

Testimony

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Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (Docket No. USTR-2018-0005)

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The Auto Care Association is the voice of the \$381 billion auto care industry. Our nearly 3,000 member companies represent some 150,000 independent automotive businesses that manufacture, distribute and sell motor vehicle parts, accessories, tools, equipment, materials and supplies, and perform vehicle services and repairs.

Our industry represents a significant sector of the U.S. economy, employing 4.6 million people, or 3.2 percent of the workforce. Our members include businesses with global operations that depend on well-established, integrated supply chains to increase competitiveness and product offerings for our members' customers.

The Auto Care Association supports the Trump administration's efforts to address China's unfair trade policies that discriminate against and restrict U.S. commerce through forced technology transfers, data localization and lack of enforcement. We continue to work with our members to address a number of concerns surrounding their intellectual property, as it is often a company's most valuable asset and competitive edge, which also supports jobs and drives economic growth.

However, as a manufacturing hub and an important source of imports, China is also a critical trading partner in our industry's supply chain. We are concerned with the administration's recent proposed action to impose an additional duty of 25 percent on certain products imported from China. There are a number automotive parts and components included on the proposed tariff list that, although imported, support U.S. jobs downstream throughout the supply chain.

Sourcing determinations are made months and years in advance, and even minimal adjustments to tariffs would force our members to modify their supply chains, find new sources for parts, face new capacity or quality issues and likely pass the increased costs downstream to the consumer. All of these factors and disruptions could cause companies to be less competitive in the U.S. and in global markets, or even force them to cease operations.

Additionally, China's announcement of retaliatory tariffs on goods from the U.S. is also a concern, as China's large population and growing economy have made it the fastest growing market for U.S. exporters in the last decade, and third largest market for U.S. exports of auto parts in 2017.¹ China's amount of vehicles in operation is growing to be the largest in the world, with vehicles requiring repairs currently growing at a rate of double digits.²

Our members report that a number of products included on the tariff list **cannot** be sourced in the U.S. as there are **no** U.S.-based factories producing some of these products. At the same time, minimal alternative sources exist, as China is the primary supplier to the world. Therefore, we do not see any benefits to the U.S. economy or U.S.-based manufacturers when imposing tariffs on these products, as sourcing would just shift to low-cost countries and would not alleviate the overall U.S. trade imbalance.

Our members also report that producing a number of products included on the tariff list would be extremely cost prohibitive if manufactured in the U.S. This is especially true for air conditioning systems in the aftermarket industry, where the volume per part number is low due to the number of unique parts covering every year, make and model vehicle on the road. Imposing additional tariffs on these auto parts and components would increase the price substantially, making it difficult for working Americans to afford cost-effective options when repairing their vehicles.

We urge the administration to consider the severity of imposing tariffs on imported goods and the unintended negative consequences not only on the U.S. automotive industry, but also on the overall U.S. economy.

We hope the administration will work toward a carefully constructed, rules-based, bilateral trading system where China abides by its commitments when it joined the World Trade Organization. To level the playing field and address market access barriers, this framework should include an enforceable, strong intellectual property rights protection system, which would help create a more predictable and fair trade environment for U.S. companies doing business in China.

In conclusion, we support the administration's efforts to improve U.S. competitiveness in the global marketplace, but we hope the administration will continue engaging in high-level dialogue with China in addressing these issues to protect investments, facilitate trade and create competitive value chains that benefit the global growth of our members. We appreciate the opportunity to testify and I am available to answer any questions.

¹ U.S. International Trade Commission Interactive Trade DataWeb (USITC DataWeb), using data retrieved from the U.S. Bureau of the Census (accessed June 12, 2017).

² "2017 China Market Report: An Assessment of China's Light Passenger Vehicle Aftermarket," Auto Care Association at 34.