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before the

U.S. House of Representatives

Committee on Ways and Means

Hearing on the Effects of Tariff Increases on the U.S. Economy and Jobs

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Introduction

The Motor & Equipment Manufacturers Association (MEMA) represents more than 1,000 vehicle suppliers[1] that manufacture and remanufacture new original equipment (OE) and aftermarket components and systems for use in passenger cars and heavy trucks. Our members lead the way in developing advanced, transformative technologies that enable safer, smarter, and more efficient vehicles, all within a rapidly growing global marketplace with increased regulatory and customer demands.

Vehicle suppliers are the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 states. Together with indirect and employment-induced jobs, the total U.S. employment impact of the supplier industry is 4.26 million jobs.[2] Nearly $435 billion in economic contribution to the U.S. GDP is generated by the motor vehicle parts manufacturers and its supported activity. In total, motor vehicle parts suppliers contribute more than 77 percent of the value of today's vehicles.

MEMA supports the administration's agenda to assure free, fair, and reciprocal trade and a level playing field for all Americans. MEMA supports the administration's efforts to strengthen our nation's economy. However, MEMA is very concerned about the adverse impact on manufacturing jobs resulting from the Sections 232 and 301 tariffs. The combined impact of these tariffs has thrown many of our member companies close to a financial crisis and has

[1] MEMA represents vehicle suppliers through the following four divisions: Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA), Motor & Equipment Remanufacturers Association (MERA) and Original Equipment Suppliers Association (OESA).
[2] "Driving the Future: The Employment and Economic Impact of the Vehicle Supplier Industry in the U.S." Available here: https://www.mema.org/sites/default/files/MEMA_ImpactBook.pdf, released by MEMA in January 2017.

made some of them question their future investments in the U.S. Tariffs will have a negative impact on these manufacturers, the jobs they create, and ultimately the American consumer.

MEMA urges this committee to work with the administration to reset our discussions with our trading partners to pursue our joint goal of free and fair trade.

Section 232 Tariffs on Steel and Aluminum

MEMA member companies operate in an integrated global supply chain with both suppliers and customers inside and outside of the United States. This model has contributed to continued growth in vehicle production and jobs here in the United States.

Suppliers support and rely on a strong domestic steel and aluminum industry to provide a wide range of raw and semi-finished materials to manufacture motor vehicle components and systems in the U.S. However, many specialty steel and aluminum materials used in many vehicle components are not available domestically.

Often, there are few producers in the world – in some cases only one or two – that can source the grade of specialty materials needed to meet component specifications. Examples include wire used in steel belted radial tires and specialty metals used in fuel injectors.

These steel producers operate in small, niche markets of low-volume, high-strength steel manufactured to stringent performance specifications (often for safety-critical, high-durability applications). For domestic steel producers, it is not a question of whether they can produce these materials, but instead will production of these niche materials be cost-effective and provide them a return on investment.

Given the low volume compared to high investment necessary to manufacture and smelt these specialty products, many U.S. steel producers simply have made the decision that it is not worth the investment to enter into these markets. This is not the ideal situation, but it can take many years for a company to test and validate that a steel producer’s product will meet the specifications necessary to perform as required for many of these safety-critical parts.

Specialty materials and components imported by vehicle suppliers are used by hundreds of parts manufacturers. Suppliers’ continued access to these specialized products is critical to the industry and our national economy. Additionally, many of the motor vehicle parts manufacturers who rely on these specialty materials in turn export the components manufactured in the U.S. using these specialty materials. In our view, tariffs for these specialty products should be excluded altogether, as these materials are not produced domestically in the United States.

Tariffs lead to increases in the costs of materials, ultimately increasing production costs for products suppliers make for vehicle manufacturers and consumers. Often, these increased production costs cannot be passed on to the Vehicle Manufacturers (OEM). Small- and medium-sized motor vehicle parts manufacturers are particularly susceptible to increased costs, squeezed margins, and added burdens. Furthermore, suppliers are also very concerned that these tariffs will lead to greater importation of finished goods that will compete with U.S.-manufactured goods made with higher-cost steel and aluminum due to the tariffs.

MEMA submitted comments to the administration (May 31, 2017[3], June 20, 2017,[4] February 13, 2018[5]) noting that disruptions to supply chains or increases in production costs will not contribute to the national security of the United States and will have a negative impact on the ability of suppliers to continue domestic investments in developing new products, facilities, and jobs.

Now that Section 232 tariffs have been imposed, suppliers, working with their importers, will be applying for product exclusions. However, the process is already creating significant burdens on these companies. The exclusion request process lacks transparency and will be particularly burdensome for smaller manufacturers. It is unbalanced and appears to not allow for successful outcomes for downstream users.

MEMA has urged the Department of Commerce to simplify the process and develop clearer procedures and processes for product exclusion applications. Specifically, we requested the Department of Commerce to do the following:

- Provide timely information on application requirements and to publish an "FAQ" clarifying the process;
- Streamline the exclusion process to allow for applications covering products with the same HTS code in different widths; consolidate the process to allow trade associations to apply for exclusions for an industry which will not create a burden on BIS in processing applications;
- Regularly review the impact of tariffs on the economy and downstream users and implement a plan to sunset the tariffs when they prove to have a significant negative impact;
- Consider the need for and availability of these products in our nation's supply chain; many specialty products are not available from domestic producers; MEMA urged the administration to take a country- and product-specific approach to this issue rather than imposing blanket quotas or tariffs on all steel and aluminum imports.

MEMA also urges the administration to work to approve timely country exemptions prior to May 1. In addition to the exemptions for Canada and Mexico, the E.U., Argentina, Australia, Brazil, Korea, exemptions should also be extended to Japan and Switzerland. Additionally,

[3] In response to the *Notice Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Steel*, 82 Fed. Reg. at 19205.
[4] In response to the *Notice Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Aluminum*, 82 Fed. Reg. 21509 (May 9, 2017); *Change in Comment Deadline for Section 232 National Security Investigation of Aluminum*, 82 Fed. Reg. 11557 (June 2, 2017).
[5] *MEMA letter to the President*, February 13, 2018.

MEMA urges Congress to carefully monitor the impact any quota requirements have on consuming industries.

Section 301 Tariffs on China

Motor vehicle parts manufacturers are innovators, conducting almost one-third of the annual $18 billion investment by the automotive industry in research and development. This industry commitment has made the U.S. a leader in more fuel efficient, cleaner, and safer vehicles resulting from domestic development and manufacturing of advanced vehicle technologies. Given this investment in innovation, intellectual property rights (IPR) protection is critical to the sustained success of the motor vehicle parts manufacturing industry. The IPR of a company is among its most valuable assets here in the U.S. and abroad. Strong IPR protections encourage companies to support important research and development investment and to foster innovation as IPR owners are provided certainty that their inventions and technological advancements will be safe from infringers.

China is a large and important trading partner for the supplier and motor vehicle manufacturing industry. Simultaneously, China is also a competitor and remains a challenge for the industry, which is especially significant when it comes to protecting IPR. MEMA has long supported aggressive policies to protect IPR and enforce IPR laws here in the U.S. and around the globe. Protecting these rights has proven especially difficult in China given inadequate enforcement of existing IPR laws.

IPR protection is critical to the sustained success of the motor vehicle parts manufacturing industry. The IPR of a company is among its most valuable assets. Strong IPR protections encourage companies to support important research and development investment and to foster innovations as IPR owners are provided certainty that their inventions and technological advancements will be safe from infringers.

Last year MEMA provided comments to the U.S. Trade Representative identifying Chinese policies and practices that place supplier IPR at risk.[6] These practices included:

1) Promotion of localization based on Chinese government-led industrial plans;
2) Laws and policies governing cybersecurity, data, and software, including policies that prevent cross-border data flows;
3) Duties and Value Added Tax (VAT) imposed on foreign companies in the Chinese market; and,
4) Enforcement actions by China not adequately protecting IPR, resulting in ongoing trade secret theft and production of counterfeit parts.

Given the importance of China as a trading partner for the U.S. economy and the motor vehicle industry, MEMA has encouraged Commerce Secretary Ross and USTR Ambassador

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[6] MEMA comments to USTR on Section 301 Investigation, Docket No. USTR 2017-0016, September 28, 2017.

Lighthizer to work towards a negotiated resolution of IPR issues before imposing broad based Section 301 tariffs. The initiation of a World Trade Organization (WTO) dispute investigating China's technology transfer requirements is a welcome step in the process. However, we are concerned that the imposition of tariffs prior to bilateral discussions between the U.S. and China will harm the U.S. economy. Instead, the U.S. should focus on developing a fair, binding, and enforceable rules-based trade agreement with China.

MEMA is alarmed at the escalating rhetoric with respect to trade with China. In just one weeks' time, the U.S. announced $50 billion in tariffs at the rate of 25 percent, imposed on over 1300 product lines of goods from China on top of other, existing tariffs, including the recently announced Sec. 232 tariffs on steel and aluminum. This does not even include the prospect of additional tariffs recently discussed by the President.

Predictably, China responded with its own set of tariffs on U.S. goods, which will impact the motor vehicle supplier industry by increasing duties on products we export that include steel, aluminum, iron, electrical components, certain vehicles and parts, and heavy-duty machinery. China's response was followed by a presidential announcement directing the USTR to consider an additional $100 billion in tariffs on China under Section 301. This would go beyond the $50 billion announced on April 3.

Like any industry, motor vehicle suppliers' growth and success depend on access to markets, predictability, and certainty. As the financial markets have indicated, a trade war threatens economic growth because of higher costs imposed on products, manufacturers, and consumers – which impacts job growth. The total financial costs of the Section 301 tariffs will put an enormous burden on vehicle suppliers and the entire supply chain.

As the National Association of Manufacturers (NAM) explained in a letter to the President on January 8, 2018, the U.S. should "be pursuing a truly modern, innovative and comprehensive bilateral trade agreement with China that wholly restructures our economic relationship" to address these issues comprehensively and on a truly level the playing field for the long-term. The letter explained that "[t]o be successful, this free and fair agreement must:

- Eliminate barriers that unfairly block American companies and America's manufacturing exports from full and fair access to the Chinese market;
- Raise standards in China and create new rules to prevent the wide range of market-distorting practices that violate free markets and fair competition and hurt American businesses and workers; and
- Create clear mechanisms to mandate strong and binding enforcement of the agreement, providing specific channels for government and industry alike to address cheating and violations."

A bilateral U.S.-China trade agreement would need to build on – but go far past – previous agreements by adding priority issues relevant to China. These range from industrial policy, state-favored industries and new transparency and IPR disciplines, to rules that reflect other changes in the global economy since the WTO agreements were negotiated, starting with digital trade and cross-border data flows. In particular, such an agreement would need to address those areas where unfair, discriminatory and harmful Chinese policies and practices are not currently actionable at the WTO.

Conclusion

Representing the largest employer of manufacturing jobs in the United States, motor vehicle suppliers operate in an integrated global supply chain with access to open markets with free and fair trade. Our members are very concerned about tariffs resulting in supply chain disruptions and increased costs, which will not contribute to the national security of the U.S. and will have a negative impact on the ability of suppliers to continue investing in U.S. facilities and jobs.

MEMA urges this committee to work with the administration to exercise restraint before additional tariffs are imposed and to reset our discussions with our trading partners.

We ask for this committee's support in urging the Department of Commerce to simplify and improve the product exclusion process, to urge the USTR to approve long-term country exemptions prior to May 1, and to open a dialog with any country seeking exemptions.

As China remains an important market and trading partner for the supplier and motor vehicle manufacturing industry, we believe the administration should prioritize a negotiated resolution of IPR issues before imposing broad based Section 301 tariffs. The imposition of tariffs prior to bilateral discussions between the U.S. and China will harm our industry, job creation, and the U.S. economy.

We appreciate the opportunity to testify before the committee and we look forward to working with you on these issues. If you have any questions, please contact me at awilson@mema.org. Thank you.

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