ORAL TESTIMONY OF CODY LUSK

PRESIDENT AND CEO

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before the

United States International Trade Commission

RE: United States-Mexico-Canada Agreement:

Likely Impact on the U.S. Economy and on Specific Industry Sectors

Investigation No. TPA-105-003

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Good morning Chairman Johanson and the members of the Commission. My name is Cody Lusk, and I am the President and CEO of the American International Automobile Dealers Association. Thank you for the opportunity to provide testimony on behalf of America's 9,600 international nameplate automobile franchises. These dealers have a positive economic impact both nationally and in the communities they serve, providing over half-a-million American jobs, and last year selling 57 percent of the new vehicles in the U.S.

Established in 1970, AIADA is the only association whose sole purpose is to represent America's international nameplate automobile franchises that sell and service vehicles in the United States. AIADA's statement will focus on the USMCA's potential to increase prices for American consumers and directly affect the jobs at our members' dealerships.

Last year, when the renegotiation of the North American Free Trade Agreement began, AIADA agreed that updates were needed to reflect a twenty-first century economy while still preserving the integrated North American supply chain that has made NAFTA such a success, increasing efficiency and expanding consumer choice. For all participants in the auto industry to continue to remain globally competitive, AIADA and our dealer members felt strongly that a modernized NAFTA must maintain vehicle affordability.

Across the United States and in communities large and small, Americans are employed in the international nameplate automobile industry, including the 578,000 who are employed at 9,600 international nameplate automobile franchises. These franchises, with an annual payroll of $34 billion, also account for an additional 548,000 indirect jobs. In 2017, our members sold 9.5 million vehicles, or 57 percent of total United States market share. They also spent an overwhelming $4.8 billion on advertising and sold $56 billion in parts and services. As we showed in our written testimony, dealership employment and investment in our communities are directly related to our ability to sell and service automobiles at an affordable cost to our consumers.

Affordability concerns are not new to the auto industry. According to Cox Automotive, over the past 20 years the cost of a new car has increased by 35 percent, while household income has only grown three percent. Following the purchase of a house, a car is often a consumer's largest investment, and the vehicle they buy has to fit their needs and their budget. We have dealer members who have lost customers over as little as $5 per month on their monthly payment.

A recent study by the Center for Automotive Research (CAR) commissioned by the National Automobile Dealers Association found that additional tariffs on automobiles could increase the average monthly car payment by as much as $78. If consumers will walk out on a car deal for a $5 increase, they will run out when the monthly payment goes up by $78.

So, let's take a closer look at new vehicle costs recently released by Kelley Blue Book – these numbers have been updated since my statement was submitted. The Kelley Blue Book analysts reported that the estimated average transaction price for light vehicles in the United States was $35,742 in September of this year. With interest rates on the rise and manufacturer incentives waning, monthly payments for consumers are increasing.

Furthermore, the aforementioned CAR study estimated what various scenarios would do to the cost of an automobile under trade and tariff threats. One area of the study assessed was the consumer impact of potential Section 232 tariffs and quotas on imports of autos and auto parts.

The CAR study found that 25 percent tariffs, calculated with assumed exemptions for Mexico and Canada, would increase the price of a typical vehicle sold in the United States by nearly $2,500, while total sales of new vehicles in the United

States could decline by as much as 1.2 million units. Moreover, total U.S. employment could fall by nearly 200,000 and GDP losses could amount to as much as $15.3 billion.

However, it is important to note that the USMCA does NOT include formal exemptions for Mexico and Canada from possible Section 232 auto tariffs. It instead uses side letters that are subject to legal review in an attempt to insulate against the impact of the tariffs should they go into effect. In fact, the case could be made that the side letters addressing the Section 232 auto investigation actually confirm the likelihood that the tariffs will be imposed, making the impact on consumers and the economy even worse than predicted.

Additionally, the CAR study found that the used car market would be affected by tariffs, as well. Many consumers shopping for a new car would be driven into the used car market by rising prices. Increased demand and constricted supply would then drive up used car prices. The chart in our submitted statement outlines the five year average of new and used car prices. As you can see, they've already been on a steady increase. In the first quarter of 2018, the average price of a used car hit a new 13-year high of $19,657.

Affordability can be affected by many things, including what appear to be overly complicated new automotive rules of origin (ROO) in the United States-Mexico-Canada Agreement. The ROO are incredibly complex, and appear to require a burdensome regulatory structure, driving up compliance costs, which will inevitably increase costs of automobiles. If costs go up for manufacturers, costs will go up for dealers, as well as the consumer.

The car market is extremely price sensitive. In testimony before the Senate Finance Committee last month, an AIADA dealer member related the story of a six percent sales tax the state of Kentucky recently expanded to include services such as auto repair labor, which had an immediate negative impact on his service department. If USMCA's new complexity creates a burden on manufacturers that increases costs, many consumers could be priced out of the new car market altogether.

Additionally, there is a great deal of uncertainty over many of the USMCA's provisions among the auto manufacturers. Uncertainty is a business killer and dealers may delay or altogether cancel planned expansions or groundbreakings that would create jobs as the rapidly changing trade climate makes any new investments more risky.

We have entered a challenging and uncertain time for the automotive retail industry. Vehicle sales are beginning to flatten and interest rates are rising. Many do not realize that automobile dealers are the auto manufacturer's first and primary customer, having already bought the cars before they can retail them to customers. For dealers to remain solvent in this industry of shrinking margins, they must be able to quickly sell to consumers the vehicles they want at a price they can afford.

AIADA strongly supports pro-growth economic policies and are relieved that a trilateral agreement was reached with Canada and Mexico. However, we remain concerned about the potential for increased costs and lost auto jobs due to onerous new origin requirements, possible 232 tariffs, and crippling uncertainty stagnating an otherwise humming economy. Ultimately, we believe that the USMCA does more to manage trade than to expand it.

Thank you for the opportunity to provide feedback on the impact of the USMCA to the United States auto retail industry and the consumers we serve.