SCENARIOS-Obama has many options in China tire case

By Doug Palmer
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WASHINGTON - President Barack Obama must decide by Sept. 17 whether to restrict imports of car and light truck tires from China in a case that could unleash a flood of requests from other industries if he approves curbs.

The case will be the first chance for Obama to test provisions that China accepted when it joined the World Trade Organization in 2001 and that for 12 years allowed other countries to protect themselves from a surge in Chinese imports. Former President George W. Bush turned down all four such petitions that reached his desk.

The U.S. International Trade Commission, acting on a petition filed by union workers, voted 4-2 in June that tire imports from China have risen rapidly enough to disrupt or threaten to disrupt the U.S. market.

It recommended a three-year program that would impose a 55 percent tariff on imports in the first year, 45 percent tariff in the second year and 35 percent in the third.

Here are some options Obama has in deciding the case:

DENY RELIEF:

Obama could follow the precedent set by Bush and decide that providing relief would hurt consumers and the overall U.S. economy more than it helps the U.S. Steelworkers union, which represents workers at tire manufacturers.

He could point to the fact that no U.S. tire manufacturer has joined the Steelworkers in requesting relief and to the concern that restricting imports of mostly low-value replacement tires from China would hurt U.S. tire wholesalers and retailers, who strongly oppose curbing imports.

Obama also could cite safety issues raised by tire distributors, who argue that boosting prices will cause some customers to delay replacing old worn tires.

Lastly, Obama could note he and other G20 leaders pledged in April "to refrain from raising new barriers to investment or to trade in goods and service" through the end of 2010.

FOLLOW THE ITC'S RECOMMENDATION:

Many Democrats accused Bush of being ideologically opposed to the China safeguard provision, known in U.S. trade law as a Section 421 case. Obama, picking up on that rhetoric, promised a more thoughtful review of petitions that reach his desk.

Obama could please party members and avoid intense criticism from the Steelworkers and other union groups by imposing the relief recommended by the ITC.

He could answer charges of U.S. protectionism by saying China agreed to the safeguard measure as one of the conditions for being allowed into the WTO and the United States was within its legal rights to restrict market-disrupting imports.

Still, Chinese officials have indicated they would challenge the ITC's remedy at the WTO.

The timing also is difficult for Obama, coming just before he hosts Chinese President Hu Jintao and other world leaders in Pittsburgh in late September for the next G20 summit.

NEGOTIATE A DEAL WITH CHINA:

WTO rules require countries considering safeguard restrictions against China to first try to reach a negotiated settlement. The United States formally requested talks on the tires case with China on June 24, opening a mandatory 60-day window for the two sides to try to strike a deal.

China did negotiate deals a few years ago to curb its clothing exports to the United States and the European Union, after those invoked a textile-specific safeguard provision that expired at the end of 2008.

Trade attorneys say Beijing has resisted negotiating with the United States under the threat of general safeguard actions. In testimony last week to the Obama administration, Chinese tire industry officials said they opposed any curbs.

However, China might be motivated to strike a deal if they believe Obama is prepared to impose steep restrictions. At the same time, Obama might be able to sell steelworkers on a weaker remedy than the ITC has proposed if China agrees to drop certain tax policies that encourage exports.

CRAFT SOME OTHER REMEDY:

Obama could discard the ITC's advice and craft his own remedy. Options include a tariff, a quota or a combination of both known as a tariff-rate quota.

Tire importer American Pacific Industries told the Obama administration it preferred no action, but said it could live with a tariff-rate quota that restricted imports from China to the current level of about 46 million tires.

That would avoid market disruption while giving domestic producers a chance to capture any growth in demand for the low-tier tires that China exports to the United States.

If Obama is intent on reducing imports from China, API said the "least disruptive" option would be a 15 percent tariff in the first year, 10 percent in the second year and 5 percent in the third. The tire importer estimated that would reduce imports from China about 17.2 percent in year one, as opposed to 66.0 to 82.5 percent under the ITC's plan.

Rutgers University Professor Dan Prussa, hired by a coalition of tire retailers to do economic analysis, said there was a tariff "sweet spot" in the 8-10 percent range that would cut imports from China without boosting prices enough to encourage offsetting imports from other foreign suppliers.

U.S. Trade Representative Ron Kirk is expected to lay out options for Obama in report due by September 2.

(Reporting by Doug Palmer; editing by Patrick Rucker)