

# TRUCK AND BUS TIRES FROM CHINA

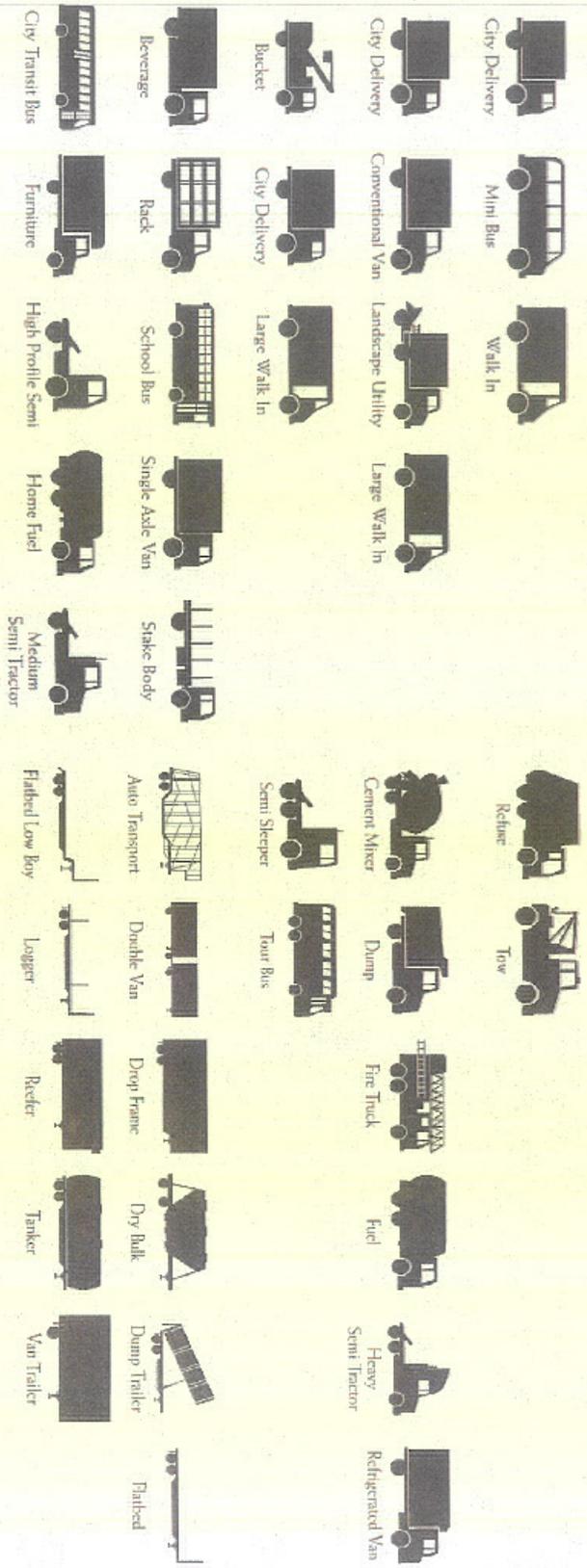
INV. NOS. 701-TA-556 AND 731-TA-1311 (PRELIMINARY)  
PETITIONER'S PRESENTATION



U.S. INTERNATIONAL TRADE COMMISSION  
PUBLIC PRELIMINARY STAFF CONFERENCE  
FEBRUARY 19, 2016

# DOMESTIC LIKE PRODUCT

- The scope of these investigations is new pneumatic truck and bus tires
- Truck and bus tires are designed for vehicles with a given vehicle weight of 10,000 pounds or more



# **DOMESTIC LIKE PRODUCT**

The petition proposes a domestic like product that is co-extensive with the scope:

1. All have the same basic physical characteristics and are used on busses and trucks, with no clear dividing lines
2. Tires of the same size and with the same features can be used interchangeably in the same applications
3. All sizes and types are available both to OEMs and through the aftermarket
4. All types of bus and truck tires are made through the same basic process at common facilities, on the same equipment, and by the same employees
5. Customers and producers perceive all truck and bus tires as products with the same basic physical properties and essential function, and they are governed by the same safety regulations
6. Truck and bus tires are offered at a range of price points depending on their size and end-use application

# **DOMESTIC LIKE PRODUCT**

The Commission's questionnaires seek information on retreaded tires from domestic producers of new tires

- USW does not represent workers at retreaders and hence has limited familiarity with like product issues as they pertain to retreaded tires
- Some public data are available on the size of retread production, which was 14.8 million tires in 2015
- Dealers are understood to offer both the sale of retreaded tires and the option of applying a new tread to a customer's existing casing ("capping")

# DOMESTIC LIKE PRODUCT

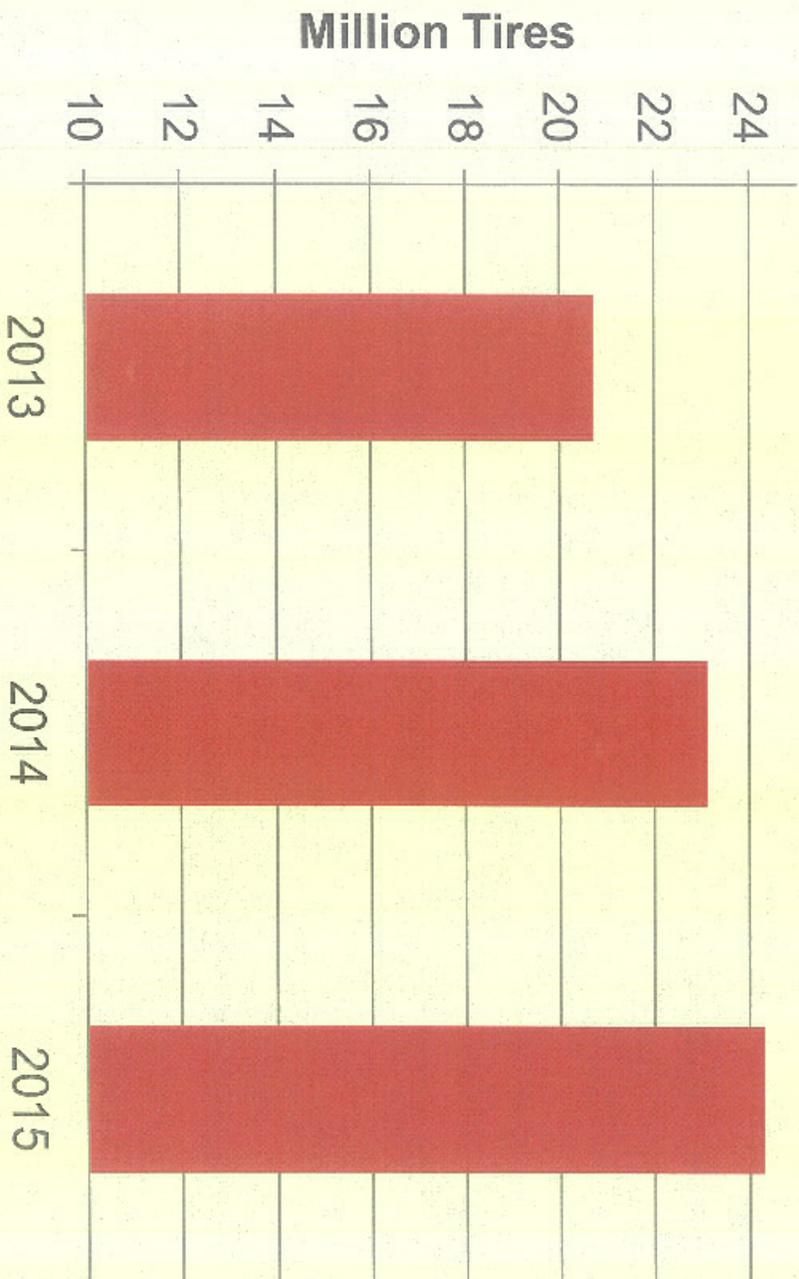
- It is known that there is limited use of retreaded tires in the steer position and none on busses
- Retreaded tires are produced in different facilities and by different workers than those that produce new tires
- Retreaded tires are understood to be entirely in the aftermarket channel, though dealers offer both retreaded and new tires
- The price of retreaded tires is lower than new tires
- Retreaded tires have the same casing as new tires, and treads are produced by some of the same companies that produce new tires (though in different facilities)
- Retread technologies can be SmartWay verified, as can new tires
- Retreaded tires are subject to marking and safety regulations, and retreaders must get a DOT code like new tire plants

# DOMESTIC LIKE PRODUCT

- If the Commission views the issue of the inclusion of retreaded tires in the domestic like product to be potentially important to its analysis, it will need to collect additional information on retreaded tires in the final phase of the investigation
  - There are an estimated 680 retreaders in the United States; MTD's list of top commercial tire dealers includes operations with retread operations
- Press accounts indicate concern by retread operations regarding the volume and low prices of new Chinese tires in the market (See, e.g., Petition at Ex. 1-20; "Top 25 Commercial Dealers Focus on Market Trends," MTD (Oct. 27, 2015))

# CONDITIONS OF COMPETITION

Apparent consumption rose by 17.4% from 2013 to 2015, an increase of 3.6 million tires



# CONDITIONS OF COMPETITION

## Supply has been plentiful

- There are nine U.S. plants that produce truck and bus tires, with an estimated combined capacity of 54 thousand tires a day (annual capacity of 18.9 million tires)
- The biggest growth in supply over the period has been from China, with subject imports increasing by 2.6 million tires, or 41.3%
- Nonsubject imports have also grown, but China has consistently been more than 60 percent of all imports

# CONDITIONS OF COMPETITION

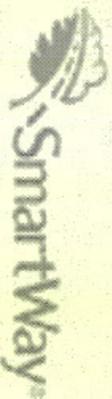
Truck and bus tires from the U.S. and China are highly substitutable

- Industry publications indicate both are present in the OEM and replacement market
- Chinese and domestic tires are available for all positions on trucks and busses
- Major dealers offer U.S. and Chinese tires for the same range of applications side-by-side
- Both U.S. and Chinese tires are SmartWay verified
- Both U.S. and Chinese tires have warranties, including casing warranties

# CONDITIONS OF COMPETITION

Brand	All-Position	Steer	Drive	Trailer	Regional	Long-Haul
Aeolus	✓	✓	✓	✓	✓	✓
Cooper	✓	✓	✓	✓	✓	✓
Double Coin	✓	✓	✓	✓	✓	✓
GT Radial	✓	✓	✓	✓	✓	✓
Guizhou	✓	✓	✓	✓	✓	✓
Hercules	✓	✓	✓	✓	✓	✓
Mastercraft	✓	✓	✓	✓	✓	✓
Sailun	✓	✓	✓	✓	✓	✓
ZC Rubber	✓	✓	✓	✓	✓	✓

# CONDITIONS OF COMPETITION



Both U.S. and Chinese truck and bus tires for all positions have been verified for low-rolling resistance under the EPA's SmartWay program

11 U.S. Brands	At least 120 Chinese Brands ...	
BFGoodrich Bridgestone Continental Dayton Dunlop Firestone	Goodyear Michelin Sumitomo Uniroyal Yokohama	Dongfeng Double Happiness Double Coin Doublestar Duraturn Fullrun Gladiator GT Radial Hercules Horizon Huasheng Jinyu Linglong Long March Qiangwei Roadmaster Sailun Samson Sinotire Triangle

# **CONDITIONS OF COMPETITION**

- Publicly available information on the top 25 commercial tire dealers shows that at least 23 dealers carry both domestic and Chinese brands
- Together these 23 dealers had 1,193 outlets across the country in 2014
- And these 23 dealers had over \$3.8 billion in estimated truck tire sales in 2014

# CONDITIONS OF COMPETITION

## TIRE BRANDS

At [Southern Tire Mart](#), we provide brand name tires to customers in the Southeastern US, Southwestern US, Midwest US, and surrounding areas. Our selection features competitively priced tires from the industry's top brands.

Browse our [online tire catalog](#) to shop for tires. If you need help with your search, [contact us online](#) or



VIEW  
QUOTES

us today!

Locations: Mississippi, Texas, Georgia, Oklahoma, Arkansas, Louisiana, Nevada, Tennessee, Florida

**BRIDGESTONE**



**Firestone**



RoadOne

# CONDITIONS OF COMPETITION

## Top US commercial truck tire dealer in 2015 – Southern Tire Mart

Tire brands offered by Southern Tire Mart for ITC pricing products:  
Bridgestone, Firestone, Continental, General, Yokohama, Toyo,  
**Double Coin, Duraturn, RoadOne, Gladiator** and Dayton

For the four ITC pricing products, Southern Tire Mart shows:

- 11R22.5, drive, load range H, 16 ply:  
**28 tires, at least 9 of which are Chinese**
- 11R24.5, drive, load range H, 16 ply:  
**26 tires, at least 9 of which are Chinese**
- 295/75R22.5, drive, load range G, 14 ply:  
**32 tires, at least 8 of which are Chinese**
- 285/75R24.5, load range G, 14 ply:  
**31 tires, at least 8 of which are Chinese**

# CONDITIONS OF COMPETITION

## Fleet Services

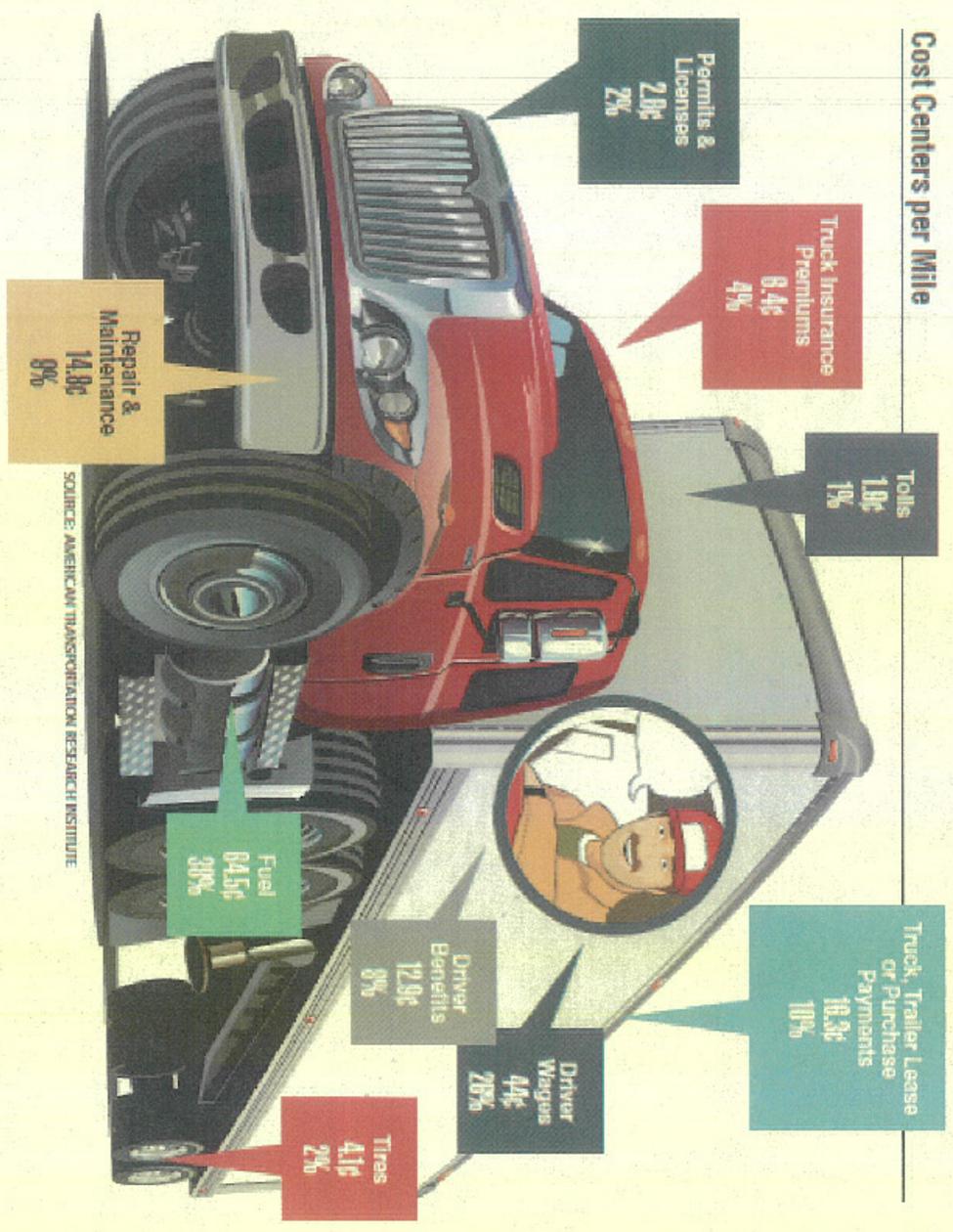
- Chinese producers such as Double Coin, GITI, and Roadmaster (Cooper) offer fleet services directly to their customers
- Many dealers also offer customers fleet services for the tires they sell, including tires from China

## Warranties

- Chinese producers such as Aeolus, Double Coin, Duraturn, Dynacargo, GITI, Guizhou, Sailun, Triangle, and Zhongce Rubber provide warranties for their truck and bus tires, including casing warranties

# CONDITIONS OF COMPETITION

## Cost Centers per Mile



SOURCE: AMERICAN TRANSPORTATION RESEARCH INSTITUTE

Tires are only 2% of the cost of trucking operations per mile



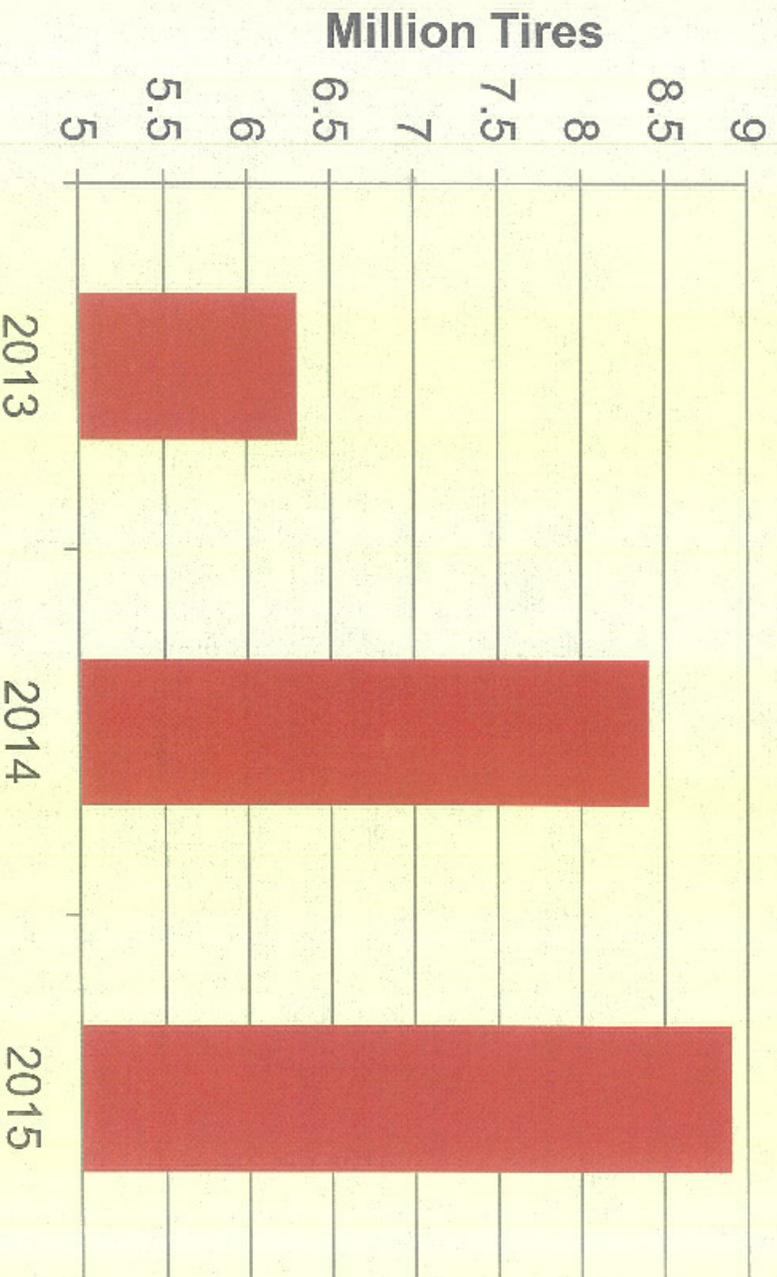
Source: HDT 2015 Fact Book

# VOLUME

At 8.9 million tires in 2015, the volume of subject imports is significant absolutely

Imports increased by 2.6 million tires, or 41.3%, over the POI

Subject Import Volume

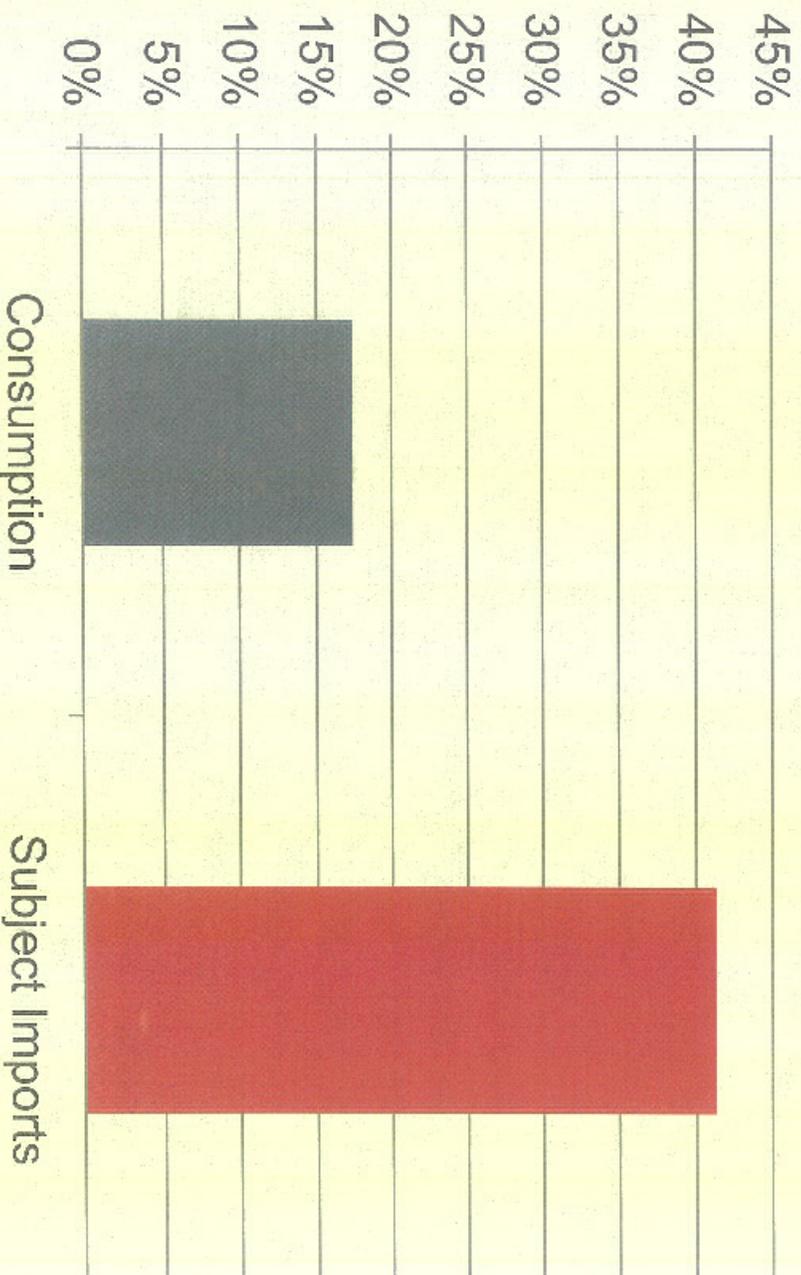


# VOLUME

With 36.6% market share in 2015, subject imports are also significant relative to domestic consumption

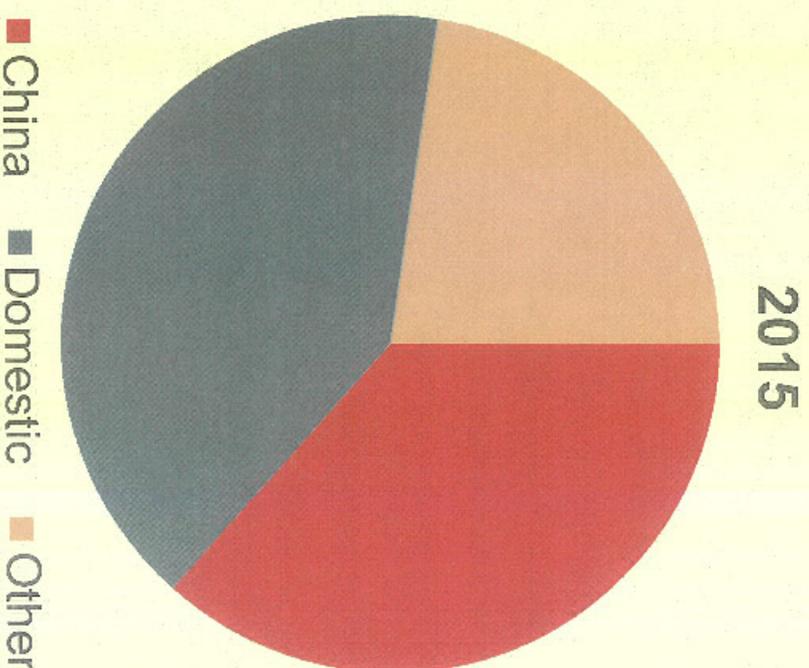
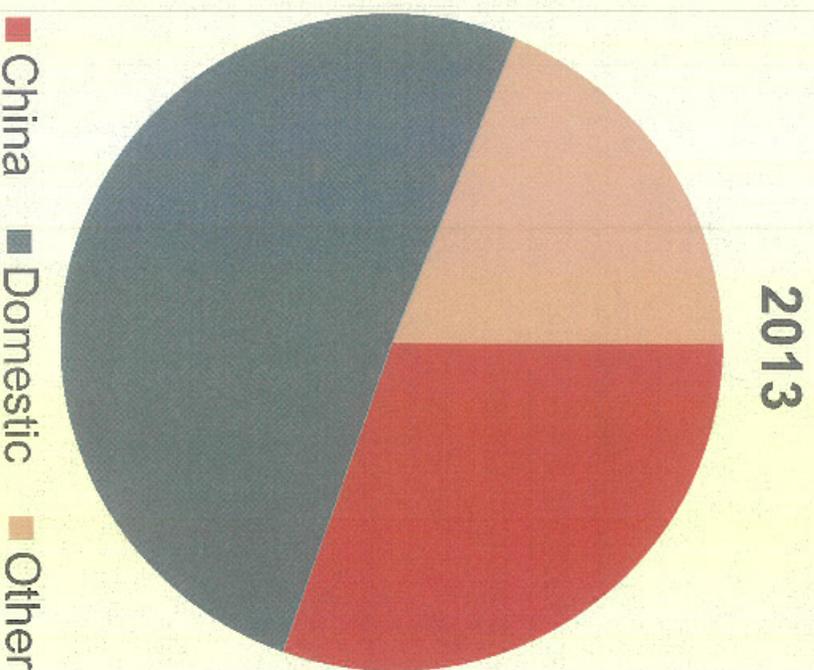
From 2013 to 2015, subject imports rose more than twice as rapidly as consumption

Growth, 2013 - 2015



# VOLUME

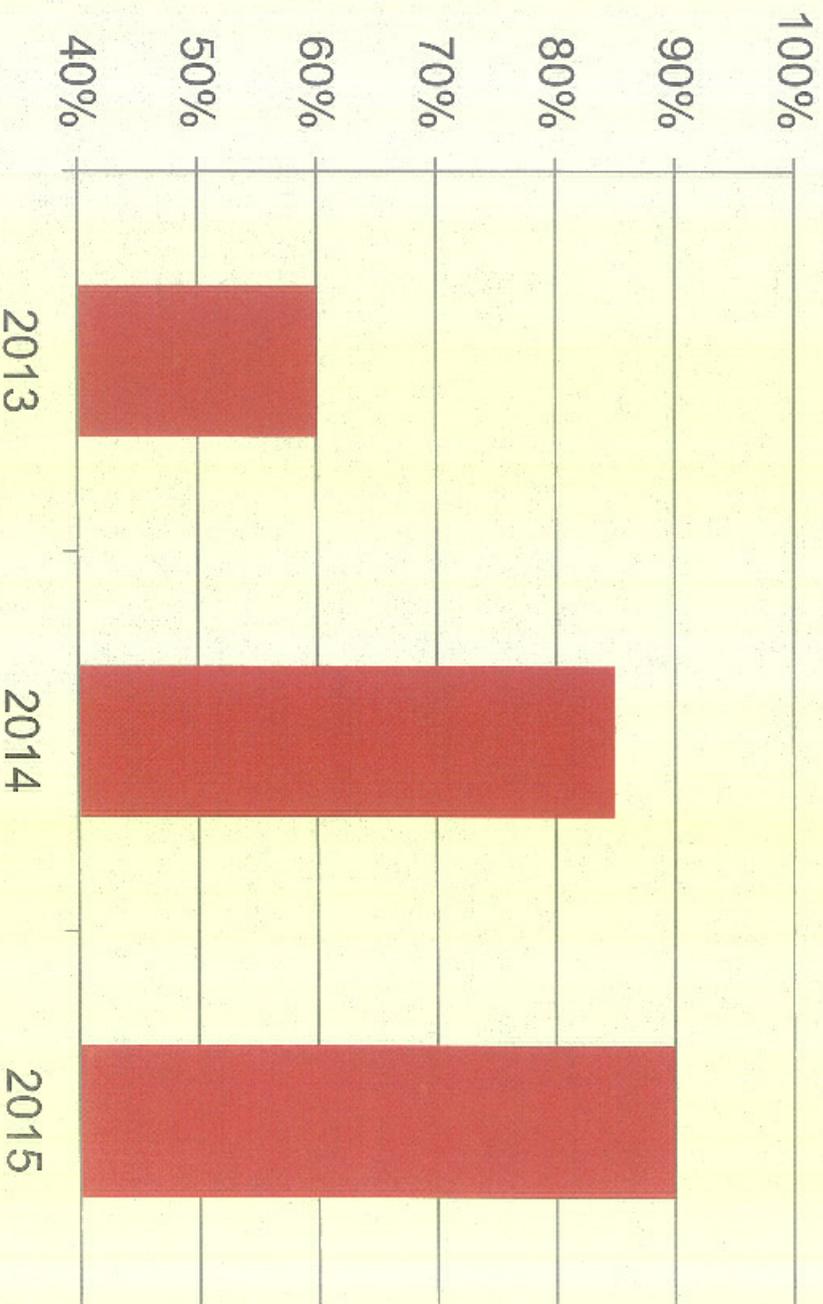
Imports from China gained 6.2 percentage points of market share from 2013 to 2015, while domestic producers lost 10 percentage points of market share



# VOLUME

As a result, the ratio of Chinese tires to U.S. tires increased by nearly half, from 60% to 90%

Ratio of Subject Imports to Domestic Shipments



# PRICE EFFECTS

Retail prices for the same size and position tire show universal underselling across 30 available comparisons at margins as high as 49.6%

Product	Margin	Product	Margin	Product	Margin
1	-26.66%	11	-23.52%	21	-41.52%
2	-34.38%	12	-23.72%	22	-20.45%
3	-31.16%	13	-18.33%	23	-35.62%
4	-41.49%	14	-32.65%	24	-36.99%
5	-22.27%	15	-41.15%	25	-23.85%
6	-23.34%	16	-36.75%	26	-20.12%
7	-28.87%	17	-31.89%	27	-29.90%
8	-29.30%	18	-30.53%	28	-31.02%
9	-23.85%	19	-27.21%	29	-18.33%
10	-49.58%	20	-33.97%	30	-9.02%

The comparisons include tires for long-haul and regional service, and steer, drive, trailer, and all-position tires

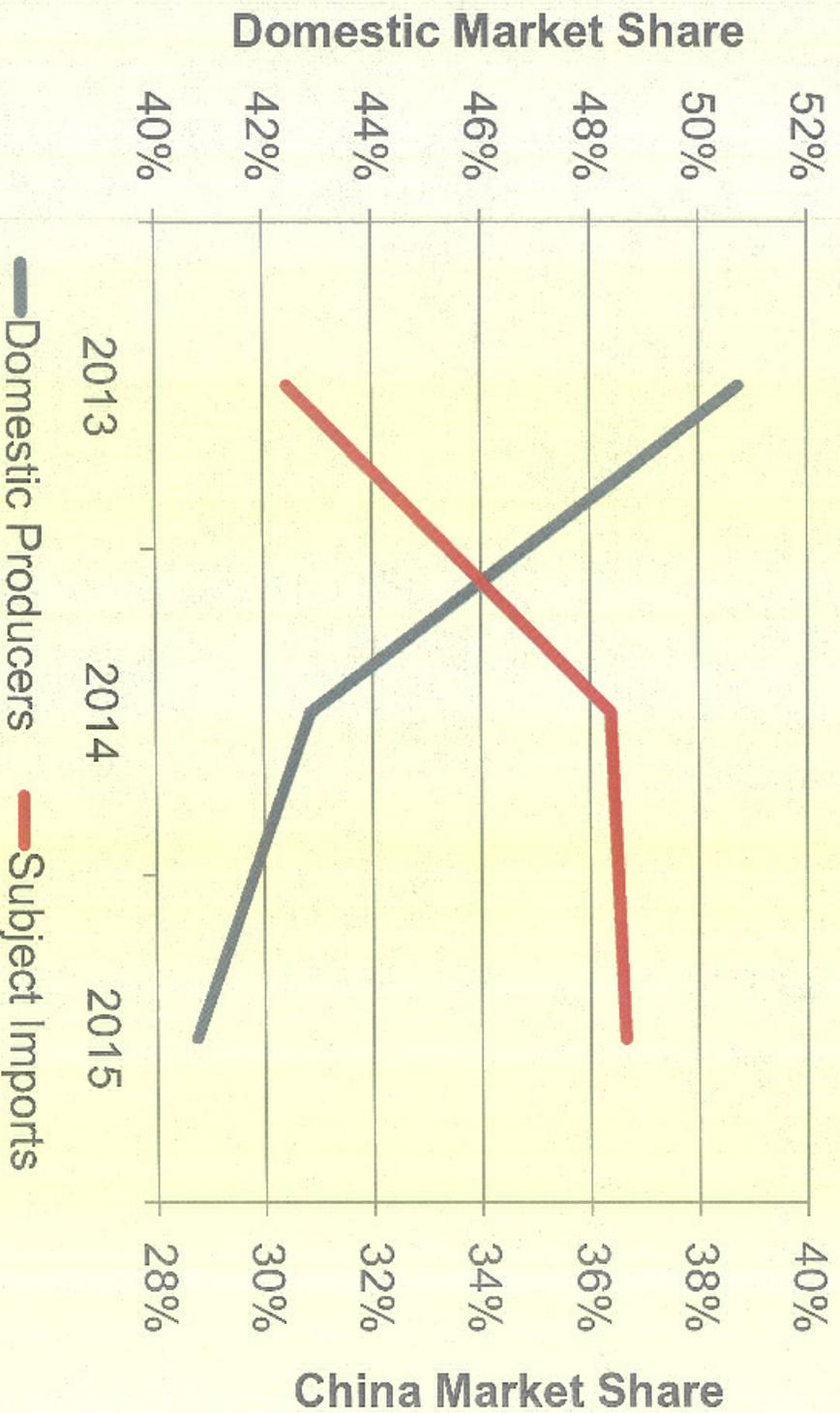
# PRICE EFFECTS

## **Industry representatives attribute the decline in domestic tire prices to pricing pressure from Chinese imports**

- A 2014 article notes almost every commercial tire dealer carries Chinese tires alongside domestic tires due to the price difference, and states Chinese imports “will continue to put downward pressure on pricing.”
- “We sell Chinese tires because we have to. It just makes it difficult to compete when Chinese tires are so much less, and anybody can get their hands on anything inexpensive.” Rob Mason, Pete’s Road Service Inc.
- In 2016, a representative of Belle Tire Distributors was quoted as saying that Chinese imports, “continue to drive the price margins down in North America. This will continue to be a major problem as we enter 2016.”

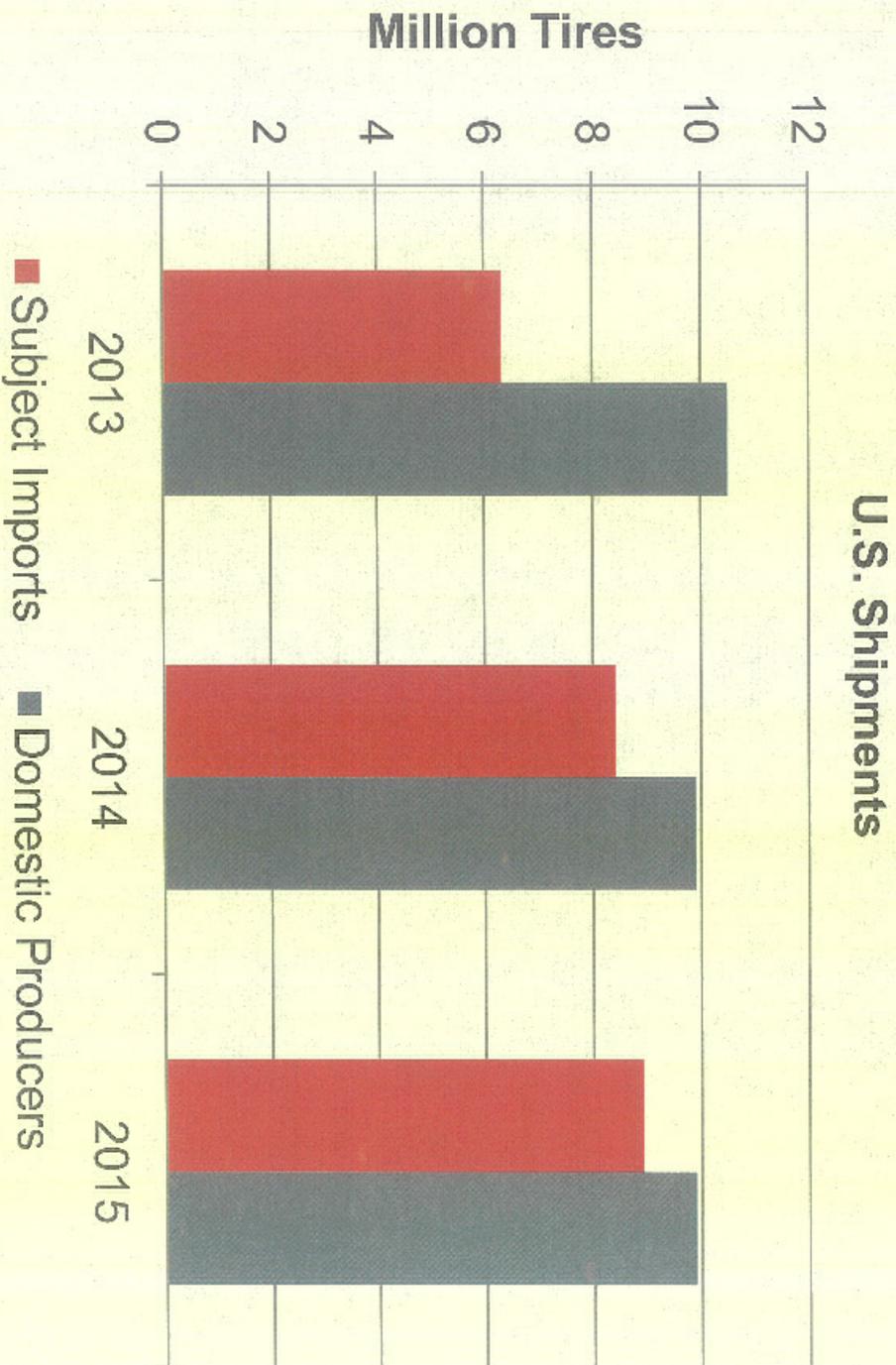
# MATERIAL INJURY

- As subject imports increased more rapidly than rising consumption, they seized market share from domestic producers



# MATERIAL INJURY

As a result, domestic producers lost shipments and participated in none of the demand growth over the period



# **MATERIAL INJURY**

- As subject imports deprived the domestic industry of shipments, broadly undersold domestic prices, and drove prices down, the domestic industry suffered material injury
- Despite a 17.4% increase in demand, production was basically flat, meaning employment, hours, and wages likely also saw no meaningful increase
- Despite a rapidly growing market, USW witnesses have testified that their plants were deprived of investment, and needed capital improvements were postponed

# MATERIAL INJURY

- The domestic industry has had significant unused capacity throughout the period
- At USW plants alone, there are:
  - Shifts without production
  - Unused overtime
  - Days taken out of schedule
  - Idle machines and equipment
  - The ability to quickly add equipment and capacity in existing plants
- The only reason these plants have not increased production commensurate with demand since 2013 is unfair import competition

# THREAT

- The situation for domestic producers has deteriorated rapidly since December of 2015
- As USW witnesses testified, production has been cut back dramatically at their plants
  - Goodyear, Topeka: reduction from 5,700/day to 4,100/day
  - Sumitomo: reduction from 2,300/day to 1,900/day with further reduction projected to 1,700/day
  - Bridgestone, Warren County: reduction from 9,000/day to 8,800/day with rising inventories and additional reductions at La Vergne
- Existing production at these three plants is already down nearly 13% in 2016 versus 2015

# THREAT

**The threat is imminent given the number of countries that have imposed antidumping orders on truck and bus tires from China and the diversion of product from those markets**

- Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia) – Dec. 18, 2015
- Brazil – May 4, 2015
- Egypt – Feb. 20, 2014
- Colombia – June 13, 2013
- India – Oct. 9, 2006
- Turkey – Aug. 20, 2005

# THREAT

The imposition of orders on PVL T and OTR tires from China creates another incentive for producers to shift production and exports to truck and bus tires

- “Although the tariffs levied on Chinese tires were placed on passenger tires and not truck tires, they did have an impact on the commercial truck tire market as well. Since the Chinese could not sell passenger tires as cheaply in the U.S. anymore, they turned to truck tires to export to the U.S.” – Tire Business Blog (Aug. 26, 2015)

# THREAT

“... [N]one of those tire factories protects Double Coin from what its chief executive says would be a disaster. A tariff on truck tires ....

“Double Coin knows what a tariff can do to its business. The tariffs on off-the-road tires smaller than 39 inches prompted the company to stop shipping OTR tires to the U.S. in April. The duties on passenger and light truck tires from China are preventing Double Coin from bringing its Warrior line of consumer tires, built in Shanghai, to the U.S. ....

“For now, all of the company’s production remains in China. But even there, Double Coin is making changes and planning for an expansion to produce an additional 1.5 million TBR tires a year.”

- “Double Coin is Weighing its Options,” MTD  
(Oct. 27, 2015)

# THREAT

- The Chinese truck and bus tire industry has had significant overcapacity, which continues to grow, putting pressure on Chinese companies to export

**“There is the capacity in China to make every single truck tire that the world needs”**

– David Shaw, CEO and head of research for  
Tire Industry Research

- China has an annual production capacity of 150 million truck and bus tires – enough to serve the entire U.S. market six times over

# THREAT

**Overcapacity will only increase as Chinese producers continue to expand**

- In 2014, Kenda Rubber Industrial Co., Ltd. announced it was building a new dedicated truck and bus tire facility in Jiangsu, China with a daily capacity of 6,000 tires a day (2.16 million tires annually).
- In March of 2015, ground was broken on a new truck tire plant in Anhui, China with a projected annual capacity of two million tires.
- In September of 2015, Double Coin announced that it was going to expand the production of truck and bus radial tires by an additional 1.5 million tires at its plant in Rugao, China by 2018; many of the plant's tires are destined for the U.S. market.
- In November of 2015, Qingdao Doublestar was relocating a truck tire plant to Qingdao, China; the plant's original capacity of 1 million truck and bus tires is estimated to potentially increase to 15.1 million units.

# THREAT

**The threat is exacerbated by the large number of prohibited export subsidies maintained by China and available to truck and bus tire producers**

1. Policy Loans (including based on export performance)
2. Discounted Loans for Export-Oriented Enterprises
3. Export Seller's Credit
4. Export Buyer's Credit
5. Export Credit Insurance Subsidies
6. Export Credit Guarantees
7. Export Loan Interest Subsidies
8. Provision of Land-Use Rights for (including based on export performance)
9. Famous Brands Program
10. Export Interest Subsidy Funds for Enterprises Located in Guangdong and Zhejiang Provinces
11. Funds for "Outward Expansion" of Industries in Guangdong Province

# THREAT

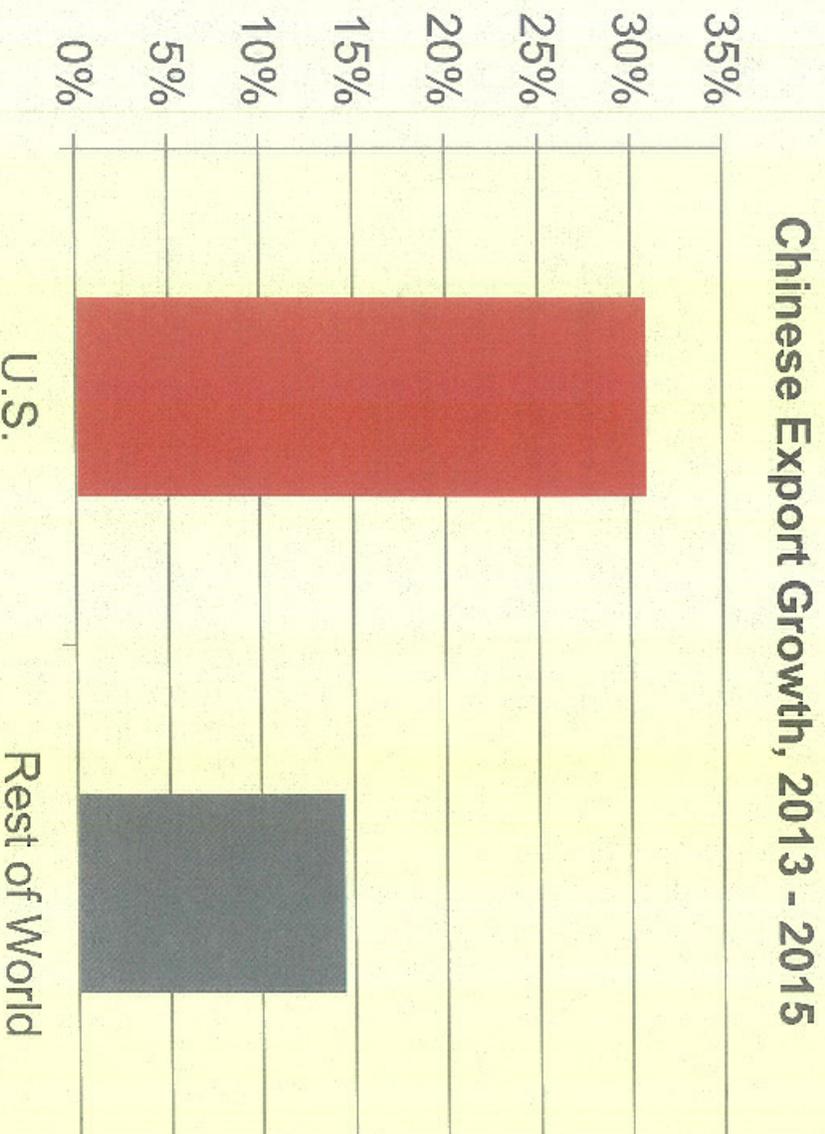
With massive excess capacity, a large number of export subsidies, and softening domestic demand, the industry in China has been and will continue to be highly export oriented

China's Exports of Truck and Bus Tires

	2013	2014	2015	13-15%
World (\$ Bn)	8.13	8.52	7.25	-10.9%
U.S. (\$ Bn)	1.45	1.85	1.48	2.4%
World (Th MT)	2,670	3,151	3,129	17.2%
U.S. (The MT)	457	657	598	30.8%

# THREAT

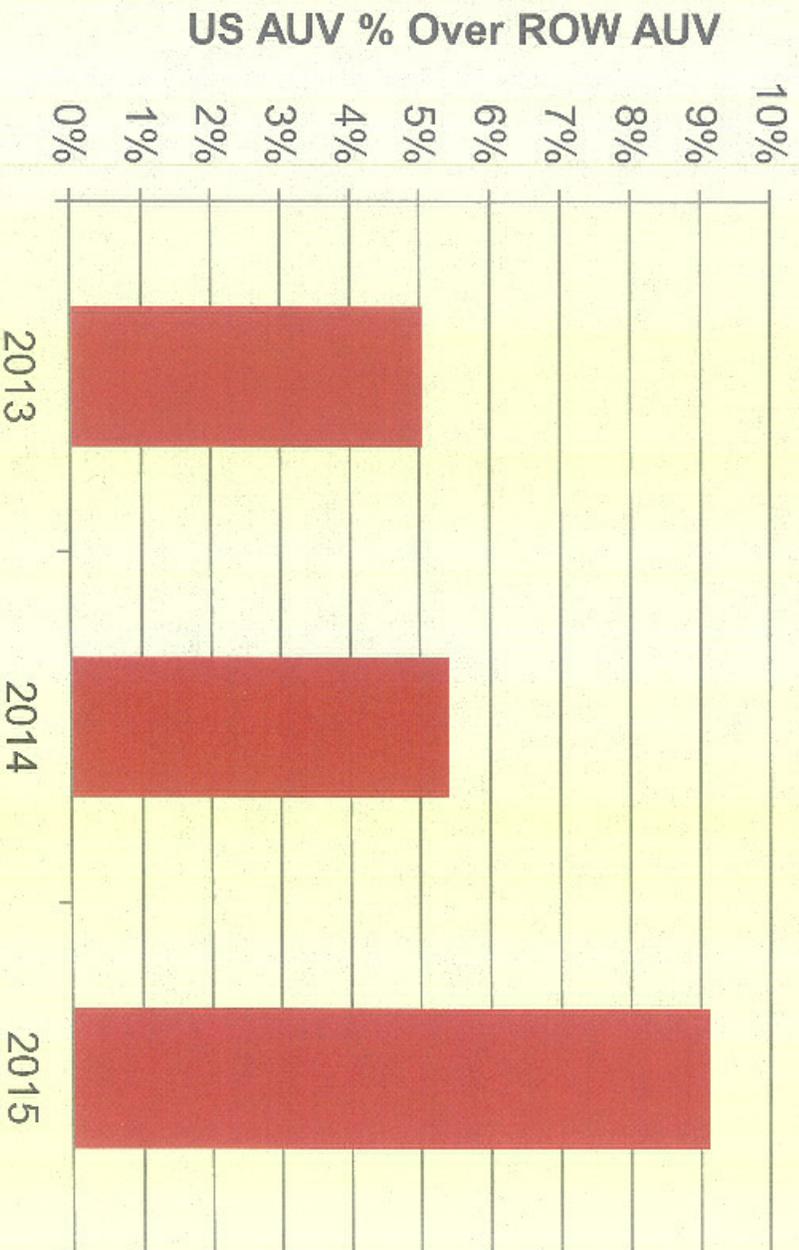
- The U.S. is by far the top destination for Chinese exports
- China's exports to the U.S. grew twice as fast as its exports to the rest of the world from 2013 to 2015



# THREAT

- The U.S. is a highly attractive market for Chinese producers
- Average unit values of Chinese exports to the U.S. are consistently higher than to the rest of the world

U.S. Price Premium for Chinese Exports



# THREAT

- The attractiveness of the U.S. market is confirmed by the large number of new Chinese truck and bus tire plants acquiring DOT plant codes since 2013 to allow them to sell into the U.S. market:
  1. China National Tire
  2. Hubei Aulice Tire
  3. Jiangsu Roc Tires
  4. Laoling Vheal Rubber
  5. Shandong Deruta Tire
  6. Shandong Futailer Tire
  7. Shandong Goodtire
  8. Shandong Havstyear Rubber
  9. Shandong Huasheng Rubber
  10. Shandong Zhongchuang Tires
  11. Weigfang Yuelong Rubber Co. Ltd.
  12. Xinjiang Kunlun Engineering Tire

# THREAT

- USW plants have already had production cuts starting in late 2015
- Hours are being taken out of schedule, shifts taken out of production, overtime reduced, and equipment idled
- These trends will result in higher per-unit labor and other factory costs in 2016
- It is also expected that raw material costs will be increasing in the immediate future period

# THREAT

- The domestic industry's vulnerability to further injury by subject imports will be influenced by a key condition of competition in the truck and bus tire industry – the volatility of prices for key raw materials
- Major tire raw materials, percent by weight:
  - Rubber (natural and synthetic): 40%
  - Carbon Black: 30%
  - Steel Cord: 20%

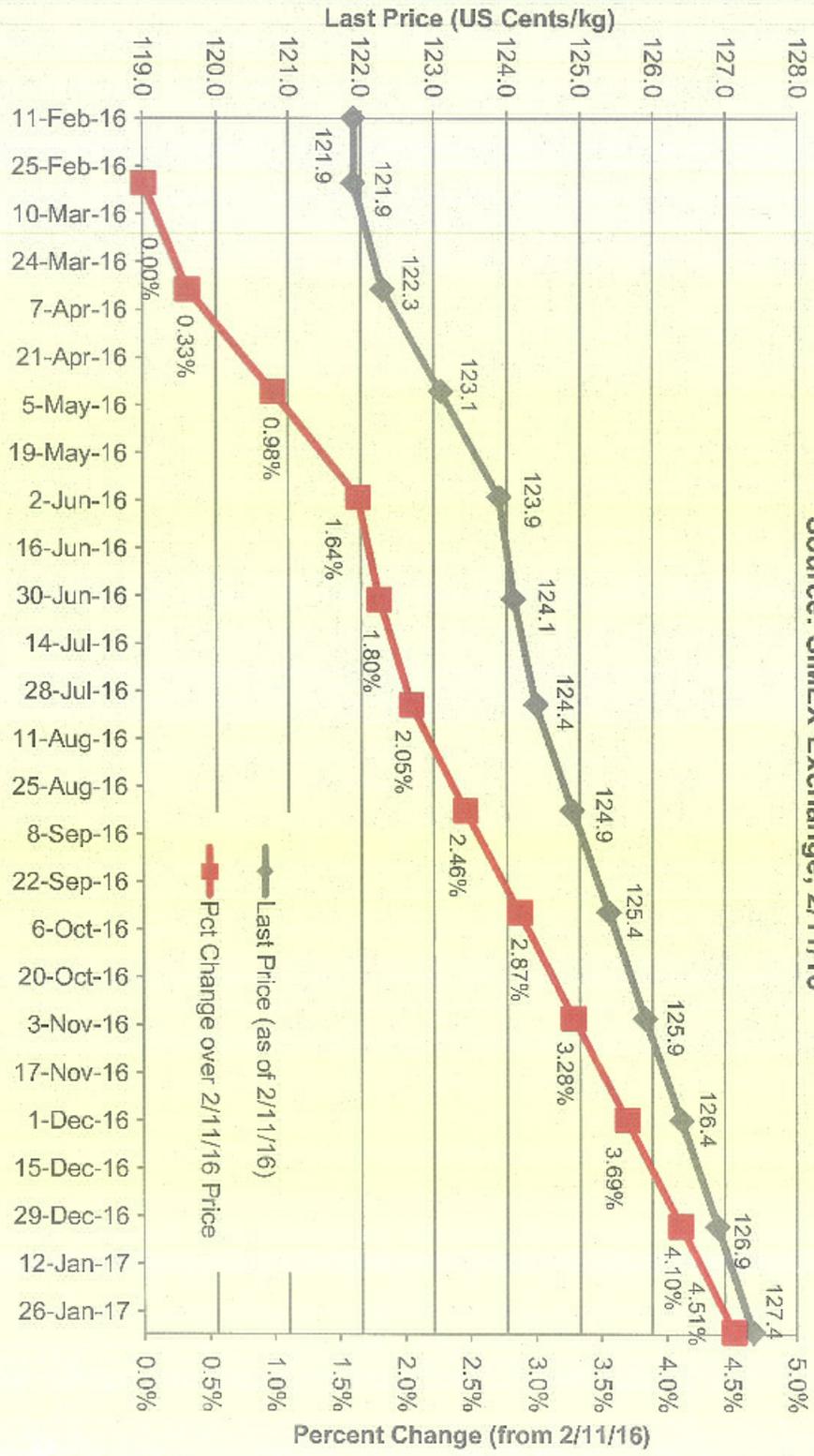
Source: Bridgestone Magazines Special Edition 3 – Ingredients, as presented in the Petition at Exhibit I-4, [http://www.bridgestonetrucktires.com/us\\_eng/real/magazines/bestof3/speced3\\_ingredients.asp](http://www.bridgestonetrucktires.com/us_eng/real/magazines/bestof3/speced3_ingredients.asp)

# THREAT

## NATURAL RUBBER PRICES

### SGX RSS3 Rubber Futures Prices

Source: SIMEX Exchange, 2/11/16

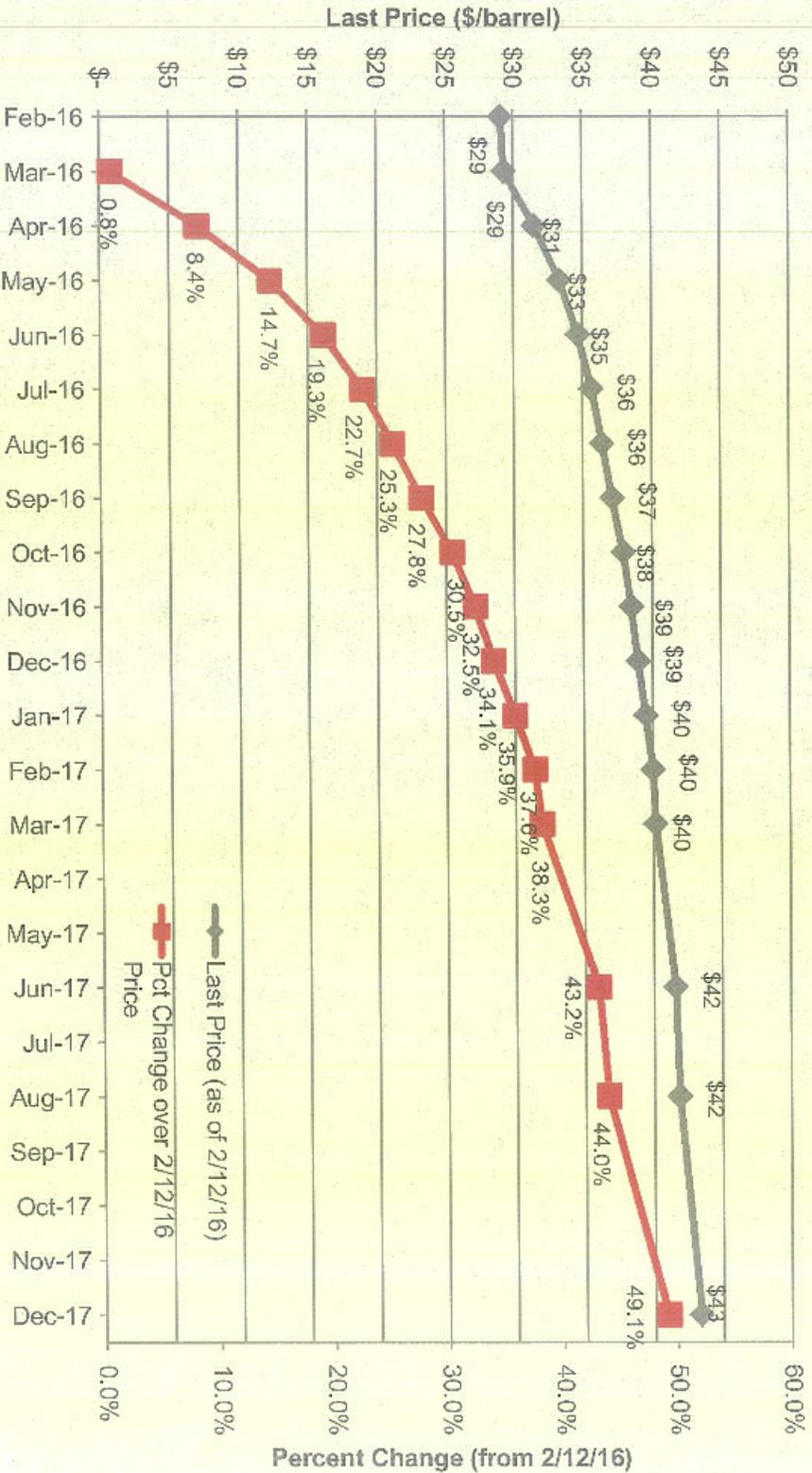


Source: [http://www.barchart.com/commodity/futures/SGX\\_RSS3\\_Rubber\\_Futures/U6](http://www.barchart.com/commodity/futures/SGX_RSS3_Rubber_Futures/U6), accessed 2/11/16

# THREAT

## CRUDE OIL PRICES

WTI Light Sweet Crude Futures Quotes  
As of 2/12/16

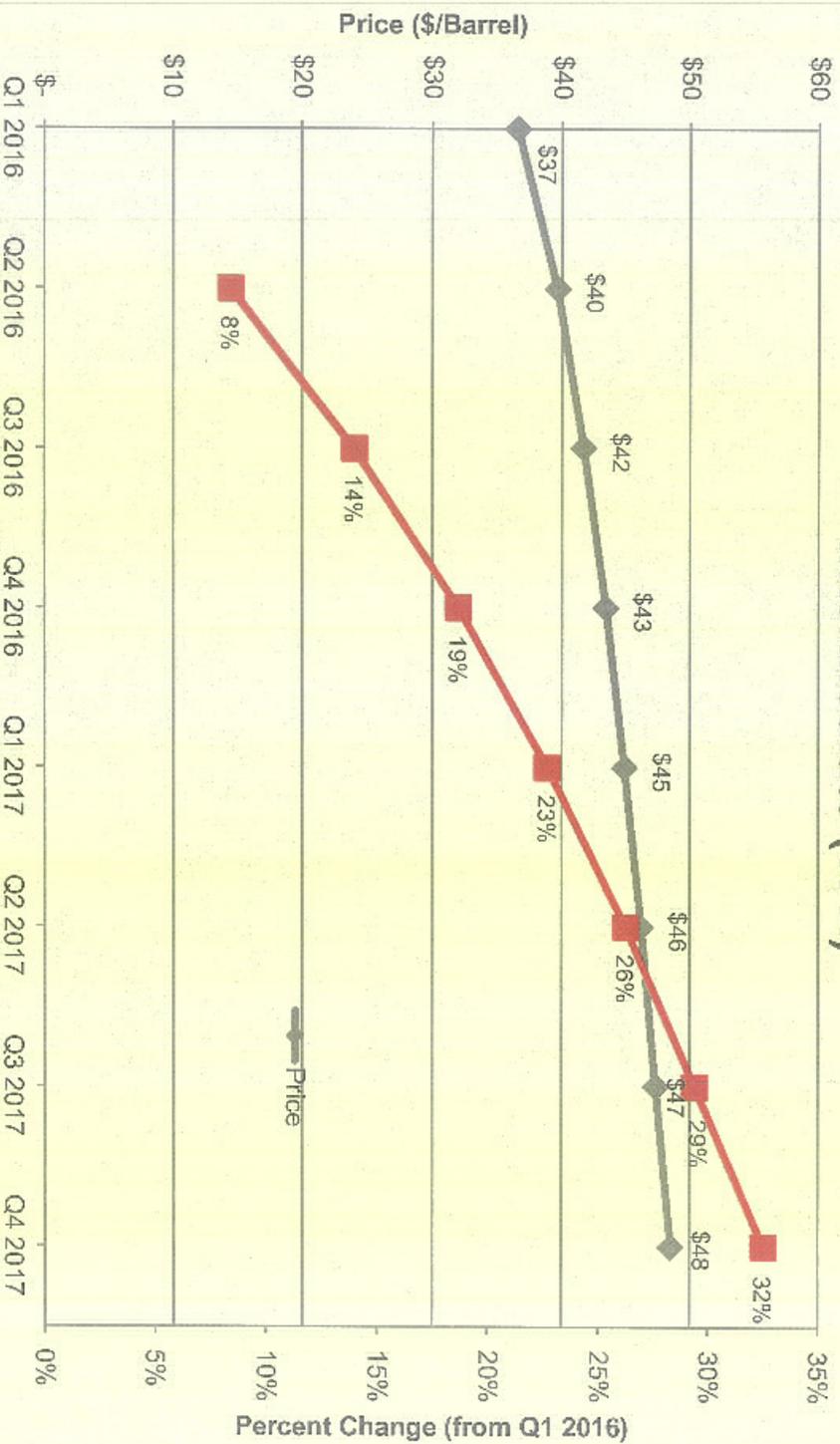


Source: <http://www.cmegroup.com/trading/energy/crude-oil/light-sweet-crude.html>.

# THREAT

## CRUDE OIL PRICES (CBO)

Forecast for the Price of Crude Oil, West Texas Intermediate (WTI)

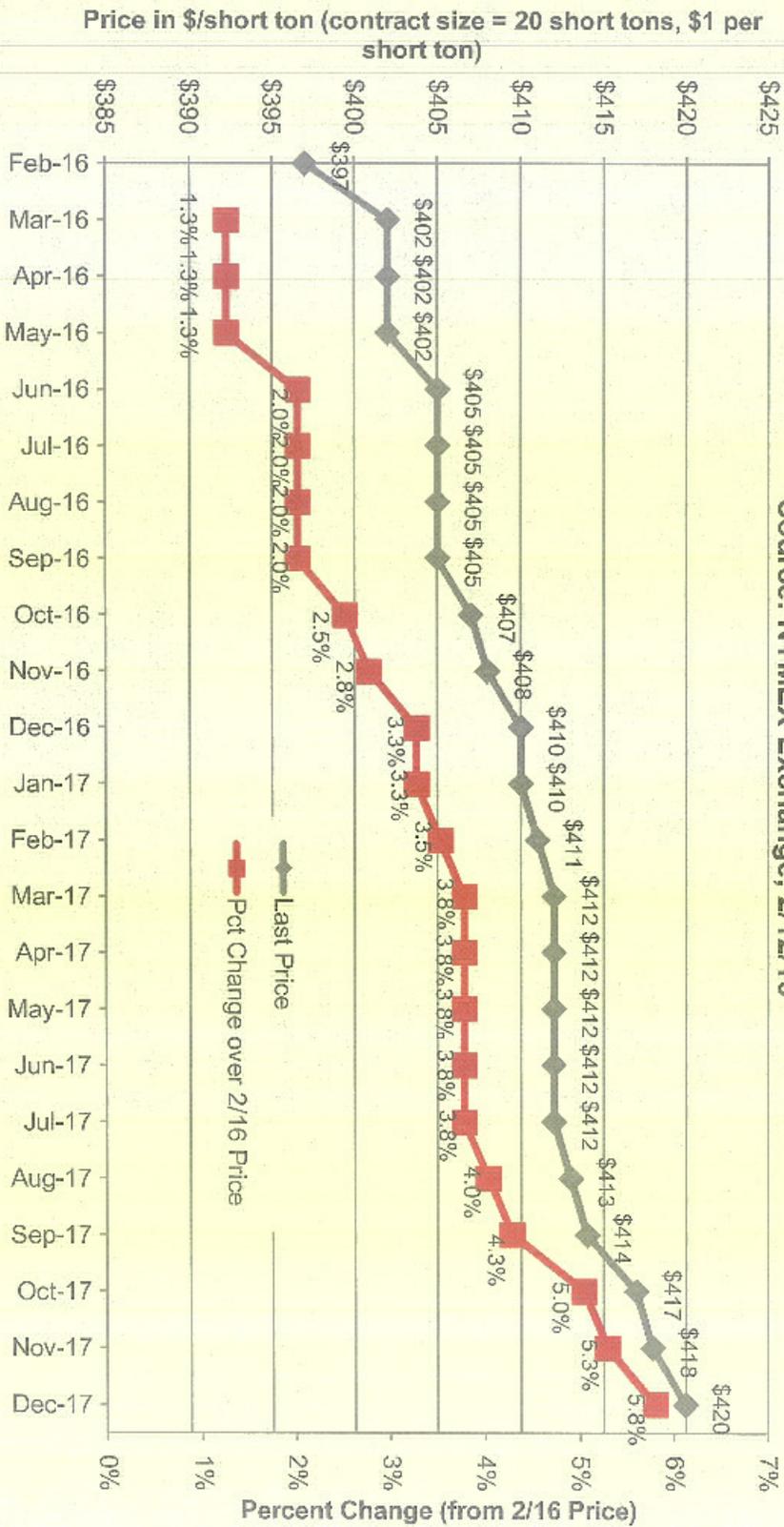


Source: Supplementary Data to the Congressional Budget Office's January 2016 report 'The Budget and Economic Outlook: 2016 to 2026.'

# THREAT STEEL COIL PRICES

## U.S. Steel Coil 1st Front Month

Source: NYMEX Exchange, 2/12/16



# THREAT

- Declining shipments and prices will increase financial pressure on the domestic industry, particularly as raw material costs increase and unit labor and other factory costs increase due to reduced production
- As testified by the USW witnesses, capital expenditures, and we believe R&D, have been adversely affected and will continue to be so absent relief
- Effective relief from dumped and subsidized truck and bus tires from China is the only way to prevent imminent further material injury to the domestic industry and its workers