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Hearing Testimony

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Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (Docket No. USTR-2019-0004)

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I am Bill Hanvey, president and CEO of the Auto Care Association. Thank you for the opportunity to testify on behalf of nearly 3,000 member companies representing 150,000 independent automotive businesses.

We are the voice of the $392 billion[1] auto care industry, also known as the automotive aftermarket. We represent a significant sector of the U.S. economy, employing 4.6 million people, or 3 percent of the workforce.[2]

My goal today is to share three key points and challenges as reported by our members who have been impacted by the Section 301 tariffs from the first three tranches. We expect more member companies to face the same challenges if additional tariffs are imposed on auto parts in this fourth tranche.

Before I start, let me share some background information. Our members manufacture, distribute and sell parts and perform vehicle repairs to ensure the safety of the driver and passengers, pedestrians and other vehicles on the road.

In the auto sector, an original equipment manufacturer (or OEM) can set up a dedicated plant to produce a few parts in several million units. But we are the aftermarket. We have thousands and thousands of SKUs in order to provide parts to service and repair for the 280 million vehicles on U.S. roads today.[3]

Aftermarket production is broad-range, low-volume and limited runs. Our industry relies on imported parts through a complex global network of suppliers and even smaller sub-

[1] "2019 Digital Auto Care Factbook: 28th Edition," https://www.autocare.org/factbook19/ at 12.
[2] Id at 4.
[3] Id at 62.

suppliers. Therefore the tariffs being imposed on Chinese imports are posing special challenges to our industry in attempting to cost effectively source components for our U.S. consumers.

First, the Auto Care Association supports the Trump administration's efforts to address China's unfair trade policies related to forced technology transfer. These practices jeopardize U.S. businesses' trade secrets, intellectual property and global competitiveness.

Second, as we have testified previously, China is a critical trading partner and manufacturing hub in our industry's supply chain. Our members are already seeing a negative impact on business operations as a result of Section 301 tariffs from the first three tranches.

For example, one member reported a significant decrease in demand for their products, possibly due to uncertainty of the future and customers' unwillingness to take on inventory at inflated prices. Many of our members are being forced by their distribution customers to absorb cost increases that are related to the tariffs, placing a heavy financial strain on their bottom line.

Some retailers are just starting to accept cost increases passing through the supply chain and raising prices on consumers. As prices increase, not only are American jobs lost, but safety-critical maintenance is deferred, thus making American roads less safe.

Margin pressure and cash flow impact of financing the tariff are causing severe financial stress. Many suppliers pay a 25% tariff when goods enter the country but do not get paid by customers until the product is sold 360 days later.

One unintended consequence that every member is facing is the burden tariffs are having on company resources. According to a member, "understanding the impact has consumed resources in purchasing, product management, sales and customer service functions that otherwise would be devoted to growing the business."

In addition to Section 301 tariffs on imports from China, our industry also faces Section 232 tariffs on imported steel and aluminum and the looming 232 tariffs on imported auto parts.

Third, regarding the issue of shifting production or sourcing outside of China. In some cases, our members have been successful in identifying alternate suppliers in other countries. Overall at a higher cost, but lower than sourcing from China considering the tariffs.

For products without an alternate source already in existence in another country, it could take 6-18 months and likely years to find and qualify a new source. As mentioned before, low volumes, broad ranges mean massive tooling investments that are extremely difficult to relocate.

We hope the administration will consider the severity of imposing tariffs and will continue engaging in dialogue with China to protect U.S. investments and promote free, fair and reciprocal trade that benefits the global growth of our industry. We appreciate the opportunity to testify and I am available to answer any questions.

Thank you.