

**Testimony of Rick Schostek, Executive Vice President
Honda North America, Inc.
Before the United States Senate Committee on Finance
The Impact of Tariffs on the U.S. Automotive Industry
September 26, 2018**

Chairman Hatch, Ranking Member Wyden, and members of the Committee, thank you for the opportunity to testify today before the Senate Finance Committee. My name is Rick Schostek, an Executive Vice President of Honda North America. Based on the more than three decades in which I have worked directly with all five of Honda's U.S. auto plants, located in Ohio, Alabama and Indiana, I am here today with a very personal perspective on the impact of tariffs on automobile manufacturing in the United States.

While I am here on behalf of Honda, I share the concerns about the potential impact of 232 auto tariffs with all sectors of the auto industry, including domestic and international automakers, suppliers, dealers and the aftermarket service and repair industry. The automotive industry is thriving as evidenced by our record-years of production, sales and exports of U.S.-produced vehicles. The industry is not seeking protection, and certainly not seeking additional tariffs, which will harm manufacturing in the U.S., our workers and, most importantly, U.S. consumers.

Mr. Chairman, next year will mark two key milestones in our history in the United States – the 60th anniversary of Honda's business in America and the 40th anniversary of the first product we built in America. What's important is not these anniversaries, but what they represent, which is our pioneering vision to establish production operations in America and the U.S. policy environment that encouraged such investment.

Until 1982, when we began building the Honda Accord in Ohio, every vehicle we sold in the U.S. was built in Japan. Since then, we've produced more than 25 million vehicles in America, including 1.2 million vehicles last year alone – that is 1.5 times more vehicles than we produced in Japan. Last year, of the 1.65 million vehicles we sold in the U.S., 66 percent were made in our U.S. plants, 20 percent came from Canada, seven percent from Mexico, four percent from England and three percent from Japan.

This remarkable transformation is guided by a simple and long-held Honda commitment to build our products close to the customer. This approach led Honda to begin production in Ohio in 1979 – the first Japanese automaker to build products in America. That said, what made it possible to manufacture those products here were national policies that welcomed our investment, and state and local governments that have supported it as Honda has continued to expand our investment in America – now totaling over \$20 billion.

In 1987, the year I joined Honda, we began a far-reaching plan that led to a second auto plant, a new R&D center to develop products here, a focused effort to increase parts purchases in America and to export vehicles from America to overseas markets. Step by step, we have continued to expand our operations based on this strategy, to the point where we now have a workforce of 31,000 Americans –

72 percent working in manufacturing roles. Last year, we purchased more than \$41 billion in parts, supplies and services from more than 12,000 U.S. companies in 32 states. And our U.S.-made products were exported to 89 countries.

The beneficiaries of this investment are American workers, American consumers, American communities and the American economy.

Honda also produces engines, transmissions and other high value components in the U.S. that go into our automobiles. In our plants in Ohio and Alabama, we build engines starting with the aluminum ingot used to make the engine block. At other Honda plants in Georgia and Ohio, we build high tech transmissions using very precise and advanced technologies. We also have begun to assemble the hybrid battery and electric motor in two of our Ohio plants as we invest to make electrified vehicles right here in America. Moreover, we have entered into a joint venture with General Motors to manufacture advanced fuel cell stacks in Michigan.

Beyond manufacturing, our U.S. associates are engaged in research and development, actually creating all-new vehicles from scratch here in America. The latest example is our all-new 2019 Acura RDX, introduced this summer, that was designed in our Acura Design Studio in Los Angeles, California and engineered by our U.S. R&D team in Raymond, Ohio, adjacent to our East Liberty Plant where the RDX is built. This is just the latest example of our robust U.S. R&D presence, which has developed over 30 car and light truck models.

Our 40-year history of building products in America means Honda is well beyond so-called assembly operations. From concept to design, development to production and everything in between, we are creating and building our products here in the United States.

Although this hearing is focused on the impact of tariffs on the auto industry, it is relevant to mention that in addition to automobiles, we manufacture and develop power equipment as well as jet engines and the HondaJet in North Carolina; ATVs and Side-by-Side vehicles in South Carolina. Some of these products are also being affected by U.S. trade actions and the corresponding retaliation.

But even with this deep commitment to produce products close to our customers, local production has to make business sense. There must be available land, infrastructure and suppliers to support the operation of a factory on a daily basis. And the U.S. has been a great place to develop and build our vehicles and many other products.

Needless to say, the most important requirement is a qualified, competent and energetic workforce. And we certainly have that, and Honda has invested in local schools, two-year colleges and universities to address our growing need for a 21st century manufacturing workforce.

However, there are two other critical factors I would like to highlight today, these are 1) stability and 2) maintaining a welcoming business environment that supports manufacturing.

Let me take these one at a time, starting with stability. Today's cars and trucks contain literally thousands of individual parts. The process of developing a new vehicle takes up to six years, and just to put that in perspective, that's the same length of time as the term of office for a United States Senator.

Why does this matter? Components for these vehicles are carefully designed to meet the needs of our customers and government regulations for things like safety and fuel economy, a process that takes several years, working in close collaboration with our suppliers. The labor and material content of each component is also carefully managed to maximize performance while minimizing cost to ensure that the ultimate price of the vehicle will meet the needs of our customers.

This is where unanticipated disruptions like new taxes in the form of tariffs come in. These taxes represent an unplanned addition to the cost and process of building a vehicle that wasn't factored into the business plans of manufacturers and suppliers that began years earlier. Thus, these added costs will either be passed on to our customers or borne by manufacturers, which then diverts money intended for other critical purposes, including investment in future technologies, or capital improvements to our operations that secure jobs, provide compensation for our workforce, and fulfill our social responsibility to the community.

Moreover, once a vehicle has been introduced, manufacturers cannot readily change suppliers to mitigate the added cost of tariffs, since business agreements with suppliers generally cover several years of production. Further, it takes time for a manufacturer to qualify a part from an alternative supplier as well as ascertain their ability to supply that part in the quantity and schedule required.

The key point is that tariffs, no matter how short-lived, are enormously disruptive to the stability of a business and reduce the value business can provide to customers and contribute to society.

The second factor is the importance of a business environment that welcomes manufacturing through various measures. Most states and localities welcome new business because they value the investment, employment and growth opportunities that manufacturing brings to their communities. Moreover, we have had confidence to build products in the United States. The U.S. also has long worked to ensure access to a global marketplace that provides the ability to procure components and materials of the highest quality and at competitive prices. This environment is critical to the continued success of our operations.

Our country has long been an advocate for open markets and reduced barriers to trade because it makes globally competitive production feasible on these shores, ensures the introduction of the world's most advanced technologies and brings the best, reasonably priced products to our nation's consumers.

Nearly 60 years ago, it was this environment that motivated our founder, Soichiro Honda, to choose the U.S. as the first market for his company to establish an overseas subsidiary. As of today, 10 international auto companies have joined the traditional Detroit companies and are producing vehicles in the U.S., thus creating a robust U.S. auto manufacturing industry that produced nearly 11 million vehicles last year; international automakers' production is almost half of that.

Equally important, are the exports of cars and trucks made in the U.S. Honda started exporting vehicles from America in 1987. In fact, 30 years ago, we began exporting Accords made in Ohio back to Japan. Senator Wyden, you may remember this. On March 7, 1988, as a young Representative, you were at the Port of Portland in Oregon, where the first shipment of Accord Coupes was loaded onto a ship bound for customers in Japan. Our business touches so many aspects of American commerce.

In the ensuing years, Honda has exported more than one million vehicles overseas from 13 U.S. ports, ranging from Seattle out West to Miami and Baltimore on the East Coast. With more than 95 percent of the world's consumers outside the U.S., export markets are a critical component to the growth of manufacturing and to the U.S. economy. And automakers producing in the U.S., including Honda, exported nearly two million vehicles last year.

However, America is now experiencing a fundamental change in the philosophy of open markets. Already, the tax on materials and components coming into our country is bringing an array of unanticipated harmful effects that would only be magnified by tariffs on automobiles and auto parts. For example, more than 90 percent of the steel used to produce our vehicles here is sourced in America. So, while we're paying relatively little in the way of tariffs on steel, the price of domestic steel has increased as a result of the tariff, saddling us with hundreds of millions of dollars in new, unplanned cost.

The Commerce Department is currently investigating whether imports of autos and auto parts are a threat to national security, potentially subjecting the products to additional tariffs. Few things would be more disruptive to American manufacturing than the additional tariffs of as high as 25 percent that have been proposed.

Our vehicles built in America tend to have relatively high U.S. content. In fact, we had four vehicles in the top ten of the "2018 American Made Index¹" created by Cars.com. Nevertheless, the reality is that every vehicle built in this country – regardless of manufacturer – is produced using both domestic and globally sourced parts. So, even for a vehicle built in a U.S. factory, the cost to manufacture will increase as a direct result of these tariffs, and the increases could be substantial. As already mentioned, of the vehicles we sell in the U.S., 20 percent are built in Canada and seven percent in Mexico. These vehicles have significant U.S. content. Treating them as foreign products with a 25 percent tariff will have an enormous impact on vehicle prices and sales, and thereby have a direct impact on the operations of U.S. suppliers and their employees.

These affected jobs are not just in states with auto plants but wherever there are parts makers, auto dealers and service outlets and other businesses that serve the industry. In other words, tariffs impact every state in America. Moreover, the tariff has been estimated to increase the price of a new vehicle in the range of \$1,400 to \$7,000 per vehicle². As the price of a new vehicle grows beyond the reach of

¹ <https://www.cars.com/articles/carscom-2018-american-made-index-whats-the-most-american-car-1420700348632/>

² <https://piie.com/system/files/documents/pb18-16.pdf>

more Americans, the price of used vehicles will rise, as will the cost of service parts. These tariffs will ripple across all aspects of the auto industry and the broader economy.

Mr. Chairman, over the past 19 months, the auto industry has been confronted with significant challenges associated with the new direction in trade policy. Already, the steel and aluminum tariffs have increased the cost of manufacturing across all sectors of the American economy. And NAFTA, which has been the foundation of making North America a manufacturing titan, is being renegotiated. While the agreement needs modernizing, it has been successful in spurring investment and manufacturing in the U.S.; production by international automakers increased by three million vehicles since the agreement took effect.

Now we face the addition of new auto and auto parts tariffs. Coupled with pending changes to NAFTA, the cumulative impact would be unprecedented, especially at a time when automobile sales in the U.S. have begun to plateau and the auto industry is facing fundamental changes that require investment in a number of new technologies.

Adding a further economic challenge in the form of a new tax on automobiles and auto parts will only threaten the great jobs that currently exist for tens of thousands of Americans and increase the cost of vehicles for millions of U.S. consumers. To be certain, barriers to trade should be removed everywhere, but imposing tariffs here will put American workers, American consumers, American communities and the American economy at risk. For this reason, Honda has joined every automaker doing business in the U.S. in opposing new tariffs on automobiles and auto parts.

Mr. Chairman, thank you for the opportunity to testify and I am happy to take your questions.