

AUTOMOTIVE TRADE: NAFTA AND BEYOND

U.S. Automotive Competitiveness and the Modernization of NAFTA

CAR Management Briefing Seminars- Traverse City, Michigan

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AUTOMOTIVE BENEFITS FROM NAFTA

- North American duty-free access to important and growing auto markets.
- Allows the optimal mix of capital and labor inputs that supports U.S. manufacturing and increases its global competitiveness.
- High levels of U.S. auto parts content in Canadian and Mexican built vehicles.



MEXICO



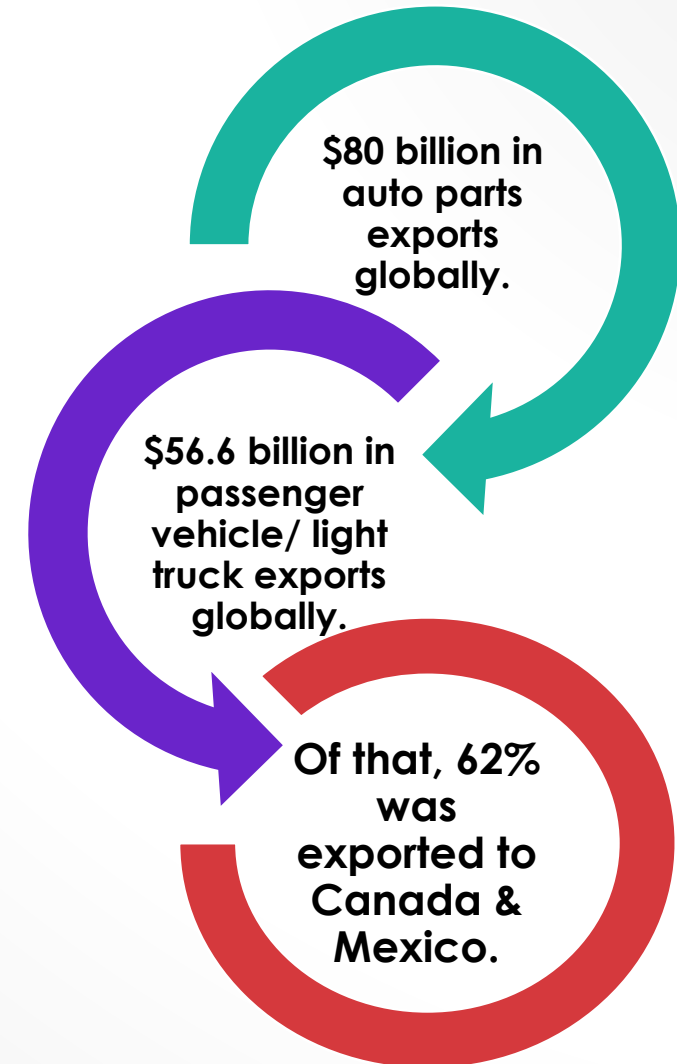
USA



CANADA

INCREASED AUTOMOTIVE TRADE

- 22% (\$240 billion) of the \$1.2 trillion in trilateral trade in automotive.
- This gives America's automotive industry the largest economic stake of any U.S. industrial sector in the outcome of the modernization of NAFTA.



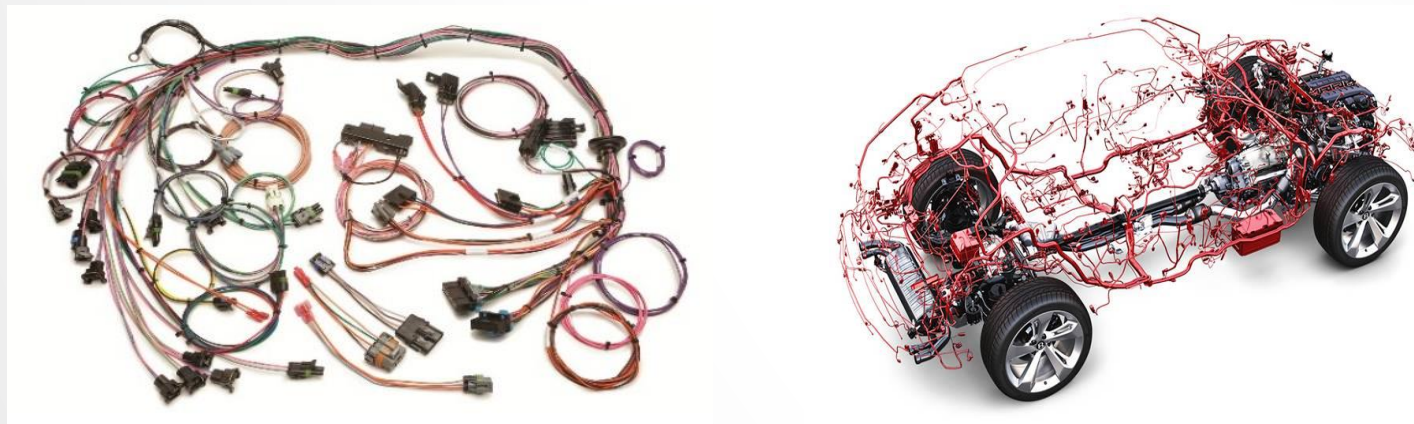
DUTY-FREE ACCESS



- The duty-free trade generated through NAFTA has played an important role in the competitive of the North American automotive sector.
- NAFTA has provided U.S. automakers duty-free access to two of the 14 largest global auto markets, Canada (2 million) and Mexico (1.6 million).
- By not having to pay those tariffs, the U.S. automotive sector saves approximately \$4.7 billion annually.
- This savings allows U.S. automakers to be competitive in Canadian and Mexican markets, competitively exporting vehicles and auto parts from the U.S. to other markets around the world and supporting American jobs.

ACCESS TO COST COMPETITIVE SOURCES OF COMPONENTS

Example: Wire harnesses—the network of wires that connects all the electrical components of a car (i.e., engine, dashboard, sensors, windows).



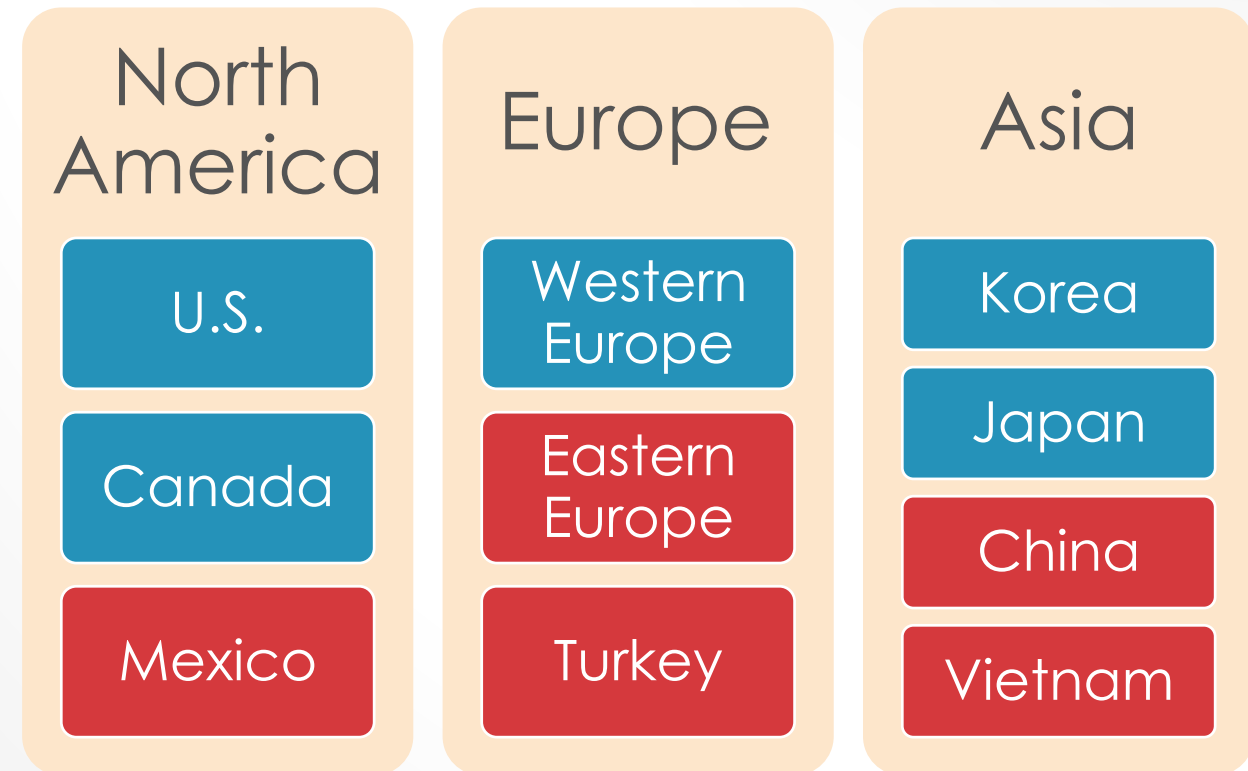
- Largest importers: U.S., Germany, and Japan
- Largest exporters: Mexico, China, and Romania
- Gives each of the 3 major auto production centers—North America, Asia and Europe—access to cost-competitive sources of wire harnesses.

GLOBAL COMPETITIVENESS



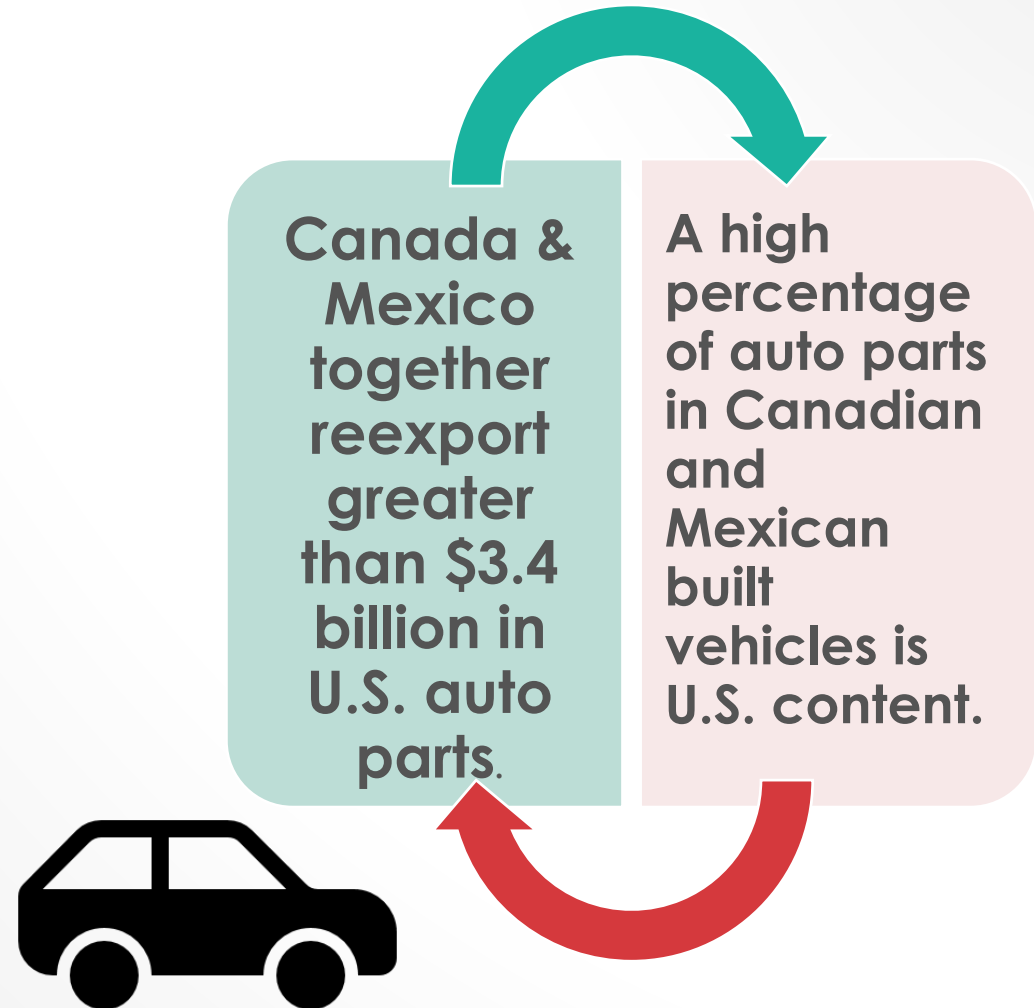
- The North American region's major global competitors each have at least one participant that can manufacture labor-intensive automotive goods cost-competitively in relatively close proximity to the final assembly plant.
- The benefits the U.S. auto industry conferred by the NAFTA market access provision are comparable to those enjoyed by competitors in Europe and Asia.

CENTERS OF GLOBAL AUTO PRODUCTION



HIGH LEVELS OF U.S. CONTENT IN NAFTA BUILT VEHICLES

- Over half of the vehicles imported into the U.S. came from Canada and Mexico.
- Vehicles assembled in Canada and Mexico have significant U.S. auto parts content.
- In contrast, vehicles imported outside of NAFTA have very low levels of U.S. auto parts content.
- Canada and Mexico as global export hubs indirectly benefit the U.S. auto industry and the workers it supports here at home.



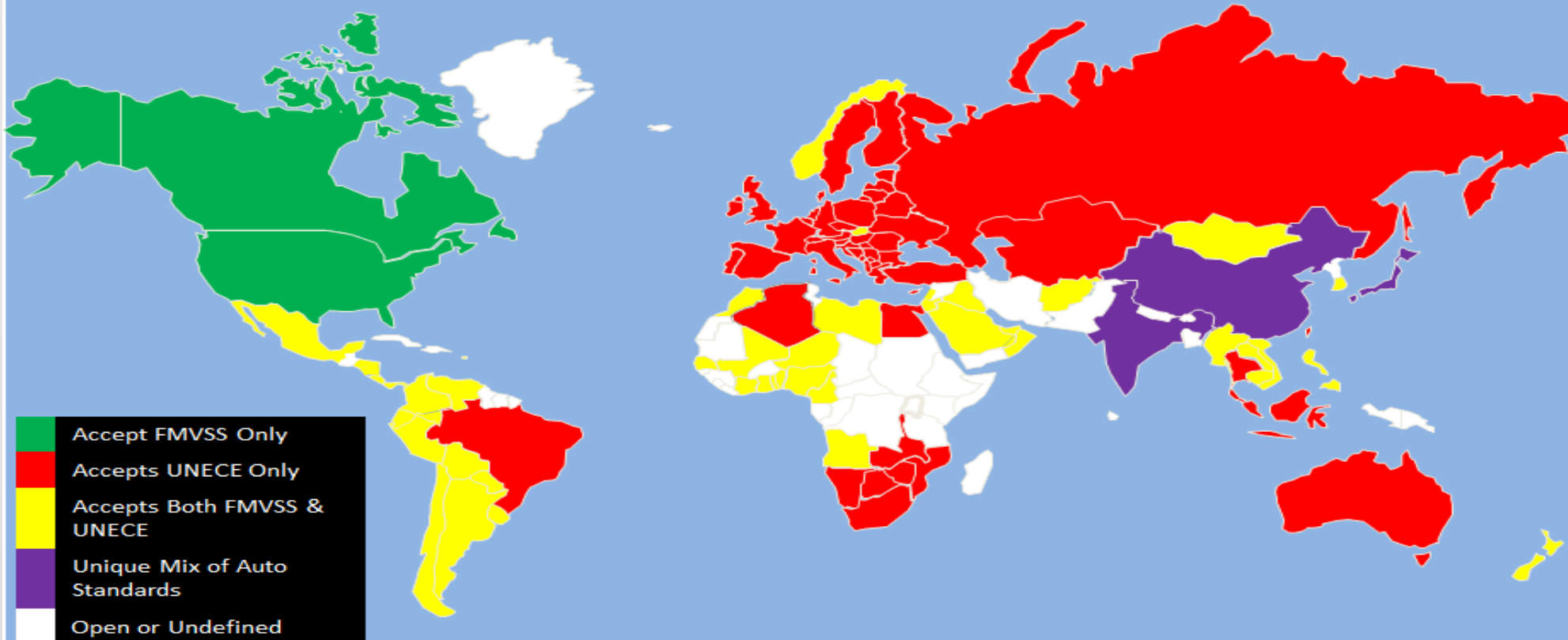
RECOMMENDATIONS FOR MODERNIZING NAFTA

- Achieving recognition of U.S. automotive safety standards across the North American region.
- Adding strong and enforceable currency manipulation disciplines.
- Reforming customs and trade facilitation issues.
- Updating NAFTA's labor and environmental provisions.
- Improving border infrastructure.
- Eliminating investor-state dispute settlement (ISDS) provisions.



U.S. AUTOMOTIVE SAFETY STANDARDS

Motor Vehicle Regulations Accepted
FMVSS, UNECE, Both & Open or Undefined



CURRENCY MANIPULATION

Provides an unfair competitive trade advantage to participating countries' export industries.



Allowing a free trade partner to manipulate its currency could easily undermine the expected benefits to the United States under such an agreement.



The need to include strong and enforceable currency manipulation disciplines in NAFTA would set an important precedent future FTAs and renegotiated FTAs.

Currency manipulation has provided our competitors an unfair competitive advantage



OTHER RECOMMENDATIONS

Customs and trade facilitation issues

- A need to secure meaningful reforms to Mexican customs-related processes so that companies can reduce their customs and logistics costs, making their products more competitive.

Updating NAFTA's labor & environmental provisions

- NAFTA's current provisions are 23 years old and could be further aligned regionally.

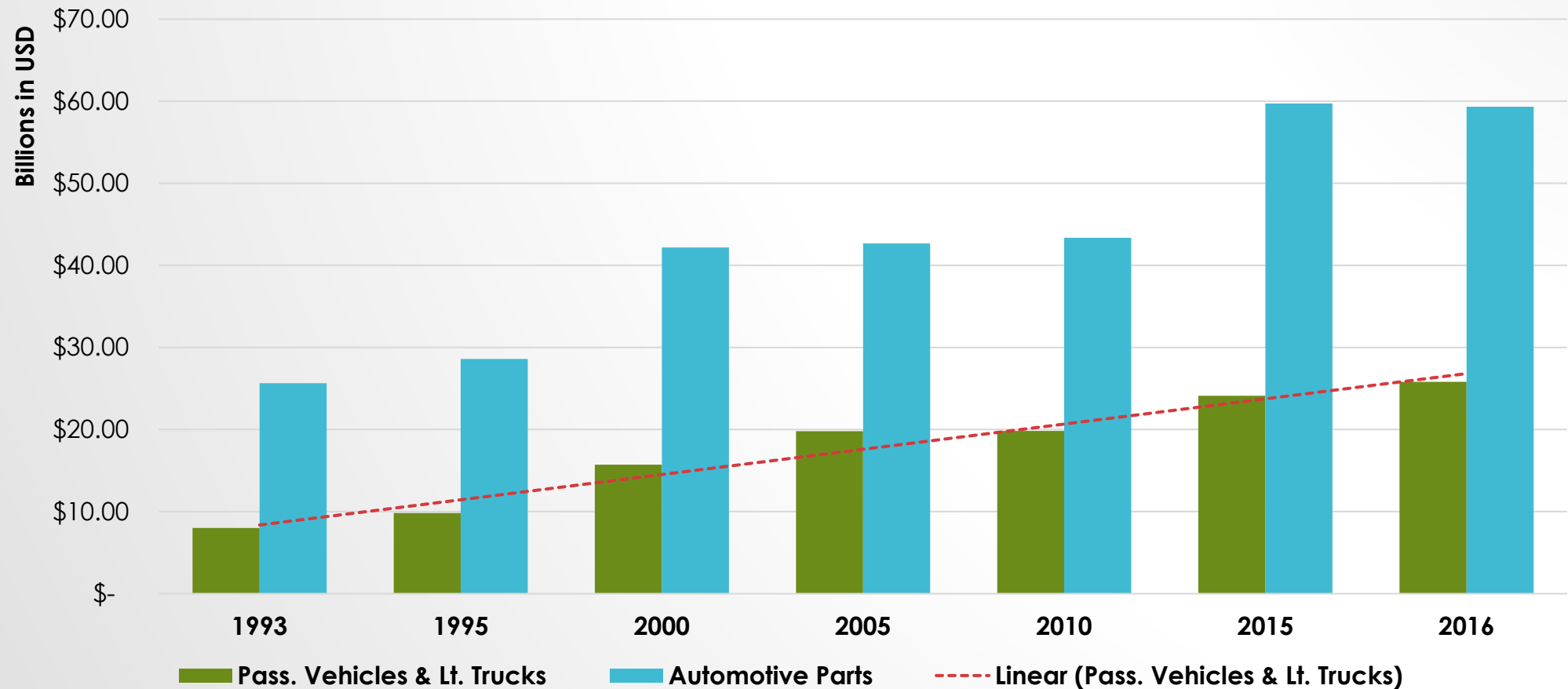
Improving border infrastructure

- Improvements to ports and boarder facilities would help reduce inefficiencies, delays and improve competitiveness of U.S. exports.

Eliminating investor-state dispute settlement (ISDS) provisions

- A large majority of U.S. companies doing business in Canada and Mexico have not used nor benefited from ISDS provisions.

U.S. AUTOMOTIVE EXPORTS TO CANADA AND MEXICO



Source: U.S. International Trade Commission Dataweb, Total Exports

CONCLUSION



- NAFTA has been very successful for the U.S. automotive industry making the industry more competitive globally and creating/supporting auto jobs here at home.
- We fully support a modernized NAFTA to further strengthen our position as a global competitor and urge the Administration to include constructive changes. These include the recognition of U.S. auto safety standards, and strong and enforceable currency disciplines.
- However, it is essential that the Administration carefully maintain the provisions of the agreement that have been successful for our auto manufacturers and to carefully avoid creating negative unintended consequences that could harm the auto industry.

THANK YOU

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