



Testimony of Michael Haughey
North American Stamping Group
before the
U.S. Senate Committee on Finance
Hearing on the Impact of Tariffs on the U.S. Automotive Industry
September 26, 2018

About North American Stamping Group

North American Stamping Group (NASG) is a Tier 2 automotive metal stamper and assembler, founded in 1978, that manufactures for both the new original equipment vehicle market, as well as the aftermarket. NASG produces components and assemblies for passenger car, light truck and commercial vehicles. Sales have grown annually at a compounded rate of 18 percent for the last eight years. NASG is one of the largest Tier 2 suppliers with annual sales approaching \$450 million.

NASG has thirteen facilities in the North American Free Trade Agreement (NAFTA) region. Over the last decade, the company has deployed nearly \$200 million in capital spending for new facilities, expanded facilities, new equipment, technologies, processes and acquisitions. This investment allowed the company to open significant capacity throughout the entire NAFTA region to support future growth requirements with strategic customers. NASG's thirteen facilities encompass 1.6 million square feet. Ten of the facilities are production facilities, two are technical centers and one is a sales office. In the United States, NASG operates ten facilities – one in Michigan, five in Ohio, one in Indiana and three in Tennessee. These facilities employ over 1,500 team members.

NASG is a member of the Original Equipment Suppliers Association, a division of the Motor & Equipment Manufacturers Association.

About the Motor & Equipment Manufacturers Association

The Motor & Equipment Manufacturers Association (MEMA) represents more than 1,000 vehicle suppliers¹ that manufacture and remanufacture new original equipment (OE) and aftermarket components and systems for use in passenger cars and heavy trucks. Our members lead the way in developing advanced, transformative technologies that enable safer, smarter,

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

and more efficient vehicles, all within a rapidly growing global marketplace with increased regulatory and customer demands.

Vehicle suppliers are the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 states. Together with indirect and employment-induced jobs, the total U.S. employment impact of the supplier industry is 4.26 million jobs.² Nearly \$435 billion in economic contribution to the U.S. GDP is generated by the motor vehicle parts manufacturers and its supported activity.

Suppliers provide about 77 percent of the vehicle value. To put this into perspective, a typical vehicle contains more than 30,000 components. Vehicle suppliers manufacture materials, parts, and systems for a wide range of customers including new vehicle manufacturers (a.k.a. “OEMs”) and other Tier 1-3 suppliers. They also manufacture for the vehicle aftermarket by way of multiple channels to provide vehicle service technicians, commercial fleets, and consumers the parts and materials needed for vehicle maintenance and repair. The variety of service applications ranges widely too: from passenger cars, SUVs and pick-ups to heavy-duty vocational trucks, semi-tractor trailers and military tactical vehicles – suppliers provide the components necessary to support the production of millions of these vehicles annually. MEMA members make a wide array of vehicle components for new vehicles as original equipment and for the aftermarket as replacement parts. They manufacture and produce essential vehicle components and materials – such as axles, brakes, tires, wheels, batteries, wire harnesses, seats, front/rear lights, bearings, oil filters, fluids, plastics, metals, composites, and thousands more. Suppliers also innovate and create complex and highly integrated vehicle systems – such as advanced refrigerants and HVAC systems, emissions control technologies, regenerative braking technologies, alternative propulsion systems, advanced driver assistance systems, vehicle-to-vehicle communications, and automated driving systems.

Executive Summary

NASG and MEMA support the administration’s agenda to assure free, fair, and reciprocal trade and a level playing field for all Americans. However, we are very concerned about the adverse impact on manufacturing jobs resulting from the Section 232 steel and aluminum tariffs and Section 301 China tariffs already in place. The combined impact of these tariffs has thrown many supplier companies close to a financial crisis and has made some of them question their future investments in the U.S. Tariffs are having a negative impact on these manufacturers, the jobs they create, and ultimately the American consumer. The threat of further tariffs from the Section 232 automotive and auto parts investigation will increase the cumulative negative effect on suppliers.

NASG and MEMA strongly oppose any broad, unilateral, and import-restrictive measures – such as tariffs, quotas, or other adjustments – on imported automobiles or motor vehicle parts. We recognize the Department of Commerce is currently investigating these matters and that no

² “Driving the Future: The Employment and Economic Impact of the Vehicle Supplier Industry in the U.S.” Available here: https://www.mema.org/sites/default/files/MEMA_ImpactBook.pdf, released by MEMA in January 2017.

specific recommendations have been made. However, recent actions and statements from the administration signal that tariffs will soon be imposed on our industry.

The imposition of Section 232 tariffs on imported autos and motor vehicle parts will place manufacturers at a competitive disadvantage to their global counterparts, erode U.S. jobs and growth, and will not protect the national security of the United States. Such actions would weaken our nation's economy by harming U.S. manufacturers of vehicles and vehicle parts and would deter U.S. investments in new innovative technologies. In fact:

- Tariffs will jeopardize 871,000 parts manufacturing jobs in the United States;
- Tariffs will harm global competitiveness of the United States;
- Tariffs, quotas or other adjustments will diminish investment in the United States; and
- The broad scope of the investigation has negative consequences for the United States.

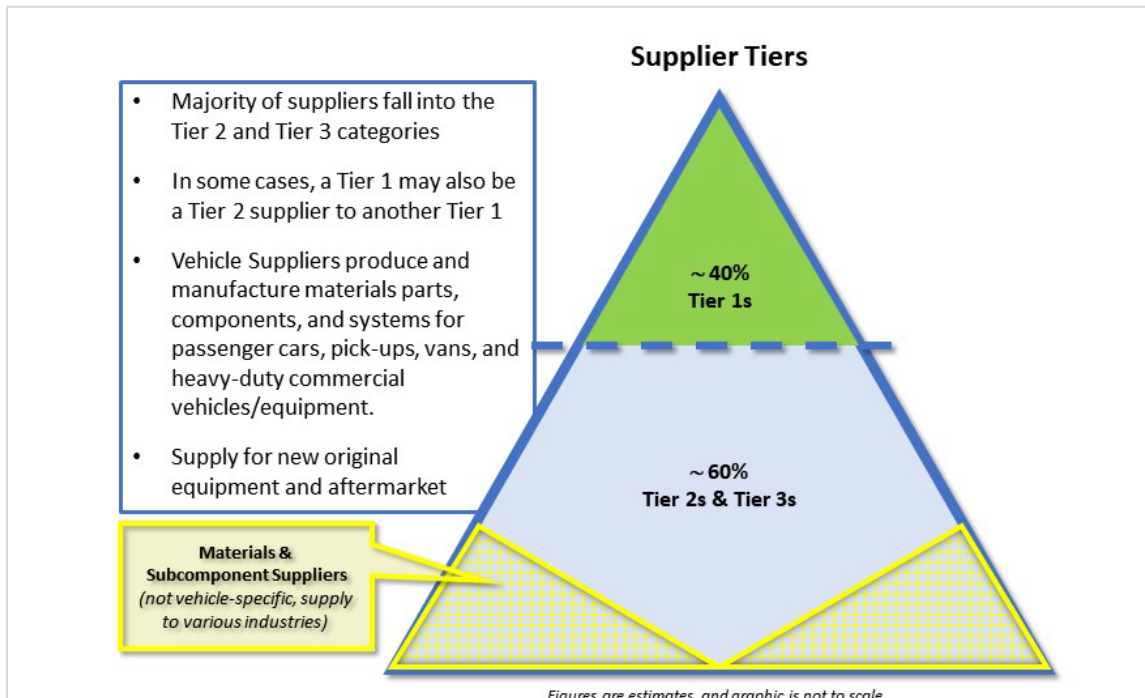
NASG and MEMA urge this committee to work with the administration to reset our discussions with our trading partners to pursue our joint goal of free and fair trade.

Structure of the Supplier Industry

In the vehicle manufacturing industry, suppliers are categorized in tiers. Tier 1 manufacturers provide new original equipment (OE) finished parts, components, and systems directly to their vehicle manufacturer customers. Tier 2 manufacturers are often niche or specialty component manufacturers that provide subcomponents and other content to Tier 1 manufacturers. Tier 3 companies are typically the suppliers of raw or semi-finished materials, such as metals or plastics, for both Tier 1 and 2 suppliers. Often, Tier 2 and 3 suppliers may also provide products and supply customers in other industry sectors outside of the vehicle industry (such as, computer chips, PCB boards, sensors, cameras, metals, glass, plastics, chemicals).

In **Figure 1** below, we estimate that approximately 40 percent of the suppliers are Tier 1s and about 60 percent are Tier 2s and 3s. The dashed line indicates the frequent crossover of suppliers that may be a Tier 1 to several vehicle manufacturers, but also a Tier 2 supplier to a Tier 1. The vehicle aftermarket provides finished components via a variety of channels directly either to consumers or to vehicle service technicians and repair facilities. These goods are used for the maintenance and repair of over 260 million cars, trucks, and buses on our nation's roadways.

Figure 1

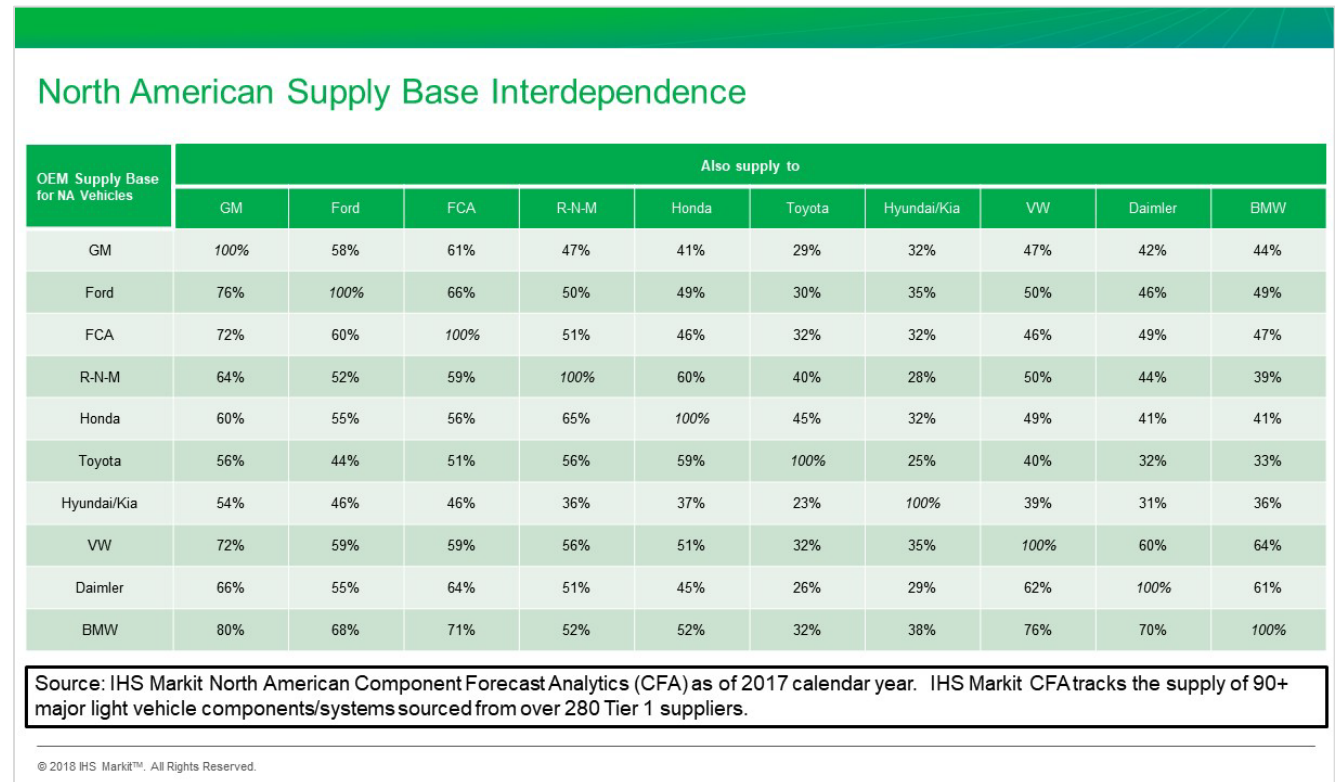


The supply chain, their customers, and the jobs they support are highly interdependent. Like a stone in a pond, one small change to the chain can cast off multiple ripple effects. The vehicle industry has repeatedly witnessed the narrow threads that bind its successes and prevent its weaknesses. This past May, a fire at a U.S. supplier facility stopped production and pinched availability of specialized parts that only a few suppliers make. Multiple vehicle manufacturers were impacted and had to pause production of finished vehicles.³ Certainly, other examples of supply chain disruption and the short- and long-term ripple effects include the worldwide economic crisis in 2008, which drastically slowed overall vehicle production, and the “Great Sendai Earthquake” in 2011, which impacted capacity for the materials and subcomponents. The point is that these are just a few examples that demonstrate how the U.S. vehicle industry relies on both its global suppliers and its local domestic component manufacturers to be viable with as little disruption and as much predictability as possible.

The **Figure 2** below, sourced with permission from IHS Markit, illustrates the interconnectedness of the North American supply base and their OEM customers. For example, looking at General Motors, this chart shows that GM shares 76 percent of suppliers with Ford Motor Company. OEM after OEM show significant percentages of shared supply base for their vehicles. The interdependency is clear. This chart underscores the interconnectedness of our industry and the North American region.

³ “Supplier fire isn't just hurting Ford, supply issues are rippling across auto industry”, by Phil LeBeau, CNBC.com Published May 10, 2018, Updated May 11, 2018
<https://www.cnbc.com/2018/05/10/supplier-fire-isnt-just-hurting-ford-gm-and-others-may-feel-impact.html>

Figure 2



Disruption to one implies disruption to all. As suppliers and OEMs develop new technologies and vehicles, this interconnectedness is critical to the long-term viability of the industry. Not only for new car production, but also the aftermarket production of the components needed to maintain vehicles.

Taken together these figures paint a picture of this industry. They illustrate that there are relatively few suppliers at both the top and bottom of the supply chain and there are a substantial number of jobs dependent on the success of many. Successful suppliers must have a wide range of customers in the vehicle industry providing content to a number of vehicle manufactures.

As the cost of manufacturing in the U.S. increases for a non-traditional vehicle manufacturer, the entire supply base suffers. A supplier with only one manufacturing facility in the U.S. will find its market limited to the Tier 1s as the Tier 1 suppliers find their markets limited to its customer base. Indeed, smaller, more locally based Tier 2 and 3 suppliers may find it more difficult to reorganize their business models since they do not have other global facilities to move business to or absorb the economic impacts.

There should be no doubt that the implementation of additional tariffs or quotas under a Section 232 investigation on motor vehicle parts will cost U.S. jobs. In fact, some members have shared with MEMA that – if tariffs are implemented – the length of time it would take to feel the ramifications and impact is within one quarter for larger companies, and significantly less than that time for smaller to medium companies. In order to make adjustments, the first

resources to get cut will be jobs. A majority of vehicle suppliers fall into that small/medium size and would be hardest hit because they will be squeezed on both ends to absorb the cost increases. These smaller companies have less capacity to absorb cost increases, and little or no ability to pass increases on to their customers. Suppliers are facing the cumulative effect of increased costs from Section 232 steel and aluminum tariffs, Section 301 tariffs and retaliatory tariffs from China, and the very real prospect of Section 232 tariffs on imported vehicle parts.

Impact of Steel and Aluminum Tariffs on Supplier Industry

The supplier industry is already feeling the effects of tariffs on steel and aluminum. Steel prices have risen steadily with the ongoing talks and then implementation of steel tariffs. The market prices increased by 50 percent with an increase from \$600 per ton for hot rolled steel up to \$900 per ton today following the date the tariffs took effect on March 23, 2018.

Steel and aluminum tariffs have led to retaliatory action by U.S. trading partners. In addition, it is forecasted that these tariffs could increase vehicle prices by \$2,000 to \$7,000 based on material price increases. All of these actions will have a detrimental impact on our economy. It is estimated that suppliers, like NASG, will have to absorb a third of the steel increases, thereby reducing earnings, which will result in less technology investment spending, less capital spending and lower wage increases. These cuts will lower consumer confidence, leading 60 percent of economists to forecast a recession in 2020. If this forecast comes to pass, the results will include reduced automobile sales with an estimated 15 percent decline and between 750,000 to 1,250,000 American automobile workers losing their jobs.

NASG has experienced steel price increases exceeding \$10 million dollars. As a supplier, NASG is unable to pass steel price increases to Tier 1 customers and vehicle manufacturers, regardless of whether the higher price was due to tariffs or increased prices as the domestic steel producers inflate prices. This has had negative consequences to their business. To mitigate the increases, NASG has reduced overtime; put on hold and dramatically pared down all open team member hiring requisitions, put on hold and dramatically pared down capital spending and reduced all discretionary spending. The decisions of NASG have been repeated throughout the supply chain.

Steel and Aluminum Exemption and Exclusion Processes are Ineffective

At the same time, the Department of Commerce and the U.S. Trade Representative (USTR) have implemented exclusion and exemption processes that are problematic and uncertain. After months of reviewing and posting over 31,000 exclusion requests, Commerce has begun to grant and deny applications. As of today, fewer than ten percent of requests have been finalized. The process is opaque, inconsistent, and inaccessible. Some companies have described the experience as arbitrary and capricious, lacking substantial evidence for the denial determinations.

On September 11, 2018, the Commerce Department's Bureau of Industry and Security (BIS) published a second Interim Final Rule (IFR) in the Federal Register. The IFR made a number of

changes to the process that are welcomed by the industry, including development of a rebuttal and surrebuttal process and changing the date of refunds to the date of receipt of the request by Commerce.

Suppliers have reported to MEMA that some objections have been filed by steel and aluminum producers that have failed product testing and validation. Other objections have been filed by producers that are late on current deliveries. In cases where objections have been filed and the request denied, the direction from BIS is that the company must start from square one and file a brand-new application and include any refuting information. This is inefficient and burdensome on both the company and the government resources required to re-process refuting applications.

The rebuttal process, while welcome, is short. Supplier companies have shared frustration with MEMA that thousands of seven-day rebuttal comment periods opened the day the IFR was published and closed seven days later. This short turn around left many companies scrambling to complete rebuttal forms on dozens or more requests to submit before the comment periods closed. The quick turn around made this process unnecessarily difficult.

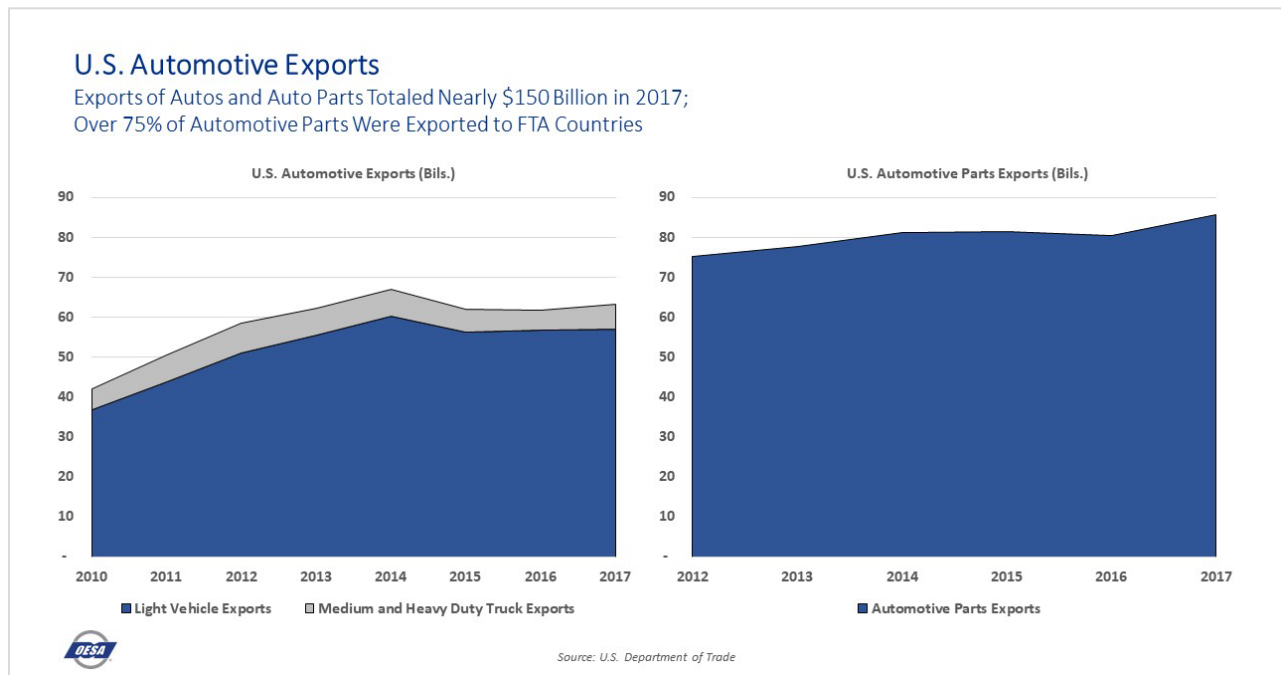
NASG and MEMA encourage the Committee to continue to monitor the implementation of the exclusions process and country exemptions and work with the administration to ensure that the process is fairly and justly implemented.

Additionally, on August 29, 2018, the President signed a new proclamation making several changes to the exclusion project. These changes, such as extending retroactive relief back to the date of filing, were welcome. However, some changes did not do enough to improve the program. For example, the administration has lifted tariffs on specified grandfathered steel from quota countries for construction projects. This change should be expanded to allow all grandfathered steel and aluminum for manufacturers assuming contracts were in place before the tariffs took effect.

Tariffs on Imported Autos and Parts Will Harm Global Competitiveness of the United States

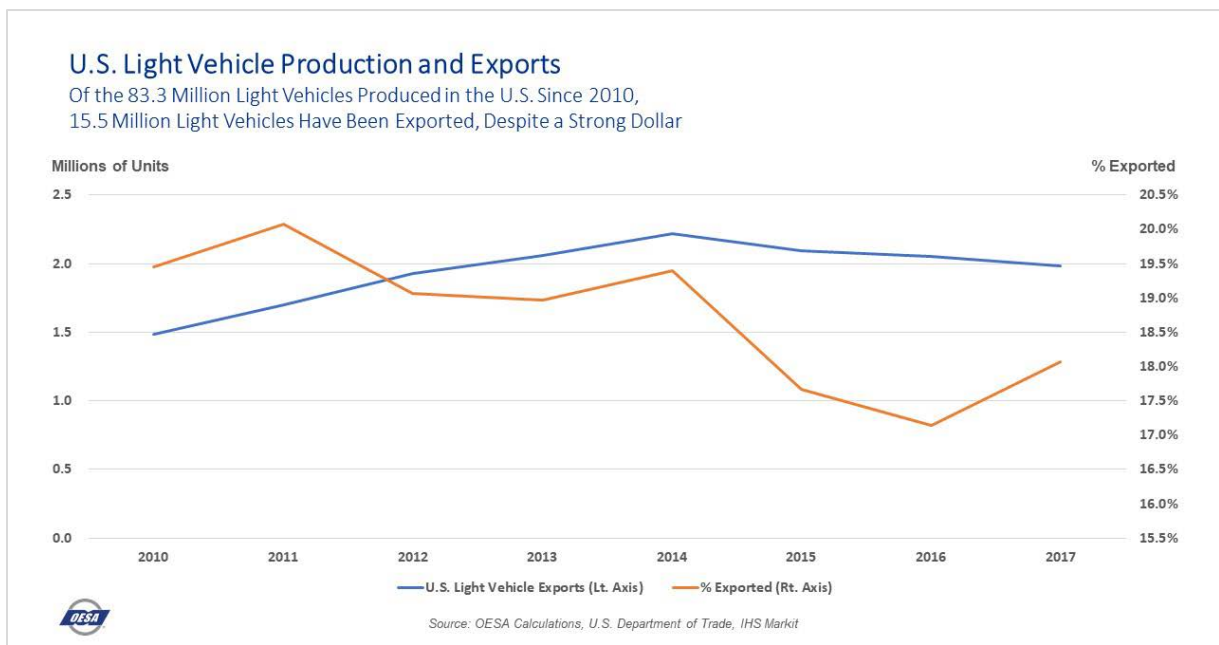
The United States is one of three main areas in the world that has a significant vehicle manufacturing industry, along with Europe and Asia. As shown in **Figure 3**, the U.S. has dominated North American vehicle and vehicle parts production totaling almost \$150 billion in 2017. Notably, over 75 percent of U.S. manufactured automotive parts were exported. As part of the North American region, the U.S. can compete with Asia and Europe in almost every facet of motor vehicle production. For the past ten years, the vehicle industry has grown and thrived, due in part to the improving economy and the strength of the region's supply chain.

Figure 3



The U.S. is also strong on exports. Of the 83.3 million light vehicles produced in the U.S. since 2010, 15.5 million light vehicles have been exported despite a strong dollar (see **Figure 4**).

Figure 4

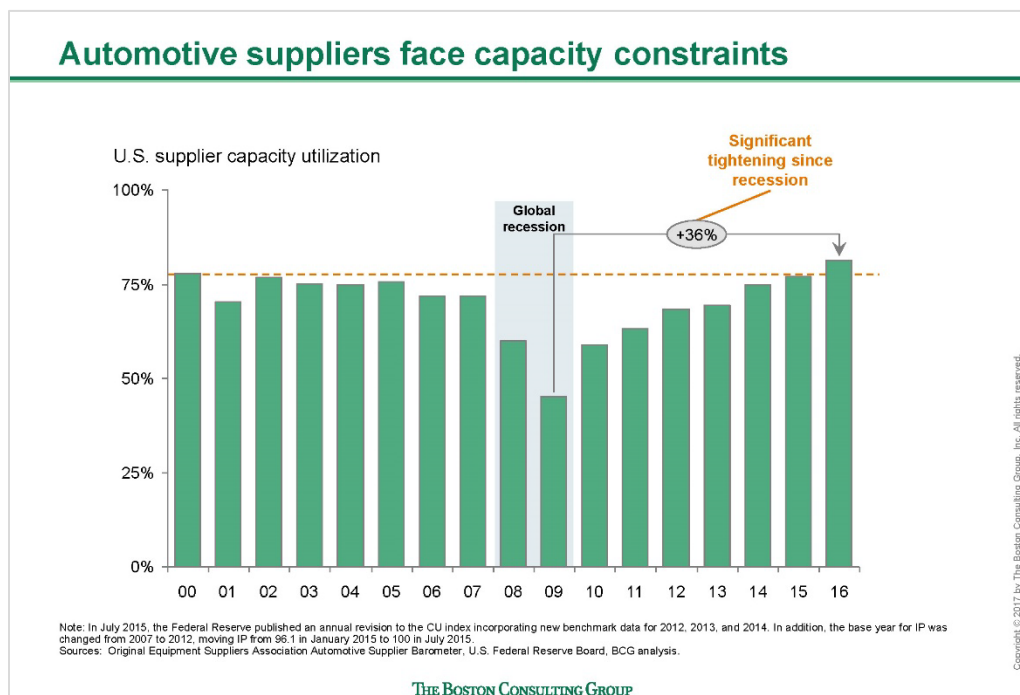


The U.S. automotive industry is running near full production capacity. Current capacity utilization for suppliers is at the highest it has been since 2000 (see **Figure 5**). Investment in duplicate capacity could slow U.S. research and development (R&D) investments in new technologies. Also, a common concern among various manufacturing sectors is finding enough skilled U.S. workers due in part to the currently strong economy and low U.S. employment rate. These factors make adding more U.S. capacity difficult. Thus, to remain competitive, U.S. vehicle suppliers leverage the global supply chain to source the materials, subcomponents, and parts needed for further component manufacturing and system integration.

Tariffs on motor vehicle parts will jeopardize the vehicle industry's growth and success and – more importantly – the U.S. jobs and American innovation that comes with trade. Tariffs or other broad trade-restrictive measures would cause significant disruption and upheaval to the vehicle industry. Given the strength of the North American region's 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 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 will be chaotic and catastrophic to the U.S. vehicle industry.

The U.S. cannot simply stand on its own and manufacture the most fundamental components as well as the newest advanced technologies and remain competitive in a tariff compulsory environment. The supplier industry has long urged this administration to consider alternative policies and actions instead of tariffs to encourage and retain the development and deployment of the newest innovations in the United States.

Figure 5

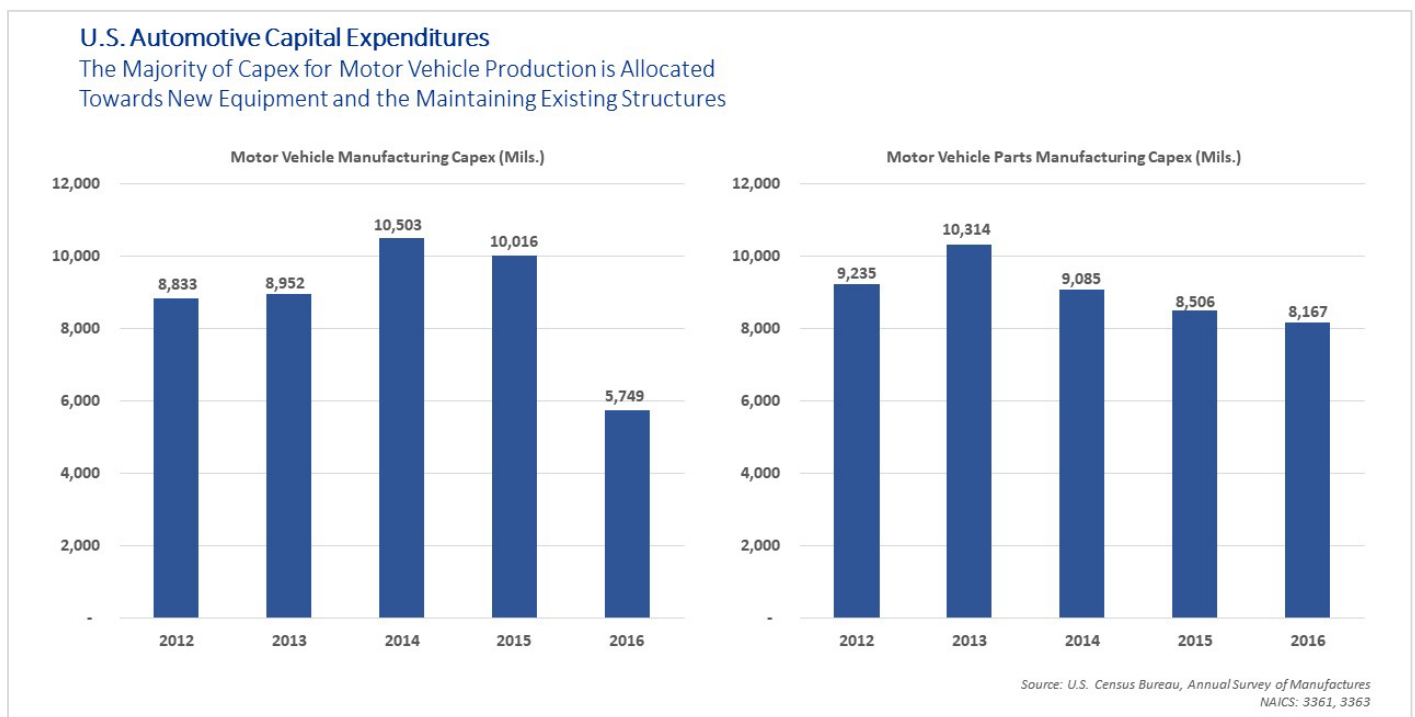


Quotas or Other Adjustments Will Diminish Investment in the United States

Vehicle suppliers 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. As key innovators, suppliers provide upwards of 77 percent of the content of vehicles manufactured in the United States.

Figure 6 below shows the capital expenditures (“capex”) investments for automakers and vehicle parts manufacturers. The capex invested in the U.S. is in the billions of dollars. The right side of the chart indicates that over the past five years \$45 billion in capital expenditure investments have been made by U.S. vehicle parts manufacturers. About half of suppliers’ capex spending is invested heavily into facilities, machinery, and tooling. Those investments go towards ensuring they can meet production demands for long product cycles. More importantly, these investments result in high-value U.S. jobs – whether it is skilled labor for manufacturing or engineers for product development.

Figure 6



Moreover, suppliers invest a significant amount on R&D here in the United States, to innovate and create the advanced technologies necessary for the vehicles of today and tomorrow. Many suppliers have established U.S. technical centers and R&D facilities. This enables them to test and validate a whole host of systems and components for their customers.

The vehicle industry finds itself at a critical inflection point with the development of transformative innovations in advanced safety, efficiency, and automated technologies. These technologies for advanced vehicle safety and efficiency systems are the building block

technologies to automated driving systems, which require substantial development costs. The U.S. investment and research over the next several years in the vehicle industry – from Silicon Valley to Detroit and across America – may well determine global leadership in transportation and technology for generations to come. The United States has long been a leader in innovation. However, the imposition of trade-restrictive actions – like tariffs or quotas – on vehicle parts manufacturers will put these U.S. investments in jeopardy. Unfortunately, the uncertainty of the proposed actions and the potentially broad scope has made planning for future investments very difficult. In fact, many of our members have indicated that their companies are delaying, deferring, or cancelling plans for further U.S. investments. These are the kinds of critical investments we need domestically to support jobs as well as support our nation’s economic growth and success.

The U.S. has a strong history of being a leader in innovation. Our nation is uniquely positioned to lead the world in automated technology development and increasingly efficient propulsion systems. Unlike other manufacturing sectors, however, this innovation will occur in places in the world that provide the best economic and trading opportunities. Therefore, if suppliers are unable to access and import into the U.S. the needed materials, components, and technologies from other parts of the world, they may simply establish their centers of innovation elsewhere. Consequently, this current and future development depends on the free flow of trade for new and state-of-the-art parts, systems, and raw materials. Limiting access to these products in the U.S. will make other regions of the world more attractive for future investments.

Conclusion

The motor vehicle sector requires long-term investments in facilities and employees, and thus depends on regulatory and market stability. The implementation of tariffs on steel and aluminum, which are important raw materials for the production of vehicle parts and finished automobiles in the United States, has already caused significant uncertainty and added costs to domestic manufacturers in the vehicle sector. The looming threat of additional tariffs or quotas on vehicle parts further jeopardizes U.S. innovation and investment in research and development.

Given the immense complexity and ramifications of the broad scope of “automotive parts,” MEMA has urged the Department of Commerce to take following the actions in the pending Section 232 investigation:

- Remove entirely “automotive parts” from the scope of this investigation.
- Exclude key U.S. allies, particularly Canada and Mexico, from the scope of this investigation.
- Clarify exactly which parts are subject to the investigation and how to delineate the parts. Parts used in commercial vehicles over 10,000 lb. GVWR should not be included in the scope of the investigation at all since those vehicles are not subject to the investigation.

Finally, the administration must fully take into account the benefits of the vehicle industry to our economic and national security. Motor vehicle suppliers provide needed content for the Department of Defense and our armed forces. The imposition of tariffs will jeopardize this supply chain and, in turn, our national security.

MEMA urges this Committee to support these actions. If there is any additional information MEMA can provide for the Committee, please contact Ann Wilson, MEMA senior vice president of government affairs at awilson@mema.org or at 202-312-9246, Thank you for your consideration.