Testimony of Ann Wilson

Motor & Equipment Manufacturers Association

before the

U.S. Department of Commerce

Public Hearing on the Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts

Panel No. 2

July 19, 2018

Good morning. My name is Ann Wilson and I am the Senior Vice President of the Motor & Equipment Manufacturers Association.

MEMA represents more than 1,000 vehicle suppliers that manufacture new original equipment and aftermarket parts, components, and systems for use in passenger cars and commercial vehicles. Vehicle suppliers are the largest sector of manufacturing jobs in the U.S., directly employing over 871,000 Americans in all 50 states. For the past several years, supplier manufacturing jobs have been increasing – up 19% since 2012 – in large part because of supplier investment in new innovative technologies that are dependent on a global supply chain.

As detailed in our written comments, MEMA is very concerned about the potential outcomes of the Department's investigation and would strongly oppose the implementation of tariffs on imported passenger vehicles and motor vehicle parts. The importation of motor vehicle parts is not a risk to our national security. However, the imposition of tariffs is a risk to our economic security, jeopardizing supplier jobs and investments in the United States.

Last week, we surveyed our automotive original equipment suppliers about the impact potential tariffs would have on their businesses and what actions they would take. Almost 80% of the respondents said that a 20% tariff on imported automotive parts would have a net negative impact on their businesses. Respondents indicated that they would cut U.S. jobs, cut or delay U.S. R&D investment, shift production outside of the U.S., and/or modify sourcing. Most job cuts would occur within the first six months of the tariffs, while investment and sourcing decisions would occur throughout the first year and beyond.

The results of this survey are deeply troubling.

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. Noting the handouts, just consider the following --

- The supplier network (Figure #1) is highly interdependent with Tier One suppliers providing components and systems to a shared range of vehicle manufacturers.
- Although the supplier industry has over 871,000 employees, (Figure #2), the greatest vulnerabilities can be felt at the top and bottom of the supply chain.

Tier One suppliers provide 77% of the content value of new vehicles. They are dependent on inputs from around the world, which allow suppliers to work with vehicle manufacturers to provide new innovative technology to consumers and provide important jobs in the United States. The supply base is widely shared among the vehicle manufacturers.

Furthermore, suppliers are dependent on cost-effective components in order to provide consumers with new technologies in a competitive manner. Suppliers and vehicle manufacturers will have little choice but to move production elsewhere if access to cost-effective inputs is constrained. Additionally, as shown in Figure #3, new technology manufacturing is completed in 10-year cycles.

To put it bluntly, if we lose the opportunity to develop and manufacture new technologies in the U.S., we will have little opportunity to recoup these losses for a decade.

Moreover, these vulnerabilities are not just felt at the top tier but also by Tier Two and Three suppliers. Cost increases from abrupt changes resulting from tariffs or quotas are felt up and down the highly integrated supply chain. Thus, smaller, more localized companies, which are typically Tier Two and Three suppliers, are likely to feel the pinch of increased costs immediately. As our survey respondents indicated, job cuts would occur within the first six months after imposition of the tariffs. Keep in mind that many of these same suppliers already feel the impacts of a 40 to 50% increase in steel and aluminum costs as well as tariffs on inputs from China.

MEMA does support other alternatives to re-shore jobs into the U.S., including actively engaging with our trading partners to reduce tariffs and focusing significant resources towards workforce training to fill existing manufacturing and engineering jobs.

The imposition of tariffs will have a negative impact on U.S. vehicle parts suppliers. This will impact employment and, in turn, weaken the U.S. economy.

Thank you for the opportunity to testify today. I look forward to your questions.

# # #

FIGURE 1

North American Supply Base Interdependence

OEM Supply Base for NA Vehicles	Also supply to									
	GM	Ford	FCA	R-N-M	Honda	Toyota	Hyundai/Kia	VW	Daimler	BMW
GM	*100%*	58%	61%	47%	41%	29%	32%	47%	42%	44%
Ford	76%	*100%*	66%	50%	49%	30%	35%	50%	46%	49%
FCA	72%	60%	*100%*	51%	46%	32%	32%	46%	49%	47%
R-N-M	64%	52%	59%	*100%*	60%	40%	28%	50%	44%	39%
Honda	60%	55%	56%	65%	*100%*	45%	32%	49%	41%	41%
Toyota	56%	44%	51%	56%	59%	*100%*	25%	40%	32%	33%
Hyundai/Kia	54%	46%	46%	36%	37%	23%	*100%*	39%	31%	36%
VW	72%	59%	59%	56%	51%	32%	35%	*100%*	60%	64%
Daimler	66%	55%	64%	51%	45%	26%	29%	62%	*100%*	61%
BMW	80%	68%	71%	52%	52%	32%	38%	76%	70%	*100%*

Source: IHS Markit North American Component Forecast Analytics (CFA) as of 2017 calendar year. IHS Markit CFA tracks the supply of 90+ major light vehicle components/systems sourced from over 280 Tier 1 suppliers.

FIGURE 2

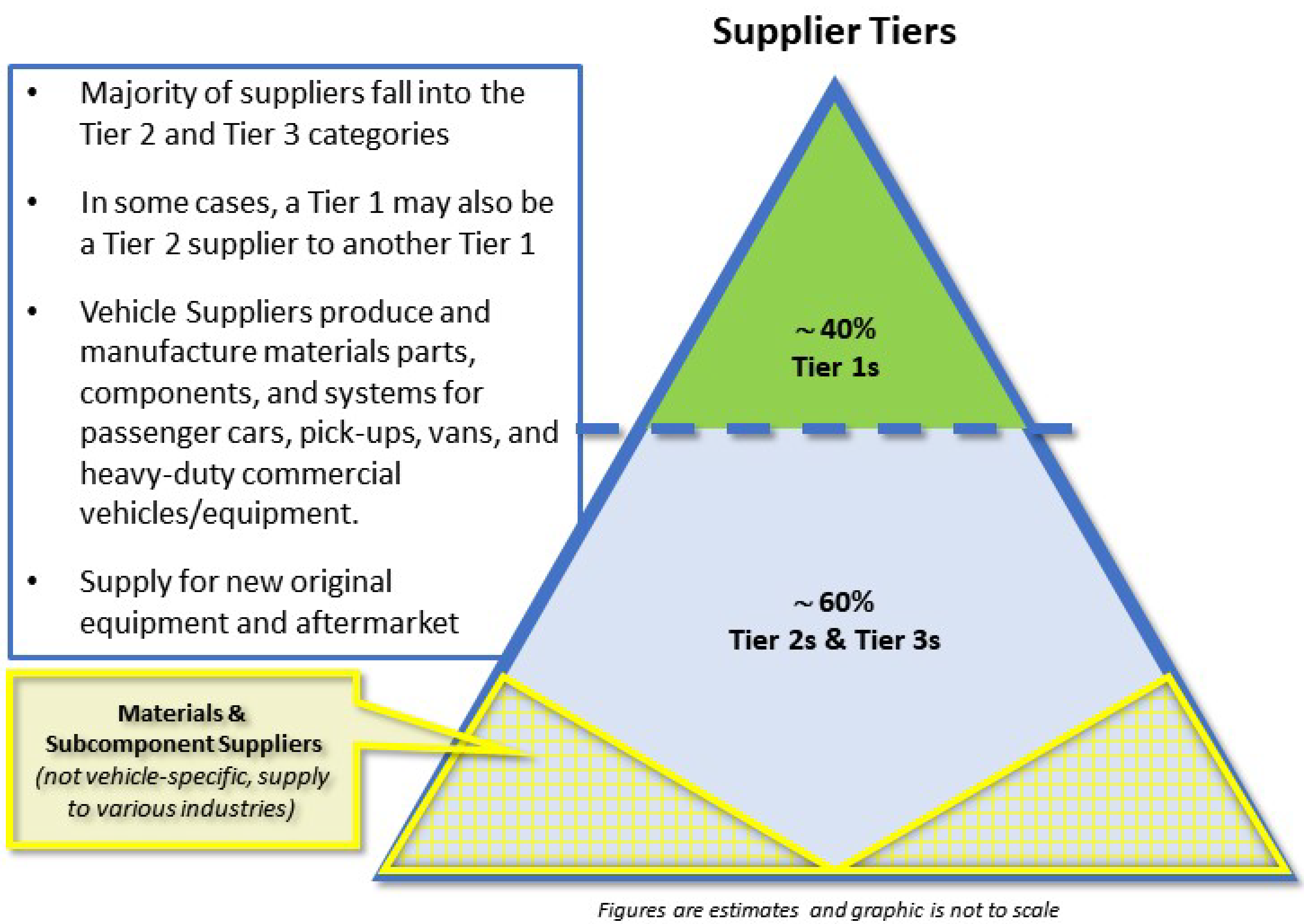
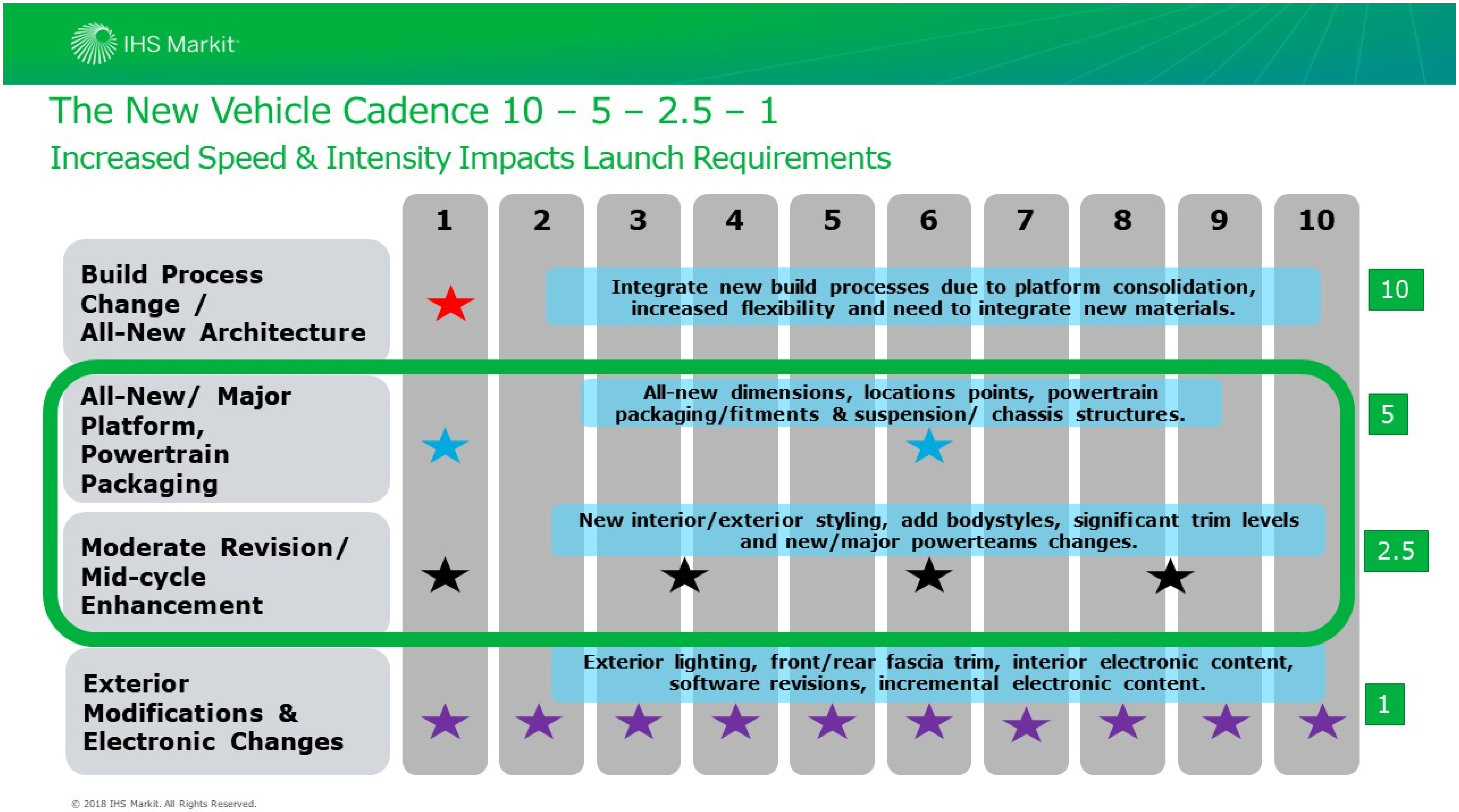

Supplier Tiers
Majority of suppliers fall into the Tier 2 and Tier 3 categories
In some cases, a Tier 1 may also be a Tier 2 supplier to another Tier 1
Vehicle Suppliers produce and manufacture materials parts, components, and systems for passenger cars, pick-ups, vans, and heavy-duty commercial vehicles/equipment.
Supply for new original equipment and aftermarket
~ 40%
Tier 1s
~ 60%
Tier 2s & Tier 3s
Materials & Subcomponent Suppliers
(not vehicle-specific, supply to various industries)
Figures are estimates and graphic is not to scale

FIGURE 3


IHS Markit
The New Vehicle Cadence 10 – 5 – 2.5 – 1
Increased Speed & Intensity Impacts Launch Requirements
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Build Process Change / All-New Architecture
Integrate new build processes due to platform consolidation, increased flexibility and need to integrate new materials.
10
All-New/ Major Platform, Powertrain Packaging
All-new dimensions, locations points, powertrain packaging/fitments & suspension/ chassis structures.
5
Moderate Revision/ Mid-cycle Enhancement
New interior/exterior styling, add bodystyles, significant trim levels and new/major powerteams changes.
2.5
Exterior Modifications & Electronic Changes
Exterior lighting, front/rear fascia trim, interior electronic content, software revisions, incremental electronic content.
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