Motor & Equipment Manufacturers Association

Written Statement

for the

United States House of Representatives

Committee on Energy & Commerce

Subcommittee on Commerce, Manufacturing, and Trade

"Our Nation of Builders: Powering U.S. Automobile Manufacturing Forward"

April 10, 2013

Introduction

The Motor & Equipment Manufacturers Association (MEMA) represents more than 1,000 companies that manufacture and supply motor vehicle parts for use in the light- and heavy-duty vehicle original equipment and aftermarket industries. MEMA represents its members through four affiliate associations: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); Motor & Equipment Remanufacturers Association (MERA); and, Original Equipment Suppliers Association (OESA).

Our members provide over 734,000 direct jobs in the motor vehicle parts manufacturing industry, making this industry the largest creator of jobs nationwide. Additionally, motor vehicle parts manufacturers generate an additional 1.27 million indirect jobs in the supply chain. The motor vehicle parts manufacturing industry provides over $220 billion in annual wages and income, and $355 billion in economic contribution to the U.S. Gross Domestic Product.

Motor vehicle parts manufacturers have facilities in all 50 states. Regional distribution of U.S. direct employment is as follows: Midwest 51 percent, Southeast 32 percent, Northeast 7 percent, Southwest 5 percent, and West 5 percent.

The top five states for direct employment are Michigan, Ohio, Indiana, Tennessee, and Kentucky. These five states make up just under 50 percent of total direct employment of motor vehicle parts manufacturing. (*See Figure 1 on page 6.*)

Next month, MEMA will release a detailed study of the motor vehicle parts manufacturing industry. The study will include employment figures for each state, as well as information on the direct and indirect economic impact for light- and heavy-duty original equipment and aftermarket segments of the industry.

Recession and Recovery

The past five years have been challenging for the United States motor vehicle industry. The great recession hit the industry particularly hard. Consumer spending and credit curtailed

sharply, which drastically diminished light vehicle purchases because consumers were choosing to not replace their older vehicles. Also, a steep rise in unemployment reduced annual vehicle miles traveled and increased deferred vehicle maintenance, contributing to declining aftermarket sales. The credit crunch hit the business community as well, and as consumption dropped, so did business investment, which also cut into the sales impacting the heavy-duty vehicle market.

Light vehicle sales fell by more than one-third from the pre-recession level of 16.5 million units in 2006 to 10.4 million units in 2009. The impact on heavy-duty vehicle sales was even more pronounced; as the 2009 low-point of 199,000 units was nearly two-thirds that of the 2006 peak of 561,000 units. The impact of declining vehicle sales carried through to vehicle production, as 2009 light and heavy duty production of 5.8 million units was just over half of the 2006 value.

Consistent with recovery efforts within the broader motor vehicle industry, the U.S. motor vehicle parts manufacturing sector has experienced substantive restructuring over the past five years. The entire industry is now more efficient, better utilized, and better prepared for volume fluctuations.

The motor vehicle industry, aided by a slow but steadily recovering economy, has seen a rebound from the worst of the recession. As the economy has stabilized, the industry is growing once again. In 2012, light vehicle sales reached nearly 14.5 million units, while the heavy-duty segment moved 345,000 units. As a result, vehicle production has rebounded with 2012 combined vehicle production at just under 10.4 million units.

Suppliers work closely with vehicle manufacturers to provide cutting edge, innovative systems and components to consumers. In order to meet regulatory requirements and consumer demand for safer, cleaner, and more advanced vehicles, motor vehicle parts manufacturers have increasingly taken on a significant role in the research, development, engineering, and manufacturing of the advanced technologies necessary to meet these ever-increasing goals. Working together, suppliers and vehicle manufacturers develop an assortment of technologies and products that improve vehicle performance, safety, fuel efficiency, and emissions. Examples of fuel efficiency and emissions improvement technologies include – but are not limited to –hybrid and electric vehicle batteries, clean diesel engines, fuel cell technology, lighter weight materials, innovative glass, thermal management systems, waste heat recovery systems, and anti-idling technology. The next generation of vehicle safety advancements includes various driver assist systems (*e.g.* adaptive cruise control with braking, collision imminent braking, dynamic brake support, lane keeping systems, blind zone management systems, pedestrian detection) as well as advanced vehicle lighting, improved driver visibility and occupant protection.

The Road Ahead

While the recent turnaround has been positive, the industry remains below peak levels. For example light-duty vehicle sales are approximately 13 percent below their peak in 2006, and this has a corresponding effect on the parts manufacturing production and workforce.

While confidence in the industry is growing, there are a number of federal public policy issues impacting the overall health of the industry.

Regulations can impose substantial compliance costs on manufacturers and onerous requirements on the way companies conduct business. MEMA believes that regulations must be applied in a balanced fashion without legislating through the regulatory process and those final regulations should not be burdensome or harmful to U.S. competitiveness.

Conflict Mineral Reporting Requirements

The Securities and Exchange Commission adopted a final rule for Section 1502 of the Dodd-Frank Financial Reform Act, establishing reporting requirements for companies whose products contain "conflict minerals" from the Democratic Republic of Congo (DRC), and adjoining countries. Under the rule, companies must file a Conflict Mineral Report and disclose the mine of origin, the smelter used to process the minerals into metals, and demonstrate their due diligence on the source and chain of custody of conflict minerals. The requirements of the rule exceed those outlined in statute.

The minerals in question (tin, tungsten, tantalum and gold) are used in a wide variety of manufacturing processes and products, especially motor vehicle parts manufacturing, up and down the supply chain. Tracing mineral origin throughout the supply chain, passing through multiple tiers of suppliers, is virtually impossible to do with any certainty or accuracy. This rule is overly broad, unworkable, and places an expensive and undue burden on supply chain manufacturing companies.

Labor Regulations and Proposals

There has been a significant increase in regulatory activity by the National Labor Relations Board (NLRB). In 2011, the NLRB began issuing decisions and proposing rules that would have dramatic negative impacts on employer-employee relationships in workplaces across the country. There are several highly controversial NLRB activities including requiring employers post information regarding an employee's right to unionize, shortening the timeframe in which union elections must occur, dictating access to private property, and issuing decisions to allow micro-unions within a facility. Furthermore, the Department of Labor (DOL) issued a proposed rule that would limit an employer's right to consult with legal counsel in matters relating to union elections and collective bargaining. These NLRB and DOL activities indicate an aggressive and politically motivated pro-union agenda on behalf of the administration. These proposals would be harmful to employer-employee relations.

Legislative issues are also important to our industry and members. If enacted, these measures would have a positive impact on the industry and lead to greater economic growth, production, and jobs. For example, the House of Representatives is expected to vote on the Preventing Greater Uncertainty in Labor-Management Relations Act (H.R. 1120). A recent court ruling fond that the administration's recess appointments to the NLRB were unconstitutional: this means that the NLRB does not have the required three member quorum. H.R. 1120 temporarily prohibits NLRB activities while the quorum is lacking and prevents the board from enforcing decisions or rules promulgated since the Jan. 2012 recess appointments were made.

The court decision finding the January 2012 recess appointments to the National Labor Relations Board (NLRB) unconstitutional has created uncertainty for both employers and employees. This legislation is important to suppliers because it will provide clarity for companies and unions. At the same time, the legislation preserves the agency's essential functions, such as the workers' ability to petition for union elections and the ability of the NLRB regional offices to accept and process unfair labor practice charges.

Tax Provisions that Encourage Investment and Provide Certainty

MEMA supports efforts to reform the U.S. tax code that make it simpler for manufactures to conduct their businesses and allow them to compete in an increasingly competitive global market. The federal tax system is too complicated, burdensome, unfair, and inefficient for individuals and businesses alike. Many important tax provisions critical to manufacturers, such as the Research and Development (R&D) Tax Credit, function on an "on-again, off-again" basis, making it difficult for businesses to create long-term investment plans. The tax system should foster the development and deployment of new products in this country. The need for reform is crucial for American competitiveness as many competing countries have an edge in the global marketplace due to their country's tax requirements. MEMA supports a simpler, more predictable, and fairer tax code that would help generate more investment, economic growth, and job creation.

Policies that Protect Intellectual Property

The manufacturing and trafficking of counterfeit products is a serious problem for the motor vehicle supplier industry. A wide range of products are being counterfeited, including many safety-related parts, such as brakes and brake pads, brake fluid, tires, structural parts and automotive lighting. In the past, MEMA conservatively estimated counterfeit goods cost motor vehicle suppliers at least $3 billion in the U.S. and $12 billion globally in lost sales. MEMA supports legislation to strengthen enforcement measures to prevent counterfeit parts from being manufactured and imported.

International Trade Policies that Open Global Markets and Reduce Barriers

MEMA continues to work with appropriate federal agencies and congressional offices in promoting policies aimed at opening world markets and creating new opportunities for motor vehicle parts suppliers. The U.S. is party to numerous Free Trade Agreements with other countries and continues to participate in negotiations for new trade agreements with many countries and regions of the world. International trade agreements must address the need for a consistent availability of raw materials including steel, magnesium, and rare earth minerals. Additionally, the growing globalization of the motor vehicle industry makes it imperative for companies to be competitive domestically and abroad, which requires greater regulatory cooperation between trading partners. Trading partners and their respective industries will greatly benefit from the elimination of regulatory redundancies and overlapping or duplicative certification procedures as it will lower the costs of doing business, expand new market opportunities, and enhance global competitiveness.

Energy and Environmental Policies that Encourage Investment and Innovation in Products and Manufacturing

MEMA supports government programs that assist manufacturers not only to develop and deploy new technologies for cleaner and more efficient vehicles, but also to make manufacturing and remanufacturing more efficient. Within the U.S. Department of Energy (DOE), government programs have taken the form of grants, loans, and public-private partnerships. These programs are critical to the ability of vehicle manufacturers to meet the current and future fuel efficiency and emissions mandates. Suppliers work independently from and in collaboration with vehicle manufacturers to conduct research and development to make vehicles cleaner and more efficient. Federal programs such as those at DOE must be applicable to both suppliers and vehicle manufacturers.

To reach these goals, Congress should pass the Advanced Vehicle Technology Act, which is being reintroduced this week by Rep. Gary Peters. The investments called for in this legislation will advance fuel efficiency, lower emissions, and expand and strengthen U.S. manufacturing capabilities for the next generation of automobiles and increase our nation's energy independence. It is important to note that the funding in this legislation is not new funding, but rather provides greater congressional direction and oversight to vehicle technology research conducted by DOE.

MEMA also encourages incentivizing the purchase of advanced vehicle technologies.

Long-Term Transportation Reauthorization that Provides Dependable Methods for Manufacturers to Ship Goods

As manufacturers, motor vehicle parts suppliers rely on a sound transportation system for the safe and efficient flow of commerce. A long-term transportation program is critical to ensure that our highway system is properly maintained to meet economic needs. MEMA continues to support the passage of long-term transportation reauthorization legislation.

Conclusion

The motor vehicle parts manufacturing industry represents a significant part of the U.S. manufacturing base and economy as a whole. While the industry has made gains from the depths of the recession, certain changes in public policy issues – like those outlined above – will have a positive impact and generate further expansion and job growth.

MEMA appreciates the opportunity to share our views with the Subcommittee, and we look forward to working with you to provide more detailed information on these and other issues.

Respectfully submitted,

Robert E. McKenna

President & CEO

Figure 1. State Distribution of Total U.S. Direct Employment

Total U.S. Direct Employment	
TOTAL	**734,222**
Michigan	102,624
Ohio	89,423
Indiana	79,651
Tennessee	48,284
Kentucky	41,097
Illinois	37,087
Alabama	30,566
Texas	29,422
North Carolina	25,843
South Carolina	24,569
California	22,736
Pennsylvania	21,130
New York	19,005
Missouri	16,648
Georgia	16,287
Iowa	14,398
Wisconsin	13,542
Arkansas	10,212
Virginia	9,729
Oklahoma	8,086
Nebraska	7,911
Mississippi	6,888
Kansas	6,833
Florida	5,843
Utah	5,577
Connecticut	5,069
Minnesota	4,695
Arizona	3,765
Oregon	3,249
Washington	3,092
New Jersey	2,455
West Virginia	2,327
South Dakota	2,306
Louisiana	2,277
Massachusetts	2,222
Colorado	2,168
Maryland	1,610
North Dakota	1,320
New Hampshire	1,062
Idaho	575
Rhode Island	529
Vermont	442
Maine	387
Nevada	344
Montana	289
Delaware	245
New Mexico	203
Wyoming	169
Hawaii	22
Alaska	7
District of Columbia	0