

CERTAIN PASSENGER VEHICLE AND LIGHT TRUCK TIRES FROM CHINA

**PUBLIC HEARING BEFORE THE
UNITED STATES TRADE REPRESENTATIVE**

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Good morning. My name is Leo Gerard, and I am the International President of the United Steelworkers union. I am happy to have the opportunity to come and testify before you this morning. Our union represents thousands of American workers throughout the domestic industry making passenger tires. Our members' jobs and livelihoods all depend on the recommendation that the Trade Representative sends to the President in this case. As you consider what remedy to recommend, I urge you to keep those workers front and center in your mind.



These are hard-working men and women, many of whom have spent their entire adult careers in the industry. Their jobs provide the income, the health insurance, and the retirement benefits that sustain middle class families and stabilize entire communities. These workers can make as many tires, and whatever kinds of tires, the market demands. But these workers cannot compete when the market is being overwhelmed by a massive flood of tires from China. In short, the industry is at a turning point, and relief will determine its future.

The section 421 safeguard was created precisely for cases like this one. When China sought to join the WTO, the U.S. was concerned damaging import surges would result. The threat was especially grave given severe distortions in China's non-market economy that would take years to address. So the U.S. insisted on – and China agreed to – a special safeguard to ensure that U.S. industries and workers would not be the ones to pay the price for China's transition.

The U.S. negotiators and Congress were right to be concerned. After China joined the WTO, there were, and continue to be, massive import surges from China. The overall U.S. trade deficit with China has more than tripled since in 2001. Meanwhile, China's economy continues to be severely distorted by government interventions: strict management of the exchange rate; support for huge state-owned enterprises; massive subsidies; a state-run banking sector directed to prop up favored industries; and coordinated policies on export taxes, rebates, non-tariff barriers, and other incentives to seize export markets and block imports.

China Tires 421:
Continuing Distortions to China's Non-Market Economy

- Exchange rate management
- Support for state-owned enterprises
- Massive subsidies
- State banks prop up industries
- Requirements to export
- Technology transfer requirements
- Industrial policies
- Non-tariff barriers

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The tire industry is no exception. In fact, just in the course of this case it was revealed that China continues to condition business licenses in the tire industry on compliance with mandatory export requirements. This is a blatant violation of China's WTO obligations, and a stark reminder of why we need a China-specific safeguard.

China Tires 421:
Continuing Distortions to China's Non-Market Economy

"Cooper {Tire & Rubber} explains that its business license for its Kushan plant in China requires Cooper to export all the tires produced in the plant during the first five years; production in the plant began in February 2008."

USITC Publ. 4085 at 34, n.190

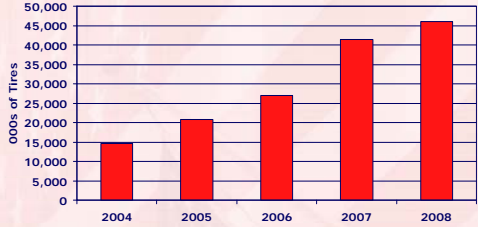
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Unfortunately, the vital tool created in section 421 has been a dead letter for far too long. In four separate cases where the ITC recommended relief, the previous President refused to provide it. President Obama has promised something different: He has promised to assess each case on its merits and enforce the law. Now is the time to deliver on that promise, and this case provides the perfect opportunity to do so.

The merits of this case could not be stronger.

China Tires 421:
Tire Imports from China Have Increased Rapidly

Imports have increased absolutely, more than tripling in volume and quadrupling in value. They have also increased relatively, jumping from less than 5% to nearly 17% of the U.S. market volume.

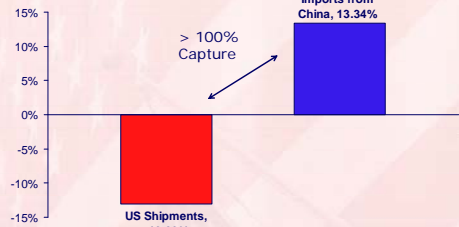


Source: ITC Staff Report at Table C-1 15

Since 2004, imports of tires from China more than tripled, seizing a sizable share of the U.S. market almost entirely at the expense of the domestic industry.

China Tires 421:
Imports Were a Direct and Significant Cause of Injury

The ITC majority found the evidence that imports caused injury "unequivocal." The entire volume of lost U.S. market share in the replacement market was accounted for by increased imports from China.

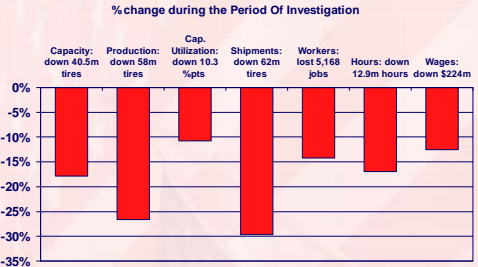


Source: ITC Staff Report at Table V-2 and Table C-1 16

Chinese underselling has eaten away at the industry's profits, pushing them out of the market and causing nearly every industry indicator to plummet.

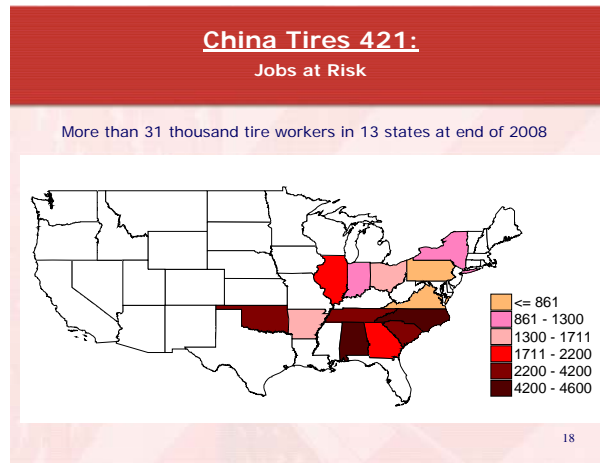
China Tires 421:
The Domestic Industry Has Suffered Material Injury

Virtually every industry indicator declined dramatically during the period. More than 8,100 direct tire industry jobs lost by end 2009.



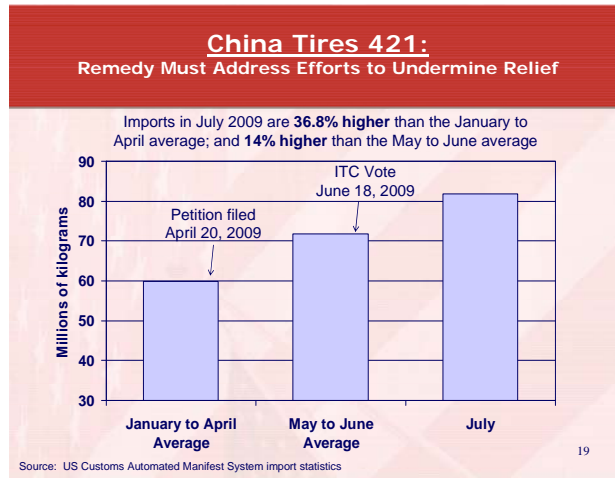
Source: ITC Staff Report at Table C-1 17

After closing factories and slashing more than 5,100 jobs, the industry is still operating at a loss and another 3,000 layoffs have already been announced for this year. If an effective remedy is not provided, the pain will only spread.



Each of these lost jobs has a much broader impact. As the industry declines, workers in supplier firms also suffer, as exemplified by the letter from Performance Fibers in this case. In addition, every worker directly employed in the tire industry supports many more jobs in the communities where tire workers live and raise their families. These multiplier effects are well-recognized by economists and should be part of USTR's analysis.

The USW believes the remedy recommended by the ITC should provide meaningful relief for the market disruption the ITC found. And of course we support expedited trade adjustment assistance as well. But we are concerned that the Commission's tariff proposal for the first year may not be sufficient given evidence of concerted effort to bring as many Chinese tires into the U.S. market as possible prior to the President's decision in this case.



In May and June of this year, the two months after this case was filed, average monthly tire imports from China jumped by nearly 20%. Imports shot up even more dramatically after the Commission’s affirmative determination in June, rising by almost 37% in July compared to the monthly average for the beginning of the year. These efforts to beat the system will likely only intensify in August and September. This is an intentional effort to manipulate the system by frontloading a new surge in inventory that will significantly undermine the remedial effect of the relief recommended by the Commission.

It is imperative that USTR recommend a remedy that provides the same amount of relief the ITC recommendation is designed to provide, after accounting for the recent additional import surge. For example, if imports rise by 25% due to efforts to “beat the clock”, the tariff in the first year of relief would have to be increased from the recommended 55% to a higher level of 75 to 80% in order to provide the same level of relief. The Administration should continue to monitor import data up until the President’s determination to ensure any remedy is actually effective.

I will close with a final thought.

China Tires 421:
Tire Industry Workers at Risk



Our trading relationship with China is complex and often contentious. But this case should not be. The record is clear, and the decision to provide effective relief should be a simple one. With this case, the U.S. government can make good on the promises made nearly a decade ago, and prove to the American workers who are on the front lines when an import surge hits that they won't be treated like mere cannon fodder. Now is the time for the U.S. to finally exercise the rights it negotiated, and this is the case to do it in.

Thank you.