Testimony of Ed Gwinn
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Good afternoon Chairman Aranoff and members of the Commission. My name is Ed Gwinn, and I am a Senior Advisor to DE Global Limited. DE Global is a consulting company. We assist companies with their business operations in Asia.

I worked at Michelin for 25 years in the U.S., France, and Asia. At Michelin I covered all aspects of the tire business, including manufacturing, IT, marketing and sales, administration, and finance. My last two positions with Michelin were in Asia, first in Beijing as CFO of the greater China and Korea region, and lastly as VP for Business Intelligence for Asia Pacific based in Singapore – where I was involved with M & A and production location for Tier 3 tires.

For my testimony today I would like to make some brief comments regarding what I expect the real-world effects will be if a border measure (a quota, a tariff increase, or a tariff-rate quota) is imposed through this Sec. 421 process.

Stated plainly, if a border measure is imposed on imports of Chinese tires, U.S. producers are not going to invest in production of Tier 3 replacement tires and therefore it will not create U.S. jobs. The original petition in this case claimed that if quotas were imposed for three years on these tires it would "provide the industry with the opportunity to significantly increase their production and shipments of consumer tires by as much as 21 million tires. The domestic industry has more than enough capacity to produce this additional supply." In my opinion, this is just not accurate, and the Commission should be very wary of such claims. Let me explain why.

Restarting U.S. production for economy-grade replacement tires would be a dramatic reversal of the business strategies the U.S. tire industry has pursued over the past decade. After having made the shift to focus on the higher-end Tier 1 and Tier 2 markets, the domestic industry is not going to invest the capital necessary to produce tires for the Tier 3 segment of the market. Why? Because the labor and raw material costs in the United States would be very similar, if not identical, to the cost of Tier 1 and Tier 2 tires. In some cases, equipment changes or adjustments would be needed to produce these tires. However, the margins on Tier 3 tires are simply too low to justify these capital expenditures. There would be a risk that the producers could even lose money, which would be worse than leaving the equipment idle.

In sum, it would take increased capital expenditures, board approvals, and a willingness to bet on low-profit production again. Even if some companies were convinced to reenter the Tier 3 market with U.S. production, it would take them two or three years to make it all happen. It simply is not a good business decision. It would be like an aircraft carrier trying to turn on a dime – without a compelling reason to do so. In this case, the industry made what is essentially an irrevocable choice to focus on the higher end segments of the market (the OEM and Tiers 1 and 2). That aircraft carrier is not going to turn around – they will just source from other locations, and demand will drop.

Moreover, many members of the U.S. industry are cutting their capital expenditure budgets – not expanding them. For example, Michelin recently announced that it is cutting its capital expenditure budget in half and reducing operations at many of its plants worldwide in these difficult times in order "to keep inventories balanced with lower demand." In short, capital is still tight and the return on investment in the market niche that most Chinese tires are imported to fill is too low for U.S. producers to restart production of these tires.

Finally, the President and CEO of American Car Care Centers, Inc. (ACCC), Len Lewin, one of the country's premier private brand marketers, was asked what the future holds for that market segment. Although he was optimistic about opportunities for profit "once we get beyond the current recession," he also candidly stated that "the trend toward flag brands will continue. Manufacturers who basically exited that segment of the business will not re-enter it."

I appreciate the opportunity to appear before you and I look forward to answering any of your questions. Thank you very much.