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December 11, 2017

The Honorable John Shimkus
Chairman
Subcommittee on Environment
United States House of Representatives
Washington, D.C. 20515

The Honorable Bob Latta
Chairman
Subcommittee on Digital Commerce and
Consumer Protection
United States House of Representatives
Washington, D.C. 20515

RE: December 12, 2017 Joint Hearing: "Update on the Corporate Average Fuel Economy Program (CAFE) and Greenhouse Gas Emissions Standards for Motor Vehicles"

Dear Chairmen Shimkus and Latta:

The Motor & Equipment Manufacturers Association (MEMA) represents more than 1,000 vehicle suppliers that manufacture and remanufacture components and systems for use in passenger cars and heavy trucks providing original equipment (OE) to new vehicles as well as aftermarket parts to service, maintain and repair vehicles on the road today.[1] The motor vehicle components manufacturing industry is the nation's largest direct employer of manufacturing jobs – employing over 871,000 workers in all 50 states – and contributes nearly $435 billion to the U.S. GDP. Suppliers are responsible for providing the technologies and components that make up more than 77 percent of the value of a new vehicle.

MEMA submits the following statement regarding the cited subject for the record and for the subcommittees' consideration. While MEMA supports pragmatic progress for the model years' (MYs) 2022–2025 standards, MEMA strongly opposes any change to the MY2021 standards. Major changes to the Corporate Average Fuel Economy (CAFE) and greenhouse gas (GHG) vehicle emissions standards would result in significant ramifications on supplier jobs as well as business and technology investments. Suppliers have developed, and will continue to develop, the needed emissions-reducing and fuel efficiency technologies to fruition. A forward direction of the standards is paramount to the supplier industry and ensures that the U.S. continues to be a technological leader in the global motor vehicle industry. Progress on the standards allows consumers a broader range of advanced technologies that provide consumers fuel efficiency and relief at the pump.

Suppliers Role and Support of the One National Program

Motor vehicle suppliers play the leading role in developing and manufacturing the innovative technologies and materials that improve vehicle fuel efficiency and reduce vehicle emissions. Suppliers anticipate the needs of vehicle manufacturers by investing, developing, and deploying multiple technology solutions that are critical to the vehicle manufacturers' strategies in meeting the GHG emissions targets.

[1] MEMA represents vehicle suppliers through the following four divisions: Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA), Motor & Equipment Remanufacturers Association (MERA) and Original Equipment Suppliers Association (OESA).

AASA HDMA MERA OESA

MEMA strongly supports the One National Program implemented by the U.S. Environmental Protection Agency (EPA), the National Highway Traffic Safety Administration (NHTSA), and the California Air Resources Board (ARB). The One National Program provides suppliers regulatory stability and certainty. A National Program of unified targets and timelines is critical to allow motor vehicle suppliers to continually innovate and advance research into commercially viable products and technologies. Anything that falls short of a National Program will fail to provide the long-term planning certainty the industry needs to make long-term business and technology investment decisions.

MEMA Supports Forward Progress on the Standards for MYs 2022–2025, Opposes any Change to the MY2021 Standards

MEMA supports continued progress in the MYs 2022–2025 standards. Major changes to the stringency of these standards would result in significant impacts to the supplier industry and its long-term business and technology investments. It is imperative that the agencies set the CAFE and GHG vehicle emissions standards that allow the vehicle industry as a whole to grow, innovate, and create jobs. However, this measure includes the potential economic implications to all sectors within the vehicle industry ecosystem, including suppliers.

The EPA and NHTSA have made clear that the agencies are considering input on whether the light-duty vehicle GHG and CAFE standards established for MY2021 remain appropriate.[2] MEMA opposes any change to the MY2021 standards. The agencies must remain on course for the MY2021 standard, as this was the target committed to by the agencies and the industry in the 2012 final rule. A shift to the MY2021 standard would significantly increase the level of uncertainty for the supplier industry in an already uncertain time. Suppliers have completed and have ongoing extensive investments in research and development to bring needed emissions-reducing technologies to fruition that enable the vehicle manufacturers to meet the 2021 standards. Therefore, MEMA urges the subcommittees to support the MY2021 standard that was set in the 2012 rule and recommends that policymakers focus on evaluating the CAFE and GHG standards for MYs 2022–2025.

Risk for Supplier Investments and Resources

Suppliers will be at great risk if there is any shift to the MY2021 standards or major changes to the program through MY2025 because of the investments they have already made. Typically, suppliers take on the initial investments and the associated risks to develop innovative technologies for their vehicle manufacturer customers, who are concurrently planning for their own future vehicle design cycles. The roll-out of these technologies requires major economic resources and significant lead-time. Suppliers' product planning and investment costs include stages, such as:

- product concept research;
- engineering development for the part or system;
- design of the manufacturing process;
- customer validation of part or system prior to production;
- production facility updates; and, finally,
- product production and deployment.

Each of these stages can range anywhere from six months to two years, depending on many variables. As a result, the timeline from the initial investment in the research and development by the supplier to deployment of the technology can span up to 10 years. Suppliers are not paid by their customers until these technologies are deployed in a vehicle being manufactured. These costs must be amortized over several

[2] 82 Fed Reg 39552

years, so delaying a product deployment or shortening a product's anticipated lifespan will jeopardize these carefully planned technology investments put in place several years in advance.

Suppliers have made long-term investment decisions based on the CAFE and GHG standards set in the 2012 rulemaking. In fact, automotive suppliers have seen an overall 19 percent increase in employment since 2012 – an employment growth rate three times that of any major manufacturing sector in the nation. Further, original equipment suppliers have seen an even higher increase in employment – 23 percent since 2012. This jump can partly be attributed to advanced technology development spurred by the 2012 rulemaking.

Suppliers are actively investing in technologies that will enable the U.S. vehicle industry to meet emissions and fuel efficiency standards. Content from suppliers make up more than 77 percent of the value of a new vehicle. Out of the 7.25 million direct and indirect jobs in the vehicle manufacturing sector, suppliers create 44 percent of those jobs compared to the vehicle manufacturers' 33 percent and auto dealers' 23 percent.[3] Accounting for 2.9 percent of the total U.S. employment market directly employing 871,000 workers with a total employment impact of 4.26 million jobs, suppliers are the largest sector of manufacturing jobs in the nation.[4] Many of these supplier sector jobs have been contingent on technology advancement for compliance with the vehicle GHG and CAFE standards.

Supplier direct employment in the U.S. is highest in Michigan, Ohio, and Indiana. But importantly, the Southeast region has seen the highest growth over the past few years and now accounts for one-third of all supplier employees.[5] Suppliers employ workers in all 50 states. Thus, an economic impact to the motor vehicle supplier industry would affect all corners of the U.S.

Relaxing the stringency of the MY2021 standard and making major changes to the MYs 2022–2025 standards would cause detrimental adverse economic impacts – including job losses – to the substantial investment levels to which suppliers committed in 2012. These investments of extensive research and development, human capital, and manufacturing equipment and facilities have been made by all suppliers – tier 1, 2, and 3 suppliers and beyond – to satisfy GHG emissions requirements and CAFE standards. Suppliers support research activities with the U.S. Department of Energy, the National Laboratories, and several universities to bring these and future emissions-reducing technologies to fruition. Changes to these standards would significantly impact the supplier industry with stranded costs and investments and impact the product cycle, which in turn will impact revenue needed for future technological innovation. Policymakers must weigh these economic and employment factors when determining the impact to industry if standards are changed. A failure to consider these adverse implications for the supplier industry would be contrary to the spirit of a robust midterm evaluation.

A Range of Technologies Exists Today

As EPA and NHTSA concluded in the 2016 draft Technical Assessment Report (TAR), the supplier industry is currently providing a range of technologies that could be used to achieve the MYs 2022–2025

[3] "Cars Move America: State of the Auto Industry" available here: https://autoalliance.org/wp-content/uploads/2017/01/2016_Cars_Move_America_Report.pdf, Alliance of Automobile Manufacturers, 2016
[4] "Driving the Future: The Employment and Economic Impact of the Vehicle Supplier Industry in the U.S." Available here: https://www.mema.org/sites/default/files/MEMA_ImpactBook.pdf, MEMA, 2016
[5] Id, pg. 8.

standards.[6] Further, since data was gathered for the TAR, there are, and will continue to be, emerging technologies that are being pursued by suppliers that will be available in the 2022-2025 timeframe that could provide further options for vehicle manufacturers.[7] Moreover, suppliers continue to improve a myriad of technologies as industry pushes innovation – specifically, more capable 48 volt systems, higher efficiency turbo engines, various advances in thermal management and control technologies, and new composites and materials for improved light weighting.

Risk of Putting U.S. Companies at a Competitive Disadvantage

U.S. companies are leading the way in providing the innovative emissions-reducing technology necessary for vehicle manufacturers to meet the U.S. and other forward-moving global standards. Significantly relaxing the stringency of the MYs 2022–2025 standards would put U.S. companies at a competitive disadvantage. This is because the U.S. has been a leader in progressive vehicle GHG emissions reduction targets. Reducing the stringency of the standards in the U.S. increases the likelihood that work on these emissions-reducing technologies would shift to other markets. In an increasingly competitive global marketplace, a shift in the GHG standards would tilt the balance away from American innovation, where U.S. companies currently have a competitive edge. If Europe and China progress ahead of the U.S. in the targets, it would result in a scenario where investments that would have been made in the U.S. will instead go to China or the EU. This will result in a loss of U.S. jobs and innovative technology development.

The National Program's long-term targets have provided the domestic supplier industry with significant economic and technology development opportunities and have been key to U.S. companies' global leadership in these technologies. MEMA urges the subcommittees to ensure that the U.S. continues to be a global leader in these emissions-reducing technologies and further enhance U.S. competitiveness in the motor vehicle industry worldwide.

Conclusion

MEMA urges against changes to the MY2021 standards and supports continued forward progress in the CAFE and GHG vehicle standards in MYs 2022–2025. Major shifts in these standards would impact the supplier industry by causing major investment disruption including stranded costs and investments; result in adverse economic effect including loss of jobs; and threaten the U.S. global leadership position in the motor vehicle industry. Any changes to these standards must consider implications to the supplier industry.

Please contact Catherine Boland, vice president of legislative affairs at (202) 312-9241 or cboland@mema.org or Laurie Holmes, senior director of environmental policy at (202) 312-9247 or lholmes@mema.org with any questions.

Sincerely,

Ann Wilson
Senior Vice President, Government Affairs

[6] 2016 Draft Technical Assessment Report: Midterm Evaluation of Light-Duty Vehicle Greenhouse Gas Emissions Standards and Corporate Average Fuel Economy Standards for Model Years 2022–2025, ES-6 – ES-7. Docket Nos. EPA-HQ-OAR-2015-0827; NHTSA-2016-0068.
[7] *Ibid.*