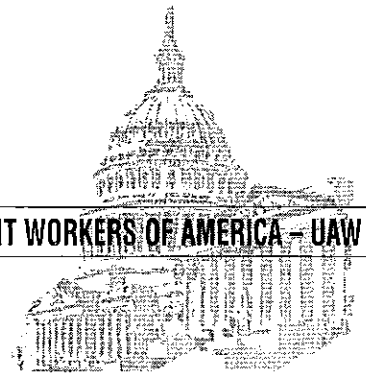




INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA - UAW

RECEIVED
FOREIGN-TRADE ZONES BOARD

2009 AUG 17 AM 11:46



RON GETTELFINGER, President

ELIZABETH BUNN, Secretary-Treasurer

VICE PRESIDENTS

GENERAL HOLIEFIELD • BOB KING • CAL RAPSON • JIMMY SETTLES • TERRY THURMAN

August 17, 2009

Mr. Andrew McGilvray
Executive Secretary
Foreign Trade Zones Board
U.S. Department of Commerce, Room 2111
1401 Constitution Avenue, NW
Washington, D.C. 20230-0002

IN REPLY REFER TO
1757 N STREET, N.W.
WASHINGTON, D.C. 20036
TELEPHONE: (202) 828-8500
FAX (202) 293-3457

RE: Federal Register Notice: July 17, 2009, Volume 74, Number 136, Page 34714, Docket T-1-2009: Application for Temporary/Interim Manufacturing Authority, Volkswagen Group of America Chattanooga Operations, LLC (Motor Vehicles), Chattanooga, TN, Foreign Trade Zone 134

Dear Mr. McGilvray:

This letter is submitted on behalf of the one million active and retired members of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), many of whom are employed by auto companies and related manufacturing firms. The UAW opposes the instant application for temporary/ interim manufacturing authority and the request for permanent authority for manufacturing in Foreign Trade Zone 134. On July 10, 2009, the Chattanooga Chamber Foundation, grantee of FTZ 134, submitted an application to the Executive Secretary of the Foreign Trade Zones Board, requesting such authority on behalf of the Volkswagen Group of America Chattanooga Operations, LCC (VW-VGACO). The authority would cover Volkswagen's operations within the Enterprise South Industrial Park in Chattanooga, Tennessee (Hamilton County).

According to information provided in its application, Volkswagen expects to produce up to 150,000 light-duty passenger vehicles (sedans, sport utility vehicles, minivans) annually for the U.S. market and for export at the Chattanooga facility. Production capacity could be expanded to 300,000 vehicles per year at this site. The plant is currently under construction and is expected to begin manufacturing operations in early 2011, with a work force of approximately 2,000. Volkswagen estimates that it will import approximately 25 percent (by value) of its parts and components for these passenger vehicles. Foreign components that would be used in the production/assembly of those vehicles include: engines and engine parts, pumps, valves, bumpers, tires, plastic and

rubber tubes, pipes, and hoses; gaskets, washers and o-rings, and safety glass and mirrors.

If FTZ manufacturing authority were granted, the primary savings for Volkswagen would come from the elimination of tariffs/customs duty payments on the foreign components used in export production. The company estimates that it will export up to 20 percent of the vehicles assembled in the Chattanooga facility. In addition, FTZ procedures would allow the deferral or reduction of customs duties on foreign (imported) production equipment. In its application, Volkswagen claims that "a significant amount of highly specialized equipment is only available from overseas manufacturers." The total FTZ-related annual savings to Volkswagen is estimated to be \$1.9 million.

An application to establish a Temporary/Interim and/or Permanent Authority in a Foreign Trade Zone engaged in manufacturing must demonstrate that the zone-based activity is "not detrimental to the public interest." The FTZ Board must evaluate the public-interest impact by reviewing several threshold factors, and if relevant, additional economic factors. Denial of applications is necessary when the following factors are present: 1) the activity is inconsistent with U.S. trade and tariff law, or policy that has been formally adopted by the Executive branch; 2) approval of the activity would seriously prejudice U.S. tariff and trade negotiations or other initiatives; 3) the activity involves items subject to quantitative import controls or inverted tariffs; 4) the use of zone procedures would be the direct and sole cause of the imports that, but for such procedures would not likely otherwise have occurred, taking into account imports as individual items and as components of imported products.

The application for Temporary/Interim Manufacturing Authority fails to meet the above-mentioned criteria and therefore it should be denied. Such FTZ authority is inconsistent with U.S. trade and tariff law and with policies adopted by the Executive branch regarding restructuring of the automotive industry and public financial support to domestic manufacturers. The substantial financial gains accruing to Volkswagen from the granting of FTZ authority would unfairly place domestic automobile manufacturers and suppliers at a competitive disadvantage. Given the current economic state of the industry, characterized by significant overcapacity, any potential increase in income and employment in Chattanooga resulting from such authority would come at the greater expense of lost income and employment elsewhere in the domestic economy.

U.S. trade and tariff law is subject to the rules/requirements of the World Trade Organization (WTO) and the multiple bilateral free-trade agreements (FTAs) the United States has negotiated over the past few decades. An analysis of the current Volkswagen global operations suggests that a significant portion of expected imports of both production machinery and auto parts and components will come from countries/regions with which the U.S. does not have a free-trade agreement, including the European Union (EU). The current U.S. customs duty

rate on assembled vehicles and components is approximately 2.5%, while European tariffs on similar products are relatively higher (generally around 10%). It is expected that Volkswagen will source a significant proportion of its imported parts and components from its home country, Germany. As an EU member state, Germany applies the "Common Customs Tariff of the EU," which is also supplemented by the German Customs Tariff Ordinance. Imports of goods into Germany from non-EU countries such as the United States are also subject to the German import turnover tax, which is part of the German value-added tax (VAT) system. The granting of FTZ manufacturing authority would effectively provide duty-free trade status to German-produced automotive products entering into the FTZ, without providing a reciprocal benefit to U.S. products exported to Germany. On these grounds alone, the application should be denied.

FTZ authority would provide Volkswagen with the benefits of a free-trade agreement where none currently exists in U.S. international trade law. With one of the largest and most open economies in the world, the United States would be acting to unilaterally reduce tariffs on automotive parts and components without negotiating corresponding tariff concessions from our trading partners. Auto parts and component suppliers in Europe would be provided duty free access to the American market without their respective countries having to provide reciprocal tariff concessions and market access to the U.S. and its domestic producers. U.S. auto manufacturers would continue to face, however, tariffs and non-tariff barriers (NTBs) in Germany and elsewhere.

In its application for FTZ authority, Volkswagen acknowledged that, "companies in the United States have a manufacturing and market presence in many countries which reduces the need to export vehicles made in the United States to overseas markets. Many countries have significant trade barriers and tariffs on motor vehicles which makes it less attractive to source from the United States." The granting of FTZ authority would undermine U.S. leverage to negotiate international trade agreements removing such "significant trade barriers."

Because the granting the FTZ application would "seriously prejudice U.S. tariff and trade negotiations and other initiatives," it does not meet the second of the three threshold factors. Volkswagen is seeking preferential duty treatment on imported auto parts, which would provide it with substantial cost savings, without the United States receiving reciprocal trade concessions from our trading partners. The granting of FTZ manufacturing authority to Volkswagen would remove a significant economic incentive to source these products in the United States, thereby contributing to U.S. trade imbalances with Europe and other regions of the world and on this basis should be denied.

The United States merchandise trade deficit reached \$821 billion in 2008. Despite the collapse of global automotive trade in late 2008, the U.S. auto trade deficit stood at \$107.1 billion. The U.S. auto trade imbalance with Germany made up 14.6%, or \$15.6 billion, of that auto deficit last year. The likely impact of

granting Volkswagen FTZ authority would be to increase the U.S. trade deficit in automotive products.

The granting of FTZ manufacturing authority to Volkswagen would provide the company with an unfair competitive advantage relative to the domestic auto manufacturers. According to the Automotive Trade Policy Council, "Chrysler, Ford and GM are still officially on the list of registered FTZs in 14 states, however only a few of them are in active use. Foreign automakers operating in the U.S., such as Toyota, Nissan, BMW, Daimler, and Hyundai, are much more active in the use of FTZs, since they use far more imported auto parts that benefit from duty deferral and duty avoidance for offshore exports from the FTZ."

Domestic auto manufacturers and suppliers have already been put at a competitive disadvantage vis-à-vis Volkswagen due to state and local subsidies provided to the company to locate its production facility in Chattanooga, TN. As documented in the University of Tennessee study appended to the application, state and local governments have already provided, or will provide, \$577 million in subsidies to Volkswagen, including infrastructure aid for site prep and roads (\$208.8 million), worker training and recruitment (\$81.2 million), marketing (\$2 million), land (\$40.2 million), state tax credits (\$106 million), and city and county property tax breaks (\$133 million). The \$577 million figure does not include any estimate of subsidies granted to foreign-owned auto supply companies that have (or will) locate in the region. The total estimated subsidy cost to the government for each job created by Volkswagen in Chattanooga is approximately \$288,500. There is no doubt that the competitive advantage that Volkswagen would derive from the granting of FTZ authority, combined with the state and local subsidies it has already received, would adversely affect the domestic industry and would be detrimental to the national public interest. The resulting displacement of employment within the domestic industry is contrary to the stated objective of U.S. trade policy, namely the protection and creation of American jobs.

The FTZ Board is required to consider economic factors to determine the net economic effect of the proposed activity: i) overall employment impact, ii) exports and re-exports, iii) retention or creation of manufacturing or processing activity, iv) extent of value-added activity, v) overall effect on import levels of relevant products, including import displacement, vi) extent and nature of foreign competition in relevant products; vii) impact on related domestic industry, taking into account market conditions, and viii) other relevant information relating to public interest and net economic impact consideration, including technology transfers and investment effects.

Volkswagen failed to provide evidence the granting of FTZ authority would "spur additional expansion and employment." In fact, VW stated in its application that "FTZ-related savings will not affect VW's purchasing patterns", because "many of the components purchased from foreign countries are made at specific Volkswagen manufacturing facilities of long-time VW suppliers have met VW

quality and specification requirements. These suppliers are currently located only overseas." The granting of FTZ authority would not result in increased U.S. employment or income.

The current global financial crisis has had a disproportionately adverse impact on the automotive sector. Auto sales for all automakers have plummeted, thereby creating severe overcapacity in the industry. Global sales of new passenger vehicles dropped by more than two million units in 2008, more than 4 percent lower than the prior year. Global car sales declined by an estimated 18 percent in December 2008. Weaknesses have continued through the first half of 2009.

In North America, the downturn began in the third quarter of 2007, appearing first in the commercial vehicle sector and then spreading to light vehicles as the impact of the bursting housing bubble began to be felt. Rapidly rising gasoline prices in mid-2008 contributed to much lower demand for vehicles, and the severe credit market dysfunction and collapsing economic conditions have caused even steeper drops in sales and production into 2009. The impact on employment has been far greater in the United States than other major auto-producing nations.

The Executive Branch and Congress have recognized the critical importance of saving the domestic automobile industry and have provided emergency financing to General Motors and Chrysler. The United States government now holds an ownership stake of approximately 10 percent in Chrysler Fiat and 60 percent in General Motors. The federal government acquired partial ownership of these domestic automakers through a settlement between major stakeholders of the companies, including the UAW, which agreed to labor cost reductions to make them competitive with the foreign transplants. President Obama summarized the administration's policy approach in his public announcement of the GM agreement:

"We cannot, and must not, and we will not let our auto industry simply vanish. This industry is like no other - it's an emblem of the American spirit; a once and future symbol of America's success. It's what helped build the middle class and sustained it throughout the 20th century. It's a source of deep pride for the generations of American workers whose hard work and imagination led to some of the finest cars the world has ever known. It's a pillar of our economy that has held up the dreams of millions of our people. And we cannot continue to excuse poor decisions. We cannot make the survival of our auto industry dependent on an unending flow of taxpayer dollars. These companies - and this industry - must ultimately stand on their own, not as wards of the state."

The UAW welcomes Volkswagen's investment in Chattanooga, TN, and the employment contribution this facility will make to the American economy. However, we believe that the granting of FTZ manufacturing authority would

place domestic manufacturers (which do not currently have active FTZs) at a competitive disadvantage at a time that the Executive Branch and the U.S. government have committed considerable tax payer resources to supporting domestic automotive manufacturers and suppliers. Under current conditions of domestic over-capacity of the industry, the \$1.9 million annual benefit/subsidy that VW would derive from such authority could potentially result in a net loss of U.S. employment and income, as disadvantaged suppliers to GM, Ford and Chrysler were forced to further reduce employment and benefits to their existing workers.

Because they have recognized the critical economic importance of a viable domestic auto industry, the majority of vehicle-producing countries have adopted a wide range of policy measures, including the provision of credit facilitated to captive automotive financing arms and banks making auto loans; credit guarantees, low-interest loans, emergency bridge and working capital loans; incentive programs to scrap older vehicles, research and development funding; short-time work and partial unemployment schemes; structural funds for the auto sector, including suppliers; expanded training funds for workers; state equity injection and increased ownership stake; renewal of government vehicle fleets; and trade-related measures (market access, tariffs, and export finance); to support their domestic auto companies.

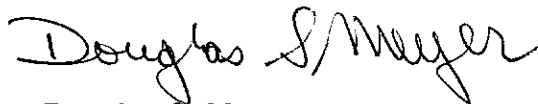
The local employment benefits are the result of the company's decision to locate at the site and the implementation of its global investment and manufacturing strategy, which was not dependent upon obtaining a grant of manufacturing authority in FTZ 134. Indeed, granting the application will not bring about additional employment benefits to Tennessee. The new jobs calculation must be offset by the inevitable negative employment impact at existing U.S. auto and auto parts manufacturing facilities.

The cost saving directly attributable to the tariff reductions that VW would enjoy over similar finished vehicles manufactured by U.S. automakers would amount to a competitive cost advantage. The combination of tax incentives and tariff savings could allow VW to expand further and faster into the U.S. marketplace. The attendant gain in market share could mean a drop in employment, largely unionized, at the Detroit Three auto manufacturers and parts suppliers. The importation of parts and components (most likely from Germany) will have no positive employment effect in the United States. Combined with the likely negative employment impact on domestic parts suppliers, the impact would be a shift from union jobs to non-union jobs, which would have a negative impact on the compensation and living standards throughout the industry.

In conclusion, Volkswagen's application for Temporary-Interim Manufacturing Authority for Foreign Trade Zone 134, in Chattanooga, TN, should be denied because the Company has failed to demonstrate that the zone-based activity would be in the public interest. Such authority would be inconsistent with U.S.

trade and tariff laws and the policies of the Executive Branch, would prejudice current U.S. tariff and trade initiatives, would lead to an increase in imported automotive products thereby harming the domestic industry, and would have a net negative impact on domestic employment in the United States. For all of the foregoing reasons, the UAW urges the Department of Commerce (FTZ Board) to reject Volkswagen's application for such FTZ authority.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas S. Meyer". The signature is written in a cursive style with a large, prominent "D" and "M".

Douglas S. Meyer
Deputy Director
International and Governmental Affairs

DM:bbj
opeiu494