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**Motor & Equipment Manufacturers Association  
Rebuttal Comments**

**RE: Section 232 National Security Investigation of Imports of Automobiles,  
including Cars, SUVs, Vans and Light Trucks, and Automotive Parts**

**Docket No. DOC-2018-0002**

**July 13, 2018**

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The Motor & Equipment Manufacturers Association (MEMA) submits the following rebuttal comments in response to the U.S. Department of Commerce *Federal Register* notice on the cited subject above (“Notice”).<sup>1</sup>

MEMA represents 1,000 vehicle suppliers that manufacture and remanufacture original equipment and aftermarket parts, components, and systems for use in passenger and commercial vehicles. MEMA represents the full spectrum of the supplier industry through its four divisions.<sup>2</sup> Over 2,300 comments were filed on June 29, 2018, including MEMA.<sup>3</sup> Comments were from a wide range of entities – from individual citizens and companies, to trade associations and governments. A substantial majority of the comments submitted fundamentally agree that imposing tariffs or other broad trade-restrictive measures resulting from this investigation would cause significant disruption and upheaval to the vehicle industry and risk the greater economic stability of the United States. In stark contrast, a very small number of comments filed support the investigation. MEMA will address comments of the United Autoworkers (UAW), the United Steel Workers (USW), and the Forging Industry Association (FIA).

First, let us begin by highlighting some key industry data. The vehicle industry has grown and thrived over the past decade, in part due to the improving U.S. economy and the strength of the region’s supply chain. Direct supplier jobs alone have increased 19 percent since 2012, employing over 871,000 U.S. workers, with an employment-induced impact of 4.26 million jobs.<sup>4</sup> Vehicle parts manufacturers represent the largest manufacturing sector in the United States and generate 2.4 percent of the U.S. Gross Domestic Product. Furthermore, total employee compensation paid to workers supported by the vehicle parts manufacturing industry increased to \$270 billion.<sup>5</sup> Vehicle parts manufacturers make a wide array of vehicle components and systems for new vehicles as

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<sup>1</sup> 83 Fed. Reg. at 24735, May 30, 2018.

<sup>2</sup> MEMA’s four divisions are: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); Motor & Equipment Remanufacturers Association (MERA); and, Original Equipment Suppliers Association (OESA).

<sup>3</sup> Public Comments of the Motor & Equipment Manufacturers Association, Docket ID No. DOC-2018-0002-2042

<sup>4</sup> MEMA, “Driving the Future: The Employment and Economic Impact of the Vehicle Supplier Industry in the U.S.” Jan. 26, 2017, available at [https://www.mema.org/sites/default/files/MEMA\\_ImpactBook.pdf](https://www.mema.org/sites/default/files/MEMA_ImpactBook.pdf)

<sup>5</sup> *Ibid.*

original equipment and for the aftermarket as replacement parts. MEMA members lead the way in developing advanced, transformative technologies that enable safer, smarter, and more efficient vehicles.

*Comments of the United Autoworkers<sup>6</sup>*

The UAW comments did not directly address the potential implications of the investigation, which may result in the imposition of tariffs or other trade-restrictive actions. Rather, the UAW characterized potential implications as “actions” noting that the “automotive industry is a global industry with long, complicated supply chains” and cautioned against “any rash actions” as having “unforeseen consequences, including mass lay-offs for American workers.”

Certainly, MEMA shares this exact concern and made this point multiple times in our June 29 comments stating, “The supply chain, their customers, and the jobs they support are highly interdependent.” Included in MEMA’s comments was a figure illustrating the interdependency of the supply base shared by North American vehicle manufacturers (“OEMs”). For immediate reference, that figure is also included as “Appendix 1” and shows the significant percentages of shared supply base among the OEMs. Moreover, it underscores the interconnectedness of our industry and the North American region.

The UAW also asserts that “U.S.-based and foreign-based auto manufacturers create a great deal of economic activity in the United States,” and that “[a] drop in production can have long-term economic and social ramifications for our country.” Yet the UAW does not address in its assertion the impact of dropped production the potential outcomes of this investigation, which may be one or more trade-restrictive actions, such as imposition of tariffs on vehicles or vehicle parts. Such actions would decrease production and harm the global competitiveness of the U.S. vehicle industry. Furthermore, UAW does not explain how such tariffs would be justified on national security grounds.

Therefore, while MEMA agrees with UAW’s general assertion and concern about decreased production, we would add that any disruptions to vehicle production resulting from the imposition of tariffs will have a concurrent impact on domestic U.S. vehicle parts suppliers. Suppliers are already in the midst of dealing with the impacts of currently active tariffs on steel and aluminum as well as increased costs of domestic steel and aluminum materials. In addition, U.S. suppliers are being impacted by retaliatory tariffs, further reducing their global competitiveness, which will equally have a negative impact on jobs and the U.S. economy. Significant uncertainty, constrained accessibility, compound costs, and the looming threat of more trade actions resulting from this investigation will hamper the ability of the supply base to adequately produce vehicle parts, components, and systems. Moreover, if production drops and domestic barriers go up, then manufacturing capacity, innovation, investments, and thousands of U.S. jobs are all in jeopardy. The cumulative impact would harm both U.S. civilian and military fleets.

Another statement in the UAW’s comments is: “[The] successful U.S. government–industry partnership that supported cutting edge research and development is under attack and our public and private sectors must work together in an [sic] proactive fashion if we are going to remain a global technological leader.” MEMA supports one aspect of the UAW’s assertion that our domestic public and private sectors should proactively collaborate as appropriate for the U.S. to remain a global technological leader. However, we do not agree that the U.S. government–industry

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<sup>6</sup> Public Comments of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, June 29, 2018 (“UAW”), Docket ID No. DOC-2018-0002-1995

partnership is “under attack.” The UAW fails to analyze the existing research and development (R&D), and testing that is currently taking place in the United States on advanced vehicle safety and efficiency technologies. As an example, the U.S. currently leads other nations in our ability to test automated driving systems and automated vehicles on the roads and in specific testing sites. Our country must continue to develop these opportunities through all phases of development and deployment. However, this testing depends on the free flow of materials, components and systems that are developed in other parts of the world. As MEMA demonstrated in our comments, tariff constraints will not grow U.S. manufacturing. Rather, they will diminish the existing work that is being accomplished on automated technology.

In an increasingly global economy—the U.S. is not the only market where tens-of-billions-of-dollars are being spent on new vehicle technologies and innovation. While the U.S. cannot – and should not – stop others from or be threatened by other markets making technological progress, nevertheless, we can and should improve the effectiveness of domestic R&D investments. This can be accomplished by: returning to the previous R&D budgets levels of the U.S. government (which, in turn, spurs more U.S. industry R&D); strengthening the U.S. government-industry partnership; and, capitalizing on the substantial strengths and momentum of the overall positive innovation framework (legal, regulatory, culture). This is epitomized by Silicon Valley, which other countries, despite trying, have not been able to replicate.

In addition, the UAW asserts that “[m]ost of the production footprint of tomorrow’s advanced automotive technology is overseas” and specifically, the UAW addresses production of lithium-ion batteries for electric vehicles. The U.S. production footprint for many of the essential and value-added parts for electric vehicles (EVs) is consistent with the global motor vehicle production share of the United States. With regards to EV batteries, it has been estimated that by 2021, the U.S. will represent 14 percent of global production of EV batteries.<sup>7</sup> The U.S. currently represents about 12 percent of global production, and that is expected to stay at or close to that in the coming years. Therefore, the production of EV batteries and automobiles, as a percent of global shares, is closely aligned. Moreover, the U.S. and our allies together represent about half of lithium-ion battery manufacturing in 2017.<sup>8</sup> This is far from a national security threat.

However, for example, if the U.S. EV battery production levels are lower than what some may deem prudent, then MEMA recommends that, instead of imposing tariffs, or other trade-restrictive actions, the U.S. government should play to its strengths such as:

- Pioneering pre-competitive innovations, such as the basic chemistry of new and better batteries. The Department of Energy and National Laboratories (e.g. Argonne and Lawrence Berkeley) have done laudable work in this area;<sup>9</sup>

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<sup>7</sup> “Electric Vehicle Outlook 2018” (annual long-term forecast of global electric vehicle adoption to 2040), Bloomberg New Energy Finance, available at <https://about.bnef.com/electric-vehicle-outlook/#toc-download>

<sup>8</sup> *Ibid.*

<sup>9</sup> *R&D Magazine’s* R&D 100 Awards for 2008 (also called the “Oscars of Invention”):

- Argonne National Laboratory has received an award for EnerDel Argonne High-Power Lithium-Ion Battery for Hybrid Electric Vehicles – a highly reliable and extremely safe device that is lighter in weight, more compact, more powerful and longer lasting than the Ni-MH batteries that are found in today’s hybrid electric vehicles. <https://www.anl.gov/articles/argonne-researchers-win-two-rd-100-awards>
- Lawrence Berkley National Laboratory: Nanostructured Polymer Electrolyte for Rechargeable Lithium Batteries – a polymer electrolyte that enables the development of rechargeable lithium metal batteries with an energy density that is high enough to enable electric battery-driven transportation technology. <http://www2.lbl.gov/publicinfo/newscenter/pr/2008/TT-RD100.html>

- Identifying ways to incentivize and promote growth in U.S. advance battery manufacturing and automated vehicle technology here in the U.S. through tax and other financial incentives; and,
- Partnering with industry to export more vehicle and vehicle parts from the U.S. By exporting more automotive products, we would expand the production beyond the current levels to meet that growing demand in domestic and global markets, thus leading to more revenue to be able to invest more in U.S. R&D.

In addition to lithium-ion batteries, the UAW states that “[t]oday, the U.S. only produces 13 percent of the world’s semiconductors.” Indeed, the vehicle industry is among the largest consumers of semiconductors and demand for automotive semiconductors is projected to grow significantly over the mid- to long-term. The trajectory corresponds to industry’s enhancements for increasingly integrated safety, efficiency, and connectivity features – critical building blocks for automated vehicles. Today the average vehicle contains about \$300 worth of semiconductors. Hybrid electric vehicles (HEVs), plug-in hybrid electric vehicles (PHEVs), and battery electric vehicles (BEVs) have between \$900-1,000 worth of semiconductors. Thus, as sales of HEVs, PHEVs, and BEVs and autonomous vehicles increase, so will the demand for semiconductors.<sup>10</sup>

According to the Semiconductor Industry Association (SIA), the U.S. semiconductor industry has nearly half of the global market share and conducts the majority of its manufacturing in the United States.<sup>11</sup> Reportedly, roughly 81 percent of all semiconductor wafer fabrication capacity in the U.S. was accounted for by U.S.-headquartered firms. The SIA also urges in its recent submission to the Office to Science and Technology Policy (OSTP)<sup>12</sup> that in order to “maintain overall U.S. leadership in semiconductor innovation, and to keep and support semiconductor advanced manufacturing in the United States,” they recommended: “Robustly fund pre-competitive research; Ensure the industry has access to the best workforce; Promote tax incentives to grow our industry domestically; Promote trade and export policies that enable the efficient supplying of foreign markets.” We strongly support those recommendations as much preferred over raising tariffs on imported automobiles and vehicle parts.

Finally, when addressing the trade deficit and import figures, the UAW comments misconstrue import data for motor vehicle parts. As the UAW is aware, the Harmonized Tariff Schedule codes for motor vehicles parts include both original equipment and aftermarket parts. Many – but not all – of the automotive parts imported into this country are for use in the automotive aftermarket. The importation of these parts affords Americans greater choice for the repair and upkeep of their vehicles. The average age of vehicles in this country exceeds 11 years, and there are over 268 million registered vehicles on our nation’s roads.<sup>13</sup> Imposing tariffs on these important replacement

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<sup>10</sup> “Mobility trends: What’s ahead for automotive semiconductors,” McKinsey & Company, April 2017. <https://www.mckinsey.com/industries/semiconductors/our-insights/mobility-trends-whats-ahead-for-automotive-semiconductors>

<sup>11</sup> 2018 SIA Factbook, Semiconductor Industry Association found at <http://go.semiconductors.org/2018-sia-factbook>

<sup>12</sup> Semiconductor Industry Association (SIA) submission to U.S. Office of Science and Technology Policy earlier this year (March 2018) Request for Information (RFI) on the National Strategic Plan for Advanced Manufacturing from the Office of Science the Technology Policy (OSTP) Table 1 found at

[https://www.semiconductors.org/clientuploads/directory/DocumentSIA/Research%20and%20Technology/SIA\\_-\\_National\\_Strategic\\_Plan\\_for\\_Advanced\\_Manufacturing\\_-\\_03072018\\_Final.pdf](https://www.semiconductors.org/clientuploads/directory/DocumentSIA/Research%20and%20Technology/SIA_-_National_Strategic_Plan_for_Advanced_Manufacturing_-_03072018_Final.pdf)

<sup>13</sup> Table 1-11, *National Transportation Statistics 2018*, Bureau of Transportation Statistics, U.S. Department of Transportation, April 2018

parts will directly increase costs to American consumers, increasing the likelihood that they will choose to forego maintenance and repair.

In short, the UAW recognizes the importance of the integrated, global supply chain and that production may drop if there are “any rash decisions” with “unforeseen consequences.” Yet, UAW does not acknowledge that the potential imposition of tariffs, will indeed negatively impact production and likely result in large-scale layoffs.

*Comments of the United Steel Workers<sup>14</sup>*

Like the UAW, the USW comments reflect some similar sentiments about the Commerce Department’s investigation but does not specifically address tariffs. Instead, they suggested that the “investigation be targeted and any relief measures be tailored in such a way as to promote our national security interests while not being overly broad.” USW further warns the administration to strike a careful balance saying, “Section 232 ... if applied too broadly, can reduce its effectiveness and potentially undermine its very utility.” While MEMA does not agree that any measures are justified under this investigation, we do concur that overly broad utilization of Section 232 undermines its utility. Furthermore, USW does not offer any input as to what a tailored solution might be and how that would be justified on national security grounds required by Section 232.

USW also advocated that Canada should be exempt if any measures are implemented. To retain the overall competitiveness of the North American region, MEMA would further advocate that – at a minimum – both Canada and Mexico should be exempt from any possible measures. Tariffs or other broad trade-restrictive measures would cause significant disruption and upheaval to the U.S. vehicle industry. Given the strength of the North American supply chain, certainly, if Canada and Mexico were to be exempted from these types of measures, the impact would be substantially reduced. Most OE and aftermarket suppliers have well established footprints in North America to support regional requirements. It is typical and normal for vehicle parts and subcomponents to be shipped back and forth over borders, often multiple times, within the region. If this accessibility is abruptly constrained or closed off, the results would be detrimental to U.S. vehicle manufacturing as well as impact parts availability for the manufacture, maintenance and repair of U.S. consumers’ vehicles as well as of tactical and non-tactical vehicles for the U.S. defense industry.

*Comments of the Forging Industry Association<sup>15</sup>*

FIA cites their experiences with aggressive competition from imported forgings. They address their vulnerability as evidenced by the imposition of Section 232 tariffs on steel and aluminum, the scope of which only covered raw and semi-finished materials, not downstream forgings. The result has made U.S. forgers less competitive.

MEMA understands the predicament expressed by FIA, as our associations have some members in common and many other suppliers are reporting similar experiences because of the steel and aluminum tariffs. However, MEMA would contend that, in fact, even tailored or targeted measures to “protect” specific products would ultimately undermine the overall U.S. competitiveness of the vehicle and vehicle parts manufacturers by pushing up costs and diminish domestic and other global markets.

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<sup>14</sup> Submission of United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (“USW”), Docket ID No. DOC-2018-0002-1871

<sup>15</sup> Submission of Forging Industry Association (“FIA”), Docket ID No. DOC-2018-0002-1968

*Conclusion*

Tariffs are taxes that will jeopardize supplier job growth, curtail U.S. investment, and hinder U.S. competitiveness. While disruptions are a part of any manufacturing businesses, significant, abrupt shifts are difficult to manage – particularly when the majority of companies in the supply chain are small- to medium-enterprises. As suppliers and OEMs develop new technologies and vehicles, the interconnectedness of the supply base is critical to the long-term viability of the industry. This consideration is especially critical to adequately support the needs of the U.S. defense industry fleet.

MEMA appreciates the Department of Commerce's consideration of these additional comments. If there are any questions, please contact Ann Wilson, senior vice president of government affairs via email [awilson@mema.org](mailto:awilson@mema.org) or call 202-312-9246.

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## Appendix 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.