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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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Undercar Express, LLC (UCX) is a remanufacturing and recycling company that competes in the North American automotive aftermarket. UCX is a member of the Motor & Equipment Remanufacturers Association (MERA), an affiliate association of the Motor & Equipment Manufacturers Association (MEMA).

The automotive aftermarket is a significant sector of the U.S. economy, employing approximately 4.3 million people in 2008. This industry encompasses all products and services purchased for light- and heavy-duty vehicles after the original sale including replacement parts, accessories, lubricants, appearance products, tires, collision repairs, service repairs, as well as the tools and equipment necessary to make repairs.

UCX is a full line disc brake caliper remanufacturer located in Cleveland, OH. We currently employ 62 people. The company was founded by Dave Wright, Paul Schuck, and Rob Wright in 1997 and has grown tremendously since then. UCX is recognized in the aftermarket as a high quality, service-oriented enterprise and was the recipient of Frost & Sullivan's Customer Service Leadership Award in 2008. UCX's sales footprint is primarily the Midwest and

Northeast U.S. as well as Ontario, Canada. However, UCX has customers throughout the United States and Canada.

Background

Remanufacturing products play a critical role in the aftermarket, returning end of life parts to original “same as new” condition. At the same time, remanufacturing is good for the economy, the consumer, and the environment. As a domestic industry, remanufacturing is very labor intensive, requiring three to five times the number of people required to manufacture the same product. Remanufacturing also extends the useful life of consumer products. Consumers also see benefits as remanufactured products are 25 to 50 percent less costly than new ones.

Traditional manufacturing of complex products requires tremendous resources of energy and raw materials. Compared to new manufacturing, remanufacturing is estimated to save about 85 percent of the energy that would have been used to manufacture a comparable new part. According to the Department of Energy’s Argonne National Laboratory, remanufactured products conserve the equivalent of 400 trillion British thermal units (Btu) yearly, which is roughly equal to 69 million barrels of crude oil. This is comparable to electricity savings generated by eight average size nuclear power plants. Remanufacturing also mitigates the total amount of carbon dioxide released into the atmosphere because of the inherent energy conservation and limits the amount of refuse to be disposed of in landfills.

Other points to consider include:

- Remanufacturing annually conserves 14 million tons of natural resources (copper, aluminum, iron, steel, petroleum) and reduces solid waste;
- Remanufactured goods add several life cycles to a product with fewer end of life products entering the waste stream; and
- Remanufacturing consumes less energy with an annual carbon dioxide reduction of 28 million tons.

Brakes and Remanufacturing

Brakes are the lifeblood of most automotive parts distributors in today's aftermarket. The largest segments in the brake category are disc brake pads, rotors, and calipers. The supply and sale of pads and rotors is relatively straight forward because they are "disposable" products. Calipers, however, are a bit more complex because they are a "remanufactured" "cored" product.

The role of the remanufacturer is to take the used caliper (core) provided by the customer and refurbish it to "same as new" condition. By refurbishing the used calipers, the remanufacturer eliminates the expense of tooling, fabricating, and machining the caliper casting. The casting simply gets recycled and the distributor only pays for the value added by the remanufacturer. This is typically referred to as the "exchange" price.

The underlying premise of this industry is that the distributor owns the core and simply returns cores to the remanufacturer for refurbishing. It is imperative to note that the decision to own a core is made when the distributor decides to get into the caliper business. The first transaction a distributor has with a remanufacturer is typically when a distributor makes its core investment. If you assume a) that the distributor does not lose any cores, b) the product line does not change and c) sales are constant and flat (not increasing or decreasing), the distributor does not need to buy cores again. Therefore, after the initial transaction, the only out-of-pocket cash for the distributor is the exchange value of the caliper.

In the real world, however, calipers get lost, the product line changes and, hopefully, sales increase. In the case of lost calipers, the distributor must recognize the value of his core investment and protect against inventory shrinkage. In the case of product line changes, most remanufacturers offer an annual stock adjustment where a distributor can return older, slower moving product in return for newer, faster moving components.

Barriers, Risks, and Opportunities for Growth

This industry depends heavily on the return of cores and the ability to export remanufactured product to other countries. The U.S. has recognized this necessity and advocated for the elimination of non-tariff barriers in free trade agreements. We commend that action and believe this must continue.

Even though remanufacturers provide quality products at a competitive, and often times, lower price, not all consumers readily reach for a remanufactured part. MERA, MEMA, and UCX all support efforts to draw attention to the value of remanufactured products by requiring the consideration of the use of remanufactured goods by government authorities when making a purchasing decisions. Such legislation has passed in Michigan and is being considered in other states.

While all small manufacturers have struggled meeting their financial needs lately, remanufacturers struggle because of the nature of cores. The banking environment has changed dramatically as banks have tightened their underwriting standards resulting in shortened advance rates and less willingness to use inventory as collateral. Since banks consider cores as inventory, collateral is more difficult to acquire and financing is more difficult to obtain.

Conclusion

UCX joins with MERA and MEMA and urges the following:

- Congress should pass legislation creating a 20 percent tax credit for the purchase of equipment used to remanufacture products in the United States. To qualify for this credit, a taxpayer must demonstrate that not more than 50 percent of a product is comprised of virgin material;
- Federal, state, and local governments should promote the use of remanufactured motor vehicle parts and components in their fleets;
- The Office of the United States Trade Representative must continue to push for the inclusion of language eliminating non-tariff barriers to trade in any and all free trade agreements; and
- Parties should join together to create opportunities for public-private partnerships to conduct research and development to improve manufacturing technologies and practices to recycle and remanufacture vehicle components and parts.

UCX is very grateful for the opportunity to share our thoughts with you on this very critical issue and we look forward to working with the administration and Congress to bring needed attention and focus to the benefits of remanufacturing.