Obama's Bold Economic Move on Chinese Tire Imports is Paying Off

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Alliance for American Manufacturing

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Keeping America Strong

Obama's Bold Economic Move on Chinese Tire Imports is Paying Off

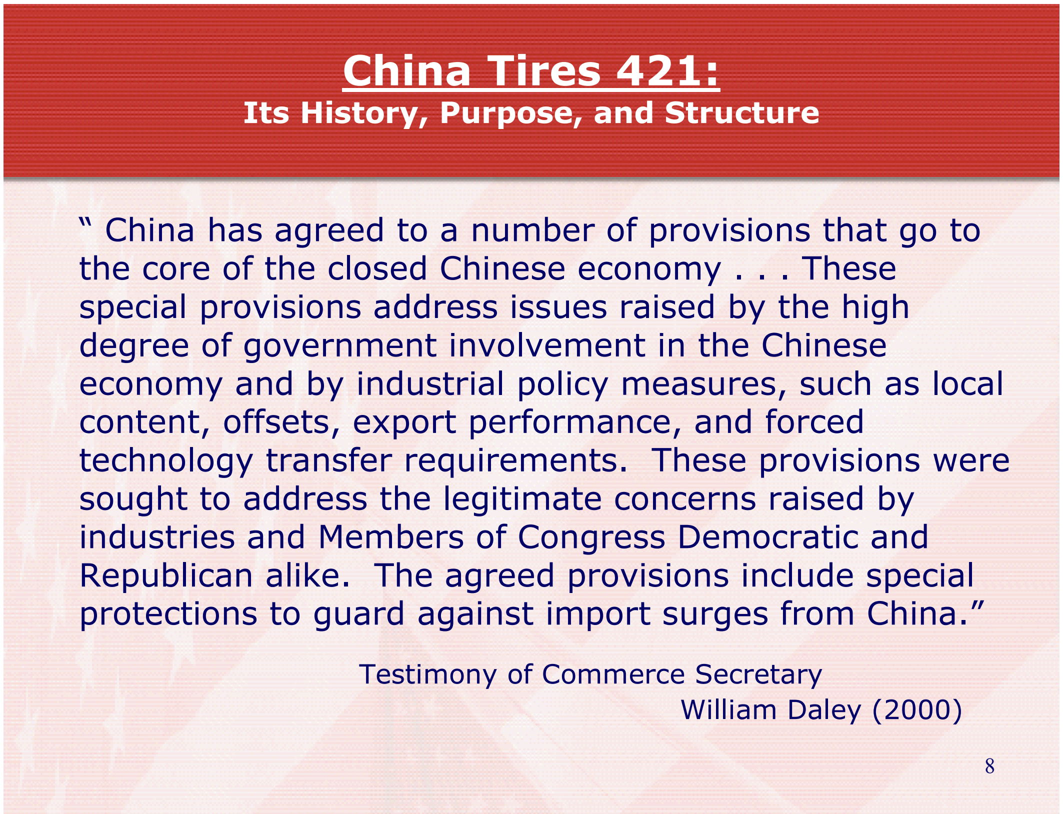
Initial Results Show Increased Domestic Production, Growth in Market Share and Reversal of Employment Losses

With the approaching one-year anniversary of President Obama's decision to provide relief on imports of *Certain Passenger Vehicle and Light Truck Tires from China,* under Section 421 of the trade law, it is appropriate to look at the impact his actions have had on the domestic industry and its employees. After a finding by the U.S. International Trade Commission that the statutory requirements for an affirmative decision were met and a recommendation for three years of import relief was made, the Obama Administration determined to provide three years of relief to the affected workers, firms, and their communities who had been injured from a flood of Chinese tires.

Because of the massive distortions to international trade that can occur because of the state control of the Chinese economy, Section 421 was included as a critical component to an expanded trade relationship with China to ensure that American companies and their workers didn't face injurious surges of imports while China continued to go through an economic transition in its system. As part of its negotiations with other trading partners, China accepted the right of World Trade Organization (WTO) members to use such a safeguard mechanism against its imports for a period of twelve years after it joined the WTO while it was bringing its system more fully into compliance with WTO obligations. The 421 decision by President Obama is the first time in the United States that relief has been provided to a domestic industry and its workers.

Section 421 was an important commitment made by the Chinese to facilitate its entry into the WTO. This provision was designed to facilitate the mutually beneficial growth in trade by reducing the adverse effects of distortions inherent in China's non-market economy. Rules such as Section 421 are vital to further liberalization of trade, not antithetical to it. Indeed, the WTO is a body of rules negotiated by the members of that organization to ensure that countries are able to respond to unfair and predatory trade practices as well as activities of non-market economies.

The basic objective of the relief provided under Section 421 is to give the domestic industry and its workers breathing room from surging imports. It is also to permit adjustments to be made in China's system on the distortive practices that fueled the surge to begin with. The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers (USW) identified during the hearing in front of the United States Trade Representative and other governmental agencies a host of distortions in the Chinese economy long recognized by the government and by businesses that needed to be addressed including exchange rate management, support for state-owned enterprises, massive subsidies, state banks propping up industries, WTO-inconsistent requirements on investors to export, WTO-inconsistent technology transfer requirements, industrial policies and other non-tariff barriers.



Section 421 was enacted by Congress after negotiations with, and agreement by, China that it was an appropriate tool to address surging imports after China's accession to the World Trade Organization. Section 421 was a critical element of the Congressional implementation effort recognizing that Chinese non-market activities could seriously disrupt and injure American producers and their employees.

While those who oppose the use of internationally-agreed rules have claimed failure of the remedy, their claims ignore the reality of the success that has occurred and the clear statutory purpose.

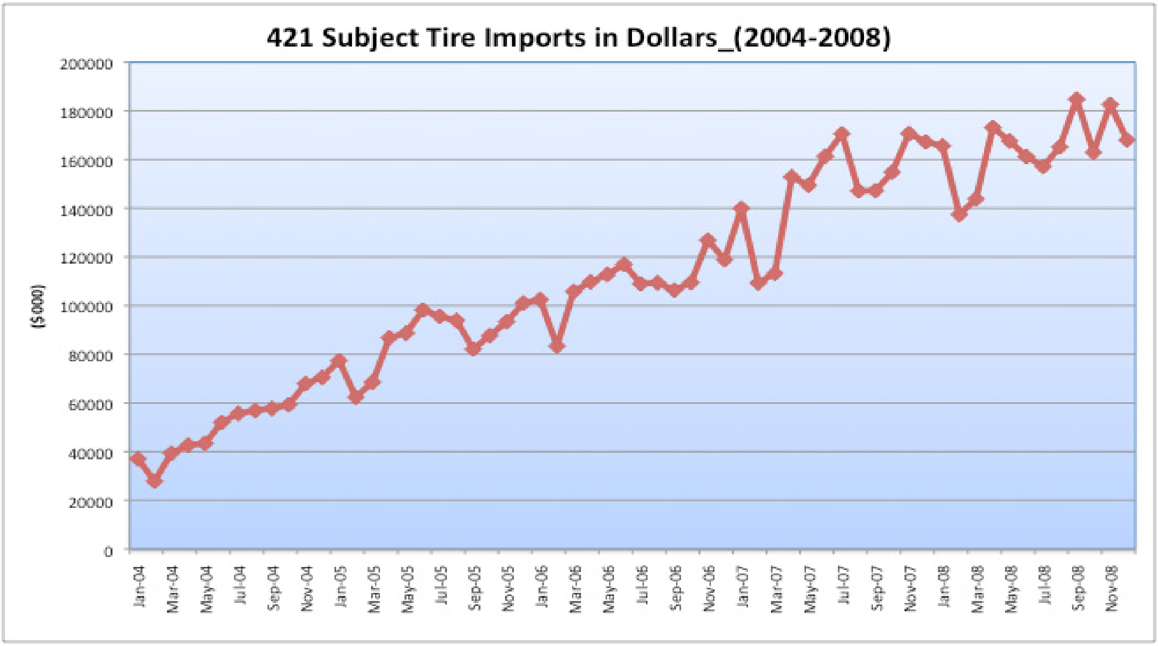
Background

On April 20, 2009 the USW filed a petition with the U.S. International Trade Commission (ITC) requesting an investigation into the surge of Chinese tire imports under Section 421 of the Trade Act of 1974. The petition alleged that there had been such a rapid increase in imports of certain passenger vehicle and light truck tires[1] from China that it caused market disruption for domestic producers so as to be a significant cause of material injury, or threat of material injury.

The ITC's report found that subject imports from China were, in fact, increasing rapidly both in absolute and relative terms. The Commission's report showed that subject imports from China increased 215 percent by volume (from 14.57 million tires to 45.98 million tires) and nearly 300 percent by value (from $453 million to $1.788 billion) during the period of investigation (2004-2008). *Certain Passenger Vehicle and Light Truck Tires from China,* Inv. No. TA-421-7, Publ. 4085 at II-2 (July 2009)(see chart on next page)

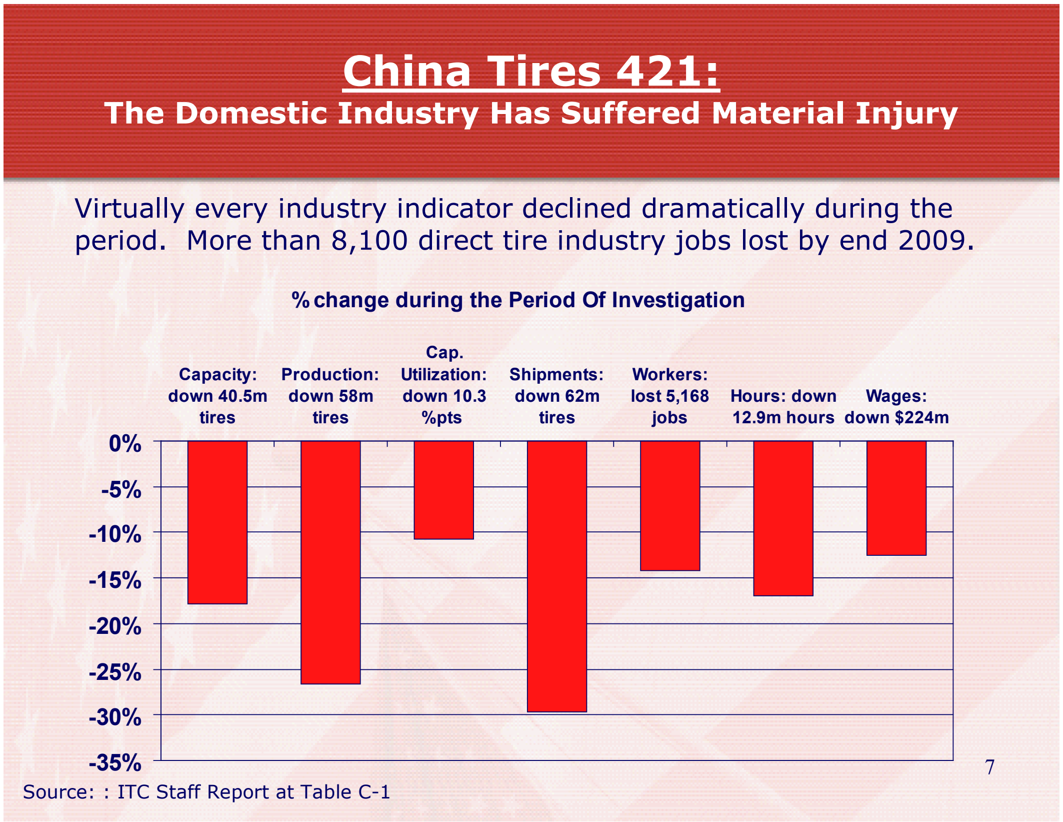
[1] For purposes of the Commission's investigation, certain passenger vehicle and light truck tires are defined as new pneumatic tires, of rubber, from the People's Republic of China, of a kind used on motor cars (except racing cars) and on-the-highway light trucks, vans, and sport utility vehicles, provided for in subheadings 4011.10.10, 4011.10.50, 4011.20.10, and 4011.20.50 of the Harmonized Tariff Schedule of the United States ("HTS"). The HTS subheadings are provided for convenience and customs purposes; the written description of the product under investigation is dispositive.

Source: USITC Interactive Tariff and Trade DataWeb

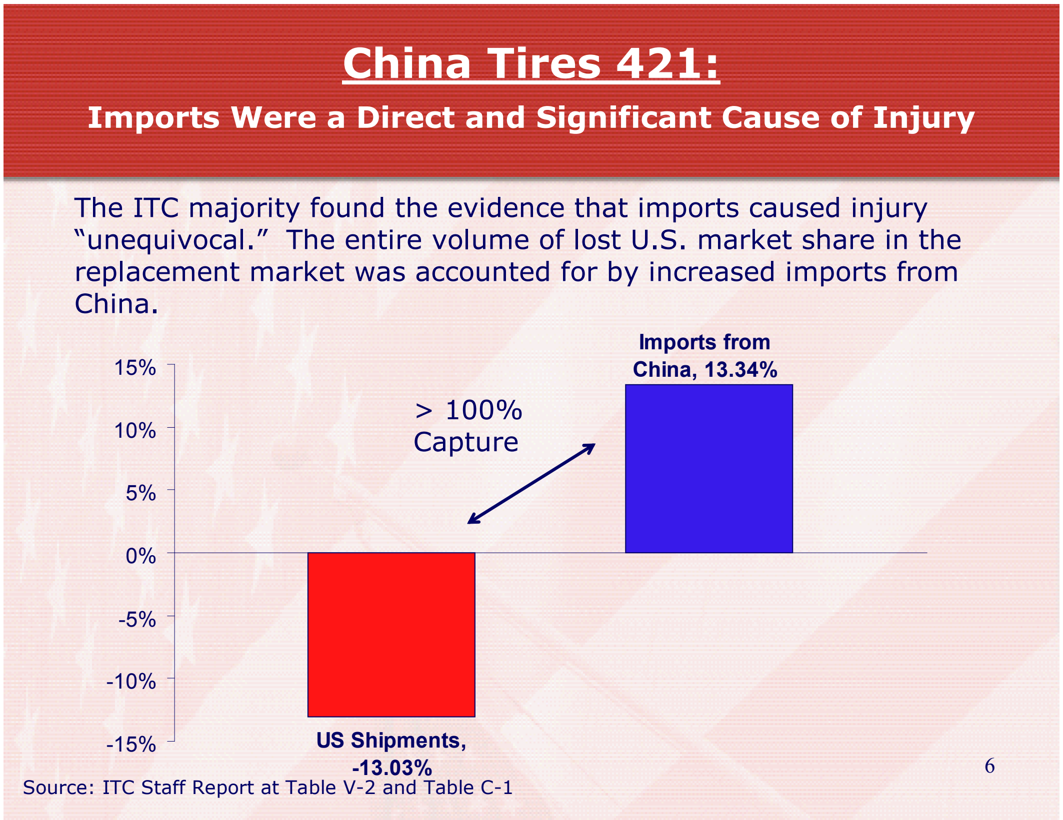


The ITC's investigation showed that the surge of tire imports caused material injury to the domestic industry through continuous declines in U.S. producer's domestic capacity, production, shipments, employment and other factors. See *Certain Passenger Vehicle and Light Truck Tires from China,* Inv. No. TA-421-7, Publ. 4085

- ★ capacity declined from 226.8 million tires to 186.4 million tires during 2004-2008
- ★ production declined from 218.4 million tires to 160.3 million tires during 2004-2008
- ★ capacity utilization declined from 96.3% to 86.0% during 2004-2008
- ★ U.S. producer commercial U.S. shipments declined from 194.7 million tires to 136.8 million tires during 2004-2008
- ★ employment data on number of production workers, hours worked, wages all declined substantially between 2004 and 2008
- ★ financial performance deteriorated between 2004 and 2008, e.g., operating income from $256.2 million to an operating loss of $262.8 million in 2008 (July 2009)



The contraction in capacity and employment reflected various plant closings during the period reflecting lower volume for domestic producers. Additional capacity reductions were announced for 2009 which would further reduce employment by as many as 3,000 workers. The largest part of demand is in the replacement segment of the market. During the period investigated, the volume lost in this segment by domestic producers was accounted for on a nearly one-for-one basis with the surge in imports from China.



In June of 2009 the ITC voted 4-2 that the surge of imports of the subject tires was causing domestic market disruption and recommended that the President impose a series of tariffs (that were scheduled to decline over a three year period) and on September 11, 2009 President Obama proclaimed increased tariffs on Chinese tires over the period recommended, albeit at lower rates than those recommended by the ITC. The tariff is 35% in the first year, 30% in the second, and 25% in the third. This was the first time that a U.S. president acted to provide relief under Section 421 on Chinese imports since its inception. In all previous cases brought before the ITC during the Bush administration where the ITC had found the statutory factors satisfied and had recommended a remedy, the President declined such relief to U.S. workers and industry.

Reversal of Declines in U.S. production

The domestic industry and its workers had suffered four years of declining production during a period of general economic growth in the U.S. and relatively stagnant apparent consumption for tires before 2008. With the deep recession in 2009, production and shipments by domestic producers declined further in 2009 prior to relief. Since then, production by U.S. producers has increased significantly. Looking at the first six months after imposition of relief (October 2009-March 2010) vs. the same six months in 2008-09, domestic production was reportedly up over 15%, or more than 10 million tires based on Rubber Manufacturing Association data. Apparent consumption is also up. [2]

There can be no doubt that the relief authorized by the President has resulted in the reversal in the massive decline in domestic production. This is clearly reflected in press accounts and what the USW has seen at various domestic plants. According to the USW, in the 1st half of 2010 Goodyear Tire saw sharp

[2] See RMA Press Release, August 9, 2010, "2010 Tire Shipments to Increase Eight Percent" at http://www.rma.org/newsroom/release.cfm?ID=296.

increases in domestic sales volume of subject tires such as the Kelly brand. Goodyear conference calls on the fourth quarter of 2009 and the first two quarters of 2010 show sales (in units) stopped declining in the 4th quarter (16.9 million units (all tires) vs. 16.9 million in the prior year), to grow 9.2% in units in the 1st quarter of 2010 and 13.1% in the second quarter.[3] The improved volume also reflected improved net sales in dollars and improved profitability. It is believed that this is due to end use customers choosing a domestic brand over imported tires because 421 enforcement has caused the price discrepancy between American and Chinese produced tires to shrink and the disruption to the pricing in the market has abated.

Similarly, Cooper Tires showed its net sales in North America in the 2nd quarter of 2010 having increased (in dollars) by 35% from the prior year.[4]

Effect on U.S. Workers Making Subject Tires

When comparing the periods before and after the 421 relief taking effect, one can see that U.S. rubber workers are starting to see a benefit in hours worked and increased hiring.

A recent article in *Modern Tire Dealer* quoted CEO of Cooper Tire & Rubber Company, Roy Armes, discussing growing tire demand and potential opportunities to add production capacity. "All of our plants are running at extremely high capacity utilization rates"…"Right now we're doing everything we can to get our capacity up, so that doesn't become a constraint for us."[5]

According to local USW sources, Goodyear plants producing 421 subject tires have hired 130 new hires in 2010 and are working an average of 20% overtime. Additionally, Michelin plants also manufacturing subject tires under the brands BF Goodrich and Uniroyal are working 7 days a week at around 15% overtime and have brought on 115 new production workers since the beginning of 2010. The story is the same at Cooper Tire & Rubber in Findlay, OH where 100 new hourly employees have been hired as well as additional salaried workers. Since the relief went into effect the operation has returned to a 7-day work schedule and mold utilizations have increased significantly driving an estimated 20% production increase at the facility. Findlay is also running hiring ads for maintenance workers and production employees. The changes at Findlay took place almost immediately after the 421 announcement and have proven to be an important boost for the plant. At another Cooper Tire plant in Texarkana there have been 250 new hourly hires since the relief went into effect. The plant's operations are running 7 days a week and the USW estimates that production is up approximately 20% as well. Some of the utilization increase is due to consolidation of some operations but the effects of the tariff are also driving that increase.

The turnaround in employment to a situation where companies are hiring significant numbers of workers back is in sharp contrast to the dramatic declines in employment during the 2004-2008 period reviewed by the U.S. International Trade Commission and the additional substantial layoffs that flowed from plant closures at the end of 2009 that had been reviewed with the ITC during the 421 investigation. Indeed those additional plant closures (e.g., Michelin's Opelika and Cooper's Albany plants) were announced before import relief was provided and have adversely affected several thousand workers. With relief in place, workers are finally seeing some rehiring in communities across the country.

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[3] See slide presentations Fourth Quarter & Full Year 2009 Conference Call, February 18, 2010, slide 25; First Quarter 2010 Conference Call, April 82, 2010, slide 17; Second Quarter 2010 Conference Call, July 29, 2010, slide 17.

[4] Cooper Tires Investor Presentation, August 2010 at slide 13

[5] Moderntiredealer.com Cooper Reacts to Growing Tire Demand August 5th, 2010

Imports from China

The U.S. International Trade Commission's economists had predicted that import relief would have the effect of curtailing imports from China significantly and increasing both domestic production and shipments and imports from third countries.[6]

As reviewed above, there has been significant increase in domestic production since the import relief was ordered – some 10.0 million tires in the first six months that relief was provided (compared to the identical period the prior year).

At the same time, imports from China which had been surging in the 2004-2008 period and were ranging from 10.7 – 12.2 million tires in each quarter of 2008 declined 34.2% in the first six months after relief was provided and are ranging from 6.4 – 7.6 million tires for the three quarters since relief.

Total imports (including China) increased slightly during the first six months of import relief on Chinese product – 3.3% or 1.9 million tires. As imports from China declined 7.0 million units in the six month period, non-subject imports increased 8.9 million tires in the time period.

This was predicted by the U.S. International Trade Commission economic modeling in its analysis leading up to the decision to provide relief: Both domestic producers and non-subject imports were projected to gain volume lost by the Chinese and this has, indeed, been the case. During the first six months after relief was granted, the domestic industry has regained market share of total apparent consumption.

Conclusion

Allowing the tariffs to stay in effect for the full three years will give the U.S. producers time to reestablish market share commensurate with underlying competitiveness, allow time for the United States and other trading partners to continue to work with China to address some of the more significant market distortions caused by China's continuing extensive controls of its economy and also help the Chinese focus on more sustainable policies in the tire sector.

Indeed, 421 relief has not had adverse effects on the Chinese economy as there has been robust growth in demand for cars and trucks within China (hence absorbing some of the excess capacity in China previously focused on exports to the U.S.) but may encourage China's domestic industry to develop more in keeping with demand growth in the country or region. According to China Research and Intelligence, the Chinese tire industry did not see significant adverse impact from the 421 safeguard -- rather many of the Chinese tire enterprises began to focus sales on their own domestic market. To the extent that state policies and subsidies and other distortions are removed or limited in their focus on capacity expansion in China, the 421 relief, with time, will achieve the underlying purpose of the statute to prevent harm to American producers and workers while China reforms its economy.

By all measures, then, this tariff is having the desired effect on U.S. tire manufacturers and their workforce and is fulfilling the repeated promise that American workers and companies would not be harmed by non-market economy distortions in China if allowed into the World Trade Organization.

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[6] See views of Commissioners Lane, Williamson and Pinkert at USITC Publ. 4085 page 37; Separate views of Chairman Aranoff at 42.

About AAM

The Alliance for American Manufacturing (AAM) is a unique non-partisan, non-profit partnership forged to strengthen manufacturing in the U.S. AAM brings together a select group of America's leading manufacturers and the United Steelworkers. Our mission is to promote creative policy solutions on priorities such as international trade, energy security, health care, retirement security, currency manipulation, and other issues of mutual concern.

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