**Testimony of Ann Wilson**

**on behalf of**

**Motor & Equipment Manufacturers Association**

**to the**

**U.S. International Trade Commission**

**at the Public Hearing on the**

**Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2021 Update**

**Investigation No. TPA-105-008**

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My name is Ann Wilson, senior vice president of government affairs for the Motor & Equipment Manufacturers Association (MEMA). Thank you for the opportunity to testify today before the U.S. International Trade Commission on the important topic of the economic impact of all trade agreements on the United States. My comments are focused on the trade agreements and supporting trade policies that are most relevant to the members of MEMA, starting with the United States-Mexico-Canada Agreement (USMCA).

The USMCA could serve as a model for trade going forward and be applicable to other future regional trade negotiations. However, MEMA believes that there are some basic principles of free trade that are beneficial to industries with complex supply chains, such as motor vehicle parts manufacturing, and that these principles need to be restored before we can succeed in new, future trade negotiations.

**Background on Motor & Equipment Manufacturers Association (MEMA)**

MEMA is the nation's leading trade association representing motor vehicle parts suppliers and represents over 1,000 companies that manufacture components, technologies, and systems for use in passenger vehicles and heavy trucks. [1] MEMA members provide original equipment (OE) components and systems to new vehicle manufacturers, as well as aftermarket parts to maintain and repair vehicles in service. In total, vehicle part suppliers represent the largest sector of manufacturing jobs in the U.S., directly employing over 871,000 people in all 50 states and generating 2. 4 percent of U.S. GDP. Our members lead the way in developing advanced, transformative technologies that enable safer, smarter, and more efficient vehicles.

[1] MEMA represents its members through four divisions: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); MERA – The Association for Sustainable Manufacturing; and Original Equipment Suppliers Association (OESA).

**USMCA: A 21st Century Trade Agreement and Model Going Forward**

MEMA strongly supported the original North American Free Trade Agreement (NAFTA) during the 1993 Congressional debate over its passage. Our members believed that it would lead to integration of the North American motor vehicle parts market and create jobs in the United States, Canada, and Mexico. The history of NAFTA supports this view.

U.S. motor vehicle part trade with Mexico and Canada has increased by 153 percent from $56.0 billion to $140.7 billion between 1996 and 2019.[2] Today, 59 percent of U.S. vehicle parts trade is with Mexico and Canada.[3] NAFTA has allowed North America to serve as one of the three global centers of vehicle manufacturing. The USMCA will further strengthen North American vehicle supply chains as well as promote U.S. manufacturing. This in turn will allow U.S. vehicle suppliers to be competitive in the global mobility marketplace.

MEMA was one of the earliest supporters of the UMSCA recognizing it would strengthen the regional economy and promote growth and stability for motor vehicle manufacturing. MEMA supported this agreement even though the provisions for automotive rules of origin became more complex than under NAFTA and would be challenging to implement. The regional value content (RVC) required increased across the board for passenger vehicles, light trucks, heavy-duty trucks, and original equipment parts. Also, new labor value content and steel and aluminum provisions were implemented.

MEMA favored building a regional economy that would further enhance North American trade. In addition, passing the implementing legislation for USMCA was the right thing to do for all three nations. Ultimately, 90 percent of the U.S. Congress voted in favor of the USMCA bill, perhaps indicating a bipartisan path forward on future trade agreements in the hemisphere and beyond.

MEMA is grateful for the transparent process with which USTR and CBP has engaged stakeholders on the new automotive rules of origin issues. . Certainly, the unexpected and unprecedented economic climate resulting from the global pandemic compounded the pressure on companies and their resources particularly in light of the July 1, 2020 implementation.

USTR and CBP worked with us to mitigate the damage, yet these changes will not be without challenges for our members to implement. As implementation moves forward, MEMA intends to stay active and address these challenges. And we are confident that USTR and CBP will maintain continued dialogue as implementation moves forward.

Finally, MEMA appreciates the bipartisan commitment and efforts of the Office of the United States Trade Representative (USTR) as well as the members of Senate Finance and House Ways and Means Committees commitment to make the merchandise processing fee (MPF) fully refundable after importation of products into the United States. This fee was an inadvertent error in the drafting of the UMSCA implementing bill that all the parties have promised to fix. Not having this refund available costs MEMA members tens of millions of dollars annually. MEMA continues to work with the Congress and USTR to pass a technical corrections bill on this issue as soon as possible before the end of 2020. This action would make USMCA MPF commitments consistent with all other trade agreements, including the NAFTA. It also relieves another significant financial

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[2] 1996 and 2019 Annual Trade Data, Bureau of the Census
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burden on our companies at a time of liquidity challenges, falling profits, health and economic disruptions, and uncertainty.

**Tariffs, Quotas and Free Trade Agreements**

MEMA supports the current administration's agenda to assure free, fair, and reciprocal trade and a level playing field for all Americans. Our industry counts on a strong domestic steel and aluminum industry and has long supported aggressive policies to protect intellectual property rights (IPR) and enforce IPR laws here in the U.S. and around the globe – including in China. However, MEMA is very concerned about the adverse impact on manufacturing jobs resulting from the Section 232 and Section 301 tariffs imposed over the past few years.

The U.S. must be careful to respect the tri-national values of the USMCA, as well as bilateral or multilateral rules of all free trade agreements. For example, this summer the U.S. should not have undertaken problematic new Section 232 tariffs against Canada on aluminum imports or have instituted later-managed trade quotas on Canadian aluminum or Mexican steel. If there are surge issues to be adjudicated, they should be pursued through appropriate multilateral dispute resolution channels.

Overall unilateral imposition of tariffs by the U.S. in the past few years has been highly problematic to global trade growth and therefore to U.S. economic growth and job creation. Adverse impacts have increased. In 2017, importers paid between $30-36 billion in tariffs. In 2019, importers paid nearly $72 billion in tariffs, including Sections 232 and 301 duties.[4] Billions of dollars in tariff taxes on American companies and consumers are never acceptable, but are particularly problematic now during a pandemic crisis.

Last year, the Federal Reserve estimated that tariffs increased since 2017 lowered GDP growth one percent in 2020.[5] Given that the economy is in a major recession, these tariffs are only making recovery more difficult.

In some instances, the China tariffs increases will threaten the success of small- and medium-size U.S. businesses that depend on a reliable supply of parts to make repairs to vehicles or inputs for further manufacturing. Tariffs on these products could lead to downsizing, layoffs, or even cause certain U.S. parts shortages.

Accordingly, MEMA will continue to urge the phase-out of Section 301 China tariffs and Section 232 steel and aluminum tariffs. We definitively oppose the imposition of any additional tariffs in 2021, particularly potential 232 tariffs on motor vehicle and parts imports from allies such as the European Union, Japan, and Korea. At a minimum all 232 tariffs on these longstanding allies should be phased out as quickly as possible as we work in concert with them on a multilateral basis to address the egregious long-term trade and industrial policies of China that were rightly highlighted in the administration's detailed "Section 301 Report into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation."

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[4] "Trump Grudgingly Concedes that Certain Tariffs are Paid by U.S. Importers," Daniel J. Ikenson, Cato Institute, April 20, 2020

[5] "Does Trade Policy Uncertainty Affect Global Economic Growth?," *FEDS Notes*, Board of Governors of the Federal Reserve System, September 4, 2019

## Vehicle Parts Manufacturers and the Supply Chain

The vehicle industry depends on a strong, functioning North American supply chain, which is highly interdependent and integrated. In addition to fostering global competitiveness, the regional certainty of the USMCA endeavors to encourage continued U.S. investments in parts suppliers' advanced technology development and production. Vehicle suppliers manufacture materials, parts, and systems for a wide range of customers including new vehicle manufacturers.

The figure below, sourced with permission from IHS Markit, illustrates the interconnectedness of the North American supply base and their OEM customers. For example, looking at General Motors, this chart shows that GM shares 76 percent of suppliers with Ford Motor Company. OEM after OEM show significant percentages of shared supply base for their vehicles. This chart underscores the interconnectedness and interdependency of our industry and the North American region.

### 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.



A typical vehicle contains more than 30,000 components. MEMA members produce a wide array of vehicle parts, subcomponents, and materials necessary to support the millions of vehicles manufactured each year in North America. Vehicle suppliers manufacture essential parts – such as axles, steering wheels, brakes, tires, wheels, batteries, wire harnesses, seats, lighting systems, dashboards, consoles, bearings, oil filters, fluids, plastics, metals, composites, and thousands more.

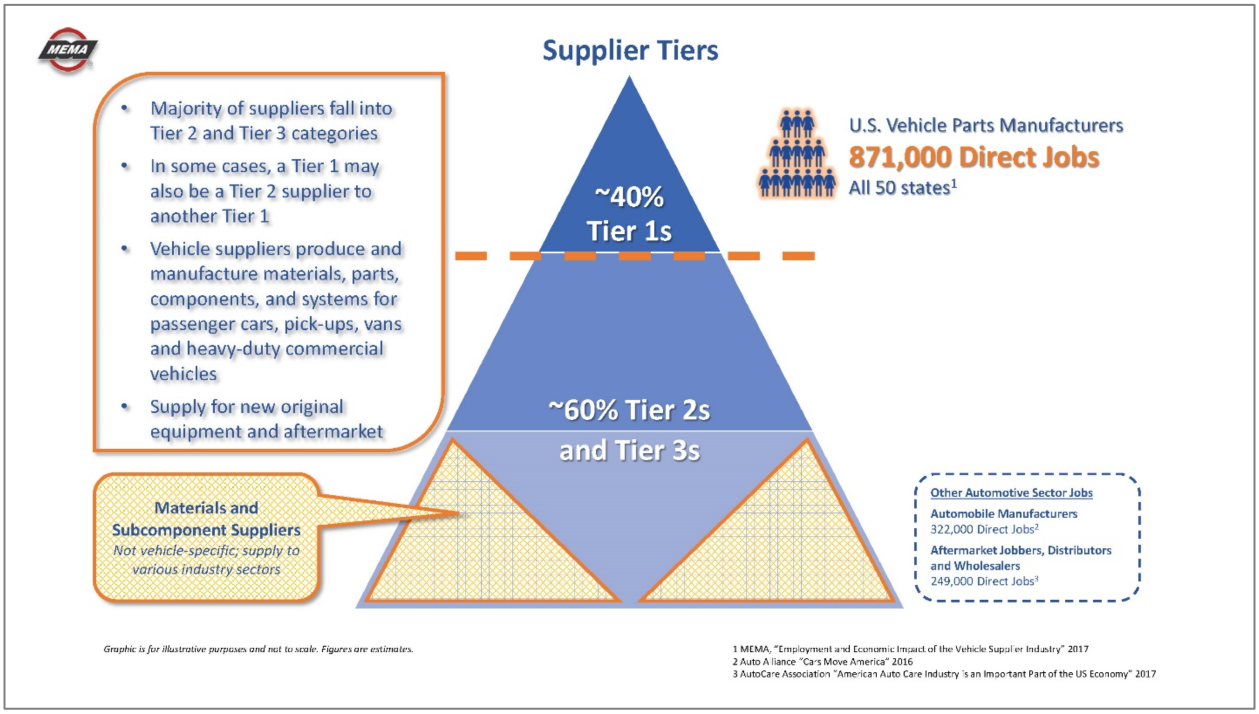
Vehicle suppliers also innovate and manufacture complex and highly integrated vehicle systems – such as alternative propulsion systems, advanced driver assistance systems, vehicle-to-vehicle communications, automated driving systems, regenerative braking technologies, advanced refrigerants and HVAC systems, and emissions control technologies.

Vehicle suppliers are generally categorized in tiers:

- Tier 1 manufacturers provide new original equipment (OE) finished parts, components, and systems directly to their vehicle manufacturer customers.

- Tier 2 manufacturers are often niche or specialty component manufacturers that provide subcomponents and other content to Tier 1 manufacturers.
- Tier 3 companies are typically the suppliers of raw or semi-finished materials, such as metals or plastics, for both Tier 1 and Two suppliers.

Often, Tier 2 and 3 suppliers may also provide products and supply customers in other industry sectors outside of the vehicle industry (such as, computer chips, PCB boards, sensors, cameras, metals, glass, plastics, chemicals). In the figure below, MEMA generally estimates that approximately 40 percent of vehicle suppliers are Tier 1 and about 60 percent are Tier 2 and 3. (The dashed line indicates the frequent crossover of suppliers that may be a Tier 1 to several vehicle manufacturers, but also may be a Tier 2 supplier to a Tier 1. )




## Global Supply Chains, China Trade Policy and U.S. Competitiveness

MEMA members operate in a global supply chain of domestic and international suppliers and customers. Some believe that sourcing motor vehicle parts from China will undermine U.S. competitiveness. However, the scale of China trade in our sector is comparable to Canada, the EU and Japan, and much less than from Mexico. Much of U.S. motor vehicle supplier's production in China services Asia and the global marketplace, not the United States. Often, imported parts from China and elsewhere are manufactured further and made into more complex parts, subcomponents, or systems by U.S. workers. This allows the U.S. supply chain to remain part of the global economy, but to be competitive and prosperous.

*Phase One Trade Deal with China*

The Trump Administration was right to pursue a phase one trade with China last year. The promises for increased U.S. market access for manufactured goods and agriculture were significant. And Chinese improvements in their IP laws and enforcement were substantive. However, progress implementing these commitments has been disappointing. According to a recent Peterson Institute study, China has been purchasing American goods and agricultural products at one-third the rate promised. This is unacceptable but does not mean we should abrogate the agreement.

First of all, the COVID-19 pandemic crisis has impeded progress, though conditions in China have now improved. And, we have recourse. For the first time in a U.S. agreement with China we have a monitoring and enforcement regime in place with benchmarks of progress as well as regular consultations between the USTR, the Treasury Secretary and their Chinese counterparts. We need to remember that dialogue, even with advisories, is important and build on these modest successes with China in 2021.

MEMA believes that this initial agreement can be broadened. We strongly support a key point made in a U.S. Chamber July 6, 2020 letter to USTR Robert Lighthizer, Treasury Secretary Steve Mnuchin and their Chinese counterpart Vice Premier Liu He that MEMA and other leading associations signed:

> "We also hope that successful implementation of the Phase One Agreement will create the necessary conditions for the start of Phase Two negotiations as soon as possible that can address important outstanding issues, including subsidies, cybersecurity, digital trade and data governance, competition policy, and standards setting, among others. Continued negotiations that lead to agreements that are meaningfully implemented will bring mutual benefits to both countries and support a more balanced and durable bilateral commercial relationship."

Ultimately, de-escalation of tension is an important objective, but perhaps not enough for a formal trade agreement. Going forward, it is far better if trade agreements can be comprehensive in scope and genuine FTAs. And FTAs must include three basic principles: long term systemic market opening, regulatory reform, and elimination of non-tariff barriers.

*Re-Shoring Manufacturing*

Reshoring of U.S. manufacturing jobs is rightly an increasing bipartisan public policy priority on Capitol Hill. Reshoring can enhance U.S. global competitiveness and job creation. The USMCA and its RVC, LVC, and steel and aluminum provisions all encourage re-shoring from Europe and Asia.

MEMA members believe we need to build on the success of the USMCA. The best way to encourage job creation at home is to commit to two actions: a systematic workforce development program and a federal system of positive incentives. These actions will do more to create and stabilize job creation in the U.S. than punitive trade measures such as tariffs. Carrots work better than sticks.

Some additional approaches that would be helpful include new tax credits and grants for research and development, capital equipment investment, and better new facility development incentives on the federal level. All of these are important federal priorities at a time when states do not have the resources to assist in these areas.

## Conclusion

Advocates of increased U.S. trade and enhanced U.S. global competitiveness have faced real challenges over the past few years. The current coronavirus pandemic has caused a significant economic downtown that has also undermined global trade. Clearly, now is this time for the U.S. to assert global economic leadership, rather than to avoid it.

If tariffs and other protectionist trade policies are not reformed, we will lose our competitive edge to places like the EU and China. The global economy does not stand still. Motor vehicle component innovation is moving forward exponentially. Autonomous vehicles, driverless cars, electric vehicles, hydrogen cars, will all move forward regardless. Vehicles will become more fuel efficient and move toward carbon neutrality.

Global companies have a choice on where to grow their businesses, where to invest in research and development and commercialization of new products. New plants are sited based on complex analysis including tax and regulatory policies, direct government incentives, local consumer demand and export potential.

As the U.S. moves forward on new free trade agreements, we need to systematically focus on large national and regional economies, where the gains for U.S. manufacturing, services and agriculture will be significant. Reinforcing relationships with economic and security allies are also important objectives. For example, FTAs with the United Kingdom and the EU are significant opportunities as recognized by the Trump Administration. And the Obama Administration view that a rejuvenated TPP might make sense to create increased economic opportunities and strategic alliances for the U.S in Asia. A small phase one trade deal with our ally Japan is modestly helpful, but no substitute for comprehensive motor vehicle and part market access in Japan and across Asia.

In the future, U.S. trade agreements need to tear down non-tariff and regulatory barriers in a comprehensive manner. We recognize that major negotiations are complex and take longer but are far better than one off FTAs with smaller nations.

In conclusion, we need to get the basics of trade right by opening foreign markets to U.S. exports and investment, while maintaining reciprocity. These basic principles of free trade matter, for global growth, consumer demand and continued U.S. leadership. However, the open question is whether the U.S. will keep the borders open enough for trade, immigration, and innovation that allows us to maintain our global leadership in the motor vehicle sector and in manufacturing across the board.