

**PASSENGER VEHICLE AND LIGHT TRUCK**

**TIRES FROM CHINA**

**Inv. Nos. 701-TA-522 and 731-TA-1258 (Final)**

**Hearing Testimony of Jonathan T. Stoel**

**June 9, 2015**

Good afternoon, Chairman Broadbent, Vice Chairman Pinkert, Commissioners, and Staff. My name is Jonathan Stoel, and I am a Partner at Hogan Lovells here today representing ITG Voma Corporation. It is a pleasure to be before the Commission once again.

I want to start Respondents' testimony this afternoon with two simple truths. First, this case is exceptional. No member of the US domestic industry producing passenger vehicle and light truck tires is a Petitioner seeking the imposition of duties on Chinese imports, and no industry witnesses are here today to provide the Commission with their views on the state of the industry. This has made the Commission's task in this investigation even more challenging than usual, and I would like to commend the Staff for its diligence.

The Commission must weigh seriously whether the domestic industry's public absence from this proceeding is because of the second simple truth: the domestic industry has not been materially injured by reason of subject imports. On the contrary, as we will detail later in our presentation, both financial and non-financial metrics evidence the prosperity of the domestic industry. Most impressively, the Prehearing Report shows that not only has the industry's profitability been increasing throughout the Commission's period of investigation, but each member of the domestic industry earned a profit in all three years of the POI.

Now you've heard today from the Petitioner's witnesses a litany of "what ifs" and "might have beens". For example, Petitioner's economist asks the Commission to focus on what might have happened to the domestic industry had raw material costs not declined, but he ignores that economics dictates that there would have been a corresponding adjustment to pricing. And, Petitioner's lawyers suggest without citing any precedent that the Commission must assess the industry's condition over a purported 11-year business cycle, notwithstanding the complete

lack of factual support and the Commission's standard three-year period of investigation.

But, the Commission need not engage in such conjecture and speculation. Instead, I would like to focus the Commission on the most tangible evidence of the industry's strength and success: the ongoing capacity expansions by existing domestic producers and the new capacity under construction by new entrants in the industry. The domestic industry's expansion plans are both impressive and unprecedented: as detailed in our Prehearing Brief, five existing members of the industry and three new entrants have announced investments totaling more than \$3.3 billion that will increase the industry's capacity by 42 million tires annually – or 25 percent of the industry's current capacity. These expansions are expected to create more than 6,700 new U.S. jobs.

Existing industry member Bridgestone has stated that its expansion “is intended to meet growing market demand in key segments.” And, Toyo has explained that it has had “significant growth in 2013 and 2014” and thus is making “major investments.”

Since the domestic industry is not here today, I want you to hear from one of its existing members, Continental, about the new \$500 million plant that the company constructed in Sumter, South Carolina. This plant is already operational, employing new workers, and ultimately will produce 8 million tires annually.

***Video 1 – March 28, 2012 Groundbreaking at  
Continental’s New Tire Plant in Sumter, SC (USA)***

I now want to turn your attention to the three new entrants to the US industry – Giti Tire, Hankook, and Kumho Tire – which are building new tire manufacturing plants in South Carolina, Tennessee, and Georgia, respectively. Petitioner’s presentation and Prehearing Brief completely ignore these mammoth new facilities, which will require more than \$1.75 billion in new investment. Giti Tire explained in June 2014 that its investment in South Carolina is due to “{e}xisting business and strong demand for Giti Tire’s passenger and light truck tires.”

Again, rather than hearing from me about the industry's enthusiasm for its new facilities, I'd like you to hear directly from one of its new entrants, Hankook Tire.

**Video 2 – *“Hankook Tire’s Future in America”***

Construction on this new U.S. plant began in 2014. Hankook will begin producing 5.5 million tires next year, in 2016, and the plant will employ as many as 1,800 U.S. workers. The construction of new plants by new entrants show that not only is the domestic industry not suffering material harm, but the industry is strong enough to expand and attract additional investment from both existing members and new entrants.

What else does the building of these new plants tell us about the condition of the domestic industry? First, these plants are being built in order to satisfy U.S. tire demand for premium, high-value tires that is not being met by the domestic industry because U.S. manufacturers are effectively operating at full capacity. The data collected by the Commission demonstrate that the domestic industry operated at 91-percent capacity utilization at both the start and the end of the POI. Moreover, domestic producers and other U.S. market participants have

reported shortages of tires during the POI. To cite one public example, Barry Littrell, the Chief Operating Officer of American Pacific Industries explained that “{t}he higher tier manufacturers have not been able to keep up with demand and their fill rates are poor to the replacement market....consistent with the very limited production capacity currently available to U.S. producers.”

COO Littrell’s comment takes me to the final point I would like to make to the Commission this afternoon. The new capacity coming online for U.S. producers is designed to fill demand in the OEM market and the premium, high-value segment of the replacement tire market. For example, Michelin has explained that the company “must have additional capacity for high performance passenger car tires to meet our customers’ needs.”

The Commission thus must strive to understand in this investigation how the U.S. tire market operates, including the market segmentation between the high-end, premium tires produced by U.S. manufacturers and the lower-end, value and economy tires produced by

manufacturers in, among other countries, China, Thailand, and Indonesia.

To address these questions, I'd like to turn to Dennis Mangola who has more than 30 years of experience in the tire industry and who is a Senior Consultant to ITG Voma.