# TESTIMONY - JUNE 2, 2009 – VIC DEIORIO

## EXECUTIVE VICE-PRESIDENT, GITI TIRE (USA), LTD.

Good afternoon Chairman Aranoff and members of the Commission. My name is Vic DeIorio. I am the Executive Vice President for Sales and Business Development of GITI Tire (USA), Ltd., and my testimony today will focus on the timing of business decisions for tire production by the U.S. tire industry as I see it in the marketplace.

First, let me tell you some background. I have been associated with the tire industry for 29 years. I began selling tires through a small automotive repair shop in 1980. Later I joined Wal-Mart's automotive division. Tires became more of a focus at Wal-Mart as they converted their automotive centers to Tire and Lube Express (TLE) Centers. I operated the very first Tire and Lube Express concept store at Wal-Mart and due to its success, I went on to roll out some of the very first TLE centers in Southern California. I continued my career in the industry by moving to the importing side of the business in 1995. In 2005 I joined GITI Tire (USA) as an EVP.

GITI Tire (USA) is an indirect wholly owned subsidiary of GITI Tire Pte Ltd., which is based in Singapore. GITI Tire sells replacement tires for passenger, SUV, and light truck vehicles, among others, in the United States under the GT Radial, Runway and Primewell brands. The Primewell brand is exclusive to

Bridgestone-Firestone and is sold through wholesale channels and retail stores, such as Firestone Complete Auto Care retailers, in the United States. The company's tires are also sold through Max Finklestein, STS Tire and Auto Centers, Mr. Tire and Monro Muffler stores, among others.

The company is committed to providing consumers with quality tires at a good price. We fill a critical need in the U.S. tire market providing high-quality and safe tires at price points that average hard-working Americans can afford.

GITI Tire began operating in the United States in 2005 and its offices are based in Rancho Cucamonga, California. It has sales representatives around the United States and a small technical team based on the West Coast.

I want to focus my comments today on the decisions and the planning of the U.S. domestic tire industry in the past few years. As background, the tire imports you are investigating are overwhelmingly sold to the replacement tire market, as opposed to the Original Equipment Manufacturers (OEM) market. The U.S. replacement tire market is segmented into three tiers – in short, "premium/mid-range/value" – otherwise referred to as Tier 1, Tier 2, and Tier 3.

Our tires serve the Tier 3 "value" market. This segment of the market exists because many Americans cannot afford expensive brand-name premium tires. Many of these Tier 3 tires are "private brand" tires – that is, tires manufactured for an exclusive distributor or a specific channel of distribution. For Tier 3, the brand name is not necessarily the name of the producer, and is not associated with the brand equity of the producer.

Since about 1995 many U.S. tire manufacturers have adopted a business strategy to ensure long-term competitiveness by exiting U.S. production for the Tier 3 replacement tire market in order to concentrate on the more profitable, higher-end tiers (which also allows them to simultaneously highlight their flagship brands). In many cases these same companies started importing Tier 3 tires into the United States and selling them under their own brand or label or as exclusive brands. I can remember when this first started occurring around 15 years ago when a major U.S. producer made this shift – this is when I first moved into supplying imports to meet that demand. Some other examples are Cooper, which has moved some of their production to Kenda in Taiwan, and Goodyear, which supplies Tier 3 tires to Wal-Mart under the "Douglas" label. Some of these tires are manufactured in Venezuela and Poland.

Most U.S. producers of these tires exited the Tier 3 market pro-actively, because it was their strategy to concentrate on higher-end market segments (Tier 1 and 2 and the OEM market). As a result, many tires you are investigating are being "pulled" into the United States by the domestic industry and the rest are filling a void created by the ramping down of production by the domestic industry for the Tier 3 market.

This timing is key. The major U.S. producers' decision to abandon U.S. production capacity for the Tier 3 market preceded, rather than followed, major increases in Chinese imports. In this regard you will note that most of the plant closures cited in the petition occurred during 2006, as a result of business decisions by U.S. producers to exit the production of low-end tires – decisions made years earlier. It was at this point, in 2006, that imports of tires from China started to grow by approximately 35 percent on a value basis.

The most significant growth in China's share of tire imports did not begin until 2007. China's share of the import market rose to almost 30% in 2007 and grew further to 33% by 2008. However, in the 2007-2008 period, only Goodyear's Tyler, TX, plant closed, and that closure was a result of Goodyear's mid-2006 decision to exit the private label business, which preceded this growth in imports from China. Again, this change in supply pattern was the result of a deliberate decision by the domestic industry to basically discontinue production of Tier 3 tires in the United States.

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

**Statement to the news media**
**Vic DeIorio, executive vice president, GITI Tire in the U.S.**
**Regarding the International Trade Commission's hearing on**
**The import of Chinese tires**

The import of tires from China, from companies like GITI, does not result in the loss of American jobs.

What accounts for job loss? Over the past two decades, many U.S. tire manufacturers have adopted a business strategy of eliminating U.S. production for the lower cost replacement tire market in order to concentrate on more profitable tires. Most U.S. producers of these lower-cost tires exited because they concluded that it was in their financial interest under normal market conditions to concentrate on higher-end market segments.

The decision by major U.S. tire producers to abandon U.S. production capacity of lower-cost tires preceded -- rather than followed -- major import increases. Indeed, most of the plant closures cited in the petition occurred during 2006 as a result of the business decisions by U.S. producers to exit production of low-cost tires.

What accounts for the increase in tire imports? Many Chinese tires are now being "pulled" into the United States by the domestic industry and the rest are filling a void created by the ramping down of the domestic industry. The U.S. domestic tire industry has begun importing Chinese tires into the United States and selling them under their own brands or labels or as exclusive brands. For example, Bridgestone-Firestone imports low-cost tires manufactured by GITI in China under the brand "Primewell" and it sells them through its controlled network with exclusive distribution rights.

We look forward to working with our American partners for an amicable resolution to this dispute.

**For more information, contact:**

**Eric Rosenberg**
Ogilvy Public Relations Worldwide
202-729-4177
703-409-4932 (cell)

**Nu Wexler**
Ogilvy Public Relations Worldwide
202-729-4109
202-689-4295 (cell)

# BACKGROUND ON THE UNITED STEEL WORKERS' 421 CASE REGARDING CHINESE TIRES

## About the case

On April 20, 2009, the United Steelworkers (USW) filed a petition with the United States International Trade Commission (ITC) under Section 421 of U.S. trade law asking it to use its "safeguard" powers to recommend to the President that he place a cap on Chinese tire imports into the United States.

Under Section 421, an industry or other group can ask the ITC for assistance, such as a quota or a tariff, if the Commission determines it has been harmed by a surge in Chinese imports of a particular product – in this case automotive tires from China. The USW has asked that the ITC impose a quota of 21 million tires, the same number of tires that China imported to the United States in 2005 (in 2008 the import volume was over 45 million tires). The quota would then increase five percent a year over the three years the quota is in place.

In response to the petition the ITC has begun a trade remedy investigation. In addition to collecting information from members of the U.S. tire industry, importers, retailers, and Chinese producers, the ITC will be holding a hearing on June 2 and 3, 2009. The ITC is required to complete its investigation within 60 days of receiving the petition and issue a finding (June 19, 2009). If it finds that the domestic tire industry has been harmed, it has ten additional days to file its final report, including a recommendation for a remedy, with the President and the United States Trade Representative's office (July 9, 2009). Within 55 days of receipt of the ITC report, the USTR will make a recommendation to the President concerning what, if any, action to take. The President then has 15 days (approximately late September) to decide on an action, if any.

## Background on the U.S. tire industry

The U.S. tire industry is divided into three tiers based on performance, price and profit margin. All tires sold in the United States are designed to meet U.S. Department of Transportation minimum standards for safety.

- Tires in the highest tier, Tier 1, are the premium tires with the highest price tag. They also have the highest profit margin. Examples of these tires include those sold under the Bridgestone, Goodyear and Michelin labels.
- Tires in Tier 2 are in the middle level. They are marketed to customers as midgrade tires – without all of the "performance enhancements" found in the Tier 1, but also without the Tier 1 price. They also have less of a profit margin. Examples of tires in this tier include Firestone, Dunlop and B.F. Goodrich.
- Tires in Tier 3 are "economy" or "value" tires. While the brand recognition is not as high as tires in Tiers 1 and 2, these tires also cost significantly less.
- Beginning in the late 1990s, the major tire makers (Bridgestone-Firestone, Goodyear, BF Goodrich and Cooper) in the United States began to phase out domestic production of Tier 3 tires. In some cases, they left the market

completely. In other cases, these companies chose to bring in imported tires themselves under one of their secondary brands or as a house brand for another retailer. As a result, other foreign tire makers began selling in the Tier 3 market. Chinese tire makers began entering the U.S. market in significant numbers earlier in this decade.

- Most Chinese tires are Tier 3, as are tires that Goodyear imports from Venezuela and Poland and sells at Wal-Mart under the Douglas label and tires that Michelin imports from Indonesia and sells in the United States under the Rykin brand.

Currently, tires made in China make up approximately 17 percent of the American market, up from approximately 5 percent in 2004.

**Key points of contention in regards to the USW Petition**

The USW contends there is a direct correlation between the 12 point decline in the domestic industry's market share between 2004 and 2008 and the rise of the Chinese industry's market share up 12 points. What this does not take into account is that the domestic manufacturers chose to focus on the higher profit Tiers 1 and 2, and for their own business purposes pulled out of the lower profit Tier 3 production. The U.S. tire producers have themselves pulled in many imported Tier 3 tires, and other companies have filled the rest of the gap to meet consumer demand. Tier 3 tires are also produced in other parts of Asia, Latin America, and Europe.

There is no evidence that if the U.S. government were to impose the Steelworkers proposed remedy, domestic manufacturers would replace tires from China with U.S. manufacturers. Some of the consumer demand will be met by tire imports from other countries. Moreover, several domestic manufacturers have indicated that there is overcapacity in the U.S. market. The capping of Chinese tire imports will not create Tier 3 tire production jobs in the U.S. - it will only hurt U.S. retailers, their employees, and their customers.

**<u>For more information, contact:</u>**

**Eric Rosenberg**
Ogilvy Public Relations Worldwide
202-729-4177
703-409-4932 (cell)

**Nu Wexler**
Ogilvy Public Relations Worldwide
202-729-4109
202-689-4295 (cell)

## What Does the Tire Tier System Mean?

From time to time in time in this debate, you will hear various tires and tire companies being describes as Tier 1, 2 or 3. The tiers are used in the U.S. tire market to describe differences in terms of price and profit margin. Tiers do not correspond to performance.

- Tires in Tier 1 are the major tire companies' premium brands. They carry the highest price tags and have the highest profit margins for the manufacturers. They are can be original equipment on premium brand cars, light trucks and large SUVs. Tier 1 tires are marketed to automobile aficionados as replacement tires. Examples of Tier 1 tires are the Bridgestone, Goodyear and Michelin brands.

- Tires in Tier 2 are the tire companies' mid-market brands. The marketing effort for these tires is not as extensive as for Tier 1 tires. Therefore, they are not sold for the premium price found on Tier 1 tires. As a result, these tires have a lower profit margin. Examples of Tier 2 tires are the Firestone, Dunlop, BF Goodrich, Continental, Yokohama and Toyo brands.

- Tires in Tier 3 are "value" brand tires for consumers who look for value for the money. These tires are marketed to consumers who are more concerned with price than a brand name. Tier 3 tires have the lowest profit margins. In the 1990s, the major tire sellers in the United States, both domestic and foreign, decided to end U.S. production of Tier 3 tires so most of the tires in this tier are imported. In addition to GITI's GT Radial, Runway and Primewell brands, other examples include tires imported by Goodyear from Venezuela and Poland and sold at Wal-Mart under the Douglas brand and tires imported by Michelin from Indonesia and sold under the Rykin brand.

Whether the tire or tire company is in Tier 1, Tier 2 or Tier 3, all tires have been manufactured to Department of Transportation and National Highway Transportation Safety Administration standards and are considered safe for everyday use.

<u>**For more information, contact:**</u>

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Ogilvy Public Relations Worldwide
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GITI Tire is committed to providing consumers with quality tires for an affordable price. The company's tires fill a critical need in the U.S. tire market providing quality and safe tires at a price point that provides value to U.S. consumers.

GITI Tire began operating in the United States in 2005 and its offices are based Rancho Cucamonga, California. It has sales offices around the United States and a small technical team based on the East Coast. According to *Tire Business*, GITI Tire brands held 2.5 percent of the U.S. market in 2007 and 2.0% in 2008. In 2007, GITI Tire imported approximately 7.9 million tires with a value of $266 million into the United States and approximately 7.2 million tires in 2008 with a value of $258 million.

The tire market in the U.S. is comprised of three tiers and GITI Tire competes in the Tier 3 segment. The top tier - Tier 1 – is made up of tires of well established premium brands that are priced at the highest price point in tire market. The middle tier – Tier 2 – represents mid-market brands. Tires in Tier 3 are value brands that are purchased by consumers who are less brand conscious and are looking for value. The main difference between each tier is price and profit margin, not quality.

Many tires in Tier 3 are imported. For example, Goodyear imports tires from Venezuela and Poland and sells them at Wal-Mart under the Douglas brand, while Michelin imports tires from Indonesia and sells them under the Rykin brand.

GITI Tire's manufacturing facilities have been accredited with quality certifications from both international and local authorities. GITI tires also meet all U.S. Department of Transportation and National Highway Transportation Safety Administration standards. There have been so safety issues with GITI tires and the rate of return is extremely low. As a result, GITI Tire was honored by General Motors as one its "Best of the Best" global suppliers for 2005 and 2006.

GITI Tire was founded in 1993 and is the largest manufacturer and supplier of top quality Chinese tires. GITI Tire sold 17 million tires in China and exported an additional 25 million tires to over 100 countries worldwide. Sales in the international market make up 37% of total sales and the North American markets (mostly the United States) accounts for 16% of total sales (third after China and Indonesia). GITI Tire is currently the 10th largest tire manufacturer in the world with 1.7% of the global market.

GITI Tire is very proud of the company's entrepreneurial history and its reputation as a responsible manufacturer. The company subscribes to a just-in-time manufacturing philosophy and is committed to diversity, innovation and environmental protection. The company's facilities are carbon neutral and

GITI Tire has been a leader in the increased use of silica in tires, which helps lessen rolling resistance and therefore helps increase fuel efficiency. GITI Tire also partners with Conservation International on projects in China and Indonesia to protect the habitat of the threatened panda and Sumatran orangutan and replant forest areas.

<u>**For more information, contact:**</u>


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|---|---|
| **Eric Rosenberg** | **Nu Wexler** |
| Ogilvy Public Relations Worldwide | Ogilvy Public Relations Worldwide |
| 202-729-4177 | 202-729-4109 |
| 703-409-4932 (cell) | 202-689-4295 (cell) |