

TRUCK AND BUS TIRES FROM CHINA

**INV. NOS. 701-TA-556 AND 731-TA-1311 (FINAL)
PETITIONER'S PRESENTATION**



**U.S. INTERNATIONAL TRADE COMMISSION
PUBLIC HEARING
JANUARY 24, 2017**

OVERVIEW

- 1. Data Issues in Prehearing Staff Report**
- 2. Domestic Like Product**
- 3. Critical Circumstances**
- 4. Conditions of Competition**
- 5. Volume**
- 6. Price Effects**
- 7. Impact**
- 8. Threat**

1. DATA ISSUES IN PREHEARING STAFF REPORT

- **Three issues warrant further investigation by staff, in addition to issue currently being pursued:**
 1. Non-subject imports in 2016 and to a lesser extent in 2015 are overstated because of apparent misclassification of imports from Thailand
 2. Public data from ITC Preliminary determination raise questions on correctness of financial data from domestic producers.
 3. Public data from ITC Preliminary determination raise questions on accuracy of domestic industry assets.

Staff are aware of and pursuing missing domestic data from Sumitomo facility in New York for 4th quarter 2015 and 2016.

1. DATA ISSUES IN PREHEARING STAFF REPORT

Non-subject imports from Thailand:

- Account for all increase in nonsubject imports in interim 2016 (575,123 tires).
- 851,999 tires from Thailand in Jan.-Sept. 2016 (based on monthly and Customs District analysis) are at weights that are passenger vehicle or light truck tire weights and not truck or bus tires. See Petitioner's prehearing brief at 48-51 and exhibit 29.
- A few tires were also misclassified in 2015 (15,739).
- Thai export data also don't show an increase in exports to the US in 2016 of truck and bus tires.

1. DATA ISSUES IN PREHEARING STAFF REPORT

Domestic industry financial data:

- Major domestic producers are part of multinational companies.
 - Most have retread operations which are not supposed to be part of the P&L data
 - Some have related party distribution where shipments are supposed to be valued at arm's length value (vs. use of later resale price).
 - As part of multinational corporations, need to properly account for corporate SG&A, which is much lower as a % of net sales than otherwise reported

Source	2013	2014	2015
ITC Prelim Data	11.56%	11.51%	12.16%
Michelin AR	17.21%	17.58%	17.20%
Goodyear AR	14.11%	15.00%	15.90%
Bridgestone AR	24.17%	24.67%	25.83%

1. DATA ISSUES IN PREHEARING STAFF REPORT

Domestic industry assets:

- Major domestic producers have many assets which support the tire manufacturing facilities. Appears such assets were not allocated to truck and bus tire production.

Source	2013	2014	2015
ITC Prelim Data	3.84	3.54	3.33
Michelin AR	0.98	0.87	0.89
Goodyear AR	1.11	1.01	1.00
Bridgestone AR	1.00	0.93	1.00

2. DOMESTIC LIKE PRODUCT

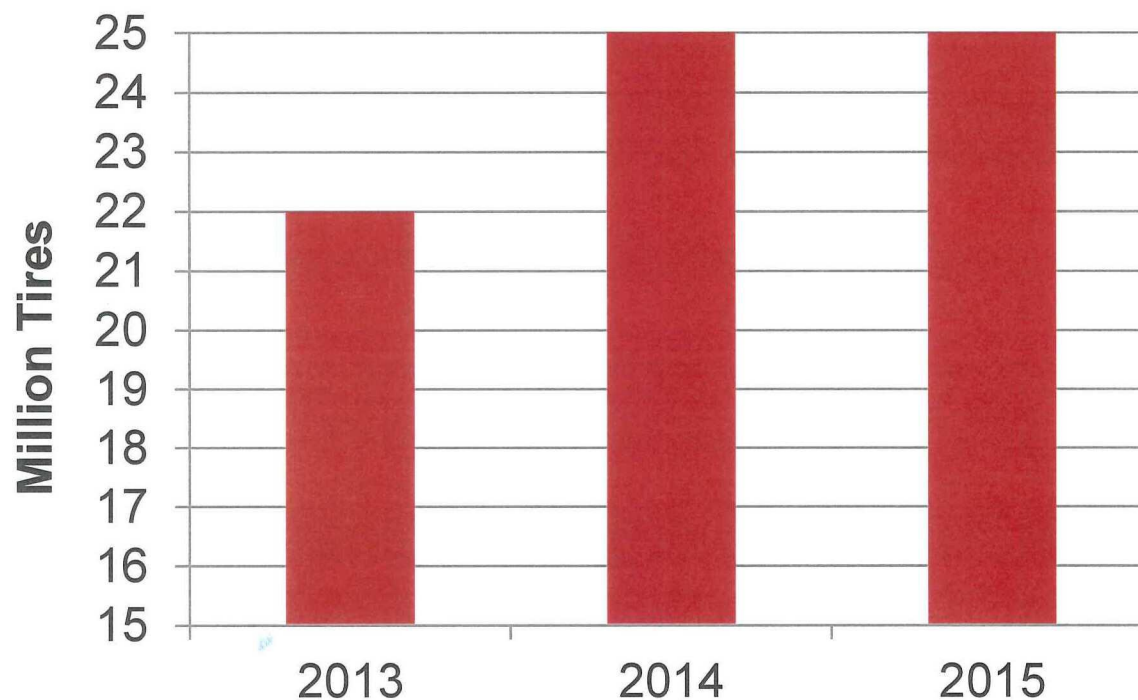
- **The Commission preliminarily determined that the domestic like product was all bus and truck tires, co-extensive with the scope**
- **The Commission decided not to exclude 10x20 bias ply tube tires**
 - Made from same materials and components; same uses
 - Similar production process; Specialty makes bias in U.S.
 - Cannot be mixed on same equipment, but other tires can also be used on intermodal chassis
 - All tires offered in a range of prices
 - No clear dividing lines
- **The Commission should reach the same determination in the final phase**

3. CRITICAL CIRCUMSTANCES

- **The Commission should find that critical circumstances exist**
- **Commerce made affirmative preliminary critical circumstances determinations**
 - AD findings for Prinx, non-selected separate rate companies, and the PRC-wide entity
 - CVD findings for Guizhou
- **Imports and inventories rose since the filing of the petitions in January and imposition of preliminary relief in July**
- **Michelin noted the “pre-buy” of Chinese tires ahead of duties affecting the North American truck and bus tire market in 2016**
- **Failure to impose duties retroactively will seriously undermine the effectiveness of the order**

4. CONDITIONS OF COMPETITION

Apparent consumption increased each year, rising by 20.5% from 2013 to 2015, an increase of 4.5 million tires, based on Prelim data



Demand growth is reported to have slowed starting in late 2015

4. CONDITIONS OF COMPETITION

Supply has been plentiful

- **There are nine U.S. plants that produce truck and bus tires, with an estimated combined capacity of 54 thousand tires a day (annual capacity of 19.4 million tires)**
- **The biggest growth in supply over the period has been from China, with subject imports increasing by 2.6 million tires, or 41.9%**
- **Nonsubject imports have also grown, but even combined they are a much less significant presence in the market than Chinese tires**

4. CONDITIONS OF COMPETITION

Truck and bus tires from the U.S. and China are highly substitutable

- **Industry publications indicate both are present in the OEM and replacement market**
- **Chinese and domestic tires are available for all positions on trucks and buses**
- **Major dealers offer U.S. and Chinese tires for the same range of applications side-by-side**
- **Both U.S. and Chinese tires have warranties, including casing and retreading warranties**

4. CONDITIONS OF COMPETITION

- **Ten out of fourteen purchasers report U.S. and Chinese tires are always or frequently interchangeable**
- **Half or more of purchasers report that U.S. and Chinese tires are comparable across 13 of 17 purchasing factors, not including price**
 - Availability, cost over tire lifetime, cost per mile, delivery terms, discounts, extension of credit, minimum quantity requirements, packaging, product consistency, quality meets industry standards, reliability, transport costs & warranty
- **89 to 94% of purchasers report U.S. and Chinese tires always or usually meet minimum quality standards**

4. CONDITIONS OF COMPETITION

Brand	All-Position	Steer	Drive	Trailer	Regional	Long-Haul
Aeolus	✓	✓	✓	✓	✓	✓
Cooper	✓	✓	✓	✓	✓	✓
Double Coin	✓	✓	✓	✓	✓	✓
GT Radial	✓	✓	✓	✓	✓	✓
Guizhou	✓	✓	✓	✓	✓	✓
Hercules	✓	✓	✓	✓	✓	✓
Mastercraft	✓	✓	✓	✓	✓	✓
Sailun	✓	✓	✓	✓	✓	✓
ZC Rubber	✓	✓	✓	✓	✓	✓

4. CONDITIONS OF COMPETITION



Both U.S. and Chinese truck and bus tires have been verified for low-rolling resistance under the EPA's SmartWay program

U.S. Brands		Chinese Brands	
BFGoodrich	Goodyear	Dongfeng	Huasheng
Bridgestone	Continental	Double Happiness	Jinyu
Michelin	Sumitomo	Double Coin	Linglong
Kelly	General	Doublestar	Long March
Dayton	Uniroyal	Dureturn	Qiangwei
Dunlop	Firestone	Fullrun	Roadmaster
Yokohama		Gladiator	Sailun
		GT Radial	Samson
		Hercules	Sinotire
		Horizon	Triangle

4. CONDITIONS OF COMPETITION

Fleet Services

- Chinese producers such as Double Coin, GITI, and Roadmaster (Cooper) offer fleet services directly to their customers
- Many dealers also offer customers fleet services for the tires they sell, including tires from China

Warranties

- Purchasers report that 74% of U.S. tires have warranties and 98% of Chinese tires do
- Chinese producers such as Aeolus, Double Coin, Duraturn, Dynacargo, GITI, Guizhou, Sailun, Triangle, and Zhongce Rubber provide warranties for their truck and bus tires, including casing warranties

4. CONDITIONS OF COMPETITION

Chinese and domestic tires are both retreadable.

“When you actually look at statistics, the Chinese casing is every bit as retreadable as any of the other brands that are here. And these are not my numbers. These are numbers from one of our customers, who happens to be one of the largest retreaders in North America.”

– Walt Weller, vice president of sales, China Manufacturers Alliance (Aug. 6, 2013)

4. CONDITIONS OF COMPETITION

Chinese and domestic tires are both present in the OEM market and the aftermarket

- **The aftermarket is about 75% of consumption**
- **Double Coin has had OEM contracts since at least 2007**
- **A 2014 article noted that increasing acceptance of Chinese tires by OEMs was one of the key reasons for the increase in the volume of Chinese imports**
- **Chinese producers such as Guizhou and Double Coin highlight the fact that they supply OEMs**

4. CONDITIONS OF COMPETITION

Price is an important factor in the market

- 72% of purchasers report price is one of their top three purchasing factors, and it is second most frequently cited top purchasing factor, after quality
- 78% of purchasers report that price is a “very important” purchasing factor
- Two-thirds report Chinese prices are lower than U.S. prices
- 83% of purchasers report they usually or sometimes buy the lowest-priced tire
- The only other factors with similarly high importance ratings are factors on which half or more of purchasers rate U.S. and Chinese tires as comparable
- A public survey of truck fleets found price was ranked as an important requirement more than any other requirement, with 82% reporting “low prices” was a service they required of their dealers

4. CONDITIONS OF COMPETITION

Price is an important factor in the domestic market for truck and bus tires

- **Marketing literature explains that business consumers, such as truck and bus fleets and drivers, are less susceptible to brand marketing than private individual consumers**
- **Instead of relying on brand to signal quality, they are more likely to research products before buying**
- **They purchase less on brand identity and more on the ultimate value a product provides to their business**

4. CONDITIONS OF COMPETITION

Tiers do not attenuate competition between U.S. and Chinese tires

- **There is significant overlap between Chinese and U.S. tires across tiers**
- **Domestic producers offer “good/better/best” brands spanning the tiers**
- **Almost all major tire dealers offer Chinese brands along with domestic brands side by side, with the only major difference being price**
- **Chinese producers themselves advertise their tires as competing directly with brands produced in the United States**






4. CONDITIONS OF COMPETITION

Domestic brands span the tier spectrum

U.S. Producer	Bridgestone	Goodyear	Michelin	Continental
Brand 1	Bridgestone	Goodyear	Michelin	Continental
Brand 2	Firestone	Dunlop	BFGoodrich	General
Brand 3	Dayton	Kelly	Uniroyal	

4. CONDITIONS OF COMPETITION

Chinese producers advertise they compete directly with domestic brands.
Double Coin's product catalogue:

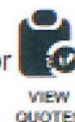
	CATEGORY	PAGE	PRODUCT	IMAGE	FEATURES	COMPETITORS
FUEL EFFICIENT		5	FR605* <i>OptiGreen™ Series</i>		<ul style="list-style-type: none"> Advanced tread compounds, internal design and construction 5-rib tread design Extensive siping and side-shoulder decoupling groove 	<ul style="list-style-type: none"> Bridgestone R287, R227FE Goodyear G395 LHS Michelin XZA2 Energy, XZA3
		5	FD405* <i>OptiGreen™ Series</i>		<ul style="list-style-type: none"> Advanced tread compounds, internal design and construction Closed shoulder tread design Deep ²⁰/₃₂" tread 	<ul style="list-style-type: none"> Bridgestone M726EL, M720 Goodyear G305 LHD, G372A LHD Michelin XDA3, XDA Energy
		6	FT105* <i>OptiGreen™ Series</i>		<ul style="list-style-type: none"> Advanced tread compounds, internal design and construction Extensive tread siping Durable casing 	<ul style="list-style-type: none"> Bridgestone R195F Goodyear G316 LHT Michelin XTA Energy
		6	FT125* <i>OptiGreen™ Series</i>		<ul style="list-style-type: none"> Advanced tread compounds and wider, low profile design Unique construction for strength and even wear Environmentally conscious operation Manufactured in ISO14001 certified environmentally friendly plants 	<ul style="list-style-type: none"> Bridgestone Greatec R125, R135 Michelin X-One, X-One XTE Goodyear G394 SST
		7	FD425* <i>OptiGreen™ Series</i>		<ul style="list-style-type: none"> Advanced tread compounds and wider, low profile design Unique construction for strength and even wear 	<ul style="list-style-type: none"> Michelin X-One XDA, XDN2 Goodyear G392SSD Bridgestone Greatec M835

4. CONDITIONS OF COMPETITION

TIRE BRANDS

At [Southern Tire Mart](#), we provide brand name tires to customers in the Southeastern US, Southwestern US, Midwest US, and surrounding areas. Our selection features competitively priced tires from the industry's top brands.

Browse our [online tire catalog](#) to shop for tires. If you need help with your search, [contact us online](#) or



Locations: Mississippi, Texas, Georgia, Oklahoma, Arkansas, Louisiana, Nevada, Tennessee, Florida

BRIDGESTONE

DURATURN

GENERAL TIRE 

Continental 

 **DOUBLE COIN**
TIRES

GLADIATOR

TOYO TIRES
DRIVEN TO PERFORM®

Firestone

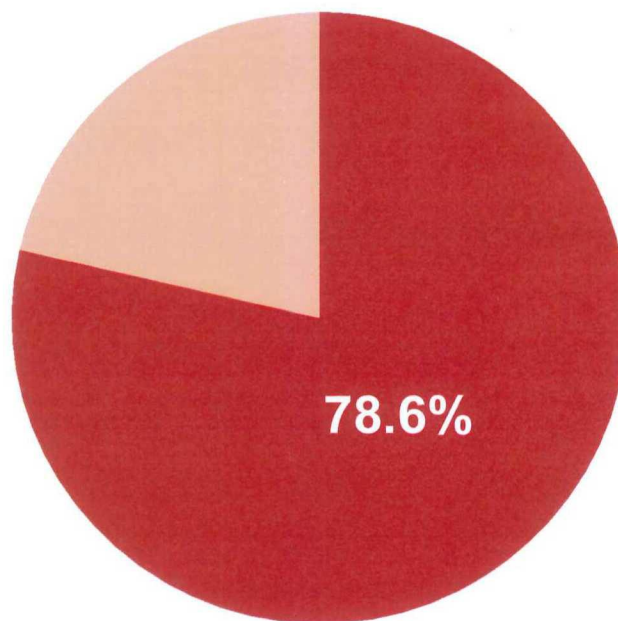
 **YOKOHAMA.**

DAYTON

Road**One**

4. CONDITIONS OF COMPETITION

Purchasers reporting that customers compare prices between different tiers of truck and bus tires they offer



4. CONDITIONS OF COMPETITION

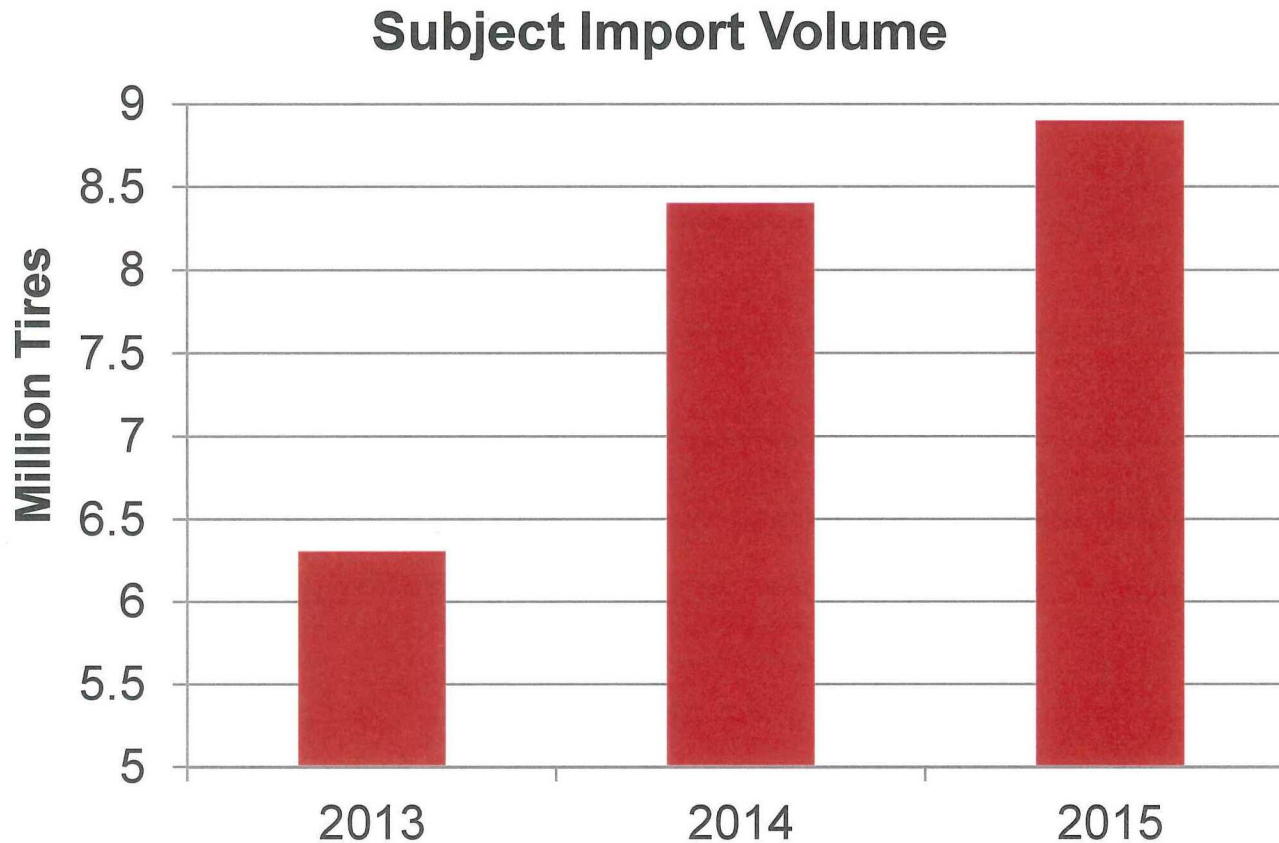
Competition between tiers is also evident in shifts between tiers since 2013 as imports increased

- **Producers report switching U.S. sales between tiers**
- **Firms report sales in Tiers 1 & 2 have declined in favor of Tier 3 sales**
- **All three major domestic producers introduced truck and bus tire lines in their economy brands during the POI**
 - 2013: Goodyear introduces Kelly
 - 2013: Bridgestone re-introduces Dayton
 - 2015: Bridgestone doubles the size of its Dayton line
 - 2016: Michelin introduces new Uniroyal line

5. VOLUME

At 8.9 million tires in 2015, the volume of subject imports is significant absolutely

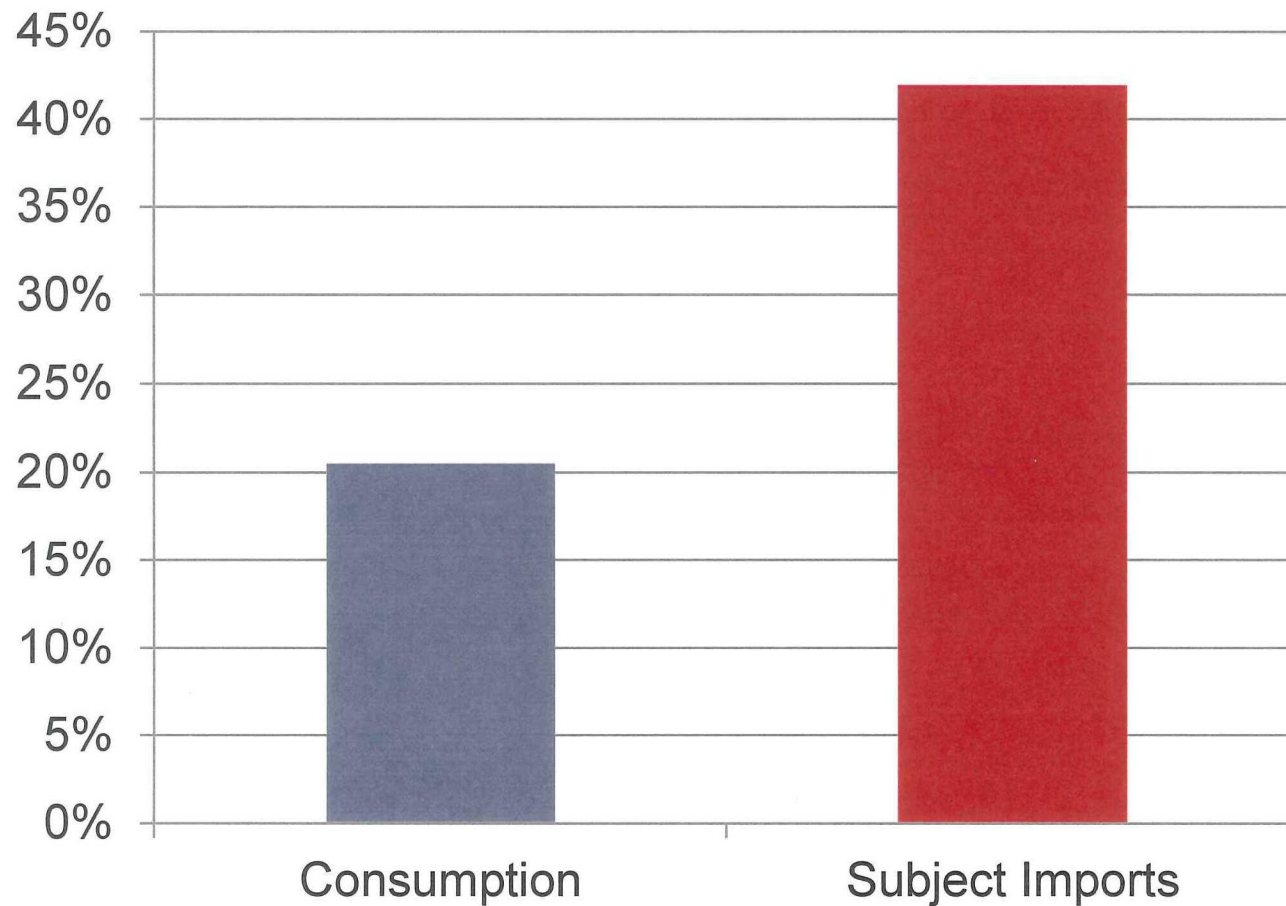
Imports increased by 2.6 million tires, or 41.9%, over the POI



5. VOLUME

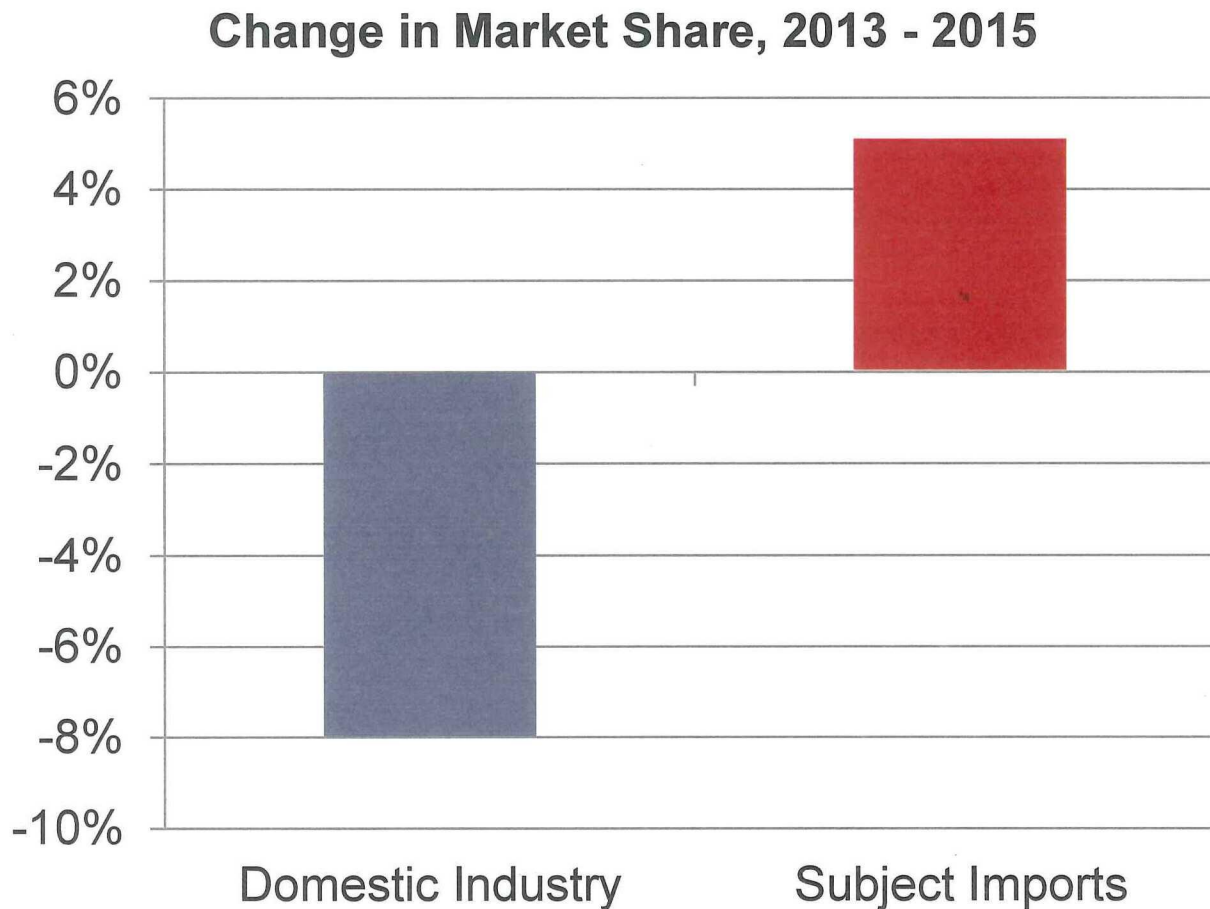
Based on prelim data, subject imports rose more than twice as rapidly as consumption from 2013 to 2015

Growth, 2013 - 2015



5. VOLUME

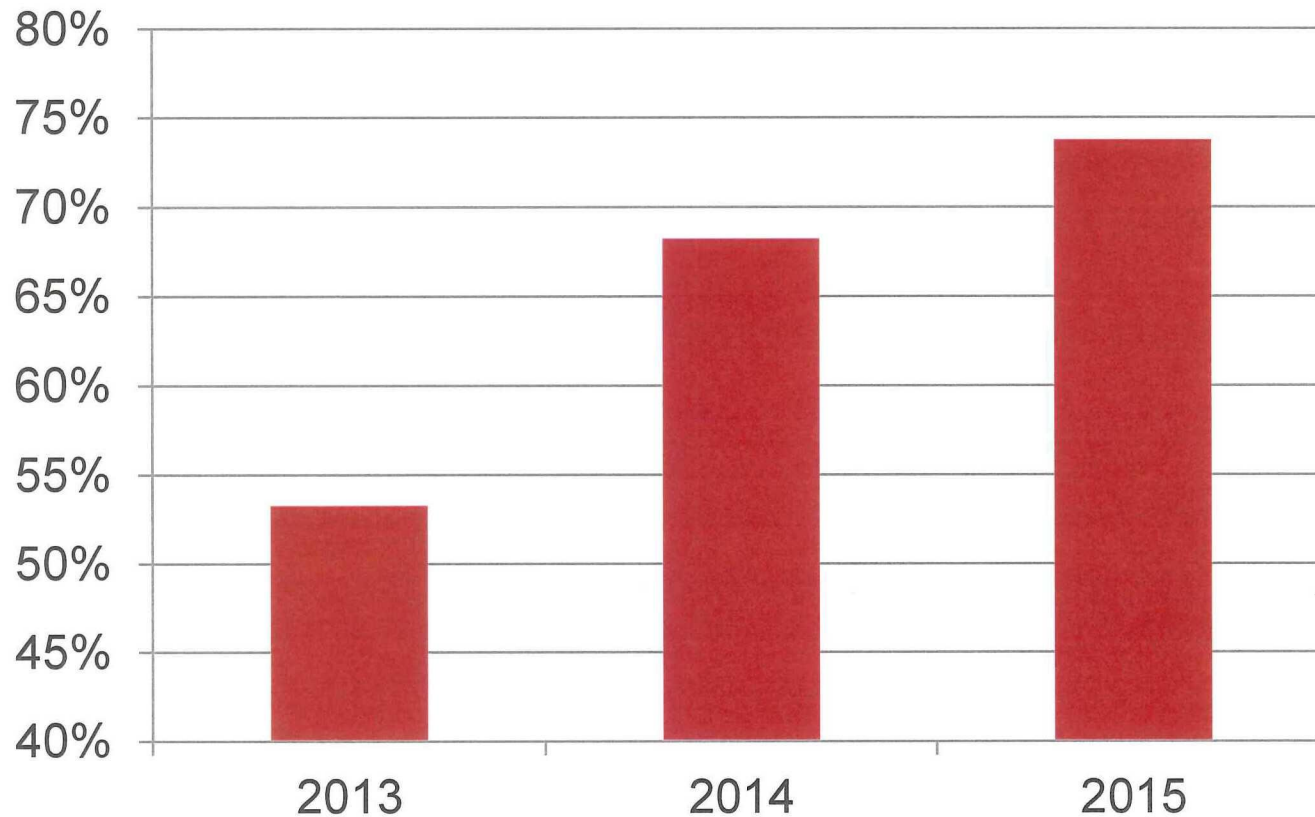
According to prelim data, growing Chinese imports seized domestic market share, preventing the domestic industry from participating in strong demand growth over the period



5. VOLUME

As a result, prelim data show the ratio of Chinese tires to U.S. tires increased from 53% to 74%

Ratio of Subject Imports to Domestic Shipments

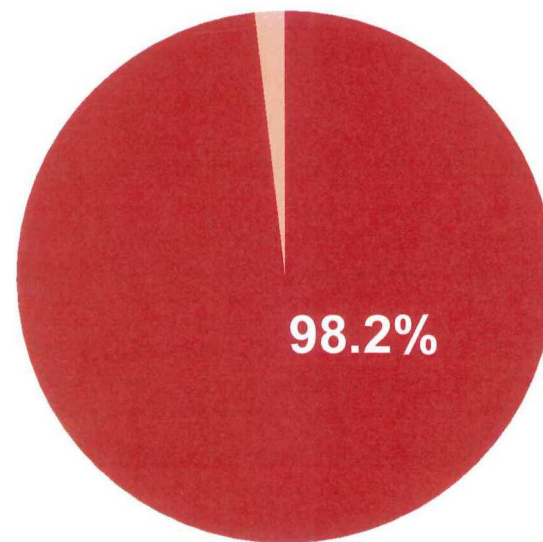


6. PRICE EFFECTS

There has been significant underselling by subject imports.

Data collected in the preliminary phase covering 2013 through 2015 showed that Chinese tires undersold domestic tires in 55 out of 56 comparisons.

Prevalence of Underselling



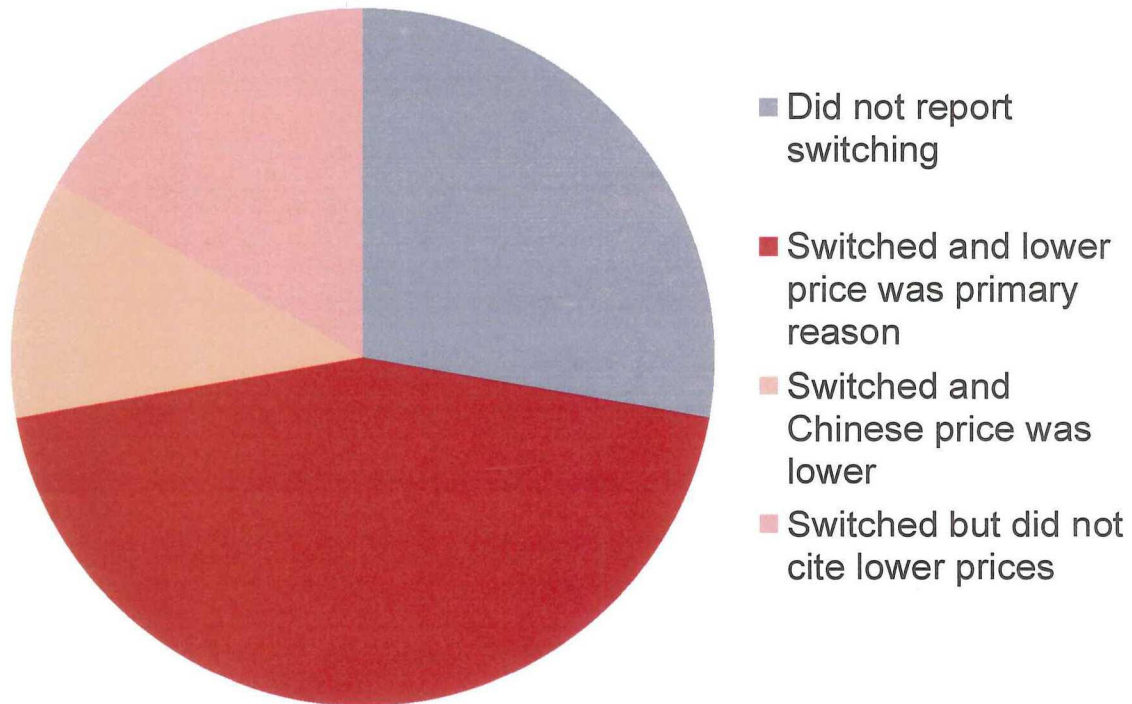
The average margin of underselling was 40.5 percent – a margin higher than possible brand premiums

6. PRICE EFFECTS

- **While underselling alone is sufficient to establish adverse price effects, there also appears to have been price depression by subject imports over the period**
- **From 2013 to 2015, average Chinese import unit values fell by 13%, while domestic shipment values fell 10.6% from 2013 to 2015**
- **Of 5 responding U.S. producers, 3 reported they had to either reduce prices or roll back price increases to compete with subject imports**
- **Four responding U.S. producers reported they had lost sales to subject imports**

6. PRICE EFFECTS

- Responding purchasers confirmed they switched to Chinese product due to price

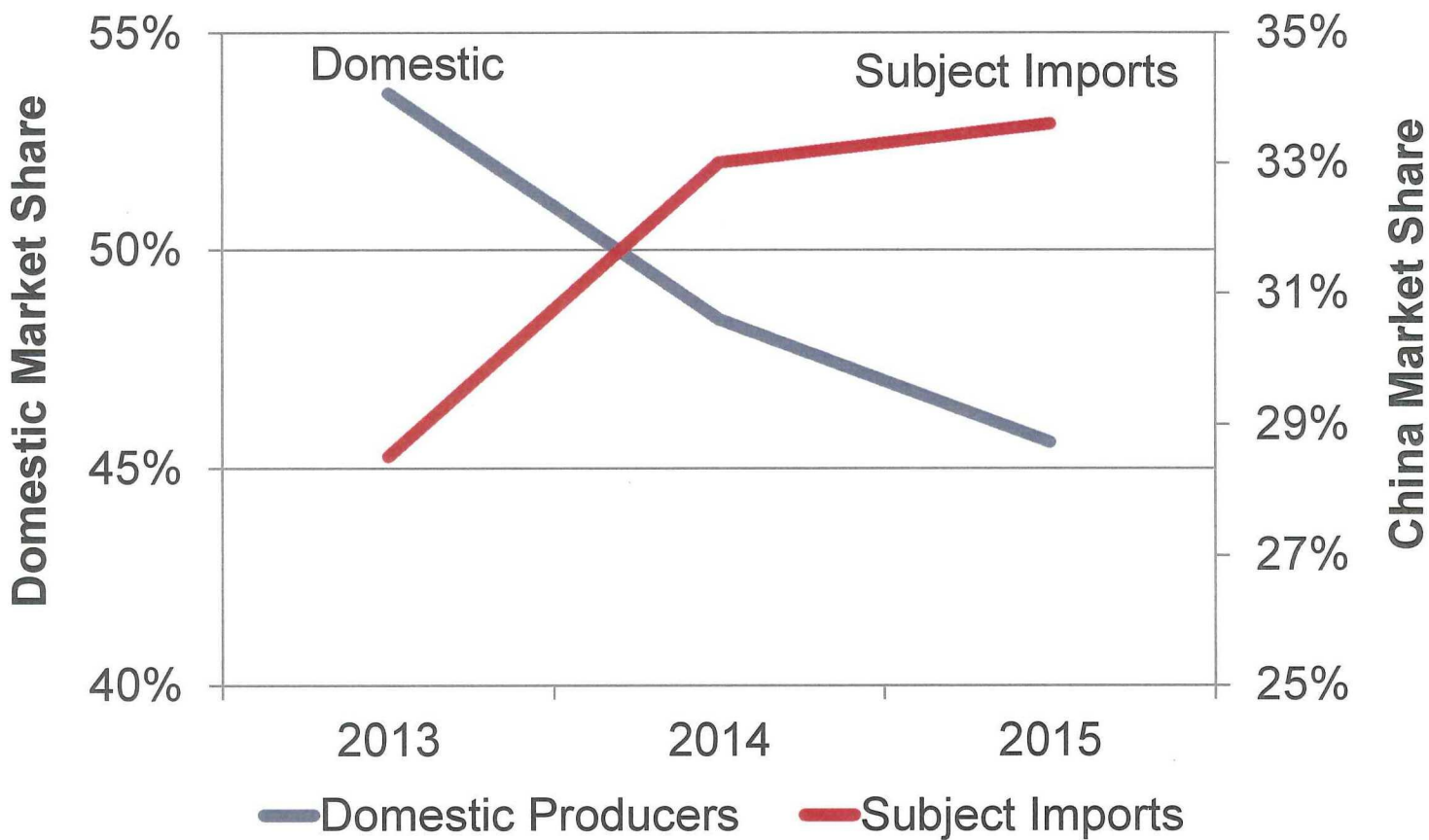


6. PRICE EFFECTS

- A 2014 article notes almost every commercial tire dealer carries Chinese tires alongside domestic tires due to the price difference, and states Chinese imports “will continue to put downward pressure on pricing.”
- “We sell Chinese tires because we have to. It just makes it difficult to compete when Chinese tires are so much less, and anybody can get their hands on anything inexpensive.”
Rob Mason, Pete’s Road Service Inc.
- In 2016, a representative of Belle Tire Distributors was quoted as saying that Chinese imports, “continue to drive the price margins down in North America. This will continue to be a major problem as we enter 2016.”

7. MATERIAL INJURY

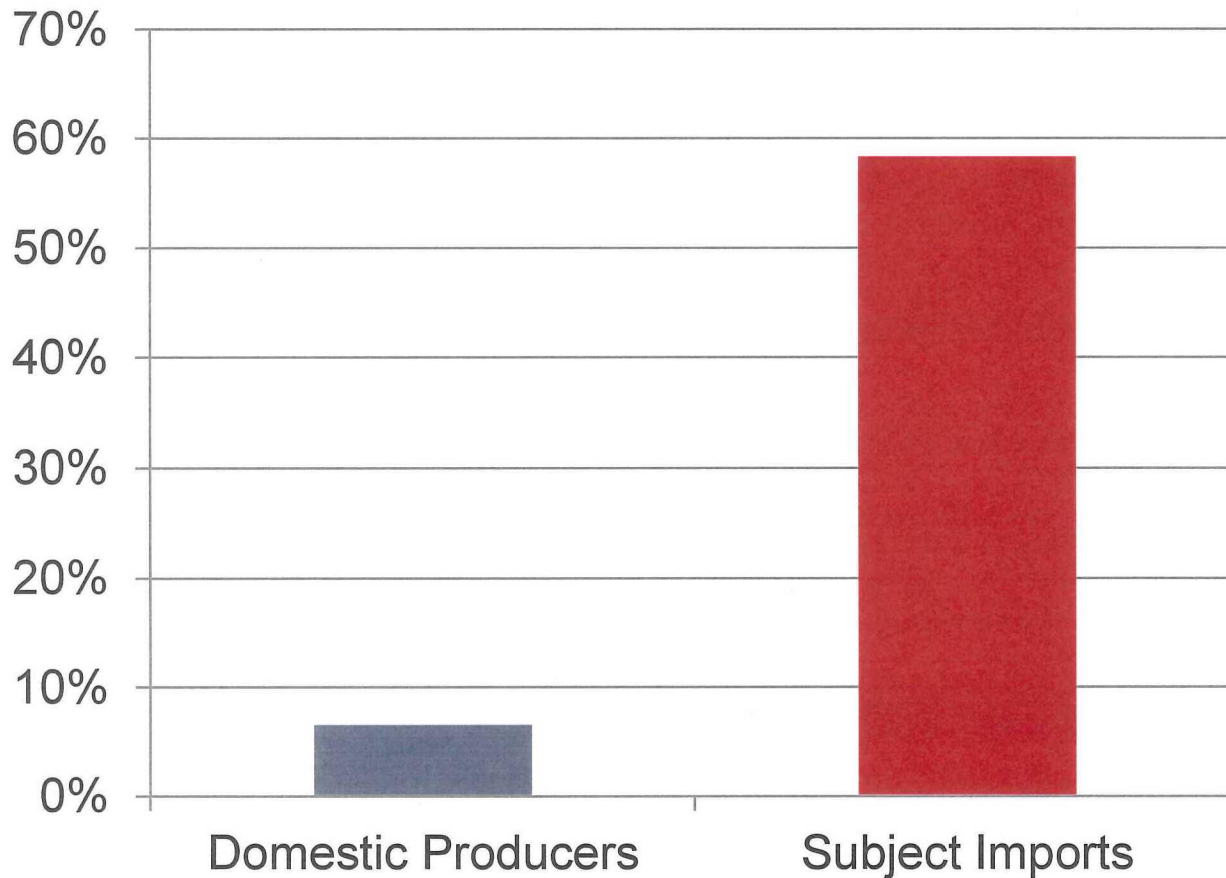
According to prelim data, as subject imports increased more rapidly than rising consumption, they seized market share directly from domestic producers



7. MATERIAL INJURY

As a result, domestic producers participated in hardly any of the demand growth over the period, while China seized the majority

Share of Growth in Demand, 2013 - 2015



7. MATERIAL INJURY

- **As subject imports deprived the domestic industry of shipments, broadly undersold domestic prices, and drove prices down, the domestic industry suffered material injury**
- **Despite a 20.5% increase in demand, prelim data show domestic production, shipments, employment, hours, and wages all rose much more slowly**
- **The industry also saw a rapid rise in inventories, which rose from 16.6% of shipments in 2013 to 21.2% in 2015**
- **In 2015, combined inventories and exports were over 5 million tires, enough to more than cover the rise in volume from China**

7. MATERIAL INJURY

Benefits to the Domestic Industry if Subject Imports Had Not Gained Market Share

Quantity in 1,000 tires; Value in \$1,000

	2014	2015
Production		
Additional Tires Produced	1,162	1,419
U.S. Shipment Quantity		
Additional Tires Shipped	1,139	1,344
Market Share		
Additional Share (ppt)	4.5%	5.1%
Capacity Utilization		
Increased Utilization (ppt)	7.1%	6.5%
Employment		
Additional PRWs	506	616
Net Sales Revenue		
Additional Revenue	\$340,274	\$375,388
Operating Income <i>(assumes OFC and SG&A 50% variable, 50% fixed)</i>		
Additional Profits	\$111,172	\$132,592
Estimated Op. Inc. vs. Reported Op. Inc.		
Percent Increase	14.0%	16.4%

7. MATERIAL INJURY

- **Despite a rapidly growing market, USW witnesses have testified that their plants have been deprived of investment, and needed capital improvements have been postponed**
- **In 2016, USW plants have been told to cut daily production, with management citing a loss of sales and competition from China as the cause**
- **As a result, shifts have been taken out of schedule and overtime has been reduced, cutting take-home pay, and machines are sitting idle**
- **The domestic industry has sufficient unused capacity to rapidly increase production if imports are disciplined and market conditions improve, just as they have with imposition of the PVLТ orders**
- **The only reason these plants have not increased production commensurate with demand since 2013 is unfair import competition**

8. THREAT

- **Further material injury is imminent if relief is not imposed**
- **The Chinese government offers a wide array of subsidies to truck and bus tire producers, including export subsidies**
 1. Policy Loans
 2. Export Seller's Credit
 3. Export Buyer's Credit
 4. Provision of Carbon Black, Nylon Cord, Rubber, and Electricity for LTAR
 5. Provision of Land-Use Rights for LTAR
 6. Income Tax Benefits for High-Tech Enterprises and R&D
 7. VAT Exemptions
 8. Numerous Grants

8. THREAT

- The Chinese truck and bus tire industry has significant overcapacity

“There is the capacity in China to make every single truck tire that the world needs”

– David Shaw, CEO and head of research for Tire Industry Research

- Responding foreign producers reported 18.8 million tires of unused capacity in 2015, enough to triple exports to the U.S.
- The Chinese industry as a whole had 150 million tires of capacity and 50-60 million in excess capacity – enough to serve the entire U.S. market two times over

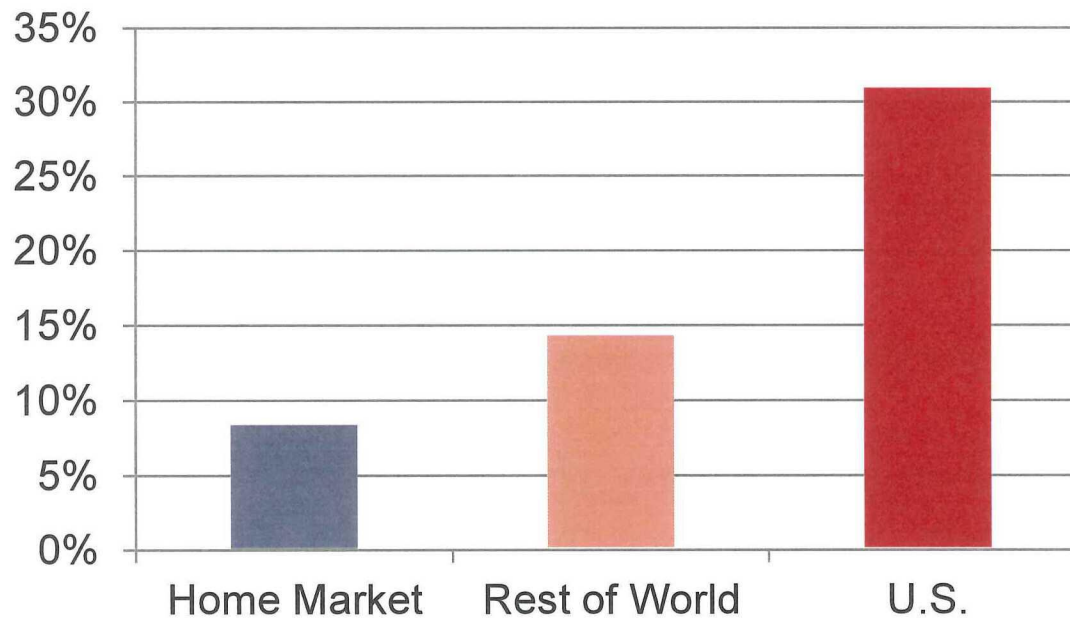
8. THREAT

- **Overcapacity will only increase as Chinese producers continue to expand**
 - In 2014, Kenda Rubber Industrial Co., Ltd. announced it was building a new dedicated truck and bus tire facility in Jiangsu, China with a daily capacity of 6,000 tires a day (2.16 million tires annually).
 - In March of 2015, ground was broken on a new truck tire plant in Anhui, China with a projected annual capacity of two million tires.
 - In September of 2015, Double Coin announced that it was going to expand the production of truck and bus radial tires by an additional 1.5 million tires at its plant in Rugao, China by 2018; many of the plant's tires are destined for the U.S. market.
 - In November of 2015, Qingdao Doublestar was relocating a truck tire plant to Qingdao, China; the plant's original capacity of 1 million truck and bus tires is estimated to potentially increase to 15.1 million units.
 - In May of 2016, Triangle announced capacity expansions aimed at making it among the top 10 global producers, including plans to increase truck tire production to 3.5 million tires in Humao, China.
 - In December of 2016, Cooper invested \$87 million in a joint venture that plans to increase production to 3 million tires, with serving the U.S. market being its "first priority."

8. THREAT

- The industry in China is highly export-oriented, and the U.S. is by far the top destination for Chinese exports
- China's exports to the U.S. grew three times as fast as home market shipments and twice as fast as its exports to the rest of the world from 2013 to 2015

Chinese Shipment Growth, 2013 - 2015



- Export AUVs to the U.S. are higher than to the rest of the world

8. THREAT

- **The U.S. market is also highly attractive given the number of countries that have imposed antidumping orders on truck and bus tires from China**
 - Brazil
 - Colombia
 - Egypt
 - Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia)
 - India
 - Turkey

8. THREAT

- The attractiveness of the U.S. market is confirmed by the large number of **new** Chinese truck and bus tire plants acquiring DOT plant codes since 2013 to allow them to sell into the U.S. market:

- 1.China National Tire
- 2.Hubei Aulice Tire
- 3.Jiangsu Roc Tires
- 4.Laoling Vheal Rubber
- 5.Shandong Changsheng Rubber Co., Ltd.
- 6.Shandong Deruta Tire
- 7.Shandong Futaier Tire
- 8.Shandong Goodtire
9. Shandong Havstyear Rubber
10. Shandong Huasheng Rubber
11. Shandong Zhongchuang Tires
12. Weigfang Yuelong Rubber
13. Xinjiang Kunlun Engineering Tire
14. JianXin Tire (Fujian) Co. Ltd.
15. Qingdao Fleming Tyre
16. Qingdao Kunhua Machinery

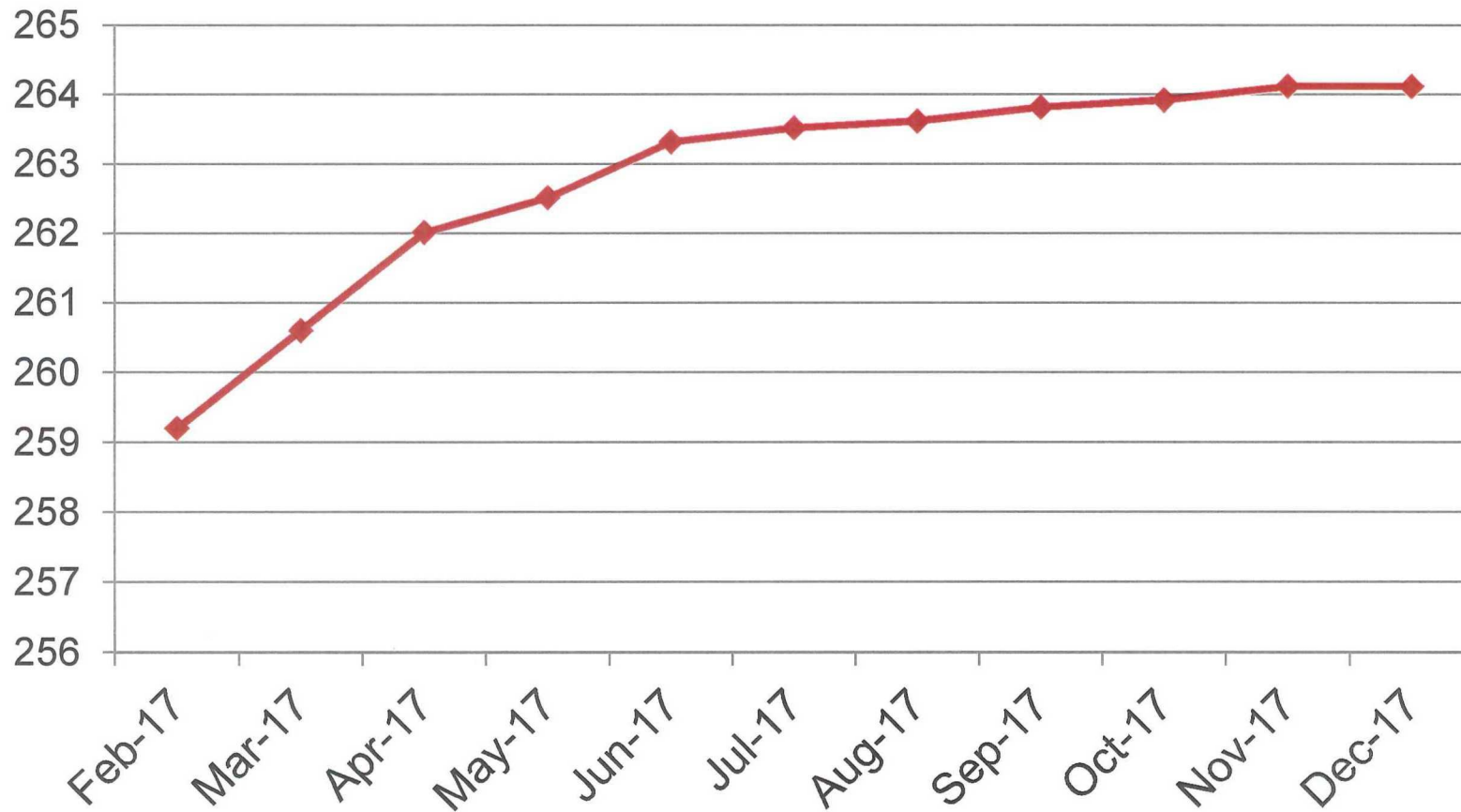
8. THREAT

- **As Chinese producers add to their already enormous capacity to produce truck and bus tires, the volume of exports to the attractive U.S. market will further increase**
- **As they did during the POI, Chinese producers will be able to gain market share at the expense of domestic producers through widespread underselling and price depression**
- **Continued pressure from Chinese imports will continue to prevent the domestic industry from enjoying any gains from rising demand**
- **As domestic producers lose additional shipments to Chinese imports, export markets will be less able to absorb U.S. production, leading to potential declines in domestic production, employment, and capacity utilization**
- **The domestic industry will be less able to withstand import competition as raw material prices continue to increase in the imminent future**

8. THREAT

NATURAL RUBBER PRICES

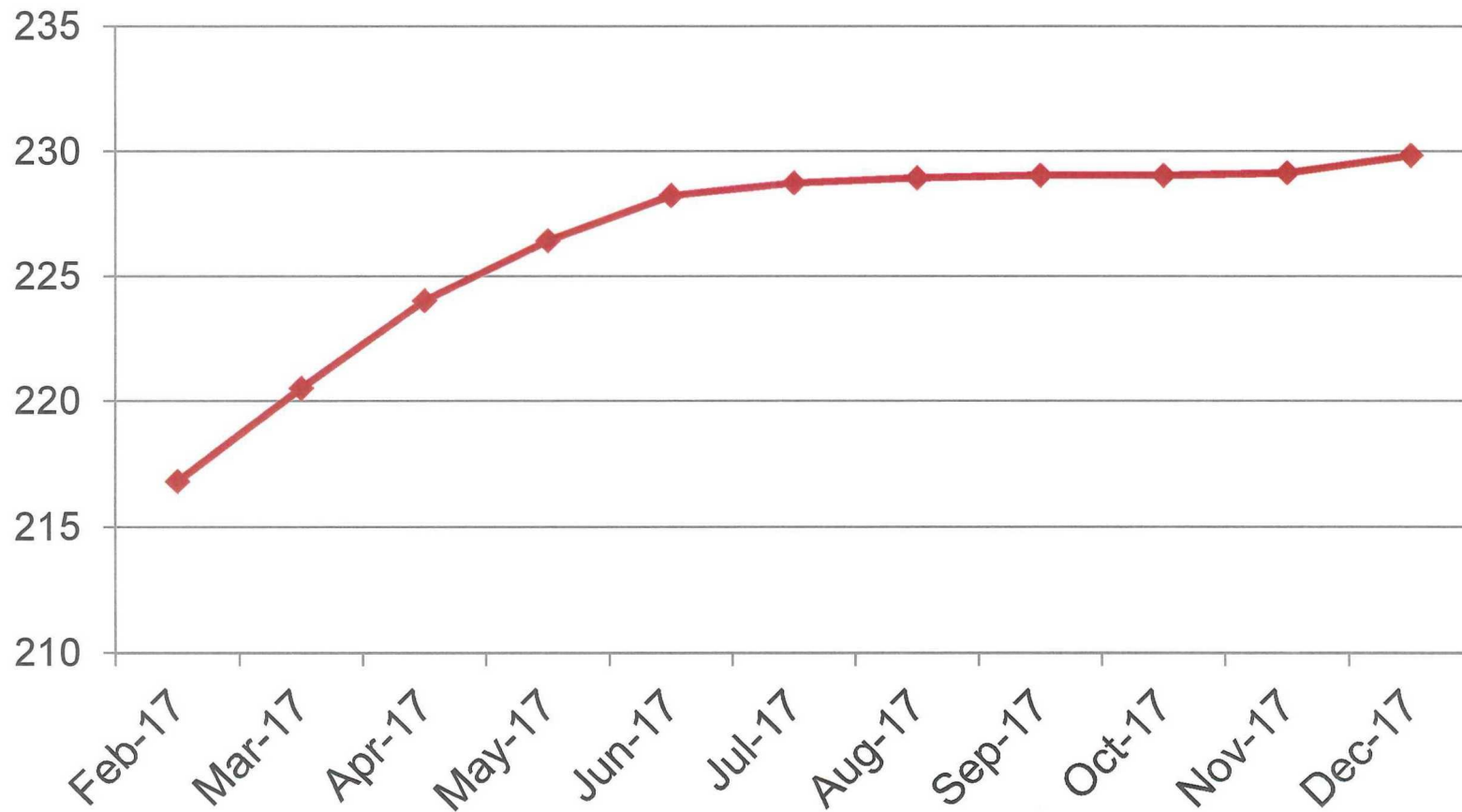
Futures Contracts for RSS3 Rubber (SGX)



8. THREAT

SYNTHETIC RUBBER PRICES

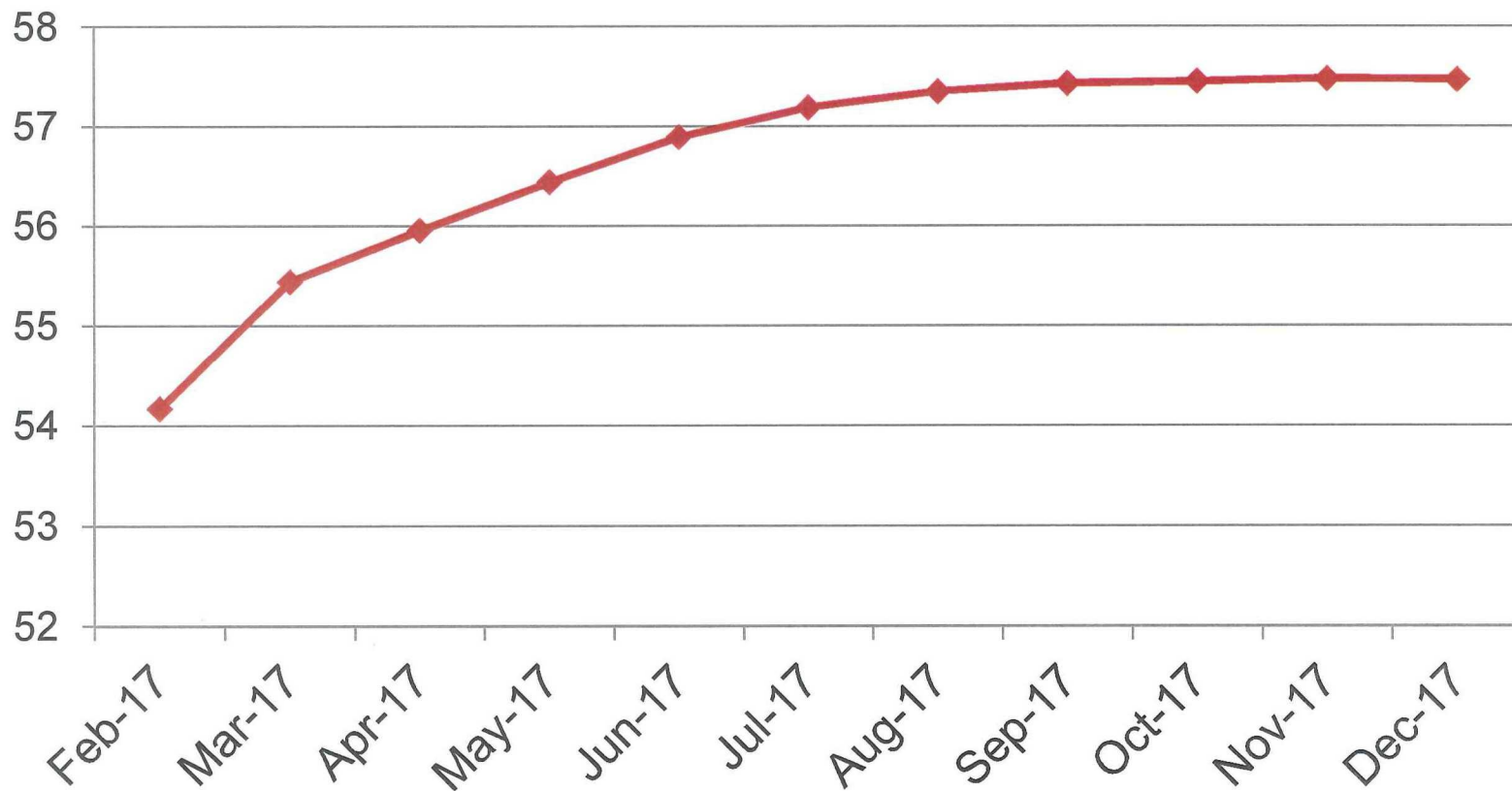
Futures Contracts for TSR20 Rubber (SGX)



8. THREAT

CRUDE OIL PRICES

Futures Contracts for Crude Oil Brent
(NYMEX)



8. THREAT

- **Declining shipments and prices will increase financial pressure on the domestic industry, particularly as raw material costs increase**
- **An industry already deprived of needed capital investment will be unable to make needed upgrades and to follow through on planned expansions**
- **Effective relief from dumped and subsidized truck and bus tires from China is the only way to prevent further injury to the domestic industry and its workers**