

United States Senate  
WASHINGTON, DC 20510

December 22, 2014

The Honorable Michael Froman  
United States Trade Representative  
The Office of the United States Trade Representative  
600 17<sup>th</sup> Street, NW  
Washington, D.C. 20508

Dear Ambassador Froman:

The Trans-Pacific Partnership (TPP) is an expansive trade negotiation that includes major auto producing nations, including Japan, Canada, and Mexico. If not negotiated properly, TPP will have substantial consequences for the American auto and auto parts industry. We urge you to ensure the agreement's tariff phaseouts and rules of origin (ROO) expand domestic auto production and grow the North American auto supply chain. We also reiterate our insistence on the inclusion of strong and enforceable currency disciplines, which are necessary to achieve a truly 21<sup>st</sup> century agreement.

For every car the U.S. exported to Japan in 2013, we imported 99 from Japan. This trade imbalance is due to the long-standing non-tariff barriers used by Japan to restrict foreign penetration of its domestic market. It will take time to fully dismantle Japan's trade barriers, assuming they comply with their commitments. Removing auto tariffs before these barriers are dismantled will disadvantage U.S. companies and their workers. The U.S. committed to giving autos the longest tariff phaseout in the agreement and for that phaseout to be back-loaded during discussions over Japan's entry into the TPP talks. We ask that you promptly consult with us to clarify what those commitments mean. A long, back-loaded tariff reduction in TPP is necessary to ensuring U.S. producers receive reciprocal market access.

The U.S. auto and auto parts industry employs more than 1.7 million workers. The size and strength of the North American auto supply chain is in part due to the strong ROO for autos included in the North American Free Trade Agreement (NAFTA). NAFTA initially required 50 percent regional value content (RVC), and that threshold increased to 62.5 percent RVC over eight years. NAFTA also required manufacturers to use the net cost accounting method, which includes only the cost of materials in the RVC calculation. TPP should maintain and build on NAFTA's RVC standards and require producers to use the net cost accounting method.

TPP also provides an opportunity to address problems with NAFTA's tracing list. Some companies have complained that it is unduly burdensome. In addition, items not on the list were automatically deemed originating, regardless of their actual origins. As a result, the tracing list has not encouraged production of items off the list in NAFTA countries. Rules of origin are included to ensure that the benefits of the agreement inure to the parties, and the TPP ROO must be written to maximize production in the countries that are parties to the agreement. Any

changes to NAFTA's tracing list should be based on extensive data analysis and input from the industry and its workers and focused on increasing production of auto components in TPP countries. Allowing for the "roll-up," or transformation of auto parts from non-originating to originating content, will boost manufacturers' ability to meet high ROO standards. We understand that some are arguing that the tracing list should be removed and that removing the list requires a lower RVC. We do not agree. Under NAFTA, the ROO precludes roll-up for goods on the tracing list. Removing the tracing list means that roll-up will be allowed for those goods, thereby making it easier to meet the RVC standard.

The U.S. auto and auto parts industry generates more than \$70 billion in annual tax revenues. TPP will have significant implications for the industry, and it is imperative that the agreement's tariff phaseouts and ROO enhance auto production in North America and, more importantly, in the U.S. In addition, we remind USTR that majorities of both chambers of Congress believe the inclusion of strong and enforceable currency disciplines in TPP is critical to achieving a 21<sup>st</sup> century agreement. The auto sector's rebound has been a pillar of our economic recovery, and TPP must not reverse that progress.

Thank you for your consideration of this letter. We look forward to working with you to support and promote the U.S. auto and auto parts industry.

Sincerely,



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Sherrod Brown  
United States Senator



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Debbie Stabenow  
United States Senator