

# CERTAIN NEW PNEUMATIC OFF-THE-ROAD TIRES FROM CHINA, INDIA, AND SRI LANKA

---

USITC Preliminary Staff Conference

January 29, 2016

Petitioners' Presentation

# Overview

- I. Threshold Issues
  - A. Scope
  - B. Domestic Like Product
    - Related Parties
  - C. Negligibility
  - D. Cumulation
- II. Conditions of Competition and the Business Cycle
- III. The Volume of Subject Imports is Significant
- IV. Subject Imports Are Having Adverse Price Effects
- V. Material Injury by Reason of Subject Imports
- VI. Threat of Material Injury

# Scope

- The scope of the petitions is certain OTR tires, including for agriculture, industrial, construction, and mining
- The scope excludes ATV, lawn, and garden tires
- The scope also excludes large mining tires with rims above 39 inches
- Certain OTR tires come in a wide range of sizes and with various features depending on their intended application

**Agricultural/Farm**



**Earthmoving**



**Construction/Industrial**



# Scope

- The scope of the petitions is exactly the same as the existing orders on certain OTR tires, with two differences:
  1. Tires are covered whether they enter mounted or unmounted, though only the tire is covered. The existing orders only cover unmounted tires
  2. Certain OTR tires already covered by the existing orders – i.e., unmounted OTR tires from China – are not covered
- In effect, the scope covers unmounted tires from India and Sri Lanka and mounted tires from all three countries
- The inclusion of mounted tires reflects the fact that there is market demand for mounted tires served by all three countries and from concerns about Chinese producers exporting tires in mounted form to avoid duty liability

# Domestic Like Product

- In the prior OTR tire case, the Commission defined a single domestic like product, co-extensive with the scope
- The Commission should do the same here
- As the relevant facts re unmounted tires remain essentially unchanged since the first case, this discussion looks simply at the inclusion of tires in the scope which enter mounted
- Just as the scope only covers tires, whether they enter mounted or unmounted, the domestic like product should also be limited to the OTR tire itself, whether ultimately sold in mounted or unmounted form
- This is the product that is “like” the scope of subject merchandise

# Domestic Like Product

1. Physical characteristics and uses: OTR tires with the exact same physical characteristics can be sold mounted or unmounted and used on the same vehicles; indeed, all OTR tires will be mounted on a vehicle or piece of equipment in use.
2. Manufacturing process: OTR tires are produced through the exact same manufacturing process whether they are ultimately mounted before sale or not
3. Interchangeability: unmounted tires are identical to the tires that are sold mounted, and vice versa; the only difference is whether the same tire has been mounted before sale
4. Customer and producer perceptions: While some OEMs may purchase mounted tires, they can also buy the same tire unmounted and either mount them themselves or have them mounted by third parties
5. Channels of distribution: Mounted and unmounted tires are both sold to OEMs and both available in the aftermarket
6. Price: There are not major price differences for a mounted tire (the tire itself) and an unmounted tire as the tire is obviously identical. The value of the wheel and mounting service are not relevant to the price of the tire

## Domestic Like Product – Related Party Issues

- By statute, the Commission may exclude from the domestic industry any producer that is related to a subject foreign producer or importer or who themselves imports in appropriate circumstances. 19 USC 1677(4)(B)
- While there are related parties among the domestic industry, the issue is a fact-based one that is best addressed in a post-conference brief after review of relevant questionnaire responses.
- Petitioners will identify in their post-conference submission if they support exclusion of any domestic producers under this provision.

# Negligibility

- In the preliminary phase, the Commission determines whether there is a reasonable indication that imports are not negligible
- Imports are found negligible in a preliminary determination only where:
  - The record as a whole contains clear and convincing evidence that imports are negligible; and
  - No likelihood exists that contrary evidence will arise in the final investigation
- Imports from India and Sri Lanka clearly exceed negligibility thresholds (3% of total imports in AD cases and 4% of total imports for developing countries in CVD cases)

# Negligibility

- Public import data does not permit a negligibility analysis with regard to mounted OTR tires from China
- Titan and the USW sought HTS breakouts for mounted OTR tires in 2014, but only some were granted
- There are at least 15 basket HTS categories in which mounted OTR tires may be entering but which do not permit an identification of the quantity or value of imported mounted tires.

# Negligibility

- Once more complete import data for mounted OTR tires from China is compiled, it is likely to show imports from China are not negligible
- In the following two HTS categories for mounted OTR tires where quantities are collected, China accounts for nearly 86 percent of the quantity of imports (from July 2014 through September 2015).

Known Mounted Categories with Quantities: 8709.90.0020 & 8716.90.1020

Country	July 2014 – Sep 2015
	KGs
China	1,997,960
Other	331,177
World	2,329,137
China %	85.78%

# Negligibility

- China accounts for over 20 percent of the value and quantity of imports in fifteen basket categories (as well as over 95 percent of the quantity reported in kilograms)

Origin and Units	Nov. 2014 – Oct. 2015
China KGs	64,126,375
World KGs	66,951,506
China %	95.78%

Origin and Units	Nov. 2014 - Oct. 2015
China Number	972,314
World Number	4,418,321
China %	22.01%

Origin and Units	Nov. 2014 – Oct. 2015
China Value (LDP)	1,126,847,944
World Value (LDP)	3,802,286,544
China %	29.64%

# Negligibility

- China is the only country with an incentive to ship mounted OTR tires in order to avoid duty liability under the existing orders
- Recently concluded administrative review and ongoing review likely to significantly increase the dumping margin on a number of major Chinese tire producers, increasing the likelihood of a shift to exporting mounted tires.

# Cumulation

- There is a reasonable overlap of competition among imports from all three countries, and they should be cumulated
  - Tires from each country and the U.S. are fungible, as the Commission found with respect to the U.S. and China in the prior investigation
  - Tires from all three countries and the U.S. are available in the same channels of distribution, including the aftermarket and OEM market

# Cumulation

- As demonstrated below, tires from all three countries and the U.S. are available in every geographic region

OTR Tire Imports Jan 2012-Sep 2015, by Region  
(\$ LDP)

Region	China	India	Sri Lanka
Northeast	299,605	67,971,074	88,453,731
Midwest	10,716,103	147,715,227	28,411,333
South	1,221,832	370,724,322	76,924,692
West	1,257,682	65,985,122	113,162,732

# Cumulation

- As demonstrated below, tires from all three countries and the U.S. have been simultaneously present throughout the period of investigation

	Unmounted Certain OTR Tires from India (\$ LDP)			
	2012	2013	2014	2015
JAN	17,390,414	13,199,634	15,844,128	15,971,346
FEB	15,058,534	12,040,074	17,408,768	12,660,858
MAR	18,848,398	13,569,173	16,495,685	14,384,150
APR	19,786,004	14,576,297	15,084,135	17,731,386
MAY	14,981,925	12,444,493	12,816,480	17,849,057
JUN	15,090,376	11,876,050	12,663,753	15,020,137
JUL	15,468,950	12,163,813	18,486,637	16,812,680
AUG	15,150,534	14,497,109	16,273,382	13,751,844
SEP	18,103,751	11,760,961	14,735,916	10,065,650
OCT	16,333,929	11,110,013	14,219,775	
NOV	10,810,818	9,275,710	11,066,434	
DEC	12,981,101	10,258,888	16,628,348	

# Cumulation

- As demonstrated below, tires from all three countries and the U.S. have been simultaneously present throughout the period of investigation

	Unmounted Certain OTR Tires from Sri Lanka (\$ LDP)			
	2012	2013	2014	2015
<b>JAN</b>	7,416,536	6,508,134	6,237,245	6,348,706
<b>FEB</b>	8,594,932	6,147,141	3,880,948	4,564,597
<b>MAR</b>	8,660,682	6,748,110	6,992,592	7,334,078
<b>APR</b>	6,688,101	7,696,276	8,468,883	8,420,002
<b>MAY</b>	7,329,754	5,485,224	6,257,480	5,347,229
<b>JUN</b>	7,827,144	6,061,136	7,600,771	6,760,474
<b>JUL</b>	8,295,565	8,349,300	9,108,413	7,925,437
<b>AUG</b>	7,425,398	8,646,154	8,227,353	6,492,978
<b>SEP</b>	4,887,572	6,847,091	6,678,187	5,587,038
<b>OCT</b>	5,624,868	7,362,716	7,088,761	
<b>NOV</b>	6,034,155	6,196,284	5,165,796	
<b>DEC</b>	5,732,620	5,996,141	6,305,671	

# Cumulation

- Tires from all three countries and the U.S. have been simultaneously present throughout the period of investigation

	Mounted Certain OTR Tires (\$ LDP)					
	China		India		Sri Lanka	
	2014	2015	2014	2015	2014	2015
JAN	na	1,122,718	na	11,618	na	25
FEB	na	678,095	na	0	na	4,401
MAR	na	1,025,869	na	0	na	0
APR	na	531,161	na	62,908	na	99,488
MAY	na	632,272	na	2,688	na	160,533
JUN	na	671,715	na	0	na	180,288
JUL	866,113	513,891	6,264	278,972	0	37,658
AUG	2,064,305	738,637	0	678,682	0	105,366
SEP	1,149,749	879,177	4,375	479,506	0	104,154
OCT	863,225		0		0	
NOV	810,405		0		2,899	
DEC	969,359		38,429		0	

## Conditions of Competition and the Business Cycle

- Demand is derived from demand for OTR vehicles and equipment and replacement needs
- Some of the sectors with OTR are cyclical:
  - Agricultural equipment, tracks agricultural income;
  - Mining equipment follows commodity prices;
  - Industrial/construction flows the general economy and construction activity
- Both agricultural equipment and mining equipment are in the downward part of the cycle with sharply contracted OEM demand during the POI
- Demand is price inelastic

## Conditions of Competition and the Business Cycle

- OTR tires are not a commodity product
- Still, as found in the prior cases, price is an important consideration for purchasers both at the OEM and distribution level
- Brands can carry a small price premium for OTR tires

# Volume

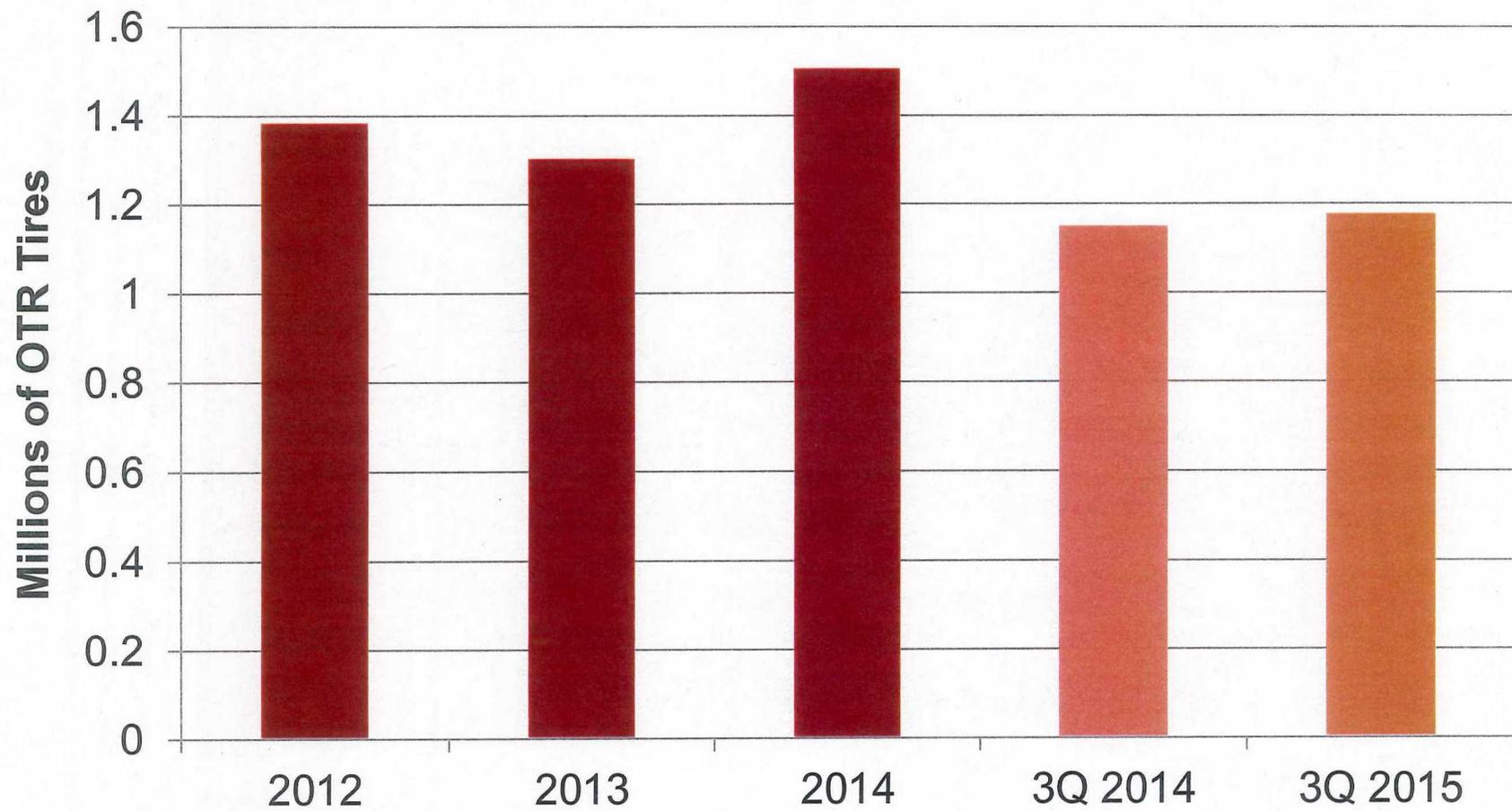
- The volume of subject imports is significant by any measure
- In the prior cases, import statistics needed to be modified to address the products not part of the scope.
- Some of the data issues were addressed by 2014 statistical breakouts adopted in the US HTS.
- Data for the HTS categories where unmounted OTRs should be entered are nearly identical whether one excludes tires valued at less than \$20/tire, \$25/tire, \$30/tire or \$35/tire at the low end and tires greater than 1,500 pounds at the other end.
- In addition, there is some data since July 2014 on some categories that track tires that enter mounted that are OTR tires.

# Volume

- Cumulated imports were at least 1.5 million tires in 2014, valued at \$269 million
- Despite cyclical downturns in U.S. demand in major markets for OTR tires, particularly the agricultural sector and mining, imports have risen
  - The number of OTR tires imported from subject countries increased by 8.8 percent from 2012 to 2014
  - The number of tires rose by another 2.4 percent from interim 2014 to interim 2015

# Volume

## Subject Imports



# Volume

- The significant increase in subject imports during a period of declining demand allowed imports to seize market share largely from domestic producers
- Imports also increased relative to domestic production
- Titan's own experience of lost shipments and market share as imports increased is likely representative of the domestic industry as a whole

# Volume

- Subject imports were the only source of volume increase over the period, as nonsubject imports also declined.

Source	2012	2013	2014	2014	2015	Non-Subject % $\Delta$ 12-14	Non-Subject % $\Delta$ 14-15
				Jan-Sept.	Jan-Sept.		
Number of Tires							
Subject	1,381,402	1,300,975	1,502,770	1,148,792	1,176,361		
Other	2,504,330	2,236,265	2,144,430	1,695,092	1,492,987	-16.80%	-13.53%
World	3,885,733	3,537,240	3,647,201	2,843,884	2,669,347		
Subject %	35.55%	36.78%	41.20%	40.40%	44.07%		

# Price Effects

- The Commission previously found that price is an important factor in purchasing decisions for OTR tires
- Price was one of the three most important factors cited by purchasers
- Any distinctions between brands and/or tiers in the OTR tire market were not found to be significant
- Price continues to be a very important factor today

# Price Effects

- OTR tires from all three countries and the U.S. are fungible and compete across the market
- Titan's 2014 annual report states that competition is based on price and the company may have to lower prices to compete
- As Titan's witnesses testified, they have faced price pressure from imports on a wide array of accounts in both the aftermarket and OEM market throughout the period
- They also testified that mounted tires compete directly with unmounted tires

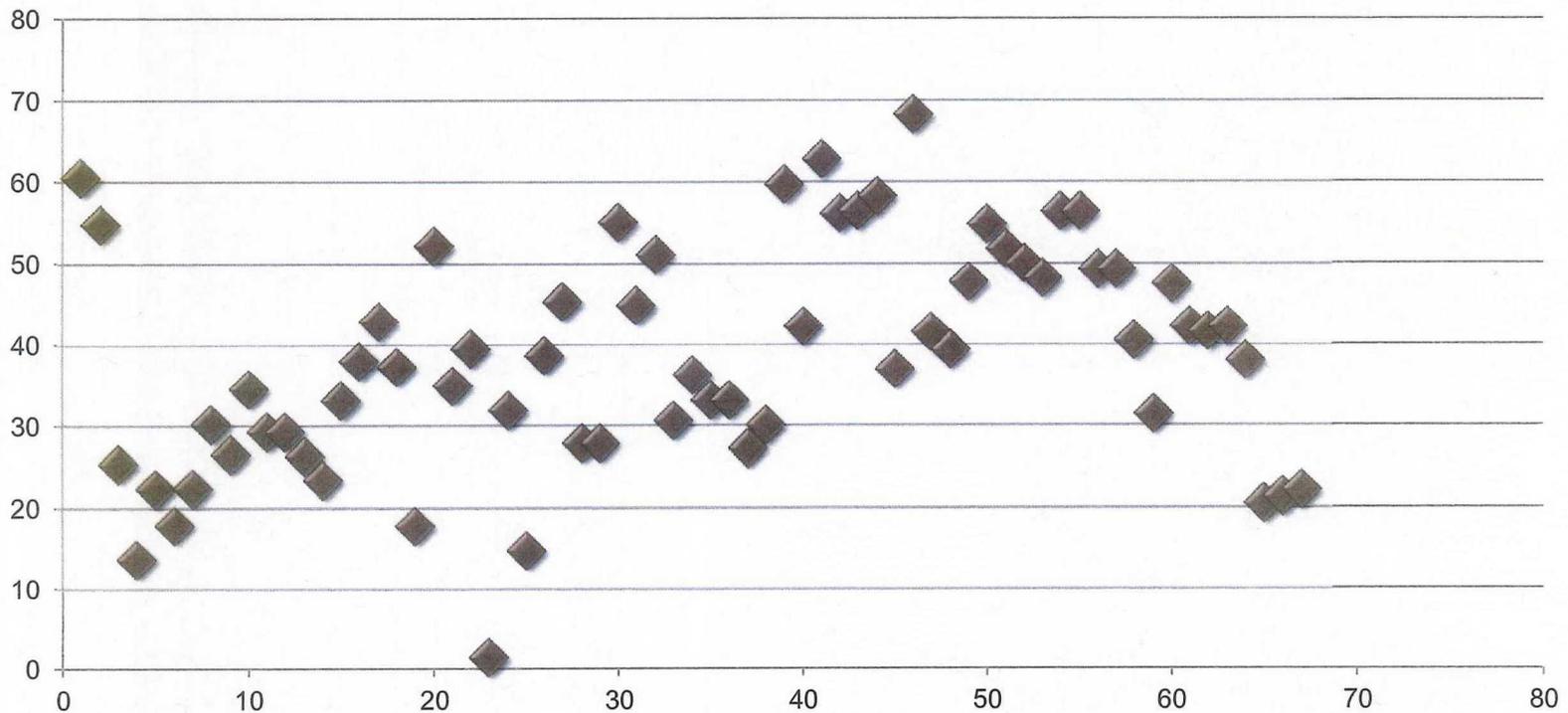
# Price Effects

- Subject imports are underselling domestic producers at significant margins
- In the prior case, the Commission found that imports from China undersold domestic producers in 147 of 157 comparisons, at margins as high as 57 percent
- A comparison of Titan's own confidential average sales price and average import unit values shows margins of underselling ranging from 20 to 60 percent

# Price Effects

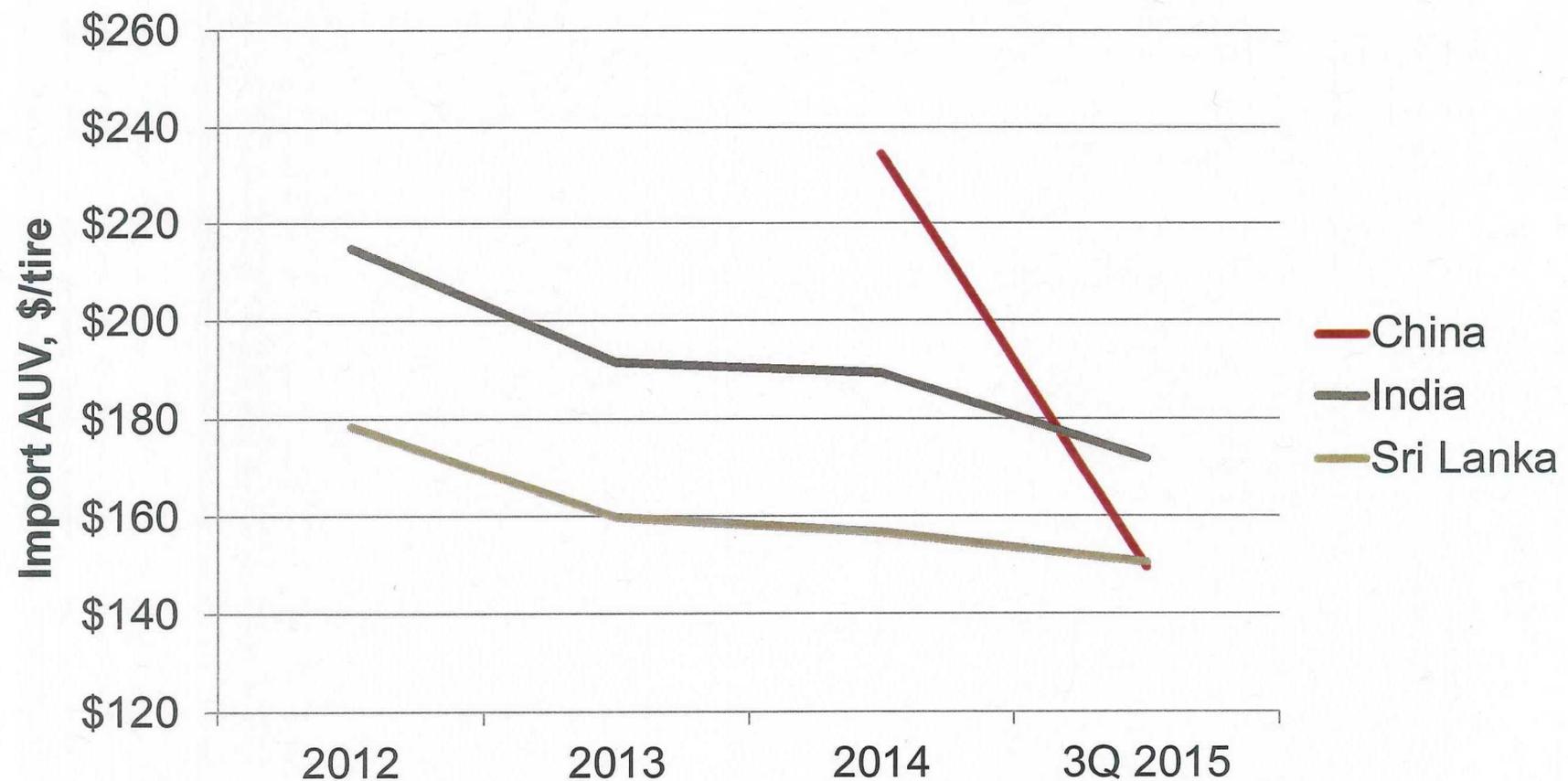
- A comparison of Titan's own confidential data regarding distributor prices for Titan tires and comparable Indian OTR tire models shows consistent underselling with margins ranging up to 70%

**Margins of Underselling on Specific Models**



# Price Effects

There has also been significant price depression by subject imports whose AUVs have declined significantly during the POI



# Price Effects

- As average import unit values fell by 10 to 20 percent, and as subject imports seized increasing share in a declining market, it drove down domestic prices as well
- Titan's confidential price data show significant declines over the period, both in the aggregate and for specific products and specific accounts
- Titan's witnesses testified they are frequently required to lower prices to compete with subject imports and maintain sales volume --- where the price cannot be met, sales volume is lost

# Price Effects

- Price declines have also exceeded any savings in raw material costs, leading to a growing cost/price squeeze
- Titan's experience of price depression and suppression by subject imports is believed to be representative of the industry as a whole
- In short, subject imports have had adverse price effects in a price-sensitive market through widespread underselling and steep price depression

# Material Injury

- As subject imports have increased their presence in a declining market and entered at falling prices, they have caused material injury to the domestic industry
- Titan, which produces the full range of OTR tires and is the most focused on OTR tires of domestic producers, provides a good indication of the state of the domestic industry

# Material Injury

- As import volumes rose in a declining market, Titan lost shipment volume, sales revenue, and market share
- These losses drove down Titan's production levels, reducing lot sizes, increasing uncovered overhead costs, and decreasing capacity utilization
- Titan was forced to significantly reduce employment, hours, and wages as production dropped

# Material Injury

- As demonstrated below, domestic industry has suffered declines in at least the following statutory factors:

Factors under 19 USC 1677(7)(C)	2012-2014	Interim 2014-2015
Production	↓	↓
Shipments	↓	↓
Capacity utilization	↓	↓
Production-related workers	↓	↓
Hours worked	↓	↓
Compensation	↓	↓

# Material Injury

- As imports depressed prices, Titan was forced to lower its own prices to make sales, and lost sales where it could not do so
- In some cases, Titan was forced to make sales at a loss in order to compete
- Downward price pressure exceeded raw material costs savings, driving down Titan's gross profits, operating income, and net income
- This has deprived Titan of resources needed to invest in its facilities and research and development

# Material Injury

- As demonstrated below, domestic industry has suffered declines in at least the following financial indicators:

Financial Indicators	2012-2014	Interim 2014-2015
Quantity of domestic shipments	↓	↓
Value of domestic shipments	↓	↓
Average unit value of domestic shipments	↓	↓
Operating income as a % of sales	↓	↓
Net income as a % of sales	↓	↓
Capital expenditures	↓	↑
Value of assets	↓	N/A
Research and development expenses	↓	↓

# Material Injury

- Other domestic producers have also been injured by subject imports
- As the USW testified, workers at non-Titan plants have also seen shipments and production decline as imports increased
- This has led to further reductions in hours and employment
- Other plants also have significant idled capacity and have been unable to make needed investments over the period
- Management explicitly cites import competition as a reason for the declines

# Material Injury

- In short, cumulated subject imports have:
  - Increased in volume both absolutely and relative to declining domestic consumption and production
  - Undersold domestic producers at significant margins across a range of products and customers
  - Depressed prices significantly below any savings in raw materials costs
  - Driven down domestic shipments, production, capacity utilization, employment, profitability, and investment
- The domestic industry has thus suffered material injury by reason of subject imports

# Threat

- Subject imports threaten further injury if orders are not imposed
- Producers in all three countries benefit from export subsidies
- Tire industries in the three countries have been growing rapidly and are export-oriented with some major companies exporting as much as 90% of production
- Their rapid market penetration and price aggression during the period indicate that such trends will continue unless relief is imposed

# Threat

- Recent expansions will provide more than enough capacity to increase exports in the absence of relief
  - Guizhou announced plans to build a new specialty tire plant in China in 2015
  - BKT opened a new OTR tire plant in 2015, which will be operating at full capacity by 2017
  - Apollo is switching capacity at a truck tire plant in India over to specialty and industrial tires
  - Alliance opened a new OTR tire plant in India in late 2014
  - In 2015, TVS announced plans to increase OTR tire capacity at two plants
  - Trelleborg enlarged its OTR tire plant in Sri Lanka in 2010

# Conclusion

- OTR tires from China were found to injure the domestic industry in its prior investigation
- These petitions were necessary to address mounted tires from China and mounted and unmounted tires from India and Sri Lanka
- Rising volumes of imports have seized market share and driven down prices in a declining market
- Imports have driven down production, employment, and profitability, causing material injury and threatening further injury if orders are not imposed