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"U.S.-Japan Trade Agreements"
House Ways and Means Trade Subcommittee
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Chairman Blumenauer, Ranking Member Buchanan and members of the Committee, I am honored to testify on behalf of the one million active and retired members of the International Union, United Automobile, Aerospace, and Agricultural Implement Workers (UAW) on trade policies that impact U.S. workers and domestic manufacturing. Thank you for the opportunity to share our views on the Stage One trade agreement between United States and Japan and the possible ramifications of a Stage Two agreement.

No other membership organization in the United States is more directly impacted by the health and stability of the domestic auto manufacturing industry than UAW members and retirees. The majority of our members and retirees work in or have retired from the auto industry. Our trade policies have real life consequences for manufacturing workers, retirees, and their families. The Stage One U.S.-Japan Trade Agreement is a lopsided agreement by all appearances. It is designed to address short-term objectives without advancing the overall interests of our country. We urge the Administration to abandon this approach and instead find an alternative that focuses on domestic strategies to strengthen our manufacturing sector and strengthen worker and environmental protections. UAW stands ready to work with the Administration, Congress, and other stakeholders on a pro-worker, manufacturing trade model.

Japan's Motor Vehicle Market

Today, Japan is one of the most closed automotive markets in the world and our massive trade imbalance with Japan in the automotive sector is a problem the U.S. automotive industry is all too familiar with. Unfortunately, the Administration's approach with Japan could ultimately make this situation worse. We urge, at a minimum, for the Administration to exclude the light and heavy-duty auto sectors from any so-called Free Trade Agreement with Japan.

For decades, Japan has operated a closed market – excluding and limiting foreign imports while aggressively advancing its own economic interests through an export-led growth strategy. Meanwhile, the U.S. has maintained one of the most open markets allowing companies from around the globe near unfettered access. It should come as no surprise that the 2018 U.S. trade

deficit in goods with Japan was \$67 billion and the 2019 total is expected to exceed that amount. The automotive sector has been harmed as much or more than any other by this grossly uneven relationship.

While Japan is the third largest auto market in the world, it only imported 360,000 vehicles in 2018, or 6.9 percent of its 5.2 million sales. In contrast, the U.S. imported nearly 9 million vehicles in 2018, accounting for 52 percent of sales. In 2018, the U.S. had a \$67.2 billion trade deficit with Japan, with nearly 77 percent of that deficit coming from motor vehicles and parts. Last year, Japan had a \$40.4 billion trade surplus in motor vehicles, and \$11.2 billion surplus in auto parts. Over the past fifteen years, Japan’s motor vehicle and parts trade imbalance has only worsened, with the motor vehicle imbalance growing \$4.8 billion (14 percent) since 2002, and the auto parts imbalance growing \$2.2 billion (24 percent). It has been estimated that the U.S.-Japan trade imbalance has eliminated nearly 900,000 U.S. jobs.

What makes the prospect of a more balanced playing field so unlikely, is that Japan’s automotive tariff *is already zero percent*. To insulate its domestic automotive manufacturers, Japan instead uses non-tariff barriers (NTBs). NTBs to foreign autos in the Japanese market have been inherently structural, ever-changing, and impervious to American negotiating efforts. These barriers include: currency manipulation; a discriminatory system of taxes; onerous and costly vehicle certification procedures for imported automobiles; a complex and changing set of safety, noise, and pollution standards, many which do not conform to international standards and add significant development and production costs; an unwillingness by Japanese dealerships to carry foreign automobiles; and government incentives to purchase Japanese-made *kei* cars. These barriers have created an uneven playing field, so much so, that for every car the U.S. exported to Japan in 2018, Japan sent 89 back.

**2018 Motor Vehicle (HS 8703)
U.S./Japan Trade Imbalance, by Unit**

Description	Number of Units
U.S. Motor Vehicles Imported to Japan	19,399
Japanese Motor Vehicles Exported to U.S.	1,733,195

Source: UN Comtrade Database

In 2018, Japan produced 9.3 million vehicles, in a market that only sold 5.2 million vehicles. Any loosening of the 2.5 percent automotive, 25 percent light truck tariff, and duties on auto parts would further direct Japan’s overcapacity to our shores, exacerbating the problem. In addition, the elimination of the light-truck tariff would considerably reduce the existing economic incentive for Japanese producers to locate production (and employment) here in the U.S. Moreover, elimination of these tariffs could undermine North American supply chains.

The Trump Administration is hardly the first that has sought to create an even playing field. Decades of well-intentioned efforts by U.S. trade negotiators from Republican and Democratic administrations and efforts by auto manufacturers from the U.S. and around the globe to open the Japanese auto market to foreign competition have been an unambiguous failure.

Nearly every prior administration over the last several decades has turned to negotiations to try to unlock the Japanese auto market and failed—from the 1987 Market-Oriented Sector-Specific (MOSS) Talks on Transportation Machinery under President Reagan, to the 1989 Structural Impediments Initiative under President George H.W. Bush, to the 1995 U.S.-Japan Auto Agreement under President Clinton.

On July 16, 2000, U.S. Senators Arlen Specter and Carl Levin, co-chairs of the then-existing bipartisan Senate Auto Parts Task Force, sent a letter to the White House noting the trade deal “has not accomplished its stated objective to significantly expand sales opportunities resulting in purchases of foreign parts by Japanese firms in Japan and through their transplants in the U.S. Also, it has failed to resolve market access problems for foreign autos and parts in Japan...It is unacceptable that current Japanese auto and auto parts trade barriers continue to remain in place after decades of bilateral negotiations to remove them and a Framework Agreement aimed at opening and deregulating Japan’s auto and auto parts market...The only way to reduce the U.S.-Japan deficit is to deal with the vehicle and auto parts deficit.”

Sadly, the senators’ words from the beginning of this century remain relevant to this day.

Concerns about Stage One

The agreement is described as being “Stage One” of a set of longer negotiations. We have little faith that Japan will open its market for manufactured products, as it has refused to do since the early 1980s. The agreement fails to address the broader cross-section of trade policy interests that the U.S. has, and must pursue, to ensure that trade is truly a force for progress, rather than a limited and, ultimately, destructive effort.

The Stage One agreement is primarily focused on gaining access to Japan’s agricultural market while undermining the production of some U.S. industries, and the jobs of workers at those companies, via unilateral reductions in industrial tariffs. To be blunt, it trades away manufacturing jobs for limited, and unassured market access for agricultural products. It appears to be more of a response to existing trade tensions than a proper trade policy approach.

We are concerned about difficulties facing farming as a result of the ongoing trade conflict with China. In fact, UAW members who build our world class farming equipment are going through hard times. We stand in solidarity with communities that have become pawns in a trade dispute that was not of their making. But, the U.S.-Japan Trade Agreement seeks to advance interests at the cost of industrial workers. Farmers, ranchers and industrial workers are looking for policies that advance all American interests.

The administration's exclusion of the auto sector was well advised but that does not mean workers do not stand to be harmed by it. Each of the products on the list of roughly 240 industrial products included in the proposed tariff schedule could become lost jobs in the U.S. These jobs could be destroyed without any offsetting market access in Japan for U.S. workers and their products. This is an unacceptable trade-off that undermines efforts to strengthen domestic manufacturing.

Stage One could lead to import surges in a broad cross-section of sectors. For instance, confectionery imports to the United States have increased for decades, with corresponding job losses in the many thousands. Opening up increased access for Japanese confectionery goods will further this job-loss trend. Other sectors could be similarly impacted.

The U.S.-Japan Digital Trade Agreement lacks the sorts of protections that a strong digital agreement would include for supporting good jobs and protecting consumers. For instance, the agreement's provisions on data privacy and security are vague and allow laws governing those issues to be challenged as "disguised restriction[s] on trade" under the terms of the chapter. UAW members have, for decades, experienced the harms of trade policies designed to benefit multinational corporations without protections for workers. Stage One should not extend that same failed model that has cost millions of manufacturing jobs to the service sector, as well. USTR should also reconsider using digital trade rules to limit the ability of Congress to develop stronger cross-border privacy protections.

The State of the U.S. Manufacturing Industry

The United States' motor vehicle industry is the cornerstone of American manufacturing jobs. Nearly one million people work in the auto and auto-parts manufacturing sectors. Of course, the economic impact of the auto industry reaches far beyond the workers employed at the plants and their families. The domestic vehicle assembly and parts industries are vital to our manufacturing base and it is imperative that we stay strong and competitive now and into the future. When jobs from other linked industries are included, the auto industry is responsible for over seven million jobs nationwide.¹ The long-term health of the industry is critically important to both workers and the economy at large.

UAW members are proud of their important role in creating middle class jobs that have enabled countless workers to provide for their families and retire with dignity. Unfortunately, many auto jobs are not what they used to be.

Over the past fifteen years, U.S. automotive production workers' wages have fallen significantly. When adjusting for inflation, average hourly earnings for production workers in auto assembly

¹ Bureau of Labor Statistics, "Automotive Industry: Employment, Earnings, and Hours," <https://www.bls.gov/iag/tgs/iagauto.htm>

have declined by 23 percent, while wages in the auto parts sector have declined by 22 percent.² Real wages have dropped despite remarkable increases in productivity. From 1979 to 2018, net worker productivity rose 69.6 percent, while the hourly pay of typical workers increased by a mere only 11.6 percent over 39 years (after adjusting for inflation).³ To make matters worse, since 2000, the U.S. has lost of over three million manufacturing production jobs.

Need for a pro- U.S. manufacturing, pro- worker agreement

A trade agreement with Japan or any other nation, for starters, must include strong enforceable labor and environmental chapters, enforceable disciplines to guard against currency manipulation and misalignment, and a robust Rules of Origin to prevent other countries from benefiting from this agreement without putting skin in the game. The Stage One agreement with Japan does not address any of these issues

If there are to be later stages of these negotiations, they should be guided by, but not limited to, the following objectives:

- 1) No further concessions should be made to Japan that would increase the already unacceptable level of market access and trade penetration of the U.S. automotive and auto parts market; Japan's non-tariff barriers to U.S. exports must be eliminated without offsetting concessions for additional Japanese exports to the U.S. in critical sectors;
- 2) Japan's anti-labor activities in the U.S. designed to limit the rights and opportunities for unions and their members must be addressed; It is imperative that the Administration address economic (labor) and human rights issues as a central part of its negotiating efforts. Freedom of association and the existence of free civil society organizations such as independent trade unions are essential to democracy.

The U.S. must use its considerable influence in trade talks to make progress in establishing a stronger global worker rights' standard regarding the right to organize. The Japanese automakers with manufacturing operations here in the United States have a poor track record in respecting this fundamental right of American workers. They have routinely violated global standards on workers' rights to organize and bargain collectively.

We urge Japanese government to work with Japanese automakers today to guarantee that they will fully-honor labor standards set by the International Labor Organization (ILO), the Organization for Economic Co-operation and Development (OECD) and the United Nations Global Compact (UNGC), and allow fair and democratic processes for workers to decide on union representation at the Japanese "transplants" and their supplier plant operations in the United States . The Japanese government and automakers must first demonstrate a true commitment to fair trade and worker rights.

² Bureau of Labor Statistics. "Average hourly earnings of production and supervisory employees." Series CEU3133610008 & CEU3133630008, Data from April 2004-April 2019. Adjusted using BLS CPI Inflation Calculator.

³ Economic Policy Institute. "The Productivity-Pay Gap." (July 2019) <https://www.epi.org/productivity-pay-gap/>

Japan's use of currency as a weapon to advance its mercantilist policies must be subject to strict, enforceable, timely and accessible disciplines. Japanese government has a long history of intervening in currency markets that effectively gives Japanese imports several thousand dollars in subsidies while simultaneously adding several thousands in added costs to exports from the United States to Japan.

We urge the Administration to scrap stage one agreement with Japan and the very least to not pursue a Stage Two that threatens to undermine the long-term health of the domestic U.S. auto industry. Thank you for considering our views. I am looking forward to answering your questions.

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