



The Committee on Energy and Commerce

Memorandum

March 4, 2013

To: Members of the Subcommittee on Commerce, Manufacturing, and Trade

From: Majority Committee Staff

Re: Hearing on “Our Nation of Builders: Powering U.S. Automobile Manufacturing Forward”

On Wednesday, March 6, 2013, the Subcommittee on Commerce, Manufacturing, and Trade will convene a hearing at 10:00 a.m. in room 2123 of the Rayburn House Office Building entitled “Our Nation of Builders: Powering U.S. Automobile Manufacturing Forward.” This is the second in a series of hearings examining the domestic manufacturing industry. Witnesses are by invitation only.

I. Witnesses

Panel 1:

Joseph R. Hinrichs
President of The Americas
Ford Motor Company

William C. Jackson
President, Automotive Electronics and Interiors
Johnson Controls Inc.

Panel 2:

James C. Wehrman
Senior Vice President
Honda of America Manufacturing, Inc.

Chris Nielsen
President
Toyota Motor Manufacturing Texas, Inc.

II. Summary

The United States is the world’s largest manufacturing economy, producing 18.2 percent of global manufactured products.¹ According to the National Association of Manufacturers (NAM), the manufacturing sector supports nearly one in six jobs – jobs that, on average, pay over \$77,000 with benefits.² Nationwide, manufacturing employs nearly 12 million Americans.³

¹ See National Association of Manufacturers, *Facts About Manufacturing* (visited Feb. 12, 2013) <<http://www.nam.org/Statistics-And-Data/Facts-About-Manufacturing/Landing.aspx>>.

² See *id.*

³ See Bureau of Labor Statistics, *Table B-1a. Employees on nonfarm payrolls by industry sector and selected industry detail, seasonally adjusted* (visited Feb. 12, 2013) <<http://www.bls.gov/web/empsit/cese1a.htm>>.

As a subset, the U.S. automotive industry is the largest manufacturing base in the country. Owing to decreased demand during the Great Recession, the motor vehicle industry suffered significant job losses and economic harm, which prompted Federal government intervention for two of the domestic manufacturers. Today, the industry is emerging from this dark chapter with increasingly good news in terms of sales, productivity, employment, and capacity utilization. Moreover, a growing number of international auto manufacturers are locating production lines in the United States.

III. Background

U.S. auto manufacturing began in the 1890's as a competitor to the horse and buggy. Hundreds of manufacturers built cars based on one of three types of engines: internal combustion, steam, and electric. As production methods improved and limitations of the electric and steam engines proved to be an obstacle, the internal combustion engine became the standard for autos. Time and competition winnowed down the number of domestic manufacturers. By 1980, there were only three major domestic manufacturers – General Motors, Ford, and Chrysler. In 1985, these “Big Three” accounted for 74 percent of U.S. auto sales.

Beginning in the 1970's, however, the U.S. auto industry saw new competition from overseas, primarily from German and Japanese auto imports of smaller, more fuel efficient cars. The imports grew in market share throughout the decade, in part as a response to the 1973 oil crisis, which also gave rise to the Federal CAFE (Corporate Average Fuel Economy) standards. In 1981, the Japanese agreed to a voluntary limit on their exports of automobiles to the U.S., after which the three largest Japanese manufacturers moved to open their own U.S. manufacturing facilities. Auto manufacturers from other nations followed suit during the next three decades, and we now have 13 major manufacturers producing autos in the U.S., of whom 10 are headquartered outside of the United States.

The auto industry suffered severely during the Great Recession, as annual U.S. production fell from 10.7 million vehicles manufactured in 2007 to a low of 5.7 million in 2009. But the industry is recovering and has been one of the brighter spots in the economy since the recession ended. The U.S. produced nearly 8.7 million vehicles in 2011, making it the second most prolific auto producer in the world.⁴ It has also added approximately 100,000 jobs in vehicle and parts manufacturing since 2009, with even more jobs supported.

Auto Industry Impact on U.S. Economy

Employment: Auto manufacturing is an important direct and indirect contributor to the U.S. economy, creating jobs, attracting foreign investment, increasing trade, and spurring innovation. The motor vehicle and parts manufacturing industry directly employed 789,000 people as of January 2013,⁵ but supports more jobs than any other manufacturing industry, with a

⁴ China produced 18.4 million vehicles in 2011. Ranking third, fourth, and fifth are Japan (8.4 million), Germany (6.3 million), and South Korea (4.7 million), respectively. See Wards Auto Group, *World Vehicle Production in Major Countries* (2012).

⁵ See Bureau of Labor Statistics, *Automotive Industry: Employment, Earnings, and Hours*, (visited Mar. 1, 2013) <http://www.bls.gov/iag/tgs/iagauto.htm#emp_national>.

multiplier effect that generates employment for 8 million Americans across all 50 States.⁶ In 47 States, the industry employs more than 10,000 workers, and more than 100,000 workers in 20 States. Michigan still holds the largest number of auto-related jobs, supporting more than 1.18 million workers.

GDP: Sales of motor vehicles and parts comprise approximately 18 percent of all U.S. retail sales, while the industry as a whole comprises 3 to 3.5 percent of GDP and was responsible for \$735 billion in economic activity.⁷

Investment: The employment gains over the last several years in the motor vehicle manufacturing and parts industry highlight the importance of having an environment conducive to investment. Direct motor vehicle manufacturing and parts employment increased from 690,000 in January 2010 to the current level of 789,000. Ford and GM have expanded their plants or boosted factory shifts. Honda has announced \$500 million in new investments at its four Ohio facilities since 2010, Hyundai-Kia opened a plant in Georgia in 2009, and Volkswagen expanded capacity at its Chattanooga plant. Although most manufacturers invest in U.S. facilities under a strategy of “building where they sell,” increasingly the U.S. is the beneficiary of foreign direct investment (FDI) to build cars here for export. For example, BMW’s plant in South Carolina is the sole manufacturing location for its line of sport utility vehicles, and it exports some 70 percent of those vehicles to other nations.⁸ Honda anticipates exporting more than 200,000 U.S.-made vehicles in 2013.

Trade and Exports: The auto industry is an important contributor to the overall gains in U.S. exports in recent years. The U.S. exported 2.3 million vehicles valued at \$45 billion in 2010, and additional exports of automotive parts were valued at \$58 billion.⁹ In 2011, the top five export markets for vehicles assembled in the United States were Canada, Mexico, Germany, China, and Saudi Arabia. With new trade agreements such as the KORUS FTA, companies like Ford and Honda are now increasing their exports from the U.S. Regardless, the impact on U.S. trade is significant as the total value of U.S. auto exports grew to \$132.7 billion in 2012.¹⁰

Research and Development: According to the Alliance of Automobile Manufacturers, the industry annually spends between \$16 billion and \$18 billion on research and development, employing over 50,000 engineers. Major parts suppliers are responsible for a great deal of these investments. The industry drives innovation in many areas, including safety and other areas regulated by the government. Typically, novel features appear first on luxury brands and gradually move into the rest of the fleet.

⁶ See Alliance of Automobile Manufacturers, *Auto Economics Quick Facts* (visited Mar. 1, 2013) <<http://www.autoalliance.org/index.cfm?objectid=AD2A3AB0-AF3C-11E1-A9F3000C296BA163>>.

⁷ See Census Bureau, *Advance Monthly Sales for Retail and Food Services* (January 2013) <http://www.census.gov/retail/marts/www/marts_current.pdf>.

⁸ See International Trade Administration, *Growth Trends in U.S. Vehicle Exports*, (visited Mar. 1, 2013) <http://trade.gov/mas/manufacturing/OAAI/build/groups/public/@tg_oaai/documents/webcontent/tg_oaai_003833.pdf>.

⁹ See Department of Commerce, *The U.S. Automotive Industry* (visited Mar. 1, 2013) <<http://selectusa.commerce.gov/industry-snapshots/automotive-industry-united-states>>.

¹⁰ See International Trade Administration, *U.S. Export Fact Sheet* (visited February 28, 2013) <<http://www.trade.gov/press/press-releases/2013/export-factsheet-february2013-020813.pdf>>.

IV. Manufacturing in the 21st Century

In the automobile industry, both the end product being manufactured and the process of manufacturing are highly regulated. Motor vehicles are subject to safety standards issued by the National Highway Traffic Safety Administration (NHTSA); tailpipe and evaporative emissions standards are issued by the Environmental Protection Agency (EPA). Both agencies play a role in the regulation of fuel economy. There can be significant tradeoffs between these different types of regulation; thus changes in any one of the standards can affect the ability to meet the other standards. Fuel composition and quality are significant issues for advanced engines.

Most State regulation of motor vehicle characteristics is preempted, but California can regulate emissions with EPA consent, and other States can adopt standards identical to California's. Vehicles exported from the U.S. are subject to the standards of the importing nation, which may be quite different from U.S. standards even though they generally seek to advance the same goals. Reducing the disparity between the standards of different nations could allow more common design and parts and reduce costs through economies of scale.

The manufacturing process is subject to regulation by various actors, including the Occupational Safety and Health Administration (OSHA) and EPA. In this realm, the States generally play a relatively greater role. Many manufacturing processes are energy-intensive, making energy costs a major factor in profitability. The auto industry is the largest consumer of many different types of raw materials.

As motor vehicles grow ever more complex and sophisticated, the need for more skilled workers increases accordingly. Firms are taking different approaches to meeting this need.

V. Questions for Consideration

- What were the key factors in the industry's turnaround?
- What is the industry's manufacturing outlook?
- What factors induced international auto manufacturers to invest in the U.S.?
- What are the keys to maintaining U.S. competitiveness?
- What steps can or must be taken by the Federal government to nurture the environment that enabled these positive trends?
- To what extent are there opportunities for easing or simplifying regulatory burdens on the industry?

Please contact Brian McCullough, Gib Mullan, or Shannon Taylor of the Committee staff at (202) 225-2927 with questions.