

June 29, 2018

Docket Number: DOC-2018-0002-0001

The Honorable Wilbur L. Ross, Jr.
Secretary
U.S. Department of Commerce
Herbert Clark Hoover Building
1401 Constitution Avenue, NW
Washington, D.C. 20230

Subject: SEMA Comments in Opposition to Potential Tariffs on Imports of Automobiles and Auto Parts under Section 232

Dear Secretary Ross:

The Specialty Equipment Market Association (“SEMA”) respectfully submits the following comments in response to the Department of Commerce’s (the “Department”) “Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts,” which was published in the Federal Register on May 30, 2018. We appreciate the Department’s extending the comment period to June 29, 2018, to allow interested parties the opportunity to provide meaningful comments on this important matter.

Based in Diamond Bar, California, SEMA is the principal organization representing the automotive specialty equipment aftermarket, which is distinct from those representing other auto parts manufacturers (as described below). Because SEMA is the voice of this distinct segment of the industry, we believe we have a unique perspective to offer the Department with respect to this Section 232 investigation.

SEMA’s membership includes more than 7,100 U.S. businesses that manufacture, distribute, market, and sell specialty parts for vehicles, and contributes approximately \$41 billion to the U.S. economy annually. Approximately 92% of SEMA members qualify as small businesses, and the industry employs more than one million Americans.

SEMA and its members believe in fair and reciprocal trade, and support efforts to protect national security. However, SEMA opposes the potential imposition of tariffs on automobiles and auto parts as a result of this Section 232 investigation. The potential imposition of tariffs under the President’s Section 232 authority would significantly harm the members of SEMA, leading to lost jobs, incentives for the movement of U.S. manufacturing facilities offshore, and higher costs for consumers.

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A. The Specialty Equipment Aftermarket Industry

The market for automotive parts generally falls into three categories: the original equipment market (“OEM”), the replacement-part aftermarket, and the specialty aftermarket. SEMA’s membership is comprised of manufacturers that produce, distribute, and sell specialty automotive parts for the aftermarket. Such parts are made primarily for comfort, convenience, performance, safety, or customization and designed for add-on after the original sale of the motor vehicle.¹ In contrast, OEM parts are either used in the assembly of new motor vehicles or are purchased by the manufacturer for its service network.² The manufacture of OEM parts accounts for an estimated two-thirds to three-fourths of the total automotive parts production, with replacement and specialty aftermarket parts comprising the remainder.³ The last category, non-OEM aftermarket replacement parts, are comprised of automotive parts built or remanufactured to replace original parts as they become worn or damaged.

The specialty equipment aftermarket manufacturing segment differs from that of the OEM market in significant ways—most notably in that SEMA’s members manufacture products primarily for automobile owners, hobbyists and collectors looking to personalize their vehicles. As the Department itself has reported, “{s}pecialty equipment refers to parts made for comfort, convenience, performance, safety or customization and are designed for add-on after the original assembly of the motor vehicle.”⁴ Supplying the specialty equipment market, SEMA members manufacture products ranging from custom wheels to exhaust systems, suspensions, turbochargers, lighting equipment, truck caps, mobile electronics and other parts that enhance a vehicle’s appearance and performance. SEMA members market specialty auto equipment that is installed on all types of motor vehicles, both domestic and international.

Given the nature of the specialty-parts market, there is no nexus between the manufacture of specialty equipment aftermarket parts intended for hobbyists and car enthusiasts and national security. Consequently, the imposition of any Section 232 tariff on specialty equipment aftermarket parts would provide no appreciable benefit to national security, while at the same time leading to the loss of domestic manufacturing jobs.

¹ See Office of Transportation and Machinery, International Trade Administration, U.S. Department of Commerce “U.S. Automotive Parts Industry Annual Assessment” (April 2009) at 6.

² See Office of Transportation and Machinery, International Trade Administration, U.S. Department of Commerce “U.S. Automotive Parts Industry Annual Assessment” (April 2009) at 5.

³ See Industry & Analysis, International Trade Administration, U.S. Department of Commerce “2016 Top Markets Report: Automotive Parts” (April 2016) at 10, https://www.trade.gov/topmarkets/pdf/autoparts_Top_Markets_Report.pdf

⁴ See Industry & Analysis, International Trade Administration, U.S. Department of Commerce “2016 Top Markets Report: Automotive Parts” (April 2016) at 10.

B. The Specialty Equipment Automotive Aftermarket Industry Is Complex and Reliant on Global Supply Chains

Access to international markets is essential for the U.S. automobile and auto parts industries to remain competitive. Specialty parts manufacturers rely on complex, integrated, and long-standing global supply chains to procure parts and materials that they then further manufacture in the United States. Auto-parts manufacturers expend considerable time, expertise, and financial resources in identifying, vetting, equipping, testing, and validating both domestic and international suppliers. Automobiles and auto parts are subject to stringent safety and quality requirements to allow their operation both internationally and within the United States. In addition, the manufacture of auto parts often requires licenses due to intellectual property protections. It would be extremely difficult, if not impossible, for auto parts manufacturers to replace existing suppliers in response to the sudden imposition of significant additional tariffs.

SEMA member manufacturers, most of whom are small businesses, cannot absorb 25% tariffs on the importation of component parts and continue to function, let alone grow their businesses, nor could they weather the disruption in their supply chains. As a practical matter, many manufacturers are already facing increased manufacturing costs and disruption due to the Section 232 tariffs imposed on steel and aluminum, as well as the additional Section 301 tariffs scheduled to begin to take effect next month. The impact of these combined tariffs has been higher production costs for U.S. manufacturers, resulting in the potential loss of U.S. manufacturing jobs due to layoffs, business closings, or offshoring.

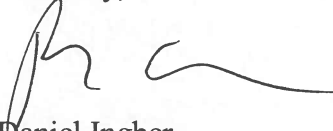
C. SEMA Urges Negotiation and Cooperation with U.S. Trading Partners and Allies

The U.S. automobile sector is the leading U.S. exporter of manufactured goods, and SEMA members currently enjoy strong export markets for their products. U.S. automobile and auto parts manufacturers are thriving in the competitive international marketplace, which spurs innovation, benefitting both U.S. businesses and consumers. The imposition of additional tariffs, as well as the increasingly uncertain international trade environment, will divert U.S. manufacturers from investing in research and development of new technologies to merely surviving in an increasingly fraught global environment.

Rather than impose additional tariffs, SEMA urges the Trump Administration to support policies that encourage U.S. exports while removing barriers to fair and reciprocal international trade. SEMA is confident that its members and the rest of the U.S. automobile industry can continue to thrive in the international marketplace under fair, open, and predictable conditions, producing jobs for U.S. workers and high-quality, affordable products for domestic and international consumers.

Thank you for considering our comments. Please be assured that SEMA would welcome the opportunity to provide the Department with further information on this matter in the form additional written commentary or testimony at the public hearing.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel Ingber', with a long horizontal flourish extending to the right.

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