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Independence drives us.

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Lisa R. Barton
Secretary to the Commission
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

Public Document

Re: Auto Care Association Submission: Investigation No. 332-591, *Economic Impact of Section 232 and 301 Tariffs on U.S. Industries*

Dear Secretary Barton:

The Auto Care Association appreciates the opportunity to provide comments to the U.S. International Trade Commission for its investigation on the *Economic Impact of Section 232 and Section 301 Tariffs on U.S. Industries* (Investigation No. 332-591).[1]

We hope our submission will assist the U.S. International Trade Commission in evaluating the severe economic harm the Section 301 tariffs have had on American businesses and American consumers.

Auto Care Association

The Auto Care Association is a trade association with nearly 7,000 member companies and represent an industry of 536,000 independent auto care businesses. Also known as the automotive aftermarket, the auto care industry employs 4.5 million people and reported sales of $435.8 billion in 2021.

Our members manufacture, distribute, sell parts and perform vehicle repairs that minimize harmful emissions and ensure the safety of the driver and their passengers, pedestrians, and other drivers on the road.

Auto Care Industry (Automotive Aftermarket)

In the auto sector, once a vehicle leaves the dealer's lot, it enters the aftermarket. Unlike the original equipment manufacturer (OEM), the aftermarket is designed to meet the needs of every different year, make and model vehicle.

[1] Economic Impact of Section 232 and 301 Tariffs on U.S. Industries, 87 Fed. Reg. 28035 (May 10, 2022).

Thousands upon thousands of parts are used to support vehicle maintenance and to service the 292 million vehicles that are on U.S. roads today. This variable model is typically comprised of a wide range of parts produced in low volumes. It requires a tremendously complex network of smaller sub-suppliers that does not exist in the United States and in some cases, does not exist outside of China.

Tariff Impact on U.S. Businesses

A. Economic Harm and U.S. Manufacturing Competitiveness

Since July 2018, when the Section 301 tariffs went into effect on imports from China, American businesses have paid over $150 billion dollars in tariffs.[2] The tariffs have been a major disruption factor to our industry's supply chains, forcing manufacturers to raise prices substantially and accept lower profit margins. The impact is being felt at each step of the supply chain.

Margin pressure and cash flow impact of financing the tariff are causing severe economic stress for many U.S.-based importers, putting them in a precarious financial position. One Auto Care member company reported the 25% tariff increased its monthly tariff payment tenfold from $30,000 to $300,000 a month.

Importers pay the 25% tariff when goods enter the country, but do not get paid by their customers until the product is sold months or up to a year later. In the best case scenario, the imported good is a finished product, inventory is turning around quickly and payment terms are favorable.

However, one member reported that, as an importer of components and semi-finished goods, they are ironically in a disadvantageous position for financing the tariffs for a longer period of time while supporting U.S. jobs for final assembly in the U.S.

The tariffs have also made U.S. manufacturers less competitive in the global marketplace. Several members reported losing sales to products being produced in other markets using components from China that are tariff-free, and then subsequently selling the finished good into the U.S. market.

Additionally, U.S. exporters that rely on imported auto components from China are not able to compete with local importers that are not subject to the tariffs, making them less competitive in the global market for those products.

[2] U.S. Customs and Border Protection, Trade Statistics (https://www.cbp.gov/newsroom/stats/trade) (accessed Aug. 22, 2022).

B. Indirect Impacts

1. Burden on Resources

As explained in the Auto Care Association's USTR List 4 comments, the impact of the Section 301 tariffs extends far beyond just the actual cost of the tariff. Nearly all of our members have reported the burden and strain that the tariffs are having on the utilization of a company's resources.

Members report:

> *"Understanding the impact has consumed resources in purchasing, product management, sales and customer service functions that otherwise would be devoted to growing the business."*
>
> *"[The tariffs] have reduced our trading gross margin, making it impossible for us to expand and flourish in the industry."*
>
> *"The increase in cost due to the tariff has limited our growth as a company."*
>
> *"Loss of gross margin as unable to pass all costs on to the end user…preventing growth and employment."*
>
> *"The tariffs are extremely taxing to our resources. Our purchasing department has spent almost all of their time in the last year trying to negotiate better pricing from our Chinese sources to try to mitigate the tariffs, as well as working to establish new vendors outside of China. The process of evaluating new sources outside of China has taken up most of the resources in our Quality Control and Logistics departments as well."*

These are just some examples showing the impact tariffs have on a company's resources and how they limit a company's ability to grow or add jobs.

2. Inventory Values

The varying tariff rates and implementation dates plus exclusions coming and going have resulted in fluctuating cost of goods. Inventory with varying levels of costs makes it extremely difficult to track purchases by SKU and assign prices correctly.

3. Uncertainty

When the U.S.-China trade war escalated in 2018-2019, the business community did not know if the tariffs were temporary or long-term or what type of exclusion process would be in place for tariff relief. The tariffs have created tremendous uncertainty for companies trying to make short- and long-term strategic decisions.

Alternative Sourcing

The automotive sector is an industry with a global footprint and long supply chains, with China acting as a critical trading partner and an important source of imports and manufacturing hub. Our members have built and established relationships with suppliers in China over many, many years to ensure products meet a high standard of safety and quality.

Since the Section 301 tariffs were imposed, many members have reported exploring alternative sourcing in the U.S. and outside of China. While some have been successful in sourcing certain products outside of China, most members have reported little success in attempting to diversify purchases to other countries.

There are many challenges in sourcing from other low-cost countries, such as the absence of material supply, infrastructure and logistics to easily produce and move product. Additionally, it is difficult to find supply chains that are deep enough and flexible enough to handle broad ranges and relatively small volumes of highly technical parts to support our industry.

One member reported, "While things are never perfect, our Chinese vendors generally produce products to specification and ship on schedule. China has the necessary infrastructure and capacity to handle the demand of U.S. importers. When looking outside of China, product lead times and logistics become much more of a challenge."

Attempting to redevelop and retool each individual model to move manufacturing out of China would require tremendous capital and years to develop and may not always be successful. The monetary investment associated with facilities, quality control and compliance could be devastating. Even if a company had the resources to replicate and move production, it would not be feasible for a number of reasons. A member shared that:

> *"Four years ago when we first started exploring alternative sources, we estimated in a best case scenario, it could take two-and-a-half years to identify qualified sub-suppliers, jointly develop capable manufacturing systems, tool components, test and*

> *validate parts for performance and endurance, and then finally begin production at these new sites.*
>
> *However, knowing what we know now, after investing tremendous energy, time and money, we have learned that it is near impossible to replicate a comparable supplier network outside of China that is successful in producing many of the high mix, low volume, yet complex parts common in the automotive aftermarket while meeting stringent quality requirements."*

Similarly, another member shared that:

> *"We have worked closely with manufacturing facilities in China to produce a product that is equal to or better than the OEM product for aftermarket use at a fair price in comparison to OEM products (that are not necessarily made in the USA). The tariffs have increased our pricing substantially plus increased costs in ocean freight have priced us out of the market.*
>
> *There are next to no operating manufacturing facilities in the U.S. for our product that serves the aftermarket. The facilities that still exist today are having trouble keeping up with OEM demand, let alone taking on aftermarket demand."*

Many members report that efforts to find alternative sources have been complicated and strained by the COVID-19 pandemic as travel restrictions and factory closures have delayed re-sourcing plans.

In some cases, it is both time- and cost-prohibitive to source domestically or from another country at the same quality and volume needed to meet demand. As one member pointed out, "We sell a safety item and we have a responsibility to diligently review any new factory partners to make sure they are producing a safe product." Therefore, many companies will have no choice but to continue manufacturing in China.

For example, brake rotors are wear items and a critical component in a vehicle's braking system that needs to be replaced to ensure the safety of the driver and passengers, pedestrians and other vehicles on the road. There are currently no known brake rotor manufacturers in the U.S., making China the global supplier of economy-grade brake rotors for the everyday driver.[3]

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[3] Brake rotor imports coming from the countries outside of China are either original equipment parts for vehicle manufacturers or higher-priced premium grade brake rotors.

Considering that there are over 2,600 different part numbers in the brake rotor sector, there is no viable option to meet the demand, nor any source of the parts in the U.S. market. Therefore, regardless of any tariff imposed, brake rotors will continue to be imported from China.

Impact on U.S. Consumers and Families

The greatest impact from the Section 301 tariffs on auto parts and components is on U.S. consumers who are experiencing higher repair costs, likely leading to the delay of critical vehicle maintenance procedures that may result in serious highway safety concerns.

The average age of light vehicles in the U.S. rose to 12.2 years in 2022. It is extremely important for consumers to have access to a broad selection of cost-effective options to repair aging vehicles as an alternative to purchasing a new vehicle.

Additionally, the tariffs are fueling U.S. inflationary pressures and driving up the prices of consumer products. In June 2022, the inflation rate reached a 40-year record high of 9.1%. A member shared, "The Section 301 tariffs have forced us to pass along the tariff costs to the consumer. This resulted in a direct inflation cost with no benefit to the consumer. China did not absorb this increase."

The price increases for repairs due to the tariffs are a barrier to low- and middle-income consumers who are forced to make difficult choices as to whether to obtain needed repairs to their vehicles, or to delay them in order to make other needed purchases for their families.

Section 301 Exclusion Process

Many companies found the Section 301 exclusion process extremely time consuming and lacked transparency. From 2018 to 2020, U.S. stakeholders filed 53,000 exclusion requests but only 13% were granted.[4] USTR provided very little guidance regarding why certain exclusion requests were denied while others were approved.

The exclusion process was extremely complex and many companies had no choice but to hire external resources at significant costs to submit exclusion requests. Exclusion petitions that were approved were only granted for very short periods of time before having to reapply for a reinstatement. The volatility and tariff swings of 25% created global trade

[4] USTR Should Fully Document Internal Procedures for Making Tariffs Exclusion and Extension Decisions. GAO Report, July 2021

uncertainty and extends beyond just the price hike as businesses hold off on new investments.

Our members also report that if an exclusion is granted, their customers were often very quick to ask for any tariff costs back; while the process for requesting a tariff refund from CBP was incredibly slow.

Conclusion

The Auto Care Association supports the Trump and Biden administrations' efforts to address China's unfair trade practices. However, we believe that the imposition of Section 31 tariffs on auto parts and components have caused severe economic harm to the industry, affecting profitability, sales, employment outlook and future investments. We do not believe the tariffs have been effective in trade negotiations with China.

We thank you for the opportunity to provide comments. We look forward to continuing this dialogue and welcome the administration to contact us if there are any additional questions.

Respectfully submitted,

Bill Hanvey
President and CEO
Auto Care Association