



**STATEMENT FOR THE RECORD**

**SUBMITTED TO THE**

House Ways & Means

Trade Subcommittee

**“Hearing on Modernization of the  
North American Free Trade Agreement (NAFTA)”**

Held on July 18, 2017

Submitted by the  
Motor & Equipment Manufacturers Association (MEMA)  
on August 1, 2017

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## **Introduction**

The Motor & Equipment Manufacturers Association (MEMA) represents the full scope of the motor vehicle supplier industry – providing technologies, components, and systems for all vehicle types – passenger cars and light trucks as well as medium- and heavy-duty commercial trucks. Our members make the original equipment installed on new vehicles as well as new and remanufactured aftermarket parts for the maintenance and repair of over 260 million vehicles on the road today.<sup>1</sup> 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. Suppliers’ components account for about 77 percent of the content value in today’s vehicles.

Vehicle suppliers have seen a 19 percent increase in employment since 2012 – a growth rate that is three times that of other major sectors of the U.S. economy – providing over 871,000 direct jobs to Americans nationwide, making it the largest manufacturing sector in the United States. Together with indirect and employment-induced jobs, the vehicle supplier industry supports 4.26 million jobs. The economic contribution to the U.S. GDP generated by vehicle parts manufacturers and supported activities is nearly \$435 billion – or about 2.4 percent of the GDP.

## **Modernizing the North American Free Trade Agreement (NAFTA)**

On June 12, 2017, MEMA responded to the request from the Office of the United States Trade Representative (USTR) for public comments on modernizing the NAFTA. To view that detailed response, we refer the House Ways and Means’ Subcommittee on Trade to MEMA’s complete written comments located in the public docket under record number [USTR-2017-0006-0923](#).

MEMA supports a balanced modernization of the NAFTA that creates a 21<sup>st</sup> century trade agreement. A modernized NAFTA must foster a competitive U.S. manufacturing environment and avoid unintended risks that may impact domestic jobs, increase production costs, and disrupt supply chains. MEMA members operate in a global economy; an economy that depends on strong North American trade and a complex worldwide network of suppliers and customers for continued viability and growth. Our industry’s 19 percent job growth can be attributed, in part, to the NAFTA model. NAFTA-enabled “nearshoring” of an interconnected, highly complex supply chain between the U.S., Canada, and Mexico has allowed the U.S. manufacturers to compete with the rest of the world.

MEMA commissioned The Boston Consulting Group (BCG) to evaluate the impact of NAFTA on the vehicle industry and how changes may affect vehicle parts manufacturers. For your reference, this data was discussed in more detail in our aforementioned written comments to

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<sup>1</sup> 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).



the USTR; the complete BCG study can also be found online.<sup>2</sup> The study provided valuable information to form MEMA's conclusions, including key highlights noted in MEMA's recent comments to the USTR:

- Domestic investment in technology innovation and R&D is possible in part because of the industry's access to imported parts from low-cost countries (e.g. Mexico). This sourcing allows the labor market in the U.S. to focus on developing and manufacturing new and advanced technologies and systems domestically and on providing high-quality, higher-paying jobs in the U.S.<sup>3</sup>
- BCG found that the implementation of a tariff on goods from Mexico would create \$16-\$27 billion of additional costs for the U.S. automotive market. Consequently, as the cost of vehicles rise, vehicle manufacturers may decrease content that could impact 25,000 to 50,000 U.S. jobs.<sup>4</sup>

One of the stated goals of a renegotiated NAFTA is to re-shore jobs into the United States. However, industry challenges dealing with capacity, sales volumes, and skilled workforce complicate that objective. Both vehicle manufacturers (a.k.a. "OEMs") and suppliers are operating their current manufacturing facilities at peak capacity. Any new capacity would require new or expanded facilities at a time when U.S. sales volumes are at their peak and the economic viability of opening new facilities is minimized. Furthermore, like many manufacturing industries, suppliers are having a difficult time finding enough skilled tradespeople to fill open positions in the U.S. At the same time, we must maintain existing and increase higher value-added manufacturing in the U.S., where we already have a competitive advantage.

Finally, a renegotiated NAFTA should:

- **Establish a level playing field for all parties**, and initiatives that would eliminate unfair trade practices globally (including non-tariff barriers to trade);
- **Allow flexibility** in key NAFTA provisions on how to qualify items because of the substantial manufacturing process in the region and to update the rules of origin that reflect current and future manufacturing environments;
- **Include investor-state disputes and other NAFTA forums** that could speed conflict resolution including tariff classifications (including tariff classifications);
- **Enforce Intellectual Property Rights (IPR) protection;**
- **Align data protection and privacy laws** so that data can freely flow within NAFTA;

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<sup>2</sup> "Impact of BAT and NAFTA Reforms on the U.S. Motor Vehicle Industry; Summary of analysis and key findings" The Boston Consulting Group and MEMA. July 2017 <https://www.mema.org/resource/border-adjustment-tax-and-changes-nafta>

<sup>3</sup> *Ibid*, Slide 16

<sup>4</sup> *Ibid*, Slide 15



- **Ensure that U.S. Federal Motor Vehicle Safety Standards** and other similar provisions are accepted in treaty countries;
- **Promote a harmonized regulatory system**, particularly working with Mexico to implement safety and environmental provisions that are in line with the U.S. and Canada;
- **Regulate the move and residence of laborers, their dependents, and business visitors across NAFTA** (e.g., allowing for additional inner-NAFTA work visas beyond the current program);
- **Require that imports of all aftermarket parts** – including remanufactured goods – are not treated differently from new goods imports;
- **Utilize draft components of previous trade agreements** that are beneficial for all three countries (e.g. services, IPR); and,
- **Increase and encourage cooperation between countries and the industry to improve international trade.**

In closing, the final NAFTA product must continue to provide for a vibrant North American supply chain. Care must be taken to balance the re-shoring of U.S. jobs with the unintended risks to current workers and the supply base. MEMA stands ready to fully participate in the modernization dialogue.

For questions and more information, please contact Ann Wilson, senior vice president of government affairs at (202) 312-9246 or [awilson@mema.org](mailto:awilson@mema.org).

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