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Impact of Tariffs on the U.S. Auto Industry
The United States Senate Committee on Finance

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Chairman Hatch, Ranking Member Wyden, and members of the Senate Finance Committee, thank you for the opportunity to share our views on this important matter. It is my honor to testify on behalf of UAW President Gary Jones and one million active and retired members of the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW).

The state of the domestic auto industry and the impact of policies emanating from Washington, D.C. is of great importance to our economy and working people throughout the country. Over 900,000 people work in the auto and auto-parts manufacturing sectors alone.[i] The economic impact of the auto industry reaches far beyond the workers employed at the plants. When jobs from other linked industries are included, the auto industry is responsible for over 7.25 million jobs nationwide.[ii]

As researchers, engineers, and skilled trades and production workers in the automotive, aerospace, and agricultural and construction equipment industries, we welcome this long overdue discussion. In fact, the majority of UAW members and retirees work in, or are retired from, the auto industry. All of these workers, their families, and their communities are impacted by trade policy.

When examining the question of the impact of tariffs in the auto industry, it is important to define the goal. Our goal is to create good paying U.S. jobs now and in the future. We proudly support policies that strengthen the middle class, create good paying jobs providing benefits and retirement security in the United States and reduce income inequality both here and abroad. It has been demonstrated time and time again that a vibrant middle class is needed in order to have a strong economy and democracy.

We, as a country, need to take a holistic approach to succeed. It is a mistake to look at trade in isolation. We need to consider how tax law, worker training programs, labor rights, and other policies interact. For example, provisions in our tax laws that reward offshoring undermine trade policies that are intended to prevent jobs from leaving the U.S. We need a comprehensive strategy if we are to remain competitive.

I. Auto Trade with Mexico

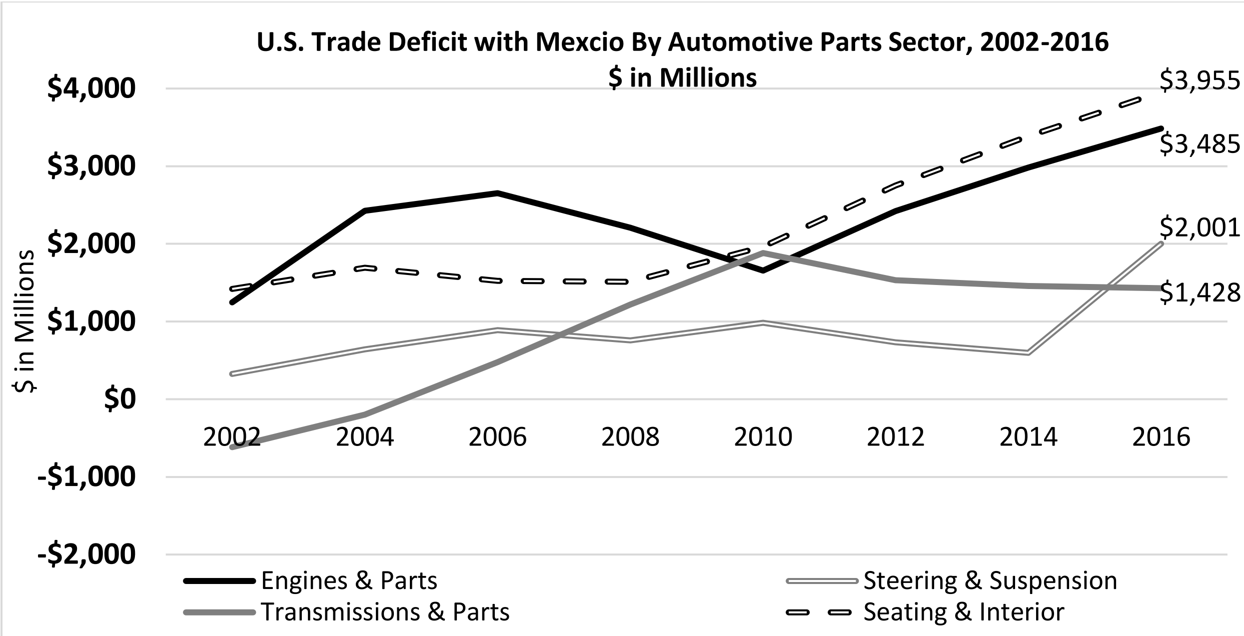
Since NAFTA, the U.S. automotive and auto parts trade deficit with Mexico has grown significantly. In 1993, the U.S. had an automotive (NAICS 3361) trade deficit with Mexico of $3.5 billion dollars. By 2016, that deficit had grown to $45.1 billion. For auto parts, the situation is significantly worse. In 1993, the U.S. had a very small auto parts (NAICS 3363/HS 8708) trade deficit with Mexico of $1 billion.[iii] By 2016, it was 20 times larger at $23.8 billion. As the trade deficit increased, wages declined. Adjusted for inflation, auto parts production workers' average hourly wages declined by 23 percent in the past decade. Between 2000 and 2014 alone, employment in U.S. parts suppliers declined 36 percent.[iv] Changes in technology and attacks on workers' rights to collectively bargain have contributed to the decline. NAFTA has also played a big role in creating the enormous trade deficits we face in this sector today.

In 2016, the U.S. automotive (NAICS 33611/HS 8702) trade deficits within NAFTA were:

Country	**2016 Automotive (NAICS 3361) Trade Deficit**	**Change 1993-2016**
Canada	$20.6 billion	+11.4%
Mexico	$45.1 billion	+1288%
Source: The North American Free Trade Agreement, CRS, May 24, 2017		

The United States has an auto surplus (NAICS 3363) with Canada but a large deficit with Mexico.

Country	**2016 Auto Part (NAICS 3363) Trade Deficit**	**Change 2006-2016**
Canada	-$12.4 billion (surplus)	57% (Larger surplus)
Mexico	$23.8 billion	23700%
Source: The North American Free Trade Agreement, CRS, May 24, 2017		



The United States had a trade surplus with Mexico in 1993, the year before the North American Free Trade Agreement (NAFTA) was implemented. Since the passage of NAFTA, U.S. trade deficits with Mexico cost almost 700,000 U.S. jobs by 2010 per the Economic Policy Institute[v]. Most of the jobs displaced were in manufacturing.

Over the first eleven years of NAFTA (1994-2005), there were new production facilities in both the U.S. and Mexico. This was primarily due to foreign-based auto manufacturers adding production capacity in the region. However, in the subsequent eleven years (2005-2016), a different trend emerged. Production capacity was eliminated in the U.S. and Canada and added in Mexico. In many cases work was moved from the U.S. to Mexico. Between 1993 and 2014, Mexico's share of NAFTA production increased from 8% to 19%.

Light Vehicle Final Assembly Plants in NAFTA 1994-2016				
	1994	**2005**	**2016**	**Change 1994- 2016**
Canada	14	13	10	-4
Mexico	9	11	17	+8
United States	59	62	49	-10
NAFTA	82	86	76	-6
Source: Ward's Automotive				

Share of NAFTA Production		
Country	**1993**	**2016**
Canada	15%	13%
Mexico	8%	19%
U.S.	77%	67%

We have every reason to believe Mexico's auto industry will continue to grow. Auto production in Mexico is up from 2 million cars and light trucks in 2008, to 3.2 million today. Production is expected to hit five million units by 2018. Mexico is now the fourth largest auto exporter, behind Japan, Germany, and South Korea. Nearly 80% of Mexico's exports come to the U.S.

Almost every major automaker has increased or plans to increase capacity in Mexico. Many major automakers have opened new plants or announced plans to do so. Currently, there are almost as many auto part workers in Mexico (400,000+) as there are in the U.S. (480,000). Autoworker in Mexico often makes $3.00 an hour, with many making well below that amount.[vi]

The impact of trade agreements on the entire supply chain must be considered when analyzing the economic impact of motor vehicle manufacturing, not just final assembly. More assembly plants mean more 1st tier parts, then more 2nd tier parts, and on and on. It is a vicious cycle for UAW members whose jobs have moved to Mexico. All of the following UAW-represented parts suppliers are now also in Mexico: Lear, Johnson Controls, IAC, Flex-n-Gate, Federal Mogul, Faurecia, Bosch, Magna, TRW, American Axle, and Metalsa.

If it's not a first-tier assembly and it's stackable and shippable, it can be imported. Unfortunately, this has happened a great deal since NAFTA to the detriment of the U.S. economy and workers.

II. Auto Trade with China

Since 2002, the U.S.'s trade imbalance with China has increased $244 billion, or 237%. Between 2001 and 2015, it is estimated 3.4 million American workers lost their jobs to unfair trade with China.[vii] While the U.S. has an automotive trade surplus with China, an auto parts trade deficit has exploded. In 2002, the U.S.'s auto parts trade deficit with China was $972 million, since then it has grown elevenfold to $10.7 billion.[viii] For American workers, this trend is untenable.

China tilts the playing field by propping up domestic companies and state-owned enterprises through direct subsidies, and suppressing workers' rights[ix], it uses unfair market access processes and policies to force technology transfers from foreign firms. Together these actions have caused a dramatic loss of U.S. manufacturing jobs, suppressed American wages, and potentially stifled innovation.

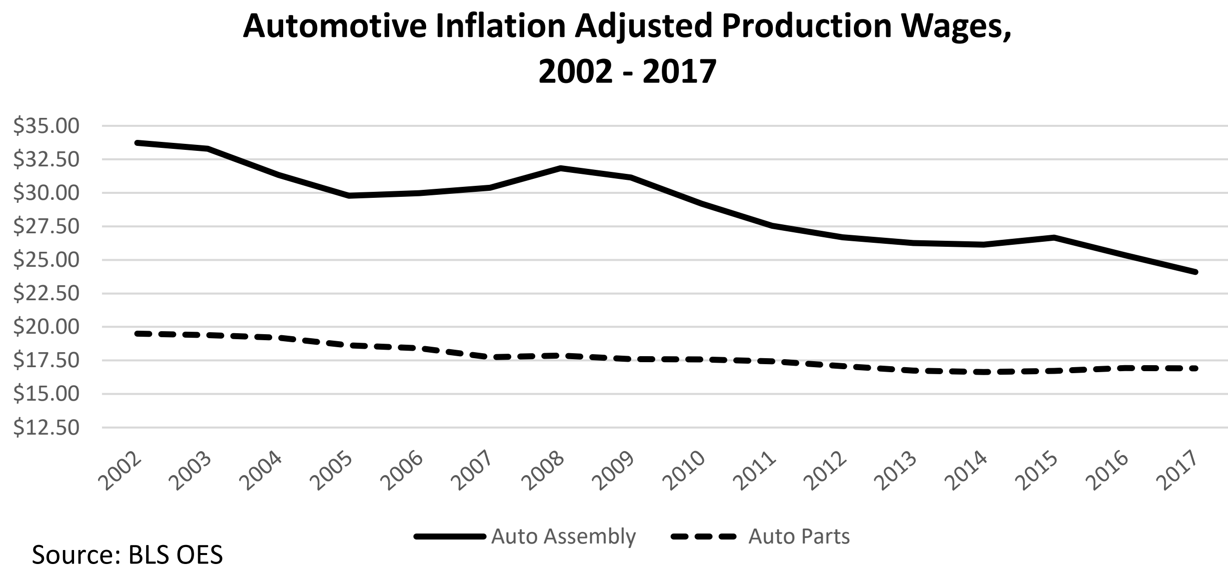
III. U.S. Auto Industry Today

The UAW is proud of the its role in creating middle class jobs which have enabled workers to provide for their families and see their children pursue their dreams. Unfortunately, our standard of living is under attack and auto jobs are not what they used to be.

Since 2000, the U.S. has lost of over 3 million manufacturing production jobs – with trade playing a significant role.

Another disturbing trend is the change in the mix of parts the U.S. is importing. The U.S. has growing deficits in high value auto parts like engines, transmissions, seating, steering, and suspensions (see graph below). These components employ tens of thousands of American workers.

Over the past fifteen years, U.S. automotive production workers' wages have shrunk dramatically. When adjusting for inflation, final assembly production workers' (BLS Occupational Code 51-0000) wages have dropped 29 percent, while parts production workers' wages have dropped 13 percent.



Source: BLS OES

The U.S. is in a race with other advanced countries to develop the automobiles and technologies of the future. We recognize that trade enforcement actions alone will not get the job done. While Germany and other industrial countries have developed policies that are investing in its citizenry and infrastructure, the U.S. has instead taken a low-road approach. American companies may develop new products, but they have increasingly outsourced manufacturing to low-cost countries. As noted above, with job losses and decreases in wages, this has hollowed out much of middle America. Maintaining the status quo is not an option.

Wages have fallen even though productivity has substantially improved. The average factory worker makes less than the median wage for all occupations. Real wages in manufacturing fell between 2003 and 2013 at a faster rate for workers overall.[x] One fourth of manufacturing jobs make less than $13.07 per hour.[xi] U.S. autoworkers wages have been suppressed and bad trade agreements have contributed to this troubling reality.

The number of workers in temporary or contract positions are on the rise in various industries including automotive. Perma-temps, the use of temps for extended periods of time with no path to full-time employment is becoming all too common in the auto industry- contract work is shifting from administrative jobs to blue collar occupations. Jobs in transportation and material moving and production now account for 42 percent of the temp industry. Furthermore, perma-temps earn 22 percent less than private sector workers and work with little to no benefits. [xii] The median worker in the staffing industry earns $12.40 an hour, compared to an hourly wage of $15.84 by all private sector workers, regardless of industry.[xiii] The growing use of temp work drives down wages, benefits and job security in the auto industry and undermines good, middle class jobs. Congress must stop ignoring the loss of good full-time jobs.

Workers often face both direct and implied threats if they attempt to form a union. In many cases, employers will openly threaten to close their plant and move to Mexico when workers fight for job security, better wages, health and safety improvements and retirement security. Veiled threats force workers to accept lower wages for fear that the company will ship their jobs abroad.

IV. Policies to Strengthen Domestic Manufacturing and the Middle Class

As referenced earlier, our objective is to maintain and create strong middle-class jobs in the United States. Trade can play a key role towards achieving this objective.

Yet, any effort to reset Americas trade policy must also be accompanied by a strong industrial policy focused on education, workforce training, research and development, support for advanced manufacturing and technologies, building a 21st century infrastructure, and creating penalties for companies that turn their back on American workers. A properly crafted industrial policy will create new industries, as well as re-shore old ones. We also need Congress to advance equitable tax policies that uplift working families and not reward billionaire CEO’s with massive tax breaks while incentivizing businesses to outsource jobs overseas. A comprehensive approach will improve living standards, reduce poverty, mitigate our environmental impact, and vastly improve American’s quality of life.

The right to collectively strengthens the economic security of workers. On average, a worker covered by a union contract earns 13.2 percent more in wages than a peer with similar education, occupation, and experience in a nonunionized workplace in the same sector.[xiv] Unionized workers are more likely to have health care benefits, access to paid leave, employer provided pension plans and safer working conditions compared to their non-union counterparts. Strengthening our labor laws and increasing penalties against employers who do not recognize worker’s legal right to have a voice on the job will strengthen the middle class and reduce income inequality.

V. Supporting Domestic Production of Future Vehicles

Most of the production footprint of tomorrow’s advance automotive technology is overseas. Today, the U.S. only produces 13 percent of the world’s semiconductors. By 2021, the U.S. will produce only 14 percent of the world’s lithium-ion batteries unless significant steps are taken.

Lithium-ion batteries are the most valuable component in electric vehicles (EVs). With the growth of demand from EVs, global lithium-ion battery production capacity is expected to grow by 73 percent between 2017 and 2021[xv] and lithium-ion batteries could become a $40 billion market by 2025. This has sparked a race to develop the production capacity to meet growing battery demand and it is this race that will determine the geography of much of the EV value chain.

Based on developments so far, the U.S. is falling behind Asian and European countries in lithium-ion battery capacity. It is projected that by 2021, 56 percent of battery manufacturing capacity will be located in China and another 19 percent will be in Europe. The U.S. will only have 14 percent of global battery production capacity.

China and Germany have plans to push the electric vehicle market forward. The United States does not have such a plan. Again, we need a comprehensive strategy to ensure the vehicles and technologies of the future are made in the United States and that good paying jobs are linked to vehicles of the future.

VI. Trade Reform

More needs to be done to address the disinvestment in America's workers, deteriorating infrastructure and stifled innovation. A new trade model that is fair, balanced and puts workers first will make the U.S. economy more competitive and create real opportunities for American workers.

Tariffs can be an effective when appropriately targeted to specific trade practices and are a part of a comprehensive strategic plan to address unfair trade actions. However, tariffs alone are insufficient to boost U.S. jobs and strengthen our industrial base. The UAW believes that tariffs are a tool, not a comprehensive plan for ensuring industries of the future are created and built in the U.S.

It would be shortsighted to categorically rule out using tariff and other enforcement mechanisms to level the playing field. We shouldn't compete with one armed tied behind our back. For this very reason, we believe the Administration should continue their auto 232 investigation. We hope the Administration will ultimately take a measured and targeted approach to bolster domestic manufacturing.

It is critical to guard against non-tariff barriers, like currency manipulation, that has cost millions of U.S. jobs. Modern agreements must take this pervasive non-tariff barrier on directly.

We cannot repeat the mistakes of the past. NAFTA and broken trade deals have had long lasting and deep impacts for workers, communities, businesses and our trade partners. We need a new trade model that is worker centric and values people over investor profits and discourages companies from outsourcing good paying jobs abroad.

Thank you for the opportunity to share our views. I look forward to answering questions you may have.

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[i] https://www.bls.gov/iag/tgs/iagauto.htm
[ii] Hill, Kim, Deb Menk, Joshua Cregger, and Michael Schultz. Contribution of the Automotive Industry to the Economies of All Fifty States and the United States. January 2015.
[iii] Business Data from the U.S. Census Bureau. Industry Statistic Portal. NAICS codes more accurately capture the auto parts sector. While a NAICS to HS crosswalk would include 8708, it would also include several non-auto specific codes.
[iv] William A. Galston, "How the Vise on U.S. Wages Tightened," The Wall Street Journal, March 31, 2015.
[v] See, e.g., Robert E. Scott, Jeff Faux and Carlos Salas, "Revisiting NAFTA: Still Not Working For North America's Workers," Economic Policy Institute, 2007.

[vi] Alex Covarrubias V., “A Status Quo of the Mexican Auto Industry: Prospects and tendencies” (presentation, The College of Sonora, July 2014).
[vii] Robert E. Scott. (January 31, 2017). “Growth in U.S.-China trade deficit between 2001 and 2015 cost 3.4 million jobs”, *Economic Policy Institute.* Retrieved from http://www.epi.org/publication/growth-in-u-s-china-trade-deficit-between-2001-and-2015-cost-3-4-million-jobs-heres-how-to-rebalance-trade-and-rebuild-american-manufacturing/
[viii] usatrade.census.gov
[ix] “Annual Report 2016.” Congressional-Executive Commission on China. (October 6, 2016). P. 18.
[x] “Ruckelshaus, Catherine and Leberstein, Sarah. “Manufacturing Low Pay: Declining Wages in the Jobs that Built America’s Middle Class.” November 2014.
[xi] https://www.bls.gov/iag/tgs/iag31-33.htm
[xii] Smith, Rebecca and McKenna, Claire. “Temped Out: How Domestic Outsourcing of Blue Collar Jobs Harms America’s Workers,” National Employment Law Project, September 2, 2014.
[xiii] Ibid.
[xiv] Economic Policy Institute. “How Today’s Union’s Help Working People.” https://www.epi.org/publication/how-todays-unions-help-working-people-giving-workers-the-power-to-improve-their-jobs-and-unrig-the-economy/
[xv] Bloomberg New Energy Finance. https://about.bnef.com/electric-vehicle-outlook/#toc-download