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INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA – UAW

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**The Small Business Trade Snapshot: Agriculture and Workers
Committee on Small Business Subcommittee on Rural Development, Agriculture,
Trade, and Entrepreneurship
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Madam Chair Finkenauer, Ranking Member Joyce, and members of the Small Business, Rural Development, Agriculture, Trade and Entrepreneurship subcommittee, thank you for the opportunity to share our views on trade policy and its impact on the economy and working people.

It is my honor to testify on behalf of the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW), President Gary Jones and our one million active and retired members. As researchers, engineers, and skilled trades and production workers in the automotive, aerospace, and agricultural and construction equipment industries, we welcome this hearing.

The importance of manufacturing in our agricultural sector is often overlooked. Agricultural equipment sales are directly linked to the health of the agriculture sector. When the agriculture market is down, it is also down for agriculture equipment. We have close 18,000 members in the Agriculture implement sector with a heavy concentration in Illinois and Iowa (Region 4). Our members manufacture combines, tractors, and products needed by our emerging biofuel industry. We represent over 7,000 members at Caterpillar and approximately 9,500 at John Deere. These jobs help build a stronger local economy and create a strong middle class. Furthermore, many small businesses work as suppliers for larger companies.

The UAW footprint in agriculture equipment is prominent in rural communities and small towns across the United States.

Below is a brief snapshot of UAW in the agriculture equipment sector:

- Energy has been in business for 75 years in Monticello, IA which has a population 3,871. At Energy, UAW workers build cylinders for John Deere, Case, Bobcat.
- UAW Local 120 represents over 250 members work at Donaldson Company in Cresco, IA. Cresco has less than 4000 residents. They manufacture filters which are used to protect a customer's farm tractor engine and make products to solve customers' filtration challenges.
- UAW local 1613 represents 70 employees in energy manufacturing. They design and manufacturer hydraulic cylinders and fluid power components and systems.

These jobs enable workers to provide for their families and contribute to a healthy, local economy. In developing trade policies, we should not put high-skilled and specialized agricultural manufacturing jobs at risk. If these jobs are lost workers may be forced to retire or relocate to try to find new jobs, many of which pay lower wages. Trade policies have a profound impact on workers, manufacturing, and the agriculture sector.

The UAW supports industrial 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. When it comes to trade policy, our overarching goals is to create good paying U.S. jobs now and in the future.

Comprehensive Industrial Policy

Any effort to reset America's 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, balancing environmental and energy policy, 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 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, help our environmental impact, and vastly improve American's quality of life. It has been demonstrated time and time again that a vibrant middle class is needed in order to have a strong economy and democracy.

The fact is, extensive damage has already been done and workers are paying the price for policy failures and neglect by our elected leaders. What can be done to build an economy that works for all?

Major players in the Agriculture Implement industry have expanded operations in Mexico while reducing employment in the United States in recent decades. Since 2000,

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

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 overall¹. One fourth of manufacturing jobs make less than \$13.07 per hour².

Trade

Corporate driven trade agreements that pit workers against one another have played a big role in eroding the middle class. The North American Free Trade Agreement (NAFTA) or USMCA is a significant culprit. Since its passage 25 years ago, U.S. trade deficits with Mexico has cost hundreds of thousands of manufacturing jobs. We appreciate that international trade is an important aspect of global supply chains in the automotive and other manufacturing sectors and that not all imports directly result in the loss of U.S. jobs.

Still, trade deficits of the magnitude we have today led to the displacement of U.S. production and corresponding jobs losses. Under NAFTA, there is no place that outsourcing is a bigger problem than in the auto industry. The U.S. automotive and auto parts trade deficit with Mexico has surpassed \$45 billion annually.

While overall trade volume and corporate profits are up, wages in all three countries have remained relatively stagnant³. Workers are all too often not compensated fairly for their work⁴. The fundamental right to collectively bargain is under constant attack, resulting in union density falling across North America while economic inequality has grown⁵.

NAFTA renegotiations will only be successful if they lead to higher wages in all three countries, reverse our crippling trade deficit with Mexico, and create new manufacturing jobs in the United States.

NAFTA's Impact on Auto Industry

The impact of NAFTA on the entire supply chain must be looked at. It is a mistake to look solely at final assembly. More assembly plants mean more first-tier parts, then more second-tier parts, and on and on. It is a vicious cycle for UAW members whose jobs have moved to Mexico.

1

<https://www.nelp.org/wp-content/uploads/2015/03/Manufacturing-Low-Pay-Declining-Wages-Jobs-Built-Middle-Class.pdf>

² <https://www.bls.gov/iag/tgs/iagauto.htm>

³ 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.

⁴ Id.

⁵ Heather Long, "U.S. Inequality Keeps Getting Uglier," CNN Money, Dec. 22, 2016. Available at: <http://money.cnn.com/2016/12/22/news/economy/us-inequality-worse/index.html>.

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%⁶.

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%

Auto companies are making new major investments in Mexico. The facts are:

- Every major OEM and supplier have operations in Mexico.
- Mexico produced 4 million vehicles in 2018 and bought just 1.4 million. The remaining exported, mostly to the U.S.
- There are 800,000 autoworkers in Mexico, over 90% of them are in parts.

In 1993, the U.S. had a very small auto parts (NAICS 3363/HS 8708) trade deficit with Mexico of \$1 billion. 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 percent⁷. While many factors, including changes in technology and attacks on workers' rights to collectively bargain, have also contributed to the decline, NAFTA played a big role in creating the enormous trade deficits we face in this sector today.

⁶ Ward's Automotive.

⁷ William A. Galston, "How the vise on U.S. wages tightened," The Wall Street Journal, March 31 2015.

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 U.S. has an auto parts (NAICS 3363) surplus 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		

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. These components employ tens of thousands of American workers at high pay.

NAFTA, like other flawed trade deals, has had a lasting impact. Poor labor standards in Mexico have a real economic impact on the U.S. as companies relocate to take advantage of workers who lack basic rights and are underpaid. Workers in Mexico are often put in harm's way for exercising their most basic rights. Auto workers in Mexico often make less than \$3 dollars an hour despite booming profits and record growth for the industry. Mexico needs to fix its labor laws, so workers can bargain for a better standard of living.

Mexico has made false promises in the past, it is important that they make and implement real changes so workers can join real unions. Repressive policies and “protection” unions – the Mexican equivalent of a company union – keep workers from organizing in a meaningful way, maintaining wages and working conditions at their lowest levels. When workers try to form their own independent unions, they are met with repression and even violence. Recently, PKC interfered with Mexican workers’ right to freedom of association at a wire harness production plant in Ciudad Acuna, Mexico Mexican workers. Workers have been attempting to form a union for more than decade, but their attempts have been met with employer interference including worker intimidation and firings.

NAFTA hurts manufacturing workers directly and indirectly. 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. If the revised NAFTA is to truly curtail outsourcing, Mexico’s labor laws and practices will need to be fundamentally changed for the long haul.

The U.S. State Department’s Mexico 2018 Human Rights Report concludes that the government did not consistently protect workers’ rights in practice. Its general failure to enforce labor and other laws left workers without much recourse regarding violations of freedom of association, working conditions, or other problems⁸. Despite this realization, NAFTA does not provide any adequate way to address these abuses. Mexico has been undertaking labor reforms and it is too early to tell if they will have a real impact in improving workers lives. Labor reforms that looked promising in the past failed to deliver the changes workers need. We hope history will not repeat itself but would be naïve to assume they will succeed in making real changes. Meaningful standards with strong enforcement mechanisms must be put in place.

Labor standards are important not just from a human rights perspective but also from an economic one. Poor labor standards in Mexico has only heightened the offshoring of U.S. manufacturing jobs. Poor labor standards in Mexico have a real economic impact on the United States as companies relocate to take advantage of workers who lack basic rights and are underpaid.

Trade rules are only as good as their enforcement. Enforcement tools must be expanded and used promptly.

To comply with the ILO Declaration on Fundamental Principles and Rights at Work and ILO Convention 182, Mexico, at a minimum must:

- Require independent, democratic unions
- Require workers to vote on all contracts and union leadership

⁸ U.S. State Department. Bureau of Human Rights and Democracy. Country Reports on Human Rights Practices for 2018.

- Require unions to provide copies of contracts to workers
- Require that unions have a duty to represent their members

Beyond allowing labor violations to be settled using the same dispute settlement system, considering the decades long suppression of labor rights in Mexico, labor violations should be subject to special punitive duties. Additionally, labor unions in all three countries should have standing authority to bring charges of labor abuses – regardless of whether the union represents the workers.

In conclusion, we must create a new trade model that puts workers in the driver's seat, not corporations seeking to outsource to maximize profits. We need to get back to the negotiating table.

Auto Trade with China

China tilts the playing field by propping up domestic companies and state-owned enterprises through direct subsidies, and suppressing workers' rights, 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. For American workers, this trend is untenable.

Since 2002, the U.S.'s trade imbalance with China has increased \$316 billion, or 307%. Between 2001 and 2015, it is estimated 3.4 million American workers lost their jobs to unfair trade with China. 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 nearly thirteenfold to \$12.4 billion. Automakers from here and abroad have placed big bets on China by making enormous investments. We are concerned that an increasing share of vehicles and technologies of the future will be made in China instead of the United States.

Auto Trade with Japan

Decades of well-intentioned efforts by US trade negotiators from Republican and Democratic administrations to open the Japanese auto market to foreign competition have been an unambiguous failure. While Japan is the third largest auto market in the world, it only imported 351,000 vehicles in 2017, or 6.7% of its 5.2 million sales. In contrast, the US imported 8.6 million vehicles in 2017, accounting for 49.2% of sales.

In 2017, the US had a \$68.9 billion trade deficit with Japan, with nearly 75% of that deficit coming from motor vehicles and parts. Last year, Japan had a \$39.8 billion trade surplus in motor vehicles, and \$11.5 billion surplus in auto parts. Over the past fifteen years, Japan's motor vehicle and parts trade imbalance has only worsened, with the motor vehicle imbalance growing \$4.8 billion (14%) since 2002, and the auto parts imbalance growing \$2.2 billion (24%). It has been estimated that the US-Japan trade imbalance has eliminated nearly 900,000 US jobs.

What makes the prospect of a more balanced playing field so unlikely, is that Japan's automotive tariff *is already zero percent*. To insulate its domestic automotive manufacturers, Japan instead uses non-tariff barriers (NTBs). These barriers include: currency manipulation; a discriminatory system of taxes; onerous and costly vehicle certification procedures for imported automobiles; a complex and changing set of safety, noise, and pollution standards, many which do not conform to international standards and add significant development and production costs; an unwillingness by Japanese dealerships to carry foreign automobiles; and government incentives to purchase Japanese-made kei cars. NTBs to foreign autos in the Japanese market have been inherently structural, ever-changing, and impervious to American negotiating efforts. These barriers have created an uneven playing field, so much so that for every car the US exported to Japan in 2017, Japan sent 100 back.

Negotiations between the United States and Japan on a bi-lateral trade agreement is alarming given Japan maintains the most closed auto market in the developed world. We urge the Administration to proceed with caution. We are deeply concerned that a trade deal with Japan could ultimately further widen our enormous auto trade deficit and hurt our domestic auto industry. Regarding Japan, 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.

Auto 232

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.

Special attention must be paid to key components that are important for the U.S. to remain relevant in vehicle parts manufacturing. We urge the Trump Administration to be ambitious and creative in using the many tools at its disposal to ensure more auto parts and vehicles are built in the United States.

Safeguards should be put in place to ensure domestic production of specific strategic parts. Technologies that have been developed primarily thanks to American R&D (for example, autonomous vehicles) and regulatory requirements (emissions and fuel efficiency standards) should be manufactured in the U.S. Protecting strategic parts will help ensure U.S. manufacturers will remain industry leaders, and that all American workers will share in that prosperity.

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 arm tied behind our back. For this very reason, we believe the Administration should not abandon their auto 232 investigation. We hope the Administration will ultimately take a measured and targeted approach to bolster domestic manufacturing.

Tax Policies Encourage Offshoring

Signed into law in December 2017, the Tax Cuts and Jobs Act (TCJA) encourages the outsourcing of U.S. manufacturing jobs. Because of this law, multinational corporations pay at most only half that rate on their offshore profits as they do on their earnings here at home, creating an incentive to ship jobs overseas.

For example, a company with \$100 million worth of tangible offshore assets pays no U.S. taxes on the first \$10 million of foreign profits they report. Many companies end up paying no U.S. taxes on foreign earned profits. The tax law created a new, unique incentive for U.S. corporations to move real investments offshore, along with the manufacturing jobs that go with them. These incentives will become greater over time if they remain in place.

We urge Congress to act quickly to end the perverse incentives by passing The No Tax Breaks for Outsourcing Act of 2019 (H.R. 1711) sponsored by Rep. Doggett. This legislation would help stem the tide of offshoring jobs by setting a minimum tax on the foreign profits of multinationals equal to the statutory corporate tax rate on domestic profits and apply that rate to a similar base. H.R. 1711 eliminates incentives passed by the Tax Cuts and Jobs Act (TCJA) which encourage companies to outsource U.S. manufacturing jobs.

The more investments offshored, the less in taxes they pay. In 2018, corporate tax receipts fell by over 30% in 2018. Big companies by and large pocketed tax breaks and many broke promises to give workers raises. Instead, companies are often taking billions in windfall and putting it toward dividends or buying back their own stocks, which greatly benefits CEO's and wealthiest shareholders. According to Americans for Tax Fairness, corporations are spending 130 times as much on stock buybacks as they are spending on workers' bonuses and wages. Authorizations for stock buybacks, which overwhelmingly benefit the wealthy, have increased by \$923 billion since the tax law was passed,⁹ while workers are getting \$7.1 billion in one-time bonuses and wage increases.

⁹ <https://americansfortaxfairness.org/key-facts-american-corporations-really-trump-tax-cuts/>

TCJA is adding to our national deficit. The Congressional Budget Office estimated that the law would increase the federal debt by \$1.889 trillion from 2018-2027, about \$433 billion more than the Joint Committee on Taxation projected last December. Predictably, many elected leaders have called for cutting hundreds of billion in Medicare and other essential programs in the name of deficit reduction. Working people could be forced to pay for TCJA in numerous ways.

Incentives to offshore and ballooning deficits are far from the only problem created by the current law. GM is a recent example of how the tax law is failing to live up to its promise. In November 2018, GM announced it would close four U.S. auto manufacturing plants. GM justified the cuts by citing long term savings, the cuts would free up \$6 billion in cash for a nets savings of \$4.5 billion in cash by 2020. Meanwhile, they made a net profit of \$10 billion in 2018 alone and have returned \$25 billion to their shareholders through dividends and repurchases in recent years¹⁰.

Congress must hold corporations responsible. Assuming they will keep their promises to invest in the United States is foolhardy at best. We urge this Committee to look at claw back provisions and other mechanisms to curb the pervasive practice of pocketing tax breaks and turning their back on U.S. workers.

Weak U.S. Labor Law

As discussed earlier, real wages have stagnated for auto workers in recent decades. This is happening for a number of reasons.

Employers routinely hire union busting consultants and hold captive audience meetings to intimidate workers. Employers face little consequence for refusing to negotiate contracts or delay union elections. U.S. workers continue to face barriers when trying to form a union.

The increased use of temporary employees is an important factor. 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 benefits¹¹. 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 industry¹². The growing use of temp work drives down wages, benefits and job security

¹⁰ Barra, Mary. Deutsche Bank Global Auto Industry Conference. January 16, 2018. <https://investor.gm.com/static-files/d5c42255-3f96-4121-ad78-7476ae9db9d6>

¹¹ 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.

¹² U.S. State Department. Bureau of Human Rights and Democracy. Country Reports on Human Rights Practices for 2018.

in the auto industry and undermines good, middle class jobs. Congress must stop ignoring the loss of good full-time jobs.

The right to collectively bargain 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 sector¹³. 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 workers' legal right to have a voice on the job will strengthen the middle class and reduce income inequality. Congress and the Administration need to fight for workers by strengthening our labor laws.

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.

Conclusion

We cannot repeat the mistakes of the past. NAFTA and broken trade deals have had long lasting and deep impacts for workers, communities, small 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.

We, as a country, need to take a more holistic approach to trade and labor policy. It is a mistake to look at trade in isolation. We need to make a strong commitment to a comprehensive, sustainable strategy to create and maintain good manufacturing jobs in the United States.

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

13

<https://www.epi.org/press/todays-labor-unions-give-workers-the-power-to-improve-their-jobs-and-unrig-the-economy/>

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