



Written Statement of

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for the hearing entitled

**“Investing in American Jobs Legislation to Strengthen Manufacturing and
Competitiveness”**

before the

**U.S. House of Representatives Committee on Energy & Commerce
Subcommittee on Consumer Protection & Commerce**

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Introduction

Chairwoman Schakowsky, Ranking Member Bilirakis, and distinguished Members of the Subcommittee, thank you for convening this hearing on “Investing in American Jobs Legislation to Strengthen Manufacturing and Competitiveness.” Strengthening supply chain resiliency is tremendously important to the competitiveness of our company and our country. My name is Eric Sills, and I am the President and CEO of Standard Motor Products, Inc. (SMP), an automotive parts manufacturer and distributor. Thank you for inviting me to testify.

Today, I am going to start by providing background on our company. Then, I will cover the myriad of supply chain challenges currently facing SMP and other motor vehicle parts manufacturers. Finally, I will discuss potential solutions to our supply chain challenges, including the helpful proposed legislation on the agenda today. The bottom line is that it is important to consider appropriate actions to address both the short- and long-term crises that we face. We support the establishment of an office for Supply Chain Resiliency at the

Department of Commerce. In addition, we commend the Members of Congress who recently introduced the four individual supply chain bills being considered today and look forward to working on this legislation with you.

About Standard Motor Products, Inc.

Established in 1919, headquartered in Long Island City, New York and traded on the NYSE, SMP is a leading domestic automotive parts manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry, with a complementary focus on heavy duty, industrial equipment, and the original equipment markets. The Company employs more than 2,500 people in eight US States and has revenues in excess of \$1.1 billion with most of our sales here in America.

SMP supplies high-quality replacement parts to keep America's 290 million cars and light trucks operating on the roads safely and efficiently. It is important to note that our parts are largely for non-discretionary repair items, meaning they are used in critical vehicle systems including powertrain, safety systems, and emissions controls.

SMP is part of the motor vehicle supplier industry, a vibrant industry that operates in all 50 states, directly employs over 907,000 Americans, and represents the largest sector of manufacturing jobs in the United States of America. It is estimated that total vehicle supplier employment, including direct and indirect jobs as well as jobs created through more spending in the economy, accounts for over 4.8 million U.S. jobs and contributes 2.5 percent to U.S. GDP.¹ Furthermore, the independent aftermarket currently services over 70 percent of motor vehicle repairs in the United States.

SMP is a member of the Automotive Aftermarket Suppliers Association (AASA), a division of the Motor & Equipment Manufacturers Association (MEMA). I am a current board member of AASA and will serve as AASA chairman in 2022.

Current Fundamental Supply Chain Challenges

SMP, like other American manufacturers, relies on complex global supply chains that have developed over decades. The impacts from COVID-19 followed by the increased consumer and industry demand in 2021 have exposed the vulnerabilities of this 21st century supply chain. These supply chain challenges include skyrocketing costs due to shortages of key materials and components, prolonged port and shipping delays, and difficulties in hiring and retaining employees. SMP is working diligently to address these challenges, but we continue to struggle with shortages, allocation shortfalls, extended lead times, unreliable deliveries, and exorbitant price increases. A combination of time, tailored trade policy, and vigorous domestic measures are necessary for the U.S. to restore and reinvigorate our supply chain.

¹ [U.S. Labor and Economic Impact of Vehicle Supplier Industry](#), MEMA and IHS Markit. February 2021.

SMP manufactures a significant portion of its product portfolio domestically, and the majority of its products in North America (we have production facilities in Mexico as well as Canada). However, we also rely on goods from global suppliers. These goods include commodities such as resins, silicone, and steel and other metals as well as inputs including semiconductor chips. The availability of many of these commodities and other inputs are strained at this time. Sourcing these goods is currently difficult as basic shipping problems are heightened by COVID-19 plant and port shutdowns, as well as electricity and raw material shortages.

A strong North American supply chain is essential to continued manufacturing in the U.S. It also provides options for the U.S. supply chain. For those reasons, SMP strongly supported passage of the USMCA. A North American supply chain allows us to manufacture in the U.S. while strengthening the entire region. It allows U.S. manufacturers like SMP to compete against Asian and European imports and provides consumers with superior choice in the market. Fundamentally, it also permits the U.S. to focus on technologically advanced manufacturing that provides companies like SMP with the ability to grow and our workers with opportunities to prosper as the industry transforms.

Shortages of semiconductor chips continue to increase in the motor vehicle parts sector. Millions of light and commercial vehicles will not be manufactured and sold in 2021 and 2022 because of these shortages. Last month, AlixPartners, a global industry consultant, said that the global auto industry would lose 7.7 million vehicles worldwide, nearly 10 percent of projected global production in 2021, as a result of the chip shortage. They went on to add that the loss of production and sales is expected to cost the global auto industry \$210 billion in lost revenue this year. Industry experts predict that normal semiconductor supply and demand patterns will not return until sometime in 2023.

In addition to shortages of critical goods, SMP is facing shipping challenges. We believe that these may be compounded by our relatively small size and lack of negotiating leverage, making it more difficult to secure containers, or space on ships. At SMP, we have experienced six-fold price increases in shipping costs, seeing increases from a historic rate of \$3,000 per container to \$18,000 per container today. We import 2,000 containers per year, meaning these cost increases annualize to \$30 million, or nearly 3 percent of revenue.

The slowdown at the ports makes it more difficult for SMP to receive inputs for our U.S. manufacturing plants and distribution centers. A significant portion of our imports enter the U.S. via the Ports of Los Angeles and Long Beach. Currently, these ports are experiencing a 70-ship backlog, the largest delay worldwide. As a result, we have been forced to seek creative yet expensive solutions such as air freight and utilization of Mexican ports. We are also experiencing delays at intermodal centers, rail, and trucking delays, sometimes caused by a shortage of chassis.

The supply chain challenges that developed in 2020 are in addition to the substantially increased costs we have faced due to Section 301 tariffs on imports China, which have also adversely impacted SMP. According to the Congressional Research Service, through January

2020, USTR received 52,746 exclusion requests and granted 13 percent, or 6,804 of those requests.² As of September 2020, the overall cost of Section 301 tariffs on imports from China to U.S. consumers and companies was almost \$71 billion, and that number continues to escalate.³ The cost to SMP has been approximately \$20 million annually (approximately 2 percent of revenue), of which we were able to secure approximately \$2 million in exclusions.

Make no mistake, SMP shares the goals of the original Section 301 investigation on China focused on intellectual property protection, forced technology transfer, and other priorities of free and fair trade. However, the U.S. needs to work with our allies to reform China's market behavior. While SMP manufactures in China for the local Asian market, Chinese companies engage in the U.S. as major competitors. These competitors often flood the U.S. automotive aftermarket with products at a lower consumer quality and much lower price point challenging domestic manufacturers. SMP is a premium-grade producer. Unfortunately, the ongoing shortages or price increases can provide inroads for suppliers of low-quality products to introduce substandard substitutes, harmful to the motoring public and the environment.

SMP is committed to domestic manufacturing, but it does not mean we support the re-shoring of all of our production to the United States. Over time, we want to engage in more U.S. sourcing, but that cannot be done immediately and should not necessarily be done for mass-produced commodity inputs that we cannot manufacture on a cost-effective basis in this country. Supply chains are complex and motor vehicle parts go through elaborate testing and safety protocols. Because consumer safety is paramount, it often takes as much as a year to get new sourcing approved. We will continue to focus on U.S. sourcing of high-value-added complex technologies that enhance our intellectual property and market share leadership. This approach to manufacturing will strengthen our overall national competitive position while keeping manufacturing and consumer costs down. Again, we do strongly believe in the benefits of USMCA, which provide the opportunity for cost optimization within the region and thus global competitiveness, with a reduced reliance on China and transoceanic freight, while also benefitting our trade allies.

Workforce Challenges Exacerbate Domestic and Global Competitiveness

SMP is facing a significant labor shortage at our facilities across the country. We are unable to secure enough workers across all employee levels – from hourly, unskilled workers, to skilled workers, to engineers and everything in between. This shortage makes it difficult to serve our customers and causes significant cost increases due to lost

² U.S. Library of Congress, Congressional Research Service. *Section 301: Tariff Exclusions on U.S. Imports from China*, by Andres B. Schwarzenberg, IF11582 (Updated September 9, 2021).

³ York, Erica. "Tracking the Economic Impact of Tariffs." Tax Foundation, September 18, 2021, <https://taxfoundation.org/tariffs-trump-trade-war/>.

productivity, costs from continuous recruiting and training new employees, and from excessive overtime from our existing workforce.

Steps to Improve Supply Chain Resiliency

SMP urges the Subcommittee and Congress to focus on policies that attract domestic research, development, production, deployment, and commercialization of cutting-edge technologies, such as artificial intelligence (AI), automated vehicles (AVs), electric vehicles (EVs), and semiconductors. These types of policies will ensure that the U.S. continues to lead the world in key innovations. International trade, tax, and U.S. government procurement policies must foster U.S. leadership in vehicle technology innovation.

But it is not only about supporting cutting edge technology – we must support American competitiveness and a robust supply chain for any products critical to the country’s infrastructure. The average age of vehicles on America’s roads is at an all-time high of 12 years old. Many of the repairs these vehicles need are not necessarily advanced technologies, yet the repair remains urgent as the motorist relies on that vehicle for their livelihood. We must focus on policies and initiatives that aid in securing reliable and cost-effective access to their parts needs.

Government involvement can support manufacturers like SMP and promote the competitiveness of our country. We support the establishment of an office for Supply Chain Resiliency at the Department of Commerce. In addition, we commend the Members of Congress who recently introduced the four individual supply chain bills being considered today.

In addition, we encourage Congress to:

- Pass funding for the CHIPS Act funding as soon as possible.
- Restore full Section 301 exclusions and an ongoing process and ultimately phase out Section 301 tariffs.
- Ensure a stable and cost-controlled transportation system by passing the Infrastructure Investment and Jobs Act, provide additional funding for infrastructure surrounding ports, and address the national truck driver shortage.
- Provide targeted funding for new and innovative workforce training programs, including assisting employers in upskilling their existing workforce. These programs must focus on key jobs that will help America move to a carbon-neutral motor vehicle footprint.
- Encourage reshoring of manufacturing through incentives and assistance in the costs associated with factory automation and manufacturing capacity expansion.

Conclusion

The motor vehicle supplier industry is in a transformative moment that can provide greater mobility, safety, and environmental protection for our citizens. However, this transformation could be derailed if the lack of resiliency in the supply chain is not addressed. SMP is committed to being a part of the ongoing discussions on all aspects of the discussions and legislation facing Congress. As these discussions continue, SMP urges Congress to consider the needs outlined above to support the supplier industry and our workforce. Our nation requires these tools for the complex vehicle supplier industry in this country to remain competitive.

For any additional information or questions, please contact my trade association's staff at MEMA, Senior Vice President of Government Affairs Ann Wilson (awilson@mema.org) or Vice President of Legislative Affairs Catherine Boland (cboland@mema.org).