



COASTAL AUTOMOTIVE

Written Testimony of the

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for the Hearing on

“Uncharted Waters: Challenges Posed by Ocean Shipping Supply Chains”

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Chairman Peters, Ranking Member Fischer, and Committee members, on behalf of all the team members of Coastal Automotive and my colleagues at the Motor & Equipment Manufacturers Association (MEMA) and its division the Original Equipment Suppliers Association (OESA), I am happy to be here today to share our experiences as a Michigan manufacturer as you wrestle with solutions to the snarl that is our supply chain reality.

I have worked in the automotive market for 33 years and have been a member of the OESA Board of Directors for 14 years. I have never seen such a combination of challenges and issues facing our manufacturers, including those in the great recession from 2007-2009. One of these is the ports and shipping crises facing our industry and our country.

Ship transportation of goods to and from ports is at or above capacity and increasingly gridlocked on both the east and west coasts. Manufacturers, farmers, retailers, and consumers have all witnessed the adverse impacts of this gridlock. Since July 2020, shipping costs from Asia have increased four to tenfold. As recently as the last few weeks, more than 70 container ships have been waiting at the ports of Los Angeles and Long Beach with delays reported in other key ports such as Savannah and Seattle. There are now reports that backlogs are starting to clear at America's ports. For example, the ports say that wait times and the number of ships in the queue are decreasing at L.A./Long Beach. However, carriers have been told to slow their Pacific Ocean travel time and to anchor further out. MEMA and the experts they consult believe that delays and price increases from the carriers will persist into 2022.

In our industry, these challenges and cost increases come at a time of other significant supply chain tensions and an increased need for new investment in technology, sapping much needed resources and human capital away from other issues.

Coastal Automotive is a small company, with a global footprint, headquartered in Holland, Mich., with manufacturing facilities there, and a Sales and Technical team in Rochester Hills, Mich.. We have annual sales in the neighborhood of \$50 million and we employ over 200 people. In our way of thinking that makes us directly responsible for the livelihoods of 200 families. The technical term for our products is “passive safety countermeasures.” The main product we make is a specialized

foam responsible for automotive head impact safety. Our products are in well over 60 percent of all vehicles on the road in the United States. We are a supplier to most of the established automakers such as GM, Ford, Stellantis, Toyota, Volkswagen, Honda, Nissan, and BMW. We are also supplying many of the emerging automakers, such as Tesla, Rivian, Zoox, and Lucid Motors. We are also a key supplier to the automotive racing industry, as our products ensure driver safety in both NASCAR and the IndyCar Series. We have earned the coveted "GM Supplier of the Year" award three times and have been awarded five consecutive GM Supplier Quality Awards, a feat that a fraction of GM's entire supply base has achieved.

In April 2020, our sales dropped from about \$5.0 million per month to \$33,000. What we did in response defied much of what I know about lean operations, but between clever management and the SBA Paycheck Protection Program (PPP) dollars we remain a viable business today. Thank you for passing funding for this program; I assure you it helped keep Coastal Automotive – as well as many other small businesses – viable during the pandemic in 2020-2021. Since that day in 2020, we have continued to refine our strategy for growth and sustainability almost weekly.

Coastal Automotive is a proud member of MEMA. MEMA represents more than 900 member companies that manufacture motor vehicle components and systems for the original equipment and aftermarket segments of the light vehicle and heavy-duty industries. Nationwide there are more than 900,000 employees in the motor vehicle parts manufacturing industry with 143,000 of them in Michigan and 200 of them under our care. Parts manufacturers are the largest employer of manufacturing jobs in the country and approximately 1 in 20 U.S. workers support the global mobility market.

Automotive suppliers provide over two-thirds of the value of a new vehicle, and two-thirds of the innovation. I talk and strategize with MEMA member companies every day who are at the center of the transportation supply chain crisis, and who will be here, standing strong, when this problem ultimately recedes. Our customers and supply chains are necessary in every corner of the earth, so governments here and abroad are making decisions that affect an inextricably interconnected system of customer fulfillment.

I would be remiss if I did not point out that Coastal Automotive supports legislation that would strengthen passive safety measures in new vehicles. Even though the goal of automated driving is zero crashes, we all know that there will be some. When that happens, passive safety devices, like our energy absorbing countermeasures, will be cheap insurance against catastrophic injury. We believe that the New Car Assessment Program, or NCAP, should be revisited and strengthened, and that the five-star safety ratings should be more robust. Additionally, we believe that the harmonization of global safety standards will serve emerging markets where safety technology should be accelerated and consumer awareness increased. For years, our industry has been advocating for NHTSA to address and revise NCAP for years, and we are excited to see that the most recent infrastructure bill includes elements that address this issue.

Our focus here today is on shipping and the supply chain crisis at the ports. We are truly in "Uncharted Waters" right now as we face shipping supply chain challenges. This is at the top of the logistics and public policy challenges for Coastal Automotive as well as many MEMA member companies. Others on this panel undoubtedly know more about the root causes of this bottleneck. Every participant in this industry, and ultimately our overall economy, will benefit from policies and practices that get products and materials flowing again. I am simply here to recount our experiences as an American manufacturer in the middle of this crisis over the past year or so.

However, this is not the only issue facing automotive suppliers. Our industry is facing serious supply chain woes due to the well-known semiconductor shortage issues. There are numerous raw

material price increases, and many companies are struggling with Section 301 tariffs on imports from China as well as Section 232 tariffs on imported steel and aluminum, which will soon face tariff rate quotas (TRQs). While 2020 will remain tough for motor vehicle parts manufacturers, I am confident that, in time, we will solve these supply chain challenges. And when we do, my fear is that we will find, looming in the darkness, the very serious matter of acute worker shortage.

Currently, we are running at 10-15 percent below our full staffing levels and when demand returns that will worsen proportionally. We have the reputation of being a good company to work for, we have a great culture, and we have great leaders. We have raised wages 20 percent in the last year and in terms of attracting talent, all we have done is borrow talent from our neighbors and they will ultimately borrow it back. Toby Curry, our Director of Operations, continually reminds me of the COVID impact that Coastal's workforce faces. Before 2020, he measured employee tenure in years, now he measures it in the number of breaks the team members stick around for. Sickness, fear, the need for parents to support and educate children at home as well as continued State and Federal pandemic relief combined with massive economic growth has caused significant distress to the labor market.

The crisis at our nation's ports has added to these other looming challenges. At Coastal Automotive, approximately 40 percent of our cost structure is from our supplied input materials and 95 percent of those raw materials come from overseas. During the past year, Coastal has seen unparalleled increases in costs for both raw materials and transportation. Our second largest supplier increased prices 70 percent. Due to the rising price of lumber, the prices of pallets have increased 90 percent. Many other suppliers have increased their prices upwards of 25 percent. While our largest supplier has not increased prices over the past year, this is due to a long-term agreement that expires in April 2022. We have already been informed that there will be a significant increase from them in the next few months, likely more than 20 percent.

In most industries, raw material costs are the subject of price negotiations with one's customers – this is not necessarily the case in automotive. Our customers, the original equipment manufacturers (OEMs) have historically not allowed price increases on contractual awards. This practice is likely to receive significant pressure in 2022, as suppliers will either have to increase prices to the OEMs, or face going out of business. This ultimately means that the cost of new vehicles is going to continue to rise for at least the short term, as the OEMs pass along these supply chain price increases to the American buying public. And, as history has shown, when supply and demand returns to pre-pandemic levels, it is not likely that prices will fall accordingly.

The port situation on the West Coast certainly attracts the most attention, and it seems that is rightfully so. While Coastal Automotive does not import nor export goods through the ports in California, we were negatively impacted last year when we ordered critical machine components from China. A quoted 12-week lead time turned into a 29-week delay before we were able to receive the needed parts.

We experience our primary shipping delays in the importation of our primary raw material which comes from Greece, and therefore through the ports in New York. Because of the delays and inefficiencies at the port, our supplier is incurring significant storage and demurrage charges, costs which have never occurred to the extent that they are occurring in 2021. These costs are a major driver in the upcoming price increase that we expect to see in 2022.

We receive roughly 250 ocean containers each year from Greece, and we have seen delays and extended lead times – during which time we maintained a 99.9 percent on-time delivery performance – this is our brand and commitment to our customers. However, to pull this off required a huge cost on people and cash reserves.

When you are a smaller company, you have little leverage against multi-billion-dollar companies who dictate their terms and conditions. While we have contractual agreements that qualify order size and shipment in the last few years we have been required to order and receive inventory in a manner other than "Just-in-Time." This creates a plethora of problems for a lean operation; specifically, we do not have the space, we do not have the cash, level scheduling is disrupted, and nothing good ever happens to inventory. However, when the ships, docks, and trucks get a load rolling, our contract is not going to prevent our suppliers from sending to our docks two to three times the number of trucks other than what we have agreed to.

Outside of our direct operations, our customer OEM needs have been unpredictable, at best, and 40 percent down, at worst. We all know the reasons for this, and we do not look to blame anyone. COVID is a serious matter and doing the right thing in terms of bringing people in to work and having them there safely is the right thing to do. That does not negate the reality that production schedules are not predictable and supply chains are not predictable; at the end of the day our people must deal with the whiplash. As I said earlier, we have made what I consider to be clever and responsible management decisions to keep people working and financially healthy with the help of PPP funds. We built huge quantities of inventory when people needed to work and granted lots of leave time when families needed it for sickness, or to be home to provide schooling.

Raw materials are up 25 percent, direct labor is up 20 percent and these price increases are compounded by supply chain woes, customer price reductions, and labor challenges, it will be no surprise to anyone that profits are down 30 percent, but I would ask that you hear this in a distinct way. The 30 percent is not money going into an owner's pocket. The reduction in profitability reduces our ability to support community charities, reduces our ability to provide better working conditions to our team members, reduces our ability to provide training and team member development, and significantly reduces our ability to invest in growing our business.

Automotive is, once again, in the middle of a technological transformation. The two major growth areas are electrification and automated technologies, which is in large measure all about safety. While we believe that this economic down cycle is temporary and not reflective of any fundamental problem in the industry, it has, by virtue of reduced cash, restricted our ability to invest in innovation that is so clearly demanded by both regulations and markets. We are 18 months behind in product innovation and I fear this puts our sustainability as a company at risk.

The overall motor vehicle parts sector remains at risk, due to the ports and shipping concerns being discussed today. While I will not delve into solutions too deeply, I offer the following thoughts that reflect a separate communication that the Committee has received from MEMA.

First, MEMA strongly supported the passage of the bipartisan infrastructure legislation. That bill provides \$17 billion for ports and inland waterway improvements as well as additional funds for intermodal transportation centers, rail, and trucking. My understanding is that the Biden Administration is prioritizing availability of some of these funds for ocean going ports, which will be helpful. If this money can get out the door quickly, it will help alleviate some of the tension in this situation.

We appreciate that the ports of L.A./Long Beach are moving toward 24-7 operations. Competitors to the U.S., such as China and the EU, already have these robust hours. Other U.S. ports need to implement a similar program if we really want to eliminate bottlenecks.

In 2022, the Congress needs to pass a version of H.R. 4996, the Ocean Shipping Reform Act, which has been introduced in the House with 80 cosponsors. That measure will increase the enforcement ability of the Federal Maritime Commission on detention and demurrage issues. It prohibits discrimination by ocean carriers or marine terminals against shippers who have filed

complaints or used alternative carriers. The bill also applies anti-retaliation safeguards and sets minimum service standards for ocean going carriers. I hope that each Senator on this Committee can support a Senate bill on ocean shipping reform.

Finally, American exporters and importers need you to remain focused on shipping reform. This crisis must lead to improvements in ocean shipping and at the ports to prevent future crises. Passing legislation is important, but we urge this Committee to use the bully pulpit of future Senate and House hearings to keep the focus on the Biden Administration, state and local governments, and the private sector to continue to make progress. Historically, there has been an episodic and siloed approach to ports and shipping reform in the United States. As CBS News reporter Bill Whittaker said in a November 14 story on a recent *60 Minutes* broadcast on this issue, "The truckers blame the terminals, the terminals blame the shippers, the retailers blame the truckers and the shippers. How do you get that contentious group to sit at the table, stop pointing fingers, and actually clear out this backlog?"¹

The ports and shipping issue is indeed a complex and tangled web, and we need your help in breaking down silos and bringing the government and all private sector stakeholders together to solve this problem. Everyone at Coastal Automotive and MEMA thanks you for taking the time to hear our concerns. We hope that our comments bring clarity and compassion to your deliberations.

¹ <https://www.cbsnews.com/news/supply-chain-crisis-60-minutes-2021-11-14>