THE 421 INVESTIGATION

On Monday June 29, the US International Trade Commission met to discuss potential remedies to the USW claim that Chinese imports have damaged the domestic tire manufacturing industry. The Panel voted to impose additional duties instead of quotas on the subject tires. They proposed that the first year duties be 55%; 45% for the 2nd year; and 35% for the third year. Additionally, they proposed that injured firms or workers be permitted to file petitions to receive trade adjustment assistance.

The US International Trade Commission will send their findings and proposed remedies to the US Trade Representative on July 9. The US Trade Representative will then present his findings to the White House by the end of August. President Obama has the sole authority to accept, revise or reject the ITC’s recommendations. He is expected to announce his decision by September 17.

This is still early in the process and we believe that the final ruling has a good chance to be substantially different from the ITC recommendation.

We will continue to keep you updated as we receive new information.

UPDATE

We want to give you an update on the 421 investigation in order to keep you informed of the current situation as much as possible. As many of you are aware, the US International Trade Commission, by a vote of 4 to 2, has recommended to the U.S. Trade Representative that import tariffs be placed on all radial consumer tires coming into the U.S. from China. They have proposed a tariff of 55% the first year, 45% the second year, then 35% the third year. This investigation is now in the hands of the U.S. Trade Representative.

Here is what is going to be happening over the next month and a half.

On August 7th, 2009 there will be a public hearing in Washington D.C. by the U.S. Trade Representative.

Within 15 days of the USTR sending its recommendation to President Obama he will have to provide import relief unless he determines that such relief is not in the “national economic interest of the United States”.
U.S. tire distribution sector would suffer under China import duties

Tire Business staff report

NEW BRUNSWICK, N.J. (Aug. 6, 2009) — Imposing tariffs or other restrictions on imports of consumer tires from China will jeopardize at least a dozen and as many as 25 jobs in the tire distribution segment for every job saved in the manufacturing sector, according to an analysis of the situation by a Rutgers University economics professor. In addition, the analysis estimates import restrictions would result in higher prices and other inefficiencies that would cost U.S. consumers $600 million to $700 million a year in added outlays. The analysis, written by Professor Thomas Prusa and commissioned by the American Coalition for Free Trade in Tires, was made public ahead of an Aug. 7 meeting at the offices of the U.S. Trade Representative in Washington. At that meeting affected parties will argue their positions on the U.S. International Trade Commission’s recommendation to impose duties on imports of Chinese-made passenger and light truck tires for three years. Those duties would start at 55 percent of value, then drop to 45 and 35 percent in subsequent years. The ITC ruled on the matter in response to a petition by the United Steelworkers, which is seeking the restrictions under provisions of the Trade Act of 1974 in order to protect jobs at U.S. tire factories. The Obama administration has until Sept. 17 to make a ruling on the issue. According to Mr. Prusa’s worst- to best-case scenarios, the proposed remedies would protect between 423 tire jobs and about 1,800 tire jobs at a cost to American consumers every year of $332,000 to $1.65 million per tire job protected. According to the Tire Industry Association (TIA), there are about 15,000-20,000 firms in the downstream sector, meaning on average these companies would lose one to two jobs each. Looking at the imports themselves, Mr. Prusa forecasts a 10-percent or so reduction in tire imports overall short-term — based on a 50- to 75-percent cut in imports from China — but longer term a greater fraction of the imports in question will be diverted to other countries. Domestic tire producers will not gain much from this action, Mr. Prusa stated, realizing between $100 million and $400 million in windfall gains from higher prices and volume — mostly from mainstream U.S. consumers. In his preface, Mr. Prusa pointed out the ITC did not evaluate the overall impact of the proposed remedy on the U.S. economy, focusing instead only on recent developments in the domestic tire industry. The American Coalition for Free Trade in Tires is a group of U.S. dealers and distributors, including those selling private-label brands often manufactured outside the U.S.
China urges U.S. to abide by WTO rules in trade dispute
Tire Business staff report

BEIJING (Aug. 10, 2009) — The China Rubber Industry Association (CRIA) is calling on President Obama to reject calls for duties or other restrictions on shipments of Chinese car and light truck tires to the U.S., calling such restrictions “unjust” and an action that would “damage the benefit of the majority” of U.S. consumers.

In letters from CRIA Chairman Fan Rende to President Obama and U.S. Trade Representative Ron Kirk posted on its Web site, the CRIA urges the Obama administration to “strictly abide” by World Trade Organization rules, using “objective facts” to make its determination.

The CRIA goes on to term the “special safeguard investigations” being considered as “not only a discrimination against goods from China, but also the abuse of special protective measures.”

In addition, the CRIA argues that the U.S. tire industry had all but abandoned the lower price segment before imports from China began to rise and that U.S. tire makers’ operating income rose by nearly 200 percent in the 2004-07 period under scrutiny, in part because they restructured their manufacturing to make more higher value-added products.

Imposing duties upwards of 35 percent on tires from China — as recommended by the U.S. International Trade Commission — would amount to totally restricting imports from there, the CRIA argues, and would result in the loss of more than 100,000 jobs in the Chinese tire and related industries.

The association argues that invoking these terms on Chinese imports would “not only hurt legitimate rights of China industries, but also cause negative impact on Sino-US economic and trade relations.”

The CRIA also echoes others’ claims that restricting imports from China would only shift the source of lower tier tires to other low-cost countries in Asia and/or South America and therefore would not create any new jobs in the U.S. tire industry.

Latest Headlines
Tariffs would constitute ‘zero quota,’ Cooper, Toyo say
By Miles Moore, Senior Washington reporter

WASHINGTON (Aug. 20, 2009) — Proposed tariffs from the U.S. International Trade Commission (ITC) on Chinese passenger and light truck tire imports essentially would end Chinese tire imports to the U.S., according to two major tire makers with facilities in both the U.S. and China.

“Such a high tariff would prohibit Cooper Tire from importing any tires from the People’s Republic of China,” Findlay, Ohio-based Cooper Tire & Rubber Co. said in a heavily redacted public version of its comments. “The added costs of the duties would make any such imports economically unfeasible.”
Cooper has a lot at stake, with its own factories in Chengshan, China, and a 50-50 joint venture with Taiwan’s Kenda Rubber Industrial Co. Ltd. in Kunshan, China, that has been producing Cooper-brand tires since February 2008.

“Cooper Tire strongly believes that the ITC’s proposed high tariff remedy is not reasonable or rational,” Cooper wrote, without quantifying how many tires it imports from China. Cooper also noted imposing tariffs would “undermine Cooper’s strategy of producing certain types of tires in China and other tires in the U.S.” This not only would cost Cooper its “advantage of rationalized production costs,” the firm wrote, it also would not easily be able to maintain its full complement of tire types in the U.S.

Toyo Tire Holdings of Americas Inc. also argued strongly against the duties.

“The ITC’s proposed tariffs would prevent Toyo from importing any tires from China during the three-year remedy period,” the tire maker said in its redacted public comments. “The ITC’s proposed remedy would, in effect, be a zero quota.”

Toyo imports tires for the mid-range market from its plants in China.

“The proprietary technology used in (our Georgia plant) provides superior weight uniformity and is not as necessary for less expensive tires of smaller diameters such as those typically imported from China,” Toyo said.

Toyo’s testimony is consistent with comments from U.S. tire dealers and distributors, who said U.S. tire makers typically make only high-end tires domestically and import lower-priced tires from China and elsewhere.

Cooper and Toyo are the first two tire makers to comment publicly on the proposed tariffs. Before this, all tire manufacturers maintained silence on the issue, as did their professional groups, including the Rubber Manufacturers Association.

The ITC proposed three years of tariffs on Chinese tire imports June 29, in response to a petition for relief from the United Steelworkers under Section 421 of the Trade Act. The duties would total 55 percent the first year, 45 percent the second and 35 percent the third. President Obama has until Sept. 17 to decide whether to order the tariffs, order alternative action, or do nothing.

NEW UPDATE 08-28-2009

There is an article in today's issue of the Wall Street Journal, "Chinese Tire-Import Spat Puts Obama in Trade-Policy Pickle", discussing the 421 investigation. Our President, Jim Mayfield, is quoted and the article presents a good synopsis of the decision that President Obama is faced with. The article points out that the deadline for President Obama to make his decision is September 17th. Actually, his deadline is 15 days after the U.S. Trade Representative makes his recommendation to the President. The deadline for the USTR is September 2nd. Once the President makes his ruling then it must go into effect within 15 days. So, if the USTR waits until September 2nd, then the President waits until September 17th, then the final deadline will be October 2nd. Remember that these are all deadlines and everything could happen sooner.

If you have access to the Wall Street Journal online the web link is http://online.wsj.com/article/SB1251418444257765129.html