



Motor & Equipment Manufacturers Association

Comments to the United States Trade Representative

RE: Request for Comment on Negotiating Objectives Regarding a U.S.-Japan Trade Agreement

Docket No. USTR-2018-0034

November 26, 2018

Introduction

The Motor & Equipment Manufacturers Association (MEMA) is pleased to provide feedback to the United States Trade Representative (USTR) in response to its Request for Comment on the cited subject. MEMA also respectfully requests to appear and present a statement for the record at the USTR's public hearing being held Dec. 10, 2018.

Free and fair trade is imperative for a strong domestic supplier industry. MEMA has consistently encouraged the Trump Administration to engage in trade agreements in a manner that does not disrupt supply chains or increase production costs. We need trade policies that enhance the competitiveness of U.S. manufacturers by creating more domestic jobs and cultivating U.S. capital investments.

MEMA represents 1,000 vehicle suppliers that manufacture and remanufacture components and systems for use in passenger cars and heavy trucks providing original equipment (OE) to new vehicles as well as aftermarket parts to service, maintain and repair vehicles on the road today.¹ 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.

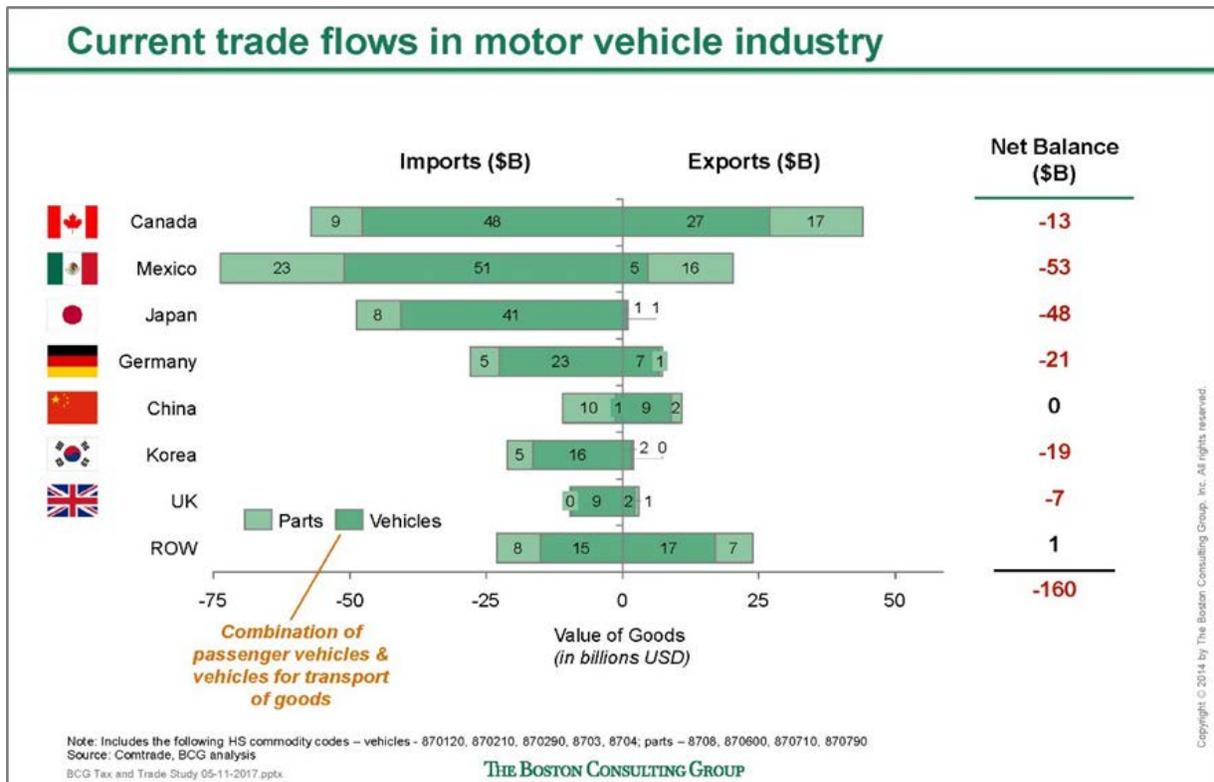
Vehicle suppliers are the largest manufacturing sector in the United States directly employing over 871,000 Americans in all 50 states plus the District of Columbia. Together with indirect and employment-induced jobs, the total employment impact of the motor vehicle parts manufacturing industry is 4.26 million jobs. 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 in today's vehicles.

Vehicle Suppliers Depend on a Global Network

Suppliers operate in a global economy that depends on a worldwide network of suppliers and customers for continued viability and growth. The vast and complex vehicle supply chain is dependent on inputs from around the world, which allows suppliers to work with vehicle manufacturers to develop new innovative technologies to consumers and provide important jobs in the United States. This network is also highly interdependent.

¹ MEMA represents its members through four divisions: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); Motor & Equipment Remanufacturers Association (MERA); and, Original Equipment Suppliers Association (OESA).

It is important to recognize that U.S. suppliers depend heavily on wide range of customers for financial success. The graphics below illustrate the trade flows on automobiles and automotive parts and the shared supply base among U.S. vehicle manufacturers.^{2,3}



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.

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²SOURCE: “A World Without NAFTA” study commissioned by MEMA and conducted independently by The Boston Consulting Group (BCG) <https://www.mema.org/resource/world-without-nafta> October 2017.

³ SOURCE: IHS Markit data cited in MEMA comments to U.S. Department of Commerce re: Section 232 National Security Investigation of Imports of Automobiles and Automobile Parts; DOC-2018-0002-2042, July 2, 2018.

Japan is a Critical Trading Partner for the United States

Japan is a critical trading partner for U.S. vehicle parts manufacturers. MEMA supports this opportunity for the U.S. to strengthen our trading relationship with Japan, particularly related to vehicles and vehicle parts. Before all else, the Parties must find a solution to current U.S. trade policies and administration's actions related to the Section 232 actions – both current and pending. Section 232 presents a hindrance to near term trade talks and must be discussed. Additionally, the Parties should also address issues related to mutual recognition and alignment of common motor vehicle regulatory standards and minimize the impact of non-tariff barriers to trade. Taking steps on those issues are just a few ways the U.S. can expand export market prospects for the vehicle industry in Japan. MEMA recognizes that these are significant issues. We are encouraged that the administration has taken this important step to open negotiations for a free trade agreement between the parties to work through a variety of issues.

Therefore, during trade talks between the U.S. and Japan, MEMA urges the parties to consider the following priority objectives:

- Agree to terms that exempts Japan from Section 232 tariffs on steel and aluminum imports, and from on any potential tariffs resulting from the Section 232 investigation on automobiles and automotive parts – without any caps/quotas;
- Allow for mutual recognition of existing standards, without further modification, testing, or certification, provided that safety levels and environmental protection are not lowered;
- Address non-tariff barriers to trade.

Furthermore, MEMA has consistently advocated that the U.S. consider other objectives that are important to our industry to be part of any trade agreement between the U.S. and another party. They are:

- Promoting opportunities for a strong worldwide system of future aligned vehicle regulations through the United Nations process under the 1998 Agreement;
- Eliminating tariffs reciprocally and securing 100 percent liberalization with relatively short phase-out periods;
- Requiring that imports of all aftermarket parts, including remanufactured goods, are not treated differently from new goods imports; and,
- Enabling a strong and sustained political commitment, at the highest levels of government and regulatory authorities, allowing for transparency and regular consultation with industry stakeholders

MEMA recognizes that the vehicle industry is a key industry for the economies of both Parties. MEMA supports the administration's efforts to engage in a trade negotiation with Japan. Certainly, considerable care must be taken not to jeopardize the vehicle supply chain and weaken U.S. employment. MEMA stands ready to work with the Parties on these objectives.

Tariffs and Other Actions Imposed Pursuant to Section 232 Must Be Addressed

The United States and Japan must agree to terms related to the current Section 232 tariffs on steel and aluminum and any potential Section 232 tariffs on automobiles and vehicle parts. Moreover, MEMA would urge the Parties to agree to a full exemption without any caps or quotas. Quotas present challenges and uncertainty especially for the vehicle industry, which has long production cycles. Addressing these exemptions would signify the importance of our trading relationships and provide the ongoing stability that suppliers need to thrive in the United States.

As is widely known, the side letters between the Parties as part of the U.S.-Mexico-Canada Agreement (USMCA) address potential Sec. 232 actions resulting from the U.S. investigation on automobiles and automotive parts by placing caps on imports from Mexico and Canada before any Sec. 232 tariffs can be imposed. MEMA would have preferred a full exemption of those parties and remain concerned at the lack of specificity in those letters about how the caps would be administered. MEMA would urge the U.S. to avoid this scenario with Japan because tariffs or quotas on automotive parts will cause uncertainty, price increases, and potential delays across the vehicle manufacturing supply chain. Adjustments to automotive parts imports may even jeopardize suppliers' ability to continue manufacturing these critical products domestically.

Should the U.S. impose broad Section 232 tariffs on automobiles and vehicle parts, suppliers expect adjustments to imports of automotive parts to cause job losses due to a decrease in the downstream production of higher technology automotive components and finished automobiles as lower technology inputs become more expensive and less available. Increased production costs will also threaten U.S. businesses and their employees that depend on a reliable supply of automotive parts to make repairs to automobiles. Adjustments to imports of automotive parts could therefore lead to downsizing, layoffs, or even cause certain U.S. production to move overseas.

Adjustments to imports of automotive parts would also likely cause declines in overall U.S. production as the cost of inputs increase and member companies are faced with the unenviable choice of passing these higher production costs on to their customers or absorbing the price increases. Passing on the costs may not be possible because the OEM customer would seek other suppliers – potentially overseas. If the supplier absorbs the costs, however, they may be forced to delay or cancel planned U.S. investments, such as workforce training or facility expansions. Regardless, the end result will be lost market share for MEMA member companies and a less competitive and profitable U.S. automotive industry.

Therefore, if vehicle manufacturers from Japan cannot be successful in the United States, suppliers will also suffer. Exempting Japan from the tariffs will strengthen US manufacturers.

Allow for Mutual Recognition of Vehicle Standards and Address Non-Tariff Barriers to Trade

The U.S. vehicle industry is undergoing one of the most significant technological transformations to the future of mobility. These advances are improving vehicle safety and efficiency in unprecedented ways. Suppliers dedicate significant resources to the innovation, research, development, and production of over two-thirds of the value in today's vehicles. This includes technologies like a suite of advanced driver assistance systems (which includes collision avoidance and mitigation systems), vehicle-to-vehicle and vehicle-to-everything communications, automated driving systems, and a host of emissions-reducing and vehicle efficiency components and materials, all of which improve the driving experience.

There is little doubt that these technologies are the new face of the industry and the U.S. must be in the forefront of this development and implementation. This is not merely a matter of life-saving technology development, but also the work associated with these new technologies will drive job development in the U.S. which will, in turn, promote exports and ensure that the U.S. will maintain its technology and innovation leadership position in the world.

As vehicles are heavily regulated, we believe that the safety and environmental standards between the U.S. and Japan are relatively analogous to one another. MEMA believes that aligning or mutually recognizing each other's regulatory schemes would open opportunities for U.S. vehicle suppliers to access the Japanese marketplace. Also, the U.S. and Japan can work together in current forums – such as the UN Working Party 29 – on the global development of standards for new and emerging technologies.

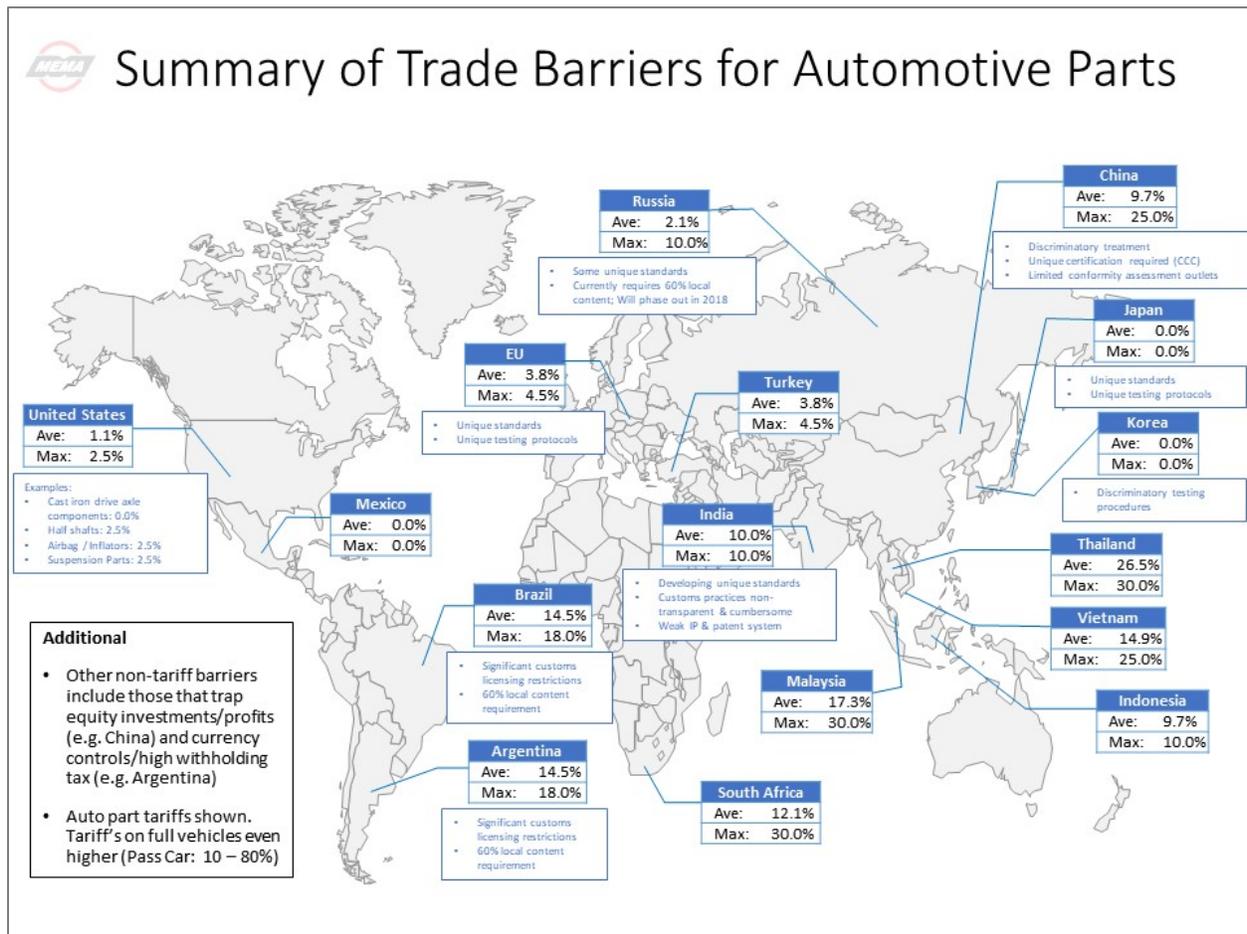
MEMA strongly recommends that the Parties discuss a pathway for mutual recognition of existing standards, without further modification, testing, or certification, provided that safety levels and environmental protection are not lowered. This will not only tackle non-tariff barriers (NTBs) by allowing for U.S. FMVSS-certified vehicles and parts (as applicable) into Japan, but also will cultivate opportunities to align in the development of future standards for new technologies.

The February 2018 “Economic Impact Report of the President” indicated continued concerns that the Japanese automotive market remains largely inaccessible for U.S. companies. “A variety of nontariff barriers impede access to Japan’s automotive market, and overall sales of U.S.-made vehicles and automotive parts in Japan remain low...”⁴ NTBs are among the greatest challenges facing U.S. businesses and workers, which is even more frustrating given America’s open economy. NTBs result in “one-way” trade to the detriment of U.S. businesses and workers. A trade agreement between the U.S. and Japan should serve as an opportunity to eradicate NTBs.

Technical regulations in the motor vehicle sector are one of the most utilized NTBs that seek to keep markets unfairly closed (also see graphic next page). Increasing transparency in the formation of technical regulations is critical to breaking down NTBs. If one of the parties wishes to institute new standards (i.e. safety, environmental), that go beyond established and proven international regulations, should do so based on sound science and other guidelines that address real concerns in a responsible and non-discriminatory

⁴ <https://www.gpo.gov/fdsys/pkg/ERP-2018/pdf/ERP-2018.pdf>

manner. In addition, unjustified certification requirements are another key barrier that can discourage or prevent businesses from accessing markets.



Conclusion

MEMA members operate in a global industry with suppliers, customers, and facilities worldwide. Open markets and integrated supply chains provide the framework for economic growth and jobs in our industry. There is an opportunity to strengthen our ties with Japan with a constructive trade agreement. MEMA supports the administration's efforts to engage with Japan in talks. If key issues specific to the automotive sector addressed, a possible U.S.-Japan trade agreement would be mutually beneficial for our industries, citizens, and respective economies. Such an agreement should aim to provide expanded opportunities for U.S. vehicle manufacturers as well as vehicle suppliers. In fact, components for both new original equipment and aftermarket products should not be treated differently.

MEMA stands ready to fully participate in the renegotiation process. Thank you for considering the comments of MEMA. We also look forward to making a statement at the USTR's public hearing. For further information, please contact Senior Vice President of Government Affairs Ann Wilson at (202) 312-9246 or awilson@mema.org.