Comments of the

Motor & Equipment Manufacturers Association

to the

U.S. Department of Transportation
Office of the Secretary

Request for Information
America's Supply Chains and the Transportation Industrial Base

Docket No. DOT-OST-2021-0106

October 18, 2021

The Motor & Equipment Manufacturers Association (MEMA) presents the following comments to the Office of the Secretary at the U.S. Department of Transportation (DOT) Request for Information on transportation supply chain.

MEMA will "address near term supply chain challenges, with a focus on alleviating bottlenecks and supply constraints in the transportation sector, particularly for ports, rail, and trucking ... with the goal of strengthening resilience among transportation supply chains." Our comments will be directed to freight, ports, shipping, and logistical challenges faced by the motor vehicle parts sector. However, as we respond to the relevant question in the request for information, we will address other issues to preserve and enhance the critical motor vehicle supply chain.

Introduction

MEMA represents, over 900 vehicle suppliers, a major sector of U.S. transportation manufacturing, that develop innovative technologies and manufacture and remanufacture original equipment (OE) and aftermarket components and systems for use in passenger cars and commercial trucks.[1] Vehicle suppliers operate in all 50 states, directly employ over 907,000 Americans, and represent the largest sector of manufacturing jobs in the United States. Direct, indirect, and induced vehicle supplier employment accounts for over 4.8 million U.S. jobs and contributes 2.5 percent to U.S. GDP.[2]

Across the entire range of new vehicle innovation – from automated driving systems to zero-emission vehicle technologies – vehicle suppliers are leading the way. Vehicle

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[1] MEMA represents its member companies through its four divisions: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); MERA - The Association for Sustainable Manufacturing; and Original Equipment Suppliers Association (OESA).
[2] U.S. Labor and Economic Impact of Vehicle Supplier Industry, MEMA and IHS Markit. February 2021.

suppliers conceive, design, and manufacture the OE components and technologies that make up more than 77 percent of the value in new vehicles. Additionally, vehicle suppliers also manufacture aftermarket parts and materials for the service, maintenance, and repair of 282 million vehicles on U.S. roadways. Technology development allows the U.S. to be more innovative, globally competitive, and lead the world on the path of enhanced mobility for all citizens. Now more than ever, the vehicle industry is at an inflection point as it moves toward a net carbon neutral future with new technologies like electric vehicles (EVS), hydrogen fuel cell vehicles and others.

Current Challenges for the Motor Vehicle Parts Industry

Vehicle suppliers face a myriad of current challenges within their U.S., North American, and global supply chains. MEMA members continue to struggle with shortages, allocation shortfalls, extended lead times, unreliable deliveries, and exorbitant price increases. Recent examples of broad risks to the motor vehicle parts supply chain include the acute shortage of vehicle-grade semiconductors, shipping delays, port backlogs, and at least three to four-fold increases in logistical expenses. Skyrocketing raw material and input costs as well as shortages from critical minerals, resins, steel and other metals, and other commodities are also adversely impacting the sector and adding to the overall threat of inflation facing the country. Additionally, acute worker shortages continue to plague all tiers of motor vehicle parts suppliers from our smallest to largest members. Continuing disruptions due to COVID-19 outbreaks and natural disasters around the globe have also been highly problematic.

As a result of these challenges, the motor vehicle industry is anticipating an overall decline in motor vehicle production in 2021 as well as very uncertain production levels in 2022. Millions of light and commercial vehicles will not be manufactured and sold in 2021 and 2022 because of these shortages. AlixPartners, a global industry consultant announced last month that global auto industry production would lose 7.7 million vehicles worldwide, nearly 10 percent of projected production in 2021, because of the chip shortage. They went on to add that the loss of production and sales is expected to cost the global auto industry $210 billion in lost revenue this year. Industry experts predict that normal semiconductor supply and demand patterns will not return until sometime in 2023.

Moreover, the ongoing Section 232 tariffs on steel and aluminum imports and Section 301 tariffs on imports from China continue to burden vehicle parts manufacturers, causing increased costs and adverse impacts on accessibility of materials and subcomponents vital to production of finished vehicle parts and systems. A broader and more transparent and systematic approach to Section 301 exclusions would be helpful from USTR, given the confluence of all the challenges being faced not only by the motor vehicle parts industry but also many other manufacturing sectors. And Section 232 tariffs on key allies like the EU, Japan and Korea should be eliminated.

Furthermore, the vehicle industry has been implementing and adapting to an entirely new set of rules of origin (ROO) for motor vehicle goods under the United States-Mexico-

Canada Agreement (USMCA). A sweeping new Buy America Executive Order could raise domestic content requirements to 75 percent over the next few years in a manner that might undermine WTO Government Procurement Agreement (GPA) and most Free Trade Agreement commitments.

Additionally, the vast majority of MEMA members face the potential burden of significant rate and international tax increases, adding another element of uncertainty to prospects for the motor vehicle parts sector. Finally, the impact of transforming the motor vehicle parts sector through innovations like electrification and automation is significant. MEMA members appreciate the proposed positive incentives for industry such as the 48C tax credit and tax credits for consumers purchasing zero emission vehicles, which, if properly funded and implemented, will assist with industry transformation.

Each of the above contributes to frayed industry supply chains and must be understood and addressed.

U.S. Competitiveness and Jobs in a Global Economy

Motor vehicle suppliers operate in a global economy, often serving North American, European, and Asian regional markets with locally manufactured components. While the industry is focused on increasing investment and job growth in the United States, it is not economically viable for the U.S. and other developed countries to be the source of every part. Member companies have indicated a willingness to engage in more U.S. sourcing over time, but that should not be done for mass-produced commodity inputs that cannot be manufactured on a cost-effective basis in this country. MEMA has long supported having a strong USMCA-based North American regional supply chain as it allows for more advanced and strategic components to be sourced from the region.

Supply chains are complex and motor vehicle parts go through elaborate testing and safety protocols. When a supplier seeks a new source of inputs, whether a raw material or a part, it takes a minimum of a year to as many as several years to get approval and validation of new sourcing because of vehicle safety considerations. The U.S. should focus on domestic sourcing of high-value-added complex technologies that enhance our intellectual property and market share leadership. This approach to manufacturing will strengthen our overall national competitive position while keeping manufacturing and consumer costs down.

Policymakers in the U.S. should focus on attracting research, development, and production of cutting-edge technologies – such as artificial intelligence (AI), automated vehicles (AVs), electric vehicles (EVs), advanced batteries and semiconductors – with the goal of leading the world in key innovations and manufacturing output. International trade, tax, investment, and U.S. government procurement policy should be developed to help foster U.S. leadership in transforming the motor vehicle sector to a carbon neutral future through electrification and automation. Public and private investment is critical in areas such as research and development and retooling of production for advanced technologies as we transition to net-zero carbon emissions transportation. Key incentives and investments exist in the bipartisan infrastructure package that needs to pass immediately so the U.S. motor vehicle industry can get a boost starting in January 2022 developing these technologies. The overall investment in 48c retooling and energy efficiency credits must be reasonable to meet our country's collective goals.

MEMA Transportation Supply Chain Comments: Responses to Specific Questions

***Question 1*: The identification of major infrastructure or operational bottlenecks and chokepoints across all aspects of the freight and logistics supply chain—including shipping/receiving, intermodal transfer, rail/water/truck transportation, warehousing, etc.—that slow or impede efficient cargo movement within the freight and logistics sector, and the most effective investments and management practice improvements that could be made to alleviate those bottlenecks.**

The major slowdown at the nation's ports makes it very difficult for MEMA members to receive required commodity inputs for their U.S. plants. A significant portion of our member imports enter the U.S. via the Ports of Los Angeles and Long Beach. It is estimated that 40 percent of imported goods enter the United States through these two ports, which are currently experiencing an average 60-ship backlog, the largest delays worldwide. More recently, the Port of Savannah, GA and other East Coast ports have started to experience delays. Overall delays are caused by port worker shortages, rapidly increasing volumes of imports as the nation's COVID crisis eased, and inadequate and aging infrastructure. Across the Pacific, ports in China have closed for days due to COVID-19 concerns, exacerbating domestic U.S. delays and prices increases.

Some say these skyrocketing costs have been caused or exacerbated by the increasing concentration of the global shipping industry. In fact, the White House acknowledged the consolidation within the industry in the President's July 9 Executive Order on "Promoting Competition in the American Economy," by noting that "In 2000, the largest 10 shipping companies controlled 12 percent of the market. Today, they have locked up more than 80 percent."[3] Yet the FMC has not acted on the President's recommendations as outlined in his executive order.

As a result of the significant delays at our nations ports, MEMA members have been forced to seek expensive alternatives such as air freight, the cost of which has also increased rapidly. Prior to the current crisis, air freight was always an available option, if an expensive one. Now global air freight has reached 90 percent of capacity and prices have doubled in the past year. Today air freight captures only 1 percent of the global shipping market but comprises more than 30 percent of the value of all shipments.[4]

Suppliers are also experiencing delays at intermodal centers, rail, and trucking delays, sometimes caused by a shortage of containers and chassis. Additionally, shortages of

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[3] White House Fact Sheet on Executive Order Promoting Competition in the American Economy, July 9, 2021.
[4] Cameron, Doug. "Air Cargo Boom in Supply Chain Crunch Has Car Tires Flying First Class." *The Wall Street Journal*, August 29, 2021.

qualified truckers may be compounding these problems. As a result of the port and logistics challenges, typical MEMA member shipping expenses have increased by a factor of four to six times since July 2020. These cost increases are unsustainable and have already resulted in significant inflationary pressures on U.S. producers and consumers.

Port delays could be lessened by extending the hours of ports experiencing delays. Last week, the President announced an agreement to keep the Ports of Los Angeles and Long Beach open 24 hours a day, seven days a week. Countries in Asia and Europe took similar steps long ago. The recent pledge by large importers such as Walmart, UPS and Federal Express to pick up cargo at all hours will also help alleviate this crisis, opening more slots during the day for import of inputs for U.S. manufacturers to occur.

<u>Question 12</u>: Other policy recommendations or suggested executive, legislative, or regulatory changes to ensure a resilient supply chain that DOT/USG should consider, including means to collaborate more effectively across government agencies and suggestions based on state and international models.

MEMA provides the following additional policy recommendations:

- <u>Congress must pass the bipartisan infrastructure bill,</u> which will help alleviate the ports and shipping crises. The legislation provides approximately $2.25 billion of funding over five years for ports improvements relating to efficiency, global warming impacts, and insuring against natural disaster. MEMA encourages DOT to ensure that the funding is focused on efforts to reduce congestion and ultimately improving environmental outcomes while also addressing the current crisis. Similar approached should be taken with the intermodal rail and road provisions in the bill, including reserving funding for intermodal centers at ports.

- <u>The Federal Maritime Commission (FMC) and the Department of Justice (DOJ) must take full advantage of the ports and shipping ideas offered by the President's July Executive Order on "Promoting Competition in the American Economy."</u> The FMC should also implement the Memorandum of Understanding (MOU) signed by the FMC and DOJ on this topic.

- <u>Congress must pass legislation making systemic changes to update shipping policies, such as H.R. 4996, the Ocean Shipping Reform Act of 2021.</u> Highlights of the bill are:
    - Authorizes the FMC to investigate ocean common carrier's business practices and apply enforcement measures. Minimum safety standards would be required and enforced by the FMC as well.
    - Requires ocean carriers or marine terminal operators to certify that late fees – known in maritime terms as "detention and demurrage" charges – comply with federal regulations or face penalties.
    - Establishes reciprocal trade to promote U.S. exports as part of the FMC's mission. This is critical as U.S. exports have declined as empty shipping containers are returning to Asia rather than going to the inland U.S. for

manufacturing and agriculture exports, because returning them empty is more lucrative to the shippers.

Conclusion

The motor vehicle supplier industry is committed to growing its contribution to national innovation and the industrial base, the livelihood of local economies, and job creation by making significant U.S. investments in research, development, production, and workforce. MEMA supports efforts to move toward a new net-zero carbon emission future. However, the ongoing ports and shipping logistical crises put this positive vision for the country in jeopardy. Motor vehicle parts sector manufacturing leadership is undermined by the port and shipping logistical and supply chain breakdowns. MEMA urges the DOT to consider our recommendations to alleviate this crisis before it creates major economic damage and ignites long term inflationary pressures on the U.S. economy.

MEMA appreciates this opportunity to provide this feedback to the Office of the Secretary on transportation supply chains. MEMA is available to discuss these views in more detail on this important issue to our members. If you have questions or would like more information, please contact Bill Frymoyer, vice president of public policy at bfrymoyer@mema.org.