

Biography



Ronald L. Cutler
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Ronald L. Cutler is vice president of automotive marketing in North America for TRW. His marketing responsibilities include serving as a key contact for the company's top automotive customers.

Mr. Cutler joined TRW in 1982 as director, sales and marketing, TRW Transportation Electronics Division. He became vice president, marketing, North and South America, for the Automotive Sector in 1988. After the company's restructuring, Mr. Cutler assumed his present position.

Prior to joining TRW, he was manager, automotive sales, for Robert Bosch Corp. in Detroit, Michigan. He began his career with Union Oil Company in 1958. From 1963 to 1980 he served as vice president, original equipment sales, at Friction Products Division of Abex Corp., an IC Industries company.

A native of Whittier, California, Mr. Cutler received a bachelor's degree in business

and marketing from Western Michigan University and attended the master's program in business administration at the University of Texas.

Mr. Cutler serves on the board of directors of the Society of Automotive Engineers and is ~~a member~~ of the Auto-motive Hall of Fame. He is also a board member of the Motor Equipment Manufacturers Association and the Engineering Society of Detroit.

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**Testimony of Ronald L. Cutler
Chairman, U.S. Auto Parts Advisory Committee**

Before the U.S. Trade Deficit Review Commission

**November 16, 1999
Seattle, Washington**

Good morning, Mr. Chairman, and Members of the Commission.

I am Ron Cutler, Chairman of the U.S. Auto Parts Advisory Committee (APAC), and Vice President, Marketing-Automotive North America, TRW, Inc. I am pleased to be here today to establish a dialogue between our two statutory committees. APAC is a national advisory committee comprised of private sector company, trade association and union representatives, that was created by Congress in 1988, and re-authorized in 1994, with a mandate to advise the Secretary of Commerce on auto parts trade in Japanese markets. Congress in 1998 re-authorized APAC for a third five-year term, and expanded our scope to advise the Commerce Department on barriers in other Asian markets as well.

APAC is pleased to make available to you as part of this hearing record, all of our Reports to the Secretary of Commerce and Congress over the past decade, in which we have documented the causes and consequences of American parts trade deficits, as well as made policy recommendations.

APAC strongly supports open markets for motor vehicles and auto parts, in which success is achievable through fair and open competition among manufacturers. APAC members are confident that the world class U.S. auto parts industry can successfully compete in every automotive market in the world if competition is not restricted by non-market barriers or exclusionary practices either imposed or tolerated by national governments. In short, all we are seeking, and have ever sought, is a level playing field.

The impact of the Asian economic collapse on the U.S. auto parts industry, and the U.S. economy generally, is worse than it would otherwise be because Japan's economy is entangled in: web-over-web of regulatory controls; non-transparent administrative guidance procedures; bank loan failures; exclusionary *keiretsu* relationships; and other market access barriers.

In particular, the exclusionary practices of Japanese *keiretsu* groups linking vehicle parts and vehicle manufacturers in Japan and the U.S. continue to tilt the field and make it very difficult for U.S. suppliers to expand business with Japanese auto makers in all major world markets, despite U.S. industry competitiveness and continued leadership in the newest high-technology areas.

The chronic U.S. auto parts trade imbalance with Japan -- \$9.7 billion in 1998 -- is much larger than with any other country. Save for the parts trade deficit with Japan, the U.S. would have enjoyed a global parts trade surplus in 1998, and the same may be said of every year beginning with 1982. Since 1980, when the Carter Administration negotiated the first Japan auto parts market opening agreement, America's cumulative parts trade deficit with Japan has grown from \$1 billion (1980) to \$140 billion in 1998.

APAC's decade long commitment to increased private sector and government efforts to accelerate the pace of progress in opening Japanese markets has demonstrated: (1) that some formal bilateral parts trade agreement is needed for Japan to undertake any market opening measures, and (2) that Japan will adhere to the letter, if not necessarily the spirit, of market access agreements.

For example, in the 1995 Auto Parts Framework Agreement, Japan complied with the letter, by immediately removing shock absorbers and struts from its "critical parts" list. Since only "certified" garages -- generally tied to the auto makers -- may repair "critical parts," the change meant that independent installers for the first time could repair shock absorbers, opening a new channel for foreign producers to compete in Japan. But, as for the spirit, Japan's promised review of the "critical parts" list, for purposes of removing additional items, produced nothing of note. This, despite a compelling U.S. industry petition for brake parts deregulation that was backed by Secretary Daley and U.S. Trade Representative Barshefsky.

Meaningful measurement of results is critical to implementing any agreement. Yet, currently available data do not indicate whether U.S. parts purchases by Japanese auto makers reflect sales progress of non-Japanese-owned or controlled U.S. suppliers, or merely the sales of Japanese-affiliated "transplant" suppliers.

To help solve this problem, APAC long has supported full implementation of the Foreign Direct Investment and International Financial Data Improvement Act of 1990, including

the mandated priority Congress set for reports on the aggregate auto parts shipments of Japanese-affiliated suppliers in the U.S.

In October 1998, the Government of Japan began implementing a 60 trillion yen (over \$500 billion) bailout package for Japanese banks, ~~some~~ of the largest of which are at the center of the Japanese *keiretsu* systems.

It is vital to U.S. economic and trade interests that the Government of Japan and Japan's *keiretsu* groups not use the Government's \$500 billion-plus bank bailout program to provide subsidies to Japanese industrial companies.

American companies and America's economy would suffer a double blow, should Japanese Government take such actions: our markets would be open to Japanese exports and investments, while Japan maintains its import barriers and adds new subsidies for exports and financially ailing *keiretsu* companies --- a major tilting of the playing field.

The financial ailments of *keiretsu* suppliers are profoundly affecting other Asian markets where the *keiretsu* system is the dominant model. Japanese auto companies dominate some 90 percent of the local production of several Asian countries. In addition, Asian countries have maintained selective and highly protected domestic automotive and auto parts industries.

After a decade of double-digit growth, America's auto parts exports increased only 0.3 percent in 1998 to the \$47 billion level. The Asian crisis hit U.S. parts trade with the region very hard, reversing or slowing the gains made in U.S. exports to Asia during the 1990's. At the same time, U.S. auto parts imports from Asia rose substantially. Japan's imports from Asian markets on the other hand shrank dramatically.

Let me close with APAC's key policy recommendations. The International Monetary Fund (IMF) has negotiated assistance packages for Thailand, Indonesia, and Korea that have helped advance longstanding U.S. trade objectives, by including commitments to open their automotive markets and, in the case of Indonesia, to abolish its National Car program. APAC recommends that whenever the IMF pledges financial assistance to a country, or a country requests additional funds or time to repay loans, the IMF should insist on market opening and investment liberalization actions.

APAC also requests that the United States Government closely monitor the bank bailout program in Japan to assure that it is not resulting in subsidies to, or bailout of, Japanese manufacturing companies to the detriment of non-Japanese companies. The U.S. gained such assurances from Korea in the Automotive MOU last year. Industrial assistance packages now under Japanese consideration could have the potential to be used as subsidies to Japanese parts makers and also must be closely monitored.

APAC welcomed the 1998 creation of the U.S. Trade Deficit Review Commission, and we urge that three major objectives for your work should be to reach consensus on:

- (1) identification of country-by-country priorities and timetables for removal of specific

trade barriers and anti-competitive practices;

- (2) establishment and monitoring of progress toward specific deficit reduction goals for countries with which the U.S. has substantial bilateral trade imbalances; and
- (3) identification of leverage that can be effectively used in bilateral negotiations and/or multilateral forums to convince countries to abandon market entry barriers and to end trade and investment policies/practices that ~~adversely~~discriminate against U.S. firms.

That concludes my statement. I would be pleased to respond to your questions.