

Motor & Equipment Manufacturers Association

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June 3, 2020

The Honorable Roger Wicker
Chairman
Committee on Commerce,
Science & Transportation
U.S. Senate
Washington, D.C. 20515

The Honorable Maria Cantwell
Ranking Member
Committee on Commerce,
Science & Transportation
U.S. Senate
Washington, D.C. 20515

**RE: Letter for the Record – “The State of Transportation and Critical Infrastructure:
Examining the Impact of the COVID-19 Pandemic”**

Dear Chairman Wicker and Ranking Member Cantwell:

The Motor & Equipment Manufacturers Association (MEMA) is the leading trade association representing U.S. motor vehicle parts suppliers. These companies manufacture and remanufacture components, technologies, and systems for use in passenger vehicles and heavy trucks. In total, vehicle parts manufacturers represent the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 states and generating 2.4 percent of U.S. GDP.¹ On behalf of this industry, I respectfully submit this letter for the record to the Committee summarizing the state of the motor vehicle supplier industry and the impact of COVID-19.

MEMA applauds your leadership in holding this hearing. Motor vehicle parts suppliers have been dramatically impacted by the COVID-19 global pandemic. With over 1,000 company members with facilities in all 50 states, MEMA represents suppliers who support the economies in communities across the nation, and the impact of the pandemic on our industry resonates throughout the country.

The supplier industry is interdependent, making it impossible to separate the economic success of a supplier from its customer, whether that customer is a passenger car manufacturer, a truck manufacturer, or aftermarket distributor, or retailer. In addition to this economic interdependence, the industry is also made up of a complex supply chain, with each tier critically important to the industry’s ability to manufacture vehicles. Past disruptions to the supply chain, whether a result of a factory fire or natural disaster, for example, have led to temporary closures of supplier facilities and vehicle assembly plants. These closures demonstrate the integration within the industry and the potential domino effect of even a few suppliers facing insolvency.

At the same time, this industry is facing a time of new, dynamic technical advances, such as advanced driver-assistance systems (ADAS), automated vehicle technologies, advanced fuel efficiency technologies, and cybersecurity measures to protect motorists. The supplier industry in the United States has been a leader in developing and testing technologies that meet these important demands. Since suppliers are responsible for two-thirds of the value of a new vehicle, the deployment and commercialization of these technologies are dependent on the health of the

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). Suppliers are the largest employers of manufacturing jobs in the United States, directly employing over 871,000 workers with a total employment impact of 4.2 million jobs.



supplier industry. Continuing to provide the U.S. consumer with increasingly cleaner, safer vehicles will require extensive, long-term financial commitments from the entire industry. If the supplier industry falters or fails, the entire automotive industry will suffer, ultimately harming the competitiveness of the U.S. automotive industry.

As the country slowly and safely begins reopening, MEMA welcomes the opportunity to share with the Committee the needs of the supplier industry and the challenges currently faced by our member companies.

I. Supplier Response to Immediate Needs to Address Health Crisis

In many ways, motor vehicle parts manufacturers are solution providers. Typically, these companies seek solutions to challenges, such as vehicle safety, repair needs, or emissions. During the COVID-19 pandemic, suppliers were able to quickly pivot normal operations to manufacturing critically needed supplies. These efforts have been focused on addressing the immediate medical and public health crisis facing the U.S. Suppliers and their employees used their skills, know-how, and compassion to assist in a time of need.

Companies all over the country are taking part in the response effort. For example, many suppliers have used 3D printing technology and other manufacturing processes to make plastic face masks and shields. Other companies have manufactured plexiglass patient enclosures. These shields, masks, and enclosures have been donated to hospitals and clinics, protecting front line workers who are treating and testing patients. Companies have also created open-source plans for 3D-printed and injection molded face shields.

Suppliers have significant purchasing power, the ability to manufacture in large quantities, and expertise in efficient, lean manufacturing practices. In many instances, companies are able to leverage their talents to assist medical device manufacturers improve efficiency to meet increased demand on large production lines that have not experienced this type of demand previously.

Companies with expertise in chemical manufacturing have been able to produce hand sanitizer and disinfectant for employee and facility use as well as providing supplies to local hospitals. Similar companies with skills in packaging have aided in limiting packaging shortages, ensuring that these products remain available for medical and personal use.

Logistics experts and member companies with purchasing expertise and shipping capabilities have been able to leverage those skills to assist in acquiring and delivering critical medical equipment, PPE, and other necessary supplies to areas of the country hit hardest by the virus. In several instances, these efforts have been coordinated with state agencies.

The independent aftermarket has played a large role in providing timely products for maintenance and repair of emergency vehicles and the personal vehicles of first responders and frontline workers. Aftermarket suppliers have worked with independent repair shops to provide necessary parts for repair and maintenance services to emergency personnel. Suppliers shipping parts and equipment to repair facilities rely on a fleet of essential workers, such as truck drivers and warehouse workers. These combined efforts have ensured that first responders and frontline workers are able to get to their jobs or to patients.

Other suppliers have worked within their communities to help address the economic crisis facing many families and individuals since states began implementing shelter in place orders. These

efforts have included donations to charities, food banks, and food pantries in their communities to help Americans who have lost their jobs.

As a trade association, MEMA's Original Equipment Suppliers Association (OESA) worked closely with the Alliance for Automotive Innovation to create "Health and Safety Resources for Suppliers in a Coronavirus Environment."² These resources were developed and supported collectively by several large tier one suppliers and vehicle manufacturers to help protect the safety of employees and visitors on the premises of supplier facilities as it relates to the coronavirus. Recommended practices in the document include guidance from the Centers for Disease Control and Prevention (CDC), the World Health Organization (WHO), and the Occupational Safety and Health Administration (OSHA).

II. Liquidity and Financial Needs of Industry

Motor vehicle parts manufacturers are the linchpin of U.S. vehicle manufacturing. As vehicle manufacturing shuttered across the United States, motor vehicle suppliers also limited or closed operations. Each supplier represents jobs, financial stability, and the critical bridge for the entire industry. The failure of a single supplier could impact vehicle production throughout the country and the continued viability of the industry, both present and future, depends on the health of the supplier industry.

While there are many large suppliers with operations in the U.S., two-thirds of the industry's employment is generated by small and mid-sized manufacturers.³ These small and mid-sized manufacturers are often U.S.-based, family-owned companies with limited financial resources to meet the growing needs generated by this unforeseen crisis. Without these entities, communities and states throughout the country will lose major employers and contributors to the long-term employment and economic well-being of the entire nation. Furthermore, the financial viability of the entire automotive industry is dependent on these suppliers

Parts suppliers usually receive payment from auto manufacturers 45 days after the delivery of goods. As you know, auto production has been at a stand- still since late March, with operations only recently re-opening. Most suppliers have not had receivables since early May and will not have new receivables for at least the next six weeks. This leaves suppliers with no access to capital for start-up costs.

Most small and mid-sized manufacturers were not eligible for PPP funding and have been unable to receive financing through traditional means. A recent industry survey indicated that 15-20 percent of the supplier respondents have eight weeks or fewer before declaring insolvency. Private funds will not be available to companies about to become insolvent, creating the need for government guarantees.

As vehicle manufacturing resumes, these suppliers will have little ability to raise capital to pay for wages, raw materials, or other start-up costs, hampering the ability for vehicle manufacturing to return to this country. The current projections for supplier solvency assume a specific level of business recovery. If recovery is delayed or slowed, the number of companies facing financial insolvency will increase significantly.

² <https://www.oesa.org/health-and-safety-resources-suppliers-coronavirus-environment>

³ https://www.mema.org/sites/default/files/MEMA_ImpactBook.pdf

Auto manufacturing needs a healthy and functioning supply base to efficiently restart manufacturing. Although current programs under the CARES Act have provided critical assistance for the retention of employees, additional funds must be targeted for the purchase of raw materials and other critical costs. MEMA has joined with members of the Michigan delegation in urging the Trump administration to set aside necessary capital from the Main Street Lending Program to create just such a fund. We are anxious to work with all parties to seek this funding. Our continued viability as an industry depends on it.

III. Challenges Presented by Complex North American Supply Chain (Mexico)

The North American supply chain is critical to the current and future success of operations in the United States. Just like the United States, Canada and Mexico have struggled to re-open manufacturing operations. Recently, Mexico declared vehicle manufacturing an essential industry, yet suppliers throughout that country have been unable to receive the necessary government approvals to operate. This limits the ability of U.S. operations to resume production.

MEMA understands the public health issues facing Mexico, and we have been proud to assist in the manufacture of personal protective equipment (PPE) and components and parts for ventilators and other essential medical devices in Mexico and across North America. Through MEMA's Original Equipment Suppliers Association division, (OESA), we have worked directly with automakers to develop recommended health and safety resources for all suppliers. Many of our members have done likewise. These resources are based on CDC guidance and World Health Organization publications and cover fundamental topics of workplace safety: education and communication, prescreening of personnel, social distancing, cleaning and sanitizing protocols, and other necessary steps. The industry continues to work relentlessly to plan for the return of our workforce in Mexico and the safe opening of facilities throughout the country.

We urge this Committee to work closely with the Trump administration to create a North American system that mirrors the CISA Guidance. We believe we must take this opportunity to reflect and act on our current challenges and limit the likelihood of repetition in the future.

IV. Needs for Future Investments (R&D, Reshoring)

The motor vehicle manufacturer and supplier industries are leaders in the research and development of advanced vehicle technologies critical to manufacturing today's vehicles and creating the next generation of vehicles. Suppliers have long worked to develop technologies that improve vehicle performance, safety, and fuel efficiency through a variety of advanced components and systems. In fact, suppliers account for as much as 70 percent of the value of a motor vehicle.

These investments have led to the U.S. continuing to lead the world in advanced vehicle technology manufacturing. The future of these investments is at risk as the economic health and vitality are in turmoil.

Investment in innovation relies on a predictable funding stream. Operating margins within the supplier industry are slim. At the same time, research and development for technologies, such as those necessary for AVs, require significant capital investment. Uncertain or lost income, such as that experienced by suppliers since late March, puts the future of these investments at risk.

We urge the Committee to work with us to find solutions to allow the U.S. to remain a global leader in the development and deployment of advanced vehicle technologies. Federal efforts, such

as the creation of a new tax credit or a mechanism to support the onshoring of manufacturing activities, such as moving operations to the U.S., investing in capital equipment, to support the purchase of property or facilities, investing in research and development, and more, will be essential to reestablishing these domestic investments and ensuring continued U.S. innovation.

V. Incentives to Spur Demand

Our future success will depend on production and vehicle sales. While we are not asking Congress to address this at this time, economic stimulus may become necessary in the future. Steps Congress could take include providing the American consumer an incentive to purchase a vehicle. As Congress considers future options, any economic stimulus program must be accessible to all citizens, no matter their economic circumstances. Therefore, any incentive program should not be based on vehicle scrappage or even a vehicle trade-in. In this regard, we would urge Congress to consider providing a scaled incentive to consumers who buy a used vehicle. We look forward to working with the Committee on these issues.

VI. Conclusion

The ability of the U.S. economy to rebound from the impacts of COVID-19 will rely on a number of factors, including the response of the federal government. Congress has taken significant steps to support the economy since mid-March, including passing the CARES Act. The ability of this country to develop and implement new vehicle technologies is dependent on the success of suppliers.

MEMA welcomes the opportunity to discuss this with the Committee. Should you have questions or concerns, please contact Ann Wilson, senior vice president, government affairs at awilson@mema.org or 202-320-7293 or Catherine Boland, vice president, legislative affairs at cboland@mema.org or 301-509-2791.

Sincerely,



Bill Long
President & CEO