Testimony of John Bozzella

President and CEO, Association of Global Automakers, Inc. and Spokesperson for Here for America before the Senate Committee on Health, Education, Labor, & Pensions Full Committee Hearing "The Impact of Zero Tariffs on U.S. Autoworkers"

September 5, 2018

Summary

- The U.S. Auto Industry today comprises fourteen companies that build cars and trucks in the United States, with a fifteenth scheduled to begin production in 2021. This investment supports a value chain of U.S businesses across the country providing components, sales, service, logistics and support employing 7 million Americans. Many of these workers could be harmed by potential tariffs on auto and auto parts imports.

- U.S. tariffs placed on imports are taxes paid by Americans. If punitive tariffs of 20-25% are imposed on auto- and auto-parts imports, as the U.S. Department of Commerce is now considering, new vehicle prices will increase by as much as $7,000.[1] Every vehicle sold in America would see price increases because a global supply chain supports high-value auto manufacturing in the U.S. This will reduce demand for new cars, creating excess manufacturing capacity across the country. Used car prices would also rise as new cars become less affordable. The cost of servicing and maintaining vehicles would increase as imported parts are taxed. U.S. trading partners would retaliate with tariffs on our exports. As a result, 624,000 Americans could lose their jobs.[2]

- Current trade policy has fostered a healthy and competitive auto industry in the United States and created robust markets for U.S.-built vehicles all around the world.

- This success at home and abroad has led to an unprecedented era of innovation in the auto industry. International automakers have invested significantly in R&D, employing hundreds of highly skilled engineers at 65 facilities in 16 states.

- Innovation has reshaped the workforce as well. Today's auto production jobs are high-tech, highly-paid, career-building opportunities for which there is a shortage of talent. Therefore, auto manufacturers have invested heavily in workforce development initiatives such as apprenticeship programs, and partnerships with local high schools, colleges, and universities to train the next generation of manufacturers.

- When America does trade the right way, it creates more investment and more opportunities for American workers. The success of international automakers over the last several decades should inform policymakers as they reexamine trade policy and consider restrictive measures such as tariffs.

[1] https://piie.com/system/files/documents/pb18-16.pdf
[2] https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and

Testimony

Chairman Alexander and Ranking Member Murray, thank you for the opportunity this morning to testify before the Senate Committee on Health, Education, Labor & Pensions. My name is John Bozzella. I am the President and CEO of Global Automakers[3] and the spokesperson for Here For America[4].

The U.S. auto industry today comprises fourteen companies that build cars and trucks in the United States. A fifteenth is scheduled to begin production in 2021. These companies support a value chain of U.S businesses all across the country conducting research and development, manufacture of vehicle components such as engines and transmissions, vehicle assembly, sales, service, logistics and aftermarket products and services, employing 7 million Americans. Add in indirect employment, and their ranks grow substantially.

Thirteen of those fifteen automotive manufacturers may be incorporated outside the U.S., but they have put down deep roots in the United States. Several have been building vehicles here for more than 30 years.

All of these 7 million employees work at jobs and live in communities that will be directly and quickly affected by tariffs on the goods they use and produce. These people are not tactical

[3] The Association of Global Automakers represents the U.S. operations of international motor vehicle manufacturers, original equipment suppliers, and other automotive-related trade associations. For more information, visit www.globalautomakers.org.

[4] Here For America is an initiative of the Association of Global Automakers to increase public awareness about the importance of international automakers to American job creation, economic growth, technological innovation and strong communities. Visit www.hereforamerica.com.

instruments in a game of international chess. Any discussion of tariffs should put them front and center in the discussion, and that is among the many reasons we appreciate your convening this hearing today.

Back in July, Here For America hosted the first ever "Drive-In". More than 100 autoworkers from U.S. facilities of international automakers came to Washington D.C. from all across the country -- many for the first time in their lives -- to express their concern over the effect that proposed punitively high automotive tariffs would have on their jobs, their families, and their communities. They drove to Capitol Hill in cars they built themselves to participate in a press conference at the U.S. Capitol, followed by meetings with Members of Congress from both parties, during which they delivered the message that tariffs are taxes, and that tariffs mean fewer jobs.

Many Senators on this Committee devoted time to hear from these workers directly. Chairman Alexander met with associates from Nissan and Toyota who were here from Tennessee. Senator Jones cohosted the press conference with a bipartisan group of House Members, in which they highlighted the economic opportunities that Hyundai, Honda, Daimler, and Toyota have created in Alabama and across the country. Senator Jones then took time to meet personally with auto workers who came to Washington from across his home state to further discuss concerns over potential tariffs. Senator Young energized a packed house at our welcome dinner, which included Hoosiers who work for Honda, Subaru, and Toyota. Senator Isakson's staff met with associates from Kia and Honda who came up from Georgia, and Senator Paul's staff met with associates from Toyota in Kentucky.

Here's what these people had to say.

John Hall, a maintenance worker at the Hyundai Motor Manufacturing plant in Montgomery, Alabama, said "new tariffs on automotive imports would have a devastating effect. I am one of thousands of American workers whose livelihoods would be put at risk by a substantial tariff on automotive goods. It would not be possible to change our supply chain overnight, and a 25 percent tariff on parts would raise production costs at our Alabama factory by about 10 percent annually."

Jennifer Adair, Team Leader in Quality at Toyota Indiana shared these thoughts: "My message is simple, I'm an American auto worker and these tariffs will hurt Toyota. Every day, I go to work at Toyota Motor Manufacturing in Indiana and ensure the vehicles we build are ready for our consumers. We produce vehicles that are built here, sold here and exported all over the world."

And Stuart Countess, Chief Administrative Officer, Kia Motors Manufacturing Georgia said: "While we recognize free trade makes the United States competitive, broad restrictions such as tariffs on auto and auto part imports will raise costs for our customers and their families. We don't want to risk losing all of the gains our community and our team members have achieved, that is why we echo the plea, Don't Tax My Ride."

These workers are proud to work at companies providing high-value, high-tech jobs that continue to contribute significantly to the communities you represent and know very well.

The City of Chattanooga, Tennessee, became home to the Volkswagen's newest facility in 2011. Today, VW Chattanooga employs around 3,500 people who have built over 800,000 vehicles, paying out well over $250 million in annual payroll to its manufacturing employees.[5] These operations are responsible for supporting an additional 21,000 jobs through suppliers, port facilities, and transportation services, accounting for $1.5 billion in incomes for these residents of Tennessee and Georgia.[6] Tennessee Governor Haslam said in July,

> "*I want to thank all 3,500 employees at the plant. Your brand has become our brand, and while you are making world-class vehicles in Chattanooga, you might not know it, but you are actually helping build Tennessee, as well. We're grateful for that and the impact that you've made."*

VW is not the only one making a difference in Tennessee. Nissan manufacturing facilities around Nashville employ over 12,000 people directly and pay over $800 million in payroll annually. International auto manufacturers account for over 16,000 jobs and 5% of Tennessee's Gross State Product. That's a $17 billion contribution to Tennessee's economy.

The city of West Point, Georgia, has benefitted greatly from the manufacturing facility built by Kia in 2009. Prior to 2006, the residents of West Point believed that they would become casualties of the textile flight of the 1990's. That changed when Kia announced it was building a

[5] https://media.vw.com/en-us/releases/1055
[6] http://cber.haslam.utk.edu/pubs/bfox309.pdf

facility in the city. People were so overjoyed that they put "Thank You Jesus for Bringing KIA" signs in their front yards.[7] Since then, Kia has invested $1.6 billion in Georgia to date, employs over 2,700 people directly, and supports another 14,000 indirect jobs through its suppliers, some only a mile or two down the road from Kia's facility.[8] Along with these direct factory and indirect supplier jobs, Kia supports thousands more jobs in the local community through retail and restaurant sales. The mayor of West Point, Steve Tramell, said to NPR in July of this year, "'We've been through that down time…We don't ever want to go through that again.'"[9]

In Lincoln, Alabama, Honda completed a massive production and management facility in 2001 that now employs over 4,500 workers and produces three popular vehicles, the Odyssey, the Pilot, and the Ridgeline, as well as V6 engines that power them. Since the start of Honda's production operations in Lincoln, Alabama, the entire area around the Honda facility saw growth in both employment and income. Talladega and Calhoun Counties, the two closest counties to Lincoln, gained over 3,000 jobs from Honda and Tier-1 suppliers, accounting for an additional $380 million of payroll in just these two counties. The total impact of Honda's facility in Alabama was 43,000 new jobs, $1.7 billion in payroll, and $170 million in state and local tax revenue going to fund schools and infrastructure projects. [10]

BMW in Greer, South Carolina, began production in 1994, and the Counties of Greenville and Spartanburg saw an immediate 2% drop in unemployment. Manufacturing is now the largest

[7] https://www.complaintsboard.com/messup/thank-you-jesus-for-bringing-kia-to-our-town.html
[8] https://www.kmmgusa.com/about-kmmg/our-company/
[9] https://www.npr.org/2018/07/27/631839199/trumps-proposed-auto-tariffs-threaten-kia-plant-in-georgia
[10] https://www.edpa.org/wp-content/uploads/The-2014-Economic-Impacts-of-Honda-Manufacturing-of-Alabama-LLC-and-its-Tier-1-Suppliers.pdf

economic sector in both counties.[11] BMW has invested over $9.3 billion in the Upstate region of South Carolina and currently directly employs 10,000 people. BMW South Carolina is now the company's largest production facility in the world. This investment and commitment to South Carolina has allowed the city of Greer and surrounding counties to have a reliable pool of employment and tax revenue. Greer's population has grown by 22,000 since the year 2000, and the city plans to support a population of 100,000 by 2030 through community development projects that include a complete revitalization of Greer's downtown region, replacing a 100-year-old sewer system, building a new 100-room hotel, and repaving the roads and sidewalks.[12] These projects would not be possible without the investment in South Carolina that BMW has facilitated.

These are just a few of the hundreds of success stories that stem from the investment international automakers have made in the United States. And they are not done yet. Volvo Cars has just this week started production of its S60 model in an all new U.S. factory in South Carolina. Volvo Cars plans to expand to include production of the XC90 in the same facility for a total investment of $1.1 billion. Honda is going to invest another $55 million in Alabama, bringing its total investment in Alabama to more than $2.6 billion, and Mazda and Toyota have announced a joint venture that is set to open in Huntsville in 2021. Additionally, Toyota will invest another $10 billion over the next five years in its U.S. operations.[13,14]

[11] https://fred.stlouisfed.org/series/SCGREE5URN
[12] https://upstatebusinessjournal.com/downtown-greer-experiencing-dramatic-evolution/
[13] https://www.al.com/news/anniston-gadsden/index.ssf/2018/07/honda_announces_548_million_ex.html
[14] https://www.reuters.com/article/us-usa-autoshow-toyota/toyota-to-invest-10-billion-in-u-s-over-five-years-idUSKBN14T1NN

Overall, international automakers have invested nearly $82 billion in the United States, which, combined with the investment of U.S.-headquartered companies, supports a vibrant, highly competitive and innovative U.S. industry. This has occurred during a period of expanded trade that has yielded a thriving industry that produced almost 11 million vehicles last year, nearly twice the level during the Great Recession. Sales remained high at 17.2 million in 2017, while exports in 2017 exceeded 1.9 million vehicles.

Exports of U.S.-built cars and trucks worldwide have more than doubled since 1993, when NAFTA became effective, increasing from 978,155 vehicles to 1.981 million vehicles. The value of these same exports has nearly quadrupled, rising from $14.3 billion in 1993 to more than $57 billion in 2017.

These conditions have also driven an unprecedented era of innovation in the industry generally, and in the United States specifically. International automakers alone employ hundreds of highly skilled engineers and designers at 65 R&D facilities in 16 states. Additionally, the U.S. automotive industry includes not only original equipment manufacturers, but a broad ecosystem of suppliers that develop and produce highly advanced systems components. Their spending supports the development and deployment of critical automotive technologies, including artificial intelligence, radar and lidar camera systems, along with many others.

All of this has happened while the industry operated under the current system of trade rules, many of which were put in place under Presidents Clinton, Bush, and Obama, with bipartisan support in the Congress.

Today, however, the U.S. industry faces tremendous uncertainly as it assesses the risk of extremely high import tariffs.

Steep tariffs recently placed on steel and aluminum, imposed pursuant to an investigation into whether imports of these metals are a threat to U.S. national security under section 232 of the Trade Expansion Act of 1962, are already rippling through the automotive supply chain. The costs of these goods, including steel and aluminum produced in the U.S, increased across the board.[15,16] The price of steel has gone up almost 50 percent since tariffs were announced – that's announced, not imposed – and the 50-percent price increase is more than twice the amount of the tariffs that were imposed.

Rising input costs directly impact the cost of production for U.S. automakers. Toyota, which sources 90% of the steel for its U.S.-based facilities from American mills, stated,

> *"The (U.S.) Administration's decision to impose substantial steel and aluminum tariffs will adversely impact automakers, the automotive supplier community and consumers."*[17]

Ironically, the steel tariffs have created an opening for foreign producers. Bloomberg reported on July 5 that "So successful have tariffs been in pushing up American steel that foreign metal is becoming more appealing."

The U.S. Department of Commerce is conducting a similar investigation into whether imports of autos and auto parts are a threat to our nation's security. This broad authority to impose these

[15] https://www.wsj.com/articles/steel-aluminum-prices-rise-on-u-s-tariffs-1527792759
[16] https://agmetalminer.com/2018/06/12/raw-steels-mmi-domestic-steel-price-momentum-continues-to-grow/
[17] https://www.reuters.com/article/usa-trade-toyota/toyota-says-u-s-tariffs-on-steel-aluminum-will-substantially-raise-production-costs-idUST9N1N004M

tariffs in the name of national security was granted to the President of the United States by Congress. Unlike other authorities to impose tariffs to respond to unfair trading practices or to provide temporary protection to a struggling industry facing import competition, this "232" authority is so broad, and the impacts of tariffs imposed under it are so widespread and of such indeterminate length, that Congress must ask whether this authority is being used for the purposes intended.

There is simply no support for the proposition that imports of cars, trucks, SUVs and auto parts threaten the national security of the United States. No automaker or auto parts supplier has requested protection under our trade laws. Auto sales, production and exports are in fact at or near all-time highs.

The Department of Commerce so far has been unable to outline any theory explaining how the commercial production of cars and trucks is connected to U.S. national security. Simply running a sectoral trade imbalance, which the Secretary suggested as a rationale during a recent appearance before Congress, seems insufficient because it does not distinguish the U.S. automobile industry from other industries where this is also the case.

In response to the Department's call for public comments on the 232 tariffs, only three substantive statements, out of more than 2,300 comments of all types, were filed supporting tariffs or other restrictions on auto or auto parts imports, and that support was often tepid at best. In addition to the absence of public support, associations representing the entire U.S. auto

industry oppose the idea of tariffs and urge that this investigation be reconsidered. This unity is as remarkable as it is unprecedented.

Tariffs are Taxes. No ifs, ands or buts.

U.S. tariffs placed on imports are taxes paid by Americans. If punitive tariffs of 20-25% are imposed on auto- and auto-parts imports, as the U.S. Department of Commerce is now considering, new vehicle prices will increase. The Peterson Institute for International Economics estimates that vehicle prices will increase by $2,100, to up to $7,000 per vehicle.[18] Every vehicle sold in America would see price increases because a global supply chain supports high-value auto manufacturing in the U.S. This will reduce demand for new cars, creating excess manufacturing capacity across the country. The Peterson Institute estimates U.S. auto and parts production would fall by 4%. Used car prices would also rise as new cars become less affordable. Ans, the cost of servicing and maintaining vehicles would increase as imported parts are taxed. Adding additional injury, U.S. trading partners would retaliate with tariffs on our exports. As a result, 624,000 Americans could lose their jobs.[19]

The gains that the auto industry has achieved recently are jeopardized by the prospect of tariffs. Hakan Samuelsson, the CEO of Volvo Cars, stated recently at the facility opening in Charleston, South Carolina,

> *"If you have trade barriers and restrictions, we cannot create as many jobs as we are planning to…We want to export and if suddenly China and Europe have very high*

[18] https://piie.com/system/files/documents/pb18-16.pdf
[19] https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and

barriers, it would be impossible… then you have to build the cars there. And then all cars will be more expensive, you have to invest more tooling and have every model in every country. That's against all the logic of modern economies that trade with each other."

The Center for Automotive Research (CAR) calculated that the overall effects of these price increases could reduce sales by 2 million units and cost more than 700,000 jobs if tariffs were applied to all trading partners.

Retaliation by our trading partners is inevitable. China recently hit the U.S. with retaliatory tariffs on autos and other products in direct response to our tariff actions.[20] Last year, the U.S. exported over 267,000 new vehicles to China, totaling over $9 billion in value.[21] Retaliation hurts all American automakers.

For instance, BMW in South Carolina builds over 400,000 vehicles every year, all of them from their X-series line of SUV's. They make almost all SUV's in Spartanburg County, South Carolina and are America's largest auto exporter.[22] Of the almost 280,000 vehicles they export, around 85,000 go to China, which greatly lessens our trade deficit with the country. Mercedes-Benz manufactures vehicles in Alabama and South Carolina and exports around 50,000 U.S.-made vehicles to China.[23] Seven of the top ten vehicle models exported to China from the U.S. are manufactured by BMW and Mercedes-Benz, the two companies holding the top three spots.[24]

[20] https://www.wsj.com/articles/u-s-car-makers-left-in-the-dust-as-chinas-tariff-cuts-boost-europe-japan-1533901068
[21] https://www.trade.gov/td/otm/assets/auto/New_Passenger_Exports.pdf
[22] https://www.nytimes.com/2018/07/19/business/economy/tariffs-south-carolina-bmw.html
[23] https://www.cnbc.com/2018/04/05/chinas-trade-threat-could-hurt-german-carmakers-more-than-us-auto-giants.html
[24] https://www.usatoday.com/story/money/cars/2018/04/10/chinese-auto-tariffs-xi-jinping/503470002/

These companies need unimpeded access to Chinese markets to continue to sell American-made vehicles in the world's largest car market. The harder we make it to access that marketplace, through tariffs and retaliation, the greater the potential for production to move outside of the United States.

Trade and Investment Environment is Highly Uncertain, Adding to Industry Challenges

There is an enormous amount of uncertainty facing manufacturers who build cars and trucks in the United States: steel and aluminum tariffs, the future of NAFTA, the prospect of Section 232 tariffs on autos and auto parts, and so forth.

Uncertainty dampens investment, which crimps innovation and curtails jobs. The Congressional Budget Office (CBO) stated in its August 2018 economic report,

> *"…heightened uncertainty about trade policy could discourage businesses from making capital investments that they might otherwise have made, because changes to trade policy affect price competitiveness in foreign markets as well as the costs associated with global supply chains. Recent volatility in equity markets might indicate that such uncertainty is already taking a toll on the value of U.S. businesses."*[25]

Auto companies are already taking notice of this uncertainty. The auto industry requires long lead times to plan, develop and manufacture vehicles. Decisions made in the face of this uncertainly cannot be easily undone. A stable investment climate includes clear, fair, free and open trading rules. As the nature of the industry forces it to plan production, investment, and

[25] https://www.cbo.gov/system/files?file=2018-08/54318-EconomicOutlook-Aug2018-update.pdf pg 15

employment years in advance, trade turmoil is causing some to reconsider the status of their U.S. investment, just as the CBO is predicting.[26]

The auto industry is now in the midst of a transformation as it pursues electrification and automation, and as consumers consider new ways of accessing personal mobility, such as ride sharing and subscription services.

The United States is today the world leader in the electrification of vehicles and in the development of automated transportation. Automakers and suppliers worldwide develop, test, and sell the latest technologies in our market because it is so open and friendly to innovation. Our research and academic institutions are the standard of the world for their expertise in sensors, robotics, artificial intelligence, and more.

Trade restrictions put that leadership at risk.

Free trade in goods, resources, intellectual content, materials, and production is the key to successfully addressing those challenges. Electrification of the vehicle fleet will require metals and minerals. Automation will require sensors and chips and AI capabilities. Countries that arbitrarily and indiscriminately restrict trade in any of these areas will soon be eclipsed. Future research and development activities – and the expertise and production capacities that are developed – will happen elsewhere.

[26] https://www.bizjournals.com/columbus/news/2018/07/13/honda-ironic-if-tariffs-punish-foreign-automakers.html

Advanced Manufacturing in the US and American Workers

International automaker facilities already have a problem to solve without imposing harmful tariffs. It's a comparatively good problem to have: too many jobs. Deloitte estimates that there will be 2 million unfilled manufacturing positions by 2025 due to retirements and education gaps.[27] Many facilities face issues with finding a qualified workforce.

However, automakers are already getting ahead of some of these workforce issues by investing in their local communities and workforce. Much of this investment takes the form of educational programs, partnering with local high schools and colleges to train the next generation of manufacturers.

VW's Mechatronics Akademie, in tandem with the local government, is training future employees for its factory in Chattanooga, and recently saw its first 24 graduates of the program. This is just one of four educational programs VW is involved with, including a five-week pipeline program offered free to qualified candidates, and a $1 million donation to the State of Tennessee for manufacturing educational materials.

Honda of Ohio, which has five facilities in the state, operates a workforce development initiative named EPIC. This program focuses on introducing manufacturing technology to people earlier in life and includes Summer STEM camps, a work-study program with Columbus State Community College, and supporting the Marysville Early College STEM High School, among

[27] https://www2.deloitte.com/us/en/pages/manufacturing/articles/boiling-point-the-skills-gap-in-us-manufacturing.html

other initiatives. This is in addition to scholarships for students pursuing an associate degree in manufacturing or mechanical engineering technology from local college institutions.[28]

In Georgia, Kia has been able to partner with the State's Quick Start Program to train people for the facility in West Point. Together they collaborated to design and develop the building, a 70,000 square foot state-of-the-art training facility where all of Kia's 2,700 manufacturing employees received training, with some receiving more specialized training in robotics, welding, and electronics labs.[29] Thanks to this program, Kia was able to achieve 70% production efficiency at launch, well above industry standards. As Kia has continued to mature and grow, the company has renewed contracts to continue the beneficial partnership with Quick Start.[30]

Hyundai Motor Manufacturing Alabama (HMMA) in Montgomery partners with Trenholm State Community College to run a 6-month maintenance apprenticeship program for HMMA team members that includes both classroom and hands-on training. The Hyundai manufacturing plant also offers internship programs for undergraduate students who attend designated universities in a variety of disciplines, including accounting, human resources, legal, production control and engineering.

Many of these programs allow people to graduate from a vocational or associates program for little to no cost. People with associates/vocational degrees tended to earn $10,000 more annually than people with high school degrees. This is quite the investment to make in one's self, unless

[28] https://ohio.honda.com/article/building-the-manufacturing-workforce-of-the-future
[29] https://www.industryweek.com/quick-start
[30] http://www.georgia.org/wp-content/uploads/2014/08/KIA_Case_Study_Final.pdf

that person happens to work at Subaru in Lafayette, Indiana. Subaru has one of the most direct forms of workforce education we see, a branch campus of Purdue Polytechnic Institute, located directly on the facility grounds. Subaru pays for its associates to earn degrees at Purdue or the local community college, Ivy Tech. Considering the high-tech nature of the auto making industry, these programs spend a great deal of time equipping people with the skills they need to be productive employees. These programs that are run and funded by these automakers are not just training a workforce, they are setting people up for lucrative and fulfilling careers in the manufacturing industry.

Conclusion

When America does trade the right way, eliminating trade barriers and expanding access to more markets, we create jobs, promote innovation, and build the foundation for sustainable prosperity. When America does trade the wrong way, with unnecessary and unwanted restrictions and intervention, we raise costs and prices, depress demand, limit consumer choice, discourage new investment, and thereby threaten jobs and opportunity. Our own experience should teach us the course we should take.