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Testimony of Scott Paradise
Magna International Inc.
Before the House Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade
Our Nation of Builders: Powering U.S. Automobile Manufacturing Forward
April 10, 2013

Good morning, Mr. Chairman and Members of the Subcommittee. My name is Scott Paradise. I am the vice president of business development for Magna International, and on behalf of the nearly 20,000 Magna employees working at 62 manufacturing facilities in 15 states, it is a pleasure to be here today to share Magna's perspectives on the future of American automobile manufacturing.

As a company, Magna is focused on delivering superior value to our customers through innovative processes and world-class manufacturing. We are the most diversified automotive supplier in the world. We design, develop and manufacture body, chassis, interiors, exteriors, seating, powertrain, electronics, mirrors, closures and roof systems and modules, primarily for sale to original equipment manufacturers (OEMs) of cars and light trucks in North America, Europe, Asia, South America and Africa. We also offer complete vehicle engineering and contract manufacturing to OEMs around the world.

Magna is keenly aware of the intensely competitive market in which we compete around the globe. Started in 1957, Magna is now the largest automotive supplier in the United States and the fourth-largest supplier in the world, operating more than 400 manufacturing and product development facilities in 29 countries. In 2012, Magna's global sales approached \$31 billion USD.



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While our global presence is robust, I am pleased to inform you of Magna's increased investment and hiring in the United States. Between 2009 and 2017, we have committed to investing nearly \$840 million in 22 new or expanded plants and in the process will create or maintain 6,500 jobs in communities such as Michigan, Alabama, South Carolina, Georgia, Kentucky, Tennessee, and Missouri. These are, and will be, meaningful jobs with good pay and benefits, the kind of jobs that support families and help them build for a better future.

Let me commend Chairman Terry and Ranking Member Schakowsky for convening this important hearing today. Automotive parts manufacturing helps create jobs and drive the entire U.S. economy as a world leader:

- In 2012, more than 734,000 jobs were directly supported by the motor vehicle parts manufacturing industry.
- Over \$220 billion in total wages and income was paid to workers.
- Nearly \$355 billion in contribution to the GDP was generated by automotive parts suppliers – 2.3% of U.S. GDP

(Source: "The Economic Impact of the Motor Vehicle Parts Manufacturing Industry on the United States," prepared by HIS and released April 2013 by the Motor & Equipment Manufacturers Association.)

Therefore, it is critical to the health of the U.S. economy that Congress and the automotive manufacturing industry work together to encourage innovation and job growth in the industry. Magna is pleased to share our views with members of the Subcommittee on areas where Congress might focus to help ensure sustained American leadership in the automotive manufacturing sector. In that regard, I will focus my remarks on the need for a public/private partnership between government and industry as a means of growing the manufacturing base in the United States. A successful public/private partnership is based on the recognition that certain



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factors are controlled by the government, while other factors are best controlled by the private sector. Problems arise and jobs are lost when one side attempts to control decisions that are best left to the other.

Before discussing areas where the federal government can contribute to a successful public/private partnership with the automotive manufacturing industry, I will briefly highlight two areas – of many – where Magna and other private sector manufacturers must control their own costs. These two are far from exhaustive, but they are illustrative of the types of costs that industry controls on its own.

I. R&D and Workforce Development

Magna is committed to innovation that meets consumer demands for cleaner, more efficient and safer vehicles. We have dedicated an enormous amount of capital to researching and developing new breakthroughs in green technologies, fuel efficiency, process efficiency, lightweight materials, safety and comfort and convenience. Simultaneously, Magna maintains a workforce that is fast, accountable and customer focused. We cultivate an industry leading employee base through our dedication to management training, employee training, apprenticeship programs, fairness committees and employee advocates. For instance, Magna's tool and die machinists are among the many skilled workers who receive state-of-the-art technical training at 16 engineering and product development facilities in a concerted effort to keep our workforce current with the latest technology.

II. Product Cost

The price we charge to OEM purchasers for our leading products is another important structural factor controlled by Magna. We do so by working with technical experts to optimize design and by actively assessing and reassessing our supply base to identify the most capable and efficient



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suppliers at the best prices. By carefully controlling our supply chain selections, we are able to effectively manage our overall cost structure.

Costs Controlled by the Federal Government

Now I would like to turn my focus to the public component of the successful public/private partnership. As I noted above, the private manufacturing sector is able to control its cost structure to a large yet incomplete degree. The federal government controls the other portion and therefore has the power to do significant harm or good to the United States manufacturing industry.

I propose five areas in which Congress and this Subcommittee should take particular care in order to help ensure sustained American leadership in the automotive manufacturing sector: Regulation, legislation, corporate tax burden, workforce development, and incentives and funding.

I. Regulation

Magna recognizes that the federal government is best positioned to set certain standards that protect American consumers and American workers. We applaud the efforts of the National Highway Traffic Safety Administration (NHTSA), for instance, to protect drivers and passengers on the nation's roads, and we have been an active partner with NHTSA to help shape the agency's safety regulations in a way that maximizes safety while leveraging the expertise and innovation of the private sector. Given the need for a continued regulatory framework, we simply ask that the government collaborate in a meaningful way with the private sector to craft regulations that respond to the public interest in a way that unleashes the potential of automotive manufacturers.

Indeed, the automotive manufacturing industry often has a vested interest in pursuing the same policy goals as regulators, which is why we believe the government should maintain an active dialogue with industry rather than imposing new regulations without meaningful discussion. One need look no further than gas mileage innovations in recent years to see this dynamic in action. In



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this prolonged period of high gas prices and tight household budgets, consumers demand cars that get more miles to the gallon. Therefore, increasing fuel efficiency would already be in the best interest of automotive manufacturers, even if there were no federal regulations mandating as much.

Similarly, as I have alluded to, Magna is an industry leader in innovating new safety features to protect drivers and passengers, and we would continue to do so in the absence of federal regulations. We go the extra mile to make safer cars not only because safety technology can differentiate automakers' products and help develop loyal customers, but because our innovations make the roads safer for our own families, friends, and employees. While many auto safety features mitigate damage during and after an accident, Magna is already developing active safety technology which can help prevent accidents altogether, even in the absence of a federal mandate. Examples include rear-view cameras, lane departure warning systems, intelligent headlamps and crash-avoidance systems.

II. Legislation

As is the case with regulations, Magna understands the important role that this Subcommittee and the Congress play in passing legislation to address critical gaps left by the private marketplace. I believe you will find an eager partner in the private sector when it comes to crafting legislation, as we are on the front lines every day. The key objective from Magna's perspective is to continue the active dialogue and collaboration between the public and private sector to ensure that any new legislation achieves its policy objectives in a way that does not create new problems where none previously existed. Hearings such as today's are critical to making this process work for U.S. consumers and the U.S. economy.

III. Corporate Tax Burden



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Congress can play a constructive role in tax reform. We recognize that the issue of corporate tax reform is one of a great deal of complexity that extends beyond the automotive and manufacturing sectors. The high corporate tax burden in the United States – the second highest among countries that participate in the Organization for Economic Co-operation and Development – is a drag on American businesses and job creators. The high corporate rate discourages capital investment in the U.S., as companies may be lured to locate major operations in countries with a lower tax burden such as Mexico. Magna is proud to have 20,000 American employees in 15 states, but the high corporate tax rate serves as a disincentive that must be weighed in strategic business decisions about future capital investment and growth. Reducing the overall tax burden on corporations would help spur greater capital investment, increase manufacturing output, promote job retention in the United States and stimulate the U.S. economy.

IV. Workforce Development

The United States is unquestionably the top high-skill manufacturing nation in the world. While market forces have pushed many low-skill manufacturing jobs abroad, the U.S. manufacturing industry has been undergoing something of a renaissance through high-skill labor, including in the automotive sector. These are high-quality, high-paying jobs that cannot be easily outsourced. However, they require a top-caliber American workforce to meet the needs of 21st century manufacturers. Congress should therefore work with the private sector to develop workforce training initiatives that respond to employer needs and prepare American workers for the high-skill manufacturing industry of the future. Such workforce development initiatives could include:

- Investing in community colleges, where much of the nation's talented manufacturing labor force originates, and promoting partnerships between community colleges and industry.
- Creating new scholarship and fellowship funds for high-skill manufacturing programs.
- Altering the selection criteria of government agency programs to encourage greater emphasis on new manufacturing technologies.



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- Recommitting to adequately funding Workforce Investment Act programs.
- Supporting innovative public/private initiatives at the local and state level.

For example, one state-level public/private initiative that has been particularly successful is Michigan's "Community Ventures" program. Collaboratively run by Governor Rick Snyder and the Michigan Economic Development Corporation, Community Ventures leverages public and private resources to help structurally unemployed workers develop the skills they need to thrive in the 21st century economy. In doing so, Community Ventures also responds to the labor force needs of Michigan businesses, such as Magna and numerous other manufacturers. I am pleased to report that we have hired approximately 75 employees through this program, not only giving them a path out of poverty, but also putting them on a path to long-term career success. Companies receive a \$5,000 wage reimbursement grant for each eligible program participant hired, and this sort of public/private initiative has become especially critical in light of budget cuts to the federal Workforce Investment Act initiative.

Another example of a successful public/private initiative that could be scaled nationally is Focus:HOPE in Detroit, an organization which Magna joined in 2003. Focus:HOPE provides the training programs and skills development that people need for high-tech manufacturing and engineering careers. Magna has benefited directly at our Magna Seating facility in Highland Park, where students from Focus:HOPE career training programs have been hired. These students arrive with the skills and training they need to succeed within the company, making them a growth asset to Detroit and Detroit's economy.



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V. Incentives and Funding

Congress can further encourage the growth of the manufacturing sector through tax incentives and targeted funding to fill gaps that exist in the private marketplace. Such initiatives could include, among others:

- Energy efficiency tax credits to promote widespread adoption of green technologies, including automotive components.
- R&D tax credits to promote continued American dominance in manufacturing innovation. The credit is beneficial across numerous industries and sectors, but the capital-intensive manufacturing industry derives particular benefit. The United States has rapidly lost ground to other OECD countries when it comes to research and development incentives, and this is a recipe for long-term decline of the U.S. manufacturing sector, as new innovations will increasingly originate overseas.
- Infrastructure investments to modernize and improve the nation's roads, bridges, ports and schools. Such investments not only will lay the foundation for several generations' worth of sustainable economic growth, but also provide immediate job creation in the manufacturing and construction sectors.



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Conclusion

The automotive manufacturing industry is a key driver of the U.S. economy and U.S. job creation. In order to remain a pillar of U.S. economic growth, a strong public/private partnership must exist between auto manufacturers and the government. Hearings such as this are a critical element of creating an open flow of information and dialogue between the public and private sectors.

On behalf of Magna's 20,000 American employees, I thank you for this opportunity to testify and share Magna's views on strengthening the U.S. automotive manufacturing industry. I look forward to answering any questions you may have.