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Testimony

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United States-Mexico-Canada Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors (TPA-105-003)

Hearing – November 15, 2018

Good morning, Chairman Johanson, Commissioners and staff. Thank you for the opportunity to testify. I am Bill Hanvey, president and CEO of the Auto Care Association.

We are the voice of the $392 billion[1] auto care industry. Our nearly 3,000 member companies represent some 150,000 independent automotive businesses that manufacture, distribute and sell motor vehicle parts, accessories, tools and equipment, and perform vehicle services and repairs.

Also known as the automotive aftermarket, our industry represents a significant sector of the U.S. economy, employing 4.6 million people, or 3 percent of the workforce.[2] Our members include businesses with global operations that depend on well-established, integrated supply chains to increase competitiveness and product offerings.

NAFTA was an important regional free trade agreement that contributed to the growth of our industry over the past 20 years. In 2017, the U.S. exported $61 billion auto parts to Mexico and Canada, accounting for more than 70 percent of all auto parts exports.[3] We supported the administration's efforts to modernize NAFTA and reach a new U.S.-Mexico-Canada agreement (USMCA), allowing duty-free movement of auto parts to continue between the three countries.

Our members include businesses with operations in the United States, Mexico and Canada. Our worldwide network of suppliers and distributors allows our members to remain competitive globally while affording consumers a broader selection of cost-effective options to repair and maintain their vehicles.

[1] "2019 Auto Care Factbook: 28th Edition," https://www.autocare.org/factbook19/ at 12.
[2] Id at 4.
[3] "U.S. Exports of Automotive Parts, Total Exports, FAS Value," United States Department of Commerce, Bureau of Census, Foreign Trade Division, https://www.trade.gov/td/otm/assets/auto/AP_Trade.pdf.

We anticipate that the USMCA will result in increased investment and/or reshoring of production into North American supply chains by auto and auto parts manufacturers to take advantage of the agreement's duty free treatment. However, we are also concerned with a few provisions in the USMCA that may result in added costs for our members, their customers and U.S. consumers. We will expand on these in our written comments, but let me discuss them briefly.

The USMCA's increased rules of origin threshold will require some auto parts manufacturers to invest in new production facilities, tooling and supply chain management structures. We urge the administration to communicate and cooperate with all automotive industry stakeholders in the development and application of standards for the phasing in of the increased rules of origin criteria.

Additionally, the new certification requirements will create challenges, as additional administrative costs will be required to comply with new record-keeping procedures. These requirements will be especially burdensome for small- and medium-size producers that may not possess the technical software and information protocols needed to track each input at each stage in the supply chain.

In the same spirit of ensuring clarity and consistency of the USMCA's application, it is important to our members that the six-year review and corresponding "sunset" provision are addressed with the utmost regard for the long-term decisions and investments made by our industry. The decision to locate production in a certain country is based on the margin of savings a manufacturer can expect to achieve over the medium- to long-term. Any potential change in trade policy that could occur after an investment is made reflects a significant risk that could offset these savings. Such uncertainty could stifle investment in production entirely. It is important to the automotive community that any review or termination of the USMCA be made in coordination with the entire community of interests who have invested in the North American automotive supply chain.

The trade environment today is currently fraught with uncertainty given the various tariff measures enacted against trading partners. And nowhere is this uncertainty more acutely felt than in the automotive industry with respect to the pending Section 232 autos and auto parts investigation. The tariff will have little impact on core national security concerns, but would create enormous losses in jobs and revenue across the United States.

The twin threat of 232 tariffs combined with the USMCA's quota on 232 exemptions for Canada and Mexico create an inhospitable long-term barrier to increasing trade, investment and growth. As we have expressed in the past, we hope that these 232 tariffs do not come into fruition.

We urge the Commission to consider fully in its report the long-term implications of the USMCA on the automotive industry, including the value of consulting with the industry during its implementation and evolution. Our industry's ability to remain globally competitive supports U.S. auto exports, provides U.S. consumers with a wider selection of vehicles and parts, and keeps vehicle repair and maintenance costs affordable for working families.

We respectfully recommend that the Commission prioritize in its investigation, and ultimate report, those measures that will ensure the stability of supply chains, while also prioritizing measures that can provide clear guidelines for meeting and certifying the USMCA's new rules of origin. These measures will go a long way toward realizing the USMCA's goals, while creating value that benefits the global growth of our industry.

We appreciate the opportunity to testify and I am available to answer any questions.