



Mr. Robert E. McKenna, President and CEO

Motor & Equipment Manufacturers Association

Testimony before the International Trade Commission on:

Remanufactured Goods: An Overview of the U.S. and Global Industries, Markets, and Trade

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The Motor & Equipment Manufacturers Association (MEMA) represents over 700 companies that manufacture and remanufacture motor vehicle parts for use in the light- and heavy-duty original equipment and aftermarket industries. Motor vehicle parts manufacturers are the nation's largest manufacturing sector, directly employing over 685,000 people across the country. MEMA represents its members through four affiliate associations: Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Manufacturers Association (HDMA); Motor & Equipment Remanufacturers Association (MERA); and, Original Equipment Suppliers Association (OESA).

MEMA is pleased to submit comments on behalf of the motor vehicle parts industry, addressing the important role remanufacturing plays in our economy and issues related to further economic development. The economic, environmental, and employment benefits offered by remanufacturing can be significantly increased given a wider and more thorough understanding of the industry. The U.S. International Trade Commission (ITC) study will provide state and federal policymakers with a greater understanding of the industry, thereby helping to provide guidance on what issues need to be addressed to promote remanufacturing.

Remanufacturing can be defined as a standardized industrial process that recovers and recycles end-of-life products and returns them to their "same as-new," or better, condition and performance. Examples of remanufactured components in the motor vehicle industry include:

engines, transmissions, alternators, starters, turbo chargers, steering and suspension components, and electronic control modules. Remanufacturing preserves the value of the original manufacturing – including material and energy costs and investments in capital and labor inputs – which recycling alone cannot do. Remanufacturing saves 80 percent of the energy and material used to manufacture equivalent new parts, making it a sustainable and economically viable response to increased global trade pressures, resource scarcity and rising energy costs. For example, considering conservation of natural resources, new automotive starters require nine times more virgin raw materials by weight as compared to a remanufactured starter.

The U.S. automotive (non-heavy-duty) aftermarket consists of over 240 million cars and $185 billion in annual business, with parts sales of about $78 billion. Twenty-five percent of those sales are remanufactured parts. With 3,800 firms and over 350,000 jobs, the labor-intensive motor vehicle remanufacturing sector employs a wide range of workers at many skill levels. These remanufactured parts are on average 20 to 50 percent below the cost of most new parts, while delivering the same level of quality backed by very competitive warranties. In 1997, the Environmental Protection Agency (EPA) proclaimed "remanufactured" is "good as new."

It was the recognition of the important role that remanufacturing has in the U.S. and global economies that led MEMA in 2011 to create an additional affiliate association focused on remanufacturing—the Motor & Equipment Remanufacturers Association. Among MERA's top priorities is an education and awareness campaign, officially named Manufactured Again™, that is heightening the understanding and acceptance of remanufacturing. The campaign will include a certification program that will let customers know that remanufactured parts from MERA member companies are truly remanufactured. The program will define minimum process criteria for products to be eligible for certification.

Many potential key supporters of remanufacturing are simply not familiar with the remanufacturing process. This is especially true in government, both at the federal and state level, where policies can be instrumental to providing the right incentives for growth. But there are some positive examples. Texas, Connecticut, and California passed legislation in 1999 promoting the purchase of recycled and remanufactured products, while New York State provided a tax credit for remanufacturing companies in 2000 and passed a provision encouraging the state purchase of remanufactured goods in 1998. Between 2007 and 2010, resolutions were

also passed in Pennsylvania on the state and local level to promote use of remanufactured parts in the corresponding government vehicle fleets. Most recently, Michigan in 2011 approved consideration of remanufactured goods in its procurement process. The MERA Manufactured Again™ campaign and ITC study will reintroduce federal and state policymakers to the sustainability and job creation benefits of remanufacturing.

One of the key obstacles to growing the remanufacturing industry is trade barriers, particularly non-tariff barriers. With an increasingly competitive global economy, accessing new markets is important for not only selling remanufactured products, but also for sourcing the used goods, or "cores", that are the main component part of remanufactured products. As an early trade agreement, the North American Free Trade Agreement (NAFTA) did not provide for cores to meet origin rules granting duty free treatment; the U.S. and Canada made the necessary changes in law to allow for cores to receive duty free treatment. Mexico has yet to do so and this is important as about 75 percent of U.S. motor vehicle parts exports are sent to Canada and Mexico.

MEMA and MERA's remanufacturer members continue to work with the Office of the United States Trade Representative (USTR) and the Department of Commerce to promote remanufactured goods trade with our trading partners and we commend our government for including remanufactured goods in the recently passed Colombia, Panama, and South Korea free trade agreements. The growing Asia-Pacific market holds promise for the U.S. remanufacturing industry, and MEMA is grateful for our government's efforts to promote remanufacturing at the Asia-Pacific Economic Cooperation (APEC) forum, as well as the current Trans-Pacific Partnership (TPP) trade negotiations, which seeks to create a high-standard and progressive regional FTA in the Asia-Pacific.

In 2011, the Rochester Institute of Technology (RIT) and the Council on Competitiveness hosted a "Strategic Dialogue on Remanufacturing Policy" with participation from industry (including MEMA and MERA) and government officials from key agencies and departments such as USTR and Department of Commerce. RIT conducted a survey of 22 companies that participated in the dialogue representing the key remanufacturing sectors, and motor vehicle parts represented one-third of the companies. Three-quarters of the surveyed companies export remanufactured products, half of which had encountered trade barriers in such regions as Asia

and South America, the two fastest-growing regions and increasingly important markets; China and Brazil being the most mentioned. For instance, Brazil restricts entry of certain types of remanufactures goods, including automotive parts, through import licensing procedures and bans imports of remanufactured goods if the goods are produced domestically. India, another key growth market, also has non-tariff barriers.

In addition to trade barriers, the RIT survey also touched upon the following key areas important to the future growth of the industry:

- **Incentives**- Less than a quarter had received federal or state incentives in the form of tax breaks and job creation programs though not necessarily remanufacturing specific; R&D collaboration is more likely between companies and academia than through government support; Government R&D support would do much to promote innovation for the industry.
- **Core Valuation**- High core valuations are a significant drain on working capital and core shortages and movement between countries are significant impediments to remanufacturing.
- **Perception of Remanufacturing**- 91 percent said enhancing the perception of remanufacturing would benefit their company; government purchasing of remanufactured goods remains a challenge both in the U.S. and globally; Misunderstanding the difference between remanufacturing and repair is a problem, with Mexico, Germany, and Japan having particular perception problems.
- **Industry Standards**- Absence of industry standard affects everything from trade to domestic operations with three quarters saying no industry standard in their sector and nearly as many saying standards would help their business.

Conclusion

The motor vehicle parts remanufacturing industry was sustainable before the term was widely used and greater awareness of its benefits will help both the U.S. economy and the environment. MEMA and MERA thank the USITC for leading this important study and offer our assistance to the ITC and USTR during this effort.