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United States Trade Representative Hearing:
Certain Passenger Vehicle and Light Truck Tires from China
Docket No. USTR-2009-0017
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Mr. Chairman and members of the panel, I appreciate the opportunity to testify before you today in support of relief from market disruption caused by a recent surge of consumer tires imports from the People's Republic of China.

Before I comment on the case, I would like to introduce the Alliance for American Manufacturing (AAM). We are a partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers to explore challenging public policy topics. Our first published report was "Enforcing the Rules: Strong Trade Laws as the Foundation of a Sound American Trade Policy," which analyzed the benefits of trade law enforcement.

Our study showed that in domestic trade cases over the last two decades, including shrimp, crawfish, garlic, honey, raspberries, cement, furniture, steel, ball bearings, and lumber, the economic benefits of trade remedies always exceeded any consumer price effect, on average by a 50-to-1 margin.

In our view, enforcing American trade laws to prohibit unfair practices such as import surges shouldn't be a question for our nation's leaders, it should be virtually automatic. Americans who word hard and play by the rules deserve to know that the government will stand by them and stand up for their interests when our international trade partners try to cheat in the world trading system.

In this particular case, the merits are clear. We strongly support the relief recommended by the International Trade Commission (ITC) – a 55 percent tariff in the first year, 45 percent in the second year, and 35 percent in the final year. Moreover, we urge that additional duties be considered, and imposed, in the first year to offset any instance of "frontloading" of inventories by importers and Chinese producers prior to the potential October 2 effective date of relief. An additional surge of imports intended to undermine any potential remedy should not be allowed to cause further market disruption for American workers. We also support the recommendation by the Commission that trade adjustment assistance petitions be handled on an expedited basis.

The ITC carefully reviewed the facts of the case, rejected the claims made by Chinese tire manufacturers, their wholesalers and retailers, and determined that a surge of imports has occurred and that it has caused market disruption. The central facts of the case presented by the United Steelworkers are worth revisiting: (1) Imports of consumer tires from China surged 215 percent from 2004 to 2008; (2) Chinese consumer tires are priced well below such imports from other countries – \$38.90 compared to \$55.29 for all other imports excluding China in 2008; (3) Domestic production declined by roughly 25 percent over the surge period, while Chinese market share increased from 4.93 percent to 17.3 percent; (4) More than 5,100 American workers have lost their jobs due to tire plant closures since 2004, and roughly 3,000 more jobs are slated to be lost by the end of 2009 as additional plants close or stop production of consumer tires.

The four ITC commissioners who determined market disruption unanimously recommended that the President impose duties on imports of Chinese consumer tires. Doing so will allow domestic tire producers to regain lost market share, increase production and sales, rehire workers, and allow investment in capital equipment to better compete in the long term.

The ITC's own data demonstrates that Chinese imports have been a direct and significant cause of injury. The volume of lost U.S. market share in the replacement market was accounted for by increased imports from China – U.S. shipments dropped 13.03 percent while imports from China increased 13.34 percent. According to the ITC staff report, all indicators of injury show dramatic declines during the surge period for the domestic industry: capacity is down by 40.5 million tires; production is down by 58 million tires; capacity utilization is down 10.3 percent; and shipments are down by 62 million tires.

Meanwhile, importers of Chinese tires and the Chinese government are attempting to sway public opinion with a campaign of unfounded claims and scare tactics that relief will cost more jobs than it would save, which defies everything we know about the impact of trade remedies in other cases. They point to an unsubstantiated assertion made by Professor Thomas J. Prusa that the recommended tariff remedy would lead to the loss of "at least 25,000 jobs" among tire wholesalers and retailers. However, the ITC found that overall tire volume would remain relatively flat. Dr. Prusa also makes the contradictory claim that wholesaler and retailer job losses would increase as the projected restriction on the amount of Chinese imports declines. The ITC's own data provides a much different picture as compared to Dr. Prusa's flawed analysis. Once benefits to tire industry suppliers and tire plant communities are taken into account, the total economic benefit of implementing the ITC's recommended tariff in the first year alone greatly exceeds the estimated costs to consumers by a two-and-a-half to one amount.

The United States Trade Representative (USTR) is now tasked with reviewing the case and making a recommendation to the President concerning what action he should take to remedy the market disruption. Based on the ITC determination and the USTR recommendation, the President is then "required to provide import relief unless the President determines that providing such relief is not in the national economic interest of the United States or, in extraordinary cases, that taking action would cause serious harm to the national security of the United States."

The deterioration of our industrial base, in and of itself, is a serious threat to the national economic interest and the national security of the United States. Nearly 51,000 plants have shut their doors since 2000; the U.S. has lost more than 2 million manufacturing jobs since the start of this recession and 5.3 million manufacturing jobs since January 2000.

An innovative and growing manufacturing base is vital to America's economic and national security, as well as to providing good jobs for future generations. American manufacturing directly employs nearly 12 million workers, or 9 percent of all private sector employment. But manufacturing plays an outsized role in our economy. Every 100 manufacturing jobs support between 400 and 500 jobs in the rest of the economy. This contrasts with the retail sector, where every 100 jobs generate only 94 jobs elsewhere. American manufacturers are responsible for two-thirds of private sector research and development investment in the United States; nearly 80 percent of all patents filed come from the manufacturing sector. American manufacturers are the leading buyers of new technology in the United States. Qualitatively, manufacturing jobs are superior to virtually all other forms of employment. Preserving manufacturing jobs and enforcing the rules of free and fair trade are clearly in the nation's economic interest.

Mr. Chairman, I will conclude with a few points on the importance of this particular case. It presents a unique opportunity for the U.S. to take action against unfair and damaging imports from China, which has an extensive record of unfair trade and anticompetitive business practices that have included subsidized capacity expansion and currency misalignment. Inclusion of the Section 421 safeguard measure was a critical component for U.S. lawmakers to grant China permanent normal trade relations and support its entry into the World Trade Organization (WTO) in 2001. Yet, it is difficult to understand why the U.S. has yet to impose relief under this statute despite affirmative determinations of market disruption in four of the previous six cases filed – wire hangers, steel pipe, brake drums and rotors and pedestal actuators.

President Obama has made two important commitments on trade that are relevant to this case. One, which he made in April of 2008 to an AAM forum of workers and manufacturers in Pennsylvania, is to manage and decide Section 421 cases different than the prior Administration, and to grant relief based on the merits of each case and not based on some overarching philosophy. The second commitment, reaffirmed at the Group of 20 earlier this year, is not to impose new protectionist measures. While the U.S. has held up its end of the bargain, China has not. In this case, failing to respond to the mercantilism and protectionism of international competitors like China sends the wrong signals: that the rules of trade can be flaunted without consequences, and that a beggar-thy-neighbor economic strategy that relies on surges of exports to maintain employment is appropriate and tolerable. On the other hand, providing relief in this case is well within the rights of the U.S. and sends a strong signal that this Administration supports a system of rules-based trade that is both free and fair.

If this Administration chooses not to enforce our trade laws, American workers and their families will continue to face layoffs, shorter shifts, and pay reductions well beyond this current recession, and the confidence Americans have in the benefits of trade, economic integration and globalization will continue to erode.

Our skewed trade relationship with China has already cost America more than 2.3 million jobs since 2001, according to an Economic Policy Institute study. When factories close and jobs are lost, entire communities suffer because manufacturing jobs support four to five other jobs in the community. As a reminder, when our trade laws are actually enforced, the benefits to our economy outweigh any increase in consumer prices by a 50-to-1 margin on average in the cases we examined.

The record clearly demonstrates that the recent surge in consumer tire imports from China has caused market disruption. Therefore, Section 421 relief should be implemented so that the domestic consumer tire industry may once again compete on a level playing field with

China. I urge you to recommend to the President that he provide relief as recommended by the ITC.

Thank you for the opportunity to testify at this hearing.