Senate Democratic Policy Committee Hearing

"An Oversight Hearing on Trade Policy and the U.S. Automobile Industry"

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Mr. Chairman & Members of the Committee:

I am Stephen J. Collins, President of the Automotive Trade Policy Council (ATPC). ATPC is an association that represents Daimler Chrysler Corporation, Ford Motor Company and General Motors Corporation on issues of international trade and economic policy, both here in the United States and globally.

I want to first thank you for the interest you and the Policy Committee have shown on a subject that is of great importance to our companies and the U.S. economy in general – the current realities and impact of changing trade patterns on the U.S. automotive industry.

The U.S. automakers – DaimlerChrysler, Ford Motor and General Motors – have played a central role in the development and growth of the American economy in the 20th century. We are the industry that since the 1900s has built generations of a strong American middle-class and the cars they drive as part of that unique vision, the American dream. In 2006, our companies remain the heart of the U.S. industrial base and an engine of the American industrial economy.

The auto industry accounts for 4% of U.S. GDP, and our companies comprise the vast majority of that contribution.

Together, our three companies:

- Manufacture 70% of all cars and trucks in America;
- Employ nearly 400,000 American workers in 176 major facilities in 34 states;
- Purchase 80% of all U.S. auto parts annually, totaling over $155 billion;
- Provide health care benefits to over 2 million US citizens at an annual cost of nearly $10 billion;
- Pay over $11 billion in pension payments annually to 800,000 retired American men and women all over the country.

Our industry is one that has been part of every major U.S. trade development in the post-war era. Long before the current age of multiple Free Trade Agreement negotiations, the automotive industry paved the way for the very first American free trade initiative – the l964 U.S.-Canada Auto Pact. That first launch by the United States into a free trade agreement integrated our two nation's auto industries into a seamless North American production, supply and marketing base. It is still considered a model of a fair trade arrangement that brought mutual benefits to all parties involved, expanded consumer choices and lowered prices and costs.

This successful model was later expanded into the 1988 U.S.-Canada Free Trade Agreement and then in 1994 to the North American Free Trade Agreement (NAFTA). As a result, today automotive products are by far the largest single export at both the Northern and Southern borders of the United States, making Canada and Mexico our largest trading partners.

As we look to the global trade environment in our business today, the picture has changed quite dramatically. The United States is the most open and lucrative automotive market in the world. Our citizens and consumers have strongly benefited from the global competition that has made this market the most attractive in the world. In fact, it is the most important market not only to the U.S. auto companies, but to our international competitors as well – who earn 70% or more of their total global profits right here in the United States. Over the years, many of our international competitors have made huge profits in the United States while losing money in their highly protected home markets.

Looking across the Atlantic, Europe developed as a mature market that has been open and welcoming to U.S. products, investments and facilities. As a result, our companies have been an integral part of the European auto industry for fifty years. Emblematic of that tradition is the partnership between Chrysler, a major U.S. company, and Daimler-Benz, a major German auto company.

But our experience across the Pacific has been very imbalanced and unsatisfactory. Japan and Korea's automotive industry have aggressively pressed into the U.S. market, fueled by a set of trade policies and practices very different from ours. While clearly benefiting from the openness of our market, Japan and Korea's auto industries have been protected at home to the point where they control 95% and 98% of their home markets, respectively. These mercantilist trade practices and policies have led to a terribly imbalanced and lopsided picture of automotive trade between the U.S. and our Asian competitors, Japan and Korea.

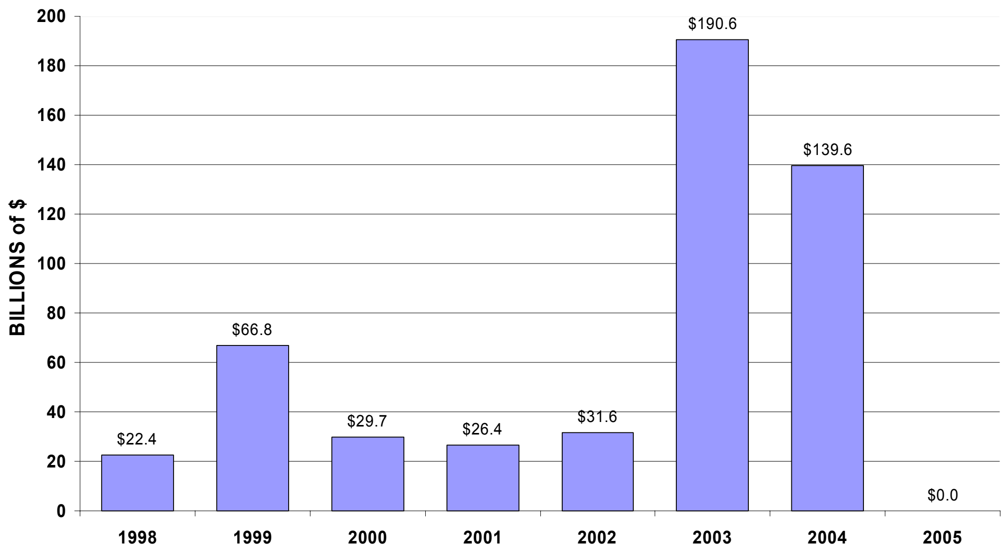
Let me briefly note that we share the concerns of the UAW about the possible U.S.-Thailand and U.S.-Korea Free Trade Agreements. With respect to Thailand, the problem is that Japanese automakers have essentially moved their entire production of pickup trucks from Japan to Thailand and made Thailand the second-largest pickup truck manufacturer in the world. This means that when the U.S. sits down with their Thai counterparts, it is not Thailand alone asking for U.S. automotive tariffs to be reduced – it is the Japanese auto industry. And so there are very clear and sensitive competitive interests concerning how a free trade agreement would affect our pickup truck plants in the United States.

With regard to Korea, I'm afraid to say our industry has had a very sour and negative experience over the last decade with Korea. Korea has made it nearly impossible for any foreign company to be successful in its domestic market. We go into the launch of FTA negotiations starting with the fact that the total import share of all foreign autos – U.S, Japanese, European, etc. -- in Korea is just 2%. So Korea has a lot to do up front to show us that they are deserving of recognition by the U.S. as a fully fair and open trade partner.

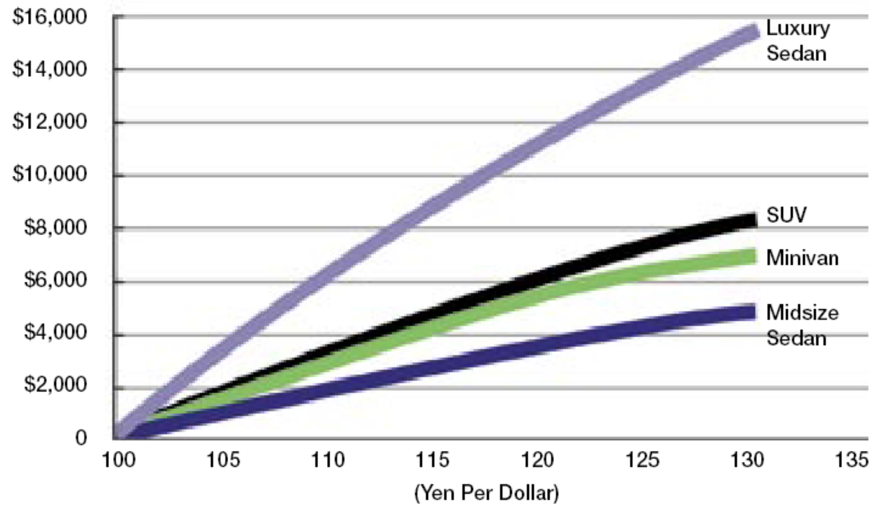
There are any additional number of subjects that I could raise this morning regarding the international trade and economic policy environment that have shaped and affected the U.S. auto industry over the past decade. But time is short. Today, I would like to focus on a major international economic and trade policy problem that has caused the most damage impact to U.S. automakers' industrial competitiveness. It is the policy of massive currency manipulation by the government of Japan designed to provide an enormous competitive advantage to its exporters, above all its automotive industry.

In the face of a flat, deflation-plagued economic performance over the last decade, in the mid 1990s Japan embarked on a concerted government policy to weaken the its yen in order to subsidize its export industries. This effort then became the core of Japan's industrial policy for its struggling automotive companies. Many people forget that, only five years ago, a number of Japan's major auto companies were facing serious financial crisis, with some in danger of collapsing. To ensure their survival and success, the Japanese government embarked on this major program of persistent, large interventions in global currency markets in order to weaken the yen and promote Japanese exports.

Total Annual Japanese Spending on Currency Interventions
(Billions of US Dollars, Jan 1 1998 - Dec 31 2005)



Let me put this in perspective. Over the past six years, Japan has spent $450 billion to prevent the yen from reaching its true market value. That is a direct $450 billion subsidy to Japanese export industries. Now let me translate that into the subsidy effect on Japanese cars and trucks sold in this market. We estimate that, even today, the current per-car subsidy of Japan's artificially weak yen policy is between $3,000 and $10,000.



Per Vehicle Subsidy from Manipulated Yen

Let me offer some very recent evidence of the huge impact of these subsidies. Just in the last few weeks, Japan's automakers have all reported record, or near-record, third-quarter profits, and at the same time reported revised full-year profit forecasts sharply upward. And the weakened yen was repeatedly cited as a major factor in this profitability. Toyota reported that one-third of its $3.3 billion in global 3rd quarter profits were the result of an unexpected exchange rate windfall.

Similarly, Honda reported that its 23% increase in profitability "was primarily due to the positive impact of currency effects caused by the depreciation of the yen" and if the yen had remained at its year-earlier level, revenues would have risen only 7.3%. Both companies earn about 70% of their total worldwide profits in the United States.

In closing, let me review the key developments in our market. During the late 1990s, we saw a revival of fortunes for the American auto industry. The strong U.S. economy and demand for cars and trucks, a competitive value of the dollar, strong products and a restructuring of manufacturing allowed our companies to compete successfully with foreign-owned manufacturers.

General Motors and Ford solidified their positions as the number one and two manufacturers in the world. When Chrysler merged with Daimler, the combined company became the number three global auto company. In the meantime, Japanese and Korean auto companies struggled with their weak home markets and an appreciated yen and won.

Since 2000, we have experienced a reversal of those trends. U.S. auto companies are struggling to earn a profit, while the Japanese companies are reporting record profits. There is no debate that some of the American companies' problems and the Japanese companies recent successes can be attributed to market factors.

With the weak yen lowering the cost of the nearly 2 million vehicles imported annually from Japan by roughly $3000 on a $20,000 car, it is no surprise that Japanese companies are using their record profits to fuel expansion around the world, while American companies are announcing major cutbacks in capacity and employment.

Many public figures are asking, "What can we do to shore of up the competitiveness of our companies?" The United States today is pursuing a number of trade agreements around the world. Each of these will require careful negotiating and scrutiny. But I would suggest that there is one area where our government could be influential immediately, which would have the most significant impact on trade flows and end a damaging and unfair trade practice. This would be to stop unfair currency manipulation by Japan, Korea and other trading partners.

Our government has tolerated Japan's currency manipulation for far too long. I hope that the Administration and the Congress will gain a greater understanding of the connection between what they are reading in the papers these days about plant closing and layoffs and policy actions that directly relate to those closings.

One positive development is that the U.S. auto industry has had the opportunity to meet with a number of senior Administration officials, and I am pleased to say that there is broad consensus and wide recognition of both the significant amounts and instances of Japan's currency interventions. They also were aware of the ongoing jawboning in currency markets by officials in Japan's Ministry of Finance.

Meanwhile, we will work with the U.S. Trade Representative and with Members of Congress on all of the trade agreements currently being negotiated that can affect the U.S. industry and our competitiveness, including the WTO Doha Round and the U.S. FTA negotiations with Thailand and Korea.

The stakes are very high for us, and we look forward to working with Members on both sides of the aisle to find ways to secure our industrial base, to support our workers, and to ensure the viability of a strong and healthy American automotive industry for decades to come.