WRITTEN TESTIMONY OF

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Hearing on the Impact of Tariffs on the U.S. Automotive Industry

United States Senate
Committee on Finance

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This statement is submitted by Steve Gates, Dealer Principal of Gates Auto Family. Today there are 16,802 auto dealers across the county, with over 1.1 million employees. Tariffs would harm our business, the communities we serve, and our customers across the U.S. seeking affordable, safe transportation for their families.

Four Generations of Car People

My name is Steve Gates and I'm a third generation auto dealer operating multiple stores and providing work for 500 employees in Kentucky, Indiana, and Tennessee. I am proud to say The Gates Auto Family has recently expanded into the fourth generation as my daughter, MacKenzie, has chosen to join me in the auto business. I currently have franchise dealerships that sell Audi, Toyota, Nissan, Hyundai, Honda, Lexus, and Kia. In the course of my career I have also owned and sold Chevrolet and Ford dealerships.

The Gates Auto Family began in 1915, when my grandparents, Bernard and Marian, took a chance selling Dodge Desotos out of an Indiana livery stable, imported one at a time from Detroit, with Grandma Marian behind the wheel. Their spirit of entrepreneurship still runs in our blood. That's why in 1970 my dad, at the time one of the largest Chevy dealers in the Midwest, risked buying a start-up brand called Toyota. It's why I continue to bet on the future, investing in new stores, and encouraging my daughter to continue in the family business with me.

I learned the car business from the ground up. In 1965 I started as a lot attendant at my father's dealership, Bud Gates Chevrolet. Throughout junior high school, high school, and college, I worked in parts, service, and in the body shop at Bud Gates Chevrolet-Toyota. I went on to explore the other side of the auto business after college by starting a company that sold accessories and financial services to new car dealers in Indianapolis. I sold that business in 1982 and went to work for BMW Financial Services/Dealer Services establishing finance and insurance departments for BMW dealerships. In 1986, I decided to reenter the retail automobile business as the used car manager for Dreyer and Reinbold BMW. Finally in July of 1989, I decided to go all in and became a partner at Toyota South in Richmond, KY, and I have never looked back.

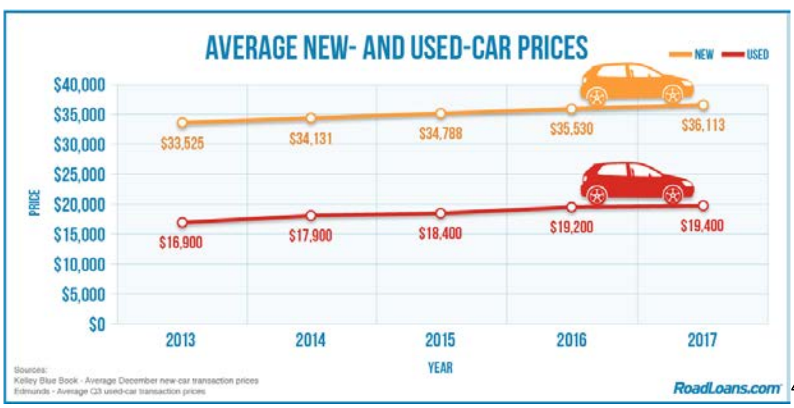
Costing the Consumer

There's nothing easy about being a car dealer in the United States today, but the work is always interesting, and rewarding in more ways than I could ever explain. That's why it was so important to me to take time away from my business and fly here to talk with you today.

It was alarming to learn that the U.S. Department of Commerce in May opened an investigation into whether imported automobiles and automobile parts are a threat to our national security, with a 25 percent tariff on those imported cars and parts as a possible outcome. In a market where costs are already rising and sales are flattening, adding a 25 percent tax on autos and auto parts causes alarm bells to go off for me.

Unfortunately, affordability concerns are not new to the auto industry. According to Cox Automotive[1], over the past 20 years the cost of a new car has increased by 35 percent, while household income has only grown 3 percent. A 25 percent tariff would make this already difficult situation truly impossible for many middle class families.

Not surprisingly, when a customer walks into one of my dealerships, one of the most important considerations for them is price. Following the purchase of a house, a car is often a consumer's largest investment, and the vehicle they buy has to fit their needs and fit their budget. A recent study by the Center for Automotive Research (CAR)[2] for the National Automobile Dealers Association estimated that under a 25 percent auto tariff, the price of a new vehicle would rise by as much as $6,875. The same study found that the used car market would be impacted as well, as many would-be new car buyers are driven into the used car market, increased demand and constricted supply would drive up used car prices. The chart below tracks the steadily increasing averages for new and used car prices over a five year period. As you can see, according to Kelley Blue Book, the estimated average transaction price for new light vehicles in 2017 was $36,113, an increase of $583 from one year prior. At the same time, according to Edmunds, the average price of a used car rose to $19,400 in 2017. In the first quarter of 2018, the average price of a used car hit a new 13-year high[3]of $19,657, up 17.6 percent from five years ago. Adding a 25 percent tax to these already rapidly rising prices would put a new car or truck out of reach of many, if not most, American families.



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[1] Cox Automotive is a leading provider of products and services spanning the automotive ecosystem. No matter the stage of the auto buying or selling process, we have a solution for clients of any size.
[2]Center for Automotive Research (CAR): https://www.cargroup.org/wp-content/uploads/2018/07/NADA-Consumer-Impact-of-Auto-and-Parts-Tariffs-and-Quotas_July-2018.pdf
[3] Used-car prices hit a 13-year high as more late-model cars come off lease: https://www.usatoday.com/story/money/cars/2018/06/15/used-cars-price-hit-record-high/700362002/

[4] RoadLoans.com, Average New and Used Car Prices, and The Advantages of Flexible Financing: https://roadloans.com/blog/average-car-price

Those not in the market for a vehicle – new or used – will still feel the pain of an auto tariff as higher automotive parts prices drive up the cost of maintenance and repairs. According to the Auto Care Association, each U.S. household will spend an extra $700 per year in increased ownership costs. Current car owners unable to pay the higher prices an auto tariff would bring to our service centers, will likely put off needed repairs and safety improvements, making for a dangerous situation for them and others on the roads. As the cost of your car goes up and the cost of your parts go up, the cost of insuring your car will also go up causing customers to pay higher premiums. In testimony submitted to the Department of Commerce this summer, the auto insurance industry estimated that under a new 25 percent auto tariff, personal insurance premiums will rise by 2.7 percent or $3.4 billion.

When Americans are priced out of safe, affordable transportation, those who least can afford it will be the first to suffer. According to a recent study by the Tax Foundation[5], a new 25 percent tariff on automobiles and auto parts would reduce after-tax incomes for all taxpayers by 0.47 percent in 2018 while making the distribution of the tax burden less progressive. These tariffs would fall harder on those taxpayers in the bottom 80 percent, reducing their after-tax income by 0.49 percent, and by 0.45 percent for the top 20 percent. The relief provided to families through tax reform would therefore be greatly reduced and in fact these tariffs would amount to a $73 billion tax increase on American consumers.

If these tariffs are implemented, our customers will pay more to buy their car, pay more to fix their car, and pay more to insure their car.

Hurting Dealership Sales & Employment

From deregulation to tax reform legislation, the Administration and Congress have built a healthy environment for businesses, large and small, to thrive. Maintaining high employment and an atmosphere for business investment is crucial to creating a strong economy that is vital to national security. Dealers welcome this economy and see new opportunities to grow, but we worry that the possible 25 percent tariff will negatively affect our ability to operate and provide work for thousands of Americans. The reason tariffs present such a possible catastrophe for the auto retail industry is two-fold; our business is incredibly price-sensitive, and our margins are already razor thin. There isn't much wiggle room in today's flattening retail market for cars and trucks. And it isn't just imported brands that will be impacted. All vehicles sold in the United States today contain imported parts.

[5] Tax Foundation, Automobile Tariffs Would Offset Half the TCJA Gains for Low-income Households https://taxfoundation.org/automobile-tariffs-2018/

Facing rising prices, along with increasing interest rates, customers will delay or even avoid a purchase all together. Currently, the average age of a vehicle on our roads is 11.7 years. That's the highest it's ever been. Americans are already holding onto the cars longer because they can't afford to replace them. Unfortunately, we all know there is a direct correlation to the number of cars we sell and the number of Americans we employ.

Across the United States and in communities large and small, Americans are employed in the automobile retail industry, including the over 1.13 million who are employed at 16,802 automobile franchises. Dealerships like mine have a combined annual payroll of $65.3 billion, and also account for an additional 1.27 million indirect jobs. The average salary at a dealership is $57,800. These are good, American jobs that grew out of free trade. These are jobs you can raise a family on and we need more of them, not less.

The CAR study I mentioned earlier predicts new vehicle dealerships would see a decline by as many as 117,500 jobs and a loss of as much as $66.5 billion in revenue if a 25 percent tariff is implemented.

Another study by LMC Automotive[6] on the effects of a 25 percent tariff on automobile sales found similarly that sales of new cars and trucks will also be negatively impacted. Assuming automakers and dealers absorb at least half the cost of a possible 25 percent tariff, these tariffs would still lead to a loss of 1 million annual unit sales. If the full burden of the tariff is passed on to the consumer that jumps to a loss of 2 million units per year, more than 10 percent of annual U.S. sales.

It's no wonder that, according to Cox Automotive[7], 56 percent of franchised new car dealers believe an auto tariff will hurt their business.

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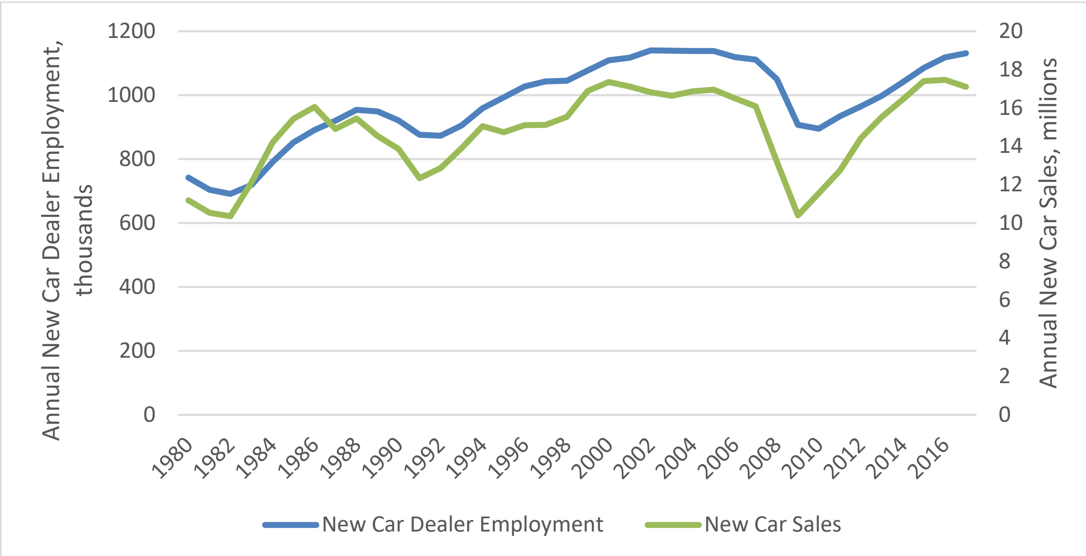
[6] Bloomberg, Trump Tariffs May Cost Carmakers at Least 1 Million Annual Sales, https://www.bloomberg.com/news/articles/2018-06-12/trump-tariffs-may-cost-carmakers-at-least-1-million-annual-sales

[7]Cox Automotive Dealer Sentiment Index, Third Quarter 2018: https://www.coxautoinc.com/news/CADSI-Q318/

As you can see from the below chart, there is a direct correlation between auto sales and auto dealership employment. A loss of sales would certainly result in a corresponding loss of jobs at auto dealerships across the country.



[8]

Trade Agreements, Not Tariffs

Global trade is an engine of economic growth and is a proven strategy for building global prosperity. Open trade and investment policies play a vital role in allowing international nameplate dealers, many of whom, like me, operate multi-generation family businesses, to compete on a level playing field in cities and towns across the U.S.

I believe we should always learn from history and look back to avoid mistakes that should not be repeated. The United States has experimented with auto tariffs in the past, and it is still affecting us negatively today. In 1963, President Lyndon B. Johnson signed Presidential Proclamation no. 3564 in response to Europe imposing a tariff on chicken imports. Among the items included in the list of retaliatory tariffs was a 25 percent tariff on imported trucks, and it is the only one on the list still implemented today. That's why I can't sell a Hyundai or an Audi pick-up truck at my franchises. The 25 percent "chicken tax" on trucks limits choices for consumers and increases costs. And now we're talking about doing it to every motor vehicle and all their parts. That is what I consider a real threat.

American auto dealers strongly support a pro-growth economic agenda, and believe it can be accomplished with a positive trade message, not the threat of tariffs and taxes. We don't need more tariffs. We need more trade agreements. Trade keeps our economy open, dynamic, and

[8] NADA, National Automobile Dealers Association, https://www.nada.org/nadadata/

competitive, and helps ensure that America continues to be the best place in the world to do business

Conclusion

It is very difficult to understand how a tariff on imported vehicles and parts would improve national security, but quite clear how it would actually harm our economic security. Regardless of which study you reference or which math you use, an auto tariff would significantly increase the cost of buying, owning, and maintaining a car for American families.

If these tariffs are applied to our vehicles and vehicle parts, my partner and I will do all we can to keep the lights on in our stores. We'll cut every expense possible. And then we'll do what no small business owner wants to do – we'll start cutting jobs. At the Toyota store in Richmond, Kentucky, where I spend most of my time, we'll start to let people go – good people with families to support – out of work.

Before long, there will come a point when there are no costs left to cut. I won't be able to floorplan – that's what we call it when we buy and finance our vehicles from the manufacturers to sell. Just like in the downturn of 2008, it will be harder and harder to be financed and no banks will lend me the money.

The ripples from these tariffs will continue to spread. Dealers might directly employ 1.13 million Americans, but we're also responsible for an additional 1.27 million indirect jobs. When I say these tariffs will be a catastrophe, I don't only mean for my stores or the auto industry – I mean a catastrophe for our entire country.

I've been in this business my whole life. I may not be an expert on politics or global security, but I know cars. And I know the cars and trucks I sell, the services I provide, and the taxes I pay, are not a national security threat. The men and women who show up to work for me every morning, rain or shine, they aren't threats to our national security either. These proposed tariffs are the real threat, and the real danger to our country and our economy.