2009 GSP Annual Product Review; Investigation No. 332-512; HTSUS 4011.1010

Hearing before the International Trade Commission

Testimony of Richard Smallwood, Falken Tire Corporation

My name is Richard Smallwood, and I am the President and Chief Operating Officer of Falken Tire Corporation. It is a privilege to appear before the Commission this morning to present my testimony in support of Falken's CNL waiver petition on passenger car radial tires imported from Thailand. Falken, with its headquarters in Fontana, California, is a U.S. importer of passenger car tires. We are the largest importer of Thai passenger tires into the U.S., representing nearly two-thirds of the total relevant imports from Thailand and thus believe that we are in a particularly good position to comment on the impact of Thai imports benefitting from the GSP Program on the U.S. passenger tire market. I want to share three key points with you today. First, Thai passenger tire imports play a very limited role in the overall U.S. market; second, these imports can have little or no impact on U.S. producers; and third, without GSP benefits, it is going to be extremely difficult for us to competitively price Thai tires in the U.S. market. Let me address each point briefly.

First, as detailed in the pre-hearing briefs, imports of passenger car tires from Thailand represent a very small percentage of total U.S. imports. Total U.S. imports of passenger tires for 2009 amounted to 97.8 million units valued at $4.4 billion. Thai imports constituted only 3.5 million units valued at $154.8 million, or about 3.5% of the total imports, whether measured in volume or value. Since imports constitute approximately 48.7% of the entire U.S. passenger tire market, we estimate that Thai imports accounted for only 1.7% of the $9 billion passenger tire market. With such a small market presence, the competitive impact of Thai-origin imports on the

U.S. passenger car tire market is negligible. As the largest importer, we believe that the relative magnitude of Thai imports is not likely to change significantly if GSP benefits are continued.

Second, not only do Thai imports comprise only a very small sliver of the U.S. market, the pricing of Thai imports is quite average. In 2009, the average unit value for passenger tires from Thailand was $44.37, which is virtually identical to the composite average unit value of $44.90 for all imports. Thai imports cannot in any sense be regarded as market drivers. Thai imports are like minnows in a pond dominated by much larger fish. As detailed in our pre-hearing brief, Falken's primary competitors are importers that source from Korea, China and Taiwan. In 2009, Korean imports had an average unit value of $48.08 and an almost 11% share of the import market. With a comparable average unit value and three times the market share, Korean imports influence Thai imports and not the converse. China, with an average unit value of $30.30 and a market share of 26% in 2009 is the biggest fish in the pond. Indeed, despite the safeguard duty imposed in September, the average unit values of Chinese imports declined significantly in the fourth quarter of 2009, and Chinese tires remain the lowest priced in the market, with quantities that far outstrip volumes from Thailand. Rather than influencing the import tire market, Thai imports are subject to the actions of China, Korea and other far larger and more powerful players. Given the inability of Thai imports to influence the import tire market, granting of the CNL waiver would have negligible, if any, effect on the combined import and domestic U.S. tire market and thus, no impact on domestic producers.

With the benefits of the GSP program, Falken and its Thai-sourced tires has been able to establish a competitive position in the middle price range. Falken's primary competitors are not U.S. producers but importers that source from Korea, China and Taiwan. If the CNL waiver is granted and the GSP benefits are continued, Thai imports would be able to maintain their

position with respect to these importers. Rather than affecting domestic producers, the CNL waiver would allow Falken to continue to compete with these importers that source from non-GSP countries.

My third point this morning is that loss of GSP benefits would make it very difficult for companies like Falken to competitively price and to sell Thai tires in the U.S. market. To illustrate this point, and to help the commission understand the importance of a 4% duty preference in this market, I would like to share a recent experience. As you know, the replacement tire market is extremely price sensitive. In early 2009, our import prices began to increase due to increases in the price of raw materials. Falken attempted in turn to raise its tire prices in some cases to see if we could recover our increased costs. We found that a 2% to 3% price increase resulted in double digit drops in our sales volume, confirming empirically what we suspected intuitively. Falken is not in a position to move market prices through our pricing decisions. In order to successfully market Thai tires, we have to maintain our pricing at levels that are dictated by the market. To maintain our sales volume in the face of a 4% duty, we would be compelled to absorb much, if not all, of the increase.

As explained in our pre-hearing brief, the absorption of a 4% duty increase would have dire consequences on our ability to maintain and grow our U.S. workforce. In 2009, a year which saw the worst economic downturn in almost 80 years, San Bernardino County, where Falken houses its headquarters and west coast distribution center, and employs most of our 142 employees, was hit particularly hard. While national unemployment levels as of November 2009 were at 9.4%, unemployment rates in San Bernardino County hit a devastating rate of 14.2%. Unemployment in our County has contributed to additional housing foreclosures pushing the foreclosure rate to more than twice the national average. Falken serves as an important member

of the community, providing jobs and benefits to its employees and business to the local economy. Our average salaries are high compared to national averages and we provide generous health care and other employee benefits.

If we were to cut our marketing budget, the reduced exposure would cause business to be lost to our primary competitors that source their tires from non-GSP countries. Reductions in the advertising budget would also reduce revenue for Falken's advertising and promotion vendors, nearly all of which are U.S. domestic entities.

Falken presently plans to open a new distribution warehouse in 2011 in Jacksonville, Florida, another city that has been hard hit by the economic down turn. The investment will result in new U.S. jobs, the purchase of construction materials and services, and on-going expenditures for rent, freight, and operational expenses, all helping to stimulate the local economy. The imposition of a 4% duty could result in the postponement, scaling down or cancellation of this investment.

Falken respectfully submits that the impact of granting the CNL waiver on the $9 Billion U.S. passenger tire market would be minimal and there would be no harm to U.S. producers. In contrast, a 4% duty increase would have a substantial negative impact on the competitiveness of Thai passenger tires and on our operations and our ability to keep our workforce intact, and survive in the U.S. market.

I would be pleased to answer any questions, or to provide further information in a Post-Hearing Brief. Thank you again for your time and consideration of Falken's views.