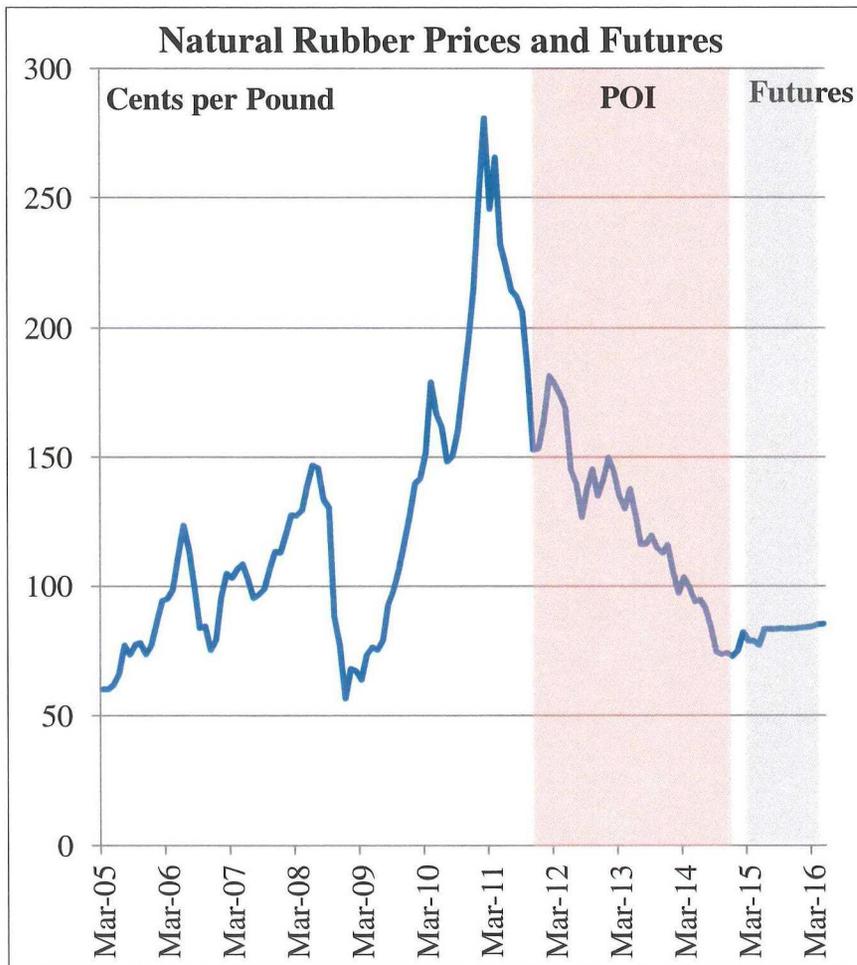


Source: "Crude Oil - Petroleum." Dated Brent Monthly Price via Index Mundi.

# Economic Rebuttal

## Raw Material Costs

### Rubber Costs Are Likely to Remain Low



Source: SICOM RSS3 Rubber Futures." Singapore Commodity Exchange via Quandl and Rubber, No. 3 Smoked Sheet (RSS3), 1<sup>st</sup> Contract." Singapore Commodity Exchange via Index Mundi; Bureau of Labor Statistics.

## Economic Rebuttal

### Capacity Utilization

# Dr. Button's Analysis Assumes Unattainable Production

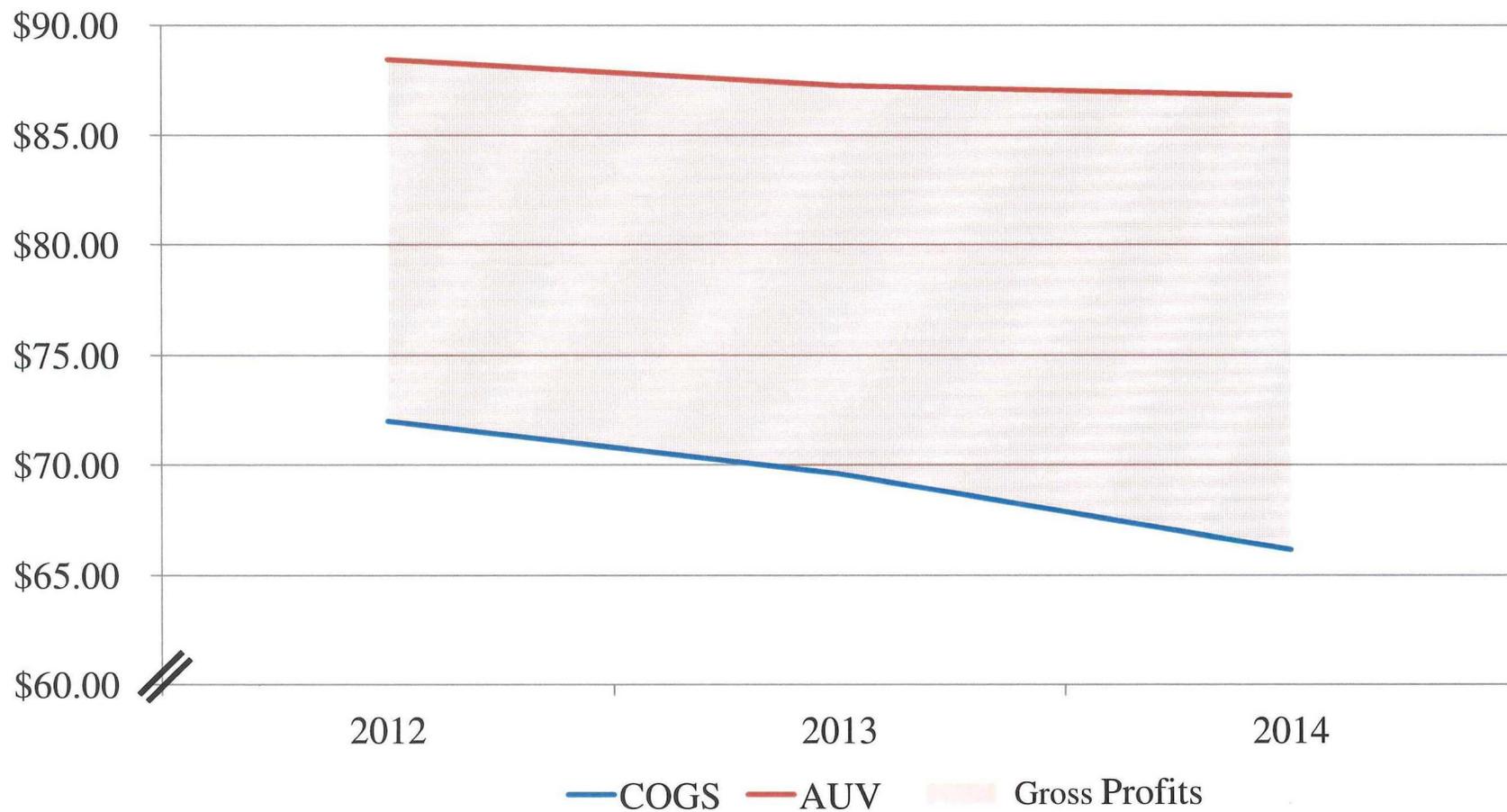
	2012	2013	2014	Change
<i>Performance if Maintained 2011 Market Share</i>				
Consumption	274,296	290,641	301,038	9.7%
Capacity	163,864	162,911	163,219	-0.4%
Domestic Market Share	49.9%	49.9%	49.9%	0 ppt
Shipments	136,816	144,968	150,154	9.7%
Sales Volume	161,698	172,162	178,325	10.3%
Production	160,006	166,617	176,949	10.6%
Capacity Utilization	97.6%	102.3%	108.4%	10.8 ppt
Employment	27,077	28,997	29,786	10.0%
Hours	55,319	57,449	62,592	13.1%
Wages	1,417,268	1,520,372	1,653,535	16.7%

Source: Petitioners' Prehearing Brief at 76.

# Economic Rebuttal

## Prices and Profits

### Profits Increased Over POI

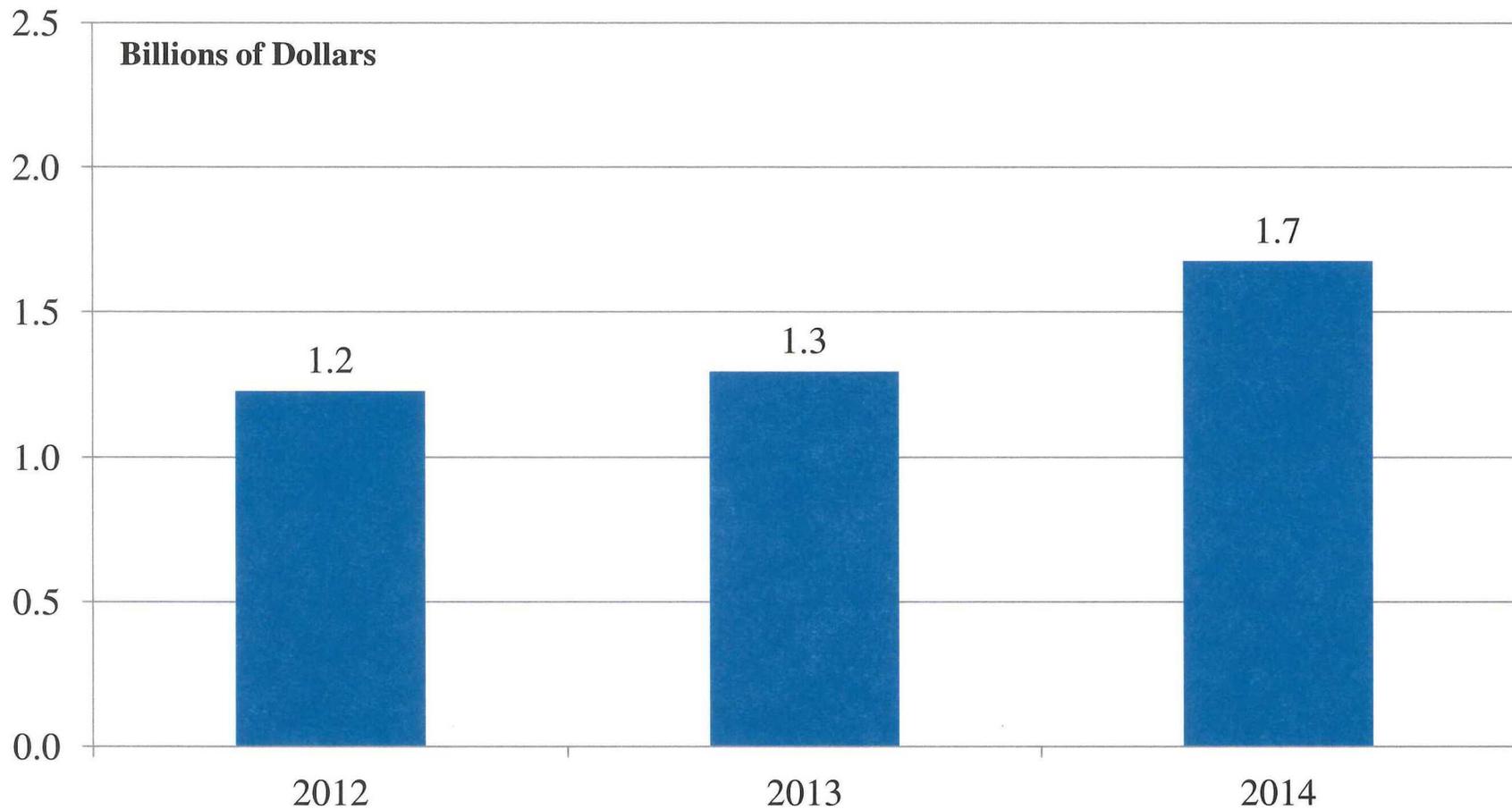


Source: Prehearing Staff Report at C-1

## Economic Rebuttal

No Correlation Between  
Profits and Imports

# Operating Income Increased Over the POI

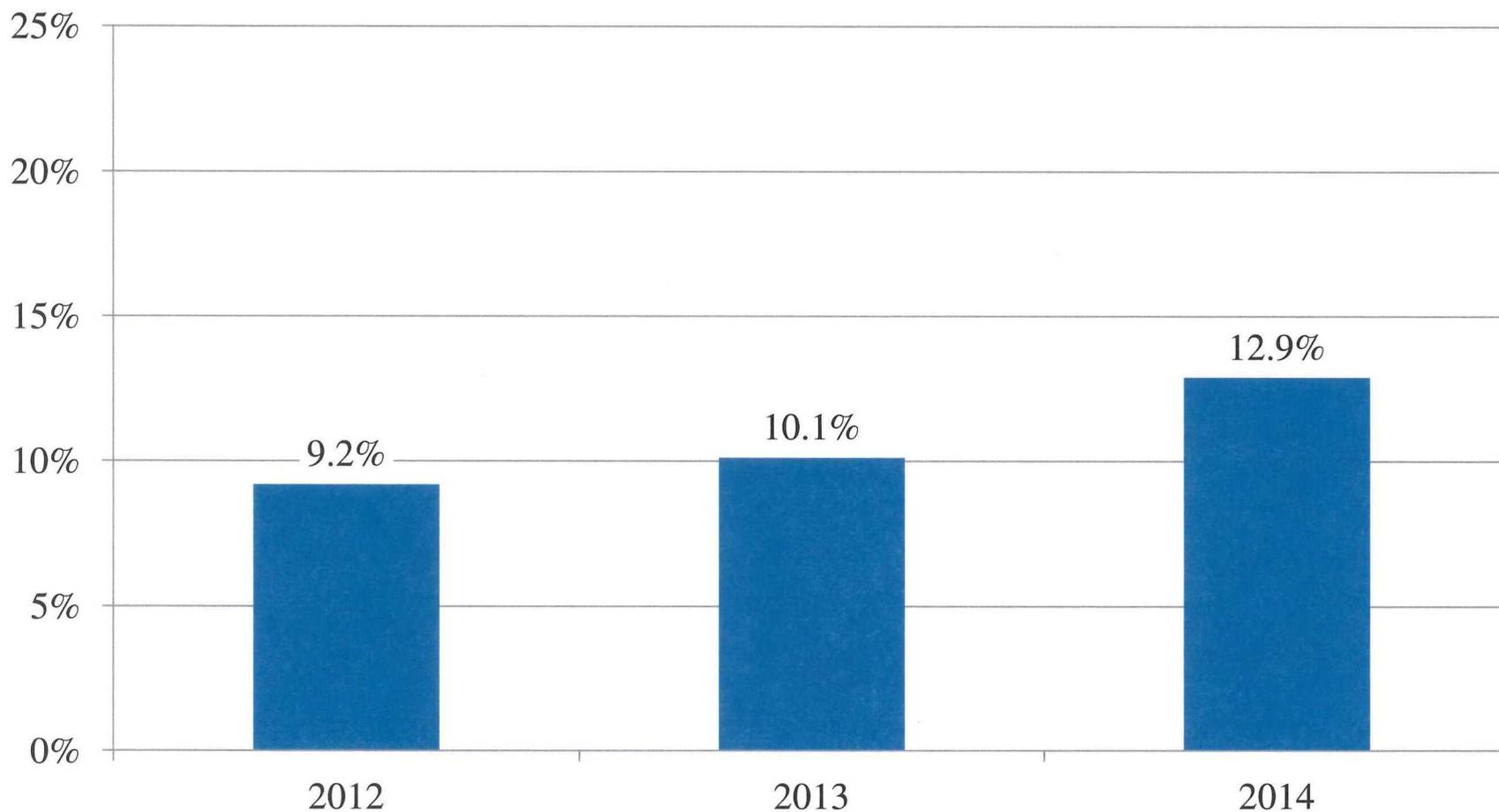


Source: Prehearing Staff Report at Table VI-1

## Economic Rebuttal

No Correlation Between  
Profits and Imports

### Operating Margin Increased Over the POI



Source: Prehearing Staff Report at Table VI-1